# UNICREDIT S.p.A.

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

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

## Issue Price: 100 per cent.

The €1,000,000,000 Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes (the **Notes**) will be issued by UniCredit S.p.A. (the **Issuer** or **UniCredit**). The Notes will constitute direct, unsecured and subordinated obligations of the Issuer, as described in Condition 4 (*Status of the Notes*) in "*Terms and Conditions of the Notes*" and will be governed by, and construed in accordance with, Italian law, as described in Condition 17 (*Governing Law and Jurisdiction*) in "*Terms and Conditions of the Notes*".

The UniCredit banking group is registered with the Register of Banking Groups held by the Bank of Italy pursuant to Article 64 of Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**) under number 02008.1 (the **Group** or the **UniCredit Group**).

The Notes will bear interest on their Prevailing Principal Amount (as defined in Condition 2 (*Definitions and Interpretation*) in "*Terms and Conditions of the Notes*"), payable (subject to cancellation as described below) semi-annually in arrear on 3 June and 3 December in each year (each an **Interest Payment Date**), as follows: (i) in respect of the period from (and including) 19 March 2019 (the **Issue Date**) to (but excluding) 3 June 2026 (the **First Call Date**) at the rate of 7.5 per cent. per annum, and (ii) in respect of each period from (and including) the First Call Date and every fifth anniversary thereof (each a **Reset Date**) to (but excluding) the next succeeding Reset Date (each such period, a **Reset Interest Period**), at the rate per annum, calculated on an annual basis and then converted to a semi-annual rate in accordance with market conventions, equal to the aggregate of 7.334 per cent. per annum (the **Margin**) and the 5-year Mid-Swap Rate (as defined in "*Terms and Conditions of the Notes*") for the relevant Reset Interest Period. The Issuer may elect in its full discretion to cancel (in whole or in part) the Interest Amounts otherwise scheduled to be paid on any Interest Payment Date. Further, payment of Interest Amounts on any Interest Payment Date must be cancelled (in whole or, as the case may be, in part) in the circumstances described in Condition 5 (*Interest and Interest Cancellation*) in "*Terms and Conditions of the Notes*". The cancellation of any Interest Amounts shall not constitute a default for any purpose on the part of the Issuer. Interest on the Notes is not cumulative and any Interest Amounts that the Issuer elects not to pay or is prohibited from paying will not accumulate or compound and all rights and claims in respect of such amounts shall be fully and irrevocably forfeited, and no payments shall be made, nor shall any Noteholder be entitled to any payment or indemnity in respect thereof. See Condition 5 (*Interest and Interest Cancellation*) in "*Terms and Conditions of the Notes*". Further, during the period of any Write-Down pursuant to Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*) in "*Terms and Conditions of the Notes*", as described below, interest will accrue on the Prevailing Principal Amount of the Notes which shall be lower than the Initial Principal Amount unless the Notes have subsequently been Written-Up in full.

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

Unless previously redeemed or purchased and cancelled as provided in "*Terms and Conditions of the Notes*", the Notes will mature on the date on which voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) proceedings are instituted in respect of the Issuer, in accordance with (a) a resolution of the shareholders' meeting of the Issuer, (b) any provision of the by-laws of the Issuer (currently, the maturity of the Issuer is set in its by-laws at 31 December 2100) or (c) any applicable legal provision or any decision of any judicial or administrative authority. Noteholders do not have the right to call for the redemption of the Notes. Upon maturity, the Notes will become due and payable at an amount equal to their Prevailing Principal Amount together with any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*). The Issuer may, at its sole discretion (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*) in "*Terms and Conditions of the Notes*"), redeem the Notes in whole, but not in part, on any Optional Redemption Date

(Call) at their Prevailing Principal Amount (all as defined in Condition 2 (*Definitions and Interpretations*) in "*Terms and Conditions of the Notes*"), plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*) in "*Terms and Conditions of the Notes*". The Issuer may also, at its sole discretion (but subject to the provisions of Condition 7.8(*Conditions to redemption and purchase*) in "*Terms and Conditions of the Notes*"), redeem the Notes in whole, but not in part, at any time at their Prevailing Principal Amount upon the occurrence of a Capital Event or a Tax Event (all as defined in Condition 2 (*Definitions and Interpretations*) in the "*Terms and Conditions of the Notes*") plus any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*) in "*Terms and Conditions of the Notes*".

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 (the **Luxembourg Act**) on prospectuses for securities to approve this document as a prospectus. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Luxembourg Act. Application has also been made to the Luxembourg Stock Exchange for the listing of the Notes on the Official List of the Luxembourg Stock Exchange and admission to trading on the professional segment of the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2014/65/EC, as amended or superseded (**MiFID II**). This Prospectus (together with any documents incorporated by reference herein) is available on the Luxembourg Stock Exchange website (www.bourse.lu).

Payments of interest or other amounts relating to the Notes may be subject to a substitute tax (referred to as *imposta sostitutiva*) of 26 per cent. in certain circumstances. In order to obtain exemption at source from *imposta sostitutiva* in respect of payments of interest or other amounts relating to the Notes, each Noteholder not resident in the Republic of Italy is required to comply with the deposit requirements described in "*Taxation – Taxation in the Republic of Italy*" and to certify, prior to or concurrently with the delivery of the Notes, that such Noteholder is, *inter alia,* (i) resident in a country which recognises the Italian tax authorities' right to an exchange of information pursuant to terms and conditions set forth in the relevant treaty (such countries are listed in the Ministerial Decree of 4 September 1996, as amended by Ministerial Decree of 23 March 2017 and possibly further amended by future decrees issued pursuant to Article 11(4)(c) of Decree No. 239 of 1 April 1996 (as amended by Legislative Decree No. 147 of 14 September 2015)) and (ii) the beneficial owner of payments of interest, premium or other amounts relating to the Notes, all as more fully set out in "*Taxation – Taxation in the Republic of Italy*" on page 136.

Amounts payable under the Notes are calculated by reference to the annual mid-swap rate for euro swaps with a term of five years which appears on Bloomberg screen "EUAMDB05 Index" as of 11:00 a.m. (Central European time) on such Reset Rate of Interest Determination Date (as defined in the "Terms and Conditions of the Notes") which is provided by ICE Benchmark Administration or by reference to EURIBOR which is provided by the European Money Markets Institute. As at the date of this Prospectus, the ICE Benchmark Administration is included in the register of administrators maintained by the European Securities and Markets Authority (**ESMA**) under Article 36 of the Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**). As at the date of this Prospectus, the European Money Markets Institute is not included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the Benchmarks Regulation. As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the European Money Markets Institute is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

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

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about the Issue Date with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the **Temporary Global Note**, the **Global Notes**), without interest coupons, on or after 28 April 2019 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances – see "*Overview of Provisions relating to the Notes while in Global Form*".

**An investment in the Notes involves certain risks. Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider the suitability of the Notes as an investment in light of their own circumstances and financial condition. For a discussion of these risks see "*Risk Factors*" below. The Notes are not intended to be sold and should not be sold to "retail clients" (as defined in MiFID II) in the European Economic Area (*EEA*) and/or under the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 published by the United Kingdom's Financial Conduct Authority. Potential investors should read the whole of this document, in particular the "*Risk Factors*" set out on pages 11 to 81 and "*Restrictions on Marketing, Sales and Resales to Retail Investors*" set out on pages 8 to 9.**

**MiFID II professionals/ECPs-only/No PRIIPs KID/FCA PI RESTRICTION – Manufacturer target market (MiFID II product governance) is eligible counterparties and professional clients only (all distribution channels). The target market assessment indicates that the Notes are incompatible with the needs, characteristic and objectives of retail clients and accordingly the Notes shall not be offered or sold to any retail clients. No packaged retail and insurance-based investment products (*PRIIPs*) key information document (*KID*) has been prepared as the Notes are not available to retail investors in the EEA.**

**Joint Bookrunners and Joint Lead Managers**

| | |
|---|---|
| **Crédit Agricole CIB** | **Credit Suisse** |
| **Deutsche Bank** | **Goldman Sachs International** |
| **ING** | **UniCredit Bank** |

**Co-Lead Managers**

| | |
|---|---|
| **Banco Sabadell** | **Belfius** |
| **Lloyds Bank Corporate Markets** | **Millenium bcp** |
| **SEB** | **Unione di Banche Italiane S.p.A.** |

The date of this Prospectus is 15 March 2019

## IMPORTANT INFORMATION

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

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

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

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

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

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

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

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained in it concerning the Issuer is correct at any time subsequent to its date or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in any Notes of any information coming to their attention. Investors should review, *inter alia*, the documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy 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 Managers 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 Managers which is intended to permit a public offering of the 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 (Regulation S), the United Kingdom, the EEA, the Republic of Italy, Switzerland, Canada, Japan, Hong Kong, Singapore and the People's Republic of China. For a further description of certain restrictions on offers and sales of the Notes and on the distribution of this Prospectus, see "*Subscription and Sale*".

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

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

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

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

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has 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;

- has 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;

- has 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;

- understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

- is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear applicable risks.

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

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

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

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

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

European Union of those members of the European Union which are participating in the European economic and monetary union.

## STABILISATION

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

**Restrictions on Marketing, Sales and Resales to Retail Investors**

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the UK Financial Conduct Authority published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the **PI Instrument**). In addition: (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products (as amended or superseded, the **PRIIPs Regulation**) became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together, the PI Instrument, the PRIIPs Regulation and MiFID II are referred to as the **Regulations**.

The Regulations set out various obligations in relation to: (i) the manufacture and distribution of financial instruments; and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors in the Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein), including the Regulations.

Each of the Managers (and/or their affiliates) are required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or any Manager, you represent, warrant, agree with and undertake to the Issuer and each of the Managers that:

(a) you are not a retail client in the EEA (as defined in MiFID II);

(b) whether or not you are subject to the Regulations, you will not:

   (i) sell or offer the Notes (or any beneficial interests therein) to retail clients (as defined in MiFID II); or

   (ii) communicate (including by the distribution of the Preliminary Prospectus or the final Prospectus relating to the Notes) or approve any invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (in each case, within the meaning of MiFID II) and in selling or offering the Notes or making or approving communications relating to the Notes you may not rely on the limited exemptions set out in the PI Instrument;

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

(d) if you are a purchaser in Singapore, you are an accredited investor or an institutional investor as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) and you will not sell or offer the Notes (or any beneficial interest therein) to persons in Singapore other than such accredited investors or institutional investors;

(e) you will act as principal in purchasing, making or accepting any offer to purchase any Notes (or any beneficial interest therein) and not as an agent, employee or representative of any of the Managers; and

(f) if you are a Hong Kong purchaser, your business involves the acquisition and disposal, or the holding, of securities (whether as principal or as agent) and you fall within the category of persons described as "professional investors" under the Securities and Futures Ordinance (Cap.571) of Hong Kong (the **SFO**) and any rules made under the SFO.

You further acknowledge that:

(a) the identified target market for the Notes (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and

(b) no key information document (KID) under the PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**PRIIPs Regulation / Prohibition of Sales to EEA Retail Investors** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client, as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MiFID II product governance / Professional investors and ECPs only target market –** Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a *distributor*) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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

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# RISK FACTORS

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

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

*The Issuer believes that the factors described below represent the material risks inherent in investing in Notes issued under the Prospectus, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons. The Issuer has identified in this "Risk Factors" section a number of factors which could materially adversely affect its businesses and ability to make payments due under the Notes. Prospective investors should read these risk factors together with the other detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

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

*Risks connected with the Strategic Plan*

On 12 December 2016, the Bank's Board of Directors approved the 2016-2019 business plan (the **Strategic Plan** or **Plan**) which contains a number of strategic, capital and financial objectives (collectively, the **Strategic Objectives**), as well as a review of the business model. Throughout the course of 2017, we have achieved several of these objectives, including the successful completion of the Rights Offering and the Completed M&A Transactions (as defined below).

The Strategic Plan and the Strategic Objectives were developed on the basis of a Group perimeter that is different from the current perimeter, reflecting the effects of several extraordinary transactions completed or near completion at the date hereof. These include the sale of 30 per cent. of FinecoBank, the transfer of our entire stake in PJSC Ukrsotsbank to ABH Holding S.A., the sale of approximately 40 per cent. in Bank Pekao and the sale of substantially all the assets of Pioneer Global Asset Management S.p.A. (**PGAM**) (the **Completed M&A Transactions** and, together with the sale of the entire shareholding, through the sale of its assets, in Immobilien Holding, which is currently near completion and expected to be completed by the end of 2018, the **M&A Transactions**).

Our ability to meet the Strategic Objectives depends on a number of assumptions and circumstances, some of which are outside UniCredit's control, including those relating to developments in the macroeconomic and political environments in which our companies operate, developments in applicable laws and regulations and assumption related to the effects of specific actions or future events which UniCredit can partially manage. Assumptions by their nature are inherently subjective and the assumptions underlying the Strategic Objectives could turn out to be inaccurate, in whole or in part, which may mean that UniCredit is not able to fulfil the Strategic Objectives. If this were to occur, UniCredit's actual results may differ significantly from those set forth in the Strategic Objectives, which could have a material adverse effect on UniCredit's business, results of operations, financial condition or capital position.

Among the main assumptions of a general nature underlying the Strategic Objectives are:

- moderate growth in the Eurozone and above average growth in Central and Eastern European (**CEE**) countries, essentially in line with consensus;
- interest rates affected by the continued accommodating monetary policy of the ECB. These dynamics produce a constantly negative projection over the time scale of the plan of the three-month EURIBOR rate, albeit with progressive growth in recent years;

- expected growth in deposits at system-level both in Western and Central Eastern European countries, together with moderate growth in loans in the Eurozone and higher growth in CEE countries; and

- certain developments in the legal and regulatory framework.

In addition to the assumptions of a macroeconomic nature indicated above, the Strategic Objectives are also based on certain assumptions which include actions already undertaken by management or actions that management should undertake over the course of the Plan, including:

- capital strengthening measures (including the Rights Offering completed on 2 March 2017 and the M&A Transactions);

- preparatory activities for improving the quality of balance sheet assets (relating, specifically, to the reduction of the Non-core loan portfolio and the increase of the coverage ratio of bad loans and unlikely-to-pay loans in the Italian loan portfolio);

- proactively reducing the risk of balance sheet assets and improving the quality of new loans;

- transforming the operating model;

- maximizing the value of the commercial bank; and

- adopting a lean governance model which is strongly directed at the coordination of activities.

Given that the realization of these initiatives is, as of the date hereof, uncertain, should UniCredit fail to generate the expected benefits of actions taken to support future income, or to transform UniCredit's operating model as expected to reduce costs, UniCredit may not reach its Strategic Objectives, with potential material adverse impacts on its business, financial condition and results of operations.

Furthermore, should any of UniCredit's assumptions turn out to be inaccurate and/or the circumstances envisaged not be fulfilled, or fulfilled only in part or in a different way to that assumed, UniCredit's ability to meet the Strategic Objectives may be negatively impacted. Given the inherent uncertainty surrounding any future event, both in terms of the event's occurrence as well as eventual timing, the differences between the actual values and the Strategic Objectives could be significant. For all of these reasons, investors are cautioned against making their investment decisions based exclusively on the forecast data included in the Strategic Objectives. Any failure to implement the Strategic Objectives or meet the Strategic Objectives may have a material adverse effect on UniCredit's business, financial condition or results of operations.

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

*Risks associated with the impact of current macroeconomic uncertainties*

The UniCredit Group's performance is affected by the financial markets and the macroeconomic and political environment of the countries in which it operates. Expectations regarding the performance of the global economy remain uncertain in both the short term and medium term.

This uncertainty which has characterized the global economy since the 2007 to 2008 crisis has caused significant problems for commercial banks, investment banks and insurance companies, with a number of them having become insolvent or being obligated to merge with other financial institutions or request assistance from governmental authorities, central banks or the International Monetary Fund (the **IMF**), which have intervened by injecting liquidity and capital into the system and by participating in the recapitalization of certain financial institutions. Added to this are other negative factors, such as increased unemployment levels and a general decline in demand for financial services.

The current macroeconomic situation is characterized by high levels of uncertainty, due in part to: (i) the U.S.-driven trend toward protectionism; (ii) the rapid growth of credit in the Chinese economy; (iii) the developments associated with Brexit; (iv) future developments in the European Central Bank (the **ECB**) and Federal Reserve (**FED**) monetary policies and the policies implemented by various countries, including those aimed at promoting competitive devaluations of their currencies; (v) constant change in the global and European banking sector, which has led to a progressive reduction in the spread between lending and borrowing rates; and (vi) the sustainability of the sovereign debt of certain countries and the related, repeated shocks to the financial markets. European political uncertainties remain a source of potential setback for the recovery, as well as Italian political deadlock post 2018 elections.

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

According to UniCredit's estimates, economic growth will be contained (vs. 2017) in countries in central Western Europe, with an average annual GDP growth rate for the 2018-2019 period estimated to be 1.9 per cent. for the Eurozone, 1.3 per cent. for Italy and 2.1 per cent. for Germany and Austria. In terms of average annual GDP growth rate for the 2018-2019 period, Consensus Forecasts as of April 2018 equal to: 2.2 per cent. for the Eurozone, 1.3 per cent. for Italy, 2.2 per cent. for Germany, 2.4 per cent. for Austria. The UniCredit Group's performance is affected by factors such as investor confidence, financial market liquidity, the availability and cost of borrowing on the capital markets, all of which are by their very nature, connected to the general macroeconomic situation. Adverse changes in these factors, particularly at times of economic-financial crisis, could increase the UniCredit Group's cost of funding, as well as prevent the Group from realizing its funding plan, in whole or in part, with a material adverse impact on the business, financial condition and results of operations of UniCredit and/or the Group.

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

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

*Risks connected with the volatility of markets*

The economic and political uncertainty of recent years has introduced considerable volatility and uncertainty in the financial markets. This, in turn, has made access to these markets increasingly complex, with a consequent rise in credit spreads and the cost of funding, as well as causing a decline in the values the Group can realize from sales of financial assets.

The volatility and uncertainty of the financial markets have had, and could continue to have, a negative effect on the Group's assets and, specifically, on UniCredit's share price and the cost of borrowing on capital markets, which has been preventing the Group from realizing its funding plan in its entirety, which may have a negative impact on the financial condition and short- and long-term liquidity of the Issuer and/or the Group.

The volatility of the financial markets has also created and continues to pose a risk to the Group's asset management, asset gathering and brokerage businesses and other activities it conducts for which the Group receives fees, with possible negative consequences on the operating results, capital and financial condition of the Issuer and/or the Group.

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

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

Italy accounted for 46 per cent. of the UniCredit Group's total revenue in the FY2017 and is the Group's primary market. As a result, the Group's business is closely connected to the Italian economy and could, therefore, be negatively impacted by any changes in its macroeconomic environment. Economic forecasts and the current political situation generate considerable uncertainty surrounding the future growth of the Italian economy.

In addition to other factors that may arise in the future, declining or stagnating Italian Gross Domestic Product (**GDP**), rising unemployment and unfavourable conditions in the financial and capital markets in Italy could result in declining consumer confidence and investment in the Italian financial system and increases in the number of impaired loans and/or loan defaults, lending to an overall reduction in demand for products and services the Group offers. Thus, a persistence of adverse economic conditions, political and economic uncertainty and/or a slower economic recovery in Italy compared with other countries of the Organization for Economic Co-operation and Development (OECD) could have a material adverse effect on the Group's results of operations, business and financial condition.

The UniCredit Group also operates and has a significant presence in Austria and Germany (which accounted for 24 per cent. and 10 per cent., respectively, of the UniCredit Group's total revenue for FY2017), as well as in Central and Eastern European countries (**CEE countries**) including, among others, Turkey, Russia, Croatia, the Czech Republic, Bulgaria and Hungary, which accounted for 20 per cent. of the Group's total revenue for FY2017. The risks and uncertainties to which the UniCredit Group is exposed are of a different nature and magnitude depending on the country and whether or not the country belongs to the European Union, which is one of the main factors taken into consideration when evaluating these risks and uncertainties.

A deterioration in the macroeconomic conditions in either Austria or Germany, an increase in the volatility of their capital markets, a significant increase in the cost of funding, the end of the current period of ready availability of liquidity in the respective markets or an increase in political instability could create a difficult operating environment and have a negative impact on the UniCredit Group's profitability, as well as its assets and operations, balance sheet and/or income statement. The Austrian and German macroeconomic conditions, as well as the Italian macroeconomic conditions, are particularly affected by the uncertainty relating to the European Union and the Eurozone. In particular, the German economy, which is the Group's second-largest market, significantly depends on the economies of certain countries such as the United States, France, Italy and other countries of the European Union. Therefore, a worsening in the economic situation of these countries may have a significant adverse impact on the strongly export-oriented German economy, with a potential negative consequence on the subsidiaries of the UniCredit Group operating in Germany, in particular, on UniCredit Bank AG (**UCB AG**).

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

Developments in Russia over the last two years have increased uncertainty for the future of this country, while domestic and geopolitical developments in Turkey have introduced an element of uncertainty which was heightened following the attempted *coup d'état* in July 2016.

As part of the 2018 SREP, the ECB flagged, as an area of weakness, uncertainty and potential risk of deterioration of asset quality, the Group's operations in Russia and Turkey because of possible macroeconomic and political developments in these countries.

It is also not possible to rule out that in CEE countries, also as a result of the introduction of more restrictive regulations than those projected at international level, the UniCredit Group might have to implement further recapitalization operations for its subsidiaries taking into account the risk of being subject to – among other things – regulatory and governmental initiatives of these countries. In addition to this, and to a similar extent as the risks in all the countries in which the Group operates, local authorities could adopt measures that: (i) require the cancellation or reduction of the amount due with regard to existing loans, with a consequent increase in the provisions required with regard to the levels applied normally consistent with Group policies; (ii) require additional capital; and (iii) introduce additional taxes on banking activity. As a result, the UniCredit Group may be called upon to ensure a greater level of liquidity for its subsidiaries in these areas, in an international context where access to same could become increasingly more difficult. Furthermore, the Group may have to increase impairments on loans issued due to a rise in estimated credit risk. Negative implications in terms of quality of credit could, specifically, involve the UniCredit Group's exposures denominated in Swiss francs (CHF) in CEE countries, also as a result of the decision by the Swiss Central Bank in January 2015 to remove the Swiss franc/Euro ceiling.

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

*Credit risk and risk of credit quality deterioration*

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

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

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

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

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

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

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

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

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

In addition, on 20 March 2017, the ECB published the "*Guidance to banks on non-performing loans*" (**Guidance on NPL**) following a consultation carried out between 12 September and 15 November 2016.

These guidelines address the main aspects of the management of non-performing loans, spanning from the definition of the NPL strategy and of the operational plan to the NPL governance and operations, meanwhile providing several recommendations and *best practices* which will drive in the future, the ECB's expectations.

The above-mentioned guidelines are among the factors that have determined the execution of the "Porto Project" through the increasing of the coverage ratio on impaired loans and on unlikely-to-pay loans in the Italian loans portfolio, following the changes in estimates, in turn resulting from the changed management approach to non-performing loans approved by UniCredit's Board of Directors and aimed at accelerating the reduction, adopted by UniCredit and other Italian Group companies in December 2016.

As further integration of the abovementioned Guidance, on 15 March 2018, the ECB published the "*Addendum to the Guidance on Non Performing Loans*" (the **ECB Addendum**), introducing "*Prudential provisioning backstop for non performing exposure*". The ECB Addendum supplements the qualitative NPL guidance by specifying the ECB's supervisory expectations for prudent levels of provisions for new NPLs. The addendum is non-binding and will serve as the basis for the supervisory dialogue between the significant banks and the ECB Banking Supervision. These Guidelines (based on a Pillar 2 approach, to be incorporated into SREP decisions) are to be applied to all new non performing exposures classified as such since 1 April 2018. The ECB Addendum sets out an expectation that, as of 1 April 2018, new unsecured NPLs must be fully covered after a period of two years from the date of their classification as NPLs. For example, the supervisor would expect a loan that is classified as an unsecured NPL on 1 May 2018 to be fully provisioned for by May 2020. For new secured NPLs, a certain level of provisioning is expected after three years of classification as an NPL, or "NPL vintage", which then increases over time until year seven. In this case, if a secured loan was classified as an NPL on 1 May 2018, the supervisor would expect this NPL to be at least 40 per cent. provisioned for by May 2021, and totally provisioned by May 2025. The potential gap between the coverage envisaged by the new rules and the provisions applied at the reference date can be addressed through a Core Tier 1 deduction or an increase of provisions.

Similar rules are included in the proposal of the amendment of the Capital Requirements Regulation (**CRR**), published by European Commission on 14 March 2018 which impose a minimum Pillar 1 regulatory backstop for the provisioning of all newly originated loans since 14 March 2018 that became NPLs. An agreement on the final Regulation has been reached in the Trilogue; approval and publication of the final text is expected in the second quarter of 2019.

The above proposed changes to the CRR were released by the European Commission alongside other measures to tackle high NPL ratios. The European Commission's proposed package also includes (i) a directive on credit servicers, credit purchasers and the recovery of collateral, which seeks to improve debt recovery and to develop secondary markets for NPLs; (ii) a blueprint on setting up national asset management companies (AMCs); and (iii) a directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring and insolvency (agreement was reached the final text that should be published in the second quarter of 2019, the latest). The proposed measures are intended to speed up the progress already made in reducing the NPLs and prevent their renewed build-up.

Finally, based on the SREP 2018, the ECB informed UniCredit in February 2019 of its supervisory recommendations in respect of NPE coverage. UniCredit estimates that the regulatory dialogue with the ECB could lead to a low annual single digit basis point impact on its CET1 ratio for any additional coverage of its NPE stock, for each year up to 2024, date mentioned by the ECB in its communication.

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

In November 2017, the European Banking Authority (the **EBA**) published the final guidelines with regard to the revision of the methods for estimating the Probability of Default (**PD**) and the LGD indicators. The provisions of the guidelines will apply from 1 January 2021. Institutions should incorporate the requirements of these guidelines in their rating systems by that time, but competent authorities may accelerate the timeline of this transition at their discretion. Thanks to its solid capital position, UniCredit decided to anticipate part of EBA guidelines in 2018, mainly within Italian models.

*Risks associated with disposal of non-performing loans*

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

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

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

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

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

It should also be noted that each Transfer Agreement ruling a non performing loan disposal includes, among other things, declarations and guarantees issued by UniCredit in relation to each loan portfolio sold and the related compensation liability if these declarations and guarantees are not correct (as an alternative to the compensation liability, UniCredit could, in certain circumstances, ask to buy back the loan). Any incorrect or untrue representations and guarantees issued by UniCredit in relation to each loan portfolio transferred would entail for UniCredit the risk to pay compensation to the relative SPV, capped in terms of amount and term by which it can be claimed.

*<u>Risks associated with UniCredit's participation in the Atlante Fund and the Italian Recovery Fund (former Atlante II Fund)</u>*

Atlante is a closed-end alternative investment fund (FIA) ruled by Italian law (the **Atlante fund**), reserved to professional investors, and managed by Quaestio Capital Management SGR S.p.A. Unipersonale (the **Quaestio SGR**). The size of the fund was equal to €4,249 million, of which UniCredit S.p.A. invested for about 19.9 per cent.

The investment policy of Atlante foresees that the fund may be invested (i) in banks with regulatory capital ratios lower than the minimum level set down in the SREP process and, thus, realise, upon request of the supervisory authority, actions of capital strengthening through capital increases and (ii) in Non-Performing Loans (NPLs) of a plurality of Italian banks.

On May and June 2016, Quaestio SGR underwrote (in the name, on behalf and in the interest of Atlante) No.15 billion of newly issued ordinary shares of Banca Popolare di Vicenza S.p.A (BPVi) for a price of €0.10 per share and a total consideration of €1.5 billion and No.9,885,823,295 of newly issued ordinary shares of Veneto Banca S.p.A (VB), for a price of €0.10 per share and a total consideration of €988,582,329.50 obtaining an investment representing 99.33 per cent. and 97.64 per cent. of share capital of the two banks respectively.

On August 2016, the Atlante II fund (the **Atlante II fund**) was launched, ridenominated Italian Recovery Fund since 27 October 2017, a closed-end investment alternative fund reserved to professional investors, also managed by Quaestio SGR, which, unlike the Atlante fund, may invest only in NPL and instruments linked to NPL transactions (such as warrants) in order to reduce the risk in line with the parameters used by the largest world institutional investors.

On 21 December 2016, Quaestio SGR committed (in the name and on behalf of Atlante fund) for future payments (to be made by 5 January 2017) connected to Banca Popolare di Vicenza S.p.A. e Veneto Banca S.p.A. capital increases, respectively for €310 million and €628 million (partially paid on 31 December 2016 respectively for €164 million and €332 million).

As of 31 December 2017 UniCredit:

- with reference to Atlante fund holds No.845 shares (out of No.4,249 total shares) classified as financial assets available for sale with a carrying value of 95 milion. Following cash investment of €779 million (€93 million carried in 2017) and December 2016 impairment for €547 million according to an internal evaluation model based on multiples of a banking basket, integrated with estimates on Atlante's banks NPL credit portfolio and related equity/capital needs. An additional impairment for €137 million has been recognised as at June 2017, zeroing-out the residual share of Atlante's investment into the Banks according to an internal model based on evidences arising from the liquidation process managed under the Italian banking law (ex Art.80 TUB) by winding down operations splitted in "good banks" (sold to an Italian Government's selected buyer within an open, fair and transparent sales process in order not to breach EU "state-aid" rules) and "bad banks" where existing shareholders and subordinated debt bondholders will fully contribute to liquidation costs. In addition UniCredit has a residual commitment to invest in Atlante for residual €66 million;

- with reference to Italian Recovery Fund holds shares with a carrying value, in line with the subscription price, of €99 millilon, classified as financial assets available for sale. In addition UniCredit has a residual commitment to invest in Italian Recovery Fund for residual €96 million.

The regulatory treatment of the Fund's quotes recognized in the UniCredit balance sheet foresees the application of article 128 of the CRR ("Items associated with particular high risk"). With reference to the residual commitments, the regulatory treatment foresees the application of a Credit Conversion Factor equal to 100 per cent. ("full risk" according to Annex I of CRR), for the calculation of the related Risk Weighted.

If the value of the assets in which the Atlante and Italian Recovery funds are invested and/or will be invested were to be reduced (among other things, as a result of write-downs or because the assets are sold at a price below the acquisition price, or if such assets were to be replaced with assets having a greater risk profile or that are characterised by a greater degree of capital absorption - for example, non-performing loans), it cannot be ruled out that this circumstance may result in the need to further write-down UniCredit's investment in the Atlante Funds, with consequent impacts on the capital ratios of UniCredit and with possible negative effects on the economic, equity and/or financial situation of UniCredit and/or the Group.

*Risks associated with the Group's exposure to sovereign debt*

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

With reference to the Group's sovereign exposures in debt, the book value of sovereign debts securities as at 31 March 2018 amounted to €115,798 million, of which over 88 per cent. was concentrated in eight countries: Italy with €51,385 million, representing about 44 per cent. of the total; Spain with €18,500 million; Germany with €14,511 million; Austria with €7,393 million; France with €3,889 million; Japan with €2,393 million; Hungary with €2,025 million; Bulgaria with €1,813 million.

As at 31 March 2018, the remaining 12 per cent. of the total sovereign exposures in debt securities, equal to €13,890 million as recorded at the book value, was divided between 37 countries, including: Romania (€1,564 million), Czech Republic (€1,373 million), Croatia (€1,270 million), Poland (€1,153 million), Serbia

(€883 million), Russia (€639 million), Slovakia (€627 million), United States. (€612 million) and Portugal (€595 million). The exposures in sovereign debt securities relating to Greece and Ukraine are immaterial.

As at 31 March 2018, there is no evidence of impairment of the exposures in question.

Note that the aforementioned remainder of the sovereign exposures held as at 31 March 2018 also included debt securities relating to supranational organisations, such as the European Union, the European Financial Stability Facility and the European Stability Mechanism, worth €3,928 million.

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

Total loans to countries to which the total exposure is greater than €130 million, which represented over 93 per cent. of said exposures, as at 31 March 2018 amounts to €20,393 million.

Liquidity Risk

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

Funding liquidity risk refers to the risk that the Issuer may not be able to meet its payment obligations, including financing commitments, when these become due. In light of this, the availability of the liquidity needed to carry out the Group's various activities and the ability to access long-term loans are essential for the Group to be able to meet its anticipated and unforeseen cash payment and delivery obligations, so as not to impair its day-to-day operations or financial position. The crisis that hit international financial markets and the subsequent instability gave rise to a considerable reduction in the liquidity accessible through private financing channels, resulting in major monetary policy interventions by the ECB, the reduction of which could lead the Issuer and/or the Group legal entities to access the wholesale debt market to a greater extent than in the past. With reference to the funding liquidity risk, it should also be noted that as at 31 December 2017, the cash horizon of the UniCredit Group was more than one year. This managerial indicator identifies the number of days beyond which each liquidity reference bank is no longer capable of meeting its payment obligations for the management of liquidity. For this purpose, the cash horizon also takes into account the use of readily marketable securities both at the central banks accessible by the Group and at market counterparties.

In order to assess the liquidity profile of the UniCredit Group, UniCredit also uses the following principal indicators:

- the short-term indicator Liquidity Coverage Ratio (LCR), which expresses the ratio between the amount of available assets readily monetizable (cash and the readily liquidable securities held by UniCredit) and the net cash imbalance accumulated over a 30-day stress period; as of 1 January 2018, the indicator is subject to a minimum regulatory requirement of 100 per cent.; and

- the 12-month structural liquidity indicator Net Stable Funding Ratio (**NSFR**), which corresponds to the ratio between the available amount of stable funding and the statutory amount of stable funding. The finalisation of this requirement will be carried out in the prescribed timetable. More specifically and on the basis of the Basel III Phase In Arrangements document, the *minimum standard requirement* should have been be introduced as of 1 January 2018. In Europe, the Basel NSFR rule is proposed to be transposed through a revision of the CRR and will then be applicable two years after the entering into force of the revised CRR. The CRD Reform Package under consultation envisages the introduction of a binding NSFR that will require credit institutions to finance their long-term activities with stable sources of funding.

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

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

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

In addition to risks closely connected to funding risk and market liquidity risk, an additional risk that could impact day-to-day liquidity management is represented by differences in the amounts or maturities of incoming and outgoing cash flows (mismatch risk). In addition to its day-to-day management, the Issuer must also manage the risk that (potentially unexpected) future requirements (i.e. use of credit lines, withdrawal of deposits, increase in guarantees offered as collateral) may use a greater amount of liquidity than that considered necessary for day-to-day activities (contingency risk).

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

*Risks associated with system liquidity support*

Due to the financial market crisis, followed by instability, the reduced liquidity available to operators in the sector, the increase in risk premium and the higher capital requirements imposed by the supervisory authorities, also following the results of the *comprehensive assessment*, there has been a widespread need to guarantee higher level of capitalisation and liquidity for banking institutions.

This situation has meant that government authorities and national central banks the world over have had to take action to support the credit system (in some cases by directly acquiring banks' share capital), and has caused some of the biggest banks in Europe and in the world to turn to central institutions in order to meet their short-term liquidity needs. These forms of financing have been made technically possible where supported by the provision of securities in guarantee considered suitable by the various central institutions.

In this context, the ECB has implemented important interventions in monetary policy, both through the conventional channel of managing interest rates, and through unconventional channels, such as the provision of fixed rate liquidity with full allotment, the expansion of the list of assets that can be allocated as a guarantee, longer-term refinancing programmes such as the "Targeted Longer-Term Refinancing Operation" (**TLTRO**) introduced in 2014 and the TLTRO II introduced in 2016, and purchases on the debt securities market (i.e. the so-called outright monetary transactions launched in 2012 and quantitative easing announced in 2015). These interventions contributed to reducing the perception of risk towards the banking system, mitigating the size of the funding liquidity risk and also contributed to reducing speculative pressures on the debt market, specifically with regard to so-called peripheral countries.

As at 31 December 2017, the UniCredit Group's debt with the ECB through TLTRO II amount to a total of €51.15 billion with a timetable of maturities between the end of June 2020 and the end of March 2021.

In addition, as at 31 December 2017 the Group presented, within a three-month time horizon, an amount of eligible assets, net of the haircuts required for access to refinancing operations with the Central Banks, of approximately €54 billion as far as UniCredit is concerned, of approximately €28 billion in respect of UCB AG and approximately €14 billion in respect of UCB Austria.

Taking into account refinancing operations other than TLTRO II (e.g. one-week refinancing operations), as at 31 December 2017 the UniCredit Group had a total amount of €53.7 billion of operations in place.

It is not possible to predict the duration and the amounts with which these liquidity support operations can be repeated in the future, with the result that it is not possible to rule out a reduction or even the cancellation of this support. This would result in the need for banks to seek alternative sources of borrowing, without ruling out the difficulties of obtaining such alternative funding as well as the risk that the related costs could be higher. Such a situation could therefore adversely affect UniCredit's business, operating results and the economic, financial and / or financial position of UniCredit and / or the Group.

For the sake of completeness, it should also be noted that in spite of the positive impacts of these operations to support the liquidity in the macroeconomic context, there is the risk that an expansionary monetary policy (including specifically, *quantitative easing*) may have an effect on keeping interest rates, currently already negative for short- and medium-term due dates, at minimum levels for all major due dates, with consequent negative effects on the profitability of UniCredit, as well as on the operating results and capital and/or financial position of UniCredit and / or the Group.

*Risks related to intra-group exposure*

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

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

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

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

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

The adoption of the principle of self-sufficiency by the Group companies has led, as previously mentioned, to the adoption of very strict policies to reduce the funding gap, not only in Italy, but in all subsidiaries. The combined action of such policies could result in a deterioration, whether real or perceived, in the credit profile (particularly in Italy) and could have a significant negative effect on borrowing costs and, consequently, on the operating and financial results of the Issuer and of the Group.

*Market risks*

Market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the Group's portfolio, including the assets held both in the Trading Book, as well as those posted in the Banking Book, both on the operations characteristically involved in commercial banking and in the choice of strategic investments. Market risk management within the UniCredit Group accordingly includes all activities related to cash transactions and capital structure management, both for the Parent company, as well as for the individual companies making up the Group.

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

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

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

The broad risk measures include:

- Value at Risk (**VaR**), the potential loss in value of a portfolio over a defined time period for a given confidence interval;
- Stressed VaR (**SVaR**), which represents the potential VaR of a portfolio subject to a continuous 12-months period of significant financial stress;
- Incremental Risk Charge (**IRC**), the amount of regulatory capital aimed at addressing the credit shortcomings (migration and default risks) that can affect a portfolio in a defined time period for a given confidence interval;
- Loss as Warning Level (**LWL**), set as the 60 days rolling period Accumulated Economic P&L; and
- Stress Test as Warning Level (**STWL**), the potential loss in value of a portfolio calculated on the basis of a distressed scenario.

The granular risk measures include:

- Sensitivity levels, which represent the change in the market value of a financial instrument due to small moves of the relevant market risk asset classes/factors;

- Stress scenario levels, which represent the change in the market value of a financial instrument due to large moves of the relevant market risk asset classes/factors; and

- Nominal levels, which are based on the notional value of the exposure.

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

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

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

*Risks connected with interest rate fluctuations*

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

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

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

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

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

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

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

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

*Risks connected with exchange rates*

A significant portion of the business of the UniCredit Group is done in currencies other than the Euro, predominantly in U.S. dollars and British Pound, as well as East European currencies. This means that the effects of exchange rate trends could have a significant influence on the assets and the operations, balance sheet and/or income statement of the Issuer and/or the Group. This exposes the UniCredit Group to the risks connected with converting foreign currencies and carrying out transactions in foreign currencies.

If one considers the exchange risk deriving from the trading book as well as the banking book, including the commercial bank, which then can affect the Group's operating results, the UniCredit Group is exposed mainly to foreign-exchange risk toward the U.S. dollar.

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

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

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

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

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

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

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

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

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

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

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

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

*Risks relating to IT system management*

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

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

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

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

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

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

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

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

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

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

*Risks relating to deferred taxes*

Deferred tax assets (**DTAs**) and liabilities are recognised in UniCredit's consolidated financial statements according to accounting principle IAS 12. As of 31 December 2017, DTAs amounted in aggregate to €10,619 million, of which €8,315 million may be converted into tax credits pursuant to Law No. 214 of 22 December 2011 (**Law 214/2011**). As of 31 December 2016, DTAs amounted to €14,018 million, of which €11,340 million was available for conversion to tax credits pursuant to Law 214/2011.

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

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

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

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

UniCredit exercised the above-mentioned option by paying before 31 July 2016 deadline the fee due of €126.9 million by the Group companies to which such regime is applicable. In the consolidated financial statements for the financial year ended 31 December 2016, an estimated amount of €253.7 million was recognised, which includes the fee due for the year 2015, paid in July 2016, and an estimation of the fee due for year 2016. On 17 February 2017, upon conversion into law of the Decree "*salva-risparmio*" (Law Decree No. 237/2016), amendments to article 11 of Law Decree 59/2016 has been introduced, among which the one-year postponement for the DTA fee payment period from 2015-2029 to 2016-2030. These amendments have been considered as "nonadjusting events" as of 31 December 2016, the preconditions of "virtual certainty" and "substantively enactment" required by the IFRS in order to recognise the effect of these amendments where not fulfilled in the consolidated financial statements for the financial year ended 31 December 2016. Following the above mentioned amendments, the fee for 2016 was paid in June 2017 for an amount equal to €117 million, therefore €10 million lower than the amount estimated and accrued in the financial statements for the year ended 31 December 2016.

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

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

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

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

Non-convertible DTAs related to deductible administrative costs in the years following their recognition in the financial statements (typically provisions for risks, costs related to net equity increase, etc.) amounted to €3,212 million gross of compensation between DTA and Deferred Tax Liabilities (**DTL**) as of 31 December 2017 (compared to €4,248 million gross of compensation between DTA and DTL as of 31 December 2016).

As of 31 December 2017, non-convertible DTAs for tax losses totalled €733 million (€524 million as of 31 December 2016) related primarily to the German subsidiary, Bayerische Hypo-und Vereinsbank AG (HVB), for €384 million (€366 million as of 31 December 2016), and related to UniCredit for €247 million (€90 million as of 31 December 2016). Pursuant to accounting principle IAS 12, the DTA on the tax losses carried forward and on the ACE surpluses, together with other DTAs that are not convertible into tax credits pursuant to Law 214/2011, have been recorded in the 2017 consolidated interim reports (as well as in the financial statements for the financial year ended 31 December 2016) upon verification of the reasonable existence of future taxable income as shown from the business plan sufficient to ensure their recovery in the coming years (known as the *probability test* or *sustainability test*).

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

As of 31 December 2017, the sustainability test was performed pursuant to IAS 12 in order to verify whether the projected future taxable income is sufficient to absorb the future reversal of DTAs on tax losses and on temporary differences. The test takes into account the amount of taxable income currently foreseeable for future years over a five-year time period and the projection of the DTA conversion pursuant to Law No. 214/2011. Based on the outcome of the test, for the year ended 31 December 2017, a limited portion of DTAs, related to both tax losses and temporary differences, was recognised.

*Risks connected with interests in the capital of Bank of Italy*

As of 31 December 2017, UniCredit holds a 14.2 per cent. shareholding in the Bank of Italy, with a book value of €1,062 million.

In 2013, in order to promote the reallocation of shareholdings, the Bank of Italy introduced a cap on ownership of its shares of 3 per cent. and a loss of rights to dividends on shares in excess of this limit after an adjustment period of no more than 36 months starting from December 2013.

In the last years, shareholders with excess shares began selling, finalising sales for around 25 per cent. of the total capital. The book value at 31 December 2017, in line with the figure at the end of the last period and the outcome of the measurement conducted by the committee of high-level experts on behalf of Banca d'Italia at the time of the capital increase, is supported by the price for the transactions that took place since 2015. The relevant measurement was therefore confirmed as level 2 in the fair value classification.

With regard to regulatory treatment (effects on regulatory capital and capital ratios):

- the value of the investment measured at fair value in the balance sheet is given a weighting of 100% (in accordance with Article 133 "Exposures in Equity Instruments" of the CRR);

- the revaluation recognised through profit or loss at 31 December 2013 is not filtered out.

Initiatives aimed at selling the shares exceeding the 3 per cent. limit are underway, with the completion of this process constituting a significant factor for the sustainability of value in the near future.

*Counterparty risk in derivative and repo operations*

The UniCredit Group negotiates derivative contracts and repos on a wide range of products, such as interest rates, exchange rates, share prices/indices, commodities (precious metals, base metals, oil and energy materials) and credit rights, as well as repos, both with institutional counterparties, including brokers and dealers, central counterparties, central governments and banks, commercial banks, investment banks, funds and other institutional customers, and with non-institutional Group customers.

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

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

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

Under the scope of its operations the Group also concludes derivative contracts with central governments and banks. Any changes in applicable regulations or in case-law guidelines, as well as the introduction of restrictions or limitations to such transactions, may have impacts (including potentially retroactive impacts) on the Group's operations with said counterparties, with possible negative effects on the activity, operating results and capital and financial position of the Issuer and/or Group.

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

As at 31 March 2018, the UniCredit Group's intangible assets stood at €3.34 billion (of which €1.48 billion related to goodwill) representing 6 per cent. of the Group's net shareholders' equity and 0.4 per cent. of consolidated assets.

The parameters and information used to verify the sustainability of the goodwill (specifically the financial projections and discount rates used) are significantly influenced by certain factors, including macroeconomic developments and the volatility of financial markets, which could be affected by changes that were unforeseeable at the time goodwill was quantified. Future changes in these factors, as well as changes in the Group's corporate strategy, could lead the Group to reduce its estimate of cash flows for an individual cash-generating unit or revise its assumptions for calculating such estimates which, in turn, could have a material adverse impact on impairment tests and on its business, financial condition and results of operations.

*Risks connected with existing alliances and joint ventures*

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

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

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

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

In addition, under the scope of the transaction relating to the sale of the Pioneer Global Asset Management S.p.A.'s (**PGAM**) assets to Amundi, UniCredit S.p.A., UCB AG and UCB Austria signed separate distribution agreements with some of the Pioneer Companies. Under the relevant distribution agreements, UniCredit S.p.A., UCB AG and UCB Austria are committed to maintain specific reference numbers related to Amundi products, which, if they fail to meet, would result in the activation of specific compensation liabilities which could result in negative impacts on the operating results and capital and financial position of the Issuer and/or the Group. Similarly, the failure by the relevant Pioneer Companies to comply with their commitments would cause a reduction in UniCredit Group companies' sales targets. In addition, if the distribution agreements are terminated in certain situations identified in the Master Sale and Purchase Agreement, the purchase price of the Sale may be increased or decreased (i.e. the termination of distribution agreements through the violation by UniCredit or one of the subsidiaries of the UniCredit Group of the obligations and/or commitments therein and/or interventions by the supervisory authorities), the price reduction mechanisms could be activated on behalf of the purchaser.

*Risks connected with the performance of the property market*

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

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

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

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

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

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

*Risks connected with pensions*

The UniCredit Group is exposed to certain risks in connection with its commitments to provide pension plans to employees after the termination of their employment. These risks vary depending on the nature of the pension plan in question.

A distinction therefore needs to be made between: (i) defined-benefit plans, which provide a wide range of services depending on factors such as age, years of service and compensation needs; and (ii) defined-contribution plans, whereby the company pays fixed contributions and benefits are given based on the amount and performance of contribution paid.

In particular, as part of UniCredit's commitments related to defined-benefit plans, UniCredit assumes both the actuarial risk and the risk of investment. UniCredit's liability is an estimate, based on international accounting standards, and therefore, because of actuarial risk and investment risk, and depending on demographic and market scenarios, the extent of that liability may be less than the benefits to be paid over time, which could adversely affect the business, financial condition and results of operations of the Issuer and/or the Group.

Specifically, there are numerous defined-benefit plans within the UniCredit Group, established in Italy and abroad.

The Group's plans are not financed with segregated assets, with the exception of (i) the defined-benefit plans in Germany, the Direct Pension Plan (an external fund managed by independent trustees), the "HVB Trust Pensionfonds AG" and the "Pensionkasse der Hypovereinsbank WaG", all three established by UCB AG, and (ii) the defined-benefit plans established in the United Kingdom, Italy and in Luxembourg by UniCredit and by UCB AG.

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

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

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

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

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

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

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

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

The ECB acknowledged that UniCredit's ICAAP (Internal Capital Adequacy Assessment Process) covers all categories of significant risk, however, some areas requiring attention have been identified in relation to correlation methodologies and assumptions, to concentration and diversification of intra-risk in the scope of the credit portfolio model. Therefore the ECB has asked UniCredit to improve the supporting information justifying the reliability of the model assumptions.

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

*Risks connected with non-banking activities*

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

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

The UniCredit Group has also made a series of significant equity investments, some of which arose from the conversion of debt into equity instruments held or issued by borrower or other companies as part of a debt restructuring/workout process. Any operating or financial losses or risks, which companies holding equity instruments may be exposed to, could, first of all, limit the possibilities for the UniCredit Group to dispose of the aforementioned equity investments and considerably reduce the value of said investments, with possible major negative effects on the Group's operating results and capital and financial position.

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

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

*Risks connected with legal proceedings in progress and supervisory authority measures*

*Risks connected with legal proceedings in progress*

There are legal proceedings (which may include disputes of a commercial nature, investigations and other contentious issues of a regulatory nature) pending with regard to UniCredit and other companies belonging to the UniCredit Group. Specifically, as at 31 December 2017, there were approximately 19,800 legal proceedings (other than labour law, tax and debt recovery related under the scope of which counterclaims were submitted or objections raised with regard to the credit claims of Group companies) and 496 labour law proceedings pending with regard to UniCredit. In addition, from time to time, directors, representatives and employees, including former ones, may be involved in civil and/or criminal cases, the details of which the UniCredit Group may not be entitled to know or disclose. In many of these cases, there is considerable uncertainty with regard to the possible outcome of the proceedings and the scale of any loss suffered. These cases include criminal proceedings, administrative proceedings brought by supervisory authorities or investigators and/or rulings for which the amount of any claims for compensation and/or potential liabilities that the Group is responsible for is not and cannot be determined according to the claim presented and/or the nature of the actual proceedings. In such cases, until it is impossible to reliably predict the outcome, no provisions are set aside. On the other hand, where it is possible to reliably estimate the scale of any losses suffered and where such loss is considered probable, provisions are set aside in the balance sheet in an amount considered suitable given the circumstances and in accordance with IAS.

As at 31 December 2017, the UniCredit Group had around €1,294 million of provisions for risks and charges to cover the liabilities that may arise from the pending cases in which it is a defendant (not including labour law, tax or debt recovery cases). As at 31 December 2017, the total amount claimed with reference to legal proceedings excluding labour law, tax cases and credit recovery actions was €10.6 billion. That figure reflects the inconsistent nature of the pending disputes and the large number of different jurisdictions, as well as the circumstances in which the UniCredit Group is involved in counterclaims. As regards UniCredit's pending labour law dispute, the overall amount of the petitum on 31 December 2017, was equal to €472 million and the related risk provision, on the same date, was equal to €15 million.

The estimate of the above-mentioned obligations which could reasonably arise as well as the extent of the above-mentioned provision are based on the information available at the date the financial statements or the interim financial position are approved, but also, as a result of the many uncertainties arising from legal proceedings, involve a significant degree of assessment. More specifically, sometimes it is not possible to produce a reliable estimate, as in cases in which the proceedings have not yet begun or where there are legal or factual uncertainties that make any estimate unreliable. Therefore, it cannot be ruled out that in the future the provisions could be insufficient to fully cover the charges, expenses, fines and claims for compensation and payment of costs connected to pending cases and/or that the Group may, in the future, be obliged to deal with expenses from claims for compensation or refunds not covered by the provisions, with possible negative effects, including significant ones, on the operating results and capital and/or financial position of the Issuer and/or the Group. Any unfavourable outcomes for the UniCredit Group in the disputes in which it is involved – specifically those with a greater media impact – or the emergence of new disputes could have reputational impacts, including significant ones, on the UniCredit Group, with possible consequent negative effects on the assets and the operations, balance sheet and/or income statement of same as well as its ability to comply with capital requirements.

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

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

*Risks connected with Supervisory Authority measures*

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

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

In particular, the following is noted:

Bank of Italy inspections:

(a) in April 2016, the Bank of Italy began looking into the "Remuneration methods of loans and overdrafts" at UniCredit, which was concluded at the end of May 2016. Following notification of the findings, UniCredit sent its reply and action plan to the Bank of Italy on 15 February 2017, taking into account that remedy actions will be completed by June 2019.

(b) In December 2016, the Bank of Italy launched an inspection related to "Transparency" of various branches in UniCredit's domestic network. The inspection was concluded in April 2017 and the final results were notified to UniCredit in August 2017. UniCredit sent a reply and action plan to the regulator on 27 October 2017. The remedy actions were completed by December 2018, according with the action plan delivered to the Bank of Italy.

(c) In February 2017, the Bank of Italy launched an inspection related to "Governance, Operational Risk, Capital and AML" of UniCredit's subsidiary Cordusio Fiduciaria S.p.A. concluded in April 2017. The final results were notified in June 2017, while UniCredit sent its reply and action plan on 3 August 2017. The remedy actions will be completed by December 2019.

(d) In June 2017, the Bank of Italy launched an inspection related to "Procedures to determine and enhance due diligence in respect of PEPs" of all the Italian banking companies of the Group, concluded in July 2017. The final results were notified to UniCredit on 21 September 2017. UniCredit sent its reply and action plan to the regulator on 15 December 2017. The remedy actions were completed in December 2018.

(e) In November 2017, the Bank of Italy launched an inspection related to "Transparency and Usury" of UniCredit, concluded in February 2018. The final results were notified to UniCredit in June 2018. UniCredit sent an action plan to the Regulator in September 2018. The remedy actions are due to be completed by December 2019.

(f) In January 2019, the Bank of Italy launched an inspection related to "Anti-Money Laundering", started on 4 February 2019 and which is currently ongoing.

ECB inspections:

(a) In January 2016, the ECB launched an inspection into the "Capital position calculation accuracy" of the Group with regard to Group-wide credit models, with the inspection at UniCredit concluding in May 2016. The supervisor notified UniCredit of the assessment outcome, while, in December 2016, UniCredit presented to and discussed with the ECB possible measures – and deadlines – identified by the bank in order to remedy the problems which emerged during the inspection, in particular concerning the processes for calculation of capital and of RWA. In March 2017, UniCredit received the official notice of the findings from ECB, highlighting also that the impact of the findings was already incorporated into the 2016-2019 Strategic Plan. The consequential action plan was sent to the ECB in April 2017. The remedy actions were completed in March 2018.

(b) In February 2016, the ECB launched an inspection into the "Management of distressed assets/bad loans", as far as Italy was concerned, with the inspection at UniCredit concluding in May 2016. In November 2016, the supervisor notified UniCredit of the assessment outcome, highlighting possible areas for improvement with regard to the organisation, classification, monitoring, recovery, provision policy and management of guarantees, and recommending UniCredit continue the activities undertaken to resolve the ECB's findings. The consequential action plan, discussed with the ECB, was sent to the ECB in February 2017. The remedy actions were completed in October 2018.

(c) In June 2016, the ECB launched an investigation into Market Risk models, which was concluded at the end of July 2016. In March 2017, UniCredit was notified of the findings of the inspection and on 14 April 2017 delivered the action plan to the ECB. The remedy actions were completed in June 2018.

(d) In September 2016, the ECB launched an inspection into the "IRBB management and risk control system", which was concluded in December 2016. In June 2017, UniCredit was notified of the findings of the inspection and on 12 September 2017 delivered the action plan to the ECB. The remedy actions will be completed by March 2019.

(e) In September 2016, the ECB launched an inspection into the "Governance and Risk management – governance structure and business organisation of the foreign branches of UCB AG", which was concluded in December 2016. In July 2017, UCB AG was notified of the findings of the inspection and on 11 August 2017 delivered the action plan to the ECB. The remedy actions will be concluded by March 2019.

(f) In November 2016, the ECB launched an inspection into the "Governance and RAF" (Risk Appetite Framework), which was concluded in February 2017. In June 2017, UniCredit was notified of the findings of the inspection and, on 4 July 2017, UniCredit delivered the action plan to the ECB. The remedy actions were concluded in September 2018.

(g) In November 2016, the ECB launched an inspection into the "Business Model and Profitability – Funding transfer price" which was concluded in March 2017. In October 2017, UniCredit was notified of the findings of the inspection and on 3 November 2017, UniCredit delivered the action plan to the ECB. The remedy actions were concluded in December 2018.

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

(h) As disclosed in the ECB's "2017 Planned Supervisory Activities" sent in January 2017, in March 2017, the ECB announced an inspection related to "Collateral, provisioning and securitisation" of the Group. The inspection was launched in April 2017 and concluded in July 2017. In December 2017 UniCredit was notified of the findings of the inspection and on 24 January 2018 UniCredit delivered the action plan to the ECB. The remedy actions will be completed by March 2019.

(i) In May 2017, the ECB provided UniCredit with the results of the Thematic Review of the risk data aggregation capabilities and the risk reporting practices based on BCBS239 principles. The ECB found certain shortcomings, including *inter alia* governance and data reconciliation, at the UniCredit

Group level. UniCredit provided at the end of September 2017 an action plan to address the ECB's findings. The remedy actions will be concluded by June 2019.

(j) As disclosed in the ECB's "2017 Planned Supervisory Activities" sent in January 2017, in May 2017, the ECB announced an inspection related to "Business model and profitability" of UniCredit subsidiaries UCB AG and UniCredit Luxembourg SA. The inspection was launched in May and concluded in July 2017. The final results were notified in December 2017, and on 13 March 2018 UCB AG sent the action plan to the Regulator. The remedy actions will be concluded by March 2019.

(k) As disclosed in the ECB's "2017 Planned Supervisory Activities" sent in January 2017, in May 2017, the ECB announced a TRIM – Targeted Review of Internal Models inspection related to "Credit risk (PD, LGD, CCF/EAD)", with particular reference to: Retail – secured by real estate non-SME. The inspection was launched in July 2017 and concluded in September 2017. The final ECB recommendation letter was received in August 2018. UniCredit provided a dedicated action plan in February 2018.

(l) As disclosed in the ECB's "2017 Planned Supervisory Activities" sent in January 2017, in June 2017, the ECB announced a TRIM – Targeted Review of Internal Models inspection related to "Market risk (IRC, VaR, SVaR)", with particular reference to: Commodities risk, Debt instruments – general risk, Debt instruments – specific risk, Equity – general risk, Equity – specific risk, Forex risk. The inspection was launched in September 2017 and concluded in December 2017. The final ECB recommendation letter was received in January 2019. UniCredit provided a dedicated action plan in February 2019.

(m) As disclosed in the ECB's "2017 Planned Supervisory Activities" sent in January 2017, in July 2017, the ECB announced a TRIM – Targeted Review of Internal Models inspection related to "Credit risk (PD, LGD)", with particular reference to: Corporate – SME including the assessment of an approval of material change related to PD and LGD for Corporate – SME. The inspection was launched in October 2017 and concluded in February 2018. The final ECB recommendation letter was received in January 2019. UniCredit provided a dedicated action plan in February 2019.

(n) As disclosed in the ECB's "2017 Planned Supervisory Activities" sent in January 2017, in August 2017, the ECB announced an inspection related to "IT risk". The inspection was launched in October 2017 and concluded in December 2017. The final results have been notified early in July 2018. UniCredit delivered the dedicated remediation plan to the Regulator at the end of July 2018. The remedy actions are due to be concluded by December 2019.

(o) In August 2017, the ECB announced an inspection related to "Business model and profitability" of the UniCredit subsidiary, UniCredit Bank Austria AG. The inspection was launched in October 2017 and concluded in December 2017. The final results were notified in April 2018. The ECB recommendation letter was notified to UniCredit Bank Austria AG in June 2018. A dedicated action plan was delivered to ECB in July 2018.

(p) As disclosed in the ECB's "2017 Planned Supervisory Activities" sent in January 2017, in September 2017 the ECB announced a TRIM – Targeted Review of Internal Models inspection related to "Credit risk (PD)" with particular reference to: Retail – other SME, including an assessment of an approval of material change related to Credit risk (PD) for Retail – other SME. The inspection was launched in November 2017 and concluded in March 2018. The final results were notified in May 2018. The ECB recommendation letter was received in January 2019. UniCredit provided a dedicated action plan in February 2019.

(q) As disclosed in the ECB's "2018 Planned Supervisory Activities" sent in January 2018, in February 2018 ECB announced an inspection related to "Internal Governance – Compliance Function" of UniCredit Group. The inspection was launched in April 2018 and concluded in July 2018. UniCredit provided an action plan in January 2019. The remedy actions are due to be concluded by December 2019.

(r) As disclosed in the ECB's "2018 Planned Supervisory Activities" sent in January 2018, in March 2018 ECB announced an inspection related to "Market Risk Framework, Policies and Procedures", with particular reference to CEE countries. The inspection was launched in April 2018 and concluded in June 2018. The final results were notified in November 2018 and the recommendation letter in February 2019. UniCredit will provide the dedicated action plan by end of March 2019.

(s) As disclosed in the ECB's "2018 Planned Supervisory Activities" sent in January 2018, in March 2018 ECB announced an inspection related to "Credit Quality Review – Retail & SME-Portfolios" of UniCredit SpA and subsidiaries in Italy. The inspection was launched in June 2018 and concluded at the end of October 2018. The final results have not yet been notified to UniCredit.

(t) As disclosed in the ECB's "2018 Planned Supervisory Activities" sent in January 2018, in July 2018 the ECB announced an inspection related to the "Business Model" of UniCredit S.p.A.. The inspection was launched in September 2018 and concluded in December 2018. The final results have not yet been notified to UniCredit.

(u) As disclosed in the ECB's "2018 Planned Supervisory Activities" sent in January 2018, in July 2018 the ECB announced an inspection related to the "IT Risk of UniCredit Group, with particular focus on IT services". The inspection was launched in November 2018 and concluded early in March 2019. The final results have not yet been notified to UniCredit.

(v) In July 2018 the ECB notified to UniCredit the results of a review relating to the implementation of Commission Delegated Regulation (EU) 2015/61 with regard to the liquidity coverage requirement (LCR Deep Dive). UniCredit delivered the action plan to the ECB in August 2018. The remedial actions are planned to be concluded by March 2020.

(w) As disclosed in the ECB's "2018 Planned Supervisory Activities" sent in January 2018, in September 2018 the ECB announced a TRIM – Targeted Review of Internal Models inspection related to "Counterparty Credit Risk" for the risk category "All-IMM", including follow-up checking the remediation of previous IMI's findings. The inspection was launched on 1 October 2018 and it was concluded in December 2018.

(x) As disclosed in the ECB's "2019 Planned Supervisory Activities" sent in January 2019, in March 2019 the ECB announced an inspection related to "Information Security" of the Group. The inspection is expected to start in April 2019.

(y) As disclosed in the ECB's "2019 Planned Supervisory Activities" sent in January 2019, in March 2019 the ECB announced an inspection related to "Business Model CIB" of UniCredit Bank AG and UniCredit S.p.A.. The inspection is expected to start in June 2019.

(z) As disclosed in the ECB's "2019 Planned Supervisory Activities" sent in January 2019, the ECB announced a TRIM – Targeted Review of Internal Models inspection related to "Credit Risk" with focus on MNC and Sovereign (PD and LGD models), The inspection was launched on 21 January 2019, is currently ongoing and it is expected to end in April 2019.

In April 2016, the Italian Competition Authority (**AGCM**) notified the extension to UniCredit (as well as to ten other banks) of the I/794 ABI/SEDA proceedings launched in January 2016 with regard to the Italian Banking Association (**ABI**), aimed at ascertaining of the existence of alleged concerted practices with reference to the Sepa Compliant Electronic Database Alignment (**SEDA**).

On 28 April 2017, the AGCM issued a final notice whereby it confirmed that the practices carried out by the ABI, UniCredit and the other banks in connection with the adoption of the SEDA service model of compensation constituted an anti-competitive practice and therefore a violation of European competition regulations. With such notice, the AGCM ordered the parties to cease the infringement, submit a report evidencing the relevant measures adopted by 1 January 2018 to the AGCM, and refrain from enacting similar practices in the future. Given the fact that the infringements were minor in light of the legislative framework, the AGCM did not impose any monetary or administrative sanctions, also in consideration of the fact that, in the course of the proceeding, the ABI and the banks proposed a redefined SEDA service remuneration model which, if correctly implemented by the banks, is expected to decrease the current SEDA costs by half, which benefits the enterprises utilizing the service and, ultimately, the end-users of the utilities.

In February 2018, the AGCM communicated to have examined the compliance report relating to the proceeding in question concerning the SEDA service and, on the basis of the information presented therein, considered the procedures put in place in line with the measures indicated in the provision of closing of the preliminary investigation.

In connection with the proposed new SEDA service remuneration model, two possible further risk factors can be envisaged, namely: (a) the economic risk relating to possible lower earnings from the service given that the proposed new remuneration structure is expected to involve lower levels than the current ones; and (b) the economic risk relating to the costs of adjusting the IT procedures that will be necessary for the new service remuneration structure. In addition, in light of the AGCM final notice, there is also the risk of claims against UniCredit in civil court by parties seeking damages for anti-competitive behaviour. UniCredit decided to appeal the AGCM decision at the TAR (the Italian Regional Court). As at the date of this Prospectus, the appeal filed *vis-à-vis* the regional court is still pending.

In April 2017, the AGCM extended to UniCredit (and to one other bank) the proceeding opened in January 2017 against IDB S.p.A. and IDB Intermediazioni S.r.l. In October 2017, the AGCM imposed pecuniary administrative penalties against the parties (€4 million against UniCredit), for alleged unfair commercial practices relating to investments in diamonds. UniCredit decided to appeal the AGCM decision at the TAR, that rejected it in November 2018. UniCredit then appealed the TAR decision before the Supreme Administrative Court ("*Consiglio di Stato*"). At the date of the Prospectus, the proceedings are still pending.

In April 2017, the AGCM launched proceedings against UniCredit (and against two more banks), at the same time requesting information, relating to alleged unfair commercial practice concerning compound interest (so called "*anatocismo*"). In November 2017, the AGCM imposed pecuniary administrative penalties against UniCredit and other banks (€5 million applied to UniCredit). UniCredit appealed the AGCM decision before the TAR. At the date of the Prospectus, the proceedings are still pending.

In early 2019 UniCredit received a statement of objections from the European Commission as part of its investigation into a suspected violation of antitrust rules in relation to European government bonds. UniCredit will take note of contents of the statement and issue a response.

*Risks arising from tax disputes*

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

Specifically, as at 31 December 2017, there were 492 tax disputes involving counterclaims pending with regard to UniCredit and other companies belonging to the UniCredit Group's "Italian" perimeter, net of settled disputes, for a total amount equal to €289.62 million.

As of 31 December 2017, the total amount of provisions for tax risks amounted to €102.7 million (including provisions for legal expenses).

As far as the tax inspections which were concluded during the course of the financial year ended at 31 December 2017 are concerned, reference is made to paragraph "*Proceedings Related to Tax Matters*" of the Description of UniCredit and the UniCredit Group.

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

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

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

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

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

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

In this context, UCB AG conducted a voluntary investigation of its U.S. dollar payments practices and its historical compliance with applicable U.S. financial sanctions, in the course of which certain historical non-transparent practices have been identified. In addition, UCB Austria independently conducted a voluntary investigation of its historical compliance with applicable U.S. financial sanctions and has similarly identified certain historical non-transparent practices. UniCredit has also conducted a voluntary review of its historical compliance with applicable U.S. financial sanctions. Each of these entities is cooperating with the relevant U.S. authorities and remediation activities relating to policies and procedures have commenced and are ongoing as at the date of this Prospectus. Each UniCredit Group entity subject to investigations is updating its regulators as appropriate.

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

Recent violations of U.S. sanctions and certain U.S. dollar payment practices by other European financial institutions have resulted in those institutions entering into settlements and paying material fines and penalties to various U.S. authorities. The investigations and/or proceedings into certain Group companies could therefore result in the payment of material fines and/or criminal or civil penalties.

The Issuer, UCB AG and UCB Austria continue settlement discussions with the relevant U.S. authorities to come to a resolution of these matters. Discussions are ongoing and, although progress has been made, the

Group companies have not yet entered into any final agreement with these authorities. Therefore, it is not possible to determine with certainty the terms and timing of any resolution with any relevant authorities, including what final costs, remediation, payments or other criminal or civil liability may occur in connection with a final resolution.

The investigation costs, remediation required and/or payment or other legal liabilities to be incurred in connection with the proceedings could lead to liquidity outflows, potentially affect net results and have a material adverse effect on a reputational basis and business activities.

The Group booked provisions which are deemed appropriate.

The timing of any agreement with the various U.S. authorities is currently not determinable, however it is possible that settlement discussions with any or all of the Group entities could be completed by the end of the first semester of 2019.

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

On 13 October 2016 and on 16 May 2017, UniCredit was notified of the conclusion of the preliminary investigations by the Public Prosecutor at the Court of Tempio Pausania of two notices pursuant to Article 415-bis of the Code of Civil Procedure as the party responsible for the administrative offence under Article 24-ter of Legislative Decree 231/2001 as a result of offences contested by the former representatives of the Banca del Mezzogiorno – MedioCredito Centrale S.p.A. (**MCC**), later renamed "Capitalia Merchant S.p.A.", then "UniCredit Merchant S.p.A." merged by incorporation into UniCredit, as well as Sofipa SGR S.p.A. and Capitalia S.p.A. merged by incorporation into UniCredit). This concerns a complex case involving UniCredit as the successor of MCC, relating to shareholdings owned by the above-mentioned MCC in the group for which Colony Sardegna S.à r.l. is the parent company. The directors of this company are charged with decisions concerning financial transactions which resulted in capital gains on behalf of third-party companies and to the detriment of the company managed, as well as failures to declare IRES income; the charges involving UniCredit refer to the years 2003/2011 (in May 2011 UniCredit Merchant S.p.A. actually sold its shareholding).

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

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

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

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

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

*Risks connected with operations in the banking and financial sector*

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

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

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

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

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

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

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

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

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

*Deposit Guarantee Scheme and Single Resolution Fund*

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

In relation to the contribution obligations described below, such schemes have led to expenses during the period and will result in expenses in future periods as ordinary contribution scheme and potential extraordinary contributions:

- With the introduction of the BRRD, the Regulation on the Single Resolution Mechanism (Regulation (EU) No.806/2014 of the European Parliament and of the Council dated 15 July 2014) established a framework for the recovery and resolution of crises in credit institutions, by setting up a single resolution committee and a single resolution fund for banks (Single Resolution Fund, SRF). The Regulation provides for the launch of a compulsory contribution mechanism that entails the collection of the target level of resources by 31 December 2023, equal to 1 per cent. of the covered deposits of all the authorised institutions acting in the Banking Union. The accumulation period may be extended for a further four years if the funding mechanisms have made cumulative disbursements for a percentage higher than 0.5 per cent. of the covered deposits. If, after the accumulation period, the available financial resources fall below the target level, the collection of contributions shall resume until that level has been recovered. Additionally, having reached the target level for the first time and, in the event that the available financial resources fall to less than two thirds of the target level, these contributions are set at the level which allows the target level to be reached within a period of six years.

  The contribution mechanism provides for ordinary annual contributions, with the aim of distributing the costs evenly over time for the contributing banks, and extraordinary additional contributions, of up to three times the expected annual contributions, when the available financial resources are not sufficient to cover the losses and costs of the interventions. A transitional phase of contributions to the national compartments of the SRF and a progressive mutualisation of these are expected

- Directive 2014/49/EU of 16 April 2014, in relation to the DGS, aims to enhance the protection of depositors through the harmonisation of the related national legislation. This Directive provides for the launch of a mandatory national contribution mechanism that will allow a target level of 0.8 per cent. of the amount of its members' covered deposits to be collected by 3 July 2024. The contribution resumes when the financing capacity is below the target level, at least until the target level is reached. If, after the target level has been reached for the first time, the available financial resources have been reduced to below two thirds of the target level, the regular contribution shall be set at a level to achieve the target level within six years.

  The contribution mechanism provides for ordinary annual contribution instalments, with the aim of distributing the costs evenly over time for the contributing banks, and also extraordinary contributions, if the available financial resources of a DGS are insufficient to repay depositors; the extraordinary contributions cannot exceed 0.5 per cent. of covered deposits per calendar year, but in exceptional cases and with the consent of the competent authority, the DGS may demand even higher contributions.

Directives No.49 and No.59 specify the possibility of introducing irrevocable payment commitments as an alternative to collection of fund contributions lost through cash, up to a maximum of 30 per cent. of the total resources target.

With reference to Directive No.59 (SRF contributions) the instrument of the irrevocable payment commitments has been used by UniCredit S.p.A. and by the German subsidiary UniCredit Bank AG for an amount equal to 15 per cent. of full contributions paid in May 2016, resulting in the payment of guarantees in the form of cash, €16 million and €12 million respectively. With reference to 2017, ordinarily contribution, only UniCredit Bank AG has adopted this faculty for €14 million. The cash collateral has been recognised in the balance sheet as an asset and its contractual characteristics have been taken into account in its measurement.

In 2017 the contributions to resolution and guarantee funds (SRF), harmonised and non-harmonised (DGS) respectively equal to €305 million and €208 million.

For the operations in the 2015 and 2016 financial years, the ordinary contributions to the SRF for UniCredit were respectively €73 million and €107 million. In its capacity as National Resolution Authority (**NRA**), the Bank of Italy, with its Provisions dated 21 November 2015, approved by the Italian Minister of Economy and Finance on 22 November 2015, ordered the launch of a resolution programme (for Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara, Cassa di Risparmio della Provincia di Chieti). In particular, this related to a restructuring process which resulted in the separation of the non-performing assets of the four banks concerned, which flowed into a "bad bank", from the rest of the assets and liabilities, that flowed into four new "bridge banks", held to be sold through a competitive selling procedure on the market. As a result of this intervention, the aforementioned ministerial measures led to a request for extraordinary contributions for 2015, in accordance with Directive 59, established at the maximum rate of three times the ordinary contribution due for 2015. Therefore, UniCredit made an extraordinary contribution of €219 million (equal to 3 times the ordinary annual contribution due in 2015 for the Single Resolution Fund).

The liquidity needed to fund this intervention was provided through a loan in which UniCredit participated. In particular, the intervention of UniCredit entailed:

- the provision of a loan in favour of the National Resolution Fund for about €783 million (portion of a total loan of €2,350 million disbursed together with other banks), fully repaid on 21 December 2015 through the liquidity inflow from the ordinary and extraordinary contributions of 2015;

- the provision of a further tranche of the loan in favour of the National Resolution Fund for a numina equal to €516 million (portion of a total loan of €1,550 million disbursed together with other banks) and the payment commitment to the National Resolution Fund for an amount of €33 million (portion of a total commitment of €100 million for a further tranche of the loan together with other banks), both closed in June 2017;

- the provision of a loan in favour of the National Resolution Fund for about €210 million (portion of a total loan of €1,240 million disbursed together with other banks).

In respect of the loan and the commitment, Cassa Depositi e Prestiti has assumed a commitment of financial support in favour of National Resolution Fund in the event of insufficient liquidity to the date of loan maturity, while awaiting that the National Resolution Fund finds the necessary resources through ordinary and/or extraordinary contributions.

With reference to the financing of the resolution of the four banks mentioned above, Italian Legislative Decree 183/2015 (converted into Law 208/2015) also introduced an additional payment commitment for 2016, due to the National Resolution Fund, for the payment of contributions of up to twice the ordinary contribution quotas to the Single Resolution Fund, which could be activated if the funds available to the National Resolution Fund net of recoveries arising from the disposal transactions carried out by the Fund from the assets of the four banks mentioned above were not sufficient to cover the bonds, losses and costs payable by the Fund in relation to the measures provided for by the Provisions launching the resolution. In application of this faculty, in December 2016 additional €214 million (two times the ordinary contribution) have been requested by the Bank of Italy and posted into UniCredit profit and loss and subsequently paid during 2017.

*Voluntary Scheme*

UniCredit and its subsidiary FinecoBank have joined the voluntary scheme (the **Voluntary Scheme**), introduced by the FITD in November 2015 through a change to its by-laws.

The Voluntary Scheme constitutes an instrument for solving banking crises through arrangements supporting the banks belonging to the scheme, through recourse to the specific conditions set out by the regulations. The Voluntary Scheme has an independent financial endowment and the member banks are obligated to provide the resources when requested to implement the interventions.

The Voluntary Scheme, in the capacity of a private entity, intervened in April 2016 for the restructuring of the support arrangement which the FITD made in July 2014 for Banca Tercas; operation that generated no further charges for participating banks.

Subsequently, the participating size of the Voluntary Scheme was increased up to €700 million (commitment relating to the UniCredit Group amounted to €125 million). In this context, on June 2016 the Voluntary Scheme approved an action in support of Cassa di Risparmio di Cesena, in relation to a capital increase approved by the same bank on 8 June 2016 for €280 million (commitment relating to the UniCredit Group amounted to €51 million). On 30 September 2016, this commitment has been converted into a monetary payment which has led to the recognition of capital instruments classified as “available for sale" for €51 million (consistent with the monetary payment). Update of evaluation of the instruments as at December 2016, according to an internal evaluation model based on multiples of a banking basket integrated with estimates on Cassa di Risparmio di Cesena’s credit portfolio and related equity/capital needs, has brought to full impairment of the position.

In September 2017, to face Credit Agricole CariParma intervention in favour of CariCesena, Carim and Carismi (based on a capital increase for €464 million and subscription of bonds from NPL securitisation of these banks for €170 million), the fund has increased its capital endowment till to €795 million (share of total investments attributable to UniCredit group equal to approximately €146 million). Further, in the same month, the UniCredit Group paid €10 million to the fund in respect of the part of the intervention related to the capital increase of Carim and Carismi. During December, the UniCredit Group paid the remaining €85 million (€52 million referred to capital increase of the banks and €33 million referred to the subscription of securitisation’s notes). Following these events, the UniCredit Group’s residual commitment towards the Voluntary Scheme is substantially nil.

All payments referred to capital increase of the banks have brought to the recognition of capital instruments classified as “available for sale” for the same amount of €63 million, entirely cancelled due to the sale of the banks to Credit Agricole CariParma at a symbolic price.

Regarding the portion of investment referred to Voluntary Scheme’s subscription of Junior and Mezzanine quotes of the securitisation, initial value (€33 million) has been rectified to reflect fair value valuation declared by the Scheme (€5 million), as resulting from analysis conducted by the advisors in charge for the underlying credits evaluation, conducted according to a discounted cash flow model based on recovery plans elaborated by SPV’s special servicer.

*Other charges for systemic risk*

As at 31 December 2017, the charges for systemic risk, in addition to those indicated above for the Single Resolution Fund and the Deposit Guarantee System, amounted to € 73 million referring to banks levies (charges imposed at national level to financial institutions, largely based on balance sheet data, or part of it) and the DTA guarantee fee (introduced with the art.11 of the DL 3 May 2016 No. 59, so-called "Bank Decree", converted into the Law of 30 June 2016 No. 119, which envisages the fulfillment of certain conditions, the right to convert certain deferred tax assets into tax credits provided that this option is irrevocably exercised upon payment of an annual fee).

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

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

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

In this regard, an important change was introduced on 1 January 2018 following the coming into force of IFRS 9 "Financial Instruments". With mandatory date of effectiveness on 1 January 2018, it should be noted that the new accounting standard:

- introduces significant changes, compared to IAS39, to classification and measurement of loans and debt instruments based on the "business model" and on the characteristics of the cash flows of the financial instrument (SPPI - Solely Payments of Principal and Interests criteria);

- requires the classification of the equity instruments at fair value either through profit or loss or through "other comprehensive income". In this second case, unlike previous requirements for available for sale assets set by IAS39, IFRS9 has eliminated the request to recognise impairment losses and provide for, in case of disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserve and not to profit and loss accounts;

- introduces a new accounting model for impairment, based on expected losses approach substituting the current approach based on the incurred losses;

- works on the hedge accounting model rewriting the rules for the designation of a hedge accounting relationship and for the verification of its effectiveness in order to achieve a stronger alignment between the hedge accounting treatment and the underlying risk management logic. It should be noted that the principle allows the entity to make use of the possibility to continue to apply IAS39 hedge accounting rules until the IASB has completed the project on definition of macro-hedging rules[1];

[1] The Group has exercised the option to continue applying the existing IAS39 hedge accounting requirements for all its hedging relationships until the IASB completes the project on accounting for macro-hedging.

- has introduced guidelines that clarify when financial instruments shall be written off by specifying that the write - off constitutes an event of accounting derecognition; and

- changes the accounting treatment of "own credit risk", in other words changes in the fair value of issued debt liabilities that are designated at fair value attributable to changes of the own credit price. The new accounting standard requires that these changes shall be recognised in a specific equity reserve, rather than to the income statement, as requested under IAS39, therefore removing a volatility source from the economic results.

The adoption of IFRS9 has determined, as at 1 January 2018:

- an overall negative effect on consolidated net equity for an amount of -€3,535,207 thousand, net of taxes (-€3,708,885 thousand gross of taxes);

- an overall negative effect on the CET1 Capital ratio[2] , fully loaded, equal to -99 bps[3] (-104 bps[4] gross of taxes);

- the increase of loan loss provisions to an amount equal to €31,002,599 thousand.

Please note that these final impacts are different from those disclosed in the Consolidated Reports and Accounts as at 31 December 2017 mainly as a result of:

- the observation of market transactions occurred on a specific asset class of NPL loans that are included in Group NPL Strategy that has required the revision of prices, estimated through internal models, considered in the sale scenario for the measurement of non performing exposures. These price adjustments have determined a negative First Time Adoption (FTA) effect of €270,675 thousand, gross of taxes.

- Write–offs performed on a specific impaired loan portfolio in light of:

    - the Group strategy for the management of the non-performing loan portfolio that gives precedence to the deleveraging of such portfolio, as illustrated in the Multi-year Plan (MYP) communicated to the market on December 2017;

    - the introduction by IFRS9 of specific guidance on write-off,

Please note that the Group has developed specific guidelines on write-off aimed at granting the full compliance with IFRS9 and the document "Guidance to banks on non-performing loans" issued by ECB. Write – offs have determined a negative FTA effect of €802,763 thousand, gross of taxes.

In addition to the above for IFRS 9, the International Accounting Standards IFRS15 "Revenues from contracts with customers" and IFRS16 "Leases" are reported.

IFRS15, effective starting from 1 January 2018 and endorsed by the European Union with Regulation EU 2016/1905 of 22 September 2016 (published on 29 October 2016), modifies the current set of international accounting principles and interpretations on revenue recognition and, in particular, IAS18.

IFRS15 provides for:

- two approaches for the revenue recognition ("at point in time" or "over time");

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[2] The UniCredit Group has decided not to apply the IFRS9 transitional approach as reported in article 473a of the CRR. Therefore, the calculation of own funds, capital absorption, capital ratios and leverage fully reflects the impact arising from the application of the IFRS9 principle.

[3] Considering tax impact and First Time Adoption (FTA) related effects on loans and Deferred Tax Assets Risk weighted assets.

[4] Considering FTA related effects on loans Risk weighted assets.

- a new model for the analysis of the transactions ("Five steps model") focalised on the transfer of control; and

- the request for a more detailed disclosure to be included in the explanatory notes to the financial statements.

The adoption of the new accounting standard determines (i) reclassification between lines of income statement used for presenting revenues, (ii) change in the timing recognition of such revenue, when the contract with the customer contains several performance obligation that must be accounted for separately under the accounting standard, (iii) different measure of the revenue so to reflect their variability.

IFRS16, effective starting from 1 January 2019, has been endorsed by the European Union with Regulation EU 2017/1986 of 31 October 2017 (published on 9 November 2017) and modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS17.

IFRS16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability reflecting the future payments of the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows, which include in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract. After the initial recognition the right-of-use will be measured on the basis of the previsions set for tangible assets applying the cost model less any accumulated depreciation and any eventual accumulated impairment losses, the revaluation model or the fair value model set by IAS16 or by IAS40.

Activities aimed at assessing the impacts of the adoption of the new accounting principles and ensuring the compliance with it are currently ongoing.

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

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

On 29 March 2017, the UK delivered to the European Council notice of its intention to withdraw from the EU, pursuant to Article 50 of the Treaty on the European Union. The delivery of such notice started a two-year period during which the UK is negotiating with the EU the terms of its withdrawal and of its future relationship with the EU (the **article 50 withdrawal agreement**). If the parties fail to reach an agreement within this time frame, all EU treaties cease to apply to the UK, unless the European Council, in agreement with the UK, unanimously decides to extend this period. As part of those negotiations, a transitional period has been agreed in principle which would extend the application of EU law, and provide for continuing access to the EU single market, until the end of 2020. Absent such extension and subject to the terms of any article 50 withdrawal agreement, the UK will withdraw from the EU no later than 29 March 2019. There are a number of uncertainties in connection with such negotiations, including their timing, and the future of the UK's relationship with the EU. It therefore remains uncertain whether the article 50 withdrawal agreement will be finalised and ratified by the UK and the EU ahead of the 29 March 2019 deadline. In addition, the UK's decision to withdraw from the EU has also given rise to calls for the governments of other EU member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets, which could in turn depress economic activity and restrict the access to capital of the Issuer. Until the terms and timing of the UK's exit from the EU are clearer, it is not possible to determine the impact that the UK's departure from the EU and/or any related matters may have on the stability of the Eurozone or the European Union and, ultimately, on the business of the Group. As such, no assurance can be given that such matters would not adversely affect the Group, its business prospects, its financial condition, its results of operations, the ability of the Issuer to satisfy the relevant obligations under the Notes and/or the market value and/or the liquidity of the Notes in the secondary market.

<u>*Basel III and CRD IV*</u>

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

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

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

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

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

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

- *Capital conservation buffer*: The capital conservation buffer has applied to UniCredit since 1 January 2014 pursuant to Article 129 of the CRD IV Directive and Part I, Title II, Chapter I, Section II of Circular No. 285. According to the 18th update[5] to Circular No. 285 published on 4 October 2016, new transitional rules were set providing for a capital conservation buffer set for 2018 at 1.875 per cent. of RWAs, increasing to 2.5 per cent. of RWAs from 2019;

- *Counter-cyclical capital buffer*: The countercyclical capital buffer applied starting from 1 January 2016. Pursuant to Article 160 of the CRD IV Directive and the transitional regime granted by Bank of Italy, institutions' specific countercyclical capital buffer shall consist of Common Equity Tier 1 capital capped at 1.875 per cent. for 2018. In addition, the Bank of Italy decided on 23 March 2018 to maintain the counter-cyclical capital buffer applicable to credit exposures in Italy at 0 per cent. for the second quarter of 2018 (percentages are revised each quarter). As of 31 March 2018:

  - the specific countercyclical capital rate of UniCredit Group amounted to 0.03 per cent.;

  - countercyclical capital rates have generally been set at 0 per cent., except for the following countries: Czech Republic (0.50 per cent.); Hong Kong (1.875 per cent.); Iceland (1.25 per cent.); Norway (2 per cent.); Sweden (2.00 per cent.); and Slovakia (0.50 per cent.);

  - with reference to the exposures towards Italian counterparties, the Bank of Italy has set the rate equal to 0 per cent.;

- *Capital buffers for globally systemically important institutions* (***G-SIIs***): It represents an additional loss absorbency buffer (ranging from 1.0 per cent. to 3.5 per cent. in terms of required level of additional common equity loss absorbency as a percentage of risk-weighted assets), determined according to specific indicators (e.g. size, interconnectedness, complexity). It was subject to phase-in starting from 1 January 2016 (Article 131 of the CRD IV Directive and Part I, Title II, Chapter I, Section IV of Circular No. 285) and became fully effective on 1 January 2019. Based on the most recent list of G-SIIs published by the Financial Stability Board (**FSB**) in November 2018 (the list is updated annually), the UniCredit Group is confirmed as a global systemically important bank (**G-SIB**) included in "Bucket 1" (in a ranking from 1, where 5 is the highest); therefore, it has to comply with a target requirement of 1 per cent. in 2019 (0.75 per cent. for 2018); and

- *Capital buffers for other systemically important institutions (**O-SIIs**)*: identified by the Bank of Italy as an O-SII authorised to operate in Italy, UniCredit has to maintain a capital buffer of 1 per cent. of its total risk exposure, to be achieved according to the following transitional period: 0.50 per cent. for 2019, and then increased by 0.25 per cent. for 2020, reaching the target of 1 per cent. from 1 January 2021. According to Article 131.14 of the CRD IV Directive however, the higher of the G-SII and the O-SII buffer will apply: hence, the UniCredit Group is subject to the application of the G-SII buffer (1 per cent. for 2019).

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

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

macroprudential risks not otherwise covered by the CRD IV Package, in the sense of a risk of disruption in the financial system with the potential of having serious negative consequences on the financial system and the real economy in a specific Member State. As at the date of this Prospectus, no provision is taken on the systemic risk buffer in Italy.

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

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

On 11 February 2019, UniCredit has been informed by the ECB about its final decision concerning the capital requirements following the results of its annual 2018 SREP which apply, on a consolidated basis, from 1 March 2019. A table setting out the UniCredit Group's fully-loaded capital requirements and buffers – which also indicates TSCR (Total SREP Capital Requirement) and OCR (Overall Capital Requirement) – is reported below (rounded to two decimal numbers):

| **Requirements 1 March 2019** | | | **CET1** | **T1** | **Total Capital** |
|---|---|---|---|---|---|
| **A)** | **Pillar 1 Requirements** | | **4.50%** | **6.00%** | **8.00%** |
| **B)** | **Pillar 2 Requirements** | | **2.00%** | **2.00%** | **2.00%** |
| **C)** | **TSCR** ***(A+B)*** | | **6.50%** | **8.00%** | **10.00%** |
| **D)** | **Combined capital buffer requirement, of which:** | | **3.57%** | **3.57%** | **3.57%** |
| | *1.* | *Capital Conservation buffer* | *2.50%* | *2.50%* | *2.50%* |
| | *2* | *Global Systemically Important Institution buffer* | *1.00%* | *1.00%* | *1.00%* |
| | *3.* | *Institution-specific Countercyclical Capital buffer (as of 1 March 2019)* | *0.07%* | *0.07%* | *0.07%* |
| **E)** | **OCR** ***(C+D)*** | | **10.070%** | **11.57%** | **13.57%** |

As at 31 December 2018, the consolidated transitional capital ratios (CET1 Capital, Tier 1 and Total Capital ratios) were, respectively, 12.13 per cent. (12.07 per cent. on a fully-loaded basis), 13.64 per cent. and 15.80 per cent.

The quantum of any Pillar 2 requirement imposed on a bank, the type of capital which it must apply to meeting such capital requirements, and whether the Pillar 2 requirement is "stacked" below the capital buffers (i.e. the bank's capital resources must first be applied to meeting the Pillar 2 requirements in full before capital can be applied to meeting the capital buffers) or "stacked" above the capital buffers (i.e. the bank's capital resources can be applied to meeting the capital buffers in priority to the Pillar 2 requirement) may all impact a bank's ability to comply with the combined buffer requirement.

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

However, more recently, the EBA and the ECB appear to have adopted a more flexible approach to Pillar 2. In its publication of the 2016 EU-wide stress test results on 29 July 2016, the EBA has recognised a distinction between "Pillar 2 requirements" (stacked below the capital buffers) and "Pillar 2 capital guidance" (stacked above the capital buffers). With respect to Pillar 2 capital guidance, the publication stated that, in response to the stress test results, competent authorities may (among other things) consider "setting capital guidance, above the combined buffer requirement. Competent authorities have remedial tools if an institution refuses to follow such guidance. The ECB published a set of "Frequently asked questions on the 2016 EU-wide stress test", confirming this distinction between Pillar 2 requirements and Pillar 2 capital guidance and noting that "Under the stacking order, banks facing losses will first fail to fulfil their Pillar 2 capital guidance. In case of further losses, they would next breach the combined buffers, then Pillar 2 requirements, and finally Pillar 1 requirements".

The CRD Reform Package proposes to legislate this distinction between "Pillar 2 requirements" and "Pillar 2 capital guidance". Whereas the former are mandatory requirements imposed by supervisors to address risks not covered or not sufficiently covered by Pillar 1 and buffer capital requirements, the latter refers to the possibility for competent authorities to communicate to an institution their expectations for such institution to hold capital in excess of its capital requirements (Pillar 1 and Pillar 2) and combined buffer requirements in order to cope with forward-looking and remote situations. Under the CRD Reform Package proposals, (and as described above), only Pillar 2 requirements, and not Pillar 2 capital guidance, will be relevant in determining whether an institution is meeting its combined buffer requirement.

The 2018 SREP letter also states a Pillar 2 capital guidance, to be fully satisfied with CET1 Capital.

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

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

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

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

*Forthcoming regulatory changes*

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

On 9 November 2015, the FSB published its final Total Loss-Absorbing Capacity (**TLAC**) Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to liabilities excluded from TLAC, such as guaranteed insured deposits, derivatives, etc. and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet require a minimum TLAC requirement for each G-SIB at the greater of (a) 16 per cent. of RWA plus the combined buffer requirement as of 1 January 2019 and 18 per cent. plus the combined buffer requirement as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio exposure as of 1 January 2019, and 6.75 per cent. as of 1 January 2022. For UniCredit, the combined buffer requirement that is expected to apply from January 2019 is 3.57 per cent., assuming a countercyclical capital buffer of 0.07 per cent. a G-SIB buffer of 1 per cent. and embedding the fully loaded Capital Conservation Buffer of 2.5 per cent., leading the TLAC requirement on RWA to 19.57 per cent. and 21.57 per cent., respectively, as of 1 January 2019 and as of 1 January 2022.

The TLAC standards will be implemented in the EU through amendments to the CRR to be made by the CRR II Regulation, which is still, however, a Legislative Proposal (COM(2016) 850 final). In particular, the EU will apply the TLAC standards only to G-SIIs and the proposed revision to the CRR under consultation relate to issues including the external TLAC, the minimum TLAC requirement (the greater of the before mentioned requirements based on (i) RWA and (ii) the leverage ratio exposure), internal TLAC and eligible or excluded liabilities.

Based on the most recently updated FSB list of G-SIBs published in November 2018 (updated annually), the UniCredit Group is a G-SIB included in bucket 1 and it will be subject to the TLAC requirements when they are implemented into applicable law, provided that at that time the UniCredit Group is still included in the list of G-SIBs.

On 23 November 2016, the European Commission released a package of proposals to amend the CRD IV Directive and the CRR (the **CRD Reform Package**) and also the BRRD and the SRM Regulation (together with the CRD Reform Package, the **Risk Reduction Measures Package**), which is expected to become applicable in 2019 (but this will ultimately depend on the procedure and the outcome of the discussions in the European Parliament and the Council). Among other things, these proposals aim to implement a number of new Basel standards (such as the leverage ratio, the net stable funding ratio, market risk rules and requirements for own funds and eligible liabilities) and to transpose the FSB's TLAC termsheet into European law. Once these proposals are finalised, changes to the CRR will become directly applicable to the UniCredit Group. The CRD IV Directive amendments and the amendments to the BRRD will need to be transposed into Italian law before taking effect. See "*The bank recovery and resolution directive is intended* *to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of the Notes and/or the rights of Noteholders*" below for further details on the implementation of TLAC in the EEA through changes to the BRRD.

The Impact Assessment accompanying the CRD Reform Package, carried out by the European Commission, highlights that implementing the proposed amendments would ensure that EU institutions would (i) be better capitalized (ii) have more stable sources of funding (iii) not have excessively leveraged balance sheets and (iv) be resolved more effectively. It cannot be excluded that under the envisaged new requirements, credit institutions shall be required to raise additional funds to reduce their exposure, raise additional stable funding or change the maturity structure of their assets. Changes in the requirements could also lead to one–off costs due to changes to reporting systems.

Moreover, it is worth mentioning that the BCBS has embarked on a very significant RWA variability agenda. This includes the Fundamental Review of the Trading Book, revised standardised approaches (credit, counterparty credit, market, operational risk), constraints to the use of internal models as well as the introduction of a capital floor. The regulator's primary aim is to eliminate unwarranted levels of RWA variance, to improve consistency and comparability across banks. The finalisation of the new framework was completed in respect of market risk in 2016, and in respect of credit risk and operational risk, in December 2017, while a number of elements of the so-called "Fundamental Review of the Trading Book" were completed in January 2019. It is designed to enhance the robustness and risk sensitivity of the standardised approach, constrain the use of internally modelled approaches and complement the risk-weighted capital ratio with a finalised leverage ratio (including an additional G-SIB buffer requirement) and a revised and robust capital floor. 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 favor of a new standardised approach, which is also under revision. The regulatory changes will impact the entire banking system and consequently could lead to changes in the measurement of capital (although they will become effective after the time frame covered by the Strategic Plan, from 2022). 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 is structured in two stages, with an institution-specific review commenced in 2016 and a model specific review in 2017 and 2018/2019. In stage one, the ECB reviewed governance relating to UniCredit's IRB models as well as model mapping priorities, based on a sample of five "high default" portfolios. UniCredit is involved in on-site inspections in connection with stage two of the TRIM. This second stage is focussing on high default portfolio models in 2017 and low default portfolio models in 2018/2019.

In March 2015, the EBA undertook the revision of some specific aspects of the RWA internal models, encouraging a major convergence between European banking supervision practices. The EBA has finalised the regulatory standards for the Internal Rating Based methodology and the Guidelines on the new Definition of Default, while final Guidelines on Probability of Default and the Loss Given Default estimation and treatment of defaulted assets were published in November 2017. Based on the EBA's proposal, the rules for internally estimating the LGD would become significantly tighter. The implementation of all the proposed changes is expected by January 2021, or earlier at the discretion of the competent authorities. UniCredit has anticipated part of these EBA guidelines in a revision of its internal models, mainly for Italy, with impacts expected in 2018 and 2019.

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

*ECB Single Supervisory Mechanism*

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

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

National competent authorities will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks, besides supporting ECB in day-to-day supervision. In order to foster consistency and efficiency of supervisory practices across the eurozone, the EBA has developed a Single Rule Book. The Single Rule Book aims to provide a single set of harmonised prudential rules which institutions throughout the EU must respect.

The ECB has fully assumed its new supervisory responsibilities of UniCredit and the UniCredit Group. The ECB is required under the SSM Regulation to carry out a SREP at least on an annual basis. In addition to the above, the EBA published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the **EBA SREP Guidelines**). Included in these guidelines were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional Pillar 2 own funds requirements implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the Pillar 2 requirements to cover certain specified risks of at least 56 per cent. CET1 Capital and at least 75 per cent. Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the combined buffer requirements (as described above) and/or additional macro-prudential requirements. Accordingly, the additional Pillar 2 own funds requirement that may be imposed on UniCredit and/or the UniCredit Group by the ECB pursuant to the SREP will require UniCredit and/or the UniCredit Group to hold capital levels above the minimum Pillar 1 capital requirements.

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

On 2 July 2014, the BRRD entered into force and Member States were expected to implement the majority of its provisions. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the BRRD (the **BRRD Reforms**). The proposal includes an amendment to Article 108 of the BRRD aimed at further harmonising the creditor hierarchy as regards the priority ranking of holders of bank senior unsecured debt in resolution and insolvency. A new class of so called "senior non-preferred debt" is proposed to be added that would be eligible to meet TLAC and MREL requirements. This new class of debt will be senior to all subordinated debt, but junior to ordinary unsecured senior claims. 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 resolution 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. Competent authorities are also granted a set of powers to intervene in the operations of banks to avoid them failing. If banks do face failure, resolution 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 (except for the asset separation tool) or in combination with other resolution tools where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe and (c) a resolution action is in the public interest: (i) sale of business – which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution – which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation – which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in – which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims (including subordinated notes such as 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.

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

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

Under the BRRD, the target level of the National Resolution Funds is set at national level and calculated on the basis of deposits covered by deposit guarantee schemes. Under the SRM, the target level of the SRF is

European and is the sum of the covered deposits of all institutions established in the participating Member States. This results in significant variations in the contributions by the banks under the SRM as compared to the BRRD. As a consequence of this difference, when contributions will be paid based on a joint target level as of 2016, contributions of banks established in Member States with a high level of covered deposits 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 Council Implementing Act provides for an adjustment mechanism to remedy these distortions during the transitional period by way of a gradual phasing in of the SRM methodology.

The BRRD also provides for a Member State as a last resort, after having assessed and applied the above resolution tools (including the general bail-in tool) to the maximum extent practicable 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 burden sharing requirements of the EU state aid framework and the BRRD.

As an exemption from these principles, the BRRD allows for three kinds of extraordinary public support to be provided to a solvent institution without triggering resolution: 1) a State guarantee to back liquidity facilities provided by central banks according to the central banks' conditions; 2) a State guarantee of newly issued liabilities; or 3) an injection of own funds in the form of precautionary recapitalisation. In the case of precautionary recapitalization EU state aid rules require that shareholders and junior bond holders (such as holders of the Notes) contribute to the costs of restructuring.

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

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

In the context of these resolution tools, the resolution authorities have the power to amend or alter the maturity of certain debt instruments (including subordinated notes 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 powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Holders of the Notes may be subject to write-down or conversion into equity capital instruments on any application of the general bail-in tool and Non-Viability Loss Absorption, which may result in such holders losing some or all of their investment. The exercise of these, or any other power under the BRRD or any suggestion or perceived suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

In addition to the capital requirements under CRD IV, the BRRD introduces requirements for banks to maintain at all times a sufficient aggregate amount of Minimum Requirement for Own Funds and Eligible Liabilities (the **MREL**). The aim is that the minimum amount should be proportionate and adapted for each category of bank on the basis of their risk or the composition of their sources of funding and to ensure adequate capitalisation to continue exercising critical functions post resolution. 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. On 23 May 2016, the European Commission adopted Commission Delegated Regulation (EU) 2016/1450 supplementing BRRD that specifies the criteria which further define the way in which resolution authorities/the SRB shall calculate MREL, as described in article 45(6) of the BRRD. Article 8 of the aforementioned regulation provides that resolution authorities may determine an appropriate transitional period for the purposes of meeting the full MREL requirement.

The BRRD does not foresee an absolute minimum, but attributes the competence to set a minimum amount for each bank to national resolution authorities (for banks not subject to supervision by the ECB) or to the Single Resolution Board (the **SRB**) for banks subject to direct supervision by the ECB. As from 1 January 2016, the resolution authority for UniCredit is the SRB and it is subject to the authority of the SRB for the purposes of determination of its MREL requirement. The SRB has indicated that it took core features of the TLAC standard into account in its 2016 MREL decisions and also that it may make decisions on the quality (in particular a subordination requirement) for all or part of the MREL. The SRB had targeted the end of 2017 for calculating binding MREL targets at the consolidated level of all banking groups under its remit. In May 2018, an MREL requirement, binding from March 2020, has been received from the SRB and the Bank of Italy, equal to 11.74 per cent. of Total Liabilities and Own Funds (TLOF), which is equivalent to 26.03 per cent. of RWAs as of 31 December 2016. Indeed, the requirement was determined in line with the SRB MREL Policy for 2017, on the basis of figures at 31 December 2016 and applying the 2016 SREP Pillar 2 Capital Requirement of 2.5 per cent. This requirement, adjusted for the reduction of the Pillar 2 Capital Requirement from 2.5 per cent. to 2 per cent. as per the latest SREP (2018), is already factored in within the Group 2017-19 Multi Year Funding Plan.

MREL decisions for subsidiaries will be made in a second stage, based on, among other things, their individual characteristics and the consolidated level which has been set for the group.

At the same time as it released the CRD Reform Package, the European Commission released the BRRD Reforms, both being part of the Risk Reduction Measures Package. Among other things, these proposals aim to implement TLAC and to ensure consistency, where appropriate, of MREL with TLAC. These proposals introduce a minimum harmonised MREL requirement (also referred to as a **Pillar 1 MREL requirement**) applicable to G-SIIs (such as UniCredit) only, in order to implement TLAC. In addition, resolution authorities will be able, on the basis of bank-specific assessments, to require that G-SIIs comply with a supplementary MREL requirement (a **Pillar 2 MREL requirement**). Banks will be allowed to use certain additional types of highly loss absorbent liabilities to comply with their Pillar 2 MREL requirement.

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.

*Implementation of the BRRD in Italy*

On 2 July 2014, the BRRD entered into force and Member States were expected to implement the majority of its provisions. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the BRRD (the **BRRD Reforms**). The proposal included an amendment to Article 108 of the BRRD aimed at further harmonising the creditor hierarchy as regards the priority ranking of holders of bank senior unsecured debt in resolution and insolvency. A new class of so called "senior non-preferred debt" was proposed to be added that would have been eligible to meet TLAC and MREL requirements. This new class of debt will be senior to all subordinated debt, but junior to ordinary unsecured senior claims. The recognition of the new class of so called "senior non-preferred debt" has been implemented in the EU through the Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy. The 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.

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. 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.

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

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

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

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

The SRM, which complements the ECB Single Supervisory Mechanism, applies to all banks supervised by the ECB Single Supervisory Mechanism. It mainly consists of the SRB and a Single Resolution Fund (the **SRF**) see risk factors "*Risks connected with ordinary and extraordinary contributions to funds established under the scope of the banking crisis rules"* and *"The bank recovery and resolution directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of the Notes and/or the rights of Noteholders*" for details.

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

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

*The European proposed financial transactions tax (the FTT)*

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

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

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

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

*Ratings*

UniCredit is rated by Fitch, by Moody's Investors Service España, S.A. (**Moody's**) and by S&P Global Ratings Europe Limited (**Standard & Poor's**), each of which is established in the European Union and registered under Regulation (EC) No. 1060/2009 on credit rating agencies as amended from time to time (the **CRA Regulation**) as set out in the list of credit rating agencies registered in accordance with the CRA Regulation published on the website of the European Securities and Markets Authority pursuant to the CRA Regulation (for more information, please visit the ESMA webpage).

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

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

## RISKS RELATING TO THE NOTES

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

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

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

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or in any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

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

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

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes unless it has the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the likelihood of cancellation of Interest Amounts or a Write-Down and the market value of the Notes, and the impact of this investment on the potential investor's overall investment portfolio.

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

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

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

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

Furthermore, any change in the laws or regulations of Italy, the Relevant Regulations or the application thereof may in certain circumstances result in the Issuer having the option to redeem the Notes in whole and in certain circumstances in part (see "*–The Notes are subject to early redemption, including upon the occurrence of a Special Event at the Prevailing Principal Amount*"). In any such case, the Notes (or part thereof) would cease to be outstanding, which could materially and adversely affect investors and frustrate investment strategies and goals.

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

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

**The Notes are subordinated obligations of the Issuer**

The Issuer's obligations under the Notes are unsecured and subordinated and will rank subordinate and junior to all indebtedness of the Issuer, including unsubordinated indebtedness of the Issuer, the Issuer's obligations in respect of any dated subordinated instruments and any Tier 2 Capital or guarantee in respect of any such instruments (other than any instrument or contractual right expressed to rank *pari passu* with the Notes), as more fully described in the "*Terms and Conditions of the Notes*".

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

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

**Waiver of set-off**

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

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

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

**There are no events of default under the Notes**

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

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

The Issuer may elect at any time in its full discretion to cancel (in whole or in part) for an unlimited period and on a no-cumulative basis Interest Amounts otherwise scheduled to be paid on any Interest Payment Date.

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

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

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

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

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

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

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

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

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

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

The Issuer had approximately €14.91 billion of Distributable Items as at 31 December 2017, of which approximately €13.02 billion were represented by the distributable portion of the Share Premium Reserve (see also Section 14 Part B - Balance Sheet – Liabilities contained in the Notes to the Accounts in respect of the non-consolidated annual financial statements of the Issuer as at and for the year ended 31 December 2017).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, the above has been more clearly regulated in the EBA Guidelines on SREP published in July 2018. The EBA guidelines define a distinction between the "Pillar 2 Requirement" (stacked below the capital buffers and thus directly affecting the application of a Maximum Distributable Amount) and "Pillar 2 Guidance" (stacked above the capital buffers). In cases where a "Pillar 2 Guidance" is provided, that guidance will not be included in the calculation of the Maximum Distributable Amount, but competent authorities would expect banks to meet that guidance.

Moreover, the CRD Reform Package further clarifies the distinction between the "Pillar 2 Requirement" and "Pillar 2 Guidance". In particular, "Pillar 2 Guidance" refers to the possibility for competent authorities to communicate to an institution their expectations for such institution to hold capital in excess of its capital requirements (Pillar 1 and Pillar 2) and combined buffer requirement in order to address forward-looking and remote situations. Under the CRD Reform Package (and as described above), only the "Pillar 2 Requirement", and not "Pillar 2 Guidance", will be relevant in determining whether an institution meets its combined buffer requirement for the purposes of the Maximum Distributable Amount restrictions.

In addition to the above, the Maximum Distributable Amount restrictions are being extended in order to encompass also the minimum Leverage Ratio requirement and the MREL requirement. Within the CRD Reform Package a new Article 141b is included in the CRD IV Directive which introduces restrictions on distributions in the case of failure to meet the Leverage Ratio requirement (including any applicable buffer, i.e. G-SIB buffer), thus introducing a new Leverage Ratio Maximum Distributable Amount (**L-MDA**). The BRRD Reforms also contains a new Article 16a that clarifies the stacking order between the combined buffer requirement and the MREL requirement. Pursuant to this new provision the resolution authority shall have the power to prohibit an entity from distributing more than the Maximum Distributable Amount for the Minimum Requirement of own funds and Eligible Liabilities "MREL" (calculated in accordance with the proposed Article 16a(4) of the BRRD, the **M-MDA**) where the combined buffer requirement and the MREL requirement are not met. Article 16a, in its current form, envisages a potential nine month grace period whereby the resolution authority assesses on a monthly basis whether to exercise its powers under the provision, before such resolution authority is compelled to exercise its power under the provisions (subject to certain limited exceptions).

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

| **Required minimum CET1 Capital ratio** | |
|---|---|
| | **From 1 March 2019 (fully loaded)** |
| Pillar 1 CET1 | 4.50% |
| Pillar 2 CET1 requirement | 2.00% |
| Combined capital buffer requirement | 3.57%[1] |
| **MDA level** | **10.07%** |

[1] Including 0.07% of countercyclical capital buffer estimated as at 1 March 2019, to be calculated on a quarterly basis.

| **Required Minimum Tier 1 ratio** | |
|---|---|
| | **From 1 March 2019 (fully loaded)** |
| Pillar 1 CET1 | 4.50% |
| Pillar 1 Additional Tier 1[1] | 1.50% |
| Pillar 2 CET1 requirement | 2.00% |
| Combined capital buffer requirement | 3.57%[2] |
| **MDA level** | **11.57%** |

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

[2] Including 0.07% of countercyclical capital buffer estimated as at 1 March 2019, to be calculated on a quarterly basis.

| **Required Minimum Total Capital ratio** | |
|---|---|
| | **From 1 March 2019 (fully loaded)** |
| Pillar 1 CET1 | 4.5% |
| Pillar 1 Additional Tier 1[1] | 1.50% |
| Pillar 1 Tier 2[2] | 2.00% |
| Pillar 2 CET1 requirement | 2.00% |

| | |
|---|---|
| Combined capital buffer requirement | 3.57%[3] |
| **MDA level** | **13.57%** |

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

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

[3] Including 0.07% of countercyclical capital buffer estimated as at 1 March 2019, to be calculated on a quarterly basis.

As at 31 December 2017 and 30 September 2018, the consolidated transitional capital ratios (CET1 Capital, Tier 1 and Total Capital ratios), are set out in the table below:

| **Capital ratios** | **31 December 2017** | **30 September 2018** |
|---|---|---|
| CET1 Capital ratio | 13.73 | 12.17% |
| Tier 1 ratio | 15.36 | 13.72% |
| Total Capital ratio | 18.10 | 15.97% |

In addition, as at 31 December 2018, the consolidated transitional capital ratios (CET1 Capital, Tier 1 and Total Capital ratios) were, respectively, 12.13 per cent. (12.07 per cent. on a fully-loaded basis), 13.64 per cent. and 15.80 per cent.

Such ratios exceed the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements (Pillar 1 plus Pillar 2 plus combined buffer requirement) imposed on the Issuer and/or the UniCredit Group from time to time may not be higher than the levels of capital available at such point in time. Also, there can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further Pillar 2 additional own funds requirements on the Issuer and/or the UniCredit Group.

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

*TLAC*

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

*MREL*

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

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

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

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

*General*

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

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

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

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

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

The Notes are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Additional Tier 1 Capital under the CRD IV both at the level of the Issuer and at the level of the UniCredit Group. Such eligibility depends upon a number of conditions being satisfied. One of these relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of the Issuer. Accordingly, under the Terms and Conditions of the Notes, if at any time the Issuer's or the UniCredit Group's Common Equity Tier 1 Capital Ratio falls below 5.125 per cent. or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the Issuer and/or the UniCredit Group (a **Contingency Event**), the Issuer shall reduce the then Prevailing Principal Amount of the Notes by the Write-Down Amount, *pro rata* with the other Notes and taking into account the write-down (or write-off) or conversion into Ordinary Shares of any other Loss Absorbing Instruments. See Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*).

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

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

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

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

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

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

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

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

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

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

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

In addition, regulatory initiatives may impact the calculation of the Issuers or the UniCredit Group's Risk Weighted Assets, being the denominator of the Issuer's and the UniCredit Group's Common Equity Tier 1 Capital Ratio, respectively. On 7 December 2017, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), has endorsed the outstanding Basel III post-crisis regulatory reforms. The revisions seek to restore credibility in the calculation of RWAs and improve the comparability of banks' capital ratios by enhancing the robustness and risk sensitivity of the standardised approaches for credit risk, credit valuation adjustment (CVA) risk and operational risk; constraining the use of the internal model approaches, by placing limits on certain inputs used to calculate capital requirements under the IRB approach for credit risk and by removing the use of the internal model approaches for CVA risk and for operational risk; introducing a leverage ratio buffer to further limit the leverage of G-SIBs; and replacing the existing Basel II output floor with a more robust risk-sensitive floor based on the Committee's revised Basel III standardised approaches. The implementation of this new risk assessment framework, which should occur from 1 January 2022 (with transitional arrangement for phasing in the aggregate output floor), will impact the calculation of the Issuer's or the UniCredit Group's Risk Weighted Assets and, consequently, the Issuer or the UniCredit Group's Common Equity Tier 1 Capital Ratio.

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

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

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

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

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

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

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

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

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

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

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

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

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

**No scheduled redemption**

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

The Issuer may, at its sole discretion (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*), redeem the Notes in whole, but not in part, on any Optional Redemption Date (Call) at their Prevailing Principal Amount, plus any accrued interest and any additional amounts due pursuant to Condition 9 of the Notes (*Taxation*), as described in Condition 7.2 (*General redemption option*).

In addition, the Issuer may also, at its sole discretion (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*)), redeem the Notes in whole, but not in part, following the occurrence of a Capital Event and in whole, or in part, following the occurrence of a Tax Event (each as defined herein) at their Prevailing Principal Amount, plus, in each case, if relevant, any accrued interest and any additional amounts due pursuant to Condition 9 (*Taxation*) as described in Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) and Condition 7.4 (*Redemption upon the occurrence of a Tax Event*).

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

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

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

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

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

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

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

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

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

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

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

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

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

**Meetings of Noteholders and modification**

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

**Change of law**

The Terms and Conditions of the Notes will be governed by the laws of Italy. No assurance can be given as to the impact of any possible judicial decision or change to the laws of Italy or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of the Notes.

**Notes where denominations involve integral multiples: Definitive Notes**

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

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

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

The Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Notes, investors will not be entitled to receive Definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg, as the case may be.

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

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

For as long as the Notes are in global form and in the event that any Write-Down or Write-Up is required pursuant to the Conditions, the records of Euroclear and Clearstream, Luxembourg or any other clearing system of their respective participants' position held in the Notes may not be immediately updated to reflect the amount of Write-Down or Write-Up and may continue to reflect the Prevailing Principal Amount of the

Notes prior to such Write-Down or Write-Up, for a period of time. The update process of the relevant clearing system may only be completed after the date on which the Write-Down or Write-Up will occur. No assurance can be given as to the period of time required by the relevant clearing system to complete the update of their records. Further, the conveyance of notices and other communications by the relevant clearing system to their respective participants, by those participants to their respective indirect participants, and by the participants and indirect participants to beneficial owners of interests in the Notes in global form will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

**Taxation**

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

**Limitation on gross-up obligation under the Notes**

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

**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.

**Reform of EURIBOR and other interest rate "benchmarks"**

The Euro Interbank Offered Rate (**EURIBOR**) and other interest rates or other types of rates and indices such as the annual mid-swap rate for euro swap transactions which are deemed "benchmarks", to which the distributions on the Notes will, from and including the First Call Date, be linked, are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the Notes.

Key international reforms of "benchmarks" include IOSCO's proposed Principles for Financial Market Benchmarks (July 2013) (the **IOSCO Benchmark Principles**) and the EU's Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the **Benchmarks Regulation**).

The IOSCO Benchmark Principles aim to create an overarching framework of principles for benchmarks to be used in financial markets, specifically covering governance and accountability, as well as the quality and transparency of benchmark design and methodologies. A review published in February 2015 on the status of the voluntary market adoption of the IOSCO Benchmark Principles noted that, as the benchmarks industry is in a state of change, further steps may need to be taken by IOSCO in the future, but that it is too early to determine what those steps should be. The review noted that there has been a significant market reaction to the publication of the IOSCO Benchmark Principles, and widespread efforts being made to implement the IOSCO Benchmark Principles by the majority of administrators surveyed.

On 17 May 2016, the Council of the European Union adopted the Benchmarks Regulation. The Benchmarks Regulation was published in the Official Journal on 29 June 2016 and entered into force on 30 June 2016. Subject to various transitional provisions, the Benchmarks Regulation applies from 1 January 2018, except that the regime for 'critical' benchmarks has applied from 30 June 2016 and certain amendments to Regulation (EU) No 596/2014 (the **Market Abuse Regulation**) have applied from 3 July 2016. The Benchmarks Regulation applies to the provision of "benchmarks", the contribution of input data to a "benchmark" and the use of a "benchmark" within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities (such as the Issuer) of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). The scope of the Benchmarks Regulation is wide and, in addition to so-called "critical benchmark" indices such as EURIBOR, could also potentially apply to many other interest rate indices, as well as equity, commodity and foreign exchange rate indices and other indices (including "proprietary" indices or strategies) which are referenced in listed financial instruments (including listed Notes), financial contracts and investment funds.

The Benchmarks Regulation could also have a material impact on the Notes in any of the following circumstances:

(i) any "benchmark" for determining the relevant 5-year Mid-Swap Rate could not be used as such if its administrator does not obtain appropriate EU authorisations or is based in a non-EU jurisdiction which (subject to any applicable transitional provisions) does not have equivalent regulation. In such event the Notes could be impacted;

(ii) the methodology or other terms of any "benchmark" related to the Notes could be changed in order to comply with the terms of the Benchmarks Regulation, and such changes could have the effect of reducing, increasing or affecting the volatility of the published rate or level of the relevant "benchmark", and could lead to adjustments to the 5-year Mid-Swap Rate, including Issuer and/or Independent Adviser determination of the rate or level of such benchmark in its discretion.

Pursuant to the Terms and Conditions of the Notes, if in relation to a Reset Interest Period, the 5-year Mid-Swap Rate cannot be determined because the annual mid-swap rate for euro swaps with a term of five years (the **Mid-Swap Rate**) does not appear on the Screen Page at the Relevant Time, a fallback mechanism provides that the Reset Rate of Interest applicable to such Reset Interest Period will be determined by the Fiscal Agent by averaging quotes obtained from reference banks, if available, or, if no such quotes are available, by reference to the Mid-Swap Rate determined in connection with a preceding Reset Interest Period or, in respect of the Reset Interest Period commencing on the First Call Date, 7.5 per cent, per annum. As a result, if the Fiscal Agent is unable to obtain such quotes and rates, the Notes will effectively become fixed rate notes for the relevant Reset Interest Period (the **Fallback Mechanism**).

Additionally, if the Issuer determines that the Mid-Swap Rate (the **Original Reference Rate**) or the 6-month EURIBOR rate has ceased to be published or has been subject to a material change or has been discontinued or is prohibited from being used or is subject to restrictions or adverse consequences if used or is no longer available in the circumstances described in the Terms and Conditions of the Notes (a **Rate Event**), then the Issuer shall use reasonable endeavours to determine, acting in good faith and in a commercially reasonable manner, a successor benchmark rate that has replaced the Original Reference Rate (a **Successor Reference Rate**) or if the Issuer cannot determine a Successor Reference Rate, the Issuer may appoint an Independent Adviser to determine an alternative rate that is considered to have replaced the Original Reference Rate in customary market usage or is otherwise reasonably determined to be the most comparable to the Original Reference Rate in accordance with the terms of Condition 5.6 (*Interest and Interest Calculation – Reference Rate Replacement*) (the **Alternative Reference Rate**). Any such determination may also result in changes to, *inter alia*, the day count convention, definition of business day and/or Reset Rate of Interest Determination Date and any method for obtaining the Original Reference Rate if such Alternative Reference Rate is unavailable on the relevant business day, in a manner that has broad market support for such Alternative Reference Rate. If the Issuer determines that a Rate Event has occurred, but the Issuer is unable to determine a Successor Reference Rate or the Issuer is unable to appoint an Independent Adviser or if the Independent Adviser appointed by the Issuer is unable to determine an Alternative Reference Rate or the Issuer fails to determine an Alternative Reference Rate, the Original Reference Rate for the affected Reset Interest Period will be determined in accordance with the Fallback Mechanism described above.

The use of a Successor Reference Rate or an Alternative Reference Rate may result in interest payments that are substantially lower than or that do not otherwise correlate over time with the payments that could have been made on the Notes if the Original Reference Rate remained available in its current form. Furthermore, the Issuer may have to exercise its discretion to determine (or to elect not to determine) a Successor Reference Rate or an Alternative Reference Rate, including if the Issuer is unable to appoint an Independent Adviser or if the Independent Adviser appointed by the Issuer fails to determine an Alternative Reference Rate, in a situation in which it is presented with a conflict of interest.

More generally, any of the above changes or any other consequential changes to any "benchmark" on which interest payments under the Notes are based as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on the Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Notes referencing a “benchmark”.

## RISKS RELATED TO THE MARKET GENERALLY

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

### The secondary market generally

Although application has been made to admit the Notes to trading on the Luxembourg Stock Exchange, the Notes will have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid and may not continue for the life of the Notes. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

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

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

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

In addition, liquidity may be limited if the Issuer makes large allocations to a limited number of investors.

**Exchange rate risks and exchange controls**

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

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

**Interest rate risks**

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

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

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

**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.

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

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

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

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

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

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

**Legal investment considerations may restrict certain investments**

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

## OVERVIEW

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

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

**Issuer:** UniCredit S.p.A.

**Notes:** €1,000,000,000 Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes

**Issue Price:** 100 per cent.

**Joint Bookrunners and Joint Lead Managers:** Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, ING Bank N.V. and UniCredit Bank AG (together, the **Joint Lead Managers**)

**Co-Lead Managers** Banco Comercial Português, S.A., Banco de Sabadell, S.A., Belfius Bank NV/SA, Lloyds Bank Corporate Markets plc, Skandinaviska Enskilda Banken AB (publ) and Unione di Banche Italiane S.p.A. (together with the Joint Lead Managers, the **Managers**)

**Fiscal Agent and Principal Paying Agent:** Citibank, N.A., London Branch

**Form and Denomination:** The Notes will be issued in bearer form in denominations of €200,000 and integral multiples of €1,000 in excess thereof, up to (and including) €399,000.

**Status of the Notes:** The Notes will constitute direct, unsecured and subordinated obligations of the Issuer ranking:

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

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

(iii) senior to:

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

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

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

Each holder of a Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have under the laws of any jurisdiction in respect of such Note.

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

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

**Interest and Interest Payment Dates:** Interest will accrue on the Prevailing Principal Amount of the Notes at the relevant Rate of Interest and will be payable, subject as provided herein, semi-annually in arrear on 3 June and 3 December of each year (each, an **Interest Payment Date**), commencing on 3 June 2019.

The Rate of Interest in respect of the period from (and including) the Issue Date to (but excluding) the First Call Date (the **Initial Period**) will be equal to 7.5 per cent. per annum.

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

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

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

**Cancellation of Interest:** The Issuer may at any time elect in its full discretion to cancel (in whole or in part) for an unlimited period and on a non-cumulative basis the interest payable on any Interest Payment Date. Without prejudice to (i) such full discretion of the Issuer to cancel the Interest Amounts and (ii) the prohibition to make payments on the Notes pursuant to any provisions of Italian law implementing Article 141(2) of the CRD IV Directive and, if relevant, in any other similar payment restriction provision(s) under the Relevant Regulations, before the Maximum Distributable Amount is calculated, payment of Interest Amounts on any Interest Payment Date must be cancelled (in whole or, as the case may be, in part) if and to the extent that such Interest Amounts:

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

(b) when aggregated together with other distributions of the Issuer or the UniCredit Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV Directive and, if relevant, in any other similar payment restriction provision(s) under the Relevant Regulations (or, if different, any provisions of Italian law implementing Article 141(2) of the CRD IV Directive or, if relevant, such other provisions) and the amount of any write-ups (if applicable), would, if paid, cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the UniCredit Group to be exceeded; and/or

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

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

See Condition 5.11 (*Cancellation of Interest Amounts*).

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

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

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

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

**Maximum Distributable Amount** means any applicable maximum distributable amount relating to the Issuer and/or the UniCredit Group, as the case may be, required to be calculated in accordance with the CRD IV Directive and/or any other Relevant Regulation(s) (or any provision of Italian law transposing or implementing the CRD IV Directive and/or, if relevant, any other Relevant Regulation(s)).

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| **Calculation of Interest Amounts in case of a Write-Down:** | Subject to Condition 5.11 (*Cancellation of Interest Amounts*), in the event that a Write-Down occurs during an Interest Period, the Interest Amount payable on the Interest Payment Date immediately following such Interest Period shall be calculated in accordance with Condition 5.8 (*Calculation of Interest Amount*). |
| **Calculation of Interest Amounts in case of a Write-Up:** | Subject to Condition 5.11 (*Cancellation of Interest Amounts*), in the event that a Write-Up occurs during an Interest Period, the Interest Amount payable on the Interest Payment Date immediately following such Interest Period shall be calculated as the sum (rounding the resulting figure to the nearest cent, with half a cent being rounded upwards) of the following:<br><br>(a) the product of the applicable Rate of Interest, the Prevailing Principal Amount before such Write-Up, and the Day Count Fraction (determined as if the Interest Period ended on, but excluded, the date of such Write-Up); and<br><br>(b) the product of the applicable Rate of Interest, the Prevailing Principal Amount after such Write-Up, and the Day Count Fraction (determined as if the Interest Period started on, and included, the date of such Write-Up). |
| **Non-cumulative interest:** | Interest on the Notes is not cumulative. Interest that the Issuer elects not to pay or is prohibited from paying will not accumulate or compound and all rights and claims in respect of such amounts shall be fully and irrevocably cancelled and forfeited, and no payments shall be made nor shall any Noteholders be entitled to any payment or indemnity in respect thereof. |
| **No restriction following non-payment of interest:** | In the event that the Issuer exercises its discretion not to pay interest or is prohibited from paying interest on any Interest Payment Date, it will not give rise to any contractual restriction on the Issuer making distributions or any other payments to the holders of any securities ranking *pari passu* with, or junior to, the Notes (or, for the avoidance of doubt, Tier 2 instruments). |
| **Loss Absorption:** | If the Common Equity Tier 1 Capital Ratio of the Issuer falls below 5.125 per cent. (an **Issuer Contingency Event**) or the Common Equity Tier 1 Capital Ratio of the UniCredit Group falls below 5.125 per cent. (a **Group Contingency Event**) or the then minimum trigger event ratio for loss absorption applicable to Additional Tier 1 Capital instruments specified in the Relevant Regulations (excluding any guidelines or policies of non-mandatory application) applicable to the Issuer and/or the UniCredit Group (each, a **Contingency Event**), the Issuer shall:<br><br>(a) immediately notify the Competent Authority of the occurrence of the relevant Contingency Event;<br><br>(b) as soon as reasonably practicable, deliver a Loss Absorption Event Notice to Noteholders in accordance with Condition 16 (*Notices*), the Fiscal Agent and the Paying Agents (provided that failure or delay in delivering a Loss Absorption Event Notice shall not constitute a default for any purpose or in any way impact on the effectiveness of, or otherwise invalidate, any Write-Down);<br><br>(c) cancel any accrued and unpaid interest up to (but excluding) the Write-Down Effective Date; and |

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

For the avoidance of doubt, even if the cancellation of interest pursuant to Condition 6.1(c) would cure the relevant Contingency Event, the relevant Write-Down shall occur in any event and any increase in the CET1 Ratio as a result of such cancellation shall be disregarded for the purpose of calculating the relevant Write-Down Amount in respect of such Contingency Event.

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

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

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

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

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

**Equal Loss Absorbing Instrument** means:

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

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

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

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

**Prior Loss Absorbing Instrument** means:

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

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

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

**Write-Down Amount** means the amount by which the then Prevailing Principal Amount of each outstanding Note is to be Written Down with effect as of the Write-Down Effective Date on a *pro rata* basis pursuant to a Write-Down, being:

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

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

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

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

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

(B) for the purposes of calculating the Write-Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write-down (or write-off) of principal or conversion into Ordinary Shares, as the case may be, among the Notes and such other Loss Absorbing Instruments on a pro rata basis) as if their terms permitted partial write-down (or write-off) or conversion into Ordinary Shares, such that the write-down (or write-off) or conversion into Ordinary Shares of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (a) first, the principal amount of such Full Loss Absorbing Instruments shall be written-down (or written-off) or converted into Ordinary Shares pro rata with the Notes and all other Loss Absorbing Instruments (in each case subject to and as provided in the preceding paragraph) to the extent necessary to cure the relevant Contingency Event; and (b) secondly, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (a) shall be written-down (or written-off) or converted into Ordinary Shares, as the case may be, with the effect of increasing the Issuer's and/or the UniCredit Group's, as the case may be, CET1 Ratio above the minimum required level under (a) above.

See Condition 6.1 (*Loss absorption*).

**Reinstatement of principal amount:**

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

(a) the aggregate amount of the relevant Write-Up on all the Notes (aggregated with the aggregate amounts of any other Write-Ups out of the same Relevant Net Income);

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

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

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

does not exceed the Maximum Write-Up Amount.

**Maximum Write-Up Amount** means:

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

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

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

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

A Write-Up may be made on one or more occasions until the Prevailing Principal Amount of the Notes has been reinstated to the Initial Principal Amount of the Notes. No Write-Up shall be operated (i) whilst a Contingency Event has occurred and is continuing or (ii) where any such Write-Up (together with the write-up of all other Written-Down Additional Tier 1 Instruments) would cause a Contingency Event to occur.

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

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

**No right of Noteholders to redeem:**

The Notes may not be redeemed at the option of the Noteholders.

**General Redemption Option:**

The Issuer may, at its sole discretion (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*)), redeem the Notes in whole, but not in part, on any Optional Redemption Date (Call) at their Prevailing Principal Amount plus any accrued but unpaid interest (to the extent not cancelled in accordance with Condition 5.10 (*Cancellation of Interest Amounts*)) up to, but excluding the date fixed for redemption, and any additional amounts due pursuant to Condition 9 (*Taxation*).

**Redemption due to a Capital Event or a Tax Event:**

In addition, the Issuer may, at its sole discretion (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*)), redeem the Notes in whole, but not in part, following the occurrence of a Capital Event or a Tax Event (each as defined herein) at their Prevailing Principal Amount, plus, in each case, any accrued but unpaid interest (to the extent not cancelled in accordance with Condition 5.10 (*Cancellation of Interest Amounts*)) up to, but excluding the date fixed for redemption, and any additional amounts due pursuant to Condition 9 (*Taxation*), as described in Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) or, Condition 7.4 (*Redemption upon the occurrence of a Tax Event*).

For the purposes of this provision:

A **Capital Event** is deemed to have occurred if there is a change in the regulatory classification of the Notes under the Relevant Regulations that would be likely to result in their exclusion, in whole or, to the extent permitted by the Relevant Regulations, in part, from Additional Tier 1 Capital of the UniCredit Group or the Issuer (other than as of a consequence of write-down or conversion, where applicable) and, in the event of any redemption upon the occurrence of a Capital Event prior to the fifth anniversary of the Issue Date, if and to the extent then required by the Relevant Regulations both of the following conditions are met: (i) the Competent Authority considers such a change to be sufficiently certain; and (ii) the Issuer demonstrates to the satisfaction of the Competent Authority that the change in regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date; and

**Tax Event** means the part of the interest payable by the Issuer under the Notes that is tax-deductible by the Issuer for Italian tax purposes is reduced, or the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to the laws, regulations or rulings of, or applicable in, the Republic of Italy, or any political subdivision or any authority or agency thereof or therein having power to tax, or any change in the application or official interpretation or administration of such laws, regulations or rulings:

(A) which change or amendment:

(ii) becomes effective after the Issue Date;

(iii) in the event of any redemption upon the occurrence of a Tax Event prior to the fifth anniversary of the Issue Date, if and to the extent required by the Relevant Regulations, the Issuer demonstrates to the satisfaction of the Competent Authority is material and was not reasonably foreseeable by the Issuer as at the Issue Date;

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

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

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| **Purchases:** | Subject as set out below, the Issuer or any of its Subsidiaries may (subject to the provisions of Condition 7.8 (*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 and unexchanged Talons appertaining to the Notes are purchased therewith. Such Notes may, subject to the approval of the Competent Authority (if so required by the Relevant Regulations), be held, reissued, resold or, at the option of the purchaser, surrendered to any Paying Agent for cancellation.<br><br>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 conditions set out in Article 29 of Commission Delegated Regulation (EU) No.241/2014 of 7 January 2014, as amended and replaced from time to time, are met, in particular with respect to the prior permission of the Competent Authority and with respect to the predetermined amount, which shall not exceed the lower of (i) 10% of the aggregate Initial Principal Amount of the Notes and any further Notes issued under Condition 15 (Further Issues) and (ii) 3% of the outstanding aggregate nominal amount of Additional Tier 1 instruments of the Issuer (as defined in the Relevant Regulations) or such other amount permitted to be purchased for market-making purposes under the Relevant Regulations. |
| **Conditions to Redemption and Purchase:** | The Notes may only be redeemed, purchased, cancelled, substituted or modified pursuant to the Conditions with the Competent Authority's prior written approval (if so required by the Relevant Regulations) as further described in Condition 7.8 (*Conditions to redemption and purchase*). |
| **Events of Default:** | None |
| **Negative Pledge:** | None |

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| **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.<br><br>The Issuer may also, subject to the provisions of Condition 14 (*Meetings of Noteholders; Modification*), make any modification to the Notes that in its sole opinion is not prejudicial to the interests of the Noteholders (provided the proposed modification does not relate to a matter in respect of which an Extraordinary Resolution would be required if a meeting of Noteholders were held to consider such modification) without the consent of the Noteholders. Any such modification shall be binding on the Noteholders. |
| **Further Issues:** | The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/or the issue price thereof) so as to form a single series with the Notes. |
| **Taxation and Additional Amounts:** | Subject to certain conditions, all payments in respect of the Notes will be made free and clear of withholding or deduction for or on account of any present or future taxes, duties, assessment or governmental charges of whatever nature, imposed or levied by or on behalf of any Tax Jurisdiction (subject to certain customary exceptions), unless such withholding or deduction is required by law. In that event, the Issuer will pay (subject as provided in Condition 9 (*Taxation*)) such additional amounts in respect of interest as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required. |
| **Rating:** | The Notes are expected to be rated "B+" by Fitch.<br><br>**A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. See "*Risk Factors – Credit ratings may not reflect all risks and may be lowered, suspended, withdrawn or not maintained*" at page 81.** |
| **Listing and admission to trading:** | Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the professional segment of 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. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of MiFID II. |
| **Clearing:** | Euroclear and Clearstream, Luxembourg |
| **ISIN:** | XS1963834251 |
| **Common Code:** | 196383425 |
| **Use of Proceeds:** | The net proceeds from the issuance of the Notes will used by the Issuer for general corporate purposes and to improve the regulatory capital structure of |

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| | the UniCredit Group. |
| **Selling Restrictions:** | For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, the EEA, the Republic of Italy, Switzerland, Canada, Japan, Hong Kong, Singapore and the PRC, see "*Subscription and Sale*" below.<br><br>The Notes have not been registered under the Securities Act and are subject to restrictions on transfer as described under "*Subscription and Sale*". |
| **Governing Law:** | The Notes and any non-contractual obligations arising out of them will be governed by Italian law. |
| **Contractual Recognition of Statutory Bail-in Powers:** | By the acquisition of the Notes, each Noteholder acknowledges and agrees to be bound by the exercise of any Bail-in Power by the Competent Authority that may result in the write-down or cancellation of all or a portion of the principal amount of, or distributions on, the Notes and/or the conversion of all or a portion of the principal amount of, or distributions on, the Notes into Ordinary Shares or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes to give effect to the exercise by the Competent Authority of such Bail-in Power. Each Noteholder further agrees that the rights of the Noteholders are subject to, and will be varied if necessary so as to give effect to, the exercise of any Bail-in Power by the Competent Authority. See further Condition 18 (*Contractual recognition of statutory bail-in powers*).<br><br>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, whether relating to the resolution or independent of any resolution action, 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.<br><br>**Group Entities** means any legal person that is part of the UniCredit Group. |
| **Intended Regulatory Capital Treatment:** | It is the intention of the Issuer that the Notes shall be treated for regulatory purposes as Additional Tier 1 Capital under CRD IV both at the level of the Issuer and the level of the UniCredit Group. |
| **Risk Factors:** | There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. In addition, there are certain factors that are material for the purpose of assessing the market risks associated with the Notes. These are set out under "*Risk Factors*". |
| **Non-Viability risk factor:** | Notes may be subject to a write-down or conversion into common shares at the point of non-viability should the Competent Authority or other authority or authorities having oversight of the Issuer at the relevant time be given the |

power to do so, whether as a result of the implementation of the EU Bank Recovery and Resolution Directive or otherwise.

## DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the €60,000,000,000 Euro Medium Term Note Programme prospectus dated 7 June 2018 (the **EMTN Base Prospectus**);

(b) the Supplement to the EMTN Base Prospectus dated 23 November 2018 (the **First EMTN Supplement**);

(c) the Supplement to the EMTN Base Prospectus dated 11 February 2019 (the **Second EMTN Supplement**);

(d) the audited consolidated annual financial statements of UniCredit (the **UniCredit Audited Consolidated Annual Financial Statements**) as at and for each of the financial years ended 31 December 2017 and 31 December 2016;

(e) the audited non-consolidated annual financial statements of UniCredit (the **UniCredit Audited Non-Consolidated Annual Financial Statements**) as at and for the financial years ended 31 December 2017 and 31 December 2016;

(f) the unaudited consolidated interim report of UniCredit as at and for the three months ended 31 March 2018 – Press Release dated 10 May 2018 (the **UniCredit Consolidated Interim Report as at 31 March 2018 – Press Release**);

(g) the unaudited consolidated interim financial statements of UniCredit as at and for the six months ended 30 June 2018 (the **UniCredit Consolidated First Half Financial Report as at 30 June 2018**);

(h) the unaudited consolidated interim report of UniCredit as at and for the nine months ended 30 September 2018 – Press Release dated 8 November 2018 (the **UniCredit Unaudited Consolidated Interim Report as at 30 September 2018 – Press Release**);

(i) Press Release "UniCredit: Notice of Call" dated 19 February 2019;

(j) Press Release "Press Release" dated 19 February 2019;

(k) Press Release "UniCredit issues a 10 year subordinated Tier 2 bond for an amount of EUR 1 billion" dated 13 February 2019;

(l) Press Release "UniCredit well above the specific capital requirements set by ECB" dated 11 February 2019;

(m) Press Release "Press Release" dated 8 February 2019;

(n) Press Release "UniCredit: a pan-European winner. 4Q18 and FY18 Group Results" dated 7 February 2019;

(o) Press Release "UniCredit: Board of Directors' Resolutions" dated 7 February 2019;

(p) Press Release "The co-optation of Ms. Elena Carletti as Board Director and member of the Remuneration and the Internal Controls and Risks Committees of UniCredit" dated 7 February 2019;

(q) Press Release "Press Release" dated 6 February 2019;

(r) Press Release "UniCredit reorganises senior management team to prepare for next strategic circle" dated 6 February 2019;

(s) Press Release "Press Release" dated 9 November 2018;

(t) Press Release "2018 EU-Wide Stress Test Results" dated 2 November 2018;

(u) Press Release "UniCredit: Standard & Poor's affirmed UniCredit S.p.A.'s ratings – Outlook aligned with Italian sovereign" dated 31 October 2018;

(v) Press Release "UniCredit: Moody's affirmed UniCredit S.p.A.'s ratings – Outlook aligned with Italian sovereign" dated 23 October 2018;

(w) Press Release "UniCredit: Fitch affirmed UniCredit S.p.A.'s ratings – Outlook aligned with Italy's sovereign" dated 5 September 2018;

(x) Press Release "UniCredit Statement" dated 8 May 2018; and

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

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

With respect to the Press Release "UniCredit: a pan-European winner. 4Q18 and FY18 Group Results" dated 7 February 2019 which is being incorporated by reference into this Prospectus under (n) above, it is noted that the Issuer, being the person responsible for the Group's consolidated financial accounts as at and for the year ended 31 December 2018, approves such financial information. Deloitte & Touche S.p.A., as external independent auditors of the Issuer, have agreed that this financial information, which has not been audited, is substantially consistent with the final figures to be published in the next annual consolidated financial statements of UniCredit for the year ended 31 December 2018.

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

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

Any documents which are themselves incorporated by reference in the documents incorporated by reference in this Prospectus, shall not form part of this Prospectus (unless they are being separately incorporated by reference in this Prospectus under this section). Where only certain parts of a document are incorporated by reference in this Prospectus, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in this Prospectus.

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# TERMS AND CONDITIONS OF THE NOTES

## 1. INTRODUCTION

The €1,000,000,000 Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series with the Notes) are issued by UniCredit S.p.A. (the **Issuer**) subject to and with the benefit of an Agency Agreement dated 19 March 2019 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between Citibank, N.A., London Branch as fiscal agent and principal paying agent (the **Fiscal Agent**) and any other agents appointed pursuant to the Agency Agreement (together with the Fiscal Agent, the **Paying Agents**).

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

## 2. DEFINITIONS AND INTERPRETATION

### 2.1 Definitions

In these Conditions the following expressions have the following meanings:

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

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

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

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

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

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

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

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

**Adjustment Spread** means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the relevant Independent Adviser or the Issuer (as applicable) determines is required to be applied to a Successor Reference Rate or an Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to the Noteholders as a result of the replacement of the Original Reference Rate with such Successor Reference Rate or Alternative Reference Rate (as applicable) and is the spread, formula or methodology which: (i) in the case of a Successor Reference Rate, is formally recommended in relation to the replacement of the Original Reference Rate with such Successor Reference Rate by any Relevant Nominating Body; or (ii) in the case of a Successor Reference Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the relevant Independent Adviser or the Issuer (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by such Successor Reference Rate or Alternative Reference Rate (as applicable); or (iii) if no such customary market usage is recognised or acknowledged, the relevant Independent Adviser or the Issuer (as applicable) in its discretion determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

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

**Alternative Reference Rate** means the rate that the relevant Independent Adviser or the Issuer (as applicable) determines has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) in respect of notes denominated in euro and of a comparable duration to the Reset Interest Period or, if such Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as such Independent Adviser or the Issuer (as applicable) determines in its discretion is most comparable to the Original Reference Rate;

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

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

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

**Capital Event** is deemed to have occurred if there is a change in the regulatory classification of the Notes under the Relevant Regulations that would be likely to result in their exclusion, in whole or in part, from Additional Tier 1 Capital of the UniCredit Group or the Issuer (other than as of a consequence of write-down or conversion, where applicable) and, in the event of any redemption upon the occurrence of a Capital Event prior to the fifth anniversary of the Issue Date, if and to the extent then required by the Relevant Regulations, both of the following conditions are met: (i) the Competent Authority considers such a change to be sufficiently certain and (ii) the Issuer demonstrates to the satisfaction of the Competent Authority that the change in regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date;

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

**Common Equity Tier 1 Capital Ratio** means, at any time, the ratio of the Common Equity Tier 1 Capital of the Issuer or the UniCredit Group, as the case may be, divided by the Risk Weighted

Assets of the Issuer or the UniCredit Group (as applicable) at such time, calculated by the Issuer or the Competent Authority in accordance with the Relevant Regulations;

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

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

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

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

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

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

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

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

**CRD IV Regulation** means Regulation (EU) No. 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;

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

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

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

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

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

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

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

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

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

**Equal Loss Absorbing Instrument** means:

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

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

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

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

**First Call Date** means 3 June 2026;

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

**Group** or **Unicredit Group** means the Issuer and each entity within the prudential consolidation of the Issuer pursuant to Section 3, Chapter 2 of Title II of Part One of CRD IV Regulation;

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

**Independent Adviser** means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by the Issuer at its own expense;

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

**Initial Principal Amount** means, in respect of a Note, or as the case may be, a Written-Down Additional Tier 1 Instrument, the principal amount of such Note or Written-Down Additional Tier 1 Instrument, as at the Issue Date or the issue date of the Written-Down Additional Tier 1 Instrument, as applicable;

**Initial Rate of Interest** has the meaning given to such term in Condition 5.3 (*Interest to (but excluding) the First Call Date*);

**Interest Amount** means the amount of interest payable on each Note for any Interest Period and **Interest Amounts** means, at any time, the aggregate of all Interest Amounts payable at such time;

**Interest Payment Date** means 3 June and 3 December in each year from (and including) 3 June 2019;

**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 19 March 2019;

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

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

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

**Margin** means 7.334%, being equal to the margin used to calculate the Initial Rate of Interest;

**Maximum Distributable Amount** means any applicable maximum distributable amount relating to the Issuer and/or the UniCredit Group, as the case may be, required to be calculated in accordance with the CRD IV Directive and/or any other Relevant Regulation(s) (or any provision of Italian law transposing or implementing the CRD IV Directive and/or, if relevant, any other Relevant Regulation(s));

**Maximum Write-Up Amount** has the meaning given to it in Condition 6.3 (*Reinstatement of principal amount*);

**Net Income** means the non-consolidated net income of the Issuer as calculated and set out in the last audited annual accounts of the Issuer, as approved by the Issuer;

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

**Optional Redemption Date (Call)** means each of the First Call Date and any Interest Payment Date thereafter;

**Ordinary Shares** means the ordinary shares of the Issuer;

**Own Funds** has the meaning given to such term (or any equivalent or successor term) in the Relevant Regulations;

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

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

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

**Prior Loss Absorbing Instrument** means;

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

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

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

**Rate Event** means, in respect of the rate referred to in paragraph (i) of the definition of 5-year Mid-Swap Rate (the **Original Reference Rate**):

(a) the Original Reference Rate or the 6-month EURIBOR rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist or being subject to a material change; or

(b) a public statement by the administrator of the Original Reference Rate or the 6-month EURIBOR rate that it will, by a specified date on or prior to the next Reset Rate of Interest Determination Date, cease publishing the Original Reference Rate or the 6-month EURIBOR rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate or the 6-month EURIBOR rate); or

(c) a public statement by the supervisor of the administrator of the Original Reference Rate or the 6-month EURIBOR rate, that the Original Reference Rate or the 6-month EURIBOR rate has been or will, by a specified date on or prior to the next Reset Rate of Interest Determination Date, be permanently or indefinitely discontinued; or

(d) a public statement by the supervisor of the administrator of the Original Reference Rate or the 6-month EURIBOR rate as a consequence of which the Original Reference Rate or the 6-month EURIBOR rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences either generally, or in respect of the Notes, in each case by a specific date on or prior to the next Reset Rate of Interest Determination Date; or

(e) it has become unlawful for the Fiscal Agent, any Paying Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate or the 6-month EURIBOR rate;

**Rate of Interest** means:

(a) in the case of each Interest Period falling in the Initial Period, the Initial Rate of Interest; or

(b) in the case of each Interest Period thereafter, the Reset Rate of Interest in respect of the Reset Interest Period,

all as determined by the Fiscal Agent in accordance with Condition 5 (*Interest and Interest Cancellation*);

**Regular Period** means each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **Regular Date** means 3 June and 3 December;

**Relevant Date** has the meaning given to such term in Condition 9 (*Taxation*);

**Relevant Net Income** means the lowest of the Net Income and the Consolidated Net Income;

**Relevant Nominating Body** means, in respect of a reference rate: (i) the central bank for the currency to which such reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate; or (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which such reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate, (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof;

**Relevant Regulations** means any requirements contained in the laws, regulations, rules, guidelines and policies of the Competent Authority, or of the European Parliament and Council then in effect in the Republic of Italy, relating to capital adequacy and applicable to the Issuer from time to time (including but not limited to the rules contained in, or implementing, CRD IV and the BRRD, delegated or implementing acts adopted by the European Commission and guidelines issued by the EBA), in each case as amended or replaced from time to time;

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

**Reset Interest Period** means each period from (and including) any Reset Date and ending on (but excluding) the next Reset Date;

**Reset Rate of Interest** means, in relation to a Reset Interest Period, a rate per annum equal to the aggregate of the Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Interest Period, first calculated on an annual basis and then converted to a semi-annual rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), as determined on the relevant Reset Rate of Interest Determination Date;

**Reset Rate of Interest Determination Date** means, in relation to a Reset Interest Period, the day falling two TARGET2 Settlement Days prior to the Reset Date on which such Reset Interest Period commences;

**Reset Reference Bank Rate** means, in relation to a Reset Interest Period and the Reset Rate of Interest Determination Date in relation to such Reset Interest Period, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Fiscal Agent at approximately 11:00 a.m. (Central European time) on such Reset Rate of Interest Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the relevant Reset Interest Period will be (i) in the case of each Reset Interest Period other than the Reset Interest Period commencing on the First Call Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Interest Period or (ii) in the case of the Reset Interest Period commencing on the First Call Date, the Reset Rate of Interest will be 7.5% per annum;

**Reset Reference Banks** means six leading swap dealers in the interbank market selected by the Issuer or one of its affiliates;

**Risk Weighted Assets** means, at any time, the aggregate amount of the risk weighted assets of the Issuer or the UniCredit Group, as the case may be, at such time calculated by the Issuer in accordance with the Relevant Regulations;

**Screen Page** means Bloomberg screen "EUAMDB05 Index" or such other 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 rates comparable to the 5-year Mid-Swap Rate, or the screen page on or source from which a rate appears or is obtained, as applicable;

**Special Event** means a Capital Event and/or a Tax Event, as applicable;

**Specified Office** has the meaning given to such term in the Agency Agreement;

**SRM Regulation** means Regulation (EU) No 806/2014 of the European Parliament and Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, as amended or replaced from time to time;

**Subsidiary** means any person or entity which is required to be consolidated with the Issuer for financial reporting purposes under applicable Italian banking laws and regulations;

**Successor Reference Rate** means the rate: (i) that the Issuer determines is a successor to or replacement of the Original Reference Rate and (ii) that is formally recommended by any Relevant Nominating Body;

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

**TARGET2 Settlement Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System, which was launched on 19 November 2007 or any successor thereto is open for the settlement of payments in euro;

**Tax Event** means the part of the interest payable by the Issuer under the Notes that is tax-deductible by the Issuer for Italian tax purposes is reduced, or the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to the laws, regulations or rulings of, or applicable in, the Republic of Italy, or any political subdivision or any authority or agency thereof or therein having power to tax, or any change in the application or official interpretation or administration of such laws, regulations or rulings:

(A) which change or amendment:

(i) becomes effective after the Issue Date;

(ii) in the event of any redemption upon the occurrence of a Tax Event prior to the fifth anniversary of the Issue Date, if and to the extent required by the Relevant Regulations, the Issuer demonstrates to the satisfaction of the Competent Authority is material and was not reasonably foreseeable by the Issuer as at the Issue Date;

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

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

The Fiscal Agent is not responsible, nor shall it incur any liability, for monitoring or ascertaining as to whether any certifications required by this provision are provided, nor shall it be required to review, check or analyse any certifications produced nor shall it be responsible for the contents of any such certifications or incur any liability in the event the content of such certifications are inaccurate or incorrect.

**Tax Jurisdiction** has the meaning given to such term in Condition 9 (*Taxation*);

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

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

**Write-Down** has the meaning given to such term in Condition 6.1 (*Loss absorption*);

**Write-Down Amount** has the meaning given to such term in Condition 6.1 (*Loss absorption*);

**Write-Down Effective Date** has the meaning given to such term in Condition 6.1 (*Loss absorption*);

**Write-Up** has the meaning given to such term in Conditions 6.3 (*Reinstatement of principal amount*);

**Write-Up Notice** has the meaning given to such term in Conditions 6.3 (*Reinstatement of principal amount*); and

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

### 2.2 Interpretation

In these Conditions:

(a) Notes and Noteholders shall respectively be deemed to include references to Coupons and Couponholders, if relevant;

(b) any reference to principal shall be deemed to include the Prevailing Principal Amount, any additional amounts in respect of principal which may be payable under Condition 9 (*Taxation*) and any other amount in the nature of principal payable pursuant to these Conditions;

(c) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 9 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(d) references to Notes being “outstanding” shall be construed in accordance with the Agency Agreement; and

(e) any reference to a numbered “Condition” shall be to the relevant Condition in these Conditions.

## 3. FORM, DENOMINATION AND TITLE

### 3.1 Form and denomination

The Notes are in bearer form, serially numbered, in denominations of €200,000 and integral multiples of €1,000 in excess thereof up to (and including) €399,000, each with Coupons and, if necessary, a Talon attached on issue. Notes of one denomination will not be exchangeable for Notes of another denomination.

### 3.2 Title

Title to Notes and Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder.

## 4. STATUS OF THE NOTES

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer ranking:

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

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

(iii) senior to:

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

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

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

Each holder of a Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have under the laws of any jurisdiction in respect of such Note.

## 5. INTEREST AND INTEREST CANCELLATION

### 5.1 Rate of Interest

The Notes bear interest on their outstanding Prevailing Principal Amount at the relevant Rate of Interest from (and including) the Issue Date. Interest shall be payable semi-annually in arrear on each Interest Payment Date commencing on 3 June 2019, subject in any case as provided in Condition 5.11 (*Cancellation of Interest Amounts*) and Condition 8 (*Payments and Exchange of Talons*), save that the interest payable (subject to cancellation as aforesaid) on 3 June 2019 shall be in respect of the shorter period from (and including) the Issue date to (but excluding) 3 June 2019.

### 5.2 Accrual of Interest

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of the Prevailing Principal Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition until whichever is the earlier of:

(a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and

(b) the day on which the Fiscal Agent has notified the Noteholders in accordance with Condition 16 (*Notices*) that it has received all sums due in respect of the Notes up to such day.

### 5.3 Interest to (but excluding) the First Call Date

The Rate of Interest for each Interest Period falling in the Initial Period will be 7.5% per annum (the **Initial Rate of Interest**).

### 5.4 Interest from (and including) the First Call Date

The Rate of Interest for each Interest Period from (and including) the First Call Date will be the relevant Reset Rate of Interest in respect of the Reset Interest Period in which such Interest Period falls.

### 5.5 Determination of Reset Rate of Interest in relation to a Reset Interest Period

The Fiscal Agent will, as soon as reasonably practicable after 11:00 a.m. (Central European time) on each Reset Rate of Interest Determination Date in relation to a Reset Interest Period, determine the Reset Rate of Interest for such Reset Interest Period.

### 5.6 Reference Rate Replacement

Notwithstanding the fallback provisions in the definition of 5-year Mid-Swap Rate above, if the Issuer determines that a Rate Event has occurred when any Reset Rate of Interest (or component part thereof) remains to be determined by reference to the Original Reference Rate, then the following provisions shall apply to the Notes:

(i) the Issuer shall use reasonable endeavours: (A) to determine a Successor Reference Rate and an Adjustment Spread (if any); or (B) if the Issuer cannot determine a Successor Reference Rate and an Adjustment Spread (if any), appoint an Independent Adviser to determine an Alternative Reference Rate, and an Adjustment Spread (if any) (in any such case, acting in good faith and in a commercially reasonable manner) no later than five Business Days prior to the Reset Rate of Interest Determination Date relating to the next Interest Period (the **IA Determination Cut-off Date**), for the purposes of determining the Reset Rate of Interest applicable to the Notes for such next Reset Interest Period and for all other future Reset Interest Periods (subject to the subsequent operation of this Condition 5.6 during any other future Reset Interest Period(s));

(ii) if the Issuer is unable to determine a Successor Reference Rate and the Independent Adviser is unable to determine an Alternative Reference Rate (as applicable) prior to the relevant IA Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner) may determine an Alternative Reference Rate and an Adjustment Spread (if any) no later than three Business Days prior to the Reset Rate of Interest Determination Date relating to the next Reset Interest Period (the **Issuer Determination Cut-off Date**), for the purposes of determining the Reset Rate of Interest applicable to the Notes for such next Reset Interest Period and for all other future Reset Interest Periods (subject to the subsequent operation of this Condition 5.6 during any other future Reset Interest Period(s)). Without prejudice to the definitions thereof, for the purposes of determining any Alternative Reference Rate and/or any Adjustment Spread, the Issuer will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets;

(iii) if a Successor Reference Rate or, failing which, an Alternative Reference Rate (as applicable) is determined by the relevant Independent Adviser or the Issuer (as applicable) in accordance with this Condition 5.6:

(A) such Successor Reference Rate or Alternative Reference Rate (as applicable) shall be the Original Reference Rate for all future Reset Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 5.6);

(B) if the relevant Independent Adviser or the Issuer (as applicable):

(I) determines that an Adjustment Spread is required to be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) for all future Reset Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 5.6); or

(II) is unable to determine the quantum of, or a formula or methodology for determining, an Adjustment Spread, then such Successor Reference Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread for all future Reset Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 5.6); and

(C) the relevant Independent Adviser or the Issuer (as applicable) (acting in good faith and in a commercially reasonable manner) may in its discretion specify:

(I) changes to these Conditions in order to follow market practice in relation to such Successor Reference Rate or Alternative Reference Rate (as applicable), including, but not limited to (1) any Business Day, day count basis, Reset Rate of Interest Determination Date, Reset Reference Banks and/or Screen Page applicable to the Notes and (2) the method for determining the fallback to the Reset Rate of Interest in relation to the Notes if such Successor Reference Rate or Alternative Reference Rate (as applicable) is not available; and

(II) any other changes which the relevant Independent Adviser or the Issuer (as applicable) determines are reasonably necessary to ensure the proper operation and comparability to the Original Reference Rate of such Successor Reference Rate or Alternative Reference Rate (as applicable), which changes shall apply to the Notes for all future Reset Interest Periods (subject to the subsequent operation of this Condition 5.6); and

(iv) promptly following the determination of (i) any Successor Reference Rate or Alternative Reference Rate (as applicable) and (ii) if applicable, any Adjustment Spread, the Issuer shall give notice thereof and of any changes (and the effective date thereof) pursuant to Condition 5.6(iii)(C) to the Fiscal Agent, the Noteholders and the Couponholders in accordance with Condition 16 (*Notices*).

No consent of the Noteholders and/or the Couponholders shall be required in connection with effecting the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) as described in this Condition 5.6 or such other relevant changes pursuant to Condition 5.6(iii)(C), including for the execution of any documents or the taking of other steps by the Issuer or any of the parties to the Agency Agreement.

For the avoidance of doubt, if a Successor Reference Rate or an Alternative Reference Rate is not determined pursuant to the operation of this Condition 5.6 prior to the relevant Issuer Determination Cut-off Date, then the Reset Rate of Interest for the next Reset Interest Period shall be determined by reference to the fallback provisions in the definition of 5-year Mid-Swap Rate above.

Notwithstanding any other provision of this Condition 5.6, no Successor Reference Rate or Alternative Reference Rate (as applicable) will be adopted, and no other amendments to the terms of the Notes will be made pursuant to this Condition 5.6, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as Additional Tier 1 Capital for regulatory capital purposes of the Issuer and/or the UniCredit Group; and/or if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to result in the Competent Authority treating an Interest Payment Date as the effective maturity of the Notes, rather than the relevant Maturity Date.

**5.7 Publication of Reset Rate of Interest**

With respect to each Reset Interest Period, the Fiscal Agent will cause the relevant Reset Rate of Interest to be notified to the Issuer, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and to be published in accordance with Condition 16 (*Notices*) as soon as reasonably practicable after such determination.

**5.8 Calculation of Interest Amount**

Subject to Condition 5.10 (*Cancellation of Interest Amounts*) and Condition 8 (*Payments and Exchange of Talons*), the amount of interest payable in respect of a Note for any period shall be calculated by the Fiscal Agent by:

(a) applying the applicable Rate of Interest to the Prevailing Principal Amount of such Note;

(b) multiplying the product thereof by the Day Count Fraction; and

(c) rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

**5.9 Calculation of Interest Amount in case of Write-Down**

Subject to Condition 5.11 (*Cancellation of Interest Amounts*), in the event that a Write-Down occurs during an Interest Period, any accrued and unpaid interest shall be cancelled pursuant to Condition 6.1(c) (*Loss absorption*) and the Interest Amount payable on the Interest Payment Date immediately following such Interest Period shall be calculated in accordance with Condition 5.8 (*Calculation of Interest Amount*), provided that the Day Count Fraction shall be determined as if the Interest Period started on, and included, the Write-Down Effective Date.

**5.10 Calculation of Interest Amount in case of Write-Up**

Subject to Condition 5.11 (*Cancellation of Interest Amounts*), in the event that a Write-Up occurs during an Interest Period, the Interest Amount payable on the Interest Payment Date immediately following such Interest Period shall be calculated as the sum (rounding the resulting figure to the nearest cent, with half a cent being rounded upwards) of the following:

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

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

## 5.11 Cancellation of Interest Amounts

The Issuer may at any time elect at its full discretion to cancel (in whole or in part) for an unlimited period and on a non-cumulative basis the Interest Amounts otherwise scheduled to be paid on an Interest Payment Date.

Without prejudice to (i) such full discretion of the Issuer to cancel the Interest Amounts and (ii) the prohibition to make payments on the Notes pursuant to any provisions of Italian law implementing Article 141(2) of the CRD IV Directive and, if relevant, in any other similar payment restriction provision(s) under the Relevant Regulations, before the Maximum Distributable Amount is calculated, payment of Interest Amounts on any Interest Payment Date must be cancelled (in whole or, as the case may be, in part) if and to the extent that such Interest Amounts:

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

(b) when aggregated together with other distributions of the Issuer or the UniCredit Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV Directive and, if relevant, in any other similar payment restriction provision(s) under the Relevant Regulations (or, if different, any provisions of Italian law implementing Article 141(2) of the CRD IV Directive or, if relevant, such other provision(s)) and the amount of any write-up (if applicable), would, if paid, cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the UniCredit Group to be exceeded; and/or

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

As set out in Condition 6.1 (*Loss absorption*), if a Contingency Event occurs, accrued and unpaid interest to (but excluding) the Write-Down Effective Date shall be cancelled.

Notice of any cancellation of payment of a scheduled Interest Amount must be given to the Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent as soon as possible, but not more than 60 calendar days, prior to the relevant Interest Payment Date. Such notice shall specify the amount of the relevant cancellation. Any failure by the Issuer to give such notice shall not affect the validity of the cancellation and shall not constitute a default for any purpose. In the absence of any notice of cancellation being given, the fact of non-payment (in whole or in part) of the relevant Interest Amount on the relevant Interest Payment Date shall be evidence of the Issuer having elected or being required to cancel such distributions payment in whole or in part, as applicable.

For the avoidance of doubt (i) the cancellation of any Interest Amounts in accordance with this Condition 5.11 or Condition 6.1 (*Loss absorption*) shall not constitute a default for any purpose on the part of the Issuer and (ii) interest on the Notes is not cumulative and any Interest Amounts that the Issuer elects not to pay or is prohibited from paying will not accumulate or compound and all rights and claims in respect of such amounts shall be fully and irrevocably forfeited and no payments shall be made nor shall any Noteholder be entitled to any payment or indemnity in respect thereof.

### 5.12 No restriction following cancellation of Interest Amounts

In the event that the Issuer exercises its discretion not to pay interest or is prohibited from paying interest on any Interest Payment Date, it will not give rise to any contractual restriction on the Issuer making distributions or any other payments to the holders of any securities ranking *pari passu* with, or junior to, the Notes (or, for the avoidance of doubt, Tier 2 instruments).

## 6. LOSS ABSORPTION AND REINSTATEMENT OF PRINCIPAL AMOUNT

### 6.1 Loss absorption

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

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

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

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

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

Whether a Contingency Event has occurred at any time shall be determined by the Issuer and the Competent Authority.

For the avoidance of doubt, even if the cancellation of interest pursuant to Condition 6.1(c) would cure the relevant Contingency Event, the relevant Write-Down shall occur in any event and any increase in the CET1 Ratio as a result of such cancellation shall be disregarded for the purpose of calculating the relevant Write-Down Amount in respect of such Contingency Event.

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

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

**Loss Absorption Event Notice** means a notice which specifies that a Contingency Event has occurred, the Write-Down Amount (as a percentage of the Initial Principal Amount resulting in a *pro rata* decrease in the Prevailing Principal Amount of each Note), including the method of calculation of the Write-Down Amount, and the date on which the Write-Down will take effect (the **Write-Down Effective Date**). Any Loss Absorption Event Notice delivered to the Fiscal Agent must be accompanied by a certificate signed by the Authorised Signatories stating that the Contingency Event has occurred and setting out the method of calculation of the relevant Write-Down Amount. The Fiscal Agent is not responsible, nor shall it incur any liability, for monitoring or ascertaining as to whether any certifications required by this provision are provided, nor shall it be required to review, check or analyse any certifications produced nor shall it be responsible for the contents of any such certifications or incur any liability in the event the content of such certifications are inaccurate or incorrect.

**Write-Down Amount** means the amount by which the then Prevailing Principal Amount of each outstanding Note is to be Written Down with effect as of the Write-Down Effective Date on a *pro rata* basis pursuant to a Write-Down, being:

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

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

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

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

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

(B) for the purposes of calculating the Write-Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write-down (or write-off) of principal or conversion into Ordinary Shares, as the case may be, among the Notes and such other Loss Absorbing Instruments on a *pro rata* basis) as if their terms permitted partial write-down (or write-off) or conversion into Ordinary Shares, such that the write-down (or write-off) or conversion into Ordinary Shares of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (a) first, the principal amount of such Full Loss Absorbing Instruments shall be written-down (or written-off) or converted into Ordinary Shares *pro rata* with the Notes and all other Loss Absorbing Instruments (in each case subject to and as provided in the preceding paragraph) to the extent necessary to cure the relevant Contingency Event; and (b) secondly, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (a) shall be written-down (or written-off) or converted into Ordinary Shares, as the case may be, with the effect of increasing the Issuer's and/or the UniCredit Group's, as the case may be, CET1 Ratio above the minimum required level under (a) above.

### 6.2 Consequences of loss absorption

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

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

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

### 6.3 Reinstatement of principal amount

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

(i) the aggregate amount of the relevant Write-Up on all the Notes (aggregated with the aggregate amounts of any other Write-Ups out of the same Relevant Net Income);

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

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

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

does not exceed the Maximum Write-Up Amount.

The **Maximum Write-Up Amount** means:

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

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

The Issuer will not reinstate the principal amount of any Written-Down Additional Tier 1 Instruments of the Issuer that have terms permitting a principal write-up to occur on a similar basis to that set out in this Condition 6.3 unless it does so on a *pro rata* basis with a Write-Up on the Notes.

A Write-Up may be made on one or more occasions in accordance with this Condition 6.3 until the Prevailing Principal Amount of the Notes has been reinstated to the Initial Principal Amount. No Write-Up shall be operated (i) whilst a Contingency Event has occurred and is continuing, or (ii) where any such Write-Up (together with the write-up of all other Written-Down Additional Tier 1 Instruments) would cause a Contingency Event to occur.

Any decision by the Issuer to effect or not to effect any Write-Up pursuant to this Condition 6.3 on any occasion shall not preclude it from effecting or not effecting any Write-Up on any other occasion pursuant to this Condition 6.3.

If the Issuer decides to Write-Up the Notes pursuant to this Condition 6.3, it shall deliver a notice (a **Write-Up Notice**) specifying the amount of any Write-Up (as a percentage of the Initial Principal Amount of a Note resulting in a *pro rata* increase in the Prevailing Principal Amount of each Note) and the date on which such Write-Up shall take effect shall be given to Noteholders in accordance with Condition 16 (*Notices*) and to the Fiscal Agent. Such Write-Up Notice shall be given at least ten Business Days prior to the date on which the relevant Write-Up becomes effective.

## 7. REDEMPTION AND PURCHASE

The Notes may not be redeemed otherwise than in accordance with this Condition 7.

### 7.1 No fixed redemption

Unless previously redeemed or purchased and cancelled as provided below, the Notes will mature on the date on which voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) proceedings are instituted in respect of the Issuer, in accordance with (a) a resolution of the shareholders' meeting of the Issuer, (b) any provision of the by-laws of the Issuer (currently, the maturity of the Issuer is set in its by-laws at 31 December 2100), or (c) any applicable legal provision, or any decision of any jurisdictional or administrative authority. Upon maturity, the Notes will become due and payable at an amount equal to their Prevailing Principal Amount, together with any accrued but unpaid interest (to the extent not cancelled in accordance with Condition 5.10 (*Cancellation of Interest Amounts*)) up to, but excluding the date fixed for redemption, and any additional amounts due pursuant to Condition 9 (*Taxation*).

### 7.2 General redemption option

The Issuer may, at its sole discretion (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*)), subject to having given no less than 30 nor more than 45 calendar days' notice to the Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent, redeem the Notes in whole, but not in part, on any Optional Redemption Date (Call) at their Prevailing Principal Amount, plus any accrued but unpaid interest (to the extent not cancelled in accordance with Condition 5.10 (*Cancellation of Interest Amounts*)) up to, but excluding, the date fixed for redemption, and any additional amounts due pursuant to Condition 9 (*Taxation*).

### 7.3 Redemption upon the occurrence of a Capital Event

Upon the occurrence of a Capital Event, the Issuer may, at its sole discretion (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*)) at any time, subject to having given no less than 30 nor more than 45 calendar days' notice to the Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent, redeem the Notes in whole but not in part at their Prevailing Principal Amount, plus any accrued but unpaid interest (to the extent not cancelled in accordance with Condition 5.10 (*Cancellation of Interest Amounts*)) up to, but excluding, the date fixed for redemption and any additional amounts due pursuant to Condition 9 (*Taxation*).

### 7.4 Redemption upon the occurrence of a Tax Event

Upon the occurrence of a Tax Event, the Issuer may, at its sole discretion (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*)) at any time, subject to having given no less than 30 nor more than 45 calendar days' notice to Noteholders (in accordance with Condition 16 (*Notices*)) and the Fiscal Agent, redeem the Notes in whole or in part (to the extent permitted by the Relevant Regulations) at their Prevailing Principal Amount plus any accrued but unpaid interest (to the extent not cancelled in accordance with Condition 5.10 (*Cancellation of Interest Amounts*)) up to, but excluding, the date fixed for redemption, and any additional amounts due pursuant to Condition 9 (*Taxation*).

### 7.5 Purchase

(a) Subject as set out in paragraph (b) below, the Issuer or any of its Subsidiaries may (subject to the provisions of Condition 7.8 (*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 and unexchanged Talons appertaining to the Notes are purchased therewith. Such Notes may, subject to the approval of the Competent Authority (if so required by the Relevant Regulations), be held, reissued, resold or, at the option of the purchaser, surrendered to any Paying Agent for cancellation.

(b) 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 conditions set out in Article 29 of Commission Delegated Regulation (EU) No.241/2014 of 7 January 2014, as amended and replaced from time to time, are met, in particular with respect to the prior permission of the Competent Authority and with respect to the predetermined amount, which shall not exceed the lower of (i) 10% of the aggregate Initial Principal Amount of the Notes and any further Notes issued under Condition 15 (*Further Issues*) and (ii) 3% of the outstanding aggregate nominal amount of Additional Tier 1 instruments of the Issuer (as defined in the Relevant Regulations) or such other amount permitted to be purchased for market-making purposes under the Relevant Regulations.

### 7.6 Cancellation

All Notes which are redeemed will forthwith (but subject to the provisions of Condition 7.8 (*Conditions to redemption and purchase*)) be cancelled (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith at the time of redemption). All Notes so redeemed and cancelled pursuant to this Condition, and the Notes purchased and cancelled pursuant to Condition 7.5 (*Purchase*) above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

### 7.7 Italian Civil Code

The Notes are not subject to Article 1186 of the Italian Civil Code nor, to the extent applicable, to Article 1819 of the Italian Civil Code.

### 7.8 Conditions to redemption and purchase

The Notes may only be redeemed, purchased, cancelled or modified (as applicable) pursuant to Condition 7.2 (*General redemption option*), Condition 7.3 (*Redemption upon the occurrence of a Capital Event*), Condition 7.4 (*Redemption upon the occurrence of a Tax Event*), Condition 7.5 (*Purchase*), Condition 7.6 (*Cancellation*), Condition 14.1 (*Meetings of Noteholders*) or paragraph (b) of Condition 14.2 (*Modification of Notes*), as the case may be, with the prior written approval of the Competent Authority (if and to the extent required) and, in relation to redemption and purchase and if and to the extent required under prevailing Relevant Regulations, either: (A) on or before such redemption or purchase of the Notes, the Issuer has replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the Issuer's income capacity; or (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that its Own Funds would, following such repayment or purchase, exceed the minimum capital requirements (including any capital buffer requirements) required under the CRD IV Directive (or any relevant provision of Italian law implementing the CRD IV Directive) by a margin that the Competent Authority considers necessary at such time.

If the Issuer has elected to redeem the Notes pursuant to Condition 7.2 (*General redemption option*), Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) or Condition 7.4 (*Redemption upon the occurrence of a Tax Event*), and prior to the relevant redemption date a Contingency Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, the Prevailing Principal Amount of the Notes will not be due and payable and a Write-Down shall occur as described under Condition 6 (*Loss Absorption and Reinstatement of Principal Amount*).

## 8. PAYMENTS AND EXCHANGE OF TALONS

### 8.1 Payments in respect of Notes

Payments of principal and (subject to Condition 8.5 (*Payments other than in respect of matured Coupons*)) interest shall be made only against presentation and (provided that payment is made in full) surrender of the Note or Coupon, as applicable, at the Specified Office of any Paying Agent outside the United States by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

### 8.2 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

### 8.3 Unmatured Coupons void

On the due date for redemption in whole of any Note pursuant to Condition 7.2 (*General redemption option*), Condition 7.3 (*Redemption upon the occurrence of a Capital Event*) or Condition 7.4 (*Redemption upon the occurrence of a Tax Event*), all unmatured Coupons (which expression will, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons) relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

### 8.4 Payments on business days

If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day, the Noteholder shall not be entitled to payment of the amount due until the next succeeding Payment Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

### 8.5 Payments other than in respect of matured Coupons

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

### 8.6 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon Sheet matures, the Talon comprised in the Coupon Sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon Sheet (including any appropriate further Talon), subject to the provisions of Condition 10 (*Prescription*).

### 8.7 Partial payments

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

## 9. TAXATION

### 9.1 Gross up

All payments of interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction (subject to the exceptions listed below) unless such withholding or deduction is required by law. The Issuer will (subject to Condition 5.11 (*Cancellation of Interest Amounts*)) pay such additional amounts in respect of interest as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any note or coupon presented for payment:

(a) for or on account of *imposta sostitutiva* (at the then applicable rate of tax) pursuant to Italian Legislative Decree No. 239 of 1 April 1996 or Italian Legislative Decree no. 461 of 21

November 1997 (as any of the same may be amended or supplemented) or any related implementing regulations; or

(b) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Tax Jurisdiction other than the mere holding of such Note or Coupon; or

(c) by or on behalf of a holder who is entitled to avoid such withholding or deduction in respect of such Note or Coupon by making a declaration or any other statement to the relevant tax authority, including, but not limited to, a declaration of residence or non-residence or other similar claim for exemption; or

(d) more than 30 days after the Relevant Date except to the extent that the relevant Noteholder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day (assuming such day to have been a Payment Business Day); or

(e) in the Republic of Italy; or

(f) in the event of payment to a non-Italian resident legal entity or a non-Italian resident individual, to the extent that interest or any other amount is paid to a non-Italian resident legal entity or a non-Italian resident individual which is resident in a country which does not allow for a satisfactory exchange of information with the Italian authorities; or

(g) in all circumstances in which the procedures set forth in Legislative Decree No. 239 of 1 April 1996, as amended, have not been met or complied with, except where such requirements and procedures have not been met or complied with due to the actions or omissions of UniCredit or its agents; or

(h) in respect of the Notes that are not qualified as bonds or similar securities where such withholding or deduction is required pursuant to Law Decree No. 512 of 30 September 1983, as amended, supplemented and/or re-enacted from time to time; or

(i) where the holder who would have been able to lawfully avoid (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies, with any statutory requirements.

Any reference in these Conditions to interest shall be deemed to include any additional amounts in respect of interest which may be payable under this Condition 9.

For the avoidance of doubt, no additional amounts shall be payable in respect of payment of principal under the Notes.

As used in these Conditions:

**Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note or Coupon being made in accordance with the Conditions, such payment will be made, ***provided that*** payment is in fact made upon such presentation; and

**Tax Jurisdiction** means (i) the Republic of Italy or any political subdivision or any authority thereof or therein having power to tax and (ii) any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of interest on the Notes and Coupons, ***provided that*** no additional amounts shall be payable in respect of any withholding or deduction imposed pursuant to Sections

1471 through 1474 of the Code, any regulations or agreements thereunder or any official interpretations thereof.

## 10. PRESCRIPTION

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons (which for this purpose do not include the Talons) are presented for payment within five years of the appropriate Relevant Date. There may not be included in any Coupon Sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition 10 or Condition 8 (*Payments and Exchange of Talons*).

## 11. REPLACEMENT OF NOTES AND COUPONS

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

## 12. AGENTS

### 12.1 Obligations of Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders, and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of provisions of these Conditions by the Fiscal Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Paying Agents and all the Noteholders of the Notes or Coupons.

No such Noteholder shall (in the absence as aforesaid) be entitled to proceed against the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under these Conditions.

### 12.2 Termination of Appointments

The initial Paying Agents and their initial Specified Offices are listed in the Agency Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Fiscal Agent) and to appoint an additional or successor fiscal agent or paying agent; provided, however, that:

(a) the Issuer shall at all times maintain a Fiscal Agent; and

(b) if and for so long as the Notes are admitted to listing and/or to trading and/or quotation on any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying

Agent (which may be the Fiscal Agent) with a Specified Office in the place required by such listing authority, stock exchange and/or quotation system.

### 12.3 Change of Specified Offices

The Paying Agents reserve the right at any time to change their respective Specified Offices to some other Specified Office in the same city. Notice of any change in the identities or Specified Offices of any Paying Agent shall promptly be given to the Noteholders in accordance with Condition 16 (*Notices*).

## 13. ENFORCEMENT EVENT

In the event of compulsory winding-up (*Liquidazione Coatta Amministrativa*) of the Issuer pursuant to Article 80 of the Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended from time to time (the **Italian Banking Act**), the Notes shall become immediately due and payable.

The rights of the Noteholders and the Couponholders in the event of compulsory winding up (*Liquidazione Coatta Amministrativa*) of the Issuer pursuant to Article 80 of the Italian banking Act or the voluntary winding-up (*liquidazione volontaria*) of the Issuer in accordance with Article 96-quinquies of the Italian Banking Act will be calculated on the basis of the Prevailing Principal Amount of the Notes, plus any accrued but unpaid interest (to the extent not cancelled in accordance with these Conditions) up to, but excluding, the date the Notes become immediately due and payable, and any additional amounts due pursuant to Condition 9 (*Taxation*) (to the extent that such interest and additional amounts are not cancelled in accordance with these Conditions). No payments will be made to the Noteholders or Couponholders before all amounts due, but unpaid, to all other creditors of the Issuer ranking ahead of the Noteholders and the Couponholders as described in Condition 4 (*Status of the Notes*) have been paid by the Issuer, as ascertained by the liquidator.

No remedy against the Issuer other than as provided by this Condition 13 shall be available to the Noteholders or the Couponholders whether for the recovery of amounts owing under or in respect of the Notes or the Coupons or in respect of any breach by the Issuer of any of its obligations in relation to the Notes or the Coupons or otherwise.

## 14. MEETINGS OF NOTEHOLDERS; MODIFICATION

### 14.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or certain provisions of the Agency Agreement. Such a meeting may be convened by the Issuer at any time or by Noteholders holding not less than 10% in nominal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing such Extraordinary Resolution is one or more persons holding or representing in the aggregate not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal (except as provided by the Conditions) or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders. Such modifications may only be made to the extent that the Issuer has obtained the prior written approval of the Competent Authority (if so required by the Relevant Regulations).

### 14.2 Modification of Notes

Subject to Condition 7.8 (*Conditions to redemption and purchase*), the Fiscal Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders, to any modification of the Notes, the Coupons or the Agency Agreement which is (a) to cure or correct any ambiguity or defective or inconsistent provision contained therein, or which is of a formal, minor or technical nature or (b) in the sole opinion of the Issuer, not prejudicial to the interests of the Noteholders and/or the Couponholders (provided the proposed modification does not relate to a matter in respect of which an Extraordinary Resolution would be required if a meeting of Noteholders were held to consider such modification) or (c) to correct a manifest error or proven error or (d) to comply with mandatory provisions of the law.

In addition, no consent of the Noteholders or Couponholders shall be required in connection with effecting the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) as described in Condition 5.6 (*Reference Rate Replacement*) or such other relevant changes pursuant to Condition 5.6(iii)(C), including for the execution of any documents or the taking of other steps by the Issuer or any of the parties to the Agency Agreement.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

## 15. FURTHER ISSUES

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

## 16. NOTICES

Notices to Noteholders will be deemed to be validly given if published in a leading English language daily newspaper having general circulation in Europe (which is expected to be the *Financial Times*) or, so long as the Notes are listed on the Official List and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and the rules of that exchange so permit, if published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading.

Any notice so given will be deemed to have been validly given on the date of the first such publication. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 16.

## 17. GOVERNING LAW AND JURISDICTION

### 17.1 Governing law

The Notes, the Coupons, the Agency Agreement and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, Italian law.

### 17.2 Submission to jurisdiction

The Issuer agrees, for the benefit of the Noteholders and the Couponholders, that the courts of Milan are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) and that accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with them) may be brought in such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in the courts of Milan and any claim that any such Proceedings have been brought in an inconvenient forum, and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the courts of Milan shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take proceedings against the Issuer construed in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

## 18. CONTRACTUAL RECOGNITION OF STATUTORY BAIL-IN POWERS

By the acquisition of the Notes, each Noteholder acknowledges and agrees to be bound by the exercise of any Bail-in Power by the Competent Authority that may result in the write-down or cancellation of all or a portion of the principal amount of, or distributions on, the Notes and/or the conversion of all or a portion of the principal amount of, or distributions on, the Notes into Ordinary Shares or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes to give effect to the exercise by the Competent Authority of such Bail-in Power. Each Noteholder further agrees that the rights of the Noteholders are subject to, and will be varied if necessary so as to give effect to, the exercise of any Bail-in Power by the Competent Authority.

For the avoidance of doubt, the potential write-down or cancellation of all or a portion of the principal amount of, or distributions on, the Notes or the conversion of the Notes into Ordinary Shares or other obligations in connection with the exercise of any Bail-in Power by the Competent Authority is separate and distinct from a Write-Down following a Contingency Event although these events may occur consecutively.

For these purposes, **a Bail-in Power** means any statutory write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements, whether relating to the resolution or independent of any resolution action, of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State in effect and applicable in the relevant Member State to the Issuer or other Group Entities, including (but not limited to) any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of any European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a relevant Member State resolution regime or otherwise, pursuant to which liabilities of a credit institution, investment firm and/or any Group Entities can be reduced, cancelled and/or converted into shares or obligations of the obligor or any other person.

Upon the Issuer being informed or notified by the Competent Authority of the actual exercise of the date from which the Bail-in Power is effective with respect to the Notes, the Issuer shall notify the holders without delay. Any delay or failure by the Issuer to give notice shall not affect the validity and enforceability of the Bail-in Power nor the effects on the Notes described in this clause.

The exercise of the Bail-in Power by the Competent Authority with respect to the Notes shall not constitute an event of default and the terms and conditions of the Notes shall continue to apply in relation to the residual principal amount of, or outstanding amount payable with respect to, the Notes subject to any modification of the amount of distributions payable to reflect the reduction of the principal amount, and any further modification of the terms that the Competent Authority may decide in accordance with applicable laws and regulations relating to the resolution of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State.

Each Noteholder also acknowledges and agrees that this provision is exhaustive on the matters described herein to the exclusion of any other agreements, arrangements or understandings relating to the application of any Bail-in Power to the Notes.

**Group Entities** means any legal person that is part of the UniCredit Group.

# OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

*Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this "Overview of Provisions relating to the Notes while in Global Form".*

**Temporary Global Note exchangeable for Permanent Global Note**

The Notes will initially be in the form of the Temporary Global Note, without Coupons, which will be deposited on or around the Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg. Interests in the Temporary Global Note will be exchangeable, in whole or in part, for interests in the Permanent Global Note, without Coupons, which will also be deposited on or around the Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg, on or after the Exchange Date, upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in the Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of the Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange of a part of the Temporary Global Note) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(a) presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

(b) in either case, receipt by the Fiscal Agent of confirmation from the Clearing Systems that a certificate or certificates of non-U.S. beneficial ownership have been received,

within seven days of the bearer requesting such exchange.

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

**Permanent Global Note exchangeable for Definitive Notes**

Interests in the Permanent Global Note will be exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Definitive Notes, if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or in fact does so.

Interests in the Permanent Global Note will also become exchangeable, in whole but not in part only and at the request of the Issuer, for Definitive Notes if, by reason of any change in the laws of the Republic of Italy, the Issuer will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes are in definitive form.

Definitive Notes will bear serial numbers and have attached thereto at the time of their initial delivery Coupons. Definitive Notes will also, if necessary, have attached thereto at the time of their initial delivery Talons and the expression Coupons shall, where the context so requires, include Talons.

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

## Terms and Conditions applicable to the Notes

The Terms and Conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the Terms and Conditions set out under "*Terms and Conditions of the Notes*" above.

The Terms and Conditions applicable to the Notes represented by one or more Global Notes will differ from those Terms and Conditions which would apply to the Notes were they in definitive form to the extent described in this "*Overview of Provisions relating to the Notes while in Global Form*".

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

*Payments*: The holder of a Global Note shall be the only person entitled to receive payments in respect of the Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of the Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "Payment Business Day" set out in Condition 2.1 (*Definitions*).

*Write-Down/Write-Up of the Notes*: while all the Notes are represented by one or more Global Notes and such Global Note(s) are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, any Write-Down or Write-Up of the Prevailing Principal Amount of the Notes shall be treated on a *pro rata* basis which, for the avoidance of doubt, shall be effected as a reduction or increase, as the case may be, to the pool factor.

*Notices*: Notwithstanding Condition 16 (*Notices*), while all the Notes are represented by one or more Global Notes and such Global Note(s) are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, the requirement in Condition 16 (*Notices*) for a notice to be published in a leading English language daily newspaper having general circulation in Europe shall not apply and notices to Noteholders may instead be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 16 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

## Legend concerning United States persons

Permanent Global Notes, Definitive Notes and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"*ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE.*"

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

**Clearing Systems**

Any reference herein to Euroclear and/or Clearstream, Luxembourg, as the case may be, shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Fiscal Agent, the other Paying Agents and the Noteholders.

# USE OF PROCEEDS

The net proceeds of the issue of the Notes will be applied by the Issuer for its general corporate purposes and to improve the regulatory capital structure of the UniCredit Group.

# DESCRIPTION OF THE ISSUER

Please refer to the information on the Issuer and the UniCredit Group in the documents incorporated herein by reference as set out in the "*Documents Incorporated by Reference*" section.

# TAXATION

*The statements herein regarding taxation are based on the laws in force as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules.*

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

## Taxation in the Republic of Italy

### *Tax treatment of Notes issued by an Italian resident issuer*

Legislative Decree No. 239 of 1 April 1996, as subsequently amended, (**Decree 239**) provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from Notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*), issued, *inter alia*, by Italian banks.

The tax regime set forth by Decree 239 also applies to interest, premium and other income from regulatory capital financial instruments complying with EU and Italian regulatory principles, issued by, *inter alia*, Italian banks (other than shares and assimilated instruments), as set out by Article 2, paragraphs 22 and 22-*bis*, of Law Decree No. 138 of 13 August 2011, as converted with amendments by Law No. 148 of 14 September 2011 and as further amended and clarified by Law No. 147 of 27 December 2013.

### *Italian resident Noteholders*

Where an Italian resident Noteholder is (i) an individual not engaged in an entrepreneurial activity to which the Notes are connected, (ii) a non-commercial partnership, (iii) a non-commercial private or public institution or (iv) an investor exempt from Italian corporate income taxation (unless the Noteholders under (i), (ii) or (iii) above opted for the application of the *risparmio gestito* regime – see "*Capital gains tax*" below), interest, premium and other income relating to the Notes, accrued during the relevant holding period, are subject to a substitute tax, referred to as "*imposta sostitutiva*", levied at the rate of 26 per cent. In the event that the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity to which the Notes are connected or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 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(88-114) of Law No. 232 of 11 December 2016, as subsequently amended (the **Finance Act 2017**) and in Article 1(210-215) of Law No. 145 of 30 December 2018 (the **Finance Act 2019**).

Where an Italian resident Noteholder is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, and the Notes are deposited with an authorised intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder's income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the "status" of the Noteholder, also to the regional tax on productive activities (**IRAP**)).

Under the current regime provided by Law Decree No. 351 of 25 September 2001 converted into law with amendments by Law No. 410 of 23 November 2001 (**Decree 351**), and Article 9, par. 1, Legislative Decree No. 44 of 4 March 2014, payments of interest, premiums or other proceeds in respect of the Notes made to Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998 (the **Financial Services Act**) or pursuant to Article 14-bis of Law No. 86 of 25 January 1994, and Italian real estate investment companies with fixed capital (the **Real Estate SICAFs** and, together with the Italian resident real estate investment funds, the **Real Estate Funds**) are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the Real Estate Fund, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent.; subject to certain conditions, depending on the status of the investor and percentage of participation, income of the Real Estate Fund is subject to taxation in the hands of the unitholder or shareholder regardless of distribution.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund, a SICAF (an investment company with fixed capital other than a Real Estate SICAF) or a SICAV (an investment company with variable capital) established in Italy (together, the **Fund**) and either (i) the Fund or (ii) its manager is subject to the supervision of a regulatory authority, and the relevant Notes are held by an authorised intermediary, interest, premium and other income accrued during the holding period on such Notes will not be subject to *imposta sostitutiva*, nor to any other income tax in the hands of the Fund, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent. (the **Collective Investment Fund Withholding Tax**).

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by Article 17 of Legislative Decree No. 252 of 5 December 2005) and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period to be subject to a 20 per cent. substitute tax. Subject to certain conditions (including minimum holding period requirement) and limitations, interest, premium and other income relating to the Notes may be excluded from the taxable base of the 20 per cent. substitute tax if the Notes are included in a long-term savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(88-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, Italian investment companies (*società di intermediazione mobiliare*) (**SIMs**), fiduciary companies, Italian asset management companies (*società di gestione del risparmio*) (**SGRs**), stockbrokers and other entities identified by a decree of the Ministry of Finance (each an **Intermediary**).

An Intermediary must (a) be (i) resident in Italy or (ii) be a permanent establishment in Italy of a non-Italian resident financial intermediary or (iii) an entity or company not resident in Italy, acting through a system of centralised administration of notes and directly connected with the Department of Revenue of the Italian Ministry of Finance having appointed an Italian representative for the purposes of Decree 239; 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: (i) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy as listed in Ministerial Decree of 4 September 1996, as amended by

Ministerial Decree of 23 March 2017 and possibly further amended according to Article 11(4)(c) of Decree 239 (as amended by Legislative Decree No. 147 of 14 September 2015) (the **White List**); or (ii) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (iii) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) an institutional investor which is established in a country included in the White List, even if it does not possess the status of taxpayer therein.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. (or at the reduced rate provided for by the applicable double tax treaty, if any) to interest, premium and other income paid to Noteholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of interest, premium or other income and (i) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance and (ii) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is not requested for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree of 12 December 2001, as subsequently amended.

***Capital gains tax***

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income (and, in certain circumstances, depending on the "status" of the Noteholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company or a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non-commercial partnership or (iii) a non-commercial private or public institution, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 26 per cent. Noteholders may set off losses with gains.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity to which the Notes are connected or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 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(88-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

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

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Noteholders under (i) to (iii) above, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by the investor in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. The relevant Noteholder must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance of income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident Noteholders under (i) to (iii) above may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the "*risparmio amministrato"* regime). Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries (including permanent establishments in Italy of foreign intermediaries) and (ii) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return.

Any capital gains realised by Italian resident Noteholders under (i) to (iii) above who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so called "*risparmio gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a substitute tax at a rate of 26 per cent., to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return.

Any capital gains realised by a Noteholder who is a Real Estate Fund will be subject neither to *imposta sostitutiva* nor to any other income tax at the level of the Real Estate Fund, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent.; subject to certain conditions, depending on the status of the investor and percentage of participation, income of the Real Estate Fund is subject to taxation in the hands of the unitholder or the shareholder regardless of distribution.

Any capital gains realised by a Noteholder which is a Fund will not be subject to *imposta sostitutiva*. Such result will not be taxed with the Fund, but subsequent distributions in favour of unitholders of shareholders may be subject to the Collective Investment Fund Withholding Tax.

Any capital gains realised by a Noteholder who is an Italian pension fund (subject to the regime provided for by article 17 of 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. Subject to certain conditions (including minimum holding period requirement) and limitations, capital gains on the Notes may be excluded from the taxable base of the 20 per cent. substitute tax if the Notes are included in a long-term savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(88-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

Capital gains realised by non-Italian resident Noteholders, not having a permanent establishment in Italy to which the Notes are connected, from the sale or redemption of Notes traded on regulated markets are neither subject to the *imposta sostitutiva* nor to any other Italian income tax.

Capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that the effective beneficiary: (i) is resident in a country which allows for a satisfactory exchange of information with Italy, as listed in the White List; or (ii) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (iii) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) is an institutional investor which is established in a country included in the White List even if it does not possess the status of taxpayer therein.

If none of the conditions above is met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 26 per cent.

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

***Inheritance and gift taxes***

Pursuant to Law Decree No. 262 of 3 October 2006, converted into Law No. 286 of 24 November 2006, as subsequently amended, the transfers of any valuable asset (including shares, notes or other securities) as a result of death or donation are taxed as follows:

(a) transfers in favour of spouses and direct descendants or direct ancestors are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or the gift exceeding, for each beneficiary, €1,000,000;

(b) transfers in favour of relatives to the fourth degree or relatives-in-law to the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the value of the inheritance or the gift exceeding, for each beneficiary, €100,000; and

(c) any other transfer is, in principle, subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the transfer is made in favour of persons with severe disabilities, the tax is levied at the rate mentioned above in (a), (b) and (c) on the value exceeding, for each beneficiary, €1,500,000.

***Transfer tax***

Following the repeal of the Italian transfer tax, contracts relating to the transfer of securities are subject to the following registration tax: (i) public deeds and notarised deeds are subject to fixed registration tax at a rate of €200.00; and (ii) private deeds are subject to registration tax only in the case of voluntary registration.

***Stamp duty***

Pursuant to Article 19(1) of Decree No. 201 of 6 December 2011 (**Decree 201**), a proportional stamp duty applies on an annual basis to the periodic reporting communications sent by financial intermediaries to their clients for the Notes deposited in Italy. The stamp duty applies at a rate of 0.20 per cent. and cannot exceed €14,000 for taxpayers other than individuals. This stamp duty is determined on the basis of the market value or – if no market value figure is available – the nominal value or redemption amount or in the case the nominal or redemption values cannot be determined, on the purchase value of the Notes held. Based on the wording of the law and the implementing decree issued by the Italian Ministry of Economy on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

*Wealth Tax on securities deposited abroad*

Pursuant to Article 19(18) of Decree 201, Italian resident individuals holding the Notes outside the Italian territory are required to pay an additional tax at a rate of 0.20 per cent (**IVAFE**).

This tax is calculated on the market value of the Notes at the end of the relevant year or – if no market value figure is available – the nominal value or the redemption value or in the case the nominal or redemption values cannot be determined, on the purchase value of such financial assets held outside the Italian territory. Taxpayers are entitled to an Italian tax credit equivalent to the amount of wealth taxes paid in the State where the financial assets are held (up to an amount equal to the Italian wealth tax due).

## Luxembourg Taxation

*The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.*

*Please note that the residence concept referred to under the headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.*

*Withholding Tax*

**(a) Non-resident holders of Notes**

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

**(b) Resident holders of Notes**

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

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 20 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Relibi Law would be subject to a withholding tax of 20 per cent.

## Automatic Exchange of Information

EU member states are required to implement an automatic exchange of information as provided for by Council Directive 2014/107/EU amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation (the **DAC**) effective as from 1 January 2016 (and in the case of Austria, as from 1 January 2017). In this context, in order to eliminate an overlap with the DAC, the EU Savings Directive was repealed on 10 November 2015 by the Council of the European Union. The range of payments to be automatically reported under the DAC is broader than the scope of the automatic information previously foreseen by the EU Savings Directive.

**Investors should consult their professional tax advisers.**

**U.S. Foreign Account Tax Compliance Act (FATCA)**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Italy) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

## SUBSCRIPTION AND SALE

Banco Comercial Português, S.A., Banco de Sabadell, S.A., Belfius Bank NV/SA, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, ING Bank N.V., Lloyds Bank Corporate Markets plc, Skandinaviska Enskilda Banken AB (publ), UniCredit Bank AG and Unione di Banche Italiane S.p.A. (together, the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 15 March 2019, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of the Notes, less certain commissions, in accordance with the terms and conditions contained therein. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and U.S. Treasury regulations promulgated thereunder.

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

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

### United Kingdom

Each Manager has represented, agreed and undertaken that:

(a) it has complied and will comply with the rules set out in the PI Instrument with such Manager deemed to be a "firm" for these purposes;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the UK Financial Services and Markets Act 2000, as amended (**FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

**Prohibition of sales to EEA Retail Investors**

Each of the Managers has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

**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. 20307 of 15 February 2018 (as amended from time to time) and the Italian Banking Act; and

(ii) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

**Switzerland**

Each Manager has acknowledged that the Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes. Accordingly, each of the Managers has represented and agreed that it has not publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland any Notes and that the Notes may not be and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the Notes constitutes an issue prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss code of obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or a simplified prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither the Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the offering, the Issuer or the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by the Swiss Financial Markets Supervisory Authority (**FINMA**), and investors in the Notes will not benefit from protection or supervision by FINMA.

**Canada**

No prospectus in relation to the Notes has been filed with the securities regulatory authority in any province or territory of Canada. Each Manager has acknowledged that the Notes have not been and will not be qualified for sale under the securities laws of Canada or any province or territory of Canada. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Each Manager has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute any Notes, directly or indirectly, in Canada or to, or for the benefit of, any resident thereof other than in compliance with the applicable securities laws of Canada or any province or territory of Canada. Each Manager has agreed that it will offer, sell or distribute such Notes only in compliance with such Canadian selling restrictions and each Manager has agreed that it will offer, sell or distribute such Notes only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer is made. Each Manager has also represented and agreed that it has not and will not distribute or deliver the Prospectus, or any other offering material in connection with any offering of the Notes in Canada, other than in compliance with the applicable securities laws in Canada or any province or territory of Canada. In particular, the Notes may be sold only to purchasers in Canada purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

**Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Manager has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

**Hong Kong**

Each of the Managers has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (ii) in other circumstances that do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **C(WUMP)O**) or that do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

**Singapore**

Each Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the **SFA**)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person that is:

(a) a corporation (that is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

**Notification under Section 309B(1)(c) of the SFA** - In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products) and hereby notifies all relevant persons (as defined in Section 309A of the SFA) of the same.

**People's Republic of China**

Each Manager has represented and agreed that the Notes will not be offered or sold directly or indirectly in the PRC (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) as part of the initial distribution of the Notes. This Prospectus or any information contained or incorporated by reference herein does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. This Prospectus, any information contained herein or the Notes have not been, and will not be, submitted to, approved by, verified by or registered with any relevant governmental authorities in the PRC and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Notes in the PRC.

The Notes may only be invested by the PRC investors that are authorised to engage in the investment in the Notes of the type being offered or sold. Investors are responsible for obtaining all relevant governmental approvals, verifications, licences or registrations (if any) from all relevant PRC governmental authorities, including, but not limited to, the State Administration of Foreign Exchange, the China Securities Regulatory Commission, the China Banking Regulatory Commission, and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, any relevant foreign exchange regulations and/or overseas investment regulations.

**General**

No action has been or will be taken in any jurisdiction by any Manager or the Issuer that would or is intended to permit a public offering of the Notes, or possession or distribution of any offering documents or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

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

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

# GENERAL INFORMATION

## Listing and admission to trading

Application has been made for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted to trading on the professional segment of the regulated market of the Luxembourg Stock Exchange with effect from the Issue Date. The Issuer estimates that the amount of expenses related to the admission to trading of the Notes will be approximately €12,600.

## Authorisation

The issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 13 December 2018.

## Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under ISIN XS1963834251 and common code 196383425. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

## Significant or Material Adverse Change

There has been no significant change in the financial or trading position of UniCredit and the Group since 30 September 2018 and, save for the decisive actions taken by UniCredit during the third quarter 2018 in relation to non-recurring events including an 846 million Euro impairment of its stake in Yapi and additional provisions relating to the upcoming settlement of alleged US sanctions violations, as specified in the paragraph "Recent Developments" in the "Description of UniCredit and the UniCredit Group" section on page 330 of the EMTN Base Prospectus (as supplemented by the First EMTN Supplement), there has been no material adverse change in the prospects of UniCredit and the Group since 31 December 2017.

## Conflicts of Interest

As at the date of this Prospectus, and to the best of UniCredit's knowledge, no member of UniCredit managing and controlling bodies has any private interest conflicting with the obligations arising from the office or position held within UniCredit, except for those that may concern operations put before the relevant bodies of UniCredit, in accordance with the applicable procedures and in strict compliance with existing laws and regulations. Members of the UniCredit managing and controlling bodies must comply with the following provisions aimed at regulating instances where there exists a specific interest concerning the implementation of an operation:

- Article 53 of the Italian Banking Act sets forth the obligations envisaged by paragraph 1 of Article 2391 of the Italian Civil Code, hereinafter quoted, confirming the duty to abstain from voting for the Directors having a conflicting interest, on their own behalf or on behalf of a third party;

- Article 136 of the Italian Banking Act, which requires a particular authorisation procedure (a unanimous decision by the supervisory body with the exclusion of the concerned officers' vote and the favourable vote of all members of the controlling body) should a bank enter into obligations of any kind or enter, directly or indirectly, into purchase or sale agreements with its company officers;

- Article 2391 of the Italian Civil Code, which obliges directors to notify fellow directors and the Board of Statutory Auditors of any interest that they may have, on their own behalf or on behalf of a third party, in a specific company transaction, with the concerned member of the Board of Directors having to abstain from carrying out the transaction if he/she is also the CEO; and

- Article 2391-bis of the Italian Civil Code, CONSOB Regulation No. 17221 dated 12 March 2010 (and subsequent updates) concerning transactions with related parties, as well as the provisions issued by the Bank of Italy for the prudential supervision of banks concerning risk activities and conflicts of interest of banks and banking groups with associated persons (Circular No. 263/2006 of the Bank of Italy and subsequent updates).

In accordance with the aforementioned provisions, the transactions of greater relevance with related parties or with associated persons fall within the exclusive responsibility of the UniCredit Board of Directors, with the exception of the transactions falling under the responsibility of the UniCredit Shareholders' Meeting. For information on related-party transactions, please see Part H of the Notes to the consolidated financial statements of UniCredit S.p.A. as at 31 December 2017, incorporated by reference herein. Notwithstanding the obligations of Article 2391 of the Civil Code, UniCredit and its corporate bodies have adopted measures and procedures to ensure compliance with the provisions relating to transactions with Bank's Corporate Officers, as well as transactions with related parties and affiliated entities.

Notwithstanding the obligations of Article 2391 of the Civil Code, UniCredit and its organs have adopted measures and procedures to ensure compliance with the provisions relating to transactions with Bank's Corporate Officers, as well as transactions with related parties and affiliated entities.

**Legal and arbitration proceedings**

Except as disclosed in the EMTN Base Prospectus from page 297 to page 318 (*Legal and arbitration proceedings and proceedings connected to actions of the supervisory authorities*), in the UniCredit Audited Consolidated Annual Financial Statements as at and for the financial year ended 31 December 2017 from page 408 to page 418 and in the UniCredit Consolidated First Half Financial Report as at 30 June 2018 from page 220 to page 229, which are incorporated by reference in this Prospectus, neither the Issuer nor any other member of the UniCredit Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which, according to the information available at present, may have or have had in such period a significant effect on the financial position or profitability of the Issuer or the UniCredit Group.

**Auditors**

UniCredit's annual financial statements must be audited by external auditors appointed by its shareholders, under reasoned proposal by UniCredit's Board of Statutory Auditors. The shareholders' resolution and the Board of Statutory Auditors' reasoned proposal are communicated to CONSOB. The external auditors examine UniCredit's annual financial statements and issue an opinion regarding whether its annual financial statements comply with the IAS/IFRS issued by the International Accounting Standards Board as endorsed by the European Union governing their preparation; which is to say whether they are clearly stated and give a true and fair view of the financial position and results of the Group. Their opinion is made available to UniCredit's shareholders prior to the annual general shareholders' meeting.

Since 2007, following a modification of the Financial Services Act, listed companies may not appoint the same auditors for more than nine years.

At the ordinary and extraordinary shareholders' meeting of UniCredit held on 11 May 2012, Deloitte & Touche S.p.A. (**Deloitte**) was appointed to act as UniCredit's external auditor for the 2013-2021 nine-year period, pursuant to Article 13, paragraph 1, of Legislative Decree No. 39/2010 and to CONSOB Communication 97001574 dated 20 February 1997.

Deloitte is a company incorporated under the laws of Italy, enrolled with the Companies' Register of Milan under number 03049560166 and registered with the Register of Statutory Auditors (*Registro dei Revisori Legali*) maintained by Minister of Economy and Finance effective from 7 June 2004 with registration number: 132587, having its registered office at via Tortona 25, 20144 Milan, Italy.

**Availability of documents**

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available, upon request, free of charge, during normal business hours from the registered office of the Issuer and from the specified office of the Paying Agent in each case at the address given at the end of this Prospectus:

(a) copies of the memorandum and articles of association of the Issuer (with an English translation thereof);

(b) the Agency Agreement (which includes, *inter alia*, the forms of Notes in definitive form, Coupons and Talons); and

(c) this Prospectus and any supplements to this Prospectus and any other documents incorporated therein by reference.

In addition, this Prospectus, and documents incorporated by reference herein, will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

**Yield**

There is no explicit yield to maturity. The Notes do not carry a fixed date for redemption and the Issuer is not obliged, and under certain circumstances is not permitted, to make payments on the Notes at the full stated rate. The interest rate is also subject to periodic resetting.

For information purposes only, the yield of the Notes calculated on the basis of the Issue Price and the Initial Rate of Interest from, and including the Issue Date up to but excluding, the First Call Date and assuming no Write-Down during such period, would be 7.644 per cent. per annum. It is not an indication of the actual yield for such period or of any future yield.

**Managers engaging in business activities with the Issuer**

Save for any fees payable to the Managers and save for the fact that UniCredit Bank AG is part of the Issuer's group, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. Certain Managers and/or their affiliates have engaged and could in the future engage in commercial banking and/or investment activities with the Issuer and/or its affiliates and could, in the ordinary course of their business, provide services to the Issuer and/or to its affiliates. In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## REGISTERED OFFICE OF THE ISSUER

**UniCredit S.p.A.**
Piazza Gae Aulenti, 3 Tower A
20154 Milan
Italy

## JOINT LEAD MANAGERS

**Crédit Agricole Corporate and Investment Bank**
12 Place des Etats-Unis
CS 70052
92547 Montrouge Cedex
France

**Credit Suisse Securities (Europe) Limited**
One Cabot Square
London E14 4QJ
United Kingdom

**Deutsche Bank AG, London Branch**
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

**Goldman Sachs International**
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

**ING Bank N.V.**
Foppingadreef 7
1102 BD Amsterdam
The Netherlands

**UniCredit Bank AG**
Arabellastrasse 12
81925 Munich
Germany

## CO-LEAD MANAGERS

**Banco Comercial Português, S.A.**
Praça Dom João I, 28
4000-295 Porto
Portugal

**Banco de Sabadell, S.A.**
Avenida Óscar Esplá 37
03007 Alicante
Spain

**Belfius Bank NV/SA**
Place Charles Rogier 11
B-1210 Brussels
Belgium

**Lloyds Bank Corporate Markets plc**
10 Gresham Street
London EC2V 7AE
United Kingdom

**Skandinaviska Enskilda Banken AB (publ)**
Kungsträdgårdsgatan 8
SE-106 40 Stockholm
Sweden

**Unione di Banche Italiane S.p.A.**
Piazza Vittorio Veneto, 8
24122 Bergamo
Italy

## AUDITORS OF THE ISSUER

**Deloitte & Touche S.p.A.**
Via Tortona, 25
20144 Milan
Italy

## FISCAL AGENT and PAYING AGENT

**Citibank, N.A., London Branch**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

## LEGAL ADVISERS

*To the Issuer as to English and Italian law*

**Allen & Overy Studio Legale Associato**

| | |
|---|---|
| Via Manzoni, 41/43 | Corso Vittorio Emanuele II, 284 |
| 20121 Milan | 00186 Rome |
| Italy | Italy |

*To the Managers as to English and Italian law*

**Clifford Chance Studio Legale Associato**
Piazzetta M. Bossi, 3
20121 Milan
Italy

## LUXEMBOURG LISTING AGENT

**Banque Internationale à Luxembourg S.A.**
69, route d'Esch
L-2953 Luxembourg
Grand Duchy of Luxembourg