

Turin, 18th May 2004

**Report to the Board of Directors of  
SANPAOLO IMI S.p.A.**

Valuation of the exchange ratio in connection with the Demerger of Fideuram Vita S.p.A.'s shareholding held by Banca Fideuram in favour of SANPAOLO IMI S.p.A.



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## I. Introduction

### Important Notice

The Board of Directors of SANPAOLO IMI S.p.A. (hereafter referred to as the “Board” and “SANPAOLO IMI”, respectively), in relation to their engagement, requested to Goldman Sachs International (“Goldman Sachs”) and JPMorgan plc (“JPMorgan”) assistance in the valuation of the exchange ratio to be determined by the Board itself in connection with the proposed demerger of Fideuram Vita S.p.A. (“Fideuram Vita”) shareholding held by Banca Fideuram (“Fideuram”) in favour of SANPAOLO IMI (the “Demerger”). This report (the “Report”) has been prepared solely for the benefit of the Board of Directors of SANPAOLO IMI in connection with, and for the purposes of, its considerations in connection with the exchange ratio of the proposed Demerger. The final determination of the exchange ratio is of sole competence and responsibility of the Board; therefore, nobody, except for the members of the Board, is authorized to use or rely upon the Report and its content.

The Report may be submitted to relevant authorities and used, for information purposes only, to prepare the Information Statement for the shareholder’s meeting due to resolve upon the Demerger. In any case, the Board will be fully and exclusively responsible for the use of the Report. Any other form of disclosure and any different use, of part or of the whole Report or its content, will have to be agreed upon and authorized in writing, in its form and content, by Goldman Sachs and JPMorgan.

The Report is not addressed to SANPAOLO IMI’s shareholders and it has not been drawn up with the purpose of providing them with any recommendation over the resolution to take at the shareholders’ meeting due to resolve upon the Demerger. Therefore, SANPAOLO IMI’s shareholders shall not rely on the Report and, if deemed appropriate, they will have to rely upon their own financial advisors.

As provided for by their engagement, Goldman Sachs and JPMorgan estimated the exchange ratio, based upon the methods described below, and reached the conclusions presented in section III of this document.

The conclusions set forth in the present Report are based on all the analyses contained herein and therefore no part of this Report can be used separately from the Report as a whole. Goldman Sachs and JPMorgan accept no responsibility, either direct or indirect, for damages that may stem from an incorrect use of the Report and the information it contains.

No information presented in the Report may or shall be relied upon as guarantee or indication of future results achieved by SANPAOLO IMI and Fideuram, or any other subsidiary or affiliate, or an indication concerning prices at which SANPAOLO IMI and Fideuram stocks will be negotiated on the market.

### Transaction overview

The proposed transaction is a proportional partial demerger of Fideuram Vita’s shareholding, amounting to 99.8% of Fideuram Vita’s total share capital (100.0% of common share capital and 99.4% of preferred share capital) held by Fideuram in favour of SANPAOLO IMI.

The above mentioned Demerger is part of a wider project—whose guidelines have been approved by the Boards of Directors of SANPAOLO IMI and Fideuram on 13th February 2004—aimed at restructuring and reorganising SANPAOLO IMI Group’s (the “Group”) presence in the insurance sector, in order to concentrate into one company all the insurance activities of the Group, both life and property and casualty. This reorganisation project will be implemented through the following transactions which, even though logically and legally independent, belong to the same industrial reorganisation:

- demerger of Sanpaolo Vita S.p.A. 100% shareholding held by SANPAOLO IMI Wealth Management S.p.A. in favour of Noricum Vita S.p.A.;
- demerger of Fideuram Vita shareholding held by Fideuram in favour of SANPAOLO IMI, which is indeed the subject of the present Report;
- merger by incorporation of Sanpaolo Vita S.p.A. and Fideuram Vita in Noricum Vita S.p.A. (the “Merger”).

Refer to the Demerger project, which is submitted for approval to the Boards of Directors of SANPAOLO IMI and Fideuram, and the Merger project, which shall be submitted for approval to the relevant bodies, and to the information they contain for a more detailed description of the Demerger and the wider reorganisation project.

### **Companies involved in the Demerger**

The companies involved in the Demerger as the demerged company and beneficiary company, are the following:

- Banca Fideuram S.p.A., headquartered in Rome, Piazzale Giulio Douhet n.31, share capital of €254,875,546.64 consisting of 980,290,564 common shares with nominal value of € 0.26, as the demerged company;
- SANPAOLO IMI S.p.A., headquartered in Turin, Piazza San Carlo n.156 with secondary headquarters in Rome, Viale dell’Arte n.25, share capital of €5,144,064,800.00 consisting of 1,448,831,982 common shares with nominal value of €2.8 and 388,344,018 preferred shares with nominal value of €2.8, as the beneficiary company.

To date, SANPAOLO IMI holds—both directly and indirectly—719,283,950 Fideuram shares, which correspond to about 73.4% of Fideuram’s share capital (of which 64.1% held directly and 9.3% through the subsidiary Invesp S.p.A.).

The subject of the Demerger (the “Demerged Assets”) consists of the shareholding held by Fideuram in Fideuram Vita, a company headquartered in Rome, Via Ennio Quirino Visconti n.80 with secondary headquarters in Paris, Place Vendôme n.7, with a share capital of €72,399,600.00 consisting of 9,369,360 common shares with nominal value of €5.2 and 4,553,640 preferred shares with nominal value of €5.20. More in details, the shareholding held by Fideuram in Fideuram Vita (the “Shareholding”) amounts to 99.8% of the total share capital, divided as follows:

- 9,369,360 Fideuram Vita common shares, corresponding to the whole common share capital; and
- 4,524,873 Fideuram Vita preferred shares, corresponding to 99.4% of the preferred share capital.

Moreover, it is worth mentioning that the acquisition by Fideuram Vita of the 100% shareholding in Fideuram Assicurazioni S.p.A. (“Fideuram Assicurazioni”) held by the controlling company Fideuram, was completed on 8th March 2004.

As a consequence of the Demerger, the whole shareholding will be assigned to SANPAOLO IMI in exchange for newly-issued SANPAOLO IMI common shares to be assigned to all Fideuram shareholders, with the exclusion of SANPAOLO IMI; therefore no share swap will be carried out in connection with Fideuram share capital held by SANPAOLO IMI. As a consequence of the Demerger, Fideuram shareholders' equity will be reduced.

### **Objectives of the valuation of the exchange ratio**

The present Report is aimed at:

- providing the Board of SANPAOLO IMI with the information and analyses required to determine the exchange ratio to be proposed to the SANPAOLO IMI's shareholders' meeting; and
- providing the same information and analyses to the expert appointed, according to the Italian law (ex Art. 2506 ter of the Italian Civil Code), to provide a fairness opinion on the exchange ratio proposed by the Board at SANPAOLO IMI's shareholders' meeting.

More in details, the considerations and the analyses reported below were drawn up for the sole use of the Board as a support for its resolutions in connection with the Demerger, with the only objective of providing the Board with the information and analyses required to determine the exchange ratio between the equivalent value for each Fideuram share of the Demerged Assets, and the value of each SANPAOLO IMI share. Such ratio, indeed, is instrumental to determine the number of newly-issued SANPAOLO IMI common shares to be assigned, as a result of the Demerger, to all Fideuram shareholders—excluding SANPAOLO IMI—for every Fideuram share held.

### **Documents used**

In preparing the present Report Goldman Sachs and JPMorgan used publicly available information as well as data obtained from SANPAOLO IMI and Fideuram management as well as their consultants.

More in details, considering the technicalities involved in the valuation of an insurance company, SANPAOLO IMI and Fideuram have jointly mandated Tillinghast-Towers Perrin (hereafter referred to as "Tillinghast") to prepare an actuarial appraisal of Fideuram Vita as of 31st December 2003 (the "Tillinghast Report on Fideuram Vita").

With reference to Fideuram Assicurazioni, Goldman Sachs and JPMorgan referred to the actuarial report of appraisal issued by Tillinghast on 23rd December 2003 (the "Tillinghast Report on Fideuram Assicurazioni") in connection with the acquisition by Fideuram Vita of the 100% shareholding in Fideuram Assicurazioni held by the controlling company Fideuram.

Goldman Sachs and JPMorgan have assumed and relied completely upon, without any independent verification, the truthfulness, accuracy and completeness of all publicly available data and all information received, both written and oral.

The valuation estimated contained in the report are exclusively based upon the documents described hereunder:

*As for SANPAOLO IMI:*

- Audited statutory and consolidated financial statements approved by the relevant bodies for the financial years 2002 and 2003;
- Consolidated quarterly report dated 31st March 2004;
- 2004 budget and 2005 projections approved by the relevant bodies.

*As for Fideuram Vita:*

- Audited statutory and consolidated financial statements approved by the relevant bodies for the financial years 2002 and 2003;
- Statutory quarterly report dated 31st March 2004;
- 2004-2006 projections prepared by the management;
- Tillinghast Report on Fideuram Vita;
- Appraisal report prepared by Valtech S.r.l. with reference to Fideuram Vita real estate portfolio;
- Main terms agreed between SANPAOLO IMI and Fideuram with regard to the distribution by Fideuram of the insurance products to be manufactured by the SANPAOLO IMI insurance entity resulting from the reorganisation.

*As for Fideuram Assicurazioni:*

- Statutory financial statements, certified and approved by the relevant bodies for the financial years 2002 and 2003;
- Tillinghast Report on Fideuram Assicurazioni;
- Share purchase agreement stipulated on 8th March 2004 between Fideuram Vita and Fideuram in connection with the acquisition of Fideuram Assicurazioni by Fideuram Vita.

In addition to the above mentioned documents and to general management and financial information gathered in the course of meetings with the management of SANPAOLO IMI Group and their consultants, Goldman Sachs and JPMorgan also used publicly available information concerning SANPAOLO IMI and some listed companies.

Goldman Sachs and JPMorgan did not carry out any independent investigation, assessment or appraisal on single assets and liabilities of the companies involved in the Demerger.

**Valuation date**

The date of our valuation is the same as the present Report taking into account that, based on the information used, in the period between the latest statutory and consolidated financial statements and the date of the Report, SANPAOLO IMI and Fideuram stated that no events occurred that could significantly change the economic and financial profile of the companies, except for what is stated hereunder.

As for the Demerged Assets, it is worth mentioning that the acquisition—entirely cash settled—by Fideuram Vita of the 100% shareholding in Fideuram Assicurazioni held by the controlling company Fideuram has been completed on 8th March 2004.

The following considerations and analyses by Goldman Sachs and JPMorgan take into account such transaction.

In their analyses, Goldman Sachs and JPMorgan took also into account that on 26th January 2004 Fideuram Vita capital increase approved by the extraordinary shareholders meeting held on 24th November 2003 was formally completed.

Market prices of listed companies the Report refers to are updated to 17th May 2004.

The Demerger is expected to be effective from a legal standpoint when the last registration of the Demerger deed provided for by Art. 2506 quarter of the Italian Civil Code is effected or at a later date, if so indicated in the deed.

The analyses contained in the present Report have been carried out—and they shall be therefore considered as valid and accurate—under the assumption that up to the mentioned date no significant changes in the economic and financial situations will occur. Moreover, dividends already approved by the shareholders' meetings of SANPAOLO IMI, Fideuram Vita and Fideuram will be paid before the estimated completion date of the Demerger. On this regard, the exchange ratios indicated in the present Report have been calculated adjusting the estimated values for SANPAOLO IMI and the Demerged Assets for the dividends whose distribution have already been approved by the relevant shareholders' meetings; moreover, the distribution will be carried out before the estimated completion date of the Demerger. Therefore, the Board acknowledges that the accuracy of the appraisals in the present Report inevitably depends upon the accuracy of the above mentioned assumptions regarding the payment of dividends and the forecast that there will be no further capital increase before the Demerger completion.

### **Difficulties and limitations of the analyses carried out**

The valuations and the analysis carried out by Goldman Sachs and JPMorgan have to be interpreted taking into account the following limitations and difficulties:

- different activities carried out by SANPAOLO IMI and Fideuram Vita;
- financial markets volatility;
- with reference to Fideuram Vita in particular, the lack of comparable companies in order to apply the market multiple methodology;
- uncertainty concerning the predictability of the future operating and income performance of the companies being evaluated, also in relation to possible changes in the macroeconomic scenario and the expected benefits stemming from the Group insurance activities reorganisation project;
- limitations of the actuarial appraisal carried out by Tillinghast;
- existence of different type of shares (common and preferred) both at SANPAOLO IMI and Fideuram Vita.

## II. Exchange ratio estimate

### Introduction

The valuations and analyses set out in the present Report have the sole objective of making a comparative estimate of the equity value of the Demerged Assets and of the beneficiary of the Demerger and can be solely intended as relative data, making exclusive reference to the specific transaction subject of this Report; they may not and shall not be compared with market values or sale prices nor considered as a separate valuation of each of the companies subject of the analysis. Therefore, all valuations contained in the present Report cannot be used for purposes other than the estimate of the exchange ratio for the Demerger.

The values of each company are to be interpreted only according to and as a support of the estimate of the exchange ratio of the proposed Demerger.

In applying the valuation methodologies described hereunder, Goldman Sachs and JPMorgan adopted independent approaches, though reaching the same conclusions, as presented in section III of the Report.

In particular, Goldman Sachs and JPMorgan applied the valuation methodologies described in the present Report on a stand-alone basis. Moreover, Goldman Sachs and JPMorgan, in accordance with the most established practice, took into consideration the value of synergies—net of the relevant restructuring costs—stemming from the reorganisation project involving the insurance activities of the Group. With regard to this matter, Goldman Sachs and JPMorgan referred to the analyses carried out by SANPAOLO IMI's industrial consultant.

### Exchange ratio valuation process

The exchange ratio valuation process consists of the following:

- valuation of the Demerged Assets through the estimate of Fideuram Vita's equity value (taking into account the acquisition of Fideuram Assicurazioni and the synergies expected from the reorganisation) and, thus, the estimated value of Fideuram Vita shareholding held by Fideuram, considering also that Fideuram Vita share capital includes preferred shares;
- valuation of SANPAOLO IMI;
- calculation of the number of SAN PAOLO IMI common shares to be assigned to Fideuram shareholders, except for SANPAOLO IMI, for the Demerger, which can be deduced from the ratio between the value of the Demerged Assets for each Fideuram share and the value for each SANPAOLO IMI share.

In accordance with the objectives of the valuations, the methodologies applied lead to comparable values for the purpose of calculating the exchange ratio.

### Valuation methodologies applied

Taking into consideration the valuation objectives, the type of companies subject of the valuation, and commonly accepted valuation criteria and methodologies used in the insurance sector both in Italy and globally, Goldman Sachs and JPMorgan, in preparing this Report, referred to both fundamental and market valuation methodologies, interpreting the respective results and their relevance according to the specific features of the companies subject of the valuation.



In order to calculate the value of the Demerged Assets, Goldman Sachs and JPMorgan estimated Fideuram Vita's equity value, taking into account the acquisition of Fideuram Assicurazioni and basing their valuation upon the most commonly accepted and prevailing valuation methodologies for the insurance sector both in Italy and globally. Taking into account the aforementioned objectives, the past and future financial figures, as well as the significance of the market parameters, the following valuation methodologies were applied:

- Appraisal Value;
- Trading multiples of comparable companies;
- Implied multiples of comparable transactions.

In particular, in the valuation of Fideuram Vita and Fideuram Assicurazioni, Goldman Sachs and JPMorgan took into account the actuarial appraisals contained in the Tillinghast Report on Fideuram Vita and in the Tillinghast Report on Fideuram Assicurazioni, respectively. More specifically, the Tillinghast Report on Fideuram Vita has been prepared upon a joint mandate by Fideuram and SANPAOLO IMI and includes the estimate of:

- Embedded Value as of to the 31st December 2003;
- 2003 value of new business;
- Value of the future new business according to projections agreed by SANPAOLO IMI and Fideuram.

As for the valuation of SANPAOLO IMI, on the other hand, the following methodologies were applied:

- Market prices;
- Dividend discount model;
- Trading multiples of comparable companies;
- Regression analysis.

In performing their analyses according to the aforementioned methodologies, Goldman Sachs and JPMorgan took into consideration the intrinsic features and limitations of each criteria, in line with what is provided for by the valuation criteria and methodologies commonly accepted in the banking and insurance sector and used both in Italy and globally.

In particular, after assessing the peculiarities of the company subject of the valuation—for instance, in terms of activities and meaningfulness of available market data—the most appropriate methodology for each company has been identified.

The valuation methodologies selected for the Demerged Assets and SANPAOLO IMI, even though they represent commonly accepted methodologies in the valuation practice, shall not be analysed independently, but as part of a unique valuation process. Following is a description of each fundamental and market methodologies, taken into account to evaluate the Demerged Assets and SANPAOLO IMI.

## Valuation of the Demerged Assets

### Appraisal Value

The Appraisal Value is an actuarially determined estimate of the value of a company value by taking into account both the company net assets and its capacity of generating income in the future. According to this methodology, the value of an insurance company, the so-called Appraisal Value, is calculated as follows:

$$\text{Appraisal Value} = \text{Embedded Value} + \text{Goodwill}$$

Where:

Embedded Value = value of the insurance company taking into account the adjusted net assets and the value of business in force at the valuation date

Goodwill = value of the insurance company which can be attributed to future business

### *Embedded Value*

The Embedded Value is an actuarially determined estimate of the value of an insurance company excluding any value attributable to future new business, that is to say the capacity of the company to write new policies. The Embedded Value is calculated as follows:

$$\text{Embedded Value} = \text{Adjusted Net Assets} + \text{Value of In Force}$$

Where:

Adjusted Net Assets = published net assets adjusted to reflect market values of underlying assets and in order to be consistent with the value of in force calculation

Value of In Force = present value of projected future after-tax profits expected to be generated by the policies in force at the valuation date and calculated taking into account the residual maturity of the policies, assuming assets equal to the technical reserves and less the cost of holding a certain amount of solvency capital

Following is a summary of the main assumptions used to calculate the Embedded Value and the Value of In Force:

1. Operating assumptions used for the calculation of future profits: such assumptions include both management factors, like, amongst the others, the level of expenses and commissions, taxes, mortality rates, lapses, repayments, as well as assumptions in terms of rate of return on assets backing life technical reserves and expected inflation rate. These assumptions, developed for each business line, are defined by the actuary with a deterministic approach, without taking into account the normal volatility which may occur in the future.
2. The discount rates used are determined with reference to the prevailing levels of interest rates and include an additional charge to reflect the risk that future profits will not be realised (so-called risk premium).
3. As for the cost of maintaining an adequate level of solvency capital, it is a function of the difference between the after-tax yield earned on the assets backing solvency capital and the rate representative of the cost of capital as identified with the discount rate. The cost of capital is the present value of these costs over the remaining life of the in force policies.

## **Goodwill**

Goodwill is calculated based on future production and it is a function, amongst other things, of the expected production volumes, the commission agreements between the insurance company, the distribution networks and possibly the asset management company that manages the underlying assets of the policies issued, the operating and management assumptions, as well as the time-horizon of the future production projections. In accordance with national and international valuation procedures, the goodwill value is calculated discounting the stream of future value of new business (defined hereunder) related to the projection time-frame of the valuation. The value of new business each year (hereafter defined as “Value of New Business”) represents the actuarial value of the new insurance policies issued during that particular year and it is calculated upon the sale of the policy and capitalised until the end of the year at the discount rate selected.

In calculating the Embedded Value as of 31st December 2003, as well as the Value of New Business for the financial years 2003 and 2004 for Fideuram Vita, reference was made to the existing commission agreements with the distribution network and the asset management company that manages the underlying assets of the policies issued. While, in calculating the Value of New Business from 2005 onwards, the main economic conditions of the agreements between SANPAOLO IMI and Fideuram regulating Fideuram distribution of insurance products produced by the SANPAOLO IMI insurance new entity—effective from 1st January 2005—were taken into account. In calculating the Value of New Business, it was also taken into account the impact attributable to the new business deriving from the “migration” of asset management products (like investment funds and discretionary accounts) to unit-linked policies and from the “transformation” of a portion of the traditional policies portfolio to unit-linked policies.

Goldman Sachs and JPMorgan, upon application of the Appraisal Value methodology, took into account the Tillinghast Report on Fideuram Vita concerning both the Embedded Value as of 31st December 2003 and the Value of New Business for the financial year 2003, as well as 2004-2006 projections developed from hypotheses shared and agreed by SANPAOLO IMI and Fideuram.

As for Fideuram Assicurazioni, Goldman Sachs and JPMorgan, upon application of the Appraisal Value methodology, took into account both the Embedded Value as of 31st December 2003 and the goodwill value—calculated according to assumptions provided by Fideuram—included in the Tillinghast Report.

### **Trading multiples of comparable companies**

According to this methodology, the value of a company is determined using the information provided by the stock market on companies with similar features to the one evaluated.

The trading multiples analysis is performed applying relevant multiples to the company subject to valuation—calculated as a ratio between a sample of comparable companies’ market capitalisations and various financial parameters of those companies—in order to calculate a range of values if the company is not listed, or to see if these multiples are in line with those expressed by the market for the evaluated company, if listed in the Stock Exchange.

The application of this methodology follows the steps listed hereunder:

- A. selection of a sample of comparable companies (national or international sample, operating performance analysis for all companies in the sample, corporate size, etc.);
- B. identification of the time of reference for the market capitalisation of the companies used in the sample (choice between share price at a single point in time or over a longer time period);
- C. calculation of the key multiples deemed to be significant within the analysed sector, for the selected companies (Price/Earnings ratio, Price/Embedded Value ratio, etc.);

- D. determination of expected earnings and dividends of the companies composing the sample, as well as the other financial figures necessary for the analysis;
- E. selection of the range of multiples to be applied to the company subject of the valuation;
- F. application of the multiples obtained to the company subject of the valuation, adjusted to eliminate the impact of any extraordinary components, in order to derive a range of values for the company itself.

The degree of reliability of this specific methodology depends on an adequate adaptation of the methodology to each specific case. The relevant aspects of the analysis are illustrated hereafter.

#### **A. Selection of the comparable companies sample**

Due to the nature of such a method, great care must be taken in finding a close resemblance, from an operating and financial standpoint, between the companies included as part of the sample and the financial institution subject of the valuation. The significance of the results, indeed, is strictly linked to the comparability of the sample. Since finding identical companies from every viewpoint is an impossible endeavour, the features deemed most significant for the establishment of the comparison sample are chosen, and comparable companies are subsequently selected based on the same features.

The selected stocks shall have a good liquidity and therefore the sample cannot include companies whose market prices can be affected by particular incidental situations.

In the analysed case, the most significant features for the selection of the comparable companies are the geographic location and the product mix (life insurance products rather than property and casualty). Adding also foreign companies in the sample, despite the different profitability profiles due to different legal, tax and accounting environments, was deemed adequate in order to have a wider range of comparable companies in terms of product mix.

In general terms, however, there are no listed companies in the market strictly comparable to Fideuram Vita and Fideuram Assicurazioni, whose profitability is obviously affected by their nature of captive companies without their own distribution network.

#### **B. Identification of the reference time-frame**

The latest available market price was used for the calculation of the market capitalisation of the companies included in the sample.

#### **C. Calculation of key multiples**

A series of ratios, or multiples, thought to be of major importance for the analysis carried out with this methodology, were calculated for every company composing the sample. The selection of the most relevant multiples for the analysis has been based on the characteristics of the insurance sector and on common market practice which gives particular relevance to the following multiples:

- Price/(Expected) Earnings ratio ("P/E");
- Price/Embedded Value ratio ("P/EV").

As regard to the Embedded Value as of 31st December 2003 and the Value of New Business concerning the 2003 financial year of the insurance companies included in the samples, we used the official values expressed in the actuarial reports attached to the 2003 annual reports of the companies themselves.

#### ***D. Determination of expected earnings and dividends for the companies composing the sample***

For the 2003 financial year, we used in our analysis earnings and dividends reported by the companies composing the sample. As for 2004 and 2005, we took into account the projections of the management board and their consultants for Fideuram Vita and Fideuram Assicurazioni, and used the estimates produced by the Institutional Brokers Estimate System (“IBES”) (expressing the consensus amongst financial analysts) for the insurance companies included in the sample.

#### ***E. Selection of the range of multiples to be applied***

The multiples and the ranges to be applied to the companies subject to the valuation are defined on the basis of qualitative considerations on the significance of the multiples derived from the analysis of the companies composing the sample and on the financial features of the evaluated insurance companies.

#### ***F. Applications of the selected multiples to the companies subject to the valuation***

The multiples resulting from the calculations have been applied to the net profit estimated for the financial years 2004 and 2005 and to the Embedded Values of Fideuram Vita and Fideuram Assicurazioni, in order to determine a range of values for the mentioned companies.

### **Implied multiples of comparable transactions**

The comparable transaction methodology is based on the application of the multiples implied in comparable transactions to financial and actuarial figures of the company subject of the valuation.

When applying the multiples of comparable transactions, it is necessary to remember that the mentioned multiples can implicitly express also the strategic value which is, due to its nature, extremely peculiar, specific and difficult to quantify, as well as the value of potential estimated synergies resulting from the transaction itself. This methodology is applied following three steps:

- collection of data on transactions with similar features to the one subject to the analysis, assessing the degree of similarity according to, amongst other factors, the transaction date, type, business model, size and profitability of the companies involved, acquired percentage and form of consideration;
- calculations of the multiples, by comparing the price paid for the companies with certain reference financial figures;
- calculation of significant statistical indexes of the resulting multiples and their application to the relevant financial figures of the companies subject of the valuation.

In the application of the comparable transaction methodology, finding identical companies from every viewpoint is an impossible endeavour, resulting in a focus towards those transactions that have some significant elements in common with the analysed transaction.

More specifically, we think the most significant criteria for the selection of comparable transactions are business model, corporate size and profitability of the company involved in the transaction, the technical-economic features of the transaction as well as the geographical presence.

For the context of this Report, Goldman Sachs and JPMorgan analysed recent acquisitions of shareholdings in life insurance companies in the Italian bancassurance sector.

Given the peculiarities of both the proposed transaction and the evaluated companies and the lack of comparable listed companies and transactions, Goldman Sachs and JPMorgan mainly referred to the Appraisal Value methodology in evaluating the Demerged Assets and calculating the exchange ratio.

## **Fideuram Vita common and preferred shares**

Since the share capital of Fideuram Vita consists of both common and preferred shares, once the economic capital value of Fideuram Vita is calculated, in order to find the Demerged Assets value, the value of the shareholding (which is represented by 100% of the common share capital and 99.37% of the preferred share capital) in Fideuram Vita held by Fideuram has to be assessed. Therefore the total value of the economic capital of Fideuram Vita is to be split between common share capital and preferred share capital.

Taking into account the features of the preferred shares of Fideuram Vita, in order to calculate the Demerged assets value and, subsequently, the exchange ratio, the mentioned preferred shares have been considered as common shares.

## **Valuation of SANPAOLO IMI**

### **Market prices method**

In the market prices method the value of a company is considered as the average value implied in the prices recorded in the market over a defined period. The market price method relies upon the assumption of efficiency of the Stock Exchange in which the company is listed and it analyses and compares the values expressed by the Stock Exchange prices for the relevant stocks, over adequately long time-frames. Since stock prices of companies with sufficiently high float and traded volumes are the result of a stockbroker's arbitrage systematic process, they represent reliable appraisal indicators of profitability, financial soundness, risk profile and growth perspective, and, therefore, they are useful to estimate the value of those companies.

As for SANPAOLO IMI, we believe that the market capitalisation of the SANPAOLO IMI stock represents the economic value of the company, because:

- SANPAOLO IMI is among the top thirty companies listed in the Italian Stock Exchange in terms of capitalisation;
- the high level of volumes traded every day prove that the liquidity of the stock is high;
- the main Italian and international financial brokers constantly publish research notes on the company, thus helping the spreading of information and analyses that are fundamental for market prices to adequately reflect the economic and financial situation as well as the risk profile of the bank.

Given our belief that the Stock Exchange prices of SANPAOLO IMI are in line with the company's economic capital value, in estimating the exchange ratio, we considered as most significant those values that resulted from the calculation of the Stock Exchange official prices (daily weighted average price) on time-frames that level off the consequences of any exceptional event, like short-term fluctuations and speculations, and, at the same time, reflect the information available for the market in the most recent periods. In particular, we considered the last month average of the official prices.

### **Dividend Discount Model**

The Dividend Discount Model (hereafter referred to as "DDM") is based on the assumption that the value of a bank is equal to the present value of the cash flows available in the future to the shareholders of the company itself, which are assumed to be equal to the dividend flow that can be distributed by the bank while keeping an adequate capitalisation level, based on considerations driven by existing regulatory requirements and considerations on the appropriate level of capital—from an operating and economic standpoint—to support the expected future development of the business. The mentioned flows are not connected to the dividend policy actually planned or adopted by the bank.

According to this method, the value of a banking institution is equal to the sum of the value of the discounted future dividends and the terminal value of the company, calculated with the following formula:

$$Ve = \sum_{t=1}^n \frac{Dt}{(1 + Ke)^t} + \frac{TV}{(1 + Ke)^n}$$

Where:

Ve = Economic value of the company;

D = Maximum yearly dividend which can be distributed by the bank while maintaining an adequate capitalisation level;

TV = Terminal value of the company;

n = Number of years in the projection;

Ke = Dividend discount rate, which expresses the company cost of capital;

This model is normally applied through the following stages:

- A. detailed forecast of future cash flows and of the flows which can be distributed to the shareholders during the reference time-frame, taking into account the need to keep a minimum capitalisation level, defined according to the existing regulations for banking institutions and to prudential considerations;
- B. calculation of the terminal value of the bank, that is to say the value of the bank estimated in the last year of the detailed forecasts as per paragraph (A). The Terminal Value can be calculated with two methods:

(i) By using the following formula:

$$TV = \frac{Dt (1 + g)}{(Ke - g)}$$

Where:

Dt = Maximum dividend which can be distributed in the last year of the detailed forecasts;

g = Perpetual growth rate of the dividends that can be distributed;

Ke = Cost of capital of the company subject to the valuation;

(ii) or by applying a multiple to the profits or to the book value of the bank in the last year of detailed forecasts.

The final value obtained is then considered as an additional cash flow in the last year of the detailed forecasts.

- C. calculation of the discount rate of the dividend flows. Even though the rate can be calculated with different methods, usually this discount rate, defined as Cost of Equity, is calculated using the following Capital Asset Pricing Model ("CAPM") formula:

$$Ke = Rf + Beta \times (Rm - Rf)$$

Where:

Rf = Rate of Return for risk-free investments;

- Beta = Correlation factor between the actual yield of a share and the overall yield of the reference stock market;
- Rm = Overall yield of the reference stock market;
- (Rm — Rf) = Market risk premium of reference stock market compared to risk free investments.

This method is based on the assumption that in a liquid and efficient market investors calculate the required return rate by considering only the systemic (or market) risk of an investment, expressed by the relation between stock price variation and stock market variation (Beta factor). The investment-specific risk is not taken into account, as it can be eliminated by the investor with an adequate investment-diversification policy.

It is interesting to notice that the application of this model may result in an economic capital estimate significantly different from the one resulting from the application of the market methods, since a significant component of the value obtained consists of the dividend flows generated beyond explicit projections contained in the bank's business plan, and thus necessarily requiring a subjective interpretation.

### **Trading multiples of comparable companies**

As for the description of the trading multiples methodology, refer to the paragraph describing the application of the same methodology to the valuation of Fideuram Vita.

More specifically, with regards to the application of the trading multiples methodology to SANPAOLO IMI, the following is reported.

#### ***A. Selection of the comparable companies sample***

In the analysed case, corporate size, nation of origin and geographical area of presence were considered as the most significant factors for the selection of comparable companies. The corporate size is important as it influences the kind of activities carried over by the banks, the combination of funding/investment flows and, therefore, the economic and financial structures. We deemed inappropriate to include foreign companies in the sample since they have different profitability profiles when compared to the Italian companies, due to the different legal, tax, accounting and regulatory frameworks of the Italian market.

As for the geographical area of presence banks with a national reach were selected, due to the national ambitions of SANPAOLO IMI and the resulting similarities in terms of investment risks, funding diversification and profitability.

#### ***B. Selection of the reference time-frame***

For the calculation of the market capitalisation of the companies included in the sample, the latest available price was used.

#### ***C. Calculation of key multiples***

A series of ratios, or multiples, thought to be of major importance for the analysis carried out with this methodology, were calculated for every bank composing the sample. The selection of the most relevant multiples for the analysis has been based on the characteristics of the banking sector and on common market practice which gives particular relevance to the following multiples:

- Price/(Expected) Earnings ratio ("P/E");
- Price/Book value ratio ("P/BV").



#### ***D. Determination of expected earnings and dividends for the companies composing the sample***

For the 2003 financial year, we used in our analysis earnings and dividends reported by the companies composing the sample. As for the 2004 and 2005 data, we took into account the management projections for SANPAOLO IMI and the estimates provided by the Institutional Brokers Estimate System (“IBES”) (which reflect the consensus amongst financial analysts) for the banks included in the reference sample.

#### ***E. Selection of the range of multiples to be applied***

The multiples and the ranges to be applied to the bank subject to the valuation are defined on the basis of qualitative considerations on the significance of the multiples derived from the analysis of the companies composing the sample and on the financial features of the evaluated bank.

#### ***F. Applications of the selected multiples to the companies subject to the valuation***

The multiples resulting from the calculations have been applied to the net income estimated for the financial years 2004 and 2005 and to the book value of SANPAOLO IMI, in order to find a range of values for it.

#### **P/BV—ROAE regression analysis**

The regression analysis carried out on a wide sample of comparable listed companies, allows to assess the positioning and the relative valuation of each company, according to their present and estimated profitability. This methodology consists in the analysis of the correlation that exists between the profitability of a bank, measured in terms of projected return on average equity (“RoAE”) as expected by the financial community, and the premium or discount to the book value implied in the bank’s market capitalisation. Such correlation can be analyzed through a regression between RoAE and P/BV multiples for a significant sample of banks. Once such correlation has been identified, it can be applied to the projected RoAE of the Banks to obtain the theoretical P/BV multiple at which the Banks could be trading on the market.

The application of the regression method consists of the following steps:

- A. selection of the sample of banks on which the regression analysis is carried out;
- B. selection of the reference time-frame for the RoAE;
- C. calculation of the RoAE and the P/BV ratio for the companies included in the sample;
- D. selection of the kind of the statistical regression to be applied;
- E. calculation of the RoAE and the book value of the bank to which the results of the regression are applied;
- F. application, provided that they are of any statistical significance, of the statistical regression results to calculate a theoretical market value for the bank subject of the valuation.

#### ***A. Selection of the statistical sample***

The selected sample is made of a large number of listed Italian banks with adequate float and liquidity. We did not deem relevant nor appropriate to include foreign banks in the sample since these have different profitability levels than Italian banks in light of different legal, fiscal, accounting and regulatory frameworks.

## ***B. Selection of the reference time-frame***

One of the fundamental assumptions on which the application of this model is based, is the existence of a significant and sound correlation between the indicated parameters. The mentioned correlation is particularly significant if applied to the 12-24 month forward RoAE, which corresponds to the time-frame most widely spread amongst market analysts when they carry out regression analyses. For our purpose, we carried out the analysis on the estimated 2004 and 2005 RoAE, calculated as the ratio between the estimated profits in 2004 and 2005 and estimated average book value for each period.

## ***C. Calculation of the RoAE and the P/BV ratio for the analysed companies***

In order to calculate the estimated RoAE and the P/BV ratio of the companies included in the sample, we considered the estimates provided by IBES concerning the profits and dividends of those banks.

## ***D. Choice of the kind of regression to use***

The regression applied to the sample is linear, according to the equation:

$$P/BV = a + b \times \text{Estimated RoAE}$$

Where “a” expresses the intercept and “b” the slope of the regression line. The significance of correlation thus obtained is satisfactory from a statistical standpoint, so much so that its parameters can be applied to financial figures of the bank in order to calculate a theoretical market value.

Since the SANPAOLO IMI stocks have a high level of liquidity and are used as consideration in the proposed Demerger, and considering that it provides substantially consistent results for the analyses carried out with the other mentioned valuation methodologies, in calculating the exchange ratio Goldman Sachs and JPMorgan mainly referred to the market price methodology to estimate SANPAOLO IMI’s economic capital value.

## **SANPAOLO IMI common and preferred shares**

Given the features of SANPAOLO IMI preferred shares, they were considered as common shares when calculating the exchange ratio.

### III. Results and Conclusions

In accordance with the assumptions outlined in the introduction and the analyses carried out according to the methodologies described in the present Report (in particular the application of the Appraisal Value for the Demerged Assets' economic capital valuation and the application of the market prices method for the valuation of SANPAOLO IMI's economic capital), we obtained the following results:

<b>Economic capital value (€m)</b>	<b>Demerged Assets*</b>	<b>SANPAOLO IMI**</b>
Goldman Sachs	627-733	17,026
JPMorgan	638-720	17,026

\* *The minimum value does not include the value of the expected economic benefits*

\*\* *Average of last month official prices*

According to the aforementioned estimates, dividing the economic value of the Demerged assets and SANPAOLO IMI's economic capital by the number of Fideuram and SAN PAOLO IMI shares, respectively, and taking also into account the area in which the ranges found by Goldman Sachs and JPMorgan overlap, we derived the following exchange ratios shared range:

#### **0.07025—0.07923 SANPAOLO IMI shares for one Fideuram share**

Within the mentioned range, Goldman Sachs and JPMorgan have identified **0.07470** as the exact value of the exchange ratio.

Goldman Sachs International  
Managing Director

J.P. Morgan plc  
Managing Director