

Turin, 18 May 2004

Appraisal Report to the Board of Directors of Banca Fideuram S.p.A.

**Appraisal report on the determination of the share exchange ratio in
relation to the partial demerger of Banca Fideuram S.p.A.'s equity
holding in Fideuram Vita S.p.A. to SANPAOLO IMI S.p.A.**



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1. Introduction

1.1 Foreword

The Board of Directors (the “**Board**”) of Banca Fideuram S.p.A. (“**Banca Fideuram**”) requested Citigroup Global Markets Limited (“**Citigroup**”) to assist it in determining the number of shares of SANPAOLO IMI S.p.A. (“**SANPAOLO IMI**”) to be assigned to the shareholders of Banca Fideuram other than SANPAOLO IMI (the “**Share Exchange Ratio**”) in relation to the proposed partial demerger to SANPAOLO IMI of Banca Fideuram’s entire equity holding in Fideuram Vita S.p.A. (“**Fideuram Vita**”) (the “**Transaction**”).

This report (the “**Report**”) has been prepared exclusively for the Board, which is thus the sole addressee hereof, in order to assist the Board in its decision and solely for the purpose of providing it with useful information and indications for establishing the Share Exchange Ratio in connection with the Transaction. Therefore, the Board shall independently assess how best to use the conclusions that Citigroup has reached in this Report, meaning that all decisions and choices regarding the Share Exchange Ratio are matters solely for the Board. Consequently, the Board shall be exclusively responsible for such choice.

The Board may, where required by law, make the Report available to the competent authorities. The Board may further use the Report for information purposes only in the context of preparing the information document for the extraordinary general meeting of the shareholders of Banca Fideuram that will be called to approve the Transaction (the “**General Meeting**”). In all cases, the Board itself shall be solely and fully responsible for such uses. Any other form of dissemination or use in whole or in part of this Report or the contents hereof shall, as regards form and content, be agreed in advance in writing with Citigroup. Distribution to third parties of the Report, even when authorised by Citigroup, shall not be considered or deemed to be considered as advice by Citigroup to the third parties concerned. Banca Fideuram is aware that Citigroup has been appointed to assist Fideuram Vita in relation to the plan to merge the latter in Noricum Vita S.p.A.

The Report is not intended for the shareholders of Banca Fideuram and neither does it serve to provide them with any indication or recommendation as to how they should vote at the General Meeting.

The conclusions set forth in this Report are based on the aggregate of the indications and evaluations contained herein, and hence no part of this Report may be considered or utilised separately from the document in its entirety.

For the purposes of this document Citigroup was not requested to give and neither has it expressed any independent judgement as to the feasibility and/or desirability of the Transaction, considered in itself or as an alternative to other transactions that may have been considered by Banca Fideuram and/or SANPAOLO IMI. Nothing in this Report can or may be construed as a guarantee or indication of the future results of Banca Fideuram, Fideuram Vita or SANPAOLO IMI or any of their subsidiaries or companies in which they hold an interest. Likewise, nothing herein amounts to an indication of the price at which shares in Banca Fideuram and SANPAOLO IMI may trade on the stock market.

The present document represents the translation into English of the Report. The Italian text is the legally binding one. The English translation is for convenience only.

1.2 Companies Involved in the Transaction

The companies involved in the Transaction are as follows:

- Banca Fideuram S.p.A., with headquarters in Rome at Piazzale Guido Douhet 31, share capital as of 18 May 2004 equal to €254,875,547 comprising 980,290,564 ordinary shares with a nominal value of €0.26 each, as the transferor company;
- SANPAOLO IMI S.p.A., with headquarters in Turin at Piazza San Carlo 156, share capital as of 18 May 2004 equal to €5,144,064,800, comprising 1,448,831,982 ordinary shares with a nominal value of €2.80 each and 388,334,018 preference shares with a nominal value of €2.80 each, as the transferee company.

Within the framework of the proposed Transaction, the following need to be appraised:

- Banca Fideuram's equity holding in Fideuram Vita, equal to 9,369,360 ordinary shares with a nominal value of €5.20 each and 4,524,873 preference shares with a nominal value of €5.20 each, representing approximately 99.8% of the ordinary and preference share capital of Fideuram Vita (the "**Shareholding**");
- the ordinary shares in SANPAOLO IMI (the "**Shares**"). Shares will be assigned to the shareholders of Banca Fideuram other than SANPAOLO IMI in return for the transfers of the Shareholding to SANPAOLO IMI within the framework of the Transaction, the number of which Shares will depend on the Share Exchange Ratio.

For a detailed description of the Transaction, reference should be made to the Demerger Plan which will be approved by the Board and the information contained therein.

1.3 Purposes of the Report

This Report has been prepared solely for the purposes of providing the Board with useful information and indications for determining the Share Exchange Ratio to be proposed to the General Meeting.

1.4 Reference Date

The reference date of the valuations and the conclusions contained in the Report is 18 May 2004 on the assumption and subject to the fact that—as represented by Banca Fideuram to Citigroup—there have been no events in the period between the reference date of the last available financial documentation (as detailed in Section 1.5 below) for Fideuram Vita, Fideuram Assicurazioni and SANPAOLO IMI (the "**Companies**") and the date of this Report that could significantly modify the economic, financial and balance sheet situations of the Companies being analysed. We wish to underline that for the purposes of determining the Share Exchange Ratio for the Transaction, we have taken account of (i) the acquisition of Fideuram Assicurazioni S.p.A. ("**Fideuram Assicurazioni**") by Fideuram Vita completed on 8 March 2004 and (ii) the capital increase of Fideuram Vita which was completed on 26 January 2004.

The stock market prices of SANPAOLO IMI referred to in this Report are updated to 17 May 2004.

The analysis contained in this Report has been conducted on the basis that up to the date on which the Transaction will start to produce its legal effects, there will be no significant or material changes in the economic, financial and balance sheet situations of the Companies.

1.5 Documentation Utilised

In preparing this Report, Citigroup has relied exclusively on Public Information, as hereinafter defined, and on the data and the information contained in the documents provided by the management of Banca Fideuram and Fideuram Vita and their advisers (the “**Documentation**”).

Citigroup has proceeded on the basis that the Public Information and the Documentation it has received are true, accurate and complete without making any independent checks itself as to such truthfulness, accuracy and completeness. Therefore, the Board acknowledges that the correctness of the evaluations and conclusions contained in this Report unavoidably depend on the correctness, truthfulness and completeness of the information and documents on which such assessments and conclusions are founded.

As per the terms of its appointment by the Board, Citigroup has not engaged in any due diligence. Neither has Citigroup carried out any independent investigations, checks and evaluations of the individual items or components of the assets and liabilities of Fideuram Vita, Fideuram Assicurazioni and SANPAOLO IMI.

The assessments and conclusions contained in this Report are based on the following documents which constitute an integral part of the Documentation.

For Fideuram Vita:

- certified statutory and consolidated accounts for the 2002 and 2003 financial years;
- distribution agreement between Banca Fideuram and the so-called “Polo Assicurativo” (currently in the process of formation)⁽¹⁾, which the parties intend to execute and which contains all of the provisions designed to regulate relations between the companies concerned in connection with the promotion and distribution of products and insurance services by Banca Fideuram (the “**Distribution Agreement**”);

(1) The “Polo Assicurativo” will be the insurance company that will exist upon completion of the merger of Sanpaolo Vita S.p.A and Fideuram Vita S.p.A in Noricum Vita S.p.A.

- forecast for premiums written for the 2004, 2005 and 2006 financial years, provided by the management of Banca Fideuram; and
- actuarial valuation of Fideuram Vita as of 31/12/2003 made by the actuaries Tillinghast—Towers Perrin (“**Tillinghast**”) in the report dated 17 May 2004, entitled “Actuarial Valuation of Fideuram Vita as of 31/12/2003”, in compliance with the terms of the letter of appointment from SANPAOLO IMI and Banca Fideuram dated 5 February 2004.

For Fideuram Assicurazioni:

- certified statutory accounts for the 2002 and 2003 financial years;
- actuarial valuation of Fideuram Assicurazioni as of 31/12/2003 made by Tillinghast in the report dated 23 December 2003, entitled “Fideuram Assicurazioni S.p.A.—Independent Valuation of Claims Reserves and Calculation of the Appraisal Value as of 31 December 2003”, in compliance with the terms of the joint letter of appointment from Banca Fideuram and Fideuram Vita dated 4 December 2003; and
- agreement entered into on 8 March 2004 between Fideuram Vita and Banca Fideuram for the purchase by Fideuram Vita of Fideuram Assicurazioni.

For SANPAOLO IMI:

- certified statutory and consolidated accounts for the 2002 and 2003 financial years;
- statutory and consolidated half-yearly directors' reports as of 30 June 2002 and 2003;
- quarterly consolidated reports for the 2003 and 2004 financial years; and
- stock market performance of SANPAOLO IMI shares over relevant time spans.

In addition to examining the documents referred to above, Citigroup has also taken account of public information, including that on recent deals whose subject matter or structure was similar to that of the Transaction such that they could be considered relevant for the purposes of preparing this Report (the "**Public Information**").

1.6 Difficulties and Limits

In making its evaluations aimed at determining the Share Exchange Ratio to be proposed to the General Meeting, Citigroup encountered the following limitations and difficulties which the Board acknowledges and whose importance it recognises:

- the absence of listed companies perfectly comparable to Fideuram Vita at national or international level limited the applicable valuation methods;
- the profitability of Fideuram Vita is very much linked to retrocession arrangements agreed between the distribution network and the company itself, meaning that the comparability of Fideuram Vita with other companies operating in the same environment is limited;
- the above mentioned retrocession arrangements underwent some changes in 2003, following which a historical point of reference in Fideuram Vita's profitability disappeared, and the Distribution Agreement that Banca Fideuram and the so-called "Polo Assicurativo" intend to execute will further modify retrocession arrangements and hence also the future profitability of Fideuram Vita;
- Banca Fideuram's financial plan for the 2003, 2004 and 2005 financial years, approved by the Board on 12 December 2003, was drawn up by the management prior to the date of execution of the Distribution Agreement between Banca Fideuram and the so-called "Polo Assicurativo" although Banca Fideuram's management has provided Citigroup with a revised projection of Banca Fideuram's development prospects after the Transaction;
- Fideuram Vita's share capital is divided into two classes of shares.

2. Determination of the Share Exchange Ratio

2.1 Foreword

Determining the Share Exchange Ratio for the purposes of the Transaction entails appraising the value of the Shareholding and the Shares. The methodologies adopted in this regard have taken account of the fact that the Shareholding is in an unlisted company operating in the insurance sector whereas the Shares constitute a small portion of the share capital of a listed company operating in the banking industry.

In light of the foregoing considerations, the following methodologies were adopted to value the Shareholding and the Shares.

(A) *Fideuram Vita*

In order to determine the value of the Shareholding, Citigroup has taken account in its valuation methods of past and projected economic-financial results, the distinctive features of Fideuram Vita and the other quantitative and qualitative circumstances which have a bearing on the value of the Shareholding.

The valuation methods adopted to determine the value of the Shareholding make reference to widely accepted and utilised methodologies in national and international appraisals for the insurance sector:

- the *appraisal value* criterion; and
- the *multiples paid in comparable transactions* criterion.

In selecting and applying the aforementioned criteria, Citigroup has considered the features, advantages and limits associated with each one on the basis of national and international professional appraisal practices normally followed in the insurance sector. In particular the *appraisal value* criterion was considered to be the most important method since it permits the determination of the value of the Shareholding on the basis of an actuarial analysis and the projected development of Fideuram Vita, taking account of the Distribution Agreement that will be entered into between Banca Fideuram and the so-called “Polo Assicurativo”. The *multiples paid in comparable transactions* criterion was used to check the results of the first method used. Given the absence of a significant sample of listed companies comparable to Fideuram Vita the *market multiples* criterion or *statistical regression* was not utilised.

Fideuram Vita’s share capital consists of both ordinary and preference shares. In light of the characteristics of such shares, Citigroup maintained that it was proper to treat the preference shares in the same manner as the ordinary ones.

(B) *SANPAOLO IMI*

In order to determine the value of the Shares, Citigroup has taken into account in its valuation methodology that:

- the ordinary shares of SANPAOLO IMI are listed on the Electronic Share Market (“**MTA**”) organised and managed by Borsa Italiana S.p.A. and that SANPAOLO IMI is a company with one of the highest market capitalisations- in Italy;
- the volume of SANPAOLO IMI ordinary shares that are traded every day evidences that the shares are highly liquid;
- the main financial institutions regularly publish research on SANPAOLO IMI thereby contributing to the dissemination of information and analysis which ensures that the market price adequately reflects the value of the shares; and
- the Shares to be assigned to Banca Fideuram’s shareholders represent only a fraction of SANPAOLO IMI’s ordinary share capital.

Therefore, Citigroup adopted the *stock market price* criterion as the main valuation method for the Shares while the *market multiples* criterion was used to check the results of the main method used. Indeed, the *market multiples* criterion did not produce an outcome significantly different from the results obtained by applying the *stock market price* criterion. In selecting and applying the aforementioned criteria, Citigroup has considered the features, advantages and limits associated with each one on the basis of national and international professional appraisal practices normally followed in the banking sector.

Citigroup proceeded to analyse the Share Exchange Ratio on the basis of the methodologies illustrated hereunder and in so doing has reached the conclusions set out in Section 3 of this Report.

The valuation of the Shareholding and the Shares contained in this Report was made solely and exclusively with a view to establishing the Share Exchange Ratio for the purposes of the Transaction. Therefore, all indications as to value in this Report may not be used for purposes other than for indicating the Share Exchange Ratio in connection with the Transaction.

2.2 Valuation Methods Adopted for Valuing Fideuram Vita

There follows a description of each of the valuation methods used.

1. The *appraisal value* criterion

The *appraisal value* criterion estimates the value of an insurance company on the basis of the following three elements:

- A. embedded value, which is an estimate—relying on actuarial techniques—of the value of a company equal to the sum of adjusted net asset value and the value of the existing portfolio (Value In-Force, or “**VIF**”) as at the valuation date;
- B. goodwill, i.e. the net present value of future profits deriving from the new business that will be achieved within a fixed timeframe.

Appraisal value entails use of the following formula:

$$V_e = \text{embedded value} + \text{goodwill}$$

where:

V_e = is the value of the insurance company.

Specifically, the figure for embedded value expresses the value of the economic capital of an insurance company in relation to the following elements:

1. the adjusted net asset value of the company, i.e. the net equity shown in the balance sheet plus the adjustments necessary to account for the market value of the underlying assets; and
2. VIF, i.e. the current value of profits deriving from the portfolio of policies in place as at the valuation date, on the basis of the Tillinghast estimates.

Therefore, the figure for embedded value is obtained applying the following formula:

$$\text{Embedded Value} = \text{PNR} + \text{VIF}$$

where:

PNR = adjusted net asset value

VIF = value of existing portfolio

The figure for goodwill was calculated by reference to the following formula:

$$\text{Goodwill} = \sum_{t=1}^n \frac{NBV_{tu}}{(1+i)^t}$$

where:

<i>Goodwill</i>	=	sum of present value of future profits deriving from the new business that will be achieved within the timeframe considered
NBVt	=	value of a year of new production, on the basis of the Tillinghast estimates
<i>i</i>	=	discount rate

The value of a year of new business was determined by multiplying the volume of new annualised business by the profitability margin therefor. Both the volumes of new business and the profitability margins took account of the Distribution Agreement between Banca Fideuram and the so-called “Polo Assicurativo” that the parties concerned intend to sign.

2. *The multiples paid in comparable transactions criterion*

The *multiples paid in comparable transactions* criterion is based on an analysis of the multiples paid in acquisitions of companies considered comparable to Fideuram Vita in the Italian insurance market. In applying this model, one calculates a series of ratios (multiples) between the implicit value attributed to the company based on the price paid for the purchase of a stake therein and on some important parameters, amongst which embedded value. The average ratios obtained are then applied to Fideuram Vita’s results in order to obtain the value of the insurance company itself.

The application of the *multiples paid in comparable transactions* criterion led to a range of values for Fideuram Vita, which encompasses the range of values obtained by applying the *appraisal value* criterion.

2.3 Valuation Methods Adopted for Valuing SANPAOLO IMI

There follows a description of each of the valuation methods used.

1. *Stock market price criterion*

The *stock market price* criterion expresses the value of a company on the basis of its market capitalisation taking account of the prices of its shares traded on regulated stock markets. In particular, the *stock market price* criterion is considered essential in valuing listed companies in cases where trading volumes in the shares are significant.

In applying this criterion it is necessary to strike a balance between the need on the one hand to mitigate the volatility of daily price movements by considering prices over a sufficiently long period and on the other hand to use current information indicative of the recent market value of the company. Specifically, Citigroup referred to the official average price over the last month.

Taking account of the fact that on 29 April 2004 SANPAOLO IMI’s General Meeting approved the distribution of a dividend and considering also that the timing of the Transaction means that the Shares will be assigned to Banca Fideuram shareholders after the payment of the dividends in question, in determining the Share Exchange Ratio reference was made to official stock market prices net of any economic effects associated with payment of the dividend. Citigroup calculated the ex-dividend value by subtracting the value of the dividend from the official stock market price over the chosen time period.

2. Market multiples criterion

According to the *market multiples* criterion, the value of a company is obtained by taking as a reference point the market indications in relation to companies with analogous characteristics to the one being valued. The method is based on determining multiples calculated as the ratio between the stock market values and economic, balance sheet and financial data of a select sample of comparable companies. Subject to suitable adjustments being made, the multipliers thereby obtained are applied to the company being valued in order to arrive at a range of values in the event that the company is not listed. By contrast, where the company is listed it is a question of checking whether the multipliers are in line with those expressed by the market for the company being valued.

The multiples can be subject to adjustment where there are contingent differences between the comparable companies and the one actually being valued. Applying the *market multiples* criterion did not produce substantially different results from those obtained by using the *stock market prices* criterion.

3. Results and Conclusions

Without prejudice to the considerations, assumptions and limits expressed in Section 1 hereof and on the basis of the analysis conducted in accordance with the criteria described in Section 2 hereof, we have determined the following range of values for the Shareholding and the Shares:

Values	Minimum	Maximum
Value of Shareholding (in millions of euro)		
—using the <i>appraisal value</i> criterion	654	703
—using the <i>multiples paid in comparable transactions</i> criterion	603	724
Value per SANPAOLO IMI Share (in euro)		
—using the <i>stock market price</i> criterion ⁽¹⁾	9.27	

Note:

(1) value per share ex dividend based on the average official stock market price of SANPAOLO IMI ordinary shares in the last month.

For the purposes of calculating the Share Exchange Ratio, Citigroup divided the minimum/maximum value of the Shareholding per Banca Fideuram share (determined by applying the *appraisal value* criterion) by the value of a Share (determined by applying the *stock market prices* criterion). On the basis of the results set out above, Citigroup has established the following range of values for the Share Exchange Ratio:

0.0720—0.0774 ordinary SANPAOLO IMI shares per Fideuram Vita share.

Citigroup Global Markets Limited