UNICREDIT S.p.A.

(incorporated with limited liability as a *Società per Azioni* in the Republic of Italy under registered number 00348170101)

Issue of €1,250,000,000 Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes

Issue Price: 100 per cent.

The €1,250,000,000 Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes (the **Notes**) will be issued by UniCredit S.p.A. (the **Issuer** or **UniCredit**). The Notes will constitute direct, unsecured and subordinated obligations of the Issuer, as described in Condition 4 (*Status of the Notes*) in "*Terms and Conditions of the Notes*".

The Notes will bear interest on their Prevailing Principal Amount (as defined in Condition 2 (*Definitions and Interpretation*) in "*Terms and Conditions of the Notes*"), payable (subject to cancellation as described below) semi-annually in arrear on 3 June and 3 December in each year (each an **Interest Payment Date**), as follows: (i) in respect of the period from (and including) 22 May 2017 (the **Issue Date**) to (but excluding) 3 June 2023 (the **First Call Date**) at the rate of 6.625 per cent. per annum, and (ii) in respect of each period from (and including) the First Call Date and every fifth anniversary thereof (each a **Reset Date**) to (but excluding) the next succeeding Reset Date (each such period, a **Reset Interest Period**), at the rate per annum, calculated on an annual basis and then converted to a semi-annual rate in accordance with market conventions, equal to the aggregate of 6.387 per cent. per annum (the **Margin**) and the 5-year Mid-Swap Rate (as defined in "*Terms and Conditions of the Notes*") for the relevant Reset Interest Period. The Issuer may elect in its full discretion to cancel (in whole or in part) the Interest Amounts otherwise scheduled to be paid on any Interest Payment Date. Further, payment of Interest Amounts on any Interest Payment Date must be cancelled (in whole or, as the case may be, in part) in the circumstances described in Condition 5 (*Interest and Interest Cancellation*) in "*Terms and Conditions of the Notes*". The cancellation of any Interest Amounts shall not constitute a default for any purpose on the part of the Issuer. Interest on the Notes is not cumulative and any Interest Amounts that the Issuer elects not to pay or is prohibited from paying will not accumulate or compound and all rights and claims in respect of such amounts shall be fully and irrevocably forfeited, and no payments shall be made, nor shall any Noteholder be entitled to any payment or indemnity in respect thereof. See Condition 5 (*Interest and Interest Cancellation*) in "*Terms and Conditions of the Notes*". Further, during the period of any Write-Down pursuant to Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*) in "*Terms and Conditions of the Notes*", as described below, interest will accrue on the Prevailing Principal Amount of the Notes which shall be lower than the Initial Principal Amount unless the Notes have subsequently been Written-Up in full.

The principal amount of each Note may be Written Down on a *pro rata* basis with the other Notes and taking into account the at least *pro rata* write-down (or write-off) or conversion into Ordinary Shares of any other Equal Loss Absorbing Instruments (and taking into account the write-down (or write-off) or conversion of any Prior Loss Absorbing Instruments), as described in Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*) in "*Terms and Conditions of the Notes*", if, at any time, the Common Equity Tier 1 Capital Ratio of the Issuer or the UniCredit Group falls below 5.125 per cent. or, in each case, the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the Issuer and/or the UniCredit Group (all as defined in Condition 2 (*Definitions and Interpretation*) in "*Terms and Conditions of the Notes*"). Noteholders may lose some or all of their investment in the Notes as a result of such a Write-Down. Following any such reduction, the Issuer may, in its full discretion and subject to the Maximum Distributable Amount (if any) not being exceeded thereby, increase the Prevailing Principal Amount of the Notes up to a maximum of the Initial Principal Amount, on a *pro rata* basis with the other Notes and with other Written-Down Additional Tier 1 Instruments, if the Issuer records positive Net Income or, to the extent permitted by the then prevailing Relevant Regulations, positive Consolidated Net Income (all as defined in Condition 2 (*Definitions and Interpretation*) in "*Terms and Conditions of the Notes*"), subject to certain further conditions. See Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*) in "*Terms and Conditions of the Notes*".

Unless previously redeemed or purchased and cancelled as provided in "*Terms and Conditions of the Notes*", the Notes will mature on the date on which voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) proceedings are instituted in respect of the Issuer, in accordance with (a) a resolution of the shareholders' meeting of the Issuer, (b) any provision of the by-laws of the Issuer (currently, the maturity of the Issuer is set in its by-laws at 31 December 2100) or (c) any applicable legal provision or any decision of any judicial or administrative authority. Noteholders do not have the right to call for the redemption of the Notes. Upon maturity, the Notes will become due and payable at an amount equal to their Prevailing Principal Amount together with any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*). The Issuer may, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*) in "*Terms and Conditions of the Notes*"), redeem the Notes in whole, but not in part, on any Optional Redemption Date (Call) at their Prevailing Principal Amount (all as defined in Condition 2 (*Definitions and Interpretation*) in "*Terms and Conditions of the Notes*"), plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*) in "*Terms and Conditions of the Notes*". The Issuer may also, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*) in "*Terms and Conditions of the Notes*"), redeem the Notes in whole, but not in part, at any time at their Prevailing Principal Amount upon the occurrence of a Capital Event or a Tax Event (all as defined in Condition 2 (*Definitions and Interpretation*) in the "*Terms and Conditions of the Notes*) plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*) in "*Terms and Conditions of the Notes*".

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 (the **Luxembourg Act**) on prospectuses for securities to approve this document as a prospectus. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Luxembourg Act. Application has also been made to the Luxembourg Stock Exchange for the listing of the Notes on the Official List of the Luxembourg Stock Exchange and admission to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. This Prospectus (together with any documents incorporated by reference herein) is available on the Luxembourg Stock Exchange website (www.bourse.lu).

Payments of interest or other amounts relating to the Notes may be subject to a substitute tax (referred to as *imposta sostitutiva*) of 26 per cent. in certain circumstances. In order to obtain exemption at source from *imposta sostitutiva* in respect of payments of interest or other amounts relating to the Notes, each Noteholder not resident in the Republic of Italy is required to comply with the deposit requirements described in "*Taxation – Taxation in the Republic of Italy*" and to certify, prior to or concurrently with the delivery of the Notes, that such Noteholder is, *inter alia,* (i) resident in a country which recognises the Italian tax authorities' right to an exchange of information pursuant to terms and conditions set forth in the relevant treaty (such countries are listed in the Ministerial Decree of 4 September 1996, as amended by Ministerial Decree of 23 March 2017 and possibly further amended by future decrees issued pursuant to Article 11(4)(c) of Decree No. 239 of 1 April 1996 (as amended by Legislative Decree No. 147 of 14 September 2015)) and (ii) the beneficial owner of payments of interest, premium or other amounts relating to the Notes, all as more fully set out in "*Taxation – Taxation in the Republic of Italy*" on page 127.

The Notes are expected to be rated "B+" by Fitch Italia S.p.A. (**Fitch**). Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. 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 agency. Please also refer to "*Risk Factors – Credit ratings may not reflect all risks and may be lowered, suspended, withdrawn or not maintained*" section of this Prospectus.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about the Issue Date with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the **Temporary Global Note**, the **Global Notes**), without interest coupons, on or after 3 July 2017 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances – see "*Overview of Provisions relating to the Notes while in Global Form*".

An investment in the Notes involves certain risks. Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider the suitability of the Notes as an investment in light of their own circumstances and financial condition. For a discussion of these risks see "*Risk Factors*" below. The Notes are not intended to be sold and should not be sold to "retail clients" (as defined under the Markets in Financial Instruments Directive 2004/39/EC ("*MiFID*")) and/or under the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 published by the UK's Financial Conduct Authority. Potential investors should read the whole of this document, in particular the "*Risk Factors*" set out on pages 9 to 77 and "*Restrictions on Sales and Resales to Retail Investors*" set out on pages 6 to 7.

Joint Bookrunners and Joint Lead Managers

BNP PARIBAS **Credit Suisse**

Deutsche Bank **Goldman Sachs International**

UniCredit Bank

The date of this Prospectus is 19 May 2017

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

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

No representation, warranty or undertaking, express or implied, is made by any of the Managers named under "*Subscription and Sale*" below or any of their respective affiliates and no responsibility or liability is accepted by any of the Managers or by any of their respective affiliates as to the accuracy or completeness of the information contained or incorporated in this Prospectus or of any other information provided by the Issuer in connection with the Notes. No Managers or any of their respective affiliates accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the Notes.

This Prospectus contains or incorporates by reference industry and customer-related data as well as calculations taken from industry reports, market research reports, publicly available information and commercial publications. It is hereby confirmed that (a) to the extent that information reproduced herein derives from a third party, such information has been accurately reproduced and (b) insofar as the Issuer is aware and is able to ascertain from information derived from a third party, no facts have been omitted which would render the information reproduced inaccurate or misleading.

Commercial publications generally state that the information they contain originates from sources assumed to be reliable, but that the accuracy and completeness of such information is not guaranteed, and that the calculations contained therein are based on a series of assumptions. External data have not been independently verified by the Issuer.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers.

Neither this Prospectus nor any other information supplied in connection with the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, or any of the Managers that any recipient of this Prospectus or of any other information supplied by the Issuer or such other information as is in the public domain in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial conditions and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Managers to any person to subscribe for or to purchase any Notes.

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 (see "*Subscription and Sale*").

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons (as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder). The Notes may be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (*Regulation S*) under the Securities Act. For a description of certain restrictions on offers, sales and deliveries of the Notes and

on the distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

This Prospectus has been prepared on the basis that any offer of the Notes in any Member State (each, a **Relevant Member State**) of the European Economic Area (the **EEA**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Manager has authorised, nor do they authorise, the making of any offer of the Notes in circumstances in which an obligation arises for the Issuer or any Manager to publish or supplement a prospectus for such offer. As used herein, the expression **Prospectus Directive** means Directive 2003/71/EC, as amended (including by Directive 2010/73/EU).

Each prospective investor in the Notes must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the Notes is fully consistent with its financial needs, objectives and condition, complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it and is a fit, proper and suitable investment for it, notwithstanding the clear and substantial risks inherent in investing in or holding the Notes.

A prospective investor may not rely on the Issuer, the Managers or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Notes or as to the other matters referred to above.

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 financial circumstances and investment objectives, and only after careful consideration with their financial, legal, tax and other advisers. In particular, each potential investor should:

- 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;

- 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;

- 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;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and

- 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 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 and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each prospective investor should consult its own advisers as to legal, tax and related aspects in connection with any investment in the Notes. An investor's effective yield on the Notes may be diminished by certain charges such as taxes, duties, custodian fees on that investor on its investment in the Notes or the way in which such investment is held.

This Prospectus, including the documents incorporated by reference herein, contains forward-looking statements. Such items in this Prospectus include, but are not limited to, statements made under "*Risk Factors*". Such statements can be generally identified by the use of terms such as "anticipates" , "believes" , "could" , "expects" , "may" , "plans" , "should" , "will" and "would" , or by comparable terms and the negatives of such terms. In addition, this Prospectus includes targets relating to future regulatory capital ratios in the section "*Description of the Issuer – Regulatory Capital Ratios*". By their nature, forward-looking statements and projections involve risk and uncertainty, and the factors described in the context of such forward-looking statements and targets in this Prospectus could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. The Issuer has based forward-looking statements on its expectations and projections about future events as of the date such statements were made. These forward-looking statements are subject to risks, uncertainties and assumptions about UniCredit S.p.A. and the UniCredit Group, including, among other things, the risks set out under "*Risk Factors*".

All references in this Prospectus to **Euro**, **EUR**, **€** or **euro** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union of those members of the European Union which are participating in the European economic and monetary union.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, GOLDMAN SACHS INTERNATIONAL (IN ITS CAPACITY AS JOINT LEAD MANAGER) AS STABILISING MANAGER (THE *STABILISING MANAGER*) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. SUCH STABILISING OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

Restrictions on Sales and Resales to Retail Investors

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors. In particular, in June 2015, the UK Financial Conduct Authority published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 which took effect from 1 October 2015 (the **PI Instrument**). Under the rules set out in the PI Instrument (as amended or replaced from time to time, the **PI Rules**):

(a) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Notes, must not be sold to retail clients in the EEA; and

(b) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

Each of the Managers is required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or any Manager, each prospective investor will be deemed to represent, warrant, agree with and undertake to the Issuer and each of the Managers that:

(a) it is not a retail client in any EEA jurisdiction (as defined in the PI Rules);

(b) whether or not it is subject to the PI Rules, it will not (i) sell or offer the Notes to any retail clients in Italy or any other EEA jurisdiction or (ii) communicate (including the distribution of Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by any retail client in any EEA jurisdiction (within the meaning of the PI Rules),

in any such case other than (A) in relation to any sale of or offer to sell Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (B) in relation to any sale of or offer to sell Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (I) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (II) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) (**MiFID**) to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(c) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Managers, the foregoing representations, warranties, agreements and undertakings will be given

by and be binding upon both the agent and its underlying client.

In addition, by making or accepting an offer to buy or buying any of the Notes from any of the Managers, an investor represents, warrants and agrees with each of the Managers that it is not a retail client in the EEA (as defined in the PI Rules) and it has not sold and will not sell the Notes to a retail client in the EEA and has not done and will not do anything (including the distribution of this document) that would or might result in a retail client in the EEA buying or holding a beneficial interest in any Notes (in each case within the meaning of the PI Rules), except in circumstances that do not give rise to a contravention of the PI Rules by any person (or that would not give rise to such a contravention if those rules were already in force) and that it has complied and will comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to sales of securities such as the Notes and the appropriateness and/or suitability of any investment in the Notes for any buyer.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All 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 material 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. The Issuer has identified in this Prospectus a number of factors which could materially adversely affect its businesses and ability to make payments due under the Notes. 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.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this section, unless otherwise stated. References to a numbered "Condition" shall be to the relevant Condition in the Terms and Conditions of the Notes.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE NOTES

Risks connected with the Strategic Plan

On 12 December 2016, the Board of Directors of UniCredit approved the 2016-2019 Strategic Plan (the **2016-2019 Strategic Plan** or the **Strategic Plan**) which envisages, *inter alia*, a review of the business model.

The Strategic Plan contains objectives to be reached, respectively, by 2017 and 2019 (the **Plan Objectives** or the **Projected Data**) based on assumptions of both a general nature and a discretionary nature linked to the impact of specific operational and organisational actions that UniCredit intends to take during the period of time covered by the 2016-2019 Strategic Plan.

UniCredit's capacity to fulfil the actions and to fulfil the Plan Objectives depends on various assumptions and circumstances, some of which are outside UniCredit's control, such as hypotheses relating to the macroeconomic context and the evolution of the regulatory context, hypothetical assumptions relating to the effects of specific actions or concerning future events over which UniCredit has a limited degree of influence.

In addition to the above, the Plan Objectives are also based on several assumptions that include actions already undertaken by management or actions that management should undertake over the course of the plan, such as, *inter alia*, the capital strengthening measures (including, *inter alia*, the **M&A Asset Sale Transactions**) and the preparatory activities for improving the quality of balance sheet assets (the latter in relation, specifically, to the reduction of the non-core loans portfolio and the increase of the coverage ratio of impaired loans and unlikely-to-pay loans in the Italian loan portfolio), the proactive reduction of the risk of balance sheet assets and the improvement of the quality of new loans, the transformation of the operating model, the maximisation of the value of the commercial bank and the adoption of a lean governance model that is strongly directed at the coordination of activities. To this extent, certain assumptions of the Strategic Plan refer to the implementation of measures – as well as the prosecution of such measures in accordance with the previous industrial plan announced on November 2015 – within the UniCredit banking group, registered with the Register of Banking Groups held by the Bank of Italy pursuant to Article 64 of Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**) under number 02008.1 (the **Group** or the **UniCredit Group**) and in relation to the activities of certain subsidiaries.

Taking into consideration that at the date of this Prospectus there is no certainty that the above-mentioned actions will be realised in full, in the absence of the anticipated benefits from the actions designed to support profitability or if the above-mentioned Group operating model transformation actions are not completed in full, it is possible the forecasts in the Projected Data might not be achieved and, as a result, there could be negative impacts, including significant ones, on the operating results, capital and financial position of UniCredit and/or the Group.

The Strategic Plan is therefore based on numerous assumptions and hypotheses, some of which refer to events that are out of UniCredit's control. Specifically, the Strategic Plan contains a collection of hypotheses, estimates and forecasts that are based on the realisation of external future events and actions that could be undertaken by management and by the Board of Directors of UniCredit in 2016-2019 which include, among other things, hypothetical assumptions of various natures subject to the risks and uncertainties of the current macroeconomic scenario and the regulatory context, relating to future events and actions of directors and management that may not necessarily take place, and events, actions and other assumptions, including those surrounding the performance of the main capital and economic parameters or other factors that affect development over which the directors and management cannot influence or can only partly influence.

The assumptions at the base of the Plan Objectives could turn out to be inaccurate and/or such circumstances could not be fulfilled, or could be fulfilled only in part or in a different way, or could change during the course of the reference period of the Strategic Plan. Moreover, it is worth noting that as a result of the precariousness associated with the realisation of any future event both as far as the event taking place is concerned and as far as the measurement and timing of its manifestation is concerned, the differences between the actual values and the projected values could be significant, even if the events were to occur.

The failure or partial occurrence of the assumptions or of the positive expected resulting effects could lead to potentially significant deviations from the forecasts in the Projected Data or hinder their achievement with consequent negative effects – even significant – on the assets and the operations, balance sheet and/or income statement of the Issuer and/or the Group. In particular, it cannot be guaranteed that UniCredit and/or the relevant Group companies will be able to successfully implement the measures provided for in the 2016-2019 Strategic Plan (also including the measures to be carried out in accordance with the previous industrial plan announced in November 2015). Failure to do so, as well as the partial realisation of one or more of such measures, could lead to divergences, even significant, with the provisions of the Projected Data and hinder their fulfilment, with consequent negative effects on the Issuer, as the case may be, and/or the Group's operating results and capital and financial position.

Note, lastly, that the 2016-2019 Strategic Plan was developed on the basis of a UniCredit Group perimeter that was different from the one at the date of this Prospectus, anticipating the effects of several extraordinary transactions, several of which have already been completed at the date of this Prospectus, while others are in the process of being executed (the **M&A Asset Sale Transactions in the process of being Executed**).

The M&A Asset Sale Transactions in the process of being Executed involve typical execution risks of extraordinary operations and, specifically, the risk of their realisation in time and/or in significantly different ways to those provided for by UniCredit at the date of this Prospectus, or even the risk that the effects deriving from said M&A Asset Sale Transactions in the process of being Executed differ significantly from those provided for by UniCredit.

If the M&A Asset Sale Transactions in the process of being Executed are not completed, in full or in part, or if they are completed in a manner that is partly or totally different from that projected by UniCredit, this could have negative impacts on the activities of the Group and/or on its capacity to achieve the Plan Objectives, with consequent significant negative effects on the operating results, capital and financial position of UniCredit and/or the Group.

Risks associated with the impact of the current macroeconomic uncertainties and the volatility of the markets on the UniCredit Group's performance

The UniCredit Group's performance is affected by the financial markets and the macroeconomic context of the countries in which it operates. Expectations regarding the performance of the global economy remain uncertain both from a short-term and a medium-term perspective. Added to these factors of uncertainty are those relating to the geopolitical context.

This situation of uncertainty which has characterised the global economy since the 2008 crisis has caused, among other things, significant problems for the ordinary activities of a number of leading commercial banks, investment banks and insurance companies, some of which have become insolvent or have had to be incorporated into other financial institutions or request assistance from governmental authorities or central banks and the International Monetary Fund, which have intervened by injecting liquidity and capital into the system and by participating in the recapitalisation of certain financial institutions. Added to this are other negative factors, such as an increase in unemployment levels and a general fall in demand for financial services.

At the date of this Prospectus the macroeconomic situation featured a high level of uncertainty in relation to: (a) the recent developments associated with the referendum in the United Kingdom and the subsequent triggering of Article 50 of the London Treaty and the consequences resulting from the failed approval of the constitutional reform subject to the referendum in Italy on 4 December 2016; (b) the trends of the real economy and specifically the prospects of recovery and consolidation of the domestic economic growth dynamics and the economies in those countries, like the United States and China; (c) future developments of the European Central Bank (the **ECB**) and the U.S. Federal Reserve (the **FED**) monetary policies; (d) a continuous change in the banking sector at global level, and specifically at European level, which has led to a progressive reduction in the spread between lending and borrowing rates; (e) the sustainability of the sovereign debts of several countries and the related tensions recorded, more or less repeatedly, on the financial markets; and (f) the potential renegotiation or failed agreement of international commercial agreements.

Specifically, in this respect, note the developments of the sovereign debt crisis in Greece which raised considerable uncertainty over Greece remaining in the Eurozone in the future and, except in an extreme case, at least the possible contagion among the sovereign debt markets of the various countries on retaining the European monetary system founded on a single currency, with one or more countries possibly leaving the Eurozone. The risk therefore remains that the future development of the contexts referred to could have negative effects on the operating results and capital and financial position of the Issuer and/or the Group.

The economic slowdown in the countries where the Group operates has had (and may continue to have) a negative effect on the Group's activities and the cost of borrowing, as well as on the value of its assets, and could result in further costs related to write-downs and impairment losses.

The UniCredit Group's performance is affected, among other things, by factors such as the expectations and confidence of investors, the liquidity of the financial markets, the availability and cost of borrowing on capital markets, elements, by their very nature, connected to the general macroeconomic situation. Adverse changes in these factors, particularly at times of economic-financial crisis, could create increases for the UniCredit Group in the cost of funding, as well as cause the partial or incomplete realisation of the Group funding plan, with a potential negative impact on the financial situation and the short and long-term liquidity of the Issuer and/or the Group.

This situation could be further affected by provisions regarding the currencies adopted in the countries in which the Group operates as well as by political instability and difficulties for governments to implement suitable measures to deal with the crisis, as well as acts of terrorism and/or, in general, political instability at a global level or in the countries in which the Group operates. All this could, in turn, result in decreased profitability, with significant negative consequences on the operating results and capital and financial position of UniCredit and/or the Group.

In addition, there is the risk that following the entry into force of the directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (Directive 2014/59/EU) (the **Bank Recovery and Resolution Directive** or **BRRD**), one or more credit institutions could be subject to the measures pursuant to this Directive and to the related implementing regulations, including the bail-in tool. This tool gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims into shares or other instruments of ownership to absorb the losses and recapitalise the bank in difficulty or a new entity that continues the essential functions. These circumstances could aggravate the macroeconomic situation and, specifically, have adverse effects on the business segments and on the markets in which the UniCredit Group operates, with possible adverse consequences on the operating results and on the capital and/or financial position of the Issuer and/or the Group.

Risks connected with the volatility of markets on the performance of the UniCredit Group

In recent years globally, the financial system suffered from considerable volatility and great uncertainty.

The high degree of uncertainty and volatility, including in the countries where the Group operates, has led to significant distortions of the financial markets and a high degree of volatility in the bond and share market, making access to these markets increasingly complex with a consequent rise in credit spreads and the cost of funding. This context also led to a reduction in the depth of the market with a consequent fall in the realisation value resulting from the disposal of financial assets.

The volatility and uncertainty of the financial markets has had, and could continue to have, a negative effect on the assets of the Group and, specifically, on UniCredit's share price and the cost of borrowing on capital markets, causing, among other things, the partial or incomplete realisation of the Group funding plan, with a potential negative impact on the financial situation and the short and long-term liquidity of the Issuer and/or the Group.

The volatility of the financial markets has also created and continues to create a risk associated with operations in asset management, asset gathering and brokerage sectors and other activities remunerated through fees in the sectors in which the Group operates, with possible negative consequences on the operating results and capital and financial position of the Issuer and/or the Group.

Risks connected with the UniCredit Group's activities in different geographical areas

The UniCredit Group operates in different countries and, therefore, the UniCredit Group's activities are affected by the macroeconomic context of the markets in which it operates.

In spite of the geographical diversification of the UniCredit Group's activities, at the date of this Prospectus, Italy was the main market in which the UniCredit Group operates and, as a result, its activities are closely connected to the Italian macroeconomic context and could, therefore, be negatively impacted by any changes of the same. Specifically, economic forecasts and the current political context generate considerable uncertainty surrounding the future growth of the Italian economy.

In addition to any other factors that could emerge in the future, economic stagnation and/or a reduction in gross domestic product in Italy, a fall in consumer prices, a rise in unemployment and a negative performance of capital markets could create a drop in consumer confidence, fewer investments in the financial system, an increase in impaired loans and insolvency, causing, among other things, a general reduction in the demand for the services provided by the UniCredit Group.

Therefore, should these adverse economic conditions persist in Italy, or a lasting situation of political and economic uncertainty continue and/or the economic recovery prove to be slower than in other countries of the Organisation for Economic Co-operation and Development (OECD), this could have a further significant negative impact on the assets and the operations, balance sheet and/or income statement of the Issuer and/or the UniCredit Group.

The UniCredit Group also operates and has a significant presence in Austria and Germany, as well as in Central and Eastern European countries (**CEE countries**) including, among others, Poland[1], Turkey, Russia, Croatia, the Czech Republic, Bulgaria and Hungary. The risks and uncertainties to which the UniCredit Group is exposed are of a different nature and magnitude depending on the country and whether or not the country belongs to the European Union is only one of the major factors to take into consideration when evaluating these risks and uncertainties.

With special reference to Austria and Germany, there is the risk that a deterioration in the macroeconomic conditions in both countries, an increase in the volatility of their capital markets, a significant increase in the cost of funding, the end of the current period of ready availability of liquidity on the respective markets or an increase in political instability could lead to making the situation in the two countries harsh and have a negative impact on profitability as well as the assets and the operations, balance sheet and/or income statement of the Issuer and/or the Group. The Austrian and German macroeconomic conditions, as well as the Italian macroeconomic conditions, are affected, in particular, by the uncertainty relating to the European Union and the Eurozone's current situation. In particular, Germany's economy, which is the second market in which the Group operates as at the date of this Prospectus, significantly depends on the economies of certain countries with which German has various commercial relations, including, in particular, the United States, France, Italy and other countries of the European Union. Therefore, a worsening in the economic situation of these countries may have a significant adverse impact on the strongly export-orientated German economy, with potential negative consequences on the subsidiaries of the UniCredit Group operating in Germany, in particular, on UniCredit Bank AG (**UCB AG**).

CEE countries have also historically featured extremely volatile capital and foreign exchange markets, as well as a certain degree of political, economic and financial instability. In some cases, CEE countries have a less developed political, financial and legal system. In countries where there is greater political instability, there is the risk of political or economic events affecting the transferability and/or limiting the operations of one or more of the UniCredit Group companies, as well as the risk that local governments could implement nationalisation policies (or introduce similar restrictions), which directly affect Group companies and/or which could have negative consequences on the assets and the operations, balance sheet and/or income statement of the Issuer and/or the Group.

As far as the outlook of some CEE countries is concerned, note that developments in Russia over the last two years have increased uncertainty for the future of this country, while domestic and geopolitical developments in Turkey have introduced an element of uncertainty which was heightened following the attempted *coup d'état* in July 2016.

In this regard, please note that, under the 2016 Supervisory Review and Evaluation Process (**SREP**), as areas of vulnerability, uncertainty and potential risk, in terms of the deterioration of the credit quality of assets. The ECB reported the Group's operations in Russia and Turkey on account of possible macro-economic and political developments in these countries.

It is also not possible to rule out that in CEE countries, also as a result of the introduction of more restrictive regulations than those projected at international level, the UniCredit Group might have to implement further recapitalisation operations for its subsidiaries taking into account the risk of being subject to – among other things – regulatory and governmental initiatives of these countries. In addition to this, and to a similar extent as the risks in all the countries in which the Group operates, local authorities could adopt measures that: (a) require the cancellation or reduction of the amount due with regard to existing loans, with a consequent increase in the provisions required with regard to the levels applied normally consistent with Group policies; (b) require additional capital; and (c) introduce additional taxes on banking activity. As a result, the UniCredit Group may be called upon to ensure a greater level of liquidity for its subsidiaries in these areas, in an international context where access to same could become increasingly more difficult. Furthermore, the Group may have to increase impairments on loans issued due to a rise in estimated credit risk. Negative implications in terms of quality of credit could, specifically, involve the UniCredit Group's exposures

[1] For the sake of completeness, note that the 2016-2019 Strategic Plan includes, among other things, the sale of Bank Pekao which is under completion following the execution of sale and purchase agreement on 8 December 2016.

denominated in Swiss francs (CHF) in CEE countries, also as a result of the decision by the Swiss Central Bank in January 2015 to remove the Swiss franc/Euro ceiling.

In addition to the above, the lower growth rates in CEE countries' economies than those recorded in the past, together with negative repercussions in these countries resulting from the uncertainties of the economies of Eastern European countries, could have a negative impact on the Group reaching its strategic objectives and, therefore, on the assets and the operations, balance sheet and/or income statement of the Issuer and/or the Group.

Credit risk and risk of credit quality deterioration

The activity, financial and capital strength and profitability of the UniCredit Group depend on the creditworthiness of its customers, among other things.

In carrying out its credit activities, the Group is exposed to the risk that an unexpected change in the creditworthiness of a counterparty may generate a corresponding change in the value of the associated credit exposure and give rise to the partial or total write-down thereof. This risk is always inherent in the traditional activity of providing credit, regardless of the form it takes (cash loan or endorsement loan, secured or unsecured, etc.).

In the context of credit activities, this risk involves, among other things, the possibility that the Group's contractual counterparties may not fulfil their payment obligations, as well as the possibility that Group companies may, based on incomplete, untrue or incorrect information, grant credit that otherwise would not have been granted or that would have been granted under different conditions.

The main causes of non-fulfilment relate to the borrower's loss of its autonomous capacity to service and repay the debt (due to a lack of liquidity, insolvency, etc.), the emergence of circumstances not related to the economic/financial conditions of the debtor, such as country risk, and the effect of operating risks.

Other banking activities, besides the traditional lending and deposit activities, can also expose the Group to credit risks. "Non-traditional" credit risk can, for example, arise from: (i) entering into derivative contracts; (ii) buying and selling securities, futures, currencies or goods; and (iii) holding third-party securities. The counterparties of said transactions or the issuers of securities held by Group entities could fail to comply due to insolvency, political or economic events, a lack of liquidity, operating deficiencies, or other reasons.

The Group has adopted procedures, rules and principles aimed at monitoring and managing credit risk at both individual counterparty and portfolio level. However, there is the risk that, despite these credit risk monitoring and management activities, the Group's credit exposure may exceed predetermined levels pursuant to the procedures, rules and principles it has adopted. Therefore, the deterioration of certain particularly important customers' creditworthiness and, more generally, any defaults or repayment irregularities, the launch of bankruptcy proceedings by counterparties, the reduction of the economic value of guarantees received and/or the inability to execute said guarantees successfully and/or in a timely manner, as well as any errors in assessing customers' creditworthiness, could have major negative effects on the activity, operating results and capital and financial position of UniCredit and/or the Group.

As regards the European context however, the average data for the continent's banks shows a percentage of non-performing loans (**non-performing loans** or **NPLs**) that is considerably lower than the average for Italian banks and banking groups.

In spite of the Strategic Plan, including actions aimed at improving the quality of capital assets at the date of this Prospectus, there is the risk that, even if the Strategic Plan is implemented in full and the Plan Objectives achieved, at the end of the Plan period the Issuer may have a level of impaired loans that is not in line with regard to the figures recorded by its main competitors in the same period. Specifically, note that the percentage of gross impaired loans of the UniCredit Group is expected to be at a higher level than the average percentage of gross impaired loans of the Issuer's main European competitors with regard to 31 December 2016.

The Group has adopted valuation policies for customer loans and receivables that take into account write-downs recorded on asset portfolios for which objective loss events have not been identified. These portfolios are subject to a write-down which, taking into account the relevant risk factors with similar characteristics, is calculated partly through statistically defined coverage levels based on available information and historical data. However, in the event of deterioration in economic conditions and a consequent increase in non-performing loans, it cannot be ruled out that there may be significant increases in the write-downs to be performed on the various categories of such loans, and that credit risk estimates may need to be amended. Finally, there is a possibility that losses on loans may exceed the amount of write-downs, which would have a significant negative impact on the operating result capital and financial position of the Issuer and/or of UniCredit Group.

It is also worth to highlight that, within the scope of the 2016 SREP, the ECB notified UniCredit the areas of weakness related to credit risk.

Specifically, with regard to the high level of non-performing exposures in Italy, which exceed the average of other European Union banking institutions, the ECB, while acknowledging the effectiveness of the actions undertaken by UniCredit to reduce the level of impaired loans, stressed that NPLs still represent a risk to the Issuer's capacity to generate profits, to the business model and to the capital position. In addition, the ECB noted the lack of a detailed strategic and operational plan to actively reduce the gross and net non-performing loan. The Issuer, however, deems that this issue has been addressed through several actions envisaged in the Strategic Plan and aimed at improving the balance sheet's asset quality.

In addition, on 20 March 2017, the ECB published the "Guidance to banks on non-performing loans" following a consultation conducted between 12 September and 15 November 2016. These guidelines address the main aspects of the management of non-performing loans, including the definition of the NPL strategy and of the operational plan to the NPL governance and operations, and provide several recommendations, based on best practices, that constitute, in the future, the ECB single supervisory mechanism's (the **Single Supervisory Mechanism** or **SSM**) expectations. Specifically, the guidelines require all banks with a high degree of non-performing loans to establish a clear strategy in line with their own business plan and risk management framework, aimed at reducing the amount of non-performing loans, in a credible and timely manner. The above-mentioned guidelines are among the factors that have determined the execution of the "Porto Project" through the increasing of the coverage ratio on impaired loans and on unlikely-to-pay loans in the Italian loans portfolio, following the changes in estimates, in turn resulting from the changed management approach to non-performing loans approved by the Issuer's Board of Directors and aimed at accelerating the reduction, adopted by UniCredit and other Italian Group companies in December 2016.

Loss Given Default (LGD)

As far as the Loss Given Default (the **LGD**) parameter is concerned, note that the 2016-2019 Strategic Plan assumes that for the purpose of estimating the weighted assets for the 2017-2019 period, part of the impact associated with the non-performing loans portfolio generated before 2009 (e.g. the **Aspra and Legacy Portfolio**) is subject to an adjustment in the treatment for the purpose of calculating the LGD.

The Aspra and Legacy Portfolio is a portfolio of bad loans that mainly includes the notes issued by a securitisation vehicle (Arena), wholly owned by UniCredit.

The Aspra and Legacy Portfolio has exceptional characteristics in relation to UniCredit's loan portfolio as it originated from and is classified under bad loans mainly before 2009 from various banks which, at the time, belonged to the UniCredit Group (a significant number of banks under the perimeter of the former Capitalia), based on the underwriting, monitoring and recovery policies that were different from those later adopted by the UniCredit Group. For these reasons, and consistent with the characteristics of the portfolio, under the scope of the 2016-2019 Strategic Plan the adjustment of the treatment in the calculation of the LGD was considered for the Aspra and Legacy Portfolio in its entirety, not only for the component relating to the **Fino Project** amounting to €4.9 billion.

The adjustment of the treatment of all the components of the Aspra and Legacy Portfolio, as described above for the purpose of calculating the LGD, requires the approval of the ECB. At the date of this Prospectus, discussions in this regard are ongoing. It is therefore not possible to guarantee that the ECB will allow the adjustment of the treatment of the impact of the Aspra and Legacy Portfolio for the purpose of calculating the LGD. Failure to adjust the treatment of all components of the Aspra Portfolio for the purpose of calculating the LGD, or even some of them, would have a negative impact – *inter alia* – on the future capital ratios of UniCredit, with consequent negative effects on the operating results and the capital and/or financial position of UniCredit and/or the UniCredit Group.

Guidelines for estimating the PD and the LGD and for dealing with exposures at default

In addition to the above, in November 2016, the European Banking Authority (the **EBA**) published a consultation paper with regard to the revision of the methods for estimating the Probability of Default (the **PD**) and the LGD indicators, as well as the handling of impaired loans. The provisions of the final text, which has not been published yet, are expected to apply from 1 January 2021, or sooner if the competent authority decides that this should be the case.

The consultation involves in-depth and detailed guidelines on the PD and LGD calculation models. At the date of this Prospectus, there is an ongoing consultation period during which operators can make observations to the EBA in response to the questions posed. In consideration of the questions drawn up by the EBA and the possibility for operators to draw up alternative proposals, at the date of this Prospectus there is the risk that there could be further amendments to the final version of the guidelines compared with the text of the consultation paper.

At the date of this Prospectus, in consideration of the complexity and extent of the amendment proposals drawn up in the EBA consultation paper and the differences between the various jurisdictions, it is not possible to estimate exactly the impacts resulting from the implementation of the guidelines described in the UniCredit Group consultation document (also taking into account the amendments that could be made to the final text of the guidelines).

Risks related to the income results of the Group for the year ended 31 December 2016

The present risk factor highlights the risks related to investment in the capital of UniCredit in consideration of the variability of its income results, also in relation to current market conditions.

In this regard it should be noted that in 2016 the UniCredit Group recorded a net loss of €11,790 million. Specifically, in the year ended 31 December 2016, the UniCredit Group recorded non-recurrent negative impacts amounting to €13.1 billion on the net income arising from the impact of certain actions provided by the Strategic Plan. Note that, specifically, the completion of the Fino Project and of the further actions indicated in the Strategic Plan results in expected non-recurrent negative impacts on the net result of the fourth quarter of 2016 amounting to €12.2 billion in total.

In addition to the above, note that there could be further negative effects on UniCredit from:

(i) the results of the consultation process regarding the review of the methods for estimating the PD and LGD indicators, as well as the treatment of impaired loans, launched by the EBA in November 2016; and

(ii) the development of the regulatory framework or interpretive guidelines, which could involve implementation and/or adjustment costs or impacts on the operations of UniCredit and/or the Group.

Risks associated with forbearance on non-performing loans

The deterioration of credit quality and the growing focus shown both at regulatory level and by the financial community on reducing the value of non-performing loans recorded on banks' balance sheets suggest the opportunity for UniCredit to be able to dispose of non-performing loans.

In recent financial years, supervisory authorities have focused on the value of non-performing loans and the effectiveness of the processes and organisational structures of the banks tasked with their recovery. The importance of reducing the ratio of non-performing loans to total loans has been stressed on several occasions by supervisory authorities, both publicly and in the context of ongoing dialogue with Italian banks and, therefore, with the UniCredit Group.

Furthermore, since 2014, the Italian market has seen a slight increase in the number of disposals of non-performing loans, characterised by sale prices that are lower than the relative book values, with discounts greater than those applied in other European Union countries. Specifically, sale prices on the Italian market are affected by the time frames in place for the completion of the implementation procedures (which are generally longer than in other European Union countries), and by the value of the properties under guarantee, which, particularly in the industrial sector, tend to present actual realisable values that are lower than their expected values.

In this context, the UniCredit Group, as of 2014, has launched a structured activity for selling non-performing loans on the market, in order to reduce the amount of problematic loans on its books, while simultaneously seeking to maximise its profitability and strengthen its capital structure.

UniCredit intends to continue pursuing its strategy of disposing of non-performing loans. Specifically, UniCredit has identified the capital risk reduction and the improvement of the quality of new loans as a strategic action under the scope of the 2016-2019 Strategic Plan to be achieved through increasing the coverage ratio of non-performing loans and selling impaired loans. The completion of the sales could involve the entry in the income statement of greater write-downs of loans for an amount which may be significant as a result of the possible differential between the value at which non-performing loans (and in particular impaired loans) are recorded in the financial statements of the Group and the consideration that market operators specialised in the management of distressed assets are prepared to offer for their purchase. In this regard, note that the potential impacts (i.e. debiting the income statement with greater write-downs of loans) of these transactions depend on various factors, including, specifically, the different return expected by specialist market operators compared with that of UniCredit and the recovery costs that are immediately discounted in the purchase prices. In this context, insofar as new operations were completed (particularly if concerning loans of lower quality, in terms of coverage level and/or asset class, than the operations already carried out) or in any case where the conditions existed to modify the forecasts concerning the recovery of the non-performing loans identified as subject to probable future disposal, it could be necessary to record in the financial statements additional value adjustments to said loans, with consequent (possibly significant) negative effects on the operating results and capital and financial position of UniCredit and/or of the Group.

It should also be noted that the actions aimed at improving the quality of balance sheet assets included the execution of the Fino Project, which involves the sale of several impaired loans portfolios for a total amount of €17.7 billion gross as determined as at 30 June 2016. At the date of this Prospectus, with regard to the Fino Project, UniCredit has signed two separate framework agreements (each a **Framework Agreement** and together the **Framework Agreements**), respectively with FIG LLC, an affiliate company of Fortress Investment Group LLC (later, FIG LLC, in conformity with the provisions of the Framework Agreement, replacing Fortress Italian NPL Opportunities Series Fund LLC, Series 6 (**Fortress**) in contractual relations resulting from the Framework Agreement) and with LVS III SPE I LP (**PIMCO**), a subsidiary of the PIMCO BRAVO Fund III, L.P.

Pursuant to each Framework Agreement, one of the objectives of phase 1 is obtaining the accounting derecognition of the portfolio sold. According to IAS 39, portfolios sold will be subject to accounting derecognition from the financial statements of UniCredit (i) once essentially all risks and associated benefits are transferred to independent third parties or (ii) once a sufficient part of the risks and benefits is transferred to third parties provided that the control of the credit components of said portfolios is not maintained. As at the date of this Prospectus, UniCredit is performing the necessary qualitative-quantitative analyses, in particular those related to the pricing mechanism of deferred subscription and to the structure of the securitisation transactions covered by the Framework Agreement, aimed at supporting prospectively the verification of the existence of the conditions mentioned above and the verification of the significant risk transfer as well as the related regulatory treatments of the Fino Project.

The analysis will be completed upon completion of the contractual documentation and could highlight the lack of conditions laid down by the accounting principle of reference for the accounting cancellation (derecognition) of the portfolio. In such case, it may be necessary to review the provisional information contained in the 2016-2019 Strategic Plan.

If the above analysis shows the lack of conditions laid down by the accounting principle of reference for the accounting cancellation (derecognition) of the portfolio, or if the planned divestment of the portfolio at each SPV and related securitisation transactions are not completed, even for reasons independent of the will of UniCredit, such as, for example, the default on the part of the respective contractual partners in relation to the Framework Agreement and the related and connected additional contracts, UniCredit may not pursue the goal of obtaining the accounting cancellation of the entire portfolio of the Fino Project. This circumstance may highlight the non-suitability of the use of the transfer price for the purposes of the evaluation of the portfolio and in addition it would not allow the reduction of impaired loans with negative impacts on the achievement of the objectives of the 2016-2019 Strategic Plan, as well as on ratings assigned to UniCredit. This circumstance may also cause negative impacts both in terms of reputation nature and on the economic, asset and financial situation of UniCredit and/or Group.

The uncertainties and the consequent risks of the failure to realise the securitisations and the Fino Project associated with the conditions precedent in the Framework Agreement could involve the risk for UniCredit of initiating new sell-out procedures for these portfolios (including through the launch of a new competitive auction) which could, as a result, involve a postponement of the transaction, in addition to the risk related to the need to further increase the adjustments to the portfolios in question if, following the new sell-out procedures, the changed market conditions lead to a lower price. In addition, these uncertainties and the consequent risk of the failure to execute the Fino Project could also lead to changes in the strategic and operating plan to deal with the high level of NPLs taking into account the results of the 2016 SREP conducted by the ECB with regard to the UniCredit Group's income-generating capacity.

The maintenance of Notes by UniCredit following the implementation of the Fino Project could result in asset impact, even negative, depending on: (i) the absorption of related assets weighted by the credit risk for the purposes of the determination of the regulatory capital ratios; and (ii) the possible future value adjustments arising from the portion of the risk retained. The residual share of the Notes held in the future will also be considered for the purposes of calculation of UniCredit's short and medium/long-term Issuer liquidity coefficients, as in "use not in the short term", thus implying the need for long-term funding of such use on the part of UniCredit.

It should also be noted that each Framework Agreement has a draft sales agreement attached, agreed between the parties which, once signed, in accordance with the time scales and arrangements for the implementation of the Fino Project, will include, among other things, declarations and guarantees issued by UniCredit in relation to each loan portfolio sold and the related compensation liability if these declarations and guarantees are not correct (as an alternative to the compensation liability, UniCredit could, in certain circumstances, ask to buy back the loan). Where the contracts of sale were signed in the agreed form within the meaning of the relevant Framework Agreement as of the date of this Prospectus, any incorrect or untrue representations and guarantees issued by UniCredit in relation to each loan portfolio transferred would entail for UniCredit the risk to pay compensation to the relative SPV.

Risks associated with UniCredit's participation in the Atlante fund and the Atlante II fund

UniCredit is currently one of the major subscribers of: (i) the Atlante Fund, a closed-end alternative investment fund intended to support the recapitalisation of Italian banks and to facilitate the disposal of non-performing loans (the **Atlante Fund**); and (ii) the Atlante II Fund, a closed-end alternative investment fund intended to facilitate the disposal of non-performing loans (the **Atlante II Fund** and, together with the Atlante Fund, the **Atlante Funds**). The Atlante Funds are managed by Quaestio SGR.

With reference to the Atlante Fund, UniCredit committed to underwrite 845 shares for a total aggregate value of €845 million.

Since it was formed, the Atlante Fund has participated in two transactions to recapitalise Italian banks – Banca Popolare di Vicenza S.p.A. (**BPVi**) and Veneto Banca S.p.A. (**Veneto Banca**). The Atlante II Fund has not yet participated in any transactions to acquire non-performing loans.

As of 31 December 2016, UniCredit held 845 shares out of 4,249 total shares of the Atlante Fund with a carrying value of €139 million (equal to €686 million for the shares previously paid, net of the impairment of €547 million), classified as financial assets available for sale, and a residual commitment to invest €159 million.

The units of the Atlante Fund were initially recognised at their subscription value, which was deemed an expression of the fair value of the investment as of the initial recognition date.

After the evaluation update of the units held as of 31 December 2016, according to an internal evaluation model based on multiples of banking baskets, integrated with estimates on Atlante's banks' NPL credit portfolio and related equity/capital needs, a €547 million impairment was recognised.

Consequently, if the value of the assets in which the Atlante Funds are invested and/or will be invested were to be reduced, among other things, as a result of write-downs or because the assets are sold at a price below the acquisition price, or if such assets were to be replaced with assets having a greater risk profile or that are characterised by a greater degree of capital absorption (for example, non-performing loans), this situation could require UniCredit to further write down UniCredit's investment in the Atlante Funds, which could have an adverse effect on the capital ratios of UniCredit.

With regards to the Atlante II Fund, in August 2016, UniCredit subscribed 155 units for a total value of €155 million; as of 31 December 2016, €1.1 million had been paid, so that the irrevocable commitment for subsequent payments held by UniCredit in the Atlante II Fund was equal to €154 million.

The regulatory treatment of the units held by UniCredit in the Atlante Fund is based on the application of the look-through method to the underlying investments, specifically the stakes indirectly held in BPVi and Veneto Banca are classified as non-significant holdings in a financial sector entity, according to the provisions set by EU Regulation 2015/923.

With reference to the commitment held by UniCredit towards the Atlante Fund, the regulatory treatment for RWA purposes foresees, as of 31 December 2016, the application of a Credit Conversion Factor equal to 100 per cent. ("full risk") according to the Annex I of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the **CRD IV Regulation**).

Risks associated with the Group's exposure to sovereign debt

Sovereign exposures are bonds issued by and loans given to central and local governments and governmental bodies. For the purposes of the current risk exposure, assets held for disposal and positions held through Asset Backed Securities (ABSs) are not included.

With reference to the Group's sovereign exposures in debt, the book value of sovereign debts securities as at 31 March 2017 amounted to €123,601 million, of which over 89 per cent. was concentrated in eight countries: Italy with €58,079 million, representing about 47 per cent. of the total; Germany with €17,461 million; Spain with €15,363 million; Austria with €9,075 million; France with €5,085 million; Czech Republic with €1,829 million; Hungary with €1,992 million; and Bulgaria with €1,702 million.

As at 31 March 2017, the remaining 11 per cent. of the total sovereign exposures in debt securities, equal to €13,015 million as recorded at the book value, was divided between 48 countries, including: Russia (€1,256 million), United States (€480 million), Slovenia (€398 million), Portugal (€104 million), Ireland (€33 million) and Argentina (€5 million). The exposures in sovereign debt securities relating to Greece, Cyprus and Ukraine are immaterial.

As at 31 March 2017, there is no evidence of impairment of the exposures in question.

Note that the aforementioned remainder of the sovereign exposures held as at 31 March 2017 also included debt securities relating to supranational organisations, such as the European Union, the European Financial Stability Facility and the European Stability Mechanism, worth €3,487 million.

In addition to the Group's sovereign exposure in debt securities, there were also loans issued to central and local governments and government bodies.

Total loans to countries to which the total exposure is greater than €140 million, which represented more than 94 per cent. of said exposures, as at 31 March 2017 amounts to €21,795 million.

Liquidity Risk

Liquidity risk refers to the possibility that the UniCredit Group may find itself unable to meet its current and future, anticipated and unforeseen cash payment and delivery obligations without impairing its day-to-day operations or financial position. The activity of the UniCredit Group is subject in particular to funding liquidity risk, market liquidity risk, mismatch risk and contingency risk.

Funding liquidity risk refers to the risk that the Issuer may not be able to meet its payment obligations, including financing commitments, when these become due. In light of this, the availability of the liquidity needed to carry out the Group's various activities and the ability to access long-term loans are essential for the Group to be able to meet its anticipated and unforeseen cash payment and delivery obligations, so as not to impair its day-to-day operations or financial position. The crisis that hit international financial markets and the subsequent instability gave rise to a considerable reduction in the liquidity accessible through private financing channels, resulting in major monetary policy interventions by the ECB, the reduction of which could lead the Issuer and/or the Group legal entities to access the wholesale debt market to a greater extent than in the past. With reference to the funding liquidity risk, note that as at 31 December 2016, the cash horizon of the UniCredit Group was more than one year. This managerial indicator identifies the number of days beyond which each liquidity reference bank is no longer capable of meeting its payment obligations for the management of liquidity. For this purpose, the cash horizon also takes into account the use of readily marketable securities both at the central banks accessible by the Group and at market counterparties.

The Group's access to liquidity could be damaged by the inability of the Issuer and/or the Group companies to access the debt market, including also the forms of borrowing from retail customers, thus compromising the compliance with prospective regulatory requirements, with consequent negative effects on the operating results and capital and/or financial position of the Issuer and/or of the Group.

The Group uses financing from the ECB for its activities. Any changes to the policies and requirements for accessing funding from the ECB, including any changes to the criteria for identifying the asset types admitted as collateral and/or their relative valuations, could impact the Group's financial activities, with significant negative effects on the operating results and capital and/or financial position of the Issuer and/or the Group.

As regards market liquidity, the effects of the highly liquid nature of the assets held are considered as a cash reserve. Sudden changes in market conditions (interest rates and creditworthiness in particular) can have significant effects on the time to sell, including for high-quality assets, typically represented by government securities. The "dimensional scale" factor plays an important role for the Group, insofar as it is plausible that significant liquidity deficits, and the consequent need to liquidate high-quality assets in large volumes, may change market conditions. In addition to this, the consequences of a possible downgrade of the price of the securities held and of the criteria applied by the counterparties in repos operations could make it difficult to ensure that the securities can be easily liquidated under favourable economic terms.

In addition to risks closely connected to funding risk and market liquidity risk, an additional risk that could impact day-to-day liquidity management is represented by differences in the amounts or maturities of incoming and outgoing cash flows (mismatch risk). In addition to its day-to-day management, the Issuer

must also manage the risk that (potentially unexpected) future requirements (i.e. use of credit lines, withdrawal of deposits, increase in guarantees offered as collateral) may use a greater amount of liquidity than that considered necessary for day-to-day activities (contingency risk).

Lastly, under the scope of the 2016 SREP, the ECB notified UniCredit of certain vulnerable areas relating to liquidity risk. These areas specifically involve the definition of a robust limit setting process and the demonstration of how the trapped liquidity is taken into consideration at strategic level. The ECB recommended that UniCredit reviews its internal processes to allow more fluid, reliable and frequent calculation procedures for regulatory ratios. In addition, the ECB asked that the information in the Asset & Liabilities Committee report should be improved to include a more detailed description of the subjects discussed. In the opinion of the regulatory authority the involvement of the Internal Audit Department in the Internal Liquidity Adequacy Assessment Process (the **ILAAP**) should also be extended in terms of its scope and the frequency of the audits carried out.

Generally, the framework of UniCredit's ILAAP was judged as adequate; however, in relation to the results of recent inspections, the ECB reported certain areas of improvement under the governance, the reporting and the control of liquidity risk.

Risks related to intra-group exposure

The UniCredit Group companies have historically financed other Group companies, in line with the practices of other banking groups operating in multiple countries, by transferring excess liquidity from one Group legal entity to another. In the past, one of the most significant intra-group exposures was that of UCB AG vis-à-vis UniCredit. UCB AG also has considerable continuous intra-group credit exposures, because the Group's investment banking activities are centralised within it and it acts as an intermediary between Group legal entities and market counterparties in financial risk hedging transactions. Due to the nature of this activity, UCB AG's intra-group credit exposure is volatile and may undergo significant changes from day to day.

As a result of the financial crisis, in many of the countries in which the Group operates, the supervisory authorities have adopted measures aimed at reducing the exposure of banks operating within these territories to associated banks that operate in countries other than those in which the said authorities exercise their regulatory powers. In this context, some supervisory authorities have asked that the Group companies reduce their credit exposure to other Group companies and, in particular, their exposure to UniCredit. This has prompted UniCredit to implement self-sufficiency policies, based essentially on improving the funding gap and using financing from outside the Group where necessary.

In view of the significance of the exposure and the considerations relating to UCB AG's role, as described above, UniCredit's exposure to UCB AG will now be addressed in more detail.

Pursuant to the applicable German regulations, when certain conditions are fulfilled, credit institutions can exclude intra-group exposures from their overall limit for major risks, or apply weights of less than 100 per cent. to said exposures. UCB AG applies this exemption for intra-group exposures. If this exemption were no longer available due to changes in the regulatory framework or for other reasons, UCB AG may have to increase its regulatory capital in order to maintain the minimum solvency ratio established by the regulations for major risks.

In Germany, in light of the overall level of intra-group exposure of UCB AG and the consequent discussions between UniCredit, UCB AG, the German Federal Financial Supervisory Authority (BaFin) and Bank of Italy, UniCredit and UCB AG have agreed to reduce the net intra-group exposure of UCB AG by providing appropriate guarantees, which include liens on financial instruments held by UniCredit.

The adoption of the principle of self-sufficiency by the Group companies has led, as previously mentioned, to the adoption of very strict policies to reduce the funding gap, not only in Italy, but in all subsidiaries. The combined action of such policies could result in a deterioration, whether real or perceived, in the credit

profile (particularly in Italy) and could have a significant negative effect on borrowing costs and, consequently, on the operating and financial results of the Issuer and of the Group.

Market risks

Market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can have on the economic value of the Group's portfolio, where said portfolio comprises both the assets held in the trading book and those in the banking book, i.e. operations related to day-to-day commercial banking business and strategic investment choices. The UniCredit Group's market risk management therefore involves all activities connected with cash and capital structure management operations, within both the Issuer and the other individual companies that make up the Group.

Specifically, the trading book includes positions in financial instruments or commodities held either for trading purposes or to hedge other elements of the trading book. In order to be subject to the capital treatment for the trading book in accordance with the applicable policy "Eligibility Criteria for the Regulatory Trading Book Assignment", the financial instruments must be free from any contractual restrictions on their being traded, or the relative risk must be able to be totally immunised. Furthermore, the positions must be frequently and accurately valued and the portfolio must be actively managed.

The risk that the value of a financial instrument (asset or liability, liquidity or derivative instrument) may change over time is determined by five standard market risk factors: (i) credit risk: the risk that the value of an instrument may decrease due to a change in credit spreads; (ii) share price risk: the risk that the value of an instrument may decrease due to changes in share prices or indices; (iii) interest rate risk: the risk that the value of an instrument may decrease due to a change in interest rates; (iv) exchange rate risk: the risk that the value of an instrument may decrease due to a change in exchange rates; and (v) commodity price risk: the risk that the value of an instrument may decrease.

The UniCredit Group manages and monitors its market risk using two sets of measures: (i) comprehensive market risk measures; and (ii) specific market risk measures.

The comprehensive risk measures comprise:

- Value at Risk (**VaR**), which represents the potential loss of value of a portfolio in a given period for a given interval of confidence;

- Stressed VaR (**SVaR**), which represents the potential VaR of a portfolio subject to a period of 12 months of significant financial stress;

- Incremental Risk Charge (**IRC**), which represents the regulatory capital intended to cover the credit losses (default and migration risks) that may occur in a portfolio in a given period and for a given interval of confidence;

- Loss Warning Level (**LWL**), which is defined as the economic profit and loss accumulated over a period of 60 (calendar) days of a unit of risk; and

- Stress Test Warning Level (**STWL**), which represents the potential loss of value of a portfolio calculated on the basis of a stress scenario.

Based on the aforementioned measures, two sets of limits are defined:

- The **Overall Market Risk Limits** (LWL, STWL, VaR, SVaR, IRC): these have the purpose of defining a limit to the absorption of economic capital and to the economic loss accepted for trading activities; these limits must be consistent with the revenue budget allocated and the risk-taking capacity assumed.

- The **Specific Market Risk Limits** (limits on sensitivity, stress scenarios and nominal values): these exist independently, but act in parallel to the Overall Market Risk Limits, and operate on a consolidated basis in all Entities (where possible); in order to monitor efficiently and specifically various types of risks, portfolios and products, these limits are generally associated with specific sensitivities or stress scenarios. The levels set for the Specific Market Risk Limits aim to limit concentrated exposure to individual risk factors or excessive exposure to risk factors that are not sufficiently represented by the VaR.

As well as being a fundamental metric for calculating the required capital for the trading book, VaR is also used for managerial purposes, as a measure of risk for the trading book and banking book together.

Risks connected with interest rate fluctuations

The Group's activities are affected by fluctuations in interest rates in Europe and the other markets in which the UniCredit Group operates. Interest rate trends are, in turn, affected by various factors outside the Group's control, such as the monetary policies, macroeconomic context and political conditions of the countries in question; the results of banking and financing operations also depend on the management of the UniCredit Group's exposure to interest rates, that is, the relationship between changes in interest rates in the markets in question and changes in net interest income. More specifically, an increase in interest rates may result in an increase in the Group's financing cost that is faster and greater than the increase in the return on assets, due, for example, to a lack of correspondence between the maturities of the assets and the liabilities that are affected by the change in interest rates, or a lack of correspondence between the degree of sensitivity to changes in interest rates between assets and liabilities with a similar maturity. In the same way, a fall in interest rates may also result in a reduction in the return on the assets held by the Group, without an equivalent decrease in the cost of funding.

These events, as well as the protracted, ongoing situation with interest rates at historically low levels (in some cases, even negative) could lead to continued pressure to reduce interest margins as well as having effects on the value of the assets and liabilities held by the Group.

The UniCredit Group implements a hedging policy of risks related to the fluctuation of interest rates.

Such hedges are based on estimates of behavioural models and interest rate scenarios, and an unexpected trend in the latter may have major negative effects on the activity, operating results and capital and financial position of the Group.

A significant change in interest rates may also have a major negative impact on the value of the assets and liabilities held by the Group and, consequently, on the operating results and capital and/or financial position of the Issuer and/or the Group.

As far as the banking book is concerned, the main metrics adopted are:

- the analysis of the sensitivity of the interest margins following exogenous changes in rates, in different scenarios of changes to rate curves involving maturity and time frames of 12 months; and

- the analysis of changes in the economic value of capital following various rate curve change scenarios in the long term.

Lastly, please note that under the scope of the 2016 SREP, the ECB notified UniCredit of certain vulnerable areas relating to interest rate risk in the banking book. Specifically, the ECB reported the lack of an adequate infrastructure for the aggregation, management and consolidation of exposures at Group level and vulnerabilities in the capacity of the existing systems to correctly reflect the impact of negative rates.

Risks connected with exchange rates

A significant portion of the business of the UniCredit Group is done in currencies other than the Euro, predominantly in Polish zloty[2], Turkish lira, U.S. dollars, Swiss francs and Japanese yen. This means that the effects of exchange rate trends could have a significant influence on the assets and the operations, balance sheet and/or income statement of the Issuer and/or the Group. This exposes the UniCredit Group to the risks connected with converting foreign currencies and carrying out transactions in foreign currencies.

If one considers the exchange risk deriving from the trading book as well as the banking book, including the commercial bank, which then can affect the Group's operating results, the UniCredit Group is exposed mainly to foreign-exchange risk toward the Polish Zloty, mainly arising from foreign exchange hedging of expected future cash flows due to the sale of Bank Pekao SA and the U.S. dollar.

The significance of the level of exposures denominated in currencies other than the Euro, in terms of both fluctuations in rates and forced conversion risk, is also indicated by the ECB as an area of vulnerability, uncertainty and potential risk, in terms of the deterioration of the credit quality of assets at the conclusion of the 2016 SREP.

The financial statements and interim reports of the UniCredit Group are prepared in Euro and reflect the currency conversions necessary to comply with the International Accounting Standards (**IFRS**).

The Group implements an economic hedging policy for dividends from its subsidiaries outside the Eurozone. Market conditions are taken into consideration when implementing such strategies. However, any negative change in exchange rates and/or a hedging policy that turns out to be insufficient to hedge the related risk could have major negative effects on the activity, operating results and capital and financial position of the Issuer and/or the Group.

Risks associated with borrowings and evaluation methods of the assets and liabilities of the Issuer

In conformity with the framework dictated by IFRS, the Issuer should formulate evaluations, estimates and theories that affect the application of accounting standards and the amounts of assets, liabilities, costs and revenues reported in the financial statements, as well as information relating to contingent assets and liabilities. The estimates and related hypotheses are based on past experience and other factors considered reasonable in the specific circumstances and have been adopted to assess the assets and liabilities whose book value cannot easily be deduced from other sources.

The application of IFRS by the UniCredit Group reflects the interpretation decisions made with regard to said principles. In particular, the measurement of fair value is regulated by IFRS 13 "Fair Value Measurement".

Specifically, the Issuer adopts estimation processes and methodologies in support of the book value of some of the most important entries in the financial statements, as required by the accounting standards and reference standards described above. These processes, based to a great extent on estimates of the future recoverability of the values recorded in the financial statements, bearing in mind the developmental stage of the evaluation models and practices in use, were implemented on a going concern basis, in other words leaving aside the theory of the compulsory liquidation of the items subject to valuation.

In addition to the risks implicit in the market valuations for listed instruments (also with reference to the sustainability of values over a period of time, for causes not strictly related to the intrinsic value of the actual asset), the risk of uncertainty in the estimate is essentially inherent in calculating the value of: (i) the fair value of financial instruments not listed on active markets; (ii) receivables, equity investments and, in general, all other financial assets/liabilities; (iii) severance pay and other employee benefits; (iv) provision for risks and charges and contingent assets; (v) goodwill and other intangible assets; (vi) deferred tax assets; and (vii) real estate, specifically held for investment purposes.

[2] For the sake of completeness, note that the UniCredit Groups' activities in Polish zloty are mainly conducted by Bank Pekao and its subsidiaries.

The quantification of the above-mentioned items subject to estimation can vary quite significantly in time depending on trends in: (i) the national and international socio-economic situation and consequent reflections on the profitability of the Issuer and the solvency of customers; (ii) the financial markets, which influence the fluctuation of interest and foreign exchange rates, prices and actuarial bases; (iii) the real estate market, with consequent effects on the real estate owned by the Group and received as guarantees; and (iv) any changes to existing regulations.

The quantification of fair value can also vary in time as a result of the corporate capacity to effectively measure this value based on the availability of adequate systems and methodologies and updated historical-statistical parameters and/or series.

In addition to the above-mentioned explicit factors, the quantification of the values can also vary as a result of changes in managerial decisions, both in the approach to evaluation systems and as a result of the revision of corporate strategies, also following changed market and regulatory contexts.

Due to the measurement at fair value of its liabilities, the Group could benefit financially if its credit spread or that of its subsidiaries worsens. This benefit (lower value of liabilities, net of associated hedging positions), could lessen if said spread improves, with a negative effect on the Group's income statement. These effects, positive and negative, are, in any event, destined to be reabsorbed as the liabilities come to a natural end.

Specifically with reference to the measurement of investments in associates and joint ventures (as defined by IAS 28) or unconsolidated control or control for the purpose of the separate financial statements of the Issuer, note that in line with the provisions of IAS 36, the adequacy of the book value of equity investments is regularly checked through impairment tests. Note that the measurements were made particularly complex in view of the macroeconomic and market context, the regulatory framework and the consequent difficulties and uncertainties involving the long-term income forecasts. Therefore, the information and parameters used for recoverability checks, which were significantly affected by the factors mentioned above, could develop in different ways to those envisaged. If the Group were forced, as a result of extraordinary and/or sales transactions, as well as changing market conditions, to review the value of equity investments held, it could be compelled to make write-downs, including significant ones, with possible negative effects on the assets and the operations, balance sheet and/or income statement of the Issuer and/or the Group.

Risks relating to deferred taxes

Deferred tax assets (**DTAs**) and liabilities are recognised in UniCredit's consolidated financial statements according to accounting principle IAS 12. As of 31 December 2016, DTAs amounted in aggregate to €14,018 million, of which €11,340 million may be converted into tax credits pursuant to Law No. 214 of 22 December 2011 (**Law 214/2011**). As of 31 December 2015, DTAs amounted to €14,371 million, of which €11,685 million was available for conversion to tax credits pursuant to Law 214/2011.

Under the terms of Law 214/2011, DTAs related to loan impairments and loan losses, or to goodwill and certain other intangible assets, may be converted into tax credits where the company has a full-year loss in its non-consolidated accounts (to which such convertible DTAs relate) (**Convertible DTAs**). The conversion into tax credits operates with respect to Convertible DTAs recognised in the accounts of the company with the non-consolidated full-year loss, and a proportion of the deferred tax credits are converted in accordance with the ratio between the amount of the full-year loss and the company's shareholders' equity.

Law 214/2011 also provides for the conversion of Convertible DTAs where there is a tax loss on a non-consolidated basis. In such circumstances, the conversion operates on the Convertible DTAs recognised in the financial statements against the tax loss, limited in respect of the part of the loss generated from the deduction of the same categories of negative income components (loan impairments and loan losses, or related to goodwill and other intangible assets).

In the current regulatory environment, recovery of Convertible DTAs is normally assured even in the event UniCredit does not generate sufficient taxable income in the future to make use of the deductions

corresponding to the Convertible DTAs in the ordinary way. The tax regulations, introduced by Law 214/2011, and as confirmed in the document provided by the Bank of Italy, the *Commissione Nazionale per la Società e la Borsa* (**CONSOB**) and the Istituto per la Vigilanza sulle Assicurazioni (IVASS, the former ISVAP) entitled "Trattamento contabile delle imposte anticipate derivante dalla Legge 214/2011" (Accounting of the Convertible DTAs as effected by Law 214/2011), giving certainty of the recovery of Convertible DTAs, impact the sustainability/recoverability test provided for by the accounting principle IAS 12, making it automatically satisfied in regards to this particular category of deferred tax asset. The regulatory environment provides for a more favourable treatment of Convertible DTAs than for other kinds of DTAs. For the purposes of the capital adequacy regime which applies to us, the former are not included as deductions from own funds like the other DTAs and contribute to the determination of the risk-weighted assets (**RWA**) at a 100 per cent. weighting.

With regard to the Convertible DTAs, in accordance with Law 214/2011, Legislative Decree No. 59/2016 (ratified by law on 30 June 2016), as recently amended by Law Decree of 23 December 2016, No. 237 (**Law Decree No. 237/2016**) (passed by law on 17 February 2017), established, *inter alia*, provisions on deferred tax receivables, allowing companies involved in the regulation of Convertible DTAs to continue to apply the existing rules on conversion of DTAs into tax credits, provided that they exercise an appropriate irrevocable option and that they pay an annual fee in respect of each tax year from 2016 until 2030. This rule should eliminate the doubts raised by the European Commission as to whether the regulatory treatment of DTAs in Italy could potentially be qualified as unlawful state aid. The fee for a given year is determined by applying a 1.5 per cent. tax rate to a base obtained by adding (i) the difference between the Convertible DTAs recorded in the financial statements for that financial year and the corresponding Convertible DTAs recorded in the 2007 financial statements for IRES and 2012 financial statements for IRAP and (ii) the total amount of conversions into tax credits made until the year in question, net of taxes, identified by the Decree, paid with regard to the specific tax years established by the Decree. Such fee is deductible for income tax purposes.

UniCredit exercised the above-mentioned option by paying before 31 July 2016 deadline the fee due for 2016 of €126.9 million by the Group companies to which such regime is applicable. In the consolidated financial statements for the financial year ended 31 December 2016, an estimated amount of €253.7 million was recognised, which includes the fee due for the year 2015, paid in July 2016, and an estimation of the fee due for year 2016. On 17 February 2017, upon conversion into law of the Decree "*salva-risparmio*" (Law Decree No. 237/2016), amendments to article 11 of the Law Decree No. 59/2016 has been introduced, among which the one-year postponement for the DTA fee payment period from 2015-2029 to 2016-2030. These amendments have been considered as "nonadjusting events" as of 31 December 2016, the preconditions of "virtual certainty" and "substantively enactment" required by the IFRS in order to recognise the effect of these amendments where not fulfilled in the consolidated financial statements for the financial year ended 31 December 2016.

With reference to future Convertible DTAs, by effect of Legislative Decree No. 83/2015, converted into law in August 2015, such amount will not increase in the future. In particular, the requirement for the recognition of DTAs in relation to write-downs and losses on loans has ceased to apply in 2016, as such costs have become fully deductible by virtue of their inclusion in the financial statements. Also, as a result of Legislative Decree No. 83/2015, DTAs relating to goodwill and certain other intangible assets recorded from 2015 onward will no longer be convertible into tax credits.

From 2015 onwards, the immediate deductibility of write-downs and losses on loans means a significant reduction of the portion of UniCredit's consolidated income that is subject to IRES and IRAP (both as defined below).

Convertible DTAs related to impairments of loans, which, as of 31 December 2016, amounted to €5,768 million (€6,171 million as of 31 December 2015), are similarly deemed to decrease over time to zero in fiscal year 2025, as a result of the assets' gradual conversion into current tax assets. This amount comes from the pre-existing tax treatment of the write-downs and losses on loans, which, until 2015, were deductible from taxable income only in relation to a small proportion of the balance sheet, and, in relation to the excess, could only be deducted in the quotas set by the tax provisions, which is different to other countries, where such negative components were fully deductible.

Convertible DTAs related to goodwill and certain other intangible assets relevant for tax purposes amounted to €5,744 million as of 31 December 2016 (€5,781 million as of 31 December 2015). Such assets are expected to be naturally reduced over time, as they are gradually converted into current tax assets. The fiscal amortisation of such assets takes place on a straight-line basis over several years. Currently, it is not expected that there will be any increase in tax-deferred assets arising solely from tax recognition of goodwill as a result of any acquisition of business divisions or similar long-term investments (the fact remains that, in any case, such DTAs would not be convertible).

Non-convertible DTAs related to deductible administrative costs in the years following their recognition in the financial statements (typically provisions for risks, costs related to net equity increase, etc.) amounted to €4,600 million gross of compensation between DTA and Deferred Tax Liabilities (**DTL**) as of 31 December 2016 (compared to €5,021 million gross of compensation between DTA and DTL as of 31 December 2015).

As of 31 December 2016, non-convertible DTAs for tax losses totalled €524 million (€487 million as of 31 December 2015) related primarily to the German subsidiary, Bayerische Hypo-und Vereinsbank AG (HVB), and €366 million (zero as of 31 December 2015) related to the Issuer. Pursuant to accounting principle IAS 12, the DTA on the tax losses carried forward and on the ACE surpluses, together with other DTAs that are not convertible into tax credits pursuant to Law 214/2011, have been recorded in the consolidated financial statements for the financial year ended 31 December 2016 (as well as in the consolidated financial statements for the financial year ended 31 December 2015) upon verification of the reasonable existence of future taxable incomes as shown from the business plan sufficient to ensure their recovery in the coming years (known as the probability test).

In particular, with regard to the deconsolidation of the non-performing loan portfolio, together with the change of tax treatment of losses on loans to customers (which are now fully tax deductible in the same year in which they are accrued), the Issuer projected decreased future taxable income with the effect of lengthening the recovery timeframe of relevant DTAs. This will have subsequent impacts on the valuation of the previously recognised non-convertible DTAs and on the recognition of DTAs on tax losses, notwithstanding the fact that the current IRES tax law provides for recovery, without a time limit, of any tax losses eventually incurred.

As of 31 December 2016, the sustainability test was performed pursuant to IAS 12 in order to verify whether the projected future taxable income is sufficient to absorb the future reversal of DTAs on tax losses and on temporary differences. The test takes into account the amount of taxable income currently foreseeable for future years and the projection of the DTA conversion pursuant to Law 214/2011 over a five-year time period. Based on the outcome of the test, for the year ended 31 December 2016, a limited portion of DTAs, related to both tax losses and temporary differences, was recognised.

Risks connected with interests in the capital of Bank of Italy

UniCredit currently holds a 16.5 per cent. shareholding in the Bank of Italy, with a book value as of 31 December 2016 of €1,241 million. In 2013, in order to promote the reallocation of shareholdings, the Bank of Italy introduced a cap on ownership of its shares of 3 per cent. and a loss of rights to dividends on shares in excess of this limit from December 2016. UniCredit has received dividends on its holding in the Bank of Italy of €61 million for the financial year ended 31 December 2016, €75 million for the financial year ended 31 December 2015 and €84 million for the financial year ended 31 December 2014.

With reference to the regulatory treatment of UniCredit's shareholding in the Bank of Italy, the carrying value is risk weighted at 100 per cent. (according to Article 133 of the CRD IV Regulation "Equity exposure"); the revaluation recognised on the income statement of UniCredit for the year ended 31 December 2013 is not filtered out.

Counterparty risk in derivative and repo operations

The UniCredit Group negotiates derivative contracts and repos on a wide range of products, such as interest rates, exchange rates, share prices/indices, commodities (precious metals, base metals, oil and energy

materials) and credit rights, as well as repos, both with institutional counterparties, including brokers and dealers, central counterparties, central governments and banks, commercial banks, investment banks, funds and other institutional customers, and with non-institutional Group customers.

These operations expose the UniCredit Group to the risk that the counterparty of said derivative contracts or repos may fail to fulfil its obligations or may become insolvent before the contract matures, when the Issuer or one of the other Group companies still holds a credit right against the counterparty.

This risk, which was increased by the volatility of the financial markets, may also manifest itself when netting agreements and collateral guarantees are in place, if such guarantees provided by the counterparty in favour of the Issuer or one of the Group companies in connection with exposures in derivatives are not realised or liquidated at a value that is sufficient to hedge the exposure relating to said counterparty.

The counterparty risk associated with derivatives and/or repo operations is monitored by the Group via guidelines and policies aimed at managing, measuring and controlling such risk. Specifically, the entire framework involves rules for the admission of risk mitigation, such as netting agreements only if there is a positive clear legal opinion in the jurisdiction in which the counterparty operates and stringent rules regarding the collateral accepted (cash in the currency of low risk countries, quality in terms of issuer and country ratings, liquidity of the instrument, type of instrument accepted), in order to reduce the risks consistent with the current regulation and operate within the defined risk appetite. It cannot, however, be ruled out that failure by the counterparties to fulfil the obligations they assumed pursuant to the derivative contracts stipulated with the Issuer or one of the Group companies and/or the realisation or liquidation of the related collateral guarantees, where present, at insufficient values may have major negative effects on the activity, operating results and capital and financial position of the Issuer and/or Group.

Under the scope of its operations the Group also concludes derivative contracts with central governments and banks. Any changes in applicable regulations or in case-law guidelines, as well as the introduction of restrictions or limitations to such transactions, may have impacts (including potentially retroactive impacts) on the Group's operations with said counterparties, with possible negative effects on the activity, operating results and capital and financial position of the Issuer and/or Group. In this regard it should be noted that at the date of this Prospectus, the Court of Auditors is conducting investigations into transactions in derivative contracts between the Public Administration and certain counterparties (not including the UniCredit Group), the outcome of which remains uncertain at the date of this Prospectus. However, it cannot be excluded that, as a result of such proceedings and their findings, guidelines capable of causing negative consequences for the UniCredit Group may become consolidated.

Risks connected with exercising the Goodwill Impairment Test and losses in value relating to goodwill

As at 31 December 2016, the UniCredit Group's intangible assets stood at €3.19 billion (of which €1.48 billion related to goodwill) representing 8 per cent. of the Group's consolidated shareholders' equity and 0.4 per cent. of consolidated assets.

The parameters and information used to verify the sustainability of the goodwill (specifically the financial projections and discount rates used) were greatly influenced by the macroeconomic and market context, which could be affected by unforeseeable changes at the date of this Prospectus. The effect of these changes, as well as changes in corporate strategies, could lead to a revision in the financial statements of future years of the cash flow estimates relating to individual operating sectors and the adoption of the main financial parameters (discount rates, expected growth rates, common equity tier 1 ratio, etc.) which could have repercussions on the future results of impairment tests, with consequent possible further adjustments in value to goodwill and impacts, including significant ones, on the operations, balance sheet and/or income statement of the Issuer and/or the Group.

For further information, see the Notes to the Financial Statements, Part B, Assets, Section 13 "Intangible Assets" of the "Consolidated Reports and Accounts – General Meeting Draft" for the year ended 31 December 2016.

Risks connected with existing alliances and joint ventures

At the date of this Prospectus, the UniCredit Group has several alliance agreements, as well as several shareholders' agreements stipulated by the Group and other parties under the scope of co-investment agreements (e.g. agreements for the establishment of joint ventures), with special reference to the insurance sector (Aviva S.p.A., CNP UniCredit Vita S.p.A., Creditras Assicurazioni S.p.A., Creditras Vita S.p.A. and Incontra Assicurazioni S.p.A.) and with reference to which there are also distribution agreements.

Under the scope of these agreements, as per market practice, there are investment protective clauses which, depending on the case, allow the parties to negotiate their respective positions on the underlying investment in the case of their exit, through mechanisms that require purchase and/or sale. These provisions are usually applied after a certain period of time and/or when specific events occur, also connected to the underlying distribution agreements.

At the date of this Prospectus, the underlying assumptions of the above-mentioned protective investment clauses have not been met and therefore, as at the date of this Prospectus, the Issuer does not have definitive obligations to purchase the equity investments pertaining to one or more contractual counterparties. If these assumptions were to be met and the Issuer and/or one or more of the UniCredit Group companies were to be compelled to buy the investments pertaining to one or more contractual counterparties, they may have to cope with possibly significant outlays in order to fulfil their obligations which may have negative effects on the operations, balance sheet and/or income statement of the Issuer and/or the Group.

In addition, as a result of these purchases the UniCredit Group might see its own investment share in these parties increase (thereby also gaining control), with impacts on the calculation of deductions relating to positions held in entities in the financial sector and/or with the consequent need to deal with subsequent investments, all of which could have negative impacts on the Group's capital ratios.

In addition, under the scope of the transaction relating to the sale of the Pioneer Global Asset Management S.p.A.'s (**PGAM**) assets, UniCredit, UCB AG and UniCredit Bank Austria AG (**UCB Austria**) will sign separate distribution agreements with several companies of the group whose parent company is PGAM. These agreements involve UniCredit Group companies meeting specific annual targets in terms of sales volumes, which, if they fail to reach will result in the activation of specific compensation liabilities pertaining to the respective UniCredit Group companies, which could result in negative impacts on the operating results and capital and financial position of the Issuer and/or the Group. In addition, if the distribution agreements are terminated in certain situations identified in the Master Sale and Purchase Agreement (relating mainly to the termination of distribution agreements through the violation by UniCredit or one of the subsidiaries of the UniCredit Group of the obligations and/or commitments therein and/or interventions by the supervisory authorities), the price reduction mechanisms could be activated on behalf of the purchaser (i.e. Amundi S.A.).

Risks connected with the performance of the property market

The UniCredit Group is exposed to the risks of the property market, both as a result of investments held directly in properties owned (both in Italy and abroad), and as a result of loans granted to companies operating in the property sector where the cash flow is generated mainly by the rental or sale of properties (commercial real estate), as well as due to granting loans to individuals where the collateral is property.

Any downturn in the property market (already seen in recent years through a fall in market prices) could result in the Group having to make impairments to the property investments it owns at a value that is higher than the recoverable value, with consequent negative effects, including significant ones, on the operating results and capital and financial position of the Issuer and/or the Group.

Under the scope of property transactions, commercial real estate is the sector that has seen a greater fall in market prices and the number of transactions in recent years; as a result, the subjects operating in this section have had to deal with a decrease in transaction volumes and margins, an increase in commitments resulting from financial expenses, as well as greater difficulties in refinancing, with negative consequences on the

profitability of their activities, which could have a negative impact on the ability to repay the loans granted by the Group.

With reference to commercial real estate transactions and granting loans to individuals where the collateral is property, note that any deterioration of the property market could result in the need of the Group to make value adjustments to the loans supplied to companies operating in the sector and/or to private individuals and/or to loans guaranteed by properties, with consequent negative effects, including significant ones, on the operations, balance sheet and/or income statement of the Issuer and/or the Group.

In this scenario, in spite of the fact that the provision of loans is usually accompanied by the issuing of collateral and the Group has valuation procedures at the time of the issuing as well as monitoring processes for the value of the guarantees received, the Group still remains exposed to the risk of price trends in the property market.

Specifically, the continuation of poor market conditions and/or, more generally, the protracted economic-financial crisis could lead to a fall in value of the collateral properties as well as difficulties in terms of monetisation of said collateral under the scope of enforcement procedures, with possible negative effects in times of realisation times and values, as well as on the operations, balance sheet and/or income statement of the Issuer and/or the Group.

Risks connected with pensions

The UniCredit Group is exposed to certain risks relating to commitments to pay pension benefits to employees following the termination of their employment. These risks vary depending on the nature of the pension plan in question.

A distinction therefore needs to be made between: (i) defined-benefit plans, which guarantee employees a series of benefits that depend on factors such as age, years of service and compensation requirements; and (ii) defined-contribution plans, whereby the company pays fixed contributions and the benefit is based on the accumulated amount (made up of the contributions themselves and the return on them).

More specifically, in relation to the commitments connected to defined-benefit plans, the UniCredit Group assumes both the actuarial risk and the investment risk. The assumed liability reflects an estimate, which is calculated based on IFRS. Therefore, depending on the actuarial risk and investment risk, as well as the demographic and market contexts, the amount of said liability could be lower than the amount of the benefits to be paid over time, potentially resulting in major negative effects on the UniCredit Group's capital and financial position.

Specifically, at the date of this Prospectus, there are numerous defined-benefit plans within the UniCredit Group, established in Italy and abroad.

The Group's plans do not include assets held for sale, with the exception of the defined-benefit plans in Germany – including the Direct Pension Plan (namely an external fund managed by independent trustees), the "HVB Trust Pensionfonds AG" and the "Pensionkasse der Hypovereinsbank WaG", all three established by UCB AG – and the defined-benefit plans established by UniCredit and by UCB AG in the United Kingdom and in Luxembourg by UniCredit.

From 1 January 2013, as a result of the entry into force of the amendments to IAS 19 (IAS 19R), the elimination of the corridor approach has had an impact on the shareholders' equity of the Group connected with the recognition in the valuation reserve of actuarial profits or losses not previously recognised.

In addition to the above, in the context of the restructuring activities of UCB Austria, UCB Austria and the Workers' Council, signed an agreement that involves the definitive move of its employees to the state pension system (on the other hand the employees of UCB Austria already retired at this date will not be involved). The Austrian Parliament approved a new law which involves the framework governing the transfer of pension obligations relating to UCB Austria employees from the company to the national pension

system; however, there is the risk that the retirees could oppose the agreement signed by UCB Austria and the Workers' Council, challenging the transfer to the state pension system, with possible negative consequences, also of a reputational nature, on the activities and the capital and financial position of the Issuer and/or the Group.

Risks connected with risk monitoring methods and the validation of such methods

The UniCredit Group has an organisational structure, corporate processes, human resources and expertise that it uses to identify, monitor, control and manage the various risks that characterise its operations, and develops specific policies and procedures for this purpose.

The Group's Risk Management division oversees and controls the various risks at Group level and guarantees the strategic planning and definition of the risk management policies implemented locally by the Risk Management structures of the Group entities. Some of the methods used to monitor and manage such risks involve observing historic market trends and using statistical models to identify, monitor, control and manage risks.

The Group uses internal models for measuring both credit risk and market and operating risk. As at the date of this Prospectus, these models, where used for the purpose of calculating the capital requirements, were validated by the regulatory authority.

However, the above-mentioned methods and strategies could prove to be inadequate or the valuations and assumptions underpinning these policies and procedures could turn out to be incorrect, exposing the Issuer to unexpected risks or risks which may not have been correctly quantified so therefore UniCredit and/or the Group could suffer losses, even significant ones, with possible negative effects on the operations, balance sheet and/or income statement of the Issuer and/or the Group.

In addition, in spite of the presence of the above-mentioned internal procedures aimed at identifying and managing the risk, the occurrence of certain events, which cannot currently be budgeted for or assessed, as well as the incapacity of the Group's structures and human resources to include elements of risk in carrying out certain activities, could, in the future, lead to losses and therefore have a significant negative impact on the operations, balance sheet and/or income statement of the Issuer and/or the Group.

Over the course of routine inspections, the ECB and the regulatory authorities of the countries in which the Group operates have identified a series of areas of improvement in the Group models, specifically the Italian ones. The implementation of these improvements, which will involve a greater capital requirement given the same assets, is already reflected in the 2016-2019 Strategic Plan. Moreover, these actions to adapt the internal models will be subject, in any event, to the approval of the regulatory authorities. Their overall impact in terms of capital will therefore depend on the regulatory developments for the regulatory capital calculation rules as well as on the development of the volumes of assets and how it differs compared with the Strategic Plan.

There is a possibility that, following investigations or checks carried out by supervisory authorities in the countries in which the Group operates, the internal models may be considered no longer sufficient, potentially having a significant negative impact on the calculation of capital requirements.

In this regard, please note that under the scope of the 2016 SREP the ECB notified UniCredit of vulnerable areas relating to the risk culture and the overall governance of the risk of internal models. Specifically, in the ECB's opinion, there are still weaknesses in the IT infrastructure in terms of governance, aggregation at Group level, reconciliation and reporting of risk data, although it acknowledges the significant investments made by UniCredit to strengthen IT systems. In addition, with special reference to credit risk, weaknesses have been identified in data quality and in the development of the internal models reviewed by the ECB, which call into question the effectiveness of the internal validation function.

The ECB acknowledged that UniCredit's ICAAP (Internal Capital Adequacy Assessment Process) covers all categories of significant risk; however, several areas requiring attention have been identified involving intra-

risk methodologies and correlation, concentration and diversification assumptions under the scope of the loan portfolio model. Therefore, the ECB has asked UniCredit to improve the supporting information justifying the reliability of the model assumptions.

Lastly, in light of the regulatory developments involving the adoption of internal models, it will probably be necessary to revise some models to ensure that they conform in full to the new regulatory requirements. For the specific segments currently managed through internal models it may also be necessary to impose the adoption of the standardised approach, also being reviewed at the date of this Prospectus. The new regulatory features, which involve the entire banking system, could therefore involve changes to capital measures, but they will, however, come into force after the time horizon of the 2016-2019 Strategic Plan.

Risks relating to IT system management

The complexity and geographical distribution of the UniCredit Group's activities requires, among other things, a capacity to carry out a large number of transactions efficiently and accurately, in compliance with the various different regulations applicable. The UniCredit Group is therefore exposed to operating risk, namely the risk of suffering losses due to errors, violations, interruptions, damages caused by internal processes, personnel, strikes, systems (including IT systems on which the UniCredit Group depends to a great extent) or caused by external events.

Operating risk also includes legal risk and compliance risk, but not strategic risk and reputational risk. The main sources of operating risk statistically include the instability of operating processes, poor IT security, excessive concentration of the number of suppliers, changes in strategy, fraud, errors, recruitment, staff training and loyalty and, lastly, social and environmental impacts. It is not possible to identify one consistent predominant source of operating risk. The UniCredit Group has a system for managing operating risks, comprising a collection of policies and procedures for controlling, measuring and mitigating Group operating risks. These measures could prove to be inadequate to deal with all the types of risk that could occur and one or more of these risks could occur in the future, as a result of unforeseen events, entirely or partly out of the control of the UniCredit Group (including, for example, fraud, deception or losses resulting from the disloyalty of employees and/or from the violation of control procedures, IT virus attacks or the malfunction of electronic and/or communication services, possible terrorist attacks). The realisation of one or more of these risks could have significant negative effects on the activity, operating results and capital and financial position of the Issuer and/or the Group.

As far as operating risk is concerned, note that under the scope of the 2016 SREP, the ECB highlighted areas of vulnerability, stressing the need to closely monitor the risk resulting from judicial proceedings in progress or potential ones and organisational and procedural weaknesses in the compliance function which expose the Issuer to risks in that area that are far from negligible. The ECB also highlighted that where the provisions in Croatia and Hungary for the forced conversion of exposures denominated in currency and the "giving in payment law" in Romania were to be classified as operating risk events, this could have a negative impact on the capital requirements of the Issuer. Lastly, the ECB recalled the findings from the latest IT inspection which refer to insufficient uniformity and comprehensiveness of the processes implemented within the Group.

Moreover, in the context of its operation, the UniCredit Group outsources the execution of certain services to third companies, regarding, *inter alia*, banking and financial activities, and supervises outsourced activities according to policies and regulations adopted by the Group. The execution of the outsourced services is regulated by specific service level agreements entered into with the relevant outsourcers. The failure by the outsourcers to comply with the minimum level of service as determined in the relevant agreements might cause adverse effects for the operation of the Group. In particular, the Issuer and the other Group companies are subject to the risk, including adverse actions by supervisory authorities, resulting from omissions, mistakes, delays or interruptions by the suppliers in the execution of the services offered, which might cause discontinuity with respect to the contractually agreed levels, in the service offered. Moreover, the continuity of the service level might be affected by the occurrence of certain events negatively impacting the suppliers, such as, for example, a declaration of insolvency, as well as the incurrence of certain suppliers in insolvency procedures.

Furthermore, if the existing agreements with the outsourcers terminated or ceased to have effect, it would not be possible to ensure that the Issuer can promptly enter into new agreements or enter into new agreements with non-negative terms and conditions in respect of the existing agreements as at the date of this Prospectus.

The UniCredit Group's operations depend on, among other things, the correct and adequate operation of the IT systems that the Group uses as well as their continuous maintenance and constant updating.

The UniCredit Group has always invested a lot of energy and resources in upgrading its IT systems and improving its defence and monitoring systems. However, possible risks remain with regard to the reliability of the system (disaster recovery), the quality and integrity of the data managed and the threats to which IT systems are subject, as well as physiological risks related to the management of software changes (change management), which could have negative effects on the operations of the UniCredit Group, as well as on the capital and financial position of the Issuer and/or the Group.

Some of the more serious risks relating to the management of IT systems that the UniCredit Group has to deal with are possible violations of its systems due to unauthorised access to its corporate network, or IT resources, the introduction of viruses into computers or any other form of abuse committed via the Internet. Like attack attempts, such violations have become more frequent over the years throughout the world and therefore can threaten the protection of information relating to the Group and its customers and can have negative effects on the integrity of the Group's IT systems, as well as on the confidence of its customers and on the actual reputation of the Group, with possible negative effects on the capital and financial position of the Issuer and/or the Group.

In addition, the investment by the UniCredit Group in important resources in software development creates the risk that when one or more of the above-mentioned circumstances occurs, the Group may suffer financial losses if the software is destroyed or seriously damaged, or will incur repair costs for the violated IT systems, as well as being exposed to regulatory sanctions.

In this regard, note that the possibility of capitalising the costs incurred for the development of IT systems and related software depends, among other things, on the possibility of demonstrating, on a recurring basis, the technical and financial feasibility of the project as well as its future usefulness.

The disappearance of these conditions as a result of the supervening technical or financial impossibility of bringing the project to a conclusion and/or technological obsolescence and/or changes in the business pursued and/or other unforeseeable causes, could determine the need to (i) consider removing, in full or in part, by recording write-downs in the income statement, the assets capitalised following the irrecoverability of the investments recorded in the statement of assets and liabilities and/or (ii) shortening the useful life calculated previously by increasing the amortisation rates in the income statement in the residual useful life period, with consequent negative effects, including significant ones, on the capital and financial position of the Issuer and/or the Group.

Risks connected with non-banking activities

In addition to the traditional banking activities of collecting deposits and granting loans, the UniCredit Group also carries out activities that may expose it to a higher level of credit and/or counterparty risk.

There is a risk that the counterparties of this type of operation, such as counterparties of trading operations or issuers of securities held by UniCredit Group companies, may not be able to fulfil their obligations towards the Group due to insolvency, political or economic events, a lack of liquidity, operating problems or other reasons. Default by the counterparties of a series of operations, or by the counterparty of one or more operations of considerable value, could have major negative effects on the activity, operating results and capital and financial position of UniCredit and/or the Group.

The UniCredit Group has also made a series of significant equity investments, some of which arose from the conversion of debt into a stake in the borrower's share capital as part of a debt restructuring process. Any operating or financial losses or risks that the subsidiaries or affiliates may be exposed to could, first of all,

limit the possibilities for the UniCredit Group to dispose of the aforementioned equity investments and considerably reduce the value of said investments, with possible major negative effects on the Group's operating results and capital and financial position.

Furthermore, following the enforcement of guarantees and/or the signing of debt restructuring agreements, the Group holds and could in future acquire controlling or minority equity investments in companies operating in sectors other than those in which the Group operates, including, by way of example and not exhaustively, the real estate, oil, energy, infrastructures, transport, telecommunications and IT and consumer goods sectors.

These sectors require specific knowledge and management expertise that the Group does not have. However, during the course of any disposal operations, the Group may have to manage such companies and possibly include them, depending on the extent of the stake acquired, in its consolidated financial statements. This exposes the Group to both risks relating to the activities carried out by the individual subsidiaries or affiliates and risks arising from inefficient management of such equity investments, with possible major negative effects on the operating results and capital and financial position of the Issuer and/or the Group.

Risks connected with legal proceedings in progress and supervisory authority measures

Risks connected with legal proceedings in progress

As at the date of this Prospectus, there are legal proceedings (which may include disputes of a commercial nature, investigations and other contentious issues of a regulatory nature) pending with regard to UniCredit and other companies belonging to the UniCredit Group. Specifically, as at 31 December 2016, there were approximately 24,000 legal proceedings (other than labour law, tax and debt recovery related under the scope of which counterclaims were submitted or objections raised with regard to the credit claims of Group companies) and 514 labour law proceedings pending with regard to UniCredit. In addition, from time to time, directors, representatives and employees, including former ones, may be involved in civil and/or criminal cases, the details of which the UniCredit Group may not be entitled to know or disclose. In many of these cases, there is considerable uncertainty with regard to the possible outcome of the proceedings and the scale of any loss suffered. These cases include criminal proceedings, administrative proceedings brought by supervisory authorities or investigators and/or rulings for which the amount of any claims for compensation and/or potential liabilities that the Group is responsible for is not and cannot be determined according to the claim presented and/or the nature of the actual proceedings. In such cases, until it is impossible to reliably predict the outcome, no provisions are set aside. On the other hand, where it is possible to reliably estimate the scale of any losses suffered and where such loss is considered probable, provisions are set aside in the balance sheet in an amount considered suitable given the circumstances and in accordance with IAS.

As at 31 December 2016, the UniCredit Group had around €1,382 million of provisions for risks and charges to cover the liabilities that may arise from the pending cases in which it is a defendant (not including labour law, tax or debt recovery cases). As at 31 December 2016, the total amount claimed with reference to legal proceedings excluding labour law, tax cases and credit recovery actions was €11,529 million. That figure reflects the inconsistent nature of the pending disputes and the large number of different jurisdictions, as well as the circumstances in which the UniCredit Group is involved in counterclaims. As regards UniCredit's pending labour law dispute, the overall amount of the petitum on 31 December 2016 was equal to €476 million and the related risk provision, on the same date, was equal to €19 million.

The estimate of the above-mentioned obligations which could reasonably arise as well as the extent of the above-mentioned provision are based on the information available at the date the financial statements or the interim financial position are approved, but also, as a result of the many uncertainties arising from legal proceedings, involve a significant degree of assessment. More specifically, sometimes it is not possible to produce a reliable estimate, as in cases in which the proceedings have not yet begun or where there are legal or factual uncertainties that make any estimate unreliable. Therefore, it cannot be ruled out that in the future the provisions could be insufficient to fully cover the charges, expenses, fines and claims for compensation and payment of costs connected to pending cases and/or that the Group may, in the future, be obliged to deal with expenses from claims for compensation or refunds not covered by the provisions, with possible negative

effects, including significant ones, on the operating results and capital and/or financial position of the Issuer and/or the Group. Any unfavourable outcomes for the UniCredit Group in the disputes in which it is involved – specifically those with a greater media impact – or the emergence of new disputes could have reputational impacts, including significant ones, on the UniCredit Group, with possible consequent negative effects on the assets and the operations, balance sheet and/or income statement of same as well as its ability to comply with capital requirements.

It is also necessary for the Group to comply in the most appropriate way with the various legal and regulatory requirements in relation to the different aspects of the activity such as the rules on the subject of conflict of interest, ethical questions, anti-money laundering, customers' assets, rules governing competition, privacy and security of information and other regulations. In spite of the fact that at the date of this Prospectus there have been no significant negative consequences from confirmed or alleged violations of these regulations, there is the risk that in future there could be violations that could have negative consequences, including significant ones, on the operating results and capital and/or financial position of the Issuer and/or the Group. Specifically, the actual or alleged failure to comply with these provisions could lead to further disputes and investigations, making the Group subject to claims for compensation, fines imposed by the supervisory authority, other sanctions and/or reputational damage. In view of the nature of the Group's activities and the reorganisation it has been involved in over a period of time, there is also the risk that requests or questions initially relating to only one of the companies could involve or have effects on other Group companies, with possible negative effects on the operating results and capital and financial position of the Issuer and/or the Group.

With regard to criminal proceedings, note that at the date of this Prospectus, the UniCredit Group and its representatives (including those no longer in office), are involved in various criminal proceedings and/or, as far as UniCredit is aware, are the subject of investigations by the competent authorities aimed at checking any liability profiles of its representatives with regard to various cases linked to banking transactions, including, specifically, in Italy, investigations related to checking any liability profiles in relation to the offence pursuant to Article 644 (usury) of the Criminal Code. At the date of this Prospectus, these criminal proceedings have not had significant negative impacts on the operating results and capital and/or financial position of the Issuer and/or the Group; however, there is the risk that if the Issuer and/or other UniCredit Group companies or their representatives (including ones no longer in office) were to be convicted following the confirmed violation of provisions of criminal significance, this situation could have an impact on the reputation of the Issuer and/or the UniCredit Group.

Risks connected with Supervisory Authority measures

During the course of its normal activities, the UniCredit Group is subject to structured regulations and supervision by various supervisory authorities, each according to their respective area of responsibility.

In exercising its supervisory powers, the ECB, Bank of Italy, CONSOB and other supervisory authorities subject the UniCredit Group to inspections on a regular basis, which could lead to the demand for measures of an organisational nature and to strengthen safeguards aimed at remedying any shortcomings that may be discovered, with possible adverse effects on the operating results, capital and/or financial position of the Group. The extent of any shortcomings could also cause the launch of disciplinary proceedings against company representatives and/or related Group companies, with possible adverse effects on the operating results, capital and/or financial position of the Group.

In particular, it is noted that as at the date of this Prospectus, the following investigations, conducted by the ECB, are concluded and final official reports not yet notified: (i) "IRRBB management and risk control system" launched in September 2016; (ii) "Governance structure and business organisation of the foreign branches of UCB AG" launched in September 2016; (iii) "Governance and RAF" (Risk Appetite Framework) launched in November 2016; and (iv) "Business Model and Profitability – Funding transfer price" launched in November 2016.

Moreover, in June 2016, the ECB launched an investigation into Market Risk models, which was concluded at the end of July 2016. In March 2017, UniCredit was notified of the findings of the inspection and on 14 April 2017 delivered the action plan to the ECB.

In November 2016, an inspection launched by CONSOB on 23 May 2016 was also concluded (pursuant to Article 115, paragraph 2 of Legislative Decree No. 58 of 24 February 1998 (TUF), with regard to UniCredit for the purpose of acquiring documentary evidence and information relating to (i) the exercising, with regard to Feidos 11 S.r.l., of the purchase option set out in the shareholders' agreement signed on 31 July 2013, (ii) the Centauro Transaction, the extraordinary transaction and the part played by UniCredit and the other parties involved in the above-mentioned transaction under the scope of the share capital increase approved by the Board of Directors of Prelios S.p.A. on 12 January 2016 and (iii) relations with regard to the Centauro Transaction with shareholders of the Prelios S.p.A. shareholders' agreement signed on 26 February 2016. At the date of this Prospectus, UniCredit has still not received any further documents or notices related to the same inspection.

In addition to the above, note that: (i) in January 2016, the ECB launched an inspection into the "Capital position calculation accuracy" of the Group also with regard to Group-wide credit models, with the inspection at UniCredit concluding in May 2016; (ii) in February 2016, the ECB launched an inspection into the "Management of distressed assets/bad loans", as far as Italy was concerned, with the inspection at UniCredit concluding in May 2016; and (iii) in April 2016, the Bank of Italy began looking into the "Remuneration methods of loans and overdrafts" at UniCredit, which was concluded at the end of May 2016.

With regard to these inspections, the above-mentioned supervisory authorities notified UniCredit of:

(i) the assessment outcomes related to "Capital position calculation accuracy". In December 2016, UniCredit presented to and discussed with the ECB possible measures – and deadlines – identified by the bank in order to remedy the problems identified during the inspection, in particular concerning the processes for calculation of capital and of RWA. In March 2017, UniCredit received the official notice of the findings from ECB, highlighting also that the impact of the findings was already incorporated into the 2016-2019 Strategic Plan. The consequential action plan has been sent to the ECB in April 2017;

(ii) the assessment outcomes related to the "Management of distressed assets/bad loans". The ECB highlighted possible areas for improvement with regard to the organisation, classification, monitoring, recovery, provision policy and management of guarantees, recommending the Issuer continue the activities undertaken to resolve the ECB's findings. The consequential action plan, discussed with the ECB, was sent to the ECB at the end of December 2016; and

(iii) the findings of the analysis of "Remuneration Methods of loans and overdrafts". UniCredit's reply and action plan were sent to the Bank of Italy on 15 February 2017.

Lastly, with regard to the action plans currently in progress, relating to the findings of inspections prior to 2016, there have been no differences in relation to the planned implementation of the corrective measures. It is not possible, however, to rule out that in future there will be differences, both with regard to the action plans being implemented at the date of this Prospectus and in relation to the action plans that UniCredit will present involving the above-mentioned inspections. This eventuality could involve further intervention requests by the competent supervisory authorities and/or the launch of disciplinary proceedings against representatives of the company and/or Group companies, with possible negative effects on the operating results and capital and/or financial position of the Group.

In February 2017, the Bank of Italy launched two inspections related to "Transparency" of various branches in UniCredit's domestic network and "Governance, Operational Risk, Capital and AML" of UniCredit's subsidiary Cordusio Fiduciaria S.p.A. Both have been concluded in April 2017. The final results have not yet been notified.

In March 2017, the ECB announced an inspection related to "Collateral, provisioning and securitisation" of the Group. The inspection has been launched in April 2017.

In March 2017, the Bank of Italy announced an inspection related to "Procedures to determine and enhance due diligence in respect of PEPs" of all the Italian banking companies of the Group.

It is noted that in April 2016, the Italian Competition Authority (the **AGCM**) notified the extension to UniCredit (as well as to ten other banks) of the I/794 ABI/SEDA proceedings launched in January 2016 with regard to the Italian Banking Association (the **ABI**), aimed at ascertaining the existence of any concertation activity with regard to the Sepa Compliant Electronic Database Alignment (the **SEDA**). On 26 January 2017, UniCredit received from AGCM communication of the investigatory findings and the term for the closure of the phase for the acquisition of evidence. As at the date of this Prospectus, the AGCM proceedings are still ongoing.

The risks resulting from the ABI/SEDA proceedings launched by the AGCM (common to all banks that are parties to these proceedings) can be identified as: (a) the risk of the AGCM imposing a monetary administrative fine if it confirms in the final ruling that the adoption of the SEDA service remuneration model constitutes a violation of the competition laws. Also taking into consideration that, alongside the proceedings in question, activities are being concluded for a special "technical round-table" in which the AGCM and the parties to the proceedings will take place in order to redefine the SEDA service remuneration model, two possible further risk factors can be envisaged, namely: (b) the economic risk relating to possible lower earnings from the service if the new remuneration structure that may be adopted involves lower levels than the current ones; and (c) the economic risk relating to the costs of adjusting the IT procedures that will be necessary for any new service remuneration structure. There is also the risk that interested parties injured by the alleged anti-competitive behaviour can institute legal proceedings at the competent courts to ask for compensation for damage suffered in a civil case.

From a sanctions aspect, taking into account the nature and the effects of the disputed infraction (anti-competitive arrangements for directly/indirectly fixing sales prices and other contractual conditions) the possible sanction imposed on UniCredit will be decided by the AGCM taking the following criteria into account: (i) a percentage of up to 30 per cent. of the value of the sales of goods or services subject to investigation (during the course of the financial year ended 31 December 2016, this value was approximately €21.5 million); (ii) a coefficient for the number of years of involvement in the infraction; (iii) the possible inclusion in the basic amount of the fine of an additional sum of between 15 per cent. and 25 per cent. of the value of the sales of goods and services which are the subject of the infraction; (iv) an adjustment upwards or downwards depending on the existence of aggravating or extenuating circumstances – in this regard, it is probable that the activities and the outcome of the technical round-table mentioned above will constitute mitigating circumstances for any fine; and (v) a possible increase in the final fine of up to 50 per cent. as a deterrent, without prejudice to the fact that this fine cannot, in any event, exceed 10 per cent. of the sales of the company in the last financial year ended prior to the notification of the final provision.

Should the above risks materialise, such an event could cause consequent negative impacts on the operating results and capital and/or financial position of UniCredit and/or the Group.

For the year ended 31 December 2016, a provision for risks and charges relating to this investigation has been included.

In April 2017, the AGCM launched proceedings against UniCredit (and to two more banks) , at the same time requesting information, relating to alleged commercial practice concerning the compound interest (so called "*anatocismo*"). At the date of this Prospectus, the proceedings are still pending.

Risks arising from tax disputes

At the date of this Prospectus, there are various tax-related proceedings pending with regard to UniCredit and other companies belonging to the UniCredit Group, as well as tax inspections by the competent authorities in the various countries in which the Group operates.

Specifically, as at 31 December 2016, there were 727 tax disputes involving counterclaims pending with regard to UniCredit and other companies belonging to the UniCredit Group's "Italian" perimeter, net of settled disputes, for a total amount equal to €485.2 million. As far as the tax inspections which were concluded during the course of the financial year ended at 31 December 2016 are concerned, note, among other things, that:

- UniCredit Business Integrated Solutions S.C.p.A. has been interested by an assessment for IRES and IRAP purposes relating to years 2011 and 2012, at end of which on 21 July 2016 a formal notice of assessment was served. The total amount of the contested taxes is €11.8 million. As at 31 December 2016, an assessment notice relating to IRES and IRAP for the year 2011 was served, which confirmed the findings relating to 2011 (for a total of €5.2 million relating to higher taxes and interests for €0.9 million) and sanctions were imposed amounting to €4.1 million. At the date of this Prospectus, the deadline for tax assessment notifications relating to the 2012 financial year has not yet expired. The company has decided to apply for a tax settlement proposal (so called "accertamento con adesione");

- UniCredit Leasing S.p.A. has been interested by a tax assessment for IRES, IRAP and VAT purposes relating to years 2011 and 2012 ended on 29 September 2016 with the notification of an assessment notice. As at 31 December 2016, an assessment notice exclusively relating to 2011 IRAP and VAT purposes was served. The amounts established are equal to €21.2 million of which €7.3 million was for VAT and IRAP taxes, €12.5 million for penalties and €1.4 million for interests. At the date of this Prospectus, the deadline for tax assessment notifications relating to the 2012 financial year has not yet expired. The company has filed an appeal; and

- on 10 October 2016, UCB AG – a permanent establishment in Italy, was served with a formal notice of assessment which contests €0.2 million of withholdings on capital income which were allegedly missed. At the date of this Prospectus, assessments are being made to obtain a reliable estimate of the increased contested taxes arising from such assessment.

The Italian Revenue Agency has implemented monitoring activities for IRES, IRAP and VAT purposes, pursuant to Legislative Decree No. 185 of 29 November 2008 (**monitoring system**), on UniCredit and other Group companies which form part of the "Italian" perimeter, which were completed during 2014, 2015 and 2016. No claim or dispute has been declared in respect of these activities. The monitoring system is addressed to large tax payers and is based on specific risk analysis that allows to diversify the level of control; said activities mainly consist of requests of data and information related to the annual tax return submitted in the previous year.

In consideration of the uncertainty that defines the tax proceedings in which the Group is involved, there is the risk that an unfavourable outcome and/or the emergence of new proceedings could lead to an increase in risks of a tax nature for UniCredit and/or for the Group, with the consequent need to make further provisions and/or outlays, with possible negative effects on the operating results and capital and financial position of UniCredit and/or the Group.

Finally, it should be pointed out that in the event of a failure to comply with or a presumed breach of the tax law in force in the various countries, the UniCredit Group could see its tax-related risks increase, potentially resulting in an increase in tax disputes and possible reputational damage.

Risks related to international sanctions with regard to sanctioned countries and to investigations and/or proceedings by the U.S. authorities

UniCredit and, in general, the UniCredit Group, have clients and partners located around the world. For this reason, UniCredit and the Group are required to comply with sanctions regimes in the jurisdictions where they operate. In particular, UniCredit and the Group must comply with economic sanctions imposed, pursuant to the above-mentioned sanctions regimes, by the United States of America, the European Union and the United Nations on certain countries (**sanctioned countries**), in each case to the extent applicable, and these regimes are subject to change, which cannot be predicted.

Such sanctions may limit the ability of UniCredit and the UniCredit Group to continue to transact with clients or to maintain commercial relations with sanctioned counterparties and/or counterparties that are located in sanctioned countries. As of the date of this Prospectus, UniCredit and the UniCredit Group have limited commercial relationships with certain counterparties located in sanctioned countries, but these are carried out in compliance with applicable laws and regulations.

Also note that, at the date of this Prospectus, UniCredit and the UniCredit Group are subject to certain investigations in the United States of America. Certain companies in the UniCredit Group are cooperating with various U.S. authorities, including the U.S. Treasury Department's Office of Foreign Assets Control (**OFAC**), the U.S. Department of Justice (the **DOJ**), the District Attorney for New York County (the **NYDA**), the FED and the New York Department of Financial Services, regarding potential violations of U.S. sanctions involving U.S. dollar payments and related practices. More specifically, in March 2011, UCB AG received a subpoena from the NYDA relating to historical transactions involving certain Iranian entities designated by OFAC and their affiliates. In June 2012, the DOJ opened an investigation of OFAC-related compliance by UCB AG and its subsidiaries more generally.

In this context, UCB AG commenced a voluntary internal investigation of its U.S. dollar payments practices and its historical compliance with applicable U.S. financial sanctions, in the course of which certain historical non-transparent practices have been identified. In addition, UCB Austria has independently initiated a voluntary investigation of its historical compliance with applicable U.S. financial sanctions and has similarly identified certain historical non-transparent practices. UniCredit is also in the process of conducting a voluntary review of its historical compliance with applicable U.S. financial sanctions. The scope, duration and outcome of any such review or investigation will depend on facts and circumstances specific to each individual case. Each of these entities is cooperating with the relevant U.S. authorities and remediation activities have commenced and are ongoing as at the date of this Prospectus. Each UniCredit Group entity subject to investigations is updating its regulators as appropriate.

It is also possible that investigations into historical compliance practices may be extended to other UniCredit Group companies or that new proceedings may be commenced against the Issuer and/or the Group.

Note, also, that these investigations and/or proceedings into certain Group companies could result in the Issuer and/or the Group being required to pay material fines and/or being the subject of criminal or civil penalties.

Lastly, note that the Issuer and the Group companies have not yet entered into any agreement with the various U.S. authorities and therefore it is not possible to determine the form, extent or the timing of any resolution with any relevant authorities, including what final costs, remediation, payments or other legal liability may occur in connection therewith.

While the timing of any agreement with the various U.S. authorities is not determinable at the date of this Prospectus, it is possible that the investigations into one or all of the Group entities could be completed in 2017.

Recent violations of U.S. sanctions and certain U.S. dollar payment practices by other European financial institutions have resulted in those institutions entering into settlements and paying material fines and penalties to various U.S. authorities. At the date of this Prospectus, the Issuer and the Group companies have no reliable basis on which to compare the ongoing investigations relating to UniCredit to any settlements involving other European institutions; however, it is not possible to exclude the possibility that any such settlement between the Issuer Group companies and the competent U.S. authorities will not be material.

The investigation costs, remediation required and/or payment or other legal liability incurred in connection with above-mentioned proceedings could lead to liquidity outflows and could potentially negatively affect UniCredit's net assets and net results and those of one or more of UniCredit's subsidiaries. Such an adverse outcome to one or more of the Group entities subject to investigation could have a material adverse effect on both UniCredit's reputation and on the Group's business, results of operations or financial condition, as well as on its capacity to comply with capital requirements.

Risks connected with the organisational and management model pursuant to Legislative Decree 231/2001 and the accounting administrative model pursuant to Law 262/2005

On 13 October 2016, UniCredit was served a notice of the conclusion of the preliminary investigations by the Public Prosecutor at the Court of Tempio Pausania pursuant to Article 415-bis of the Code of Civil Procedure as the party responsible for the administrative offence under Article 24-ter of Legislative Decree 231/2001 as a result of offences contested by the former representatives of the Banca del Mezzogiorno – MedioCredito Centrale S.p.A. (**MCC**), later renamed "Capitalia Merchant S.p.A.", then "UniCredit Merchant S.p.A." and at the date of this Prospectus merged by incorporation into UniCredit, as well as Sofipa SGR S.p.A. and Capitalia S.p.A. (at the date of this Prospectus merged by incorporation into UniCredit). This concerns a complex case involving UniCredit as the successor of MCC, relating to shareholdings owned by the above-mentioned MCC in the group for which Colony Sardegna S.à r.l. is the parent company. The directors of this company are charged with decisions concerning financial transactions which resulted in capital gains on behalf of third-party companies and to the detriment of the company managed, as well as failures to declare IRES income; the charges involving UniCredit refer to the years 2003/2011 (in May 2011 UniCredit Merchant S.p.A. actually sold its shareholding).

In May 2004, UniCredit adopted the organisational and management model set out in Legislative Decree 231/2001 in order to create a system of rules designed to prevent unlawful behaviour by top management, directors and employees. On 10 November 2016, UniCredit's Board of Directors approved the new version of the organisational and management model in force at the date of this Prospectus. The model of Legislative Decree 231/2001 applies also to Italian companies controlled directly or indirectly by UniCredit, as well as the stable organisations operating in Italy by foreign companies controlled directly or indirectly by UniCredit.

However, it is possible that the model adopted by UniCredit could be considered inadequate by the judiciary authority that may be called upon to verify the cases under these regulations.

In this event, and if UniCredit is not exonerated from responsibility based on the provisions in said decree, UniCredit may be responsible for a financial penalty as well as, in more serious cases, the possible application of a ban, such as a prohibition on carrying out activities, the suspension or revocation of authorisations, licences or concessions, a ban on entering into contracts with the public administration, as well as, lastly, a ban on publicising goods and services, with negative effects – including of a reputational nature – on the operating results and capital and financial position of the Issuer and/or the Group.

Without prejudice to the foregoing and taking into account the preliminary stage of the proceedings, at the date of this Prospectus, UniCredit and/or its subsidiaries belonging to the UniCredit Group are not involved in legal proceedings and have not been the subject of significant provisions pursuant to Legislative Decree 231/2001. The method adopted by UniCredit Group in order to comply with Law No. 262/05, so called "Legge sulla tutela del risparmio", is consistent with the "Internal Control – Integrated Framework (CoSO)" and with the "Control Objective for IT and Related Technologies (Cobit)", which represent the benchmark standards for the evaluation of the internal control system and for financial reporting in particular, generally accepted at international level.

This internal control system is constantly updated. It is therefore not possible to rule out that in the future there may be the need to make controls and certification for other processes which are currently not mapped.

Risks connected with Alternative Performance Indicators (APIs)

In order to facilitate the understanding of the Group's economic and financial performance, UniCredit has identified several Alternative Performance Indicators (**APIs**). These indicators are also the instruments that help UniCredit to identify operating trends and take decisions surrounding investments, the allocation of resources and other operating decisions.

With regard to the interpretation of these APIs, note the explanations given below:

(i) these indicators are constructed exclusively from the UniCredit Group's historical data and are not indicative of the Group's future performance;

(ii) the APIs are not provided for in the IFRS and, although derived from the consolidated financial statements, they are not subject to auditing;

(iii) APIs should not be seen as replacing the indicators laid down by IFRS;

(iv) APIs should be read together with the Group's financial information taken from the consolidated financial statements for the financial year ended 31 December 2016;

(v) as the definitions of the indicators used by the UniCredit Group do not come from IFRS, they may not be standardised with those adopted by other companies/groups and therefore are not comparable with them; and

(vi) the APIs used by the Group are continuously processed with standardised definitions and representations for all periods.

Risks connected with operations in the banking and financial sector

UniCredit and the companies belonging to the UniCredit Group are subject to the risks arising from competition in their respective sectors of activity, both in Italy and abroad (particularly in the German, Austrian, Polish and CEE markets). The UniCredit Group in particular operates in the main credit and financial brokerage sectors.

The international market for banking and financial services is an extremely competitive market and, in spite of geographical diversification, Italy is the main market in which the UniCredit Group operates.

With regard to this, note how the banking sector in Italy, as well as in Europe, is going through a consolidation phase featuring a high degree of competition due to the following factors: (i) the introduction of EU directives aimed at liberalising the European Union banking sector; (ii) the deregulation of the banking sector and the connected development of "shadow banking" throughout the European Union, and specifically in Italy, which has encouraged competition in the traditional banking sector with the effect of progressively reducing the spread between lending and borrowing rates; (iii) the behaviour of competitors (also following the changes introduced by Law 33 of 24 March 2015, which converted Decree Law 3 of 24 January 2015 regarding "people's banks" and the aggregative processes which followed or which could follow); (iv) consumer demand; (v) the trend of the Italian banking industry focused on revenues from fees, which leads to increased competition in the field of asset management and investment banking services; (vi) the change in several Italian tax and banking laws; (vii) the advance of services with a strong element of technological innovation, such as internet banking and mobile banking; and (viii) the influx of new competitors, and other factors not necessarily under the Group's control. Furthermore, a deterioration of macroeconomic conditions could result in greater competitive pressure due to factors such as increased pressure on prices and lower business volumes.

In addition, this competitive pressure could increase as a result of various factors not necessarily under the control of the Group, including aggregation processes both in Italy (particularly following and/or in the context of the transformation of "people's banks" into joint stock companies), and in Europe, which could involve large groups, comparable to the UniCredit Group, applying increasingly comprehensive economies of scale.

If the Group were unable to meet this growing competitive pressure by, for example, offering innovative and rewarding products and services that can meet customers' needs, it could lose market share in various sectors, with consequent significant negative effects on the operating results and capital and financial position of the Issuer and/or the Group.

The banking and financial sector is influenced by the uncertainties surrounding the stability and overall situation of the financial markets. In spite of the various measures adopted at European level, international financial markets continue to record high levels of volatility and a general reduction in the depth of the market. Therefore, a further worsening of the economic situation or a return to tensions over the European sovereign debt could have a significant impact on both the recoverability and measurement of debt securities held and the liquidity of the Group's customers which are holders of these instruments, resulting in major negative effects on the operating results and capital and financial position of the Issuer and/or the Group.

In addition, should the current situation with low interest rates in the Eurozone persist, this could have a negative impact on the profitability of the banking sector and, as a result, the UniCredit Group.

Risks connected with the entry into force of new accounting principles and changes to applicable accounting principles

The UniCredit Group is exposed, like other parties operating in the banking sector, to the effects of the entry into force and subsequent application of new accounting principles or standards and regulations and/or changes to them (including those resulting from IFRS as endorsed and adopted into European law). Specifically, in future the UniCredit Group may need to revise the accounting and regulatory treatment of some existing assets and liabilities and transactions (and related income and expense), with possible negative effects, including significant ones, on the estimates in financial plans for future years and this could lead the Group to having to restate financial data published previously.

In this regard, an important change is expected in 2018 from when IFRS 9 "Financial Instruments" comes into force. On 24 July 2014, the International Accounting Standard Board (the **IASB**) issued the final version of the new IFRS 9 which replaces the previous versions published in 2009 and 2010 for the classification and measurement stage, and in 2013 for the hedge accounting stage, and completes the IASB project to replace IAS 39 "Financial Instruments: Recognition and Measurement".

The new IFRS 9:

- introduces significant changes to the rules for the classification and measurement of financial assets which will be based on the management method (business model) and on the characteristics of the cash flows of the financial instrument (SPPI criterion – Solely Payments of Principal and Interests) which could involve different classification and measurement methods for financial instruments compared with IAS 39;

- introduces a new impairment accounting model based on an expected loss, rather than an incurred losses approach as in IAS 39, and on the concept of a lifetime expected loss which could lead to a structural anticipation and increase of the value adjustments, particularly those on receivables; and

- involves hedge accounting, rewriting the rules for the designation of a hedge account and for checking its effectiveness with the aim of guaranteeing a better alignment between the accounting representation of the hedging and the underlying management logics. Note, however, that the principle includes the possibility for the entity to make use of the right to continue to apply the provisions of IAS 39 on hedge accounting until the IASB completes the project of defining the rules relating to macrohedging.

In addition, the new IFRS 9 also changes "own credit", in other words the changes in the fair value of liabilities designated under the fair value option due to fluctuations in creditworthiness. The new principle makes provision for these changes to be recognised in a shareholders' equity reserve, rather than in the income statement, as is the case under IAS 39, thereby eliminating a source of volatility in the financial results.

The compulsory effective date of IFRS 9 will be 1 January 2018, following the entry into force on 19 December 2016 of Regulation (EU) No. 2016/2067 of the Commission of 22 November 2016. As a result of the entry into force of IFRS 9, there is also expected to be a review of the prudential rules for calculating

capital absorption due to expected losses on credits. The terms of this review are still not known at the date of this Prospectus. It is also expected that at the first application date the main impacts on the UniCredit Group could come from the application of the new impairment accounting model based on an expected losses approach, which would cause an increase in the write-downs made to unimpaired assets (specifically receivables from customers), as well as the application of the new rules for the transfer of positions between the different classification stages under the new standard. Specifically, it is expected that greater volatility may be generated in the financial results between the different accounting periods, due to the dynamic change between the different stages of financial assets recorded in the financial statements (particularly between Stage 1 which will mainly include the new positions supplied and all the fully performing positions and Stage 2 which will include the positions in financial instruments which have suffered a deterioration in credit quality compared with the time of initial recognition). The changes in the book value of financial instruments due to the transition to IFRS 9 will be offset against shareholders' equity at 1 January 2018.

On 10 November 2016, the EBA published a report summarising the main results of the analysis of the impact on a sample of 50 European banks (including UniCredit). As far as the quality component of the questionnaire is concerned, the authority highlighted how the sample of banks involved an operational complexity, specifically with regard to the aspects related to the quality of data, and technology in the introduction of the new principle. The report also pointed out how the change to the impairment model would lead, in the sample of banks examined, to average growth of the IAS 39 provisions (of approximately 18 per cent.) as well as having an impact on common equity tier 1 and on the total capital of 59 and 45 percentage points, respectively. In light of the above report, the UniCredit Group has estimated a negative impact, when IFRS 9 is first applied, of approximately 34 basis points on the CET 1 ratio and this impact has been included in the estimates of the development of regulatory capital ratios within the 2016-2019 Strategic Plan.

On 26 November 2016, the EBA launched a second impact assessment exercise, on the same sample of banks, in order to gather more detailed and updated insights regarding the implementation of the new Standard. UniCredit Group performed this exercise using as reference date 30 September 2016. The outcome of the analysis substantially confirms the impacts estimated for the first impact assessment.

For the sake of completeness, also note that the IASB issued, respectively on 28 May 2014 and 13 January 2016, the final versions of IFRS 15 "Revenues from contracts with customers" and IFRS 16 "Leases".

The new IFRS 15 will apply from 1 January 2018, with the possibility of opting for early application, subject to the completion of the endorsement process by the European Union, in progress at the date of this Prospectus. This principle changes the current set of IFRS replacing the principles and interpretations of "revenue recognition" in force at the date of this Prospectus and, specifically, IAS 18. IFRS 15 includes:

- two approaches for measuring revenues ("at point in time" or "over time");
- a new transactions analysis model ("Five steps model") focused on the transfer of control; and
- greater information to be included in the notes to the financial statements.

The new IFRS 16, on the other hand, will apply from 1 January 2019 once it has been endorsed by the European Union. IFRS 16 changes the current set of international accounting principles and interpretations in force on leasing, and, specifically IAS 17. IFRS 16 introduces a new definition of leasing and confirms the current distinction between the two types of leasing (operating and financial) with regard to the accounting model that the lessor must apply. With reference to the accounting model to be applied by the tenant, the new model requires that, for all types of leasing, there must be an activity, which represents the right of use of the asset leased and, at the same time, the debt relating to the rental set out in the lease agreement.

At the time the asset is initially recorded, it is valued on the basis of the financial flows associated with the lease agreement, including, as well as the current value of the lease payments, the direct initial costs associated with the leasing and any costs necessary to restore the asset at the end of the agreement. Following the initial recording of this asset, it will be valued based on the projection for the tangible fixed

assets and, therefore, at cost net of amortisation and depreciation and any reductions in value, at the "recalculated value" or at the fair value according to the provisions of IAS 16 or IAS 40.

From the time the above principle comes into force, there are plans from 1 January 2019 for the quantitative effects resulting from its adoption, not currently available, to form part of the Group's future estimates. It is, however, expected that the application of IFRS 16 could result in a revision, for the Issuer and/or other Group companies, of the accounting methods for revenues and costs relating to existing transactions as well as the recording of new assets and liabilities associated with operating lease agreements signed. These effects will create the consequent need to consistently and retrospectively revise the previous periods and therefore quite significantly alter the opening capital balances at the respective dates.

Based on regulatory and/or technological developments and/or the business context, it is also possible that the Group could, in the future, further revise the operating methods for applying the IFRS, with possible negative impacts, including significant ones, on the operating results and capital and financial position of the Issuer and/or the Group.

Risks connected with ordinary and extraordinary contributions to funds established under the scope of the banking crisis rules

Following the crisis that affected many financial institutions from 2008, various risk-reducing measures have been introduced, both at European level and at individual Member State level. Their implementation involves significant outlays by individual financial institutions in support of the banking system.

Deposit Guarantee Scheme and Single Resolution Fund

As a result of: (i) Directive 2014/49/EU (Deposit Guarantee Schemes Directive of 16 April 2014; (ii) the BRRD; and (iii) the SRM Regulation establishing the predecessor of the current Single Resolution Fund (the **Single Resolution Fund** or **SRF**, which as of 1 January 2016, includes national compartments to which contributions raised at the national level by each participating Member State through its National Resolution Fund (the **National Resolution Fund** or **NRF**) are allocated, UniCredit is obligated to provide the financial resources necessary for funding the deposit guarantee scheme and the SRF. These contribution obligations could have a significant impact on UniCredit's financial and capital position. UniCredit cannot currently predict the multi-year costs of the extraordinary contribution components which may be necessary for the management of any future banking crises.

In particular, with respect to the deposit guarantee scheme, UniCredit has the following obligations for ordinary and extraordinary contributions:

- annual ordinary *ex ante* contribution to the Deposit Guarantee Scheme, from 2015 to 2024, aimed at the establishment of funds equal to 0.8% of the covered deposits at the target date. The contribution resumes when the funding capacity is below the target level, at least until the target level is reached. If, after the target level is reached for the first time, the financial means available have been reduced to less than two-thirds of the target level, the regular contribution is set at a level that allows the target level to be reached within six years; and

- (*ex post*) payment commitment, in relation to any extraordinary contributions required if the financial means available are insufficient to repay the depositors; these extraordinary contributions cannot exceed 0.5% of the covered deposits for any calendar year, but in exceptional cases and with the consent of the competent authority, the DGS can also demand higher contributions.

Following this introduction, the Italian Bank Deposit Guarantee Fund (**FITD**), has adapted its by-laws, through the shareholders' resolution of 26 November 2015 anticipating the introduction of an ex ante contribution mechanism (aimed at achieving the multi-year objective mentioned above with a target of 2024). For 2016, UniCredit contributed approximately €193 million as of 31 December 2016 to national Deposit Guarantee Schemes.

Our contribution obligations to the SRF are as follows:

- annual ordinary *ex ante* contribution until 2023, aimed at the establishment of funds equal to 1 per cent. of the covered deposits by the end of 2023. The accumulation period can be extended by another four years if the financing mechanisms have made cumulative disbursements of more than 0.5 per cent. of the covered deposits. If, after the accumulation period, the financial means available go below the target level, the collection of contributions resumes until this level is restored. In addition, after reaching the target level for the first time and, if the financial means available fall below two-thirds of the target level, these contributions are set at the level that allows the target level to be reached within a period of six years. The contribution mechanism involves ordinary annual contributions aimed at distributing the costs for contributing banks evenly over a period of time. A transition stage of contributions to national compartments of the SRF is planned as well as their gradual mutualisation. For 2016, UniCredit's ordinary contribution as of 31 December 2016 was approximately €253 million. The annual value of the contribution is subject to review on the basis of the performance of the risk parameters and volumes of covered deposits; and

- (*ex post*) payment commitments, in relation to any additional extraordinary contributions requested, equal to a maximum of three times the planned annual contributions, where the financial means available are insufficient to cover the losses and the costs relating to the SRF's interventions.

For 2015, UniCredit's ordinary contribution was €73 million. UniCredit was also required to make an extraordinary contribution of €219 million to the NRF as a result of a resolution programme approved by the Bank of Italy in its capacity of National Resolution Authority for Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara and Cassa di Risparmio della Provincia di Chieti.

In addition to the ordinary and extraordinary contributions that UniCredit is required to make, UniCredit has in the past provided, and may continue to provide, the liquidity necessary to operate such restructuring programmes. For example, UniCredit provided a loan (no longer outstanding) of approximately €783 million to the SRF (representing UniCredit's share of a €2.35 billion loan provided with other banks), as well as a second tranche of funding (due in 2017) whose value as of 31 December 2016 stood at €516 million (i.e. the share pertaining to a total loan of €1,550 million provided together with other banks). UniCredit also made a commitment to provide funds of €33 million to the NRF (the share pertaining to a total commitment of €100 million for a possible further tranche of the loan to be provided together with other banks).

With regard to the loan for the resolution of the four banks mentioned above, Legislative Decree 183/2015 introduced an additional guarantee for 2016, due to the NRF, for the payment of any contributions equal to the maximum of two further portions (in relation to the three statutory required extraordinary portions) of the ordinary contribution for the Single Resolution Fund, actionable if the funds available to the NRF net of recoveries from divestment transactions set up by the actual fund for the assets of the four banks mentioned above were insufficient to cover the obligations, losses and costs for which the Fund is responsible with regard to the measures under the provisions launching the resolution.

Moreover, by notice dated 28 December 2016, the Bank of Italy requested an extraordinary contribution to the NRF in conformity with Law 208/2015 (the **2016 Stability Law**), which provides that, following the commencement of the single resolution mechanism and without prejudice to the contributions required to be made to the SRF in accordance with Articles 70 and 71 of Regulation (EU) No. 806/2014, Italian banks shall pay contributions to the NRF in an amount to be determined by the Bank of Italy if the ordinary and extraordinary contributions already paid to the NRF, are not sufficient to cover the "liabilities, losses, costs and other expenses" to be borne by the NRF in relation to resolution proceedings commenced, net of any recoveries deriving from sale transactions undertaken by the NRF. Article 1(848) of the 2016 Stability Law requires that contributions so required by the Bank of Italy must be within the aggregate limit foreseen by Articles 70 and 71 of the SRM Regulation, inclusive of contributions paid to the SRF and further provides that, for the year 2016 only, such aggregate limit will be increased by twice the annual contribution required to be made to the SRF.

The NRF and/or the SRF could ask for further contributions in the future in an amount that cannot currently be quantified, with potentially materially adverse effects on UniCredit's business, results of operation and financial condition.

Voluntary Scheme

UniCredit and its subsidiary FinecoBank have joined the voluntary scheme (the **Voluntary Scheme**), introduced by the Fondo Interbancario di Tutela dei Depositi (the **FITD**) in November 2015 for an initial €300 million (total value of the scheme) through a change to its by-laws. The Voluntary Scheme constitutes an instrument for solving banking crises through arrangements supporting the banks belonging to the scheme, through recourse to the specific conditions set out by the regulations. The Voluntary Scheme has an independent financial endowment and the member banks are obligated to provide the resources when requested to implement the interventions. The Voluntary Scheme, in the capacity of a private entity, intervened in April 2016 through an arrangement involving a total of €272 million (UniCredit's share was €49 million) for the restructuring of the support arrangement which the FITD made in July 2014 for Banca Tercas. Specifically, the European Commission concluded that this support, granted at the time by the FITD under the Italian compulsory deposit guarantee system, constituted incompatible state aid; therefore Banca Tercas has repaid the contribution received at the time to the FITD. These sums were credited to the banks belonging to the FITD by way of restitution for the intervention that took place in 2014 and debited immediately afterwards from the banks belonging to the Voluntary Scheme, on their own initiative. Later on, the provision of the Voluntary Scheme was increased up to €700 million (UniCredit's total share was approximately €125 million). In this area, in June 2016, the Voluntary Scheme approved an arrangement in favour of Cassa di Risparmio di Cesena, relating to that bank's capital increase approved on 8 June 2016 for €280 million (commitment relating to the Group amounted to €51 million). As of 31 December 2016, this commitment was translated into a monetary disbursement that involved the recognition of capital instruments classified as "available for sale" of €51 million, with a consequent reduction of the remaining commitment to €74 million. The update of evaluation of the instruments as of 31 December 2016, according to an internal evaluation model based on multiples of banking baskets, integrated with estimates on Cassa di Risparmio di Cesena's credit portfolio and related equity/capital needs, has resulted in the full impairment of the position.

All of these contribution obligations contribute to reducing profitability and have a negative impact on UniCredit's capital resources. Both the amount of ordinary contributions required from Group banks, as well as any extraordinary contributions, may increase significantly in the future. This would require UniCredit to record further extraordinary expenses which may have a material impact on UniCredit's capital and financial condition.

The ordinary contribution obligations indicated in the previous paragraphs contribute to reducing profitability and have a negative impact on the Group's capital resources. It is not possible to rule out that the level of ordinary contributions required from the Group banks will increase in the future in relation to the development of the amount related to protected deposits and/or the risk relating to Group banks compared with the total number of banks committed to paying said contributions. In addition, it is not possible to rule out that, even in future, as a result of events that cannot be controlled or predetermined, the FITD, the NRF and/or the SRF do not find themselves in a situation of having to ask for more, new extraordinary contributions. This would involve the need to record further extraordinary expenses with impacts, including significant ones, on the capital and financial position of UniCredit and/or the Group.

Risks connected with the political and economic decisions of EU and Eurozone countries and the United Kingdom leaving the European Union (Brexit)

On 23 June 2016, the United Kingdom voted, in a referendum, to leave the European Union (Brexit). In March 2017, the United Kingdom commenced the procedure under Article 50. It involves a process that is unprecedented in the history of the European Union and which could require months of negotiations to draft and approve any agreement for the United Kingdom to leave in conformity with Article 50 of the Treaty on European Union.

Regardless of the time scale and the term of the United Kingdom's possible exit from the European Union, the result of the referendum in June 2016 created significant uncertainties with regard to the political and economic prospects of the United Kingdom and the European Union.

The possible exit of the United Kingdom from the European Union; the possible exit of Scotland, Wales or Northern Ireland from the United Kingdom; the possibility that other European Union countries could hold similar referendums to the one held in the United Kingdom and/or call into question their membership of the European Union; and the possibility that one or more countries that adopted the Euro as their national currency might decide, in the long term, to adopt an alternative currency or prolonged periods of uncertainty connected to these eventualities could have significant negative impacts on international markets. These could include further falls in stock exchange indices, a fall in the value of the pound and/or greater volatility of markets in general due to the increased uncertainty, with possible negative consequences on the assets, operating results and capital and/or financial position of the Issuer and/or the Group.

In addition to the above and in consideration of the fact that at the date of this Prospectus there is no legal procedure or practice aimed at facilitating the exit of a Member State from the Euro, the consequences of these decisions are exacerbated by the uncertainty regarding the methods through which a Member State could manage its current assets and liabilities denominated in Euros and the exchange rate between the newly adopted currency and the Euro. A collapse of the Eurozone could be accompanied by the deterioration of the economic and financial situation of the European Union and could have a significant negative effect on the entire financial sector, creating new difficulties in the granting of sovereign loans and loans to businesses and involving considerable changes to financial activities both at market and retail level. This situation could therefore have a significant negative impact on the operating results and capital and financial position of the Issuer and/or the Group.

Basel III and CRD IV

In the wake of the global financial crisis that began in 2008, the Basel Committee on Banking Supervision (the **BCBS**) approved, in the fourth quarter of 2010, revised global regulatory standards (**Basel III**) on bank capital adequacy and liquidity, which impose requirements for, *inter alia*, higher and better-quality capital, better risk coverage, measures to promote the build-up of capital that can be drawn down in periods of stress and the introduction of a leverage ratio as a backstop to the risk-based requirement as well as two global liquidity standards. The Basel III framework adopts a gradual approach, with the requirements to be implemented over time, with full enforcement in 2019.

In January 2013, the BCBS revised its original proposal in respect of the liquidity requirements in light of concerns raised by the banking industry, providing for a gradual phasing-in of the Liquidity Coverage Ratio with a full implementation in 2019 as well as expanding the definition of high-quality liquid assets to include lower quality corporate securities, equities and residential mortgage backed securities. Regarding the other liquidity requirement, the net stable funding ratio, the BCBS published the final rules in October 2014 which will take effect from 1 January 2018.

The Basel III framework has been implemented in the EU through new banking requirements: Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the **CRD IV Directive**) and the CRD IV Regulation (together with the CRD IV Directive, the **CRD IV Package**). Full implementation began on 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for phase-in until 2024) but it is possible that in practice implementation under national laws could be delayed. Additionally, it is possible that Member States may introduce certain provisions at an earlier date than that set out in the CRD IV Package. National options and discretions that were so far exercised by national competent authorities will be exercised by the SSM (as defined below) in a largely harmonised manner throughout the Banking Union. In this respect, on 14 March 2016, the ECB adopted Regulation (EU) No. 2016/445 on the exercise of options and discretions. Depending on the manner in which these options/discretions were so far exercised by the national competent authorities and on the manner in which the SSM will exercise them in the future, additional/lower capital requirements may result.

In Italy, the Government approved a Legislative Decree on 12 May 2015 (**Decree 72/2015**) implementing the CRD IV Directive. Decree 72/2015 entered into force on 27 June 2015. Decree 72/2015 impacts, *inter alia*, on:

- proposed acquirers of holdings in credit institutions, requirements for shareholders and members of the management body (Articles 23 and 91 of the CRD IV Directive);
- competent authorities' powers to intervene in cases of crisis management (Articles 64, 65, 102 and 104 of the CRD IV Directive);
- reporting of potential or actual breaches of national provisions (so called whistleblowing, Article 71 of the CRD IV Directive); and
- administrative penalties and measures (Article 65 of the CRD IV Directive).

The Bank of Italy published new supervisory regulations on banks in December 2013 (Circular of the Bank of Italy No. 285 of 17 December 2013 as subsequently amended from time to time by the Bank of Italy (the **Circular No. 285**)) which came into force on 1 January 2014, implementing the CRD IV Package, and setting out additional local prudential rules. According to Article 92 of the CRD IV Regulation, institutions shall at all times satisfy the following own funds requirements: (i) a CET1 Capital ratio of 4.5 per cent.; (ii) a Tier 1 Capital ratio of 6 per cent.; and (iii) a Total Capital ratio of 8 per cent. These minimum ratios are complemented by the following capital buffers to be met with CET1 Capital, reported below as applicable with reference to 31 March 2017:

- *Capital conservation buffer*: The capital conservation buffer has applied to UniCredit since 1 January 2014 pursuant to Article 129 of the CRD IV Directive and Part I, Title II, Chapter I, Section II of Circular No. 285. According to the 18th update[3] to Circular No. 285 published on 4 October 2016, new transitional rules provide for a capital conservation buffer set for 2017 at 1.25 per cent. of RWAs, increasing to 1.875 per cent. of RWAs in 2018 and 2.5 per cent. of RWAs from 2019;
- *Counter-cyclical capital buffer*: The countercyclical capital buffer applies starting from 1 January 2016. Pursuant to Article 160 of the CRD IV Directive and the transitional regime granted by Bank of Italy for 2017, institutions' specific countercyclical capital buffer shall consist of Common Equity Tier 1 capital capped to 1.25 per cent. of the total of the risk-weighted exposure amounts of the institution. As of 31March 2017:
  - the specific countercyclical capital rate of UniCredit Group amounted to 0.02 per cent.;
  - countercyclical capital rates have generally been set at 0%, except for the following countries: Czech Republic (0.50%); Hong Kong (1.25%); Iceland (1.00%); Norway (1.50%); and Sweden (2.00%);
  - with reference to the exposures towards Italian counterparties, the Bank of Italy has set the rate equal to 0%;
- *Capital buffers for globally systemically important institutions* (***G-SIIs***): It represents an additional loss absorbency buffer (ranging from 1.0 per cent. to 3.5 per cent. in terms of required level of additional common equity loss absorbency as a percentage of risk-weighted assets), determined according to specific indicators (e.g. size, interconnectedness, complexity). It is subject to phase-in starting from 1 January 2016 (Article 131 of the CRD IV Directive and Part I, Title II, Chapter I, Section IV of Circular No. 285) becoming fully effective on 1 January 2019. Based on the most recently updated list of G-SIIs published by the Financial Stability Board (**FSB**) in November 2016

[3] On 6 October 2016, the Bank of Italy published the 18th update of Circular No. 285 that modifies the capital conservation buffer requirement. In publishing this update, the Bank of Italy reviewed the decision, made at the time the CRD IV was transposed into Italian law in January 2014, where the fully loaded Capital Conservation Buffer at 2.50% was requested, by aligning national regulation the transitional regime allowed by CRD IV.

(to be updated annually), the UniCredit Group is a global systemically important bank (**G-SIB**) included in "Bucket 1" (in a ranking from 1, where 5 is the highest); therefore, it has to comply with a target requirement of 1 per cent. in 2019 (0.50 per cent. for 2017, to be increased by 0.25 per cent. per annum); and

- *Capital buffers for other systemically important institutions (**O-SIIs**)*: O-SII buffer, equal to 0 per cent. for the UniCredit Group for 2017; identified by the Bank of Italy as an O-SII authorised to operate in Italy, UniCredit has to maintain a capital buffer of 1 per cent. of its total risk exposure, to be achieved according to the following transitional period: 0.25 per cent. for 2018, and then increased by 0.25 per cent. on a yearly basis reaching the target of 1 per cent. from 1 January 2021. According to Article 131.14 of the CRD IV Directive, the higher of the G-SII and the O-SII buffer will apply: hence, the UniCredit Group will be subject to the application of 0.50 per cent. G-SII buffer for 2017.

In addition to the above-listed capital buffers, under Article 133 of the CRD IV Directive, each Member State may introduce a Systemic Risk Buffer of Common Equity Tier 1 capital for the financial sector or one or more subsets of that sector in order to prevent and mitigate long-term non-cyclical systemic or macroprudential risks not otherwise covered by the CRD IV Package, in the sense of a risk of disruption in the financial system with the potential of having serious negative consequences on the financial system and the real economy in a specific Member State. Currently, no provision is included on the systemic risk buffer under Article 133 of the CRD IV Directive as the Italian level-1 rules for the CRD IV Directive implementation on this point have not yet been enacted.

Failure to comply with such combined buffer requirements triggers restrictions on distributions and the need for the bank to adopt a capital conservation plan on necessary remedial actions (Articles 140 and 141 of the CRD IV Directive).

In addition, UniCredit is subject to the Pillar 2 requirements for banks imposed under the CRD IV Package, which will be impacted, on an ongoing basis, by the SREP. The SREP is aimed at ensuring that institutions have in place adequate arrangements, strategies, processes and mechanisms to maintain the amounts, types and distribution of internal capital commensurate to their risk profile, as well as robust governance and internal control arrangements. The key purpose of the SREP is to ensure that institutions have adequate arrangements as well as capital and liquidity to ensure sound management and coverage of the risks to which they are or might be exposed, including those revealed by stress testing, as well as risks the institution may pose to the financial system. See "*ECB Single Supervisory Mechanism*" below for further details.

During the course of 2016, the UniCredit Group has been subject to the SREP process; a table setting out the UniCredit Group's transitional capital requirements and buffers – which also indicates TSCR (Total SREP Capital Requirement) and OCR (Overall Capital Requirement) – is reported below:

Requirement	CET1	T1	Total Capital
A) Pillar 1 Requirements	**4.50%**	**6.00%**	**8.00%**
B) Pillar 2 Requirements	**2.50%**	**2.50%**	**2.50%**
C) TSCR *(A+B)*	**7.00%**	**8.50%**	**10.50%**
D) Combined capital buffer requirement, of which:	**1.77%**	**1.77%**	**1.77%**
1. Capital Conservation buffer	*1.25%*	*1.25%*	*1.25%*
2. Global Systemically Important Institution buffer	*0.50%*	*0.50%*	*0.50%*
3. Institution-specific Countercyclical Capital buffer	*0.02%*	*0.02%*	*0.02%*
E) OCR *(C+D)*	**8.77%**	**10.27%**	**12.27%**

The 2016 SREP letter also introduces capital guidance (**Pillar 2 capital guidance**), to be fully satisfied with CET1 Capital.

Non-compliance with Pillar 2 capital guidance does not amount to failure to comply with capital requirements, but should be considered as a "pre-alarm warning" to be used in UniCredit's risk management process. If capital levels go below Pillar 2 capital guidance, the relevant supervisory authorities, which should be promptly informed in detail by UniCredit of the reasons of the failure to comply with the Pillar 2 capital guidance, will take into consideration appropriate and proportional measures on a case by case basis (including, by way of example, the possibility of implementing a plan aimed at restoring compliance with the capital requirements - including capital strengthening requirements).

As part of the CRD IV Package transitional arrangements, regulatory capital recognition of outstanding instruments which qualified as Tier I and Tier II capital instruments under the framework which the CRD IV Package has replaced that no longer meet the minimum criteria under the CRD IV Package will be gradually phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition is capped at 80 per cent. in 2014, with this cap decreasing by 10 per cent. in each subsequent year.

The CRD IV Package introduces a new leverage ratio with the aim of restricting the level of leverage that an institution can take on to ensure that an institution's assets are in line with its capital. The Leverage Ratio Delegated Regulation (EU) No. 2015/62 was adopted on 10 October 2014 and was published in the Official Journal of the European Union in January 2015 amending the calculation of the leverage ratio compared to the current text of the CRD IV Regulation. Institutions have been required to disclose their leverage ratio from 1 January 2015. Full implementation of the leverage ratio as a Pillar 1 measure is currently under consultation as part of the CRD Reform Package, as defined below. The CRD IV Package contains specific mandates for the EBA to develop draft regulatory or implementing technical standards as well as guidelines and reports related to liquidity coverage ratio and leverage ratio in order to enhance regulatory harmonisation in Europe through the Single Rule Book.

During the period of the Strategic Plan, the compliance on the part of UniCredit Group with minimum levels of capital ratios applicable on the basis of prudential rules in force and/or those imposed by the supervisory authorities (for example in the context of the SREP) and the achievement of the forecasts of a regulatory nature indicated therein depends, *inter alia*, on the implementation of strategic actions, which may have a positive impact on the capital ratios. Therefore, if such strategic actions are not carried out in whole or in part, or if the same should result in benefits other than and/or lower than those envisaged in the 2016-2019 Strategic Plan, which could result in deviations, even significant, with respect to the Plan Objectives, as well as producing negative impacts on the ability of the UniCredit Group to meet the constraints provided by the

prudential rules applicable and/or identified by the supervisory authorities and the economic situation, the financial assets of the Group itself.

Should UniCredit not be able to implement the approach to capital requirements it considers optimal in order to meet the capital requirements imposed by the CRD IV Package, it may be required to maintain levels of capital which could potentially impact its credit ratings, and funding conditions and which could limit the Issuer's growth opportunities.

Forthcoming regulatory changes

In addition to the substantial changes in capital and liquidity requirements introduced by Basel III and the CRD IV Package, there are several other initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, a revised Markets in Financial Instruments EU Directive and Markets in Financial Instruments EU Regulation which are expected to apply as of 3 January 2018, subject to certain transitional arrangements. The BCBS has also published certain proposed changes to the current securitisation framework which may be accepted and implemented in due course.

On 9 November 2015, the FSB published its final Total Loss-Absorbing Capacity (**TLAC**) Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to liabilities excluded from TLAC, such as guaranteed insured deposits, derivatives, etc. and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet require a minimum TLAC requirement for each G-SIB at the greater of (a) 16 per cent. of risk weighted assets (**RWA** or **Risk Weighted Assets**) as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio requirement as of 1 January 2019, and 6.75 per cent. as of 1 January 2022.

Based on the most recently updated FSB list of G-SIBs published in November 2016 (to be updated annually), the UniCredit Group is a G-SIB included in bucket 1 and it will be subject to the TLAC requirements when they are implemented into applicable law, provided that at that time the UniCredit Group will still be included in the list of G-SIBs.

On 23 November 2016, the European Commission released a package of proposals amending CRD IV and CRD IV Regulation (the **CRD Reform Package**) that it proposes be applied as of 1 July 2017 (but this will ultimately depend on the procedure and the outcome of the discussions in the European Parliament and the Council). Among other things, these proposals aim to implement a number of new Basel standards (such as the leverage ratio, the net stable funding ratio, market risk rules and requirements for own funds and eligible liabilities) and to introduce the FSB's TLAC recommendations. Once these proposals are finalised, changes to the CRD IV Regulation will become directly applicable to the UniCredit Group. However, the CRD IV amendments will need to be transposed into Italian law before taking effect. See "*The bank recovery and resolution directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of the Notes and/or the rights of Noteholders.*" below for further details on the implementation of TLAC in the EEA through changes to the BRRD.

Moreover, it is worth mentioning that the BCBS has embarked on a very significant RWA variability agenda. This includes the Fundamental Review of the Trading Book, revised standardised approaches (credit, counterparty credit, market, operational risk), constraints to the use of internal models as well as the introduction of a capital floor. The regulator's primary aim is to eliminate unwarranted levels of RWA variance, to improve consistency and comparability across banks. The finalisation of the new framework was completed in respect of market risk in 2016, with the new framework for credit risk and operational risk not yet finalised. Due to the wide undergoing revision by global and European regulators and supervisors, the

internal models are expected to be subject to either changes or withdrawal in favour of a new standardised approach, which is also undergoing revision. The regulatory changes will impact the entire banking system and consequently could lead to changes in the measurement of capital (although they will not become effective until after the time frame covered by the Strategic Plan). In 2016, the ECB began a review of the internal rating models authorised for calculating capital (the Targeted Review of Internal Models, referred to as **TRIM**), with the objective of ensuring the adequacy and comparability of the models given the highly fragmented nature of Internal Ratings-Based systems used by banks, and the resulting diversity in measurement of capital requirements. The review covers credit, counterparty and market risks. The TRIM will be ongoing through 2018 and is structured in two stages, with an institution-specific review commenced in 2016 and a model specific review in 2017 and 2018. In stage one, underway as of the date hereof, the ECB is reviewing governance relating to UniCredit's IRB models as well as model mapping priorities, based on a sample of five "high default" portfolios. The review relating to credit risk is expected to be completed in the first quarter of 2017. During the course of the second half of 2017, UniCredit will be involved in on-site inspections in connection with stage two of the TRIM. This second stage will focus on high default portfolio models in 2017 and low default portfolio models in 2018.

There can be no assurance that the implementation of the new capital requirements, standards and recommendations described above will not require UniCredit to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on UniCredit's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect UniCredit's return on equity and other financial performance indicators.

ECB Single Supervisory Mechanism

In October 2013, the Council of the European Union adopted regulations establishing the Single Supervisory Mechanism for all banks in the euro area, which have, beginning in November 2014, given the ECB, in conjunction with the national competent authorities of the eurozone states, direct supervisory responsibility over "banks of systemic importance" in the Banking Union as well as their subsidiaries in a participating non-euro area Member State. The SSM framework regulation (ECB/2014/17) setting out the practical arrangements for the SSM was published in April 2014 and entered into force in May 2014. Banks directly supervised by the ECB include, *inter alia*, any eurozone bank that has: (i) assets greater than €30 billion; (ii) assets constituting at least 20 per cent. of its home country's gross domestic product; or (iii) requested or received direct public financial assistance from the European Financial Stability Facility or the European Stability Mechanism.

The ECB is also exclusively responsible for key tasks concerning the prudential supervision of credit institutions, which includes, *inter alia*, the power to: (i) authorise and withdraw the authorisation of all credit institutions in the eurozone; (ii) assess acquisition and disposal of holdings in other banks; (iii) ensure compliance with all prudential requirements laid down in general EU banking rules; (iv) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (v) ensure compliance with robust corporate governance practices and internal capital adequacy assessment controls; and (vi) intervene at the early stages when risks to the viability of a bank exist, in coordination with the relevant resolution authorities. The ECB also has the right to impose pecuniary sanctions.

National competent authorities will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks, besides supporting ECB in day-to-day supervision. In order to foster consistency and efficiency of supervisory practices across the eurozone, the EBA is developing a single supervisory handbook applicable to EU Member States.

The ECB has fully assumed its new supervisory responsibilities of UniCredit and the UniCredit Group. The ECB is required under the SSM Regulation to carry out a SREP at least on an annual basis. In addition to the above, the EBA published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the **EBA SREP Guidelines**). Included in these guidelines were the

EBA's proposed guidelines for a common approach to determining the amount and composition of additional Pillar 2 own funds requirements to be implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the Pillar 2 requirements to cover certain specified risks of at least 56 per cent. CET1 Capital and at least 75 per cent. Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the combined buffer requirements (as described above) and/or additional macro-prudential requirements. Accordingly, the additional Pillar 2 own funds requirement that may be imposed on UniCredit and/or the UniCredit Group by the ECB pursuant to the SREP will require UniCredit and/or the UniCredit Group to hold capital levels above the minimum Pillar 1 capital requirements.

The bank recovery and resolution directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of the Notes and/or the rights of Noteholders.

On 2 July 2014, the BRRD entered into force and Member States were expected to implement the majority of its provisions. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the BRRD (the **BRRD Reforms**). The proposal includes an amendment to Article 108 of the BRRD aimed at partially harmonising bank insolvency creditor hierarchy as regards the priority ranking of holders of bank senior unsecured debt eligible to meet minimum requirement for liabilities eligible for bail-in. The new provision would maintain the existing class of senior debt, while creating a new class of 'non-preferred' senior debt that would be subject to bail-in only after capital instruments, but before other senior liabilities. The envisaged amendments to the BRRD should not affect the existing stocks of bank debt and their statutory ranking in insolvency pursuant to the relevant laws of the Member State in which the bank is incorporated.

The BRRD provides competent authorities with comprehensive arrangements to deal with failing banks at national level, as well as cooperation arrangements to tackle cross-border banking failures.

The BRRD sets out the rules for the resolution of banks and large investment firms in all EU Member States. Banks are required to prepare recovery plans to overcome financial distress. Authorities are also granted a set of powers to intervene in the operations of banks to avoid them failing. If banks do face failure, authorities are equipped with comprehensive powers and tools to restructure them, allocating losses to shareholders and creditors following a specified hierarchy. Resolution authorities have the powers to implement plans to resolve failing banks in a way that preserves their most critical functions and avoids taxpayer bail outs.

The BRRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe and (c) a resolution action is in the public interest: (i) sale of business – which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution – which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation – which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in – which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims (including the Notes) into shares or other instruments of ownership (i.e. other instruments that confer ownership, instruments that are convertible into or give the right to acquire shares or other instruments of ownership, and instruments representing interests in shares or other instruments of ownership) (the **general bail-in tool**). Such shares or other instruments of ownership could also be subject to any future application of the BRRD. For more details on the implementation of the BRRD in Italy, please see "*Implementation of the BRRD in Italy*" Section below.

An SRF (as defined below) was set up under the control of the SRB. It will ensure the availability of funding support while the bank is resolved. It is funded by contributions from the banking sector. The SRF can only contribute to resolution if at least 8 per cent. of the total liabilities of the bank have been bailed-in.

The BRRD requires all Member States to create a national, prefunded resolution fund, reaching a level of at least 1 per cent. of covered deposits by 31 December 2024. The National Resolution Fund for Italy was created in November 2015 and required both ordinary and extraordinary contributions to be made by Italian banks and investment firms, including the Issuer. In the Banking Union, the National Resolution Funds set up under the BRRD were superseded by the Single Resolution Fund as of 1 January 2016 and those funds will be pooled together gradually. Therefore, as of 2016, the Single Resolution Board, will calculate, in line with a Council implementing act, the annual contributions of all institutions authorised in the Member States participating in the SSM and the SRM (as defined below). The SRF is financed by the European banking sector. The total target size of the Fund will equal at least 1 per cent. of the covered deposits of all banks in Member States participating in the Banking Union. The SRF is to be built up over eight years, beginning in 2016, to the target level of EUR 55 billion (the basis being 1 per cent. of the covered deposits in the financial institutions of the Banking Union). Once this target level is reached, in principle, the banks will have to contribute only if the resources of the SRF are used up in order to deal with resolutions of other institutions.

Under the BRRD, the target level of the National Resolution Funds is set at national level and calculated on the basis of deposits covered by deposit guarantee schemes. Under the SRM, the target level of the SRF is European and is the sum of the covered deposits of all institutions established in the participating Member States. This results in significant variations in the contributions by the banks under the SRM as compared to the BRRD. As a consequence of this difference, when contributions will be paid based on a joint target level as of 2016, contributions of banks established in Member States with a high level of covered deposits will sometimes abruptly decrease, while contributions of those banks established in Member States with fewer covered deposits will sometimes abruptly increase. In order to prevent such abrupt changes, the draft proposal of the European Commission for a Council Implementing Act provides for an adjustment mechanism to remedy these distortions during the transitional period by way of a gradual phasing in of the SRM methodology.

The BRRD also provides for a Member State as a last resort, after having assessed and applied the above resolution tools (including the general bail-in tool) to the maximum extent practicable while maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the burden sharing requirements of the EU state aid framework and the BRRD.

In addition to the general bail-in tool and other resolutions tools, the BRRD provides for resolution authorities to have the further power to write-down permanently/convert into equity capital instruments such as the Notes at the point of non-viability and before any other resolution action is taken with losses taken in accordance with the priority of claims under normal insolvency proceedings (**Non-Viability Loss Absorption**). Any shares issued to holders of the Notes upon any such conversion into equity capital instruments may also be subject to any future application of the BRRD.

For the purposes of the application of any Non-Viability Loss Absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution meets the conditions for resolution (but no resolution action has yet been taken) or that the institution or, in certain circumstances, its group, will no longer be viable unless the relevant capital instruments (such as the Notes) are written-down/converted or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution and/or, as appropriate, its group, would no longer be viable.

In the context of these resolution tools, the resolution authorities have the power to amend or alter the maturity of certain debt instruments (such as the Notes) issued by an institution under resolution or amend the amount of interest payable under such instruments, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

Implementation of the BRRD in Italy

The BRRD has been implemented in Italy through the adoption of two Legislative Decrees by the Italian Government, namely Legislative Decrees No. 180/2015 and 181/2015 (together, the **BRRD Decrees**), both of which were published in the Italian Official Gazette (*Gazzetta Ufficiale*) on 16 November 2015. Legislative Decree No. 180/2015 is a stand-alone law which implements the provisions of BRRD relating to resolution actions, while Legislative Decree No. 181/2015 amends the existing Italian Banking Act and deals principally with recovery plans, early intervention and changes to the creditor hierarchy. The BRRD Decrees entered into force on the date of publication on the Italian Official Gazette (i.e. 16 November 2015), save that: (i) the general bail-in tool applied from 1 January 2016; and (ii) a "depositor preference" granted for deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SMEs will apply from 1 January 2019.

It is important to note that, pursuant to article 49 of Legislative Decree No. 180/2015, resolution authorities may not exercise the write down/conversion powers in relation to secured liabilities, including covered bonds or their related hedging instruments, save to the extent that these powers may be exercised in relation to any part of a secured liability (including covered bonds and their related hedging instruments) that exceeds the value of the assets, pledge, lien or collateral against which it is secured.

In addition, because (i) Article 44(2) of the BRRD excludes certain liabilities from the application of the general bail-in tool and (ii) the BRRD provides, at Article 44(3), that the resolution authority may, in specified exceptional circumstances, partially or fully exclude certain further liabilities from the application of the general bail-in tool, the BRRD specifically contemplates that *pari passu* ranking liabilities may be treated unequally. Accordingly, holders of the Notes may be subject to write-down/conversion upon an application of the general bail-in tool while other series of additional Tier 1 instruments issued by UniCredit (or other *pari passu* ranking liabilities) are partially or fully excluded from such application of the general bail-in tool. Further, although the BRRD provides a safeguard in respect of shareholders and creditors upon application of resolution tools, Article 75 of the BRRD sets out that such protection is limited to the incurrence by shareholders or, as appropriate, creditors, of greater losses as a result of the application of the relevant tool than they would have incurred in a winding up under normal insolvency proceedings. It is therefore possible not only that the claims of other holders of junior or *pari passu* liabilities may have been excluded from the application of the general bail-in tool and therefore the holders of such claims receive a treatment which is more favourable than that received by holders of the Notes, but also that the safeguard referred to above does not apply to ensure equal (or better) treatment compared to the holders of such fully or partially excluded claims because the safeguard is not intended to address such possible unequal treatment but rather to ensure that shareholders or creditors do not incur greater losses in a bail-in (or other application of a resolution tool) than they would have received in a winding up under normal insolvency proceedings. It should be noted also that certain categories of liability are subject to the mandatory exclusions from bail-in foreseen in Article 44(2) of the BRRD. For instance, most forms of liability for taxes, social security contributions or to employees benefit from privilege under Italian law and as such are preferred to ordinary senior unsecured creditors in the context of liquidation proceedings.

Legislative Decree No. 181/2015 has also introduced strict limitations on the exercise of the statutory rights of set-off normally available under Italian insolvency laws, in effect prohibiting set-off by any creditor in the absence of an express agreement to the contrary. Since each holder of the Notes will have expressly waived any rights of set-off, netting, counterclaim, abatement or other similar remedy which they might otherwise have, under the laws of any jurisdiction, in respect of such Notes, it is clear that the statutory right of set-off available under Italian insolvency laws will likewise not apply.

As the BRRD has only recently been implemented in Italy and other Member States, there is material uncertainty as to the effects of any application of it in practice.

The powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Holders of the Notes may be subject to write-down or conversion into equity capital instruments on any application of the general bail-in tool and Non-Viability Loss Absorption, which may result in such holders losing some or all of their investment. The exercise of

these, or any other power under the BRRD or any suggestion or perceived suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

In addition to the capital requirements under CRD IV, the BRRD introduces requirements for banks to maintain at all times a sufficient aggregate amount of Minimum Requirement for Own Funds and Eligible Liabilities (the **MREL**). The aim is that the minimum amount should be proportionate and adapted for each category of bank on the basis of their risk or the composition of their sources of funding. The final draft regulatory technical standards published by the EBA in July 2015 set out the assessment criteria that resolution authorities should use to determine the MREL for individual firms.

The BRRD does not foresee an absolute minimum, but attributes the competence to set a minimum amount for each bank to national resolution authorities (for banks not subject to supervision by the ECB) or to the Single Resolution Board (the **SRB**) for banks subject to direct supervision by the ECB. The EBA has issued its final draft regulatory technical standards which further define the way in which national resolution authorities/the SRB shall calculate the MREL. As from 1 January 2016, the resolution authority for UniCredit is the SRB and it will be subject to the authority of the SRB for the purposes of determination of its MREL requirement. The SRB has indicated that it intends to take core features of the TLAC standard into account in its 2016 MREL decisions and also that it may make decisions on the quality (in particular a subordination requirement) for all or part of the MREL. The SRB has targeted the end of 2017 for calculating binding MREL targets at the consolidated level of all banking groups under its remit. MREL decisions for subsidiaries will be made in a second stage, based on, among other things, their individual characteristics and the consolidated level which has been set for the group. The draft regulatory technical standards published by the EBA contemplate that a maximum transitional period of 48 months may be applied for the purposes of meeting the full MREL requirement.

At the same time as it released the CRD Reform Package, the European Commission released the BRRD Reforms. Among other things, these proposals aim to implement TLAC and to ensure consistency, where appropriate, of the MREL with TLAC. These proposals introduce a minimum harmonised MREL requirement (also referred to as a **Pillar 1 MREL requirement**) applicable to G-SIIs (such as UniCredit) only. In addition, resolution authorities will be able, on the basis of bank-specific assessments, to require that G-SIIs comply with a supplementary MREL requirement (a **Pillar 2 MREL requirement**). Banks will be allowed to use certain additional types of highly loss absorbent liabilities to comply with their Pillar 2 MREL requirement as long as a bail-in of such liabilities in resolution would not result in a treatment of creditors that is worse in comparison to their treatment under insolvency.

In order to ensure compliance with MREL requirements, and in line with the FSB standard on TLAC, the BRRD Reforms propose that in case a bank does not have sufficient eligible liabilities to comply with its MREL, the resultant shortfall is automatically filled up with CET1 Capital that would otherwise be counted towards meeting the combined capital buffer requirement. However, the BRRD Reforms envisage a six-month grace period before restrictions to discretionary payments to the holders of regulatory capital instruments and employees take effect due to a breach of the combined capital buffer requirement.

As of 2016 the UniCredit Group is subject to the provisions of the Regulation establishing the Single Resolution Mechanism

After having reached an agreement with the Council, in April 2014, the European Parliament adopted the Regulation establishing a Single Resolution Mechanism (the **SRM**). The SRM became fully operational on 1 January 2016. Certain provisions, including those concerning the preparation of resolution plans and provisions relating to the cooperation of the SRB with national resolution authorities, entered into force on 1 January 2015. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the SRM. In particular, the main objective of such proposal is to implement the TLAC standard and to integrate the TLAC requirement into the general MREL rules by avoiding duplication by applying two parallel requirements.

The SRM, which complements the ECB Single Supervisory Mechanism, applies to all banks supervised by the ECB Single Supervisory Mechanism. It mainly consists of the SRB and a Single Resolution Fund (the **Fund**).

Decision-making is centralised with the SRB, and involves the European Commission and the Council (which will have the possibility to object to the SRB's decisions) as well as the ECB and national resolution authorities.

The Fund, which will back resolution decisions mainly taken by the SRB, will be divided into national compartments during an eight-year transition period. Banks were required to start paying contributions in 2015 to National Resolution Funds that will mutualise gradually into the Single Resolution Fund starting from 2016 (and on top of the contributions to the national deposit guarantee schemes).

The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the ECB Single Supervisory Mechanism.

The participating banks are required to finance the Fund. UniCredit is therefore required to pay contributions to the SRM in addition to contributions to the national deposit guarantee scheme. The manner in which the SRM will operate is still evolving, so there remains some uncertainty as to how the SRM will affect the Group once implemented and fully operational.

The UniCredit Group may be subject to a proposed EU regulation on mandatory separation of certain banking activities

On 29 January 2014, the European Commission adopted a proposal for a new regulation on structural reform of the European banking sector following the recommendations released on 31 October 2012 by the High Level Expert Group (the Liikanen Group) on the mandatory separation of certain banking activities. The proposed regulation contains new rules which would prohibit the biggest and most complex banks from engaging in the activity of proprietary trading and introduce powers for supervisors to separate certain trading activities from the relevant bank's deposit-taking business if the pursuit of such activities compromises financial stability. This proposal was intended to take effect from 2017. However, legislative progress of the regulation has stalled.

The European proposed financial transactions tax (the FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Ratings

UniCredit is rated by Fitch Italia S.p.A. (**Fitch**), by Moody's Italia S.r.l. (**Moody's**) and by Standard & Poor's Credit Market Services Italy S.r.l. (**Standard & Poor's**), each of which is established in the European Union and registered under Regulation (EC) No. 1060/2009 on credit rating agencies as amended from time to time (the **CRA Regulation**) as set out in the list of credit rating agencies registered in accordance with the CRA Regulation published on the website of the European Securities and Markets Authority pursuant to the CRA Regulation (for more information, please visit the ESMA webpage).

In determining the rating assigned to UniCredit, these rating agencies consider and will continue to review various indicators of UniCredit's creditworthiness, including (but not exhaustive) the Group's performance, profitability and its ability to maintain its consolidated capital ratios within certain target levels. If UniCredit fails to achieve or maintain any or a combination of more than one of the indicators, this may result in a downgrade of UniCredit's rating by Fitch, Moody's or Standard & Poor's.

Any rating downgrade of UniCredit or other entities of the Group would be expected to increase the re-financing costs of the Group and may limit its access to the financial markets and other sources of liquidity, all of which could have a material adverse effect on its business, financial condition and results of operations. See further "*Risks related to the Market generally – Credit ratings may not reflect all risks and may be lowered, suspended, withdrawn or not maintained"* below.

RISKS RELATING TO THE NOTES

The following does not describe all the risks of an investment in the Notes. Prospective investors should consult their own financial and legal advisers about risks associated with investment in the Notes and the suitability of investing in the Notes in light of their particular circumstances.

The Notes are complex instruments that may not be suitable for certain investors

The Notes are novel and complex financial instruments and may not be a suitable investment for certain investors. Each potential investor in the Notes should determine the suitability of such investment in light of its own circumstances and, in particular:

(a) 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 or in any applicable supplement;

(b) 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;

(c) have sufficient financial resources and liquidity to bear the risks of an investment in the Notes, including the possibility that the entire principal amount of the Notes could be lost, including following the exercise by the relevant resolution authority of any bail-in power or through the application of Non-Viability Loss Absorption, as further described below;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of the financial markets; and

(e) 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.

A potential investor should not invest in the Notes unless it has the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting

effects on the likelihood of cancellation of Interest Amounts or a Write-Down and the market value of the Notes, and the impact of this investment on the potential investor's overall investment portfolio.

Some aspects of the manner in which CRD IV will be implemented remain uncertain

CRD IV is a recently adopted set of rules and regulations that imposes a series of new requirements, many of which will be phased in over a number of years. Although the CRD IV Regulation is directly applicable in each Member State, it has left a number of important interpretational issues to be resolved through binding technical standards that will be adopted in the future, and the CRD IV Directive has left certain other matters to the discretion of the relevant regulator.

Such matters (including those which may result from the publication of technical standards which interpret CRD IV Regulation) could impact the calculation of the Common Equity Tier 1 Capital ratios or the Common Equity Tier 1 Capital of the Issuer or the UniCredit Group or the Risk Weighted Assets of the Issuer or the UniCredit Group. Furthermore, because the occurrence of the Contingency Event and restrictions on discretionary payments where subject to a Maximum Distributable Amount depends, in part, on the calculation of these ratios and capital measures, any change in Italian laws or their official interpretation by regulatory authorities that could affect the calculation of such ratios and measures could also affect the determination of whether the Contingency Event has actually occurred and/or whether interest payments on the Notes are subject to restrictions.

Such calculations may also be affected by changes in applicable accounting rules, the UniCredit Group's accounting policies and the application by the UniCredit Group of these policies. Any such changes, including changes over which the UniCredit Group has a discretion, may have a material adverse impact on the UniCredit Group's reported financial position and accordingly may give rise to the occurrence of the Contingency Event in circumstances where such Contingency Event may not otherwise have occurred, notwithstanding the adverse impact this will have for Noteholders.

Furthermore, any change in the laws or regulations of Italy, the Relevant Regulations or the application thereof may in certain circumstances result in the Issuer having the option to redeem the Notes in whole but not in part (see "– *The Notes are subject to early redemption, including upon the occurrence of a Special Event at the Prevailing Principal Amount*"). In any such case, the Notes would cease to be outstanding, which could materially and adversely affect investors and frustrate investment strategies and goals.

On 23 November 2016, the European Commission released the CRD Reform Package that it proposes be applied as of 1 July 2017 (but this will ultimately depend on the procedure and the outcome of the discussions in the European Parliament and the Council). Among other things, these proposals aim to implement a number of new Basel standards (such as the leverage ratio, the net stable funding ratio and market risk rules) and to introduce the FSB's TLAC recommendations. Once these proposals are finalised, changes to the CRD IV Regulation will become directly applicable to the UniCredit Group. However, the CRD IV amendments will need to be transposed into Italian law before taking effect. See further "*The bank recovery and resolution directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of the Notes and/or the rights of Noteholders.*" above for further details on the implementation of TLAC in the EEA through changes to the BRRD.

Such legislative and regulatory uncertainty could affect an investor's ability to value the Notes accurately and therefore affect the market price of the Notes given the extent and impact on the Notes of one or more regulatory or legislative changes.

The Notes are subordinated obligations of the Issuer

The Issuer's obligations under the Notes are unsecured and subordinated and will rank subordinate and junior to all indebtedness of the Issuer, including unsubordinated indebtedness of the Issuer, the Issuer's obligations in respect of any dated subordinated instruments and any Tier 2 Capital or guarantee in respect of

any such instruments (other than any instrument or contractual right expressed to rank *pari passu* with the Notes), as more fully described in the "*Terms and Conditions of the Notes*".

If any judgment is rendered by any competent court declaring the judicial liquidation of the Issuer or if the Issuer is liquidated for any other reason, the rights of payment of the Noteholders shall rank senior to any payments to holders of the Issuer's shares, including its *azioni privilegiate,* ordinary shares and *azioni di risparmio* (or certain securities or guarantees expressed to rank *pari passu* with the Issuer's shares or otherwise junior to the Notes, as further described in Condition 4 (*Status of the Notes*)). In the event of incomplete payment of unsubordinated creditors on liquidation, the obligations of the Issuer in connection with the Notes will be terminated (save as otherwise provided under applicable law from time to time). Noteholders shall be responsible for taking all steps necessary for the orderly accomplishment of any collective proceedings or voluntary liquidation in relation to any claims they may have against the Issuer.

Although the Notes may pay a higher rate of interest than notes which are not subordinated, there is a substantial risk that investors in subordinated notes such as the Notes will lose all or some of their investment should the Issuer become insolvent.

Waiver of set-off

In Condition 4 (*Status of the Notes*), each holder of a Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Note.

The Issuer is not prohibited from issuing further debt which may rank *pari passu* with or senior to the Notes

The Terms and Conditions of the Notes place no restriction on the amount of debt that the Issuer may issue that ranks senior to the Notes or on the amount of securities that it may issue that rank *pari passu* with the Notes. The issue of any such debt or securities may reduce the amount recoverable by investors upon the Issuer's bankruptcy. If the Issuer's financial condition were to deteriorate, the Noteholders could suffer direct and materially adverse consequences, including cancellation of interest and reduction of principal and, if the Issuer were liquidated (whether voluntarily or involuntarily), the Noteholders could suffer loss of their entire investment.

There are no events of default under the Notes

The Terms and Conditions of the Notes do not provide for events of default allowing acceleration of the Notes if certain events occur. Accordingly, if the Issuer fails to meet any obligations under the Notes, including the payment of any interest, investors will not have the right of acceleration of principal. Upon a payment default, the sole remedy available to Noteholders for recovery of amounts owing in respect of any payment of principal or interest on the Notes will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, the Issuer will not, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

The Issuer may elect in its full discretion to cancel interest on the Notes and may, in certain circumstances, be required to cancel such interest

The Issuer may elect in its full discretion to cancel (in whole or in part) Interest Amounts otherwise scheduled to be paid on any Interest Payment Date.

Further, the Issuer will be required to cancel payment of Interest Amounts (in whole or, as the case may be, in part) if and to the extent that such Interest Amounts, when aggregated together with distributions on all other Own Funds instruments of the Issuer (excluding Tier 2 Capital instruments) paid or scheduled for payment in the then current financial year, exceed the amount of Distributable Items, excluding any payments already accounted for in determining the Distributable Items. The Issuer's Distributable Items will depend to a large extent on, *inter alia*, the dividends that it receives from its subsidiaries and affiliates. See

also "*–The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Notes*" below.

The Issuer will also be required to cancel payment of Interest Amounts (in whole or, as the case may be, in part) if and to the extent that such payment, when aggregated together with other distributions of the Issuer or the UniCredit Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV Directive (or, if different, any provisions of Italian law implementing Article 141(2) of the CRD IV Directive), would cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the UniCredit Group to be exceeded, or where such Interest Amounts are required to be cancelled (in whole or in part) by an order to the Issuer from the Competent Authority. The Maximum Distributable Amount restriction is a novel concept which will apply when the combined capital buffer requirement is not met, and its determination is subject to considerable uncertainty, as further described below under "*If the Issuer breaches the combined buffer requirement a Maximum Distributable Amount will apply which may restrict the Issuer from making interest payments on the Notes in certain circumstances; Noteholders may not be able to anticipate whether or when the Issuer will cancel such interest payments*".

Additionally, the Competent Authority has the power under Article 104 of the CRD IV Directive to restrict or prohibit payments of interest by the Issuer to holders of Additional Tier 1 instruments such as the Notes. The risk of any such intervention by the Competent Authority is most likely to materialise if at any time the Issuer or the UniCredit Group is failing, or is expected to fail, to meet its capital requirements – see "*If the Issuer breaches the combined buffer requirement a Maximum Distributable Amount will apply which may restrict the Issuer from making interest payments on the Notes in certain circumstances; Noteholders may not be able to anticipate whether or when the Issuer will cancel such interest payments*" below.

Also, in accordance with Article 63(j) of the BRRD (as implemented in Italy by Article 60(1)(i) of Legislative Decree No. 180/2015), the Competent Authority has the power to alter the amount of interest payable under debt instruments issued by banks subject to resolution proceedings and the date on which the interest becomes payable under the debt instrument (including the power to suspend payment for a temporary period). The Competent Authority also has the power under Articles 53-*bis* and 67-*ter* of the Italian Banking Act to impose requirements on the Issuer, the effect of which will be to restrict or prohibit payments of interest by the Issuer to Noteholders, which is most likely to materialise if at any time the Issuer is failing, or is expected to fail, to meet its capital or liquidity requirements. If the Competent Authority exercises its discretion, the Issuer will exercise its discretion to cancel (in whole or in part, as required by the Competent Authority) interest payments in respect of the Notes.

Furthermore, upon the occurrence of a Contingency Event (as defined in Condition 6.1 (*Loss absorption*)), the Issuer will not make payment of accrued and unpaid interest in respect of the Notes up to the Write-Down Effective Date and any such accrued and unpaid interest shall be cancelled.

The cancellation of any Interest Amounts shall not constitute a default for any purpose on the part of the Issuer. Interest on the Notes is not cumulative and any Interest Amounts that the Issuer elects not to pay or is prohibited from paying will not accumulate or compound and all rights and claims in respect of such amounts shall be fully and irrevocably forfeited and no payments shall be made nor shall any Noteholder be entitled to any payment or indemnity in respect thereof. See Condition 5 of the Notes (*Interest and Interest Cancellation*).

Because the Issuer is entitled to cancel Interest Amounts in its full discretion, it may do so even if it could make such payments without exceeding the limits described above. Interest Amounts on the Notes may be cancelled even if holders of the Issuer's shares continue to receive dividends and/or the Issuer and/or its subsidiaries continues to make payments of interest or other amounts on other Additional Tier 1 instruments.

Any actual or anticipated cancellation of interest on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest cancellation provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Any indication that, for example, the Issuer may not have

sufficient Distributable Items and/or may not meet the combined buffer requirement specified in the CRD IV Directive may have an adverse effect on the market price of the Notes.

The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Notes

As noted above, the Issuer will be required to cancel any Interest Amounts (in whole or, as the case may be, in part) if and to the extent that such Interest Amounts, when aggregated together with distributions on all other Own Funds instruments of the Issuer (excluding Tier 2 Capital instruments) paid or scheduled for payment in the then current financial year, exceed the amount of Distributable Items, excluding any payments already accounted for in determining the Distributable Items.

The Issuer had approximately €14.51 billion (including the Negative Reserves referred to in sub-paragraph (b)(ii) below)) of Distributable Items as at 31 December 2016, of which approximately €13.97 billion were represented by the available portion of the Share Premium Reserve (see also Section 14 Part B - Balance Sheet – Liabilities contained in the Notes to the Accounts in respect of the non-consolidated annual financial statements of the Issuer as at and for the year ended 31 December 2016 (the **2016 UniCredit Audited Non-Consolidated Annual Financial Statements**)); however these amounts have been integrated, if relevant, with the following principal actions which occurred following 31 December 2016:

(a) the successful completion of the Issuer's rights offering on 2 March 2017 which raised approximately €13.0 billion through the issue of 1,606,876,817 ordinary shares (with no nominal value) (the **Rights Offering**), almost entirely represented by Share Premium Reserve;

(b) the approval of the Shareholders' Meeting held on 20 April 2017 of the 2016 UniCredit Audited Non-Consolidated Annual Financial Statements, which included the approval of:

  (i) the coverage of the loss from the 2016 financial year, in an amount equal to approximately €11.46 billion through the use of the Share Premium Reserve;

  (ii) the elimination of the "Negative Reserves", for components not subject to change by means of their definitive coverage, classified under shareholders' equity as at 31 December 2016 in an amount equal to approximately €3.51 billion, by means of their definitive coverage through the use of approximately €2.51 billion of Share Premium Reserve, approximately €369 million of Profit Reserves as well as approximately €633 million of other Capital Reserves; and

  (iii) a stock option plan for certain employees for an amount up to approximately €187 million over a three year period;

(c) other Capital Reserves were also reduced to take into account coupon payments in respect of existing Additional Tier 1 instruments and payments due from the Issuer under the CASHES structure, as well as the commission and fees paid in connection with the Rights Offering.

The available portion of the Share Premium Reserve, following the actions set out above, stands at approximately €13.0 billion.

The level of the Issuer's Distributable Items is affected by a number of factors. The Issuer's future Distributable Items, and therefore the ability of the Issuer to make interest payments under the Notes, are a function of the Issuer's existing Distributable Items and its future profitability. In addition, the Issuer's Distributable Items may also be adversely affected by the servicing of more senior instruments, parity ranking instruments or more junior ranking instruments, including dividends on the Issuer's shares.

The level of the Issuer's Distributable Items may be affected by changes to accounting rules, regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Issuer's Distributable Items in the future.

Further, the Issuer's Distributable Items, and therefore the Issuer's ability to make interest payments under the Notes, may be adversely affected by the performance of the business of the UniCredit Group in general, factors affecting its financial position (including capital and leverage), the economic environment in which the UniCredit Group operates and other factors outside of the Issuer's control. See generally "*Factors that may affect the Issuer's ability to fulfil its obligations under the Notes*" above. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

If the Issuer breaches the combined buffer requirement a Maximum Distributable Amount will apply which may restrict the Issuer from making interest payments on the Notes in certain circumstances; Noteholders may not be able to anticipate whether or when the Issuer will cancel such interest payments

Under Article 141 (Restrictions on distributions) of the CRD IV Directive, EU Member States must require that institutions that fail to meet the combined buffer requirement (as described below) will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to Common Equity Tier 1 and Additional Tier 1 instruments and variable remuneration to staff). The restrictions will be scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the profits of the institution since the last distribution of profits or "discretionary payment". Such calculation will result in a "Maximum Distributable Amount" in each relevant period. As an example, if the scaling is such that it is in the bottom quartile of the combined buffer requirement, no "discretionary distributions" will be permitted to be paid.

As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce discretionary payments, including potentially exercising the discretion to cancel (in whole or in part) interest payments in respect of the Notes.

In addition, the Issuer will have the discretion to determine how to allocate the Maximum Distributable Amount among the different types of payments contemplated in Article 141(2) of the CRD IV Directive and it may (at least prior to the CRD Reform Package being finalised and implemented) elect to allocate such amounts to discretionary payments other than in respect of the Notes. Moreover, payments made earlier in the relevant period will reduce the remaining Maximum Distributable Amount available for payments later in the relevant period, and the Issuer will have no obligation to preserve any portion of the Maximum Distributable Amount for payments scheduled to be made later in a given period. Even if the Issuer attempts to do so, there can be no assurance that it will be successful, because the Maximum Distributable Amount will depend on the amount of Net Income earned during the course of the relevant period, which will necessarily be difficult to predict.

Interaction of Pillar 1 and Pillar 2 requirements, TLAC and MREL with the combined buffer requirement

Under CRD IV, the Issuer is required to hold a minimum amount of regulatory capital equal to 8 per cent. of risk weighted assets (the **Pillar 1 requirement**). In addition to these so called "own funds" requirements under CRD IV, supervisory authorities may add extra capital requirements to cover risks they believe are not covered, or are insufficiently covered, by the minimum capital requirements under CRD IV (**Pillar 2 requirements**). See also "*Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – Basel III and CRD IV*" above.

As noted above, in accordance with the SSM Regulation, the ECB has fully assumed its new supervisory responsibilities of the Issuer and the UniCredit Group. The ECB is required under the SSM Regulation to carry out a SREP at least on an annual basis. In addition to the above, the EBA published on 19 December 2014, the EBA SREP Guidelines. Included in these guidelines were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional Pillar 2 own funds requirements to be implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the Pillar 2 requirements to cover certain specified risks of at least 56 per cent. CET1 and at least 75 per cent. Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the

combined buffer requirement (as described below) and/or additional macro-prudential requirements. Accordingly, the additional Pillar 2 own funds requirement that may be imposed on the Issuer and/or the UniCredit Group by the ECB pursuant to the SREP will require the Issuer and/or the UniCredit Group to hold capital levels above the minimum Pillar 1 capital requirements.

As noted above, CRD IV also introduces a capital buffer requirement that is in addition to the minimum "own funds" requirement and required to be met with Common Equity Tier 1 capital. It introduces five new capital buffers. See further "*Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – Basel III and CRD IV*" above.

Also, as part of the CRD IV transitional arrangements, regulatory capital recognition of outstanding instruments which qualified as Tier 1 and Tier 2 capital instruments under the framework which the CRD IV has replaced that no longer meet the minimum criteria under the CRD IV Package will be gradually phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition is capped at 80 per cent. in 2014, with this cap decreasing by 10 per cent. in each subsequent year.

The quantum of any Pillar 2 requirement imposed on a bank, the type of capital which it must apply to meeting such capital requirements, and whether the Pillar 2 requirement is "stacked" below the capital buffers (i.e. the bank's capital resources must first be applied to meeting the Pillar 2 requirements in full before capital can be applied to meeting the capital buffers) or "stacked" above the capital buffers (i.e. the bank's capital resources can be applied to meeting the capital buffers in priority to the Pillar 2 requirement) may all impact a bank's ability to make discretionary payments on its tier 1 capital, including interest payments on additional tier 1 instruments. The interaction between Pillar 2 requirements and the Maximum Distributable Amount restriction has been the subject of much debate.

As set out in the "Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions" published on 16 December 2015, in the EBA's opinion competent authorities should ensure that the Common Equity Tier 1 Capital to be taken into account in determining the Common Equity Tier 1 Capital available to meet the combined buffer requirement for the purposes of the Maximum Distributable Amount calculation is limited to the amount not used to meet the Pillar 1 and Pillar 2 own funds requirements of the institution. In effect, this would mean that Pillar 2 capital requirements would be "stacked" below the capital buffers, and thus a firm's CET1 resources would only be applied to meeting capital buffer requirements after Pillar 1 and Pillar 2 capital requirements have been met in full.

However, more recently, the EBA and the European Central Bank appear to have adopted a more flexible approach to Pillar 2. In its publication of the 2016 EU-wide stress test results on 29 July 2016, the EBA has recognised a distinction between "pillar 2 requirements" (stacked below the capital buffers and thus potentially directly affecting the application of a Maximum Distributable Amount) and "Pillar 2 capital guidance" (stacked above the capital buffers). With respect to Pillar 2 capital guidance, the publication stated that, in response to the stress test results, competent authorities may (among other things) consider "setting capital guidance, above the combined buffer requirement. In cases where capital guidance is provided, that guidance will not be included in calculations of the Maximum Distributable Amount, but competent authorities would expect banks to meet that guidance except when explicitly agreed, for example in severe adverse economic conditions. Competent authorities have remedial tools if an institution refuses to follow such guidance". The ECB published a set of "Frequently asked questions on the 2016 EU-wide stress test", confirming this distinction between Pillar 2 requirements and Pillar 2 capital guidance and noting that "Under the stacking order, banks facing losses will first fail to fulfil their Pillar 2 capital guidance. In case of further losses, they would next breach the combined buffers, then Pillar 2 requirements, and finally Pillar 1 requirements".

The CRD Reform Package proposes to legislate this distinction between "Pillar 2 requirements" and "Pillar 2 capital guidance". Whereas the former are mandatory requirements imposed by supervisors to address risks not covered or not sufficiently covered by Pillar 1 and buffer capital requirements, the latter refers to the possibility for competent authorities to communicate to an institution their expectations for such institution

to hold capital in excess of its capital requirements (Pillar 1 and Pillar 2) and combined buffer requirements in order to cope with forward-looking and remote situations. Under the CRD Reform Package proposals, (and as described above), only Pillar 2 requirements, and not Pillar 2 capital guidance, will be relevant in determining whether an institution is meeting its combined buffer requirement for the purposes of the Maximum Distributable Amount restriction.

The following tables show the impact of the Pillar 2 capital requirement on the required minimum CET1 Capital ratio, Tier 1 Capital ratio and Total Capital ratio, in each case on a consolidated basis, as from the dates indicated, on the level at which the Maximum Distributable Amount restrictions will take effect:

Required minimum CET1 Capital ratio		
	From 1 Jan 2017 (transitional)	**From 1 Jan 2019 (fully loaded)**
Pillar 1 CET1	4.5%	4.5%
Pillar 2 CET1 requirement[1]	2.5%	2.5%
Combined capital buffer	1.77%[2]	3.53%[3]
MDA level	**8.77%**	**10.53%**

[1] Assuming the Pillar 2 requirement does not change.

[2] Including 0.02% of countercyclical capital buffer as at 31 March 2017, to be calculated on a quarterly basis.

[3] Includes a countercyclical capital buffer of 0.03%, estimated on the basis of exposures as at March 2017 and of buffers set by national authorities and applying since June 2017.

Required Minimum Tier 1 ratio		
	From 1 Jan 2017 (transitional)	**From 1 Jan 2019 (fully loaded)**
Pillar 1 CET1	4.50%	4.50%
Pillar 1 Additional Tier 1[1]	1.50%	1.50%
Pillar 2 CET1 requirement[2]	2.50%	2.50%
Combined capital buffer	1.77%[3]	3.53%[4]
MDA level	**10.27%**	**12.03%**

[1] May be comprised of Additional Tier 1 or CET1.

[2] Assuming the Pillar 2 requirement does not change.

[3] Including 0.02% of countercyclical capital buffer as at 31 March 2017, to be calculated on a quarterly basis.

[4] Includes a countercyclical capital buffer of 0.03%, estimated on the basis of exposures as at March 2017 and of buffers set by national authorities and applying since June 2017.

Required Minimum Total Capital ratio		
	From 1 Jan 2017 (transitional)	**From 1 Jan 2019 (fully loaded)**
Pillar 1 CET1	4.5%	4.5%
Pillar 1 Additional Tier 1[1]	1.50%	1.50%
Pillar 1 Tier 2[2]	2.00%	2.00%
Pillar 2 CET1 requirement[3]	2.5%	2.5%
Combined capital buffer	1.77%[4]	3.53%[5]
MDA level	**12.27%**	**14.03%**

[1] May be comprised of Additional Tier 1 or CET1.

[2] May be comprised of Tier 2, Additional Tier 1 or CET1.

[3] Assuming the Pillar 2 requirement does not change.

[4] Including 0.02% of countercyclical capital buffer as at 31 March 31 2017, to be calculated on a quarterly basis.

[5] Includes a countercyclical capital buffer of 0.03%, estimated on the basis of exposures as at March 2017 and of buffers set by national authorities and applying since June 2017.

Due to the non-recurring negative impact of certain actions set out in the Strategic Plan on net income in the fourth quarter of 2016 in an amount equal to approximately €12.2 billion and the fact that the capital strengthening measures (also contained in the Strategic Plan) have been (or will be) carried out during 2017, with respect to regulatory capital requirements applicable from 1 January 2017, UniCredit was temporarily in breach of the following capital requirements (transitional)[4]:

- Common Equity Tier 1 ratio (transitional requirement) equal to 8.77 per cent. by approximately 0.6 per cent.;
- Tier 1 capital ratio (transitional requirement) equal to 10.27 per cent. by approximately 1.2 per cent.; and
- Total capital ratio (transitional requirement) equal to 12.27 per cent. by approximately 0.6 per cent.

The successful completion of the Rights Offering on 2 March 2017 had a positive impact on the CET1 Capital ratio (transitional) of approximately 3.34 per cent. and on the CET1 Capital ratio (fully loaded) of 3.61 per cent. (calculated on the basis of the same data for the year ended 31 December 2016) which was sufficient to enable UniCredit to satisfy all such capital requirements and the Issuer is therefore currently no longer subject to the Maximum Distributable Amount restriction. See also "*Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – Risks connected with the Strategic Plan*".

As at 31 December 2015, 31 December 2016 and 31 March 2017, the consolidated transitional capital ratios (CET1 Capital, Tier 1 and Total Capital ratios), are set out in the table below:

[4] The countercyclical capital buffer has been calculated on the basis of exposures as of March 2017 and buffers set by national authorities and applying since January 2017.

Capital ratios	31 December 2015	31 December 2016	31 March 2017
CET1 Capital ratio	10.59%	8.15%	11.71%
Tier 1 ratio	11.50%	9.04%	12.65%
Total Capital ratio	14.23%	11.66%	15.20%

As set out in the table above, as at 31 March 2017, the Issuer's CET1 Capital ratio (transitional), on a consolidated basis, is 11.71 per cent. (11.45 per cent. on a fully-loaded basis). Such ratios exceed the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements (Pillar 1 plus Pillar 2 plus combined buffer requirement) imposed on the Issuer and/or the UniCredit Group from time to time may not be higher than the levels of capital available at such point in time. However, there can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further Pillar 2 additional own funds requirements on the Issuer and/or the UniCredit Group.

If at any time the Issuer is unable to maintain its total CET1 at the level necessary to meet its combined capital buffer requirement, a Maximum Distributable Amount restriction would be applicable and the Issuer may be required to cancel interest payments on the Notes.

TLAC

Current regulatory proposals may also, if adopted and once implemented, impose further restrictions on the Issuer's ability to make payments on the Notes. For example, the CRD Reform Package proposes to implement the FSB's final principles on TLAC requirements for global systemically important banks (including the Issuer), which were published on 9 November 2015 and are to apply in addition to existing minimum regulatory capital requirements. The principles contemplate that only Common Equity Tier 1 capital in excess of that required to satisfy minimum TLAC requirements may count towards regulatory capital buffers, such as those introduced under the CRD IV described above. As a result of these proposals, the Issuer's capital requirements, in particular requirements that the Issuer holds sufficient amounts of Common Equity Tier 1 capital, may be effectively increased. See also "*Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – Forthcoming regulatory changes*".

MREL

In addition to the capital requirements under the CRD IV, the BRRD introduces requirements for banks to maintain at all times a sufficient aggregate amount of MREL. The aim is that the minimum amount should be proportionate and adapted for each category of bank on the basis of their risk or the composition of their sources of funding. The final draft regulatory technical standards published by the EBA in July 2015 set out the assessment criteria that resolution authorities should use to determine the minimum requirement for own funds and eligible liabilities for individual firms. See also "*Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – The bank recovery and resolution directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of the Notes and/or the rights of Noteholders.*"

At the same time as it released the CRD Reform Package, the European Commission released the BRRD Reforms. Among other things, these proposals aim to implement TLAC and to ensure consistency, where appropriate, of the MREL with TLAC. These proposals introduce a minimum harmonised MREL requirement (also referred to as a Pillar 1 MREL requirement) applicable to G-SIIs (such as the Issuer) only. In addition, resolution authorities will be able, on the basis of bank-specific assessments, to require that G-SIIs comply with a Pillar 2 MREL requirement.

In order to ensure compliance with MREL requirements, and in line with the FSB standard on TLAC, the BRRD Reforms propose that in case a bank does not have sufficient eligible liabilities to comply with its MREL, the resultant shortfall is automatically filled up with CET1 that would otherwise be counted towards meeting the combined capital buffer requirement. However, the BRRD Reforms envisage a six-month grace period before restrictions to discretionary payments to the holders of regulatory capital instruments and employees take effect due to a resulting breach of the combined capital buffer requirement.

Under the BRRD Reforms, a breach of the Issuer's Pillar 1 MREL requirement would result in a breach of its combined capital buffer and result in the application of the Maximum Distributable Amount restrictions and potentially the cancellation of interest payments on the Notes.

General

The Issuer's capital requirements, including Pillar 1 and Pillar 2 requirements, TLAC, MREL and the combined buffer requirement, are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. Investors in the Notes may not be able to assess or predict accurately the proximity of the risk of discretionary payments on the Notes being prohibited from time to time as a result of the operation of Article 141 of the CRD IV Directive. There can be no assurance that any of the capital requirements or the combined capital buffer requirements applicable to the Issuer will not be amended in the future to include new and more onerous capital requirements, which in turn may affect the Issuer's capacity to make payments of interest on the Notes.

These issues and other possible issues of interpretation make it difficult to determine how the Maximum Distributable Amount will apply as a practical matter to limit interest payments on the Notes, the reinstatement of the Prevailing Principal Amount of the Notes following a Write-Down, and the ability of the Issuer to redeem and purchase Notes. This uncertainty and the resulting complexity may adversely impact the trading price and the liquidity of the Notes.

The Notes may be traded with accrued interest, but under certain circumstances described above, such interest may be cancelled and not paid on the relevant Interest Payment Date

The Notes may trade, and/or the prices for the Notes may appear, on the Official List of the Luxembourg Stock Exchange and in other trading systems with accrued interest. If this occurs, purchasers of Notes in the secondary market will pay a price that reflects such accrued interest upon purchase of the Notes. However, if a payment of interest on any Interest Payment Date is cancelled (in whole or in part) as described herein and thus is not due and payable, purchasers of such Notes will not be entitled to that interest payment (or, if the Issuer elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date. This may affect the value of any investment in the Notes.

The Issuer may be required to reduce the principal amount of the Notes to absorb losses, which would also impact the Interest Amounts payable on any Interest Payment Date while the Notes are written down

The Notes are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Additional Tier 1 Capital under the CRD IV both at the level of the Issuer and at the level of the UniCredit Group. Such eligibility depends upon a number of conditions being satisfied. One of these relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of the Issuer. Accordingly, under the Terms and Conditions of the Notes, if at any time the Issuer's or the UniCredit Group's Common Equity Tier 1 Capital Ratio falls below 5.125 per cent. or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the Issuer and/or the UniCredit Group (a **Contingency Event**), the Issuer shall reduce the then Prevailing Principal Amount of the Notes by the Write-Down Amount, *pro rata* with the other Notes and taking into account the write-down (or

write-off) or conversion into Ordinary Shares of any other Loss Absorbing Instruments. See Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*).

Although Condition 6.3 (*Reinstatement of principal amount*) permits the Issuer in its full discretion to reinstate Written-Down principal amounts up to a maximum of the Initial Principal Amount if certain conditions (further described therein) are met, the Issuer is under no obligation to do so. Moreover, the Issuer will only have the option to Write-Up the principal amount of the Notes if, at a time when the Prevailing Principal Amount of the Notes is less than their Initial Principal Amount, both a positive Net Income and a positive Consolidated Net Income are recorded, and if the Maximum Distributable Amount (if any) (when the amount of the Write-Up is aggregated together with other distributions of the Issuer or the UniCredit Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV Directive (or, if different, any provision of Italian law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced)) would not be exceeded as a result of the Write-Up.

No assurance can be given that these conditions will ever be met, or that the Issuer will ever Write-Up the principal amount of the Notes following a Write-Down. Furthermore, any Write-Up must be undertaken on a *pro rata* basis with the other Notes and any Written-Down Additional Tier 1 Instruments of the Issuer that have terms permitting a principal write-up to occur on a basis similar to that set out in Condition 6.3 (*Reinstatement of principal amount*) in the circumstances then existing.

During the period of any Write-Down pursuant to Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*), interest will accrue (subject in certain circumstances to the Maximum Distributable Amount, as further set out below) on the Prevailing Principal Amount of the Notes, which shall be lower than the Initial Principal Amount unless and until the Notes are subsequently Written-Up in full. Furthermore, in the event that a Write-Down occurs during an Interest Period, any interest accrued but not yet paid up to the occurrence of such Write-Down will be cancelled. See generally Condition 5.8 (*Calculation of Interest Amount in case of Write-Down*).

Noteholders may lose all or some of their investment as a result of a Write Down. If any judgment is rendered by any competent court declaring the judicial liquidation of the Issuer, or if the Issuer is liquidated for any other reason prior to the Notes being written-up in full pursuant to Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*), Noteholders' claims for principal and interest will be based on the reduced Prevailing Principal Amount of the Notes.

In addition, in certain circumstances the Maximum Distributable Amount will impose a cap on the Issuer's ability to pay interest on the Notes, on the Issuer's ability to reinstate the Prevailing Principal Amount of the Notes following a Write-Down and on its ability to redeem or repurchase Notes. See generally "*If the Issuer breaches the combined buffer requirement a Maximum Distributable Amount will apply which may restrict the Issuer from making interest payments on the Notes in certain circumstances; Noteholders may not be able to anticipate whether or when the Issuer will cancel such interest payments*".

The market price of the Notes is expected to be affected by fluctuations in the Issuer's and the UniCredit Group's Common Equity Tier 1 Capital Ratio. Any indication that the Issuer's or the UniCredit Group's Common Equity Tier 1 Capital Ratio is approaching the level that would trigger a Contingency Event may have an adverse effect on the market price of the Notes.

In the event that the relevant resolution authority utilises the general bail-in tool, this could materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. In addition to the general bail-in tool, the BRRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments such as the Notes at the point of non-viability and before any other resolution action is taken. Any shares issued to holders of subordinated notes (such as the Notes) upon any such conversion into equity may also be subject to any application of the general bail-in tool. See generally "*– The Notes may be subject to write-down, cancellation or conversion upon the occurrence of the exercise by the relevant resolution authority of the general bail-in tool or capital instruments write-down and conversion*

powers, which powers are in addition to the terms of the Notes which provide for Write-Down on the occurrence of a Contingency Event".

The calculation of the Common Equity Tier 1 Capital Ratios will be affected by a number of factors, many of which may be outside the Issuer's control

The occurrence of a Contingency Event, which would result in a Write-Down of the Prevailing Principal Amount of the Notes (and the cancellation of interest accrued not yet paid up to the occurrence of the Write-Down) or a breach of the combined buffer requirement which would require the application of a Maximum Distributable Amount, is inherently unpredictable and depends on a number of factors, many of which may be outside the Issuer's control. Because the Competent Authority may require Common Equity Tier 1 Capital Ratios to be calculated as of any date (which calculation shall be binding on the Noteholders), a Contingency Event could occur at any time. The calculation of the Common Equity Tier 1 Capital Ratios of the Issuer or of the UniCredit Group could be affected by a wide range of factors, including, among other things, factors affecting the level of the Issuer's earnings or dividend payments, the mix of its businesses, its ability to effectively manage the risk-weighted assets in its ongoing businesses, losses in the context of its banking activities or other businesses, changes in the UniCredit Group's structure or organisation. The calculation of the ratios also may be affected by changes in the applicable laws and regulations or applicable accounting rules and the manner in which accounting policies are applied, including the manner in which permitted discretion is under the applicable accounting rules is exercised.

Accordingly, the trading behaviour of the Notes may not necessarily follow the trading behaviour of other types of subordinated securities. Any indication that the Common Equity Tier 1 Capital Ratio of the Issuer or of the UniCredit Group is approaching the level that would trigger a Contingency Event or a breach of the combined buffer requirement may have an adverse effect on the market price and liquidity of the Notes. Under such circumstances, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to more conventional investments.

Changes to the calculation of Common Equity Tier 1 Capital and/or Risk Weighted Assets may negatively affect the Issuer or the UniCredit Group's Common Equity Tier 1 Capital Ratio

In addition, regulatory initiatives may impact the calculation of the Issuers or the UniCredit Group's Risk Weighted Assets, being the denominator of the Issuer's and the UniCredit Group's Common Equity Tier 1 Capital Ratio, respectively. The BCBS published a consultation on the reduction of variation in credit risk-weighted assets. The aim of the consultation is to propose new rules to constrain the use of internal models approach and reduce the complexity of the regulatory framework and variability of capital requirements for credit risk. Although the timing for adoption, contents and impact of these proposals remain subject to considerable uncertainty, the implementation of this new risk assessment framework may impact the calculation of the Issuer's or the UniCredit Group's Risk Weighted Assets and, consequently, the Issuer or the UniCredit Group's Common Equity Tier 1 Capital Ratio.

Any changes that may occur in the application to the Issuer and/or the UniCredit Group of the CRD IV rules, the loss absorbency requirements under the BRRD (including MREL) or the FSB's TLAC proposals subsequent to the date of this Prospectus and/or any subsequent changes to such rules and other variables may individually and/or in the aggregate negatively affect the Issuer or the UniCredit Group's Common Equity Tier 1 Capital Ratio and thus increase the risk of a Contingency Event, which will lead to Write-Down, and a breach of the combined buffer requirement, as a result of which Noteholders could lose all or part of the value of their investment in the Notes.

The Notes may be subject to write-down, cancellation or conversion upon the occurrence of the exercise by the relevant resolution authority of the general bail-in tool or capital instruments write-down and conversion powers, which powers are in addition to the terms of the Notes which provide for Write-Down on the occurrence of a Contingency Event

Noteholders should understand that the powers to convert, write-down or cancel the Notes given to national regulators pursuant to the rules and regulations described below are in addition to the terms of the Notes which provide for Write-Down upon the occurrence of a Contingency Event.

The Notes are subject to bail-in powers under legislative measures implementing the BRRD in Italy.

The BRRD has been implemented in Italy through the BRRD Decrees which entered into force on the date of publication on the Italian Official Gazette (i.e. 16 November 2015), save that: (i) the general bail-in tool applied from 1 January 2016; and (ii) a "depositor preference" granted for deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SMEs will apply from 1 January 2019.

The stated aim of the BRRD is to provide a harmonised legal framework governing the tools and powers available to national supervisory authorities to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' contributions to bank bail-outs and/or exposure to losses. Among other things, the BRRD introduces a general bail-in tool which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims (including the Notes) into shares or other instruments of ownership (i.e. other instruments that confer ownership, instruments that are convertible into or give the right to acquire shares or other instruments of ownership, and instruments representing interests in shares or other instruments of ownership).

In addition to the general bail-in tool, the BRRD provides for resolution authorities to have the further power to write-down permanently/convert into equity capital instruments such as the Notes at the point of non-viability and before any other resolution action is taken, with losses absorbed in accordance with the priority of claims under normal insolvency proceedings (**Non-Viability Loss Absorption**). Any shares issued to holders of Notes upon any such conversion into equity capital instruments may also be subject to any future application of the BRRD.

As a result, the Notes may be subject to a partial or full write-down or conversion to common equity Tier 1 instruments of the Issuer or one of the UniCredit Group's entities or another institution. Accordingly, and as described above, where there exists a threat that a Contingency Event may occur, trading behaviour may also be affected by the threat that the SRB may exercise the general bail-in tool and, as a result, the Notes are not necessarily expected to follow the trading behaviour associated with other types of securities. Noteholders should consider the risk that they may lose all of their investment, including the principal amount plus any accrued interest if the bail-in tool is used or that such Notes may be converted into ordinary shares which ordinary shares may be of little value at the time of conversion.

The circumstances under which the SRB would use the general bail-in tool are currently uncertain

There remains uncertainty as to how or when the general bail-in tool may be used and how it would affect the Issuer, the UniCredit Group and the Notes. The determination that all or part of the principal amount of the Notes will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's and the UniCredit Group's control. Although there are proposed pre-conditions for the exercise of the general bail-in tool, there remains uncertainty regarding the specific factors which the SRB would consider in deciding whether to exercise the general bail-in tool with respect to a financial institution and/or securities, such as the Notes, issued by that institution. In particular, in determining whether an institution is failing or likely to fail, the SRB shall consider a number of factors, including, but not limited to, an institution's capital and liquidity position, governance arrangements and any other elements affecting the institution's continuing authorisation. Moreover, as the final criteria that the SRB would consider in exercising any general bail-in tool is likely to provide it with discretion, Noteholders may not be able to refer to publicly available criteria in order to anticipate a potential

exercise of any such general bail-in tool. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any bail-in tool by the SRB may occur which would result in a principal write-off or conversion to equity. The uncertainty may adversely affect the value of any investment in the Notes.

Also, certain provisions of the BRRD remain subject to regulatory technical standards and implementing technical standards to be prepared by the European Banking Authority. In addition to the BRRD, it is possible that the application of other relevant laws, the CRD IV and any amendments thereto or other similar regulatory proposals, including proposals by the FSB on cross-border recognition of resolution actions, could be used in such a way as to result in the Notes absorbing losses in the manner described above. Any actions by the SRB pursuant to the powers granted to it as a result of the transposition of the BRRD, or other measures or proposals relating to the resolution of financial institutions, may adversely affect the rights of holders of the Notes, the price or value of an investment in the Notes and/or the Issuer's ability to satisfy its obligations under the Notes.

The Issuer's interests may not be aligned with those of investors in the Notes

The Common Equity Tier 1 Capital Ratio, Distributable Items and any Maximum Distributable Amount will depend in part on decisions made by the Issuer and other entities in the UniCredit Group relating to their businesses and operations, as well as the management of their capital position. The Issuer and other entities in the UniCredit Group will have no obligation to consider the interests of Noteholders in connection with their strategic decisions, including in respect of capital management and the relationship among the various entities in the UniCredit Group and the UniCredit Group's structure. The Issuer may decide not to raise capital at a time when it is feasible to do so, even if that would result in the occurrence of a Contingency Event. Moreover, in order to avoid the use of public resources, the Competent Authority may decide that the Issuer should allow a Contingency Event to occur at a time when it is feasible to avoid it. Noteholders will not have any claim against the Issuer or any other entity in the UniCredit Group relating to decisions that affect the capital position of the UniCredit Group, regardless of whether they result in the occurrence of a Contingency Event. Such decisions could cause Noteholders to lose all or part of their investment in the Notes.

No scheduled redemption

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.

The Issuer may, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*), redeem the Notes in whole, but not in part, on any Optional Redemption Date (Call) at their Prevailing Principal Amount, plus any accrued interest and any additional amounts due pursuant to Condition 9 of the Notes (*Taxation*), as described in Condition 7.2 (*General redemption option*).

In addition, the Issuer may also, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)), redeem the Notes in whole, but not in part, at any time following the occurrence of a Capital Event or a Tax Event (each as defined herein) at their Prevailing Principal Amount, plus, in each case, any accrued interest and any additional amounts due pursuant to Condition 9 (Taxation) as described in Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) and Condition 7.4 (*Redemption upon the occurrence of a Tax Event*).

Any such redemption will be subject to the prior written approval of the Competent Authority (and otherwise in compliance with all applicable laws and regulations, including the Relevant Regulations). Under the CRD IV Regulation, the Competent Authority will give its consent to a redemption or repurchase of the Notes if either of the following conditions is met:

(a) on or before such redemption or repurchase of the Notes, the Issuer replaces the Notes with Own Funds instruments of an equal or higher quality on terms that are sustainable for the income capacity of the Issuer; or

(b) the Issuer has demonstrated to the satisfaction of the Competent Authority that its Own Funds would, following such redemption or repurchase, exceed the CRD IV combined buffer requirements by a margin that the Competent Authority may consider necessary on the basis set out in CRD IV.

The Issuer may elect not to exercise its option of redeeming the Notes early in the above circumstances or at any time.

The Notes are subject to early redemption, including upon the occurrence of a Special Event at the Prevailing Principal Amount

If the Issuer redeems the Notes pursuant to Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) or Condition 7.4 (*Redemption upon the occurrence of a Tax Event*), such Notes will be redeemed at their Prevailing Principal Amount, together with any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*), even if the principal amount of the Notes has been Written Down and not yet reinstated in full.

Noteholders will not receive a make-whole amount or any other compensation in the event of any early redemption of Notes.

The optional redemption feature is likely to limit the market value of the Notes, as during any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed.

If the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Noteholders may only be able to reinvest the redemption proceeds in securities with a lower yield. Potential investors should consider reinvestment risk in light of other investments available at that time.

Any such redemption will be subject to prior written approval of the Competent Authority (if so required by the Relevant Regulations).

The Notes may also be redeemed on each Optional Redemption Date (Call) at the option of the Issuer, with the prior written approval of the Competent Authority (if so required by the Relevant Regulations), pursuant to Condition 7.2 (*General redemption option*).

The Rate of Interest applicable to the Notes will be reset on every Reset Date

In particular, the Rate of Interest applicable to the Notes will be reset on the First Call Date and on every Reset Date thereafter. Such Rate of Interest will be determined two TARGET2 Settlement Days before the relevant Reset Date and as such is not pre-defined at the date of issue of the Notes. A Reset Rate of Interest may be less than the Rate of Interest applicable immediately prior to the Reset Date and may adversely affect the yield and so the market value of the Notes.

Meetings of Noteholders and modification

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

Change of law

The Terms and Conditions of the Notes will be governed by the laws of England, except for Condition 4 (*Status of the Notes*) which shall be governed by, and construed in accordance with, Italian law. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or

Italy or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of the Notes.

Notes where denominations involve integral multiples: Definitive Notes

The Notes have denominations consisting of a minimum denomination of €200,000 plus one or more higher integral multiples of €1,000. It is possible that the Notes may be traded in amounts that are not integral multiples of €200,000. In such a case a Noteholder who, as a result of trading such amounts, holds an amount which is less than €200,000 in its account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of the Notes such that its holding amounts to a €200,000 denomination.

If Definitive Notes are issued, Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of €200,000 may be illiquid and difficult to trade.

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

The Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Notes, 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 in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg, as the case may be.

While the Notes are in global form, the Issuer will discharge its payment obligations under the Notes by making payments to, or to the order of, the common depositary. A holder of a beneficial interest in a Note must rely on the procedures of Euroclear and/or Clearstream, Luxembourg, as the case may be, to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in such a Global Note.

While the Notes are in global form, there may be a delay in reflecting any Write-Down or Write-Up of the Notes in the clearing systems

For as long as the Notes are in global form and in the event that any Write-Down or Write-Up is required pursuant to the Conditions, the records of Euroclear and Clearstream, Luxembourg or any other clearing system of their respective participants' position held in the Notes may not be immediately updated to reflect the amount of Write-Down or Write-Up and may continue to reflect the Prevailing Principal Amount of the Notes prior to such Write-Down or Write-Up, for a period of time. The update process of the relevant clearing system may only be completed after the date on which the Write-Down or Write-Up will occur. No assurance can be given as to the period of time required by the relevant clearing system to complete the update of their records. Further, the conveyance of notices and other communications by the relevant clearing system to their respective participants, by those participants to their respective indirect participants, and by the participants and indirect participants to beneficial owners of interests in the Notes in global form will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Taxation

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available in relation to the tax treatment of financial instruments such as the Notes. Potential investors are advised not to rely upon the tax summary contained in this Prospectus but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Notes. Only such adviser is in a position to duly consider the specific situation of the

potential investor. This investment consideration has to be read in connection with the taxation sections of this Prospectus.

Limitation on gross-up obligation under the Notes

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes under the terms of the Notes applies only to payments of interest under the Notes and not to payments of principal. As such, the Issuer would not be required to pay any additional amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, Noteholders may receive less than the full amount of principal due under the Notes upon redemption, and the market value of the Notes may be adversely affected.

Substitution and variation

If at any time a Capital Event or a Tax Event occurs, the Issuer may, instead of giving notice to redeem the Notes as aforesaid, but subject to Condition 7.7 (*Conditions to redemption and purchase*), having given not less than 30 nor more than 45 days' notice to the Noteholders, either substitute all (but not some only) of the Notes for, or vary the terms of the Notes provided that they remain or become, Qualifying Additional Tier 1 Notes.

While Qualifying Additional Tier 1 Notes must have terms which (as reasonably determined by the Issuer) are not materially less favourable to the Noteholders than the Notes, there can be no assurance that the terms of the substitute or varied Notes will be as favourable to all Noteholders in all circumstances.

A Noteholder's actual yield on the Notes may be reduced from the stated yield by transaction costs

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional – domestic or foreign – parties are involved in the execution of an order, including, but not limited to, domestic dealers or brokers in foreign markets, Noteholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of securities (direct costs), Noteholders must also take into account any follow-up costs (such as custody fees). Prospective investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

RISKS RELATED TO THE MARKET GENERALLY

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

The secondary market generally

Although application has been made to admit the Notes to trading on the Luxembourg Stock Exchange, the Notes will have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid and may not continue for the life of the Notes. 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.

Moreover, although pursuant to Condition 7.5 (*Purchase*) the Issuer can purchase the Notes at any moment, this is not an obligation for the Issuer. Purchases made by the Issuer could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

In addition, the market for debt securities issued by banks is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in other Western and other industrialised countries. There can be no assurance that events in Italy, Europe, the United States or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes or that economic and market conditions will not have any other adverse effect.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Prospectus), whereby there is a general lack of liquidity in the secondary market which may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the Notes or the assets of the Issuer. The Issuer cannot predict whether these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Exchange rate risks and exchange controls

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

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

Interest rate risks

An investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of them. See also "*Risks relating to the Notes – The Rate of Interest applicable to the Notes will be reset on every Reset Date*" above.

The Notes are not expected to be investment grade and are subject to the risks associated with non-investment grade securities

The Notes are not expected to be investment grade securities upon issue, and, as such, may be subject to a higher risk of price volatility than higher-rated securities. Furthermore, increases in leverage or deteriorating outlooks for the Issuer, or volatile markets, could lead to a significant deterioration in market prices of below-investment grade rated securities such as the Notes.

Credit ratings may not reflect all risks and may be lowered, suspended, withdrawn or not maintained

The Notes are expected to be rated by Fitch, which is established in the European Union and registered under the CRA Regulation as set out in the list of credit rating agencies registered in accordance with the CRA Regulation published on the website of the European Securities and Markets Authority pursuant to the CRA Regulation (for more information please visit the ESMA webpage *http://www.esma.europa.eu/page/List-registered-and-certified-CRAs*). These ratings may not reflect the potential impact of all risks related to structure, market, additional factor discussed above and other factors that may affect the value of the Notes or the standing of the Issuer.

A rating is not a recommendation to buy, sell or hold securities and any rating agency may revise, suspend or withdraw at any time the relevant rating assigned by it if, in the sole judgement of the relevant rating agency, among other things, the credit quality of the Notes or, as the case may be, the Issuer has declined or is in question. In addition, there is no guarantee that any rating of the Notes and/or the Issuer will be maintained by the Issuer following the date of this Prospectus or that one or more rating agencies other than Fitch will assign ratings to the Notes. If any rating assigned to the Notes and/or the Issuer, including any unsolicited credit rating, is assigned at a lower level than expected or subsequently is revised lower, suspended, withdrawn or not maintained by the Issuer, the market value of the Notes may be reduced.

In addition, rating agencies regularly reassess the methodologies used to measure the creditworthiness of companies and securities. Any adverse changes of such methodologies may materially and adversely affect the Issuer's operations or financial condition, the Issuer's willingness or ability to leave individual transactions outstanding and adversely affect the Issuer's capital market standing.

In particular, there might be changes in the rating methodologies for hybrid capital instruments such as the Notes. As a consequence of such reassessments in rating criteria, the Notes rating may be modified. If the Notes are downgraded, they may be subject to a higher risk of price volatility than higher-rated securities and their market value may decline.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances while the registration application is pending). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

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

OVERVIEW

This overview section must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole.

Words and expressions in "*Terms and Conditions of the Notes*" shall have the same meanings in this section.

Issuer:	UniCredit S.p.A.
Notes:	€1,250,000,000 Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes
Issue Price:	100 per cent.
Joint Bookrunners and Joint Lead Managers:	BNP Paribas, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International and UniCredit Bank AG
Fiscal Agent and Principal Paying Agent:	Citibank, N.A., London Branch
Form and Denomination:	The Notes will be issued in bearer form in denominations of €200,000 and integral multiples of €1,000 in excess thereof, up to (and including) €399,000.
Status of the Notes:	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer ranking:

(i) subordinate and junior to all indebtedness of the Issuer, including unsubordinated indebtedness of the Issuer, the Issuer's obligations in respect of any dated subordinated instruments and any instruments issued as Tier 2 Capital of the Issuer or guarantee in respect of any such instruments (other than any instrument or contractual right expressed to rank *pari passu* with the Notes);

(ii) *pari passu* among themselves and with the Issuer's obligations in respect of any Additional Tier 1 Capital instruments or any other instruments or obligations which rank or are expressed to rank *pari passu* with the Notes or, in each case, any guarantee in respect of such instruments; and

(iii) senior to:

(A) the share capital of the Issuer, including its *azioni privilegiate*, ordinary shares and *azioni di risparmio*; and

(B) (i) any securities of the Issuer (including *strumenti finanziari* issued under Article 2346 of the Italian Civil Code); and (ii) any securities issued by a Subsidiary which have the benefit of a guarantee or similar instrument from the Issuer,

which securities (in the case of (B)(i)) or guarantee or similar instrument (in the case of (B)(ii)) rank or are expressed to rank *pari passu* with the claims described under (A) and (B) above and/or otherwise junior to the Notes.

Each holder of a Note unconditionally and irrevocably waives any right

of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have under the laws of any jurisdiction in respect of such Note.

Maturity: Subject as set out herein, the Notes will mature on the date on which voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) proceedings are instituted in respect of the Issuer, in accordance with: (a) a resolution of the shareholders' meeting of the Issuer; (b) any provision of the by-laws of the Issuer (currently, the maturity of the Issuer is set at 31 December 2100); or (c) any applicable legal provision or any decision of any judicial or administrative authority. Upon maturity, the Notes will become due and payable at an amount equal to their Prevailing Principal Amount, together with any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*).

Prevailing Principal Amount, in respect of a Note on any date, means the Initial Principal Amount of such Note as reduced from time to time (on one or more occasions) pursuant to a Write-Down and/or reinstated from time to time (on one or more occasions) pursuant to a Write-Up in each case on or prior to such date.

Interest and Interest Payment Dates: Interest will accrue on the Prevailing Principal Amount of the Notes at the relevant Rate of Interest and will be payable, subject as provided herein, semi-annually in arrear on 3 June and 3 December of each year (each, an **Interest Payment Date**), commencing on 3 December 2017.

The Rate of Interest in respect of the period from (and including) the Issue Date to (but excluding) the First Call Date (the **Initial Period**) will be equal to 6.625 per cent. per annum.

The Rate of Interest in respect of each Reset Interest Period will be equal to the aggregate of the Margin and the 5-Year Mid-Swap Rate (quoted on an annual basis) for such Reset Interest Period, first calculated on an annual basis and then converted to a semi-annual rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined on the relevant Reset Rate of Interest Determination Date.

Reset Date means the First Call Date and every date which falls 5, or a multiple of 5, years after the First Call Date.

See Condition 5 (*Interest and Interest Cancellation*).

Cancellation of Interest: The Issuer may elect in its full discretion to cancel (in whole or in part) the interest payable on any Interest Payment Date. Without prejudice to (i) such full discretion of the Issuer to cancel the Interest Amounts and (ii) the prohibition to make payments on the Notes pursuant to any provisions of Italian law implementing Article 141(2) of the CRD IV Directive, before the Maximum Distributable Amount is calculated, payment of Interest Amounts on any Interest Payment Date must be cancelled (in whole or, as the case may be, in part) if and to the extent that such Interest Amounts:

(a) when aggregated together with distributions on all other Own Funds instruments of the Issuer (excluding Tier 2 Capital instruments) scheduled for payment in the then current financial year, exceeds the amount of Distributable Items, excluding any payments already accounted for in determining the Distributable Items; and/or

(b) when aggregated together with other distributions of the Issuer or the UniCredit Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV Directive (or, if different, any provisions of Italian law implementing Article 141(2) of the CRD IV Directive), would, if paid, cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the UniCredit Group to be exceeded; and/or

(c) are required to be cancelled (in whole or in part) by an order to the Issuer from the Competent Authority.

Interest shall also be cancelled if a Contingency Event occurs, as set out in Condition 6.1 (*Loss absorption*).

See Condition 5.10 (*Cancellation of Interest Amounts*).

Distributable Items means, subject as otherwise defined in the Relevant Regulations from time to time:

(a) an amount equal to the Issuer's profits at the end of the financial year immediately preceding the financial year in which the relevant Interest Payment Date falls plus any profits brought forward and reserves available for that purpose before distributions to holders of Own Funds instruments (which, for the avoidance of doubt, excludes any such distributions paid or made on Tier 2 instruments or any such distributions which have already been provided for, by way of deduction, in calculating the amount of Distributable Items); less

(b) an amount equal to any losses brought forward, profits which are non-distributable pursuant to applicable Italian law or the by-laws of the Issuer from time to time and sums placed to non-distributable reserves in accordance with applicable Italian law or the by-laws of the Issuer from time to time,

those profits, losses and reserves being determined on the basis of the Issuer's non-consolidated accounts.

Maximum Distributable Amount means any applicable maximum distributable amount relating to the Issuer and/or the UniCredit Group required to be calculated in accordance with the CRD IV Directive (or any provision of Italian law transposing or implementing the CRD IV Directive).

Calculation of Interest Amounts in case of a Write-Down: Subject to Condition 5.10 (*Cancellation of Interest Amounts*), in the event that a Write-Down occurs during an Interest Period, the Interest Amount payable on the Interest Payment Date immediately following such Interest Period shall be calculated in accordance with Condition 5.7 (*Calculation of Interest Amount*).

Calculation of Interest Amounts in case of a Write-Up: Subject to Condition 5.10 (*Cancellation of Interest Amounts*), in the event that a Write-Up occurs during an Interest Period, the Interest Amount payable on the Interest Payment Date immediately following such Interest Period shall be calculated as the sum (rounding the resulting figure to the nearest cent, with half a cent being rounded upwards) of the following:

(a) the product of the applicable Rate of Interest, the Prevailing Principal Amount before such Write-Up, and the Day Count Fraction (determined as if the Interest Period ended on, but excluded, the date of

such Write-Up); and

(b) the product of the applicable Rate of Interest, the Prevailing Principal Amount after such Write-Up, and the Day Count Fraction (determined as if the Interest Period started on, and included, the date of such Write-Up).

Non-cumulative interest: Interest on the Notes is not cumulative. Interest that the Issuer elects not to pay or is prohibited from paying will not accumulate or compound and all rights and claims in respect of such amounts shall be fully and irrevocably cancelled and forfeited, and no payments shall be made nor shall any Noteholders be entitled to any payment or indemnity in respect thereof.

No restriction following non-payment of interest: In the event that the Issuer exercises its discretion not to pay interest or is prohibited from paying interest on any Interest Payment Date, it will not give rise to any contractual restriction on the Issuer making distributions or any other payments to the holders of any securities ranking *pari passu* with, or junior to, the Notes.

Loss Absorption: If the Common Equity Tier 1 Capital Ratio of the Issuer falls below 5.125 per cent. (an **Issuer Contingency Event**) or the Common Equity Tier 1 Capital Ratio of the UniCredit Group falls below 5.125 per cent. (a **Group Contingency Event**) or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the Issuer and/or the UniCredit Group (each, a **Contingency Event**), the Issuer shall:

(a) immediately notify the Competent Authority of the occurrence of the relevant Contingency Event;

(b) as soon as reasonably practicable, deliver a Loss Absorption Event Notice to Noteholders in accordance with Condition 16 (*Notices*), the Fiscal Agent and the Paying Agents (provided that failure or delay in delivering a Loss Absorption Event Notice shall not constitute a default for any purpose or in any way impact on the effectiveness of, or otherwise invalidate, any Write-Down);

(c) cancel any accrued and unpaid interest up to (but excluding) the Write-Down Effective Date; and

(d) without delay, and in any event within one month from the determination that the relevant Contingency Event has occurred, reduce the then Prevailing Principal Amount of each Note by the Write-Down Amount (such reduction being referred to as a **Write-Down** and **Written Down** being construed accordingly).

Any Write-Down of a Note will be effected, save as may otherwise be required by the Competent Authority and subject as otherwise provided in these Conditions, *pro rata* with the Write-Down of the other Notes and with the concurrent (or substantially concurrent) write-down (or write-off) or conversion into Ordinary Shares, as the case may be, of any Equal Loss Absorbing Instruments (based on the prevailing amount of the relevant Equal Loss Absorbing Instrument). To the extent possible, the write-down (or write-off) or conversion into Ordinary Shares of any Prior Loss Absorbing Instruments will be taken into

account in the calculation of the Write-Down Amount, and of the amount of write-down (or write-off) or conversion into Ordinary Shares of any Equal Loss Absorbing Instruments, required to cure the relevant Contingency Event.

A Write-Down may occur on more than one occasion and the Notes may be Written Down on more than one occasion.

Following the giving of a Loss Absorption Event Notice which specifies a Write-Down of the Notes, the Issuer shall procure that:

(a) a similar notice is, or has been, given in respect of each Loss Absorbing Instrument (in accordance with, and to the extent required by, its terms); and

(b) the prevailing principal amount of each Loss Absorbing Instrument outstanding (other than the Notes) (if any) is written down (or written-off) or converted, as appropriate, in accordance with its terms prior to or, as appropriate, as soon as reasonably practicable following the giving of such Loss Absorption Event Notice.

Equal Loss Absorbing Instrument means:

(a) in respect of an Issuer Contingency Event, at any time, any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by the Issuer which contains provisions relating to a write-down (or write-off) or conversion into Ordinary Shares of the principal amount of such instrument on the occurrence, or, as a result, of the Common Equity Tier 1 Capital Ratio of the Issuer falling below a level that is equal to 5.125 per cent. or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the Issuer; and

(b) in respect of a Group Contingency Event, at any time, any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by the Issuer or any member of the UniCredit Group (a **Group Entity**) which contains provisions relating to a write-down (or write-off) or conversion of the principal amount of such instrument on the occurrence, or, as a result, of the Common Equity Tier 1 Capital Ratio of the UniCredit Group falling below a level that is equal to 5.125 per cent. or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the UniCredit Group,

and, in each case, in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied.

Loss Absorbing Instrument means an Equal Loss Absorbing Instrument and/or a Prior Loss Absorbing Instrument, as applicable.

Prior Loss Absorbing Instrument means:

(a) in respect of an Issuer Contingency Event, at any time, any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by the Issuer which contains provisions relating to a write-down (or write-off) or conversion into Ordinary Shares of the principal amount of such instrument on the occurrence, or, as a result, of the Common Equity Tier 1 Capital Ratio of the Issuer falling below a level that is higher than 5.125 per cent. or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the Issuer; and

(b) in respect of a Group Contingency Event, at any time: (i) any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by the Issuer or any Group Entity which contains provisions relating to a write-down (or write-off) or conversion of the principal amount of such instrument on the occurrence, or, as a result, of the Common Equity Tier 1 Capital Ratio of the UniCredit Group falling below a level that is higher than 5.125 per cent. or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the UniCredit Group; and (ii) any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by any Group Entity which contains provisions relating to a write-down (or write-off) or conversion of the principal amount of such instrument on the occurrence, or, as a result, of the Common Equity Tier 1 Capital Ratio of that Group Entity, or of a group within the prudential consolidation of such Group Entity pursuant to Chapter 2 of Title II or Part One of the CRD IV Regulation other than the UniCredit Group, falling below the level specified in such instrument at the date on which the relevant Group Contingency Event first occurred,

and, in each case, in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied.

Write-Down Amount means the amount by which the then Prevailing Principal Amount of each outstanding Note is to be Written Down pursuant to a Write-Down, being:

(i) the amount that (together with (a) the concurrent Write-Down of the other Notes and (b) the concurrent or substantially concurrent write-down (or write-off) or conversion to the extent possible of any Loss Absorbing Instruments) would be sufficient to cure the Contingency Event; and

(ii) if that Write-Down (together with (a) the concurrent Write-Down of the other Notes and (b) the concurrent or substantially concurrent write-down (or write-off) or conversion of any Loss Absorbing Instruments) would be insufficient to cure the Contingency Event, or the Contingency Event is not capable of being cured, the amount necessary to reduce the Prevailing Principal Amount to one cent.

In respect of any Write-Down, to the extent the write-down (or write-off) or conversion into Ordinary Shares of any Loss Absorbing Instrument is not, or within one month from the determination that the relevant Contingency Event has occurred will not be, effective for any reason (i) the ineffectiveness of any such write-down (or write-off) or conversion into Ordinary Shares shall not prejudice the requirement to effect the Write-Down of the Notes pursuant to this Condition 6.1 (*Loss absorption*); and (ii) such write-down (or write-off) or conversion into Ordinary Shares shall not be taken into account in calculating the Write Down Amount in respect of such Write-Down. For the avoidance of doubt, the write-down (or write-off) or conversion into Ordinary Shares of any Loss Absorbing Instrument will only be taken into account in the calculation of the Write-Down Amount to the extent (and in the amount, if any) that such Loss Absorbing Instrument can actually be written-down (or written-off) or converted into Ordinary Shares in the relevant circumstances within one month from the determination that the relevant Contingency Event has occurred.

If, in connection with a Write-Down or the calculation of a Write-Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written-down (or written-off) or converted into Ordinary Shares in full and not in part only (**Full Loss Absorbing Instruments**), then:

(A) the requirement that a Write-Down of the Notes shall be effected pro rata with the write-down (or write-off) or conversion into Ordinary Shares, as the case may be, of any such Loss Absorbing Instruments shall not be construed as requiring the Notes to be Written-Down in full (or in full save for the one cent floor) simply by virtue of the fact that such Full Loss Absorbing Instruments will be written-down (or written-off) or converted in full; and

(B) for the purposes of calculating the Write-Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write-down (or write-off) of principal or conversion into Ordinary Shares, as the case may be, among the Notes and such other Loss Absorbing Instruments on a pro rata basis) as if their terms permitted partial write-down (or write-off) or conversion into Ordinary Shares, such that the write-down (or write-off) or conversion into Ordinary Shares of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (a) first, the principal amount of such Full Loss Absorbing Instruments shall be written-down (or written-off) or converted into Ordinary Shares pro rata with the Notes and all other Loss Absorbing Instruments (in each case subject to

and as provided in the preceding paragraph) to the extent necessary to cure the relevant Contingency Event; and (b) secondly, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (a) shall be written-down (or written-off) or converted into Ordinary Shares, as the case may be, with the effect of increasing the Issuer's and/or the UniCredit Group's, as the case may be, CET1 Ratio above the minimum required level under (a) above.

See Condition 6.1 (*Loss absorption*).

Reinstatement of principal amount: If both a positive Net Income and a positive Consolidated Net Income are recorded, at any time while the Prevailing Principal Amount of the Notes is less than their Initial Principal Amount, the Issuer may, in its full discretion and subject to the Maximum Distributable Amount (if any) (when the amount of the Write-Up Amount is aggregated together with other distributions of the Issuer or the UniCredit Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV Directive (or, if different, any provision of Italian law implementing Article 141(2) of the CRD IV Directive, as amended or replaced)) not being exceeded thereby, increase the Prevailing Principal Amount of each Note (a **Write-Up**) up to a maximum of the Initial Principal Amount, on a *pro rata* basis with the other Notes and with any Written-Down Additional Tier 1 Instruments that have terms permitting a principal write-up to occur on a basis similar to that set out in Condition 6.3 (*Reinstatement of principal amount*) in the circumstances existing on the date of the relevant Write-Up (based on their Initial Principal Amounts), provided that the sum of:

(a) the aggregate amount of the relevant Write-Up on all the Notes;

(b) the aggregate amount of any interest payments on the Notes that were paid on the basis of a Prevailing Principal Amount lower than the Initial Principal Amount at any time after the end of the previous financial year;

(c) the aggregate amount of the increase in principal amount of each such Written-Down Additional Tier 1 Instrument at the time of the relevant Write-Up; and

(d) the aggregate amount of any interest payments on each such Written-Down Additional Tier 1 Instrument that were paid on the basis of a prevailing principal amount that is lower than the principal amount it was issued with at any time after the end of the previous financial year,

does not exceed the Maximum Write-Up Amount.

Maximum Write-Up Amount means:

(a) if the Relevant Net Income for the relevant Write-Up is equal to the Consolidated Net Income, the Consolidated Net Income multiplied by the sum of the aggregate Initial Principal Amount of the Notes and the aggregate initial principal amount of all Written-Down Additional Tier 1 Instruments of the UniCredit Group, and divided by the total Tier 1 Capital of the UniCredit Group as at the date of the relevant Write-Up; or

(b) if the Relevant Net Income for the relevant Write-Up is equal to the Net Income, the Net Income multiplied by the sum of the aggregate

Initial Principal Amount of the Notes and the aggregate initial principal amount of all Written-Down Additional Tier 1 Instruments of the Issuer, and divided by the total Tier 1 Capital of the Issuer as at the date of the relevant Write-Up.

Relevant Net Income means the lowest of the Net Income and the Consolidated Net Income.

Written-Down Additional Tier 1 Instrument means an instrument (other than the Notes) issued directly or indirectly by the Issuer or, as applicable, any member of the UniCredit Group, and qualifying as Additional Tier 1 Capital of the Issuer or, as applicable, the UniCredit Group that as at the time immediately prior to the relevant Write-Up, has a prevailing principal amount lower than the principal amount that it was issued with due to a write-down.

A Write-Up may be made on one or more occasions until the Prevailing Principal Amount of the Notes has been reinstated to the Initial Principal Amount of the Notes.

If the Issuer decides to Write-Up the Notes, notice (a **Write-Up Notice**) of the amount of any Write-Up (as a percentage of the Initial Principal Amount of a Note resulting in a *pro rata* increase in the Prevailing Principal Amount of each Note) and the date on which such Write-Up shall take effect shall be given to Noteholders and the Fiscal Agent at least ten Business Days prior to the date on which the relevant Write-Up becomes effective.

See Condition 6.3 (*Reinstatement of principal amount*).

No right of Noteholders to redeem: The Notes may not be redeemed at the option of the Noteholders.

General Redemption Option: The Issuer may, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)), redeem the Notes in whole, but not in part, on any Optional Redemption Date (Call) at their Prevailing Principal Amount plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*).

Redemption due to a Capital Event or a Tax Event: In addition, the Issuer may, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)), redeem the Notes in whole, but not in part, following the occurrence of a Capital Event or a Tax Event (each as defined herein) at their Prevailing Principal Amount, plus, in each case, any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*), as described in Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) or, Condition 7.4 (*Redemption upon the occurrence of a Tax Event*).

For the purposes of this provision:

A **Capital Event** is deemed to have occurred if there is a change in the regulatory classification of the Notes that would be likely to result in their exclusion, in whole or, to the extent permitted by the Relevant Regulations, in part, from Additional Tier 1 Capital of the UniCredit Group or the Issuer and both of the following conditions are met: (i) the Competent Authority considers such a change to be sufficiently certain; and (ii) the Issuer demonstrates to the satisfaction of the Competent Authority that the change in regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date;

and

Tax Event means the part of the interest payable by the Issuer under the Notes that is tax-deductible by the Issuer for Italian tax purposes is reduced, or 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, regulations or rulings of, or applicable in, the Republic of Italy, or any political subdivision or any authority or agency thereof or therein having power to tax, or any change in the application or official interpretation or administration of such laws, regulations or rulings:

(A) which change or amendment:

(i) becomes effective after the Issue Date;

(ii) the Issuer demonstrates to the satisfaction of the Competent Authority is material and was not reasonably foreseeable by the Issuer as at the Issue Date;

(iii) is evidenced by the delivery by the Issuer to the Fiscal Agent of a certificate signed by two Authorised Signatories of the Issuer stating that interest payable by the Issuer in respect of the Notes is no longer, or will no longer be, deductible for Italian income tax purposes or such deductibility is materially reduced, or that the Issuer has or will become obliged to pay such additional amounts, as the case may be, and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail; and

(B) which obligation cannot be avoided by the Issuer taking reasonable measures available to it.

Purchases: The Issuer or any of its Subsidiaries may (subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)) purchase Notes in the open market or otherwise and at any price in accordance with applicable laws and regulations (including for the avoidance of doubt, the Relevant Regulations), provided that all unmatured Coupons and unexchanged Talons appertaining to the Notes are purchased therewith. Such Notes may, subject to the approval of the Competent Authority (if so required by the Relevant Regulations), be held, reissued, resold or, at the option of the purchaser, surrendered to any Paying Agent for cancellation.

The Issuer or any agent on its behalf shall have the right at all times to purchase the Notes for market-making purposes, provided that: (a) the prior written approval of the Competent Authority shall be obtained; and (b) the total principal amount of the Notes so purchased does not exceed the lower of (i) 10 per cent. of the aggregate Initial Principal Amount of the Notes and any further Notes issued under Condition 15 (*Further Issues*) and (ii) 3 per cent. of the Additional Tier 1 Capital of the Issuer from time to time outstanding or such other amount permitted to be purchased for market-making purposes under the Relevant Regulations.

Conditions to Redemption and Purchase: The Notes may only be redeemed, purchased, cancelled, substituted or modified pursuant to the Conditions with the Competent Authority's prior written approval (if so required by the Relevant Regulations) as further

described in Condition 7.7 (*Conditions to redemption and purchase*).

Substitution and variation: Subject as set out above, if a Capital Event or a Tax Event has occurred and is continuing or to align to best practices from time to time published by the European Banking Authority, the Issuer may at any time, at its option (without any requirement for the consent or approval of the Noteholders and subject to receiving consent from the Competent Authority), having notified the Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent, substitute all (but not some only) of the Notes for, or vary the terms of the Notes provided that they remain or (as appropriate) so that they become, Qualifying Additional Tier 1 Notes.

Qualifying Additional Tier 1 Notes means securities (whether debt, equity or otherwise) issued directly by the Issuer where such securities:

(i) have terms not materially less favourable to a holder of the Notes, as reasonably determined by the Issuer, than the terms of the Notes;

(ii) subject to (i) above, shall (1) rank at least equal to the ranking of the Notes, (2) have the same currency, the same (or higher) interest rate and the same Interest Payment Dates as those from time to time applying to the Notes, (3) have the same redemption rights as the Notes, (4) comply with the then current requirements of Relevant Regulations in relation to Additional Tier 1 Capital, (5) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, and (6) are assigned (or maintain) at least the same credit ratings as were assigned to the Notes immediately prior to such variation or substitution; and

(iii) if the Notes were listed on any market(s) or stock exchange(s) immediately prior to such substitution or variation, are listed on the same market(s) or stock exchange(s) or another regulated market or stock exchange of equivalent standing.

Events of Default: None

Negative Pledge: None

Cross Default: None

Meetings of Noteholders and Modifications: The Agency Agreement contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Issuer may also, subject to the provisions of Condition 14 (*Meetings of Noteholders; Modification*), make any modification to the Notes that in its sole opinion is not prejudicial to the interests of the Noteholders (provided the proposed modification does not relate to a matter in respect of which an Extraordinary Resolution would be required if a meeting of Noteholders were held to consider such modification) without the consent of the Noteholders. Any such modification shall be binding on the Noteholders.

Further Issues:	The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/or the issue price thereof) so as to form a single series with the Notes.
Taxation and Additional Amounts:	Subject to certain conditions, all payments in respect of the Notes will be made free and clear of withholding or deduction for or on account of any present or future taxes, duties, assessment or governmental charges of whatever nature, imposed or levied by or on behalf of any Tax Jurisdiction (subject to certain customary exceptions), unless such withholding or deduction is required by law. In that event, the Issuer will pay (subject as provided in Condition 9 (*Taxation*)) such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction.
Rating:	The Notes are expected to be rated "B+" 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 agency. See "*Risk Factors – Credit ratings may not reflect all risks and may be lowered, suspended, withdrawn or not maintained*" at page 76.**
Listing and admission to 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 with effect from the Issue Date.
Clearing:	Euroclear and Clearstream, Luxembourg
ISIN:	XS1619015719
Common Code:	161901571
Use of Proceeds:	The net proceeds from the issuance of the Notes will used by the Issuer for general corporate purposes and to improve the regulatory capital structure of the UniCredit Group.
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, Italy, Switzerland, Canada, Japan, Hong Kong, Singapore and the PRC, see "*Subscription and Sale*" below. The Notes have not been registered under the Securities Act and are subject to restrictions on transfer as described under "*Subscription and Sale*".
Governing Law:	The Notes and any non-contractual obligations arising out of them will be governed by English law, except that the subordination provisions thereof and any non-contractual obligations arising out of them will be governed by the laws of the Republic of Italy.
Contractual Recognition of Statutory Bail-in	By the acquisition of the Notes, each Noteholder acknowledges and agrees to be bound by the exercise of any Bail-in Power by the Competent Authority that

Powers:	may result in the write-down or cancellation of all or a portion of the principal amount of, or distributions on, the Notes and/or the conversion of all or a portion of the principal amount of, or distributions on, the Notes into Ordinary Shares or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes to give effect to the exercise by the Competent Authority of such Bail-in Power. Each Noteholder further agrees that the rights of the Noteholders are subject to, and will be varied if necessary so as to give effect to, the exercise of any Bail-in Power by the Competent Authority. See further Condition 19 (*Contractual recognition of statutory bail-in powers*). For these purposes, a **Bail-in Power** means any statutory write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State in effect and applicable in the relevant Member State to the Issuer or other Group Entities, including (but not limited to) any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of any European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a relevant Member State resolution regime or otherwise, pursuant to which liabilities of a credit institution, investment firm and/or any Group Entities can be reduced, cancelled and/or converted into shares or obligations of the obligor or any other person. **Group Entities** means any legal person that is part of the UniCredit Group.
Intended Regulatory Capital Treatment:	It is the intention of the Issuer that the Notes shall be treated for regulatory purposes as Additional Tier 1 Capital under CRD IV both at the level of the Issuer and the level of the UniCredit Group.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. In addition, there are certain factors that are material for the purpose of assessing the market risks associated with the Notes. These are set out under "*Risk Factors*".
Non-Viability risk factor:	Notes may be subject to a write-down or conversion into common shares at the point of non-viability should the Competent Authority or other authority or authorities having oversight of the Issuer at the relevant time be given the power to do so, whether as a result of the implementation of the EU Bank Recovery and Resolution Directive or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the CSSF shall be incorporated by reference into, and form part of, this Prospectus:

(a) the €60,000,000,000 Euro Medium Term Note Programme prospectus dated 15 June 2016 (the **EMTN Base Prospectus**);

(b) the Supplement to the EMTN Base Prospectus dated 6 July 2016 (the **First EMTN Supplement**);

(c) the Supplement to the EMTN Base Prospectus dated 16 August 2016 (the **Second EMTN Supplement**);

(d) the Supplement to the EMTN Base Prospectus dated 2 May 2017 (the **Third EMTN Supplement**);

(e) the audited consolidated annual financial statements of UniCredit (the **UniCredit Audited Consolidated Annual Financial Statements**) as at and for each of the financial years ended 31 December 2016 and 31 December 2015;

(f) the audited non-consolidated annual financial statements of UniCredit (the **UniCredit Audited Non-Consolidated Annual Financial Statements**) as at and for the financial years ended 31 December 2016 and 31 December 2015;

(g) the unaudited consolidated interim financial statements of UniCredit as at and for the six months ended 30 June 2016 (the **UniCredit Consolidated First Half Financial Report as at 30 June 2016**);

(h) the unaudited consolidated interim report of UniCredit as at and for the three months ended 31 March 2017 – Press Release dated 11 May 2017 (the **UniCredit Unaudited Consolidated Interim Report as at 31 March 2017 – Press Release**);

(i) Press Release dated 3 May 2017 relating to the resignation of Mr. Enrico Laghi from his office as permanent Statutory Auditor of UniCredit S.p.A.;

(j) Press Release "UniCredit: Fitch aligns UniCredit S.p.A.'s ratings with that of the sovereign Italy" dated 28 April 2017;

(k) Press Release "UniCredit Board of Directors Vice Chairman Luca Cordero di Montezemolo steps down" dated 20 April 2017;

(l) Press Release "UniCredit: the Shareholders' Meeting approves the 2016 Financial Statements" dated 20 April 2017;

(m) Press Release "UniCredit: Andrea Maffezzoni appointed Head of Strategy and M&A" dated 23 March 2017;

(n) Press Release "UniCredit: takes €24.4b in ECB TLTRO II Auction" dated 23 March 2017;

(o) Press Release "The Board of Directors of UniCredit approved Full Year 2016 Results" dated 13 March 2017;

(p) Press Release "UniCredit: Board of Directors Resolutions" dated 13 March 2017;

(q) Press Release "UniCredit Board of Directors Vice Chairman Fabrizio Palenzona steps down" dated 2 March 2017;

(r) Press Release "Yapi Kredi sells non performing credit portfolio to Güven Varlık Yönetim A.Ş." dated 2 March 2017;

(s) Press Release "UniCredit: rights issue fully subscribed" dated 2 March 2017;

(t) Press Release "UniCredit appointments new Head of Internal Audit and Manager in charge of preparing the Financial Statements (*Dirigente Preposto*)" dated 3 August 2016;

(u) Press Release "2016 EU–wide stress test results" dated 29 July 2016;

(v) Press Release "UniCredit, Banco Santander and Sherbrooke Acquisition Corp end Pioneer Santander AM merger talks" dated 27 July 2016;

(w) Press Release "UniCredit streamlines organisational structure" dated 26 July 2016;

(x) Press Release "Successful completion of the accelerated bookbuilding offering launched by UniCredit in Bank Pekao S.A." dated 12 July 2016;

(y) Press Release "Successful completion of the accelerated bookbuilding offering launched by UniCredit in FinecoBank S.p.A." dated 12 July 2016;

(z) Press Release "UniCredit: assessment of new Directors' requirements" dated 11 July 2016;

(aa) Press Release "Jean Pierre Mustier new CEO of UniCredit" dated 30 June 2016;

(bb) Press Release dated 30 June 2016 regarding the declaration of non-independence of Mr. Jean Pierre Mustier as Chief Executive Officer of UniCredit;

(cc) Press Release dated 30 June 2016 regarding the appointment of Mr. Federico Ghizzoni as General Manager of UniCredit;

(dd) Press Release regarding Fund Atlante dated 25 April 2016;

(ee) Press Release regarding Fund Atlante dated 20 April 2016;

(ff) Press Release regarding Fund Atlante dated 18 April 2016; and

(gg) the Memorandum and Articles of Association of UniCredit,

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

Copies of documents incorporated by reference into this Prospectus can be obtained free of charge from the registered office of the Issuer and from the specified office of the Paying Agent in each case at the address given at the end of this Prospectus. This Prospectus and the documents incorporated by reference are available on the website of the Luxembourg Stock Exchange website (*www.bourse.lu*).

The information incorporated by reference that is not included in the cross-reference list below, is considered as additional information and is not required by the relevant schedules of Commission Regulation (EC) No. 809/2004 of 29 April 2004, as amended.

CROSS-REFERENCE LIST FOR DOCUMENTS INCORPORATED BY REFERENCE

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Press Release "UniCredit: Fitch aligns UniCredit SpA's ratings with that of the sovereign Italy" dated 28 April 2017	Entire document	All
Press Release "UniCredit Board of Directors Vice Chairman Luca Cordero di Montezemolo steps down" dated 20 April 2017	Entire document	All
Press Release "UniCredit: the Shareholders' Meeting approves the 2016 Financial Statements" dated 20 April 2017	Entire document	All
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Press Release "UniCredit: takes €24.4b in ECB TLTRO II Auction" dated 23 March 2017	Entire document	All
Press Release "The Board of Directors of UniCredit approved Full Year 2016 Results" dated 13 March 2017	Entire document	All
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Press Release "Yapi Kredi sells non performing credit portfolio to Güven Varlık Yönetim A.Ş." dated 2 March 2017	Entire document	All
Press Release "UniCredit: rights issue fully subscribed" dated 2 March 2017	Entire document	All
Press Release "UniCredit appointments new Head of Internal Audit and Manager in charge of preparing the Financial Statements (*Dirigente Preposto*)" dated 3 August 2016	Entire document	All
Press Release "2016 EU–wide stress test results" dated 29 July 2016	Entire document	All
Press Release "UniCredit, Banco Santander and Sherbrooke Acquisition Corp end Pioneer Santander AM merger talks" dated 27 July 2016	Entire document	All
Press Release "UniCredit streamlines organisational structure" dated 26 July 2016	Entire document	All
Press Release "Successful completion of the accelerated bookbuilding offering launched by UniCredit in Bank Pekao S.A." dated 12 July 2016	Entire document	All
Press Release "Successful completion of the accelerated bookbuilding offering launched by UniCredit in FinecoBank S.p.A." dated 12 July 2016	Entire document	All
Press Release "UniCredit: assessment of new Directors' requirements" dated 11 July 2016	Entire document	All
Press Release "Jean Pierre Mustier new CEO of UniCredit" dated 30 June 2016	Entire document	All
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TERMS AND CONDITIONS OF THE NOTES

1. INTRODUCTION

The €1,250,000,000 Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series with the Notes) are issued by UniCredit S.p.A. (the **Issuer**) subject to and with the benefit of an Agency Agreement dated 22 May 2017 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between Citibank, N.A., London Branch as fiscal agent and principal paying agent (the **Fiscal Agent**) and any other agents appointed pursuant to the Agency Agreement (together with the Fiscal Agent, the **Paying Agents**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes (the **Noteholders**) and the holders of the interest coupons and the talons (**Talons**) for further interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons**, which expressions shall in these Conditions, unless the context otherwise requires, include the holders of the Talons and the Talons, respectively) at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

2. DEFINITIONS AND INTERPRETATION

2.1 Definitions

In these Conditions the following expressions have the following meanings:

5-year Mid-Swap Rate means, in relation to a Reset Interest Period and the Reset Rate of Interest Determination Date in relation to such Reset Interest Period:

(i) the annual mid-swap rate for euro swaps with a term of five years which appears on the Screen Page as of 11:00 a.m. (Central European time) on such Reset Rate of Interest Determination Date; or

(ii) if the 5-year Mid-Swap Rate does not appear on the Screen Page at such time on such Reset Rate of Interest Determination Date, the Reset Reference Bank Rate on such Reset Rate of Interest Determination Date;

5-year Mid-Swap Rate Quotations means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap which:

(i) has a term of five years commencing on the relevant Reset Date;

(ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and

(iii) has a floating leg based on 6-month EURIBOR rate (calculated on an Actual/360 day count basis);

Actual/360 means the actual number of days in the relevant period divided by 360;

Additional Tier 1 Capital has the meaning given to such term (or any other equivalent or successor term) in the Relevant Regulations;

Authorised Signatory has the meaning given to such term in the Agency Agreement and Authorised Signatories shall be construed accordingly;

BRRD means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time;

Business Day means (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and (ii) a TARGET2 Settlement Day;

Capital Event is deemed to have occurred if there is a change in the regulatory classification of the Notes that would be likely to result in their exclusion, in whole or in part, from Additional Tier 1 Capital of the UniCredit Group or the Issuer and both of the following conditions are met: (i) the Competent Authority considers such a change to be sufficiently certain and (ii) the Issuer demonstrates to the satisfaction of the Competent Authority that the change in regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date;

Common Equity Tier 1 Capital, at any time, has the meaning given to such term (or any other equivalent or successor term) in the Relevant Regulations;

Common Equity Tier 1 Capital Ratio means, at any time, the ratio of the Common Equity Tier 1 Capital of the Issuer or the UniCredit Group, as the case may be, divided by the Risk Weighted Assets of the Issuer or the UniCredit Group (as applicable) at such time, calculated by the Issuer or the Competent Authority in accordance with the Relevant Regulations;

Competent Authority means the European Central Bank, the Bank of Italy or any successor entity of, or replacement entity to, either such entity, and/or any other authority having primary responsibility for the prudential oversight and supervision of the Issuer or the UniCredit Group, and/or, as the context may require, the "resolution authority" or the "competent authority" as defined under BRRD and/or SRM Regulation;

Consolidated Net Income means the consolidated net income of the UniCredit Group, as calculated and set out in the most recent published audited annual consolidated accounts of the UniCredit Group, as approved by the Issuer;

Contingency Event has the meaning given to such term in Condition 6.1 (*Loss absorption*);

Coupon has the meaning given to such term in Condition 1 (*Introduction*);

Couponholders has the meaning given to such term in Condition 1 (*Introduction*);

Coupon Sheet means, in relation to a Note, the coupon sheet relating to that Note;

CRD IV means, taken together (i) the CRD IV Directive, (ii) the CRD IV Regulation and (iii) the Future Capital Instruments Regulations;

CRD IV Directive means the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended or replaced from time to time;

CRD IV Regulation means Regulation (EU) No. 2013/575 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended or replaced from time to time;

Day Count Fraction means, in respect of the calculation of an amount for any period of time (the **Calculation Period**), Actual/Actual (ICMA) which means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in such Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) two; and

(ii) where the Calculation Period is longer than one Regular Period, the sum of:

(a) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) two; and

(b) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) two;

Distributable Items means, subject as otherwise defined in the Relevant Regulations from time to time:

(a) an amount equal to the Issuer's profits at the end of the financial year immediately preceding the financial year in which the relevant Interest Payment Date falls plus any profits brought forward and reserves available for that purpose before distributions to holders of Own Funds instruments (which, for the avoidance of doubt, excludes any such distributions paid or made on Tier 2 instruments or any such distributions which have already been provided for, by way of deduction, in calculating the amount of Distributable Items); less

(b) an amount equal to any losses brought forward, profits which are non-distributable pursuant to applicable Italian law or the by-laws of the Issuer from time to time and sums placed to non-distributable reserves in accordance with applicable Italian law or the by-laws of the Issuer from time to time,

those profits, losses and reserves being determined on the basis of the Issuer's non-consolidated accounts;

Equal Loss Absorbing Instrument means:

(a) in respect of an Issuer Contingency Event, at any time, any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by the Issuer which contains provisions relating to a write-down (or write-off) or conversion into Ordinary Shares of the principal amount of such instrument on the occurrence, or as a result, of the Common Equity Tier 1 Capital Ratio of the Issuer falling below a level that is equal to 5.125% or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations applicable to the Issuer; and

(b) in respect of a Group Contingency Event, at any time, any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by the Issuer or any member of the UniCredit Group (a **Group Entity**) which contains provisions

relating to a write-down (or write-off) or conversion of the principal amount of such instrument on the occurrence, or as a result, of the Common Equity Tier 1 Capital Ratio of the UniCredit Group falling below a level that is equal to 5.125% or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations applicable to the UniCredit Group,

and, in each case, in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied;

Extraordinary Resolution has the meaning given to such term in the Agency Agreement;

First Call Date means 3 June 2023;

Future Capital Instruments Regulations means any regulatory capital rules or regulations introduced after the Issue Date by the Competent Authority or which are otherwise applicable to the Issuer (on a solo or consolidated basis), which prescribe (alone or in conjunction with any other rules or regulations) the requirements to be fulfilled by financial instruments for their inclusion in the Own Funds of the Issuer (on a solo or consolidated basis) to the extent required by (i) the CRD IV Regulation or (ii) the CRD IV Directive;

Group or **Unicredit Group** means the Issuer and each entity within the prudential consolidation of the Issuer pursuant to Chapter 2 of Title II of Part One of CRD IV Regulation;

Group Contingency Event has the meaning given to such term in Condition 6.1 (*Loss absorption*);

Initial Period means the period from (and including) the Issue Date to (but excluding) the First Call Date;

Initial Principal Amount means, in respect of a Note, or as the case may be, a Written-Down Additional Tier 1 Instrument, the principal amount of such Note or Written-Down Additional Tier 1 Instrument, as at the Issue Date or the issue date of the Written-Down Additional Tier 1 Instrument, as applicable;

Initial Rate of Interest has the meaning given to such term in Condition 5.3 (*Interest to (but excluding) the First Call Date*);

Interest Amount means the amount of interest payable on each Note for any Interest Period and **Interest Amounts** means, at any time, the aggregate of all Interest Amounts payable at such time;

Interest Payment Date means 3 June and 3 December in each year from (and including) 3 December 2017;

Interest Period means the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date;

Issue Date means 22 May 2017;

Issuer Contingency Event has the meaning given to such term in Condition 6.1 (*Loss absorption*);

Loss Absorbing Instrument means an Equal Loss Absorbing Instrument and/or a Prior Loss Absorbing Instrument, as applicable.

Loss Absorption Event Notice has the meaning given to such term in Condition 6.1 (*Loss absorption*);

Margin means 6.387%, being equal to the margin used to calculate the Initial Rate of Interest;

Maximum Distributable Amount means any applicable maximum distributable amount relating to the Issuer and/or the UniCredit Group, as the case may be, required to be calculated in accordance with the CRD IV Directive (or any provision of Italian law transposing or implementing the CRD IV Directive);

Maximum Write-Up Amount has the meaning given to it in Condition 6.3 (*Reinstatement of principal amount*);

Net Income means the non-consolidated net income of the Issuer as calculated and set out in the last audited annual accounts of the Issuer, as approved by the Issuer;

Noteholders has the meaning given to such term in Condition 1 (*Introduction*);

Optional Redemption Date (Call) means each of the First Call Date and any Interest Payment Date thereafter;

Ordinary Shares means the ordinary shares of the Issuer;

Own Funds has the meaning given to such term (or any equivalent or successor term) in the Relevant Regulations;

Payment Business Day means (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation and (ii) a TARGET2 Settlement Day;

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;

Prevailing Principal Amount in respect of a Note on any date, means the Initial Principal Amount of such Note as reduced from time to time (on one or more occasions) pursuant to a Write-Down and/or reinstated from time to time (on one or more occasions) pursuant to a Write-Up in each case on or prior to such date;

Prior Loss Absorbing Instrument means;

(a) in respect of an Issuer Contingency Event, at any time, any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by the Issuer which contains provisions relating to a write-down (or write-off) or conversion into Ordinary Shares of the principal amount of such instrument on the occurrence, or as a result, of the Common Equity Tier 1 Capital Ratio of the Issuer falling below a level that is higher than 5.125% or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations applicable to the Issuer; and

(b) in respect of a Group Contingency Event, at any time: (i) any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by the Issuer or any Group Entity which contains provisions relating to a write-down (or write-off) or conversion of the principal amount of such instrument on the occurrence, or as a result, of the Common Equity Tier 1 Capital Ratio of the UniCredit Group falling below a level that is

higher than 5.125% or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations applicable to the UniCredit Group; and (ii) any instrument (irrespective of whether such instrument is included in the Tier 1 Capital or Tier 2 Capital of the Issuer or the UniCredit Group and irrespective of whether such instrument ranks or is expressed to rank senior to, *pari passu* with, or junior to the Notes) issued directly or indirectly by any Group Entity which contains provisions relating to a write-down (or write-off) or conversion of the principal amount of such instrument on the occurrence, or as a result, of the Common Equity Tier 1 Capital Ratio of that Group Entity, or of a group within the prudential consolidation of such Group Entity pursuant to Chapter 2 of Title II of Part One of the CRD IV Regulation other than the UniCredit Group, falling below the level specified in such instrument at the date on which the relevant Group Contingency Event first occurred,

and, in each case, in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied;

Qualifying Additional Tier 1 Notes means securities (whether debt, equity or otherwise) issued directly by the Issuer where such securities:

(i) have terms not materially less favourable to a holder of the Notes, as reasonably determined by the Issuer, than the terms of the Notes;

(ii) subject to (i) above, shall (1) rank at least equal to the ranking of the Notes, (2) have the same currency, the same (or higher) interest rate and the same Interest Payment Dates as those from time to time applying to the Notes, (3) have the same redemption rights as the Notes, (4) comply with the then current requirements of Relevant Regulations in relation to Additional Tier 1 Capital, (5) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, and (6) are assigned (or maintain) at least the same credit ratings as were assigned to the Notes immediately prior to such variation or substitution; and

(iii) if the Notes were listed on any market(s) or stock exchange(s) immediately prior to such substitution or variation, are listed on the same market(s) or stock exchange(s) or another regulated market or stock exchange of equivalent standing;

Rate of Interest means:

(a) in the case of each Interest Period falling in the Initial Period, the Initial Rate of Interest; or

(b) in the case of each Interest Period thereafter, the Reset Rate of Interest in respect of the Reset Interest Period,

all as determined by the Fiscal Agent in accordance with Condition 5 (*Interest and Interest Cancellation*);

Regular Period means each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **Regular Date** means 3 June and 3 December;

Relevant Date has the meaning given to such term in Condition 9 (*Taxation*);

Relevant Net Income means the lowest of the Net Income and the Consolidated Net Income;

Relevant Regulations means any requirements contained in the regulations, rules, guidelines and policies of the Competent Authority, or of the European Parliament and Council then in effect in the

Republic of Italy, relating to capital adequacy and applicable to the Issuer from time to time (including but not limited to the rules contained in, or implementing, CRD IV and the BRRD, delegated or implementing acts adopted by the European Commission and guidelines issued by the EBA);

Reset Date means the First Call Date and every date which falls 5, or a multiple of 5, years after the First Call Date;

Reset Interest Period means each period from (and including) any Reset Date and ending on (but excluding) the next Reset Date;

Reset Rate of Interest means, in relation to a Reset Interest Period, a rate per annum equal to the aggregate of the Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Interest Period, first calculated on an annual basis and then converted to a semi-annual rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), as determined on the relevant Reset Rate of Interest Determination Date;

Reset Rate of Interest Determination Date means, in relation to a Reset Interest Period, the day falling two TARGET2 Settlement Days prior to the Reset Date on which such Reset Interest Period commences;

Reset Reference Bank Rate means, in relation to a Reset Interest Period and the Reset Rate of Interest Determination Date in relation to such Reset Interest Period, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Fiscal Agent at approximately 11:00 a.m. (Central European time) on such Reset Rate of Interest Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the relevant Reset Interest Period will be (i) in the case of each Reset Interest Period other than the Reset Interest Period commencing on the First Call Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Interest Period or (ii) in the case of the Reset Interest Period commencing on the First Call Date, the Reset Rate of Interest will be 6.625% per annum;

Reset Reference Banks means six leading swap dealers in the interbank market selected by the Fiscal Agent (excluding any Paying Agent or any of its affiliates) in its discretion after consultation with the Issuer;

Risk Weighted Assets means, at any time, the aggregate amount of the risk weighted assets of the Issuer or the UniCredit Group, as the case may be, at such time calculated by the Issuer in accordance with the Relevant Regulations;

Screen Page means Reuters screen "ICESWAP2" or such other page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate;

Special Event means a Capital Event and/or a Tax Event, as applicable;

Specified Office has the meaning given to such term in the Agency Agreement;

SRM Regulation means Regulation (EU) No 806/2014 of the European Parliament and Council of July 15, 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a

Single Resolution Fund and amending Regulation (EU) No 1093/2010, as amended or replaced from time to time;

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

Talon has the meaning given to such term in Condition 1 (*Introduction*);

TARGET2 Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System, which was launched on 19 November 2007 or any successor thereto is open for the settlement of payments in euro;

Tax Event means the part of the interest payable by the Issuer under the Notes that is tax-deductible by the Issuer for Italian tax purposes is reduced, or 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, regulations or rulings of, or applicable in, the Republic of Italy, or any political subdivision or any authority or agency thereof or therein having power to tax, or any change in the application or official interpretation or administration of such laws, regulations or rulings:

(A) which change or amendment:

(i) becomes effective after the Issue Date;

(ii) the Issuer demonstrates to the satisfaction of the Competent Authority is material and was not reasonably foreseeable by the Issuer as at the Issue Date;

(iii) is evidenced by the delivery by the Issuer to the Fiscal Agent of a certificate signed by two Authorised Signatories of the Issuer stating that interest payable by the Issuer in respect of the Notes is no longer, or will no longer be, deductible for Italian income tax purposes or such deductibility is materially reduced, or that the Issuer has or will become obliged to pay such additional amounts, as the case may be, and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail; and

(B) which obligation cannot be avoided by the Issuer taking reasonable measures available to it;

Tax Jurisdiction has the meaning given to such term in Condition 9 (*Taxation*);

Tier 1 Capital has the meaning given to such term (or any other equivalent or successor term) in the Relevant Regulations;

Tier 2 Capital has the meaning given to such term (or any other equivalent or successor term) in the Relevant Regulations;

Write-Down has the meaning given to such term in Condition 6.1 (*Loss absorption*);

Write-Down Amount has the meaning given to such term in Condition 6.1 (*Loss absorption*);

Write-Down Effective Date has the meaning given to such term in Condition 6.1 (*Loss absorption*);

Write-Up has the meaning given to such term in Conditions 6.3 (*Reinstatement of principal amount*);

Write-Up Notice has the meaning given to such term in Conditions 6.3 (*Reinstatement of principal amount*); and

Written-Down Additional Tier 1 Instrument means an instrument (other than the Notes) issued directly or indirectly by the Issuer or, as applicable, any member of the UniCredit Group, and qualifying as Additional Tier 1 Capital of the Issuer or, as applicable, the UniCredit Group that, as at the time immediately prior to the relevant Write-Up, has a prevailing principal amount lower than the principal amount that it was issued with due to a write-down.

2.2 Interpretation

In these Conditions:

(a) Notes and Noteholders shall respectively be deemed to include references to Coupons and Couponholders, if relevant;

(b) any reference to principal shall be deemed to include the Prevailing Principal Amount, any additional amounts in respect of principal which may be payable under Condition 9 (*Taxation*) and any other amount in the nature of principal payable pursuant to these Conditions;

(c) 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;

(d) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement; and

(e) any reference to a numbered "Condition" shall be to the relevant Condition in these Conditions.

3. FORM, DENOMINATION AND TITLE

3.1 Form and denomination

The Notes are in bearer form, serially numbered, in denominations of €200,000 and integral multiples of €1,000 in excess thereof up to (and including) €399,000, each with Coupons and, if necessary, a Talon attached on issue. Notes of one denomination will not be exchangeable for Notes of another denomination.

3.2 Title

Title to Notes and Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder.

4. STATUS OF THE NOTES

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer ranking:

(i) subordinated and junior to all indebtedness of the Issuer, including unsubordinated indebtedness of the Issuer, the Issuer's obligations in respect of any dated subordinated instruments and any instruments issued as Tier 2 Capital of the Issuer or guarantee in respect of any such instruments (other than any instrument or contractual right ranking, or expressed to rank, *pari passu* with the Notes);

(ii) *pari passu* among themselves and with the Issuer's obligations in respect of any Additional Tier 1 Capital instruments or any other instruments or obligations which rank or are expressed to rank *pari passu* with the Notes or, in each case, any guarantee in respect of such instruments; and

(iii) senior to:

(A) the share capital of the Issuer, including its *azioni privilegiate*, ordinary shares and *azioni di risparmio*;

(B) (i) any securities of the Issuer (including *strumenti finanziari* issued under Article 2346 of the Italian Civil Code); and (ii) any securities issued by a Subsidiary which have the benefit of a guarantee or similar instrument from the Issuer,

which securities (in the case of (B)(i)) or guarantee or similar instrument (in the case of (B)(ii)) rank or are expressed to rank *pari passu* with the claims described under (A) and (B) above and/or otherwise junior to the Notes.

Each holder of a Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have under the laws of any jurisdiction in respect of such Note.

5. INTEREST AND INTEREST CANCELLATION

5.1 Rate of Interest

The Notes bear interest on their outstanding Prevailing Principal Amount at the relevant Rate of Interest from (and including) the Issue Date. Interest shall be payable semi-annually in arrear on each Interest Payment Date commencing on 3 December 2017, subject in any case as provided in Condition 5.10 (*Cancellation of Interest Amounts*) and Condition 8 (*Payments and Exchange of Talons*), save that the interest payable (subject to cancellation as aforesaid) on 3 December 2017 shall be in respect of the longer period from (and including) the Issue Date to (but excluding) 3 December 2017.

5.2 Accrual of Interest

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of the Prevailing Principal Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition until whichever is the earlier of:

(a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and

(b) the day on which the Fiscal Agent has notified the Noteholders in accordance with Condition 16 (*Notices*) that it has received all sums due in respect of the Notes up to such day.

5.3 Interest to (but excluding) the First Call Date

The Rate of Interest for each Interest Period falling in the Initial Period will be 6.625% per annum (the **Initial Rate of Interest**).

5.4 Interest from (and including) the First Call Date

The Rate of Interest for each Interest Period from (and including) the First Call Date will be the relevant Reset Rate of Interest in respect of the Reset Interest Period in which such Interest Period falls.

5.5 Determination of Reset Rate of Interest in relation to a Reset Interest Period

The Fiscal Agent will, as soon as reasonably practicable after 11:00 a.m. (Central European time) on each Reset Rate of Interest Determination Date in relation to a Reset Interest Period, determine the Reset Rate of Interest for such Reset Interest Period.

5.6 Publication of Reset Rate of Interest

With respect to each Reset Interest Period, the Fiscal Agent will cause the relevant Reset Rate of Interest to be notified to the Issuer, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and to be published in accordance with Condition 16 (*Notices*) as soon as reasonably practicable after such determination but in any event not later than the relevant Reset Date.

5.7 Calculation of Interest Amount

The amount of interest payable in respect of a Note for any period shall be calculated by the Fiscal Agent by:

(a) applying the applicable Rate of Interest to the Prevailing Principal Amount of such Note;

(b) multiplying the product thereof by the Day Count Fraction; and

(c) rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

5.8 Calculation of Interest Amount in case of Write-Down

Subject to Condition 5.10 (*Cancellation of Interest Amounts*), in the event that a Write-Down occurs during an Interest Period, any accrued and unpaid interest shall be cancelled pursuant to Condition 6.1(c) (*Loss absorption*) and the Interest Amount payable on the Interest Payment Date immediately following such Interest Period shall be calculated in accordance with Condition 5.7 (*Calculation of Interest Amount*), provided that the Day Count Fraction shall be determined as if the Interest Period started on, and included, the Write-Down Effective Date.

5.9 Calculation of Interest Amount in case of Write-Up

Subject to Condition 5.10 (*Cancellation of Interest Amounts*), in the event that a Write-Up occurs during an Interest Period, the Interest Amount payable on the Interest Payment Date immediately following such Interest Period shall be calculated as the sum (rounding the resulting figure to the nearest cent, with half a cent being rounded upwards) of the following:

(a) the product of the applicable Rate of Interest, the Prevailing Principal Amount before such Write-Up, and the Day Count Fraction (determined as if the Interest Period ended on, but excluded, the date of such Write-Up); and

(b) the product of the applicable Rate of Interest, the Prevailing Principal Amount after such Write-Up, and the Day Count Fraction (determined as if the Interest Period started on, and included, the date of such Write-Up).

5.10 Cancellation of Interest Amounts

The Issuer may elect at its full discretion to cancel (in whole or in part) the Interest Amounts otherwise scheduled to be paid on an Interest Payment Date.

Without prejudice to (i) such full discretion of the Issuer to cancel the Interest Amounts and (ii) the prohibition to make payments on the Notes pursuant to any provisions of Italian law implementing Article 141(2) of the CRD IV Directive, before the Maximum Distributable Amount is calculated, payment of Interest Amounts on any Interest Payment Date must be cancelled (in whole or, as the case may be, in part) if and to the extent that such Interest Amounts:

(a) when aggregated together with distributions on all other Own Funds instruments of the Issuer (excluding Tier 2 Capital instruments) paid or scheduled for payment in the then current financial year exceed the amount of Distributable Items, excluding any payments already accounted for in determining the Distributable Items; and/or

(b) when aggregated together with other distributions of the Issuer or the UniCredit Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV Directive (or, if different, any provisions of Italian law implementing Article 141(2) of the CRD IV Directive), would, if paid, cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the UniCredit Group to be exceeded; and/or

(c) are required to be cancelled (in whole or in part) by an order to the Issuer from the Competent Authority.

As set out in Condition 6.1 (*Loss absorption*), if a Contingency Event occurs, accrued and unpaid interest to (but excluding) the Write-Down Effective Date shall be cancelled.

Notice of any cancellation of payment of a scheduled Interest Amount must be given to the Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent as soon as possible, but not more than 60 calendar days, prior to the relevant Interest Payment Date. Any failure by the Issuer to give such notice shall not affect the validity of the cancellation and shall not constitute a default for any purpose.

For the avoidance of doubt (i) the cancellation of any Interest Amounts in accordance with this Condition 5.10 or Condition 6.1 (*Loss absorption*) shall not constitute a default for any purpose on the part of the Issuer and (ii) interest on the Notes is not cumulative and any Interest Amounts that the Issuer elects not to pay or is prohibited from paying will not accumulate or compound and all rights and claims in respect of such amounts shall be fully and irrevocably forfeited and no payments shall be made nor shall any Noteholder be entitled to any payment or indemnity in respect thereof.

5.11 No restriction following cancellation of Interest Amounts

In the event that the Issuer exercises its discretion not to pay interest or is prohibited from paying interest on any Interest Payment Date, it will not give rise to any contractual restriction on the Issuer making distributions or any other payments to the holders of any securities ranking *pari passu* with, or junior to, the Notes.

6. LOSS ABSORPTION AND REINSTATEMENT OF PRINCIPAL AMOUNT

6.1 Loss absorption

If, at any time, the Common Equity Tier 1 Capital Ratio of the Issuer falls below 5.125% (an **Issuer Contingency Event**) or the Common Equity Tier 1 Capital Ratio of the UniCredit Group falls below 5.125% (a **Group Contingency Event**) or, in each case, the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant

Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the Issuer and/or the UniCredit Group (each, a **Contingency Event**), the Issuer shall:

(a) immediately notify the Competent Authority of the occurrence of the relevant Contingency Event;

(b) as soon as reasonably practicable deliver a Loss Absorption Event Notice to Noteholders (in accordance with Condition 16 (*Notices*)), the Fiscal Agent and the Paying Agents (provided that failure or delay in delivering a Loss Absorption Event Notice shall not constitute a default for any purpose or in any way impact on the effectiveness of, or otherwise invalidate, any Write-Down);

(c) cancel any accrued and unpaid interest up to (but excluding) the Write-Down Effective Date; and

(d) without delay, and in any event within one month from the determination that the relevant Contingency Event has occurred, reduce the then Prevailing Principal Amount of each Note by the Write-Down Amount (such reduction being referred to as a **Write-Down** and **Written Down** being construed accordingly).

Any Write-Down of a Note will be effected, save as may otherwise be required by the Competent Authority and subject as otherwise provided in these Conditions, pro rata with the Write-Down of the other Notes and with the concurrent (or substantially concurrent) write-down (or write-off) or conversion into Ordinary Shares, as the case may be, of any Equal Loss Absorbing Instruments (based on the prevailing amount of the relevant Equal Loss Absorbing Instrument). To the extent possible, the write-down (or write-off) or conversion into Ordinary Shares of any Prior Loss Absorbing Instruments will be taken into account in the calculation of the Write Down Amount, and of the amount of write-down (or write-off) or conversion into Ordinary Shares of any Equal Loss Absorbing Instruments, required to cure the relevant Contingency Event.

A Write-Down may occur on more than one occasion and the Notes may be Written Down on more than one occasion.

Loss Absorption Event Notice means a notice which specifies that a Contingency Event has occurred, the Write-Down Amount (as a percentage of the Initial Principal Amount resulting in a *pro rata* decrease in the Prevailing Principal Amount of each Note), including the method of calculation of the Write-Down Amount, and the date on which the Write-Down will take effect (the **Write-Down Effective Date**). Any Loss Absorption Event Notice delivered to the Fiscal Agent must be accompanied by a certificate signed by the Authorised Signatories stating that the Contingency Event has occurred and setting out the method of calculation of the relevant Write-Down Amount.

Write-Down Amount means the amount by which the then Prevailing Principal Amount of each outstanding Note is to be Written Down on a *pro rata* basis pursuant to a Write-Down, being:

(i) the amount that (together with (a) the concurrent Write-Down of the other Notes and (b) the concurrent or substantially concurrent write-down (or write-off) or conversion to the extent possible of any Loss Absorbing Instruments) would be sufficient to cure the Contingency Event; or

(ii) if that Write-Down (together with (a) the concurrent Write-Down of the other Notes and (b) the concurrent or substantially concurrent write-down (or write-off) or conversion of any Loss Absorbing Instruments) would be insufficient to cure the Contingency Event, or the Contingency Event is not capable of being cured, the amount necessary to reduce the Prevailing Principal Amount to one cent.

In respect of any Write-Down, to the extent the write-down (or write-off) or conversion into Ordinary Shares of any Loss Absorbing Instrument is not, or within one month from the determination that the relevant Contingency Event has occurred will not be, effective for any reason (i) the ineffectiveness of any such write-down (or write-off) or conversion into Ordinary Shares shall not prejudice the requirement to effect the Write-Down of the Notes pursuant to this Condition 6.1; and (ii) such write-down (or write-off) or conversion into Ordinary Shares shall not be taken into account in calculating the Write Down Amount in respect of such Write-Down. For the avoidance of doubt, the write-down (or write-off) or conversion into Ordinary Shares of any Loss Absorbing Instrument will only be taken into account in the calculation of the Write-Down Amount to the extent (and in the amount, if any) that such Loss Absorbing Instrument can actually be written-down (or written-off) or converted into Ordinary Shares in the relevant circumstances within one month from the determination that the relevant Contingency Event has occurred.

If, in connection with a Write-Down or the calculation of a Write-Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written-down (or written-off) or converted into Ordinary Shares in full and not in part only (**Full Loss Absorbing Instruments**) then:

(A) the requirement that a Write-Down of the Notes shall be effected *pro rata* with the write-down (or write-off) or conversion into Ordinary Shares, as the case may be, of any such Loss Absorbing Instruments shall not be construed as requiring the Notes to be Written-Down in full (or in full save for the one cent floor) simply by virtue of the fact that such Full Loss Absorbing Instruments will be written-down (or written-off) or converted in full; and

(B) for the purposes of calculating the Write-Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write-down (or write-off) of principal or conversion into Ordinary Shares, as the case may be, among the Notes and such other Loss Absorbing Instruments on a *pro rata* basis) as if their terms permitted partial write-down (or write-off) or conversion into Ordinary Shares, such that the write-down (or write-off) or conversion into Ordinary Shares of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (a) first, the principal amount of such Full Loss Absorbing Instruments shall be written-down (or written-off) or converted into Ordinary Shares *pro rata* with the Notes and all other Loss Absorbing Instruments (in each case subject to and as provided in the preceding paragraph) to the extent necessary to cure the relevant Contingency Event; and (b) secondly, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (a) shall be written-down (or written-off) or converted into Ordinary Shares, as the case may be, with the effect of increasing the Issuer's and/or the UniCredit Group's, as the case may be, CET1 Ratio above the minimum required level under (a) above.

6.2 Consequences of loss absorption

Following the giving of a Loss Absorption Event Notice which specifies a Write-Down of the Notes, the Issuer shall procure that:

(a) a similar notice is, or has been, given in respect of each Loss Absorbing Instrument (in accordance with, and to the extent required by, its terms); and

(b) the prevailing principal amount of each Loss Absorbing Instrument outstanding (other than the Notes) (if any) is written down (or written-off) or converted, as appropriate, in accordance with its terms prior to or, as appropriate, as soon as reasonably practicable following the giving of such Loss Absorption Event Notice.

6.3 Reinstatement of principal amount

If both a positive Net Income and a positive Consolidated Net Income are recorded at any time while the Prevailing Principal Amount of the Notes is less than their Initial Principal Amount, the Issuer may, at its full discretion and subject to the Maximum Distributable Amount (if any) (when the amount of the Write-Up is aggregated together with other distributions of the Issuer or the UniCredit Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV Directive (or, if different, any provision of Italian law implementing Article 141(2) of the CRD IV Directive, as amended or replaced)) not being exceeded thereby, increase the Prevailing Principal Amount of each Note (a **Write-Up**) up to a maximum of the Initial Principal Amount, on a *pro rata* basis with the other Notes and with any Written-Down Additional Tier 1 Instruments that have terms permitting a principal write-up to occur on a basis similar to that set out in this Condition 6.3 in the circumstances existing on the date of the relevant Write-Up (based on their Initial Principal Amounts), provided that the sum of:

(i) the aggregate amount of the relevant Write-Up on all the Notes;

(ii) the aggregate amount of any interest payments on the Notes that were paid on the basis of a Prevailing Principal Amount lower than the Initial Principal Amount at any time after the end of the previous financial year,

(iii) the aggregate amount of the increase in principal amount of each such Written-Down Additional Tier 1 Instrument at the time of the relevant Write-Up; and

(iv) the aggregate amount of any interest payments on each such Written-Down Additional Tier 1 Instrument that were calculated or paid on the basis of a prevailing principal amount that is lower than the principal amount it was issued with at any time after the end of the previous financial year,

does not exceed the Maximum Write-Up Amount.

The **Maximum Write-Up Amount** means:

(a) if the Relevant Net Income for the relevant Write-Up is equal to the Consolidated Net Income, the Consolidated Net Income multiplied by the sum of the aggregate Initial Principal Amount of the Notes and the aggregate initial principal amount of all Written-Down Additional Tier 1 Instruments of the UniCredit Group, and divided by the total Tier 1 Capital of the UniCredit Group as at the date of the relevant Write-Up; or

(b) if the Relevant Net Income for the relevant Write-Up is equal to the Net Income, the Net Income multiplied by the sum of the aggregate Initial Principal Amount of the Notes and the aggregate initial principal amount of all Written-Down Additional Tier 1 Instruments of the Issuer, and divided by the total Tier 1 Capital of the Issuer as at the date of the relevant Write-Up.

The Issuer will not reinstate the principal amount of any Written-Down Additional Tier 1 Instruments of the Issuer that have terms permitting a principal write-up to occur on a similar basis to that set out in this Condition 6.3 unless it does so on a *pro rata* basis with a Write-Up on the Notes.

A Write-Up may be made on one or more occasions in accordance with this Condition 6.3 until the Prevailing Principal Amount of the Notes has been reinstated to the Initial Principal Amount.

Any decision by the Issuer to effect or not to effect any Write-Up pursuant to this Condition 6.3 on any occasion shall not preclude it from effecting or not effecting any Write-Up on any other occasion pursuant to this Condition 6.3.

If the Issuer decides to Write-Up the Notes pursuant to this Condition 6.3, it shall deliver a notice (a **Write-Up Notice**) specifying the amount of any Write-Up (as a percentage of the Initial Principal Amount of a Note resulting in a *pro rata* increase in the Prevailing Principal Amount of each Note) and the date on which such Write-Up shall take effect shall be given to Noteholders in accordance with Condition 16 (*Notices*) and to the Fiscal Agent. Such Write-Up Notice shall be given at least ten Business Days prior to the date on which the relevant Write-Up becomes effective.

7. REDEMPTION AND PURCHASE

The Notes may not be redeemed otherwise than in accordance with this Condition 7.

7.1 No fixed redemption

Unless previously redeemed or purchased and cancelled as provided below, the Notes will mature on the date on which voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) proceedings are instituted in respect of the Issuer, in accordance with (a) a resolution of the shareholders' meeting of the Issuer, (b) any provision of the by-laws of the Issuer (currently, the maturity of the Issuer is set in its by-laws at 31 December 2100), or (c) any applicable legal provision, or any decision of any jurisdictional or administrative authority. Upon maturity, the Notes will become due and payable at an amount equal to their Prevailing Principal Amount, together with any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*).

7.2 General redemption option

The Issuer may, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)), subject to having given no less than 30 nor more than 45 calendar days' notice to the Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent, redeem the Notes in whole, but not in part, on any Optional Redemption Date (Call) at their Prevailing Principal Amount, plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*).

7.3 Redemption upon the occurrence of a Capital Event

Upon the occurrence of a Capital Event, the Issuer may, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)) at any time, subject to having given no less than 30 nor more than 45 calendar days' notice to the Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent, redeem the Notes in whole but not in part at their Prevailing Principal Amount, plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*).

7.4 Redemption upon the occurrence of a Tax Event

Upon the occurrence of a Tax Event, the Issuer may, at its sole discretion (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)) at any time, subject to having given no less than 30 nor more than 45 calendar days' notice to Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent, redeem the Notes in whole but not in part at their Prevailing Principal Amount plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*).

7.5 Purchase

(a) The Issuer or any of its Subsidiaries may (subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)) purchase Notes in the open market or otherwise and at any price in accordance with applicable laws and regulations (including for the avoidance of doubt, the Relevant Regulations), provided that all unmatured Coupons and unexchanged Talons appertaining to the

Notes are purchased therewith. Such Notes may, subject to the approval of the Competent Authority (if so required by the Relevant Regulations), be held, reissued, resold or, at the option of the purchaser, surrendered to any Paying Agent for cancellation.

(b) Notwithstanding the above, the Issuer or any agent on its behalf shall have the right at all times to purchase the Notes for market making purposes provided that: (a) the prior written approval of the Competent Authority shall be obtained; and (b) the total principal amount of the Notes so purchased does not exceed the lower of (i) 10% of the aggregate Initial Principal Amount of the Notes and any further Notes issued under Condition 15 (*Further Issues*) and (ii) 3% of the Additional Tier 1 Capital of the Issuer from time to time outstanding or such other amount permitted to be purchased for market-making purposes under the Relevant Regulations.

7.6 Cancellation

All Notes which are redeemed will forthwith (but subject to the provisions of Condition 7.7 (*Conditions to redemption and purchase*)) be cancelled (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith at the time of redemption). All Notes so redeemed and cancelled pursuant to this Condition, and the Notes purchased and cancelled pursuant to Condition 7.5 (*Purchase*) above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

7.7 Conditions to redemption and purchase

The Notes may only be redeemed, purchased, cancelled, substituted or modified (as applicable) pursuant to Condition 7.2 (*General redemption option*), Condition 7.3 (*Redemption upon the occurrence of a Capital Event*), Condition 7.4 (*Redemption upon the occurrence of a Tax Event*), Condition 7.5 (*Purchase*), Condition 7.6 (*Cancellation*), Condition 7.8 (*Substitution and variation*), Condition 14.1 (*Meetings of Noteholders*) or paragraph (b) of Condition 14.2 (*Modification of Notes*), as the case may be, with the prior written approval of the Competent Authority and, in relation to redemption and purchase and if and to the extent required under prevailing Relevant Regulations, either: (A) on or before such redemption or purchase of the Notes, the Issuer has replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the Issuer's income capacity; or (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that its Own Funds would, following such repayment or purchase, exceed the minimum capital requirements (including any capital buffer requirements) required under the CRD IV Directive (or any relevant provision of Italian law implementing the CRD IV Directive) by a margin that the Competent Authority considers necessary at such time.

If the Issuer has elected to redeem the Notes pursuant to Condition 7.2 (*General redemption option*), Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) or Condition 7.4 (*Redemption upon the occurrence of a Tax Event*, and prior to the relevant redemption date a Contingency Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, the Prevailing Principal Amount of the Notes will not be due and payable and a Write-Down shall occur as described under Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*).

7.8 Substitution and variation

Subject to Condition 7.7 (*Conditions to redemption and purchase*), if a Capital Event or a Tax Event has occurred and is continuing or to align to best practices from time to time published by the European Banking Authority, the Issuer may at any time, at its option (without any requirement for the consent or approval of the Noteholders or Couponholders and subject to receiving consent from the Competent Authority), having given no less than 30 nor more than 45 calendar days' notice to the Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent, substitute all (but not some only) of the Notes for, or vary the terms of the Notes provided that they remain or (as appropriate) so that they become, Qualifying Additional Tier 1 Notes.

Any such notice shall specify the relevant details of the manner in which such substitution or variation shall take effect and where the Noteholders can inspect or obtain copies of the new terms and conditions of the Qualifying Additional Tier 1 Notes. Such substitution or variation will be effected without any cost or charge to the Noteholders.

8. PAYMENTS AND EXCHANGE OF TALONS

8.1 Payments in respect of Notes

Payments of principal and (subject to Condition 8.5 (*Payments other than in respect of matured Coupons*)) interest shall be made only against presentation and (provided that payment is made in full) surrender of the Note or Coupon, as applicable, at the Specified Office of any Paying Agent outside the United States by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

8.2 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

8.3 Unmatured Coupons void

On the due date for redemption in whole of any Note pursuant to Condition 7.2 (*General redemption option*), Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) or Condition 7.4 (*Redemption upon the occurrence of a Tax Event*), all unmatured Coupons (which expression will, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons) relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

8.4 Payments on business days

If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day, the Noteholder shall not be entitled to payment of the amount due until the next succeeding Payment Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

8.5 Payments other than in respect of matured Coupons

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

8.6 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon Sheet matures, the Talon comprised in the Coupon Sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon Sheet (including any appropriate further Talon), subject to the provisions of Condition 10 (*Prescription*).

8.7 Partial payments

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

9. TAXATION

9.1 Gross up

All payments of interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction (subject to the exceptions listed below) unless such withholding or deduction is required by law. The Issuer will (subject to Condition 5.10 (*Cancellation of Interest Amounts*)) pay such additional amounts as will result in receipt by the 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 note or coupon presented for payment:

(a) for or on account of *imposta sostitutiva* (at the then applicable rate of tax) pursuant to Italian Legislative Decree No. 239 of 1 April 1996 or Italian Legislative Decree no. 461 of 21 November 1997 (as any of the same may be amended or supplemented) or any related implementing regulations; or

(b) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Tax Jurisdiction other than the mere holding of such Note or Coupon; or

(c) by or on behalf of a holder who is entitled to avoid such withholding or deduction in respect of such Note or Coupon by making a declaration or any other statement to the relevant tax authority, including, but not limited to, a declaration of residence or non-residence or other similar claim for exemption; or

(d) more than 30 days after the Relevant Date except to the extent that the relevant Noteholder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day (assuming such day to have been a Payment Business Day); or

(e) in the Republic of Italy; or

(f) in the event of payment to a non-Italian resident legal entity or a non-Italian resident individual, to the extent that interest or any other amount is paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with the Italian authorities; or

(g) in all circumstances in which the procedures set forth in Legislative Decree No. 239 of 1 April 1996, as amended, have not been met or complied with, except where such requirements and procedures have not been met or complied with due to the actions or omissions of UniCredit or its agents; or

(h) in respect of the Notes that are not qualified as bonds or similar securities where such withholding or deduction is required pursuant to Law Decree No. 512 of 30 September 1983, as amended, supplemented and/or re-enacted from time to time; or

(i) where the holder who would have been able to lawfully avoid (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies, with any statutory requirements.

Any reference in these Conditions to interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 9.

As used in these Conditions:

Relevant Date in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note or Coupon being made in accordance with the Conditions, such payment will be made, ***provided that*** payment is in fact made upon such presentation; and

Tax Jurisdiction means (i) the Republic of Italy or any political subdivision or any authority thereof or therein having power to tax and (ii) any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of interest on the Notes and Coupons, ***provided that*** no additional amounts shall be payable in respect of any withholding or deduction imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder or any official interpretations thereof.

10. PRESCRIPTION

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons (which for this purpose do not include the Talons) are presented for payment within five years of the appropriate Relevant Date. There may not be included in any Coupon Sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition 10 or Condition 8 (*Payments and Exchange of Talons*).

11. REPLACEMENT OF NOTES AND COUPONS

If any 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 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 Notes or Coupons must be surrendered before replacements will be issued.

12. AGENTS

12.1 Obligations of Agents

In acting under the Agency Agreement and in connection with the 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 Noteholders or Couponholders, and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of provisions of these Conditions by the Fiscal Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Paying Agents and all the Noteholders of the Notes or Coupons.

No such Noteholder shall (in the absence as aforesaid) be entitled to proceed against the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under these Conditions.

12.2 Termination of Appointments

The initial Paying Agents and their initial Specified Offices are listed in the Agency Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Fiscal Agent) and to appoint an additional or successor fiscal agent or paying agent; provided, however, that:

(a) the Issuer shall at all times maintain a Fiscal Agent; and

(b) if and for so long as the Notes are admitted to listing and/or to trading and/or quotation on any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent (which may be the Fiscal Agent) with a Specified Office in the place required by such listing authority, stock exchange and/or quotation system.

12.3 Change of Specified Offices

The Paying Agents reserve the right at any time to change their respective Specified Offices to some other Specified Office in the same city. Notice of any change in the identities or Specified Offices of any Paying Agent shall promptly be given to the Noteholders in accordance with Condition 16 (*Notices*).

13. ENFORCEMENT EVENT

In the event of the voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) of the Issuer, the Notes shall become immediately due and payable.

The rights of the Noteholders and the Couponholders in the event of a winding up, dissolution, liquidation or bankruptcy of the Issuer will be calculated on the basis of the Prevailing Principal Amount of the Notes, plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*) (to the extent that such interest and additional amounts are not cancelled in accordance with these Conditions). No payments will be made to the Noteholders or Couponholders before all amounts due, but unpaid, to all other creditors of the Issuer ranking ahead of the Noteholders and the Couponholders as described in Condition 4 (*Status of the Notes*) have been paid by the Issuer, as ascertained by the liquidator.

14. MEETINGS OF NOTEHOLDERS; MODIFICATION

14.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or certain provisions of the Agency Agreement. Such a meeting may be convened by the Issuer at any time or by Noteholders holding not less than 10% in nominal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing such Extraordinary Resolution is one or more persons holding or representing in the

aggregate not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal (except as provided by the Conditions) or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders. Such modifications may only be made to the extent that the Issuer has obtained the prior written approval of the Competent Authority (if so required by the Relevant Regulations).

14.2 Modification of Notes

Subject to Condition 7.7 (*Conditions to redemption and purchase*), the Fiscal Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders, to any modification of the Notes, the Coupons or the Agency Agreement which is (a) to cure or correct any ambiguity or defective or inconsistent provision contained therein, or which is of a formal, minor or technical nature or (b) in the sole opinion of the Issuer, not prejudicial to the interests of the Noteholders and/or the Couponholders (provided the proposed modification does not relate to a matter in respect of which an Extraordinary Resolution would be required if a meeting of Noteholders were held to consider such modification) or (c) to correct a manifest error or proven error or (d) to comply with mandatory provisions of the law. Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

15. FURTHER ISSUES

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

16. NOTICES

Notices to Noteholders will be deemed to be validly given if published in a leading English language daily newspaper having general circulation in Europe (which is expected to be the *Financial Times*) or, so long as the Notes are listed on the Official List and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and the rules of that exchange so permit, if published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading.

Any notice so given will be deemed to have been validly given on the date of the first such publication. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 16.

17. GOVERNING LAW AND JURISDICTION

17.1 Governing law

The Notes, the Coupons, the Agency Agreement and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law, except for Condition 4 (*Status of the Notes*) which will be governed by and construed in accordance with Italian law.

17.2 Submission to jurisdiction

The Issuer agrees, for the benefit of the Noteholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) and that accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with them) may be brought in such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum, and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer construed in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

17.3 Appointment of Process Agent

The Issuer agrees that any documents required to be served on it in relation to any Proceedings (including any documents which start any Proceedings) may be served on it by being delivered to UniCredit S.p.A., London Branch at Moor House, 120 London Wall, London EC2Y 5ET or, if different, its principal office for the time being in London. In the event of UniCredit S.p.A., London Branch ceasing to act or ceasing to be registered in England, the Issuer will appoint another person for the purposes of accepting services of process on its behalf in England in respect of any Proceedings. Nothing herein shall affect the right to serve Proceedings in any other manner permitted by law.

18. RIGHTS OF THIRD PARTIES

No person shall have any right to enforce any term or Condition in respect of a Note under the Contracts (Rights of Third Parties) Act 1999.

19. CONTRACTUAL RECOGNITION OF STATUTORY BAIL-IN POWERS

By the acquisition of the Notes, each Noteholder acknowledges and agrees to be bound by the exercise of any Bail-in Power by the Competent Authority that may result in the write-down or cancellation of all or a portion of the principal amount of, or distributions on, the Notes and/or the conversion of all or a portion of the principal amount of, or distributions on, the Notes into Ordinary Shares or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes to give effect to the exercise by the Competent Authority of such Bail-in Power. Each Noteholder further agrees that the rights of the Noteholders are subject to, and will be varied if necessary so as to give effect to, the exercise of any Bail-in Power by the Competent Authority.

For the avoidance of doubt, the potential write-down or cancellation of all or a portion of the principal amount of, or distributions on, the Notes or the conversion of the Notes into Ordinary Shares or other obligations in connection with the exercise of any Bail-in Power by the Competent Authority is separate and distinct from a Write-Down following a Contingency Event although these events may occur consecutively.

For these purposes, **a Bail-in Power** means any statutory write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State in effect and applicable in the relevant Member State to the Issuer or other Group Entities, including (but not limited to) any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of any European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a relevant Member State resolution regime or otherwise, pursuant to which liabilities of a credit institution, investment firm and/or any Group Entities can be reduced, cancelled and/or converted into shares or obligations of the obligor or any other person.

Upon the Issuer being informed or notified by the Competent Authority of the actual exercise of the date from which the Bail-in Power is effective with respect to the Notes, the Issuer shall notify the holders without delay. Any delay or failure by the Issuer to give notice shall not affect the validity and enforceability of the Bail-in Power nor the effects on the Notes described in this clause.

The exercise of the Bail-in Power by the Competent Authority with respect to the Notes shall not constitute an event of default and the terms and conditions of the Notes shall continue to apply in relation to the residual principal amount of, or outstanding amount payable with respect to, the Notes subject to any modification of the amount of distributions payable to reflect the reduction of the principal amount, and any further modification of the terms that the Competent Authority may decide in accordance with applicable laws and regulations relating to the resolution of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State.

Each Noteholder also acknowledges and agrees that this provision is exhaustive on the matters described herein to the exclusion of any other agreements, arrangements or understandings relating to the application of any Bail-in Power to the Notes.

Group Entities means any legal person that is part of the UniCredit Group.

OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this "Overview of Provisions relating to the Notes while in Global Form".

Temporary Global Note exchangeable for Permanent Global Note

The Notes will initially be in the form of the Temporary Global Note, without Coupons, which will be deposited on or around the Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg. Interests in the Temporary Global Note will be exchangeable, in whole or in part, for interests in the Permanent Global Note, without Coupons, which will also be deposited on or around the Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg, on or after the Exchange Date, upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in the Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of the Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange of a part of the Temporary Global Note) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(a) presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

(b) in either case, receipt by the Fiscal Agent of confirmation from the Clearing Systems that a certificate or certificates of non-U.S. beneficial ownership have been received,

within seven days of the bearer requesting such exchange.

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

Permanent Global Note exchangeable for Definitive Notes

Interests in the Permanent Global Note will be exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Definitive Notes, if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or in fact does so.

Interests in the Permanent Global Note will also become exchangeable, in whole but not in part only and at the request of the Issuer, for Definitive Notes if, by reason of any change in the laws of the Republic of Italy, the Issuer 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 are in definitive form.

Definitive Notes will bear serial numbers and have attached thereto at the time of their initial delivery Coupons. Definitive Notes will also, if necessary, have attached thereto at the time of their initial delivery Talons and the expression Coupons shall, where the context so requires, include Talons.

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

Terms and Conditions applicable to the Notes

The Terms and Conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the Terms and Conditions set out under "*Terms and Conditions of the Notes*" above.

The Terms and Conditions applicable to the Notes represented by one or more Global Notes will differ from those Terms and Conditions which would apply to the Notes were they in definitive form to the extent described in this "*Overview of Provisions relating to the Notes while in Global Form*".

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

Payments: The holder of a Global Note shall be the only person entitled to receive payments in respect of the Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of the Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "Payment Business Day" set out in Condition 2.1 (*Definitions*).

Write-Down/Write-Up of the Notes: while all the Notes are represented by one or more Global Notes and such Global Note(s) are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, any Write-Down or Write-Up of the Prevailing Principal Amount of the Notes shall be treated on a *pro rata* basis which, for the avoidance of doubt, shall be effected as a reduction or increase, as the case may be, to the pool factor.

Notices: Notwithstanding Condition 16 (*Notices*), while all the Notes are represented by one or more Global Notes and such Global Note(s) are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, the requirement in Condition 16 (*Notices*) for a notice to be published in a leading English language daily newspaper having general circulation in Europe shall not apply and notices to Noteholders may instead be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 16 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Legend concerning United States persons

Permanent Global Notes, Definitive Notes and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"*ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE.*"

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

Clearing Systems

Any reference herein to Euroclear and/or Clearstream, Luxembourg, as the case may be, shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Fiscal Agent, the other Paying Agents and the Noteholders.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be applied by the Issuer for its general corporate purposes and to improve the regulatory capital structure of the UniCredit Group.

DESCRIPTION OF THE ISSUER

Please refer to the information on the Issuer and the UniCredit Group in the documents incorporated herein by reference as set out in the "*Documents Incorporated by Reference*" section.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this Prospectus 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 the tax considerations which may be relevant to a decision to subscribe for, 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 advisers concerning the overall tax consequences of their ownership of the Notes.

The proposed European financial transactions tax (FTT)

On 14 February 2013, the European Commission published a proposal (the Commission's Proposal) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Taxation in the Republic of Italy

Tax treatment of Notes issued by an Italian resident issuer

Legislative Decree No. 239 of 1 April 1996, as subsequently amended, (**Decree 239**) provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from Notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*), issued, *inter alia*, by Italian banks.

The tax regime set forth by Decree 239 also applies to interest, premium and other income from regulatory capital financial instruments complying with EU and Italian regulatory principles, issued by, *inter alia*, Italian banks (other than shares and assimilated instruments), as set out by Article 2, paragraphs 22 and 22-*bis*, of Law Decree No. 138 of 13 August 2011, as converted with amendments by Law No. 148 of 14 September 2011 and as further amended and clarified by Law No. 147 of 27 December 2013.

Italian resident Noteholders

Where an Italian resident Noteholder is (i) an individual not engaged in an entrepreneurial activity to which the Notes are connected, (ii) a non-commercial partnership, (iii) a non-commercial private or public institution or (iv) an investor exempt from Italian corporate income taxation (unless the Noteholders under (i), (ii) or (iii) above opted for the application of the *risparmio gestito* regime – see "*Capital gains tax*"

below), interest, premium and other income relating to the Notes, accrued during the relevant holding period, are subject to a substitute tax, referred to as "*imposta sostitutiva*", levied at the rate of 26 per cent. In the event that the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity may be exempt from any income taxation, including the *imposta sostitutiva*, on interest, premium and other income relating to the Notes if the Notes are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Law No. 232 of 11 December 2016 (the **Finance Act 2017**).

Where an Italian resident Noteholder is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, and the Notes are deposited with an authorised intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder's income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the "status" of the Noteholder, also to the regional tax on productive activities (**IRAP**)).

Under the current regime provided by Law Decree No. 351 of 25 September 2001 converted into law with amendments by Law No. 410 of 23 November 2001 (**Decree 351**), and Article 9, par. 1, Legislative Decree No. 44 of 4 March 2014, payments of interest, premiums or other proceeds in respect of the Notes made to Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998 (the **Financial Services Act**) or pursuant to Article 14-bis of Law No. 86 of 25 January 1994, and Italian real estate investment companies with fixed capital (**Real Estate SICAFs**) are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the real estate investment fund or the Real Estate SICAF, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund, a SICAF (an investment company with fixed capital other than a Real Estate SICAF) or a SICAV (an investment company with variable capital) established in Italy and either (i) the fund, the SICAF or the SICAV or (ii) their manager is subject to the supervision of a regulatory authority (the **Fund**), and the relevant Notes are held by an authorised intermediary, interest, premium and other income accrued during the holding period on such Notes will not be subject to *imposta sostitutiva*, nor to any other income tax in the hands of the Fund, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent. (the **Collective Investment Fund Withholding Tax**).

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by Article 17 of Legislative Decree No. 252 of 5 December 2005) and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period to be subject to a 20 per cent. substitute tax.

Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, SIMs, fiduciary companies, SGRs, stockbrokers and other entities identified by a decree of the Ministry of Finance (each an **Intermediary**).

An Intermediary must (i) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary and (ii) intervene, in any way, in the collection of interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes or in a change of the Intermediary with which the Notes are deposited.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any entity paying interest to a Noteholder.

Non-Italian resident Noteholders

Where the Noteholder is a non-Italian resident without a permanent establishment in Italy to which the Notes are connected, an exemption from the *imposta sostitutiva* applies, provided that the non-Italian resident beneficial owner is either: (i) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy as listed in Ministerial Decree of 4 September 1996, as amended by Ministerial Decree of 23 March 2017 and possibly further amended by future decrees issued pursuant to Article 11(4)(c) of Decree 239 (as amended by Legislative Decree No. 147 of 14 September 2015) (the **White List**); or (ii) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (iii) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) an institutional investor which is resident in a country which allows for a satisfactory exchange of information with Italy, as listed in the White List, even if it does not possess the status of taxpayer in its own country of residence.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. (or at the reduced rate provided for by the applicable double tax treaty, if any) to interest, premium and other income paid to Noteholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of interest, premium or other income and (i) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance and (ii) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is not requested for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree of 12 December 2001, as subsequently amended.

Capital gains tax

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income (and, in certain circumstances, depending on the "status" of the Noteholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company or a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non-commercial partnership or (iii) a non-commercial private or public institution, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 26 per cent. Noteholders may set off losses with gains.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity may be exempt from Italian capital gain taxes, including the *imposta sostitutiva*, on capital gains realised upon sale or redemption of the Notes, if the Notes are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of the Finance Act 2017.

In respect of the application of *imposta sostitutiva*, taxpayers may choose one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Noteholders under (i) to (iii) above, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by an investor in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. The relevant Noteholder must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance of income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years. Pursuant to Law Decree No. 66 of 24 April 2014, as converted into law with amendments by Law No. 89 of 23 June 2014 (**Decree 66**), capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014.

As an alternative to the tax declaration regime, Italian resident Noteholders under (i) to (iii) above may elect to pay the *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 (including permanent establishments in Italy of foreign intermediaries) and (ii) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *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 upon the revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. 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 subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return. Pursuant to Decree 66, capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014

Any capital gains realised by Italian resident Noteholders under (i) to (iii) above who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so called "*risparmio gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a substitute tax at a rate of 26 per cent., to be paid 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* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return. Pursuant to Decree 66, decreases in value of the management assets may be carried forward to be offset against any subsequent increase in value accrued as of 1 July 2014 for an overall amount of 76.92 per cent. of the decreases in value registered from 1 January 2012 to 30 June 2014.

Any capital gains realised by a Noteholder who is an Italian real estate investment fund to which the provisions of Decree 351, as subsequently amended, apply and a Real Estate SICAF will be subject neither to *imposta sostitutiva* nor to any other income tax at the level of the real estate investment fund and Real Estate SICAF, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent.

Any capital gains realised by a Noteholder which is a Fund will not be subject to *imposta sostitutiva*. Such result will not be taxed with the Fund, but subsequent distributions in favour of unitholders of shareholders may be subject to the Collective Investment Fund Withholding Tax.

Any capital gains realised by a Noteholder who is an Italian pension fund (subject to the regime provided for by article 17 of Legislative Decree No. 252 of 5 December 2005) will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 20 per cent. substitute tax.

Capital gains realised by non-Italian resident Noteholders, not having a permanent establishment in Italy to which the Notes are connected, from the sale or redemption of Notes traded on regulated markets are neither subject to the *imposta sostitutiva* nor to any other Italian income tax.

Capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that the effective beneficiary: (i) is resident in a country which allows for a satisfactory exchange of information with Italy, as listed in the White List; or (ii) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (iii) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) is an institutional investor which is resident in a country which allows for a satisfactory exchange of information with Italy, as listed in the White List even if it does not possess the status of taxpayer in its own country of residence.

If none of the conditions above is met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 26 per cent.

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

Inheritance and gift taxes

Pursuant to Law Decree No. 262 of 3 October 2006, converted into Law No. 286 of 24 November 2006, as subsequently amended, the transfers of any valuable asset (including shares, notes or other securities) as a result of death or donation are taxed as follows:

(a) transfers in favour of spouses and direct descendants or direct ancestors are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or the gift exceeding, for each beneficiary, €1,000,000;

(b) transfers in favour of relatives to the fourth degree or relatives-in-law to the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the value of the inheritance or the gift exceeding, for each beneficiary, €100,000; and

(c) any other transfer is, in principle, subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the transfer is made in favour of persons with severe disabilities, the tax is levied at the rate mentioned above in (a), (b) and (c) on the value exceeding, for each beneficiary, €1,500,000.

Transfer tax

Following the repeal of the Italian transfer tax, contracts relating to the transfer of securities are subject to the following registration tax: (i) public deeds and notarised deeds are subject to fixed registration tax at a rate of €200.00; and (ii) private deeds are subject to registration tax only in the case of voluntary registration.

Stamp duty

Pursuant to Article 19(1) of Decree No. 201 of 6 December 2011 (**Decree 201**), a proportional stamp duty applies on an annual basis to the periodic reporting communications sent by financial intermediaries to their clients for the Notes deposited in Italy. The stamp duty applies at a rate of 0.20 per cent. and cannot exceed €14,000 for taxpayers other than individuals. This stamp duty is determined on the basis of the market value

or – if no market value figure is available – the nominal value or redemption amount or in the case the nominal or redemption values cannot be determined, on the purchase value of the Notes held. Based on the wording of the law and the implementing decree issued by the Italian Ministry of Economy on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

Wealth Tax on securities deposited abroad

Pursuant to Article 19(18) of Decree 201, Italian resident individuals holding the Notes outside the Italian territory are required to pay an additional tax at a rate of 0.20 per cent ("IVAFE").

This tax is calculated on the market value of the Notes at the end of the relevant year or – if no market value figure is available – the nominal value or the redemption value or in the case the nominal or redemption values cannot be determined, on the purchase value of such financial assets held outside the Italian territory. Taxpayers are entitled to an Italian tax credit equivalent to the amount of wealth taxes paid in the State where the financial assets are held (up to an amount equal to the Italian wealth tax due).

Luxembourg Taxation

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please note that the residence concept referred to under the headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax

(a) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

(b) Resident holders of Notes

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

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 20 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Relibi Law would be subject to a withholding tax of 20 per cent.

Automatic Exchange of Information

EU member states are required to implement an automatic exchange of information as provided for by Council Directive 2014/107/EU amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation (the **DAC**) effective as from 1 January 2016 (and in the case of Austria, as from 1 January 2017). In this context, in order to eliminate an overlap with the DAC, the EU Savings Directive was repealed on 10 November 2015 by the Council of the European Union. The range of payments to be automatically reported under the DAC is broader than the scope of the automatic information previously foreseen by the EU Savings Directive.

Investors should consult their professional tax advisers.

U.S. Foreign Account Tax Compliance Act (FATCA)

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Italy) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

BNP Paribas, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International and UniCredit Bank AG (together, the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 19 May 2017, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of the Notes, less certain commissions, in accordance with the terms and conditions contained therein. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

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 under the Securities Act.

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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and U.S. Treasury regulations promulgated thereunder.

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date within the United States or to, or for the account or benefit of, U.S. persons. Each Manager has further agreed that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Manager or Managers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Manager has represented, agreed and undertaken that:

(a) it has complied and will comply with the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, as amended or replaced from time to time, with such Manager deemed to be a "firm" for these purposes;

(b) 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 UK Financial Services and Markets Act 2000, as amended (**FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

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

(i) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and the Italian Banking Act; and

(ii) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

Switzerland

Each Manager has acknowledged that the Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes. Accordingly, each of the Managers has represented and agreed that it has not publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland any Notes and that the Notes may not be and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the Notes constitutes an issue prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss code of obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or a simplified prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither the Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the offering, the Issuer or the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by the Swiss Financial Markets Supervisory Authority (**FINMA**), and investors in the Notes will not benefit from protection or supervision by FINMA.

Canada

No prospectus in relation to the Notes has been filed with the securities regulatory authority in any province or territory of Canada. Each Manager has acknowledged that the Notes have not been and will not be qualified for sale under the securities laws of Canada or any province or territory of Canada. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Each Manager has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute any Notes, directly or indirectly, in Canada or to, or for the benefit of, any resident thereof other than in compliance with the applicable securities laws of Canada or any province or territory of Canada. Each Manager has agreed that it will offer, sell or distribute such Notes only in compliance with such Canadian selling restrictions and each Manager has agreed that it will offer, sell or distribute such Notes only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer is made. Each Manager has also represented and agreed that it has not and will not distribute or deliver the Prospectus, or any other offering material in connection with any offering of the Notes in Canada, other than in compliance with the applicable securities laws in Canada or any province or territory of Canada. In particular, the Notes may be sold only to purchasers in Canada purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Manager has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and

otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each of the Managers has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, the Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (ii) in other circumstances that do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or that do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made under that Ordinance.

Singapore

Each Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person that is:

(a) a corporation (that is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

People's Republic of China

Each Manager has represented and agreed that the Notes will not be offered or sold directly or indirectly in the PRC (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) as part of the initial distribution of the Notes. This Prospectus or any information contained or incorporated by reference herein does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. This Prospectus, any information contained herein or the Notes have not been, and will not be, submitted to, approved by, verified by or registered with any relevant governmental authorities in the PRC and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Notes in the PRC.

The Notes may only be invested by the PRC investors that are authorised to engage in the investment in the Notes of the type being offered or sold. Investors are responsible for obtaining all relevant governmental approvals, verifications, licences or registrations (if any) from all relevant PRC governmental authorities, including, but not limited to, the State Administration of Foreign Exchange, the China Securities Regulatory Commission, the China Banking Regulatory Commission, and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, any relevant foreign exchange regulations and/or overseas investment regulations.

General

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

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

GENERAL INFORMATION

Listing and admission to trading

Application has been made for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange with effect from the Issue Date. The Issuer estimates that the amount of expenses related to the admission to trading of the Notes will be approximately €6,200.

Authorisation

The issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 12 December 2016.

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under ISIN XS1619015719 and common code 161901571. 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.

Significant or Material Adverse Change

There has been no significant change in the financial or trading position of UniCredit and the Group since 31 March 2017 and there has been no material adverse change in the prospects of UniCredit and the Group since 31 December 2016. For the year ended 31 December 2016, UniCredit recorded a non-recurring negative impact of €13.1 billion on its net income resulting from the impact of certain actions provided for in the Strategic Plan. Consequently, the Group was temporarily breaching the Combined Buffer requirements and it was hence subject to distribution restrictions. Following the successful completion of the €13 billion Rights Offering on 2 March 2017, UniCredit fully restored all the applicable requirements.

Conflicts of Interest

As at the date of this Prospectus, and to the best of UniCredit's knowledge, no member of UniCredit managing and controlling bodies has any private interest conflicting with the obligations arising from the office or position held within UniCredit, except for those that may concern operations put before the relevant bodies of UniCredit, in accordance with the applicable procedures and in strict compliance with existing laws and regulations. Members of the UniCredit managing and controlling bodies must comply with the following provisions aimed at regulating instances where there exists a specific interest concerning the implementation of an operation:

- Article 53 of the Italian Banking Act sets forth the obligations envisaged by paragraph 1 of Article 2391 of the Italian Civil Code, hereinafter quoted, confirming the duty to abstain from voting for the Directors having a conflicting interest, on their own behalf or on behalf of a third party;

- Article 136 of the Italian Banking Act, which requires a particular authorisation procedure (a unanimous decision by the supervisory body with the exclusion of the concerned officers' vote and the favourable vote of all members of the controlling body) should a bank enter into obligations of any kind or enter, directly or indirectly, into purchase or sale agreements with its company officers;

- Article 2391 of the Italian Civil Code, which obliges directors to notify fellow directors and the Board of Statutory Auditors of any interest that they may have, on their own behalf or on behalf of a third party, in a specific company transaction, with the concerned member of the Board of Directors having to abstain from carrying out the transaction if he/she is also the CEO; and

- Article 2391-bis of the Italian Civil Code, CONSOB Regulation No. 17221 dated 12 March 2010 (and subsequent updates) concerning transactions with related parties, as well as the provisions issued by the Bank of Italy for the prudential supervision of banks concerning risk activities and conflicts of interest of banks and banking groups with associated persons (Circular No. 263/2006 of the Bank of Italy and subsequent updates).

In accordance with the aforementioned provisions, the transactions of greater relevance with related parties or with associated persons fall within the exclusive responsibility of the UniCredit Board of Directors, with the exception of the transactions falling under the responsibility of the UniCredit Shareholders' Meeting. For information on related-party transactions, please see Part H of the Notes to the consolidated financial statements of UniCredit S.p.A. as at 31 December 2016, incorporated by reference herein. Notwithstanding the obligations of Article 2391 of the Civil Code, UniCredit and its corporate bodies have adopted measures and procedures to ensure compliance with the provisions relating to transactions with Bank's Corporate Officers, as well as transactions with related parties and affiliated entities.

Notwithstanding the obligations of Article 2391 of the Civil Code, UniCredit and its organs have adopted measures and procedures to ensure compliance with the provisions relating to transactions with Bank's Corporate Officers, as well as transactions with related parties and affiliated entities.

Legal and arbitration proceedings

Except as disclosed in the EMTN Base Prospectus from page 206 to page 222 (*Legal and arbitration proceedings*), in the UniCredit Audited Consolidated Annual Financial Statements as at and for the financial year ended 31 December 2016 from page 419 to page 430 and in the UniCredit Consolidated First Half Financial Report as at 30 June 2016 from page 211 to page 220, which are incorporated by reference in this Prospectus, neither the Issuer nor any other member of the UniCredit Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which, according to the information available at present, may have or have had in such period a significant effect on the financial position or profitability of the Issuer or the UniCredit Group.

Auditors

UniCredit's annual financial statements must be audited by external auditors appointed by its shareholders, under reasoned proposal by UniCredit's Board of Statutory Auditors. The shareholders' resolution and the Board of Statutory Auditors' reasoned proposal are communicated to CONSOB. The external auditors examine UniCredit's annual financial statements and issue an opinion regarding whether its annual financial statements comply with the IAS/IFRS issued by the International Accounting Standards Board as endorsed by the European Union governing their preparation; which is to say whether they are clearly stated and give a true and fair view of the financial position and results of the Group. Their opinion is made available to UniCredit's shareholders prior to the annual general shareholders' meeting.

Since 2007, following a modification of the Financial Services Act, listed companies may not appoint the same auditors for more than nine years.

At the ordinary and extraordinary shareholders' meeting of UniCredit held on 11 May 2012, Deloitte & Touche S.p.A. (**Deloitte**) was appointed to act as UniCredit's external auditor for the 2013-2021 nine-year period, pursuant to Article 13, paragraph 1, of Legislative Decree No. 39/2010 and to CONSOB Communication 97001574 dated 20 February 1997.

Deloitte is a company incorporated under the laws of Italy, enrolled with the Companies' Register of Milan under number 03049560166 and registered with the Register of Statutory Auditors (*Registro dei Revisori Legali*) maintained by Minister of Economy and Finance effective from 7 June 2004 with registration number: 132587, having its registered office at via Tortona 25, 20144 Milan, Italy.

Availability of documents

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available, upon request, free of charge, during normal business hours from the registered office of the Issuer and from the specified office of the Paying Agent in each case at the address given at the end of this Prospectus:

(a) copies of the memorandum and articles of association of the Issuer (with an English translation thereof);

(b) the Agency Agreement (which includes, *inter alia*, the forms of Notes in definitive form, Coupons and Talons); and

(c) this Prospectus and any supplements to this Prospectus and any other documents incorporated therein by reference.

In addition, this Prospectus, and documents incorporated by reference herein, will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Yield

There is no explicit yield to maturity. The Notes do not carry a fixed date for redemption and the Issuer is not obliged, and under certain circumstances is not permitted, to make payments on the Notes at the full stated rate. The interest rate is also subject to periodic resetting.

For information purposes only, the yield of the Notes calculated on the basis of the Issue Price and the Initial Rate of Interest from, and including the Issue Date up to but excluding, the First Call Date and assuming no Write-Down during such period, would be 6.734 per cent. per annum. It is not an indication of the actual yield for such period or of any future yield.

Managers engaging in business activities with the Issuer

Save for any fees payable to the Managers and save for the fact that UniCredit Bank AG is part of the Issuer's group, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. Certain Managers and/or their affiliates have engaged and could in the future engage in commercial banking and/or investment activities with the Issuer and/or its affiliates and could, in the ordinary course of their business, provide services to the Issuer and/or to its affiliates. In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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