REPORT ON THE ESTIMATE OF THE EXCHANGE RATIO
PREPARED FOR BANCA INTESA S.P.A.
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EXPERT REPORT ON THE ESTIMATE OF THE EXCHANGE RATIO IN THE MERGER OF SANPAOLO IMI S.P.A. WITH AND INTO BANCA INTESA S.P.A.

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Explanation added for the translation into English.
This English translation of the Italian original has been prepared solely for the convenience of the reader. The original version in Italian takes precedence.

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1. BRIEF DESCRIPTION OF THE MERGER

1.1. Purpose of the estimate.

The present report has the purpose of supplying the Boards of Directors of Banca Intesa S.p.A. (hereafter “Intesa”), Surviving company, and Sanpaolo IMI S.p.A. (hereafter “Sanpaolo”), Company to be merged, elements, figures and references useful for the purpose of the proposal to the respective Shareholders' Meetings of the exchange ratio appropriate to realise the merger of Sanpaolo with and into Intesa.

It must be noted that the exchange ratio will be resolved upon by the Boards of Directors of the two companies and will be subject to the congruity opinion by one or more experts designated by the Tribunals of Milano and Torino, pursuant to art. 2501-*sexies* of the Italian Civil Code. Therefore, the present report also serves the purpose of providing the experts appointed to express the aforementioned congruity opinion with the same elements supplied to the Boards of Directors of the two Companies.

Considering the particular purpose of the present estimate, it is specifically destined to be used as part of the merger which required it; consequently, in repeating that the present report is solely aimed at supplying elements to support the decisions of the Boards of Directors of the two Banks as concerns the exchange ratio, it must be pointed out that the absolute values calculated for the two banks are significant exclusively for the purpose of determining the exchange ratio. Similarly, partial results and figures referred to single aspects of the valuation may not be appropriately used outside the context and the purposes for which the entire valuation has been performed.

It should be noted that the merger between Intesa and Sanpaolo will be achieved through the exchange of ordinary and preference shares of Sanpaolo in exchange for Intesa ordinary shares. This is due to the fact that the Articles of Association of Sanpaolo (art. 6) set forth the conversion at par of preference shares into ordinary shares should the latter be sold. This circumstance is also acknowledged by Intesa's Half-Year report as at 30th June 2006. The preference shares of Sanpaolo represent an absolutely marginal fraction of the equity of the same bank.

Furthermore, it must be noted that the Framework Agreement relating to the merger under examination calls for the cancellation of treasury shares held by the Banks.

Therefore, for the purpose of the determination of the exchange ratio:

- Sanpaolo's preference shares are treated as ordinary shares;
- saving shares of Intesa are re-expressed as "equivalent ordinary shares";
- treasury shares held by Intesa and Sanpaolo are not considered in the calculation of unit value per share.

1.2. <u>Typical features of valuations for merger purposes.</u>

The merger transaction will be consummated through the cancellation of shares of the company to be merged and the increase in share capital of the surviving company. The newly-issued shares are assigned to the shareholders of the company to be merged other than the surviving company.

It must be noted as a preliminary matter that the merger raises a complex valuation issue in which the starting point is the valuation of the individual companies directly involved in the transaction and the final objective is the determination of the exchange ratio to be applied to the shares of the two companies.

Thus, the ultimate objective of valuations for merger purposes is first and foremost the obtainment of comparable values for the calculation of the exchange ratio.

Consistently with the aforementioned objective, and in agreement with standard practice, a uniform system has been applied to the entire valuation process for the purpose of safeguarding the interests of the shareholders of the surviving and company to be merged.

1.3. <u>Reference date of the valuation, subsequent events and documentation considered.</u>

The reference date of the valuation is 30th June 2006. The writer of the present report has also considered, in the terms specified in paragraph 2.1., the effects of the agreement entered into between Intesa and Crédit Agricole (hereafter "CA"), have been considered, the terms of which are, in short:

a) the sale by Intesa to CA of the 100% stake in Cassa di Risparmio di Parma e Piacenza S.p.A. (hereafter "Cariparma");
b) the sale by Intesa to CA of the 76.05% stake in Banca Popolare FriulAdria S.p.A. (hereafter, "FriulAdria");
c) the sale by Intesa to CA of 193 branches and the relative assets and liabilities;
d) the exchange of call/put options between Intesa and CA relating to the purchase/sale (respectively, by Intesa and CA) of 65% of

the equity investment in Crédit Agricole Asset Management (CAAM).

* * *

With respect to the Gruppo Sanpaolo, the effects, in the terms detailed in par. 2.1., relating to the reorganisation of the business area Risparmio e Previdenza with the establishment of Eurizon Financial Group S.p.A. (hereafter also "Eurizon") have been considered.

The reorganisation shall include, according to the presentation of facts made to the writer of the present report, the following phases:

- launch by Eurizon of a tender offer (OPA) for all Banca Fideuram shares held by third parties at a price of 5 euro per share;
- start of the listing process of Eurizon through an initial public offering of part of the stake held by Sanpaolo and a public subscription offer from a share capital increase and sales (Offerta Pubblica di Vendita e Sottoscrizione - OPVS). At the end of the transaction, Sanpaolo will hold at least 60%[1] of the share capital of Eurizon.

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For the purposes of conducting the present estimate, numerous accounting and informative elements have been acquired and examined among which the most important were:

a) for Intesa:

  - Articles of Association in force;

[1] The plans provided and used as reference for the purposes of the valuation, assume, at the end of the merger, an equity stake in Eurizon of 68.4%.

- Parent Company's Annual Reports 2004 and 2005 approved by the Shareholders' Meeting, complete with the Report on operations, the Report of the Board of Statutory Auditors and the Independent Auditors' Report;
- audited Consolidated Annual Reports for the same years mentioned above;
- Consolidated half-year report as at 30th June 2006;
- management projections for 2006 full-year consolidated statement of income and balance sheet figures;
- Consolidated business plan for the years 2007-2009, updated at the date of the present estimate;
- management projections for 2006 full-year results and business plan for the years 2007-2009 of Cariparma, updated at the date of the present estimate;
- management projections for 2006 full-year results and business plan for the years 2007-2009 of FriulAdria, updated at the date of the present estimate;
- pro-forma statement of income and balance sheet figures for the 2005-2009 period of the 193 branches sold to CA;
- for the main subsidiaries, Annual Reports 2005, complete with the Report on operations, the Report of the Board of Statutory Auditors and the Independent Auditors' Report;
- for the main subsidiaries, the Half-year report as at 30th June 2006, where available;

b) for Sanpaolo:

- Articles of Association in force;
- Parent Company's Annual Reports 2004 and 2005 approved by the Shareholders' Meeting, complete with the

Report on operations, the Report of the Board of Statutory Auditors and the Independent Auditors' Report;

- Audited Consolidated Annual Reports for the same years mentioned above;
- Consolidated half-year report as at 30th June 2006;
- management projections for 2006 full-year consolidated statement of income and balance sheet figures;
- Consolidated business plan for the years 2007-2009, updated at the date of the present estimate;
- for the main subsidiaries, Annual Reports 2005, complete with the Report on operations, the Report of the Board of Statutory Auditors and the Independent Auditors' Report;
- for the main subsidiaries, the Half-year report as at 30th June 2006, where available;
- management projections for 2006 full-year results and business plan for the years 2007-2009 of Eurizon, updated at the date of the present estimate;
- press releases and other informative elements relative to the "Eurizon transaction" and the tender offer (OPA) for Fideuram shares;

c) for both Banks:

- information concerning stock prices;
- market information on the main Italian and foreign competitors;
- reports and consensus figures issued by the main financial analysts, which cover the stocks of the two Companies.

1.4. <u>Shortcomings of the estimate</u>.

As concerns the shortcomings of the estimate, the following must be noted:

- the estimate relies on the truthfulness, accuracy and completeness of the informative elements supplied; no verification has therefore been made on such aspects;
- the feasibility of the assumptions made in the business plans has not been verified. These have been used by the writer without any verification, on the basis, among other considerations, that these must represent the most accurate hypotheses possible today as concerns the expected statement of income and balance sheet evolution of the Banks;
- analyses performed did not refer to the identification or the quantification of any possible potential liabilities not considered in transmitted documentation;
- solely significant events known at the date of the present estimate have been considered.

2. ADOPTED VALUATION CRITERIA.

2.1. <u>General profile of the estimate.</u>

In principle, the estimate of the value of a bank presents the same application problems that arise in the determination of the value of any other company. Therefore, various aspects are important in the valuation: the equity of the company to be valued at the reference date of the estimate, its quantitative and qualitative characteristics, the company's income-generating capacity stand alone, capitalisation and discount rates, etc.

Therefore, in principle, current valuation criteria (balance sheet, earning-based, combined, financial, etc.) proposed by academics and standard practice may be applied as calculation procedures.

The selection of a method or a number of methods depends, in addition to the availability of information, upon the attentive consideration of the conditions and circumstances which characterise the specific bank in its ongoing and prospective operations.

* * *

It must be noted that until the beginning of the 90s, in Italy, “prices” applied in the transactions on controlling equity stakes of banking companies were normally based on “values” calculated according to the combined balance sheet method which estimated **W=K+I**, in which **K** is the value of adjusted shareholders' equity and **I** expresses the strategic value of deposits, normally called “goodwill”. In this methodological perspective, **I** was mostly estimated by applying with empirical criteria, two different percentages to direct and indirect deposits.

The implicit assumption, which is at the base of this valuation method, consists in supposing the existence of a linear relation between the collection of a certain volume of deposits and the bank’s capacity to produce new wealth to a satisfactory extent.

This Italian practice was motivated by a series of factors, also historical, the most significant of which appear to be the following:

- for a long period of time, the market for the control of banks was affected by regulatory constraints as concerns the opening of new branches and the obtainment of licences;
- the negotiations for the control of banks occurred, and still occur, in Italy in a limited circuit in which the buyer has almost always

been another bank, which in this way satisfies its need to pursue dimensional and territorial growth.

The norms which regulate the credit market have considerably changed and with them many circumstances that influence competition in the sector and the profitability of the banks which operate in it.

As mentioned above, in the past, administrative constraints affected the concession of banking licences and required the authorisation of Supervisory authorities for the opening of new branches. In such circumstances the territorial growth of a bank could mostly be pursued via the acquisition of other banks. This determined a significant imperfection in the credit market and justified the valuation approach described above.

New norms abolished the mentioned constraints. In particular, the adoption of EEC directive 89/646 modified, in a significantly more liberated direction, the rules regulating access to the exercise of banking activities and especially those which govern the means and breadth of operations of banks.

This led to increased competitiveness in the banking industry, while single banks could start pursuing growth via organic growth opportunities, which in any case concur to build reference parameters also for assessing the economic advantage of acquiring, at given prices, controlling equity stakes in other banks.

The conditions with which prices were ascertained in the past slowly changed. The strategic appeal of banks was progressively less connected to the sole parameter of collected and intermediated volumes and, conversely, increasingly related to efficiency and profitability conditions, though never disjointed from circumstances expressive of structural and process size, resources, market shares and so on.

In this context, academic indications and standard practices elaborated criteria capable of more incisively appreciating the strategic value of the Bank considering its profitability, efficiency and growth prospects. Among these the most widespread are the "*dividend discount model criterion*" (or simply DDM), the "*earnings criterion*" and the "*combined UEC criterion*".

Alongside the criteria recalled above – also defined economic-analytical criteria, since deeply connected with performance and structure measures – so-called "market valuation criteria" are becoming increasingly important. These are based on the observation of prices struck in regulated markets by both the companies under estimation (obviously only when they are listed) and by comparable companies (in economic, structural and operational terms). For this purpose, the most frequently used methodologies in practice are the "*market multiples criterion*", the "*linear regression criterion*", the "*direct quotes criterion*" and the "*equity report criterion*".

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As a conclusion of the general observations illustrated herein, for the valuation of Intesa and Sanpaolo required for the determination of the exchange ratio, it is deemed appropriate to use both economic-analytical criteria and market criteria. In particular, criteria used for valuations in mergers which is the object of this present report are: the "*DDM criterion*", the "*earnings criterion*", the "*combined UEC criterion*", the "*market multiples criterion*", the "*linear regression criterion*", the "*direct quotes criterion*" and the "*equity report criterion*".

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With respect to the decision regarding which valuation criteria to use and their respective order of importance (represented by the typical distinction between main methods and control methods), the effects related, for Intesa, to the agreement with CA and, for Sanpaolo, to the '"Eurizon transaction" have been taken into account.

As concerns Intesa, it must be noted that the agreement with CA sets out the following steps:

a) the sale by Intesa to CA of the 100% stake in Cassa di Risparmio di Parma e Piacenza S.p.A. (hereafter "Cariparma");
b) the sale by Intesa to CA of the 76.05% stake in Banca Popolare FriulAdria S.p.A. (hereafter, "FriulAdria");
c) the sale by Intesa to CA of 193 branches and the relative assets and liabilities;
d) the exchange of call/put options between Intesa and CA relating to the purchase/sale (respectively, by Intesa and CA) of 65% of the equity investment in Crédit Agricole Asset Management (CAAM).

Since a consolidated plan of Intesa which reflects the effects of the aforementioned transactions has not yet been prepared, for the purposes of the valuation, balance sheet, income statement and financial aggregates relating to assets sold have been eliminated from consolidated figures. Estimates regarding the sale of said assets, net of the respective tax effect, have been considered as "accessory capital" and therefore included in the values obtained with the various valuation criteria used.

It must also be noted that the present estimate does not consider any effect of the exchange of options on CAAM for two reasons. First, the exercise of such options is uncertain; in fact, it is possible that the bank resulting from the merger and CA develop new strategies in the asset management sector together.

Secondly, the strike price of the call/put options is substantially in line with the price recently agreed for the sale (by Intesa to CA) of the same company. Thus, the strike price of the options is substantially in line with the exchange value of the equity investment in CAAM. Consequently, it is reasonable to presume that the exercise of the options will not modify the value of Intesa. This conclusion is also confirmed by the fairness opinion on the transaction prepared by Prof. Iovenitti.

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Therefore, the application of all criteria which use variables based on Intesa's plans (DDM, earnings, UEC, market multiples and linear regression), required the adjustment of basic figures to consider the effects which will be generated by the sale of the two equity investments and the 193 branches. The results achieved with the various methods have then been increased to consider the liquidity deriving from the above-mentioned sale; this has been treated as "accessory capital". In this way the value of Intesa reflects the effects of the agreement reached with CA.

With respect to the share price criterion, it must be noted that, as described in greater detail below, the prices considered are those quoted until 22nd August 2006, the date preceding the announcement of the merger, in consideration of the fact that stock prices in the following days were probably affected by the proposed merger. For the same reason, the "*equity report*" criterion considers data available until 22nd August 2006. Furthermore, these two criteria do not reflect the effects of the agreement with CA. It must also be noted that – assuming the congruity of the consideration for the sales provided for in such agreement, which is confirmed by the aforementioned fairness opinion of Prof. Iovenitti – the value of Intesa, determined through the application of such criteria, should not be subject to significant changes.

Considering the above, it was in any case decided to attribute to the methodologies under examination the role of control criteria for the results arising from the application of the other methods indicated above, which therefore are considered main estimation criteria.

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With respect to Sanpaolo, the plans which have been provided to the writer reflect the effects of the "Eurizon transaction". For the purpose of applying a consistent approach with respect to the valuation of Intesa, the net considerations related to this transaction, which includes the following phases ((i) tender offer on Fideuram; (ii) initial public offering of Eurizon shares held by Sanpaolo and (iii) initial public offering of new shares by Eurizon), have been considered "accessory capital". Therefore, in the application of the adopted valuation criteria, the items considered (earnings, dividends and shareholders' equity) have been adjusted to make them consistent with the approach set forth above.

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Therefore, on the basis of the above, the selected valuation methodologies have been divided identifying main criteria and control criteria. More specifically:

- main criteria adopted are: (i) the "*DDM criterion*", (ii) the "*earnings criterion*", (iii) the "*combined UEC criterion*", (iv) the "*market multiples criterion*" and, lastly, (v) the "*linear regression criterion*";
- control criteria used are: (i) the "*direct quotes criterion*" and (ii) the "*equity report criterion*".

From a methodological standpoint control methods have two main purposes. Considered individually, each with its peculiarities and shortcomings has the purpose of verifying the reliability of the valuation deriving from the application of the main methods. Considered together, they may contribute to the identification of appropriate "corrections" to the results deriving from the application of the main methods. In fact, since the determination of an exchange ratio is always the result of an overall judgement, in which no method expresses the characteristics of universality and uniqueness, control methods are used to verify the results derived from the application of the main methods.

2.2. Main valuation criteria.

2.2.1.The DDM criterion.

The "*DDM criterion*" (or "*dividend discount model*" criterion) defines the value (**W**) of a company on the basis of the future dividend flows which the company will be capable of distributing to its shareholders, discounted at a rate which expresses the specific equity risk.

In the adopted version, future dividends have been estimated in analytical terms for the years of the business plans of the Banks, based on management's forecasted distributable dividends. After that period, the terminal value has been calculated by discounting so-called "perpetual free cash flow to equity".

The following formula is used:

$$W = \sum_{t=1}^{n} \frac{D_t}{(1+K_e)^t} + \frac{TV}{(1+K_e)^n} + CAcc$$

where:

Dt = series of distributable dividends forecasted by the Banks' management. The dividend of the last "analytical" valuation period (Dn) includes, as detailed hereafter, the effect of the excess (or deficit) of Core tier 1 with respect to the minimum deemed to be congruous;

Ke = cost of capital;

CAcc = accessory capital;

TV = terminal value (TV) estimated on the basis of the "perpetual free cash flow to equity" according to the following formula:

$$TV = \frac{D_{n+1}}{(K_e - g)}$$

where:

D_{n+1} = "perpetual free cash flow to equity";

Ke = cost of capital;

g = long term growth rate.

* * *

The cost of capital **Ke** expresses the specific risk attributed to the Banks under valuation. It is used in nominal terms, consistently with the discounted dividend flows. **Ke** is quantified using the Capital Asset Pricing Model and considering (i) the risk-free rate and (ii) the risk premium for the specific risk of investment in the equity of the banks, calculated by multiplying so-called market risk premium by the beta of each Bank.

The cost of capital is calculated using the following algorithm:

$$Ke = r + \beta \cdot (r_m - r)$$

where:

r = risk-free rate;

β = beta of each Bank;

(r_m -r) = equity premium.

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The rate **g** expresses the long term growth prospects of the "free cash flow" used in the calculation of terminal value.

2.2.2. The earnings criterion.

The "*earnings criterion*" defines the value (**W**) of the equity of a company based on its autonomous income-generation capacity.

The adoption of the earnings criterion requires, first of all, the valuation of the company's prospective profitability. In the present valuation the latter is intended as prospective net income in the time frame covered by the business plan and as average normalised earnings for an indefinite subsequent period.

The earnings method, in particular, is applied by discounting the expected earning flows at a rate deemed to be appropriate considering the risk characteristics of the specific investment under examination.

The following formula is used:

$$W = \sum_{t=1}^{n} \frac{R_t}{(1+K_e)^t} + \frac{TV}{(1+K_e)^n} + CAcc$$

where:

R_t = earnings for the year, appropriately normalised, estimated individually for each year of the business plan;

Ke = cost of capital;

CAcc = accessory capital;

TV = *terminal value* (TV), obtained by capitalising to infinity the perpetual expected average normalised earnings, according to the following formula:

$$TV = \frac{R_{n+1}}{(K_e - g)}$$

where:

R_{n+1} = perpetual expected average normalised earnings;

Ke = cost of capital;

g = long term growth rate.

Ke expresses the cost of capital and, consistently with the discounted flows, is a nominal rate. It is quantified using the CAPM as illustrated in par. 2.2.1. above.

2.2.3. The combined UEC criterion.

The "*combined UEC criterion*" determines the value (**W**) of a company as the sum of its adjusted shareholders' equity and the net present value of the surplus earnings, intended as the difference between the expected average normalised earnings and the return deemed to be satisfactory considering the type of investment.

The value (W) of the company's shareholders' equity is determined using the following formula:

$$W = K' + (R - iK')a_{n\neg i'} + CAcc$$

where:

K' = adjusted shareholders' equity, inclusive of the value of "goodwill on deposits";

R = expected average normalised earnings;

i = return deemed to be satisfactory considering the type of investment, also estimated using the aforementioned CAPM;

i' = capitalisation rate, assumed equal to the return on risk-free investments;

n = number of years to which the calculation of the net present value of surplus earnings is applied (higher or lower income-generation capacity);

CAcc = accessory capital.

According to standard practice, “goodwill” for banks included in adjusted shareholders' equity is calculated on the basis of the amount of direct and indirect customer deposits.

2.2.4. Market multiples criterion.

The “*market multiples criterion*” determines the value of a company based on market share prices of listed companies which are comparable to those being valued.

This methodology is applied as follows:

- identification of a sample of listed banks comparable to those being valued; comparability must, in particular, be assessed considering size, expressed by market capitalisation;
- calculation of so-called “market multiples” (frequently, at least in the banking industry, “price/expected earnings” and “price/book value”), that is the ratio of market prices and statement of income and balance sheet aggregates deemed to be significant;
- application of the sample’s “market multiples” to the relevant statement of income and balance sheet aggregates of the companies being valued.

2.2.5. Linear regression criterion.

The *“linear regression criterion”* determines the value of equity using the statistic correlation existing between the prospective profitability of shareholders' equity (expected ROAE) and the price/book ratio (P/BV).

In detail, such correlation – expressed by the linear regression – enables the valuation of the value of the company's equity based on its prospective profitability (measured by ROAE) and its capitalisation (measured by the shareholders' equity or book value or BV).

For the application of this criterion it is necessary to:

- identify a sample of listed banks comparable to those being valued, which present a significant correlation between P/BV and expected ROAE;
- quantify the parameters (slope and intercept) of the interpolation line, via the linear regression technique;
- determine the value of the equity of the company being valued on the basis of the parameters identified in the previous point and the ROAE and book value of the same company.

2.3. Control valuation criteria.

2.3.1. Stock price criterion.

The "*stock price criterion*" estimates the value of equity on the basis of the market prices in a significant period ending on a date close to that of the estimate.

The need to mitigate short term fluctuations typical of financial markets leads to extend the stock price analysis to different time frames.

2.3.2. Equity report criterion.

The "*equity report criterion*" estimates the unit value of shares on the basis of the average target price indicated by financial analysts. This valuation method is based on the selection of a significant sample of analyst reports which cover the stocks of the companies under examination.

3. THE APPLICATION OF VALUATION CRITERIA

The present paragraph describes the application of the adopted valuation criteria[2].

The description is provided for the two Companies involved in the merger, Intesa and Sanpaolo for consistency reasons.

3.1. The application of the main valuation criteria.

3.1.1. The application of the DDM criterion.

Values of Intesa and Sanpaolo, calculated using the DDM criterion, are set out in table 1 below.

Table 1 - values using the DDM criterion.

(in millions of euro)	Intesa	Sanpaolo
Present value of dividend flows (in the period of the business plan)	**6,459**	**4,628**
Perpetual free cash flow to equity	2,534	2,252
Present value of Terminal value	**22,143**	**20,755**
Accessory capital	**5,806**	**1,603**
Value (W)	***34,408***	***26,987***

With respect to the application of this criterion, in addition to the considerations set forth in par. 2.2.1., the following must be noted:

[2] The values in the following tables have been rounded.

- for the determination of distributable dividends (in the formula, $\mathbf{D_t}$) until the last-but-one period of analytical forecasts, management estimates of the two Banks have been used. With respect to Intesa, expected dividend flows have been adjusted to consider the effects deriving from the sale of the equity investments in Cariparma and FriulAdria and the 193 branches. In particular, for each year the dividend flows have been determined by applying pay-out estimated by management to expected earnings net of the portion attributable to the equity investments and the branches sold. For Sanpaolo, expected earnings have been adjusted to make them consistent with the aforementioned approach which entails taking into account the liquidity deriving from the "Eurizon transaction" as accessory capital. In particular, earnings set out in the plan have been adjusted to reverse the effects of such liquidity, since it was added as accessory capital to the results obtained with this method; dividend flows have been determined applying pay-out estimated by the management to expected earnings;
- with respect to the last period in the "analytical" forecasts (in the formula, $\mathbf{D_n}$), the estimated distributable dividend has been used (adjusted for both Banks as indicated above), increased (or decreased) to consider the excess or the deficit in prospective Core tier 1 of each Bank compared to the minimum applied in standard practice (equal to 6.5% of RWA[3]); for both Banks an excess Core tier 1 emerged as compared to minimum requirements of standard practice. This excess has therefore been used to increase the expected dividend flow estimated by management. With respect to the expected estimate of Intesa's RWA and Core tier 1, the

[3] Risk weighted assets, equal to the value of the invested assets weighted for the specific risk level of each asset.

aforementioned sales have also been taken into account; similarly, the corresponding aggregates of Sanpaolo have been adjusted to make them consistent with the method illustrated above which entails that the liquidity generated by the Eurizon transaction is treated as "accessory capital";

- the "perpetual free cash flow to equity" (in the formula, $\mathbf{D_{n+1}}$) has been estimated using an average of the earnings of the 2007-2009 business plan period appropriately normalised as described in par. 3.1.2. below; lastly, this value has been adjusted to take into account (i) the effect on earnings of the distribution of the excess shareholders' equity described above, calculated at a rate representative of market returns for short term investments (3-month EURIBOR at the time of the estimate) and (ii) the portion of earnings which cannot be distributed since it is destined to ensure an adequate capital coverage of the growth of RWA so as to maintain Core tier 1 at 6.5% of RWA.

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As pointed out in par. 2.1. the valuation of Intesa required that – as accessory capital, which has therefore been added to the result of the application of the method under examination – the agreed-upon consideration for the sale of the equity investments in Cariparma and FriulAdria and of the 193 branches be taken into account. This consideration has been reduced to consider the tax burden on the capital gain related to the sale. The same approach has been used for the valuation of Sanpaolo with respect to the "Eurizon transaction". The liquidity generated therefrom, net of the relevant tax effects, has been considered accessory capital.

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The capitalisation rate (**Ke**), calculated in nominal terms, has been determined using the CAPM.

The nominal risk-free rate has been estimated on the basis of the average return on government bonds with a maturity exceeding 10 years.

The risk premium, which is added to the risk-free rate, has been assumed to be equal to 5%, consistent with the most widespread academic indications and standard practices.

Beta has been assumed to be equal to the value obtained from Bloomberg for each of the two Banks on the date of announcement of the merger under examination.

Table 2 summarises the determination of the (nominal) discount rate for Intesa and Sanpaolo.

Table 2 – Determination of nominal Ke.

Parameters	Intesa	Sanpaolo
Nominal risk-free rate	4.33%	4.33%
Risk premium	5%	5%
Beta	1.09	1.12
Nominal Ke	**9.78%**	**9.93%**

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The growth rate **g**, necessary to estimate terminal value, has been assumed to be equal to 1.9% for Intesa and 2.5% for Sanpaolo. The difference is be explained by the different compounded annual growth rates (CAGR) of the main economic figures of the two Banks.

3.1.2. The application of the earnings criterion.

Values of Intesa and Sanpaolo calculated on the basis of the earnings criterion are set out in table 3.

Table 3 - values according to the earnings criterion.

(in millions of euro)	**Intesa**	**Sanpaolo**
Present value of earnings flows (in the period of the business plan)	**7,586**	**6,895**
Perpetual earnings flow	2,826	2,607
Present value of Terminal value	**25,867**	**25,187**
Accessory capital	**5,806**	**1,603**
Value (W)	***39,259***	***33,685***

With respect to the application of this criterion, in addition to the description set forth in par. 2.2.2., the following should be noted:

- for the determination of prospective earnings until the last year of "analytical" forecasts, the values estimated by the management have been used. Since the reference date for the present estimate is 30th June 2006, 2006 earnings have been considered in the amount pertaining to the second half;
- earnings of each year have been normalised to eliminate or limit the effects of the extraordinary or non-recurring income components. Each adjustment has been recorded considering the related tax effect. Intesa's normalised expected earnings have been adjusted to consider among others, the sale of Cariparma, FriulAdria and 193 branches; similarly the results of Sanpaolo

have been adjusted to make them consistent with the aforementioned approach which entails taking into account the liquidity derived from the ”Eurizon transaction” as accessory capital;

- the terminal value (**TV**) has been calculated by discounting the expected normalised earnings obtained by (i) calculating average earnings in the 2007-2009 period and (ii) applying the growth rate **g** to such average. The use of the growth rate **g** may be explained by the assumption that, following the period of “analytical” forecasts, nominal earnings increase at a rate equal to **g**. As a result, for the purposes of determining the terminal value, the capitalisation rate has been assumed to be equal to **Ke - g**;
- the growth rate **g** has been assumed to be equal to 1.9% for Intesa and 2.5% for Sanpaolo for the reasons already described in par. 3.1.1.;
- the capitalisation rate (**Ke**) has been determined on the basis of the CAPM. The calculation is therefore consistent with that used in the determination of **Ke** when applying the DDM criterion (see Table 2);
- the value of the accessory capital – added to the results of the discounting / capitalisation process applied to earnings – was calculated as described in the preceding par. 3.1.1.

3.1.3. The application of the combined UEC criterion.

The valuations of Intesa and Sanpaolo, calculated on the basis of the UEC criterion, are set out in table 4.

Table 4 - values according to the combined UEC criterion.

(in millions of euro)	**Intesa**	**Sanpaolo**
Adjusted shareholders' equity (**K**)	14,165	12,707
Value of deposits (**I**)	12,371	13,692
Adjusted complex shareholders' equity (K')	**26,535**	**26,399**
Expected normalised earnings (**R**)	2,425	2,226
Real return on equity (**i**)	7.73%	7.88%
Capitalisation rate (**i'**)	2.38%	2.38%
Holding period (**n**)	8	8
Goodwill	**2,688**	**1,052**
Accessory capital	**5,806**	**1,603**
Value (W)	***35,029***	***29,054***

The application of the criterion under examination, as already described in par. 2.2.3., has required the quantification of the following aggregates:

- adjusted shareholders' equity (**K**): was determined assuming, as a starting point the carrying amount of shareholders' equity as at 30th June 2006, inclusive of net income for the first half of 2006. The carrying amount of shareholders' equity determined in this way was adjusted to take into account the goodwill in the balance sheet (as at 30th June 2006). This was done in light of the fact that goodwill determined with the current estimate already includes such values. In recording this adjustment, where necessary, the applicable tax effects have also been taken into account.

  As already indicated above, the sale of the equity investments (Cariparma and FriulAdria) and the 193 branches have been taken into account with respect to Intesa. In particular, the portion of consolidated shareholders' equity attributable to such assets has been deducted. Shareholders' equity of Sanpaolo as at 30th June 2006 has been appropriately adjusted to take into account the effects of the "Eurizon transaction".

Table 5 summarises, for Intesa and Sanpaolo separately, the quantification of adjusted shareholders' equity described.

Table 5 - adjusted shareholders' equity.

(in millions of euro)	**Intesa**	**Sanpaolo**
Carrying amount of shareholders' equity as at 30.6.2006	16,832	13,949
Total adjustments	(2,667)	(1,242)
Adjusted shareholders' equity (K) as at 30.6.2006	**14,165**	**12,707**

- The value of deposits (**I**): has been calculated on the basis of direct and indirect customer deposits as at 30th June 2006, resulting from the half-year reports of the two Banks. This consolidated value has been adjusted to deduct stakes pertaining to third parties (that is, external to Gruppo Intesa and Gruppo Sanpaolo) in the main subsidiaries which are not wholly-owned by the two Parent Companies.

For Intesa, the adjustment mostly relates to the deposits of Banca di Trento e Bolzano, Casse di Risparmio del Centro and Intesa Holding International. Furthermore, the amounts attributable to Cariparma, FriulAdria and the 193 branches have been deducted from the consolidated figures.

For Sanpaolo the adjustment relates to the third-party deposits attributable to Eurizon.

To evaluate goodwill, multipliers consistent with past experience have been used. Such multipliers have been differentiated, according to standard practice, based on the various types of deposit. It should be noted that Banca Fideuram's indirect customer deposits have been valued based on a specific multiplier of 5%. This coefficient is based on both the earnings parameters expressive of the performance which may be associated to this type of deposit, and the valuation of deposits implicit in the Bank's stock market prices.

Table 6 summarises the multipliers applied.

Table 6 - percentage multipliers used to value deposits.

	DEPOSIT CLASSES	Multipliers
	Direct customer deposits:	
-	current accounts	8%
-	saving deposits	8%
-	commercial paper	4%
-	certificates of deposit and bonds	4%
-	repurchase agreements	1.5%
	Indirect customer deposits:	
-	assets under administration and in custody	1%
-	assets under management	3%
-	Banca Fideuram deposits	5%

The valuation of customer deposits resulted in the determination of goodwill of 12,371 million euro for Intesa and of 13,692 million euro for Sanpaolo.

- <u>Expected normalised earnings (**R**)</u>: have been determined using as input 2005 consolidated net income and consolidated profitability prospects for the 2006-2009 period. As already indicated in the description of the earnings method (par. 2.2.2.), the results for each year under consideration have been subjected to the normalisation process, aimed at eliminating or limiting the effects of the extraordinary or non-recurring income items.

  Each adjustment has been recorded taking into account the related tax effect.
  Adjusted net income of each year has been adjusted for inflation; that is, it has been expressed in consistent monetary terms (euro 2006).

  For the purpose of the normalisation process it has been deemed appropriate to assume, as reference for the valuation, the figures for the entire 2005-2009 period, attributing the same weight to each of the income considered.

  Expected normalised income (**R**) was therefore valued at 2,425 million euro for Intesa and 2,226 million euro for Sanpaolo.

- <u>The rates and the reference time horizon (**i**, **i’** and **n**)</u>.

The rate **i** represents a measure, expressed in real terms, of the "opportunity cost" of the investment in the equity of each Bank. Again it has been determined using the CAPM and has been calculated using the same parameters indicated in par. 3.1.1. The nominal rate has been reduced using an expected inflation of 1.9%. Therefore the real rate **i** equalled 7.73% for Intesa and 7.88% for Sanpaolo.

The rate **i'** is intended, according to standard practice, to be the financial return associated with the passage of time; the rate under examination is therefore not affected by the specific risk of the company being valued and has been assumed to equal to the return on risk-free investments. It is equal to the risk-free rate indicated in table 2 above less expected inflation.

The period of **n** years was defined as 8 in accordance with the standard practice in this field.

- <u>The determination of accessory capital</u>: the value of accessory capital – for both Banks aggregated with the results of the discounting / capitalisation process applied to earnings – was calculated as described in the preceding par. 3.1.1.

3.1.4. The application of the market multiples criterion.

The values of Intesa and Sanpaolo determined on the basis of the market multiples criterion are set out in table 7.

Table 7 - values according to the market multiples criterion.

(in millions of euro)	Intesa			Sanpaolo		
	2006	***2007***	***2008***	***2006***	***2007***	***2008***
Average P/E multiple of the sample	10.694	9.879	8.965	10.694	9.879	8.965
Earnings	2,341	2,600	2,775	2,027	2,211	2,619
Accessory capital	5,806	5,806	5,806	1,603	1,603	1,603
Value (W)	***30,841***	***31,493***	***30,687***	***23,284***	***23,443***	***25,085***

(in millions of euro)	Intesa			Sanpaolo		
	2006	***2007***	***2008***	***2006***	***2007***	***2008***
Average P/BV multiple of the sample	1.938	1.753	1.588	1.938	1.753	1.588
Book value	15,959	16,903	17,815	15,414	16,469	17,828
Accessory capital	5,806	5,806	5,806	1,603	1,603	1,603
Value (W)	***36,739***	***35,435***	***34,100***	***31,479***	***30,472***	***29,919***

The application of the market multiples criterion, as already illustrated in par. 2.2.4., necessitated:

- <u>the selection of a sample of listed banks comparable with those being evaluated</u>: for this purpose the most significant variable is size, as expressed by market capitalisation of the companies. This decision stems from the fact that the market for bank equity behaves uniformly – and seems, therefore, to be significantly segmentable – based on size. Accordingly, Intesa and Sanpaolo are included among the largest European banks. For the purpose of identifying a sufficiently wide and significant sample of comparables, 21 European banks (in the "Euro Zone", as well as in

Switzerland and in the United Kingdom) listed on the respective Stock Exchanges have been selected. The sample is made up of banks which present a market capitalisation no less than 50% of that of Intesa and Sanpaolo (that is no lower than 15 billion euro) and no higher than 50% of the total capitalisation of the "Intesa-Sanpaolo aggregate" (that is, no higher than 90 billion euro)[4];

- the choice of multiples: the multiples which are most frequently used in bank valuations have been used. These are the Price/Book value or P/BV ratio and Price/Earning or P/E ratio.

The relevant aggregates for the calculation of such multiples have been determined as follows:

- market value (**P**) has been assumed to equal the market capitalisation, calculated as the product of the average unit value over a consistent period of time and the number of shares determined on a fully diluted basis. The unit values have been determined on the basis of the average, weighted by volumes, of the reference prices in the last 30 stock market days which preceded the first rumours on the merger under examination (30 days preceding 22nd August 2006);
- shareholders' equity (**BV**) has been assumed equal to the year-end value of the consensus for 2006, 2007 and 2008;
- expected consolidated net income (**E**) has been calculated using the value of the consensus for the 2006-2008 period.

[4] In particular, the following banks have been considered: BNC Santander CTL, BNP Paribas, Unicredit Banca, BBV Argentaria, Société Générale, Crédit Agricole, Deutsche Bank, ABN Ambro, Fortis, KBC Groupe, Dexia, Commerzbank, Allied Irish Banks, UBS, Royal Bank of Scotland, Barclays, Hbos, Credit Suisse, LLOYDS TSB Group, Standard Chartered, Danske Bank.

The source of market quotes and expected income estimates was the database IBES – Datastream.

With respect to the income statement and balance sheet figures to which to apply the multipliers described above, the expected values in the business plans have been adjusted to take into account the effects, for Intesa, of the agreement with CA and, for Sanpaolo, of the ”Eurizon transaction” according to the terms described above. The final value determined using market multipliers was summed up with accessory capital, as in respect of the other criteria described above.

3.1.5. The application of the linear regression criterion.

The results for Intesa and Sanpaolo of the application of the linear regression criterion are summarised in table 8.

Table 8 - values according to the linear regression criterion.

(in millions of euro)	**Intesa**		**Sanpaolo**	
	2007	***2008***	***2007***	***2008***
Expected ROAE	15.8%	16.0%	13.9%	15.3%
P/BV 2006	1.596	1.614	1.348	1.522
Reference carrying amount of shareholders' equity	15,959	15,959	15,414	15,414
Accessory capital	5,806	5,806	1,603	1,603
Value (W)	***31,282***	***31,560***	***22,389***	***25,057***

In the application of the linear regression criterion, expected ROAE and the Price/Book Value (P/BV) multiple of the same sample used for the application of the market multiples criterion have been estimated (see par. 3.1.4.).

The significant aggregates for the application of the criterion under examination have been estimated as follows:

- **ROAE** has been determined as the ratio between income expected for 2007 and 2008 and average expected shareholders' equity for 2007 and 2008;
- shareholders' equity (**BV**) has been assumed to equal the consensus value as at 31st December 2006 provided by IBES – Datastream on the basis of the forecasts made by financial analysts;
- the **"P/BV" ratio** has been calculated comparing market capitalisation, expressed by the average quotes, weighted by volumes traded, of the 30 stock market days ended on 22nd August 2006, with expected shareholders' equity as at 31st December 2006.

The $\mathbf{R^2}$ of the analysis, expressing the statistical correlation of the figures under consideration, was between 0.87 and 0.86 (depending on the reference time frame); this value confirms the significance of the regression.

Applying this criterion, and assuming an expected ROAE for 2007 for Intesa equal to approximately 15.8% and an expected ROAE for 2008 equal to approximately 16.0%, both derived from the business plan drawn up by the management appropriately adjusted to take into account the effects of the sale of the equity investments and of the 193 branches, the value attributable to the capital of the Bank (inclusive of accessory capital) equals 31,282 million euro and 31,560 million euro, respectively. For Sanpaolo given an expected ROAE for 2007 equal to 13.9% and an expected ROAE for 2008 equal to 15.3%, both derived from the business plan drawn up by the management appropriately adjusted to consider the effects of the "Eurizon transaction", the value of the Bank (inclusive of accessory capital) equals 22,389 million euro and 25,057 million euro, respectively.

Figures 1 and 2 represent the regressions calculated using as reference the figures described above.

<u>Figure 1 - linear regression P/BV '06 and ROAE '07</u>

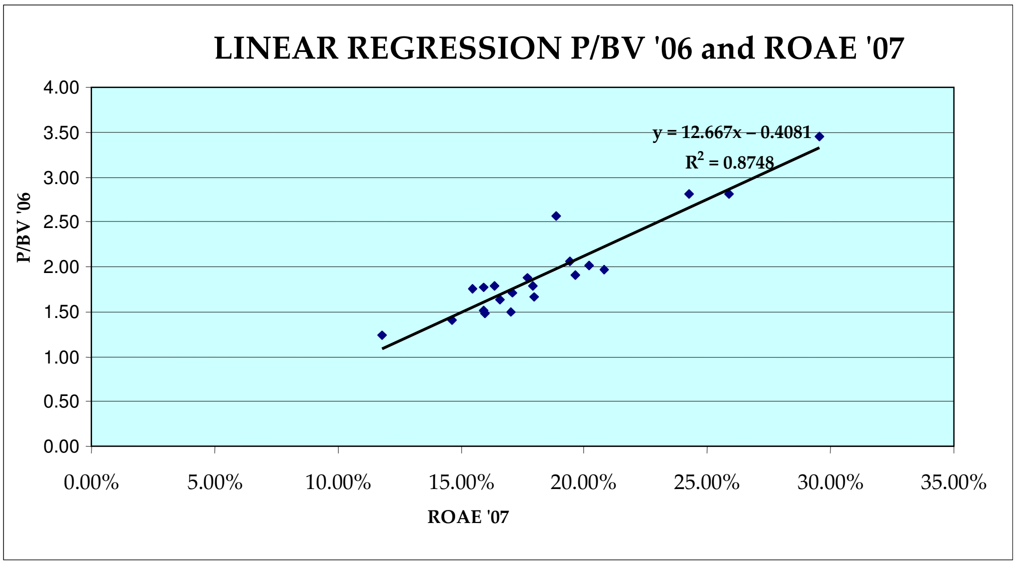
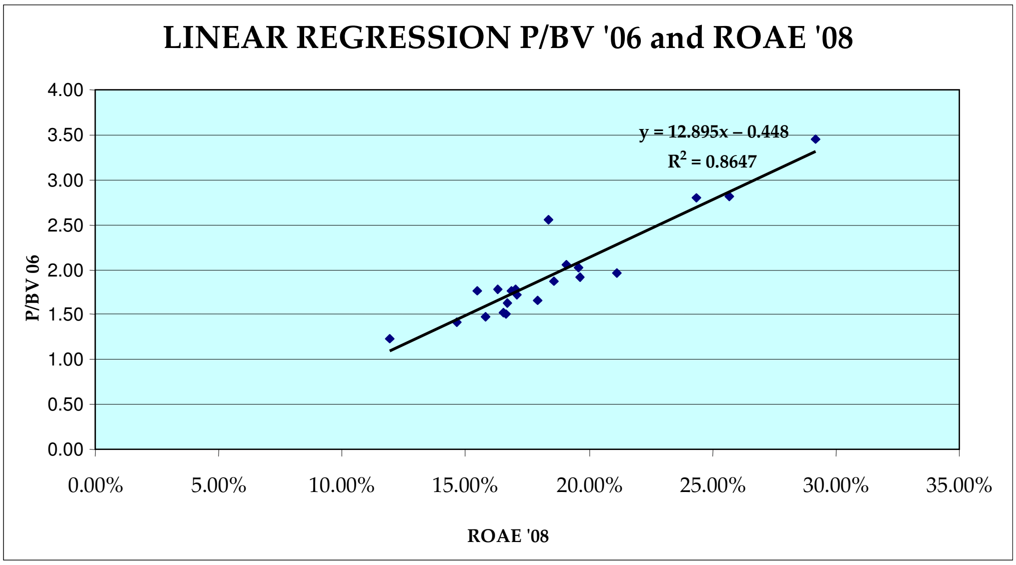


Figure 2 - linear regression P/BV '06 and ROAE '08



With respect to the income statement and balance sheet amounts to which to apply the multipliers described above, the expected values of the plans have been adjusted to take into account, for Intesa, the agreement with CA and, for Sanpaolo, the "Eurizon transaction" according to the terms illustrated above. The final value determined with the criterion under consideration was summed up with the value of accessory capital, as in the other criteria described above.

3.2. <u>The application of control valuation criteria.</u>

3.2.1. The application of the stock price criterion.

The values per share of Intesa and Sanpaolo resulting from the application of the stock price criterion are summarised in table 9.

Table 9 - values per share according to the stock price criterion.

(in euro)	Intesa	Sanpaolo
Average 30 days	4.50	14.02
Average 60 days	4.50	13.84
Average 90 days	4.57	14.15

For the purposes of the application of this method it was deemed appropriate to consider the trend of the two stock prices over a sufficiently long time frame for the purpose of limiting short-term fluctuations. In particular, averages have been considered – both arithmetic and weighted by volumes traded – of the market prices of Intesa and Sanpaolo ordinary shares, relative to the following time horizons, ending on 22.8.2006: 30 Stock exchange trading days, 60 Stock exchange trading days and 90 Stock exchange trading days.

As previously indicated, 22.8.2006 represents the last date before the first rumours concerning the merger began to circulate.

Considering the significant similarity between the results emerging from the use of the arithmetic and the weighted average[5] methods, the results from the use of the arithmetic average of share prices have been used.

3.2.2. The application of the equity report criterion.

The values per share of Intesa and Sanpaolo resulting from the application of the "*equity report*" criterion are summarised in table 10.

[5] In fact, values per share resulting from the calculation of the average share prices weighted by volumes traded – respectively 30, 60 and 90 day average – are for Intesa: 4.51, 4.49, 4.64; for Sanpaolo: 14.02, 13.80, 14.30.

Table 10 - values according to the equity report criterion.

(in euro)	Intesa	Sanpaolo
Average value per share	5.17	15.70

To apply such valuation methodology, the target prices of the reports issued by Italian and international analysts in the period 15th May 2006 – 22nd August 2006 for Intesa and 12th May 2006 – 22nd August 2006 for Sanpaolo have been used. The initial date of the period for the collection of the information is just after the publication by the Banks, of the first quarterly report for 2006; the final date of the period reflects the intent to exclude the reports influenced by market "rumours" connected to the merger.

The reports considered are those prepared by analysts which cover the stocks of both Banks. This was done for the purpose of achieving consistency between the different valuation methods, in the respect of the general principles which underlie valuations of mergers.

In particular, the following reports have been taken into account with respect to Intesa: Citigroup 15.5.2006; Kepler 15.5.2006; Mediobanca 15.5.2006; Société Générale 15.5.2006; KBW 15.5.2006; Banca Leonardo 15.5.2006; Merrill Lynch 15.5.2006; Intermonte 25.5.2006; Credit Suisse 1.6.2006; UBM 26.6.2006; JPMorgan 12.7.2006. The following reports have been analysed for Sanpaolo IMI: Kepler 15.5.2006; Mediobanca 15.5.2006; Citigroup 15.5.2006; KBW 15.5.2006; Merrill Lynch 15.5.2006; Société Générale 15.5.2006; Intermonte 25.5.2006; Credit Suisse 1.6.2006; UBM 26.6.2006; Banca Leonardo 5.7.2006; JPMorgan 26.7.2006.

4. VALUATION SUMMARY AND THE EXCHANGE RATIOS

4.1. <u>Share capital and number of shares of Intesa and Sanpaolo.</u>

Intesa's share capital at the estimate's reference date amounted to 3,613,001,196 euro comprised of in 6,015,588,662 ordinary shares each with a nominal value of 0.52 euro and 932,490,561 saving shares each with a nominal value of 0.52 euro.

Sanpaolo's share capital at the estimate's reference date amounted to 5,399,586,247 euro comprised of 1,590,672,318 ordinary shares each with a nominal value of 2.88 euro and 284,184,018 preference shares each with a nominal value of 2.88 euro.

The merger under examination is achieved through the exchange of both ordinary and preference shares of Sanpaolo for Intesa ordinary shares. Sanpaolo's preference shares are not listed and are treated, for the purpose of the exchange ratio, as equivalent to ordinary shares of Sanpaolo. This, as already explained, is due to the fact that the Articles of Association of Sanpaolo (art. 6) require the conversion at par of preference shares into ordinary shares should the latter be sold. Furthermore, it must be noted that the Framework Agreement relating to the merger under examination calls for the cancellation of treasury shares held by the Banks.

Therefore, for the purpose of the determination of the exchange ratio:

- Sanpaolo's preference shares are equivalent to ordinary shares;
- treasury shares held by Intesa and Sanpaolo are not taken into

account in the calculation of unit value per share.

Therefore, the unit value per share of the two Banks is calculated on the basis of the number of outstanding non-treasury shares of the Banks.

The relevant number of shares for the purposes of the valuation is therefore the following:

for Intesa: 6,879,052,690;
for Sanpaolo: 1,871,751,951.

For the calculation of the unit value of Intesa's ordinary shares it must be noted that the capital of Intesa is made up of both ordinary and saving shares.
Therefore, for the purpose of "transforming" the overall value of Intesa to the unit value per ordinary share, the number of saving shares must be appropriately weighted. This is possible – again according to standard practice – by calculating the number of "equivalent ordinary shares" per saving share on the basis of the difference in the values of the two classes of shares. To this end the difference in values recorded on the Stock Exchange in the 30 days ending on 22nd August 2006 was taken into account; such difference is the result of the comparison of the respective averages, weighted by volumes traded, of the reference prices (source IBES - Datastream).

The results of the application of the estimation criteria described in the paragraphs above are illustrated below, both in overall terms and in terms of unit value per ordinary shares of the two Banks.

For the reasons illustrated above, valuations contained in this chapter refer exclusively to the ordinary shares of Intesa and Sanpaolo.

4.2. Total and unit values and exchange ratios.

4.2.1. Results of the application of the DDM criterion.

The application of the DDM criterion leads to the determination of overall values of Intesa and Sanpaolo, based on the parameters described in par. 2.2.1. and 3.1.1., and summarised in table 11.

Table 11 - overall values according to the DDM criterion.

(in millions of euro)	**Intesa**	**Sanpaolo**
Present value of dividend flows (in the period of the business plan)	**6,459**	**4,628**
Perpetual free cash flow to equity	2,534	2,252
Present value of Terminal value	**22,143**	**20,755**
Accessory capital	**5,806**	**1,603**
Value (W)	***34,408***	***26,987***

Such overall values correspond to the values per share and the exchange ratio indicated in table 12.

Table 12 - values per share according to the DDM criterion and exchange ratio.

	Intesa *(in euro)*	**Sanpaolo** *(in euro)*	**Exchange ratio**
Value per share	5.00	14.42	2.883

4.2.2. Results of the application of the earnings criterion.

The application of the earnings criterion leads to the determination of overall values of Intesa and Sanpaolo, based on the parameters described in par. 2.2.2. and 3.1.2., summarised in table 13.

Table 13 - overall values according to the earnings criterion.

(in millions of euro)	**Intesa**	**Sanpaolo**
Present value of earnings flows (in the period of the business plan)	**7,586**	**6,895**
Perpetual earnings flow	2,826	2,607
Present value of Terminal value	**25,868**	**25,186**
Accessory capital	**5,806**	**1,603**
Value (W)	***39,259***	***33,685***

The aforementioned overall values correspond to the values per share and the exchange ratio set out in table 14.

Table 14 - values per share according to the earnings criterion and the exchange ratio.

	Intesa *(in euro)*	**Sanpaolo** *(in euro)*	**Exchange ratio**
Value per share	5.71	18.00	3.153

4.2.3. Results of the application of the combined UEC criterion.

The combined UEC criterion leads to the definition of values for Intesa and Sanpaolo, set out in table 15.

Table 15 - overall values according to the combined UEC criterion.

(in millions of euro)	**Intesa**	**Sanpaolo**
Adjusted complex shareholders' equity (K')	26,535	26,399
Goodwill	2,688	1,052
Accessory capital	5,806	1,603
Value (W)	***35,029***	***29,054***

Such overall values correspond to the unit values of the ordinary shares and to the related exchange ratio indicated in table 16.

Table 16 - values per share according to the combined UEC criterion and exchange ratio.

	Intesa *(in euro)*	**Sanpaolo** *(in euro)*	**Exchange ratio**
Value per share	5.09	15.52	3.048

4.2.4. Results of the application of market multiples criterion.

This criterion results in the determination of the overall values of Intesa and Sanpaolo, set out in table 17.

Table 17 - overall values according to the market multiples criterion.

(in millions of euro)	**Intesa**			**Sanpaolo**		
	2006	***2007***	***2008***	***2006***	***2007***	***2008***
Average P/E multiple of the sample	10.694	9.879	8.965	10.694	9.879	8.965
Earnings	2,341	2,600	2,775	2,027	2,211	2,619
Accessory capital	5,806	5,806	5,806	1,603	1,603	1,603
Value (W)	***30,841***	***31,493***	***30,687***	***23,284***	***23,443***	***25,085***

(in millions of euro)	**Intesa**			**Sanpaolo**		
	2006	***2007***	***2008***	***2006***	***2007***	***2008***
Average P/BV multiple of the sample	1.938	1.753	1.588	1.938	1.753	1.588
Book value	15,959	16,903	17,815	15,414	16,469	17,828
Accessory capital	5,806	5,806	5,806	1,603	1,603	1,603
Value (W)	***36,739***	***35,435***	***34,100***	***31,479***	***30,472***	***29,919***

The values for the ordinary shares of Intesa and Sanpaolo resulting from the application of such methodologies and the related exchange ratio are set out in table 18.

Table 18 - values per share according to the market multiples criterion and exchange ratio.

	Intesa *(in euro)*			**Sanpaolo** *(in euro)*			**Exchange ratio**		
	2006	***2007***	***2008***	***2006***	***2007***	***2008***	***2006***	***2007***	***2008***
Value per share P/E multiple	4.48	4.58	4.46	12.44	12.52	13.40	2.775	2.736	3.004
Value per share P/BV multiple	5.34	5.15	4.96	16.82	16.28	15.98	3.149	3.161	3.225

4.2.5. Results of the application of the linear regression criterion.

This criterion results in the determination of the overall values of Intesa and of Sanpaolo, indicated in table 19.

Table 19 - overall values according to the linear regression criterion.

(in millions of euro)	Intesa		Sanpaolo	
	2007	***2008***	***2007***	***2008***
Expected ROAE	15.8%	16.0%	13.9%	15.3%
P/BV 2006	1.596	1.614	1.348	1.522
Reference carrying amount of shareholders' equity	15,959	15,959	15,414	15,414
Accessory capital	5,806	5,806	1,603	1,603
Value (W)	**31,282**	**31,560**	**22,389**	**25,057**

The values for the ordinary shares of Intesa and of Sanpaolo resulting from the application of such methodologies and the related exchange ratio are set out in table 20.

Table 20 - values per share according to the linear regression criterion and exchange ratio.

	Intesa *(in euro)*	**Sanpaolo** *(in euro)*	**Exchange ratio**
ROAE 2007	4.55	11.96	2.630
ROAE 2008	4.59	13.39	2.918

4.2.6. Results of the application of the stock price criterion.

The average stock price under consideration results in the exchange ratios in table 21.

Table 21 - values per share according to the stock price criterion and exchange ratio.

	Intesa (*in euro*)	Sanpaolo (*in euro*)	Exchange ratio
Average 30 days	4.50	14.02	3.115
Average 60 days	4.50	13.84	3.079
Average 90 days	4.57	14.15	3.099

4.2.7. Results of the application of the equity report criterion.

The application of this methodology results in the following values for the ordinary shares of Intesa and of Sanpaolo and the related exchange ratio set out in table 22.

Table 22 - values per share according to the equity report criterion and exchange ratio.

	Intesa (*in euro*)	Sanpaolo (*in euro*)	Exchange ratio
Average value per share	5.17	15.70	3.038

4.3. Sensitivity analysis.

A sensitivity analysis has been conducted on the results reached with the economic-analytical valuation methods. This analysis is aimed at verifying the sensitivity of the exchange ratios to changes in the primary parameters used in the estimation (risk premium, growth rate g, discounting period, etc…) within reasonable intervals. The aforementioned analysis confirmed the significance of the applied results of the adopted criteria.

4.4. Principal difficulties in the valuation.

The principal difficulties encountered in undertaking the valuation are set forth below.

a) Use of the consolidated financial statements as primary reference for the determination of adjusted shareholders' equity and of expected earnings flows. The use of the consolidated financial statements, which is necessary since the companies to be merged are Parent Companies of complex Groups, generates certain complexities in the process for the adjustment of shareholders' equity and earnings due to the diversity of minority stakes in the earnings and shareholders' equity of Group companies and in their variability over time.
b) Existence of ordinary shares and saving shares. The calculation of the unit value of the ordinary share in presence of quotation differences between ordinary shares and saving shares requires the calculation of the number of ordinary shares equivalent to saving shares considered.
c) The transformation of Gruppo Intesa and Gruppo Sanpaolo. The sale of the equity investments in Cariparma and FriulAdria and of 193 branches resulted in difficulties in the calculation of balance sheet aggregates and expected earnings and dividend flows. The figures of the business plan have also been adjusted to consider the effects of such sale. The same difficulties apply to Gruppo Sanpaolo, where the ”Eurizon transaction” has required the adjustments of the aggregates considered in the application of the various valuation methods, also for the purpose of using a

consistent approach, especially concerning the liquidity arising from the transaction, with that used for the estimation of Intesa.

d) Use of forward looking statements. Forward looking statements drawn from the prepared business plans have been used in the present estimations. Such figures, due to their very nature, are subject to uncertainty.

5. CONCLUSIONS

Considering the results of the analyses described in the previous paragraphs and the shortcomings illustrated in par. 1.4., it is possible to express a final opinion on the exchange ratio in the merger between Intesa and Sanpaolo.

For this purpose the exchange ratios resulting from the application of the various methods are listed in table 23.

Table 23 - Exchange ratios

	Exchange ratio
Main valuation criteria	
DDM criterion	2.883
Earnings criterion	3.153
Combined UEC criterion	3.048
Linear regression of Roae 2007 – P/Bv criterion	2.630
Linear regression of Roae 2008 – P/Bv criterion	2.918
Market multiples criterion – P/E 2006	2.775
Market multiples criterion – P/E 2007	2.736
Market multiples criterion – P/E 2008	3.004
Market multiples criterion – P/BV 2006	3.149
Market multiples criterion – P/BV 2007	3.161
Market multiples criterion – P/BV 2008	3.225
Control valuation criteria	
Stock price criterion (30 days)	3.115
Stock price criterion (60 days)	3.079
Stock price criterion (90 days)	3.099
Equity report criterion	3.038

Based on the analysis of the results, the following can be noted:

- the exchange ratios based on the main valuation criteria range from 2.630 to 3.225, and are characterised by limited variability. In fact, the gap between the maximum exchange ratio and the minimum exchange ratio is equal to approximately 23%. The average and the median of the results obtained amounted to 2.971 and 3.004, respectively;

- the exchange ratios based on the control criteria were all within the range mentioned above, thus confirming the significance of the range.

The range identified above therefore expresses the significant and congruous exchange ratios. For the purpose of identifying a range of exchange ratios which further reduces dispersion with respect to the average and the median, it was deemed appropriate to exclude the extreme values of the range identified above. Consequently, the range of exchange ratios is better defined by the following interval: 2.736 – 3.161. This range presents a difference between the maximum and minimum value of approximately 15%. The size of the interval therefore considerably decreases. Thus, the difference between the top and bottom value decreases by 35%.

The significance of the range identified in this manner remains confirmed by the results obtained through the application of the control methods. Results continue to fall within said range. From another perspective, this circumstance comforts the decision to exclude the extreme values of the interval identified above.

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Based on the above, the writer deems that **the range of exchange ratios between 2.736 and 3.161 of Intesa ordinary shares for each ordinary and preference share of Sanpaolo is the most significant and equally congruous**.

Milano, 12th October 2006

Prof. Angelo Provasoli

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