

BASE PROSPECTUS



Banca Popolare di Sondrio

Fondata nel 1871

BANCA POPOLARE DI SONDRIO S.C.p.A.

(incorporated as joint stock co-operative society in the Republic of Italy)

€5,000,000,000

Euro Medium Term Note Programme

Under this Euro Medium Term Note Programme (the **Programme**), Banca Popolare di Sondrio S.C.p.A. (the **Issuer** or **BPS**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this base prospectus (the **Base Prospectus**) to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*". 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 on prospectuses for securities (the Prospectus Act 2005) to approve this document as a base prospectus. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. Copies of this Base Prospectus will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu)

References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU).

The requirement to publish a prospectus under the Prospectus Directive (as defined under "*Important Information*" below) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area (the **EEA**) and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive. References in this Base Prospectus to **Exempt Notes** are to Notes for which no prospectus is required to be published under the Prospectus Directive. The CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will (other than in the case of Exempt Notes, as defined above) be set out in a final terms document (the **Final Terms**) which will be filed with the CSSF.

Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the **Pricing Supplement**).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Issuer has been rated "BBB-" (long-term issuer default rating) and "F3" (short-term issuer default rating) by Fitch Società Italiana per il Rating S.p.A. (**Fitch**) and "BBB" (long-term credit rating) and "A-3" (equivalent short-term credit rating) by Dagong Europe Credit Rating S.r.l. (**Dagong**). Each of Fitch and Dagong is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, each of Fitch and Dagong 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. Notes issued under the Programme may be rated or unrated by one or more of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms (or Pricing Supplement, in the case of Exempt Notes). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Amounts payable on Floating Rate Notes and/or Reset Notes (where relevant) may be calculated by reference to one of LIBOR and EURIBOR as specified in the relevant Final Terms. As at the date of this Base Prospectus, the European Money Markets Institute (as administrator of EURIBOR) is not included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**). As at the date of this Base Prospectus, the ICE Benchmark Administration (as administrator of LIBOR) is included in ESMA's register of administrators under 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 European Money Markets Institute (as administrator of EURIBOR) is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

Arrangers

J.P. Morgan

**Société Générale
Corporate & Investment Banking**

Dealers

Banca Akros S.p.A. – Gruppo Banco BPM

Banca Popolare di Sondrio

J.P. Morgan

Société Générale

Corporate & Investment Banking

Banca IMI

Barclays

Natixis

UniCredit Bank

The date of this Base Prospectus is 6 March 2019.

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Notes other than Exempt Notes issued under the Programme for the purposes of Article 5.4 of the Prospectus Directive. When used in this Base Prospectus, Prospectus Directive means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in a relevant Member State of the EEA.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. 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 Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

Neither the Dealers nor the Trustee (as defined below) have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

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

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

Neither the delivery of this Base 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 Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in Notes issued under the Programme of any information coming to their attention.

PRIIPs / IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) include a legend entitled "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 European Economic Area (**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 Directive 2014/65/EU (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, 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 / target market – The Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the 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 target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any 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 Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer the Dealers and the Trustee do not represent that this Base 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, the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this Base 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 Base 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 Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the EEA (including the United Kingdom, Italy and France) and Japan, see "*Subscription and Sale*".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information in this Base Prospectus relating to the Issuer has been derived from (i) the audited consolidated financial statements of the Issuer for the financial years ended respectively 31 December 2016 and 31 December 2017 and (ii) the unaudited consolidated financial statements of the Issuer subject to a review by EY S.p.A. for the six months ended on 30 June 2018 (together, the **Financial Statements**).

The Issuer's financial year ends on 31 December, and references in this Base Prospectus to any specific year are to the 12-month period ended on 31 December of such year. The Financial Statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union (**IFRS**).

Certain Defined Terms and Conventions

Capitalised terms which are used but not defined in any particular section of this Base Prospectus will have the meaning attributed to them in "*Terms and Conditions of the Notes*" or any other section of this Base Prospectus. In addition, the following terms as used in this Base Prospectus have the meanings defined below:

In this Base Prospectus, all references to:

- *U.S. dollars, U.S.\$* and \$ refer to United States dollars;
- *Sterling* and £ refer to pounds sterling; and
- *Euro, euro* and € refer 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, as amended.

References to a **billion** are to a thousand million.

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

SUITABILITY OF INVESTMENT

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:

- (i) 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 Base Prospectus or any applicable supplement;
- (ii) 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;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where

the currency for principal or interest payments is different from the potential investor's currency;

- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the form of Final Terms or Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market 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 relevant Tranche of 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 of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the form of Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of Notes other than Exempt Notes, and if appropriate, a new Base Prospectus or a supplement to the Base Prospectus, will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC (the Prospectus Regulation).

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

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| Issuer: | Banca Popolare di Sondrio S.C.p.A. |
| Issuer Legal Entity Identifier (LEI): | J48C8PCSJVUBR8KCW529 |
| Risk Factors: | There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme and risks relating to the structure of a particular Series of Notes issued under the Programme. All of these are set out under "Risk Factors". |
| Description: | Euro Medium Term Note Programme |
| Arrangers: | J.P. Morgan Securities plc Société Générale |
| Dealers: | Banca Akros S.p.A. – Gruppo Banco BPM Banca IMI S.p.A. Banca Popolare di Sondrio S.C.p.A. Barclays Bank PLC J.P. Morgan Securities plc Natixis Société Générale UniCredit Bank AG |

and any other Dealers appointed in accordance with the Programme Agreement.

Certain Restrictions:

Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (FSMA) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

Issuing and Principal Paying Agent:

Citibank N.A., London Branch

Programme Size:

Up to €5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:

Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies:

Subject to any applicable legal or regulatory restrictions, notes may be denominated in euro, Sterling, U.S. dollars and any other currency agreed between the Issuer and the relevant Dealer.

Maturities:

The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Unless otherwise permitted by current laws, regulations, directives and/or requirements applicable from time to time to the issue of Non-Preferred Senior Notes, Non-Preferred Senior Notes must have a minimum maturity of not less than twelve months.

Unless otherwise permitted by current laws, regulations,

directives and/or requirements applicable from time to time to the issue of Subordinated Notes, Subordinated Notes must have a minimum maturity of 5 years.

Issue Price: Notes may be issued on a fully-paid or, in the case of Exempt Notes, a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes The Notes will be issued in bearer form as described in "Form of the Notes".

Fixed Rate Notes: Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Fixed Rate Notes may also include an interest step-up provision whereby the Rate of Interest payable increases at pre-determined periods to a pre-determined percentage per annum as indicated in the form of Final Terms (or, in the case of Exempt Notes, Pricing Supplement).

Fixed Rate Notes may also include an interest step-down provision whereby the Rate of Interest payable decreases at pre-determined periods to a pre-determined percentage per annum as indicated in the form of Final Terms (or, in the case of Exempt Notes, Pricing Supplement).

Reset Notes Reset Notes will, in respect of an initial period, bear interest at the initial fixed rate of interest specified in the relevant Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) specified in the relevant Final Terms by reference to a mid-market swap rate, as adjusted for any applicable margin, in each case, as may be specified in the relevant Final Terms.

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (b) on the basis of the reference rate set out in the form of Final Terms (or, in the case of Exempt Notes, Pricing Supplement).

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant

Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Floating Rate Notes may also include an interest step-up provision whereby the Margin payable increases at pre-determined periods to a pre-determined percentage per annum as indicated in the form of Final Terms (or, in the case of Exempt Notes, Pricing Supplement).

Floating Rate Notes may also include an interest step-down provision whereby the Margin payable decreases at pre-determined periods to a pre-determined percentage per annum as indicated in the form of Final Terms (or, in the case of Exempt Notes, Pricing Supplement).

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Exempt Notes:

The Issuer may issue Exempt Notes which are Index Linked Notes, Dual Currency Notes, Partly Paid Notes or Notes redeemable in one or more instalments.

Index Linked Notes: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

Partly Paid Notes: The Issuer may issue Notes in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

Notes redeemable in instalments: The Issuer may issue Notes which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

The Issuer may agree with any Dealer and the Trustee that

Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.

Redemption:

The form of Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in the case of Exempt Notes in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or (in the case of Senior Notes or Non-Preferred Senior Notes only) at the option of the Issuer due to a MREL Disqualification Event, as described in Condition 5.6 (Issuer Call due to MREL Disqualification Event) and/or (in case of Subordinated Notes only) at the option of the Issuer for regulatory reasons, as described in Condition 5.3 (Redemption for regulatory reasons (Regulatory Call)) and/or at the option of the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

Other than following an Event of Default, any redemption of Senior Notes and Non-Preferred Senior Notes or Subordinated Notes prior to their stated maturity in accordance with the Conditions (including early redemption for taxation reasons or early redemption for regulatory reasons) will be subject to the provisions of, respectively, Condition 5.13 and 5.14.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.

Denomination of Notes:

Notes will be issued in such denominations as may be specified in the form of Final Terms (**Specified Denomination**) save that (i) the minimum Specified Denomination of each Note which is specified in the form of Final Terms as being a Senior Note or a Subordinated Note shall be Euro 100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes) and (ii) the minimum Specified Denomination of each Note which is specified in the form of Final Terms as being a Non-Preferred Senior Note shall be Euro 250,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 6 (Taxation). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 6 (Taxation), be required to pay additional amounts, in respect

of principal and interest in the case of Senior Notes or Non-Preferred Senior Notes (if permitted by MREL Requirements), or interest only in the case of Subordinated Notes, to cover the amounts so deducted.

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| Negative Pledge: | The terms of the Notes will not contain a negative pledge provision. |
| Cross Default: | None. |
| Status of the Notes: | Notes may be issued by BPS on a subordinated basis (as Subordinated Notes) or unsubordinated basis (as Senior Notes or Non-Preferred Senior Notes), as specified in the relevant Final Terms. |
| Status of the Senior Notes: | The Senior Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than obligations ranking junior to the Senior Notes from time to time (including Non-Preferred Senior Notes and any further obligations permitted by law to rank, or expressed to rank, junior to the Senior Notes, on or following the Issue Date), if any) of the Issuer, from time to time outstanding, as described in Condition 2.1 (Status of the Senior Notes). |
| Status of the Non-Preferred Senior Notes: | The Non-Preferred Senior Notes (being Notes intended to qualify as <i>strumenti di debito chirografario di secondo livello</i> of the Issuer, as defined under Article 12-bis of the Italian Consolidated Banking Act) constitute direct, unconditional, unsubordinated, and unsecured and non-preferred obligations of the Issuer, ranking junior to Senior Notes and any other unsecured and unsubordinated obligations of the Issuer which rank, or are expressed to rank in their terms, senior to the Non-Preferred Senior Notes, <i>pari passu</i> without any preference among themselves, with all other present or future obligations of the Issuer which do not rank or are not expressed by their terms to rank junior or senior to the relevant Non-Preferred Senior Notes and in priority to any subordinated instruments and to the claims of shareholders of the Issuer, pursuant to Article 91, section 1-bis, letter c-bis of the Italian Consolidated Banking Act, as described in Condition 2.2 (Status of the Non-Preferred Senior Notes). |
| Status of the Subordinated Notes: | The Subordinated Notes will constitute unconditional, subordinated unsecured obligations of the Issuer and, (subject to Condition 2.3), will rank <i>pari passu</i> and without any preference among themselves and after all unsubordinated, unsecured obligations of the Issuer, as described in Condition 2.3. |
| Subordination: | Payments in respect of the Subordinated Notes will be subordinated as described in Condition 2.3 (Status of the |

Subordinated Notes).

Substitution and Variation:

With respect to (i) any Series of Senior Notes or Non-Preferred Senior Notes, if at any time a MREL Disqualification Event occurs, and if Substitution or Variation is specified as being applicable in the form of Final Terms, or (ii) all Notes, if Substitution or Variation is specified as being applicable in the form of Final Terms, in order to ensure the effectiveness and enforceability of Condition 18 (Statutory Loss Absorption Powers), then the Issuer may, subject to giving any notice required to be given to, and receiving any consent required from, the Competent Authority and/or as appropriate the Relevant Resolution Authority (without any requirement for the consent or approval of the holders of the relevant Notes of that Series) and having given not less than 30 nor more than 60 days' notice to the Trustee and the holders of the Notes of that Series (or such other notice periods as may be specified in the form of Final Terms, at any time either substitute all (but not some only) of such Notes, or vary the terms of such Notes so that they remain or, as appropriate, become, Qualifying Senior Notes, Qualifying Non-Preferred Senior Notes or Qualifying Subordinated Notes, as applicable, provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities.

Rating:

The Programme has not been rated. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the form of Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Approval and Listing:

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Notes issued under the Programme to be listed on the Luxembourg Stock Exchange.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The form of Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes) will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law:

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law, except

Condition 2.2 (*Status of the Non-Preferred Senior Notes*), Condition 2.3 (*Status of the Subordinated Notes*) and Condition 18 (*Statutory Loss Absorption Powers*) which shall be governed by, and construed in accordance with, Italian law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA (including the United Kingdom, Italy, France, Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*").

United States Selling Restrictions:

Regulation S, Category 2. TEFRA C or D/TEFRA not applicable, as specified in the form of Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes).

Non-Preferred Senior Notes shall be distributed to qualified investors only in accordance with Law No. 205 of 27 December 2017 on the budget of the Italian government for 2018.

RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors, including those set out in paragraph “Basel III and the CRD IV Package” below, which individually or together could result in the Issuer becoming unable to make all payments due. The inability of the Issuers to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons outside the Issuer's control which may not be considered significant by the Issuer based on information currently available to them or which they may not currently be able to anticipate. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due.

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

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

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

Risks related to the Strategic Plan

On 28 February 2017, the Board of Directors of BPS approved the BPS group's (the **BPS Group**) 2017-2021 strategic goals and projections (the **Strategic Plan**) which envisaged, *inter alia*, a review of the business model of BPS Group.

The Strategic Plan contains objectives to be reached by 2021 (the **Plan Objectives** or the **Projected Data**), based on assumptions of both a general nature and a discretionary nature linked to the impact of specific operational and organisational actions that BPS intends to take during the period of time covered by the Strategic Plan.

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

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

The Strategic Plan is therefore based on numerous assumptions and hypothetical scenarios, some of which refer to events that are outside of BPS' control. Specifically, the Strategic Plan contains a collection of hypotheses, estimates, and forecasts that are based on the occurrence of future events, and on actions that may be undertaken by management and by the Board of Directors of BPS between 2017 and 2021. These include assumptions subject to the current macroeconomic scenario and regulatory context, future events, the performance of the main capital and economic parameters and other factors that may affect the development of BPS, which the directors and management cannot influence or can only partly influence.

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

The failure or partial occurrence of the assumed events or of the positive expected resulting effects could lead to potentially significant deviations from the forecasts in the Projected Data or hinder their achievement with consequent significant negative effects on the assets and the operations, balance sheets and/or income statement of BPS, and/or BPS Group. In particular, it cannot be guaranteed that BPS and/or BPS Group companies will be able to successfully implement the measures provided for in the Strategic Plan. Failure to do so, as well as the partial realisation of one or more of such measures, could lead to divergences, even significant, with the provisions of the Projected Data and hinder their fulfillment, with consequent negative effects on BPS and/or the BPS Group's operating results and capital and financial position.

Liquidity risk

The BPS Group's businesses are subject to risks concerning liquidity which are inherent in its banking operations and could affect the Issuer's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend.

The ability of the Issuer to access wholesale and retail funding sources on favourable economic terms is dependent on a wide range of factors, including issues out of its control, such as liquidity constraints, general market conditions and confidence in the Italian banking system.

In recent years, the global financial system has been subject to considerable turmoil and uncertainty and, as at the date of this Base Prospectus, the short and medium term outlook for the global economy remains uncertain. The repricing of sovereign risk following the recent crisis has contributed to keep volatility and uncertainty high, weighing negatively on the global financial system.

Credit markets (primarily in the U.S. and Europe) have been experiencing substantial dislocations, liquidity disruptions and market corrections whose scope, duration, severity and economic effect remain uncertain. The global liquidity crisis has had, and may continue to have, an adverse effect on markets in the U.S., Europe and Asia, and has affected conditions in European economies, including the Italian economy on which the BPS Group's business depends. The global financial system has yet to overcome such difficulties and financial market conditions have remained challenging and, in certain respects, have deteriorated.

The current credit conditions of the global and Italian capital markets have led to the most severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment in recent history, and have had an impact on the wider economy. Individual institutions have faced varying degrees of stress. Should BPS Group be unable to continue to source a sustainable funding profile which can absorb these sudden shocks, BPS Group's ability to fund its financial obligations at a competitive cost, or at all, could be adversely affected.

Further to the above, as at 30 September 2018, the Issuer had no exposure to US subprime mortgages, no relating hedging contracts or other credit derivatives on loans. As at the same date, the Issuer financial portfolio is mainly composed by Italian government securities with a restrained duration (less than 4 years).

BPS relies on internal system in order to monitor, control and mitigate liquidity risk; the management

process aims at verifying BPS Group's ability to meet ordinary and extraordinary payment obligations and minimize the associated expenses. In detail, the Issuer:

- uses specific supervision instruments in order to monitor operating liquidity (short term liquidity between overnight and 3 months) and structural liquidity (medium-long term liquidity with a structural maturity ladder);
- compares the liquidity positions measured (both operating and structural) with the relevant early warning thresholds and calculates early warning indicators and contingency indicators; and
- estimates the impact of different hypothetical scenarios (stress test) on the liquidity position as resulting from ordinary monitoring activities.

The Issuer believes that the policies adopted and the controls implemented by BPS Group are adequate to keep liquidity risk under control. However, as at the date of the approval of this Base Prospectus, it cannot be ruled out that unknown and unexpected events occur which could negatively affect the BPS Group's ability to meet its financial obligations.

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

Intervention with respect to the level of capitalisation of banking institutions has had to be further increased in response to the financial markets' crisis, and specifically to face the reduced liquidity available to market operators in the industry, the upturn of risk premiums and the increase in quantity and quality of banking capital claimed by the investors. In many countries, this has been achieved through support measures for the financial system and direct intervention by governments in the share capital of banks in different forms. In order to permit such government support, financial institutions were required to pledge securities deemed appropriate by different central financial institutions as collateral.

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

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

Italy is the BPS Group's primary market. Its business is therefore particularly sensitive to adverse macroeconomic conditions in Italy. The persistence of adverse economic conditions in Italy or a slower recovery in Italy compared to other Organisation for Economic Co-operation and Development (OECD) nations could have a material adverse effect on the BPS Group's business, results of operations or financial condition. In addition, any downgrade of the Italian sovereign credit rating or the perception that such a downgrade may occur, may destabilise the markets and have a material adverse effect on the BPS Group's operating results, liquidity position, financial condition and prospects as well as on the marketability of the Notes.

As mentioned above, Italy is the BPS Group's primary market in which the BPS Group's operate and, as result, its activities are closely connected to the Italian macroeconomic context, so they could be negatively impacted by any change of the same. Specially, economic forecasts and the current political context could generate considerable uncertainty surrounding the future growth of the Italian economy.

Risks related to the European sovereign debt crisis

The continued deterioration of the creditworthiness of various countries, including (among others) Greece, together with the potential for contagion to spread to other countries in Europe, including Italy, has exacerbated the severity of the global financial crisis. Such developments have posed a significant risk to the stability and status quo of the Economic and Monetary Union (EMU), and have raised concerns about its long-term sustainability.

In recent years, several EMU countries have requested financial aid from European authorities and from the International Monetary Fund. Such countries are currently pursuing ambitious programmes of reforms. The risk of a sharp and substantial repricing in sovereign credit spreads in the Eurozone has diminished (but has not completely faded) since the European Central Bank (ECB) launched the “Outright Monetary Transactions”.

Despite these and other initiatives of supranational organisations to deal with the sovereign debt crisis in the Eurozone, global markets remain characterised by high volatility and a general decrease of market depth. Credit quality has generally declined, as reflected by the repeated downgrades suffered by several countries in the Eurozone, including Italy, since the start of the sovereign debt crisis (see further “*Risks related to a downgrade of the Italian sovereign credit rating*”). The large sovereign debts and/or fiscal deficits in certain European countries, including Italy, have raised concerns regarding the financial condition of Eurozone financial institutions and their exposure to such countries. Concerns also persist regarding the overall stability of the euro and the suitability of the euro as a single currency, given the diverse economic and political circumstances in individual member states of the Eurozone.

There can be no assurance that the European Union and International Monetary Fund initiatives aimed at stabilising the market in certain EMU countries, including Cyprus, Greece, Portugal, Ireland and Spain will be sufficient to avert contagion to other countries. If sentiment towards the banks and/or other financial institutions operating in Italy were to deteriorate materially, or if the BPS Group’s ratings and/or the ratings of the sector were to be further adversely affected, this may have a materially adverse impact on the BPS Group. In addition, such change in sentiment or reduction in ratings could result in an increase in the costs and a reduction in the availability of wholesale market funding across the financial sector which could have a material adverse effect on the liquidity funding and value of the assets of all Italian financial services institutions, including the BPS Group.

The ECB’s unconventional monetary policy tools have contributed to ease market tensions, limiting the refinancing risk for the banking system and leading to a tightening of credit spreads of sovereign risk. Should the ECB halt or reconsider the current set up of unconventional measures, this would impact negatively on the value of sovereign debt instruments. This would have a materially negative impact on the BPS Group’s business, results and financial position.

These concerns may impact the value of the assets of Eurozone banks and their ability to access the funding they need or may increase the costs of such funding, which may cause such banks to suffer liquidity stress. If the current concerns over sovereign and bank solvency continue, there is a danger that interbank funding may become generally unavailable or available only at elevated interest rates, which might impact the Issuer’s access to, and cost of, funding. Should the BPS Group be unable to continue to source a sustainable funding profile, the BPS Group’s ability to fund its financial obligations at a competitive cost, or at all, could be adversely impacted.

Risks related to a downgrade of the Italian sovereign credit rating

Any further downgrade of the Italian sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and have a material adverse effect on the BPS Group’s operating results, financial condition, prospects as well as on the marketability of the Notes.

This might also impact on the BPS Group's credit ratings, borrowing costs and access to liquidity. A further downgrade of the Italian sovereign credit rating or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of a "double dip" recession. These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies in, Ireland, Greece, Portugal, Italy and Spain in particular and concerns regarding the overall stability of the euro. Further instability within these countries or other countries within the Eurozone might lead to contagion (see further "*Risks related to the European sovereign debt crisis*").

Risks associated with Issuer's participation in the Resolution mechanism and deposit guarantee system

By the Deposit Guarantee Schemes Directive and BRRD, and by the establishment of the Single Resolution Mechanism (SRM) by Regulation (EU) no. 806/2014 dated 15 July 2014, the European legislator made significant amendments to the governance of banking crises in order to strengthen the single market and systemic stability. The Deposit Guarantee Schemes Directive harmonises the levels of protection offered by the national deposit protection funds and makes amendments to the system of contributions; for Italian banks, this means moving from an «ex post» system of contributions to a mixed system that envisages making an advance contribution in order to reach, over ten years, a minimum fund size of 0.8% of the deposits guaranteed. Contributions may include payment pledges up to a maximum of 30% of the total. The advance contribution requested by the Interbank Deposit Protection Fund for 2018 was 9,020 million. BRRD defines resolution rules to be applied to all EU banks in serious difficulties. Under these rules and on certain conditions, the National Resolution Fund to be established by each member State will participate in funding the resolution. The BRRD was transposed into Italian legislation by Decrees no. 180 and 181 (the **BRRD Implementing Decrees**) dated 16 November 2015 and, subsequently, the Bank of Italy, as the national resolution authority, established the National Resolution Fund.

In December 2015, BPS joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. Last November 2018, the Voluntary Scheme approved an intervention in favour of Banca Carige S.p.A. in form of subordinated debt per Euro 318.2 million which for BPS involved an outlay of Euro 5.258 million.

Impact of austerity measures on the BPS Group

The austerity measures introduced by the Italian government pursuant to Law Decree No. 98 of 6 July 2011, as converted by Law No. 111 of 15 July 2011 and Law Decree No. 138 of 13 August 2011, as converted by Law No. 148 of 14 September 2011, or any similar legislation which may be introduced in the future, could reduce household disposable incomes and firms' profitability and, consequently, may generate pressure on the ability of households and businesses to service their loans and meet their other financial obligations to the BPS Group and to other operators in the Italian banking sector.

Impact of events which are difficult to anticipate

The BPS Group's earnings and business are affected by general economic conditions, the performance of financial markets (including liquidity constraints) and of market participants, interest rate levels, currency exchange rates, changes in laws and regulation, changes in the policies of central banks, particularly the Bank of Italy and the ECB, and competitive factors, at a regional, national and

international level. The expectations in respect of the global economy remain uncertain in the short- and medium-term. Additional sources of uncertainty are those related to the geopolitical environment including the timing and the modalities for the exit of the United Kingdom from the European Union. Each of these factors can change the level of demand for the BPS Group's products and services, the credit quality of borrowers and counterparties (with potentially negative effects on the recovery of loans or other amounts due from borrowers and counterparties of the BPS Group) and the value of the BPS Group's investment and trading portfolios, and can influence the BPS Group's balance sheet and economic results.

Competition

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

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

In particular, 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 effect of progressively reducing the spread between lending and borrowing rates; (iii) the behaviour of competitors (also following the changes introduced by Law No. 33 of 24 March 2015, which converted Decree 3/2015 regarding "cooperative banks" and the aggregative processes which followed or which could follow); (iv) consumer demand; (v) the trend of the Italian banking industry focuses on revenues from fees, which lead 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 BPS Group's control.

All the above factors may adversely affect the BPS Group's financial condition and result of operations. In addition, downturns in the Italian economy could add to the competitive pressure through, for example, increased price pressure and lower business volumes for which to compete.

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 result, of the BPS Group.

Credit and market risk

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

concentration.

In recent years, the global credit environment has been adversely affected by significant instances of default, and there can be no certainty that further such instances will not occur. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between institutions. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Issuer interacts on a daily basis and therefore could adversely affect the BPS Group.

Protracted market declines and reduced liquidity in asset markets

Protracted adverse market movements, particularly the decline in asset prices, can reduce market activity and market liquidity. These developments can lead to material losses if the BPS Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets that did not enjoy a very liquid market to begin with. The value of assets that are not traded on stock exchanges or other public trading markets, including (but not limited to) derivatives contracts between banks, may be calculated by the Issuer using models other than publicly quoted prices. Monitoring the deterioration of the prices of assets like these is difficult and failure to do so effectively could lead to unanticipated losses. This in turn could adversely affect the BPS Group’s operating results and financial condition.

In addition, protracted or steep declines in the stock or bond markets in Italy and elsewhere may adversely affect the BPS Group’s securities activities and its asset management services, as well as its investments in and sales of products linked to the performance of financial assets.

Risk management and exposure to unidentified or unanticipated risks

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

Credit and counterparty risks

Credit and counterparty risks are associated with the event that the financial soundness and outlook of the Issuer or of the BPS Group deteriorate due to the risk of losses resulting from any inability or refusal by customers (including Sovereign States) to meet their contractual obligations, relating to lending, commitments, letters of credit, derivatives instruments, foreign currency transactions and other transactions.

Even though lending is the core business of the BPS Group, it is performed with the objective to achieve a controlled growth of lending throughout the country by means of a risk-taking strategy focused on the most attractive geographic areas, customer segments and sectors of economic activity.

This strategy consists of identifying risk ceilings that can be taken with lending (sector and individual concentration risk limits, etc.) and ensuring that they are consistent with the BPS Group’s budget targets and business plan. Improvement of credit quality is pursued by means of constant monitoring of the loan portfolio, assessing compliance with the risk strategy agreed on, with a focus on major risk exposures.

The BPS Group follows a general strategy of risk management, which is focused on a moderate propensity to risk and full awareness of the risks that are taken on; it is implemented as follows:

- the current and prospective risk inherent in the loan portfolio, considered as a whole and/or as various sub-sets;
- the diversification of exposures, with the aim of containing the concentration of the same; and
- the rejection of transactions which could prejudice profitability and solidity.

The credit risk management process is based upon the maximum involvement at the various levels within the BPS Group in order to balance the need to promptly meet customers' requests with the need to conduct a detailed review of the credit risk.

The phases of the credit process consist of the planning of credit policies, the preliminary investigation, the disbursement of the loan, the periodic review, monitoring and management of impaired loans.

The Issuer believes that the policies adopted by the BPS Group can adequately keep credit risk under control; however, as at the date of approval of this Base Prospectus, it cannot be ruled out that unknown and unexpected events occur, which could negatively affect customers' ability to meet their contractual obligations thus generating negative effects on the Issuer's or the BPS Group's financial soundness and outlook.

As for counterparty risk, in addition to the continuous monitoring of the main banking and financial groups with credit lines, a specific analysis is performed periodically on each position assumed, through the joint consideration of various indicators, including the rating assessment, data deriving from accounting disclosure and market data.

At the portfolio level, the credit risk is assessed at several levels of analysis, including the distribution of counterparties over time by rating classes.

Such assessments support the formulation of credit policy guidelines and allow for the adoption of suitable management measures and for the notification of operating guidelines to the central and peripheral functions involved.

The lending process also provides for a series of checks and controls aimed at mitigating risk during the various phases that make it up.

The preliminary investigation phase, aimed at verifying the conditions for reliability through an assessment of the creditworthiness of the applicants, entails a review of the consistency of the characteristics of the transaction with the purpose of the loan, a verification of the suitability of any guarantees/security interests covering the risk of failure to repay the loan and, the economic advantageousness of the loan transaction. In this context, the assessment expressed by the internal rating system, where available, and the associated estimates of default are duly taken into account as essential and mandatory elements for a thorough assessment of the customer.

The decision on the granting of the loan is made by competent decision-making bodies at the time of disbursement, carefully assessing all of the information gathered during the preliminary investigation phase as well as all additional material elements that may be available. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into due consideration as essential elements for an overall evaluation of the customer.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the

conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, aims at highlighting any negative symptoms as early as possible and at taking rapid and effective action to avoid any further deterioration. In this regard, the branches granting the relevant loans play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately.

The positions identified by a set of specific indicators as being risky are analysed appropriately and, where there are clear signs of payment difficulties, they are placed under observation or classified as "impaired", depending on the seriousness of the situation.

The task of managing problem loans is assigned to specific central units, which carry on their activity with a view to returning the position to "performing", if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, they operate in close collaboration with the branches granting the relevant problem loan.

Within the Issuer a separate unit being part of the Risk Management Function supports the Loans Department by identifying "performing" customers that show initial anomalies and signs of payment difficulties as well as those counterparts that are persistently overdrawn.

In the context of credit risk, concentration risk is also important. This type of risk derives from significant exposures towards counterparties, groups of related counterparties or counterparties operating in the same economic sector or those that conduct the same business operations or belong to the same geographic area.

During the credit review, disbursement, review and monitoring phases, in-depth controls are performed pertaining to the concentration of risks for significant exposures towards individual counterparties or groups of counterparties among which there exist connections of a legal and/or economic nature. In addition, specific credit concentration indicators are regularly monitored aimed at measuring the distribution of loans among customers and, more specifically, aimed at identifying the level of credit concentration concerning the loan disbursed to customers and the relevant economic sectors and/or geographical areas.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and or systems, human resources and/or external events. This definition includes legal and conduct risks, but excludes strategic and reputational risks. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The BPS Group, fully aware of the considerable damage to its image and its reputation which could arise from the occurrence of loss events, adopts a management system suitable, in the opinion of the Issuer, to mitigate the operational risk effects. This system relies on procedures for the containment and mitigation of operational risks arising from transactions and for the prevention and/or limitation of the possible adverse effects resulting from them. However, the adoption of these measures may be inadequate to deal with the risks potentially arising, in part because of the unpredictability of the occurrence of risk events.

The most frequently recurring operational risks and those having the greatest individual impact in terms of overall amount usually include errors in the execution of day-to-day payments and trading in securities, litigations and settlement agreements with customers as well as external events, normally subject to mitigation through the purchase of insurance policies.

Risks relating to information technology systems

The BPS Group depends on its information technology (**IT**) and data processing systems to operate its business, as well as on their continuous maintenance and constant updating. The BPS Group is exposed to the risk that data could be damaged or lost, removed, disclosed or processed (data breach) for purposes other than those authorised by the customer, including by unauthorised parties.

The possible destruction, damage or loss of customer, employee or third party data, as well as its removal, unauthorised processing or disclosure, would have a negative impact on the BPS Group's business and reputation and could subject the BPS Group to fines, with consequent negative effects on the BPS Group's business, results of operations or financial condition.

In addition, changes to relevant regulation could impose more stringent sanctions for violations, and could have a negative impact on the BPS Group's business insofar as they lead the BPS Group to incur additional compliance costs.

There are possible risks with regard to the reliability of IT systems (disaster recovery), the quality and integrity of the data managed and the threats to which IT systems are subject, as well as physiological risks related to the management of software changes (change management), which could have negative effects on the BPS Group's operations, as well as on the BPS Group's capital and financial position.

Risks faced by the BPS Group relating to the management of IT systems include possible violations of its systems due to unauthorised access to the BPS Group's corporate network or IT resources, the introduction of viruses into computers or any other form of abuse committed via the Internet. Like attempted hacking, such violations have become more frequent over the years throughout the world and therefore can threaten the protection of information relating to the BPS Group and its customers and can have negative effects on the integrity of the BPS Group's IT systems, as well as on the confidence of the BPS Group's customers and on the BPS Group's reputation, with possible negative effects on the BPS Group's capital and financial condition.

Interest rate risk

The interest rate risk consists of the possibility of incurring losses due to reductions in the value of assets and/or increases in the value of liabilities caused by adverse changes in interest rates on positions not included in the trading portfolio, as well as the possibility that movements in interest rates have negative impacts on the present and future profitability arising from interest-earning assets and interest-bearing liabilities in the BPS Group's balance sheet.

The main sources of interest rate risk from *fair value* consist of deposit/fund-raising transactions (particularly, debt securities) and fixed-rate lending/investment transactions (mainly loans and debt securities); the interest rate risk from *cash flow* is originated by the remaining sight or indexed rate assets and liabilities, which represent, the majority of the total.

The methodology used by BPS for the analysis of BPS Group's sensitivity to interest rate risk comprises application of the internal models for strategic Asset & Liability Management (**ALM**). These analyses are also complemented by the measurements of an internal model for the daily calculation of Value at Risk (VaR) on debt instruments of the banking and trading portfolios which are exposed to market risks.

The internal processes for control and management of the interest rate risks associated with an adverse change in the fair value of assets and liabilities or a negative impact on the interest margin are based on a monthly (for ALM indicators) and daily (for Market VaR estimates) monitoring of the BPS Group's risk exposure, supported by a system of quantitative limits, thresholds and alerts that globally reflect the risk appetite of the BPS Group and its main components.

With reference to the main subsidiaries of the BPS Group, the standard characteristics of the dealings made by Factorit S.p.A. render quite marginal the effects of fluctuations in interest rates on the current value of assets and liabilities, as well as on the expected interest margin: the high level of rotation of the loans and receivables factored (turnover) and the fact that the funding of the firm is exclusively short-term, by ensuring frequent and closed repricings, allow the lending and funding terms applied to remain in line with the prevailing market conditions. The principal source of interest rate risk for Banca Popolare di Sondrio (SUISSE) SA derives, potentially, from fixed-rate lending (mortgage loans).

Risks associated with the Issuer's rating

The risk associated with the ability of an issuer to meet its obligations, generated by the issue of debt instruments and money market instruments, is defined by reference to credit ratings assigned by independent rating agencies. A credit rating is a measurement of solvency or credit worthiness of debtors and/or issuers of bonds, made in accordance with consolidated procedures for credit analysis. These measurements, and the relating research, help investors in analysing credit risks associated with financial instruments, since they give detailed information on issuers' ability to meet their obligations. The lower the rating assigned on the respective scale the higher the risk, measured by the respective rating agency, that the bonds will not be repaid or that they will not be repaid fully and/or promptly. A rating is not a recommendation to purchase, sell or hold any bond issued and may be suspended, lowered or withdrawn at any time by the rating agency by which it has been assigned. Suspension, lowering or withdrawal of an assigned rating can negatively affect the market price of the bonds issued. A rating downgrade might restrict the availability of funding or increase its cost for individuals and companies at a local level. This might have a material adverse effect on the BPS Group's operating results, financial conditions and business outlook.

A downgrade of any of the Issuer's credit ratings may impact the Issuer's funding ability and have an adverse effect on the Issuer's financial condition

The current long-term counterparty credit ratings of the Issuer are, respectively, "BBB-" from Fitch, and "BBB" from Dagong; the current short-term counterparty credit ratings are, respectively, "F3" from Fitch, and "A-3" from Dagong. Both Fitch and Dagong are established in the European Union and are registered under the CRA Regulation. A downgrade of any of the Issuer's ratings (for whatever reason) might result in higher funding and refinancing costs for the Issuer in the capital markets. In addition, a downgrade of any of the Issuer's ratings may limit the Issuer's opportunities to extend mortgage loans and may have a particularly adverse effect on the Issuer's image as a participant in the capital markets, as well as in the eyes of its clients. These factors may also have an adverse effect on the Issuer's financial condition and/or results of operations and, as a consequence, on the rating assigned to the Notes.

Risks associated with pending legal proceedings

As at the date of the Base Prospectus, the Issuer and the BPS Group companies are/were parties to civil and administrative judiciary proceedings associated with their ordinary operations; for some of these proceedings, the Issuer has allocated, as recognised in its consolidated financial statements, a specific provision for contingencies and liability, intended to cover potential liabilities resulting from the same proceedings.

Even though the outcome of the many legal proceedings to which the BPS Group is a party is intrinsically difficult to forecast and, therefore, it cannot be ruled out that an unfavourable outcome of some of them might impact the BPS Group's financial, income and equity situation, the Issuer believes that the allocated provision is adequate to meet any unfavourable outcomes. Moreover, the above proceedings are not significant when considered individually.

For other information on the pending legal proceedings to which the BPS Group is a party, reference is made to section "*Description of the Issuer*" of the Base Prospectus.

Risk associated with inspections by regulatory authorities

From 2015 and until the date of the Base Prospectus, the Issuer has been subject to on-site supervisory inspections by the ECB together with the Bank of Italy. These included two on-site visits carried out during 2015, covering the following matters: corporate governance, remuneration and internal controls of BPS Group, as well as counterparty and credit risk management. Further to such inspections, the Issuer has prepared and shared with ECB plans of measures providing for specific remedial actions to be taken to implement the recommendations of the supervisory authority, including organizational interventions, strengthening of internal controls and other specific enhancements or upgrades. The activities provided for by the action plans have been monitored by ECB on a quarterly basis. As a result of such monitoring, the improvements carried out so far have been found adequate in terms of the achievements to be reached.

In addition to the above, from December 2016 to March 2017 the Issuer was assessed in relation to its "Capital position calculation accuracy" by the ECB. As a result of the inspection, the Issuer was recommended to improve internal control processes and procedures to assess the compliance of capital measures with regulatory requirements. Interventions on internal regulation have been carried out to implement the recommendations by the relevant Authority. The inspection also revealed only a few cases of customers' subscription or purchase of shares and/or subordinated instruments issued by the Issuer carried out through the financial assistance of the Issuer, to be deducted, with a very slight impact, from the regulatory own funds of BPS Group.

The Issuer is also subject to an ordinary on-going supervision by CONSOB in order to supervise the investment concentrations of retail customers in securities issued by the Issuer. The Issuer responds constantly to CONSOB's inquiries and, as at the date of this Base Prospectus, has not received any counterclaim.

Broadly speaking, BPS Group is subject, in the course of its ordinary activities, to inspections and other supervisory actions carried out by the supervisory authority that could require organisational interventions or strengthening of internal functions aimed at addressing weaknesses identified during inspections which might, furthermore, result in sanction proceedings which may have negative effects on operations, financial and capital position and economic results of the Issuer.

In October 2018, the ECB launched a new on-site inspection activity, which is still ongoing, focusing on the analysis of accounting processes, policies and practices and individual credit positions (credit file review) relating to customer portfolios belonging to the corporate and SME - Corporate (Small and Medium Enterprises) segments with reference to the situation at the end of June 2018. With regard to specific practices subject to review, it may be necessary to change their classification and to make additional fund within the same classification.

Finally, on 28 January 2019, the Bank of Italy began a new inspection activity on transparency and anti-money laundering, pursuant to articles 54, 68 and 128 of Consolidated Banking Act and article 7 of Legislative Decree no. 231/2007.

Catastrophic events, terrorist attacks and similar events could have a negative impact on the business and results of the Issuer

Catastrophic events, terrorist attacks and similar events, as well as the responses thereto, may create economic and political uncertainties, which could have a negative impact on economic conditions in the regions in which the Issuer operates and, more specifically, on the business and results of the Issuer in ways that cannot be predicted.

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

On 23 June 2016, the United Kingdom voted, in a referendum, to leave the European Union (**Brexit**). On 29 March 2017, the British Prime Minister gave formal notice to the European Council under Article 50 of the Treaty on European Union of the intention to withdraw from the European Union, thus triggering the two-year period for withdrawal, during which the United Kingdom 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 and global trade agreements negotiated by the EU on behalf of its members 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.

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

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

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

impact on the operating results and capital and financial position of the Issuer and/or the BPS Group.

Adverse regulatory developments

The Issuer conducts its business subject to ongoing regulatory and associated risks, including the effects of changes in laws, regulations, and policies in Italy and at European level. The Issuer's business can therefore be affected by regulatory factors connected with domestic Italian and European Union developments in financial and fiscal matters, including the reform of the “*banche popolari*” (cooperative banks) system in Italy. The timing and the form of future changes in regulation are unpredictable and beyond the control of the Issuer, and changes made could materially adversely affect the Issuer's business.

The Issuer is required to hold a licence for its operations and is subject to regulation and supervision by authorities in Italy and in all other jurisdictions in which it operates, and by the ECB. Extensive regulations are already in place and new regulations and guidelines are introduced relatively frequently. The prudential rules applicable to banks and other entities in banking groups are mainly provided by implementation of measures consistent with the regulatory framework set out by the Basel Committee on Banking Supervision (the **Basel Committee**) and aim at preserving their stability and resilience and limiting their risk exposure (see below “*Basel III and the CRD IV Package*”).

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 (see “*Forthcoming regulatory changes*” below).

Basel III and the CRD IV Package

In December 2009, the Basel Committee proposed strengthening the global capital framework, and in December 2010, January 2011 and July 2011, the Basel Committee issued its final guidance on the proposed changes to capital adequacy and liquidity requirements (**Basel III**), which envisaged a substantial strengthening of capital rules existing at the time, including by, among other things, raising the quality of the Common Equity Tier 1 Capital base in a harmonised manner (including through changes to the items which give rise to adjustments to that capital base), introducing requirements for Additional Tier 1 and Tier 2 capital instruments to have a mechanism that requires them to be written off or converted into ordinary shares at the point of a bank's non-viability, strengthening the risk coverage of the capital framework, promoting the build-up of capital buffers and introducing a new Leverage Ratio and global minimum liquidity standards for the banking sector. The Basel III framework adopts a gradual approach, with the requirements to be implemented over time, many of which will be enacted by the end of 2019 (see below).

In January 2013 the Basel Committee revised its original proposal in respect of the liquidity requirements in light of concerns raised by the banking industry, providing for a gradual phasing-in of the LCR (as defined below), 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 **NSFR**), the Basel Committee published the final rules in October 2014 providing that the NSFR become a minimum standard starting from 1 January 2018.

In December 2017 the Basel Committee finalised the outstanding Basel III post-crisis regulatory reforms. The reforms, which include revisions to the measurement of the leverage ratio and a leverage ratio buffer for global systemically important banks (G-SIBs), which will take the form of a Tier 1 capital buffer set at 50% of a G-SIB's additional risk-weighted capital buffer, will take effect from 1 January 2022 (with certain aspects of the reforms to be phased in over five years from 2022).

In February 2018, the Basel Committee issued for consultation the updated framework of Pillar 3 requirements, which contains new or revised regulatory disclosure requirements primarily related to the finalisation of the Basel III post-crisis regulatory reforms noted above, and: (i) cover credit risk, operational risk, leverage ratio and credit valuation adjustment (CVA); (ii) benchmark a bank's risk-weighted assets (RWA) as calculated by its internal models with RWA calculated according to the standardised approaches; and (iii) provide an overview of risk management, key prudential metrics and RWA. The publication also proposes new disclosure requirements on asset encumbrance and capital distribution constraints.

The Basel III framework has been implemented in the EU through Directive 2013/36/EU of the European Parliament and of the Council of the European Union of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms which took effect from 1 January 2014 (as amended and supplemented, the **CRD IV**) and Regulation (EU) No 575/2013 of the European Parliament and of the Council of the European Union of 26 June 2013 on prudential requirements for credit institutions and investment firms which took effect from 28 June 2014 (as amended and supplemented, the **CRR** and together with the CRD IV, the **CRD IV Package**).

Full implementation began on 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by the end of 2019 and some minor transitional provisions provide for phase-in until 2024). It is possible that EU Member States may introduce certain provisions at an earlier or later date than that set out in the CRD IV Package.

National options and discretions under the CRD IV Package that were exercised by national competent authorities are now exercised by the SSM (as defined below) in a largely harmonised manner throughout the European banking union. In this respect, on 14 March 2016 the ECB adopted Regulation (EU) 2016/445 on the exercise of options and discretions available in Union law, and the ECB Guide on options and discretions available in Union law (**ECB Guide**), both published on 24 March 2016. This regulation specifies certain of the options and discretions conferred on competent authorities under Union law concerning prudential requirements for credit institutions that the ECB is exercising. It shall apply exclusively with regard to those credit institutions classified as "significant" in accordance with Article 6(4) of Regulation (EU) No 1024/2013, and Part IV and Article 147(1) of Regulation (EU) No 468/2014. 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. Moreover, on 10 August 2016, the ECB published an addendum to the ECB Guide which addresses eight options and discretions and complements the existing ECB Guide and Regulation (EU) 2016/445 mentioned above.

In addition, on 13 April 2017, the ECB published a guideline and a recommendation addressed to national competent authorities (**NCA**s) concerning the exercise of options and national discretions available in European Union law that affect banks which are directly supervised by NCAs (*i.e.* less significant institutions). Both documents are intended to further harmonise the way banks are supervised by NCAs in the 19 countries to which the SSM (as defined below) applies. The aim is to ensure a level playing field and the smooth functioning of the euro area banking system as a whole.

In Italy, the Government approved the Legislative Decree No. 72 of 12 May 2015 implementing the CRD IV (the **Decree 72/2015**). 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);

- supervisory measures and competent authorities' powers (Articles 64, 65, 102 and 104 of the CRD IV);
- reporting of potential or actual breaches of national provisions (so called whistleblowing, Article 71 of the CRD IV); and
- administrative penalties and measures (Article 65 of the CRD IV).

The Bank of Italy published the 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 - **Circular No. 285**) which came into force on 1 January 2014, implementing the CRD IV Package, and setting out additional local prudential rules. Circular No. 285 has been updated a number of times after its first issue, the last update being the 25th update of 23 October 2018. The CRR and CRD IV are also supplemented in Italy by technical rules relating to the CRD IV and the CRR published through delegated regulations of the European Commission and guidelines of the European Banking Authority.

According to Article 92 of the CRD IV Regulation, institutions shall at all times satisfy the following own funds requirements: (i) a Common Equity Tier 1 (**CET1**) Capital ratio of 4.5 per cent.; (ii) a Tier 1 Capital ratio of 6 per cent.; and (iii) a Total Capital ratio of 8 per cent. These minimum ratios are complemented by the following capital buffers to be met with CET1 Capital, reported below as applicable with reference to 6 March 2019:

- *Capital conservation buffer*: The Capital conservation buffer has applied to the Issuer from 1 January 2014 (pursuant to Article 129 of the CRD IV and Part I, Title II, Chapter I, Section II of Circular No. 285). According to the 18th update¹ to Circular No. 285 published on 4 October 2016, new transitional rules provide for a capital conservation buffer set (i) at 1.875 per cent. of risk-weighted assets from 1 January 2018 to 31 December 2018, and (ii) 2.5 per cent. of risk-weighted assets from 1 January 2019;
- *Counter-cyclical capital buffer*: The countercyclical capital buffer applied from 1 January 2016. Pursuant to Article 160 of the CRD IV and the transitional regime granted by Bank of Italy for 2018, institutions' specific countercyclical capital buffer shall consist of Common Equity Tier 1 capital equal to 1.875 per cent. of the total of the risk-weighted exposure amounts of the institution. As of 6 March 2019:
 - the specific countercyclical capital rate of BPS Group amounted to 0.00316% per cent. (individual) and 0.1025 per cent. (consolidated);
 - countercyclical capital rates have generally been set at 0 per cent., except for the following countries: Lithuania (0.5 per cent.), United Kingdom (1 per cent.), Czech Republic (1.25 per cent.), Slovakia (1.25 per cent.), Iceland (1.25 per cent.), Hong Kong (2.5 per cent.), Norway (2 per cent.) and Sweden (2.00 per cent.). Several countries are due to increase countercyclical capital rates during the remainder of 2019 and during

¹ "On 6 October 2016, the Bank of Italy published the 18th update of Circular No. 285 that modifies the capital conservation buffer requirement. In publishing this update, the Bank of Italy reviewed the decision, made at the time the CRD IV was transposed into Italian law in January 2014, where the fully loaded Capital Conservation Buffer at 2.50% was requested, by aligning national regulation to the transitional regime allowed by CRD IV."

2020; and

- by a press release dated 21 December 2018, with reference to the exposure towards Italian counterparties, the Bank of Italy has decided to keep the countercyclical capital buffer rate at 0 per cent. for the first quarter of 2019; and
- *Capital buffers for globally systemically important institutions (G-SIIs)*: set as 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), which was phased in from 1 January 2016 (Article 131 of the CRD IV 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 recently updated list of G-SIIs published by the Financial Stability Board (FSB) on 16 November 2018 (to be updated annually), the Issuer is not a global systemically important bank (G-SIB) and does not need to comply with a G-SII capital buffer requirement.
- Capital buffers for other systemically important institutions at domestic level (O-SIIs): up to 2.0 per cent. as set by the relevant competent authority (and must be reviewed at least annually), to compensate for the higher risk that such banks represent to the domestic financial system (Article 131 of the CRD IV and Part I, Title II, Chapter I, Section IV of Circular No. 285). The Bank of Italy has not identified the Issuer as an O-SII for the year 2019 and the Issuer does not need to comply with an O-SII capital buffer requirement.

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

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 European Banking Authority's (EBA) 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 an institution’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, in 2016, the EBA and the ECB appeared 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 recognised a distinction between “pillar 2 capital 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 EU Banking Reform package (as defined below) proposes to legislate this distinction between “Pillar 2 requirements” and “Pillar 2 capital guidance”. Whereas the former are mandatory requirements imposed by 19 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 EU Banking Reform 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. Non-compliance with Pillar 2 capital guidance does not amount to failure to comply with capital requirements, but should be considered as a “pre-alarm warning” to be used in the Bank’s risk management process. If capital levels go below Pillar 2 capital guidance, the relevant supervisory authorities, which should be promptly informed in detail by the Bank of the reasons of the failure to comply with the Pillar 2 capital guidance, will take into consideration appropriate and proportional measures on a case by case basis (including, by way of example, the possibility of implementing a plan aimed at restoring compliance with the capital requirements - including capital strengthening requirements).

Failure to comply with such combined buffer requirements triggers restrictions on certain 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 and Part I, Title II, Chapter I, Section V of Circular No. 285).

Following the results of the Supervisory Review and Evaluation Process (**SREP**) performed by the ECB, the Issuer is required to meet on a consolidated basis both a minimum transitional CET1 Ratio of 9.25 per cent. and a minimum transitional Total Capital Ratio of 12.75 per cent. to be applied for the year 2019.

In addition, the Issuer is subject to the Pillar 2 requirements for banks imposed under the CRD IV Package, which will be impacted, on an on-going 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.

As part of the CRD IV Package transitional arrangements, as implemented by Circular No. 285, regulatory capital recognition of outstanding instruments which qualified as Tier I or Tier II capital instruments under the framework which the CRD IV Package has replaced that no longer meet the minimum eligibility criteria for Tier I or Tier II capital instruments (respectively) under the CRD IV Package will have their capital recognition gradually phased out. By fixing the base at the nominal

amount of all such instruments outstanding on 1 January 2013, their recognition was capped at 80 per cent. in 2014, with this cap decreasing by 10 per cent. in each subsequent year (see, in particular, Part Two, Chapter 14, Section 2 of Circular No. 285).

The new liquidity requirements introduced under the CRD IV Package will also be phased in: the Liquidity Coverage Ratio (the **LCR**) and the Net Stable Funding Ratio (the **NSFR**). The Liquidity Coverage Ratio Delegated Regulation (EU) 2015/61 was adopted on 10 October 2014 published in the Official Journal of the European Union in January 2015 and became fully applicable from 1 January 2018. On the other hand, the EU Banking Reform includes a proposal aimed at establishing a binding detailed NSFR which will require credit institutions and systemic investment firms to finance their long-term activities with stable sources of funding with a view to increasing banks' resilience to funding constraints.

The European Commission proposed that the amount of available stable funding be calculated by multiplying an institution's liabilities and regulatory capital by appropriate factors that reflect their degree of reliability over a year. The NSFR is expressed as a percentage and set at a minimum level of 100%, which indicates that an institution holds sufficient stable funding to meet its funding needs during a one-year period under both normal and stressed conditions. The binding NSFR will apply at a level of 100% to credit institutions and systemic investment firms two years after the date of entry into force of the proposed amendments to the CRR.

The CRD IV Package also introduced a new Leverage Ratio with the aim of restricting the level of leverage that an institution can take on to ensure that its assets are in line with its capital. The Leverage Ratio Delegated Regulation (EU) 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 Regulation. The EU Banking Reform contains a proposal to implement a binding Leverage Ratio of 3 per cent. which is designed to prevent institutions from excessively increasing leverage.

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 LCR and Leverage Ratio in order to enhance regulatory harmonisation in Europe through the EBA single supervisory rulebook applicable to EU Member States (the **Single Rule Book**).

Should the Issuer 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, funding conditions and limit the Issuer's growth opportunities.

Forthcoming regulatory changes

In addition to the substantial changes in capital and liquidity requirements introduced by Basel III and the CRD IV Package, there are several other initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, the above-mentioned MiFID II and MiFIR which applied from 3 January 2018, subject to certain transitional arrangements. The Basel Committee also published certain amendments to the securitisation framework which came into force on 1 January 2019.

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 as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III leverage ratio denominator (TLAC leverage ratio exposure (LRE) minimum) as of 1 January 2019, and 6.75 per cent. as of 1 January 2022.

Based on the most recently updated FSB list of G-SIBs published in November 2018 (to be updated annually), the Issuer is not a G-SIB and it will not be subject to the TLAC requirements when they are implemented into applicable law, provided that at that time the Issuer will still not be included in the list of G-SIBs.

On 23 November 2016, the European Commission released a package of reforms to further strengthen the resilience of EU banks (**EU Banking Reform**). The proposed new package provides for amendments to the following pieces of legislation:

- (i) the CRD IV Package (as defined below);
- (ii) the Bank Recovery and Resolution Directive or BRRD (as defined below);
- (iii) Regulation (EU) No 806/2014 of the European Parliament and of the 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 SRM and a Single Resolution Fund.

In October 2017, the EU agreed to fast-track selected parts of the EU Banking Reform. In December 2018, the European Parliament, the Council and the Commission agreed on the rest of the EU Banking Reform, including the review of the BRRD and CRD IV but the package is still awaiting final approval.

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 Minimum 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 CRD IV Regulation will become directly applicable to the Issuer. The CRD IV 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, investment firms, certain financial institutions and certain holding companies (each a relevant entity) 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 any Notes and/or the rights of Noteholders"* below for further details on the implementation of TLAC in the EEA through changes to the BRRD.

Moreover, it is worth mentioning that the Basel Committee has embarked on a very significant risk weighted assets (**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 between banks. The implementation date for standardised approach to calculation operational risk and credit risk will come into force on 1 January 2022 (and will replace the existing frameworks). The revised market risk framework will also come into effect on 1 January 2022. The regulatory changes will impact the entire banking system and consequently could lead to changes in the measurement of capital. In 2016, the ECB began a review of the internal rating models authorised for calculating capital (the Targeted Review of Internal Models, referred to as **TRIM**), with the objective of ensuring the adequacy and comparability of the models given the highly fragmented

nature of Internal Ratings-Based systems used by banks, and the resulting diversity in measurement of capital requirements. The review covers credit, counterparty and market risks. The TRIM will be ongoing through 2019.

On 12 March 2018, the Commission published a proposal for a directive on covered bonds (the **CB Directive Proposal**) laying down the conditions that these bonds have to respect in order to be recognised under EU law. At national level, on 14 June 2018, the Bank of Italy issued for consultation a revision of the Circular No. 285 to anticipate, in part, the provisions of the CB Directive Proposal.

On 1 October 2018, the amendment no. 23 of 25 September 2018 to the Circular no. 285 entered into force, which revises the rules regarding covered bonds in order to allow smaller banking institutions to issue them.

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

Changes in the regulatory framework and in how such regulations are interpreted and/or applied by the supervisory authorities may have a material effect on the BPS Group's business and operations. The manner in which the new framework of banking laws and regulations will be applied to the operations of financial institutions is still evolving. No assurance can be given that laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the BPS Group.

Prospective investors in the Notes should consult their own advisors as to the consequences for them of the application of the above regulations as implemented by each Member State.

ECB Single Supervisory Mechanism

On 15 October 2013, the Council of the European Union adopted Regulation (EU) No. 1024/2013 establishing a single supervisory mechanism (the **ECB 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 "significant credit institutions" in the Banking Union. The SSM framework regulation (Regulation (EU) No. 468/2014 of the ECB) 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 any Eurozone bank that: (i) has assets greater than €30 billion or – unless the total value of its assets is below €5 billion – greater than 20% of national gross domestic product; (ii) is one of the three most significant credit institutions established in a Member State; (iii) has requested, or is a recipient of, direct assistance from the European Financial Stability Facility or the European Stability Mechanism; (iv) is considered by the ECB to be of significant relevance where it has established banking subsidiaries in more than one participating Member State and its cross-border assets/liabilities represent a significant part of its total assets/liabilities. Notwithstanding the fulfilment of these criteria, the ECB, on its own initiative after consulting with national competent authorities or upon request by a national competent authority, may declare an institution significant to ensure the consistent application of high-quality supervisory standards.

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 the ECB in day-to-day supervision. In order to foster consistency and efficiency of supervisory practices across the EU, the EBA Single Rule Book seeks to provide a single text of harmonised prudential rules which institutions throughout the EU must respect.

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**, as subsequently amended and supplemented). The ECB is required under the SSM Regulation to carry out a SREP at least on an annual basis. In addition to the above, the EBA published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the **EBA SREP Guidelines**). Included in these guidelines were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional Pillar 2 own funds requirements to be implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the Pillar 2 requirements to cover certain specified risks of at least 56 per cent. CET1 Capital and at least 75 per cent. Tier 1 capital. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the combined buffer requirements (as described above) and/or additional macro-prudential requirements. Accordingly, the additional Pillar 2 own funds requirement that may be imposed on the Issuer by the ECB pursuant to the SREP will require the Issuer to hold capital levels above the minimum Pillar 1 capital requirements. EBA has recently modified the EBA SREP Guidelines in July 2018, introducing the possibility for national competent authorities to set out a Pillar 2 capital guidance (P2G) based on supervisory stress test results, on top of the overall capital requirements. Such amended guidelines applied from 1 January 2019 and should therefore be applied in the 2019 cycle of SREP and joint decisions on institution-specific prudential requirements.

The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions, investment firms, certain financial institutions and certain holding companies (each a relevant entity) 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 any Notes and/or the rights of Noteholders

On 2 July 2014, Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Bank Recovery and Resolution Directive** or **BRRD**) entered into force and Member States were expected to implement the majority of its provisions.

On 23 November 2016, the European Commission published a proposal to amend certain provisions of the BRRD (the **BRRD Reform**). 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 the TLAC and Minimum Requirement for Own Funds and Eligible Liabilities (**MREL**) requirements. This new class of debt will be senior to all subordinated debt, but junior to ordinary unsecured senior claims.

The proposal of the European Commission regarding Article 108 of the BRRD resulted in the adoption of Directive (EU) 2017/2399 of 12 December 2017, amending the BRRD with regard to the ranking of unsecured debt instruments in the insolvency hierarchy. The proposal was published in the

Official Journal of the European Union on 27 December 2017 and was required to be transposed into national law by the Member States by 29 December 2018. In this regard, the Italian Law no. 205/2017, approved by the Italian Parliament on 27 December 2017, contains the implementing provisions pertaining to “non-preferred” senior debt instruments.

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 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 prevent them from 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) a relevant entity is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such relevant entity within a reasonable timeframe and (c) a resolution action is in the public interest; these are: (i) sale of business - which enables resolution authorities to direct the sale of the relevant entity 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 relevant entity 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 relevant entity and/or to convert certain unsecured debt claims (including Senior Notes, Non-Preferred Senior Notes and Subordinated 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.

In addition, because (i) Article 44(2) of the BRRD excludes certain liabilities from the application of the General Bail-In Tool and (ii) the BRRD provides, at Article 44(3), that the resolution authority may, in specified exceptional circumstances, partially or fully exclude certain further liabilities from the application of the General Bail-In Tool, the BRRD specifically contemplates that *pari passu* ranking liabilities may be treated unequally. Accordingly, holders of Senior Notes, Non-Preferred Senior Notes and Subordinated Notes of a Series may be subject to write-down or conversion upon an application of the General Bail-In Tool while other Series of Senior Notes, Non-Preferred Senior Notes or, as appropriate, Subordinated Notes (or, in each case, other *pari passu* ranking liabilities) are partially or fully excluded from such application of the General Bail-In Tool. Furthermore, 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 Senior Notes, Non-

Preferred Senior Notes or Subordinated 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.

A relevant entity will be considered as failing or likely to fail when: (a) it is, or is likely in the near future to be, in breach of its requirements for continuing authorization; (b) its assets are, or are likely in the near future to be, less than its liabilities; (c) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (d) it requires extraordinary public financial support (except in limited circumstances).

In the context of these resolution tools, the resolution authorities have the power to amend or alter the maturity of certain debt instruments (such as the Senior Notes, Non-Preferred Senior Notes and Subordinated 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.

On 16 November 2015, the Italian Government issued the BRRD Implementing Decrees. The BRRD Implementing Decrees entered into force on the date of publication on the Italian Official Gazette (i.e. 16 November 2015), save that: (i) the bail-in tool applied from 1 January 2016; and (ii) a “depositor preference” granted for deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SME’s will apply from 1 January 2019.

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

Under the BRRD, the target level of the national resolution funds is set at national level and calculated on the basis of deposits covered by deposit guarantee schemes. Under the SRM, the target level of the SRF is European and is the sum of the covered deposits of all institutions established in the participating Member States. This results in significant variations in the contributions by the banks under the SRM as compared to the BRRD. As a consequence of this difference, when contributions have been 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 sometimes abruptly decrease, while contributions of those banks established in Member States with fewer covered deposits may sometimes 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 and subject to certain other conditions, 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 recapitalisation EU state aid rules require that shareholders and junior bond holders contribute to the costs of restructuring.

In addition to the General Bail-In Tool and other resolution tools, the BRRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments (such as Subordinated 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 (**BRRD Non-Viability Loss Absorption**). Any shares or other instruments of ownership issued to holders of Subordinated Notes upon any such conversion may in turn be subject to any future application of the General Bail-In Tool.

For the purposes of the application of any BRRD Non-Viability Loss Absorption measure, the point of non-viability under the BRRD is the point at which (i) the relevant authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or (ii) the relevant authority or authorities, as the case may be, determine(s) that the relevant entity or, in certain circumstances, its group will no longer be viable unless the relevant capital instruments (such as Subordinated Notes) are written-down or converted or (iii) 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 Italy, the BRRD has been implemented through the adoption of two Legislative Decrees by the Italian Government, namely, Legislative Decrees No. 180/2015 and 181/2015 (together, the **BRRD Decrees**), both of which were published in the Italian Official Gazette (*Gazzetta Ufficiale*) on 16 November 2015. Legislative Decree No. 180/2015 is a stand-alone law which implements the provisions of BRRD relating to resolution actions, while Legislative Decree No. 181/2015 amends the existing Banking Law (Legislative Decree No. 385 of 1 September 1993, as amended) and deals principally with recovery plans, early intervention and changes to the creditor hierarchy. The BRRD Decrees entered into force on 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 small and medium-sized enterprises (**SMEs**) will apply from 1 January 2019.

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

On 1 June 2016, the Commission Delegated Regulation (EU) 2016/860 of 4 February 2016 (**Delegated Regulation (EU) 2016/860**) specifying further the circumstances where exclusion from the application of write-down or conversion powers is necessary under Article 44(3) of BRRD was published on the Official Journal of the European Union. In particular this regulation lays down rules specifying further the exceptional circumstances provided for in Article 44(3) of BRRD, where the

resolution authority may exclude, or partially exclude, certain liabilities from the application of the write down or conversion powers where the General Bail-In Tool is applied. The Delegated Regulation (EU) 2016/860 entered into force on 21 June 2016.

Also, in respect of Senior Notes, Article 108 of the BRRD requires that Member States modify their national insolvency regimes such that deposits of natural persons and micro, small and medium sized enterprises in excess of the coverage level contemplated by deposit guarantee schemes created pursuant to Directive 2014/49/EU (the **Deposit Guarantee Schemes Directive**) have a ranking in normal insolvency proceedings which is higher than the ranking which applies to claims of ordinary, unsecured, non-preferred creditors, such as holders of Senior Notes. In addition, the BRRD does not prevent Member States, including Italy, from amending national insolvency regimes to provide other types of creditors with rankings in insolvency higher than ordinary, unsecured, non-preferred creditors. Legislative Decree No. 181/2015 has amended the creditor hierarchy in the case of admission of Italian banks and investment firms to liquidation proceedings (and therefore the hierarchy which will apply in order to assess claims pursuant to the safeguard provided for in Article 75 of the BRRD as described above), by providing that, as from 1 January 2019, all deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SMEs (which benefit from the super-priority required under Article 108 of the BRRD) will benefit from priority over senior unsecured liabilities, though with a ranking which is lower than that provided for individual/SME deposits exceeding the coverage limit of the deposit guarantee scheme. This means that, as from 1 January 2019, significant amounts of liabilities in the form of large corporate and interbank deposits which under the national insolvency regime currently in force in Italy rank *pari passu* with Senior Notes, will rank higher than Senior Notes in normal insolvency proceedings and therefore that, on application of the General Bail-In Tool, such creditors will be written-down or converted into shares or other instruments of ownership only after Senior Notes. Therefore the safeguard set out in Article 75 of the BRRD (referred to above) would not provide any protection against this result since, as noted above, Article 75 of the BRRD only seeks to achieve compensation for losses incurred by creditors which are in excess of those which would have been incurred in a winding-up under normal insolvency proceedings.

The legislative decree intended to implement the revised Deposit Guarantee Schemes Directive in Italy – namely, Legislative Decree no. 30 of 15 February 2016 – has been published in the Italian Official Gazette No. 56 of 8 March 2016. The Decree came into force on 9 March 2016, except for Article 1 comma 3, let. A), which came into force on 1 July 2018. Amongst other things, the Decree amends Consolidated Banking Act and: (i) establishes that the maximum amount of reimbursement to depositors is EUR 100,000 (this level of coverage has been harmonised by the Directive and is applicable to all deposit guarantee schemes); (ii) lays down the minimum financial budget that national guarantee schemes should have; (iii) details intervention methods of the national deposit guarantee scheme; and (iv) harmonises the methods of reimbursement to depositors in case of insolvency of a credit institution.

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 Subordinated Notes and, in circumstances where the waiver is selected as applicable in the relevant Final Terms, the holders of the Senior 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 Senior Notes or Subordinated 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.

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 Senior Notes and Subordinated Notes may be subject to write-down or conversion into shares or other instruments of ownership on any application of the General Bail-In Tool and, in the case of Subordinated Notes, BRRD 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 any Notes.

The BRRD also requires institutions to meet at all time a sufficient aggregate amount of own funds and “eligible liabilities” expressed as a percentage of the total liabilities and own funds of the institution (i.e. “Minimum Requirement for Own Funds and Eligible Liabilities” - **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. The BRRD does not foresee an absolute minimum, but attributes the competence to set a minimum amount for each bank to national resolution authorities (for banks not subject to supervision by the ECB) or to the Single Resolution Board (the **SRB**) for banks subject to direct supervision by the ECB.

The EBA has issued its final draft regulatory technical standards which further define the way in which national resolution authorities/the SRB shall calculate MREL. As from 1 January 2016, the resolution authority for the Issuer is the SRB and it is subject to the authority of the SRB for the purposes of determination of its MREL requirement. In 2019, the SRB will continue to set and review binding MREL targets for all major banking groups within its remit. During 2019, the SRB expects to adopt more than 100 group-level MREL decisions and to determine MREL targets for over 530 individual entities. The scope of banks subject to binding MREL decisions at a consolidated level will also be extended.

At the same time as it released the EU Banking Reform, the European Commission released the BRRD Reform. 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 only. In addition, resolution authorities will be able, on the basis of bank-specific assessments, to require that G-SIIs comply with a supplementary MREL requirement (a **Pillar 2 MREL requirement**). Banks will be allowed to use certain additional types of 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 Reform 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, under certain circumstances, the BRRD Reform envisages a six-month grace period before restrictions to discretionary payments to the holders of regulatory capital instruments and employees take effect due to a breach of the combined capital buffer requirement.

The BPS Group is subject to the provisions of the Regulation establishing the SRM

After having reached an agreement with the Council, in April 2014, the European Parliament adopted, Regulation (EU) No. 806/2014 establishing 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 as part of the EU Banking Reform (see further “*Adverse regulatory developments*” above). 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 to avoid the duplication which would result from 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 the SRF (see risk factor “*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions, investment firms, certain financial institutions and certain holding companies (each a relevant entity) 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 any 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 ability 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 are exercised at the same level for countries that share the supervision of banks within the SSM.

The Issuer may be affected by new accounting standards

The new IFRS 16, effective 1 January 2019, may require the recognition of future obligations in connection with operating lease agreements, which may affect the comparability of the Issuer’s annual reports. The implementation of new IFRS 16, which may require the Issuer to recognize also the obligations deriving from operating leases, may significantly affect the comparability of the Issuer’s annual reports which, until the adoption of new IFRS 16, included only the obligations deriving from finance lease agreements.

Further, following the entry into force and subsequent application of new accounting standards and/or the amendment of existing standards, the Issuer may have to revise the accounting treatment of some operations and the related income and expense, with potentially negative effects on the estimates contained in the financial plans for future years and with the need to restate already published financial statements.

Transformation of BPS from a cooperative to joint stock company

As better described in section “*Proceeding converting BPS into a joint-stock company*” of the *Business Description* on 20 January 2015, the Italian Council of Ministers approved Law Decree No. 3 of 24 January 2015 entitled “Urgent measures for the banking system and investment” (the **Decree 3/2015**), as converted into law by Law No. 33 of 24 March 2015.

Further the issuance by the Bank of Italy, on 9 June 2015, of the implementing provisions of Decree 3/2015, which introduced the provisions in relation to the mandatory conversion from cooperative banks to joint-stock companies, in July 2015 BPS started the process for the transformation into a joint-stock company.

In this respect, on 8 October 2015, the Board of Directors of BPS, following consultation with the Board of Auditors, approved the plan of initiatives intended to comply with the requirement provided under Decree 3/2015 together with, *inter alia*, a first set of amendments to the by-laws aimed at assuring compliance with the regulations in force.

However, on 15 December 2016, the Council of State (*Consiglio di Stato*) has suspended the effects of the Decree 3/2015 in order to await the decision of the Constitutional Court (*Corte Costituzionale*)

concerning possible unconstitutionality of the Decree 3/2015.

On 21 March 2018, the Constitutional Court declared the constitutional legitimacy of Decree 3/2015, whose effects have been suspended by the Council of State.

Further to the Constitutional Court's decision, on 28 October 2018 the Council State decided to refer the case to the Court of Justice of the European Union for a preliminary ruling, with particular reference to the rules imposing mandatory conversion (setting such threshold at Euro 8 billion) and allowing the bank to defer or limit, also for an indefinite period, the repayment of the shares of the withdrawing shareholders.

According to Law Decree No. 119 of 23 October 2018, converted into law with modifications by law No. 136 of 17 December 2018, the deadline for the mandatory conversion has been extended to 31 December 2019.

Risks associated with recent ECB guidance on NPL provisioning

The ECB published on 20 March 2017 its final guidance on non-performing loans (NPLs). It outlines measures, processes and best practices which banks should incorporate when tackling NPLs. The ECB expects banks to fully adhere to the guidance in line with the severity and scale of NPLs in their portfolios. On 15 March 2018, the ECB published an addendum to the guidance mentioned above which sets out the ECB's supervisory expectations for prudent levels of provisions for new NPL's.

The guidance calls on banks to implement realistic and ambitious strategies to work towards a holistic approach regarding the problem of NPLs. This includes areas such as governance and risk management. For instance, banks should ensure that managers are incentivised to carry out NPL reduction strategies. This should also be closely managed by their management bodies. The ECB does not stipulate quantitative targets to reduce NPLs. Instead, it asks banks to devise a strategy that could include a range of policy options such as NPL work-out, servicing, and portfolio sales.

The guidance is applicable as of its date of publication and is currently non-binding in nature. However, banks should explain and substantiate any deviations upon supervisory request. This guidance is taken into consideration in the SRM regular supervisory review and evaluation process and non-compliance may trigger supervisory measures.

The guidance does not intend to substitute or supersede any applicable regulatory or accounting requirement or guidance from existing EU regulations or directives and their national transpositions or equivalent, or guidelines issued by the EBA. Instead, the guidance is a supervisory tool with the aim of clarifying the supervisory expectations regarding NPL identification, management, measurement and write-offs in areas where existing regulations, directives or guidelines are silent or lack specificity. Where binding laws, accounting rules and national regulations on the same topic exist, banks should comply with those. It is also expected that banks do not enlarge already existing deviations between regulatory and accounting views in the light of this guidance, but rather the opposite: whenever possible, banks should foster a timely convergence of regulatory and accounting views where those differ substantially.

In March 2018, the European Commission presented a package of measures to address the risks related to high levels of NPLs in Europe. The package includes, inter alia, a proposal for a regulation amending the CRR in order to introduce a statutory prudential backstop against any excessive future build up of NPLs without sufficient loss coverage on banks' balance sheets.

Risks related to quality of loans

Credit quality in the Italian market is affected by the continuing weakness of the economy. Moreover,

within the banking system generally, a growing number of companies are struggling to repay loans. The proportion of loans to companies experiencing temporary difficulties (substandard and restructured loans) is steadily increasing, while the deterioration of loans to households has remained moderate. The Issuer, in line with market practice, has taken significant measures to dispose of its non-performing loans and this is an important element of its Strategic Plan. However, the Italian banking system is currently recording high levels of non-performing loans and, as a result, numerous other banks may seek to dispose of these assets, which may result in excess supply and downward price pressure. This may also result in adverse consequences on the Issuer's financial condition and results of operations.

Risks related to Sanctioned Countries

The Issuer has clients and partners who are located in various countries around the world and/or who are active players in markets on a global basis. Some of the countries or territories in which such customers and partners are located and/or otherwise operate are, or may become, subject to comprehensive sanctions adopted by Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. State Department, any other agency of the U.S. government, the United Nations, the European Union, Her Majesty's Treasury or the United Kingdom, generally prohibiting all direct or indirect dealings with such countries or territories (**Sanctioned Countries**).

The Issuer has consistently adopted stringent sanctions compliance procedures to meet its obligations under the laws and regulations that apply to its operations and to ensure that violations of sanctions laws and regulations do not occur. Such procedures include enhanced due diligence on third parties as well as on goods which fall within the scope of import or export restrictions. The Issuer has also hired specialized counsels to provide regular advice on sanctions compliance matters. Furthermore, on 20 September 2018, the quality certification of UNI EN ISO 9001-2008 by DNV (Det Norske Veritas), obtained on 7 December 2017 in relation to the Issuer's compliance procedures, has been confirmed.

As of the date of this Base Prospectus, the Issuer has undertaken and continues to undertake commercial relationships (including both the processing of payments and activities entailing the use of Issuer's own resources, such as bank guarantees, bonds, letters of credit, supplier credits and buyer credits) with counterparties located in Sanctioned Countries or related to the same Sanctioned Countries. Such commercial transactions have all been, and are, carried out in full compliance with sanctions laws and regulations as applicable to Issuer (e.g. comprehensive sanctions adopted by Office of Foreign Assets Control of the U.S. Department of Treasury, the U.S. State Department, any other agency of the U.S. government, the United Nations, the European Union, Her Majesty's Treasury or the United Kingdom) and are not believed to have caused any person or entity to violate any sanctions, nor they are expected to result in the Issuer nor the BPS Group becoming the subject of sanctions. However, should the relevant sanctions be strengthened and/or should new sanctions be adopted, there may be prejudicial effects on these operations as well as on the reputation of the Issuer and/or the BPS Group. This, in turn, could result in negative effects on the capital, financial and economic situation of the Issuer and/or the BPS Group. Furthermore, it cannot be excluded that the Issuer and/or the BPS Group may become subject to boycotting or monitoring actions by non-governmental activist groups seeking to terminate BPS Group's business relationships with its counterparties in, and its operations connected to, Sanctioned Countries.

The relevant revenues generated by the Issuer from business related to Sanctioned Countries (as of the date of this Prospectus, Iran and Russia) currently represent a small portion (less than 1.5%) of the Issuer's total revenues. The Issuer does not maintain any physical presence in Sanctioned Countries.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features, distinguishing between factors which may occur in relation to any Notes and those which might occur in relation to certain types of Exempt Notes:

Risks applicable to all Notes

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes or there is an actual or perceived increase in the likelihood that the Issuer will be able to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

The Issuer may also, at its option, redeem Senior Notes and Non-Preferred Senior Notes for tax reasons in the circumstances described in, and in accordance with, Condition 5.2 (*Redemption for tax reasons*) or in accordance with Condition 5.4 (*Redemption at the option of the Issuer (Issuer Call)*) or in the circumstances described and in accordance with Condition 5.6 (*Issuer Call due to MREL Disqualification Event*). Any redemption of the Senior Notes or Non-Preferred Senior Notes is subject to compliance by the Issuer with any conditions to such redemption prescribed by MREL Requirements at the relevant time (including any requirements applicable to such redemption due to the qualification of such Senior Notes or Non-Preferred Senior Notes at such time as eligible liabilities available to meet the MREL Requirements). See “Early redemption and purchase of the Senior Notes and Non-Preferred Senior Notes may be restricted” below for further information.

In addition, the Issuer may also, at its option, redeem Subordinated Notes for tax reasons in the circumstances described in, and in accordance with, Condition 5.2 (*Redemption for tax reasons*) or, if so specified in the form of Final Terms, following a change of the regulatory classification of the relevant Subordinated Notes in the circumstances described in, and in accordance with Condition 5.3 (*Redemption for regulatory reasons (Regulatory Call)*) or in accordance with Condition 5.4 (*Redemption at the option of the Issuer (Issuer Call)*). Any redemption of the Subordinated Notes is subject to the prior approval of the relevant Competent Authority and in accordance with applicable laws and regulations, including Articles 77(b) and 78 of the CRD IV Regulation. See “*Regulatory classification of the Notes*” below for further information.

If the Notes include a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.

Fixed/Floating Rate Notes are Notes which bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in, and the market value of, such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be

less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. Where the Notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

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

Waiver of set-off

As specified in Condition 2.1 (*Status of the Senior Notes*), each holder of a Senior 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 Senior Note.

As specified in Condition 2.2 (*Status of the Non-Preferred Senior Notes*), each holder of a Non-Preferred Senior 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 Non-Preferred Senior Note.

As specified in Condition 2.3 (*Status of the Subordinated Notes*) each holder of a Subordinated 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 Subordinated Note.

The Notes have limited Events of Default and remedies

The Events of Default in respect of the Notes, being events upon which the Trustee (or, in certain circumstances, the Noteholders) may declare the Notes to be immediately due and payable, are limited to circumstances in which the Issuer (i) is liquidated (including when the Issuer becomes subject to *Liquidazione Coatta Amministrativa* as defined in the Consolidated Banking Act) or (ii) is insolvent as set out in Condition 8.1 (Events of Default relating to Senior Notes, Non-Preferred Senior Notes and Subordinated Notes). Accordingly, other than following the occurrence of an Event of Default, if the Issuer fails to meet any of its obligations under the Notes, including without limitation the payment of any interest, the Trustee (and the Noteholders) will not have the right of acceleration in respect of any amount due under the Notes and the sole remedy available to Noteholders for recovery of amounts owing in respect of any of the Notes will be the institution of proceedings to enforce the payment of any such amount. 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 Notes may be subject to loss absorption or any application of the general bail-in tool

The BRRD contemplates that the Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool. See “*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions, investment firms, certain financial institutions and certain holding companies (each a relevant entity) 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 any Notes and/or the rights of Noteholders”.

Risks applicable to the Senior Notes and the Non-Preferred Senior Notes

The Issuer’s obligations under Non-Preferred Senior Notes rank junior to unsecured and unsubordinated preferred obligations of the Issuer

The Issuer’s obligations under Non-Preferred Notes Senior Notes will be unsecured, unsubordinated and non-preferred obligations and will rank junior to Senior Notes and any other unsecured and unsubordinated obligations of the Issuer which rank, or are expressed to rank by their terms, senior to Non-Preferred Senior Notes. Although Non-Preferred Senior Notes may pay a higher rate of interest than comparable Notes which rank senior to the Non-Preferred Senior Notes, there is a real risk that an investor in Non-Preferred Senior Notes will lose all or some of his investment should the Issuer become insolvent.

Senior Notes and Non-Preferred Senior Notes could be subject to Issuer Call due to MREL Disqualification Event

If at any time an MREL Disqualification Event occurs and is continuing in relation to any Series of Senior Notes or Non-Preferred Senior Notes, and the form of Final Terms for the Senior Notes or the Non-Preferred Senior Notes of such Series specify that Issuer Call due to MREL Disqualification Event is applicable, the Issuer may (subject to the provisions of Condition 5.13 (*Conditions to Early Redemption and Purchase of Senior Notes and Non-Preferred Senior Notes*)), elect to redeem all, but not some only, of the Senior Notes or the Non-Preferred Senior Notes of such Series. An MREL Disqualification Event means that, at any time, all or part of the aggregate outstanding nominal amount of such Series of Senior Notes or Non-Preferred Senior Notes is or will be excluded fully or partially from the eligible liabilities available to meet the MREL Requirements, subject to as set out in Condition 5.6 (*Issuer Call due to MREL Disqualification Event*). The applicability of the minimum requirements for eligible liabilities under the BRRD is subject to the implementation of the EC Proposals in the EU and in Italy.

If the Senior Notes or the or Non-Preferred Senior Notes are to be so redeemed, there can be no assurance that Noteholders will be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Senior Notes or Non-Preferred Senior Notes being redeemed. Potential investors should consider reinvestment risk in light of other investments available at that time. In addition, an MREL Disqualification Event could result in a decrease in the market price of the Notes.

See also “*If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*” above.

Early redemption and purchase of the Senior Notes and Non-Preferred Senior Notes may be restricted

Any early redemption or purchase of Senior Notes and Non-Preferred Senior Notes is subject to compliance by the Issuer with any conditions to such redemption or repurchase prescribed by MREL Requirements at the relevant time, including any requirements applicable to such redemption or repurchase due to the qualification of such Senior Notes or Non-Preferred Senior Notes at such time as eligible liabilities available to meet the MREL Requirements.

In addition, under the EC Proposals, the early redemption or purchase of Senior Notes and Non-Preferred Senior Notes which qualify as eligible liabilities available to meet MREL Requirements is

subject to the prior approval of the Competent Authority where applicable from time to time under the applicable laws and regulations. The EC Proposals state that the Competent Authority would approve an early redemption of the Senior Notes and Non-Preferred Senior Notes where any of the following conditions is met:

- on or before such early redemption or purchase of the Senior Notes or Non-Preferred Senior Notes, the Issuer replaces the Senior Notes or Non-Preferred Senior Notes with own funds instruments or eligible liabilities of an equal or higher quality on terms that are sustainable for the income capacity of the Issuer;
- the Issuer has demonstrated to the satisfaction of the Competent Authority that its Own Funds and eligible liabilities would, following such redemption or purchase, exceed the requirements for own funds and eligible liabilities set out in the CRD IV or the BRRD (or, in either case, any relevant provisions of Italian law implementing the CRD IV or, as appropriate, the BRRD) or the CRR by a margin that the Competent Authority considers necessary; or
- the Issuer has demonstrated to the satisfaction of the Competent Authority that the partial or full replacement of the eligible liabilities with own funds instruments is necessary to ensure compliance with the own funds requirements laid down in the CRR and in the CRD IV for continuing authorisation.

The Competent Authority shall consult with the Relevant Resolution Authority before granting that permission.

The EC Proposals are in draft form and may be subject to change prior to any implementation.

Senior Notes and Non-Preferred Senior Notes may be subject to substitution and modification without Noteholder consent

If Substitution or Variation is specified as being applicable in the circumstances described in (i) and/or (ii) below in the relevant Final Terms for any Series of Senior Notes or Non-Preferred Senior Notes then (i) at any time an MREL Disqualification Event occurs and/or as applicable (ii) in order to ensure the effectiveness and enforceability of Condition 18 (Statutory Loss Absorption Powers), the Issuer may, subject to giving any notice required to be given to, and receiving any consent required from, the Competent Authority and/or as appropriate the Relevant Resolution Authority (without any requirement for the consent or approval of the holders of the Senior Notes or Non-Preferred Senior Notes of that Series) and having given not less than 30 nor more than 60 days' notice to the Trustee and the holders of the Notes of that Series (or such other notice periods as may be specified in the relevant Final Terms), at any time either substitute all (but not some only) of such Senior Notes or Non-Preferred Senior Notes, or vary the terms of such Senior Notes or Non-Preferred Senior Notes so that they remain or, as appropriate, become, Qualifying Senior Notes or Qualifying Non-Preferred Senior Notes, as applicable, provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities.

Qualifying Senior Notes or Qualifying Non-Preferred Senior Notes, as applicable, are securities issued by the Issuer that, other than in respect of the effectiveness and enforceability of Condition 18 (Statutory Loss Absorption Powers), have terms not materially less favourable to the Noteholders (as reasonably determined by the Issuer) than the terms of the relevant Senior Notes or Non-Preferred Senior Notes, as applicable. However, no assurance can be given as to whether any of these changes (including, without limitation, any changes to governing law and/or jurisdiction) will negatively affect any particular Noteholder. In addition, the tax and stamp duty consequences of holding such substituted or varied notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the notes prior to such substitution or variation.

Risks applicable to the Subordinated Notes

An investor in Subordinated Notes assumes an enhanced risk of loss in the event of insolvency of BPS

BPS' obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to Senior Liabilities. **Senior Liabilities** means any direct, unconditional, unsecured and unsubordinated indebtedness or payment obligations (including Non-Preferred Senior Notes or indebtedness or obligations which are subordinated but to a lesser degree than the obligations under the relevant Subordinated Notes) of BPS for money borrowed or raised or guaranteed by BPS and any indebtedness or mandatory payment obligations preferred by the laws of the Republic of Italy. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated (including Non-Preferred Senior Notes), there may be a higher risk that an investor in Subordinated Notes will lose all or some of his investment should BPS become insolvent.

In no event will holders of Subordinated Notes be able to accelerate the obligations of the Issuer under Subordinated Notes held by them; such holders will have claims only for amounts then due and payable on their Subordinated Notes. After BPS has fully paid all deferred interest on any issue of Subordinated Notes and if that issue of Subordinated Notes remains outstanding, future interest payments on that issue of Subordinated Notes will be subject to further deferral.

Subordinated Notes may be subject to loss absorption on any application of the general bail-in-tool or at the point of non-viability of the Issuer and the BPS Group

Investors should be aware that, in addition to the General Bail-In Tools, the BRRD contemplates that Subordinated Notes may be subject to a write-down or conversion into common shares at the point of non-viability of the Issuer and the BPS Group should the Bank of Italy, the SRB or other authority or authorities having prudential oversight of BPS at the relevant time exercise the power to do so. The BRRD is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing.

Regulatory classification of the Notes

The intention of BPS is for Subordinated Notes to qualify on issue as "Tier 2 capital" for regulatory capital purposes of both the Issuer and the BPS Group. Current regulatory practice by the Bank of Italy (acting as lead regulator) does not require (or customarily provide) a confirmation prior to the issuance of Subordinated Notes that the Notes will be treated as such.

Although it is BPS' expectation that the Subordinated Notes qualify on issue as "Tier 2 capital" of both the Issuer and the BPS Group, there can be no representation that this is or will remain the case during the life of such Notes. If there is a change in the regulatory classification of the Subordinated Notes that would be likely to result in their exclusion from "Tier 2 capital" at individual or consolidated basis in whole or in part and, in respect of any redemption of the relevant Subordinated Notes proposed to be made prior to the fifth anniversary of the Issue Date, both of the following conditions are met: (i) the Competent Authority (as defined in Condition 5.13 (*Conditions to Early Redemption and Purchase of Senior Notes and Non-Preferred Senior Notes*)).

Any redemption or purchase of Senior Notes and Non-Preferred Senior Notes in accordance with Conditions 5.2, 5.4, 5.6 or 5.9 is subject to compliance by the Issuer with any conditions to such redemption or repurchase prescribed by the MREL Requirements at the relevant time (including any requirements applicable to such redemption or repurchase due to the qualification of such Senior Notes or Non-Preferred Senior Notes at such time as eligible liabilities available to meet

the MREL Requirements).

Conditions to Early Redemption and Purchase of Subordinated Notes considers such a change to be reasonably certain and (ii) BPS demonstrates to the satisfaction of the Competent Authority that the change in the regulatory classification of the Subordinated Notes was not reasonably foreseeable by BPS as at the date of the issue of the relevant Subordinated Notes, BPS will (if so specified in the form of Final Terms) have the right to redeem the Subordinated Notes in accordance with Condition 5.3 (*Redemption for regulatory reasons (Regulatory Call)*), subject to, *inter alia*, the prior approval of the relevant Competent Authority and in accordance with applicable laws and regulations, including Articles 77(b) and 78 of the CRD IV Regulation. There can be no assurance that holders of such Subordinated Notes will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investments in the relevant Notes, as the case may be. In addition, the occurrence of such event could result in a decrease in the market price of the Notes.

Subordinated Notes may be subject to substitution and modification without Noteholder consent

If Substitution or Variation is specified as being applicable in the relevant Final Terms, in order to ensure the effectiveness and enforceability of Condition 18 (*Statutory Loss Absorption Powers*), then the Issuer may, subject to giving any notice required to be given to, and receiving any consent required from, the Competent Authority and/or as appropriate the Relevant Resolution Authority (without any requirement for the consent or approval of the holders of the Subordinated Notes of that Series), and having given not less than 30 nor more than 60 days' notice to the Trustee and the holders of the Notes of that Series (or such other notice periods as may be specified in the relevant Final Terms), at any time either substitute all (but not some only) of a Series of Subordinated Notes, or vary the terms of such Subordinated Notes so that they remain or, as appropriate, become, Qualifying Subordinated Notes, as applicable, provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities.

Qualifying Subordinated Notes are securities issued by the relevant Issuer that, other than in respect of the effectiveness and enforceability of Condition 18 (*Statutory Loss Absorption Powers*), have terms not materially less favourable to the Noteholders (as reasonably determined by the Issuer) than the terms of the relevant Subordinated Notes. However, no assurance can be given as to whether any of these changes (including, without limitation, any changes to governing law and/or jurisdiction) will negatively affect any particular Noteholder. In addition, the tax and stamp duty consequences of holding such substituted or varied notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the notes prior to such substitution or variation.

The interest rate on Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of the Reset Notes

Reset Notes will initially bear interest at the Initial Rate of Interest from and including the Interest Commencement Date up to but excluding the First Reset Date. On the First Reset Date, the Second Reset Date (if applicable) and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Mid-Swap Rate and the First Margin or Subsequent Margin (as applicable) as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a **Subsequent Reset Rate of Interest**). The Subsequent Reset Rate of Interest for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate of Interest for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

Risks applicable to certain types of Exempt Notes

There are particular risks associated with an investment in certain types of Exempt Notes, such as Index Linked Notes and Dual Currency Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

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

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

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Where Notes are issued on a partly paid basis, an investor who fails to pay any subsequent instalment of the issue price could lose all of his investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of his Notes could result in such investor losing all of his investment.

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

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

Risks related to Notes generally

Set out below is a description of material risks relating to the Notes generally:

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

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

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 13 (*Meeting of Noteholders, Modification, Waiver and Substitution*).

The value of the Notes could be adversely affected by a change in English law or administrative practice.

Except for Condition 2.2, Condition 2.3 and Condition 18, the conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued.

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his 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 Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

In respect of any Notes issued with a specific use of proceeds, such as a 'Green Bond', there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor

The form of Final Terms relating to any specific Tranche of Notes may provide that it will be the

Issuer's intention to apply the proceeds from an offer of those Notes specifically for projects and activities that promote climate-friendly and other environmental purposes (**Green Projects**). Prospective investors should have regard to the information in the form of Final Terms regarding such use of proceeds and must determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary. In particular no assurance is given by the Issuer or the Dealers that the use of such proceeds for any Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates (in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, the relevant Green Projects). Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Green Projects will meet any or all investor expectations regarding such "green", "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Green Projects. As at the date of this Base Prospectus, the Issuer has not published a framework relating to an investment in Green Projects although the Issuer intends to publish such framework prior to the issuance of any Notes which specify that the relevant proceeds will be used for Green Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may or may not be made available in connection with the issue of any Notes and in particular with any Green Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer, the Dealers or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Notes are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer, the Dealers or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Green Projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer, the Dealers or any other person that any such listing or admission to trading will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

While it is the intention of the Issuer to apply the proceeds of any Notes so specified for Green Projects in, or substantially in, the manner described in the form of Final Terms, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Green Projects will be capable of being implemented in or substantially in such manner and/or in accordance with any timing schedule and that accordingly such proceeds will be totally disbursed for the specified Green Projects. Nor can there be any assurance that such Green Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer.

Any such event or failure by the Issuer will not constitute an Event of Default under the Notes. Any such event or failure to apply the proceeds of any issue of Notes for any Green Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Green Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

The regulation and reform of “benchmarks” may adversely affect the value of Floating Rate Notes or Reset Notes linked to or referencing such “benchmarks”

Interest rates and indices which are deemed to be “benchmarks”, (including LIBOR and EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a “benchmark”, such as Floating Rate Notes and Reset Notes. The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and has applied since 1 January 2018. 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, among other things, (i) requires 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) prevents certain uses by EU supervised entities of “benchmarks” of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to a rate or index deemed to be a “benchmark”, including any Floating Rate Notes linked to or referencing LIBOR and/or EURIBOR or any Reset Notes referencing the relevant swap rate for swap transactions in the Specified Currency (as specified in the relevant Final Terms with respect to the relevant Reset Notes), in particular, if the methodology or other terms of the “benchmark” are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of “benchmarks”, could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have the following effects on certain “benchmarks”: (i) discourage market participants from continuing to administer or contribute to the “benchmark”; (ii) trigger changes in the rules or methodologies used in the “benchmark” or (iii) lead to the disappearance of the “benchmark”. Any of the above changes or any other consequential changes 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 any Notes linked to or referencing a “benchmark”.

As an example of such benchmark reforms, on 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted. Other interbank offered rates such as EURIBOR (together with LIBOR, the **IBORs**) suffer from similar weaknesses to LIBOR and as a result (although no deadline has been set for their discontinuation), they may be discontinued or be subject to changes in their administration.

Investors should be aware that, if an IBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes or Reset Notes which reference such IBOR will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the relevant IBOR rate is to be determined under the “*Terms and Conditions of the Notes*”, this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the relevant IBOR rate which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when the relevant IBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes or Reset Notes which reference the relevant IBOR.

The “*Terms and Conditions of the Notes*” provide for certain fallback arrangements in the event that a published benchmark (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Rate determined by an Independent Adviser in consultation with the Issuer or failing that, by the Issuer, and that such Successor Rate or Alternative Rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark. In certain circumstances the ultimate fallback of interest for a particular Interest Period or Reset Period (as applicable) may result in the rate of interest for the last preceding Interest Period or Reset Period (as applicable) being used. This may result in the effective application of a fixed rate for Floating Rate Notes or Reset Notes (as applicable) based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of Successor Rates and Alternative Rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time. If the Independent Adviser or, as applicable, the Issuer determines that amendments to the “*Terms and Conditions of the Notes*”, the Trust Deed and the Agency Agreement are necessary to ensure the proper operation of any Successor Rate or Alternative Rate and/or Adjustment Spread or to comply with any applicable regulation or guidelines on the use of benchmarks or other related document issued by the competent regulatory authority, then such amendments shall be made without any requirement for the consent or approval of Noteholders, as provided by Condition 3.4 (*Benchmark Amendments*).

Any such consequences could have an adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or Reset Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes or Reset Notes. Investors should consider these matters with their own independent advisers when making their investment decision with respect to any Floating Rate Notes or Reset Notes linked to or referencing a benchmark.

Risks related to the market generally

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

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.

Notes may have no established trading market when issued, and one may never develop. If a market for the Notes does develop, it may not be very liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case should the Issuer be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount or for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) 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 or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes.

One or more independent credit rating agencies may assign credit ratings to the Issuer, or the Notes (also where such credit rating agencies have not been engaged or solicited by the Issuer). Any ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

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). 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, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**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.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the English translation of the audited consolidated financial statements for the financial year ended on 31 December 2016 of the Issuer including the information set out at the following pages in particular:

| | |
|--|------------------|
| Consolidated Financial Statements of the Banca Popolare di Sondrio Banking Group | Pages 319 to 339 |
| Consolidated Balance Sheet..... | Pages 344 to 345 |
| Consolidated Income Statement..... | Pages 346 |
| Statement of Consolidated Comprehensive Income | Pages 347 |
| Statement of Changes in Consolidated Equity | Pages 348 - 349 |
| Consolidated Cash Flow Statement | Pages 350 - 351 |
| Notes to the Financial Statements | Pages 353 to 493 |

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

- (b) the English translation of the independent auditors' report on the audited consolidated financial statements for the financial year ended on 31 December 2016 of the Issuer:

Entire document

- (c) the English translation of the audited consolidated financial statements for the financial year ended on 31 December 2017 of the Issuer including the information set out at the following pages in particular:

| | |
|--|---------------|
| Consolidated Balance Sheet | Pages 430-431 |
| Consolidated Income Statement | Page 432 |
| Statement of Consolidated Comprehensive Income | Page 433 |
| Statement of Changes in Consolidated Equity | Pages 434-435 |
| Consolidated Cash Flow Statement | Pages 436-437 |
| Notes to the Financial Statements | Pages 439-585 |
| Report of the independent auditors | Pages 587-593 |

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

- (d) the English translation of the independent auditors' report on the audited consolidated financial statements for the financial year ended on 31 December 2017 of the Issuer:

Entire document

- (e) the English translation of the unaudited interim condensed consolidated financial statements for the six months ended on 30 June 2018 of the Issuer including the information set out at the following pages in particular:

| | | |
|--|-------|---------|
| Consolidated Balance Sheet | Pages | 52-53 |
| Consolidated Income Statement | Page | 54 |
| Statement of Consolidated Comprehensive Income | Page | 55 |
| Statement of Changes in Consolidated Equity | Pages | 56-57 |
| Consolidated Cash Flow Statement | Pages | 58-59 |
| Explanatory Notes | Pages | 61-142 |
| Independent auditors' review report on the interim condensed consolidated financial statements | Pages | 144-145 |

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

- (f) the English translation of the unaudited interim condensed consolidated report on operations at 30 September 2018 and for the nine-month period ended including the information set out at the following pages in particular:

| | | |
|--|-------|-------|
| Consolidated Balance Sheet | Pages | 40-41 |
| Consolidated Income Statement | Page | 42 |
| Statement of Consolidated Comprehensive Income | Page | 43 |
| Statement of Changes in Consolidated Equity | Pages | 44-45 |

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

- (g) the press release "Banca Popolare di Sondrio fully satisfies ECB-imposed prudential requirements"

Entire document.

- (h) the press release “BPER Banca and Banca Popolare di Sondrio acquire 39.99% of Arca Holding S.p.A.”

Entire document.

- (i) the press release “Board of Directors' meeting 11th February 2019 Approval of draft consolidated preliminary results as at 31st December 2018”

Entire document.

EY S.p.A., as independent auditor of the Issuer, has agreed that the financial information as at 31 December 2018 and for the year then ended included in the above mentioned attachments, which has not been audited, is substantially consistent with the final figures to be published in the next annual audited consolidated financial statements of the Issuer for the year ended 31 December 2018.

The financial information included in the press release refers to the year ended on 31 December 2018 and therefore there are no assumptions or factors which the members of the administrative management or supervisory bodies can influence.

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

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg and will be available for viewing on the website of the Luxembourg Stock Exchange (www.bourse.lu).

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

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

FORM OF THE NOTES

Any reference in this section to "form of Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

Each Tranche of Notes will be in bearer form and will initially be issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the form of Final Terms, a permanent global note (a **Permanent Global Note**) and, together with a Temporary Global Note, each a **Global Note**) which, in either case, will:

- (a) if the Global Notes are intended to be issued in new global note (NGN) form, as stated in the form of Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**); and
- (b) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the form of Final Terms will also indicate whether such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the form of Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The form of Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 8 (*Events of Default and Enforcement*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 12 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Notes (other than Temporary Global Notes), receipts and interest coupons relating to such Notes where TEFRA D is specified in the form of Final Terms:

"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 provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the form of Final Terms.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

[PRIIPs Regulation / **Prospectus Directive** / **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 European Economic Area (**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 Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of **MiFID II**; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIPs 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.²]

MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/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 [Directive 2014/65/EU (as amended, **MiFID II**)]**[MiFID II]**; and (ii) all channels for distribution of the [Notes] to eligible counterparties and professional clients are appropriate. [The target market assessment indicates that Notes are incompatible with the needs, characteristic and objectives of clients which are [fully risk averse/have no risk tolerance or are seeking on-demand full repayment of the amounts invested]]. Any person subsequently offering, selling or recommending the [Notes] (a **distributor**) should take into consideration the manufacturer[’s/s’] 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 manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.

² Legend to be included on front of the Final Terms if the Notes potentially constitute “packaged” products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”.

FORM OF FINAL TERMS

NOTES WITH A DENOMINATION OF €100,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) OR MORE, OTHER THAN EXEMPT NOTES

Set out below is the form of Final Terms which will be completed for each Tranche of Notes which are not Exempt Notes and which have a denomination of €100,000 (or its equivalent in any other currency) or more issued under the Programme.

[Date]

BANCA POPOLARE DI SONDRIO S.C.p.A.

Legal entity identifier (LEI): J48C8PCSJVUBR8KCW529

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €5,000,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 6 March 2019 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

[Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Final Terms.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. (a) Series Number: []
- (b) Tranche Number: []
- (c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [*Provide issue amount/ISIN/maturity date/issue date of earlier Tranches*] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [] below, which is expected to occur on or about [date]][Not

- Applicable]
2. Specified Currency or Currencies: []
3. Aggregate Nominal Amount:
- (a) Series: []
- (b) Tranche: []
4. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
5. (a) Specified Denominations: []
- (N.B. Senior and Subordinated Notes must have a minimum denomination of €100,000 (or equivalent) In the case of Non-Preferred Senior Notes, Notes must have a minimum denomination of €250,000 (or equivalent))*
- (Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:*
- "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")*
- (Note – where multiple denominations above [€250,000] or equivalent are being used the following sample wording should be followed:*
- "[€250,000] and integral multiples of [€1,000] in excess thereof up to and including [€499,000]. No Notes in definitive form will be issued with a denomination above [€499,000].")*
- (b) Calculation Amount (in relation to calculation of interest in global form see Conditions): []
- (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
6. (a) Issue Date: []
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
(N.B. An Interest Commencement Date will not

be relevant for certain Notes, for example Zero Coupon Notes.)

7. Maturity Date: *Specify date or for Floating Rate Notes – Interest Payment Date falling in or nearest to [specify month and year]*
- (Unless otherwise permitted by current laws, regulations, directives and/or requirements applicable to the issue of Notes by the Issuer, Non-Preferred Senior Notes must have a maturity of not less than twelve months and Subordinated Notes must have a minimum maturity of five years).*
8. Interest Basis: [[] per cent. Fixed Rate] [subject to interest rate step-up as specified in subparagraph 13(g) below][subject to interest rate step-down as specified in subparagraph 13(g) below]
[[] per cent. to be reset on [] [and []] and every [] anniversary thereafter]
[[[] month [LIBOR/EURIBOR]] +/- [] per cent. Floating Rate] [subject to interest rate step-up as specified in subparagraph 15(m) below][subject to interest rate step-down as specified in subparagraph 15(m) below]
[Zero coupon]
(see paragraph [13]/[14]/[15]/[16]below)
9. Redemption[/Payment] Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount³
10. Change of Interest Basis: *[Specify the date when any fixed to floating rate or vice versa change occurs or cross refer to paragraphs 13 and 15 below and identify there]*
[Not Applicable]
11. Put/Call Options: [Issuer Call]
[Regulatory Call]
(N.B. Only relevant in the case of Subordinated Notes)
[Issuer Call due to MREL Disqualification Event]
(N.B. Only relevant in the case of Senior Notes or Non-Preferred Senior Notes)
[Investor Put]
[(see paragraph [19]/[20]/[22]/[22] below)]
[Not Applicable]
12. (a) Status of the Notes: [Senior/Non-Preferred Senior/Subordinated]

³ Redemption shall occur at at least 100% of the par value

- (b) [Date [Board] approval for [] [and [], respectively]]
 issuance of Notes obtained: (N.B. Only relevant where Board (or similar)
 authorisation is required for the particular
 tranche of Notes)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable]
 (If not applicable, delete the remaining
 subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on
 each Interest Payment Date
- [For interest step-up/step-down Notes: []% per
 annum commencing on (and including) the
 Interest Commencement Date until (but not
 including) [date]
- []% per annum commencing on (and including)
 [date] until (but not including) [date]
- []% per annum commencing on (and including)
 [date] until (but not including) the Maturity Date]]
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity
 Date
 (Amend appropriately in the case of irregular
 coupons)
- (c) Fixed Coupon Amount(s) for [] per Calculation Amount
 Notes in definitive form (and in
 relation to Notes in global form
 see Conditions):
- (d) Broken Amount(s) for Notes in [[] per Calculation Amount, payable on the
 definitive form (and in relation to Interest Payment Date falling [in/on] []][Not
 Notes in global form see Applicable]
 Conditions):
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (f) Determination Date(s): [[] in each year][Not Applicable]
 (Only relevant where Day Count Fraction is
 Actual/Actual (ICMA). In such a case, insert
 regular interest payment dates, ignoring issue
 date or maturity date in the case of a long or
 short first or last coupon)
- (g) [Interest Rate Step-up/Step- [Applicable for further details see paragraph
 down: 13(a) above /Not Applicable]
14. Reset Note Provisions: [Applicable/Not Applicable]

- (a) Initial Rate of Interest: [] per cent. per annum payable in arrear [on each Interest Payment Date]
- (b) First Margin: [+/-][] per cent. per annum
- (c) Subsequent Margin: [[+/-][] per cent. per annum] [Not Applicable]
- (d) Interest Payment Date(s): [] [and []] in each year up to and including the Maturity Date [until and excluding []]
- (e) Fixed Coupon Amount up to (but excluding) the First Reset Date: [[] per Calculation Amount][Not Applicable]
- (f) Broken Amount(s): [[] per Calculation Amount payable on the Interest Payment Date falling [in/on] []][Not Applicable]
- (g) First Reset Date: []
- (h) Second Reset Date: []/[Not Applicable]
- (i) Subsequent Reset Date(s): [] [and []]
- (j) Relevant Screen Page: [●]/[Not Applicable]
- (k) Mid-Swap Rate: [Single Mid-Swap Rate/Mean Mid-Swap Rate]
- (l) Mid-Swap Maturity []
- (m) Day Count Fraction: [Actual/Actual / Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360/360/360/Bond Basis]
[30E/360/Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual ICMA]
- (n) Determination Dates: [] in each year
- (o) Business Centre(s): []
- (p) Calculation Agent: []
15. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: [] [, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]

- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- Reference Rate: [] month [LIBOR/EURIBOR]
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
- (N.B. The fall-back provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)*
- (h) Linear Interpolation: [Not Applicable/Applicable - the Rate of interest

for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)

- (i) Margin(s): [+/-] [] per cent. per annum
- [For interest step-up/step-down Notes: []% per annum commencing on (and including) the Interest Commencement Date until (but not including) [date]
- []% per annum commencing on (and including) [date] until (but not including) [date]
- []% per annum commencing on (and including) [date] until (but not including) the Maturity Date]
- (j) Minimum Rate of Interest: [] per cent. per annum
- (k) Maximum Rate of Interest: [] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA)
- (m) [Interest Rate Step-up/Step-down: [Applicable for further details see paragraph 15 (i) above /Not Applicable]
16. Zero Coupon Note Provisions [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360] [Actual/360] [Actual/365]
17. Change of Interest Basis Provisions: [Applicable]/[Not Applicable]
- (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (*To be completed in addition to paragraphs 13 and 15 (as appropriate) if any fixed to floating or fixed reset rate change occurs*)
- Switch Option: [Applicable – *specify details of the change(s) in Interest Basis and the relevant Interest Periods to*

which the change(s) in Interest Basis applies]/[Not Applicable]

(The Issuer must give notice of the exercise of the Switch Option to Noteholders in accordance with Condition 12 (Notices) on or prior to the relevant Switch Option Expiry Date)

- Switch Option Expiry Date: []
- Switch Option Effective Date: []

PROVISIONS RELATING TO REDEMPTION

18. Notice periods for Condition *(Redemption and Purchase – Redemption for tax reasons)*: Minimum period: [30] days
Maximum period: [60] days
19. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
 - (b) Optional Redemption Amount: [[] per Calculation Amount][Make-whole Amount]

[Set out appropriate variable details in this pro forma, for example reference obligation]
 - (c) Reference Bond: [Insert applicable Reference Bond/FA Selected Bond]
 - (d) Quotation Time: [11.00 a.m. [London/specify other] time]
 - (e) Redemption Margin: [[] per cent./Not Applicable]
 - (f) If redeemable in part:
 - Minimum Redemption Amount: []
 - Maximum Redemption Amount: []
 - (g) Notice periods: Minimum period: [15] days
Maximum period: [30] days
(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer

and the Agent or Trustee.)

20. Regulatory Call: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (N.B. Only relevant in the case of Subordinated Notes)*
- (a) Early Redemption Amount payable on redemption for regulatory reasons (in the case of Subordinated Notes only and subject to the prior approval of the relevant Competent Authority, as applicable, and in accordance with applicable laws and regulations, including Articles 77(b) and 78 of the CRD IV Regulation) as contemplated by Condition 5.3(*Redemption for regulatory reasons (Regulatory Call)*) and/or the method of calculating the same (if required or if different from that set out in Condition 5.7 (*Early Redemption Amounts*)): [[] per Calculation Amount/as set out in Condition 5.7 (*Early Redemption Amounts*)]
21. Issuer Call due to MREL Disqualification Event: [Applicable]/[Not Applicable]
- (Only relevant in the case of Senior Notes or Non-Preferred Senior Notes)*
- (a) Early Redemption Amount: [[] per Calculation Amount/as set out in Condition 5.7]
22. Investor Put: [Applicable]/[Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount: [] per Calculation Amount
(NB: If the Optional Redemption Amount is other than a specified amount per Calculation Amount, the Notes will need to be Exempt Notes)
- (c) Notice periods: Minimum period: [15] days
Maximum period: [30] days
(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of

distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.)

23. Final Redemption Amount: [] per Calculation Amount
24. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [] per Calculation Amount
(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)

[See also paragraph 20 (Regulatory Call:)]
(Delete this cross-reference unless the Notes are Subordinated Notes and the Regulatory Call is applicable)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes:
- (a) [Form:] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event]
- (N.B. The option for an issue of Notes to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." .)*
- (b) [New Global Note: [Yes][No]]
26. Additional Financial Centre(s): [Not Applicable/give details]
(Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 15(c) relates)

27. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
28. Substitution or Variation of Notes: [Not Applicable] / [Applicable] / [Applicable [only] [in relation to MREL Disqualification Event][and]/[in order to ensure the effectiveness and enforceability of Condition 18 (*Statutory Loss Absorption Powers*)]
- (a) Notice period: []

[THIRD PARTY INFORMATION]

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of [name of the Issuer]:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the Luxembourg Stock Exchange, the UK Listing Authority or the official list of the Irish Stock Exchange)] with effect from [].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the Luxembourg Stock Exchange, the UK Listing Authority or the official list of the Irish Stock Exchange)] with effect from [].]

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings:

[The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

[insert details] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].

Each of [defined terms] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the CRA Regulation)

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. [REASONS FOR THE OFFER – USE OF PROCEEDS]

Use of Proceeds: []

(Applicable only in case of securities to be classified as green/social bond if the use of proceeds is different to that stated in the Base Prospectus. If not applicable, delete this paragraph)

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - Amend as appropriate if there are other interests]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

5. YIELD (Fixed Rate Notes only)

Indication of yield: []

6. OPERATIONAL INFORMATION

(i) ISIN: []

(ii) Common Code: []

(iii) CFI: [[]/Not Applicable]

(iv) FISN: [[]/Not Applicable]

(If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")

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

(vi) Delivery: Delivery [against/free of] payment

(vii) Names and addresses of []

additional Paying Agent(s) (if any):

- [(viii) Intended to be held in a manner which would allow Eurosystem eligibility:
- [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/
- [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

7. DISTRIBUTION

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: [Not Applicable/give names]
- (iii) Date of [Subscription] Agreement: []
- (iv) Stabilisation Manager(s) (if any): [Not Applicable/give name]
- (v) If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
- (vi) U.S. Selling Restrictions: [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable]
- (vii) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
- (If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Notes may constitute "packaged" products

and no key information document will be prepared, “Applicable” should be specified.)”

- (viii) EU Benchmarks Regulation: [Applicable: Amounts payable under the Notes are calculated by reference to [insert name(s) of benchmark(s)], which [is/are] provided by [*insert name(s) of the administrator(s) – if more than one, specify in relation to each relevant benchmark*]
- (ix) EU Benchmarks Regulation: Article 29(2) statement on benchmarks: [As at the date of these Final Terms, [*insert name(s) of the administrator(s)*] [is/are] [not] included in the register of administrators of benchmarks established and maintained by the European Securities and Markets Authorities [(ESMA)] pursuant to Article 36 of the Benchmarks Regulation (Regulation (EU) 2016/1011) [(the BMR)]. [As far as the Issuer is aware, [*insert name of the benchmark*] does not fall within the scope of the BMR by virtue of Article 2 of the BMR]/[the transitional provisions in Article 51 of the BMR apply, such that the administrator is not currently required to obtain authorisation/registration]]. (*repeat as necessary*)]

(if Not Applicable, delete this sub-paragraph)

[PRIIPs Regulation / Prospectus Directive / 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 European Economic Area (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 Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIPs 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.^{4]}

MIFID II product governance / target market - *[appropriate target market legend to be included]*

APPLICABLE PRICING SUPPLEMENT

EXEMPT NOTES OF ANY DENOMINATION

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes, whatever the denomination of those Notes, issued under the Programme.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[Date]

BANCA POPOLARE DI SONDRIO S.C.p.A.

Legal entity identifier (LEI): J48C8PCSJVUBR8KCW529

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €5,000,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

[Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.]⁵

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated 6 March 2019 [as supplemented by the supplement[s] dated *[date[s]]*] (the **Base Prospectus**). Full information on the Issuer and the offer of

⁴ Legend to be included on front of the Final Terms if the Notes potentially constitute “packaged” products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”.

⁵ Do not include if the “Prohibition of Sales to EEA Retail Investors” legend is included (because the Notes potentially constitute “packaged” products and no key information document will be prepared) and the related selling restriction is specified to be “Applicable”.

the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. Copies of the Base Prospectus will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus [dated 6 March 2019 [and the supplement dated [date]] which are incorporated by reference in the Base Prospectus].

[Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.]

1. (a) Series Number: []
(b) Tranche Number: []
(c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [] below, which is expected to occur on or about [date]][Not Applicable]
2. Specified Currency or Currencies: []
3. Aggregate Nominal Amount:
 - (a) Series: []
 - (b) Tranche: []
4. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
5. (a) Specified Denominations: []

(N.B. Senior and Subordinated Notes must have a minimum denomination of €100,000 (or equivalent). In the case of Non-Preferred Senior Notes, Notes must have a minimum denomination of €250,000 (or equivalent))
- (b) Calculation Amount (in relation to calculation of interest in global form see Conditions): []

(If only one Specified Denomination, insert the Specified Denomination. If more than one

Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

6. (a) Issue Date: []
- (b) Interest Commencement Date: [*specify*/Issue Date/Not Applicable]
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
7. Maturity Date: [*Specify date or for Floating Rate Notes - Interest Payment Date falling in or nearest to specify month and year*]
- (Unless otherwise permitted by current laws, regulations, directives and/or requirements applicable to the issue of Notes by the Issuer, Non-Preferred Senior Notes must have a maturity of not less than twelve months and Subordinated Notes must have a minimum maturity of five years).
8. Interest Basis: [[] per cent. Fixed Rate] [Subject to interest rate step-up as specified in subparagraph 13(g) below] [Subject to interest rate step-down as specified in subparagraph 13(g) below]
[[] per cent. to be reset on [] [and [] and every [] anniversary thereafter]
[[*specify Reference Rate*] +/- [] per cent. Floating Rate] [Subject to interest rate step-up as specified in subparagraph 15(m) below] [Subject to interest rate step-down as specified in subparagraph 15(m) below]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[*specify other*]
(further particulars specified below)
9. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[*specify other*]
10. Change of Interest Basis or Redemption/Payment Basis: [*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 13 and 15 below and identify there*][Not Applicable]
11. Put/Call Options: [Issuer Call]
[Regulatory Call]
[Issuer Call due to MREL Disqualification]

Event]
(N.B. Only relevant in the case of Senior Notes
or Non-Preferred Senior Notes)
[Investor Put]
[(further particulars specified below)]

12. (a) Status of the Notes: [Senior/ Non-Preferred Senior/Subordinated]
- (b) [Date [Board] approval for [] [and [], respectively]]
issuance of Notes obtained: *(N.B. Only relevant where Board (or similar)
authorisation is required for the particular
tranche of Notes)*

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable]
*(If not applicable, delete the remaining
subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on
each Interest Payment Date
- [For interest step-up/step-down Notes: []% per
annum commencing on (and including) the
Interest Commencement Date until (but not
including) [date]*
- []% per annum commencing on (and including)
[date] until (but not including) [date]*
- []% per annum commencing on (and including)
[date] until (but not including) the Maturity
Date]]*
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity
Date
*(Amend appropriately in the case of irregular
coupons)*
- (c) Fixed Coupon Amount(s) for [] per Calculation Amount
Notes in definitive form (and in
relation to Notes in global form
see Conditions):
- (d) Broken Amount(s) for Notes in [[] per Calculation Amount, payable on the
definitive form (and in relation to Interest Payment Date falling [in/on] []][Not
Notes in global form see Applicable]
Conditions):
- (e) Day Count Fraction: [30/360/Actual/Actual (ICMA)/specify other]
- (f) [Determination Date(s): [[] in each year][Not Applicable]
*(Only relevant where Day Count Fraction is
Actual/Actual (ICMA). In such a case, insert
regular interest payment dates, ignoring issue*

date or maturity date in the case of a long or short first or last coupon]

- (g) [Rate of Interest Step-up/Step-down: [Applicable for further details see paragraph 13(a)/Not Applicable]
14. Reset Note Provisions: [Applicable/Not Applicable]
- (a) Initial Rate of Interest: [] per cent. per annum payable in arrear [on each Interest Payment Date]
- (b) First Margin: [+/-][] per cent. per annum
- (c) Subsequent Margin: [[+/-][] per cent. per annum] [Not Applicable]
- (d) Interest Payment Date(s): [] [and []] in each year up to and including the Maturity Date [until and excluding []]
- (e) Fixed Coupon Amount up to (but excluding) the First Reset Date: [[] per Calculation Amount][Not Applicable]
- (f) Broken Amount(s): [[] per Calculation Amount payable on the Interest Payment Date falling [in/on] []][Not Applicable]
- (g) First Reset Date: []
- (h) Second Reset Date: []/[Not Applicable]
- (i) Subsequent Reset Date(s): [] [and []]
- (j) Relevant Screen Page: [●]/[Not Applicable]
- (k) Mid-Swap Rate: [Single Mid-Swap Rate/Mean Mid-Swap Rate]
- (l) Mid-Swap Maturity: []
- (m) Day Count Fraction: [Actual/Actual / Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360/360/360/Bond Basis]
[30E/360/Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual ICMA]
- (n) Determination Dates: [] in each year
- (o) Business Centre(s): []
- (p) Calculation Agent: []
15. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining

subparagraphs of this paragraph)

- (a) Specified Period(s)/Specified Interest Payment Dates [][, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to any adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]] [Not Applicable]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- Reference Rate: [] month [LIBOR/EURIBOR/*specify other Reference Rate*] (*Either LIBOR, EURIBOR or other, although additional information is required if other, including fallback provisions in the Agency Agreement.*)
 - Interest Determination Date(s): [] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
 - Relevant Screen Page: [] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []

(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)

(N.B. The fall-back provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)

- (h) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (i) Margin(s): [+/-] [] per cent. per annum

[For interest step-up/step-down Notes: []% per annum commencing on (and including) the Interest Commencement Date until (but not including) [date]

[]% per annum commencing on (and including) [date] until (but not including) [date]

[]% per annum commencing on (and including) [date] until (but not including) the Maturity Date]]
- (j) Minimum Rate of Interest: [] per cent. per annum
- (k) Maximum Rate of Interest: [] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)
[Other]
- (m) [Interest Rate Step-up/Step-down: [Applicable for further details see paragraph 15 (i) above /Not Applicable]
- 16. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []
- (c) Any other formula/basis of []

determining amount payable for Zero Coupon Notes which are Exempt Notes:

- (d) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]
17. Index Linked Interest Note [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Index/Formula: [give or annex details]
 - (b) Calculation Agent [give name]
 - (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): []
 - (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
 - (e) Specified Period(s)/Specified Interest Payment Dates: []
 - (f) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*specify other*]
 - (g) Additional Business Centre(s): []
 - (h) Minimum Rate of Interest: [] per cent. per annum
 - (i) Maximum Rate of Interest: [] per cent. per annum
 - (j) Day Count Fraction: []
18. Dual Currency Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
 - (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): []
 - (c) Provisions applicable where [*need to include a description of market*

calculation by reference to Rate of Exchange impossible or impracticable: *disruption or settlement disruption events and adjustment provisions]*

(d) Person at whose option Specified Currency(ies) is/are payable: []

19. Change of Interest Basis Provisions: [Applicable]/[Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(To be completed in addition to paragraphs 13 and 15 (as appropriate) if any fixed to floating or fixed reset rate change occurs)

– Switch Option: [Applicable – *specify details of the change(s) in Interest Basis and the relevant Interest Periods to which the change(s) in Interest Basis applies*]/[Not Applicable]

(The Issuer must give notice of the exercise of the Switch Option to Noteholders in accordance with Condition 12 (Notices) on or prior to the relevant Switch Option Expiry Date)

– Switch Option Expiry Date: []

– Switch Option Effective Date: []

PROVISIONS RELATING TO REDEMPTION

20. Notice periods for Condition 5.2 *(Redemption for tax reasons)*: Minimum period: [30] days
Maximum period: [60] days

21. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Optional Redemption Date(s): []

(b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/[Make-whole Amount/] *specify other/see Appendix*]

(c) Reference Bond: [Insert applicable Reference Bond/FA Selected Bond]

(d) Quotation Time: [11.00 a.m. [London/*specify other*] time]

(e) Redemption Margin: [[] per cent./Not Applicable]

(f) If redeemable in part:

- Minimum Redemption Amount: []
 - Maximum Redemption Amount: []
- (g) Notice periods: Minimum period: [15] days
Maximum period: [30] days
- (N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.)*
22. Regulatory Call: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (N.B. Only relevant in the case of Subordinated Notes)*
- (a) Early Redemption Amount payable on redemption for regulatory reasons (in the case of Subordinated Notes only and subject to the prior approval of the relevant Competent Authority, as applicable, and in accordance with applicable laws and regulations, including Articles 77(b) and 78 of the CRD IV Regulation) as contemplated by Condition 5.3 (*Redemption for regulatory reasons (Regulatory Reasons)*) and/or the method of calculating the same (if required or if different from that set out in Condition 5.7 (*Early Redemption Amounts*)): [[] per Calculation Amount/as set out in Condition 5.7 (*Early Redemption Amounts*)]
23. Issuer Call due to MREL Disqualification Event: [Applicable]/[Not Applicable]
- (Only relevant in the case of Senior Notes or Non-Preferred Senior Notes)*
- (a) Early Redemption Amount: [[] per Calculation Amount/as set out in Condition 5.7]

24. Investor Put: [Applicable]/[Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount: [] per Calculation Amount
(NB: If the Optional Redemption Amount is other than a specified amount per Calculation Amount, the Notes will need to be Exempt Notes)
- (c) Notice periods: Minimum period: [15] days
 Maximum period: [30] days
(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.)
25. Final Redemption Amount: [[] per Calculation Amount/specify other/see Appendix]
26. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required): [[] per Calculation Amount/specify other/see Appendix]
(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)
- [See also paragraph 22 (Regulatory Call:)]
(Delete this cross-reference unless the Notes are Subordinated Notes and the Regulatory Call is applicable)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27. Form of Notes:
- (a) [Form:] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

- [Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event]
- (b) [New Global Note: [Yes][No]]
28. Additional Financial Centre(s): [Not Applicable/give details]
(Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 15(c) and 17(g) relate)
29. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
30. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment. [Not Applicable/give details. N.B. A new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
31. Details relating to Instalment Notes: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Instalment Amount(s): [give details]
- (b) Instalment Date(s): [give details]
32. Other terms or special conditions: [Not Applicable/give details]
33. Substitution or Variation of Notes: [Not Applicable] / [Applicable] / [Applicable [only] [in relation to MREL Disqualification Event][and]/[in order to ensure the effectiveness and enforceability of Condition 18 (Statutory Loss Absorption Powers)]
- (a) Notice period: []

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [Relevant third party information] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of [name of the Issuer]:

By:

Duly authorised

PART B – OTHER INFORMATION

1. **LISTING** [Application [has been made/is expected to be made] by the Issuer (or on its behalf) for the Notes to be listed on [*specify market – note this must not be a regulated market*] with effect from [].] [Not Applicable]

2. **RATINGS**

Ratings:

[The Notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*].
(*The above disclosure is only required if the ratings of the Notes are different to those stated in the Base Prospectus*)

3. **[REASONS FOR THE OFFER – USE OF PROCEEDS]**

Use of Proceeds:

[]

(*Applicable only in case of securities to be classified as green/social bond if the use of proceeds is different to that stated in the Base Prospectus. If not applicable, delete this paragraph*)

4. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the [Managers named below/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business – *Amend as appropriate if there are other interests*]

5. **OPERATIONAL INFORMATION**

(i) ISIN: []

(ii) Common Code: []

(iii) CFI: [[]/Not Applicable]

(iv) FISN: [[]/Not Applicable]

(*If the CFI and/or FISN is not required, requested or available, it/they should be specified to be “Not Applicable”*)

(v) Any clearing system(s) other than Euroclear and Clearstream, [Not Applicable/give name(s) and number(s)]

Luxembourg and the relevant identification number(s):

- (vi) Delivery: Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): []
- (viii) [Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
- [No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

6. DISTRIBUTION

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: [Not Applicable/*give names*]
- (iii) Stabilisation Manager(s) (if any): [Not Applicable/*give name*]
- (iv) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (v) U.S. Selling Restrictions: Reg. S Compliance Category 2; [TEFRA D/TEFRA C/TEFRA not applicable]
- (vi) Additional selling restrictions: [Not Applicable/*give details*]
(Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes)

- (vii) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be endorsed on each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The form of Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Banca Popolare di Sondrio S.C.p.A. (the **Issuer**) constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 6 March 2019 and made between the Issuer and Citibank, N.A., London Branch (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a Global Note), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes in bearer form (Bearer Notes) issued in exchange for a Global Note in bearer form.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 6 March 2019 and made between the Issuer, the Trustee, Citibank N.A., London Branch as issuing and principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents). The Principal Paying Agent and the Paying Agents, together referred to as the **Agents**.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which complete these Terms and Conditions (the **Conditions**) or, if this Note is a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an **Exempt Note**), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the form of Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. Any reference in the Conditions to **form of Final Terms** shall be deemed to include a reference to applicable Pricing Supplement where relevant. The expression **Prospectus Directive** means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

Interest bearing definitive Notes have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Exempt Notes in definitive form which are repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Trustee acts for the benefit of the Noteholders (which expression shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the form of Final Terms will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). If this Note is an Exempt Note, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer, the Trustee and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the form of Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the form of Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the form of Final Terms, the form of Final Terms will prevail.

In the Conditions, **euro** means 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, as amended.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the form of Final Terms, provided that (i) the minimum Specified Denomination of each Note which is specified in the form of Final Terms as being a Senior Note or a Subordinated Note shall be Euro 100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes) and (ii) the minimum Specified Denomination of each Note which is specified in the form of Final Terms as being a Non-Preferred Senior Note shall be Euro 250,000 (or its equivalent in any other currency as at the date of issue of the

relevant Notes). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Unless this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Reset Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the form of Final Terms.

If this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Reset Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

If this Note is an Exempt Note, this Note may also be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note may also be a Senior Note, a Non-Preferred Senior Note or a Subordinated Note, as indicated in the form of Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the

context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the form of Final Terms.

2. STATUS OF THE NOTES AND SUBORDINATION

The form of Final Terms will indicate whether the Notes are Senior Notes, Non-Preferred Senior Notes or Subordinated Notes and, in the case of Subordinated Notes, the applicable subordination provisions.

2.1 Status of the Senior Notes

The Senior Notes and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, ranking (subject to any obligations preferred by any applicable law) *pari passu* with all other unsecured obligations (other than obligations ranking junior to the Senior Notes from time to time (including Non-Preferred Senior Notes and any further obligations permitted by law to rank, or expressed to rank, junior to the Senior Notes, on or following the Issue Date), if any) of the Issuer, present and future and *pari passu* and rateably without any preference among themselves.

Each holder of a Senior 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 Senior Note.

2.2 Status of the Non-Preferred Senior Notes

- (a) The Non-Preferred Senior Notes (being Notes intended to qualify as *strumenti di debito chirografario di secondo livello* of the Issuer, as defined under Article 12-bis of the Italian Consolidated Banking Act), any related Receipts and Coupons constitute direct, unconditional, unsubordinated, and unsecured and non-preferred obligations of the Issuer. In the event of the liquidation of the Issuer (including in the event that the Issuer becomes subject to an order for *Liquidazione Coatta Amministrativa*, as defined in the Italian Consolidated Banking Act) or insolvency of the Issuer, the payment obligations of the Issuer under the Non-Preferred Senior Notes and any relative Receipts and Coupons will rank in right of payment:
- (i) junior to Senior Notes and any other unsecured and unsubordinated obligations of the Issuer which rank, or are expressed to rank by their terms, senior to the Non-Preferred Senior Notes,
 - (ii) *pari passu* without any preference among themselves, with all other present or future obligations of the Issuer which do not rank or are not expressed by their terms to rank junior or senior to the relevant Non-Preferred Senior Notes; and
 - (iii) in priority to any subordinated instruments and to the claims of shareholders of the Issuer, pursuant to Article 91, section 1-*bis*, letter c-*bis* of the Italian Consolidated Banking Act.
- (b) Each holder of a Non-Preferred Senior 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 Non-Preferred Senior Note.

2.3 Status of the Subordinated Notes

- (a) The Subordinated Notes (being Notes intended to qualify as Tier 2 capital for regulatory

capital purposes, in accordance with Part II, Chapter 1 of the Bank of Italy's *Disposizioni di Vigilanza Prudenziale per le Banche*, as set out in Bank of Italy Circular No. 285 of 17 December 2013, as amended or supplemented from time to time, including any successor regulations, and Article 63 of CRR) and any relative Receipts and Coupons constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and, in the event of the liquidation of the Issuer (including in the event that the Issuer becomes subject to an order for *Liquidazione Coatta Amministrativa*, as defined in the Italian Consolidated Banking Act) or insolvency of the Issuer, the payment obligations of the Issuer under the Subordinated Notes and any relative Receipts and Coupons will rank in right of payment (a) after all unsubordinated, unsecured creditors (including depositors and holders of Senior Notes and Non-Preferred Senior Notes) of the Issuer and after all creditors of the Issuer holding instruments that are or are expressed by their terms to be less subordinated than the relevant Subordinated Notes; (b) at least *pari passu* without any preference among themselves with all other present and future subordinated obligations of the Issuer that are not expressed by their terms to rank or which do not rank junior or senior to the relevant Subordinated Notes; and (c) in priority to the claims of shareholders of the Issuer and to all other present and future subordinated obligations of the Issuer which rank or are expressed by their terms to rank junior to the relevant Subordinated Notes.

- (b) In relation to each Series of Subordinated Notes all Subordinated Notes of such Series will be treated equally and all amounts paid by the Issuer in respect of principal and interest thereon will be paid *pro rata* on all Subordinated Notes of such Series.
- (c) Each holder of a Subordinated 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 Subordinated Note.

3. INTEREST

3.1 *Interest on Fixed Rate Notes*

This Condition 3.1 applies to Fixed Rate Notes only. The form of Final Terms contains provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 3.1 for full information on the manner in which interest is calculated on Fixed Rate Notes. In particular, the form of Final Terms will specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Maturity Date, the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction and any applicable Determination Date.

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (but excluding) the Maturity Date. The Rate of Interest may be specified in the form of Final Terms either (i) as the same Rate of Interest for all Fixed Interest Periods or (ii) as a different Rate of Interest in respect of one or more Fixed Interest Periods.

If the Notes are in definitive form, except as provided in the form of Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the form of Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or

first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the form of Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest, in accordance with this Condition 3.1:

- (i) if "Actual/Actual (ICMA)" is specified in the form of Final Terms:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the form of Final Terms) that would occur in one calendar year; or
 - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "30/360" is specified in the form of Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months)

divided by 360.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

Fixed Rate Notes (other than Subordinated Notes) may also include interest step-up or step-down provisions whereby the Rate of Interest payable increases or decreases, respectively, at pre-determined periods to a pre-determined percentage per annum (as specified in the form of Final Terms for such Notes).

3.2 *Interest on Reset Notes*

(a) **Rates of Interest and Interest Payment Dates**

Each Reset Note bears interest:

- (i) from (and including) the Interest Commencement Date until (but excluding) the First Reset Date at the Initial Rate of Interest;
- (ii) from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the form of Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (iii) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

payable, in each case, in arrear on each Interest Payment Date and on the Maturity Date if that does not fall on an Interest Payment Date. The Rate of Interest and the Interest Amount payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, subject to Condition 3.4 (*Benchmark Discontinuation*) and (B) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in Condition 3.1.

For the purposes of the Conditions:

First Margin means the margin specified as such in the form of Final Terms;

First Reset Date means the date specified in the form of Final Terms;

First Reset Period means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the form of Final Terms, the Maturity Date;

First Reset Rate of Interest means, in respect of the First Reset Period and subject to

Condition 3.2(b), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Margin;

Initial Rate of Interest has the meaning specified in the form of Final Terms;

Mid-Market Swap Rate means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for 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 the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the form of Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

Mid-Market Swap Rate Quotation means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

Mid-Swap Floating Leg Benchmark Rate means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

Mid-Swap Rate means, in relation to a Reset Determination Date and subject to Condition 3.2(b), either:

(i) if Single Mid-Swap Rate is specified in the form of Final Terms, the rate for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page; or

(ii) if Mean Mid-Swap Rate is specified in the form of Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent;

Rate of Interest means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

Reset Date means the First Reset Date, the Second Reset Date and each Subsequent Reset

Date (as applicable);

Reset Determination Date means, in respect of the First Reset Period, the second Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

Reset Period means the First Reset Period or a Subsequent Reset Period, as the case may be;

Second Reset Date means the date specified in the form of Final Terms;

Subsequent Margin means the margin specified as such in the form of Final Terms;

Subsequent Reset Date means the date or dates specified in the form of Final Terms;

Subsequent Reset Period means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date; and

Subsequent Reset Rate of Interest means, in respect of any Subsequent Reset Period and subject to Condition 3.2(b), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Margin.

(b) **Fallbacks**

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall, subject as provided in Condition 3.4 (*Benchmark Discontinuation*), request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the Rate of Interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of this Condition 3.2(b) **Reference Banks** means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

3.3 Interest on Floating Rate Notes

(a) Interest Payment Dates

This Condition 3.3 applies to Floating Rate Notes only. The form of Final Terms contains provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 3.3 for full information on the manner in which interest is calculated on Floating Rate Notes. In particular, the form of Final Terms will identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Agent, the Margin, any maximum or minimum interest rates and the Day Count Fraction. Where ISDA Determination applies to the calculation of interest, the form of Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the form of Final Terms will also specify the applicable Reference Rate, Interest Determination Date(s) and Relevant Screen Page.

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the form of Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the form of Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the form of Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the form of Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 3.3(a), the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means:

- (a) 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 each Additional Business Centre (other than TARGET2 System) specified in the form of Final Terms;
- (b) if TARGET2 System is specified as an Additional Business Centre in the form of Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and
- (c) either (1) in relation to any sum payable in a Specified Currency other than euro, 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 principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

Floating Rate Notes (other than Subordinated Notes) may also include interest step-up or step-down provisions whereby the Margin increases or decreases, respectively, at pre-determined periods to a pre-determined percentage per annum (as specified in the form of Final Terms for such Notes).

(b) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the form of Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the form of Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the form of Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the form of Final Terms;
- (B) the Designated Maturity is a period specified in the form of Final Terms; and

(C) the relevant Reset Date is the day specified in the form of Final Terms.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the form of Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the form of Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject to Condition 3.4 (*Benchmark Discontinuation*), be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the form of Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) at the Specified Time on the Interest Determination Date in question plus or minus (as indicated in the form of Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of paragraph (A) above, no such offered quotation appears or, in the case of paragraph (B) above, fewer than three such offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have

been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

In the case of Exempt Notes, if the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of the Notes will be determined as provided in the applicable Pricing Supplement.

Unless otherwise stated in the form of Final Terms the Minimum Rate of Interest shall be deemed to be zero.

Specified Time means 11.00 a.m. (London time, in the case of a determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR).

For the purposes of this Condition 3.3(b)(ii) **Reference Banks** means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, and in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Issuer.

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the form of Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the form of Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Principal Paying Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 3.3:

- (i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the form of Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the form of Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the form of Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified in the form of Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if "30/360", "360/360" or "Bond Basis" is specified in the form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (vi) if "30E/360" or "Eurobond Basis" is specified in the form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

- (vii) if "30E/360 (ISDA)" is specified in the form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the

last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(e) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the form of Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the form of Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the form of Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(f) **Notification of Rate of Interest and Interest Amounts**

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 12. For the purposes of this Condition 3.3, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this

Condition 3.3 by the Principal Paying Agent shall (in the absence of manifest error) be binding on the Issuer, the Principal Paying Agent, the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful misconduct, gross negligence or fraud) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Trustee in connection with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

3.4 Benchmark Discontinuation

This Condition 3.4 is applicable to Notes only if the Floating Rate Note Provisions or the Reset Note Provisions are specified in the form of Final Terms as being applicable.

(a) Independent Adviser

Notwithstanding the provisions above in Condition 3.3 (*Interest on Floating Rate Notes*) or Condition 3.2 (*Interest on Reset Notes*), if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 3.4(b) (*Successor Rate or Alternative Rate*)) and, in either case, an Adjustment Spread if any (in accordance with Condition 3.4(c) (*Adjustment Spread*)) and whether any Benchmark Amendments (in accordance with Condition 3.4(d) (*Benchmark Amendments*)) are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread.

An Independent Adviser appointed pursuant to this Condition 3.4(a) shall act in good faith and in a commercially reasonable manner as an expert and in consultation with the Issuer. In the absence of bad faith, fraud and gross negligence, the Independent Adviser shall have no liability whatsoever to the Issuer, the party responsible for determining the Rate of Interest applicable to the Notes (being the Principal Paying Agent, the Calculation Agent or such other party specified in the form of Final Terms) any Paying Agent, the Trustee, the Noteholders, the Receiptholders or the Couponholders for any determination made by it pursuant to this Condition 3.4.

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 3.4(a) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be, the Issuer (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, failing which, an Alternative Rate, provided however that if the Issuer is unable or unwilling to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 3.4(a) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be, (i) in the case of the Rate of Interest on Floating Rate Notes, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period or (ii) in the case of the First Reset Rate of Interest on Reset Notes, the Rate of Interest shall be equal to the Initial Rate of Interest or (iii) in the case of the Subsequent Reset Rate of Interest on Reset Notes, the Rate of Interest shall be equal to the Subsequent Reset Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Reset Period or if the immediately preceding Reset Period is the First Reset Period, the First Reset Rate of Interest. If there has not been a first Interest Payment Date or First Reset Date, the Rate of Interest for Floating Rate Notes shall be the initial Rate of Interest and the Rate of Interest for

Reset Notes shall be the Initial Rate of Interest (as applicable). Where a different Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin (as applicable) is to be applied to the relevant Interest Period or Reset Period (as applicable) from that which applied to the last preceding Interest Period or Reset Period (as applicable), the Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin (as applicable) relating to the relevant Interest Period or Reset Period (as applicable) shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin relating to that last preceding Interest Period or Reset Period (as applicable). For the avoidance of doubt, this Condition 3.4(a) shall apply to the relevant next succeeding Interest Period or Reset Period (as applicable) only and any subsequent Interest Periods or Reset Periods (as applicable) are subject to the subsequent operation of, and to adjustment as provided in, this Condition 3.4(a).

(b) Successor Rate or Alternative Rate

If the Independent Adviser or the Issuer (if it is unable to appoint an Independent Adviser or if the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with Condition 3.4(a) (*Independent Adviser*) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be) acting in good faith and in a commercially reasonable manner determines that:

- (i) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 3.4(c) (*Adjustment Spread*)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 3.4); or
- (ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 3.4(c) (*Adjustment Spread*)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 3.4).

(c) Adjustment Spread

If the Independent Adviser or the Issuer (if it is unable to appoint an Independent Adviser or if the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with Condition 3.4(a) (*Independent Adviser*) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be) acting in good faith and in a commercially reasonable manner determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(d) Benchmark Amendments

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 3.4 and the Independent Adviser or the Issuer (if it is unable to appoint an Independent Adviser or if the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with Condition 3.4(a) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be) acting in good faith and in a commercially reasonable manner determines (i) that amendments to these Conditions, the Trust Deed and the Agency Agreement, including but

not limited to Relevant Screen Page, are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread and/or necessary or appropriate to comply with any applicable regulation or guidelines on the use of benchmarks or other related document issued by the competent regulatory authority (such amendments, the **Benchmark Amendments**) and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 3.4(e) (*Notices*) and subject (to the extent required) to giving any notice required to be given to, and receiving any consent required from, or non-objection from, the Competent Authority, without any requirement for the consent or approval of Noteholders, Receiptholders or Couponholders, vary these Conditions, the Trust Deed and the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two authorised signatories of the Issuer pursuant to Condition 3.4(e) (*Notices*), the Trustee shall (at the Issuer's expense), without any requirement for the consent or approval of the Noteholders, Receiptholders or Couponholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed) and the Trustee shall not be liable to any party for any consequences thereof, provided that if, in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend rights and/or the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including for the avoidance of doubt, any supplemental trust deed), the Trustee shall give effect to such Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), subject to being indemnified and/or secured to its satisfaction by the Issuer.

In connection with any such variation in accordance with this Condition 3.4(d), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 3.4 (*Benchmark Discontinuation*), no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made to effect the Benchmark Amendments, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Subordinated Notes as "Tier 2" capital at individual or consolidated basis and/or (i) result in the exclusion of the relevant Series of Senior Notes or Non-Preferred Senior Notes from the eligible liabilities available to meet the MREL Requirements or (ii) (in the case of Senior Notes or Non-Preferred Senior Notes only) result in the Competent Authority and/or the Relevant Resolution Authority treating the Interest Payment Date or Reset Date, as the case may be, as the effective maturity date of the Notes, rather than the relevant maturity date. In such cases (i) the Rate of Interest on Floating Rate Notes applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period or (ii) in the case of the First Reset Rate of Interest on Reset Notes, the Rate of Interest shall be equal to the Initial Rate of Interest or (iii) in the case of the Subsequent Reset Rate of Interest on Reset Notes, the Rate of Interest shall be equal to the Subsequent Reset Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Reset Period or if the immediately preceding Reset Period is the First Reset Period, the First Reset Rate of Interest. If there has not been a first Interest Payment Date or First Reset Date, the Rate of Interest for Floating Rate Notes shall be the initial Rate of Interest and the Rate of Interest for Reset Notes shall be the Initial Rate of Interest (as applicable).

Where a different Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin (as applicable) is to be applied to the relevant Interest Period or Reset Period (as applicable) from that which applied to the last preceding Interest Period or Reset Period (as applicable), the Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin (as applicable) relating to the relevant Interest Period or Reset Period (as applicable) shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin relating to that last preceding Interest Period or Reset Period.

(e) **Notices**

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 3.4 will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Principal Paying Agent and each Paying Agent and, in accordance with Condition 12 (*Notices*), the Noteholders, Receiptholders or Couponholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories:

- (i) confirming (x) that a Benchmark Event has occurred, (y) the Successor Rate or, as the case may be, the Alternative Rate and (z) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 3.4;
- (ii) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread; and
- (iii) certifying that (i) the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case, (ii) explaining, in reasonable detail, why the Issuer has not done so.

The Trustee shall be entitled to rely on such certificate (without inquiry and without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the party responsible for determining the Rate of Interest (being the Principal Paying Agent, the Calculation Agent or such other party specified in the form of Final Terms, as applicable), the Paying Agents and the Noteholders, Receiptholders and Couponholders.

(f) **Survival of Original Reference Rate**

Without prejudice to the obligations of the Issuer under Conditions 3.4(a) (*Independent Adviser*) to 3.4(d) (*Benchmark Amendments*), the Original Reference Rate and the fallback provisions provided for in Condition 3.2(b) (*Fallbacks*) and Condition 3.3(b)(ii) (*Screen Rate Determination for Floating Rate Notes*) will continue to apply unless and until a Benchmark Event has occurred.

(g) **Definitions**

For the purposes of this Condition 3.4:

Adjustment Spread means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner) is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders, Receiptholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (b) the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner), is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged); or
- (c) the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

Alternative Rate means an alternative benchmark or screen rate which the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner) in accordance with Condition 3.4(b) (*Successor Rate or Alternative Rate*) is customary in market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes;

Benchmark Amendments has the meaning given to it in Condition 3.4(d) (*Benchmark Amendments*);

Benchmark Event means:

- (a) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (b) a public statement by the administrator of the Original Reference Rate that it will, by a specified date within the following six months, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (c) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or
- (d) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from

being used either generally, or in respect of the Notes, in each case within the following six months; or

- (e) it has become unlawful for, the Principal Paying Agent, any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder, Receiptholder or Couponholder using the Original Reference Rate;

Independent Adviser means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 3.4(a) (*Independent Adviser*);

Original Reference Rate means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes;

Relevant Nominating Body means, in respect of a benchmark or screen rate (as applicable):

- (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (b) 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 the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof;

Successor Rate means the rate that the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner) is a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

3.5 *Change of Interest Basis*

If Change of Interest Basis is specified as applicable in the form of Final Terms, the interest payable in respect of the Notes will be calculated in accordance with Condition 3.1 or Condition 3.3 above each applicable only for the relevant periods specified in the form of Final Terms.

If Change of Interest Basis is specified as applicable in the form of Final Terms, and Issuer's Switch Option is also specified as applicable in the form of Final Terms, the Issuer may, on one or more occasions, as specified in the form of Final Terms, at its option (any such option, a **Switch Option**), having given notice to the Noteholders in accordance with Condition 12 on or prior to the relevant Switch Option Expiry Date, change the Interest Basis of the Notes from Fixed Rate to Floating Rate or Floating Rate to Fixed Rate or as otherwise specified in the form of Final Terms with effect from (and including) the Switch Option Effective Date specified in the form of Final Terms to (but excluding) the Maturity Date (or, where more than one Switch Option Effective Date is specified in the form of Final Terms, up to and excluding the next following Switch Option Effective Date), provided that (A) the Switch Option may be exercised only in respect of all the outstanding Notes, (B) upon exercise of a

Switch Option, the Interest Basis change will be effective from (and including) the relevant Switch Option Effective Date until the Maturity Date (or, where more than one Switch Option Effective Date is specified as applicable in the form of Final Terms, up to and excluding the next following Switch Option Effective Date to the extent the related Switch Option is exercised), and (C) where a Switch Option has not been exercised prior to the relevant Switch Option Expiry Date, the Issuer shall no longer be entitled to exercise such Switch Option and the Interest Basis shall not change.

Switch Option Expiry Date and Switch Option Effective Date shall mean any date specified as such in the form of Final Terms provided that any date specified in the form of Final Terms as a Switch Option Effective Date shall be deemed as such subject to the exercise of the relevant Switch Option having been notified to the Issuer pursuant to this Condition and in accordance with Condition 12 prior to the relevant Switch Option Expiry Date.

3.6 *Exempt Notes*

In the case of Exempt Notes which are also Floating Rate Notes where the applicable Pricing Supplement identifies that Screen Rate Determination applies to the calculation of interest, if the Reference Rate from time to time is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Exempt Notes will be determined as provided in the applicable Pricing Supplement.

The rate or amount of interest payable in respect of Exempt Notes which are not also Fixed Rate Notes or Floating Rate Notes shall be determined in the manner specified in the applicable Pricing Supplement, provided that where such Notes are Index Linked Interest Notes the provisions of Condition 3.3 shall, save to the extent amended in the applicable Pricing Supplement, apply as if the references therein to Floating Rate Notes and to the Agent were references to Index Linked Interest Notes and the Calculation Agent, respectively, and provided further that the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

Change of Interest Basis

If Change of Interest Basis is specified as applicable in the applicable Pricing Supplement, the interest payable in respect of the Notes will be calculated in accordance with Condition 3.1 or Condition 3.3 above each applicable only for the relevant periods specified in the applicable Pricing Supplement.

If Change of Interest Basis is specified as applicable in the applicable Pricing Supplement, and Issuer's Switch Option is also specified as applicable in the applicable Pricing Supplement, the Issuer may, on one or more occasions, as specified in the applicable Pricing Supplement, at its option (any such option, a Switch Option), having given notice to the Noteholders in accordance with Condition 12 on or prior to the relevant Switch Option Expiry Date, change the Interest Basis of the Notes from Fixed Rate to Floating Rate or Floating Rate to Fixed Rate or as otherwise specified in the applicable Pricing Supplement with effect from (and including) the Switch Option Effective Date specified in the applicable Pricing Supplement to (but excluding) the Maturity Date (or, where more than one Switch Option Effective Date is specified in the applicable Pricing Supplement, up to and excluding the next following Switch Option Effective Date), provided that (A) the Switch Option may be exercised only in respect of all the outstanding Notes, (B) upon exercise of a Switch Option,

the Interest Basis change will be effective from (and including) the relevant Switch Option Effective Date until the Maturity Date (or, where more than one Switch Option Effective Date is specified as applicable in the applicable Pricing Supplement, up to and excluding the next following Switch Option Effective Date to the extent the related Switch Option is exercised), and (C) where a Switch Option has not been exercised prior to the relevant Switch Option Expiry Date, the Issuer shall no longer be entitled to exercise such Switch Option and the Interest Basis shall not change.

Switch Option Expiry Date and Switch Option Effective Date shall mean any date specified as such in the applicable Pricing Supplement provided that any date specified in the applicable Pricing Supplement as a Switch Option Effective Date shall be deemed as such subject to the exercise of the relevant Switch Option having been notified to the Issuer pursuant to this Condition and in accordance with Condition 12 prior to the relevant Switch Option Expiry Date.

3.7 *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) as provided in the Trust Deed.

4. PAYMENTS

4.1 *Method of payment*

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6 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, as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

4.2 *Presentation of definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 4.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of

interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below)) and save as provided in Condition 4.4 should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

4.3 *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

4.4 *Specific provisions in relation to payments in respect of certain types of Exempt Notes*

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 4.1 above only against presentation and surrender (or, in the case of part payment

of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 4.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Upon the date on which any Dual Currency Note or Index Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

4.5 *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of 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 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.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

4.6 *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 7) is:

- (a) 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):

- (i) in the case of Notes in definitive form only, in the relevant place of presentation; and
 - (ii) in each Additional Financial Centre (other than TARGET2 System) specified in the form of Final Terms;
- (b) if TARGET2 System is specified as an Additional Financial Centre in the form of Final Terms, a day on which the TARGET2 System is open;
- (c) either (1) in relation to any sum payable in a Specified Currency other than euro, 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 principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

4.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 6;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Exempt Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 5.7); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 6.

5. REDEMPTION AND PURCHASE

5.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer (i) at least *at par* in case of Fixed Rate Notes, Reset Notes, Floating Rate Notes and Zero Coupon Notes, as specified in the form of Final Terms in the relevant Specified Currency and on the Maturity Date specified in the form of Final Terms (ii) in the case of Exempt Notes, at its Final Redemption Amount specified in the applicable Pricing

Supplement in the relevant Specified Currency on the Maturity Date specified in the Applicable Pricing Supplement.

5.2 *Redemption for tax reasons*

Subject to Condition 5.7, the Notes may be redeemed at the option of the Issuer (but subject, in the case of Senior Notes and Non-Preferred Senior Notes, to the provisions of Condition 5.13 and, in the case of Subordinated Notes, to the provisions of Condition 5.14) in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period nor more than the maximum period of notice specified in the form of Final Terms to the Principal Paying Agent and the Trustee and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable), if:

- a. on the occasion of the next payment due under the Notes (in the case of Subordinated Notes, in respect of payments of interest only), the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 as a result of any change in, or amendment to, the laws or regulations of, or applicable in, a Tax Jurisdiction (as defined in Condition 6), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after the date on which agreement is reached to issue the first Tranche of the Notes, provided that in the case of any redemption of Subordinated Notes proposed to be made prior to the fifth anniversary of the Issue Date, under the relevant Regulatory Capital Requirements (as defined in Condition 5.14) the Issuer demonstrates to the satisfaction of the relevant Competent Authority that such change or amendment is material and was not reasonably foreseeable by the Issuer as at the date of the issue of the first tranche of the relevant Subordinated Notes; and
- b. such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver or procure that there is delivered to the Trustee to make available at its specified office to the Noteholders (i) a certificate signed by two authorised signatories of the Issuer stating that the said circumstances prevail and describe the facts leading thereto and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept such documents as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Upon the expiry of any such notice as is referred to in this Condition 5.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 5.2. Notes redeemed pursuant to this Condition 5.2 will be redeemed at their Early Redemption Amount referred to in Condition 5.7 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

5.3 *Redemption for regulatory reasons (Regulatory Call)*

This Condition 5.3 applies only to Notes specified in the form of Final Terms as being

Subordinated Notes.

If Regulatory Call is specified in the form of Final Terms, the Notes may be redeemed at the option of the Issuer (subject to the provisions of Condition 5.14), in whole, but not in part, at any time (if the Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if the Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 15 nor more than 30 days' notice to the Principal Paying Agent and the Trustee and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if there is a change in the regulatory classification of the Subordinated Notes that would be likely to result in their exclusion from "Tier 2" capital at individual or consolidated basis (in whole or in part) and, in respect of any redemption of the relevant Subordinated Notes proposed to be made prior to the fifth anniversary of the Issue Date, 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 the regulatory classification of the Subordinated Notes was not reasonably foreseeable by the Issuer as at the date of the issue of the relevant Subordinated Notes.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by two authorised signatories of the Issuer stating that the said circumstances prevail and describe the facts leading thereto and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Upon the expiry of any such notice as is referred to in this Condition 5.3, the Issuer shall be bound to redeem the Notes in accordance with this Condition 5.3. Notes redeemed pursuant to this Condition 5.3 will be redeemed at their Early Redemption Amount referred to in Condition 5.7 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

5.4 *Redemption at the option of the Issuer (Issuer Call)*

This Condition 5.4 applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation reasons or for regulatory reasons), such option being referred to as an Issuer Call. The form of Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 5.4 for full information on any Issuer Call. In particular, the form of Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount, any minimum or maximum amount of Notes which can be redeemed and the applicable notice periods.

If Issuer Call is specified as being applicable in the form of Final Terms, the Issuer may (subject to, in the case of Senior Notes and Non-Preferred Senior Notes, Condition 5.13 and, in the case of Subordinated Notes, the provisions of Condition 5.14), having given not less than the minimum period nor more than the maximum period of notice specified in the form of Final Terms to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the form of Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the form of Final Terms.

The Optional Redemption Amount will either be the specified percentage of the nominal

amount of the Notes stated in the form of Final Terms or, if a Make-whole Amount is specified in the form of Final Terms, will be an amount calculated by the Issuer (or by an agent appointed by the Issuer to calculate the amount on its behalf) equal to the higher of:

- (a) 100 per cent. of the nominal amount of the Notes to be redeemed; or
- (b) the sum of the present values of the nominal amount of the Notes to be redeemed and the Remaining Term Interest on such Notes (exclusive of interest accrued to the Optional Redemption Date) discounted to the Optional Redemption Date on an annual basis (based on the actual number of days elapsed divided by 365 or (in the case of a leap year) 366) at the Reference Bond Rate (as defined below), plus the specified Redemption Margin,

plus in each case, for the avoidance of doubt, any interest accrued on the Notes to, but excluding, the Optional Redemption Date.

In the Conditions:

FA Selected Bond means a government security or securities selected by the Financial Adviser as having an actual or interpolated maturity comparable with the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the remaining term of the Notes;

Financial Adviser means an independent and internationally recognised financial adviser selected by the Issuer;

Redemption Margin shall be as set out in the form of Final Terms;

Reference Bond shall be as set out in the form of Final Terms or the FA Selected Bond;

Reference Bond Price means, with respect to the Optional Redemption Date, (a) the arithmetic average of the Reference Government Bond Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (b) if the Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

Reference Bond Rate means, with respect to the Optional Redemption Date, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such Optional Redemption Date;

Reference Government Bond Dealer means each of the five banks selected by the Issuer, or their affiliates, which are (a) primary government securities dealers, and their respective successors, or (b) market makers in pricing corporate bond issues;

Reference Government Bond Dealer Quotations means, with respect to each Reference Government Bond Dealer and the Optional Redemption Date, the arithmetic average, as determined by the Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the form of Final Terms on the Reference Date quoted in writing to the Agent by such Reference Government Bond Dealer; and

Remaining Term Interest means, with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined on the basis of the rate of interest applicable to such Note from and including the Optional Redemption Date.

All notifications, opinions, determinations, certifications, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5.4 by the Issuer (or by an agent appointed by the Issuer to calculate the amount on its behalf), shall (in the absence of manifest error) be binding on the Issuer, the Trustee, the Paying Agents and all Noteholders and Couponholders and (in the absence of wilful misconduct, gross negligence or fraud) no liability to the Issuer, the Noteholders, the Receipholders or the Couponholders shall attach to the Principal Paying Agent.

In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will, subject to compliance with applicable law, be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the Selection Date). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 5.4 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 12 at least five days prior to the Selection Date.

5.5 *Redemption at the option of the Noteholders (Investor Put)*

This Condition 5.5 applies only to Notes specified in the form of Final Terms as being Senior Notes or Non-Preferred Senior Notes.

This Condition 5.5 applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Noteholder, such option being referred to as an Investor Put. The form of Final Terms contains provisions applicable to any Investor Put and must be read in conjunction with this Condition 5.5 for full information on any Investor Put. In particular, the form of Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount and the applicable notice periods.

If Investor Put is specified as being applicable in the form of Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 12 not less than the minimum period nor more than the maximum period of notice specified in the form of Final Terms, the Issuer will, upon the expiry of such notice, redeem, in whole (but not, in the case of a Bearer Note in definitive form, in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a Put Notice) and in which the holder must

specify a bank account to which payment is to be made under this Condition the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear, and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear and Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg by a holder of any Note pursuant to this Condition 5.5 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Notes to be due and payable pursuant to Condition 8, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 5.5.

5.6 *Issuer Call due to MREL Disqualification Event*

This Condition 5.6 applies only to Notes specified in the form of Final Terms as being Senior Notes or Non-Preferred Senior Notes.

In respect of any Series of Senior Notes or Non-Preferred Senior Notes where Issuer Call due to MREL Disqualification Event is specified as being applicable in the form of Final Terms, then the Issuer may (subject to the provisions of Condition 5.13) on any Interest Payment Date (if the Note is a Floating Rate Note), or at any time (if the Note is not a Floating Rate Note), on giving not less than the minimum period nor more than the maximum period of notice specified in the form of Final Terms to the Principal Paying Agent and the Trustee and, in accordance with Condition 12 (which notice shall be irrevocable), the Noteholders, redeem all (but not some only) of the Notes then outstanding at their Early Redemption Amount as described in Condition 5.7 below (if appropriate) with interest accrued to (but excluding) the date fixed for redemption, if the Issuer determines that a MREL Disqualification Event has occurred and is continuing.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by two authorised signatories of the Issuer stating that the said circumstances prevail and describe the facts leading thereto and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Upon the expiry of any such notice as is referred to in this Condition 5.6, the Issuer shall be bound to redeem the Notes in accordance with this Condition 5.6. Notes redeemed pursuant to this Condition 5.6 will be redeemed at their Early Redemption Amount referred to in Condition 5.7 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

5.7 *Early Redemption Amounts*

For the purpose of Condition 5.2, Condition 5.3, Condition 5.6 above and Condition 8:

- a. each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount; and
- b. each Zero Coupon Note will be redeemed at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the form of Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

5.8 *Specific redemption provisions applicable to certain types of Exempt Notes*

The Final Redemption Amount, any Optional Redemption Amount and the Early Redemption Amount in respect of Index Linked Redemption Notes and Dual Currency Redemption Notes may be specified in, or determined in the manner specified in, the applicable Pricing Supplement. For the purposes of Condition 5.2, Index Linked Interest Notes and Dual Currency Interest Notes may be redeemed only on an Interest Payment Date.

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined in the manner specified in the applicable Pricing Supplement.

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

5.9 *Purchases*

Subject to Condition 5.13 in respect of Senior Notes and Non-Preferred Senior Notes and Condition 5.14 in respect of Subordinated Notes, the Issuer or any of its subsidiaries may purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the purchaser, surrendered to any Paying Agent for cancellation.

Subordinated Notes may only be purchased by the Issuer or any of its subsidiaries, provided that and to the extent permitted by the relevant Regulatory Capital Requirements (as defined in Condition 5.14) at the relevant time the Notes to be purchased (a) do not exceed the lower of (i) 10 per cent. (or any other threshold as may be requested or required by the Competent Authority from time to time) of the aggregate nominal amount of the relevant Series of the Subordinated Notes and (ii) 3 per cent. (or any other threshold as may be requested or required by the Competent Authority from time to time) of the aggregate nominal amount of the Subordinated Notes qualified on issue as "Tier 2 capital" for regulatory capital purposes of the Issuer from time to time outstanding and (b) are not purchased in order to be surrendered to any Paying Agent for cancellation.

5.10 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 5.9 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

5.11 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 5.1, 5.2, 5.3, 5.4 or 5.5 above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 5.7(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 12.

5.12 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.

5.13 Conditions to Early Redemption and Purchase of Senior Notes and Non-Preferred Senior Notes

Any redemption or purchase of Senior Notes and Non-Preferred Senior Notes in accordance with Conditions 5.2, 5.4, 5.6 or 5.9 is subject to compliance by the Issuer with any conditions to such redemption or repurchase prescribed by the MREL Requirements at the relevant time (including any requirements applicable to such redemption or repurchase due to the qualification of such Senior Notes or Non-Preferred Senior Notes at such time as eligible liabilities available to meet the MREL Requirements).

5.14 Conditions to Early Redemption and Purchase of Subordinated Notes

Any redemption or purchase of Subordinated Notes in accordance with Condition 5.2, 5.3, 5.4 or 5.9 is subject to:

- (a) the Issuer giving notice to the relevant Competent Authority and such Competent Authority granting prior permission to redeem or purchase the relevant Subordinated Notes (in each case in the manner required by the relevant Regulatory Capital Requirements, including Articles 77(b) and 78 of CRR) and confirmation of such permission being provided to the Trustee; and
- (b) compliance by the Issuer with any alternative or additional pre-conditions to redemption or purchase, as applicable, set out in the relevant Regulatory Capital Requirements for the time being.

In these Conditions:

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;

Competent Authority means the Bank of Italy and/or, to the extent applicable in any relevant situation, the European Central Bank or any successor or replacement entity to either, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer.

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

CRD IV Directive means 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;

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

EC Proposals means the amendments proposed to the CRD IV Directive, the CRR and BRRD published by the European Commission on 23 November 2016, as amended or updated in compromise drafts published by the European Commission as at the Issue Date and excluding any part of the amendments reflected in enacted legislation as at the Issue Date;

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, if relevant, 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 consolidated basis) to the extent required by (i) the CRD IV Regulation or (ii) the CRD IV Directive;

Group Entity means the Issuer or any legal person that is part of the BPS Group;

Loss Absorption 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 Group Entities can be reduced, cancelled and/or converted into shares or obligations of the obligor or any other person;

MREL Disqualification Event means that at any time, all or part of the aggregate outstanding nominal amount of such Series Senior of Notes or Non-Preferred Senior Notes is or will be excluded fully or partially from eligible liabilities available to meet the MREL Requirements, provided that: (a) the exclusion of a Series of Senior Notes or of Non-Preferred Senior Notes from the MREL Requirements due to the remaining maturity of such Senior Notes or Non-Preferred Senior Notes being less than any period prescribed thereunder, does not constitute an MREL Disqualification Event; (b) the exclusion of all or some of a Series of Senior Notes from the MREL Requirements due to there being insufficient headroom for such Senior Notes within a prescribed exception to the otherwise applicable general requirements for eligible liabilities does not constitute an MREL Disqualification Event; and (c) the exclusion of all or some of a Series of Senior Notes or Non-Preferred Senior Notes from MREL Requirements as a result of such Notes being purchased by or on behalf of the Issuer or as a result of a purchase which is funded directly or indirectly by the Issuer, does not constitute an MREL Disqualification Event;

MREL Requirements means the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss-absorbing capacity instruments applicable to the Issuer and/or the BPS Group, from time to time, including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by the Republic of Italy, a relevant Competent Authority, a Relevant Resolution Authority or the European Banking Authority from time to time (whether or not such requirements, guidelines or policies are applied generally or specifically to the Issuer and/or the BPS Group), as any of the preceding laws, regulations, requirements, guidelines, rules, standards, policies or interpretations may be amended, supplemented, superseded or replaced from time to time;

Regulatory Capital Requirements means any requirements contained in the regulations, rules, guidelines and policies of the Competent Authority, or of the European Parliament and Council then in effect in the Republic of Italy, relating to capital adequacy and applicable to the Issuer and/or the BPS Group from time to time (including, but not limited to, as at the Issue Date of the relevant Series of Notes, the rules contained in, or implementing, the CRD IV Package and the BRRD, delegated or implementing acts adopted by the European Commission and guidelines issued by the European Banking Authority);

Relevant Resolution Authority means the Italian resolution authority, the Single Resolution Board (SRB) established pursuant to the SRM Regulation and/or any other authority entitled to exercise or participate in the exercise of any Resolution Power or Loss Absorption Power from time to time;

Resolution Power means any statutory write-down, transfer and/or conversion power existing from time to time under any laws regulations, rules or requirements relating to the resolution of the Issuer, including but not limited to any laws, regulations, rules or

requirements implementing the BRRD and/or the SRM Regulation; and

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 SRM and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, as amended or replaced from time to time.

6. TAXATION

All payments of principal and interest in respect of the Notes, Receipts or Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law.

In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest, in the case of Senior Notes or Non-Preferred Senior Notes (if permitted by the MREL Requirements), or interest only, in the case of Subordinated Notes, which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction, except that no such additional amounts shall be payable:

- (a) with respect to any Notes, Receipts or Coupons 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 and in all circumstances in which the procedures set forth in Legislative Decree No. 239 have not been met or complied with except where such procedures have not been met or complied with due to the actions of omissions of the Issuer or its agents;
- (b) with respect to any Note, Receipt or Coupon presented for payment:
 - (i) in the jurisdiction of incorporation of the Issuer; or
 - (ii) by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
 - (iii) by or on behalf of a holder who is entitled to avoid such withholding or deduction in respect of such Note, Receipt or Coupon by making or procuring a declaration of non-residence or other similar claim for exemption; or
 - (iv) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4.6);
 - (v) 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

- (c) in respect of any Note, Receipts or Coupons where such withholding or deduction is required pursuant to Law Decree No. 512 of 30 September 1983, as amended or supplemented from time to time;
- (d) where such withholding or deduction is imposed on a payment pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, any regulations or agreements thereunder or any official interpretations thereof or any law implementing an intergovernmental approach thereto.

As used herein:

- (i) **Tax Jurisdiction** means the Republic of Italy (**Italy**) or any political subdivision of any authority thereof or therein having power to tax; and
- (ii) **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 12.

7. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 6) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 4.2 or any Talon which would be void pursuant to Condition 4.2.

8. EVENTS OF DEFAULT AND ENFORCEMENT

8.1 Events of Default relating to Senior Notes, Non-Preferred Senior Notes and Subordinated Notes

The Trustee, at its discretion, may, and if so requested in writing by the holders of at least one quarter in principal amount of the Notes then outstanding, or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, shall (subject in each case to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (an **Event of Default**) shall occur:

- (a) the Issuer shall be liquidated (including becoming subject to *Liquidazione Coatta Amministrativa* as defined in the Italian Consolidated Banking Act); or
- (b) the Issuer shall be insolvent.

8.2 *Enforcement*

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the obligations of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (a) it

shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction provided that, in the case of Non-Preferred Senior Notes and Subordinated Notes, the Issuer shall not by virtue of the institution of such proceedings, other than proceedings for the winding up or dissolution of the Issuer, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it pursuant to the Conditions and the Trust Deed.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

Proceedings for the winding-up or liquidation of the Issuer may only be initiated in the Republic of Italy (and not elsewhere), by the Trustee on behalf of the Noteholders, in accordance with the laws of the Republic of Italy.

9. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

10. AGENTS

The initial Agents are set out above. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the form of Final Terms.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be a paying agent in a jurisdiction within Europe, other than Italy; and
- (c) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority).

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4.5. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholder, Receiptholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged

or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

11. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 7.

12. NOTICES

All notices regarding the Notes will be deemed to be validly given if published if and for so long as the Notes are admitted to trading on, and listed on the Official List of, the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the Luxemburger Wort or the Tageblatt in Luxembourg. 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 including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such websites the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

13. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed 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 Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two 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, the Receipts or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, or altering the currency of payment of the Notes, the Receipts or the Coupons or amending in certain respects), the quorum shall be two or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in nominal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting, and whether or not they voted on the resolution, and on all Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error including without limitation where required in order to comply with mandatory provisions of law. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 3.4 (*Benchmark Discontinuation*) without the consent of the Noteholders, Receiptholders or Couponholders, subject (to the extent required) to the Issuer giving any notice required to be given to, and receiving any consent required from, or non-objection from, the Competent Authority. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the

jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition Prescription and/or any undertaking or covenant given in addition to, or in substitution for, Condition Prescription pursuant to the Trust Deed.

The Trustee may, without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of another company, being a Subsidiary of the Issuer, subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Issuer, (ii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, (iii) compliance by the Issuer with relevant Regulatory Capital Requirements and/or MREL Requirements as certified in writing to the Trustee in a certificate signed by two authorised signatories of the Issuer (upon which certificate the Trustee is entitled to rely absolutely without enquiry or liability) and (iv) certain other conditions set out in the Trust Deed being complied with.

For the avoidance of doubt, any variation of these Conditions, the Trust Deed and the Agency Agreement to give effect to the Benchmark Amendments in accordance with Condition 3.4 (*Benchmark Discontinuation*) shall not require the consent or approval of Noteholders, Receiptholders or Couponholders.

In addition, with respect to (i) any Series of Senior Notes or Non-Preferred Senior Notes, if at any time a MREL Disqualification Event occurs, and if Substitution or Variation is specified as being applicable in the form of Final Terms, or (ii) all Notes, if Substitution or Variation is specified as being applicable in the form of Final Terms, in order to ensure the effectiveness and enforceability of Condition 18 (*Statutory Loss Absorption Powers*), then the Issuer may, subject as provided in the Trust Deed and subject to giving any notice required to be given to, and receiving any consent required from, the Competent Authority and/or as appropriate the Relevant Resolution Authority (without any requirement for the consent or approval of the holders of the relevant Notes of that Series) and having given not less than 30 nor more than 60 days' notice to the Trustee and the holders of the Notes of that Series (or such other notice periods as may be specified in the form of Final Terms, at any time either substitute all (but not some only) of such Notes, or vary the terms of such Notes so that they remain or, as appropriate, become, Qualifying Senior Notes, Qualifying Non-Preferred Senior Notes or Qualifying Subordinated Notes, as applicable, provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities. The Trustee shall, at the expense of the Issuer, agree to such modification or variation without the consent of holders.

In these Conditions:

Qualifying Non-Preferred Senior Notes means securities issued by the Issuer that:

- (a) other than in respect of the effectiveness and enforceability of Condition 18, have terms not materially less favourable to a holder of the Non-Preferred Senior Notes (as reasonably determined by the Issuer) than the terms of the Non-Preferred Senior Notes and provided that a certification to such effect (including in respect of the matters specified in (A) to (E) below) signed by two authorised signatories of the Issuer shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without any enquiry or liability) prior to the issue of the relevant notes, and they shall also (A) contain terms which at such time result in such securities being

eligible to count towards fulfilment of the Issuer's and/or the BPS Group's (as applicable) minimum requirements for own funds and eligible liabilities under the then applicable MREL Requirements; (B) have a ranking at least equal to that of the Non-Preferred Senior Notes; (C) have at least the same interest rate and the same Interest Payment Dates as those from time to time applying to the Non-Preferred Senior Notes; (D) have the same redemption rights as the Non-Preferred Senior Notes; and (E) in the event the Notes carry a rating immediately prior to such variation or substitution, are assigned (or maintain) the same credit ratings as were assigned to the Non-Preferred Senior Notes immediately prior to such variation or substitution (save that, for the avoidance of doubt, where any credit rating was, as a result of Condition 18 becoming ineffective and/or unenforceable, amended prior to such substitution or variation, reference in this sub-clause (E) shall be to such credit rating prior to such amendment); and

- (b) are listed on a recognised stock exchange if the Non-Preferred Senior Notes were listed immediately prior to such variation or substitution.

Qualifying Senior Notes means securities issued by the Issuer that:

- (a) other than in respect of the effectiveness and enforceability of Condition 18, have terms not materially less favourable to a holder of the Senior Notes (as reasonably determined by the Issuer) than the terms of the Senior Notes and provided that a certification to such effect (including in respect of the matters specified in (A) to (E) below) signed by two authorised signatories of the Issuer shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without any enquiry or liability) prior to the issue of the relevant notes, and they shall also (A) contain terms which at such time result in such securities being eligible to count towards fulfilment of the Issuer's and/or the BPS Group's (as applicable) minimum requirements for own funds and eligible liabilities under the then applicable MREL Requirements; (B) have a ranking at least equal to that of the Senior Notes; (C) have at least the same interest rate and the same Interest Payment Dates as those from time to time applying to the Senior Notes; (D) have the same redemption rights as the Senior Notes; and (E) in the event the Notes carry a rating immediately prior to such variation or substitution, are assigned (or maintain) the same credit ratings as were assigned to the Senior Notes immediately prior to such variation or substitution (save that, for the avoidance of doubt, where any credit rating was, as a result of Condition 18 becoming ineffective and/or unenforceable, amended prior to such substitution or variation, reference in this sub-clause (E) shall be to such credit rating prior to such amendment); and
- (b) are listed on a recognised stock exchange if the Senior Notes were listed immediately prior to such variation or substitution.

Qualifying Subordinated Notes means securities issued by the Issuer that:

- (a) other than in respect of the effectiveness and enforceability of Condition 18, have terms not materially less favourable to a holder of the Subordinated Notes (as reasonably determined by the Issuer) than the terms of the Subordinated Notes and provided that a certification to such effect (including in respect of the matters specified in (A) to (E) below) signed by two authorised signatories of the Issuer shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without any enquiry or liability) prior to the issue of the relevant notes, and they shall also (A) comply with the then-current requirements of the Regulatory Capital Requirements in relation to Tier 2 capital, (B) have a ranking at least equal to that of

the Subordinated Notes; (C) have at least the same interest rate and the same Interest Payment Dates as those from time to time applying to the Subordinated Notes; (D) have the same redemption rights as the Subordinated Notes; and (E) in the event the Notes carry a rating immediately prior to such variation or substitution, are assigned (or maintain) the same credit ratings as were assigned to the Subordinated Notes immediately prior to such variation or substitution (save that, for the avoidance of doubt, where any credit rating was, as a result of Condition 18 becoming ineffective and/or unenforceable, amended prior to such substitution or variation, reference in this sub-clause (E) shall be to such credit rating prior to such amendment); and

- (b) are listed on a recognised stock exchange if the Subordinated Notes were listed immediately prior to such variation or substitution.

14. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including:

- (a) provisions relieving it from taking proceedings unless indemnified and/or secured and/or prefunded to its satisfaction; and
- (b) provisions limiting or excluding its liability in certain circumstances. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or opinion or any advice of any accountants, financial advisers, financial institution or other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, opinion, confirmation or certificate or advice and such report, opinion, confirmation, or certificate or advice shall be binding on the Issuer the Trustee and the Noteholders, Receiptholders and Couponholders.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the

Issuer and/or any of its subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

15. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing law

The Trust Deed (except for Clause 4.3 and Clause 4.4), the Agency Agreement, the Notes (except for Condition 2.2, Condition 2.3 and Condition 18), the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and construed in accordance with, English law. Each of Condition 2.2, Condition 2.3, Condition 18 and Clause 4.3 and Clause 4.4 of the Trust Deed are governed by, and shall be construed in accordance with, Italian law.

17.2 Submission to jurisdiction

- (a) The English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and the Trustee and any Noteholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 17.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

17.3 Appointment of Process Agent

The Issuer irrevocably appoints Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London, EC2V 7EX as its agent for service of process in any proceedings before the English courts in relation to any Dispute and agrees that, in the event of Law Debenture Corporate Services Limited being unable or unwilling for any reason so to act, it will immediately appoint another person approved by the Trustee as its agent for service of

process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

17.4 Other documents

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

18. STATUTORY LOSS ABSORPTION POWERS

By the acquisition of the Notes, each Noteholder acknowledges and agrees to be bound by the exercise of any Loss Absorption Power by the Relevant Resolution 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 Relevant Resolution Authority of such Loss Absorption 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 Loss Absorption Power by the Relevant Resolution Authority.

Upon the Issuer being informed and notified by the Relevant Resolution Authority of the actual exercise of the date from which the Loss Absorption Power is effective with respect to the Notes, the Issuer shall notify the Noteholders without delay. Any delay or failure by the Issuer to give notice shall not affect the validity and enforceability of the Loss Absorption Power nor the effects on the Notes described in this Condition.

The exercise of the Loss Absorption Power by the Relevant Resolution 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 Relevant Resolution 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 Loss Absorption Power to the Notes.

USE OF PROCEEDS

The net proceeds of the sale of each Tranche of Notes will be used by the Issuer for general funding purposes of BPS Group, unless otherwise stated in the form of Final Terms or in the applicable Pricing Supplement.

DESCRIPTION OF THE ISSUER

1. HISTORY AND DEVELOPMENT OF THE ISSUER

BPS is the parent company (the **Parent Company**) of the BPS Group and, inspired by principles of small-scale retail lending, provides savings deposit and lending services in various forms, as well as private and investment banking, asset management, leasing, bancassurance and consumer credit services to its customers. BPS focuses on the territories where its subsidiaries have historically been established, with a special focus on providing services to families and small and medium-sized businesses and cooperatives.

Within the BPS Group, the Issuer, which is an operating Parent Company performing guidance, governance and control functions for the BPS Group, essentially engages in the following business operations:

- guidance, coordination and control, via its setting of the BPS Group's guidelines, of business and financial planning, organisational structure, strategic objectives, administration and accounting, credit management policies and human resources management policies. The Issuer also performs activities the purpose of which is the management and control of risks deriving from the business operations of the BPS Group's companies;
- acting as a hub for the coordination and oversight of policies for the management of the structural items comprising assets and liabilities, both its own and those of the other companies belonging to the BPS Group, with the objectives of optimising available capital, identifying transactions and funding structures for the BPS Group, through initiatives on the domestic and international markets, as well as oversight of liquidity requirements and related trends; and
- providing support, control functions and guidance services for the BPS Group's business operations, with a view to facilitating business development and allowing for effective services to be provided to customers.

In Italy, the BPS Group, as of 30 September 2018, has a market share of 1.83% based on the number of branches, 1.24% in terms of lending and 1.50% in terms of deposits.

Company name

The Issuer's company name is Banca Popolare di Sondrio S.c.p.A.

Issuer Legal Entity Identifier (“LEI”)

J48C8PCSJVUBR8KCW529

Place of registration of the Issuer and its registration number

The Issuer is on the Companies Register of Sondrio, Italy, at no. 00053810149. The Issuer is also on the Register of Banks held by the Bank of Italy at no. 842.

Date of incorporation and length of life of the Issuer

The Issuer is a co-operative limited by shares (*società cooperativa per azioni*) incorporated by deed of

Giambattista Caimi, Notary public, registered in Sondrio on 6 March 1871 with no. 315.

The duration of the Issuer is set, pursuant to Article 3 of its Articles of Association, up to 31 December 2050 and may be extended.

Domicile and legal form of the Issuer, legislation under which the Issuer operates, its country of incorporation, website address and address and telephone number of its registered office

Banca Popolare di Sondrio is a co-operative limited by shares (*società cooperativa per azioni*) incorporated in Sondrio, Italy and operating under Italian law. The address of the Issuer's registered office is Piazza Garibaldi, 16, 23100 Sondrio, Italy, phone +39 (0342)528.111, website address www.popso.it.

Proceedings converting BPS into a joint-stock company

On 20 January 2015, the Italian Council of Ministers approved Law Decree No. 3 of 24 January 2015 entitled "Urgent measures for the banking system and investment" (the **Decree 3/2015**). On 25 March 2015, Law No. 33 dated 24 March 2015 was published in the Official Gazette, which converted the Decree 3/2015 into Italian law.

Article 1 of the Decree 3/2015 provides for the reform of cooperative banks (*banche popolari*). In particular, Article 29 of the Consolidated Banking Act was amended to introduce a new paragraph 2 bis, which states that the total assets of a cooperative bank cannot exceed €8 billion. Additionally, new paragraph 2 ter of Article 29 of the Consolidated Banking Act states that, if the total assets of a cooperative bank exceed that threshold, the cooperative bank will be required to change its corporate form by converting into a joint-stock company.

In the event of conversion into a joint-stock company, the Decree 3/2015 provided cooperative banks the option to amend their by-laws to include a ceiling on voting rights of shareholders at General Meetings, provided that the ceiling is not less than 5% of the bank's share capital with voting rights, for a maximum period of 24 months from the date of entry into force of the Law N. 33 dated 24 March 2015.

The Bank of Italy issued on 9 June 2015 the implementing provisions of Law No. 33 dated 24 March 2015, including the provisions in relation to the mandatory conversion from a cooperative bank to a joint-stock company. Cooperative banks with assets over €8 billion had 18 months (starting from 27 June 2015, being the date on which the Bank of Italy's implementing provisions entered into force) to convert into joint-stock companies.

In observance of the Decree 3/2015, in July 2015 BPS started the process of conversion to a joint stock company. In this respect, on 8 October 2015, the Board of Directors of BPS, following consultation with the Board of Auditors, approved the plan of initiatives that were intended to comply with the requirement provided under Decree 3/2015 together with, *inter alia*, a first set of amendments to the by-laws aimed at assuring compliance with the regulations in force. An extraordinary general meeting was called on 17 December 2016 to examine the proposal of the new legal status and adaptation of the by-laws of BPS, but the bank was legally unable to hold it. In particular, on 15 December 2016, the Chairman of the VIth section of the Italian Council of State issued a temporary decree suspending the deadline for the mandatory transformation of cooperative banks into joint-stock companies that was fixed by the reform; further, by an injunction issued on 16 December 2016, the Milan Court prevented the above-mentioned extraordinary meeting from taking place.

Those urgent measures were then confirmed by the Milan Court on 10 January 2017 and by the Council of State on 12 January 2017. The latter definitively suspended the regulatory deadline for the

conversion of Italian cooperative banks into joint-stock companies until publication of further instructions by the Council of State, once the decision is made by the Constitutional Court on the legitimacy of Law No. 33 dated 24 March 2015.

On 21 March 2018, the Constitutional Court declared the constitutional legitimacy of Decree 3/2015, whose effects have been suspended by the Council of State.

Further to the Constitutional Court's decision, on 28 October 2018 the Council State decided to refer the case to the Court of Justice of the European Union for a preliminary ruling, with particular reference to the rules imposing mandatory conversion (setting such threshold at Euro 8 billion) and allowing the bank to defer or limit, also for an indefinite period, the repayment of the shares of the withdrawing shareholders.

According to Law Decree No. 119 of 23 October 2018 converted into Law with modifications by law No. 136 of 17 December 2018, the deadline for the mandatory conversion has been extended to 31 December 2019.

2. BUSINESS OVERVIEW

A brief description of the Issuer's principal activities and principal categories of products sold and/or services provided

BPS engages in traditional retail banking services in the territories covered and offers related financial services to private individuals, businesses and institutions. As regards private individuals and businesses, the bank offers products and services in the following areas:

- products and services for families: in particular, bank accounts, consumer credit, loans, payment instruments (credit and debit cards), insurance and pension products and on-line services;
- savings/investment products and insurance: such as the offer of bonds, managed savings, life insurance and other investment instruments;
- products and services for internationalisation: the bank supports companies which operate with foreign counterparties, offering a broad range of support services, both for its traditional commercial banking segment, and for more value-added products and services, such as products and services related to commercial exchanges with foreign counterparties or derivative products for the hedging of corporate risks;
- home banking, remote banking, POS, mobile products and services.

Asset management

In the context of asset management, the bank offers both traditional and innovative investment solutions to private individuals, businesses and institutional investors. The range of services includes, among other things, portfolio advisory services, wealth management services, which are provided by a qualified and experienced team of specialised professionals within the bank, derivatives trading and trading of structured products.

For asset management through mutual investment funds, the BPS Group has been party to trade agreements with Arca Fondi SGR S.p.A. since 1983. The BPS Group has also entered into trade agreements with Etica SGR S.p.A., which establishes and promotes exclusively socially responsible mutual investments in which the selection of assets is carried out on the basis of criteria of social and environmental responsibility.

In addition to the above, in 1999 the Swiss subsidiary Banca Popolare di Sondrio (SUISSE) founded Popso (Suisse) Investment Fund SICAV, a mutual investment fund organised under Luxembourg law with multiple sub-funds. Each sub-fund has its own pool of assets and liabilities and follows its own distinct investment strategy. Each sub-fund is therefore represented by one or more separate share classes. Investors currently have a choice of 13 sub-funds.

Bancassurance and supplementary pensions schemes

In the context of bancassurance, the bank operates in the life insurance segment via a partnership with Arca Vita and the Irish company Arca Vita International. In the non-life segment, Arca Assicurazioni's products are offered. The insurance solutions offered are aimed principally at private individuals and small/medium-sized businesses to meet such clients' insurance requirements as regards protecting their health, family and home. The bank offers a private pension scheme for those who intend to benefit from a complementary pension through the open-end pension fund Arca Previdenza of Arca Fondi SGR.

Factoring

The bank offers its customers factoring products through its subsidiary Factorit S.p.A., which provides a complete range of solutions for the factoring of trade receivables: *pro solvendo* (with recourse) factoring, *pro soluto* (non-recourse) financial factoring without notification, *pro soluto* (non-recourse) factoring with notification, *pro soluto* (non-recourse) non-financial factoring without notification, maturity factoring and payment on a certain date, export factoring, import factoring, as well as financing products, transfers of future receivables and “indirect factoring”.

Leasing

The bank's leasing operations are conducted on the basis of trade agreements with Alba Leasing S.p.A., which offers real estate leasing and asset leasing, including auto, aircraft, ship and railway leasing services. Alba Leasing also operates in the renewables energy, nautical and public administration sectors.

Corporate Banking

BPS offers corporate clients a range of high value-added financial products and services in the following macro-areas: corporate lending, structured finance and related services (such as certifications of economic-financial plans for project financing, acquisition financing and hedging), corporate finance (advisory services for extraordinary financial transactions and for corporate restructurings for succession planning purposes and private equity searches for companies interested in risk capital opportunities) and capital markets (only with respect to the structuring of mini-bond issues).

Other services

Completing the range of directly offered services, BPS has entered into distribution agreements with Compass Banca S.p.A. (Gruppo Mediobanca) for the offering of personal loans and with ING Bank in the context of mortgage loans for families. The bank offers its customers loan products through its subsidiaries Banca della Nuova Terra S.p.A. and PrestiNuova S.p.A. (**PrestiNuova**), in particular in support of the agriculture and agri-food sectors. Moreover, particular loans are reimbursable by assignment of one fifth of the customer's salary or pension

3. ORGANISATIONAL STRUCTURE

Brief description of the BPS Group of which the Issuer is part and of the Issuer's position within

the BPS Group

As of the date of the Base Prospectus, the BPS Group comprises the companies listed below.

The amounts of the share capitals of the Group companies reported below is based on the unaudited interim condensed consolidated financial statements at 30 June 2018 of the Issuer, and takes into consideration the acquisition of PrestiNuova S.p.A., completed on July 23, 2018.

Parent Company:

- Banca Popolare di Sondrio S.C.p.A. — Sondrio

Companies belonging to the BPS Group:

- Banca Popolare di Sondrio (SUISSE) SA – Lugano, Switzerland.
The Parent Company holds the entire share capital of 180,000,000 Swiss Francs.
- Factorit S.p.A. — Milan.
The Parent Company holds 60.5% of the share capital of Euro 85,000,002.
- Sinergia Seconda S.r.l. — Milan.
The Parent Company holds the entire corporate capital of Euro 60,000,000.
- Banca della Nuova Terra S.p.A. — Sondrio.
The Parent Company holds the entire corporate capital of Euro 31,315,321.
- PrestiNuova S.p.A. — Rome.
The Parent Company holds the entire corporate capital of Euro 25,263,160.
- POPSO Covered Bond S.r.l. – Conegliano (TV).
The Parent Company holds 60% of the corporate capital of Euro 10,000.

• *Other subsidiary Companies:*

- Pirovano Stelvio S.p.A. — Sondrio.
The Parent Company holds the entire share capital of Euro 2,064,000.
- Rajna Immobiliare S.r.l., — Sondrio
The Parent Company holds 50% (joint control) of the corporate capital of Euro 20,000.
- Servizi Internazionali e Strutture Integrate 2000 S.r.l. – Milano
The Parent Company holds 100% of the corporate capital of Euro 75,000.

Disclosure in respect of business segments

The disclosure in respect of business segments is prepared in accordance with the provisions of IFRS8

and the following segments are identified:

- enterprises: this segment includes "non-financial companies" and "family businesses"; here relate to credit and loans, endorsement loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant;
- private parties and other customers: this segment includes "consumer families", "public administrations", "financial companies", "non-profit institutions"; the BPS Group includes the results deriving from standard business transactions with this category of customers which are attributable to savings and brokerage of savings, medium/long-term loans and consumer loans, collections and payments, issuance of debit and credit cards and collateral residual functions;
- securities segment: this includes results from transactions with customers related to the trading of securities as a direct counterparty, the acceptance of orders, the placement of financial instruments and insurance and pension products, and management of securities portfolios;
- central structure: for this segment, the BPS Group presents the results deriving from the management of its portfolio of owned securities and shareholdings, exchange transactions entered into on its own account, and the exercise of treasury functions. In addition, it aggregates a number of residual business operations not allocated to the foregoing segments since, on the basis of the amount of revenues achieved, they fall under the relevance thresholds provided under the relevant legal framework.

As of 30 September 2018, the BPS Group had a total of 363 branches.

In Italy, the BPS Group operates through the Parent Company's distribution network.

The principal territories where the BPS Group operates are Lombardia, Piemonte, Val d'Aosta, Liguria, Veneto, Trentino Alto Adige ed Emilia Romagna and in the area of Rome, as well as the on-line internet banking developed by the same.

Distribution of the BPS Group's branches as of 30 September 2018:

| | <i>No. of branches</i> | <i>%</i> |
|------------------------------------|------------------------|----------|
| BPS | 343 | 94.49 |
| Banca Popolare di Sondrio (SUISSE) | 20 | 5.51 |
| Total | 363 | 100 |

As regards the Issuer, the branches are organised into 12 territorial areas on the basis of criteria of geographical consistency. Each branch has operating autonomy and, as a rule, accounting autonomy. The coordination of the business operations of the branches of each area is entrusted to a coordinator, to whom the managers of the area branches report. In order to better serve high-level customers, the bank has established its own network of financial brokers, who support the branches, coordinated by the financial promotion office of the central headquarters. The network of brokers comprises 65 professionals who, for all intents and purposes, are included within the bank's organisational structure as employees. In the context of the offer of electronic multi-channel products and services aimed at

private individuals, businesses and institutions, BPS also operates through the following channels: home banking, trading on line, mobile, remote banking and ATM. The structure includes the “Virtual Unit”, an operating structure that manages relationships with customers who are resident in areas not served by traditional branches through online channels. The customers of the Virtual Unit are mainly professionals to whom dedicated products are offered.

At the international level, the BPS Group is represented by branches in Switzerland and in the Principality of Monaco and with a representative office in Shanghai.

Brief description of the BPS Group of which the Issuer is the Parent Company

As of the date of the Base Prospectus, the structure of the BPS Group comprises the companies listed below.

The amounts of the share capitals of the Group companies reported below is based on the unaudited interim condensed consolidated financial statements at 30 June 2018 of the Issuer, and takes into consideration the acquisition of PrestiNuova S.p.A., completed on July 23, 2018. Fully consolidated Shareholdings:

| Name | Head Office | Share capital (in thousands) | % held |
|--|--------------------|-------------------------------------|---------------|
| Banca Popolare di Sondrio (SUISSE) SA | Lugano | (CHF) 180,000 | 100 |
| Factorit S.p.A. | Milan | 85,000 | 60.5 |
| Sinergia Seconda S.r.l. | Milan | 60,000 | 100 |
| Banca della Nuova Terra S.p.A. | Sondrio | 31,315 | 100 |
| PrestiNuova S.p.A. | Roma | 25,263 | 100 |
| Pirovano Stelvio S.p.A.* | Sondrio | 2,064 | 100 |
| Servizi Internazionali e Strutture Integrate 2000 S.R.L. * | Milan | 75 | 100 |
| Immobiliare San Paolo S.r.l.* | Tirano | 10** | 100 |
| Immobiliare Borgo Palazzo S.r.l.* | Tirano | 10** | 100 |
| Popso Covered Bond S.r.l. | Conegliano | 10 | 60 |

* equity investments not included in the banking group

** held by Sinergia Seconda S.r.l.

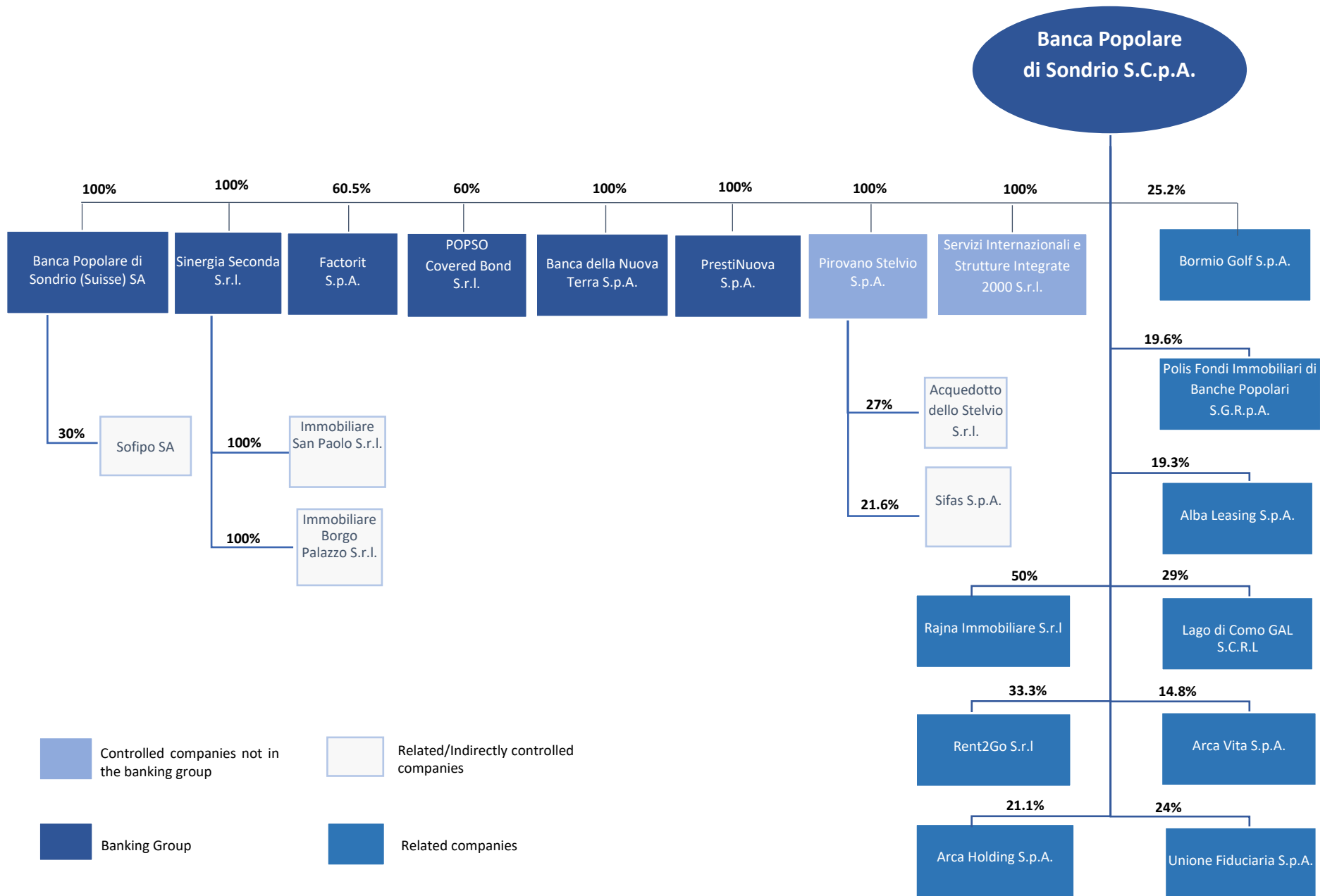
Other companies included in the scope of consolidation:

| Name | Head Office | Share capital (in thousands) | %held |
|---------------------------------|--------------------|-------------------------------------|--------------|
| Alba Leasing S.p.A. | Milan | 357,953 | 19.264 |
| Arca Vita S.p.A. | Verona | 208,279 | 14.837 |
| Arca Holding S.p.A. | Milan | 50,000 | 21.137 |
| Unione Fiduciaria S.p.A. | Milan | 5,940 | 24.000 |
| Polis Fondi Sgrpa | Milan | 5,200 | 19.600 |
| Sofipo SA* | Lugano | (CHF) 2,000 | 30.000 |
| Bormio Golf S.p.A. | Bormio | 317 | 25.237 |
| Lago di Como gal Scrl | Canzo | 22 | 28.953 |
| Acquedotto dello Stelvio Srl ** | Bormio | 21 | 27.000 |
| Sifas S.p.A. ** | Bolzano | 1,209 | 21.614 |
| Rent2Go Srl | Bolzano | 3,300 | 33.333 |
| Rajna Immobiliare S.r.l. | Sondrio | 20 | 50.000 |

* held by Banca Popolare di Sondrio (SUISSE) SA

** held by Pirovano Stelvio S.p.A.

BANCA POPOLARE DI SONDRIO GROUP



4. DIRECTORS, SENIOR MANAGERS AND MEMBERS OF THE SUPERVISORY BODIES

BPS has adopted a traditional governance system consisting of a Board of Directors comprising 15 Directors and a Board of Auditors comprising 3 Auditors and 2 Alternate Auditors.

The Board of Directors has established among its members the Executive Committee (“*Comitato esecutivo*”), the Related Parties Committee (“*Comitato operazioni con parti correlate*”), the Remuneration Committee (“*Comitato remunerazione*”), the Audit and Risk Committee (“*Comitato controllo e rischi*”) and the Appointments Committee (“*Comitato nomine*”).

Members of the administrative, management and supervisory bodies

The list of members of the administrative, management and supervisory bodies of the Issuer as at the date of approval of the Base Prospectus and the offices held in other companies are set out below.

Board of Directors

| NAME AND SURNAME | OFFICE HELD IN BPS | PRINCIPAL OFFICES HELD IN OTHER COMPANIES |
|---------------------------------|---------------------------|--|
| Francesco Venosta ** | Chairperson | <ul style="list-style-type: none"> – Unione Fiduciaria S.p.A. (Deputy Chairperson); – Banca della Nuova Terra S.p.A. (Chairperson of the Board of Directors); – PrestiNuova S.p.A. (Chairperson of the Board of Directors); – Istituto della Enciclopedia Italiana Fondata da Giovanni Treccani S.p.A. (Director); – Fondo Interbancario di Tutela dei Depositi (Director). |
| Lino Enrico Stoppani *** | Deputy Chairperson | <ul style="list-style-type: none"> – Factorit S.p.A. (Director); – Immobiliare Borgo Palazzo S.r.l. (Sole Director); – Immobiliare San Paolo S.r.l. (Sole Director); – Pirovano Stelvio S.p.A. (Director); – Sinergia Seconda S.r.l. (Sole Director); – FIPE Federazione Italiana Pubblici Esercizi (Chairperson of the Board of Directors); – Confcommercio Imprese per l’Italia (Vicary |

| | | |
|-------------------------------------|--|---|
| | | <p>Deputy Chairperson);</p> <ul style="list-style-type: none"> – EPAM Associazione Pubblici Esercizi di Milano e Provincia (Chairperson of the Board of Directors). |
| Mario Alberto Pedranzini *** | Chief Executive Officer and Managing Director | <ul style="list-style-type: none"> – Factorit S.p.A. (Deputy Chairperson); – Banca Popolare di Sondrio (SUISSE) SA (Chairperson of the Board of Directors); – Banca della Nuova Terra S.p.A. (Director); – IEO Istituto Europeo di Oncologia (Director); – Associazione Bancaria Italiana (Vice Chairperson of the Board of Directors); – Consorzio Banche Popolari (Director). |
| Alessandro Carretta * | Director | <ul style="list-style-type: none"> – University of Roma Tor Vergata (Director); – Associazione Italiana per il Factoring (General Secretary). |
| Cecilia Corradini *** | Director | <ul style="list-style-type: none"> – N/A. |
| Loretta Credaro * | Director | <ul style="list-style-type: none"> – Sondrio Servizi al Terziario S.r.l. (Chairperson of the Board of Directors); – Sondrio Confidi al Terziario srl (Director); – Confcommercio (National Director); – Unione Commercio, Turismo e Servizi della provincia di Sondrio (Chairperson of the Board of Directors); – C.C.I.A.A. Sondrio (Chairperson of the Board of Directors). |
| Paolo Biglioli *** | Director | <ul style="list-style-type: none"> – N/A. |
| Donatella Depperu * | Director | <ul style="list-style-type: none"> – N/A. |
| Federico Falck** | Director | <ul style="list-style-type: none"> – Falck Renewables S.p.A. (Director); – Falck S.p.A. (Director). |
| Attilio Piero Ferrari * | Director | <ul style="list-style-type: none"> – N/A. |

| | | |
|---------------------------------|-----------------|---|
| Cristina Galbusera ** | Director | – Esprinet S.p.A. (Director). |
| Adriano Propersi * | Director | – IMI Fabi S.p.A. (Chairperson of the Board of Auditors); – Accademia S.p.A. (Chairperson of the Board of Auditors); – Certiquality S.r.l. (Chairperson of the Board of Auditors); – SC Sviluppo Chimica S.p.A. (Chairperson of the Board of Auditors); – Tecnocasa Franchising S.p.A. (Chairperson of the Board of Auditors); – Tecnomedia S.r.l. (Chairperson of the Board of Auditors). |
| Annalisa Rainoldi *** | Director | – Rainoldi Mac S.r.l. (Chairperson of the Board of Directors); – Proenergia S.r.l. (Director); – Holzfin sa (Director); – Rainoldi Legnami S.r.l. (Director). |
| Serenella Rossi ** | Director | – Edison S.p.A. (Chairperson of the Board of Auditors). |
| Domenico Triacca** | Director | – N/A. |

*These Directors shall be in office until the approval of the Annual Report for the year 2020.

**These Directors shall be in office until the approval of the Annual Report for the year 2018.

***These Directors shall be in office until the approval of the Annual Report for the year 2019.

Board of Auditors*

| NAME AND SURNAME | OFFICE HELD IN BPS | PRINCIPAL OFFICES HELD IN OTHER COMPANIES |
|-------------------------|---|---|
| Piergiuseppe Forni | Chairperson of the Board of Auditors | – Pirovano Stelvio S.p.A. (Chairperson of the Board of Auditors); – Sinergia Seconda S.r.l. (Auditor); |

| | | |
|------------------|--------------------------|--|
| | | <ul style="list-style-type: none"> – Società di Sviluppo Locale S.p.A. (Auditor). |
| Laura Vitali | Auditor | <ul style="list-style-type: none"> – Emilio Giacomelli srl (Single Auditor); – Musixmach S.p.A. (Auditors); – Club Acceleratori S.p.A. (Auditor); – American Startup Club S.p.A. (Auditor). |
| Luca Zoani | Auditor | <ul style="list-style-type: none"> – Arrow Electronics Italia srl (Single Auditor); – Arrow Electronics EMEASA srl (Single Auditor); – Mapfre Warranty S.p.A. (Auditor); – Unico Casa.it (Auditor); – Bellatrix S.p.A. (Chairperson of the Board of Auditors); – RYOMA MC srl (Single Auditor); – CMA MC srl (Single Auditor); – E' Qui S.p.A. (Chairperson of the Board of Auditors); – Gruppo Formula S.p.A. (Auditor); – Tex Bond S.p.A. (Auditor). |
| Bruno Garbellini | Alternate Auditor | <ul style="list-style-type: none"> – Industria Legnami Tirano srl (Chairperson of the Board of Auditors); – Arca Fondi S.p.A. società di gestione del risparmio (Alternate Auditor); – Arca Holding S.p.A. (Alternate Auditor) |
| Daniele Morelli | Alternate Auditor | <ul style="list-style-type: none"> – Factorit S.p.A. (Auditor); – Banca della Nuova Terra S.p.A. (Auditor); – Pirovano Stelvio S.p.A. (Auditor); – Società di Sviluppo Locale S.p.A. (Director). |

*All the Auditors listed above shall be in office until the approval of the Annual Report for the year 2020.

All members of the Board of Directors and of the Board of Auditors meet the integrity and professional requirements provided for by the legislation and regulations currently in force.

All members of the Board of Auditors are on the Register of Auditors.

General Management

| NAME AND SURNAME | OFFICE HELD IN BPS | PRINCIPAL OFFICES HELD IN OTHER COMPANIES |
|---------------------------------|--|--|
| Mario Alberto Pedranzini | Chief Executive Officer and General Manager | <ul style="list-style-type: none"> – Factorit S.p.A. (Deputy Chairperson); – Banca Popolare di Sondrio (SUISSE) SA (Chairperson of the Board of Directors); – Banca della Nuova Terra S.p.A. (Director); – IEO Istituto Europeo di Oncologia (Director); – Associazione Bancaria Italiana (Member of Executive Committee); – Consorzio Banche Popolari (Director). |
| Giovanni Ruffini | Deputy Vicar General Manager | <ul style="list-style-type: none"> – Arca Assicurazioni S.p.A. (Deputy Chairperson); – Arca Vita S.p.A. (Deputy Chairperson); – Banca Popolare di Sondrio (SUISSE) SA (Director); – Unione Fiduciaria S.p.A. (Director). |
| Mario Erba | Deputy Manager General | <ul style="list-style-type: none"> – Arca Assicurazioni S.p.A. (Director); – Arca Vita S.p.A. (Director); – Arca Holding S.p.A. (Director); – Servizi Internazionali e Strutture Integrate 2000 S.r.l. (Chairperson of the Board of Directors). |
| Milo Gusmeroli | Deputy Manager General | – N/A |
| Cesare Poletti | Deputy General | – N/A |

| | | |
|--|----------------|--|
| | Manager | |
|--|----------------|--|

The business address of each member of the Board of Directors, Board of Auditors and General Management is Banca Popolare di Sondrio S.c.p.A., Piazza Garibaldi, 16, 23100 Sondrio, Italy.

Conflicts of interests of the administration, management and control bodies

As at the date of this Base Prospectus, and to the Parent Company's knowledge – including upon examination as required under article 36 of Law Decree No. 201 of 6 December 2011, as converted into Law No. 214 of 22 December 2011 – no member of the Board of Auditors, the Board of Directors or the general management of the Parent Company is subject to potential conflicts of interest between their obligations arising out of their office or employment with the Parent Company or the BPS Group and any personal or other interests, except for those that may concern transactions put before the competent bodies of the Parent Company and or/entities belonging to the BPS Group, such transactions having been undertaken in compliance with the relevant regulations in force. Also in the latter case, as at the date of this Base Prospectus there are no conflicts of interests.

The members of the administrative, management and control bodies of the Parent Company are required to implement the following provisions governing circumstances in which there exists a specific interest concerning the implementation of a transaction:

- Article 53 (*Supervisory regulations*) of the Consolidated Banking Act and the relevant implementing regulations issued by the Bank of Italy, with particular reference to the supervisory regulations relating to transactions with related parties;
- Article 136 (*Duties of banking officers*) of the Consolidated Banking Act which requires the adoption of a particular authorisation procedure where an officer, directly or indirectly, assumes obligations towards the bank in which such officer has an administrative, management or control function;
- Article 2391 (*Directors' interests*) of the Italian Civil Code; and
- Article 2391-bis (*Transactions with related parties*) of the Italian Civil Code.

The Issuer and its corporate bodies have adopted internal measures and procedures to guarantee compliance with the above-mentioned provisions.

5. MAJOR SHAREHOLDERS

Entities controlling the Issuer

As at the date of approval of the Base Prospectus, according to the register of shareholders and other information available to the Issuer, the following entities hold directly or indirectly significant stakes in the capital of Banca Popolare di Sondrio:

- AMBER ACTIVE INVESTORS LIMITED 3,809%
- UBS AG-LONDON BRANCH SA AG LDN CLIENT IPB CLIENT AC 3,610%

No person or entity directly or indirectly controls the Issuer, as it is a cooperative bank in the context of which each member expresses only one vote at the meeting, regardless of the ownership of shares. No arrangements, the operation of which may at a subsequent time result in a change in control of the Issuer, are known to the same Issuer.

6. TLRO FUNDING

In June 2016, the Bank participated in the long-term refinancing operation made available by the ECB (TLTRO II) for an amount of 1,100 million euros and subsequently, in March 2017, participated in the latest long-term refinancing operation made available by the ECB (TLTRO II) for an amount of 3,500 million euros.

7. ASSET QUALITY

Loans and Receivables with Customers – Impaired And Performing Loans

| (in thousands of euro) | | 30-09-2018 | 31-12-2017 |
|---|---------------------|-------------------|-------------------|
| Impaired loans | Gross exposure | 4,217,546 | 4,224,880 |
| | Adjustments | 2,269,677 | 2,154,122 |
| | Net exposure | 1,947,869 | 2,070,758 |
| - Non-performing loans | Gross exposure | 2,527,912 | 2,301,387 |
| | Adjustments | 1,734,482 | 1,521,735 |
| | Net exposure | 793,430 | 779,652 |
| - Unlikely to pay loans | Gross exposure | 1,561,151 | 1,768,590 |
| | Adjustments | 522,934 | 607,145 |
| | Net exposure | 1,038,217 | 1,161,445 |
| - Past due and/or impaired overdrawn exposures | Gross exposure | 128,483 | 154,903 |
| | Adjustments | 12,261 | 25,242 |
| | Net exposure | 116,222 | 129,661 |
| Performing loans | Gross exposure | 24,133,915 | 23,810,267 |
| | Adjustments | 124,343 | 125,189 |
| | Net exposure | 24,009,572 | 23,685,078 |
| Total loans and receivables with customers | Gross exposure | 28,351,463 | 28,035,147 |
| | Adjustments | 2,394,020 | 2,279,311 |
| | Net exposure | 25,957,443 | 25,755,836 |

8. REGULATORY CAPITAL

As at 31 December 2017, the BPS Group's capital ratios were as follows: Common Equity Tier 1 ratio of 11.60 per cent., Tier 1 ratio of 11.63 per cent. and a Total Capital ratio of 13.66 per cent.

As at 30 September 2018, the BPS Group's capital ratios, were as follows: Common Equity Tier 1 ratio of 11.71 per cent., Tier 1 ratio of 11.75 per cent. and a Total Capital ratio of 13.42 per cent.

On a fully loaded basis as of 30 September 2018, BPS Group's capital ratios were as follows: Common Equity Tier 1 ratio of 11.59 per cent., Tier 1 ratio of 11.63 per cent. and a Total Capital ratio of 13.27 per cent.

Following the SREP in February 2019, the ECB has set the minimum capital requirement in terms of CET1 for the BPS Group in respect to 2019, which is 9.25 per cent.

9. LEGAL AND ARBITRATION PROCEEDINGS

BPS and the companies belonging to the BPS Group are subject to a number of court, legal and administrative proceedings related to the conduct of their core business operations. Set forth below is a brief description of the legal proceedings pending against the Issuer and the other companies belonging to the BPS Group which are considered the most important in the Issuer's opinion.

Legal proceedings initiated against the Issuer

As of the date of the Base Prospectus, the legal proceedings pending against the Issuer and the companies belonging to the BPS Group are, in the Issuer's opinion, to be considered ordinary in nature when taking into account the business operations involved, the size of the BPS Group and the risks inherent in the provision of banking and investment services. In any case, there remains the risk that the Issuer and its subsidiaries may incur losses in connection with the proceedings currently pending, including those concerning the matter of compound interest/usury, as described in further detail below.

In line with the likelihood of losses of this type and with applicable accounting standards in force, as of 30 September 2018 the Issuer has set aside a prudential reserve which it considers adequate to cover risks related to pending lawsuits, including the tax proceedings, of Euro 23.283 million.

On January 2019, the Bank of Italy began an inspection of the Issuer with regard to the rules on transparency and fairness in customer relations and anti-money laundering, pursuant to articles 54, 68 and 128 of Consolidated Banking Act and article 7 of Legislative Decree no. 231/2007, respectively. The inspection is still in progress.

Litigation on the matter of compound interest/usury

As of the date of the Base Prospectus, the total number of lawsuits pending against the BPS Group on the matter of compound interest remains at levels considered ordinary by the Issuer and the related risk is, in any case, covered by the prudential reserves set aside for risks and costs. As of 30 September 2018, the Issuer set aside prudential reserves covering risks related to compound interest and usury of Euro 2.088 million, to cover a small number of disputes. For some of these claims, the claimants did not define the *petitum* (amount of the claims), asking the court to determine it. The *petitum* (amount of the claims) already identified and requested for the two types (usury and compound interest), amounts to Euro 12.355 million.

Legal proceedings pending with the Tax Authorities

In 2013 and 2014, assessments have been served concerning substitutive taxes on medium/long-term loans granted through banking syndicates together with other banks. The agreements for such transactions were entered into abroad. The Revenues Agency, in a departure from past practice, claimed that such agreements were prepared in Italy even though they were entered into abroad and were, therefore, subject to substitutive tax. Virtually all such agreements provide for the possibility to charge back the greater taxes to the counterparty borrowers. The Parent Company has engaged its legal advisors to commence the related appeals after consulting with the other banks belonging to the relevant syndicates and with the borrowers of the loans. A dispute in relation to year 2013 is likely to be resolved largely in favour of the bank.

A lawsuit is pending with the Tax Authority in connection with the company Immobiliare Borgo Palazzo S.r.l (**Immobiliare Borgo Palazzo**) following a claim of “non-operating status” raised further to an assessment. Immobiliare Borgo Palazzo is a wholly-owned subsidiary of Sinergia Seconda S.r.l., which is a subsidiary of the Issuer. The courts of first and second instance rejected the Tax Authority's claims and the latter filed an appeal before the Supreme Court. The Supreme Court has referred the dispute back to the court of second instance for the decision. No allowances have been set aside given the positive results already achieved in the proceedings at first and second instance.

10. MATERIAL CONTRACTS

At the date of the Base Prospectus, the Issuer and the BPS Group companies have not implemented, signed and/or planned material contracts other than those entered into in the normal course of their typical activities that could affect the Issuer's ability to meet its obligations to the Noteholders.

11. RECENT DEVELOPMENTS

Acquisition of PrestiNuova

On 4 May 2018, BPS signed with Banca Popolare di Vicenza S.p.A. in Administrative Compulsory Liquidation a contract for the acquisition of 100% of the share capital of PrestiNuova

PrestiNuova is a financial company founded in 2005 and belonging to Banca Popolare di Vicenza Banking Group since its establishment, where it has always carried out the activity of granting loans guaranteed by the transfer up to one fifth of the customer's salary or pension or assisted by a payment delegation, establishing itself as one of the most valued historical actors in the sector; its financial products are aimed at employees, both public and private, and pensioners of social security entities.

The acquisition, from a strategic point of view, was considered an opportunity to strengthen and develop the BPS credit specialisation project in this sector, which had already started with the acquisition of Banca della Nuova Terra S.p.A., allowing the Bank to be accredited on the market as a significant actor, generating important scale economies.

The estimated impact of the transaction on the CET1 ratio of BPS Group is less than 18bps.

Share purchase agreement for the acquisition of a majority shareholding in Cassa di Risparmio di Cento S.p.A.

After the non-binding letter of intent signed on 14 October 2017 with Fondazione Cassa di Risparmio di Cento S.p.A. (**Fondazione**), BPS, on 30 October 2018, concluded with Fondazione and Holding CR Cento S.p.A. (**Holding CRC**), a subsidiary of Fondazione, a definitive contract for the acquisition of the majority of the share capital of Cassa di Risparmio di Cento S.p.A. (**CRC**).

The share purchase agreement provides for the transaction to be carried out over two phases. During the first phase, BPS will acquire from Fondazione and Holding CRC, for mixed consideration (partly in cash and partly in BPS shares), the majority of CRC's capital. At a later stage, BPS will acquire the remaining shares of Fondazione and Holding CRC and will propose to all other shareholders of CRC the purchase, in accordance with technical terms to be defined, of their respective CRC shares.

In particular, the first phase ("**First Phase**") of the acquisition involves the purchase by BPS of 1,000,000 CRC shares, half of which are sold by Holding CRC and half by Fondazione, for a total amount of 6.5 million euros, and the simultaneous exchange of 6,624,467 CRC shares owned by Fondazione for 9,274,254 BPS shares (equal to approximately 2% of the share capital, it should be noted that the share purchase agreement provides for the possibility, in order to comply with the provisions of article 30 of the Consolidated Banking Act, that the number of Issuer's shares that the Fondazione will receive in exchange for the 6,624,467 CRC shares may be adjusted, against a payment in cash). The total number of CRC shares that will be acquired by BPS, in the manner described above, as a result of the First Phase, amounts to 7,624,467 shares, representing 51% of the share capital of CRC. The exchange between BPS shares and CRC shares during this First Phase will take place on the basis of a share-exchange ratio agreed between the parties for the purposes of the transaction, equal to 1.4 newly issued BPS shares for each CRC share, assuming a conventional value per BPS share of Euro 3.41 and a conventional value per CRC share of Euro 4.774. The share exchange will be supported by an issue of new capital by BPS to service the transaction, for which the Extraordinary Shareholders' Meeting of 28 April 2018 granted the Board of Directors the power to increase the share capital in cash to a maximum amount of € 40 million including share premium, excluding option rights, pursuant to Articles 2443 and 2441, paragraph 4, first sentence, of the Italian Civil Code.

The second phase of the transaction will be implemented after the completion of the First Phase and

by 31 December 2020. During this second phase, it is envisaged that BPS will purchase the remaining 2,404,437 CRC shares held by Fondazione and Holding CRC (which have undertaken to transfer them) and that BPS will propose to all other minority shareholders to acquire the remaining 4,921,031 CRC shares, in accordance with the technical terms that BPS reserves the right to identify (which may include cash purchase and/or exchange for BPS shares). It is expected that the share-exchange ratio to be offered to minority shareholders of CRC during the second phase of the transaction will be the same as that used during the first phase, unless there is a change in practice of capital transactions or other extraordinary transactions in the meantime.

In addition, in the context of the completion of the First Phase of the transaction, it is envisaged that (i) a shareholders' agreement will be entered into between BPS, Fondazione and Holding CRC, concerning the respective shares that will be held in CRC, aimed at ensuring uniformity and consistency of policy on the part of BPS in the management of the same CRC, as well as (ii) a lock-up commitment by Fondazione relating to BPS shares will be received at the end of the First Phase, for a period of 12 months starting from the closing date, at the expiration of which an orderly market agreement will apply for the regulation of the sale of the said shares on the market during the following 12 months.

OVERVIEW OF FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFIT AND LOSSES

The financial statements set out below have been derived from the audited consolidated financial statements of the BPS Group as at and for the years ending 31 December 2017 and 31 December 2016 and from the unaudited condensed interim consolidated financial statements of the BPS Group as at 30 June 2018 and 30 June 2017. The consolidated financial statements as at 31 December 2016 and for the year then ended have been audited by KPMG S.p.A., while the consolidated financial statements as at 31 December 2017 and for the year then ended have been audited by EY S.p.A.. The consolidated financial statements and the unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union (**IFRS**).

We confirm that neither the independent auditors' report on the 31 December 2017 consolidated financial statements nor the independent auditors' report on the 31 December 2016 consolidated financial statements contain any qualifications or disclaimers.

We confirm that neither the independent auditors' review report on the 30 June 2018 interim condensed consolidated financial statements nor the independent auditors' review report on the 30 June 2017 interim condensed consolidated financial statements contain any qualifications or disclaimers.

The following is an overview of the audited consolidated financial statements of the BPS Group as at, and for the years ended, 31 December 2017 and 31 December 2016, and an overview of the unaudited interim condensed consolidated financial statements of the BPS Group as at and for the six months period ended 30 June 2018 and 30 June 2017.

Consolidated Balance Sheet (in €/thousands)

The Group makes use of the option of not restating the comparative financial statements amounts in the first year of IFRS 9 application; therefore, amounts presented expressed for the financial year ended 31 December 2017, determined according to IAS 39, are not fully comparable to the amounts presented for the six months ended 30 June 2018.

| Line items | As at 30 June 2018 | As at 31 December 2017 | Difference % 30 June 2018- 31 December 2017 |
|---|-------------------------------|---------------------------------------|--|
| 10. Cash and cash equivalents | 723,237 | 699,379 | 3.41% |
| 20. Financial assets at fair value through profit or loss | 891,859 | 895,330 | -0.39% |
| a) financial assets held for trading | 301,314 | 372,590 | -19.13% |
| b) financial assets designated at fair value | - | - | - |
| c) financial assets mandatorily at fair value through profit or loss | 590,545 | 522,740 | 12.97% |
| 30. Financial assets at fair value through other comprehensive income | 5,646,053 | 6,886,971 | -18.02% |
| 40. Financial assets at amortised cost | 32,937,762 | 31,787,014 | 3.62% |
| a) loans and receivables with banks | 1,288,111 | 1,927,176 | -33.16% |
| b) loans and receivables with customers | 31,649,651 | 29,859,838 | 5.99% |
| 70. Equity investments | 212,917 | 217,634 | -2.17% |
| 90. Tangible assets | 322,839 | 327,490 | -1.42% |
| 100. Intangible assets | 25,062 | 23,720 | 5.66% |
| of which: | | | |
| - <i>Goodwill</i> | 7,847 | 7,847 | - |
| 110. Tax assets | 463,683 | 435,064 | 6.58% |
| a) <i>current</i> | 48,403 | 49,618 | -2.45% |
| b) <i>prepaid</i> | 415,280 | 385,446 | 7.74% |
| 130. Other assets | 329,670 | 352,052 | -6.36% |
| Total assets | 41,553,082 | 41,624,654 | -0.17% |

| Line items | As at 30 June 2018 | As at 31 December 2017 | Difference % 30 June 2018- 31 December 2017 |
|--|-------------------------------|---------------------------------------|--|
| 10. Financial liabilities at amortised cost | 37,583,386 | 37,839,119 | -0.68% |
| a) due to banks | 6,390,698 | 6,204,835 | 3.00% |
| b) due to customers | 28,381,791 | 28,800,925 | -1.46% |
| c) securities issued | 2,810,897 | 2,833,359 | -0.79% |
| 20. Financial liabilities held for trading | 55,851 | 31,259 | 78.67% |
| 30. Financial liabilities designated at fair value | - | - | - |
| 40. Hedging derivatives | 19,021 | 22,468 | -15.34% |
| 60. Tax liabilities | 25,295 | 38,855 | -34.90% |

| Line items | As at 30 June 2018 | As at 31 December 2017 | Difference % 30 June 2018- 31 December 2017 |
|--|-------------------------------|---------------------------------------|--|
| a) <i>current</i> | 1,778 | 2,705 | -34.27% |
| b) <i>deferred</i> | 23,517 | 36,150 | -34.95% |
| 80. Other liabilities | 900,006 | 643,520 | 39.86% |
| 90. Post-employment benefits | 44,428 | 45,591 | -2.55% |
| 100. Provisions for risks and charges | 233,626 | 234,429 | -0.34% |
| a) <i>loans commitments and financial guarantees given</i> | 34,122 | 30,152 | 13.17% |
| b) <i>pensions and similar</i> | 163,194 | 160,799 | 1.49% |
| c) <i>other provisions</i> | 36,310 | 43,478 | -16.49% |
| 120. Valuation reserves | -44,220 | 28,478 | - |
| 150. Reserves | 1,155,624 | 1,077,440 | 7.260% |
| 160. Share premium reserve | 79,005 | 79,005 | - |
| 170. Share capital | 1,360,157 | 1,360,157 | - |
| 180. Treasury shares (-) | -25,391 | -25,370 | -0.08% |
| 190. Minority interests (+/-) | 92,140 | 90,593 | 1.71% |
| 200. Profit (loss) for the period | 74,154 | 159,210 | -53.42% |
| Total liabilities and shareholders' equity | 41,553,082 | 41,624,654 | -0.17% |

The amounts expressed below as at 31 December 2017 and 31 December 2016 are determined and presented in accordance with IAS 39.

| Line items | As at 31 December 2017 | As at 31 December 2016 | Difference 31 December 2017-31 December 2016 |
|---|---------------------------------------|---------------------------------------|---|
| 10. Cash and cash equivalents | 699,379 | 789,612 | -11.43% |
| 20. Financial assets held for trading | 691,411 | 1,019,712 | -32.20% |
| 30. Financial assets valued at fair value | 281,139 | 96,303 | n.s. |
| 40. Available-for-sale financial assets | 6,788,037 | 6,644,437 | 2.16% |
| 50. Financial assets held to maturity | 4,132,572 | 117,023 | n.s. |
| 60. Due from banks | 1,920,320 | 1,786,732 | 7.48% |
| 70. Loans to customers | 25,755,836 | 25,313,464 | 1.75% |
| 80. Hedging derivatives | - | - | - |
| 100. Shareholding | 217,634 | 208,575 | 4.34% |
| 120. Tangible assets | 327,490 | 320,922 | 2.05% |

| Line items | As at 31 December 2017 | As at 31 December 2016 | Difference 31 December 2017-31 December 2016 |
|---|---------------------------------------|---------------------------------------|---|
| 130. Intangible assets | 23,720 | 23,869 | -0.62% |
| of which: | | | |
| - <i>Goodwill</i> | 7,847 | 7,847 | - |
| 140. Tax assets | 435,064 | 484,698 | -10.24% |
| a) <i>current</i> | 49,618 | 73,251 | -32.26% |
| b) <i>prepaid</i> | 385,446 | 411,447 | -6.32% |
| b1) <i>pursuant to Law n. 214 of 2011</i> | 336,368 | 360,592 | -6.72% |
| 160. Other assets | 352,052 | 390,978 | -9.96% |
| Total assets | 41,624,654 | 37,196,325 | 11.91% |

| Line items | As at 31 December 2017 | As at 31 December 2016 | Difference % 31 December 2017-31 December 2016 |
|--|---------------------------------------|---------------------------------------|---|
| 10. Due to banks | 6,204,835 | 2,504,510 | n.s. |
| 20. Due to customers | 28,800,925 | 27,702,353 | 3.97% |
| 30. Outstanding securities | 2,833,359 | 3,231,782 | -12.33% |
| 40. Financial liabilities held for trading | 31,259 | 73,016 | -57.19% |
| 60. Hedging derivatives | 22,468 | 38,734 | -41.99% |
| 80. Tax liabilities | 38,855 | 45,636 | -14.86% |
| a) <i>current</i> | 2,705 | 2,963 | -8.71% |
| b) <i>deferred</i> | 36,150 | 42,673 | -15.29% |
| 100. Other liabilities | 673,672 | 701,529 | -3.97% |
| 110. Staff termination indemnities | 45,491 | 44,805 | 1.53% |
| 120. Provisions for risks and charges | 204,277 | 181,552 | 12.52% |
| a) <i>pensions and similar</i> | 160,799 | 130,874 | 22.87% |
| b) <i>other provisions</i> | 43,478 | 50,678 | -14.21% |
| 140. Valuation reserves | 28,478 | 41,927 | -32.08% |
| 170. Reserves | 1,077,440 | 1,033,417 | 4.26% |
| 180. Share premium reserve | 79,005 | 79,005 | - |
| 190. Share capital | 1,360,157 | 1,360,157 | - |

| Line items | As at 31 December 2017 | As at 31 December 2016 | Difference % 31 December 2017-31 December 2016 |
|---|---------------------------------------|---------------------------------------|---|
| 200. Treasury shares (-) | -25,370 | -25,349 | -0.08% |
| 210. Minority interests (+/-) | 90,593 | 84,652 | 7.02% |
| 220. Profit (loss) for the period | 159,210 | 98,599 | 61.47% |
| Total liabilities and shareholders' equity | 41,624,654 | 37,196,325 | 11.91% |

Consolidated Income Statement (in €/thousands)

The Group makes use of the option of not restating the comparative financial statements amounts in the first year of IFRS 9 application; therefore, amounts presented for the six months ended 30 June 2017, determined according to IAS 39, are not fully comparable to the amounts presented for the six months ended 30 June 2018.

| Line items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | Difference % 30 June 2018-30 June 2017 |
|---|--|--|---|
| 10. Interest income and similar revenues | 308,765 | 309,791 | -0.33% |
| 20. Interest expenses and similar charges | -59,063 | -70,972 | -16.78% |
| 30. Net interest income | 249,702 | 238,819 | 4.56% |
| 40. Commission income | 163,294 | 157,703 | 3.55% |
| 50. Commission expense | -9,901 | -9,325 | 6.18% |
| 60. Net Commissions | 153,393 | 148,378 | 3.38% |
| 70. Dividends and similar revenues | 3,195 | 4,561 | -29.95% |
| 80. Net result from trading activities | 17,282 | 31,506 | -45.15% |
| 90. Net result from hedging activities | 77 | -15 | n.s. |
| 100. Profit (loss) from sale and repurchase of: | 12,338 | 13,814 | -10.68% |
| a) <i>financial assets at amortised cost</i> | 2,240 | - | |
| b) <i>financial assets at fair value through profit or loss</i> | 10,234 | 13,866 | -26.19% |
| c) <i>financial liabilities</i> | -136 | -52 | n.s. |
| 110. Net gains on financial assets and liabilities at fair value through profit or loss | 2,768 | 5,674 | n.s. |
| a) financial assets and liabilities designated at fair value | | 5,674 | n.s. |
| b) other financial assets mandatorily at fair value | 2,768 | - | n.s. |
| 120. Total income | 433,219 | 442,737 | -2.15% |
| 130. Net impairment losses on: | -85,533 | -123,795 | -30.91% |

| | | | |
|--|-----------------|-----------------|---------------|
| a) <i>financial assets at amortised cost</i> | -88,310 | -93,895 | -5.95% |
| b) <i>financial assets at fair value through other comprehensive income</i> | 2,777 | -29,900 | n.s. |
| 140. Net gains from contractual changes without derecognition | -724 | - | n.s. |
| 150. Net financial income | 346,962 | 318,942 | 8.79% |
| 190. Administrative costs: | -271,334 | -262,267 | 3.46% |
| a) <i>personnel costs</i> | -119,559 | -122,803 | -2.64% |
| b) <i>other administrative costs</i> | -151,775 | -139,464 | 8.83% |
| 200. Net provisions for risks and charges | -634 | 304 | n.s. |
| a) commitments for guarantees given | -21 | -372 | -94.35% |
| b) other net provisions | - 613 | 676 | n.s. |
| 210. Net value adjustments/write-backs to tangible assets | -8,517 | -8,979 | -5.15% |
| 220. Net value adjustments/write-backs to intangible assets | -6,906 | -6,808 | 1.44% |
| 230. Other operating income/charges | 32,369 | 37,922 | -14.64% |
| 240. Operating costs | -255,022 | -239,828 | 6.34% |
| 250. Net profit (loss) from equity investments | 10,217 | 7,577 | 34.84% |
| 260. Net fair value losses on property, equipment and intangible assets measured at fair value | -352 | -5 | n.s. |
| 270. Adjustments to goodwill | - | - | |
| 280. Profit (loss) from disposal of investments | 11 | 5 | n.s. |
| 290. Profit (loss) before from continuing operations | 101,816 | 86,691 | 17.45% |
| 300. Taxes on income from continuing operations | -25,390 | -25,930 | -2.08% |
| 310. Profit (loss) after tax from continuing operations | 76,426 | 60,761 | 25.78% |
| 330. Profit (loss) for the period | 76,426 | 60,761 | 25.78% |
| 340. Profit (loss) attributable to minority interests | - 2,272 | -4,429 | -48.70% |
| 350. Profit (loss) attributable to the parent company | 74,154 | 56,332 | 31.64% |

The amounts expressed below as at 31/12/2017 and 31/12/2016 are determined and presented in accordance with IAS 39.

| Line items | For the year ended 31 December 2017 | For the year ended 31 December 2016 | Difference % 31 December 2017-31 December 2016 |
|--|--|--|---|
| 10. Interest income and similar revenues | 631,639 | 663,566 | -4,81% |
| 20. Interest expenses and similar charges | -141,717 | -189,316 | -25.14% |
| 30. Net interest income | 489,922 | 474,250 | 3.30% |
| 40. Commission income | 324,053 | 311,875 | 3.90% |
| 50. Commission expense | -18,973 | -18,778 | 1.04% |
| 60. Net Commissions | 305,080 | 293,097 | 4.09% |
| 70. Dividends and similar revenues | 5,533 | 7,209 | -23.25% |
| 80. Net result from trading activities | 60,429 | 31,545 | 91.56% |
| 90. Net result from hedging activities | -115 | 262 | n.s. |
| 100. Profit (loss) from sale and repurchase of: | 95,244 | 76,011 | 25.30% |
| b) <i>available-for-sale financial assets</i> | 94,795 | 76,331 | 24.19% |
| c) <i>financial assets held to maturity</i> | - | - | |
| d) <i>financial liabilities</i> | 449 | -320 | n.s. |
| 110. Net result from financial assets and liabilities valued at fair value | 5,761 | 2,309 | n.s. |
| 120. Total income | 961,854 | 884,683 | 8.72% |
| 130. Net value adjustments/write-backs due to impairment of: | -274,329 | -278,545 | -1.51% |
| a) <i>loans</i> | -231,732 | -250,121 | -7.35% |
| b) <i>available-for-sale financial assets</i> | -35,801 | -25,189 | 42.13% |
| c) <i>financial assets held to maturity</i> | - | - | |
| d) <i>other financial transactions</i> | -6,796 | -3,235 | n.s. |
| 140. Net income from banking activities | 687,525 | 606,138 | 13.43% |
| 170. Net income from banking and insurance activities | 687,525 | 606,138 | 13.43% |
| 180. Administrative costs: | -522,300 | -525,961 | -0.70% |
| a) <i>personnel costs</i> | -245,170 | -236,834 | 3.52% |
| b) <i>other administrative costs</i> | -277,130 | -289,127 | -4.15% |
| 190. Net provisions for risks and charges | 5,344 | -2,439 | n.s. |
| 200. Net value adjustments/write-backs to tangible assets | -18,945 | -18,606 | 1.82% |
| 210. Net value adjustments/write-backs to intangible assets | -17,269 | -14,969 | 15.37% |
| 220. Other operating income/charges | 72,276 | 72,640 | -0.50% |
| 230. Operating costs | -480,894 | -489,335 | -1.72% |
| 240. Net profit (loss) from equity investments | 26,517 | 12,973 | n.s. |
| 250. Net fair value losses on property, equipment and intangible assets measured at fair value | 515 | 130 | n.s. |
| 260. Adjustments to goodwill | - | - | |
| 270. Profit (loss) from disposal of investments | 17 | 63 | -73.02% |

| | | | |
|--|----------------|----------------|---------------|
| 280. Profit (loss) before from continuing operations | 233,680 | 129,969 | 79.80% |
| 290. Taxes on income from continuing operations | -68,496 | -30,094 | n.s. |
| 300. Profit (loss) after tax from continuing operations | 165,184 | 99,875 | 65.39% |
| 320. Profit (loss) for the period | 165,184 | 99,875 | 65.39% |
| 330. Profit (loss) attributable to minority interests | -5,974 | -1,276 | n.s. |
| 340. Profit (loss) attributable to the parent company | 159,210 | 98,599 | 61.47% |

Audit of the annual financial statements and review of the interim financial statements

The Issuer states that both the consolidated and non-consolidated financial statements as at and for the year ended 31 December 2017, approved by the Board of Directors on 23 March 2018 and by the Shareholders at the Shareholders' Meeting on 28 April 2018, have been audited by the independent auditors, EY S.p.A. who issued their unqualified audit opinion on 5 April 2018.

The Issuer states that both the consolidated and non-consolidated financial statements as at and for the year ended 31 December 2016, approved by the Board of Directors on 17 March 2017 and by the Shareholders at the Shareholders' Meeting on 29 April 2017, have been audited by the independent auditors, KPMG S.p.A., which expressed their opinion and made no remarks through specific reports on 27 March 2017.

Review reports have been issued by the independent auditors with reference to the unaudited condensed interim consolidated financial statements of the BPS Group as at and for the six months ended 30 June 2018 and 30 June 2017.

Indication of other information in the Base Prospectus which has been audited by the independent auditors

The Base Prospectus contains financial information that has been audited by the independent auditors, derived from the BPS Group consolidated financial statements as at 31 December 2017 and 2016.

In particular, the audited annual consolidated financial statements of the BPS Group as at and for the year ending 31 December 2016 have been audited by KPMG S.p.A, while the consolidated financial statements as at and for the year ending 31 December 2017 have been audited by EY S.p.A. The accounts have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union (IFRS).

Data contained in the Base Prospectus which have been taken from sources other than the Issuer's financial statements

The Base Prospectus does not contain information derived from sources other than the BPS Group audited consolidated financial statements as at 31 December 2017 and 2016 and from the unaudited condensed interim condensed consolidated financial statements as at 30 June 2018 and 30 June 2017 and from the unaudited interim condensed consolidated report on operations at 30 September 2018 and for the nine month period then ended.

Date of the latest financial information and accounts contained in the Base Prospectus

The latest financial information referring to the Issuer and included in the Base Prospectus have been derived from the BPS Group unaudited condensed interim consolidated financial statements as at and for the nine months ended 30 September 2018.

Interim financial reporting

After the date of publication of the consolidated financial statements as at 31 December 2017 and for the year then ended, the Issuer has published the unaudited interim condensed consolidated financial statements as at 30 September 2018 and for the nine months period then ended.

This Base Prospectus contains alternative performance measures

In order to facilitate the understanding of economic and financial performance of the BPS Group, the Issuer's directors have identified certain Alternative Performance Measures (APM).

This Base Prospectus contains or incorporates by reference the following alternative performance measures, as defined by the European Securities and Markets Authority's Guidelines on Alternative Performance Measures (ESMA/2015/1415), which are used by the management of the Issuer to monitor its financial and operating performance and to facilitate management in identifying operational trends and take about investment decisions, resource allocation and other operational decisions.

With reference to the interpretation of these APM draws attention to the matters illustrated below:

- (i) these indicators are constructed exclusively from the BPS Group's historical data and is not indicative of the future performance of the BPS Group;
- (ii) the APM are not required by IFRS and, although derived from the Issuer's consolidated financial statements are not audited;
- (iii) these financial measures should not be seen as a substitute for measures defined according to IFRS;
- (iv) reading of these APM should be carried out together with the BPS Group's financial information from the Issuer's (a) consolidated financial statements for the years 2017 and 2016 and (b) interim condensed consolidated financial statements as at 30 June 2018;
- (v) it is to be noted that, since not all companies calculate APM in the same manner, these are not always comparable to measurements used by other companies.

APM used by the BPS Group are processed with continuity and consistency of definition and representation for all periods for which financial information included in this Base Prospectus.

Measures of profitability

Cost to income ratio

Cost/Income ratio is a ratio of operating costs to total income derived from the income statement of the Issuer. Cost/income ratio is one of the primary indicators of efficiency of the Issuer. The higher is the ratio, the lower is the profitability.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|--------------------|---------------------|-------------------------|-------------------------|
| A. Operating costs | (255,022) | (480,894) | (489,335) |

| | | | |
|-----------------------------------|---------------|---------------|---------------|
| B. Total income | 433,219 | 961,854 | 884,683 |
| Cost to income ratio (A/B) | 58.87% | 50.00% | 55.31% |

Net interest income to total assets

The ratio shows the profitability of the lending activity.

| (in €/thousands) | 30 June 2018 | 30 June 2017 | 31 December 2017 | 31 December 2016 |
|--|--------------|--------------|------------------|------------------|
| A. Net interest income | 249,702 | 238,819 | 489,922 | 474,250 |
| B. Total assets | 41,553,082 | 40,581,084 | 41,624,654 | 37,196,325 |
| Net interest income to total assets (A/B) | 0.60% | 0.59% | 1.18% | 1.27% |

Net financial income to total assets

The ratio shows the incidence of lending activity on total assets.

| (in €/thousands) | 30 June 2018 | 30 June 2017 | 31 December 2017 | 31 December 2016 |
|---|--------------|--------------|------------------|------------------|
| A. Net financial income | 346,962 | 318,570 | 687,525 | 606,138 |
| B. Total assets | 41,553,082 | 40,581,084 | 41,624,654 | 37,196,325 |
| Net financial income to total assets (A/B) | 0.83% | 0.79% | 1.65% | 1.63% |

Net interest income to total income

The ratio shows the profitability of lending activity compared to the interest rate risk.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|---|---------------|------------------|------------------|
| A. Net interest income | 249,702 | 489,922 | 474,250 |
| B. Total income | 433,219 | 961,854 | 884,683 |
| Net interest income to total incomes (A/B) | 57.64% | 50.94% | 53.61% |

Administrative costs to total income

The ratio shows in percentage the weight of administrative costs on net interest and other banking income.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|--|---------------|------------------|------------------|
| A. Administrative costs | (271,334) | (522,300) | (525,961) |
| B. Total income | 433,219 | 961,854 | 884,683 |
| Administrative expenses to total income (A/B) | 62.63% | 54.30% | 59.45% |

Profit to total assets

The return on assets (ROA) shows the percentage of how profitable a company's assets are in

generating revenue.

| (in €/thousands) | 30 June 2018 | 30 June 2017 | 31 December 2017 | 31 December 2016 |
|--|--------------|--------------|------------------|------------------|
| A. Profit attributable to the parent company | 74,154 | 56,332 | 159,210 | 98,599 |
| B. Total assets | 41,553,082 | 40,581,084 | 41,624,654 | 37,196,325 |
| Profit to total assets (A/B) | 0.18% | 0.14% | 0.38% | 0.27% |

Texas ratio

Texas ratio is a ratio of net non-performing loans to net tangible equity minus intangible assets. Texas ratio represents the capability of the Issuer to support loan losses.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|------------------------------|---------------|------------------|------------------|
| A. Net non-performing loans | 1,936,267 | 2,070,758 | 2,382,390 |
| B. Equity | 2,599,329 | 2,678,920 | 2,587,756 |
| C. Intangible assets | 25,062 | 23,720 | 23,869 |
| Texas ratio (A/(B-C)) | 75.22% | 77.99% | 92.92% |

Capital to direct funding from customers

The ratio shows in percentage the weight of net the equity on direct customer deposits.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|---|--------------|------------------|------------------|
| A. Equity | 2,599,329 | 2,678,920 | 2,587,756 |
| B. Direct funding from customers | 31,192,688 | 31,634,284 | 30,934,135 |
| Capital to direct funding from customers (A/B) | 8.33% | 8.47% | 8.37% |

Capital to customer loans

The ratio shows in percentage the weight of the net equity on loans and receivables with customers

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|--|--------------|------------------|------------------|
| A. Equity | 2,599,329 | 2,678,920 | 2,587,756 |
| B. Loans to customers | 26,017,092 | 25,755,836 | 25,313,464 |
| Capital to customer loans (A/B) | 9.99% | 10.40% | 10.22% |

Capital to financial assets

The ratio shows in percentage the weight of net the equity on financial assets.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|--|---------------|------------------|------------------|
| A. Equity | 2,599,329 | 2,678,920 | 2,587,756 |
| B. Financial assets | 12,176,536 | 11,893,159 | 7,877,475 |
| Capital to financial assets (A/B) | 21.35% | 22.52% | 32.85% |

Capital to total assets

The ratio shows in percentage the weight of net the equity on total assets and it's a financial independence index.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|--------------------------------------|--------------|------------------|------------------|
| A. Equity | 2,599,329 | 2,678,920 | 2,587,756 |
| B. Total assets | 41,553,082 | 41,624,654 | 37,196,325 |
| Capital to total assets (A/B) | 6.26% | 6.44% | 6.96% |

Net non-performing loans to capital

The ratio shows in percentage the weight of net non-performing loans on net equity and it is an asset quality index.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|--|---------------|------------------|------------------|
| A. Net non-performing loans | 760,710 | 779,652 | 767,900 |
| B. Equity | 2,599,329 | 2,678,920 | 2,587,756 |
| Net non-performing loans to capital (A/B) | 29.27% | 29.10% | 29.67% |

Net non-performing loans to total loans to customers

The ratio shows in percentage the weight of Net non-performing loans to total loans to customers and it is an asset quality index

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|---|--------------|------------------|------------------|
| A. Net non-performing loans | 760,710 | 779,652 | 767,900 |
| B. Total loans to customers | 26,017,092 | 25,755,836 | 25,313,464 |
| Net non-performing loans to total loans to customers (A/B) | 2.92% | 3.03% | 3.03% |

Total loans to customers to total direct funding from customers

The ratio shows in percentage the weight of total loans to customers to total direct funding from customers.

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|--|---------------|------------------|------------------|
| A. Total loans to customers | 26,017,092 | 25,755,836 | 25,313,464 |
| B. Total direct funding from customers | 31,192,688 | 31,634,284 | 30,934,135 |
| Total loans to customers to total direct funding from customers (A/B) | 83.41% | 81.42% | 81.83% |

Cost of credit (on annual basis)

The ratio of net adjustments to customer loans to total customer loans

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|-------------------------------------|--------------|------------------|------------------|
| A. Net adjustment to customer loans | (91,670) | (231,732) | (250,121) |
| B. Annual basis | 2 | 1 | 1 |
| C. Loans to customers | 26,017,092 | 25,755,836 | 25,313,464 |
| Cost of credit (A/C*B) | 0.70% | 0.90% | 0.99% |

Leverage ratio

The ratio of Tier 1 to total on- and off-balance sheet assets

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|---|---------------------|-------------------------|-------------------------|
| A. Tier 1 (phased-in) | 2,617,702 | 2,644,513 | 2,579,899 |
| B. Total on- and off-balance sheet assets | 45,579,607 | 45,843,147 | 41,574,366 |
| Leverage ratio (A/B) | 5.74% | 5.77% | 6.21% |

Return on Equity

| (in €/thousands) | 30 June 2018 | 31 December 2017 | 31 December 2016 |
|--------------------------|---------------------|-------------------------|-------------------------|
| A. Profit for the period | 74,154 | 159,210 | 98,599 |
| B. Equity | 2,599,329 | 2,678,920 | 2,587,756 |
| ROE (A/B) | 2.85% | 5.94% | 3.81% |

TAXATION

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

Where in this overview English terms and expressions are used to refer to Italian concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Italian concepts under Italian tax law.

The statements herein regarding taxation are based on the laws in force in Italy as at the date of this Base Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.

The laws and their interpretation by the tax authorities may change and such changes may also have retroactive effect. Accordingly, investors should consider this aspect before investing.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences under Italian tax law, under the tax laws of the country in which they are resident for tax purposes and of any other potentially relevant jurisdiction of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws.

Italian Taxation

Tax treatment of Notes issued by the Issuer

Decree No. 239 sets out the applicable regime regarding the tax treatment of interest, premium and other income from certain securities issued, inter alia, by Italian resident banks (including the difference between the redemption amount and the issue price) (hereinafter collectively referred to as **Interest**). The provisions of Decree No. 239 only apply to Notes issued by the Issuer which qualify as *obbligazioni* (bonds) or *titoli similari alle obbligazioni* (securities similar to bonds) pursuant to Article 44 of Presidential Decree No. 917 of 22 December 1986, as amended and supplemented (**Decree No. 917**). Pursuant to Article 44 of Decree No. 917, for securities to qualify as *titoli similari alle obbligazioni* (securities similar to bonds), they must (i) incorporate an unconditional obligation to pay at maturity an amount not less than that therein indicated and (ii) attribute to the holders no direct or indirect right to control or participate in the management of the Issuer. The tax regime set forth by Decree No. 239 also applies to Interest from regulatory capital financial instruments complying with EU and Italian regulatory principles, issued by, inter alia, Italian banks, other than shares and assimilated instruments.

Italian Resident Noteholders

Where an Italian resident Noteholder is:

- (a) an individual not engaged in an entrepreneurial activity to which the Notes are connected (unless he has opted for the application of the *risparmio gestito* regime – see under “*Capital gains tax*” below);

- (b) a non-commercial partnership;
- (c) a non-commercial private or public institution other than companies, and trusts not carrying out mainly or exclusively commercial activities, the Italian State and public and territorial entities; or
- (d) an investor exempt from Italian corporate income taxation,

interest relating to the Notes, accrued during the relevant holding period, are subject to a withholding tax, referred to as “*imposta sostitutiva*”, levied at the rate of 26 per cent. In the event that the Noteholders described under paragraphs (a) and (c) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax and the relevant Interest must be included in their relevant income tax return. As a consequence, the Interest will be subject to ordinary income tax and the *imposta sostitutiva* may be recovered as a deduction from the taxation on income due.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity 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 relating to the Notes if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Law No. 232 of 11 December 2016 (the **Finance Act 2017**) 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 from the Notes will not be subject to *imposta sostitutiva*. It must, however, be included in the relevant Noteholder’s income tax return and is 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, Law Decree No. 78 of 31 May 2010, converted into Law No. 122 of 30 July 2010 and Legislative Decree No. 44 of 4 March 2014, all as amended, payments of Interest 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, as amended and supplemented, or pursuant to Article 14-bis of Law No. 86 of 25 January 1994, and Italian real estate SICAFs (together, the **Real Estate Funds**) are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of a Real Estate Fund. However, a withholding tax of 26 per cent. will apply, in certain circumstances, to distributions made in favour of unitholders/shareholders of the Real Estate Fund. However, (i) the income of Real Estate Funds may be subject to tax in the hands of the unitholders or shareholders, depending on their status and percentage of participation, or (ii) the proceeds distributed in favour of the unitholders or shareholders may be subject to a withholding tax up to 26 per cent depending upon their status.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund, a SICAF (“*Società di investimento a capitale fisso*”) or a SICAV (“*Società di investimento a capital variabile*”) 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 accrued during the holding period on the Notes will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund. The Fund will not be subject to taxation on such results but a withholding tax up to 26 per cent. will apply, in certain circumstances, to

distributions made in favour of unitholders or shareholders (the **Collective Investment Fund Tax**).

Where an Italian resident Noteholders is a pension fund (subject to the regime provided for by article 17 of the Italian Legislative Decree No. 252 of 5 December 2005) and the Notes are deposited with an authorised intermediary, Interest 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 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 di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

Pursuant to Decree No. 239, *imposta sostitutiva* is applied by banks, *società di intermediazione mobiliare (SIMs)*, fiduciary companies, *società di gestione del risparmio (SGRs)*, stock brokers and other entities identified by a decree of the Ministry of Finance (each an **Intermediary**), as subsequently amended and integrated.

An Intermediary (a) must (i) be 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 Economy and Finance, having appointed an Italian representative for the purposes of Decree No. 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 Italian financial intermediary paying Interest to a Noteholder or, absent that, by the Issuer.

Non-Italian resident Noteholders

Where the Noteholder is a non-Italian resident, without a permanent establishment in Italy to which the Notes are effectively connected, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is:

- (a) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy as listed in the Italian Ministerial Decree of 4 September 1996, as amended by Ministerial Decree of 23 March 2017 and possibly further amended by future decree issued pursuant to Article 11(4)(c) of Decree 239 (as amended by Legislative Decree No.147 of 14 September 2015) (the **White List**); or
- (b) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or
- (c) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or
- (d) an "institutional investor", whether or not subject to tax, which is established in a State included in the White List.

In order to ensure gross payment, non-Italian resident Noteholders without a permanent establishment in Italy to which the Notes are effectively connected must be the beneficial owners of the payments of

Interest and must:

- (a) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance; and
- (b) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. This 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 the 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.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. to Interest paid to Noteholders who do not qualify for the exemption.

Noteholders who are subject to the substitute tax might, nevertheless, be eligible for a total or partial relief under an applicable tax treaty between the Republic of Italy and the country of residence of the relevant Noteholder.

Tax treatment of Notes qualifying as atypical securities (*titoli atipici*)

Atypical securities are securities that do not fall within the category of (a) shares (*azioni*) and securities similar to shares (*titoli similari alle azioni*) and of (b) bonds (*obbligazioni*) or securities similar to bonds (*titoli similari alle obbligazioni*).

Payments relating to atypical securities are subject to 26 per cent. withholding tax.

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

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity 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 26 withholding tax, on Interest relating to the Notes qualifying as atypical securities if such Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of the Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

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

In case of a non-Italian resident Noteholder without a permanent establishment in Italy to which the Notes are effectively connected, the above mentioned withholding tax rate may be reduced (generally to 10 per cent.) or eliminated under certain applicable tax treaties entered into by Italy, subject to timely filing of the required documentation.

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, 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 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, 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 rate of 26 per cent. The Noteholders may set off any losses with their gains.

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

- (a) Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Italian 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 above mentioned Italian resident Noteholders holding the Notes. In this instance, "capital gains" means any capital gain not connected with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding the Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay the *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years.
- (b) As an alternative to the tax declaration regime, 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; and
 - (ii) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder.

The depository must account for the *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss. The depository must also 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 Noteholders or using funds provided by the Noteholders for this purpose. Under the *risparmio amministrato* regime, any possible capital loss resulting from a sale or redemption or certain other transfer of the Notes may be deducted from capital gains subsequently realized, 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 Noteholders are not required to declare the capital gains in the annual tax return.

In the "*risparmio gestito*" regime, any capital gains realised by Italian Noteholders under (i) to (iii)

above who have entrusted the management of their financial assets (including the Notes) to an authorised intermediary, 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 26 per cent. substitute tax, to be paid by the managing authorised intermediary. Any depreciation of the managed assets accrued at the year-end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. The Noteholders are not required to declare the capital gains realised in the annual tax return. Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity 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 savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

Any capital gains realised by a Noteholder who is a Fund will neither be subject to *imposta sostitutiva* on capital gains, nor to any other income tax in the hands of the relevant Noteholders; the Collective Investment Fund Tax will be levied on proceeds distributed by the Fund or received by certain categories of unitholders upon redemption or disposal of the units.

Real Estate Funds are not subject to any substitute tax at the fund level nor to any other income tax in the hands of the Real Estate Fund. However, (i) the income of Real Estate Funds may be subject to tax in the hands of the unitholders or shareholders, depending on their status and percentage of participation, or (ii) the proceeds distributed in favour of the unitholders or shareholders may be subject to a withholding tax up to 26 per cent depending upon their status.

Any capital gains realised by a Noteholder who is an Italian pension fund (subject to the regime provided for by article 17 of the Italian 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 a 20 per cent. substitute tax. Subject to certain conditions (including minimum holding period requirement) and limitations, Interest 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 di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

Capital gains realised by non-Italian resident Noteholders without a permanent establishment in Italy to which the Notes are effectively connected, from the sale or redemption of Notes traded on regulated markets are not subject to the *imposta sostitutiva*. The exemption applies provided that the non-Italian resident Noteholders file in due course with the authorised financial intermediary an appropriate affidavit (*autocertificazione*) stating that the Noteholder is not resident in Italy for tax purposes.

Capital gains realised by non-Italian resident Noteholders, without a permanent establishment in Italy to which the Notes are effectively connected, from the sale or redemption of Notes not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that the effective beneficiary is:

- (a) resident in a State included in the White List;
- (b) an international entity or body set up in accordance with international agreements which have entered into force in Italy;
- (c) a Central Bank or an entity which manages, inter alia, the official reserves of a foreign State;
or
- (d) an "institutional investor", whether or not subject to tax, which is established in a State

included in the White List.

If none of the conditions above is met, capital gains realised by non-Italian resident Noteholders, without a permanent establishment in Italy to which the Notes are effectively connected, from the sale or redemption of Notes issued by an Italian resident issuer and not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 26 per cent. However, Noteholders may benefit from an applicable tax treaty with Italy providing that capital gains realised upon the sale or redemption of the Notes are to be taxed only in the resident tax country of the recipient.

Inheritance and gift taxes

Transfers of any valuable asset (including the 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 gift exceeding, for each beneficiary, Euro 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 gift exceeding, for each beneficiary, Euro 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 gift.

If the transfer is made in favour of persons with severe disabilities, the tax is levied at the rate mentioned above in paragraphs (a), (b) and (c) on the value exceeding, for each beneficiary, Euro 1,500,000.

Transfer tax

Contracts relating to the transfer of securities are subject to a Euro 200.00 registration tax as follows: (i) public deeds and notarised deeds are subject to mandatory registration; (ii) private deeds are subject to registration only in the case of voluntary registration.

Stamp Duty

Pursuant to Article 13 of the tariff attached to Presidential Decree No. 642 of 26 October 1972 (**Decree No. 642**), a proportional stamp duty applies on an annual basis to any periodic reporting communications which may be sent by a financial intermediary to a Noteholder in respect of any Notes which may be deposited with such financial intermediary. The stamp duty applies at a rate of 0.20 per cent.; this stamp duty is determined on the basis of the market value or – if no market value figure is available – the nominal value or redemption amount of the Notes held. The stamp duty cannot exceed Euro 14,000.00 if the Noteholder is not an individual.

The statement is deemed to be sent at least once a year, even for instruments for which is not mandatory nor the deposit nor the release nor the drafting of the statement. In case of reporting periods less than 12 months, the stamp duty is payable on a pro-rata basis.

Based on the wording of the law and the implementing decree issued by the Italian Ministry of Economy and Finance on 24 May 2012, the stamp duty applies to any investor who is a client - regardless of the fiscal residence of the investor - (as defined in the regulations issued by the Bank of

Italy on 20 June 2012) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

Wealth Tax on securities deposited abroad

According to the provisions set forth by Law No. 214 of 22 December 2011, as amended and supplemented, 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. In this case the above mentioned stamp duty provided for by Article 13 of the tariff attached to Decree No. 642 does not apply.

This tax is calculated on the market value of the Notes at the end of the relevant year or – if no market value is available – the nominal value or the redemption value of such financial assets held outside the Italian territory. Taxpayers are entitled to an Italian tax credit equivalent to the amount of wealth taxes paid in the State where the financial assets are held (up to an amount equal to the Italian wealth tax due).

Financial assets held abroad are excluded from the scope of the wealth tax if they are administered by Italian financial intermediaries pursuant to an administration agreement. In this case, the above mentioned stamp duty provided for by Article 13 of the tariff attached to Decree No. 642 does apply.

Tax Monitoring

According to the Law Decree No. 167 of 28 June 1990, converted with amendments into Law No. 227 of 4 August 1990, as amended from time to time, individuals, non-profit entities and certain partnerships (*società semplici* or similar partnerships in accordance with Article 5 of Presidential Decree No. 917 of 22 December 1986) resident in Italy for tax purposes, under certain conditions, are required to report for tax monitoring purposes in their yearly income tax the amount of investments (including the Notes) directly or indirectly held abroad. The requirement applies also where the persons above, being not the direct holder of the financial instruments, are the actual owner of the instrument.

Furthermore, the above reporting requirement is not required to comply with respect to: (i) Notes deposited for management with qualified Italian financial intermediaries; (ii) contracts entered into through the intervention of qualified Italian financial intermediaries, upon condition that the items of income derived from the Notes have been subject to tax by the same intermediaries; or (iii) if the foreign investments are only composed by deposits and/or bank accounts and their aggregate value does not exceed a Euro 15,000 threshold throughout the year.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution (as defined by **FATCA**) 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 the Republic of 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 Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as 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 Notes, Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for

U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are published generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under Condition 15 (*Further Issues*)) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

The proposed financial transactions tax (FTT)

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

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be 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, the timing of which remains unclear. 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.

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 be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a 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 as amended (the **Relibi Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the 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. Accordingly, payments of interest under the Notes coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of 20 per cent.

SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 6 March 2019, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

SELLING RESTRICTIONS

United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in certain transactions exempt from or not subject to, 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 Treasury regulations promulgated thereunder. The form of Final Terms (or Pricing Supplement, in the case of Exempt Notes) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

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

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

Prohibition of sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies "Prohibition of sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or

otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) 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 Directive 2014/65/EU (as amended, **MiFID II**); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the **Prospectus Directive**); and
- (b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies “Prohibition of sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) Qualified investors: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) Fewer than 150 offerees: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) Other exempt offers: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in paragraphs (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression **an offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and

- the expression **Prospectus Directive** means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

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

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (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 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.

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 Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer 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.

France

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

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that no Notes may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other offering material relating to the Notes be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of the Legislative Decree No. 58 of 24 February 1998 (as amended, **Consolidated Finance 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
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Consolidated Finance Act and Article 34-ter, of Regulation No. 11971.

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

- (a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Consolidated Finance Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and the Italian Banking Act; and
- (b) 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.

General

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

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

GENERAL INFORMATION

Authorisation

The annual update of the Programme and the issue of Notes have been duly authorised by the resolution of the Board of Directors of the Issuer dated 18 December 2018.

Approval and Listing of Notes

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU).

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (a) the constitutional documents (with an English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the Issuer as at and for the years ended 31 December 2016 and 31 December 2017 (with an English translation thereof). The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;
- (c) the auditors' report on the audited consolidated financial statements as at and for the years ended 31 December 2016 and December 2017 (with an English translation thereof) of the Issuer;
- (d) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim condensed financial statements (if any) of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares unaudited consolidated interim accounts on a semi-annual basis;
- (e) the unaudited interim condensed consolidated financial statements for the six months ended on 30 June 2018;
- (f) the auditors' review report on the unaudited interim consolidated financial statements for the six months ended on 30 June 2018;
- (g) the unaudited interim consolidated report on operations at 30 September 2018;
- (h) the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (i) a copy of this Base Prospectus;
- (j) any future Base Prospectus, prospectuses, information memoranda, supplements, Final Terms and Pricing Supplements (in the case of Exempt Notes) (save that Pricing Supplements will

only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer or the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference;

- (k) the press release “Banca Popolare di Sondrio fully satisfies ECB-imposed prudential requirements”; and
- (l) the press release “BPER Banca and Banca Popolare di Sondrio acquire 39.99% of Arca Holding S.p.A.”;
- (m) the press release “Board of Directors' meeting 11th February 2019 Approval of draft consolidated preliminary results as at 31st December 2018”.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the form of Final Terms (or Pricing Supplement, in the case of Exempt Notes). If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the form of Final Terms or Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

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

Yield

In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the form of Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

Significant or Material Adverse Change

There has been no significant change in the financial position of the Group since 30 September 2018 and there has been no material adverse change in the financial position or prospects of the Group since 31 December 2017.

Litigation

Save as disclosed in this Base Prospectus at pages from 145 to 146, neither the Issuer nor any other member of the 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 may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Independent auditors

KPMG S.p.A., were the auditors of the Issuer and are registered in the Register of Certified Auditors held by the Ministry for Economy and Finance – Stage general accounting office, at no. 70623 and in the Register of Accountancy Auditors (*Registro dei Revisori Contabili*), in compliance with the provisions of Legislative Decree No. 88 of 27 January 1992 (**Decree No. 88**). KPMG S.p.A. is also a member of Assirevi, the Italian association of auditing firms. The offices of KPMG S.p.A. are located at Via Vittor Pisani, 25, Milan, 20124, Italy. KPMG S.p.A. audited the Issuer's accounts, without qualification, in accordance with IAS/IFRS for each of the two financial years ended on 31 December 2015 and 31 December 2016. The auditors of the Issuer have no material interest in the Issuer.

On 29 April 2017 EY S.p.A. were appointed auditors of the Issuer for the years ending December 31, 2017 through December 31, 2025. EY S.p.A. is regulated by Ministry for Economy and Finance and registered in the register held by Ministry for Economy and Finance at no. 70945. EY S.p.A. is also a member of Assirevi, the Italian association of auditing firms. The offices of EY S.p.A. are located at Via Po no. 32, Rome, Italy.

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

Dealers transacting with the Issuer

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

In addition, in the ordinary course of their business activities, the Dealers 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 Dealers 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 Dealers 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 issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers 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. For the purposes of this paragraph the term "affiliates" includes also the relevant parent companies of the Dealers.

Trustee's action

The Conditions and the Trust Deed provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified and/or secured and/or pre-funded to its satisfaction. It may not always be possible for the Trustee to take certain actions, notwithstanding the provision of an indemnity and/or security and/or pre-funding to it. Where the Trustee is unable to take any action, the Noteholders are permitted by the Conditions and the Trust Deed to take the relevant action directly.

Rating

Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

ISSUER

BANCA POPOLARE DI SONDRIO S.C.p.A.

Piazza Garibaldi, 16
23100 Sondrio
Italy

TRUSTEE

CITIBANK N.A., LONDON BRANCH

Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

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 Italian and English law

Chiomenti

Via G. Verdi 2
20121 Milan
Italy

To the Dealers as to Italian and English law

Allen & Overy – Studio Legale Associato

Via Manzoni, 41
20121 Milan
Italy

Corso Vittorio Emanuele II, 284
00186 Rome
Italy

INDEPENDENT AUDITORS

EY S.p.A.
Via Po, 32
00198 Rome
Italy

KPMG S.p.A.
Via Vittor Pisani, 25
20124 Milan
Italy

DEALERS

Banca Akros S.p.A. – Gruppo Banco BPM
Viale Eginardo 29
20149 Milan
Italy

Banca Popolare di Sondrio S.C.p.A.
Piazza Garibaldi, 16
23100 Sondrio
Italy

J.P. Morgan Securities plc.
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Société Générale
29, boulevard Haussmann
75009 Paris
France

Banca IMI S.p.A.
Largo Mattioli, 3
20121 Milan
Italy

Barclays Bank PLC
5 The North Colonnade
Canary Wharf E14 4BB
United Kingdom

Natixis
30 avenue Pierre Mendès France
75013 Paris
France

UniCredit Bank AG
Arabellastrasse 12
81925 Munich
Germany

LISTING AGENT

Banque Internationale à Luxembourg SA
69 route d'Esch
L - 2953 Luxembourg