REPORT ON THE ESTIMATE OF THE EXCHANGE RATIO PREPARED FOR BANCA INTESA S.P.A. BY BANCA LEONARDO S.R.L.

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FAIRNESS OPINION ON THE SHARE EXCHANGE RATIO FOR THE MERGER OF SANPAOLO IMI S.P.A. WITH AND INTO BANCA INTESA S.P.A.

Banca Intesa

GBL
GRUPPO BANCA LEONARDO

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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.

1 Introduction

1.1 Purpose and scope of the mandate

GBL S.r.l. (hereafter, "GBL" or the "Advisor"), a wholly-owned subsidiary of Gruppo Banca Leonardo S.p.A., received the mandate (hereafter, the "Mandate") from the Board of Directors of Banca Intesa S.p.A. (respectively, the "Board" and "Intesa") to assist the Board in determining, in its own independent judgement, the appropriate share exchange ratio, from a financial perspective, between the ordinary shares of Intesa and the shares of Sanpaolo IMI S.p.A. ("Sanpaolo" and, jointly with Intesa, the "Banks") in relation to the merger of Sanpaolo with and into Intesa (hereafter, the "Merger").

This fairness opinion (hereafter, the "Opinion") has been prepared for the exclusive use of the Board, to support it in taking the decisions for which it alone is responsible and for the sole purpose of providing it with indicators and references to aid in determining the share exchange ratio for the Merger to be proposed to a General Meeting of Intesa Shareholders. Therefore, any other use, including the communication or distribution, in whole or in part, of the contents of this Opinion, must first be authorised by GBL in writing, with the exception that it may be made available to any experts engaged to give an opinion as provided for under Article 2501-*sexies* of the Italian Civil Code.

In the context of the limitations and information detailed below, and given the specific purpose of the Mandate, the valuations have been made with a view to expressing an opinion on the comparative values of the two Banks, with paramount importance placed on the consistency and comparability of the methods used to determine the absolute value of each of the Banks individually. The valuations and this Opinion are, furthermore, to be understood as referring exclusively to the present Merger transaction. The considerations and conclusions presented in this Opinion are, therefore, based on the entirety of the information and valuations contained herein and no part of the Opinion is to be used without considering the Opinion in its entirety. The valuations are, furthermore, based on the current configuration and future prospects of the Banks on a stand alone basis, without taking into account potential synergies deriving from the Merger.

In addition, the Opinion does not constitute, nor may it be interpreted as, or considered similar to, a report as defined under Article 2501-*sexies* of the Italian Civil Code, an expert opinion as defined in Annex 3A of CONSOB Regulation 11971/99, or a report as defined under the same Regulation.

1.2 Description of the transaction

On 26 August 2006, the Boards of Directors of Intesa and Sanpaolo approved the subscription by the Chairmen of the respective Boards of Directors and on the same date of a framework agreement (hereafter, the "Framework Agreement") intended to set out the principal points in the Merger plan between the Banks.

The financial terms of the Merger, as defined in the Framework Agreement, set an exchange ratio of 3.115 newly-issued Intesa ordinary shares for each Sanpaolo share

(hereafter, the "Exchange Ratio"), after conversion of all Sanpaolo preference shares into newly-issued ordinary shares having the same characteristics as the Sanpaolo ordinary shares currently in circulation (1 preference share : 1 ordinary share). The offer does not include any cash consideration or recognition of any premium as the Merger has been conceived and structured as a merger of equals.

In the Framework Agreement, the above Exchange Ratio was established on the basis of the financial statements of the Banks as at 30 June 2006 and with the assumption, amongst other things, that:

- at the time of completion of the Merger, neither Intesa nor Sanpaolo hold treasury shares, or that any treasury shares which may be held will be cancelled;

- neither Intesa nor Sanpaolo approve or carry out any capital increase, including freely granted, issue of bonds or debentures, issue of related shares (Article 2350, paragraph 2 of the Italian Civil Code), participatory financial instruments (Article 2346, paragraph 6 of the Italian Civil Code) or other financial instruments (Article 2447-*ter*, paragraph 1, letter e of the Italian Civil Code), or any distribution of interim or extraordinary dividends or of capital reserves;

- neither of the Banks nor their respective subsidiaries, without prior written consent from the other party, carries out extraordinary operations which may influence the Exchange Ratio.

In the Framework Agreement, the Banks have also agreed to undertake accounting, legal and administrative due diligence (hereafter, the "Due Diligence") for the purpose of determining, on the basis of the outcome of the same, any required adjustment to the Exchange Ratio. GBL has verified, as specified herein, that the results of the Due Diligence carried out during in September 2006, were not such as to require any modification to the respective valuations of the Banks.

1.3 Purpose of the Opinion on the Share Exchange Ratio

The purpose of this Opinion is to provide the Board with elements and references to aid in the determination, in its exclusive independent judgement, the appropriateness of the Exchange Ratio to be proposed to Intesa Shareholders in the Extraordinary General Meeting called to approve the Merger.

The analysis and valuations contained in this Opinion have, as a result, the sole scope of identifying an appropriate value interval for the Exchange Ratio relating to the Merger. For this reason, the values obtained cannot in any way be considered estimates of the economic value and/or current or prospective market value of the Banks on a stand-alone basis.

This Opinion should not, furthermore, be interpreted by the Shareholders of Intesa as a recommendation in relation to the exercise of their right to vote at the Extraordinary General Meeting of the Bank called to approve the Merger.

1.4   Reference date for the Opinion

This Opinion has been based on the financial statements of the Banks as at 30 June 2006 (hereafter, the "<u>Reference Date</u>"). No change in the situation of the Banks - of a financial, market and/or other nature - subsequent to the Reference Date has been taken into account in preparing this Opinion, except for the significant events, detailed in paragraph 1.5 below, brought to the attention of GBL by the Banks which could potentially influence the Exchange Ratio (hereafter, the "<u>Significant Events</u>").

1.5   Significant Events

1.5.1   Agreement between Intesa and Crédit Agricole

On 11 October 2006, Intesa and Crédit Agricole S.A. (hereafter, "<u>CAsa</u>") signed an agreement (hereafter, the "<u>Agreement with CAsa</u>") which, subject to completion of the Merger, approval by the respective Boards of Directors and receipt of the necessary authorisations from the relevant authorities, contemplates:

a. in the banking sector, the sale to CAsa by Intesa:

  • of the entire shareholding, equivalent to 100% of share capital, in Cassa di Risparmio di Parma e Piacenza S.p.A. (hereafter, "<u>Cariparma</u>") for a cash consideration of € 3,800 millions;

  • of the entire shareholding, equivalent to approximately 76% of share capital, in Banca Popolare FriulAdria S.p.A. (hereafter, "<u>FriulAdria</u>") for a cash consideration of € 837 millions;

  • of 193 branches (hereafter, the "<u>Branches</u>"), which it has been determined that the group resulting from the Merger will probably be required to sell in order to comply with antitrust regulations, for a cash consideration of € 1,330 millions;

b. in the asset management sector:

  • the willingness of Intesa and CAsa to evaluate the feasibility of a project on a European scale;

  • the granting, should the project referred to in the preceding point be deemed not realisable, to Intesa of the right to buy (hereafter, the "<u>Call Option</u>") and to CAsa of the right to sell (hereafter, the "<u>Put Option</u>") for cash 65% of the activity attributable to Nextra Investment Management SGR S.p.A. (hereafter, "<u>Nextra</u>") which were sold by Intesa to CAsa in December 2005 and subsequently merged into CAAM SGR S.p.A. (hereafter, "<u>CAAM</u>"). The Call and Put Options may be exercised from the date of sale of the Branches (from 1 February 2007 to 31 March 2007 inclusive) until 12 October 2007 at a price equal to the algebraic sum of:

    i.   the price paid by CAsa for the purchase of 65% of Nextra from Intesa (approximately € 816 million);

    ii. less the dividends received by CAsa;

    iii. plus the applicable cost of equity for the period;

  • the loss, following exercise of the Call or Put Option, of the agreements currently in place between Intesa and CAsa;

c. in consumer credit:

- maintenance of the existing agreements relating to Agos S.p.A. (hereafter, "Agos") for a period of three years from the completion of the Merger;

- the granting to Intesa and CAsa of put and call options, respectively, relating to the 49% of Agos share capital currently held by Intesa.

The appropriateness for Intesa of the consideration negotiated in its Agreement with CAsa, particularly with reference to the aggregate price of approximately € 5,967 million for the sale of Cariparma, FriulAdria and the Branches has been validated by an analysis carried out by an independent expert appointed by Intesa, Prof. Paolo Iovenitti, who also endorsed the valuation of 65% of the activities of Nextra.

1.5.2 Restructuring of Sanpaolo's asset management and insurance activities

As part of the restructuring and consolidation plan for the asset management and insurance (investment management, supplementary pensions and life insurance) activities of the Sanpaolo group, Eurizon Financial Group S.p.A. (hereafter, "Eurizon") made a public offer, on 21 August 2006, to acquire 25.3% of the share capital of Banca Fideuram S.p.A. (hereafter, "Fideuram") at a price of € 5.00 per ordinary share. On 16 September 2006, the period for acceptances was extended to 25 October. In addition, a listing of Eurizon is planned through the public offer of newly-issued shares, constituting a capital increase, and the sale of a part of Sanpaolo's existing shareholding in Eurizon. After completion of the listing, Sanpaolo should hold approximately 68% of Eurizon's share capital. In that regard, it should be noted that, on 28 July 2006, Eurizon filed an application for admission to the stock exchange and the authorisation to publish an offering circular from Borsa Italiana and CONSOB, respectively.

1.6 Documentation and information used

In fulfilling its Mandate and preparing this Opinion, GBL obtained and reviewed the following accounting material and information:

- the current Articles of Association of Intesa and Sanpaolo;
- the Parent Company's financial statements and consolidated financial statements of Intesa and Sanpaolo for 2004 and 2005, complete with Director's Reports, Reports of the Statutory Boards of Auditors, and the audit certifications;
- the approved Parent Company's financial statements and consolidated financial statements of Intesa and Sanpaolo as at 30 June 2006, complete with Director's Reports and limited audit reports;
- the consolidated financial plans of Intesa and Sanpaolo for 2006-2009, provided by the managements of the Banks following the signing of the Framework Agreement, in order to make projections which, from a stand-alone perspective, would be homogeneous in terms of time horizon and macroeconomic and sector-related assumptions;
- the financial plans of Cariparma, FriulAdria and the Branches for 2006-2009, provided by the management of Intesa;

- the financial plan of CAAM for 2006-2008, provided by the company's management in March 2006;
- the offer document relating to the voluntary purchase offer made, in August 2006, by Eurizon for 25.3% of the share capital of Fideuram;
- other data and information of an accounting, financial, strategic and commercial nature provided, both verbally and in written form, directly by the managements of the Banks and/or through their advisors.
- information in the public domain relating to Intesa and Sanpaolo considered relevant for the purposes of the analysis, such as that relating the stock exchange listings of the Banks and a sample group of comparable quoted banks (see Paragraph 3.1.5);
- the results of the Due Diligence. It should be noted that these results did not necessitate, in reference to the terms of the Framework Agreement, any modifications to the Exchange Ratio.

In preparing the Opinion, furthermore, GBL has assumed that:
- all information, data, statements and reports - of a financial or other nature - provided to, analysed or discussed with GBL by the managements of Intesa and Sanpaolo are true and complete, with no independent verification, certification or analysis being carried out by GBL;
- the financial projections are reasonable and have been formulated on the basis of best estimates and opinions available to management at the time or, as the case may be, by financial analysts, in relation to the future performance of Intesa and Sanpaolo;
- no materially relevant information has been omitted or withheld from GBL;
- the valuations of assets and liabilities provided to GBL, which has not conducted any valuation or expert analysis of the assets and liabilities of Intesa and Sanpaolo, are appropriate and reasonable;
- the Merger will be carried out in accordance with the current agreement, without exclusions, modifications or delays to the agreed terms and conditions;
- all authorisations necessary for completion of the transaction are obtained with no material negative impact to Intesa, Sanpaolo and/or the Merger.

GBL, therefore, assumes no responsibility for the authenticity, completeness or accuracy of the information used, nor provides any guarantee, implicit or explicit, to that effect.

2   Valuation methodologies adopted

2.1   Introduction

Merger are characterised by a complex valuation issue that is the determination of an exchange ratio i.e. the ratio between the values of the shares of the companies involved in the transaction.

For that reason, standard valuation practice places particular importance on the principle of consistency in the valuation criteria applied. This is because the purpose of merger valuations is not so much to determine the absolute economic value of the companies involved in the transaction, as to obtain their comparative values in order to determine an exchange ratio. For this reason, merger valuations are meaningful as relative valuations but should not be considered estimates of the absolute value of the companies involved in a transaction.

A second principle often adopted in merger valuations is the "stand alone" assumption; that is, a valuation perspective based on the current configuration and future prospects of the companies on an independent basis, without taking into account any potential synergies deriving from the merger which may create added value for the two groups of Shareholders.

The value per Intesa share, calculated below for each valuation methodology, refers exclusively to the ordinary shares. As the total value of Intesa includes the value of both the ordinary shares and saving shares, and considering that the Intesa saving shares trade at a different market price to that of the ordinary shares (the average price of the saving shares for the 3 months ended 23 August 2006[1] was 7.3% lower than that of the ordinary shares), it was considered appropriate to weight the number of saving shares on the basis of the discount existing between the market values of the two classes of shares in order to calculate the number of equivalent ordinary shares.

The value per Sanpaolo share, as calculated in this Opinion, also refers only to the ordinary shares as, in keeping with the Framework Agreement (see paragraph 1.2), it is intended that all Sanpaolo preference shares be converted in newly-issued ordinary shares having the same characteristics as the current Sanpaolo ordinary shares in circulation (1 preference share : 1 ordinary share).

2.2   Valuation methods adopted

Fundamental to merger valuations, whose purpose is to establish economic values from which an exchange ratio can be determined, are the consistency and comparability of the valuation assumptions made in relation to the earnings, capital structure and operational profiles of the companies involved in the transaction. Consequently, the chosen methodologies cannot be analysed individually, but, rather, should be considered as intrinsic parts of a single valuation process. In light of this and taking into account (i) the

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[1] The last day of trading prior to the issue of the joint press release from the Banks confirming the existence of talks regarding the possibility of a merger.

purpose of the estimates, (ii) the standard valuation criteria used, both domestically and internationally, in particular for the banking sector, (iii) the particular characteristics of each of the Banks, and (iv) the quoted company status which applies to both Banks, the following principal valuation methodologies – which include both absolute and relative methods – have been adopted:

- the Dividend Discount Model or DDM method;
- the UEC method (with separate valuation of goodwill);
- the discounted earnings method;
- the Gordon Growth Model;
- the market multiples method (based on comparable quoted companies);
- the ROE regression analysis method;
- the regression analysis of the expected growth rate in earnings.

In addition, taking into account (i) the market capitalisation of Intesa and Sanpaolo, (ii) the large free float and high volumes traded, and (iii) the ample body of research published by financial analysts, the following valuation methodologies have also been used, primarily for verification purposes[2]:

- the market value method;
- the consensus target price method.

In selecting and applying the above methods, the characteristics and implicit limits of each have been considered, also in regard to the specific characteristics of each Bank.

In paragraph 3 which follows, a detailed description of the methods referred to above, used to verify the appropriateness of the Exchange Ratio, has been provided.

2.3 Analytical approach

In order to take any potential impacts of the Agreement with CAsa into account in the Exchange Ratio analysis, particularly with reference to the sale of Cariparma, FriulAdria and the Branches, it was necessary to "eliminate" the perimeter of activities to be sold from the consolidated financial figures. The value of Intesa was, therefore, calculated as the sum of (i) the value estimated by applying the principal valuation methods (see above) to the "adjusted" financial figures and (ii) the proceeds from the sale of Cariparma, FriulAdria and the Branches on an after-tax basis.[3] As these proceeds represent liquidity in excess of the normal operational requirements of the business, they have been considered surplus assets for valuation purposes.

It was not possible, however, to incorporate the effects of the Agreement with CAsa when applying the methods used primarily for validation purposes (i.e., based on

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[2] After 23 August 2006 (the last day of trading prior to the issue of a joint press release confirming the existence of talks regarding the possibility of a merger), it is assumed that such methods, exclusively "market-based", no longer represent the true stand-alone value of the Banks. In addition, as described in greater detail in paragraph 2.3, it was not possible to analytically quantify the effects of the CAsa Agreement on these valuation methods.

[3] This assumes that a "participation exemption" *regime* applies to the sale of Cariparma, FriulAdria and the Branches.

market values and analysts' target prices). However, it was verified that the agreed sale prices were not such as to impact the exchange ratio obtained by applying these methods.

In addition, the impact on the Exchange Ratio of the agreement entered into between Intesa and CAsa relating to the asset management business was not considered material for the purposes of this Opinion. In fact:

- the willingness of both parties to evaluate the feasibility of a European-wide project means that exercise of the Call Option and/or Put Option is not certain;

- the exercise price of the Call and Put Options is substantially in line with the amount paid, in December 2005, by CAsa to Intesa to acquire the same perimeter of activity which, for the period December 2005 – September 2006, has had a substantially stable level of assets under management;

- the appropriateness of the value for 65% of the activities of Nextra has been endorsed in the analysis carried out by Prof. Paolo Iovenitti, an independent expert appointed by Intesa.

In keeping with the principle of consistency in merger valuations, which requires not only consistency in methodologies and/or criteria used, but also, and more importantly, the application of the same rules and treatment in making key valuation choices, the net proceeds which Sanpaolo will receive from the expected listing of Eurizon included in the 2006–2009 financial plan have, for the purpose of this analysis, been considered surplus assets.

3   Description and application of the valuation methods

3.1   Principal methods

3.1.1   Dividend Discount Model

3.1.1.1   Description of the method

The Dividend Discount Model (or DDM) defines the economic value of a bank as the sum of (i) the present value of future dividend flows potentially distributable to shareholders, for a predetermined time horizon, consistent with maintaining an adequate level of capital and (ii) the present value of the Terminal Value (or TV), calculated assuming a perpetual constant growth rate for dividend flows beyond the projected time horizon. This approach disregards, therefore, the actual distribution policy of the bank.

This "two stage" version of the DDM is expressed by the following formula:

$$W = \sum_{t=1}^{t=n} \frac{Div_t}{(1+k_e)^t} + \frac{TV}{(1+k_e)^n} + SA \text{ where } TV = \frac{Div_{Nn} \times (1+g)}{(k_e - g)}$$

where:

W   =   the economic value of the bank being valued

TV   =   Terminal Value, equal to the estimated value of the bank in the year following the last year of explicitly forecast dividend flows

Div_t =   dividends potentially distributable in year t of the explicit forecast period

Div_{Nn} =   "normalised" dividend flows potentially distributable at the end of the explicit forecast period (year n)

SA   =   surplus assets

n   =   the number of years of explicitly forecast dividend flows

k_e =   discount rate, equal to the bank's cost of equity

g   =   growth rate of profits beyond the explicit forecast period

In the current valuation, application of the DDM is comprised of the following steps:

a.   identification of the dividend flows potentially distributable over the explicit forecast period (2006–2009);

b.   determination of the discount rate "k_e" (i.e., the cost of equity) and the growth rate "g";

c.   calculation of the present value of dividends flows for the explicit forecast period (2006-2009) and of the Terminal Value (>2009).

3.1.1.2 Identification of the dividend flows potentially distributable for the explicit forecast period (2006–2009);

For the purposes of this valuation, a time horizon of 2006-2009 has been assumed for the explicit forecast of dividend flows, beyond which the value of the banks has been calculated as a Terminal Value. Income statement and balance sheet projections for the explicit forecast period (2006-2009) are based on the consolidated financial plans provided by the managements of the two Banks.

Calculation of the dividends flows potentially distributable during the explicit forecast period assumes - prudently and to establish the minimum level of capital considered adequate to support future growth of the banks - a Core Tier 1 ratio (the ratio between Tier 1 capital, excluding any hybrid capital instruments issued, and total risk weighted assets) and a total capital ratio (ratio between total regulatory capital, including any subordinated liabilities, and total risk weighted assets) equivalent, respectively, to 7.0% and 8.0%.

3.1.1.3 Determination of the discount rate (k_e)

The discount rate "k_e" applied to dividend flows represents the return required by investors for alternative investments with a comparable risk profile (cost of equity). Consistent with standard valuation practice, this rate was calculated by applying the Capital Asset Pricing Model (CAPM) which is expressed by the following formula:

$$k_e = r_f + \beta \times (r_m - r_f)$$

where:

r_f = rate of return for risk free investments. For the current valuation, taking the reference time horizon into account, a risk free rate of 4.0% as at 10 October 2006 was assumed. This represents the current gross yield of 10 year BTP with a maturity of 1 August 2016 (source: Il Sole 24 Ore)

r_m-r_f = risk premium required by the market, set at 4.5% in line with current valuation practice

β = correlation coefficient between the effective return on an individual share and the total return for the reference market; this measures the volatility of a share compared to a market portfolio. For the current valuation, a β of 1.09 has been used for Intesa and a β of 1.12 for Sanpaolo (source: Bloomberg)[4]

On the basis of these assumptions, the discount rate "k_e" for Intesa is 8.9% and for Sanpaolo 9.1%.

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[4] β calculation based on weekly observations over a 1-year time period.

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3.1.1.4 Calculation of the Terminal Value

The Terminal Value was determined by applying a perpetual growth formula, based on the growth factor "g", to the potential dividend distributable in the final year of the explicit forecast period.

Taking the growth assumptions implicit in the 2006-2009 financial plans of the two Banks into account in calculating the Terminal Value, particularly with reference to the last year of the projections provided, a growth rate "g" of 2.1% has been assumed for Intesa and 2.5% for Sanpaolo.

3.1.1.5 Sensitivity analysis and results summary

Table 1 shows the values of the Banks, total and per share, obtained using the Dividend Discount Model with the assumptions stated above.

Table 1. Results summary

	Intesa	Sanpaolo
Value with DDM (€ millions)	35,283	32,843
Surplus Assets (€ millions)	5,806	1,604
Value (€ millions)	**41,089**	**34,447**
Value per share (€)	**5.97**	**18.40**

To evaluate the impact of any variations in the cost of equity (k_e) and growth rate "g" assumptions, a sensitivity analysis has been performed and the results, in terms of value per share, are provided below in Table 2 for Intesa and Table 3 for Sanpaolo.

Table 2. Sensitivity analysis for Intesa (€)

		Long-term growth rate (from 2009, g)				
		1.9%	2.0%	2.1%	2.2%	2.3%
	8.1%	6.58	6.67	6.77	6.87	6.97
Cost of Equity (K_e)	**8.5%**	6.18	6.26	6.34	6.43	6.52
	8.9%	5.83	5.90	5.97	6.05	6.12
	9.4%	5.53	5.59	5.65	5.71	5.78
	9.8%	5.25	5.31	5.36	5.42	5.48

Table 3. Sensitivity analysis for Sanpaolo (€)

		Long-term growth rate (from 2009, g)				
		2.2%	2.4%	2.5%	2.6%	2.7%
	8.2%	20.60	21.01	21.45	21.90	22.38
Cost of Equity (K_e)	**8.6%**	19.09	19.44	19.81	20.20	20.60
	9.1%	17.78	18.08	18.40	18.73	19.08
	9.5%	16.63	16.90	17.18	17.47	17.76
	10.0%	15.63	15.86	16.10	16.35	16.61

Table 4. Sensitivity analysis of share exchange ratio

	Long-term growth rate (from 2009, g)				
	3.130	3.149	3.168	3.188	3.209
	3.088	3.105	3.123	3.141	3.160
Cost of Equity (K_e)	3.048	3.064	3.081	3.098	3.115
	3.010	3.025	3.041	3.056	3.073
	2.974	2.988	3.002	3.017	3.032

On the basis of the results of the sensitivity analysis of potential variations in "k_e" and "g" (using an interval of ± 10%) from those indicated in the preceding paragraphs, an exchange ratio between 2.974 and 3.209 Intesa ordinary shares for each Sanpaolo share was obtained (Table 4).

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3.1.2 UEC method (with separate estimate of goodwill)

3.1.2.1 Description of the method

The UEC method (with a separate valuation of goodwill) determines the economic value of a company on the basis of two elements: (i) total adjusted net assets or shareholders' equity expressed at current value (K'), including the value of intangible assets, and (ii) the goodwill or badwill attributable to net assets as a function of the bank's ability to produce returns, positive or negative, in excess of those considered satisfactory for the type of investment. This method enables, therefore, a composite profile of the enterprise's attractiveness in terms of both its capital structure and earnings.

This method is based on the application of the following formula:

$$W = K^I + \left(R - iK^I\right) \times a_{n \neg i'} + SA \text{ where } K^I = K + A$$

where:

W   =   economic value of the bank being valued

K   =   adjusted net assets

A   =   value of intangible assets

K^I =   total adjusted net assets, including the value of intangible assets

R   =   average expected returns

SA   =   surplus assets

$a_{n\text{-}i}$ =   profitability factor

i   =   expected rate of return for the type of investment (i.e., cost of equity for the bank being valued)

i^I =   cost of capital for excess returns, equivalent to the rate of return on risk-free investments

n   =   number of years for which there is an excess return

3.1.2.2 Calculation of adjusted net assets

The estimate of adjusted net assets is based on the book value of consolidated net assets at 30 June 2006, inclusive of net income for the period. The financial statements for the half year to 30 June 2006 have been prepared in accordance with IAS/IFRS accounting principles which, as they require the application of the general principle of economic substance over legal form, for the most part express the fair value of assets and liabilities.

Therefore, to express the actual value of the net assets referred to above, the following adjustments have been made and, where necessary, are net of any minority interests.

- shares of subsidiaries: the value of the shares of subsidiary companies have been adjusted to current market value;
- goodwill: goodwill has been written off, net of the present value of any tax benefits connected with the deductibility of any future amortisation;

- extraordinary transactions: as indicated in paragraph 2.3 above, the effects of the sale of Cariparma, FriulAdria and the Branches have been estimated for Intesa and the planned restructuring of the "asset management and insurance" pole for Sanpaolo.

Table 5 shows, for each Bank, the value of net assets following the adjustments detailed above.

Table 5. Calculation of adjusted net assets (€ millions)

		Intesa	**Sanpaolo**
Book value of net assets (30 June 2006)		**16,832**	**13,949**
Total adjustments		(2,654)	(1,240)
Adjusted net assets	**(K)**	**14,178**	**12,709**

3.1.2.3 Calculation of the "value of deposits" and total adjusted net assets

Application of the UEC method requires an estimate of the value of intangible assets which, in the specific case of banks, is measured as a coefficient of the volume of direct and indirect customer deposits.

From a practical point of view and in line with standard valuation practice, deposits are valued by applying an empirical coefficient which varies according to the type of deposit in order to reflect the differences in the cost (in the case of direct deposits) or return (in the case of indirect deposits) associated with each deposit type. Table 6 below provides a summary of the coefficients applied, by deposit type, for the current valuation.

For the purposes of this Opinion, the value of deposits has been based on the volumes of direct and indirect deposits of the Banks reported in the consolidated financial statements for the half year to 30 June 2006, adjusted, where necessary, for any amounts attributable to third parties.

Table 6. Class of deposit and valuation coefficient

	Coefficient
Direct deposits	
current and deposit accounts	8.0%
certificates of deposit and bonds	4.0%
other types	4.0%
repurchase agreements	1.5%
Indirect deposits	
funds under management	3.0%
insurance products	3.0%
indirect deposits from financial sales networks[5]	5.0%
funds under administration	1.0%

Table 7 below shows, for Intesa and Sanpaolo, the value of goodwill on deposits and the resulting total adjusted net assets.

Table 7. Value of goodwill and total adjusted net assets (€ millions)

		Intesa	Sanpaolo
Adjusted net assets	**(K)**	14,178	12,709
Goodwill on deposits	**(A)**	12,555	13,692
of which, direct deposits		9,321	8,509
of which, indirect deposits		3,233	5,183
Total adjusted net assets	**(K^I = K + A)**	**26,732**	**26,401**

3.1.2.4   Calculation of average expected return

As already stated, the UEC method also estimates the economic value of a bank as a function of its ability to generate returns. The latter generally refers to the average expected returns and not a series of explicit values for estimated net income for each year in the future. The average normal returns, therefore, are the expression of the intrinsic ability of the company being valued to produce stable returns, taking into account external competitive factors and those internal to the organisation itself.

For the current valuation, estimation of the average expected return is based on the financial results for 2005 and the forecasts included in the 2006-2009 financial plan.

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[5] Coefficient for indirect deposits based on goodwill implicit in the market value of retail brokers.

In order to eliminate or reduce the effects of extraordinary or non-recurring income components, the following adjustments have been made to the historic and forecast consolidated income of the Banks:

- goodwill amortisation: amortised goodwill has been reversed consistent with the adjustments made to determine the adjusted net asset amount;

- extraordinary income and expense: these items have been reversed in the income statement where considered non-recurring or uncharacteristic of normal operations;

- income from discontinued activities: these income components have been reversed as they relate to groups of assets/liabilities for which a sales process has already been initiated;

- extraordinary transactions: adjustments made are consistent with those made to determine the adjusted net asset amount;

Following this normalisation process, it was considered appropriate to base the valuations for both Banks on net income for the years 2005-2009, attributing the same weighting to each. Consequently, the normalisation process resulted in the average expected return assumptions shown in Table 8.

Table 8. Average expected return (€ millions)

		Intesa	Sanpaolo
Average expected return	(R)	2,474	2,277

3.1.2.5 Determination of discount rates and reference time horizon

The other parameters applied for the UEC method, taking into account the business sector of the companies being valued, the level of risk characteristic of the Banks, in addition to assumptions derived from standard valuation practice were set as follows:

- i = 8.9% for Intesa and 9.1% for Sanpaolo[6]

- i^I = 4.0%[7]

- n = 5 years

3.1.2.6 Calculation of Goodwill

On the basis of the methodological assumptions and calculations made, the goodwill/(badwill) amounts shown in Table 9 were obtained.

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[6] Equal, respectively, to the cost of equity "k_e" of Intesa and Sanpaolo (see Paragraph 3.1.1.3).

[7] Rate of return for risk-free investments (see Paragraph 3.1.1.3).

Table 9. Calculation of goodwill/(badwill) (€ millions)

		Intesa	Sanpaolo
Total adjusted net assets	**(K^I)**	**26,732**	**26,401**
Average expected return	(R)	2,474	2,277
Cost of Equity	(i)	8.9%	9.1%
Discount rate	(i^I)	4.0%	4.0%
Time horizon	(n)	5	5
Goodwill / (Badwill)		**368**	**(534)**

3.1.2.7 Sensitivity analysis and results summary

Application of the UEC method produced the following total and per share economic values for the Banks shown in Table 10.

Table 10. Results summary

	Intesa	Sanpaolo
Value with UEC method (€ millions)	27,100	25,867
Surplus Assets (€ millions)	5,806	1,604
Value (€ millions)	**32,906**	**27,471**
Value per share (€)	**4.78**	**14.68**

A sensitivity analysis of the assumed cost of equity (k_e) using an interval of ± 10% was performed in order to evaluate the impact of potential variations on the values obtained. This produced an exchange ratio between 3.047 and 3.087 Intesa ordinary shares for each Sanpaolo share.

3.1.3 Discounted earnings method

The discounted earnings method determines a company's value as a function of (i) expected returns for the time horizon assumed in the valuation and (ii) the discount rate which represents the opportunity cost of capital. This identifies the ability to generate earnings, generally expressed as average expected returns, which is the fundamental driver of value. For the current valuation, the following model was used (with explicit forecast period and terminal value):

$$W = \sum_{t=1}^{t=n} \frac{R_t}{(1+k_e)^t} + \frac{TV}{(1+k_e)^n} + SA \text{ where } TV = \frac{R_n \times (1+g)}{(k_e - g)}$$

where:

W	=	economic value of the bank being valued
TV	=	Terminal Value, equivalent to the estimated value of the bank in the year following the final year of the explicit forecast
R_t	=	expected returns, appropriately normalised, for each period t of the explicit forecast period
R_n	=	expected returns, appropriately normalised, at the end of the explicit forecast period (year n)
SA	=	surplus assets
n	=	number of years for the explicit forecast
k_e	=	discount rate, equal to the bank's cost of equity
G	=	growth rate of earnings beyond the explicit forecast period

The parameters used in applying the discounted earnings method are the same as those used for the Dividend Discount Model and the UEC method.

3.1.3.1 Sensitivity analysis and results summary

Table 11 shows the values, absolute and per share, calculated for Intesa and Sanpaolo using the discounted earnings method.

Table 11. Results summary

	Intesa	Sanpaolo
Value with discounted earnings method (€ millions)	36,340	34,160
Surplus Assets (€ millions)	5,806	1,604
Value (€ millions)	**42,146**	**35,763**
Value per share (€)	**6.13**	**19.11**

A sensitivity analysis of the assumed cost of equity (k_e) and the growth rate "g" using an interval of ± 10% was performed to evaluate the impact of potential variations on the values obtained. The results in terms of value per share and exchange ratio are shown in Table 12, Table 13 and Table 14.

Table 12. Sensitivity analysis for Intesa

		Long-term growth rate (from 2009, g)				
		1.9%	2.0%	2.1%	2.2%	2.3%
	8.1%	6.56	6.64	6.73	6.82	6.91
Cost of equity (K_e)	**8.5%**	6.26	6.33	6.41	6.49	6.57
	8.9%	6.00	6.06	6.13	6.20	6.27
	9.4%	5.77	5.82	5.88	5.94	6.00
	9.8%	5.56	5.61	5.66	5.72	5.77

Table 13. Sensitivity analysis for Sanpaolo

		Long-term growth rate (from 2009, g)				
		2.2%	2.4%	2.5%	2.6%	2.7%
	8.2%	20.62	20.97	21.34	21.73	22.13
Cost of equity (K_e)	**8.6%**	19.52	19.82	20.14	20.47	20.82
	9.1%	18.56	18.83	19.11	19.39	19.69
	9.5%	17.73	17.96	18.20	18.46	18.72
	10.0%	16.99	17.20	17.41	17.64	17.87

Table 14. Sensitivity analysis for the share exchange ratio

	Long-term growth rate (from 2009, g)				
	3.143	3.156	3.171	3.186	3.202
	3.118	3.130	3.143	3.157	3.171
Cost of equity (K_e)	3.095	3.106	3.118	3.131	3.143
	3.074	3.084	3.095	3.107	3.118
	3.054	3.064	3.074	3.085	3.096

Based on the analysis performed, an exchange ratio between 3.054 and 3.202 Intesa ordinary shares for each Sanpaolo share was obtained.

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3.1.4 Gordon Growth Model

3.1.4.1 Description of the method

The Gordon Growth Model estimates a bank's value on the basis of the relationship between (i) expected returns (expressed by the ROE) sustainable over the long term, (ii) the nominal rate of growth "g" of income over the long term and (iii) the rate of return "k_e" required by investors for alternative investments with a comparable risk profile (cost of equity). The formula is:

$$W = BV \times \frac{(ROE - g)}{(k_e - g)} + SA$$

where:

W   =   economic value of the bank being valued

BV   =   net assets

ROE   =   prospective return on equity (sustainable over the long term)

SA   =   surplus assets

g   =   growth rate of earnings (sustainable over the long term)

k_e =   cost of equity (see paragraph 3.1.1.3)

For the current valuation, the Gordon Growth Model was calculated using the same parameters as for the Dividend Discount Model (see paragraph 3.1.1).

3.1.4.2 Sensitivity analysis and results summary

Table 15 shows the values, absolute and per share, calculated for Intesa and Sanpaolo using this method.

Table 15. Results summary

	Intesa	Sanpaolo
Value with Gordon Growth Model (€ millions)	27,668	25,984
Surplus Assets (€ millions)	5,806	1,604
Value (€ millions)	**33,474**	**27,587**
Value per share (€)	**4.87**	**14.74**

A sensitivity analysis of the assumed cost of equity (k_e) and the growth rate "g" using an interval of ± 10% was performed in order to evaluate the impact of potential variations on the values obtained. The results in terms of value per share and the exchange ratio are shown in Table 16, Table 17 and Table 18.

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Table 16. Sensitivity analysis for Intesa

| | | Long-term growth rate (from 2009, g) | | | | |
		1.9%	**2.0%**	**2.1%**	**2.2%**	**2.3%**
Cost of equity (Kₑ)	**8.1%**	5.38	5.43	5.47	5.52	5.57
	8.5%	5.07	5.11	5.15	5.19	5.23
	8.9%	4.80	4.84	4.87	4.90	4.93
	9.4%	4.57	4.59	4.62	4.65	4.67
	9.8%	4.36	4.38	4.40	4.42	4.44

Table 17. Sensitivity analysis for Sanpaolo

| | | Long-term growth rate (from 2009, g) | | | | |
		2.2%	**2.4%**	**2.5%**	**2.6%**	**2.7%**
Cost of equity (Kₑ)	**8.2%**	16.60	16.78	16.96	17.15	17.35
	8.6%	15.48	15.62	15.77	15.92	16.08
	9.1%	14.51	14.62	14.74	14.86	14.99
	9.5%	13.66	13.75	13.84	13.94	14.04
	10.0%	12.91	12.98	13.06	13.13	13.22

Table 18. Sensitivity analysis for share exchange ratio

	Long-term growth rate (from 2009, g)				
Cost of equity (Kₑ)	3.084	3.091	3.098	3.106	3.114
	3.051	3.056	3.062	3.068	3.075
	3.019	3.024	3.028	3.033	3.039
	2.990	2.993	2.997	3.001	3.005
	2.962	2.964	2.967	2.970	2.973

Based on the analysis performed, an exchange ratio between 2.962 and 3.114 Intesa ordinary shares for each Sanpaolo share was obtained.

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3.1.5 Market multiples for comparable companies

3.1.5.1 Description of the method

The market multiples method estimates the economic value of a company based on the trading price on the public markets for shares of comparable companies by calculating the ratio between the market price and certain key financial variables for those companies. These multiples are then applied to the same financial indicators for the company being valued so that, by simple multiplication, a value for the company is determined.

The comparable companies approach is comprised of the following steps:

a. selection of a sample of companies comparable to the one being valued. For the current project, in line with standard valuation practice, it is considered that the most significant variable for this selection is size. This is due to the fact that credit institutions exhibit some uniformity in behaviour (such as, for example, diversification of assets, distribution approach, operational and commercial efficiency, cost of equity, etc.) in relation to their size. Consequently, the sample used in the analysis was composed of 14 large cap European banks with consolidated assets greater than € 130 billion;

b. selection of multiples which, in the context of the sector being analysed, are considered the most meaningful. Consistent with valuation practice for companies operating in sectors with stable earnings, such as credit institutions, the following ratios were used:

- Price/Net income (hereafter "PE")

- Price/Net Assets or 'book value' of equity (hereafter, "PBV")

c. estimates for key financial figures of the banks included in the sample. In particular, net income and net asset figures at year end 2005 were taken into consideration, as well as forecasts for net income and dividend per share for the years 2006-2009 based on I/B/E/S consensus estimates (source: Bloomberg);

d. determination of the time period upon which to base the market prices for the banks in the sample. For this analysis, average market prices, weighted by volume, calculated for the three-month period ending 6 October 2006 (10 July 2006 – 6 October 2006) were used;

e. calculation, for each of the banks in the sample, of the selected multiples. For the current valuation, the PE and PBV multiples are based on net income and net assets for the years 2006, 2007, 2008 and 2009;[8]

f. calculation, for each year of the analysis, of the average of the multiples for all the banks in the sample group;[9]

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[8] It is common practice, for valuation purposes, to use prospective multiples, which are calculated on forecast financial results, rather than current multiples, which are calculated on historic financial results. The market price of a share, in fact, is not based on historic earnings, but on prospective earnings. Market multiples, therefore, are only meaningful when the denominator used in a multiples calculation is based on prospective values.

g. estimate of the economic value of each Bank by multiplying the same indicators for Intesa and Sanpaolo by the average PE and PBV multiples.

3.1.5.2 Market multiples for comparable companies

The following tables show the PE (Table 19) and PBV (Table 20) multiples for the selected group of comparable banks.

Table 19. PE multiple for comparable companies

Quoted bank	PE			
	2006E	**2007E**	**2008E**	**2009E**
ABN Amro	9.7x	9.1x	8.5x	8.3x
BBVA	12.4x	11.3x	9.8x	n.a.
BNP Paribas	10.4x	9.7x	8.8x	9.2x
Commerzbank	11.7x	10.5x	9.4x	8.4x
Credit Agricole	10.1x	9.3x	8.5x	8.6x
Danske Bank	11.3x	10.7x	10.0x	8.7x
Deutsche Bank	9.3x	9.1x	8.5x	8.2x
KBC	11.5x	10.4x	9.6x	8.8x
Nordea	10.1x	10.4x	9.7x	9.0x
BSCH	11.4x	10.2x	8.8x	n.a.
Societe Generale	10.2x	9.7x	9.1x	11.7x
Banca MPS	15.0x	13.2x	11.4x	10.3x
Capitalia	15.2x	12.2x	10.7x	9.5x
Unicredit	13.2x	11.1x	9.5x	9.0x
Average PE	**11.2x**	**10.2x**	**9.2x**	**9.2x**

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[9] Weighted average with reference to the market capitalisation of the banks in sample group.

Table 20. PBV multiple for comparable companies

Quoted bank	PBV			
	2006E	**2007E**	**2008E**	**2009E**
ABN Amro	1.70x	1.55x	1.42x	1.30x
BBVA	3.07x	2.65x	2.28x	n.a.
BNP Paribas	1.64x	1.48x	1.33x	1.23x
Commerzbank	1.27x	1.17x	1.07x	0.99x
Credit Agricole	1.42x	1.29x	1.17x	1.08x
Danske Bank	1.74x	1.58x	1.44x	1.30x
Deutsche Bank	1.38x	1.26x	1.15x	1.06x
KBC	1.75x	1.58x	1.43x	1.30x
Nordea	1.83x	1.66x	1.50x	1.37x
BSCH	1.71x	1.56x	1.41x	n.a.
Societe Generale	1.99x	1.78x	1.59x	1.51x
Banca MPS	1.82x	1.70x	1.58x	1.48x
Capitalia	1.83x	1.69x	1.55x	1.42x
Unicredit	1.70x	1.57x	1.44x	1.33x
Average PBV	**1.81x**	**1.63x**	**1.47x**	**1.27x**

3.1.5.3 Results summary

Application of this method results in the values, total and per share, for Intesa and Sanpaolo shown in Table 21 (for the PE multiple) and Table 22 (for the PBV multiple).

Table 21. Results summary (PE multiple)

	Intesa	Sanpaolo
Value with PE multiple (€ millions)	26,161	23,667
Surplus Assets (€ millions)	5,806	1,604
Value (€ millions)	**31,967**	**25,270**
Value per share (€)	**4.65**	**13.50**

Table 22. Results summary (PBV multiple)

	Intesa	Sanpaolo
Value with PBV multiple (€ millions)	26,519	26,470
Surplus Assets (€ millions)	5,806	1,604
Value (€ millions)	**32,325**	**28,074**
Value per share (€)	**4.70**	**15.00**

Based on the analysis performed, an exchange ratio between 2.905 and 3.191 Intesa ordinary shares for each Sanpaolo share was obtained.
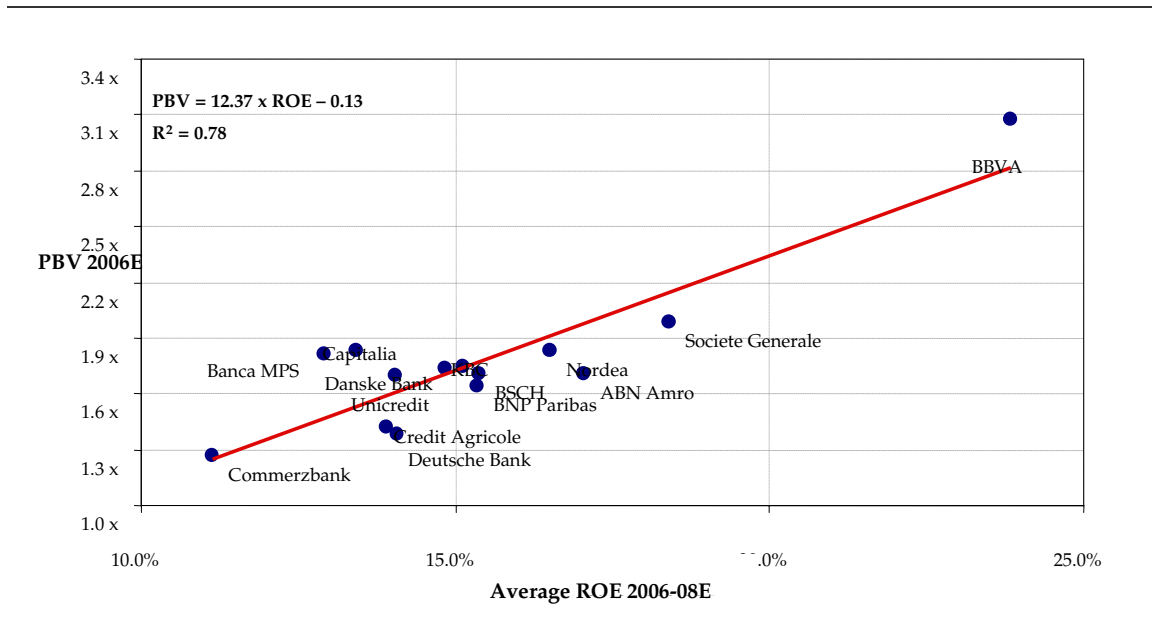
3.1.6   ROE regression analysis

3.1.6.1   Description of the method

The ROE regression analysis determines the economic value of a company based on the statistical correlation, estimated by comparison with a meaningful sample of quoted companies, between future returns on equity (the expected ROE) and the existing ratio between market capitalisation and net assets (PBV). Where statistically significant, the parameters from the regression are applied to the future ROE of the company being valued to determine the implied PBV from which, when multiplied by net assets, a value for the company is derived.

For the current valuation, the ROE method was applied by using the same sample group of quoted European banks as used for the market multiples method and analysing the statistical relationship between the average expected ROE for the period 2006-2008 and the estimated PBV at year end 2006 (consensus estimates I/B/E/S). In applying this method, average market prices, weighted by volume, for the three-month period ending 6 October 2006 (10 July 2006 – 6 October 2006) were also used;

Table 23 shows the regression analysis performed and the related algorithm.

Table 23. ROE regression analysis

3.1.6.2   Results summary

Table 24 below shows the values for Intesa and Sanpaolo, total and per share, resulting from this method.

Table 24. Results summary

	Intesa	**Sanpaolo**
Value with ROE Analysis (€ millions)	27,711	23,872
Surplus Assets (€ millions)	5,06	1,604
Value (€ millions)	**33,517**	**25,475**
Value per share (€)	**4.87**	**13.61**

On the basis of the analysis performed, the ROE regression method gives an exchange ratio of 2.793 Intesa ordinary shares for each Sanpaolo share.
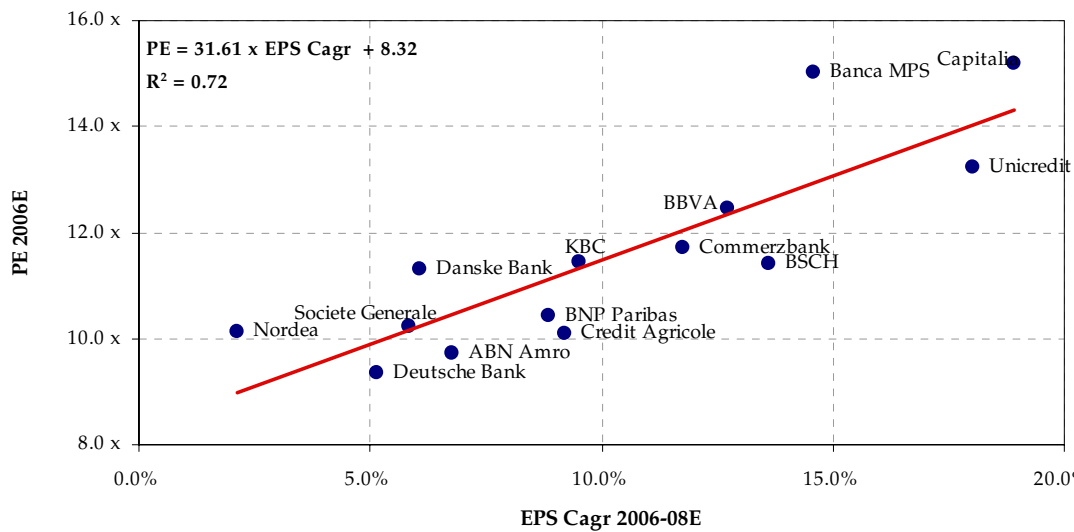
3.1.7   Regression analysis of expected earnings growth

3.1.7.1   Description of the method

Analogous to the ROE analysis described in paragraph 3.1.6, this method estimates the economic value of a company on the basis of the statistical correlation, estimated by comparison with a meaningful sample of quoted companies, between the expected growth rate in earnings and the existing relationship between market capitalisation and net income (PE). Other conditions being equal, in fact, companies with a high growth rate should trade at a higher multiple than companies with a lower growth rate. Where statistically significant, the parameters from the regression are applied to the expected growth in earnings of the company being valued to determine the implied PE from which, when multiplied by net income, an economic value for the company is derived.

For the current valuation, the expected growth in earnings method was applied using the same sample group of quoted European banks as used for the market multiple method and for the ROE method, and analysing the statistical relationship between the average expected growth in earnings for the period 2006-2008 and the estimated PE at year end 2006 (consensus estimates I/B/E/S). In applying this method, average market prices, weighted by volume, for the three-month period ending 6 October 2006 (10 July 2006 – 6 October 2006) were also used.

Table 25 shows the regression analysis performed and the related algorithm.

Table 25. Regression analysis of expected earnings growth

3.1.7.2 Results summary

The estimated values for Intesa and Sanpaolo using the regression analysis of expected earnings growth are shown in Table 26.

Table 26. Results summary

	Intesa	**Sanpaolo**
Value with earnings growth regression (€ millions)	26,428	25,872
Surplus Assets (€ millions)	5,806	1,604
Value (€ millions)	**32,234**	**27,475**
Value per share (€)	**4.69**	**14.68**

Using this method, an exchange ratio of 3.132 Intesa ordinary shares for each Sanpaolo share was obtained.

3.2 Valuation methods used primarily for verification purposes

3.2.1 Market value

This method consists in attributing a value to a company which is equivalent to that attributed by the market on which its shares are traded. In fact, when a market price relates to shares which have a large free float and high volumes traded, it serves as a highly reliable valuation index in relation to earnings, capital strength, risk and growth

and, as such, is useful in determining the true value of a company. Consequently, the market value method assumes the company is traded on an efficient market and that this translates into the determination of the economic value of a company as the value expressed by its market price, when observed over an appropriate time period. In relation to Intesa and Sanpaolo, in particular, it is considered that their market capitalisation is representative of their economic value, in that:

• both Intesa and Sanpaolo are within the top ten companies quoted on the Borsa Italiana and, in particular, represent the fifth and seventh largest companies and the second and third largest banks by market capitalisation;

• the high daily volumes traded show that the shares are extremely liquid;

• the principal Italian and international brokers regularly publish research reports on the companies, contributing to the distribution of necessary information and analysis for the market price to adequately reflect the earnings profile and capital structure of the two Banks.

This method requires that short-term fluctuations typical of the financial markets are smoothed, in line with standard practice, by analysing the market price over various time intervals. In the current valuation, whose purpose is to calculate the relationship between the share prices of Intesa and Sanpaolo in the period leading up to the Merger announcement, the average share price, both simple (Table 27) and weighted by volume (Table 28), for various time intervals up to 23 August 2006 have been considered: price at 23 August 2006, 1-week average, 1-month average, 2-month average and 3-month average. Prices subsequent to 23 August 2006, the last trading day prior to the issuance, at the request of CONSOB, of a joint press release by the Banks confirming their discussion of a possible merger, were not used as they are assumed to be no longer representative of the stand-alone value of the Banks. This method does not take account of, amongst other things, the potential impact on market value of Intesa's agreement with CAsa, which was entered into at a later date.

Table 27. Market value (simple average)

Value per share (€)	Intesa	Sanpaolo	Exchange ratio
3-month simple average	4.50	13.87	3.083
2-month simple average	4.51	13.96	3.094
1-month simple average	4.57	14.22	3.115
1-week simple average	4.69	14.68	3.128
Price at 23 August 2006	4.67	14.67	3.141

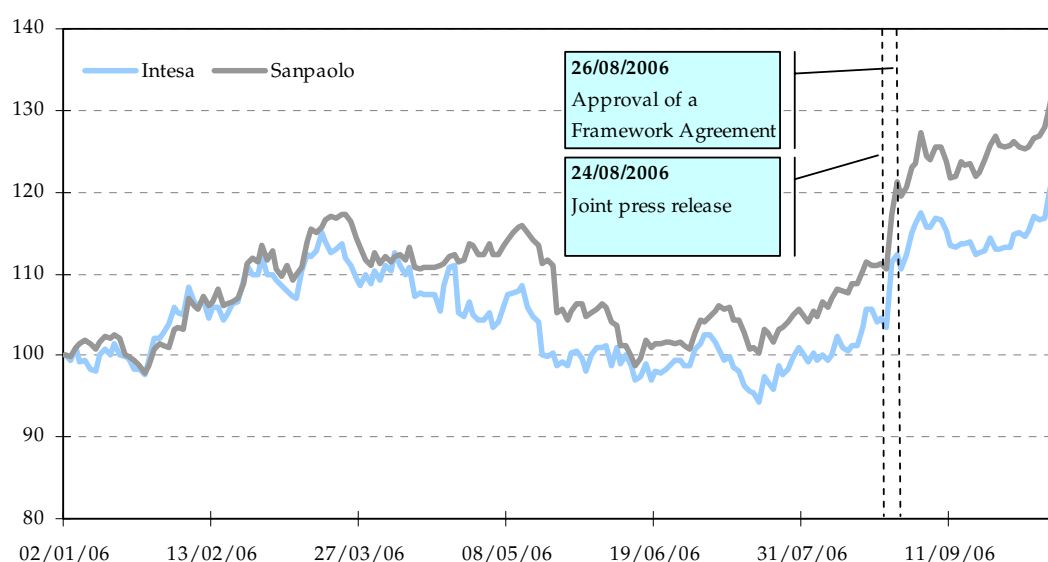**Table 28. Market value (weighted average, by volume)**

Value per ordinary share (€)	Intesa	Sanpaolo	Exchange ratio
3-month weighted average	4.49	13.84	3.080
2-month weighted average	4.52	13.97	3.092
1-month weighted average	4.58	14.23	3.106
1-week weighted average	4.71	14.69	3.122
Price at 23 August 2006	4.67	14.67	3.141

Based on market values, an exchange ratio between 3.080 and 3.141 Intesa ordinary shares for each Sanpaolo share was obtained.
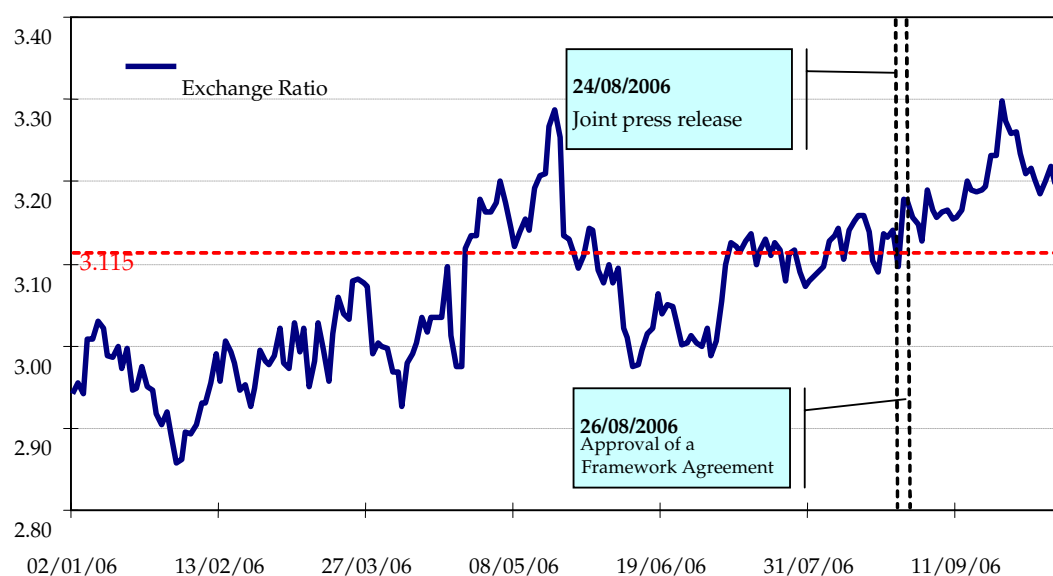
* * *

Additionally, for information purposes only, it is noted that on 11 October 2006 the market price for the ordinary shares of Intesa and Sanpaolo was €5.62 and €17.93, respectively, implying an exchange ratio of 3.189 Intesa ordinary shares for each Sanpaolo share. For the period from 24 August 2006 to 11 October 2006, the average price (weighted by volume) for the same shares was €5.19 for Intesa and €16.43 for Sanpaolo, implying an exchange ratio of 3.166.[10]

Table 29 and Table 30 show, for the period 1 January 2006 – 11 October 2006, the relative share price performance of the ordinary shares of each Bank (base 1 January 2006 = 100) and the relative exchange ratio.

Table 29. Price performance of ordinary shares (1 January 2006 – 11 October 2006)

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[10] For the same period, the simple average price of the ordinary shares was €5.19 for Intesa and €16.57 for Sanpaolo, equivalent to an exchange ratio of 3.193.

Table 30. Changes in the exchange ratio (1 January 2006 – 11 October 2006)

3.2.2   Consensus target price method

The value of a quoted company can also be estimated through a target price consensus, when there is a sufficiently large body of research published by financial analysts. The proximity of the publication of those estimates should be such as to enable the price targets to reflect, in the most updated and complete manner possible, the characteristics of the company being valued. In general, this method is used to check and validate values obtained using other valuation methods.

Table 31 shows the average price targets for Intesa and Sanpaolo published prior to 23 August 2006 and after the presentation of first quarter 2006 results to the market. As with the market price method, this method does not incorporate any potential impacts from the Agreement with CAsa.

Table 31. Analysts' price targets (prior to 23 August 2006)

	Intesa	Sanpaolo
Number of estimates	16	16
Maximum price target (€)	**5.80**	**18.75**
Minimum price target (€)	**4.60**	**12.30**
Average price target (€)[11]	**5.23**	**15.81**

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[11] Simple arithmetic average of the observations, excluding the maximum and minimum values for both Banks.

On the basis of the analysts' estimates for the time period selected, an exchange ratio between 2.674 and 3.233 Intesa ordinary shares for each Sanpaolo shares was obtained.

* * *

For information purposes only, Table 32 below shows the price targets published by analysts after 23 August 2006, from which an exchange ratio between 3.121 and 3.220 can be implied.

Table 32. Analysts' price targets (post 23 August 2006)

	Intesa	**Sanpaolo**
Number of estimates	14	14
Maximum price target (€)	**6.60**	**20.60**
Minimum price target (€)	**5.00**	**16.10**
Average price target (€)[11]	**5.77**	**18.05**

4   Principal difficulties and limitations in valuation

Article 2501-*quinquies* of the Italian Civil Code requires that the directors of the companies involved in a merger report "any valuation difficulties" encountered in the process of determining the exchange ratio.

The principal difficulties encountered in the current valuation process and the limitations of the valuations performed are summarized below:

- <u>use of data from the consolidated financial statements</u>: use of the consolidated financial statements, rendered necessary by the complexity of the groups headed by each of the Banks, generated some complexities in making adjustments to the net assets and earnings figures as a result of the various minority interests in the companies belonging to each group and their variation over time;

- <u>existence of both ordinary and saving shares</u>: calculation of the per share value for Intesa ordinary shares required, due to the effective discount between the ordinary and saving shares, the determination of the number of equivalent ordinary shares for each saving share in circulation;

- <u>use of forecast data</u>: the analysis was performed using forecast data taken from the financial plans provided by the managements of the Banks which, by its very nature, entails a degree of uncertainty;

- <u>Intesa - Crédit Agricole agreement</u>: the Agreement entered into on 11 October 2006 (see paragraph 1.5) which entails, amongst other things, the sale by Intesa of Cariparma, FriulAdria and the Branches, created difficulties in the "reconstruction" of key pro-forma financial indicators;

- <u>restructuring of Sanpaolo's asset management and insurance activities</u>: restricted direct access to Sanpaolo management limited the ability to obtain details and information relating to the assumption underlying the 2006-2009 financial plan, above all in relation to the impacts (i) of the current public offer for 25.3% of the share capital of Fideuram by Eurizon and (ii) the planned listing of the latter;

- <u>valuation methods</u>: the valuations performed reflect the limitations and particularities of each of the various valuation methods used.

5   Conclusions

The exchange ratios shown in Table 33 take into account the assumptions made, the valuation methods adopted, the analyses and valuations performed, in addition to the various considerations presented above.

Table 33. Results summary

Valuation method	Exchange ratio	
	Min	**Max**
Dividend Discount Model	2.974	3.209
UEC method	3.047	3.087
Discounted earnings method	3.054	3.202
Gordon Growth Model	2.962	3.114
Market multiples	2.905	3.191
ROE regression analysis	2.793	2.793
Earnings growth regression analysis	3.132	3.132
Principal methods	**2.793**	**3.209**
Principal methods excluding extremes	**2.905**	**3.202**
Market value	3.080	3.141
Consensus target price	2.674	3.233
Methods primarily for verification	**2.674**	**3.233**

In consideration:

a. of the results produced by the absolute or earnings-based methods (Dividend Discount Model, UEC method, discounted earnings method and Gordon Growth Model), capable of evaluating the structural and financial profile of a company in relation to its capacity to generate returns, a range of values from 2.962 to 3.209 was identified;

b. of the valuations obtained using relative methods (market multiples method, ROE regression analysis and earnings growth regression analysis), a range of values from 2.793 to 3.191 was identified;

c. of the confirmation provided by the methods used primarily for verification purposes (market value method and consensus target price method) of the interval derived using the principal methods, absolute and relative;

d. of the possibility, to enhance the meaningfulness of the results by reducing their volatility[12], of "discarding" the extremes (minimum and maximum) from the aggregate of values achieved with the principal valuation methods;

we conclude that a range from 2.900 to 3.200 newly-issued Intesa ordinary shares for each Sanpaolo share can be considered the appropriate value for the exchange ratio for the Merger.

Milan, 12 October 2006

GBL S.r.l.

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[12] From 15% to 10% approximately in terms of the percentage difference between the minimum and maximum values.