

## Banche Popolari Unite S.C.p.A.

12 December 2006

**Fairness Opinion for the Board of Directors of Banche Popolari Unite S.C.p.A. on the Share Exchange Ratio for the merger by incorporation of Banca Lombarda e Piemontese S.p.A. into Banche Popolari Unite S.C.p.A.**

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Section 1

Introduction

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## 1.1 Introduction and Purpose of the Mandate

### **Introduction**

On 13 November 2006, the Boards of Directors of Banche Popolari Unite S.C.p.A. (“BPU”, or the “Bank”) and Banca Lombarda e Piemontese S.p.A. (“Banca Lombarda”) (hereinafter also referred to jointly as the “Banks”) ratified the general proposal for a merger by incorporation of Banca Lombarda into BPU, with the allocation of newly-issued ordinary shares of BPU to Banca Lombarda shareholders (the “Merger”).

Morgan Stanley Bank International Limited (“Morgan Stanley”) was given a mandate by the Board of Directors of BPU to produce a fairness opinion on the appropriate exchange ratio for the transaction (the “Exchange Ratio”). As part of its mandate, Morgan Stanley has presented the Board of Directors of BPU with the principal results of the valuation.

Morgan Stanley is BPU’s financial advisor for the Merger.

### **Purpose of the mandate**

This fairness opinion (the “Opinion”) has been prepared for the Board of Directors of BPU for the sole purpose of providing it with a guide for the determination of the Exchange Ratio. The Opinion is not required under the regulations applicable to the aforementioned operation, but represents one of the tools that the Board may use to determine, in its own independent judgement, the appropriate Exchange Ratio to be recommended to the General Meeting of the Shareholders.

## 1.2 Assumptions and Limitations of the Analysis

The conclusions reached by Morgan Stanley must be interpreted in the light of the following key assumptions and limitations:

- The conclusions described are based on the entirety of the valuations contained herein; therefore, no part of the Opinion is to be used without considering the Opinion in its entirety. Furthermore, Morgan Stanley assumes no direct or indirect liability for any damage that might result from the incorrect use of the information contained herein;
- The results indicated in the Opinion are to be understood as referring exclusively to the calculation of the Exchange Ratio and may not be considered representative:
  - Of the value of the Banks on a stand-alone basis or the prices at which BPU shares and/or Banca Lombarda shares might be traded on regulated markets;
  - Of the achievable value of one of the businesses or companies on a stand-alone basis in the context of a disposal operation.

This Opinion should not be interpreted by BPU shareholders as a recommendation in relation to the exercise of their right to vote at the General Meeting. Furthermore, no part of this Opinion may be relied upon by anyone other than the members of BPU's Board of Directors.

Morgan Stanley assumes no liability for the information used as a basis for the valuations contained in this Opinion, or for their accuracy or completeness, or for any harmful consequences caused to persons relying on any statement, conclusion or view contained herein. Finally, no representation contained in this document may be considered a guarantee or indication of future financial performance, cash flow or equity of the Banks or Group.

## 1.3 Documentation Used

In fulfilling its mandate and preparing this Opinion, Morgan Stanley obtained and examined the following accounting material and information:

- The current Articles of Association of BPU and Banca Lombarda;
- The approved statutory and consolidated financial statements of BPU and Banca Lombarda for 2004 and 2005, complete with Director's Reports, Reports of the Statutory Boards of Auditors and audit certifications;
- The approved statutory and consolidated financial statements of BPU and Banca Lombarda as at 30 June 2006, complete with Director's Reports and limited audit reports;
- The approved statutory and consolidated financial statements of BPU and Banca Lombarda as at 30 September 2006, complete with Director's Reports;
- The consolidated business plans of BPU and Banca Lombarda for 2006-2009 and 2006-2008 respectively, provided by the Banks' management and presented to the financial community on 14 December 2005 and 21 March 2006 (the "Business Plans");
- Other data and information of an accounting, financial, strategic and commercial nature provided, both verbally and in written form, directly by the management of the Banks and/or through their advisors;
- Information in the public domain relating to BPU and Banca Lombarda 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 (cf. Paragraphs 4.3 and 5.5).

Furthermore, in preparing the Opinion Morgan Stanley has assumed that:

- All information, data, statements and reports – whether financial or otherwise – provided to, analysed by or discussed with Morgan Stanley by the management of BPU and Banca Lombarda are true and complete, with no independent verification, certification and/or analysis being carried out by Morgan Stanley;
- 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 BPU and Banca Lombarda;

## 1.3 Documentation Used (cont'd)

- No materially relevant information has been omitted or withheld from Morgan Stanley;
- The valuations of assets and liabilities provided to Morgan Stanley, which has not conducted any valuation or expert analysis of the assets and liabilities of BPU and Banca Lombarda, are consistent 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 the completion of the transaction are obtained with no material negative impact to BPU, Banca Lombarda and/or the Merger.

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

We have also learnt that the results of the due diligence did not necessitate any modification to the Exchange Ratio agreed by the parties.

Section 2

Description of the Transaction

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## 2.1 Parties Involved in the Merger

The Banks involved in the Merger are:

- Banche Popolari Unite S.C.p.A., having its registered office and headquarters in Bergamo, Piazza Vittorio Veneto 8, with fully paid-up share capital of €861,134,525, divided into 344,482,684 shares with a par value of €2.50;
- Banca Lombarda e Piemontese S.p.A., having its registered office and headquarters in Brescia, Via Cefalonia 74, with fully paid-up<sup>1</sup> share capital of €355,015,926, divided into 355,015,926 shares with a par value of €1.00.

**Notes**

<sup>1</sup> Including 9,416 shares with management options valid during the period 1 December 2006 - 31 December 2006. The strike price is €9.546 per share.

## 2.2 Description of the Transaction

The Board of Directors of BPU, meeting in Bergamo on 12 December 2006, is required to examine and approve the proposal for a Merger by incorporation of Banca Lombarda into BPU; a General Meeting will also be called for the review and approval of the proposal by the shareholders. The outline proposal, together with the proposed Exchange Ratio, was approved at the Board of Director's meeting in Bergamo on 13 November 2006.

It is expected that the Merger by incorporation of Banca Lombarda into BPU will take place by the exchange of shares held by Banca Lombarda shareholders in return for BPU ordinary shares, with the cancellation of all Banca Lombarda shares in circulation.

Furthermore, pursuant to Article 2437 of the Italian Civil Code, the Merger will entitle Banca Lombarda shareholders who did not vote in favour of the Merger plan at the General Meeting to withdraw in respect of all or some of their shares. In this case, Banca Lombarda will be obliged to pay shareholders who exercise this right a cash sum calculated on the basis of the arithmetic average of the closing price of Banca Lombarda ordinary shares in the six months preceding the publication of the notice of an Extraordinary Meeting called to approve the Merger. Accordingly, the Merger agreement, as ratified by the respective Boards of Directors on 13 November, states that the Merger may only take effect if the right of withdrawal is exercised by Banca Lombarda shareholders representing less than 10% of the share capital. By common consent, the parties may decide to waive the application of this clause.

BPU ordinary shares are listed on the Italian electronic equity market (Mercato Telematico Azionario) organised and managed by Borsa Italiana S.p.A.. They will continue to be listed on this market after the Merger.

The transaction, as presented on 14 November 2006, will allow the banking group resulting from the Merger to take advantage of synergies in terms of reduced costs and additional revenues.

Specifically, it is thought that infrastructure headcount rationalisation, unification of IT platforms, administrative costs reduction, value-building of the resulting companies and promotion of internal best practices, all represent considerable potential for synergies.

Once the merger is complete, total synergies are estimated at €365 million per annum, with around €225 million in reduced costs and €140 million in increased revenues. Fully-phased synergies are expected to be achieved by 2010, with more than 90% of synergies achieved by 2009. Cautious estimates

## 2.2 Description of the Transaction (cont'd)

placed total merger costs at around €380 million, with €360 million posted to the income statement in 2007 and €20 million in additional goodwill.

Based on the announcement made by BPU, the potential for value creation is of approximately €2.3 billion, excluding restructuring costs.

Section 3

Valuation Methodologies

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## 3.1 Introduction and Purpose of the Valuation

The valuation of BPU and Banca Lombarda – consistently with market practice – was carried out on the basis of the current configuration and future prospects of the Banks on an independent basis, disregarding the potential synergies arising from the merger (stand-alone values).

The valuation methodologies were chosen based on the specific features of the two companies and the assets involved in the transaction, as well as the aims of the valuation itself.

In general, the underlying principle of a valuation for mergers or demergers is the consistency of the analysis and valuation criteria applied. This principle translates as the choice of criteria and methods that are most fitting for the parties involved and that refer to a common valuation approach, notwithstanding the differences between the two companies. The end goal is to suggest comparative values that enable the Exchange Ratio to be calculated.

The results obtained from the application of these methodologies reflect the differences in the prevailing conditions in the financial markets and in the relevant business sectors, the financial situation and prospects of the companies under consideration or the comparable companies, and other factors liable to influence share prices, and must be viewed as dependent on these differences. These factors are particularly difficult to predict, so the valuations may vary considerably over time.

Furthermore, we have adapted the chosen valuation methodologies, described in detail further on in this document, to reflect the characteristics of the project and the particular features of the companies involved.

Structurally, the valuation process entails the use of assumptions for calculation purposes. Using a sensitivity analysis, Morgan Stanley has verified the sensitivity of the results obtained to the underlying assumptions for each valuation method applied. The value ranges used for the economic and analytical methods, such as the Dividend Discount Model and the Warranted Equity Method, are derived from this sensitivity analysis.

## 3.2 Methodologies Adopted to Calculate the Merger Exchange Ratio

According to established theory and standard practice, there are a number of criteria from which the valuer can choose each time, depending, for example, on the type of enterprise involved (industrial, commercial, insurance, banking, and so on), or the reason for the valuation (*e.g.* a one-off finance operation or corporate acquisition/disposal).

With regard to the more widely applied valuation criteria, academia and industry have agreed in giving priority to analytical valuation methods, while financial operators have agreed to place more importance on market values, thus favouring valuations that take into account the companies involved in the transaction and the conditions in which the negotiations take place.

The aforementioned difference in approach is reflected in the distinction usually made between “analytical” valuation criteria and methods, which produce “absolute” valuations (based on models and formula), and empirical “market” methods, which produce “relative” valuations (mainly based on market multiples).

In view of the above and given the “qualitative” characteristics of the Banks and the valuation policies adopted for similar operations in Italy and abroad, the valuation methods chosen by Morgan Stanley for this Opinion are as follows:

- “Analytical” valuation methods:
  - Dividend Discount Model, and specifically the “Excess Capital” variant;
  - Warranted Equity Method;
- “Market” valuation methods:
  - Market multiples.

For verification purposes, the results obtained for both Banks have been compared against share prices at the time of the transaction and immediately prior to it (the “share price methodology”).

The share price methodology has not been considered a “fundamental” methodology (and the results have not therefore been included in the calculation of the Exchange Ratio) to prevent any recent speculation from influencing the Exchange Ratio Range.

The chosen methodologies, while internationally recognised and applied, should not be analysed individually, but rather should be considered as

## 3.2 Methodologies Adopted to Calculate the Merger Exchange Ratio (cont'd)

intrinsic parts of a single valuation process. Analysing the results of each methodology separately, rather than in conjunction with the other criteria, would render the valuation process meaningless.

### 3.3 Further Considerations

The Banks involved in the Merger do not have the same legal status. BPU is a *Società Cooperativa per Azioni*, or limited cooperative society – and is therefore a “popular” bank (or “*Popolare*”) – while Banca Lombarda is a *Società per Azioni*, or limited company. According to the Merger proposal, as presented on 13 November 2006, the shareholders of Banca Lombarda will receive BPU shares in exchange for the Banca Lombarda shares they hold, in the context of a *Società per Azioni* being incorporated by a *Popolare*.

For the purposes of this Opinion, it is noted that a consensus exists among financial analysts as to the correspondence between the value of ordinary shares and their financial and administrative rights. A material shareholder of a *Popolare* does not have certain administrative rights, in this specific case the right to exercise control over the company. In fact, under Article 30 of the Italian Banking Act, in *Popolari*, each registered member has the right to a single vote at shareholders meetings regardless of the number of shares held (which in any case may not exceed 0.5% of the share capital).

Therefore, for the purposes of this Opinion, in view of the different values assigned to shares where the potential to contest control of the company means that they have different levels of strategic appeal, an adjustment coefficient (the “Adjustment Coefficient”) has been applied to the Exchange Ratio values determined based on “analytical” methods. The Adjustment Coefficient expresses the difference between the value of shares of a company where control cannot be achieved, or can only be achieved to a limited degree, and the value of shares in a company where control can be achieved. Specifically, the Exchange Ratios estimated based on “analytical” methodologies have been corrected by the Adjustment Coefficient through the formula:

$$\text{Exchange ratio} = \frac{\text{BL share value}}{\text{BPU share value}} \times \text{Adjustment Coeff.}$$

To estimate the Adjustment Coefficient, Morgan Stanley analysed the ratio shareholders’ equity to market capitalisation for a sample of *Popolari* banks, comparing it with the same ratio for a sample of banks that are *Società per Azioni*. The sample of *Popolari* banks included BP Verona e Novara, BPU, BP Milano and Credito Valtellinese. The sample of banks set up as *Società per Azioni* included Banca Intesa, Sanpaolo IMI, Capitalia, Banca Monte dei Paschi di Siena, Banca Lombarda and Credito Emiliano. The multiples differential was also analysed taking into account the different return on

### 3.3 Further Considerations (cont'd)

equity (ROE) of the two samples. This analysis gave an estimated Adjustment Coefficient between 1.31 and 1.37.

The Adjustment Coefficient was not applied to the “market” methodologies since by selecting comparable companies with the legal status of *Società per Azioni* for Banca Lombarda and *Società Cooperativa* for BPU, theoretically the adjustment has already been incorporated in market values.

### 3.4 Principal Difficulties and Limitations of the Valuation

Article 2501-*quinquies* of the Italian Civil Code requires that the directors of companies involved in a merger report “any valuation difficulty” 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 summarised below:

- Use of forecast data: the analysis were performed using forecast data taken from the Business Plans, which, by its very nature, entails a degree of uncertainty and a lack of relative uniformity;
- Estimated Adjustment Coefficient: to assess the appropriateness of the Exchange Ratio, in view of the different legal status of the Banks involved in the merger (cf. Paragraph 3.3), an Adjustment Coefficient was applied to the exchange ratio values determined based on “analytical” methods (Dividend Discount Model and Warranted Equity Method). This “adjustment” was calculated using estimates and empirical analyses that, by their very nature, are uncertain and variable;
- Valuation criteria: the valuations performed reflect the limitations and peculiarities of each of the various valuation methodologies used.

Section 4

Valuation of BPU

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## 4.1 Dividend Discount Model

### 4.1.1 Description and application of the method

The Dividend Discount Model (“DDM”), and specifically the “Excess Capital” variant, assumes that a bank’s economic value is the sum of:

- The present value of future cash flows generated during the chosen period and potentially distributable to shareholders, while maintaining an adequate level of capitalisation (as defined below); and
- The “Terminal Value”, or the value of the Bank at the end of the cash flow forecasting period, calculated assuming profitability and growth levels sustainable for an infinite period of time.

The DDM in its Excess Capital variant is preferred to the pure DDM (which discounts potential dividend flows according to the company’s dividend policy), since this variant is considered better suited to bank valuations, taking account of the regulations governing capital adequacy coefficients. This variant also does not depend on the dividend policy announced or historically adopted by the company, which may also vary according to the plan in question.

The DDM Excess Capital methodology therefore estimates the value of a bank’s economic capital based on the following formula:

$$W = \text{DIV}_a + \text{VT}_a$$

where:

W represents the economic value of the bank;

$\text{DIV}_a$  represents the present value of cash flows potentially distributable to shareholders over a specific timeframe, maintaining an adequate level of capitalisation;

$\text{VT}_a$  represents the present value of the bank’s Terminal Value.

The DDM Excess Capital methodology consists of the following three steps:

#### 1. Calculation of future dividend flows and chosen timeframe

For the purposes of this valuation, an explicit time horizon has been assumed to forecast dividend flows, beyond which the value of the companies has been calculated by discounting the Terminal Value.

To estimate the maximum dividend flows potentially distributable, the minimum level of capitalisation considered adequate to ensure the Banks’

## 4.1 Dividend Discount Model (cont'd)

future operations has been defined. Taking account current legislation and international practice, this was set as a Core Tier 1 coefficient of 6.0%.

### 2. Calculation of the discount rate

The discount rate applied to dividend flows (“Cost of Equity”) represents the return on equity required by investors/shareholders for investments with a comparable risk profile ( $k_e$ ). This was calculated based on the Capital Asset Pricing Model (CAPM), whereby the Cost of Equity is expressed by the following formula:

$$K_e = R_f + \beta \times (R_m - R_f)$$

where:

- $R_f$  represents the “risk-free rate”, or the rate of return for risk free investments (for the current valuation, a risk-free rate of 4.1% was assumed, representing the average Euro 30-year Swap rate for the last two years);
- $R_m - R_f$  represents the market premium, or the risk premium of the equity investment compared with a risk-free investment, set at 4.5% in line with current valuation practice;
- $\beta$  represents the correlation coefficient between the effective return on an individual share (specifically shares representing the share capital of the company and similar companies) and the total return for the reference market (measuring the volatility of a share compared to a market portfolio). For the current valuation, a  $\beta$  of 1.09 has been used, based on a sample of comparable companies.

This methodology gives an estimated discount rate of 9.0%. The same Cost of Equity is used for both Banks.

### 3. Calculation of the Terminal Value

The Terminal Value was determined using the Perpetual Dividend Growth formula. To verify the results, the Terminal Value was also calculated using the Terminal Shareholders’ Equity multiple method.

#### a) *Perpetual Dividend Growth*

According to this formula, the Terminal Value is calculated based on a multiple of the dividends potentially distributable at the end of Step 2. This multiple takes into account the Cost of Equity ( $K_e$ ) and terminal growth rate ( $g$ ), using the following formula:

## 4.1 Dividend Discount Model (cont'd)

$$\text{Terminal Value} = \frac{\text{Last Explicit Dividend} \times (1 + g)}{(K_e - g)}$$

where:

$g$  indicates the nominal growth rate sustainable over the long term (“Sustainable Growth Rate”) and was calculated based on estimated growth in real terms and inflation. Morgan Stanley has used a Sustainable Growth Rate of 2.5% for both BPU and Banca Lombarda;

$K_e$  indicates the discount rate, equal to the Cost of Equity, as calculated in the previous Paragraph.

### b) Terminal Equity multiple

For verification purposes, the Terminal Value was calculated by applying the multiple obtained from the Gordon Growth Model (see Paragraph 4.2) to the Terminal Shareholders’ Equity. This method is generally used to confirm the estimated Terminal Value calculated using the methodologies described above.

#### 4.1.2. Results summary

Using the DDM method for the BPU valuation, an indicative value per BPU share between €25.5 - €28.0.

Banche Popolari Unite Dividend Discount Model		
	Minimum	Maximum
Value per share (€)	25.5	28.0
Value (€ MM)	8,772	9,651

The following table summarises the results of the sensitivity analysis of the values obtained using the DDM method, depending on Cost of Equity and Sustainable Growth Rate.

## 4.1 Dividend Discount Model (cont'd)

DDM						
€per share						
		Cost of Equity				
		8.250%	8.875%	9.000%	9.125%	9.250%
Terminal Growth Rate	2.250%	27.3	26.8	26.3	25.9	25.5
	2.375%	27.5	27.0	26.5	26.0	25.6
	2.500%	27.6	27.1	26.6	26.2	25.7
	2.625%	27.8	27.3	26.8	26.3	25.9
	2.750%	28.0	27.5	27.0	26.5	26.0

## 4.2 Warranted Equity Method

### 4.2.1. Description and application of the method

According to the Warranted Equity Method (“WEM”, also referred to as the “Gordon Growth Model”), the value (W) of a bank can be determined based on the relationship between:

- Estimated future returns (expressed by the ROE) sustainable by the bank over the long term;
- Sustainable Growth Rate (g) in income over the long term; the value used coincides with that used for the Dividend Discount Model (see Paragraph 4.1);
- The rate of return “ $k_e$ ” required by investors for alternative investments with a comparable risk profile (Cost of Equity); the value used coincides with that used for the Dividend Discount Model methodology (see Paragraph 4.1)

The relationship between these three factors is expressed based on the perpetual dividend growth formula, which means that the impact of a bank’s net income (in terms of ROE) on the valuation is multiplied by the estimated growth:

$$\frac{W}{\text{Shareholders' Equity}} = \frac{(\text{ROE} - g)}{(K_e - g)}$$

In order to assess the sensitivity of the value obtained to the valuation parameters used, sensitivity analyses were carried out in relation to the Cost of Equity ( $K_e$ ), Sustainable Growth Rate (g) and normalised ROE.

In addition, the equity used in the WEM formula represents a normalised shareholders’ equity, necessary to maintain sufficient capitalisation for normal business activity. Conversely, Excess Capital is valued at book value, representing capital potentially distributable to shareholders.

### 4.2.2. Results summary

The application of the WEM method for the BPU valuation gives a value per BPU share between €23.6 - €27.3.

## 4.2 Warranted Equity Method (cont'd)

Banche Popolari Unite Warranted Equity Method		
	Minimum	Maximum
Value per share (€)	23.6	27.3
Value (€ MM)	8,138	9,400

This range is constructed based on the following sensitivity table:

Warranted Equity Method							
Cost of Equity (%)	Sustainable RoE (%)	Long Term Growth					
		2.25%		2.50%		2.75%	
		Value (€MM)	VpS (€)	Value (€MM)	VpS (€)	Value (€MM)	VpS (€)
8.75%	12.9%	8,720	25.3	8,846	25.7	8,983	26.1
	13.1%	8,912	25.9	9,046	26.3	9,191	26.7
	13.4%	9,105	26.4	9,246	26.8	9,400	27.3
9.00%	12.9%	8,418	24.4	8,528	24.8	8,646	25.1
	13.1%	8,603	25.0	8,720	25.3	8,846	25.7
	13.4%	8,788	25.5	8,912	25.9	9,046	26.3
9.25%	12.9%	8,138	23.6	8,233	23.9	8,335	24.2
	13.1%	8,316	24.1	8,418	24.4	8,528	24.8
	13.4%	8,495	24.7	8,603	25.0	8,720	25.3

## 4.3 Market Multiples Method

### 4.3.1. Description and application of the method

The Market Multiples method is based on an analysis of share prices of a sample of comparable banks to those under consideration in this valuation. In an efficient market, and in absence of speculative pressures, share prices reflect the expectations of the market as to future growth of the companies' profits and the associated level of risk and volatility.

In this method, a series of ratios ("multiples") are calculated for the sample of comparable companies between the market price and a number of significant parameters (multiples are usually calculated based on expected net income and expected shareholders' equity). The average ratios thus obtained are applied to the expected shareholders' equity and net income, as expressed in the company's Business Plan, in order to obtain its theoretical market value.

In line with international practice, the multiples applied are leading multiples, which means that they are based on forecasts. This decision derives from the fact that the market value of an asset, in this case a bank, is linked to its ability to generate a future return for the investor.

For the purposes of this valuation, we have referred to the "Price/Net Income" ratio (P/E) and to the "Price/Book Value" ratio (P/BV). For the P/BV, analyses are often carried out to adjust market values by the return on average equity (ROAE), both for the companies in the sample and for the company being valued (the "Regression Line"). However, in this case it was found that, contrary to what happens with larger banks, the market valuation of local banks is not sufficiently correlated to their ROAE. In fact, an analysis of the relationship between the P/BV of the selected banks and their ROAE gives a negative correlation coefficient, or one that is less than 30%. Therefore, it was decided that the Regression Line approach would not be applied to the Book Value multiples.

The reference sample was selected in view of the competitive positioning of BPU. A sample was identified of Italian banks that are comparable to BPU in terms of size, geographical distribution and cooperative status. This sample included Banco Popolare di Verona e Novara, Banca Popolare di Milano and Credito Valtellinese.

It was also verified that the shares of the selected banks presented normal trading volumes and that they could thus be considered meaningful. In line with practice, the liquidity of the shares of the comparable companies was verified through the turnover ratio; *i.e.* the ratio between the total annual trading value of a company and its average market capitalisation.

### 4.3 Market Multiples Method (cont'd)

The figures used relate to the period from January 2006 to October 2006, as published by Borsa Italiana. The following table illustrates the capitalisation, turnover ratio and market multiples for the companies in the sample.

Banche Popolari Unite Comparable Companies	Mkt. Cap. €MM	Turnover %	P/E			P/BV		
			2006	2007	2008	2006	2007	2008
BP Verona e Novara	8,117	179.9%	11.8x	11.2x	10.2x	1.83x	1.68x	1.54x
BP Milano	4,779	202.1%	14.8x	13.0x	11.5x	1.50x	1.39x	1.30x
Credito Valtellinese	1,140	49.1%	16.6x	13.0x	10.2x	1.30x	1.24x	1.16x

The net income forecasts for the financial years 2006, 2007 and 2008 for the mentioned sample of banks were calculated based on consensus estimates of financial analysts. For each forecast year, the maximum and minimum values obtained by the sample were taken into account.

The same method was used for prospective shareholders' equity, which Morgan Stanley calculated for 2006, 2007 and 2008 based on accounting data and market estimates.

The valuations and multiples calculation use the three-months share price average as at 8 December 2006 (source: FactSet).

#### 4.3.2. Results summary

Based on the above comments, the value ranges were calculated with multiples from the P/E and P/BV indices for the sample of companies under consideration. Average values were identified and the multiples obtained were applied to the income forecast in the Business Plan.

The Market Multiples method gives a value per share for BPU between €18.3 and €23.0.

Banche Popolari Unite Market Multiples Method	P/E			P/BV		
	2006	2007	2008	2006	2007	2008
Value per share (€)	18.3	20.5	20.5	23.0	22.6	22.4
Value (€ MM)	6,317	7,063	7,065	7,931	7,793	7,701

Section 5

Valuation of Banca Lombarda

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## 5.1 Consistency of the Valuation

As previously illustrated, in order to maintain consistency between the valuations of the two companies, the same methodologies applied for the valuation of BPU were also applied for the valuation of Banca Lombarda.

## 5.2 Banca Intesa Shareholding

A component of the value of Banca Lombarda derives from the fact that it has a shareholding in Banca Intesa of around 145 million ordinary shares. During the valuation carried out using “analytical” methods (the “Dividend Discount Model” and “Warranted Equity Method”), it was deemed reasonable to value the stake based on current market prices. For this purpose, the key financial data of Banca Lombarda were adjusted during the valuation to obtain values representing its banking business alone. These were then added to the market value of the stake in Banca Intesa. In the interests of completeness, the table below contains market data (calculated as at 8 December 2006) and dividends expected from Banca Lombarda’s holding in Banca Intesa.

	Share Price	BL Stake Value	Expected Dividends BL Business Plan	
	€	€MM	After Taxes	€MM
Current Value	5.31	770.1	2006	32
1 Month Average	5.42	785.9	2007	36
3 Months Average	5.32	772.1	2008	42

For the “market” methodology, it was decided not to adjust prospective net income and shareholders’ equity since the comparable companies being considered, on average, have a ratio between value of shareholdings in listed companies and shareholders’ equity similar to that of Banca Lombarda.

## 5.3 Dividend Discount Model (“DDM”)

### 5.3.1. Results summary

The DDM method was applied to Banca Lombarda valuation as previously described. The parameters (Sustainable Growth Rate and Cost of Equity) and the methods used were equal to those used for BPU. However, the forecast periods differ in the two Business Plans (2006-2009 for BPU, 2006-2008 for Banca Lombarda). Consequently, the inertial normalisation phase for Banca Lombarda was extended until 2009.

Based on this method, a value between €15.6 and 17.5 was determined per Banca Lombarda

<b>Banca Lombarda</b>		
<b>Dividend Discount Model</b>		
	<b>Minimum</b>	<b>Maximum</b>
Value per share (€)	15.6	17.5
Value (€ MM)	5,546	6,205

The table below contains the sensitivity analysis of the values obtained using the DDM method depending on Cost of Equity and Sustainable Growth Rate.

<b>DDM</b>						
€						
		Cost of Equity				
		8.750%	8.875%	9.000%	9.125%	9.250%
Sustainable Growth Rate	2.250%	16.8	16.5	16.2	15.9	15.6
	2.375%	17.0	16.6	16.3	16.0	15.7
	2.500%	17.1	16.8	16.5	16.2	15.9
	2.625%	17.3	17.0	16.6	16.3	16.0
	2.750%	17.5	17.1	16.8	16.5	16.2

## 5.4 Warranted Equity Method

### 5.4.1. Results summary

The parameters used for the application of the Warranted Equity Method are similar to those used for BPU.

A value per Banca Lombarda share between €14.5 and €16.6 was obtained.

Banca Lombarda Warranted Equity Method		
	Minimum	Maximum
Value per share (€)	14.5	16.6
Value (€ MM)	5,138	5,890

The value range shown was constructed based on the following sensitivity analysis:

Warranted Equity Method							
Cost of Equity (%)	Sustainable RoE (%)	Long Term Growth					
		2.25%		2.50%		2.75%	
		Value (€MM)	VpS (€)	Value (€MM)	VpS (€)	Value (€MM)	VpS (€)
8.75%	15.5%	5,485	15.5	5,584	15.7	5,691	16.0
	15.7%	5,577	15.7	5,680	16.0	5,790	16.3
	16.0%	5,669	16.0	5,775	16.3	5,890	16.6
9.00%	15.5%	5,305	14.9	5,393	15.2	5,488	15.5
	15.7%	5,394	15.2	5,485	15.5	5,584	15.7
	16.0%	5,482	15.4	5,577	15.7	5,680	16.0
9.25%	15.5%	5,138	14.5	5,216	14.7	5,301	14.9
	15.7%	5,223	14.7	5,305	14.9	5,393	15.2
	16.0%	5,309	15.0	5,394	15.2	5,485	15.5

## 5.5 Market Multiples Method

### 5.5.1. Results summary

In consideration of the points raised earlier, the value ranges were calculated with P/E and P/BV index multiples for the sample of companies being considered. For Banca Lombarda, the sample contains companies comparable in terms of size and legal status, and includes Banca Monte dei Paschi di Siena, Banca Carige, Banca Carifirenze and Credito Emiliano.

The table below shows the capitalisation, turnover ratio and market multiples for the companies in the sample.

Banca Lombarda Comparable Companies	Mkt. Cap. €MM	Turnover %	P/ E			P/BV		
			2006	2007	2008	2006	2007	2008
			MPS	14,539	90.4%	15.7x	13.7x	11.9x
Banca Carige	5,355	22.8%	29.7x	26.0x	25.3x	2.27x	2.18x	2.10x
Banca CR Firenze	3,450	33.2%	17.4x	16.0x	13.9x	2.15x	2.01x	1.85x
Credito Emiliano	3,140	47.0%	14.9x	13.1x	11.5x	2.35x	2.15x	1.96x

The multiples thus obtained were applied to the net income and shareholders' equity forecasts in the Business Plan.

Based on the Market Multiples method, a value range for Banca Lombarda between €15.2 and €17.2 per share was obtained.

Banca Lombarda Market Multiples Method	P/ E			P/ BV		
	2006	2007	2008	2006	2007	2008
	Value per share (€)	15.2	15.8	17.2	16.7	16.4
Value (€ MM)	5,412	5,626	6,104	5,928	5,819	5,801

Section 6

# Exchange Ratio

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## 6.1 Exchange Ratio

Based on the valuation methods used for both Banks, we obtained an Exchange Ratio Range summarised in the following table.

<b>Exchange Ratio Summary</b>		
	<b>Minimum</b>	<b>Maximum</b>
<b>Analytical Methodologies</b>	<b>0.80x</b>	<b>0.85x</b>
<b>Market Methodologies</b>	<b>0.72x</b>	<b>0.84x</b>
<b>Exchange Ratio Range</b>	<b>0.72x</b>	<b>0.85x</b>

For the construction of the Exchange Ratio Range, the following approach was used:

### **Analytical methods**

The range was calculated based on the minimum exchange ratio determined by the DDM and Warranted Equity Method. The maximum exchange ratio was chosen as the maximum value obtained through the two methodologies above.

### **Market methods**

The range was calculated based on the minimum exchange ratio determined by the six multiples discussed in Paragraph 4.3. The maximum exchange ratio was chosen as the maximum value.

Section 7

Comparison with Market Values

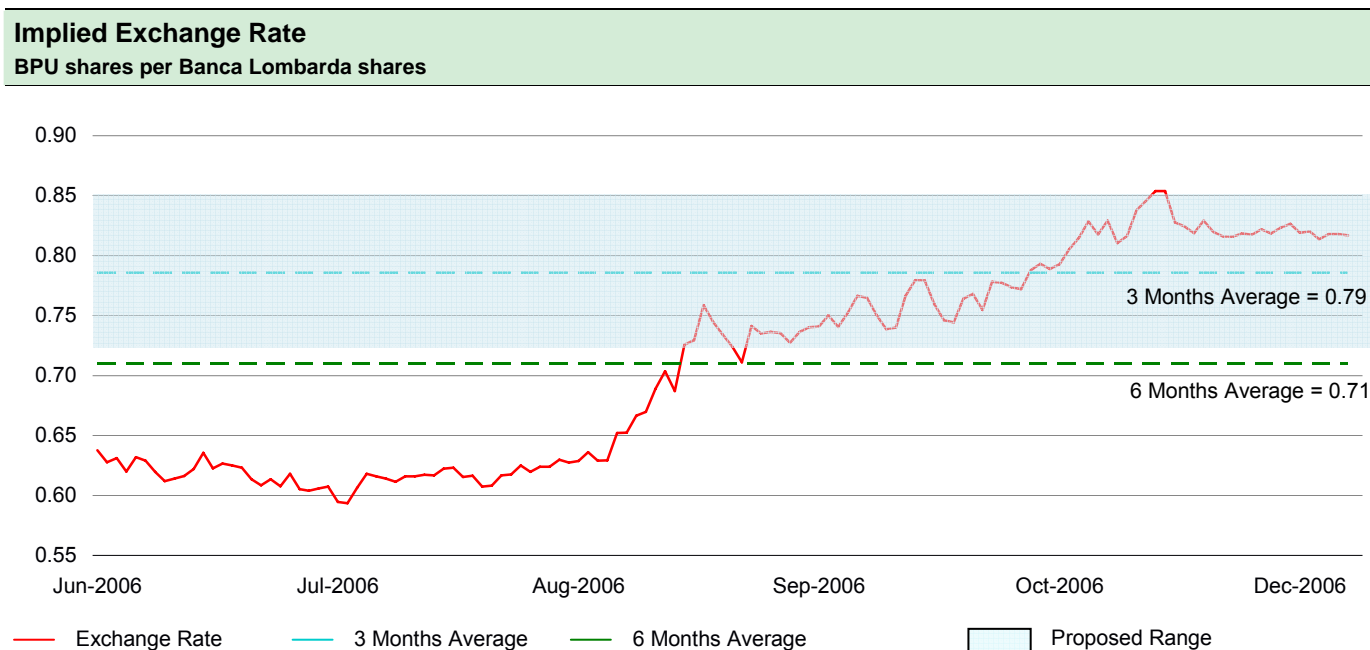
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## 7.1 Comparison with Market Values

In order to verify the results obtained, we analysed the evolution of exchange ratios for Banca Lombarda shares and BPU shares as implied by the trading prices of the shares being considered.

To find the right balance between the need to mitigate the effect of daily price volatility and the need to use current information indicative of recent market value, implicit average exchange ratios were observed over time horizons of up to six months from the announcement of the transaction.

The following graph illustrates the performance of the exchange ratio identified and the three-month and six-month averages.



Source FactSet as at 8 December 2006

The graph shows how the range identified in this Opinion is in line with the performance of both shares on the stock market. The Exchange Ratio that the Board of Directors of BPU intends to recommend to the shareholders' meeting (0.83) is consistent with the latest figures. This is due to the fact that the different level of strategic appeal of *Società per Azioni* and *Società Cooperativa* only filtered through to the market in recent months, when rumours concerning a potential merger between Banca Lombarda and a *Popolare* credit institution circulated in the market.

**Section 8**

**Conclusions**

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## 8.1 Conclusions

The Exchange Ratio identified within the Range discussed in Paragraph 6 is the result of an agreement between the parties involved and reflects – *inter alia* – considerations concerning the strategic value of the Merger.

The Exchange Ratio that the Board of Directors of BPU intends to recommend for the Merger Plan, according to the deliberations of the meeting held on 13 November 2006, is 0.83, or 0.83 newly-issued ordinary shares of BPU with a par value of €2.50 for every Banca Lombarda ordinary share with a par value of €1.00.

Based on the analyses contained in this Opinion, we conclude that this Exchange Ratio is fair for BPU shareholders.

12 December 2006

