

Prospectus



BANCA POPOLARE DI MILANO

BANCA POPOLARE DI MILANO S.C.a r.l.

(incorporated with limited liability in the Republic of Italy)

€300,000,000 9 per cent. Perpetual Subordinated Fixed/Floating Rate Notes

The €300,000,000 9 per cent. perpetual subordinated fixed/floating rate notes (the “Notes”) are issued by Banca Popolare di Milano S.C.a r.l. (the “Issuer”). The Issue Price of the Notes is 98.955 per cent.

The Notes will bear interest on a non-cumulative basis (i) from and including 25 June 2008 to but excluding 25 June 2018 (the “Reset Date”) at a rate of 9 per cent. per annum, payable annually in arrear on 25 June in each year and (ii) from and including the Reset Date at a rate of three month Euribor plus 618 basis points, payable quarterly in arrear on 25 September, 25 December, 25 March and 25 June of each year, beginning 25 September 2018.

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

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

The Notes will be rated A3 by Moody’s Investors Service Limited (“Moody’s”), BBB by Standard & Poor’s Rating Services, a division of The McGraw Hill Companies Inc. (“S&P”) and A- by Fitch Ratings Limited (“Fitch”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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

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

The Notes have a denomination of €50,000.

Joint Lead Managers

Banca Akros
(Gruppo Banca Popolare di Milano)

HSBC

Lehman Brothers

IMPORTANT NOTICES

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

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

The Issuer has confirmed to the Managers named under “Subscription and Sale” below (the “**Managers**”) that this Prospectus contains all information regarding the Issuer, the Group (as defined herein) and the Notes that is (in the context of the issue of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

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

No representation or warranty is made or implied by the Managers or any of their respective affiliates, and none of the Managers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) business or prospects of the Issuer since the date hereof or that any other information supplied in connection with the Notes is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

This Prospectus may only be used for the purposes for which it has been published. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Prospectus and other offering material relating to the Notes, see “Subscription and Sale”. In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. In addition, this Prospectus has not been submitted to the clearance procedure of *Commissione Nazionale per le Società e la Borsa* (the Italian Securities and Exchange Commission or “**CONSOB**”) and may not be used in connection with any offering of the Notes in Italy other than to professional investors, as defined by and in accordance with applicable Italian securities laws and regulations.

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

The Issuer shall use its best efforts to adopt a consistent approach with respect to interest payments for holders of both its Parity Securities and the Notes.

In this Prospectus, unless otherwise specified, references to “**EUR**”, “**euro**”, “**Euro**” or “**€**” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. Unless otherwise specified or where the context requires, references to laws and regulations are to the laws and regulations of Italy.

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

FORWARD-LOOKING STATEMENTS

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

MARKET STATISTICS

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

STABILISATION

In connection with the issue of the Notes, the Joint Lead Managers (the “Stabilising Managers”) (or persons acting on behalf of the Stabilising Managers) 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, there is no assurance that the Stabilising Managers (or persons acting on behalf of the Stabilising Managers) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

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GENERAL OVERVIEW

This general overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Prospectus have the same meanings in this general overview and references to a “Condition” is to such numbered condition in the Terms and Conditions of the Notes.

Summary in respect of the Notes

Issuer:	Banca Popolare di Milano S.C.a r.l.
Joint Lead Managers:	Banca Akros S.p.A. (Gruppo Banca Popolare di Milano) HSBC Bank plc Lehman Brothers (International) Europe
Principal Amount:	€300,000,000
Issue Price:	98.955 per cent. of the principal amount of the Notes.
Issue Date:	25 June 2008
Form and Denomination:	The Notes will be issued in bearer form in a denomination of €50,000 each.
Status of the Notes:	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer ranking: <ul style="list-style-type: none">(i) <i>pari passu</i> without any preference among themselves and <i>pari passu</i> with the Parity Securities;(ii) junior in right of payment to the payment of any present or future claims of all unsubordinated creditors of the Issuer and to all Less Deeply Subordinated Obligations; and(iii) senior in right of payments to the Junior Securities.
Redemption:	<p>The Notes will mature and be redeemed on the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer, in accordance with, as the case may be, (i) a resolution of the provision of the by-laws of the Issuer (currently, maturity of the Issuer is set at 23 December 2100 though if this is extended, redemption of the Notes will be equivalently adjusted), or (ii) any applicable legal provision, or any decision of any jurisdictional or administrative authority.</p> <p>The Issuer may, at its option, also redeem the Notes in whole, but not in part, on the Reset Date and on any Interest Payment Date (as defined herein) thereafter at an amount equal to their principal amount, together with any accrued interest and any additional amounts due pursuant to Condition 9(a) (<i>Taxation – Gross up</i>), as described in Condition 7(a) (<i>Redemption and Purchase – Redemption at the option of the Issuer</i>).</p> <p>In addition, the Issuer may, at its option, redeem the Notes in whole, but not in part, at any time before the Reset Date following the occurrence of a Regulatory Event or a Tax Event (each, as defined herein) at a redemption price equal</p>

to the greater of (i) the principal amount and (ii) the Make Whole Amount (as defined herein) together, in each case, with any accrued interest and any additional amounts due pursuant to Condition 9(a) (*Taxation – Gross up*) as described in Condition 7(b) (*Redemption and Purchase – Redemption due to a Regulatory Event*).

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

“**Regulatory Event**” means in the case of the Notes that (i) the Issuer is not permitted under the applicable rules and regulations adopted by the Lead Regulator, or an official application or interpretation of such rules and regulations including a decision of any court or tribunal, at any time whilst any of the Notes are outstanding to treat the Notes as own funds, or (ii) the Issuer is notified by the Lead Regulator that the Notes do not or no longer qualify as own funds, in each case, for the purposes of (a) Tier 1 Capital or (b) in case of future amendments to the Bank of Italy Regulations, up to such other fraction of the regulatory capital as will apply to non-cumulative perpetual instruments or similar instruments or liabilities pursuant to which the Issuer has a call option linked to an increase in the amount of payment due in respect of such instruments or liabilities, (save where any inability to so treat the Notes is solely as a result of any applicable limitation on the amount of such regulatory capital);

“**Tax Event**” means:

(A) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Italy or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the Notes and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(B) (1) interest payable by the Issuer in respect of the Notes is no longer, or will no longer be, fully deductible by the Issuer for Italian corporate income tax purposes as a result of any change in, or amendment to, the laws or regulations or applicable accounting standards of the Republic of Italy, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations or accounting standards, which change or amendment becomes effective on or after the date of issue of the Notes (save where any non-deductibility of interest payable by the Issuer in respect of the Notes is solely as a result of the Issuer exceeding any applicable general threshold of aggregate interest expenses that may be deducted by the Issuer in any financial year for Italian corporate income tax purposes); and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

Interest:

The Notes will bear interest on a non-cumulative basis (i) from and including 25 June 2008 to but excluding 25 June 2018 (the “**Reset Date**”) at a rate of 9 per cent. per annum, payable annually in arrear on 25 June in each year and (ii) from and including the Reset Date at a rate of Euribor plus 618 basis points, payable quarterly in arrear on 25 September, 25 December, 25 March and 25 June of each year beginning 25 September 2018.

Optional suspension of interest:

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

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

Where the Issuer elects not to pay interest pursuant to Condition 5(a) (*Interest suspension – Optional suspension of interest*) it shall not have any obligation to make such interest payment on the relevant Interest Payment Date, and the failure to pay such interest shall not constitute a default of the Issuer or any other breach of obligations under the Conditions or for any purpose. Interest on the Notes will not be cumulative and interest that the Issuer elects not to pay pursuant to Condition 5(a) (*Interest suspension – Optional suspension of interest*) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited.

Mandatory suspension of interest:

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

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

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

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

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

Mandatory Payment of Interest:

Notwithstanding Condition 5(b) (*Interest suspension – Mandatory suspension of interest*), the Issuer is required to pay interest (including, without limitation, in the event of a Capital Deficiency Event) on any Interest Payment Date in full if and to the extent that during the 12-month period prior to such Interest Payment Date the Issuer or any Subsidiary has declared or paid dividends or other distributions on Junior Securities.

Subject to Condition 5(b) (*Interest suspension – Mandatory suspension of interest*) the Issuer is required to pay interest on any Interest Payment Date in full if and to the extent that during the 12-month period prior to such Interest Payment Date the Issuer or any Subsidiary has redeemed, repurchased or acquired any Junior Securities (other than a Permitted Repurchase).

The Issuer shall use its best efforts to adopt a consistent approach with respect to interest payments for holders of both its Parity Securities and the Notes.

“**Permitted Repurchase**” means (1) any redemption, repurchase or other acquisition of such Junior Securities held by any member of the Group, (2) a reclassification of the equity share capital of the Issuer or any of its Subsidiaries or the exchange or conversion of one class or series of equity share capital for another class or series of equity share capital, (3) the purchase of fractional interests in the share capital of the Issuer or any of its Subsidiaries pursuant to the conversion or exchange provisions of such security being converted or exchanged, (4) any redemption or other acquisition of Junior Securities in connection with a levy of

execution for the satisfaction of a claim by the Issuer or any of its Subsidiaries, (5) any redemption or other acquisition of Junior Securities in connection with the satisfaction by the Issuer or any of its Subsidiaries of its obligations under any employee benefit plan or similar arrangement, or (6) any redemption or other acquisition of Junior Securities in connection with transactions effected by or for the account of customers of the Issuer or any Subsidiary or in connection with the distribution, trading or market-making in respect of such securities.

Loss absorption:

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

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

Modification to the terms and conditions:

Where a Regulatory Event or a Tax Event occurs and is continuing, the Issuer may, without the consent of the Noteholders, modify the terms of the Notes to the extent that such modification is reasonably necessary to ensure that no Regulatory Event or Tax Event would exist after such modification, provided that following such modification:

- (i) the Notes, as so modified (the “**New Notes**”), are held on terms and conditions which are no more prejudicial to Noteholders than the terms and conditions applicable to the Notes prior to such modification (the “**existing Notes**”), *provided that* any modification may be made in accordance with paragraphs (ii) to (v) below and any such modification shall not constitute a breach of this paragraph (i); and

- (ii) the person having the obligation of the Issuer under the Notes is either (i) Banca Popolare di Milano S.C.a.r.l, or (ii) is substituted in accordance with Condition 13(d) (*Substitution*); and
- (iii) in the case of a Regulatory Event, the New Notes may, to the extent necessary to ensure that no Regulatory Event exists and to the extent that the existing Notes may not benefit from grandfathering provisions, provide that Condition 5(c)(i) (*Interest suspension – Mandatory payment of interest*) shall in all cases be subject to Condition 5(b) (*Interest suspension – Mandatory suspension of interest*); and
- (iv) the New Notes rank at least equal to the existing Notes and feature the same tenor, principal amount, interest rate (including applicable margins and step-up), interest payment dates and first call date as the existing Notes; and
- (v) the New Notes continue to be listed on a regulated market of an internationally recognised stock exchange as selected by the Issuer (provided that the existing Notes were so listed prior to the occurrence of the Regulatory Event or Tax Event, as the case may be),

and *provided further that*:

- (a) the Issuer obtains approval of the proposed modification from the Lead Regulator (if such approval is required) or gives prior written notice (if such notice is required to be given) to the Lead Regulator and, following the expiry of all relevant statutory time limits, the Lead Regulator is no longer entitled to object or impose changes to the proposed modification;
- (b) the modification does not give rise to a change in any published rating of the existing Notes in effect at such time;
- (c) the modification does not give rise to any right on the part of the Issuer to exercise any option to redeem the Notes prior to their stated maturity, without prejudice to the provisions under Condition 7(a) (*Redemption and purchase – Redemption at the Option of the Issuer*); and
- (d) the Issuer has delivered to the Fiscal Agent a certificate, substantially in the form shown in the Agency Agreement, signed by two of Banca Popolare di Milano's executive officers stating that paragraphs (i) to (v) and (a) to (c) above have been complied with, such certificate to be made available for inspection by Noteholders.

In connection with any modification as indicated in Condition 13(c) (*Modification following a Regulatory Event*), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are then listed or admitted to trading.

Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of the Republic of Italy, as the case may be (and subject to certain customary exceptions), unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 9 (<i>Taxation</i>)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Governing Law:	The Notes will be governed by English law.
Listing and Trading:	Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the Luxembourg Stock Exchange's Regulated Market and to be listed on the official list of the Luxembourg Stock Exchange. Total expenses related to admission to trading are estimated to be €2,600.
Rating:	<p>The Notes will be rated A3 by Moody's, BBB by S&P and A- by Fitch.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.</p>
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom and Italy see, "Subscription and Sale" below.
Clearing Systems:	Euroclear and Clearstream, Luxembourg.
ISIN:	XS0372300227
Common Code:	037230022

RISK FACTORS

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

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

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

References to the "Group" are to the Issuer and each of its consolidated subsidiaries. Otherwise, words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Prospectus have the same meaning in this section. References to a "Condition" is to such numbered condition in the Terms and Conditions of the Notes. Prospective investors should read the entire Prospectus.

Risks regarding the Issuer and the Group

Risks relating to the Issuer's business

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

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

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

Interest rate risk refers to the possibility of the Issuer incurring losses as a result of a poor performance in market interest rates.

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

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

Risks connected with the creditworthiness of customers

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

Risks connected with information technology

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

Risks connected with concentration of business in Northern Italy

The Issuer's business is concentrated in Northern Italy. Although it has substantial business in other regions in Italy, a downturn in demand in the Northern Italy market could have a material adverse effect on its business.

Risk factors regarding the Group's business sector

Competition

The Issuer is subject to competition from a large number of companies who may offer the same financial products and services and other forms of alternative and/or novel forms of borrowing or investment. Such competitors include banks and other financial intermediaries. In addition, the formation of increasingly large banking groups, and the entry of foreign financial institutions into the Italian banking market, may allow such companies to offer products and service on terms that are more financially advantageous than those which it is able to offer as a result of their possible economies of scale. As a result of this competition, it may not be able to attract and retain new clients or sustain the rate of growth that it has experienced to date, which may adversely affect its market share and results of operations.

Risks associated with the legislative, accounting and regulatory contest

Changes in the Italian and European regulatory framework could adversely affect the Issuer's Business. The Issuer is subject to extensive regulation and supervision by the Bank of Italy, CONSOB (the public authority responsible for regulating the Italian securities market), the European Central Bank, the European System of Central Banks and the CSSF in Luxembourg.

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

Further, on 31 January 2007 the Italian Government adopted law decree No. 7, which was later converted into law by Law No. 40 of 2 April 2007 (the "**Bersani Decree**"). The Bersani Decree aims at, *inter alia*, increasing competitiveness in a number of sectors, including the banking sector. In particular, in the banking sector, the Bersani Decree aims at reducing the costs associated with prepayment of mortgage loans with a view to allowing borrowers to refinance their mortgage loans more easily. With specific regard to mortgage loans (*mutui*) (and, in particular, mortgage loans granted for the purpose of purchasing or refurbishing real estate assets dedicated to residential use or to the carrying out of economic or professional activities by natural persons) executed after 2 February 2007, under article 7 of the Bersani Decree prepayment fees are no longer permitted. Any provision to the contrary is null and void.

Risk Factors in relation to the Notes

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

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Perpetual Securities

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

Redemption risk

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

No limitation on issuing debt

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

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

Subordination

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

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

Optional suspension of interest payments

Noteholders should be aware that the Issuer may, by giving not less than 15 days prior notice, elect in its discretion not to pay all (or part only) of the interest accrued to an Interest Payment Date if (A) the Issuer does not have Distributable Profits, according to its Latest Accounts; and/or (B) since the Issuer's AGM in respect of the financial statements for the financial year immediately preceding the year in which such Interest Payment Date falls, no dividend or other distribution has been declared, made, approved or set aside for payment in respect of any Junior Securities. For further details see Condition 5(a) (*Interest suspension – Optional suspension of interest*).

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

Mandatory Suspension of Interest Payments

Noteholders should be aware that the Issuer will be prohibited from (A) paying all (or part only) of the interest accrued to an Interest Payment Date if and to the extent that a Capital Deficiency Event regarding the Issuer would occur if the Issuer made the payment of interest (in whole or in part) on such Interest Payment Date; or (B) paying all (or part only) of the interest accrued to an Interest Payment Date if (i) a Capital Deficiency Event regarding the Issuer has occurred and is continuing on such Interest Payment Date; or (ii) the Issuer is prohibited under applicable Italian legislation or regulation from declaring a dividend or making a distribution on all classes of its share capital, other than in the case of a Capital Deficiency Event. For further details see Condition 5(b) (*Interest suspension – Mandatory suspension of interest*).

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

Fixed Rate Notes

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

Variation of the terms and conditions of the Notes

Where a Regulatory Event or a Tax Event occurs and is continuing, the Issuer may, without the consent of the Noteholders, modify the terms of the Notes to the extent that such modification is reasonably necessary to ensure that no Regulatory Event or Tax Event would exist after such modification, subject to certain provisions as described in Condition 13(c) (*Modification to the Conditions*).

Qualification of the Notes under Italian taxation law

Italian tax law does not provide for any specific and proper definition of the categories of "bonds" and "debentures similar to bonds" referred to in Article 1 and following of Legislative Decree No. 239 of 1 April 1996 ("**Decree No. 239**"). The statements contained in the section "*Taxation – Italy*", as for the

applicability of the tax regime provided for by Decree No. 239 to the Notes, are based on the clarifications given by the Italian Revenue Agency in Circular No. 4/E of 18 January 2006, according to which bonds may have a maturity which is not scheduled at a specific date, but it is linked to the maturity of the issuing company (as in the case of the Notes whose maturity is linked to the maturity of the Issuer) or to the liquidation thereof, if the company has been set-up with an undetermined maturity pursuant to Article 2328 (2), No. 13, of the Italian Civil Code. Prospective purchasers and holders of the Notes must take into account that the above clarifications (as well as the Italian tax provisions in effect as of the date of this Prospectus) are subject to changes, which could also have retroactive effects. Should, following a change in the Italian tax provisions or in the interpretation followed by the Italian tax authorities, the Notes be qualified as “atypical securities” pursuant to Article 5 of Law Decree No. 512 of 30 September 1983 (instead of being qualified as “bonds” or “debentures similar to bonds” subject to the tax regime described in the section “*Taxation – Italy*”), interest and other proceeds (including the difference between the redemption amount and the issue price) in respect of the Notes could be subject to an Italian withholding tax at a rate of 27 per cent. if owed to beneficial owners that are not resident of Italy for tax purposes or to certain categories of Italian resident beneficial owners, depending on the legal status of the beneficial owner of such interest and other proceeds. Reduced rates provided for by double taxation treaties entered into by Italy would be applicable in relation to interest and other proceeds paid to non-Italian resident beneficial owners, provided that the relevant requirements are met.

The applicability of such a withholding tax in relation to interest and other proceeds paid to non-Italian resident beneficial owners would give rise to an obligation of the Issuer to pay additional amounts pursuant to Condition 9(a) (*Taxation – Gross up*) and would, as a consequence, allow the Issuer to redeem the Notes at the greater of (x) the principal amount of the Notes and (y) the Make Whole Amount, together, in each case, with interest accrued (if any) up to, but excluding, the Tax Event Redemption Date and any additional amounts due pursuant to Condition 9(a) (*Taxation – Gross up*).

On the other hand, based on Condition 9(a)(ii) and (iv) (*Taxation – Gross up*), the above withholding tax, when levied in respect of interest and other proceeds paid to certain Italian resident beneficial owners, would not give rise to any obligation of the Issuer to pay additional amounts.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries including Switzerland, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

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

The Notes are represented by Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg. While the Notes are represented by one or more Global Notes the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer has no responsibility

or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Credit ratings may not reflect all risks

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

Legal investment considerations may restrict certain investments

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

Risks related to the market generally

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

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case 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 would generally have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls

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

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

Credit risk

Credit or corporate ratings may not reflect all risks. One or more independent rating agencies may assign ratings to the Notes and/or the Issuer. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this section, and other factors that may affect the value of the Notes or the standing of the Issuer. A credit rating and/or a corporate rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

DOCUMENTS INCORPORATED BY REFERENCE

The documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus are the audited annual financial statements of the Issuer for the financial years ended 31 December 2006 and 31 December 2007 and the unaudited interim consolidated financial statements of the Issuer for the three months ended 31 March 2007 and 31 March 2008, in each case together with the notes and (where applicable) audit reports prepared in connection therewith.

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

Cross reference list

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

<u>Audited annual financial statements of the Issuer</u>	<u>2007</u>	<u>2006</u>
Balance sheet		
– consolidated	Page 444-445	Pages 384-385
– non-consolidated	Page 106-107	Pages 62-63
Income statement		
– consolidated	Page 446	Page 386
– non-consolidated	Page 108	Page 64
Cash flow statement		
– consolidated	Page 451	Page 389
– non-consolidated	Page 111	Page 67
Accounting policies and explanatory notes		
– consolidated	Pages 453-487	Pages 391-423
– non-consolidated	Pages 113-139	Pages 69-94
Audit report		
– consolidated	Page 739	Page 731
– non-consolidated	Page 385	Page 375
<u>Unaudited first quarter consolidated financial statements of the Issuer</u>	<u>2008</u>	<u>2007</u>
Balance sheet		
– consolidated	Pages 52-53	Pages 20-21
– non-consolidated	Page 74-75	Pages 70-71
Statement of income		
– consolidated	Page 54	Page 22
– non-consolidated	Page 76	Page 72
Cash flow statement		
– consolidated	Page 59	Page 27
– non-consolidated	Page 79	Page 75
Notes to the financial statements	Pages 61-68	Pages 29-68
Audit report	N/A	N/A

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

TERMS AND CONDITIONS OF THE NOTES

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

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

The issue of the €300,000,000 Fixed/Floating Rate Perpetual Subordinated Notes (the "Notes") issued by Banca Popolare di Milano S.C.a r.l. (the "Issuer") was authorised by a resolution of the board of directors of the Issuer passed on 3 June 2008. The Notes are the subject of a fiscal agency agreement dated 25 June 2008 (as amended or supplemented from time to time, the "Agency Agreement") between the Issuer, Citibank, N.A., London Branch as fiscal agent (the "Fiscal Agent", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are a summary of the Agency Agreement and are subject to its detailed provisions. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons (the "Couponholders" and the "Coupons", respectively) and talons for further Coupons ("Talons") which form part of each Coupon sheet of the Notes, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Interpretation

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

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

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

"**BPM Capital I LLC Preferred Securities**" means the €160,000,000 8.393 per cent. Non-Cumulative Preferred Securities issued by BPM Capital I LLC on 2 July 2001 and guaranteed by Banca Popolare di Milano S.C.a r.l.;

"**Business Day**" means a TARGET Settlement Day;

"**Calculation Agent**" means the Fiscal Agent or any successor calculation agent appointed from time to time in connection with the Notes;

"**Capital Deficiency Event**" means:

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

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

"**Comparable German Bund Issue**" means the German Bund security selected by the Calculation Agent as having a maturity comparable to 25 June 2018 that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities having a maturity of 25 June 2018;

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

“**Coupon Sheet**” means, in respect of a Note, a coupon sheet relating to the Note;

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

“**Deed of Covenant**” means the deed of covenant dated 25 June 2008 executed by the Issuer in relation to the Notes;

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

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

“**Extraordinary Resolution**” has the meaning given in the Agency Agreement;

“**Financial Year End Date**” means 31 December in any year;

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

“**Fixed Rate Interest Payment Date**” means 25 June of each year beginning on 25 June 2009 up to and including the Reset Date;

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

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

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

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

“**Floating Rate Interest Payment Date**” means 25 September, 25 December, 25 March and 25 June of each year beginning on 25 September 2018 up to and including the date of redemption of the Notes;

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

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

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

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

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

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

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

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

“**Issue Date**” means 25 June 2008;

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

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

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

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

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

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

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

“**Make Whole Amount**” in respect of each Note means the principal amount of such Note, assuming such Note to be due on the Reset Date, together with interest to be accrued from the relevant Make Whole Event Redemption Date to (but excluding) the Reset Date, assuming all such to be due in full, in each case discounted to the relevant Make Whole Event Redemption Date on an annual basis (calculated on the basis of the actual number of days in the relevant calendar year and the actual number of days in such period), such discounting to be at the German Bund Rate plus 0.75 per cent. calculated by the Calculation Agent;

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

“**Parity Securities**” means (A) any obligations or instruments issued by the Issuer which rank equally with the Notes, and (B) any guarantees or similar instruments of the Issuer which rank equally with the Notes (including the obligations of the Issuer deriving from a subordinated guarantee granted in connection with the issue of the BPM Capital I LLC Preferred Securities) and which are granted for the benefit of preferred securities or preferred or preference shares or similar instruments issued by any Subsidiary of the Issuer;

“**Payment Business Day**” means:

- (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
- (ii) in the case of payment by transfer to an account, a TARGET Settlement Day;

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

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

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

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

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

“**Regulatory Event**” means that, at any time whilst any of the Notes are outstanding:

- (i) the Issuer is not permitted, under the applicable rules and regulations adopted by the Lead Regulator, or an official application or interpretation of such rules and regulations including a decision of any court or tribunal, to treat the Notes as own funds; or
- (ii) the Issuer is notified by the Lead Regulator that the Notes do not or no longer qualify as own funds,

in each case, for the purposes of (a) Tier 1 Capital or (b) in case of future amendments to the Bank of Italy Regulations, up to such other fraction of the regulatory capital as will apply to non-cumulative perpetual instruments or similar instruments or liabilities pursuant to which the Issuer has a call option linked to an increase in the amount of payment due in respect of such instruments or liabilities, (save where any inability to so treat the Notes is solely as a result of any applicable limitation on the amount of such regulatory capital);

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

“**Relevant Date**” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

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

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

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

“**Successor in Business**” means any company which, as a result of any amalgamation, merger or reconstruction:

- (i) owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Issuer immediately prior thereto; and
- (ii) carries on, as successor to the Issuer, the whole or substantially the whole of the business carried on by the Issuer immediately prior thereto;

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

- (i) whose majority of votes in ordinary shareholders’ meetings of the second Person is held by the first Person; or
- (ii) in which the first Person holds a sufficient number of votes giving the first person a dominant influence in ordinary shareholders’ meetings of the second Person; or

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

“**TARGET2**” means the Trans-European Automated real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro;

“**Tax Event**” means:

(A) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Italy or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(B) (1) interest payable by the Issuer in respect of the Notes is no longer, or will no longer be, fully deductible by the Issuer for Italian corporate income tax purposes as a result of any change in, or amendment to, the laws or regulations or applicable accounting standards of the Republic of Italy, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations or accounting standards, which change or amendment becomes effective on or after the Issue Date (save where any non-deductibility of interest payable by the Issuer in respect of the Notes is solely as a result of the Issuer exceeding any applicable general threshold of aggregate interest expenses that may be deducted by the Issuer in any financial year for Italian corporate income tax purposes; and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

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

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

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

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

(b) *Interpretation:* In these Conditions:

(i) any reference to principal shall be deemed to include the principal amount of the Notes, any additional amounts in respect of principal which may be payable under Condition 9 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(ii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 9 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(iii) references to Notes being “outstanding” shall be construed in accordance with the Agency Agreement; and

(iv) references to “Coupons” shall, unless the context otherwise requires, be deemed to include a reference to Talons.

2. Form, Denomination and Title

The Notes are in bearer form in denominations of €50,000 with Coupons and Talons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

3. Status and Subordination of the Notes

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

4. Interest

- (a) *Fixed Rate:* The Notes bear interest on a non-cumulative basis from and including the Issue Date to but excluding the Interest Payment Date falling on 25 June 2018 (the “**Reset Date**”) at the rate of 9 per cent. per annum (the “**Fixed Rate of Interest**”), payable, subject as provided in these Conditions, annually in arrears on 25 June in each year (each, a “**Fixed Rate Interest Payment Date**”). The first interest payment shall be made on 25 June 2009 in respect of the period from (and including) the Issue Date to (but excluding) 25 June 2009 and shall be in the amount of €4,500 per Note of €50,000 denomination. The amount of interest payable in respect of each Note for any period which is not equal to a Fixed Rate Interest Period shall be calculated by applying the Fixed Rate of Interest to the principal amount of such Note, multiplying the product by the Fixed Rate Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (b) *Floating Rate:*
- (i) If the Issuer does not redeem the Notes in accordance with Condition 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*) on the Reset Date, the Notes will bear interest on a non-cumulative basis for each Floating Rate Interest Period at the Floating Rate of Interest (as defined below) payable, subject as provided in these Conditions, in arrear on each Floating Rate Interest Payment Date; *provided however that*, if any Interest Payment Date would otherwise fall on a date which is not a Business Day, it will be postponed to the next Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding Business Day.

- (ii) The rate of interest applicable to the Notes (the “**Floating Rate of Interest**”) for each Floating Rate Interest Period will be determined by the Calculation Agent on the following basis:
- (A) the Calculation Agent will determine the rate for deposits in Euro for a period equal to the relevant Floating Rate Interest Period which appears on the display page designated EURIBOR 01 on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11.00 a.m. (Brussels time) on the second TARGET Settlement Day before the first day of the relevant Floating Rate Interest Period (the “**Floating Rate Interest Determination Date**”);
- (B) if such rate does not appear on that page, the Calculation Agent will:
- (1) request the principal Euro-zone office of each of four major banks in the Euro-zone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it in the Euro-zone interbank market at approximately 11.00 a.m. (Brussels time) on the Floating Rate Interest Determination Date to prime banks in the Euro-zone interbank market for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time; and
- (2) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (C) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone, selected by the Calculation Agent, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in Euro to leading European banks for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time,
- and the Floating Rate of Interest for such Floating Rate Interest Period shall be the sum of 6.18 per cent. per annum and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Floating Rate Interest Period, the Floating Rate of Interest applicable to the Notes during such Floating Rate Interest Period will be the sum of 6.18 per cent. per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Notes in respect of a preceding Floating Rate Interest Period, or, where there has been no such previous determination, the Floating Rate of Interest shall be equal to the Fixed Rate of Interest plus 2.0 per cent. per annum.
- (iii) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Floating Rate of Interest is to be determined in relation to each Floating Rate Interest Period, calculate the Interest Amount payable in respect of each Note for such Floating Rate Interest Period. The Interest Amount will be calculated by applying the Floating Rate of Interest for such Floating Rate Interest Period to the principal amount of such Note during such Floating Rate Interest Period and multiplying the product by the relevant Floating Rate Day Count Fraction.
- (iv) *Publication:* The Calculation Agent will cause each Floating Rate of Interest and Interest Amount determined by it, together with the relevant Floating Rate Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each

listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Floating Rate of Interest, Interest Amount and Floating Rate Interest Payment Date) in any event not later than the first day of the relevant Floating Rate Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Floating Rate Interest Period.

- (v) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (c) *Interest accrual:* Each Note will cease to bear interest from (but excluding) maturity or the due date for redemption pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) unless, upon due presentation, payment of principal in respect of the Notes is improperly withheld or refused, in which case any such amounts of principal improperly withheld or refused will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

5. Interest suspension

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

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

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

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

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

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

except that where Condition 5(c)(i) applies, the Issuer shall be required to pay interest notwithstanding this Condition 5(b).

The Issuer shall use its best endeavours to give not more than 25 but not less than 2 days prior notice to the Paying Agents and to the Noteholders in accordance with Condition 15 (*Notices*) of any Interest Payment Date on which, pursuant to the provisions of this Condition 5(b), it is prohibited from paying interest and such notice shall include a confirmation of the Issuer's prohibition from paying interest, together with details of the amount of interest (if any) to be paid on such Interest Payment Date.

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

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

- (c) *Mandatory payment of interest*
- (i) Notwithstanding the provisions of Condition 5(b) (*Interest suspension – Mandatory suspension of interest*), the Issuer is required to pay interest (including, without limitation, in the event of a Capital Deficiency Event) on any Interest Payment Date in full if and to the extent that during the 12-month period prior to such Interest Payment Date the Issuer or any Subsidiary has declared or paid dividends or other distributions on any Junior Securities.
 - (ii) Subject to Condition 5(b) (*Interest suspension – Mandatory suspension of interest*), the Issuer is required to pay interest on any Interest Payment Date in full if and to the extent that during the 12-month period prior to such Interest Payment Date the Issuer or any Subsidiary has redeemed, repurchased or acquired any Junior Securities (other than a Permitted Repurchase).

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

6. Loss absorption

To the extent that the Issuer at any time suffers losses (also considering profits and losses relating to previous financial years) which would result in a Capital Deficiency Event, the obligations of the

Issuer relating to the principal amount of the Notes will be suspended to the extent necessary to enable the Issuer to continue to carry on its activities in accordance with applicable regulatory requirements. In any such case, but always subject to the provisions set out in Condition 5(b) (*Interest suspension – Mandatory suspension of interest*), interest will continue to accrue on the nominal value of the Notes. The obligations of the Issuer to make payments in respect of principal amount of the Notes will be reinstated (in priority to any Junior Securities and on a *pari passu* basis with any Parity Securities), as if such obligations of the Issuer had not been so suspended:

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

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

7. Redemption and Purchase

The Notes will mature and be redeemed by the Issuer on the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer, in accordance with, as the case may be, (i) a resolution of the shareholders' meeting of the Issuer, (ii) any provision of the by-laws of the Issuer (currently, maturity of the Issuer is set at 23 December 2100 though if this is extended, redemption of the Notes will be equivalently adjusted), or (iii) any applicable legal provision, or any decision of any jurisdictional or administrative authority. The Notes may not be redeemed at the option of the Issuer except in accordance with the provisions of this Condition 7. Any redemption in accordance with this Condition 7, save in accordance with the first sentence of this paragraph, is subject to the prior approval of the Lead Regulator. The Notes may not be redeemed at the option of the Noteholders.

- (a) *Redemption at the option of the Issuer:* The Notes may be redeemed at the option of the Issuer in whole, but not in part, on the Reset Date and on any Interest Payment Date thereafter at a redemption price equal to their principal amount together with interest accrued (if any) up to, but excluding, the date fixed for redemption and any additional amounts due pursuant to Condition 9(a) (*Taxation – Gross up*) on the Issuer's giving not less than 30 but not more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*).
- (b) *Redemption due to a Regulatory Event:* Without prejudice to the Issuer's right to modify the terms and conditions of the Notes pursuant to Condition 13(c) (*Meetings of Noteholders; Modification and Waiver; Modification to the Conditions; Substitution – Modification to the Conditions*), the Notes may be redeemed at the option of the Issuer on giving not less than 30 but not more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) in whole, but not in part, at any time before the Reset Date following the occurrence of a Regulatory Event at a redemption price equal to the greater of (x) the principal amount of the Notes and (y) the Make Whole Amount together, in each case, with interest accrued (if any) up to, but excluding, the Regulatory Event Redemption Date and any additional amounts due pursuant to Condition 9(a) (*Taxation – Gross up*).
- (c) *Redemption due to a Tax Event:* Without prejudice to the Issuer's right to modify the terms and conditions of the Notes pursuant to Condition 13(c) (*Meetings of Noteholders; Modification and Waiver; Modification to the Conditions; Substitution – Modification to the Conditions*), the Notes may be redeemed at the option of the Issuer on giving not less than 30 but not more than 60 days' notice to the Noteholders in accordance with Condition 15

(Notices) in whole, but not in part, at any time before the Reset Date following the occurrence of a Tax Event at a redemption price equal to the greater of (x) the principal amount of the Notes and (y) the Make Whole Amount together, in each case, with interest accrued (if any) up to, but excluding, the Tax Event Redemption Date and any additional amounts due pursuant to Condition 9(a) (*Taxation – Gross up*), provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which interest starts accruing in respect of which the Issuer would be unable to deduct such amounts for Italian income tax purposes or obliged to pay such additional amounts if a payment in respect of the Notes were then due, as the case may be.

- (d) *Notification of redemption due to a Regulatory Event or Tax Event:* Prior to the publication of any notice of redemption pursuant to Conditions 7(b) and (c), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (1) a certificate signed by two duly authorised representatives of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, (2) in the case of a Tax Event, an opinion of independent legal advisers of recognised standing to the effect that the Issuer is unable to deduct such amounts for Italian income tax purposes as a result of such change or amendment or that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment, as the case may be.

Any notice of redemption as is referred to in this Condition 7 shall be irrevocable and shall specify the date on which the Notes will be redeemed and the relevant redemption amount. The Issuer shall be bound to redeem the Notes on the relevant date and at the relevant redemption amount specified in such notice in accordance with this Condition 7.

- (e) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 7(a) to (c) above or upon maturity.
- (f) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith, subject to the prior approval of the Lead Regulator (if applicable).
- (g) *Cancellation:* All Notes so redeemed or purchased and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

8. Payments

- (a) *Principal:* Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account maintained by the payee with, a bank in the Euro-zone.
- (b) *Interest:* Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (d) *Unmatured Coupons void:* On the due date for redemption of any Note upon maturity or pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof. If the date on which the Notes become due is not an Interest Payment Date, the interest accrued (if any) from the preceding Interest Payment Date (or the Issue Date, as the case may be) on any Note shall be payable only against surrender or endorsement of the relevant Coupon, subject to the provisions of Conditions 4 (*Interest*) and 5 (*Interest suspension*) regarding the payment of interest.

- (e) *Payments on business days:* If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (f) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (h) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 10 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

9. Taxation

- (a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Italy or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:
 - (i) in the Republic of Italy; or
 - (ii) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Republic of Italy other than the mere holding of such Note or Coupon; or
 - (iii) to the extent that interest or any other amount payable is paid to a non-Italian resident where such withholding or deduction is required by Legislative Decree No. 239 of 1 April 1996, as subsequently amended, supplemented or replaced (“**Decree No. 239**”), unless this is due to the requirements or procedures set forth therein not being met or complied with due to the actions or omissions of the Issuer or its agents; or
 - (iv) by an Italian resident, to the extent that interest is paid to an Italian individual or an Italian legal entity not carrying out commercial activities (in particular (A) partnerships, de facto partnerships not carrying out commercial activities and professional associations, (B) public and private resident entities, other than companies, not carrying out commercial activities, and (C) certain other Persons exempt from corporate income tax) or to such other Italian resident entities which have been or may be identified by Decree No. 239; or
 - (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any other law implementing or complying with, or introduced in order to conform to, such Directive; or

- (vi) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or
 - (vii) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days.
- (b) *Taxing jurisdiction:* If, in respect of payments it makes in relation to the Notes, the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Italy, references in these Conditions to the Republic of Italy shall be construed as references to such other jurisdiction.

10. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

11. Replacement of Notes and Coupons

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

12. Paying Agents

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

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

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

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

13. Meetings of Noteholders; Modification and Waiver; Modification to the Conditions; Substitution

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than five per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one-third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and Waiver:* The Conditions may not be amended without the prior approval of the Lead Regulator (if applicable). The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree without the consent of the Noteholders to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.
- (c) *Modification to the Conditions:* Where a Regulatory Event or Tax Event occurs and is continuing, the Issuer may, without the consent of the Noteholders and without prejudice to its option to redeem under Conditions 7(b) (*Redemption and purchase – Redemption due to a Regulatory Event*) and 7(c) (*Redemption and purchase – Redemption due to a Tax Event*), modify the terms of the Notes on the Issuer's giving not less than 30 but not more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*), to the extent that such modification is reasonably necessary to ensure that no Regulatory Event or Tax Event would exist after such modification, provided that following such modification:
- (i) the Notes, as so modified (the “**New Notes**”), are held on terms and conditions which are no more prejudicial to Noteholders than the terms and conditions applicable to the Notes prior to such modification (the “**existing Notes**”), *provided that* any modification may be made in accordance with paragraphs (ii) to (v) below and any such modification shall not constitute a breach of this paragraph (i); and
 - (ii) the person having the obligation of the Issuer under the Notes is either (i) Banca Popolare di Milano S.C.a.r.l., or (ii) is substituted in accordance with Condition 13(d) (*Meetings of Noteholders; Modification and Waiver; Modification to the Conditions; Substitution – Substitution*); and
 - (iii) in the case of a Regulatory Event, the New Notes may, to the extent necessary to ensure that no Regulatory Event exists and to the extent that the existing Notes may not benefit from grandfathering provisions, provide that Condition 5(c)(i) (*Interest suspension – Mandatory payment of interest*) shall in all cases be subject to Condition 5(b) (*Interest suspension – Mandatory suspension of interest*); and
 - (iv) the New Notes rank at least equal to the existing Notes and feature the same tenor, principal amount, interest rate (including applicable margins and step-up), interest payment dates and first call date as the existing Notes; and

- (v) the New Notes continue to be listed on a regulated market of an internationally recognised stock exchange as selected by the Issuer (provided that the existing Notes were so listed prior to the occurrence of the Regulatory Event or Tax Event, as the case may be),

and *provided further that*:

- (a) the Issuer obtains approval of the proposed modification from the Lead Regulator (if such approval is required) or gives prior written notice (if such notice is required to be given) to the Lead Regulator and, following the expiry of all relevant statutory time limits, the Lead Regulator is no longer entitled to object or impose changes to the proposed modification;
- (b) the modification does not give rise to a change in any published rating of the existing Notes in effect at such time;
- (c) the modification does not give rise to any right on the part of the Issuer to exercise any option to redeem the Notes prior to their stated maturity, without prejudice to the provisions under Condition 7(a) (*Redemption and purchase – Redemption at the Option of the Issuer*); and
- (d) the Issuer has delivered to the Fiscal Agent a certificate, substantially in the form shown in the Agency Agreement, signed by two of Banca Popolare di Milano's executive officers stating that conditions (i) to (v) and (a) to (c) above have been complied with, such certificate to be made available for inspection by Noteholders.

Any notice of modification as is referred to in this Condition 13(c) shall be irrevocable and shall include a confirmation of the Issuer's entitlement to modify the terms and conditions of the Notes pursuant to this Condition 13(c), together with a summary of the amendments to the terms and conditions of the Notes, details of how the Issuer will publish a full set of the terms and conditions of the modified Notes and specifying the date on which the terms and conditions of the modified Notes shall enter into force. The Issuer shall be bound to modify the terms and conditions of the Notes on the relevant date and as specified in such notice in accordance with this Condition 13(c).

In connection with any modification as indicated in this Condition 13(c), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are then listed or admitted to trading.

- (d) *Substitution*: (i) The Successor in Business of the Issuer or (ii) a Subsidiary of the Issuer or its Successor in Business may, without the consent of the Noteholders or Couponholders, but with the prior written approval of the Issuer, assume liability as the principal debtor in respect of the Notes (the "**Substituted Debtor**") *provided that*:
 - (i) a deed poll and such other documents (if any) shall be executed by the Substituted Debtor and, to the extent necessary, the Issuer and the other parties to the Agency Agreement and the Deed of Covenant, as may be necessary to give full effect to the substitution (the "**Documents**") and (without limiting the generality of the foregoing) pursuant to which the Substituted Debtor shall undertake in favour of each Noteholder and each Accountholder (as defined in the Deed of Covenant) to be bound by these Conditions, the Deed of Covenant and the Agency Agreement as fully as if the Substituted Debtor had been named in the Notes, the Deed of Covenant and the Agency Agreement as the principal debtor in respect of the Notes in place of the Issuer. Where the Substituted Debtor is not the Successor in Business of the Issuer, an unconditional and irrevocable deed of guarantee substantially in the form annexed to the Agency Agreement shall be executed by the Issuer whereby the Issuer shall guarantee in favour of each Noteholder and each Accountholder the payment of all sums payable by the Substituted Debtor as such principal debtor substantially to the extent of, and in the term specified in, the form of deed of guarantee annexed to the Agency Agreement (such guarantee is referred to in the Condition 13(d) as the "**Substitution Guarantee**" and such guarantor as the "**Guarantor**");

- (ii) where the Substituted Debtor is incorporated, domiciled or resident in, or subject generally to the taxing jurisdiction of, a territory other than or in addition to the Republic of Italy or any political sub-division or any authority therein or thereof having power to tax, undertakings or covenants shall be given by the Substituted Debtor in terms corresponding to the provisions of Condition 9 (*Taxation*) with the substitution for (or, as the case may be, the addition to) the references to the Republic of Italy of references to that other or additional territory in which the Substituted Debtor is incorporated, domiciled or resident or to whose taxing jurisdiction it is subject and (where applicable) Condition 9 (*Taxation*) shall be deemed to be modified accordingly;
- (iii) the Documents and, if applicable, the Substitution Guarantee shall contain a warranty and representation by the Substituted Debtor and, if applicable, the Guarantor (a) that each of the Substituted Debtor and, if applicable, the Guarantor has obtained all necessary governmental and regulatory approvals and consents for such substitution, (b) that each of the Substituted Debtor and, if applicable, the Guarantor has obtained all necessary governmental and regulatory approvals and consents for the performance by each of the Substituted Debtor and, if applicable, the Guarantor of its obligations under the Documents and that all such approvals and consents are in full force and effect and (c) that the obligations assumed by the Substituted Debtor and, if applicable, the Guarantor are legal, valid and binding in accordance with their respective terms and enforceable by each Noteholder and each Accountholder (subject to all applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general equitable principles);
- (iv) a legal opinion shall have been delivered to the Fiscal Agent from whom copies will be available to Noteholders (and if applicable Accountholders) (a) from lawyers of recognised standing as to matters of law of the jurisdiction of the place of incorporation of the Substituted Debtor confirming that upon the substitution taking place (1) the requirements of this Condition 13(d), save as to the giving of notice to the Noteholders, have been met, (2) the Notes, the Deed of Covenant and the Agency Agreement are legal, valid, binding and enforceable obligations of the Substituted Debtor (subject to all applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general equitable principles), (3) the Substituted Debtor is validly incorporated under the laws of its jurisdiction, and (4) that the Substituted Debtor has obtained all necessary governmental and regulatory approvals and consents for the substitution and for the entry into and performance of the Documents and (b) if applicable, from the legal counsel to the Guarantor confirming that upon substitution taking place, (1) the Substitution Guarantee and the Documents are legal, valid, binding and enforceable obligations of the Guarantor and (2) the Guarantor has the power to enter into and perform the obligations to be assumed by the Guarantor in the Documents and the Substitution Guarantee;
- (v) Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc., Moody's Investors Service Limited and Fitch Ratings Limited or its or their successors shall have confirmed to the Substituted Debtor, the Issuer and the Fiscal Agent that after giving effect to such substitution, the Notes shall continue to be rated the same as immediately prior to the substitution (to the extent that the Notes were rated by such agency prior to the substitution);
- (vi) no right of redemption pursuant to Condition 7 (*Redemption and Purchase*), any of the Documents or the Substitution Guarantee would become applicable on or as a result of such substitution;
- (vii) the appropriate regulatory authorities in Luxembourg shall have confirmed to the Substituted Debtor, the Issuer and the Fiscal Agent that, after giving effect to such substitution and the giving of the Substitution Guarantee, the Notes shall continue to be listed on the Luxembourg Stock Exchange; and

- (viii) two directors of the Substituted Debtor shall sign and deliver to the Fiscal Agent a certificate stating that the Substituted Debtor is solvent at the time at which the relevant transaction is proposed to be effected.

Upon the execution of the Documents, the Guarantee (if applicable) and the delivery of the legal opinions as referred to in paragraph (iv) above; (i) the Substituted Debtor shall be deemed to be named in the Notes, the Deed of Covenant and the Agency Agreement as the principal debtor in place of the Issuer and the Notes, the Deed of Covenant and the Agency Agreement shall thereupon be deemed to be amended to give effect to the substitution and (ii) the Issuer shall be released from all of its obligations under or in respect of the Notes, the Deed of Covenant and the Agency Agreement.

Counterparts of each of the Documents shall be deposited with and held by the Fiscal Agent for so long as any of the Notes remains outstanding and for so long as any claim made against the Substituted Debtor or, if applicable, the Guarantor by any Noteholder or Accountholder in relation to the Notes, the Documents or, if applicable, the Substitution Guarantee shall not have been finally adjudicated, settled or discharged. The Substituted Debtor and, the Guarantor shall acknowledge in the Documents and, the Substitution Guarantee the right of every Noteholder and Accountholder to the production of the Documents for the enforcement of any of the Notes, Documents or, if applicable, Substitution Guarantee.

Not later than 20 days after the execution of the Documents, the Substituted Debtor together with the Issuer shall give notice thereof to the Noteholders in accordance with Condition 15 (*Notices*).

14. Further Issues

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

15. Notices

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

16. Currency Indemnity

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

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

17. Rounding

For the purposes of any calculations referred to in these Conditions, all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.).

18. Governing Law and Jurisdiction

- (a) *Governing law:* The Notes and all matters arising from or connected with the Notes are governed by, and shall be construed in accordance with, English law.
- (b) *Jurisdiction:* The courts of England have exclusive jurisdiction to settle any dispute, (“**Dispute**”) arising from or in connected with the Notes.
- (c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England:* Condition 18(b) (*Jurisdiction*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 18 prevents any Noteholder from taking proceedings relating to a Dispute (“**Proceedings**”) in any courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) *Service of Process:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Clifford Chance Secretaries Limited at 10 Upper Bank Street, London E14 5JJ or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Notes will initially be in the form of a Temporary Global Note which will be deposited on or around 25 June 2008 (the “**Closing Date**”) with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form (“**Definitive Notes**”) in the denomination of €50,000, at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Fiscal Agent if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

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

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the occurrence of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the deed of covenant dated 25 June 2008 (the “**Deed of Covenant**”) executed by the Issuer in relation to the Notes). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

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

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

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

USE OF PROCEEDS

The gross proceeds from the issue of the Notes are expected to be approximately €296,865,000. The Joint Lead Managers will receive a commission of 1.0 per cent. of the aggregate nominal amount of the Notes. The proceeds of the Notes will be used by the Issuer for its general corporate purposes.

DESCRIPTION OF BANCA POPOLARE DI MILANO

General

Banca Popolare di Milano S.C.a r.l. (the “**Bank**” or “**BPM**”) is the parent company of the group “Bipiemme – Banca Popolare di Milano” (the “**Group**”), a leading Northern Italian banking group. The Group operates mainly in the region of Lombardy (where about 65 per cent. of its branches are located as at 31 December, 2007), and has also an important presence in the regions of Emilia Romagna, Piedmont, Lazio and Puglia, in which it limits its activities to specific provinces where it maintains important market shares. The Group predominantly provides commercial banking services for both retail and small and medium-sized corporate customers (“**SMEs**”) and, in addition, offers its customers capital markets services, brokerage services, debt and equity underwriting, asset management, insurance underwriting and sales, leasing and factoring services.

As at 31 December 2007, the Group had total assets of Euro 43,627 million (Euro 40,181 million as at 31 December 2006), a net customer loan portfolio of Euro 29,767 million (Euro 26,368 million as at 31 December 2006), Euro 32,526 million in customer deposits and securities issued (Euro 29,368 million as at 31 December 2006) and Euro 3,475 million in shareholders’ equity (Euro 3,359 million as at 31 December 2006).

As at 31 December 2007, the Group had 726 retail Italian branches, 14 corporate banking centres, the virtual branch of We@bank and 15 Private Centres (Bipiemme Private Banking SIM), located in 13 of the 20 regions of Italy. The headquarters of the Group is located at Piazza Filippo Meda 4, Milan, Italy. The telephone number of the Bank is +39 02 77001.

The Bank was incorporated as a *Società Cooperativa a responsabilità limitata* (S.C.a r.l.), a limited liability co-operative company, on 12th December 1865 and has a duration until 23 December, 2100. The Bank is registered with the Commercial Registry of Milan under number 00715120150 and with the “Albo delle Società cooperative” under number A109641.

The Bank’s corporate purpose, as provided by Articles 5 and 6 of its by-laws, are the granting of credit to its members through co-operation and the acceptance of deposits, together with carrying out own- or client-account banking transactions and providing banking services of all kinds, although strictly excluding operations of a purely speculative nature. In granting credit, the Bank gives preference to its members and to small loans. The Bank may engage in any banking, financial or intermediation transaction or service, subject to obtaining any necessary official approvals and to its compliance with relevant legislation; it may also undertake any other operation that is conducive or otherwise related to achieving its objects.

The Bank was established by members of the Milan community to promote savings in the community and provide banking services to support customers’ business activities. The Bank continued as a community bank through to the end of World War II when it began to extend its presence beyond Milan, principally through the acquisition of controlling interests in a number of other local co operative Italian banks, including Banca Popolare di Roma (acquired in 1957, one branch), Banca Popolare Cooperativa Vogherese (acquired in 1979, five branches), Banca Popolare di Bologna e Ferrara (acquired in 1988, 24 branches) and Banca Popolare di Apricena (acquired in 1989, 25 branches).

As part of the continuing strategy to increase its presence in the region of Lombardy, the Group acquired controlling interests in Banca Briantea in 1960, a regional bank with operations in the provinces of Como and Bergamo, and Banca Agricola Milanese in 1986, a regional bank with operations in the province of Milan. In November 1997, the Group merged these two banks into the Bank. In March 1998, the Group acquired 83.5 per cent. of the equity securities of Banca 2000 (formerly INA Banca Marino S.p.A.) in order to increase the Group’s presence in Rome. Banca 2000 merged with the Bank in 1999.

In accordance with its aim to strengthen the presence of the Group in the financial sector, in the second half of 1998, the Bank acquired the entire share capital of Banca Akros S.p.A., an investment bank carrying out investment and private banking business with domestic and foreign institutions, high profile enterprises and private clients of high net worth.

In 2001, the Bank completed the acquisition of Banca di Legnano S.p.A. (“**BdL**”), a regional bank with a dominant presence in the northern part of the province of Milan and in the province of Varese. Founded in 1887 to serve local business, BdL has since consolidated its position as a primary local retail bank servicing private customers and SMEs.

In September 2004, the Bank completed the merger of Carinord 1 S.p.A., which controlled 80 per cent. of Cassa di Risparmio di Alessandria (“**CRA**”), a regional bank with 84 branches located in the regions of Piedmont and Liguria. CRA is a bank deep-rooted in its historical territory of Alessandria, close and complementary to the network of the Bank.

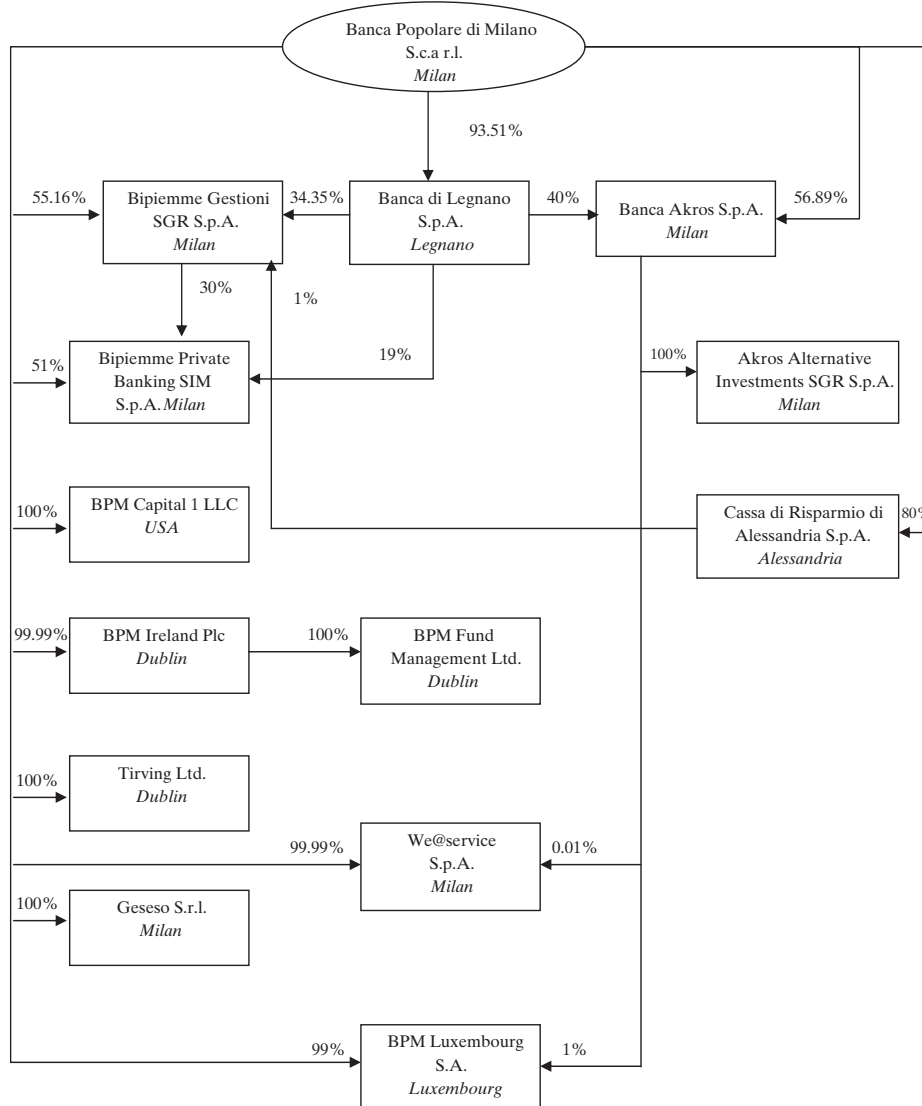
The Bank, which is the Group’s largest operating entity, is the parent company of the Group and as such is responsible for ensuring the strategic direction, defining the objectives of individual subsidiaries, providing operational support, monitoring the risks and maintaining the relationship with the Bank of Italy. The Group comprises commercial banks (the Bank, BdL and CRA) and other companies which offer specialized business services, including investment banking (Banca Akros and BPM Ireland), asset management (Bipiemme Gestioni SGR, Akros Alternative Investments SGR S.p.A., BPM Fund Management Ltd), private banking (Bipiemme Private Banking SIM) and internet services (We@service).

In December 2005 the Bank and the Fondiaria-SAI Group reached an agreement for the joint development of their bancassurance activities. The agreement envisages the sale of Bipiemme Vita S.p.A.’s share capital to the Fondiaria-SAI Group. The transaction was completed in June 2007 through the acquisition of 51% of equity participation of Bipiemme Vita’s by Milano Assicurazioni.

The agreement also includes the development of a partnership in the non-life business as well as the provision of asset management, investment and commercial banking services to the Fondiaria-SAI Group by the Group.

In May 1994, the ordinary shares of the Bank were listed on the *Mercato Telematico Azionario*, the Italian screen-based dealer market, as part of an increasing effort to diversify and internationalise its investor base. As at 31 December 2007, the authorised and issued share capital of the Bank was Euro 1,660,136,924 comprised of 415,034,231 ordinary shares with a nominal value of Euro 4 per ordinary share. Due to its organisation as a limited liability “co-operative” company, the ordinary shares of the Bank are widely held, and a significant number of the Bank’s shareholders are employees and customers. As at 31 December, 2007, the Bank had about 94,000 shareholders, of which only about 47,300 were registered members with voting rights.

Group Structure as at 31 March 2008



Strategy

The extensive commercial and regulatory changes experienced by the Italian banking sector since the early 1990s have resulted in increased competition and are requiring banks to revise their strategies and restructure in order to compete with other banking institutions. The response of the Bank to this changing environment is a strong commitment to pursuing a well-defined strategy aimed at preserving its autonomy, through strengthening and improving its efficiency, profitability and competitive position in markets of reference, cutting the cost-income ratio and creating value for shareholders. In this context, the Group's principal goals are to remain one of the leading banking groups in Northern Italy and become the bank of reference for retail customers and SMEs.

In 2004 the Bank released the strategic plan 2004-2006, who reached the targets the growth of profitability and increase of efficiency through four main cornerstones: (a) commercial development: with the growth in retail and corporate business; (b) renewed efficiency: achieved by keeping costs under strict control; (c) streamlining of internal organisational structures; (d) optimisation of risk and capital management.

In 2006 the Bank released a new strategic plan for 2007-2009, which management believes is the logical continuation of the old plan, along three principal lines:

- growth in commercial banking through taking on new customers and improving the current customer base;
- increased profitability from corporate & investment banking through:
 - selective growth in lending and an increased share of wallet in corporate;
 - synergies from the integration of corporate finance and investment banking;
 - innovation of market intermediation activity and banking book management in investment banking;
- a further increase of efficiency in operating activities and platforms, completing the rationalisation process launched over the past three years.

Operating income showed results that exceeded the objective set for the year 2007, benefiting from a higher volume of business, particularly in the medium-long term area, and from more favourable market rates despite the difficulties arising from a steeper competition on spreads, and a negative trend in the assets under management segment.

Management believes that the strategic decision to continue to pursue the path of greater profitability and productivity through internal growth should not affect potential opportunities for external growth that may arise in the future.

As an example of this, the Board of Directors of BPM is in discussions with Crédit Mutuel, to explore the possibility of future cooperation between the groups. As at the date of this Base Prospectus, no agreement has been entered into with Crédit Mutuel.

With regard to the organisational structure of the Bank, in December 2007, the Board of Directors, approved a new organisational plan to be applied to the central structure of the Bank and the implementation of which was set for 1 January 2008. This structure is designed to shorten the chain of command and to reallocate resources into the following four macro-areas, configured as Divisions, and reporting directly to the General Manager:

- sales/marketing network;
- governance functions;
- operational machine;
- human resources.

The four Divisions are responsible for their areas of competence, including the coordination of corporate policies at Group level, activities that were formerly carried out by the Co-General Manager and the Vice General Managers.

The staff reporting to the General Manager will also include: Finance, Credits, Strategic Marketing, External Relations, Internal Auditing and Compliance; these last two will report, as far as their functions, to the Board of Directors. The mission of the new Compliance Service is to assess all internal procedures and conduct, also with regard to Prudent Vigilance Regulations and the Market in Financial Instruments Directive.

Activities

The Group is principally involved in retail banking, corporate banking, investment banking and wealth management.

The result for retail banking includes, in addition to the margins of the activity with individuals and small enterprises with turnover of less than €50 million, the contribution coming from the private banking activities conducted by BPM Private Banking SIM S.p.A. and Banca Akros S.p.A. The result for corporate banking includes the margins of the operations with corporate customers (defined as companies with a turnover over €50 million). The result for investment banking includes the income from management of the proprietary portfolio and the profits of Banca Akros S.p.A., BPM Ireland Plc. and Tirving Ltd. The result for wealth management includes the profits of Bipiemme Gestioni SGR S.p.A., BPM Fund Management Ltd. and Akros Alternative Investments SGR S.p.A.

The table below sets forth the contribution of each principal business activity to the gross operating profits before taxes of the Group, derived from the consolidated financial statements as at and for the periods ended 31 December, 2006 and 2007.

	<i>For the year ended 31 December,</i>	
	<i>2007</i>	<i>2006</i>
	<i>(millions of Euro)</i>	<i>(millions of Euro)</i>
Activities		
Retail Banking	426.2	383.2
Corporate Banking	118.0	80.3
Investment Banking	36.2	106.8
Wealth Management	38.5	51.6
Other Activities	7.2	15.1
Corporate Center	102.2	95.5
Adjustments	-172.9	-95.2
Gross Operating Profits (before Taxes).....	555.5	637.4

Retail Banking

The Bank, BdL and CRA provide a full range of banking products and services to their retail customers. The Bank, BdL and CRA offer interest-bearing current accounts and other deposit accounts (including savings accounts), together with related debit cards and cards for access to the domestic and international ATM networks, CDs, bonds, overdraft facilities, mortgage loans, personal loans, bill payment services, securities trading services and foreign exchange services. The Bank, BdL and CRA also offer tax payment services to their retail clients as well as deposit, custody of securities and safety-box services.

In addition, through their distribution networks, the Bank, BdL and CRA offer retail customers fee or commission-generating services of the Group, including private banking services and lease financing services.

At 31 December 2007, deposits from the Bank's retail customers (defined as individuals and small enterprises with turnover of less than Euro 50 million), represented approximately 88 per cent. of its total customer deposits, while loans to retail customers represented approximately 56 per cent. of its total customer loans.

Corporate Banking

The Group provides a full range of corporate banking products and services to its corporate customers that are defined as companies with a turnover of over Euro 50 million.

The corporate clientele is drawn from across the Italian economy. To avoid over-dependence on any particular sectors, the Bank periodically reviews the performance of sectors in which its corporate clients operate, taking into account also any seasonality or volatility.

The Group also provides corporate banking services to foreign corporations (including their Italian subsidiaries) and to public sector entities.

The Group offers corporate customers interest bearing current and savings accounts, as well as repos, CDs for deposits denominated in euros and other currencies, as well as short – (up to 12 months), medium – and long-term (over 12 months) secured and unsecured loans, mortgages, revolving credit facilities, overdraft facilities, export/import financing, electronic payment services and certain bill payment services. Further, the Group offers its corporate customers fee- or commission-generating services (some of them supplied by certain companies in which the Group has a limited equity participation), including corporate finance services, lease financing services, discounting (or “factoring”) and advanced financing of business contracts. In addition, the Group offers its corporate customers spot foreign currency exchange services and, for certain customers with adequate credit standing, interest rate and foreign exchange forward contracts, options, futures, IRS and currency swaps. Through its branches and centralised processing systems, the Bank also provides other fee-based services to its corporate customers, such as payroll payments, money transfer services, as well as payment of VAT, social security and corporate taxes.

The Bank's principal commercial lending instruments include pre-authorised current account overdraft facilities, import/export financing, and revolving credit facilities, medium and long-term loans

and guarantees. As at 31 December 2007, loans to corporate customers represented approximately 44 per cent. of the Bank's aggregate loans to customers. As at 31 December 2007, the deposits of corporate customers represented approximately 12 per cent. of the Bank's total customer deposits.

Investment Banking

The Group, primarily through Banca Akros S.p.A. ("**Banca Akros**") the Bank and BPM Ireland Plc, is engaged in a variety of investment banking activities, including treasury operations for its own account, proprietary portfolio management and providing a broad range of capital market services to both retail and corporate customers (i.e. securities brokerage and underwriting, derivatives brokerage, financial analysis).

Within the Group, Banca Akros is improving its role extending the range of products and services offered to institutional customers, large- and medium-sized companies and high net-worth individual customers. It is particularly active in brokering and dealing in securities and derivatives, is a market maker in European government securities and one of the leading Italian operators in the derivatives markets. It has also increased its operations in the underwriting and placement of securities issued by institutions and corporations.

Banca Akros is a member of the regulated markets managed by Borsa Italiana S.p.A., TLX as well as EUREX.

Wealth Management

The Group's asset management activities include management of mutual funds and discretionary management for individuals, as well as the management of Bipiemme Vita's portfolio of assets. These activities are conducted mainly by Bipiemme Gestioni SGR. Mutual funds are marketed through the Group's distribution networks (BPM, BdL, CRA, Bpm Private Banking SIM) and other financial institutions (such as banks and insurance companies).

In addition to managing mutual funds, Bipiemme Gestioni SGR provides customized portfolio management services and financial planning for high net-worth individuals and institutional clients, including BPM Vita's assets.

Bipiemme Gestioni SGR currently manages 23 mutual funds, one fund of funds with four sub-funds and one pension fund with five sub-funds.

The Group, with the aim of diversifying the range of products offered, is also active through other subsidiaries: (a) BPM Fund Management Ltd., a wholly-owned subsidiary of BPM Ireland Plc, which operates the Dublin International Fund managed by Bipiemme Gestioni SGR, a UCITS harmonised fund under Irish law with six units; (b) Akros Alternative Investments SGR S.p.A., a company controlled by Banca Akros which manages four funds of hedge funds targeted at institutional investors and high net worth individuals with sophisticated financial requirements.

During 2007 the Bank acquired 29.9 per cent. of Anima SGR, one of the largest "independent" asset management firm in Italy in terms of assets under management specialising in management of mutual funds. (See "Recent Developments" for further details).

In 2007 Bipiemme Gestioni SGR acquired from Banca Etruria the business unit concerned with portfolio management for individuals. It also signed a commercial agreement under which Banca Etruria will distribute the funds of Bipiemme Gestioni SGR.

Assets under management of the Group were Euro 20,150 million as at 31 December 2007 (which included Euro 3,6 million of assets relating to life insurance) and Euro 20,729 million as at 31 December, 2006 (of which Euro 3,5 million of assets related to life insurance).

Other Activities

The Group offers to its customers through Bipiemme Vita S.p.A. ("Bipiemme Vita") life insurance products, including unit- and index-linked policies, and accident and illness insurance.

In December 2005 the Bank and the Fondiaria-SAI Group reached an agreement for the joint development of their bancassurance activities resulting in the sale of 51 per cent. of Bipiemme Vita to the Fondiaria SAI Group that was completed on 14 June 2007 (see "General" for further details).

All of the distribution channels of the Group are employed to offer insurance products. Total premiums reached Euro 618 million in 2007 (Euro 762 million in 2006).

The Group has a multichannel approach, under which the traditional branch network is complemented by:

- “We@bank”, the internet banking and trading on line service for retail customers. The brand name for the Group’s on-line services, and a telephone banking service. At the end of 2007 We@bank had 235,000 registered customers.
- “inLineaNet”, the on line service for corporate customers. At the end of 2007 inLineaNet had 66,000 registered customers.
- “Call Center BPM”, the telephone banking service. At the end of June 2007 it had 113,000 registered customers.

The Group offers to its clients the leasing services of a 40 per cent. owned company, SelmaBipiemme Leasing S.p.A., controlled by the Mediobanca banking group. Services are distributed through the Group’s branch network (as well as other means), and the Group earns commission income from sales of such leasing services.

For the six months ended 31 December 2007 SelmaBipiemme Leasing S.p.A. (which has a financial year end at 30 June) showed a net profit of Euro 6.5 million (Euro 8.2 million for the same period in 2006), with 4,124 new agreements signed in the six months ended 31 December 2007 for a total value of Euro 414 million (compared with 3,929 agreements for the same period in 2006, for a total value of Euro 406 million).

The Bank owns 39 per cent. of Aedes BPM Real Estate SGR S.p.A., who currently manages four closed-end property funds. The funds include “Investietico”, intended for retail customers ad listed on the Italian Stock Exchange, and “Dante Retail”, “Virgilio” and “Petrarca” funds, reserved to institutional investors.

Loan Portfolio

As at 31 December 2007, the Group’s total loans equalled Euro 33,370 million (Euro 30,240 million as at 31 December 2006), representing 76 per cent. of its total assets (75 per cent. as at 31 December 2006). As at 31 December 2007, loans to customers equalled Euro 29,767 million (Euro 26,368 million as at 31 December, 2006), while loans to banks equalled Euro 3,603 million (Euro 3,872 million as at 31 December 2006).

Loans by Type of Facility

The following table sets forth loans to customers of the Group by type of facility at the dates shown.

	<i>As at 31 December,</i>	
	<u>2007</u>	<u>2006</u>
	<i>(in millions of Euro)</i>	<i>(in millions of Euro)</i>
Type of Loans:		
Overdrafts on current accounts.....	4,673	4,516
Mortgages ⁽¹⁾	11,820	10,348
Finance leases	288	288
Non-performing loans.....	493	493
Other loans.....	12,493	10,723
Total loans to customers.....	29,767	26,368

(1) Includes mortgages sold for securitisation.

Foreign Activity and Commercial Agreements

In October 2004 the Board of the Bank decided to close its foreign branches in London and New York. This office closure process was completed at the end of 2005.

Now the Group has one subsidiary in Dublin and one in Delaware, as well as commercial agreements with certain overseas banks. The Bank’s subsidiary in Dublin, BPM Ireland plc, which was established in 1998 within the International Financial Services Centre (IFSC), engages primarily in the trading of financial instruments. It also manages another Eire-based company, BPM Fund Management Ltd.

The Group's aim is to strengthen its international presence through the establishment of a number of strategic agreements with foreign banking institutions. Over the last few years, the Group has entered into co-operation agreements with the Spanish bank La Caixa, Barcelona, with the Crédit Mutuel Group in France, with the German bank Stadtsparkasse Koeln, Cologne and with the Raiffeisen Zentralbank Oesterreich in Austria, aiming at creating reciprocal commercial opportunities for corporate customers, as well as implementing and promoting some of the Group's financial products and services through the distribution networks of its strategic partners.

In December 2004, after obtaining the prescribed authorisations from the supervisory authorities, Crédit Industriel et Commercial ("CIC"), controlled by Groupe Crédit Mutuel, and some other companies of Groupe Crédit Mutuel underwrote a convertible bond, with the exception of pre-emptive rights, issued by the Bank and named "Banca Popolare di Milano/CIC 2004/2009 convertible" for a total amount of Euro 179,999,994.24 consisting of 25,568,181 bonds convertible into the Bank's ordinary shares at a ratio of one new share for every bond presented for conversion. Moreover in December 2004 CIC underwrote BdL's capital increase for a total amount of Euro 80 million, with the issue of 29,411,765 BdL ordinary shares which represents about 6.49 per cent of BdL's share capital. In February 2006 the Bank bought 1 per cent of CIC's share capital for a total consideration of Euro 55.3 million. CIC had already bought an equivalent interest in BPM over the course of 2004.

In September 2006, the Bank signed a cooperation agreement with Sopaf to offer its customers direct assistance on the Chinese market. SMEs that bank with BPM will be assisted by the management of Sopaf Asia, a subsidiary of the Sopaf Group, in developing new business opportunities in China and Hong Kong, researching local trading and industrial partners and setting up new entrepreneurial initiatives.

Treasury Operations and Capital Markets Trading Activities

The Bank engages for its own account in various treasury activities such as money market operations (both in euro and in foreign currencies), foreign exchange operations as well as securities and derivatives trading.

The Treasury Department, in accordance with the market risk limits set by the management, analyses and selects products and executes transactions with a wide range of risk profiles aimed at achieving profitability targets.

Pursuant to the decisions of the Liquidity Committee, which also sets the guidelines for asset and liability management, the Treasury Department also uses financial derivatives (such as interest rate swaps or futures traded on the most important international markets such as LIFFE and EUREX) to reduce the risk of interest rate fluctuations.

Money market activity is mainly concentrated, with regard to the domestic market, in the electronic Italian regulated interbank deposit market ("e-MID"). With regard to foreign currency deposits activity, the Bank operates with high-profile counterparties and the counterparty risk is monitored on a daily basis.

The Treasury Department has also implemented a front-office system with the aim of improving efficiency both in terms of management of the various portfolios and overall information management for the Treasury Financial Controller.

Derivatives

The Bank's objectives in holding or issuing derivatives is the management of interest rate and foreign exchange risk arising out of its financing, deposit taking, investment and dealing operations. Furthermore, the Bank uses derivatives principally to hedge exposure to market fluctuations with respect to its bond issues. Open positions in derivatives are strictly limited by the Group's risk management policies.

In client-driven transactions the Bank purchases and resells specific derivative structures at the direction of its clients.

The Group monitors, with a frequency that management believes is appropriate, the potential impact of derivative transactions on its financial condition and results of operations.

Competition

The Group faces significant competition from a large number of other banks and financial institutions that operate in Italy. The Bank's competitors can be divided into two categories: medium-sized local banks and nation-wide or multi-regional institutions. In attracting retail deposits and financing retail customers

and SMEs, the Bank competes locally primarily with medium-sized banks, and to a lesser extent with multi-regional banks. The Bank competes with nation-wide and multi-regional Italian banks (including branches of non-domestic banks that operate in Italy) in other areas of business.

The implementation of EC Directives in the banking sector has encouraged a consolidation process in the banking system creating larger and more competitive institutions. In addition, foreign banking institutions operating in Italy are growing in number and are regarded as effective competitors mainly in corporate banking and sophisticated services related to asset management, securities dealing and brokerage activities.

Properties

The Bank owns its headquarters building located at Piazza Filippo Meda 4, Milan, Italy and most of its branches. Part of functional properties are rented for office use to companies of the Group (Bipiemme Gestioni SGR, Bipiemme Private Banking SIM).

The properties of the Group are recorded with a net book value as at 31 December 2007 of Euro 718 million. A value of Euro 20 million of these properties were owned for investment purpose.

In 2006 the Bank completed the building of the new service centre in Milan with a capacity of more than 2,000 people who carry out general administrative support, IT and back office activities.

Bipiemme Immobili S.p.A., the real estate company of the Group created with the aim of rationalization of the Group property assets, has achieved the company mission with the disposals of non-business properties and has been absorbed by the Bank.

Legal Proceedings

The Bank is subject to certain claims, and is party to a number of legal proceedings, that have arisen in its ordinary course of its business. The Bank's management believes that the liabilities related to such claims and proceedings are unlikely to have, in the aggregate, a material adverse effect on the Group's financial condition or results of operations as the Bank has already recorded adequate provisions.

Market Risks and Asset and Liability Management

This Risk Management department is responsible for instituting and maintaining an effective risk management and control system, implementing strategic guidelines.

It is responsible for developing the Group risk control methodologies and proposals on the operating limits system, and overseeing it.

The objective is to provide all the Group units with methodologies, measurement/management criteria, and control instruments on credit, financial and operational risk, and to ensure the governance of exposure to said risks, in compliance with the indication of the supervisory authority and the Basel Agreement on capital adequacy.

To that end, the Risk Management function oversees all the components of risk, submitting the more significant aspects of the system to the general manager and Board of Directors for approval.

In conjunction with the Group "Strategic Planning" function, it assesses the efficiency of capital allocation with regard to the profitability and risk profiles that characterize each strategic business area.

It produces managerial reporting for measuring risk exposure, for measuring risk-adjusted profitability, and for examining scenarios that impact the risk position.

It provides constant control of overall exposure of the Group and each unit to the aforesaid risks, proposing any necessary actions to correct the overall Group risk profile, where deemed appropriate.

The Bank's Risk Management function also monitors interest rate risk using an 'Asset & Liability Management' system which measures any mismatch between assets and liabilities by maturity and the re-pricing of interest-rate sensitive items. This system monitors interest rate risk using the interest rate gap and liquidity risk using the liquidity gap.

The Bank's Credit Approval and Review Procedures

Loans are applied for at the branch level. The Bank's internal credit guidelines define three classes of risk: (a) unsecured full risk, or loans with no guarantees or collateral, (b) partially secured self

liquidating risk, or partially guaranteed loans, and (c) fully secured guaranteed risk. Decisions on the amount of credit to extend are approved at different levels of the Bank's management structure, ranging from branch managers up to the Board of Directors, depending on the size of the Bank's exposure.

The credit management process is specialised by category of borrower, in terms of both approval process and the systems and methods of evaluation and monitoring. The risk evaluation tools the Bank uses are based on internally developed credit scoring and credit rating models. The use of external ratings for the credit evaluation process is generally irrelevant, since most of the borrowers are exposed to credit risk that is not rated by the major agencies.

The Bank also uses a system of credit exposure limits designed primarily to avoid excessive risk of exposure concentration, by individual borrower and by capital availability (capital absorbed by credit risk). This system of limits is reviewed and updated periodically.

The Bank has developed and long used credit scoring and rating systems in its credit risk management processes. These models were thoroughly revised in 2006 to make them more consistent with the regulatory provisions of the New Agreement on Capital ("**Basel 2**"). In this regard, the Group has declared its intention to adopt the IRB (Internal Rating Based) Foundation method. This revision process was completed in 2007, with gradual releases.

For the future, the Bank has planned a series of activities to fine-tune the internal rating models, to gradually extend them to all classes of exposure to cover the entire customer portfolio, to employ the Basel 2 risk parameters in its principal credit management process (from delegated power to pricing models), and to develop a dedicated supporting technological infrastructure (Project Basel 2 – Credit Risk).

The internal rating models refers to four segments of ordinary customers, classified according to the turnover volume. All the models were developed internally on representative samples of the Group customer portfolio.

For "Private individuals", the Bank assesses risk with the use of scoring systems, tools that use socio-demographic, income and trending factors to statistically determine the risk that a given counterparty may manifest difficulties over the next 12 months. For this segment, the assessment is further specialised by product/transaction (home mortgages, specific loans, overdraft facilities, and credit cards).

Loan Portfolio Monitoring

The responsibility for monitoring credit risk lies initially with the branch that originally established the relationship with the customer. Credit risk is monitored on a continuous basis by an internal department of the Bank ("*ARGA*" - *Area Rischi e Gestioni Accentrate*).

The Bank's internal audit department is responsible for auditing and testing compliance with internal procedures including accounting controls and credit approval procedures. The internal audit department audits each branch and the head office as per an annual audit plan compliant to a risk based-process oriented methodology. The internal audit department also audits the Bank's legal contracts for compliance with standard forms, where applicable, and for ensuring proper execution and documentation.

Loan Classification

Pursuant to Bank of Italy classifications, the Group divides its loans into separate categories: (a) good credit loans; (b) troubled loans (i.e. a loan in which the borrower is temporarily insolvent); or (c) bad loans (i.e. non-performing loans, typically for borrowers for which insolvency or similar proceedings have been commenced). In addition, the Bank of Italy requires banks to report loans which are restructured and undergoing restructuring. In accordance with Italian regulations, the Bank must, like other Italian banks, report its loan classification monthly to the Bank of Italy. Management evaluates and estimates each loan included among troubled or bad loans monthly and, if necessary, records a specific provision for the expected loss.

The following table sets forth the Group's loans to customers by performing loans and categories of classified loans at 31 December 2006 and 2007.

	<i>As at 31 December,</i>			
	<i>2007</i>		<i>2006</i>	
	<i>(in millions of Euro)</i>	<i>(%)</i>	<i>(in millions of Euro)</i>	<i>(%)</i>
Good loans	29,253	98.3%	25,866	98.1%
Non secured loans subject to "country risk"	5	0.0%	1	0.0%
Troubled loans	255	0.9%	222	0.8%
Bad loans	129	0.4%	136	0.5%
Restructured loans	41	0.1%	53	0.2%
Positions Overdue	84	0.3%	90	0.3%
Total net loans to customers	29,767	100%	26,368	100%
Writedowns of credit risk	449		408	
Provision for good loans	164		176	
Total writedowns	613		584	
Total gross loans to customers	30,380		26,952	

Licenses and Trademarks

The only licenses or trademarks registered for the Group are the trademarks and logos relating to the Bank and other companies of the Group and to the Group's products, including We@bank.

Provisions for Bad Debt and Other Provisions

The Bank accounts for credit losses on loans by making specific provisions and charging the amount of such provisions against net income. Such specific provisions are tied to the expected loss on each non-performing loan, troubled loan and, if necessary, on certain performing loans. The Group's loan portfolio is monitored on a regular basis to review the prospects of recovery and the estimated losses. Each loan is evaluated at least every month and after these evaluations, if deemed necessary, a charge to provisions for bad debt is recorded to reflect possible loan losses. Loans appear on the Group's balance sheet net of the cumulative provision for bad debt.

The following table sets forth an analysis of the Group's charges to provisions for bad debt as they affect the income statement of the Group for the years ended 31 December 2007 and 2006.

	<i>As at 31 December,</i>	
	<i>2007</i>	<i>2006</i>
	<i>(in millions of Euro)</i>	<i>(in millions of Euro)</i>
Type of Loans:		
Write downs of loans	-167	-139
Writeoff of loans not previously provided for	-28	-46
Total adjustments to loans	-195	-185
Writebacks of loans previously written down	68	64
Total writebacks of loans	-127	-121

Recent Developments

Anima SGR

In March 2007, the Board of Directors of Banca Popolare di Milano S.C.a r.l. approved the purchase of 29.9% of the share capital of Anima SGR S.p.A. ("Anima"), for a total of approximately Euro 145 million, financed entirely by available resources of the Bank and executed in July 2007 as follows:

- the purchase of 23,205,000 shares, equal to 22.1 per cent. of the share capital of Anima, from Banco di Desio e della Brianza S.p.A. at a price of Euro 4.63 per share, for a total consideration of approximately Euro 107 million;
- the purchase of 8,190,000 shares, equal to 7.8 per cent. of the share capital of Anima, from Koinè S.p.A. (a company formed by several managers of Anima), at a price of Euro 4.63 per share, for a total consideration of approximately Euro 38 million.

Anima, a company listed on the MTA since 2005, is a leading Italian “independent” asset management firm in terms of assets under management, and specialises in the management of mutual funds, with its managers holding 18.98 per cent. of the firm. The company does not have its own distribution network, but makes use of numerous distribution agreements (over 100) with banks and financial advisor networks. As at 31 December 2007 Anima had approximately Euro 10.3 billion in assets under management and its net profit amounted to Euro 17 million.

The purchase of the stake in Anima is part of the development strategy of the Group, aimed at playing an active role in the future of the mutual funds sector which is expected to evolve towards an increasingly marked separation of production and distribution.

In consideration of the difficulties experienced by the assets under management sector, especially with regard to managed assets and net deposits, towards the end of 2007 BPM proceeded to subject its interest in Anima SGR to an impairment test, resulting in BPM recognising an impairment loss of Euro 12.1 million; this impairment loss was stated in the BPM income statement for the nine months ended 30 September 2007, in compliance with IAS 36.

As the financial markets crisis continued, a further impairment test was carried out resulting in BPM recognising an additional impairment loss of Euro 19.3 million, bringing the total write-down relating to Anima included in the BPM income statement to Euro 31.4 million.

Unicredit branches

On 16 May 2008, the Bank issued a press release announcing a preliminary agreement to purchase 39 branches from the Unicredit Group. Set out below is an extract from an English translation of such press release.

“In connection with the UniCredit Group’s disposal of 184 branches to twelve banks, Banca Popolare di Milan has entered today into a preliminary agreement to purchase 39 branches located in the provinces of Rome (28), Bologna (7), Verona (4).

At December 31 2007 these branches had total deposits of approximately € 530 million, assets under management and administration of roughly € 870 million, loans of around € 700 million.

The purchase price was € 213.8 million, subject to adjustment depending on the actual amount of assets under the branches’ supervision (deposits + assets under management and administration) as of the effective date. The agreement provides for the possibility to transfer part of the loans back to the seller. Based on figures as of December 31 2007, the loans to be transferred by Banca Popolare di Milano should amount to € 38 million.

The estimated impact of the purchase on the Group’s core tier 1 capital is approximately 60 basis points.

The deal is expected to be executed by the end of the fourth quarter of 2008, subject to authorization by the competent authorities and other disclosures.”

MANAGEMENT

The management of the Bank is divided between the Board of Directors and the Executive Committee, which acts under delegated authority of the Board of Directors. The day-to-day operations of the Bank are the responsibility of the General Manager. In addition, the Italian Civil Code requires the Bank to have a supervisory body, the Board of Statutory Auditors.

As at the date hereof, no member of the board of directors or the board of statutory auditors had any potential conflicts of interest between its duties as a member of the administrative management or supervisory bodies of the Bank towards the Bank and its private interests and/or duties.

Board of Directors

The Board of Directors consists of one Chairman, two Deputy Chairmen and seventeen Directors, all appointed by the shareholders' meeting. According to the by-laws, all directors must be shareholders of the Bank.

In accordance with the by-laws, the Board of Directors has complete power of ordinary and extraordinary administration of the Bank, except for actions specifically reserved by applicable law or the by-laws for shareholder meetings.

The following table sets forth certain information regarding the current members of the Board of Directors of the Bank.

<u>Name</u>	<u>Title</u>	<u>Other most relevant positions at 31 December 2007</u>
Roberto Mazzotta	Chairman	Director Sogepar S.p.A. Director Crédit Industriel et Commercial Director Aedes S.p.A. Director IC Industria della Costruzione S.p.A.
Mario Artali	Deputy Chairman	Deputy Chairman Banca Akros S.p.A. (Bipiemme Group) Chairman Wise Venture SGR S.p.A. Director Sigma Tau Finanziaria S.p.A.
Marco Vitale	Deputy Chairman	Chairman Bipiemme Gestioni SGR S.p.A. (Bipiemme Group) Director Etica SGR S.p.A. Chairman Same Deutz Fahr Italia S.p.A. Chairman Supervisory Board Mid Industry Capital S.p.A. Chairman Vincenzo Zucchi S.p.A. Director A.S.M. Brescia S.p.A. Director Recordati Industria Chimica e Farmaceutica S.p.A. Director Ermenegildo Zegna HoldItalia S.p.A. Director Pictet International Capital Management Director Pictet & C. SIM S.p.A. Director Smeg S.p.A. Director Snaidero R. S.p.A. Director LU.VE SpA Director Same Deutz Fahr S.p.A.
Enrico Airaghi	Director	—

<u>Name</u>	<u>Title</u>	<u>Other most relevant positions at 31 December 2007</u>
Luca Caniato	Director	General Attorney Koelliker S.p.A. Executive Deputy Chairman and Managing Director M.M. Automobili Italia S.p.A. Executive Deputy Chairman and Managing Director Hyundai Automobili Italia Importazioni S.p.A. Executive Deputy Chairman and Managing Director Kia Motors S.p.A. Executive Deputy Chairman and Managing Director Symi S.p.A.
Emilio Castelnuovo	Director	—
Giuseppe Coppini	Director	Deputy Chairman Banca di Legnano S.p.A. (Bipiemme Group) Director Cassa di Risparmio di Asti S.p.A.
Enrico Corali	Director	Deputy Chairman Cassa di Risparmio di Alessandria S.p.A. (Bipiemme Group) Chairman BAS – Servizi Idrici Integrati S.p.A. Chairman SelmaBipiemme Leasing S.p.A.
Rocco Corigliano	Director	Chairman Banca di Legnano S.p.A. (Bipiemme Group) Chairman Bipiemme Vita S.p.A. Director Vega Finanziaria S.p.A.
Eugenio Crosta	Director	Director Banca di Legnano S.p.A. (Bipiemme Group)
Roberto Fusilli	Director	Director Banca di Legnano S.p.A. (Bipiemme Group)
Piero Lonardi	Director	Director Cassa di Risparmio di Alessandria S.p.A. (Bipiemme Group) Acting auditor AMSA S.p.A.
Maria Martellini	Director	Deputy Chairman Banca di Legnano S.p.A. (Bipiemme Group) Director Bipiemme Private Banking SIM S.p.A. (Bipiemme Group) Director R.C.S. Pubblicità S.p.A. Director R.C.S. Investimenti S.p.A. Director CLASS Editori S.p.A. Director RCS Periodici S.p.A. Chairman of the Board of Statutory Auditors Italcementi S.p.A.
Michele Motterlini	Director	Chairman We@service S.p.A. (Bipiemme Group)
Gianfranco Pittatore	Director	Director Banca Akros S.p.A. (Bipiemme Group) Director Bipiemme Vita S.p.A. Deputy Chairman REAM SGR S.p.A. Director Wise Venture SGR S.p.A. Director Norman 95 S.p.A.

<u>Name</u>	<u>Title</u>	<u>Other most relevant positions at 31 December 2007</u>
Marcello Priori	Director	Deputy Chairman Bipiemme Gestioni SGR S.p.A. (Bipiemme Group) Director Monzino S.p.A. Director Atmos S.p.A. Chairman of the Board of Statutory Auditors Etica SGR S.p.A. Chairman of the Board of Statutory Auditors Carrefour Servizi Finanziari S.p.A. Acting Auditor IBI S.p.A. Acting Auditor Lucchini S.p.A. Acting Auditor Reno De Medici S.p.A. Acting Auditor Key Client Cards & Solutions S.p.A. Acting Auditor Fomas Finanziaria S.p.A.
Jean-Jacques Tamburini	Director	Director Banca di Legnano S.p.A. (Bipiemme Group) Director Crédit Industriel et Commercial Chairman and Managing Director CIC Societè Bordelaise Chairman and Managing Director CIC Partecipations S.A.S. Chairman and Managing Director ADEPI SAS Chairman and Managing Director Valimar 3 SAS Chairman of Supervisory Board CIC Capital Privé Deputy Chairman of Supervisory Committee of CM-CIC Asset Management Director CIC Investissement Director CIC Finance Director Institut de Participation de l'Ouest (IPO) Director Banque de Tunisie Director CIC Est Director S.F.A.P. Director Assurances du Credit Mutuel – IARD SA Director of Audit Committee Banque Marocaine du Commerce Exterieur
Graziano Tarantini	Director	Chairman Banca Akros S.p.A. (Bipiemme Group) Director ESN North America Inc. Director Dexia Crediop S.p.A. Chairman Capfin S.p.A.
Valerio Tavormina	Director	Director Banca di Legnano S.p.A. (Bipiemme Group) Director Cassa di Risparmio di Asti S.p.A.
Michele Zefferino	Director	Director Cassa di Risparmio di Alessandria S.p.A. (Bipiemme Group) Director We@service S.p.A. (Bipiemme Group) Director Bipiemme Vita S.p.A.

The term of office for all the members expires on the date of the general meeting called to approve the financial statements for the year ending 31 December 2008.

The business address of the Directors is Piazza Filippo Meda, 4, Milan, Italy.

The Chairman of the Board of Directors and each of the Deputy Chairmen has the power to represent the Bank, each also having the power to sign individually on behalf of the Bank. Each of the

Directors may represent the Bank jointly with the General Manager or with one of the Manager appointed by the Board. For certain transactions, the Board may also give single or joint signature power to individual Directors and Managers and grant powers of attorney for specific matters.

Executive Committee

The by-laws provide that the Board may delegate part of its powers on an annual basis to an Executive Committee. The by-laws provide that the Executive Committee shall be composed of the Chairman, the Deputy Chairmen, and other Directors such that the total number of Executive Committee members is not less than five nor more than nine (at the moment it has eight members, including the Chairman and two Deputy Chairmen). Committee meetings are attended by all members of the Board of Statutory Auditors and the General Manager.

The Board of Directors granted the Executive Committee the following powers and responsibilities at the board meeting on 14 May 2007:

- drafting proposals and guidelines for the strategy and general policies to be adopted by the Bank and the Group and formulating the associated decisions for submission to the Board of Directors;
- preparing the Bank's financial statements and submit these to the Board for approval;
- reviewing recruitment plans, organisation charts, training programmes, proposed disciplinary measures involving suspension (for more than two days) or dismissal, and report on these to the Board;
- conducting preliminary reviews of budgets, with particular reference to expenditure and investment, and of proposals for the sale of properties or the divestment of equity interests;
- approving spending decisions, whether for ordinary transactions or for investments not included in the budget, up to a maximum of Euro 1.5 million per transaction and within an annual limit of 5 per cent. of the budget approved by the Board of Directors;
- implementing decisions of the Board of Directors at the specific request of the Board;
- resolving upon any matter in cases of urgency or other special need when it is not possible to call an immediate meeting of the Board of Directors, subject to ratification by the latter at its next meeting.

The Executive Committee reports to each subsequent Board meeting on decisions it has taken in the exercise of its powers and asks the Board to ratify any decisions it has taken on an urgent basis for which the Board is normally responsible.

The following table sets forth the current members of the Executive Committee.

<u>Name</u>	<u>Title</u>
Roberto Mazzotta	Chairman
Mario Artali	Deputy Chairman
Marco Vitale	Deputy Chairman
Enrico Airaghi	Director
Emilio Castelnuovo	Director
Piero Lonardi	Director
Michele Motterlini	Director
Gianfranco Pittatore	Director

The General Manager's Office

The structure, powers, duties and compensation of the General Manager's office, as well as the appointment and removal of all Managers, are determined by the affirmative vote of at least ten members of the Board of Directors. The General Manager's office is responsible for managing the Bank's activities on a day-to-day basis. The General Manager participates in the meetings of the Board of Directors and may express his opinion but does not vote on matters discussed at such meeting. The General Manager is however entitled to vote at meetings of the Funding Committee.

The current General Manager is Fabrizio Viola, whose qualifications and business associations include being board member of the Istituto Centrale Banche Popolari Italiane, Chairman of AICIB, Director of Fiera Milano S.p.A. and Director of ASAM.

Board of Statutory Auditors

Pursuant to Italian law, in addition to electing the Board of Directors, the shareholders at the general meeting also elect a Board of Statutory Auditors composed of independent experts in accounting matters who have a duty to shareholders, to whom they report, to the Bank and to the Bank's creditors.

The role of the Board of Statutory Auditors is principally to monitor the following: the compliance of the Bank with the law and its by-laws, the observance of the principles of correct administration, the adequacy of the Bank's organizational structure for matters within the scope of the board's authority, the adequacy of the internal control system and the administrative and accounting system and the reliability of the latter in correctly representing the Bank's transactions.

The accounting auditing on the correctness of the accounting records and results obtained by the Bank, as well their consistency with the financial statements, is responsibility of the Bank's independent auditors (Reconta Ernst & Young S.p.A.).

In accordance with Article 40 of the by-laws of the Bank, the Board of Statutory Auditors is composed of the chairman, four auditors and four alternate auditors, who are elected from among the shareholders. Article 41 of the by-laws of the Bank reserves two auditors and two alternate auditors positions to representatives of minority interests.

The following table sets forth the current members of the Board of Statutory Auditors.

<u>Name</u>	<u>Title</u>
Antonio Ortolani	Chairman
Marco Baccani	Auditor
Enrico Castoldi	Auditor
Emilio Cherubini	Auditor
Paolo Troiano	Auditor
Salvatore Rino Messina	Alternative Auditor
Enrico Radice	Alternative Auditor
Giuseppe Zanzottera	Alternative Auditor
Giorgio Zoia	Alternative Auditor

Employees

As at 31 December 2007, the Group had 8,588 employees, with an increase of 197 employees from 31 December 2006. As at 31 December 2007, 157 employees, or 1.8 per cent. of the workforce, held management or executive positions. As at the same date, the Group had 3,029 officers (*funzionari e quadri direttivi*), accounting for 35.3 per cent. of the Group's employees.

CAPITALISATION OF THE ISSUER

The table below sets forth the consolidated capitalisation of the Issuer and its consolidated subsidiaries as at 31 December, 2006 and 2007, which has been extracted without material adjustment from and should be read in conjunction with the consolidated financial statements of the Issuer incorporated by reference herein.

	<u>At 31 December</u> 2007	<u>At 31 December</u> 2006
	<i>(millions of Euro)</i>	
Subordinated Debt:		
Subordinated liabilities (Lower Tier II).....	698	699
Subordinated liabilities (Upper Tier II and Tier I).....	340	346
Total medium- and long-term debt	1,038	1,045
Minority interests.....	123	122
Shareholders' Equity		
Share capital and additional paid-in capital.....	1,848	1,583
Revaluation reserves.....	78	425
Retained earnings and other reserves.....	1,225	952
Net income.....	324	399
Total shareholders' equity	3,475	3,359
Total capitalisation	4,636	4,526

Following the instructions of Bank of Italy the subordinated debts are computed in the Group capitalisation.

CAPITAL ADEQUACY

The Bank of Italy has adopted risk-based capital ratios (**Capital Ratios**) pursuant to the EC capital adequacy directives. The Capital Ratios set forth core (Tier I) and supplemental (Tier II) capital requirements relative to a bank's assets and certain off-balance sheet items weighted according to risks (**Risk-Weighted Assets**).

The Bank (as *Capogruppo*, or the Group's parent company) calculates and reports its Capital Ratios on a consolidated basis. In accordance with Bank of Italy regulations, the Group is required to maintain a Total Capital Ratio of at least 8.0 per cent.

The following table sets forth the Tier I and Tier II capital levels and the relative ratios of the Group as at 31 December 2006 and 2007.

	<u>As at 31 December,</u> 2007	<u>As at 31 December,</u> 2006
	<i>(millions of Euro)</i>	<i>(millions of Euro)</i>
Tier I Capital		
<i>Positive Elements:</i>		
Share capital	1,709	1,291
Reserves	1,398	1,223
Paid in capital	230	381
Preferred securities	159	159
Positive prudential filters	0	5
Total positive elements	3,496	3,059
<i>Negative Elements:</i>		
Goodwill	701	600
Other intangible assets	100	94
Other	0	0
Negative prudential filters	99	94
Total negative elements	900	788
Deductions: 50% participation in banking and financial institutions of more than 10%	68	52
Total Tier I Capital	2,528	2,219
Tier II Capital		
<i>Positive Elements:</i>		
Subordinated liabilities	697	698
Hybrid equity instruments	159	159
Revaluation reserve	59	330
Profits on equity investments	0	0
Loan loss allowance	0	0
Positive prudential filters	0	0
Total positive elements	915	1,187
<i>Negative Elements:</i>		
Losses on securities and equity investments	0	0
Loan losses	0	0
Negative prudential filters	21	15
Total negative elements	21	15
Deductions: 50% participation in banking and financial institutions of more than 10%	68	52
Total Tier II Capital	826	1,120

	<i>As at 31 December, 2007</i>	<i>As at 31 December, 2006</i>
	<i>(millions of Euro)</i>	<i>(millions of Euro)</i>
Deductions:		
Participation in insurance institutions.....	50	50
Total Capital (Own funds)	3,304	3,289
Tier III Subordinated Liabilities	0	0
Total Capital adjusted by Tier III subordinated liabilities	3,304	3,289
Total risk-weighted assets	35,011	31,501
Equity coverage for credit risk	2,737.2	2,409.5
Equity coverage for market risks	52.6	102.5
F/X coverage	0	5.4
Other equity coverage	0	2.7
Capital Adequacy Ratios		
Tier I capital ratio	7.22%	7.04%
Total capital ratio	9.44%	10.44%

SUMMARY FINANCIAL INFORMATION OF BANCA POPOLARE DI MILANO

Set out below is summary financial information of the Issuer which is derived from the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2007 (presented in accordance with IFRS/IAS) which have been audited by Reconta Ernst & Young S.p.A., the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2006 (presented in accordance with IFRS/IAS) which have been audited by PricewaterhouseCoopers S.p.A.

Such financial statements, together with the audit and review reports of PricewaterhouseCoopers S.p.A. and Reconta Ernst & Young S.p.A., as the case may be (where applicable), and the accompanying notes, are incorporated by reference into this Base Prospectus. The financial information below should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements, reports and the notes thereto. See also “Documents Incorporated by Reference”.

ANNUAL AUDITED CONSOLIDATED INCOME STATEMENTS

	<i>For the year ended 31 December,</i>	
	<u>2007</u>	<u>2006</u>
	<i>(millions of Euro)</i>	<i>(millions of Euro)</i>
Net financial income	1,028	916
Net fee and commission income.....	586	614
Net profit (loss) on equity investments (accounted by the equity method).....	15	14
Dividends and similar income.....	188	54
Net income form financial activities.....	-67	76
Other operating income/(charges)	62	91
Operating income	1,812	1,765
Administrative expenses:.....	-1,006	-975
<i>a) staff costs</i>	<i>-702</i>	<i>-688</i>
<i>b) other administration and general expenses</i>	<i>-304</i>	<i>-287</i>
Net adjustments to property, plant and equipment and intangibles..	-77	-94
Operating costs	-1,083	-1,070
Net Operating income	729	695
Net impairment adjustments of loans and financial assets.....	-123	-124
Net provisions for risks and charges	-28	-38
Profit (loss) from equity investment and investments.....	-22	105
Profit (loss) before taxes and minority interests	556	638
Income Taxes on current operations	-220	-234
Net Profit (loss) for the period.....	336	404
Minority interests	-12	-5
Net profit (loss) for the period pertaining to the parent bank	324	399

ANNUAL AUDITED CONSOLIDATED BALANCE SHEETS

	<i>As at 31 December,</i>	
	<u>2007</u>	<u>2006</u>
	<i>(millions of Euro)</i>	<i>(millions of Euro)</i>
Assets		
Cash and balances with central banks	226	200
Financial assets at fair value and hedging derivatives:	7,189	7,069
<i>Financial assets held for trading</i>	3,812	3,358
<i>Financial assets designated at fair value through profit and loss</i>	1,237	1,663
<i>Financial assets available for sale</i>	2,122	2,024
<i>Hedging derivatives</i>	18	24
Loans and advances to banks	3,603	3,872
Loans and advances to customers	29,767	26,368
Fixed assets	1,663	1,480
Non-current assets (or disposal group) held for sale	0	8
Other assets	1,179	1,184
Total assets	43,627	40,181

	<i>As at 31 December,</i>	
	<u>2007</u>	<u>2006</u>
	<i>(millions of Euro)</i>	<i>(millions of Euro)</i>
Liabilities and Shareholders' Equity		
Due to banks	4,292	4,710
Due to customers	21,616	20,822
Debt securities issued.	8,065	5,625
Financial liabilities and hedging derivatives:	4,208	3,984
<i>Financial liabilities held for trading</i>	1,362	1,060
<i>Financial liabilities designated at fair value through profit and loss</i>	2,845	2,921
<i>Hedging derivatives</i>	1	3
Other liabilities	1,418	1,096
Provisions for specific use	430	463
Shareholders' equity	3,151	2,960
Minority Interests	123	122
Net Profit (loss) for the period	324	399
Total liabilities and Shareholders' Equity	43,627	40,181

FINANCIAL RATIOS AND OTHER DATA

	<i>As at 31 December,</i>	
	<i>2007</i>	<i>2006</i>
	<i>(millions of Euro)</i>	<i>(millions of Euro)</i>
Financial Ratios:		
Net profit/(equity – net profit) (ROE)	10.3%	13.5%
Net profit/total assets (ROA)	0.7%	1.0%
Loans and advances to customers/total assets	68.2%	65.6%
Non-current assets/total assets	3.8%	3.7%
Direct deposits/total assets	74.6%	73.1%
Cost income ratio ⁽¹⁾	59.8%	60.6%
Asset Quality:		
Bad loans, gross	445	464
Allowances for bad loans	316	328
Bad loans, net	129	136
Ratio of allowance for bad loans to bad loans	71.1%	70.7%
Ratio of bad loans, gross to total customer loans	1.5%	1.7%
Total impaired loans, gross	958	909
Total allowances for impaired loans	449	408
Capital Adequacy		
Tier I capital	2,528	2,219
Total capital	3,304	3,289
Capital ratios		
Tier I capital ratio	7.22%	7.04%
Total capital ratio	9.44%	10.44%
Shareholders' equity to total assets	7.96%	8.36%
Selected Off-Balance Sheet Data:		
Asset under management ⁽²⁾	20,150	20,729
Asset in custody ⁽³⁾	20,744	18,831

(1) Cost includes the value adjustments to tangible and intangible fixed assets.

(2) At market value, excluding duplications; data for retail customers.

(3) At market value, data for retail customers.

TAXATION

The following is a general summary of certain tax consequences in Italy of acquiring, holding and disposing of Notes. It does not purport to be a complete analysis of all tax considerations that may be relevant to the decision to purchase, own or dispose of Notes and does not purport to deal with the tax consequences applicable to all categories of prospective beneficial owners of Notes, some of which may be subject to special rules. This summary is based upon tax laws and/or practice in force as at the date of this Prospectus, which are subject to any changes in law and/or practice occurring after such date, which could be made on a retroactive basis. The Issuer will not update this summary to reflect changes in law and, if any such change occurs, the information in this summary could be superseded.

Prospective purchasers of Notes should consult their tax advisers as to the overall tax consequences of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws.

ITALY

Tax Treatment of interest and other proceeds under the Notes

Pursuant to Legislative Decree No. 239 of 1 April 1996 (“**Decree No. 239**”), as amended and restated, and pursuant to Article 44, (2)(c) of Presidential Decree No. 917 of 22 December 1986 (“**Decree No. 917**”), in general, interest and other proceeds (including the difference between the redemption amount and the issue price) in respect of notes that qualify as “bonds” or “debentures similar to bonds” (“*obbligazioni*” or “*titoli similari alle obbligazioni*”) for Italian tax purposes and are issued by Italian banks or listed companies (i.e., the so called “*grandi emittenti*”) may be subject to an Italian substitute tax, depending on the legal status of the beneficial owner of such interest and other proceeds. Both (i) “bonds”, which are the securities qualifying as “*obbligazioni*” pursuant to Art. 2410-et seq. of the Italian Civil Code, and (ii) other securities - defined as “debentures similar to bonds” by Art. 44(2)(c) of Decree No. 917, which incorporate an unconditional obligation to pay, at maturity, an amount not less than their nominal value and that do not give any right to directly or indirectly participate in the management of the relevant issuer or of the business in relation to which they are issued, are included in the category of “bonds and debentures similar to bonds” referred to in Decree No. 239, subject to the tax regime regulated therein. The Italian tax authorities have clarified (Revenue Agency Circular No. 4/E of 18 January 2006) that bonds may have a maturity which is not scheduled at a specific date, but it is linked to the maturity of the issuing company or to the liquidation thereof, if the company has been set-up with an undetermined maturity pursuant to Article 2328 (2), No. 13, of the Italian Civil Code.

Italian Resident Noteholders – Applicability of the Imposta Sostitutiva

Under Decree No. 239, payments of interest and other proceeds (including the original issue discount, if any) in respect of the Notes to Italian resident beneficial owners (either when interest and other proceeds are paid or when payment thereof is obtained by a beneficial owner on a transfer of the Notes) are subject to a final substitute tax (the “**Imposta Sostitutiva**”) currently at a 12.5 per cent rate in the Republic of Italy if made to Italian resident beneficial owners that are:

- (i) private individuals holding the Notes not in connection with an entrepreneurial activity (unless they have entrusted the management of their financial assets, including the Notes, to an Italian authorized financial intermediary and have opted for the regime provided for by Article 7 of Legislative Decree No. 461 of 21 November 1997, so called “asset management option” or “**Risparmio Gestito**”);
- (ii) partnerships (other than *società in nome collettivo*, *società in accomandita semplice* or similar partnerships), de facto partnerships not carrying out commercial activities and professional associations;
- (iii) public and private entities, other than companies, not carrying out commercial activities as their exclusive or principal activity;
- (iv) entities exempt from corporate income tax.

Prospective purchasers of the Notes should note that, based on Conditions 9(a)(ii) (*Taxation – Gross up*) and 9(a)(iv) (*Taxation – Gross up*) of the Terms and Conditions of the Notes, the Issuer will not be obliged to pay any additional amounts in relation to the *Imposta Sostitutiva* applied on payments of interest or other proceeds in respect of the Notes to Italian resident beneficial owners.

In case the Notes are held by an individual or by an entity indicated above under (iii), in either case in connection with an entrepreneurial activity, interest and other proceeds relating to the Notes are subject to the *Imposta Sostitutiva* and have to be included in the relevant beneficial owner's income tax return. As a consequence, interest and other proceeds are subject to the ordinary income tax and the *Imposta Sostitutiva* may be recovered as a deduction from the income tax due.

The 12.5 per cent *Imposta Sostitutiva* is applied by the Italian resident qualified financial intermediaries provided by law (including banks, *società di intermediazione mobiliare* (or "**SIM**"), fiduciary companies, *società di gestione del risparmio* (or "**SGR**"), stock brokers and other qualified entities expressly indicated in Ministerial Decrees, as well as permanent establishments in the Republic of Italy of banks or intermediaries resident outside the Republic of Italy – collectively referred to as "**Intermediaries**" and each as an "**Intermediary**") that intervene, in any way, in the collection of interest and other proceeds on the Notes or, also as transferee, in the transfer of the Notes. If the Notes are not deposited with any qualified Intermediary, *Imposta Sostitutiva* is applied and withheld by any Italian intermediary (including a permanent establishment in Italy of a foreign entity) paying interest to a beneficial owner.

If interest and other proceeds on the Notes are not collected through the intervention of an Italian resident intermediary and as such no *Imposta Sostitutiva* is levied, the Italian resident beneficial owners listed above under (i) to (iv) are required to include interest and other proceeds in their annual income tax return and subject them to final substitute tax currently at a rate of 12.5 per cent, unless an option is allowed and made for a different regime.

Italian Resident Noteholders – Imposta Sostitutiva Not Applicable

Pursuant to Decree No. 239, payments of interest and other proceeds (including the original issue discount) in respect of the Notes to Italian resident beneficial owners are not subject to the *Imposta Sostitutiva* if made to beneficial owners that are:

- (i) Italian resident individuals holding the Notes not in connection with entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an Italian authorized financial intermediary and have opted for the *Risparmio Gestito*;
- (ii) Italian resident collective investment funds and SICAVs and pension funds referred to in Legislative Decree No. 252 of 5 December 2005;
- (iii) Italian resident real estate investment funds;
- (iv) Italian resident corporations or permanent establishments in the Republic of Italy of non-resident corporations to which the Notes are effectively connected;
- (v) Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* and other similar partnerships, even de facto, carrying out a commercial activity; or
- (vi) public and private entities, other than companies, carrying out commercial activities and holding the Notes in connection with the same commercial activities.

If the Notes are part of an investment portfolio managed on a discretionary basis by an Italian authorised intermediary and the beneficial owner of the Notes has opted for the *Risparmio Gestito*, an annual substitute tax at a rate of 12.5 per cent applies on the increase in value of the managed assets accrued, even if not realized, at the end of each tax year (which increase includes interest, premium and other proceeds accrued on Notes). The substitute tax is applied on behalf of the taxpayer by the managing authorised intermediary.

Italian resident collective investment funds and SICAVs are generally subject to a 12.5 per cent annual substitute tax (the "**Collective Investment Fund Tax**") on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest and other proceeds accrued on the Notes).

Italian resident pension funds subject to the regime provided by Legislative Decree No. 252 of 5 December 2005, are subject to an 11% annual substitute tax (the "**Pension Fund Tax**") on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest and other proceeds accrued on Notes).

Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998 (the "**Italian Finance Act**") are not subject to any taxation at the fund level on payments under the Notes.

Interest and other proceeds on the Notes accrued to (a) Italian resident corporations or to permanent establishments in the Republic of Italy of foreign companies to which the Notes are effectively connected, (b) Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* or similar partnerships carrying out a commercial activity; and (c) Italian resident public and private entities, carrying out commercial activities and holding the Notes in connection with the same commercial activities, generally are included in the taxable business income for income tax purposes (and, in certain cases, depending on the status of the Noteholder, may also be included in the taxable net value of production for purposes of regional tax on productive activities, IRAP) of such beneficial owners, subject to tax in the Republic of Italy in accordance with ordinary tax rules.

To ensure payment of interest and other proceeds in respect of the Notes without application of the *Imposta Sostitutiva*, where allowed, investors indicated herein under (i) to (vi) above must be the beneficial owners of payments of interest and other proceeds on the Notes and must timely deposit the Notes, together with the coupons relating to such Notes, directly or indirectly, with an Italian authorised financial intermediary (including non-resident entities and companies that participate in a centralised management system of securities and hold a direct relationship with the Ministry of Economy and Finances – Revenues Agency).

Non-Italian Resident Noteholders

Pursuant to Decree No. 239 payments of interest and other proceeds in respect of the Notes are not subject to the *Imposta Sostitutiva* if made to non-Italian resident beneficial owners of the Notes with no permanent establishment in the Republic of Italy to which the Notes are effectively connected, provided that:

- (a) they are resident in a country which allows an adequate exchange of information. With reference to this condition, according to Ministerial Decree of 12 December 2001 and to Art. 1, paragraphs 83(n) and 88 of Italian Law No. 244 of 24 December 2007, the current list of the countries allowing an adequate exchange of information is that contained in the Ministerial Decree of 4 September 1996, as subsequently amended and supplemented. The exemption from the *Imposta Sostitutiva* also applies to (i) non resident “institutional investors” (i.e., entities whose activity consists in making or managing investments on their own behalf or on behalf of other persons, as defined by the Revenue Agency Circular No. 23/E of 1 March 2002), even if they are not treated as taxpayers in their country of residence, but provided that they are located in a country which allows an adequate exchange of information (and subject to certain other conditions mentioned in Circular No. 23/E, quoted, and in Revenue Agency Circular No. 20/E of 27 March 2003), (ii) international organisations created pursuant to international treaties that are effective in the Republic of Italy, and (iii) central banks or entities managing also the official reserves of the State;
- (b) the Notes are deposited directly or indirectly: (i) with a bank or an Italian securities dealing firm (SIM) resident in the Republic of Italy, (ii) with the Italian permanent establishment of a non-resident bank or brokerage company which is electronically connected with the Italian Ministry of Economy and Finance, or (iii) with a non-resident entity or company which has an account with a centralised clearance and settlement system (such as Euroclear or Clearstream, Luxembourg) which has a direct relationship with the Italian Ministry of Economy and Finances; or (iv) with a centralised managing company of financial instruments, authorised in accordance with Article 80 of the Italian Finance Act;
- (c) the banks or brokers mentioned in (b) above receive a self-declaration from the beneficial owner of the interest which states that the beneficial owner is a resident of that country. The self-declaration, which must be in conformity with the model approved by Decree of the Ministry of Economy and Finances of 12 December 2001 (published in the Ordinary Supplement No. 287 to the Official Gazette No. 301 of 29 December 2001), is valid until revoked by the investor and does not have to be filed if an equivalent self-declaration (including Form 116/IMP) has been submitted to the same intermediary for the same or different purposes; in the case of institutional investors not subject to tax, the institutional investor shall be regarded as the beneficial owner and the relevant self-declaration shall be produced by the management company; and
- (d) the banks or brokers mentioned in (b) and (c) above receive all necessary information to identify the non-resident beneficial owner of the deposited debt securities, and all necessary information in order to determine the amount of interest that such beneficial owner is entitled to receive.

Non-resident holders are subject to the *Imposta Sostitutiva* currently at the rate of 12.5 per cent on interest and other proceeds on the Notes if any of the above conditions (a), (b), (c) or (d) are not satisfied.

Early Redemption

Without prejudice to the above provisions, in the event that the Notes are redeemed, in full or in part, prior to eighteen months from their date of issue, the Issuer is required to pay an additional amount equal to 20% of the interest, premium and other proceeds accrued up to the time of the early redemption. Where Italian withholding agents intervene in the collection of interest on the Notes or in their redemption, this additional amount may be levied by such withholding agents by way of withholding. In accordance with one interpretation of Italian fiscal law, in the event of a purchase of Notes by the Issuer with subsequent cancellation thereof prior to eighteen months from the issue date, this 20% additional amount may also be due.

Capital Gains Tax

Capital Gains Realised by Italian Resident Noteholders

Any capital gain realised upon the sale for consideration or redemption of the Notes would be treated as part of the taxable business income (and, in certain cases, may also be included in the taxable net value of production for IRAP purposes), subject to tax in the Republic of Italy according to the relevant tax provisions, if realised by Noteholders that are:

- Italian resident corporations;
- Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* and other similar partnerships, even de facto, carrying on a commercial activity;
- permanent establishments in the Republic of Italy of foreign corporations to which the Notes, are effectively connected;
- Italian resident individuals carrying out a commercial activity, as to any capital gains realized within the scope of the commercial activity carried out; or
- public or private entities, other than companies, carrying out commercial activities, holding the Notes in connection with the same commercial activities.

Pursuant to Legislative Decree No. 461 of 21 November 1997, any capital gain realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity and certain other persons upon sale for consideration or redemption of the Notes would be subject to an *Imposta Sostitutiva* at the current rate of 12.5 per cent. Under the so called “tax return regime” (“*Regime della dichiarazione*”), which is the standard regime for taxation of capital gains realised by Italian resident individuals not engaged in an entrepreneurial activity, *Imposta Sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any relevant incurred capital loss, realised by Italian resident individual holders of Notes holding the Notes not in connection with an entrepreneurial activity pursuant to all disposals of Notes carried out during any given fiscal year. Italian resident individuals holding the Notes not in connection with entrepreneurial activity must report overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return to be filed for such year and pay the *Imposta Sostitutiva* on such gains together with any income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains of the same kind realised in any of the four succeeding tax years.

As an alternative to the tax return regime, Italian resident individual Noteholders holding the Notes not in connection with entrepreneurial activity may elect to pay a 12.5 per cent *Imposta Sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the “*Risparmio Amministrato*” regime). Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries; and (ii) an express election for the *Risparmio Amministrato* regime being timely made in writing by the relevant Noteholder. Under the *Risparmio Amministrato* regime, the financial intermediary is responsible for accounting for the *Imposta Sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised at revocation of its mandate), net of any relevant incurred capital loss, and is required to pay the relevant amount to the Italian fiscal authorities on behalf of the taxpayer, by deducting a corresponding amount from proceeds to be credited to the Noteholder.

Under the *Risparmio Amministrato* regime, where a sale or redemption of the Notes results in capital loss, such loss may be deducted from capital gains of the same kind subsequently realised within the same relationship of deposit in the same tax year or in the following tax years up to the fourth. Under the *Risparmio Amministrato* regime, the Noteholder is not required to declare capital gains in its annual tax declaration and remains anonymous.

Any capital gains accrued on Notes held not in connection with entrepreneurial activity by Italian resident individuals who have elected for the *Risparmio Gestito* are 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 12.5 per cent. substitute tax to be applied on behalf of the taxpayer by the managing authorised intermediary. Under the *Risparmio Gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *Risparmio Gestito*, the Noteholder is not required to report capital gains realised in its annual tax declaration and remains anonymous.

In the case of Notes held by Italian resident collective investment funds or SICAVs, capital gains on the Notes are included in the computation of the taxable basis of the Collective Investment Fund Tax.

In the case of Notes held by Italian resident pension funds subject to the regime provided by Articles 14, 14 ter and 14 quater, paragraph 1, of Legislative Decree No. 252 of 5 December 2005, capital gains on the Notes are included in the computation of the taxable basis of the Pension Fund Tax.

Capital Gains Realised by Non-Italian Resident Noteholders

Capital gains realised by beneficial owners who are not resident in the Republic of Italy for tax purposes from the sale or redemption of the Notes are not subject to Italian taxation, provided that the Notes are held outside the Republic of Italy.

However, pursuant to Article 23(1)(f) of Decree No. 917, any capital gains realised through the sale for consideration or redemption of the Notes by non-Italian residents without a permanent establishment in the Republic of Italy to which the Notes are effectively connected are exempt for taxation in the Republic of Italy to the extent that the Notes are listed on a regulated market (as defined in the EC Directive No. 2004/39/EC) in the Republic of Italy or abroad and, in certain cases, subject to timely filing of documentation stating that the holder is not resident in the Republic of Italy, even if the Notes are held in the Republic of Italy and regardless of the provisions set forth by any applicable double tax treaty.

Italian Inheritance and Gift Tax

The Italian regime of inheritance and gift tax is provided by the combined disposal of Law Decree No. 262 of 3 October 2006 (“**Law Decree No. 262**”), as converted, with amendments, by Law No. 286 of 24 November 2006, Law No. 296 of 27 December 2006 and Legislative Decree No. 346 of 31 October 1990.

Under such rules, subject to certain exceptions, Italian inheritance and gift tax shall generally be payable on transfers of assets and rights (including the Notes) (i) by reason of death of Italian residents or donations by Italian residents, even if the transferred assets are held outside Italy and (ii) by reason of death of non-Italian residents or donations by non-Italian residents, if the transferred assets are held in Italy.

Pursuant to Law Decree No. 262, transfers of assets and rights on death or by gift shall generally be subject to inheritance and gift tax:

- at a rate of 4 per cent. in case of transfers made to the spouse or relatives in direct line, on the portion of the global net value of the transferred assets, if any, exceeding, for each beneficiary, €1,000,000;
 - at a rate of 6 per cent. in case of transfers made to relatives within the fourth degree or relatives in law within the third degree (in case of transfers to brothers or sisters, the 6 per cent. rate is applicable only on the portion of the global net value of the transferred assets, if any, exceeding, for each beneficiary, €100,000); and
- at a rate of 8 per cent. in any other case.

Transfer Tax

Law Decree No. 248 of December 31 2007, converted into Law No. 31 of 28 February 2008 (“**Decreese No. 248**”), has repealed the Italian transfer tax on the transfer of securities (so-called “*tassa sui contratti di borsa*”), previously applicable, *inter alia*, to the transfer of bonds or similar securities issued by Italian resident entities.

Based on Art. 11 of the Tariff (Part I) enclosed to Presidential Decree No. 131 of April 26, 1986 and to Art. 2 of the same Tariff (Part II), and acts, agreements and deeds regulating the transfer of Notes may be subject, in certain case, to Italian registration tax in a lump sum of €168.00

EUROPEAN SAVINGS DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**EU Savings Directive**”), EU member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) made by a person within its jurisdiction to an individual resident in that other member state. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, deducting taxes at rates rising over time at 35 per cent. The ending of such transitional period will depend upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories, including, inter alia, Switzerland, have agreed to adopt similar measures (which will be a withholding system in the case of Switzerland) with effect from the same date.

The Republic of Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April 2005 (“**Decree No. 84**”). Under Decree No. 84, subject to a number of important conditions being met, in the case of interest paid to individuals who qualify as beneficial owners of the interest payment and are resident for tax purposes in another EU member state, Italian qualified paying agents (i.e. banks, SIMs, fiduciary companies and SGRs resident for tax purposes in Italy, permanent establishments in Italy of non-resident persons and any other economic operator resident for tax purposes in Italy paying interest for professional or commercial reasons) shall report to the Italian tax authorities details of the relevant payments and personal information on the individual beneficial owner. Such information shall be transmitted by the Italian tax authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

With reference to the definition of interest subject to the above described communication regime, Art. 2(1)(a) of Decree No. 84 makes reference, inter alia, to: “interest paid or credited, on accounts arising from receivables of whatever nature, secured or not by mortgage..., in particular interest and any other proceed, arising from public bonds and other bonds...”.

Noteholders who are individuals and receive interest on the Notes should note that additional amounts which, at present, may become due as described in Condition 9 (*Taxation*) above would not be due in respect of withholding tax imposed under or pursuant to the EU Savings Directive, or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive.

Prospective investors resident in a Member State of the European Union should consult their own legal or tax advisers regarding the consequences of the EU Savings Directive in their particular circumstances.

Tax monitoring obligations

Pursuant to Law Decree No. 167 of 28 June 1990, individuals, non-profit entities and certain partnerships (in particular, *società semplici* or similar partnerships in accordance with Article 5 of Decree No. 917) resident in Italy are required to report in their yearly income tax declaration, for tax monitoring purposes:

- (a) the amount of securities (including the Notes) held abroad at the end of each tax year, if exceeding in the aggregate €10,000;
- (b) the amount of any transfers from abroad, sent abroad and occurred abroad, related to such securities, occurred during each tax year, if exceeding in the aggregate €10,000. This also in the case that at the end of the tax year the securities are no longer held by such mentioned investors.

The aforementioned persons are, however, not required to comply with the above reporting requirements in respect of securities deposited for management with qualified Italian financial intermediaries and in respect of contracts entered into through their intervention, upon condition that the items of income derived from such securities are collected through the intervention of the same intermediaries.

SUBSCRIPTION AND SALE

Banca Akros S.p.A. (Gruppo Banca Popolare di Milano), HSBC Bank plc and Lehman Brothers (International) Europe (together the “**Managers**”) have, in a subscription agreement dated 24 June 2008 (the “**Subscription Agreement**”) and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 98.955 per cent. of their principal amount, less commissions. The Issuer has also agreed to reimburse the Managers for certain of the expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, Legislative Decree No. 58 of 24 February 1998 and, CONSOB Regulation No. 16190 of 29 October 2007 (in each case, as amended) and any other applicable laws and regulations; and
- (b) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

General

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisations

The creation and the issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 3 June 2008.

Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for the Notes are as follows:

ISIN: XS0372300227

Common Code: 037230022

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Litigation

Save as disclosed in this Prospectus, there are no governmental, legal or arbitration proceedings against or affecting the Issuer, its subsidiaries or any of their respective assets, nor is the Issuer aware of any pending or threatened proceedings of such kind during the 12 months before the date of this Prospectus, which may have, or had in the recent past, significant effects on the Issuer's or the Group's financial position or profitability or which are or might be material in the context of the issue of the Notes.

No significant change

Save as otherwise disclosed in this Prospectus and since 31 March 2008 there has been no significant change, or any development reasonably likely to involve a significant change, in the condition (financial or otherwise), trading position or general affairs of the Issuer or any of its Subsidiaries.

Material adverse change

There has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2007.

Trend information

Save as disclosed in this Prospectus, the Issuer is not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects for the current financial year since 31 December 2007, the date of the last published audited financial statements of the Issuer.

Material contracts

There are no material contracts that are not entered into in the ordinary course of the Issuer's business, which could result in the Issuer or any other Group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to security holders in respect of the securities being issued.

Change in control

There are no arrangements known to the Issuer the operation of which may result in a change of control of the Issuer other than as described herein.

Major shareholders

The following table lists, as at 30 April 2008, the only persons or entities known to be the beneficial owner of more than 2 per cent. of the Issuer's shares based on the information held by the Issuer:

	<i>(Number of Shares)</i>	<i>(% of Total Share Capital)</i>
Morgan Stanley & co. International Limited	8,917,679	2.15%
Amber Capital LP (manager of the fund "Amber Master Fund Cayman SPC", which owns the stake)	8,963,838	2.16%
Julius Baer Investment Management LLC New York	9,116,423	2.20%
Allianz SE (*)	9,500,000	2.29%
Credit Suisse Group (*)	19,718,888	4.75%
Caisse Federal du Crédit Mutuel Centre Est Europe (*)	20,710,208	4.99%
Market	<u>338,107,195</u>	<u>81.46%</u>
Total	<u>415,034,231</u>	<u>100.00%</u>

(*) Held through direct and indirect subsidiaries.

Yield

9.164 per cent. from the Issue Date to the Reset Date. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

Documents available for inspection

For so long as the Notes are outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Paying Agent, namely:

- (a) the Agency Agreement;
- (b) the Deed of Covenant;
- (c) the Subscription Agreement; and
- (d) the by-laws of the Issuer.

Documents available

For so long as the Notes are outstanding, copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the specified office of each Paying Agent, namely:

- (a) a copy of this Prospectus (including any supplement to this Prospectus);
- (b) the audited consolidated annual financial statements of the Issuer for the years ended 31 December 2007 and 2006;
- (c) the unaudited consolidated financial statements of the Issuer as at and for the three months ended 31 March 2008 and 2007;
- (d) the most recent available unaudited consolidated interim financial statements of the Issuer, if published; and
- (e) the memorandum and articles of association of the Issuer.

Auditors

The auditors of the Issuer are Reconta Ernst & Young S.p.A. who are registered on the special register of accounting firms held by CONSOB and are a member of the Italian society of Auditors (ASSIREVI).

Potential conflicts of interest

Save for the commissions payable to the Managers (for further detail, see “Subscription and Sale” above), there are no interests, conflicting or otherwise, of natural and legal persons involved in the issue of the Notes that are material to the issue of the Notes.

Legend

The Notes and any Coupons appertaining thereto will bear a legend to the following effect: *“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”*

THE ISSUER

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To the Managers as to English and Italian law
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Studio Legale Associato
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AUDITORS TO THE ISSUER

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