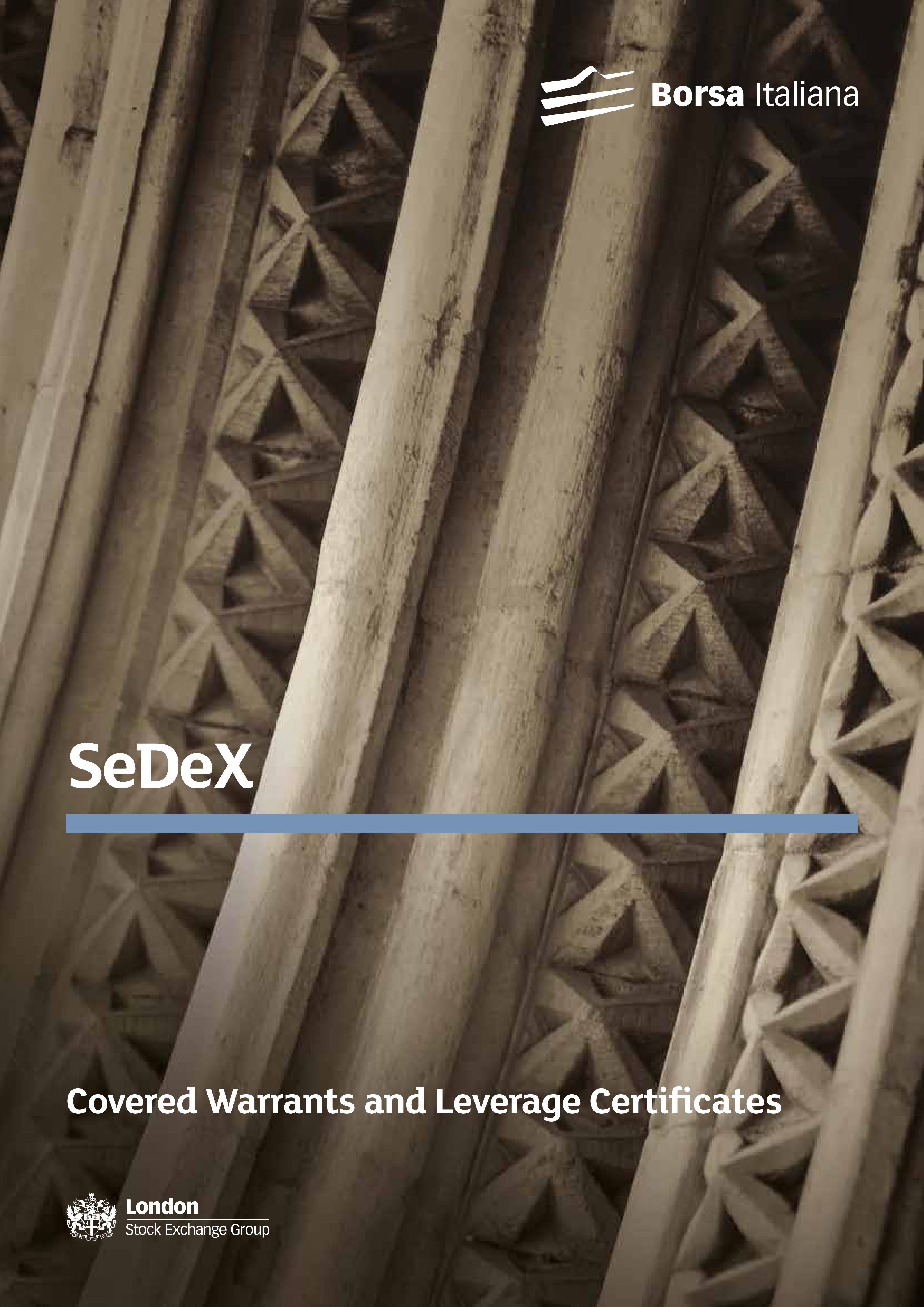


Borsa Italiana

SeDeX

Covered Warrants and Leverage Certificates

London Stock Exchange Group

“Leverage products increase the potential performance of the portfolio.”

SeDeX

Foreword

Leverage effect amplifies both underlying rises and falls

Covered Warrants and Leverage Certificates are the two categories of securitised derivatives listed on the SeDeX that are characterised by the presence of leverage effect.

Instruments with leverage effect allow investors the opportunity to participate in the performance of the underlying asset to an extent that is more than proportional to the changes in the underlying, and in so doing to enhance the potential yield of their portfolio.

“Leverage products can be traded for very small amounts.”

Leverage effect

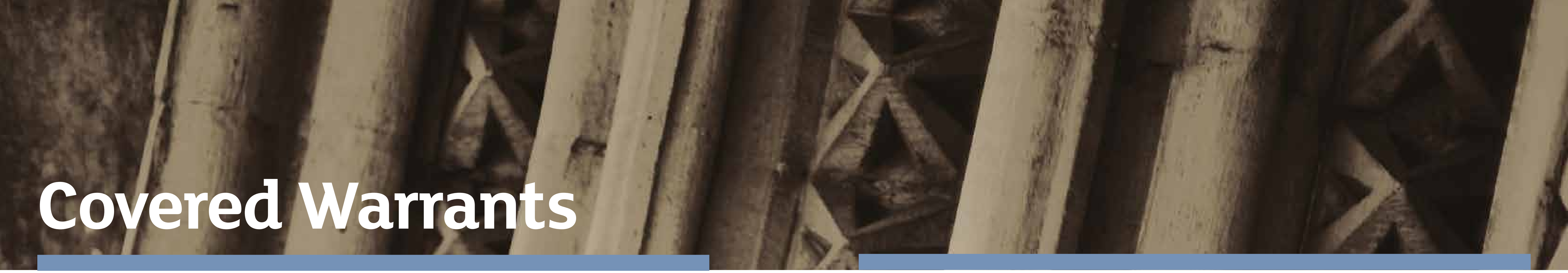
This is the mechanism whereby investors – through a derivative – are able to control a certain underlying by investing just a small part of the capital needed to acquire possession thereof. In this way, whenever a change occurs in the value of the underlying, the percentage variations of an instrument with leverage effect are greater than those pertaining to a direct investment in the underlying.

These instruments are suitable for experienced investors who understand their working mechanisms and who use them to make targeted investments in underlyings that are expected to generate a profit.

Easy to access, simple to use

Covered Warrants and Leverage Certificates can be easily purchased and sold, just like shares, at any time during the continuous trading phase of the SeDeX market.

It is therefore quick and easy for investors to constantly monitor their investments. Investments in leverage products can be made even for very small amounts and without the need to apply the margin deposit payment system. In the event of a gain, a small sum invested in any case offers the possibility to obtain a high performance, while the maximum loss is limited to the initial investment.



Covered Warrants

Covered Warrants: trading, hedging and diversification tools

Covered Warrants are analogous to options

What are they?

Covered Warrants are securitised options which assign to the buyer the right, but not the obligation, to purchase (Call CW) or sell (Put CW) at a pre-established price (strike price) a certain underlying fi nancial asset prior to (American style) or on the expiry date (European style), against payment of a premium.

While Covered Warrants do not normally assign to the investor the right to delivery of the underlying asset, they recognise the payment of a spread, if positive, between the value of the underlying and the strike price (Call CW) or between the strike price and the value of the underlying (Put CW).

Call Covered Warrants

Call Covered Warrants are suitable instruments for investors with bullish expectations on the underlying. They in fact offer increasing earnings potential provided that the value of the underlying asset continues its upward trend.

How they work

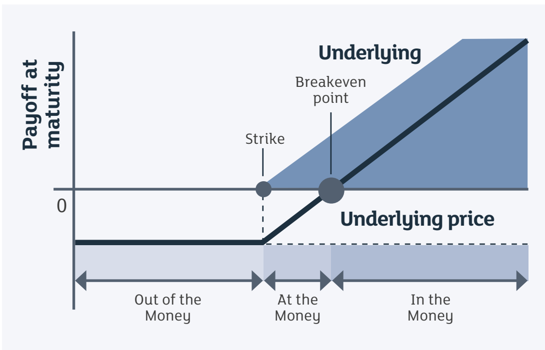
Investors generally choose a Covered Warrant on an underlying asset with which they associate a potential rise. These instruments recognise the investor's right to receive the intrinsic value, namely the spread between the market price of the underlying asset and the Covered Warrant's strike price. However, the buyer of a Call Covered Warrant realises a net profi t only from the moment when the intrinsic value exceeds the premium paid to purchase the instrument.

At the time of exercise, the settlement price is equal to either zero or the following value, whichever is higher:

((Underlying Reference Price – Strike Price) x Parity)
where multiple is used to indicate the quantity ofunderlying controlled by each Covered Warrant.

It is immediately clear that since the maximum losses are equal to the premium paid, the earnings potential for the investor is in theory unlimited and generally increases in proportion to the rise in the underlying.

PAYOFF COVERED WARRANT CALL



Legend
- Price
- Call Covered Warrant

Put Covered Warrants profit of an underlying bearish market

Put Covered Warrants

Contrary to what happens with Call Covered Warrants, investors generally choose a Put Covered Warrant on an underlying asset which is expected to follow a negative trend, a bearish movement. Put Covered Warrants recognise the investor's right to receive the differential between the strike price and the market price of the underlying asset. The buyer of a Put Covered Warrant therefore "monetises" the intrinsic value if at maturity the level of the underlying is below the strike level, but only realises a net profi t from the moment when the intrinsic value exceeds the premium paid to purchase the instrument. It is worth mentioning that a Put Covered Warrant is an important hedging instrument as part of a well-diversified portfolio.

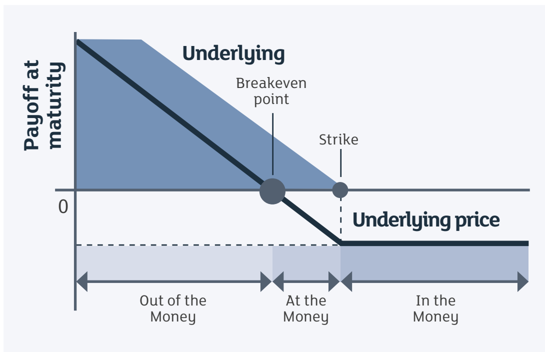
At the time of exercise, the settlement price is equal to either zero or the following value, whichever is higher:

((Strike Price – Underlying Reference Price) x Parity)
where multiple is used to indicate the quantity ofunderlying controlled by each Covered Warrant.

In the case of a put covered warrant, as shown in the pay-off chart, the potential profi t is limited since the value of the underlying asset can never be negative whereas the maximum loss corresponds to the premium paid at the time of purchase.

Put Covered Warrants are suitable instruments for investors with bearish expectations on the underlying. They in fact offer increasing earnings potential provided that the value of the underlying asset continues its downward trend.

PAYOFF COVERED WARRANT PUT



Legend
- Price
- Put Covered Warrant

Intrinsic value and time value

Covered Warrant price depends of five factors

There are essentially two decisive components forming the value of a Covered Warrant, its intrinsic value and its time value.

The intrinsic value of a Covered Warrant corresponds to the redemption amount that will be received in case of exercise. This component is derived from the difference between the strike price and the market price of the underlying in the case of a Put Covered Warrant, and vice versa in case of a Call Covered Warrant.

The time value on the other hand refl ects the premium with respect to the intrinsic value represented by the possibility to obtain higher future earnings. During the instrument's life, in fact, there is the possibility of an additional rise or fall in the underlying, offering potential extra earnings according to whether the Covered Warrant is Call or Put. The extent of the time value basically depends on the remaining life of the Covered Warrant and the volatility of the underlying, but also, to a less signifi cant extent, on the expected dividends and interest rates.

Lastly, it is important to bear in mind that as maturity approaches the time value of the Covered Warrant decreases to the point of reaching zero at actual maturity, following which the overall value of the instrument is based entirely on its intrinsic value.

“As maturity approaches, time value declines till zero.”

FACTORS INFLUENCING COVERED WARRANT PRICE

	Direction	Effect on a call CW	Effect on a Put CW
Expected Volatility	↑ ↓	↑ ↓	↑ ↓
Underlying price	↑ ↓	↑ ↓	↓ ↑
Time to maturity	↓	↓	↓
Interest rates	↑ ↓	↑ ↓	↓ ↑
Dividends	↑ ↓	↓ ↑	↑ ↓

Leverage Certificates

High potential certificates with variable or constant leverage

Constant leverage certificates are one of the most successful type of certificates

Constant Leverage Certificates

These certificates replicate linearly the underlying index with a constant leverage effect. The incorporated leverage may be, for instance, x3, x4 or x5. These instruments replicate the daily performance of the underlying index multiplied by the fixed leverage, either long or short. No margins are requested and no stop loss mechanism is established like in the Mini Futures Certificates. The maximum loss is limited to the invested capital. It is important to highlight that the constant leverage is recalculated daily, based on the closing price of the previous trading day of the leverage index, thus determining the so called “compounding effect” on a period of two or more days.

This means that the performance of the leverage indices, on a period longer than a single trading day, may differ from the performance of the underlying index in the same period of time multiplied by the leverage factor, for instance ±5. This effect is more evident the higher is the volatility of the underlying.

“Constant leverage certificates do not provide for a knock-out event.”

Variable Leverage Certificates

Leverage Certificates assign the right to buy (bull) or sell (bear) an underlying asset at an established strike price and date.

This category includes Mini Future Certificates. Leverage Certificates envisage full control over the underlying, whilst employing less capital than is required to invest directly in the underlying (leverage effect). The presence of leverage effect makes it possible to amplify the performance of the underlying.

With respect to Covered Warrants, the special features of these instruments are the following:

- inclusion of a stop loss level whereby the loss of invested capital can be limited, through early redemption of the certifi cate;
- matching of the price with the certifi cate's intrinsic value and independence from volatility of the underlying and time to maturity;
- the daily variation in the strike price which incorporates the interest charged (bull certificate) or credited (bear certificate) by the issuer in order to structure the product.

Financial leverage can be calculated using the following formula:

Current level of underlying asset Certificate Price x Multiple

Stop Loss Level

The Stop Loss level (or barrier) is the level which, if reached or exceeded by the underlying during the life of the certificate, causes the instrument to expire in advance, limiting the loss to just the capital invested.

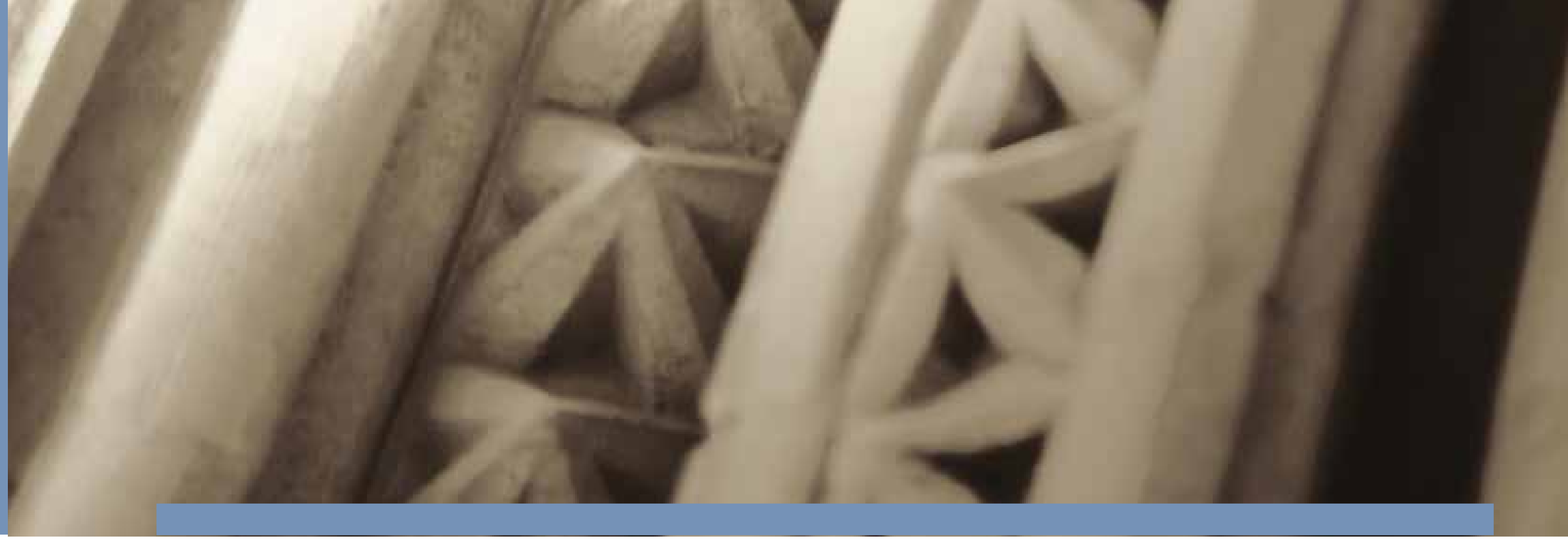
For the Long Mini Futures, the Stop Loss is set at a level between the strike and the market value of the underlying, while for Short Mini Futures it is set between the market value of the underlying and the strike level.

For the Minis, the Stop Loss may be reached at any time during the life of the Certificates, starting from the first date of listing until the day before maturity. If the underlying reaches the said Stop Loss level (so-called barrier event), the investor will be exposed to the risk of early redemption of the certificate and total loss of the capital invested.

“A Stop Loss event may occur at any time during the life of the certificates.”

Monitoring of barriers

Whenever a barrier event occurs, the issuer must promptly inform Borsa Italiana, in order for the latter to immediately suspend trading of the instrument concerned.
Trades concluded, if any, after the stop loss level has been reached are automatically cancelled.



Redemption value of Long and Short Mini Future Certificates

With a Stop Loss provision, if the unfavourable movement in the underlying, in addition to violating the barrier, also exceeds the strike level, the certifi cate will expire worthless. Otherwise, as regards Mini Future Shorts, investors receive the difference between the strike level and the highest value achieved by the underlying on the Stop Loss date, multiplied by the multiple, while for Long Mini Futures, on the other hand, they receive the difference between the minimum value reached by the underlying on the Stop Loss date and the strike level, multiplied by the multiple.

At maturity, on the other hand, exercise is automatic and, for Mini Longs, investors are repaid the difference between the value of the underlying and the strike level while, for Mini Shorts, they are repaid the difference between the value of the strike level and the underlying, multiplied by the multiple.

	Stop Loss Event	Redemption at maturity
Mini Future Certificate Long	[Max(Stop Loss Price – Strike);0] x Parity	(Final Value – Strike) x Parity
Mini Future Certificate Short	[Max(Strike – Stop Loss Price);0] x Parity	(Strike – Final Value) x Parity
Turbo Long Certificates	0	(Final Value – Strike) x Parity
Turbo Short Certificates	0	(Strike – Final Value) x Parity

SeDeX market

For each instrument listed on the SeDeX the mandatory presence of an intermediary is required (normally the issuer or a third party appointed by same) who undertakes to support its liquidity via the continuous entry of buy and sell orders, for minimum quantities and at prices that do not differ more than the percentage (spread) established by Borsa Italiana.

Trading

As with all the other instruments listed on the SeDeX market, covered warrants and leverage certifi cates can be purchased in a manner similar to shares. Trading on the SeDeX is carried out continuously from 9.00 a.m. to 5.25 p.m. (without an opening or closing auction). During continuous trading orders can be entered through a respective intermediary or via the Internet. Trades are concluded via the automatic matching of buy and sell order requests based on priority criteria fi rstly of price and then of time. In case of partially executed orders, the residual portion remains on the book. Settlement of contracts takes place at Monte Titoli on the third trading day following the execution of trades. On SeDeX market orders are not enabled as well as long orders with duration higher than the current trading day. Other order types allowed are Iceberg Orders, Cross Orders and BTFs.

Specialist and liquidity

At any time during the continuous trading phase, investors will always fi nd a price updated in real time and buy and sell orders entered by the specialist which can be used to conclude a trade. SeDeX in fact requires the mandatory presence of a specialist who must undertake to observe the following quotation obligations:

- To constantly display updated buy and sell prices throughout the continuous trading phase;
- To restore quotations within a maximum of 5 minutes following partial or total allocation of a buy/sell order entered by the specialist, causing quantities to fall below the minimum;
- To quote a minimum quantity at least equal to that established by Borsa Italiana;
- To quote prices that do not differ more than the maximum spread (spread obligation).

“The specialist assures that investors can always trade, thus sustaining the liquidity of the market.”

Useful definitions

Legal status
Covered Warrants and Leverage Certificates are securitised derivative financial instruments, whose contractual features are incorporated into a negotiable bearer security.

Issuer
Covered Warrants and Leverage Certificates are issued by banks which undertake to repay the instruments in case of exercise. Each issuer also usually performs, for its own instruments, the activity of specialist on the SeDeX market.

Underlying assets
Covered Warrants and Leverage Certificates, since they are derivative products, are dependent upon another financial asset. The numerous underlyings available to investors on the SeDeX include: all the main Italian equities, the main world indices, a selection of international equities, exchange rates, commodities such as oil and precious metals.
Leverage Certificates particularly offer a wide range of commodities and commodity futures.

Automatic exercise at maturity
If the instrument matures with a positive value ("in-the-money"), on the payment date the bearer will automatically receive the settlement amount payable, without having to exercise the instruments.

European and American
Covered Warrants can be either American or European style. The former may be exercised at any time between the start of trading and the maturity date, whereas the latter are automatically exercised at maturity.

Minimum trading lot
The minimum trading lot is established by Borsa Italiana in order to allow investments to be made for small amounts.

Last day of trading
When trading an instrument close to maturity, it is important to remember that the instruments listed on the SeDeX market continue trading up to the fourth trading day (inclusive) prior to maturity.

Multiple
This indicates the number of underlying assets controlled by each financial instrument.

Specialist
For each instrument listed on the SeDeX the mandatory presence of an intermediary is required (normally the issuer or a third party appointed by same) who undertakes to support its liquidity via the continuous entry of buy and sell orders, for minimum quantities and at prices that do not differ more than the percentage (spread) established by Borsa Italiana.

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