



CREDITO EMILIANO S.p.A.

(incorporated with limited liability in the Republic of Italy)

Issue of €100,000,000 Subordinated Callable Fixed Rate Reset Notes due 10 July 2027

The €100,000,000 Subordinated Callable Fixed Rate Reset Notes due 10 July 2027 (the **Notes**) will be issued by Credito Emiliano S.p.A. (the **Issuer** or **Credem**, and along with its subsidiaries, the **Credem Group**). The Notes will constitute direct, unsecured and subordinated obligations of the Issuer, as described in Condition 2 (*Status*) in "*Terms and Conditions of the Notes*".

The Notes will bear interest at the applicable Rate of Interest (as defined in Condition 3 (*Interest*)) from and including 10 July 2017 (the **Issue Date**), payable annually in arrear on 10 July in each year. The Rate of Interest for each Interest Period (i) from (and including) the Issue Date to (but excluding) 10 July 2022 (the **Reset Date**) will be 3.625 per cent. per annum and (ii) from (and including) the Reset Date to (but excluding) 10 July 2027 (the **Maturity Date**) will be the Reset Rate of Interest, each as defined in Condition 3 (*Interest*). The first payment representing a full year's interest shall be made on 10 July 2018.

Unless previously redeemed or purchased and cancelled as provided in "*Terms and Conditions of the Notes*", the Notes will be redeemed at 100 per cent. of their principal amount on 10 July 2027. Noteholders do not have the right to call for the redemption of the Notes. The Issuer may, at its option (subject to the approval of the Bank of Italy or any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer (the **Supervisory Authority**)), redeem the Notes in whole, but not in part, on 10 July 2022 (the **Call Date**) at their principal amount, together with interest accrued to the date fixed for redemption. The Issuer may also, at its option (but subject to the approval of the Supervisory Authority), redeem the Notes in whole but not in part at their principal amount, together with interest accrued to the date fixed for redemption, upon occurrence of a change in the regulatory classification of the Notes that would be likely to result in their exclusion, in whole, as Tier 2 Capital of the Issuer or the Credem Group, as further described in Condition 5.4 (*Redemption for Regulatory Reasons (Regulatory Call)*). The Notes may also be redeemed by the Issuer, at its option, at their principal amount, together with interest accrued to the date fixed for redemption, for taxation reasons as described in Condition 5.2 (*Redemption for Taxation Reasons*).

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, as amended (the **Luxembourg Act**) on prospectuses for securities to approve this document (the **Prospectus**) as a prospectus and 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 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.

This Prospectus (together with the documents incorporated by reference herein) is available for viewing on the website of the Luxembourg Stock Exchange (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 (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 1st April 1996, as amended), 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 72.

The Notes are expected to be rated "BBB-" by Fitch Ratings Ltd. (**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 "*Credit ratings may not reflect all risks*" in the "*Risk Factors*" 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 19 August 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 the light of their own circumstances and financial condition. For a discussion of these risks see "*Risk Factors*" below.

Sole Lead Manager

Morgan Stanley

The date of this Prospectus is 6 July 2017

This Prospectus constitutes a prospectus for the purposes of Article 5.3 of the Prospectus Directive and for the purposes of the Luxembourg Act. **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in a relevant member state of the European Economic Area.

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 does not omit anything likely to affect the import of such information.

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.

The Sole Lead Manager named under "*Subscription and Sale*" below has not expressly verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made by the Sole Lead Manager or any of its affiliates and no responsibility or liability is accepted by the Sole Lead Manager or by any of its 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. Neither the Sole Lead Manager, nor any of its 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.

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 by the Issuer or such other information as is in the public domain and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Sole Lead Manager.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the issuance of the Notes or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Sole Lead Manager.

Neither this Prospectus nor any other information supplied in connection with the issuance of 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 the Sole Lead Manager or any of its affiliates that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase the Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and its group. Neither this Prospectus nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Sole Lead Manager or any of its affiliates to any person to subscribe for or to purchase the Notes.

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 the Sole Lead Manager that any recipient of this Prospectus or of any other information supplied 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 and its group. 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 the Sole Lead Manager 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 Sole Lead Manager 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, or for the account or benefit of, 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 does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Sole Lead Manager do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Sole Lead Manager which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States of America, the United Kingdom and the Republic of Italy (see “*Subscription and Sale*”).

This Prospectus has been prepared on the basis that any offer of the Notes in any Member State of the European Economic Area (each, a **Relevant Member State**) 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 the Sole Lead 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, in each case, in relation to such offer. Neither the Issuer nor the Sole Lead 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 the Sole Lead Manager to publish or supplement a prospectus for such offer.

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 Sole Lead Manager 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 and any applicable supplements;
- 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.

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

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.

Some statement in this Prospectus, including the documents incorporated by reference herein, may be deemed to be forward-looking statements. Such items in this Prospectus include, but are not limited to, statements made under "*Risk Factors*" and "*Description of the Issuer*". Such statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. They can be generally identified by the use of terms such as "aims", "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "seeks", "should", "will" and "would", or by comparable terms and the negatives of such terms. 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 and on the current view of its management with respect to future events and financial performance as of the date such statements were made. These forward-looking statements are subject to risks, uncertainties and assumptions about Credito Emiliano S.p.A. and the Credem Group, including, among other things, the risks set out under "*Risk Factors*". Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Prospectus, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer has otherwise identified in this Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted.

The risks and uncertainties referred to above include:

- the Issuer's ability to achieve and manage the growth of its business;
- the performance of the markets in Italy, where the Issuer primarily operates;
- the Issuer's ability to realise the benefits it expects from projects and investments it is undertaking or plans to or may undertake;

- the Issuer's ability to obtain external financing or maintain sufficient capital to fund its existing and future investments and projects;
- changes in political, social, legal or economic conditions in the markets in which the Issuer and its customers operate.

Any forward looking statements contained in this Prospectus speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward looking statements contained in it to reflect any change in expectations or any change in events, conditions or circumstances on which any such forward looking statement is based.

All references in this Prospectus to **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. In addition, all references in this document to U.S. dollars, U.S.\$ and \$ refer to United States dollars and references to Sterling and £ refer to pounds sterling.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, MORGAN STANLEY & CO. INTERNATIONAL PLC IN ITS CAPACITY AS STABILISATION 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, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER WILL UNDERTAKE ANY SUCH STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY SUCH STABILISATION ACTIVITIES OR OVER ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Some of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons. 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, based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

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 relating to the Issuer and the Credem Group

Risks relating to the Issuer's business

As a credit institution, the Issuer is exposed to the typical risks associated with the business of a financial intermediary such as credit risk, market risk, interest rate risk, liquidity and operational risk, plus a series of other risks typical to businesses such as strategic risk, legal risk, tax and reputational exposure.

Credit risk relates to the risk of loss arising from counterparty default (in particular, recoverability of loans) or in the broadest sense from a failure to perform contractual obligations.

Market risk relates to the risk arising from market transactions in financial instruments, currencies and commodities.

Interest rate risk refers to the current or prospective risk to both the capital and earnings of institutions arising from adverse movements in underlying interest rates.

Liquidity risk relates to the Issuer's ability or lack thereof to meet cash disbursements in a timely and economic manner. It is quantified as the additional cost arising from asset sales and/or negotiation of new liabilities incurred by the intermediary when required to meet unexpected commitments by way of recourse to the market.

Operational risk relates to the risk of loss arising from shortcomings or failures in internal processes, people or systems and from external events.

Risks relating to economic and financial conditions

The earning capacity and stability of the Issuer are affected by the general state of the economy, the dynamics of financial markets and, in particular, the strength and growth prospects of the economy in Italy (and the creditworthiness of its sovereign debt), as well as that of the Eurozone as a whole. In this regard, trends in the following factors are of particular significance to the Issuer: expectations and investor confidence; the level and volatility of interest rates in the short and long term; exchange rates; the liquidity of financial markets; the availability and cost of capital; the sustainability of

sovereign debt; household incomes and consumer spending; and levels of unemployment, inflation and housing prices. Negative trends in relation to any of these factors, particularly in times of economic and financial crisis, may cause the Issuer to suffer losses, increases in funding costs and a diminution in the value of its assets, with a potential adverse effect on its liquidity, financial position and results of operations.

Risks connected with the creditworthiness of customers

The Issuer's business depends to a substantial degree on the creditworthiness of its customers. Notwithstanding its detailed controls including customer credit checks, it bears normal lending risks and thus may not, for reasons beyond its control (such as, for example, fraudulent behaviour by customers), have access to all relevant information regarding any particular customer, their financial position, or their ability to pay amounts owed or repay amounts borrowed. The failure of customers to accurately report their financial and credit position or to comply with the terms of their agreements or other contractual provisions could have an adverse effect on the Issuer's business and financial results.

Credit risk and risk of credit quality deterioration

In the context of credit activities, the Credem Group is exposed to the risk that contractual counterparties may not fulfil their payment obligations, as well as the possibility that Credem 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.

Other banking activities, besides traditional lending and deposit activities, can also expose the Credem Group to additional 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 Credem or other entities of the Credem Group could fail to comply with their obligations due to insolvency, political or economic events, a lack of liquidity, operating deficiencies, or for other reasons.

The Credem 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 Credem Group's credit exposure may exceed the levels determined pursuant to the relevant procedures, rules and principles adopted by the Credem Group. Therefore, the deterioration of the creditworthiness of key customers 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 the creditworthiness of counterparties, could have major negative effects on the activity, operating results and capital and financial position of Credem and/or the Credem Group.

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 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 a 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. Furthermore, 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 Credem Group.

On 20 March 2017, the ECB published its "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 (**non-performing loans** or **NPL**), 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 the ECB Single Supervisory Mechanism's expectations. The guidelines now form part of the ECB's day-to-day

supervisory activities with respect to banks with elevated levels of NPL's in their portfolios. 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.

Risk relating to the geographical coverage of the Credem Group's business

Credem Group's business is focused primarily on the Italian domestic market and therefore adverse economic conditions in Italy or a delayed recovery in the Italian market may have particularly negative effects on the Credem Group's business, financial condition and results of operations.

In addition, any downgrade of the Italian sovereign credit rating or the perception that such a downgrade may occur, may destabilise the markets and have a material adverse effect on the Credem Group's operating results, liquidity position, financial condition and prospects as well as on the marketability of the Notes.

Operational risks

The Credem Group, like all financial institutions, is exposed to many types of operational risk, including the risk of fraud by employees and outsiders, unauthorised transactions by employees or operational errors, including errors resulting from faulty information technology equipment or telecommunication systems, failure to comply with regulatory requirements and Conduct of Business rules and failure of external systems, for example, those of the Issuer's suppliers or counterparties. The Credem Group's systems and processes are designed to ensure that the operational risks associated with its activities are appropriately monitored. Any failure or weakness in these systems, however, could adversely affect its financial performance and business activities.

Risks connected with information technology

The Issuer's business relies upon integrated information technology systems, including an offsite back-up system. It relies on the correct functioning and reliability of such system and on its ability to protect the Issuer's network infrastructure, information technology equipment and customer information from losses caused by technical failure, human error, natural disaster, sabotage, power failures and other losses of function to the system. The loss of information regarding customers or other information central to the Issuer's business, such as credit risk control, or material interruption in the service could have a material adverse effect on its results of operations. In addition, upgrades to the Issuer's information technology equipment required by law or necessitated by future business growth may require significant investments.

Reduced interest rate margin

In recent years, the Italian banking sector has been characterised by increasing competition which, together with the level of interest rates, has caused a sharp reduction in the difference between borrowing and lending rates, lowering interest rate margins. In particular, such competition has had two main effects:

- (i) a progressive reduction in the differential between lending and borrowing interest rate, which may result in the Issuer facing difficulties in maintaining its actual rate of growth in interest rate margin; and
- (ii) a reduction in banking commissions and fees due to competition on prices.

Both of the above factors may adversely affect the Issuer's financial condition and results of operations. In addition, downturns in the Italian economy could cause pressure on the competition through, for example, increased price pressure and lower business volumes for which to compete.

Competition

The Issuer is subject to competition from a large number of companies who may offer the same financial products and services and other forms of alternative and/or novel forms of borrowing or

investment. Such competitors include banks and other financial intermediaries. In addition, the formation of increasingly large banking groups, and the entry of foreign financial institutions into the Italian banking market, may allow such companies to offer products and services on terms that are more financially advantageous than those which the Issuer is able to offer as a result of their possible economies of scale.

Competitive pressure may arise either from consumer demand of new services as well as technological demand, with the consequent necessity to make investments, or as a result of competitors' specific competitive actions. In the event that the Group is not able to respond to the increasing competitive pressure by, for example, offering profitable new services and products that meet client demands, the Group could lose market share in a number of business sectors and/or fail to increase or maintain the volumes of business and/or profit margins it has achieved in the past, with possible adverse effects on the Issuer's financial condition and results of operations.

Risks associated with the legislative, accounting and regulatory context

The Issuer's businesses are subject to substantial regulation and regulatory oversight. Any significant regulatory developments could have an effect on how the Issuer conducts its businesses and on its results of operations

The Issuer conducts its businesses subject to on-going regulatory and associated risks, including the effects of changes in laws, regulations, and policies in Italy and at a European level. The timing and the form of future changes in regulation are unpredictable and beyond the control of the Issuer, and changes made may have a material adverse effect on the Issuer's business.

The Issuer is required to hold a licence for its operations and is subject to regulation and supervision by authorities in the European Union and Italy. Extensive regulations are already in place and new regulations and guidelines are introduced relatively frequently. The rules applicable to banks and other entities in banking groups are mainly provided by the implementation of measures consistent with the regulatory framework set out by the Basel Committee on Banking Supervision (the **Basel Committee**) which are aimed at preserving their stability and solidity and limiting their risk exposure (see "*Basel III and the CRD IV Package*" below), or measures which are aimed at reducing the potential costs related to a banking group "resolution" further to Directive 2014/59/EU of the European Parliament and of the Council (the **Banking Recovery and Resolution Directive** or **BRRD**) (see "*Credem is subject to the provisions of the EU Bank Recovery and Resolution Directive*" below).

Regulators and supervisory authorities are taking an increasingly strict approach to regulations and their enforcement that may not be to the Issuer's benefit. A breach of any regulations by the Issuer could lead to intervention by supervisory authorities and the Issuer could come under investigation and surveillance, and become involved in judicial or administrative proceedings. The Issuer may also become subject to new regulations and guidelines that may require additional investments in systems and people, and compliance with which may place additional burdens or restrictions on the Issuer.

The Issuer is also subject to extensive regulation and supervision by the Bank of Italy, CONSOB, the European Central Bank (**ECB**) and the European System of Central Banks. The banking laws to which the Issuer is subject govern the activities in which banks and foundations may engage and are designed to maintain the safety and soundness of banks, and limit their exposure to risk. In addition, the Issuer must comply with financial services laws that govern its marketing and selling practices. The regulatory framework governing international financial markets is currently being amended in response to the credit crisis, and new legislation and regulations are being introduced in Italy and the European Union that will affect the Issuer, including proposed regulatory initiatives that could significantly alter the Issuer's capital requirements.

In particular, in the wake of the global financial crisis that began in 2008, the Basel Committee (as defined below) approved, in the fourth quarter of 2010, revised global regulatory standards (**Basel III**) on bank capital adequacy and liquidity, 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 due in 2019.

Basel III and the CRD IV Package

In January 2013 the Basel Committee 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 (to be completed in 2019), and expanded the definition of high quality liquid assets to include lower quality corporate securities equities and residential mortgage backed securities.

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 Regulation (EU) No 575/2013 of the European Parliament and of the Council of the European Union of 26 June 2013 on prudential requirements for credit institutions and investment firms (the **CRR Regulation** and, 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 transitional provisions provide for the phase-in until 2024). It is possible that EU Member States may introduce certain provisions at an earlier or later date than that set out in the CRD IV Package.

In Italy, the Government has approved the Legislative Decree no. 72 of 12 May 2015, implementing the CRD IV Directive, which entered into force on 27 June 2015. The new regulation impacts, *inter alia*, on:

- (i) proposed acquirers of credit institutions' holdings, shareholders and Members of the management body requirements (Articles 22, 23 and 91 of the CRD IV Directive);
- (ii) supervisory measures and powers (Articles 64, 65, 102 and 104 of the CRD IV Directive);
- (iii) reporting of potential or actual breaches of national provisions (so-called whistleblowing, (Article 71 of the CRD IV Directive); and
- (iv) administrative penalties and measures (Article 65 of the CRD IV Directive).

Moreover, 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 (the **Circular No. 285**)) which came into force on 1 January 2014, implementing the CRD IV Package and setting out additional local prudential rules concerning matters not harmonised on EU level.

Italian banks are required to comply with a minimum Common Equity Tier 1 (CET1) Capital Ratio of 4.5 per cent., a minimum Tier I Capital Ratio of 6 per cent., and a Total Capital Ratio of 8 per cent. These minimum ratios are complemented by the following capital buffers to be met with CET1 Capital:

- *Capital conservation buffer*: has applied to Credem from 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 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 risk-weighted assets, increasing to 1.875 per cent. of risk-weighted assets in 2018 and 2.5 per cent. of risk-weighted assets from 2019;
- *Counter-cyclical capital buffer*: is set by the relevant competent authority between 0 per cent. and 2.5 per cent. (but may be set higher than 2.5 per cent. where the competent authority considers that the conditions in the Member State justify this), with gradual introduction from 1 January 2016 and applying temporarily in the periods when the relevant national authorities judge the credit growth excessive (pursuant to Article 130 of the CRD IV Directive and Part I, Title II, Chapter I, Section III of Circular No. 285). As of 31 December 2016, the specific countercyclical capital rate for Italian banks amounted to zero per cent.;

- *Capital buffers for globally systemically important institutions (G-SIIs)*: set as an “additional loss absorbency” buffer ranging from 1.0% to 3.5% determined according to specific indicators (size, interconnectedness, lack of substitutes for the services provided, global cross-border activity and complexity); to be phased in 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. Credem was not included in the most recently updated list of G-SIIs published by the Financial Stability Board (**FSB**) in November 2016 (to be updated annually) and currently has no G-SII buffer requirement; and
- *Capital buffers for other systemically important institutions (O-SIIs)*: up to 2.0% as set by the relevant competent authority and must be reviewed at least annually from 1 January 2016), to compensate for the higher risk that such banks represent to the domestic financial system (Article 131 of the CRD IV Directive and Part I, Title II, Chapter I, Section IV of Circular No. 285). Credem has not been identified by the Bank of Italy as an O-SII and has no O-SII buffer requirement.

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 covered by the CRD IV Package, in the meaning 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. The Member States setting the buffer will have to notify the Commission, the EBA, and the European System Risk Board (the **ESRB**) and the competent designated authorities of the Member States concerned. For buffer rates between 3% and 5%, the Commission will provide an opinion on the measure decided and if this opinion is negative, the Member States will have to “comply or explain”. Buffer rates above 5% will need to be authorized by the Commission through an implementing act, taking into account the opinions provided by the ESRB and by the EBA.

At this stage no provision is included on the systemic risk buffer under Article 133 of the CRD IV as the Italian level-1 rules for the CRD IV implementation on this point have not yet been enacted.

On December 2016, following the outcomes of the Supervisory Review and Evaluation Process (SREP), the European Central Bank (ECB) assigned to Credem Group an additional and specific requirement to be held in excess of the minimum own funds requirement (a Pillar 2 requirement) equal to 1%.

Failure to comply with the above 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 and Part I, Title II, Chapter I, Section V of Circular No. 285).

As part of the CRD IV Package transitional arrangements, regulatory capital recognition of outstanding instruments which previously qualified as Tier I or Tier II capital instruments under the framework which the CRD IV Package has replaced and that no longer meet the minimum eligibility criteria under the CRD IV Package will have their capital recognition gradually phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition was capped at 80 per cent. in 2014, with this cap decreasing by 10 per cent. in each subsequent year (see, in particular, Part Two, Chapter 14, Section II of Bank of Italy’s Circular No. 285 of 17 December 2013).

The new liquidity requirements introduced under the CRD IV Package are the liquidity indicators (the **Liquidity Coverage Ratio**) and the Net Stable Funding Ratio (the **NSFR**). The Liquidity Coverage Ratio Delegated Act has been adopted in October 2014, published in the Official Journal of the European Union in January 2015 and it shall take effect from 1 January 2018.

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 EU Banking Reform, 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 in order to enhance regulatory harmonisation in Europe through the EBA single supervisory rulebook applicable to EU Member States (the **EBA Single Supervisory Rule Book**).

On 20 January 2015, the seventh update of Circular no. 272 of 30 July 2008 was also published (Folder «Accounts Matrix»), creating, always within the new notions of Non-Performing Exposures and Forbearance, a single definition in terms of supervisory reporting (separate and consolidated). For the purposes of supervisory statistical reporting, impaired financial assets are broken down into the categories of non-performing, probable defaults, past due and/or overdue impaired exposures; the sum of these categories corresponds to the aggregate Non-Performing Exposures referred to in the ITS. The category of forbearance exposures is also introduced. The notions of substandard loans and restructured loans are also cancelled. Forbearance exposures range over impaired assets and performing loans.

EU Banking Reform

On 23 November 2016, the European Commission released a package of proposals amending the CRD IV Directive and the CRR Regulation, as well as the BRRD (the **EU Banking Reform**) 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, with respect to the CRD IV Directive and the CRR Regulation, 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, as further described below) and to introduce the FSB's TLAC recommendations (see "*FSB's TLAC Recommendations*" below). Once these proposals are finalised, changes to the CRR Regulation will become directly applicable to the Credem Group. However, the CRD IV Directive amendments will need to be transposed into Italian law before taking effect.

The EU Banking Reform proposes a binding 3% Leverage Ratio and a binding detailed NSFR (which will require credit institutions and systemic investment firms to finance their long-term activities (assets and off-balance sheet items) with stable sources of funding (liabilities) in order to increase banks' resilience to funding constraints. In particular, under the proposal, the Leverage Ratio requirement is set at 3% of CET1 regulatory capital and is added to the own funds requirements in the CRR Regulation which institutions must meet in addition to/in parallel with their risk-based requirements, and will apply to all credit institutions and investment firms that fall under the scope of the CRR Regulation, subject to selected adjustments. Under the Commission's proposal to introduce a harmonised binding requirement for NSFR at EU level, the amount of available stable funding will be calculated by multiplying an institution's liabilities and regulatory capital by appropriate factors that reflect their degree of reliability over a year. The NSFR is expressed as a percentage and set at a minimum level of 100%, which indicates that an institution holds sufficient stable funding to meet its funding needs during a one-year period under both normal and stressed conditions. The NSFR will apply at a level of 100% to credit institutions and systemic investment firms two years after the date of entry into force of the proposed amendments to the CRR Regulation. These proposals under the EU Banking Reform (which require amendments to the CRD IV Package) need to be adopted by the European Parliament and Council, and it is currently unclear whether, when, and in what manner, they will be adopted.

Within the EU Banking Reform announced by the European Commission, amendments to the BRRD and the CRR Regulation were proposed to better define the criteria for 'eligible liabilities' that can be used to meet a firm's MREL (see "*Credem is subject to the provisions of the EU Bank Recovery and Resolution Directive*" below).

Should the Issuer not be able to implement the approach to capital requirements that it considers optimal in order to meet the capital requirements imposed by the CRD IV Package, it may be required to maintain certain levels of capital which could potentially impact its credit ratings, funding conditions

and limit the Issuer's growth opportunities.

Other Initiatives

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, amongst 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 Basel Committee published certain proposed changes to the current securitisation framework and issued a revision of the framework on 11 July 2016, including amendments on simple, transparent and comparable (**STC**) securitisations, coming into effect in January 2018. The European Commission also published in September 2015 a "Securitisation package" proposal under the Capital Markets Union (**CMU**) project. The package includes a draft regulation on Simple Transparent and Standardised (**STS**) securitisations and proposed amendments to the CRR Regulation. The legislative process has not been concluded yet.

FSB's TLAC Recommendations

On 9 November 2015 the Financial Stability Board (**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**) 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. The impact on G-SIBs may well come ahead of 2019, as markets may force earlier compliance and as banks will need to adapt their funding structure in advance. Credem has not been identified as a G-SIB in the 2016 list of global systematically important banks published by the FSB on 21 November 2016.

Basel Committee's review of RWA and Credit Valuation Adjustment (**CVA**) risk framework

Moreover, it is worth mentioning the Basel Committee has embarked on a very significant RWA variability review. This includes the "Fundamental Review of the Trading Book", revised standardised approaches (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. 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. Furthermore, the EU Banking Reform proposes to change the rules for calculating the capital requirements for market risks against trading book positions set out in the CRR Regulation. The proposal seeks to transpose the conclusions of the Fundamental Review of the Trading Book into EU law by establishing clearer and more easily enforceable rules on the scope of application to prevent regulatory arbitrage; improving risk-capture, making requirements proportionate to reflect more accurately the actual risks to which banks are

exposed; and strengthening the conditions to use internal models to enhance consistency and risk-weight comparability across banks. The proposed new rules envisage a phase-in period.

Also for counterparty exposures (generated by derivatives) the Basel Committee has proposed to retain Internal models, but subject to a floor based on a percentage of the applicable standardised approach.

Moreover, in the context of the revision of Credit Valuation Adjustment (**CVA**) risk framework, the option of adopting the internal model approach has been removed. The Basel Committee also published in March 2016 a consultative document on “Standardised measurement approach for operational risk”. The new approach would replace the three existing standardised approaches for calculating the operational risk, as well as the internal model-based approach. The revised operational risk capital framework will be based on a single non-model-based method for the estimation of operational risk capital, which is termed the Standardised Measurement Approach (**SMA**).

Such changes in the regulatory framework and how they will be implemented may have a material effect on all the European banks and on Credem’s business and operations as well. As the new framework of banking laws and regulations affecting Credem is currently being implemented, the manner in which those laws and related regulations will be applied to the operations of financial institutions is still evolving. No assurance can be given that laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of Credem. Prospective investors in the Notes should consult their own advisers as to the consequences for them of the application of the above regulations as implemented by each Member State.

ECB Single Supervisory Mechanism

On 15 October 2013, the Council of the European Union adopted Council Regulation (EU) No. 1024/2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the **SSM Regulation**) for the establishment of a single supervisory mechanism (the **Single Supervisory Mechanism** or **SSM**). From 4 November 2014, the SSM Regulation has given the ECB, in conjunction with the national regulatory authorities of the Eurozone and participating Member States, direct supervisory responsibility over “banks of systemic importance” in the Eurozone. In this respect, “banks of systemic importance” include any Eurozone bank that (i) has assets greater than €30 billion or – unless the total value of its assets is below €5 billion – greater than 20% of national gross domestic product; (ii) is one of the three most significant credit institutions established in a Member State; (iii) has requested, or is a recipient of, direct assistance from the European Financial Stability Facility or the European Stability Mechanism; (iv) is considered by the ECB to be of significant relevance where it has established banking subsidiaries in more than one participating Member State and its cross-border assets/liabilities represent a significant part of its total assets/liabilities.

Credem has been classified as a significant supervised entity within the meaning of Regulation (EU) No. 468/2014 of the European Central Bank of 16th April, 2014 establishing the framework for co-operation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (the **SSM Framework Regulation**) and, as such, are subject to direct prudential supervision by the ECB in respect of the functions conferred on the ECB by the SSM Regulation and the SSM Framework Regulation.

The relevant national competent authorities for the purposes of the SSM Regulation and the SSM Framework Regulation continue to be responsible, in respect of Credem, for supervisory functions not conferred on the ECB, such as consumer protection, money laundering, payment services, and supervision over branches of third country banks. The ECB, on the other hand, is 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 and in the Member States participating to the SSM; (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. National options and discretions that have so far been exercised by national competent authorities will be exercised by the SSM in a largely harmonised manner throughout the European Banking Union (the **Banking Union**). In this respect, on 14 March, 2016 and 24 March, 2016, respectively, the ECB adopted Regulation (EU) 2016/445 on the exercise of options and discretions as well as the ECB Guide on options and discretions available in European Union law (the **ECB Guide**), as supplemented by the Addendum published on 10 August, 2016. These documents lay down how the exercise of options and discretions in banking legislation (CCR, CRD IV and LCR Delegated Act) will be harmonised in the Euro area. They shall apply exclusively with regard to those credit institutions classified as "significant" in accordance with Article 6(4) of the SSM Regulation and Part IV and Article 147(1) of the SSM Framework Regulation. Depending on the manner in which these options/discretions have so far been 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. Regulation (EU) 2016/445 entered into force on 1 October 2016, while the ECB Guide has been operational since its publication.

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 **EBA Supervisory Handbook**).

Credem is subject to the provisions of the EU Bank Recovery and Resolution Directive

On 2 July, 2014, 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**) 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**) as part of the EU Banking Reform. 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 'nonpreferred' 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 firm 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 in Italy please refer to the paragraphs below.

The BRRD requires all EU 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 replaced by the Single Resolution Fund (**SRF** or the **Fund**), set up under the control of the Single Resolution Board (**SRB** or the **Board**), as of 1 January 2016 and the national resolution funds will be pooled together gradually. The SRF is intended to ensure the availability of funding support while a bank is resolved and will contribute to resolution if at least 8 per cent. of the total liabilities (including own funds) of the bank have been subject to bail-in. Therefore, as of 2016, the SRB will calculate, in line with a Council Implementing Act, the annual contributions of all institutions authorised in the Member States participating in the Single Supervisory Mechanism and the Single Resolution Mechanism (**SRM**). The SRF is to be built up over eight years, beginning in 2016, to the target level of €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 high level of covered deposits may abruptly decrease, while contributions of those banks established in Member States with fewer covered deposits may 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 exhausted the above resolution tools (including the general bail-in tool) to the maximum extent practicable whilst 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 EU state aid framework and the BRRD.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; its assets are, or are likely in the near future to be, less than its liabilities; it is, or is likely in the near future to be, unable to pay its debts or other liabilities as they fall due; or it requires extraordinary public financial support (except in limited circumstances).

In addition to the general bail-in tool and other resolution tools, the BRRD provides for resolution authorities to have the further power to permanently write-down, or convert into shares or other

instruments of ownership, capital instruments such as the Notes at the point of non-viability and before any other resolution action is taken (**non-viability loss absorption**). Any shares issued to holders of the Notes upon any such conversion into equity may also be subject to any future application of the BRRD (including the general bail-in tool).

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.

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 16th 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 (Legislative Decree No. 385 of 1st September, 1993, as amended) and deals principally with recovery plans, early intervention and changes to the creditor hierarchy.

The BRRD Decrees entered into force on 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 SME’s 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 Notes may be subject to write-down/conversion upon an application of the general bail-in tool while other series of Tier 2 notes issued by Credem (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.

Insofar as the creditor hierarchy is concerned, 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 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/conversion into shares or other instruments of ownership 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 any 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 the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

The BRRD also established that institutions shall meet, at all times, a minimum requirement for own funds and eligible liabilities (**MREL**). Under Article 45 of the BRRD, MREL is to be calculated as the amount of own funds and eligible liabilities expressed as a percentage of total liabilities and own funds of the institution. 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 SRB (for banks subject to direct supervision by the ECB). The SRB has targeted the end of 2017 for calculating binding MREL targets at consolidated level for all major banking groups under its remit, including the Issuer. Data collection for the determination of the MREL commenced in February 2016. 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 relevant 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.

On 23 November 2016, the European Commission presented the BRRD Reforms, as part of the EU Banking Reform, which introduces a number of proposed amendments to the BRRD. In particular, it is proposed that the MREL – which should be expressed as a percentage of the total risk exposure amount and of the leverage ratio exposure measure of the relevant institution – should be determined by the resolution authorities at an amount to allow banks to absorb losses expected in resolution and recapitalise the bank post-resolution. 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.

The BRRD Reforms also introduces an external MREL requirement and an internal MREL requirement to apply to entities belonging to a banking group, in line with the approach underlying the TLAC standard.

The BRRD 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 implementation of the BRRD or the taking of

any resolution action, as well as the proposed amendments to the BRRD under the EU Banking Reform, could materially affect the value of the Notes.

Credem is subject to the provisions of the Regulation establishing the Single Resolution Mechanism

On 19 August, 2014, the Regulation (EU) No. 806/2014 establishing a Single Resolution Mechanism (the **SRM Regulation**) entered into force.

The SRM Regulation became operational on 1st January, 2016. There are, however, certain provisions including those concerning the preparation of resolution plans and provisions relating to the cooperation of the SRB with national resolution authorities, which 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 Regulation, which will complement the SSM (as defined above), applies to all banks supervised by the SSM. It mainly consists of the Board and the SRF.

A centralised decision-making process will be built around the Board and will involve the European Commission and the Council – which will have the possibility to object to Board decisions – as well as the ECB and the national resolution authorities.

The Fund, which will back the SRM Regulation decisions mainly taken by the Board, will be divided into national compartments during an eight-year transitional period, as set out by an intergovernmental agreement. Banks were required to start paying contributions in 2015 to national resolution funds that will be transferred gradually into the Fund starting from 2016 (and will be additional to the contributions to the national deposit guarantee schemes).

This framework should be able to ensure that, instead of national resolution authorities, there will be a single authority – i.e. the Board – which will take all relevant decisions for the resolution of banks being supervised by the SSM and part of the Banking Union.

There are other benefits that will derive from the Banking Union. Such benefits are aimed at (a) breaking the negative feed loop between banks and their sovereigns; (b) providing a solution to home-host conflicts in resolution; and (c) a competitive advantage that Banking Union banks will have vis-à-vis non-Banking Union ones, due to the availability of a larger resolution fund.

The manner in which the SRM Regulation will operate is still evolving, so there remains some uncertainty as to how the SRM Regulation will affect Credem once implemented and fully operational.

Credem may be affected by new accounting standards (IFRS 9)

Following the entry into force and subsequent application of new accounting standards, regulatory rules and/or the amendment of existing standards and rules (including the ECB's comprehensive assessment of European banks), Credem may have to revise the accounting and regulatory treatment of certain transactions and the related income and expense.

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". In particular, IFRS 9 will introduce significant changes with regard to classification, measurement, impairment and hedge accounting of financial instruments.

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. The most significant impact of the IFRS 9 standard on financial instruments which will replace the current IAS 39 is the change from an incurred credit loss approach to an expected credit loss approach. As

the impact on the level of provisions and credit ratios can be significant, the European Commission is proposing in the EU Banking Reform package a five-year phasing-in period.

Market declines and volatility

The results of the Credem Group could be affected by general economic, financial and other business conditions. During a recession, there may be less demand for loan products (including mortgages) and a greater number of the Credem Group's customers may default on their loans or other obligations. An increase in the cost of funding and interest rate may also have an impact on the demand for loan products (including mortgages). The risk arising from the impact of the economy and business climate on the credit quality of the Credem Group's debtors and counterparties can affect the overall credit quality and the recoverability of loans (including mortgages) and amounts due from counterparties. Fluctuations in interest rates and cost of funding in Italy and in the Euro-zone and in the other markets in which the Issuer operates influence its performance.

An economic crisis may also negatively affect the value of collateral securing loans and have an adverse impact on the fair value of Credem Group's secured loans and mortgages, entailing additional provisions or reserve requirements. Moreover, when a debtor defaults on his collateralised loans or obligations, the value of the collateral could not be sufficient to meet the claims of the creditors so that Credem Group may not recover the full expected amount due.

Changes in interest rates

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

Credit and market risk

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

Protracted market declines and reduced liquidity in the markets

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

The Issuer is vulnerable to the current disruptions and volatility in the global financial markets

The Issuer's business is subject to risks concerning liquidity which are inherent in its banking operations, and could affect the Issuer's ability to meet its financial obligations as they fall due or to fulfil commitments to lend. In order to ensure that the Issuer continues to meet its funding obligations and to maintain or grow its business generally, it relies on customer savings and transmission balances, as well as on-going access to the wholesale lending markets. The ability of the Issuer to access wholesale and retail funding sources on favourable economic terms is dependent on a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions and confidence in the Italian banking system.

For example, in 2010, the European financial crisis, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Portugal, Spain and Italy, created concerns about the ability of these European Union states to continue to service their sovereign debt obligations affecting also Italian banking system's access to wholesale funding as well as the relative costs.

Financial market conditions have remained challenging and, in certain respects, have deteriorated. Credit quality has generally declined, as reflected by the downgrades suffered by several countries in the Euro-zone, including Italy, since the start of the sovereign debt crisis. The large sovereign debts and/or fiscal deficits in certain European countries, including Italy, have raised concerns regarding the financial condition of Euro-zone financial institutions and their exposure to such countries.

Currently, despite measures taken by several governments, international and supranational organisations and monetary authorities to provide financial assistance to Eurozone countries and financial institutions in economic difficulty, it remains difficult to predict the medium term effect of these measures on the economy and on the financial system and to what extent the Issuer's business, results of operations and financial condition may be adversely affected. There is no guarantee that such measures will ultimately and finally resolve uncertainties affecting such Eurozone states. Due to these concerns, also recently, the financial markets and the global financial system in general have been impacted by significant turmoil and uncertainty resulting in wide and volatile credit spreads (in particular on the sovereign debt of many European Union countries), increased instability in the bond and equity markets and a lack of price transparency in the credit markets, even if ECB's Quantitative Easing programme is currently limiting the spread of such issues among Euro-zone countries. Changes in financial and investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, may affect the Issuer's ability to access the capital and financial markets and, in turn, the Issuer's ability to meet its financial requirements and its obligations under the Notes. The continuing difficulties in the economy, the substantial bailouts of financial and other institutions by governments as well as measures designed to reignite economic growth have led to significant increases in the debt of several countries. As a consequence, various countries of the Euro-zone have had their credit ratings downgraded by the main rating agencies due to the escalation of their sovereign debt levels, political uncertainty regarding reform prospects of the Euro-zone and concern over the Euro-zone's increasingly weak macroeconomic prospects.

Any further downgrade of the Italian sovereign credit rating or the perception that such a downgrade may occur may severely affect the markets and have a material adverse effect on the Issuer's operating results, financial condition and prospects, as well as on the marketability of the Notes. This might also impact on the Issuer's credit ratings, borrowing costs and access to liquidity. A further Italian sovereign downgrade or the perception that such a downgrade may occur would be likely to have an effect in depressing consumer confidence, restricting the availability, and increasing the cost of funding for individuals and companies, depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of a new recession. These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies, in particular in Greece. Further instability within the Euro-zone might lead to more widespread problems.

These concerns may impact the ability of Euro-zone banks to access the funding they need, or may increase the costs of such funding, which could in turn cause such banks to suffer liquidity stress. If concerns over sovereign and bank solvency raised again, there would be a danger that inter-bank funding may become generally unavailable or available only at elevated interest rates, which might have an impact on the Issuer's cost of funding and, thus, to its accessibility. Should the Issuer be unable to continue to source a sustainable funding profile, the Issuer's ability to fund its financial obligations at a competitive cost, or at all, could be adversely impacted.

Risks associated with the economic context and consequences of Great Britain's exit from the European Union (Brexit)

The United Kingdom held a referendum on 23 June 2016 in which the majority voted in favour of leaving the European Union (Brexit). Negotiations are expected to commence to determine the future terms of the United Kingdom's relationship with the European Union, including the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend, among other things, on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could cause an increase in volatility in financial markets, a worsening in the terms of financing, especially in the so-called "peripheral" countries, including Italy, and consequently a possible economic slowdown. In addition, the outcome of the referendum may significantly influence other Member States to exit the European Union and the Monetary Union with further negative consequences for the above mentioned events. Moreover, it cannot be excluded that in the European Member States, including Italy, there may be further increases in political and institutional instability, with a consequent rise in interest rates for sovereign debt. All of this could cause an increase in the cost of the debt of the Issuer with the consequential negative effects on its operations, results and economic and financial position.

Risk management and exposure to unidentified or unanticipated risks

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

Governmental and central banks' actions intended to support liquidity may be insufficient or discontinued

In response to the financial markets crisis, the reduced liquidity available to market operators in the industry, the increase of risk premiums and the capital requirements demanded by investors, resulted in the fact that the level of capitalisation of banking institutions has had to be further increased, and likely, according to new regulations under discussion, will have to be strengthened. In many countries, this has been achieved through support measures for the financial system and direct intervention by governments in the share capital of the banks in different forms, which according to new European directives will not, in all circumstances, be applicable any more.

The unavailability of liquidity through such measures, or the decrease or discontinuation of such measures by governments and central authorities could result in increased difficulties in procuring liquidity in the market and/or result in higher costs for the procurement of such liquidity, thereby adversely affecting the Credem Group's business, financial condition and results of operations.

Risks related to the ratings assigned to the Issuer

Credem is rated by (i) Moody's Investors Service (Moody's), (ii) Fitch Ratings (Fitch) and (iii) Standard & Poor's Financial Services (S&P) which are established in the European Union and registered under Regulation (EC) No. 1060/2009 on credit rating agencies, (as amended) (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. A downgrade of the Issuer's rating (for whatever reason) might result in higher funding and refinancing costs for the Issuer in the capital markets. In addition, a downgrade of the Issuer's rating may limit the Issuer's opportunities to extend mortgage loans and may have a particularly adverse effect on the Issuer's image as a participant in the capital markets, as well as in the eyes of its clients. These factors may have an adverse effect on the Issuer's financial condition and/or the results of its operations.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH 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 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. 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 and the market value of the Notes, and the impact of this investment on the potential investor's overall investment portfolio.

The Notes are subordinated obligations of the Issuer

The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes in accordance with Part II, Chapter 1 of the Bank of Italy's *Disposizioni di Vigilanza per le Banche*, as set out in Bank of Italy Circular No. 285 of 17 December 2013, as amended or supplemented from time to time (the **Bank of Italy Regulations**), including any successor regulations, and Article 63 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 and amending Regulation (EU) No. 648/2012, as amended or replaced from time to time (the **CRD IV Regulation**). The Notes and the Coupons constitute unconditional, unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves, as more fully described in the "*Terms and Conditions of the Notes*".

In the event of the winding-up, dissolution, liquidation or bankruptcy of the Issuer or in the event that the Issuer becomes subject to an order for *Liquidazione Coatta Amministrativa*, as defined in Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended (the **Italian Banking Act**), the payment obligations of the Issuer under the Notes and the Coupons will rank in right of payment after unsubordinated unsecured creditors (including depositors) of the Issuer and after all creditors of the Issuer holding instruments which are less subordinated than the Notes but at least *pari passu* with all other subordinated obligations of the Issuer which do not rank or are not expressed by their terms to rank junior or senior to the Notes and in priority to the claims of shareholders of the Issuer. In the event of incomplete payment of unsubordinated creditors in the event of a 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.

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 were liquidated (whether voluntarily or involuntarily), the Noteholders could suffer loss of their entire investment.

There are no events of default under the Notes

Except as set out in Condition 8 (*Enforcement Event*), 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.

Regulatory classification of the Notes

The intention of Credem is for the Notes to qualify on issue as “Tier 2 capital” for regulatory purposes. However, current regulatory practice by the Bank of Italy does not require (or customarily provide) a confirmation prior to the issuance of Notes that the Notes will be treated as such.

Under Condition 5.4 (*Redemption for Regulatory Reasons (Regulatory Call)*), the Issuer may (subject to the provisions thereof), elect to redeem the Notes upon the occurrence of a change in the regulatory classification of the Notes that would be likely to result in their exclusion, in whole, as Tier 2 Capital of the Issuer or the Credem Group and both of the following conditions are met: (i) the Supervisory Authority considers such a change to be sufficiently certain and (ii) the Issuer demonstrates to the satisfaction of the Supervisory Authority that the change in regulatory classification of the Notes was not reasonably foreseeable by the Issuer as at the Issue Date. In the event of a redemption for regulatory reasons, there can be no assurance that an investor will be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed. Potential investors should consider reinvestment risk in light of other investments available at that time.

Holders may be subject to write-down or conversion into shares or other instruments of ownership

Holders of Notes may be subject to write-down or conversion into shares or other instruments of ownership on any application of non-viability loss absorption and/or the general bail-in tool under the BRRD, which may result in such holders losing some or all of their investment. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

The Notes are subject to early redemption

If the Issuer redeems the Notes pursuant to Condition 5.2 (*Redemption for Taxation Reasons*), Condition 5.3 (*Redemption at the Option of the Issuer (Issuer Call)*) or Condition 5.4 (*Redemption for Regulatory Reasons (Regulatory Call)*), such Notes will be redeemed at their principal amount, together with any accrued interest. 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 Supervisory Authority (if so required by the Relevant Regulations (as defined in Condition 5.4 (*Redemption for Regulatory Reasons (Regulatory Call)*)).

The Notes may also be redeemed on the Call Date at the option of the Issuer, subject to the prior written approval of the Supervisory Authority, pursuant to Condition 5.3 (*Redemption at the Option of the Issuer (Issuer Call)*).

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

In particular, the Rate of Interest applicable to the Notes will be reset on the Reset Date. Such Rate of Interest will be determined two TARGET Settlement Days before the Reset Date and as such is not pre-defined at the date of issue of the Notes; it may be different from the Initial Rate of Interest and may adversely affect the yield 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 2 (*Status*) 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.

Notes where denominations involve integral multiples: Definitive Notes

The Notes have denominations consisting of a minimum denomination of €100,000 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 €100,000. In such a case a Noteholder who, as a result of trading such amounts, holds an amount which is less than €100,000 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 €100,000 denomination.

If Definitive Notes are issued, Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of €100,000 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.

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.

Transactions in the Notes could be subject to a future European financial transactions tax.

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. See "*Taxation—The proposed European Financial Transactions Tax (FTT)*."

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 Notes.

Moreover, although pursuant to Condition 5.5 of the Notes (*Purchases*) 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 industrialized 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 related to the Notes – The Rate of Interest applicable to the Notes will be reset on the Reset Date*", above.

The Notes are expected to be investment grade but could become non-investment grade and subject to the risks associated with non-investment grade securities

The Notes are expected to be investment grade securities upon issue, but may be subject to downgrade to non-investment grade and have 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

The Notes are 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 is revised lower, suspended, withdrawn or not maintained by the Issuer, the market value of the Notes may be reduced.

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:	Credito Emiliano S.p.A.
Notes:	€100,000,000 Subordinated Callable Fixed Rate Reset Notes due 10 July 2027
Issue Price:	98.485 per cent.
Sole Lead Manager:	Morgan Stanley & Co. International plc
Fiscal Agent and Principal Paying Agent:	BNP Paribas Securities Services, Luxembourg Branch.
Form and Denomination:	The Notes will be issued in bearer form in denominations of €100,000 and integral multiples of €1,000 in excess thereof, up to (and including) €199,000.
Status of the Notes:	The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes in accordance with Part II, Chapter 1 of the Bank of Italy's <i>Disposizioni di Vigilanza per le Banche</i> , as set out in the Bank of Italy Regulations, including any successor regulations, and Article 63 of the CRD IV Regulation. The Notes and the Coupons constitute unconditional, unsecured and subordinated obligations of the Issuer and rank <i>pari passu</i> without any preference among themselves.
Maturity Date:	10 July 2027
Interest and Interest Payment Dates:	The Notes will bear interest at the applicable Rate of Interest from and including the Issue Date, and will be payable annually in arrear on 10 July of each year (each, an Interest Payment Date), commencing on 10 July 2018. The Rate of Interest in respect of the period from (and including) the Issue Date to (but excluding) the Reset Date (the Initial Period) will be equal to 3.625 per cent. per annum. The Rate of Interest for each Interest Period from (and including) the Reset Date to (but excluding) 10 July 2027 (the Maturity Date) (the Reset Interest Period), will be the sum of (a) the 5-Year Mid-Swap Rate in relation to the Reset Interest Period, and (b) 3.683 per cent. (the Margin). Reset Date means the Call Date. See Condition 3 (<i>Interest</i>).
No right of Noteholders to redeem:	The Notes may not be redeemed at the option of the Noteholders.

Redemption at the option of the Issuer - General:

The Issuer may, at its sole discretion (but subject to the provisions of Condition 5.8 (*Conditions to Early Redemption and Purchase of Notes*)), redeem the Notes in whole, but not in part, on 10 July 2022 (the **Call Date**) at their principal amount, together with all interest accrued to the date fixed for redemption.

Redemption at the option of the Issuer for Regulatory Reasons:

In addition, the Issuer may, at its sole discretion (but subject to the provisions of Condition 5.8 (*Conditions to Early Redemption and Purchase of Notes*)), at any time, redeem the Notes in whole but not in part upon occurrence of a change in the regulatory classification of the Notes that would be likely to result in their exclusion, in whole, as Tier 2 Capital of the Issuer or the Credem Group and both of the following conditions are met: (i) the Supervisory Authority considers such a change to be sufficiently certain and (ii) the Issuer demonstrates to the satisfaction of the Supervisory Authority that the change in regulatory classification of the Notes was not reasonably foreseeable by the Issuer as at the Issue Date, as more fully described in Condition 5.4 (*Redemption for Regulatory Reasons (Regulatory Call)*).

Redemption at the option of the Issuer for Taxation Reasons:

The Issuer may also, at its option (subject to the approval of the Supervisory Authority), redeem all the Notes, in whole but not in part, at any time at their principal amount together with interest accrued to but excluding the date fixed for redemption, if (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 6 (*Taxation*)) or any political subdivision of, or any authority in, or of, a Relevant Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after the Issue Date, provided that in the case of any redemption of Notes proposed to be made prior to the fifth anniversary of the Issue Date, any such change or amendment is, to the satisfaction of the Supervisory Authority, material and was not reasonably foreseeable by the Issuer as at the Issue Date; and (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it. See further Condition 5.2 (*Redemption for Taxation Reasons*).

Purchases:

The Issuer or any of its Subsidiaries (as defined in Condition 5.5 (*Purchases*)) may, subject to the provisions of Condition 5.8 (*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 appertaining to the Notes are purchased therewith. Such Notes may, subject to the approval of the Supervisory 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 Supervisory Authority shall be obtained where required; and (b) the total principal amount of the Notes so purchased does not exceed the lower of (i) 10 per cent. of the aggregate the principal amount of the Notes as at the Issue Date and any further Notes issued under Condition 12 (*Further Issues*) and (ii) 3 per cent. of the Tier 2 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 or modified pursuant to the Conditions with the Supervisory Authority's prior written approval (if so required by the Relevant Regulations).
Enforcement Event:	In the event that the Issuer shall become subject to <i>Liquidazione Coatta Amministrativa</i> as defined in the Italian Banking Act, any holder of a Note may, by written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare any such Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its principal amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.
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 11 (<i>Meetings of Noteholders and Modification</i>), make any modification to the Notes, the Receipts, the Coupons or the Agency Agreement 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 or the Couponholders. Any such modification shall be binding on the Noteholders and the Couponholders.
Further Issues:	The Issuer may from time to time, without the consent of the Noteholders or 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 amount and date of the first payment of interest, if any, on them) so as to be consolidated and 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 6 (<i>Taxation</i>)) 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 “BBB-” 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” at page 28.
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:	XS1644438928.
Common Code:	164443892.
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 Credem 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 and the Republic of Italy, see “<i>Subscription and Sale</i>” below. The Notes have not been registered under the Securities Act and are subject to restrictions on transfer as described under “<i>Subscription and Sale</i>.”
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.
Intended Regulatory Capital Treatment:	It is the intention of the Issuer that the Notes shall qualify as Tier 2 capital for regulatory capital purposes in accordance with Part II, Chapter 1 of the Bank of Italy Regulations, including any successor regulations, and Article 63 of the CRD IV Regulation.
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 “ <i>Risk Factors</i> .”

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 audited consolidated annual financial statements of the Issuer as at and for each of the financial years ended 31 December 2016 and 2015, to the extent specified in the cross-reference list below;
- (b) the auditors' reports for the consolidated annual financial statements of the Issuer as at and for each of the financial years ended 31 December 2016 and 2015;
- (c) The Memorandum and Articles of Association of the Issuer;
- (d) the interim consolidated financial statements of the Issuer as at and for the three months ended 31 March 2017 and 2016, to the extent specified in the cross-reference list below;
- (e) the press release dated 11 May 2017 setting out the Credem Group's interim results as at and for the three months ended 31 March 2017 (the **2017 Press Release**);
- (f) the press release dated 12 May 2016 setting out the Credem Group's interim results as at and for the three months ended 31 March 2016 (the **2016 Press Release**);

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.

Following the publication of this Prospectus, a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of the documents incorporated by reference in this Prospectus can be obtained free of charge from the registered office of the Issuer, from the specified office of the Paying Agent for the time being in Luxembourg, from the specified office in Luxembourg of BNP Paribas Securities Services, Luxembourg Branch (the **Luxembourg Listing Agent**) and from the website of the Issuer (<http://www.credem.it>) and from the website of the Luxembourg Stock Exchange, 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

Document	Information incorporated	Page numbers
Annual consolidated financial statements of the Issuer as at and for the year ended	Consolidated Balance Sheet	87-88

Document	Information incorporated	Page numbers
31 December 2016		
	Consolidated Income Statement	89
	Consolidated Statement of Comprehensive Income	90
	Statement of Changes in Consolidated Shareholders' Equity	91-92
	Consolidated Statement of Cash Flows	93-94
	Notes to the Financial Statements	97-387
Auditors' report for the consolidated annual financial statements of the Issuer as at and for the financial year ended 31 December 2016	Full document	
Annual consolidated financial statements of the Issuer as at and for the year ended 31 December 2015		
	Consolidated Balance Sheet	85-86
	Consolidated Income Statement	87
	Consolidated Statement of Comprehensive Income	88
	Statement of Changes in Consolidated Shareholders' Equity	89-90
	Consolidated Statement of Cash Flows	91-92
	Notes to the Financial Statements	95-383
Auditors' Report for the consolidated annual financial statements of the Issuer as at and for the financial year ended 31 December 2015	Full document	
Unaudited interim consolidated financial statements of the Issuer as at and for the three months ended 31 March 2017 (Additional Periodic Financial Disclosure)		
	Scope of consolidation	9
	Balance sheet, Income statement, Statement of comprehensive income and Statement of changes in shareholders' equity	11 – 18
	Explanatory notes	19 – 54
Unaudited interim consolidated financial statements of the Issuer as at and for the	Scope of consolidation	9

Document	Information incorporated	Page numbers
three months ended 31 March 2016 (Additional Periodic Financial Disclosure)	Balance sheet, Income statement, Statement of comprehensive income and Statement of changes in shareholders' equity	11 – 18
	Explanatory notes	19 – 54
Memorandum and Articles of Association of the Issuer	Full document	
2017 Press Release	Consolidated Income Statement	7 - 8
	Consolidated Balance Sheet	6
	Reclassified Consolidated Income Statement	8
2016 Press Release	Consolidated Income Statement	6 -7
	Consolidated Balance Sheet	2-5

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form:

The €100,000,000 Subordinated Callable Fixed Rate Reset Notes due 10 July 2027 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 12 (*Further Issues*) and forming a single series with the Notes of Credito Emiliano S.p.A. (the **Issuer**) are issued subject to and with the benefit of an Agency Agreement dated 10 July 2017 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, BNP Paribas Securities Services, Luxembourg Branch as fiscal agent and principal paying agent (the **Fiscal Agent**) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the **Paying Agents**). The holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons** respectively) are entitled to the benefit of a Deed of Covenant (the **Deed of Covenant**) dated 10 July 2017 and made by the Issuer. The original of the Deed of Covenant is held by the Common Depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

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 and the Deed of Covenant are available for inspection during normal business hours by the Noteholders and Couponholders 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 and the Deed of Covenant applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000 with Coupons attached on issue.

1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer and any Paying Agent will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. STATUS

- 2.1 The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes in accordance with Part II, Chapter 1 of the Bank of Italy's *Disposizioni di Vigilanza per le Banche*, as set out in Bank of Italy Circular No. 285 of 17 December 2013, as amended or supplemented from time to time (the **Bank of Italy Regulations**), including any successor regulations, and Article 63 of the 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 and amending Regulation (EU) No. 648/2012, as amended or replaced from time to time (the **CRD IV Regulation**). The Notes and the Coupons constitute unconditional,

unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.

- 2.2 In the event of the winding-up, dissolution, liquidation or bankruptcy of the Issuer or in the event that the Issuer becomes subject to an order for *Liquidazione Coatta Amministrativa*, as defined in Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended (the **Italian Banking Act**), the payment obligations of the Issuer under the Notes and the Coupons will rank in right of payment after unsubordinated unsecured creditors (including depositors) of the Issuer and after all creditors of the Issuer holding instruments which are less subordinated than the Notes but at least *pari passu* with all other subordinated obligations of the Issuer which do not rank or are not expressed by their terms to rank junior or senior to the Notes and in priority to the claims of shareholders of the Issuer.
- 2.3 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.

3. INTEREST

3.1 Interest Rate and Interest Payment Dates

The Notes bear interest at the applicable Rate of Interest from and including the Issue Date in accordance with the provisions of this Condition 3. Interest shall be payable annually in arrear on each Interest Payment Date. The first payment (representing a full year's interest) shall be made on 10 July 2018.

3.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 10 (*Notices*).

3.3 Initial Rate of Interest and Reset Rate of Interest

The Rate of Interest for each Interest Period from (and including) the Issue Date to but excluding the Reset Date (the **Initial Period**) will be 3.625 per cent. per annum (the **Initial Rate of Interest**).

The Rate of Interest for each Interest Period from (and including) the Reset Date to (but excluding) the Maturity Date (the **Reset Interest Period**) will be the applicable Reset Rate of Interest determined in accordance with these Conditions.

3.4 Determination of Reset Rate of Interest in relation to the Reset Interest Period

The Fiscal Agent will, as soon as reasonably practicable after 11:15 a.m. (Frankfurt time) on the day falling two TARGET2 Settlement Days prior to the Reset Date (the **Reset Rate of Interest Determination Date**), determine the Reset Rate of Interest.

3.5 Publication of Reset Rate of Interest

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 10 (*Notices*) as soon as reasonably practicable after such determination but in any event not later than the Reset Date.

3.6 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 nominal 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).

3.7 Notifications, etc. to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition by the Fiscal Agent or the Reset Reference Banks (or any of them), will (in the absence of manifest error) be binding on the Issuer, the Agents and all Noteholders and Couponholders and (in the absence of negligence, default or bad faith) no liability to the Issuer or the Noteholders or the Couponholders shall attach to the Fiscal Agent or the Reset Reference Banks (or any of them) in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this Condition.

3.8 Definitions

In this Condition:

5-year Mid-Swap 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 interest rate swap transaction in euro which (a) has a term commencing on the Reset Date which is equal to five years; (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 relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis);

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

- (a) the applicable annual mid-swap rate for swap transactions in euro (with a maturity equal to five years) as displayed on the Screen Page at 11.15 a.m. (Frankfurt time) on the Reset Rate of Interest Determination Date; or
- (b) if such rate is not displayed on the Screen Page at such time and date, the Reset Reference Bank Rate;

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

Day Count Fraction means the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to but excluding the relevant payment date divided by the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

If interest is required to be calculated for a period of less than one year, it will be calculated on an actual/actual (ICMA) basis for each period, being the actual number of days elapsed during the relevant period divided by 365 (or by 366 if a 29 February is included in such period), the result being rounded to the nearest cent (half a cent being rounded upwards);

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 10 July in each year from (and including) 10 July 2018;

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 10 July 2017;

Margin means 3.683 per cent.;

Maturity Date means 10 July 2027;

Rate of Interest means:

- (a) in the case of each Interest Period falling in the Initial Period, 3.625 per cent.; or
- (b) in the case of each Interest Period falling in the Reset Interest Period, the Reset Rate of Interest,

all as determined by the Fiscal Agent in accordance with this Condition 3.

Reset Date means the Call Date, as defined in Condition 5.3;

Reset Rate of Interest means, in relation to the Reset Interest Period, the sum of (a) the 5-year Mid-Swap Rate in relation to the Reset Interest Period and (b) the Margin;

Reset Reference Banks means five leading swap dealers in the principal interbank market relating to euro selected by the Fiscal Agent in its discretion after consultation with the Issuer;

Reset Reference Bank Rate means the percentage rate determined on the basis of the 5-Year Mid-Swap Quotations provided by the Reset Reference Banks to the Fiscal Agent at or around 11:15 a.m. (Frankfurt time) on the Reset Rate of Interest Determination Date and, rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded 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 or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be -0.058 per cent. per annum;

Screen Page means Bloomberg screen page "ISDAFix/Fixing Rates (Digital)/EURIBOR A (11:15am Fft)", or such other screen page as may replace it on Bloomberg or, as the case may be, on such other information service that may replace Bloomberg, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates; and

TARGET2 Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open.

4. PAYMENTS

4.1 Payments in respect of Notes

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

4.2 Method of Payment

Payments will be made 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.

4.3 Missing Unmatured Coupons

Upon the date on which any Note becomes due and repayable, all unmatured Coupons appertaining to the Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

4.4 Payments subject to applicable laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 6 (*Taxation*).

4.5 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 3 (*Interest*), be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 7 (*Prescription*)):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET2 Settlement Day.

In this Condition, **Business Day** means, in relation to any place, 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 that place.

4.6 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Fiscal Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having a specified office in the place required by the rules and regulations of the relevant Stock Exchange or any other relevant authority; and

- (c) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any variation, termination, appointment and/or of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 10 (*Notices*).

5. REDEMPTION AND PURCHASE

5.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 10 July 2027.

5.2 Redemption for Taxation Reasons

If:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 6 (*Taxation*)) or any political subdivision of, or any authority in, or of, a Relevant Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after the Issue Date, provided that in the case of any redemption of Notes proposed to be made prior to the fifth anniversary of the Issue Date, any such change or amendment is, to the satisfaction of the Supervisory Authority, material and was not reasonably foreseeable by the Issuer as at the Issue Date; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option (subject to the provisions of Condition 5.8 (*Conditions to Early Redemption and Purchase of Notes*)), having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 10 (*Notices*), to the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem the Notes, in whole but not in part, at any time at their principal amount together with interest accrued to but excluding the date fixed for redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts, were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent to make available at its specified offices to the Noteholders (i) a certificate signed by a Director or a duly authorised officer of the Issuer stating the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

5.3 Redemption at the Option of the Issuer (Issuer Call)

The Issuer may, subject to Condition 5.8 (*Conditions to Early Redemption and Purchase of Notes*), having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 10 (*Notices*), to the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem the Notes in whole, but not in part, on 10 July 2022 (the **Call Date**) at their principal amount, together with interest accrued to but excluding the date fixed for redemption.

5.4 Redemption for Regulatory Reasons (Regulatory Call)

The Issuer may, at its sole discretion (subject to the provisions of Condition 5.8 (*Conditions to Early Redemption and Purchase of Notes*)), at any time, on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 10 (*Notices*), to the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem the Notes, in whole but not in part, at their principal amount together with interest accrued to but excluding the date fixed for of redemption, upon the occurrence of a change in the regulatory classification of the Notes that would be likely to result in their exclusion, in whole or in part, as Tier 2 Capital of the Issuer or the Credem Group and both of the following conditions are met: (i) the Supervisory Authority considers such a change to be sufficiently certain and (ii) the Issuer demonstrates to the satisfaction of the Supervisory Authority that the change in regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent to make available at its specified offices to the Noteholders a certificate signed by a Director or a duly authorised officer of the Issuer stating that the said circumstances prevail and describe the facts leading thereto and the Fiscal Agent shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

In this Condition 5.4:

Relevant Regulations means any requirements contained in the regulations, rules, guidelines and policies of the Supervisory 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; and

Tier 2 Capital has the meaning given to such term (or any other equivalent or successor term) in the Relevant Regulations.

5.5 Purchases

- (a) The Issuer or any of its Subsidiaries (as defined below) may, subject to the provisions of Condition 5.8 (*Conditions to Early Redemption and Purchase of Notes*), purchase Notes in the open market or otherwise in any manner 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 appertaining to the Notes are purchased therewith. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may, subject to the approval of the Supervisory Authority (if so required by the Relevant Regulations), be held, reissued, resold or, at the option of the purchaser, surrendered to the 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 Supervisory Authority shall be obtained where required; and (b) the total principal amount of the Notes so purchased does not exceed the lower of (i) 10 per cent. of the aggregate principal amount of the Notes as at the Issue Date and any further Notes issued under Condition 12 (*Further Issues*) and (ii) 3 per cent. of the Tier 2 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.

In this Condition:

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

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person; and

Supervisory Authority means the Bank of Italy or any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer.

5.6 Cancellations

All Notes which are redeemed will forthwith (subject to the provisions of Condition 5.8 (*Conditions to Early Redemption and Purchase of Notes*)) be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes. All Notes so redeemed and cancelled pursuant to this Condition, and the Notes purchased and cancelled pursuant to Condition 5.5 (*Purchases*) above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

5.7 Notices Final

Upon the expiry of any notice as is referred to in paragraph 5.2, 5.3 or 5.4 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

5.8 Conditions to Early Redemption and Purchase of Notes

The Notes may only be redeemed, purchased, cancelled or modified (as applicable) pursuant to Conditions 5.2 (*Redemption for Taxation Reasons*), 5.3 (*Redemption at the Option of the Issuer (Issuer Call)*), 5.4 (*Redemption for Regulatory Reasons (Regulatory Call)*), 5.5 (*Purchases*), 5.6 (*Cancellations*) or 11.3 (*Modification*) as the case may be, with the prior written approval of the Supervisory Authority (if so required by the Relevant Regulations).

6. TAXATION

6.1 Payment without Withholding

All payments of interest in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) the holder of which is liable for Taxes in respect of such Note or Coupon by reason of having some connection with the Relevant Jurisdiction other than a mere holding of the Note or Coupon; or
- (b) presented for payment in Italy; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date (as defined in Condition 4 (*Payments*)); or

- (d) on account of imposta sostitutiva pursuant to Italian Legislative Decree No. 239 of 1st April 1996, as amended from time to time; or
- (e) presented for payment 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
- (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 other amounts 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.

6.2 Interpretation

In these Conditions:

- (a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 10 (*Notices*); and
- (b) **Relevant Jurisdiction** means Italy or any political subdivision or any authority thereof or therein having power to tax or 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 of principal and interest on the Notes and Coupons.

6.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

7. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes and Coupons will be prescribed and become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 4 (*Payments*).

8. ENFORCEMENT EVENT

In the event of a voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa* as defined in Legislative Decree No. 385 of 1 September 1993, as amended or supplemented from time to time) of the Issuer, any holder of a Note may, by written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare any such Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its principal amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

9. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

10. NOTICES

10.1 Notices to the Noteholders

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, published in one daily newspaper in Luxembourg or the Luxembourg Stock Exchange's website, *www.bourse.lu*. It is expected that publication in a newspaper will normally be made in the *Financial Times* and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the *Luxemburger Wort* or the *Tageblatt*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given if published in a leading English language daily newspaper published in London, on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

10.2 Notices from the Noteholders

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Fiscal Agent or, if the Notes are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

11. MEETINGS OF NOTEHOLDERS AND MODIFICATION

11.1 Meetings of Noteholders

- 11.2 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 any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. 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 a Reserved Matter the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing 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.

Reserved Matter means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution.

11.3 Modification

The Fiscal Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders, to:

- (a) any modification (except as mentioned above) of the Notes, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any modification shall be binding on the Noteholders and the Couponholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 10 (*Notices*).

12. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount and date of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

13. GOVERNING LAW AND SUBMISSION TO JURISDICTION

13.1 Governing Law

The Agency Agreement, the Deed of Covenant, the Notes (except for Condition 2 (*Status*)), the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant or the Notes and the Coupons are governed by, and construed in accordance with English law. Condition 2 (*Status*) is governed by, and shall be construed in accordance with, Italian law.

13.2 Submission to Jurisdiction

- (a) Subject to Condition 13.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons (a **Dispute**) and each of the Issuer and any Noteholders and Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

13.3 Appointment of Process Agent

The Issuer irrevocably appoints Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as its agent for service of process in any proceedings before the English courts in relation to any Dispute and agrees that, in the event of Law Debenture Corporate Services Limited being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing in this Condition shall affect the right to serve process in any other manner permitted by law.

13.4 Other Documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above.

13.5 Waiver of Trial by Jury

WITHOUT PREJUDICE TO CONDITION 13.2 THE ISSUER WAIVES ANY RIGHT IT MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION IN CONNECTION WITH THE NOTES AND THE COUPONS. THESE CONDITIONS MAY BE FILED AS A WRITTEN CONSENT TO A BENCH TRIAL.

14. RIGHTS OF THIRD PARTIES

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

15. CONTRACTUAL RECOGNITION OF STATUTORY BAIL-IN POWERS

By the acquisition of the Notes, each holder of the Notes acknowledges and agrees to be bound by the exercise of any Bail-in Power by the Supervisory 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 of the Issuer 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 Supervisory Authority of such Bail-in Power. Each holder of the Notes further agrees that the rights of the holders of the Notes are subject to, and will be varied if necessary so as to give effect to, the exercise of any Bail-in Power by the Supervisory Authority.

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 Supervisory 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 Supervisory 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 Supervisory 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 Credem Group.

OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

*The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together the **Global Notes**) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

1. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer pursuant to Condition 8 (*Enforcement Event*) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

2. Payments

On and after 19 August 2017, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Fiscal Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant Accountholders rather than by publication as required by Condition 10 (*Notices*), provided that, so long as the Notes are listed on any stock exchange, notices shall also be published in accordance with the rules of such exchange. Any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through the applicable clearing system's operational procedures approved for this purpose and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

4. Exchange and benefits

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if (each of the following being an **Exchange Event**):

- (a) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or
- (b) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

The Issuer will promptly give notice to Noteholders if an Exchange Event occurs. Thereupon, in the case of (a) above, the holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent and, in the case of (b) above, the Issuer may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Note for definitive Notes. Any exchange shall occur no later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent. Exchanges will be made upon presentation of the Permanent Global Note at the office of the Fiscal Agent on any day on which banks are open for general business in Luxembourg. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

In the event that (a) the Global Note (or any part of it) has become due and repayable in accordance with the Conditions or that the maturity date of the Notes has occurred and, in either case, payment in full of the amount due has not been made to the bearer on such date, or (b) following an Exchange Event, the Permanent Global Note is not duly exchanged for definitive Notes by the date provided in the Permanent Global Note; then from such date each Accountholder will become entitled to proceed directly against the Issuer on, and subject to, the terms of the Deed of Covenant executed by the Issuer on 10 July 2017 in respect of the Notes and the bearer will have no further rights under the Global Note (but without prejudice to the rights any person may have under the Deed of Covenant).

5. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 6 (*Taxation*)).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Fiscal Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Euroclear and Clearstream, Luxembourg

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate. References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system through which interests in the Notes are held.

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 Credem Group.

DESCRIPTION OF THE ISSUER

The Issuer's annual audited consolidated financial statements as at and for the year ended 31 December 2016 (the "2016 Annual Financial Statements") and its annual audited consolidated financial statements as at and for the year ended 31 December 2015 (the "2015 Annual Financial Statements") have been prepared in compliance with the accounting principles (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission as provided for by Regulation (EC) No. 1606/2002 of 19 July 2002.

The 2016 Annual Financial Statements and 2015 Annual Financial Statements are incorporated by reference into this Prospectus.

The 2016 Annual Financial Statements include comparative figures showing, inter alia, income statement and balance sheet items as at and for the year ended 31 December 2015.

The 2016 Annual Financial Statements and 2015 Annual Financial Statements have been audited by EY S.p.A (previously, Reconta Ernst & Young S.p.A.) The audit reports issued by EY S.p.A. are incorporated by reference into this Prospectus (see "Documents Incorporated by Reference").

Introduction and History

Credito Emiliano S.p.A. (the "**Issuer**" or the "**Bank**") was incorporated in Italy as a joint stock company (*società per azioni*) under the provisions of the Italian Civil Code on 12 July 1973 (with the name Interfinanziaria S.p.A.) and is registered in the company register of Reggio Emilia under number 01806740153 (Article 4 of the Issuer's By-laws provides for the duration of the Issuer until 31 December 2050). Its corporate objects, as set out in Article 3 of the By-laws, are deposit-taking and carrying on of all lending as well as providing banking and financial services, including financings and other specially regulated activities. Its registered office is at Via Emilia San Pietro, 4, 42121 Reggio Emilia, Italy, and its investor relations telephone number is +39 0522 582785.

The Issuer is one of the leading Italian private banks. The Issuer and its subsidiaries (together, the "**Credem Group**" or the "**Group**") form a medium-sized, multi-regional banking group, headquartered in Reggio Emilia in northern Italy. Having operated originally as a retail bank, the Credem Group now provides a full range of commercial and asset management services. An expansion plan commenced in the 1970s has given the Issuer a national presence based on its local origins: it is now active throughout the whole of Italy whilst maintaining a strong presence in Emilia Romagna. As at 31 December 2016, the Credem Group comprised 12 companies (known as the "Banking Group" perimeter – Credemvita (as defined below), as a life insurance company, despite being fully owned by the Issuer and being consolidated line-by-line, is not included in the "Banking Group" perimeter) operating in a wide range of financial activities.

The Issuer was established in 1910 under the name of Banca Agricola Commerciale di Reggio Emilia, as a local private bank in the northern region of Emilia Romagna. The current denomination of Credito Emiliano S.p.A. has been used since 1983 following the acquisition by the Issuer of Banca Belinzaghi di Milano, the first step taken by the Issuer towards expansion on a national level.

During the 1990s, the Credem Group implemented an active acquisition campaign, taking over almost thirty small Italian banks, mainly located in the southern part of Italy. In 1994, the Credem Group acquired Euromobiliare S.p.A. (**Euromobiliare**), a banking group active in investment banking and asset management sectors, from HSBC. Euromobiliare was merged with the Issuer in 1997 and since October of the same year, the Issuer has been listed on the Italian Stock Exchange.

As at 31 December 2016, the Credem Group had 537 branches operating across 19 regions and 91 provinces of Italy. The Issuer has had a branch in Luxembourg since 1996, that following the acquisition of Banco di Napoli International Lux S.A. in 1999, became Credem International Lux S.A. (**CREDEMLux**).

Principal Markets

The core business of Credem Group is focused on commercial banking and wealth management. Commercial banking relates to the distribution of financial products and provision of services to the Group's retail and corporate customers, with the wealth management focusing on management of mutual investment funds, SICAV investment funds, asset management as well as private equity. The Issuer is active in all areas of domestic retail and commercial banking and also operates, through its subsidiaries, in mutual fund management, leasing, factoring and insurance.

Business Overview

At 31 December 2016, the Credem Group reported net interest and other banking income equal to €1.102 million.

The Issuer's principal activities are: commercial banking and wealth management.

Commercial Banking

Commercial banking activities are conducted by the Issuer and certain other subsidiaries within the Credem Group: Credemleasing S.p.A. (**Credemleasing**), Credemfactor S.p.A. (**Credemfactor**), Creacasa S.r.l. (**Creacasa**), Banca Euromobiliare S.p.A. (**Banca Euromobiliare**), as well as the Issuer's subsidiary Credemlux in Luxembourg. As at 31 December 2016, the Issuer contributed €61.7 million (or 46.7%) to the Credem Group's net profit, compared to €74.3 million as at 31 December 2015 (44.7%).

Wealth Management

As at 31 December 2016, the Credem Group had over €30,953 million in customer assets under management. Asset management activities of the Credem Group are organised through Euromobiliare Asset Management SGR S.p.A. (**Euromobiliare Asset Management**), CredemLux (company that provides administrative and management support to Euromobiliare International Fund SICAV), Credem Private Equity SGR S.p.A. (**Credem Private Equity**) and Credemvita S.p.A. (**Credemvita**). As at 31 December 2016, the Credem Group had €6.3 billion in Insurance Reserves, managed through Credemvita.

Financial Highlights of the Credem Group

The following table shows selected financial information (consolidated) as at 31 December 2016 and 2015:

€ millions	31 December	
	(audited)	
	2016	2015
Total assets	39,569.0	37,455.3
Total liabilities	37,094.9	34,975.6
Group shareholders' Equity	2,474.1	2,479.7
Profit (loss) attributable to the Parent Company	131.9	166.2

Ownership and Capital Structure of the Issuer

As at the date of the Prospectus, the authorised share capital of the Issuer was €332,392,107 and the issued share capital was €332,392,107, divided into 332,392,107 ordinary shares with a nominal value of €1.00 each. As at the same date, the share capital was fully paid-up, no convertible debt

existed and the Issuer owns 1,349,953 treasury shares, corresponding to 0.41 per cent. of the share capital.

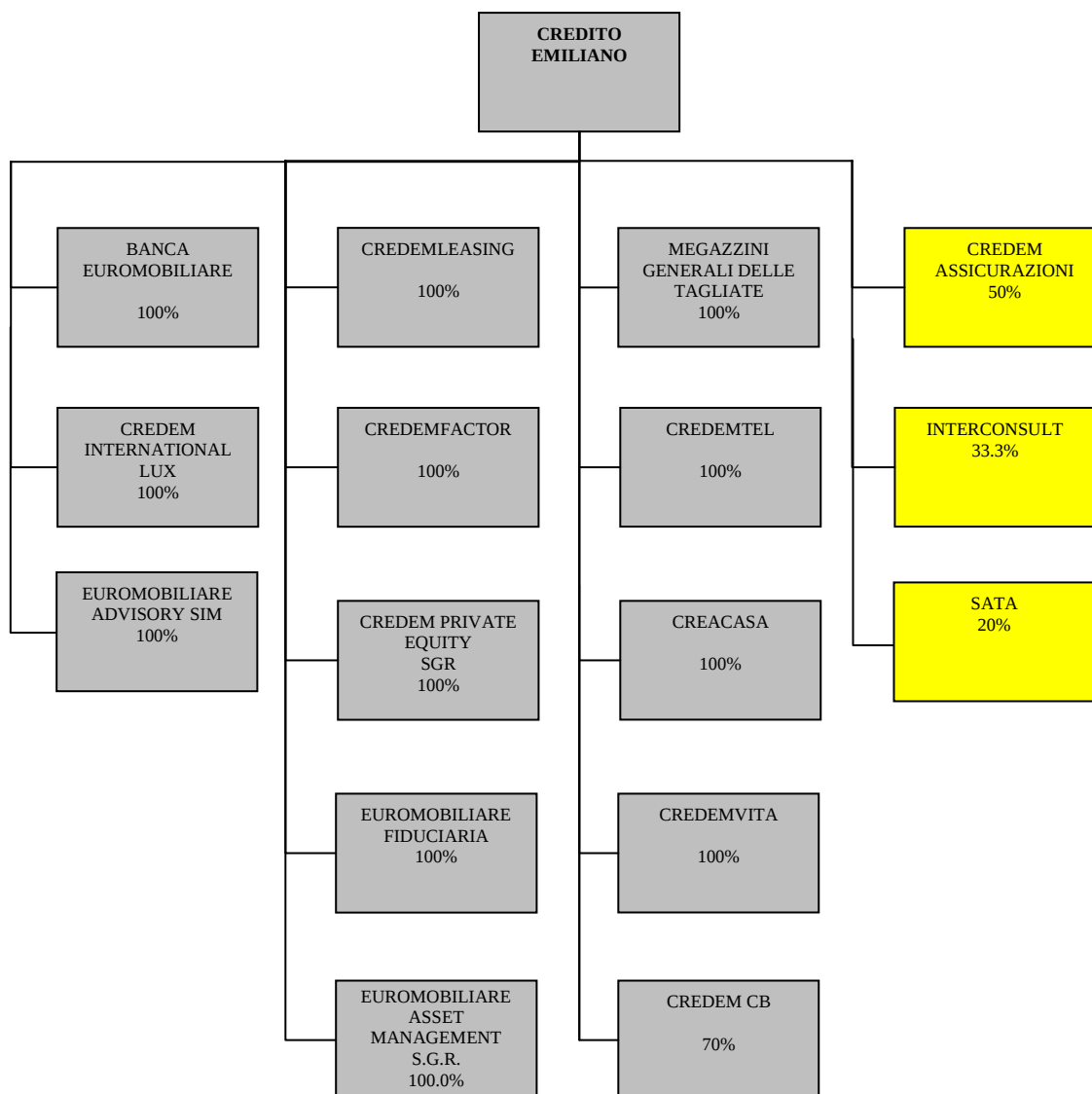
The Issuer is controlled by Credito Emiliano Holding S.p.A. (**CredemHolding**). As at 24 May 2017, the major shareholders of CredemHolding are Cofimar S.r.l. (19.97 per cent.)^(*), Max Mara Fashion Group S.r.l. (8.10 per cent.)^(*), Max Mara Finance S.r.l. (8.46 per cent.), Pictet & Cie S.A. (4.99 per cent.), Fincorrad S.r.l. (3.64 per cent.) and Eredi Savioli S.r.l. (3.44 per cent.). This group, together with various local families most of whom were amongst the original founders of the bank at the beginning of the century, entered into a shareholders' agreement controlling 76.0 per cent. of the shares in CredemHolding. The remaining 24.0 per cent. of the shares in CredemHolding are owned by approximately 2,800 other shareholders.

(*) to the value of shares with voting rights

As at the date of this Prospectus, CredemHolding holds 77.3 per cent. of the Issuer's share capital. The remaining 22.7 per cent. of the shares in the Issuer are listed on the Italian Stock Exchange and are widely held.

Organisational structure of the Credem Group

The following diagram shows the organisation of the Credem Group as at the date of the Prospectus.



Notes:

- percentages refer to directly or indirectly exercisable voting rights.
- The highlighted in yellow equity investments are valued under the equity method (Interconsult holding has been classified as “Non-recurring assets and discontinued operations”).
- Euromobiliare Advisory SIM S.p.A. is not currently active as it is still pending authorization to act as a *società di intermediazione immobiliare*

The following table provides certain information relating to the significant consolidated subsidiaries of the Issuer as at the date of the Prospectus.

		Type of Relationship (**)	Shareholding Relationship	
Company	Registered office		Shareholder	Share %
Consolidated line-by-line:				
Credem International (Lux) S.A.	Luxembourg	1	Credito Emiliano S.p.A.	100.00
Credemleasing S.p.A.	Reggio Emilia	1	Credito Emiliano S.p.A.	99.90
			Magazzini Generali delle Tagliate S.p.A.	0.10
Credemfactor S.p.A.	Reggio Emilia	1	Credito Emiliano S.p.A.	99.00
			Credemleasing S.p.A.	1.00
Credem Private Equity SGR S.p.A.	Reggio Emilia	1	Credito Emiliano S.p.A.	87.50
			Banca Euromobiliare S.p.A.	12.50
Euromobiliare Asset Management SGR S.p.A.	Milan	1	Credito Emiliano S.p.A.	100.00
Credemtel S.p.A.	Reggio Emilia	1	Credito Emiliano S.p.A.	100.00
Creacasa S.r.l.	Reggio Emilia	1	Credito Emiliano S.p.A.	100.00
Magazzini Generali delle Tagliate S.p.A.	Reggio Emilia	1	Credito Emiliano S.p.A.	100.00
Banca Euromobiliare S.p.A.	Milan	1	Credito Emiliano S.p.A.	100.00
Euromobiliare Fiduciaria S.p.A.	Milan	1	Credito Emiliano S.p.A.	100.00
Credemvita S.p.A.	Reggio Emilia	1	Credito Emiliano S.p.A.	100.00
Credem CB S.r.l.	Conegliano	1	Credito Emiliano S.p.A.	70.00
Euromobiliare Advisory SIM S.p.A.	Milan	1	Credito Emiliano S.p.A.	100.00
Consolidated using the equity method:				
Credemassicurazioni S.p.A.	Reggio Emilia	2	Credito Emiliano	50.00

Company	Registered office	Type of Relationship (**)	Shareholding Relationship	
			Shareholder	Share %
			S.p.A.	
Interconsult ^(*)	Luxembourg	3	CREDEM International (Lux) S.A.	33.33
S.A.T.A S.r.l.	Modena	3	Credemtel S.p.A.	20.00

(*) discontinued operations

(**) Type of relationship:

1 = majority of the voting rights of ordinary Shareholders' Meeting

2 = joint control

3 = associated companies

Strategy of the Credem Group

The Credem Group's strategy focusses on value creation, and has been developed over time through different phases, beginning in 1990, as demonstrated further below.

- *1990–1999: External growth* - through the acquisition of more than 30 small banks and Euromobiliare Group from Midland Bank.
- *2000–2003: Internal growth* - through divisionalisation, the opening of new branches and the creation of corporate centres, achieving sizeable market share increases.
- *2004–2006: Focus on profitability* - by capitalising on the recent expansion of the Credem Group and continuing to develop market shares.
- *2006–2008: Focus on profitability* - strengthening the role of the core businesses and maintaining volume increases above market average.
- *2009–2012: Facing the global crisis* – lowering the Group's risk profile both in term of market and credit risks while increasing the Group's focus on commercial banking business, capital ratios soundness and organisation efficiency.
- *2013 - ongoing: Taking advantage from a restructuring banking system while facing regulatory changes* – achieving a sizeable market shares increase both on lending and on direct and indirect deposits, investing in new technologies and commercial network while banking system has still to face the consequences of a multi-years economic recession. In the meanwhile, the Credem Group has implemented strategies, processes and mechanisms necessary to address the changing regulatory framework and increasing capital requirements, and to benefit from a wealth of external endorsements, opinions and provisions that further improved the Group's reputation in terms of security, reliability and solidity as regards its customers, the market and other stakeholders.

DISTRIBUTION CHANNELS AND RESOURCES

As at 31 December 2016, the Credem Group's distribution network consisted of 537 branches, 37 corporate centres and 57 financial outlets, with 855 financial advisors, 259 agents of Creacasa and 102 agents with Credem exclusive mandate for "salary backed loans" (*agenti cessione quinto*). The following table shows the distribution network of the Credem Group as at the dates indicated.

Distribution Structure	31 December	
	2016	2015
Credembanca	517	521
Banca Euromobiliare	20	20
Branches	537	541
Corporate Centres	37	42
Financial Outlets	57	54

Branch Network

The following table shows the geographical distribution of the Credem Group branch network as at 31 December 2016.

Region	Number	%
Trentino Alto Adige	4	0.7
Piemonte	19	3.5
Liguria	8	1.5
Lombardia	72	13.3
Veneto	28	5.2
Friuli-Venezia Giulia	7	1.3
Emilia Romagna	127	23.4
Marche	8	1.5
Abruzzo	3	0.6
Toscana	38	7.0
Umbria	5	0.9
Lazio	27	5.0
Molise	1	0.2
Campania	45	8.3
Puglia	50	9.2
Basilicata	2	0.4
Calabria	31	5.7
Sicilia	62	11.4
Sardegna	5	0.9
Total	517	100.0

Employees

The Credem Group had 6,075 employees as at 31 December 2016, compared to 5,911 employees as at 31 December 2015.

COMMERCIAL BANKING

Funding Activities

The Credem Group's total funding activities amounted to €31,581.264 million as at 31 December 2016.

The table below sets forth the composition of the consolidated funding activities of the Group as at 31 December 2016 and 2015:

€ millions	31 December	
	<i>(audited)</i>	
	2016	2015
Deposits from banks	4,218	5,759
Due to customers	20,563	17,871
Debt securities issued	4,069	4,475
Financial liabilities held for trading	65	78
Financial liabilities valued at fair value	2,666	2,173
Total funding activities	31,581	30,356

Interbank Deposits

As at 31 December 2016, 13.4 per cent. of the Credem Group's funding activities was represented by deposits from Italian and foreign banks. Total interbank deposits totalled €4,217,609 thousands as at 31 December 2016.

A breakdown of interbank deposits as at 31 December 2016 and 2015 is provided in the table below:

€ thousands	31 December	
	<i>(audited)</i>	
	2016	2015
Deposits from central banks	2,499,999	2,751,688
Deposits from banks	1,717,610	3,006,949
- current accounts and demand deposits	102,167	145,827
- time deposits and loans	26,114	107,430
- amount due for repurchase agreements on own equity investments	1,545,411	2,753,487
- other amounts due	43,918	205
Total	4,217,609	5,758,637

Customer Deposits

The Credem Group offers its retail and corporate customers a wide range of deposit products, including savings accounts, current accounts, bonds and time deposits. As at 31 December 2016, banking direct deposits (including repurchase agreements) amounted to €19,887 million. As at 31 December 2016, 98.4 per cent. of banking direct deposits were represented by current and savings accounts. Customer deposits are collected through the Credem Group's branch network " and through relationship management with corporate clients. See "Distribution Channels and Resources" for further information.

A breakdown of customer deposits as at 31 December 2016 and 2015 is provided in the table below:

31 December

€ millions	(audited)	
	2016	2015
Current & savings accounts ^(*)	19,560	17,206
Certificates of deposit	1	1
Other	326	233
Deposits	19,887	17,440
Bonds and subordinated debt	4,070	4,476
Direct deposits excluding repurchase agreements	23,957	21,916
Repurchase agreements ^(*)	-	-
Banking direct deposits^(**)	23,957	21,916
Insurance reserves^(**)	6,336	5,513
Indirect deposits at countervalue	43,696	41,826
Total Deposits	73,988	69,225

(*) the item does not include loans stipulated in the form of repurchase agreements with the clearing house and guarantee fund.

(**) "banking direct deposits" include the contribution of the companies belonging to the Group, while "insurance reserves" include Credemvita insurance reserves and financial liabilities designated at fair value.

A breakdown of indirect deposits as at 31 December 2016 and 2015 is provided in the table below:

€ millions	31 December	
	2016	2015
Indirect deposits at countervalue	43,696	41,826
- of which assets under management	24,617	22,544
- of which assets under custody	19,079	19,282

Subordinated Notes

As at 31 December 2016, subordinated notes of the Credem Group totalled €336,796 thousands (a 1.1 per cent. decrease compared to €340,525 thousands as at 31 December 2015), as set out in the table below:

€ thousands	31 December	
	(audited)	
	2016	2015
Subordinated Notes	336,796	340,525

Bonds and Securities Portfolio

As at 31 December 2016, the value of the Issuer's bond and securities portfolio was €13,202,266 thousands, compared to €12,077,520 thousands as at 31 December 2015).

The following table provides a breakdown of the Issuer's bond and securities portfolio by book value as at the dates indicated:

	31 December	
	<i>(audited)</i>	
<i>€ thousands</i>	2016	2015
Debt securities	9,251,202	9,322,384
Equities securities	18,316	18,752
Units of UCITS	3,653,691	2,496,037
Derivatives instruments	279,057	240,347
Total bond and securities portfolio	13,202,266	12,077,520

As at 31 December 2016, the composition of the Group's securities portfolio was as follows (as compared with the Group's portfolio composition as at 31 December 2015).

<i>€ thousands</i>	31 December 2016	31 December 2015
	<i>(audited)</i>	<i>(audited)</i>
Debt securities	9,251,202	9,322,384
• Level 1	9,084,243	9,216,576
• Level 2	145,527	87,804
• Level 3	21,432	18,004
Equity securities	18,316	18,752
• Level 1	3,684	1,437
• Level 2	2,615	-
• Level 3	12,017	17,315
Units of UCITS	3,653,691	2,496,037
• Level 1	3,615,487	2,470,252
• Level 2	-	-
• Level 3	38,204	25,785
Derivatives instruments	279,057	240,347
• Level 1	11	25
• Level 2	279,046	240,322
• Level 3	-	-
Total bond and securities portfolio	13,202,266	12,077,520

IFRS 7 requires financial instruments to be measured at fair value. The fair value hierarchy introduces 3 levels of inputs based on the lowest level of input significant to the overall fair value, in particular:

- Level 1: the fair value of financial instruments is calculated on the basis of listed prices observable on active markets (not adjusted) that may be accessed on the valuation date;

- Level 2: the fair value of financial instruments is calculated on the basis of inputs other than the listed prices included in Level 1 directly or indirectly observable for the asset or liability, also using valuation techniques;
- Level 3: the fair value of financial instruments is calculated on the basis of non-observable inputs for the asset or liability, also using valuation techniques that cannot be observed in the market.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the main market (or more advantageous) at the measurement date under current market conditions (namely an exit price), regardless of the fact that said price can be directly observed or that it is estimated using a different valuation technique.

Lending Activities

The Credem Group, through the Issuer and its banking subsidiaries, conducts activities in the corporate and retail lending sectors in Italy. As at 31 December 2016, consolidated total loans amounted to €24,415 million, of which €23,687 million represented net loans to customers and €728 million represented loans to banks.

The following table sets out the consolidated value of loans to non-bank customers for the periods indicated:

€ millions	31 December	
	(audited)	
	2016	2015
Loans to customers net of repurchase agreements	23,687	22,649
Repurchase agreements	-	444
Total	23,687	23,093

The most significant customer segments for the Credem Group was lending to households and small businesses. A breakdown of loans to customers by type of borrower (according to the Bank of Italy classifications) as at 31 December 2016 and 2015 is provided below:

	31 December			
	(audited)			
	2016		2015	
	€ millions	%	€ millions	%
Governments and other public entities	314.3	1.3	301.9	1.3
Financial institutions	308.4	1.3	732.1	3.2
Non financial institutions	12,873.1	54.4	12,311.5	53.3
Others	10,191.6	43.0	9,747.5	42.2
Total	23,687.4	100.0	23,093.0	100.0

A breakdown of customer loans by instrument, as at 31 December 2016 and 2015 is set out below:

31 December

	<i>(audited)</i>			
	2016		2015	
	€ millions	%	€ millions	%
Current accounts	2,362	10.0	2,655	11.5
Repurchase agreements	-	-	444	1.9
Mortgages	10,478	44.2	9,780	42.3
Credit cards, personal loans and salary-backed loans	1,241	5.2	1,116	4.8
Finance leasing	2,042	8.6	1,894	8.2
Factoring	831	3.5	679	2.9
Other transactions	5,927	25.0	5,733	24.8
Debt securities	-	-	-	-
Impaired assets	807	3.4	793	3.4
Total	23,687	100.0	23,093	100.0

Non Performing Loans

The following table sets out a breakdown of loans to customers and provisions as at and for the period ended 31 December 2016:

<i>€/millions</i>	Gross exposure	Specific value adjustments	Net exposure
Non Performing loans:			
Bad loans	856.0	510.4	345.6
Unlikely to pay loans	504.1	78.8	425.3
Past-due loans	43.0	7.2	35.8
Total Non Performing loans	1,403.1	596.4	806.7

Bad loans represent exposure towards customers in a state of insolvency, where legal or other actions have been taken with the aim to recover the amounts outstanding. Unlikely to pay are loans due from the customers facing temporary difficulties. . Past-due loans include the loans the payment of interest on which is overdue by more than 90 days.

The relative trend of impaired loans relating to the Credem Group is illustrated in the following table:

	31 December	
	<i>(audited)</i>	
<i>€ millions (except percentages)</i>	2016	2015
Net Bad loans/net loans to customers (%)		
Credem Group	1.5	1.6
Industry ^(*)	5.3	5.3
Provisions for losses (non-performing loans)(%)		
Credem Group	59.6	60.8

	31 December	
	<i>(audited)</i>	
Gross exposures		
Bad loans	856.0	909.7
Unlikely to pay loans	504.1	451.0
Past-due loans	43.0	70.0
Total Non Performing loans	1,403.1	1,430.7
Specific write-downs	806.7	637.7
Net exposures		
Bad loans	345.6	356.8
Unlikely to pay loans	425.3	376.2
Past-due loans	35.8	60.0
Total net exposures	806.7	793.0

(*) Industry figures are taken from the Economic Bulletin of the Bank of Italy.

Loans to banks

Loans and placings with banks totalled €728.0 million as at 31 December 2016, compared to €499.8 million as at 31 December 2015, broken down by facility type as set out in the table below:

	31 December	
	<i>(audited)</i>	
€ thousands	2016	2015
Loans to central banks	589,860	244,244
Time deposits	0	0
Compulsory reserves	589,860	244,244
Repurchase agreements	0	0
Others	0	0
Loans to banks	138,127	255,547
Current accounts and demand deposits	47,500	161,514
Time deposits	88,500	80,705
Others	2,127	13,329
Debt securities	0	-1
Impaired Assets	0	0
Total	727,987	499,791

LEASING AND FACTORING

Credemleasing has been operating in the leasing market since 1980. The company operates through branches located in Emilia Romagna, Campania, Lazio, Lombardia, Piemonte, Sicilia, Toscana,

Puglia, Calabria and Veneto, and has set-up a series of sub-branches in certain offices of the Issuer and the other banks in the Credem Group throughout other regions of Italy. It is active in all areas of financial leasing: vehicles, plant and machinery, real estate and shipping. As at the date of this Prospectus, Credemleasing is among the leading leasing companies operating in Italy (*Source: ASSILEA- Associazione Italiana Leasing*, of which Credemleasing is one of the founding partners).

As at 31 December 2016, Credemleasing signed 3,847 contracts with customers (an increase of 9.3 per cent. compared to 3,520 as at 31 December 2015) for a total value of €664.4 million, of which €230.3 million were represented by real estate leasing (an increase of 17.7 per cent. compared to €195.6 million as at 31 December 2015). Total leasing receivables as at 31 December 2016 amounted to €2,328 million, compared to €2,175 million as at 31 December 2015.

Factoring activities within the Credem Group are performed through Credemfactor. Credemfactor was established in 1986 and is based in Reggio Emilia, with branches in Bologna, Bari/Bisceglie, Catania, Milano, Napoli, Padova, Palermo, Prato, Reggio Emilia, Roma, Torino and trading points at offices of other banks of the Credem Group throughout Italy. As at 31 December 2016, the company's net profit amounted to €4,242 million, compared to €6,209 million as at and for the period ended 31 December 2015.

WEALTH MANAGEMENT

As at 31 December 2016, total asset under management amounted to €30,953 million of which mutual funds and SICAVs amounted to €11,472 million.

The business is operated through Euromobiliare Asset Management, Credem International Lux, Credem Private Equity and Credemvita.

OTHER SERVICES

Credemtel S.p.A. offers technical support to the interbank corporate banking services division.

Magazzini Generali delle Tagliate S.p.A. is based in Reggio Emilia and offers warehousing and maturing services for cheeses. Net profit as at 31 December 2016 amounted to €525 thousand, compared to €985 thousand as at and for the period ended 31 December 2015.

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

The Credem Group has always considered high quality risk management to be a fundamental element and a strategic objective, in order to ensure the safeguarding of its assets, maximum effectiveness and efficiency of the value creation process, integrate decision making and operational management of different business areas with a multidimensional risk-earnings assessment and to ensure consistency of operational processes with strategies, policies and internal regulations of the Group.

Risk management for the Credem Group is performed by means of an integrated department which processes information regarding customers and the market. The Issuer's risk management policy is based on a stringent control of financial risks. Risk management procedures are developed and monitored by a department which is external to the Finance Area. The rules relating to the Group's financial risks require regular reporting and supply of other information to the Issuer's senior management, committees and board of directors. Risk management and monitoring activity is undertaken by screen-based and electronic systems, which allow a real-time updating of the Group's positions. The risk management system is based on gap, duration and convexity analysis. An asset and liability committee, which meets on a quarterly basis, monitors the Group's overall trend and exposure to financial risks. Derivative products are used principally for hedging purposes, or for trading with the customer base.

In relation to the control of market risks, the Group's risk management policy focusses principally on the Issuer, by means of a system that allows both individual and joint monitoring. The table below sets

out overall average risk (banking book and trading book), calculated using Value At Risk (**VAR**) methodology (using confidence intervals of 99 per cent., 10-day intervals and multiplying coefficient equal to 3 in accordance with the Bank of Italy's most recent requirements) as at the dates indicated:

€ millions	31 December 2016		31 December 2015	
	Avg.	Max.	Avg.	Max.
CREDEM	27.9	61.7	42.3	136.2
Credemleasing	1.1	4.6	0.9	2.2
Banca Euromobiliare	0.5	1.4	0.2	0.4

Credit Procedures

The main objectives of the Issuer's credit policy are to increase customer loans whilst maintaining a high credit quality and avoiding impaired loans.

The Issuer targets small-to-medium-sized companies, offering itself as a strategic, and not merely a financial, partner. The main basis for granting credit lines is the borrowing companies' ability to generate income and cash flow.

The Issuer's credit risk management remains centralised, and is based on a separation of the roles of the credit proposer/customer relations officer and that of the credit approval officer.

A Central Credit Analysis Department, created to ensure separation of roles, approves the majority of the Issuer's loans. Thus the branches to whom the role of proposing and managing the loans is delegated decide only on a limited portion of the Issuer's loans.

The customer relationship officer is responsible for gathering all necessary information regarding the customer to enable an analysis of its current and prospective credit-worthiness. The responsibility of the deliberating officer or body is to evaluate customer's credit-worthiness and thus to establish the appropriateness of the proposal. Particular care is taken in the analysis of credit requests relating to the construction and property sector and aimed at financing companies in general, as well as medium-long-term financing and participations in syndicated loans.

The decision making process is as follows:

- (a) information gathering;
- (b) analysis of the information (balance sheet, budget, statistic data and sector analysis);
- (c) granting of an internal rating (this is a synthetic indicator of the client's risk level); and
- (d) definition of the amount and of the structure of credit lines and securities.

Credits are regularly reviewed in a six to 24 months period.

The number of officers involved in the credit decision process depends on the size of the credit being extended, according to an internal procedure that appoints increasing powers of approval to officers at different levels of management.

Maximum potential credit limits for each customer are defined by the Bank of Italy regulations.

On 2 October 2015, the Bank of Italy authorised the Issuer to use (as of 30 September 2015) the IRB (Internal Ratings-Based Approach) Advanced method (PD, LGD, EAD) for the quantification of the capital requirements against customer credit risk under the corporate and retail portfolios of the Issuer and Credemleasing. The authorisation marks the completion of a roll-out plan the implementation of

which started in June 2008 with the authorisation to use the IRB Foundation method for the corporate customers of the Issuer.

As part of its credit policy the Issuer accepts both personal guarantees and pledged assets as collateral.

CAPITAL ADEQUACY

The Bank of Italy has adopted risk-based capital ratios (**Capital Ratios**) pursuant to European Community (**EC**) capital adequacy directives. Italy's current capital requirements are, in many respects, similar to the requirements imposed by the international framework for capital measurement and capital standards of banking institutions of the Basel Committee on Banking Regulations and Supervisory Practices. The Capital Ratios, revised after numerous innovations introduced by new Basel III regulations in force from 1 January 2014, compare capital requirements to face bank's assets and certain off-balance sheet items, weighted according to risks (Risk-Weighted Assets).

The Issuer calculates and reports its Capital Ratios on a consolidated basis. In December 2016, the Issuer received notification of the ECB's final decision concerning the capital requirement it has to meet on a consolidated basis as of 1 January 2017. The overall capital requirement the Issuer has to meet in terms of Common Equity Tier 1 is 6.75%, in terms of Tier 1 Ratio is 8.25% and in terms of Total Capital Ratio is 10.25%. Those thresholds include the additional requirement set by the Supervisory Authority for the Group, equal to 1% (the lowest among the Italian banking groups subject of European supervision). The table below set forth the own funds and capital adequacy ratios of the Credem Group as at 31 December 2016 and 2015 in accordance with the relevant regulations.

Group Capital Requirements

	31 December		
	<i>(audited)</i>		
<i>(€ millions)</i>	2016^(*)	2016^(**)	2015^(***)
Total own funds	2,048.3	2,002.5	2,009.8
- of which Common Equity Tier 1	1,842.2	1,768.0	1,834.3
- of which Tier 1 Capital	1,842.2	1,768.0	1,834.3
Capital absorption relative to the following risks:			
- credit and counterparty risk	941.5	938.1	926.3
- market risk	20.1	20.6	17.3
- operational risk	115.0	115.0	117.4
Total Capital Requirement	1,076.6	1,073.7	1,061.0
<i>(%)</i>			

	31 December		
	(audited)		
CET capital ratio ^(****)	13.7	13.2	13.8
Tier 1 capital ratio	13.7	13.2	13.8
Total capital ratio	15.2	14.9	15.2
Minimum supervisory requirements^(*****)			
CET 1 capital ratio	7.0	7.0	7.0
Tier 1 capital ratio	8.5	8.5	8.5
Total capital ratio	10.5	10.5	10.5

(*) regulations in force in 2016 “phased in”
(**) regulations in force in 2016 “fully phased”
(***) transitional regime in force in 2015
(****) if CET1<TIER1; CET1=T1
(*****) including the “capital conservation buffer”

ALTERNATIVE PERFORMANCE MEASURES

This Prospectus contains, or incorporates by reference, certain financial measures and alternative performance indicators that the Issuer considers to constitute alternative performance measures (“**APMs**”) for the purposes of the ESMA (European Securities Markets Authority) Guidelines on Alternative Performance Measures (the “**Guidelines**”). These APMs are used in order to help the assessment of the quality and sustainability of the net result of the Credem Group in the various business segments and territorial areas. Investors should view the APMs as complementary to, and not a substitute for, the figures determined according to IFRS.

The Issuer considers the following financial measures to constitute APMs:

<i>APM</i>	<i>Definition/reconciliation</i>
Asset Under Management	The total market value of assets that an investment company or financial institution manages on behalf of Groups’ clientele and which generate asset management fees based on a percentage of the assets’ market value. AUM reflects assets that are generally managed for institutional, high net-worth and retail clients and are distributed through various investment products including mutual funds, other commingled vehicles and separate accounts.
Asset Under Custody	Custodial financial assets administered for

	Group's customers excluding brokerage assets.
Classification of loans by rating classes	Is the distribution of bank's credit exposure by counterparties' credit worthiness. It could be a driver for the future evolution of the "Net impairment on loans".
ROE	Calculated as Profit for the period on average "shareholders' equity" at year (x-1) and year (x). The ratio is a proxy of the profit (return) that the bank can generate leveraging on the shareholders' equity
non-interest margin / operating income	According to bank's P&L reclassification is the ratio between revenues related to fees and commissions, as well as trading activities and insurance products, on bank's total income. It's the portion of total income less directly impacted by the evolution of interest rates
operating costs / operating income	According to bank's P&L reclassification is the ratio between total costs, excluding "amortisation/depreciation", and bank's total income. It's a measurement of the efficiency of the bank in managing its own business: the less is the ratio the higher is the efficiency of the bank.
personnel costs / operating income	According to bank's P&L reclassification is the ratio between costs related only to personnel, excluding "amortisation/depreciation" and "other administrative costs", and bank's total income. It's a measurement of the efficiency of the bank in managing its own business, in term of number of resources (employees) needed: the less is the ratio the higher is the efficiency of the bank, in term of employees needed.
ROA	Calculated as Profit for the period on total assets. The ratio is a proxy of the profitability generated by bank's assets
"Cost of credit" or "Cost of risk"	Calculated as "Net impairment (losses)/reversals on loans" on average "Loans to Customers" at year (x-1) and year (x). A low level of the ratio could be a driver of the quality of the bank's loans book and support bank's profitability
% level of coverage	Incidence of specific write-downs (allowances) on credit gross exposures by impaired loans category (i.e. non-performing loans, unlikely to pay, past due loans and total impaired loans). The higher is the ratio, the lower is the value that the bank expects to recover from the impaired exposure.
% net non-performing loans/ net loans to customers	Incidence of non-performing loans on "Loans to customers". It's a ratio that could be considered as a proxy of the quality of the bank's lending process: the lower is the ratio, the higher is the

The Issuer believes that such measures provide useful information to investors regarding the financial position, cash flow and financial performance and in particular allow for comparison with similar measures published by other banks as well as average industry standard, and better illustrate specific aspects and trends of the Issuer's business activities.

RECENT DEVELOPMENTS

Interim results as at and for the three months ended at 31 March 2017

On 11 May 2017, the Issuer published a press release setting out Credem Group interim results as at and for the three months ended 31 March 2017. A copy of such press release is incorporated by reference in this Prospectus (see "Documents Incorporated by Reference" above).

MANAGEMENT

Board of Directors

The Board of Directors of the Issuer is responsible for the administration of its affairs. It oversees the overall performance of the Credem Group and approves significant transactions carried out by the Issuer and its subsidiaries.

The current Board of Directors of the Issuer, and the respective positions of the individual Directors, is set out below:

Name	Position	Principal activities performed by the Directors outside the Issuer
Giorgio Ferrari	Chairman of the Board of Directors	1) Banca Euromobiliare S.p.A. (D); 2) Credemassicurazioni S.p.A. (VC); 3) Credemholding S.p.A. (C); 4) Credemvita S.p.A. (C); 5) Euromobiliare; 6) Asset Management S.g.r. S.p.A. (D); 7) Credemleasing S.p.A. (C); 8) Euromobiliare Advisory Sim S.p.A. (D); Principal position in "Max Mara Group": 9) Max Mara S.r.l. (CA); 10) Max Mara Fashion Group S.r.l. (CA); 11) Maxima S.r.l. (CA); 12) Marina Rinaldi S.r.l. (CA); 13) Manifatture Del Nord S.r.l. (CA); 14) Manifatture di San Maurizio S.r.l. (CA); 15) Diffusione Tessile S.r.l. (CA); 16) Imax S.r.l. (CA);
Ignazio Maramotti *	Vice Chairman	Principal position in "Max Mara Group": 1) Max Mara S.r.l.(C); 2) Max Mara Fashion Group S.r.l. (C); 3) Marina Rinaldi S.r.l. (D); 4) Maxima S.r.l. (VC); 5)

Name	Position	Principal activities performed by the Directors outside the Issuer
		Manifatture Del Nord S.r.l. (D); 6) Diffusione Tessile S.r.l. (D); 7) Imax S.r.l. (D); 8) Cofimar S.r.l. (C).
		1) Banca Euromobiliare S.p.A. (D); 2) Credem Private Equity S.g.r. S.p.A. (VC); 3) Credem International (Lux) S.A. (C); 4) Euromobiliare International Fund Sicav (C); 5) Credemholding S.p.A. (D); 6) Euromobiliare Advisory Sim S.p.A. (C); 7) Credeamassicurazioni S.p.A. (C); Principal position in "Fenera Group": 8) Fenera Holding S.p.A. (C).
Lucio Igino Zanon di Valgiurata *	Vice Chairman	
Romano Alfieri	Director	1) Credemholding S.p.A. (D); 2) Padana Tubi e Profilati Acciaio S.p.A. (D).
		1) Banca Euromobiliare S.p.A. (D); 2) Credem Private Equity S.g.r. S.p.A. (C); 3) Euromobiliare Fiduciaria S.p.A. (VC); 4) Credemholding S.p.A. (D); Principal position in "Max Mara Group": 5) Marina Rinaldi S.r.l. (A); 6) Max Mara Fashion Group S.r.l. (A); 7) Max Mara S.r.l. (A); 8) Maxima S.p.A. (A); 9) Diffusione Tessile S.r.l. (A).
Enrico Corradi *	Director	
Giorgia Fontanesi	Director	-
Ugo Medici*	Director	1) Max Mara Fashion Group S.r.l. (D).
Ernestina Morstofolini**	Director***	-
Benedetto Renda	Director	1) Credemholding S.p.A. (D).
Paola Schwizer**	Director	1) Servizi Italia S.p.A. (D); 2) Inwit S.p.A. (D); 3) Crescita S.p.A. (A).
Corrado Spaggiari**	Director***	-
Giovanni Viani	Director	-

* Members of the Executive Committee

** Independent board members pursuant to Article 148, paragraph 3, of Legislative Decree No. 58 of 24 February 1998, as amended

*** Directors elected on 19 December 2013, with a mandate duration is equal to other Directors

Pursuant to the Issuer's By-laws, the Board of Directors must at all times be composed of between 9 and 15 members, such number to be determined by the Shareholders' General Meeting. According to the By-laws, a *voto di lista* system is applied to elect the Board of Directors. In accordance with the By-laws, the Board of Directors is invested with complete powers of ordinary and extraordinary administration other than those reserved by applicable law or by the By-laws to the meeting of the shareholders. Pursuant to the By-laws, the Board of Directors is entitled to appoint and define the powers of an Executive Committee. Pursuant to applicable Italian law, directors may be elected for a term of up to three financial years and may be re-elected. The current Board of Directors was elected for a three-year term commencing 30 April 2015 and will therefore expire on the date of the shareholders' meeting that will approve the annual financial statements for the fiscal year as at and for the year ended on 31 December 2017.

The business address of the Directors is Via Emilia San Pietro, 4, 42121 Reggio Emilia, Italy.

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

Board of Statutory Auditors

Pursuant to Italian law, in addition to electing the Board of Directors, the Issuer's shareholders also elect a *Collegio Sindacale* (Board of Statutory Auditors) composed of three independent experts in accounting matters, plus two alternate auditors to replace statutory auditors who resign or are otherwise unable to serve. According to the By-laws, a *voto di lista* system is applied to elect the statutory auditors. The current Board of Statutory Auditors was appointed for a term expiring on approval of the financial statements for the year ending 31 December 2018.

As at the date of this Prospectus, the Board of Statutory Auditors is made up of the following members.

Name	Position	Principal activities
Anna Maria Allievi	Chairman	1) IGD SIIQ S.p.A. (CA); 2) Cap Holding S.p.A. (A); 3) Cir S.p.A. (A).
Giulio Morandi	Auditor	1) Credemleasing S.p.A. (A); 2) Credem Private Equity S.g.r. S.p.A. (A); 3) Credemvita S.p.A. (A); 4) Euromobiliare Asset Management S.g.r. S.p.A. (A); 5) Euromobiliare Advisory Sim (A); 6) Fispas S.r.l. (A); 7) Profiltubi S.p.A. (CA); 8) Sansedoni Siena S.p.A. (A).
Maria Paglia	Auditor	1) Fidiprof Nord Società Cooperativa (D); 2) Antichi Pellettieri S.p.A. (A).
Giulia De Martino	Alternate Auditor	1) Saipem S.p.A. (A); 2) Anas International Enterprise S.p.A. (A); 3) Eni Trading & Shipping S.p.A. (A);
Tiziano Scalabrini	Alternate Auditor	1) Car Server S.p.A. (CA); 2) Cmr Group S.p.A. (A).

The business address of the Statutory Auditors is Via Emilia San Pietro, 4, 42121 Reggio Emilia, Italy.

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

TAXATION

The following is a summary limited to certain tax considerations in Italy and Luxembourg relating to the Notes and specifically contains information on taxes on the income from the securities withheld at source. This summary is based on the laws in force in Italy and Luxembourg as of the date of this Prospectus and is subject to any changes in law. It does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes.

Each prospective Noteholder or beneficial owner of Notes should consult its tax advisor as to the tax consequences of any investment in or ownership and disposition 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. 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 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

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.

Tax treatment of the Notes

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 (a) an individual not engaged in an entrepreneurial activity to which the Notes are connected (unless he has opted for the application of the *risparmio gestito* regime – see under “Capital gains tax” below); (b) a non commercial partnership; (c) a non-commercial private or public institution; or (d) an investor exempt from Italian corporate income taxation, interest, premium and other income relating to the Notes, accrued during the relevant holding period, are subject to a withholding tax, referred to as “*imposta sostitutiva*”, levied at the rate of 26 per cent. In the event that the Noteholders described under (a) and (c) 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 or to real estate investment company with fixed capital (**Real Estate SICAFs**), are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of a real estate investment fund or the Real Estate SICAF.

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) 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*, 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 Tax**).

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by Article 17 of the 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*, to be subject to a 20 per cent. substitute

tax (subject to certain adjustments for fiscal year 2014, as provided by Law No. 190 of 23 December 2014 (the **Finance Act 2015**)).

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 (a) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary and (b) 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 (a) 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 (b) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (c) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) 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 (a) 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 (b) 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 an (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non-commercial partnership, (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 Finance Act 2017.

In respect of the application of *imposta sostitutiva*, taxpayers may opt for one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by the Italian resident individual Noteholder holding the Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding the Notes not in connection with an entrepreneurial activity 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 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.

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity 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 (a) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries (including permanent establishments in Italy of foreign intermediaries) and (b) 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.

Any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity 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.

Any capital gains realised by a Noteholder who is an Italian real estate fund to which the provisions of Decree 351 as subsequently amended apply or 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 or the Real Estate SICAF.

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 Tax.

Any capital gains realised by a Noteholder who is an Italian pension fund (subject to the regime provided for by article 17 of the 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 (with certain adjustments for fiscal year 2014 as provided by the Finance Act 2015).

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 the Notes and 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 the Notes not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that the effective beneficiary: (a) is resident in a country which allows for a satisfactory exchange of information with Italy, as listed in the White List; or (b) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (c) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) 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

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; (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 a 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 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 on 20 June 2012) 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.

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 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

Non-resident Noteholders

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident Noteholders, 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 Noteholders.

Resident Noteholders

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (the **Relibi Law**), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Noteholders, 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 Luxembourg resident Noteholders.

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 withholding tax at a rate of 20 per cent.

SUBSCRIPTION AND SALE

Morgan Stanley & Co. International plc (the **Sole Lead Manager**) has, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 6 July 2017, agreed to subscribe or procure subscribers for the Notes at the issue price of 98.485 per cent. of the principal amount of the Notes (the **Issue Price**), less certain commissions, in accordance with the terms and conditions contained therein. The Issuer will also reimburse the Sole Lead Manager in respect of certain of its expenses, and has agreed to indemnify the Sole Lead Manager 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 regulations promulgated thereunder.

The Sole Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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.

United Kingdom

The Sole Lead Manager has represented, agreed and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to 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 Legislative Decree No. 385 of 1 September, 1993, as amended (the **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 to the Sole Lead Manager, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

General

The Sole Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable 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 the Sole Lead Manager shall have any responsibility therefor.

Neither the Issuer nor the Sole Lead Manager 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 to the CSSF to approve this document as a prospectus. Application has also 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. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). The Issuer estimates that the amount of expenses related to the admission to trading of the Notes will be approximately €5,550.

Websites

Any websites included in this Prospectus are for information purposes only and do not form part of the Prospectus.

Rating

The ratings of the Issuer are available on the Issuer's website <https://www.credem.it/content/credem/en/credem-group/investor-relations/ratings.html>

The following table shows the ratings of the Issuer as at the date of this Prospectus:

Rating agencies	Long term (outlook)	Short term
Fitch Ratings (latest review 27 April 2017)	BBB (stable)	F2
Standard & Poor's Financial Services LLC (latest review 2 December 2015)	BBB- (stable)	A-3
Moody's Investors Service (latest review 9 June 2017)	Deposits: Baa1 (negative) Counterparty Risk Assessment: Baa1 Senior Unsecured and Issuer Rating: Baa3	Prime-2

Each of Standard & Poor's, Fitch and Moody's is established in the European Union and registered under the CRA Regulation, and is included in the list of registered credit rating agencies published on the website of the European Securities and Markets Authority at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>.

Authorisation

The issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 19 January 2017.

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under ISIN XS1644438928 and common code 164443892. 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 changes in financial position

There has been no significant change in the financial or trading position of the Issuer and the Credem Group since 31 March 2017.

No material adverse change

There has been no material adverse change in the prospects of the Issuer or the Credem Group since 31 December 2016.

Legal and arbitration proceedings

There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer.

Auditors

On 30 April 2013, EY S.p.A (previously, Reconta Ernst & Young S.p.A.), whose registered office is in Via Po 32, 00198 Rome, Italy, was appointed as the new auditor of the Issuer to perform the audit of the Financial Statements of the Issuer for the years from 31 December 2014 to 31 December 2022.

EY S.p.A (previously, Reconta Ernst & Young S.p.A.), is therefore the audit firm of the Issuer in respect of the years ended 31 December 2016 and 2015 and has audited and rendered unqualified audit reports on the consolidated financial statements of the Issuer for the years ended 31 December 2016 and 2015

EY S.p.A (previously, Reconta Ernst & Young S.p.A.) is authorized and regulated by the Italian Ministry of Economy and Finance (“MEF”) and registered under No. 70945 on the special register of auditing firms held by the MEF.

EY S.p.A (previously, Reconta Ernst & Young S.p.A.) is also a member of ASSIREVI – Associazione Nazionale Revisori Contabili.

As of the date of this Prospectus, EY S.p.A (previously, Reconta Ernst & Young S.p.A.) have not resigned, nor have been removed or re-appointed.

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 for inspection, 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 and Coupons); 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 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 Call Date, would be 3.965 per cent. per annum. It is not an indication of the actual yield for such period nor of any future yield.

Sole Lead Manager engaging in business activities with the Issuer

The Sole Lead Manager and its affiliates (including its parent companies) have engaged, and may in future engage, in investment banking and/or commercial banking (including derivatives contracts, the provision of loan facilities and consultancy services) and other related transactions with, and may perform services for the Issuer and its affiliates (including other members of the Credem Group) in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Sole Lead Manager and its 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 its affiliates or any entity related to the Notes. The Sole Lead Manager or its respective affiliates that have a lending relationship with the Issuer may routinely hedge their credit exposure to the Issuer consistent with their customary risk-management policies. Typically, the Sole Lead Manager and its respective 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 the Issuer's securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes. The Sole Lead Manager and its respective 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.

REGISTERED OFFICE OF THE ISSUER

Credito Emiliano S.p.A.

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Reggio Emilia 42121
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SOLE LEAD MANAGER

Morgan Stanley & Co. International plc

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AUDITOR OF THE ISSUER

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To the Sole Lead Manager as to English and Italian law:

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Italy

Corso Vittorio Emanuele II, 284
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LUXEMBOURG LISTING AGENT

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