



**REPORT OF THE BOARD OF DIRECTORS**  
**OF**  
**BANCA LOMBARDA E PIEMONTESE S.P.A.**  
**ON THE**  
**MERGER PLAN INVOLVING THE ABSORPTION OF**  
**BANCA LOMBARDA E PIEMONTESE S.P.A.**  
**BY**  
**BANCHE POPOLARI UNITE S.C.P.A.**

in accordance with art. 2501-*quinquies* of the Italian Civil Code and art. 70.2 of the Regulations approved by Consob Resolution 11971 of 14 May 1999 and amendments

**Brescia, 19 January 2007**

## CONTENTS

1. EXPLANATION OF THE OPERATION AND THE REASONS FOR IT, WITH PARTICULAR REGARD TO THE OPERATING OBJECTIVES OF THE COMPANIES INVOLVED IN THE MERGER AND THE PLANS DEVELOPED TO ACHIEVE THEM.....	4
1.1 Structure of the operation .....	4
1.2 Corporate Governance of the New Parent Company .....	5
1.3. The companies involved in the merger.....	6
1.3.1 The Merging Company: BPU .....	6
Brief history and recent developments.....	7
Group structure.....	10
Key figures.....	13
Corporate structure.....	14
Agreements pursuant to art. 122 of Decree 58 of 24 February 1998.....	16
1.3.2 The Company Being Merged - Banca Lombarda e Piemontese S.p.A.....	17
Brief history and recent developments.....	17
Group structure.....	19
Key figures.....	21
Key figures.....	22
Corporate structure.....	23
1.4 Strategic and economic reasons for the operation and the business objectives of the companies taking part in the merger .....	24
1.4.1 The basic concepts of the business plan .....	24
1.4.2 Integration policies .....	28
1.4.3 Value Creation .....	29
Cost synergies.....	30
Revenue synergies.....	31
Integration expenses .....	32
The New Group's main post-synergy financial objectives .....	32
2. THE MERGER BALANCE SHEETS .....	33
3. SHARE EXCHANGE RATIO AND THE CRITERIA USED IN CALCULATING IT .....	33
4. METHODS OF ASSIGNING THE MERGING COMPANY'S SHARES AND THE DATE ON WHICH THEY HAVE RIGHTS .....	39
5. EFFECTIVE DATE OF THE MERGER AND THE DATE FROM WHICH ALL TRANSACTIONS OF THE COMPANIES TAKING PART IN THE MERGER WILL BE BOOKED TO THE FINANCIAL STATEMENTS OF THE MERGING COMPANY, ALSO FOR TAX PURPOSES .....	40
6. ACCOUNTING AND TAX ASPECTS OF THE OPERATION .....	41
6.1 Accounting aspects of the Operation.....	41
6.2 Tax aspects of the Operation.....	45
6.2.1. Tax treatment for the companies .....	45
6.2.2. Tax treatment for the shareholders.....	45
7. EFFECTS OF THE MERGER.....	46
7.1 Effects on the balance sheet and income statement .....	46
7.2 Effects on the composition of the shareholder base .....	49
8. EFFECTS OF THE MERGER ON THE SYNDICATE AGREEMENTS INVOLVING THE SHARES OF THE COMPANIES TAKING PART IN THE MERGER .....	49
9. RIGHT OF WITHDRAWAL .....	50
SUMMARY OF THE PRINCIPAL CHARACTERISTICS OF THE NEW ARTICLES OF ASSOCIATION OF THE MERGING BANK FOLLOWING THE MERGER .....	52

**Report of the board of directors of Banca Lombarda e Piemontese s.p.a. On the merger plan involving the absorption of Banca Lombarda e Piemontese s.p.a. By Banche Popolari Unite s.c.p.a. Prepared in accordance with art. 2501-*quinquies* of the Italian Civil Code and art. 70 of Consob Regulations 11971 of 14 May 1999 and amendments.**

To the Shareholders,

You have been invited to this Extraordinary Meeting to vote on the merger plan involving the absorption of Banca Lombarda e Piemontese S.p.A. (also referred to in abbreviated form as “**Banca Lombarda**”, “**BL**” or the “**Company Being Merged**”) by Banche Popolari Unite S.c.p.a. (also referred to in abbreviated form as “**BPU**” or the “**Merging Company**”). The purpose of this report is to explain the reasons for this operation and the share exchange ratio indicated in the merger plan (the “**Merger Plan**”), detailing the methods used in calculating this ratio according to the provisions of article 2501-*quinquies* of the Italian Civil Code and art. 70 of Consob Regulations 11971 of 14 May 1999, and amendments (the “**Issuers' Regulations**”).

As part of its growth strategies, the Banca Lombarda Group has always paid particular attention to developments in the Italian banking market. In this perspective, it has carefully examined every opportunity and possibility for combining Banca Lombarda with other banks.

You will remember that, as part of this process, explorative contacts were made with the BPU Group some time ago with a view to creating a new banking group that would be able to play a leading role as one of the main operators in the whole of Italy.

The meetings that we had with BPU's top management were very positive, discussing the possibilities of a combination in considerable detail. This led to the definition of a plan to combine the Banca Lombarda Group with the BPU Group (hereafter also referred to as the “**Operation**”). The main terms and conditions of the Operation have been laid down in a “**Letter of Intent**” which envisages the creation of a New Group with a Parent Company (the “**New Parent Company**”) that will continue to have co-operative status. It will also be listed on the Stock Exchange and included in the MIB30 segment. Integration between the two entities ought to be facilitated by the fact that they both have organisational models that are very similar.

**1. EXPLANATION OF THE OPERATION AND THE REASONS FOR IT, WITH PARTICULAR REGARD TO THE OPERATING OBJECTIVES OF THE COMPANIES INVOLVED IN THE MERGER AND THE PLANS DEVELOPED TO ACHIEVE THEM**

**1.1 Structure of the operation**

The merger will be carried out pursuant to art. 2501 et seq. of the Italian Civil Code and art. 57 of Decree 385 of 1 September 1993 by having Banca Lombarda absorbed by BPU (the “**Merger**”).

In accordance with these regulations, from the date that the merger deed legally takes effect, the Merging Company will maintain its own legal status and will take over all of the rights and obligations of the Company Being Merged, which will cease to exist as a result of the merger. The shares of the Company Being Merged will therefore be cancelled; to replace them, the shareholders of the Company Being Merged will be assigned shares in the Merging Company, the number being determined according to the exchange ratio mentioned in paragraph 3.

Moreover, in accordance with the last paragraph of article 57 of the Banking Consolidation Act, any liens or guarantees given by anyone or in any case existing in favour of BL, will maintain their validity and ranking without requiring any formality or endorsement in favour of BPU.

In accordance with art. 2504*bis*, para. 2, of the Italian Civil Code, the effects of the merger vis-à-vis third parties will run from the final registration of the merger deed, or from a subsequent date that will be indicated in the merger deed and, in any case, not prior to 1 April 2007.

The following experts have been appointed, respectively, by the Courts of Bergamo and Brescia to issue a fairness opinion on the share exchange ratio in accordance with article 2501-*sexies* of the Italian Civil Code:

- for Banca Lombarda, the auditing firm Reconta Ernst & Young S.p.a.;
- for BPU Bank, the auditing firm KPMG S.p.A.

The fundamental concept underlying the combination is the principle of equality between the components of the New Parent Company, namely Banca Lombarda and BPU.

This principle of equality is reflected, in particular, in the composition of the bodies in charge of governance of the New Parent Company and in the principle of co-participation in the executive and top management roles, as well as in the principle of alternation in the origin of leading representatives of the New Parent Company's collegiate bodies, as well as their alternation over time, having regard in any case to the higher interest of the new company and its shareholders.

## **1.2 Corporate Governance of the New Parent Company**

The plan to integrate the BPU and BL Groups will mean that the Merging Company will have to adopt new Articles of Association, based on a model that will be significantly different from the present one, mainly because it will shift from the current "traditional" system of governance (with a Board of Directors and Statutory Auditors) to the so-called "dualistic" system introduced by the Reform of Company Law (with a Supervisory Board and a Management Board). In addition to changes in the system of management and control, the agreements reached by BL and BPU in view of the Merger also envisage other changes.

### *New Articles of Association for the Merging Company*

As mentioned previously, the integration plan lays down that the Merging Bank will replace its current traditional system of governance by adopting the so-called "dualistic" system of management and control recently introduced into Italian law and contained in articles 2409 *octies* - 2409 *quinquiesdecies* of the Civil Code. Given that the Merging Company is listed on the Stock Exchange, the special provisions contained in Decree 58/1998 (the Finance Consolidation Act or "FCA") also apply to it.

This system envisages a Supervisory Board and a Management Board in place of the traditional Board of Directors and Statutory Auditors. Supervision and management of the Company's affairs are assigned to these new bodies by the law and by the Articles of Association.

Adopting this kind of dualistic system means introducing a sort of filter or separation between the owners and management. Indeed, as explained below, certain powers that are typically assigned to the shareholders under the traditional system (approval of the financial statements, appointment of members of the management body, deciding on compensation) have been transferred to the Supervisory Board. The law also lays down that the members of this body have to have the same requisites of independence as are required for the members of the Board of Statutory Auditors under the traditional system. There will also be a clearer distinction between the control and high strategy function, on the one hand, and day-to-day operations, on the other, also to ensure that the Bank is run in a sensible and prudent manner.

The Supervisory Board takes over a number of powers that typically belonged to the Shareholders' Meeting, functions previously carried out by the Board of Statutory Auditors and certain top management responsibilities, thereby performing a role that combines high strategy and control over the Company's operations. This form of control will also be wider than that typically performed by the Board of Statutory Auditors under the traditional system of management and control, as the Supervisory Board will also be able to enter into the merit of certain decisions.

The Management Board will have exclusive responsibility for running the Company on a day-to-day basis and for carrying out all of the operations needed to achieve the Company's purpose, in line with the general strategies and policies laid down by the Supervisory Board. The Articles of Association can allow this body to decide on business and financial plans proposed by the Management Board, as well as on budgets and strategic or other operations of economic and financial importance, in accordance with art. 2409–*terdecies*, para. 1.*f-bis*) of the Civil Code. The role and powers of the Management Board are substantially the same as those of the Board of Directors under the traditional system, to which reference is often made.

An attachment explains the main characteristics of the new Articles of Association that will be adopted as a result of the integration plan.

### **1.3. The companies involved in the merger**

#### **1.3.1 The Merging Company: BPU**

## **Brief history and recent developments**

BPU was created on 1 July 2003 when the following three banks were merged: **Banca Popolare di Bergamo-Credito Varesino Società cooperativa a responsabilità limitata (“BPB-CV”)**, **Banca Popolare Commercio e Industria Società cooperativa a responsabilità limitata (“BPCI”)** and Banca Popolare di Luino e di Varese Società per azioni (“BPLV”), which had abandoned its original co-operative status in 1996 so that it could join the BPCI Group.

**Banca Popolare di Bergamo**, one of the first co-operative banks to be founded in Italy, was incorporated on 29 April 1869 under the name Banca Mutua Popolare della Città e Provincia di Bergamo.

The Bank grew steadily over time in line with the progressive development of the local economy in its territory of origin. The Bank gradually expanded its operations to neighbouring provinces and, starting in the '80s, also created a presence in other important cities such as Rome.

As it was growing, from 1913 Banca Popolare di Bergamo also acquired a number of small local banks, with larger acquisitions being made over time, mainly to assist the Bank's expansion into neighbouring areas.

In 1984, Banca Popolare di Bergamo acquired a controlling interest in Credito Varesino S.p.A., which was then merged in the summer of 1992, after which the combined bank took on the name of Banca Popolare di Bergamo-Credito Varesino S.r.l.

Also in 1992, Banca Popolare di Bergamo, was the first co-operative bank to be admitted for listing on the Milan Stock Exchange's Electronic Equity Market (MTA).

In 1995-96, the Bank acquired the whole of Banque de Dépôts et de Gestion, a Swiss bank, and then extended its territorial presence by aggregating some other carefully selected banks, the purpose being to combine local roots and economies of scale: in the Centre-South of Italy, Banca Popolare di Ancona and with it, Banca Popolare di Todi and Cassa di Risparmio di Fano – subsequently sold in 2005 as part of the settlement of the dispute for control of Banca Popolare di Ancona - as well as Banca Popolare Campana, subsequently absorbed by Banca Popolare di Napoli, which in turn was absorbed

by Banca Popolare di Ancona; in the North-West of Italy, Banca Brignone in Piedmont, which was absorbed in June 2002.

Then, in 2000, Banca Popolare di Bergamo - C.V. acquired control of Centrobanca S.p.A., buying out the other co-operative banks that were its shareholders, with a view to boosting Centrobanca's activity in support of the business world.

In January 2002, the agreement signed with The Prudential Insurance Company of America led to Prudential International Investments Corporation becoming a shareholder of FinanzAttiva Gestioni SGR – a member of the BPB Group subsequently renamed BPU Pramerica SGR – making it possible to develop the management, marketing and sale of investment products and solutions (individual and collective portfolio management schemes) for Italian private and institutional customers.

**Banca Popolare Commercio e Industria** was founded in Milan on 28 December 1888 on the initiative of 77 industrialists and merchants operating in the silk industry.

The original activity, which was based essentially on the provision of services relating to the production and sale of silk, was integrated with financial services for that sector's activities at the beginning of 1900.

The entity that was subsequently to become Banca Popolare Commercio e Industria - as renamed in 1975 - began to take form during the gradual recovery in Italy's manufacturing and commercial activities after the Second World War.

Expansion of its territorial presence took place thanks to a series of mergers and acquisitions of banks or branches of Italian or foreign banks (including the absorption of Banca Popolare di Codogno in 1977, of Credito Lodigiano in 1980, of Banca Popolare di Vigevano in 1991, followed by the acquisition of a part of American Express Bank Ltd in 1995 and of 19 branches of Banco di Napoli in 1998).

In 1996, by means of a Public Purchase Offer and subsequent share purchases, the Bank acquired 61.19% of Banca Popolare di Luino e di Varese S.p.A. Banca Popolare Commercio e Industria S.r.l.'s interest in BPLV increased over the years to reach 79.884%, prior to the merger with BPB-CV. This acquisition in 1996 led to the creation of the "Banca Popolare Commercio e Industria Banking Group".

The Group saw further growth in 1998 with the setting up of Banca Popolare Commercio e Industria International S.A., a Luxembourg entity active in the field of private banking. Another more important quantum leap took place in June 2001, when a controlling interest (75%) was acquired in Banca Carime S.p.A., a southern Italian bank based in Cosenza with more than 300 branches in operation.

### **The birth of BPU**

The merger was approved by the shareholders of the banks involved in the merger at Extraordinary Meetings held on 9 May 2003 (BPLV) and 10 May 2003 (BPB-CV and BPCI). The merger deed was completed on 24 June 2003.

With a view to preserving and enhancing the presence of their brand names in the territory, prior to completion of the merger and subject to it being effective, BPB-CV, BPCI and BPLV spun off their respective banking businesses, i.e. the branch network - with the sole exception of a BPB-CV branch in Bergamo and a BPCI branch in Milan – to two new banks set up as joint-stock companies wholly owned by them: namely Banca Popolare di Bergamo S.p.A (“BPB S.p.A.”) and Banca Popolare Commercio e Industria S.p.A. (“BPCI S.p.A.”). The banking businesses spun off by BPCI and BPLV were transferred to BPCI S.p.A., wholly owned by the contributing entities, BPCI and BPLV, in proportion to the value of their contributions.

The Parent Company BPU and its banking subsidiaries inherited that long tradition of co-operative values and cultures which the three original banks had carried forward during their more than hundred year history; above all the close links - not only economic - that they had with their local territory, which BPU was able to combine with the advantages of a multiregional size that is better suited to the way that the global market is evolving.

In order to reinforce these links, the BPU Group adopted from the start a *federal model*, with network banks (four to date) that handle local operations with customers, that is *integrated*, centralising all of the principal common support and service functions as well as risk management at BPU, and *polifunctional*, thanks to the various product companies operating in the field of asset management, bancassurance, corporate banking, consumer finance and leasing.

### **The evolution of the BPU Group**

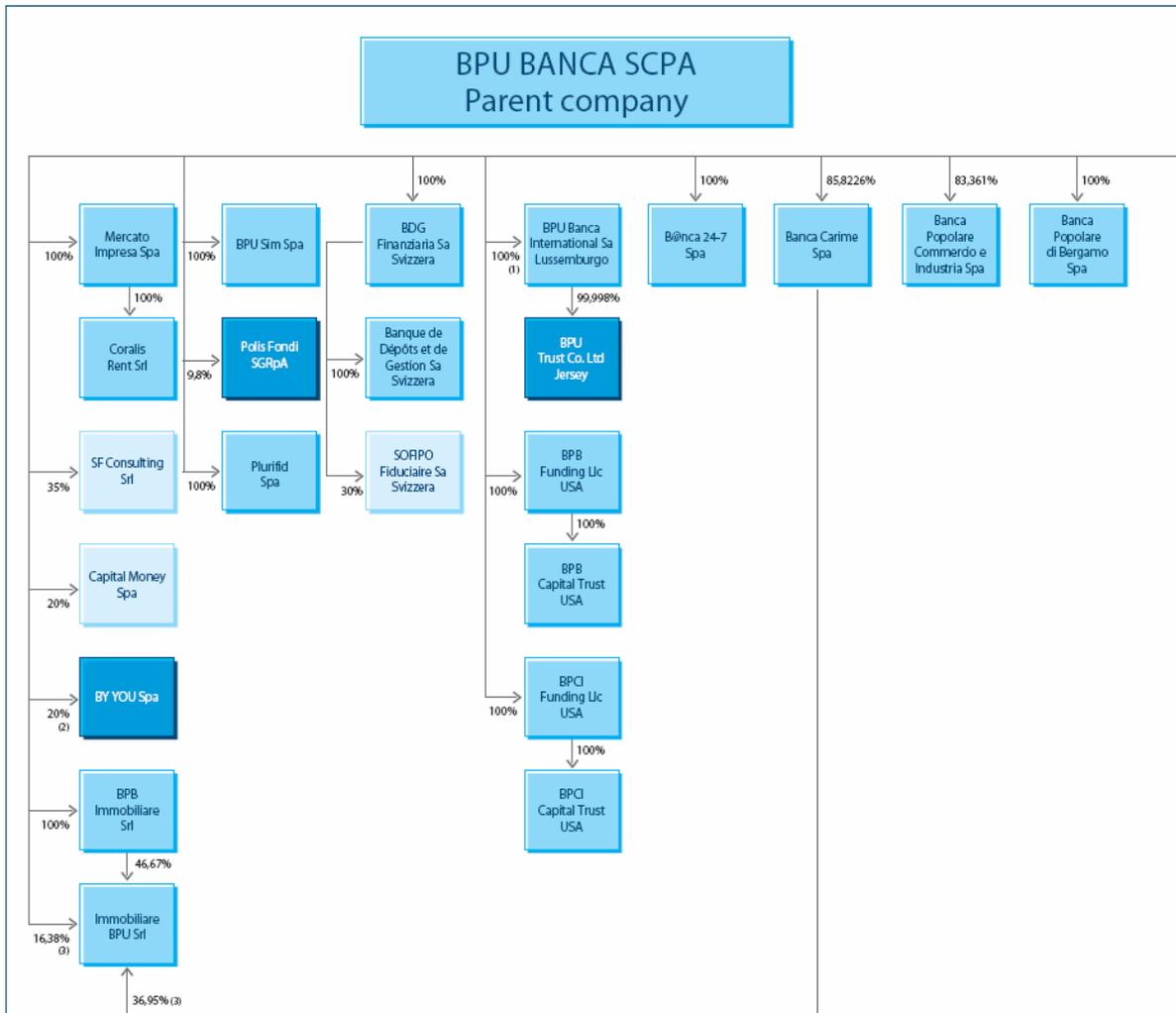
Since 1 July 2003, the BPU Group has carried out various important corporate and organizational operations as part of the overall process of integration, including:

- migration of Banca Carime to the Target Information System (May 2004);
- migration of Banca Popolare Commercio e Industria to the Target Information System (November 2004);
- completion of divisional distribution organised by customer segment for all of the Group's Network Banks (2004) and focusing of the sales and marketing approach by widespread use of CRM tools;
- settlement of the BPA dispute, with a takeover bid for the residual shares of Banca Popolare di Ancona and sale of the investment in Cassa di Risparmio di Fano to Intesa Casse del Centro (3rd quarter 2005);
- absorption of Esaleasing by BPU Leasing, renamed BPU Esaleasing (July 2006);
- centralisation of the Product Companies' IT activities in BPU Centrosystem, which is wholly owned by the Parent Company (November 2006);
- absorption of Banca Popolare di Todi by Banca Popolare di Ancona (December 2006);
- repositioning of Centrobanca, accentuating its role as Corporate Bank for the Group's captive customers;
- extension of the partnership agreements in Asset Management (Prudential) and Life Bancassurance (Aviva) to the entire Group, reinforcing the Product Companies concerned as a result;
- progressive rationalisation of the investment portfolio (e.g. Banca Italease, SI Holding, Meliorbanca, Arca Merchant, Arca BIM, ABF Leasing, investments in the field of private equity).

## **Group structure**

The BPU Group is made up as follows:

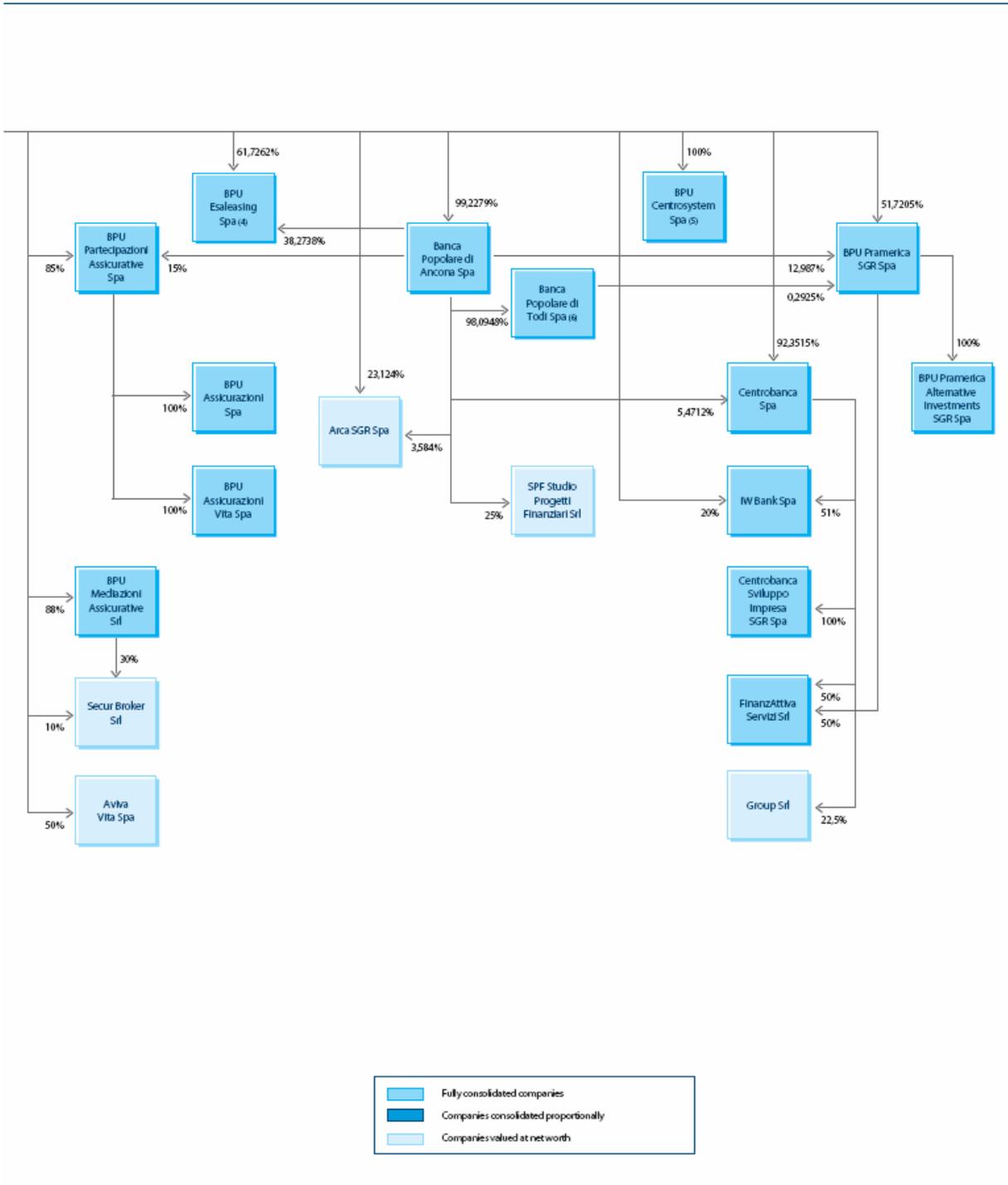
## Structure of the BPU Banca Group as at 30<sup>th</sup> September 2006



In the consolidation perimeter are also included assets and liabilities belonging to the SPVs:

- Albenza Srl, Albenza 2 Srl and Albenza 3 Srl deriving from the securitizations originated in 1999-2000-2001 by the former BPB-CV Srl;
- Orio Finance Nr.1 Plc, Orio Finance Nr.2 Plc and Orio Finance Nr.3 Plc deriving from the securitizations originated in 2000-2001-2002 by BPU International Finance Plc (winded up);
- Sintonia Finance Srl, only for the assets and liabilities related to the securitization originated in 2003 by Centrobanca Spa.

- (1) 99,9975% held by BPU Banca Scpa and 0,0025% held by Centrobanca Spa.
- (2) The ownership percentage - 40% - considered for consolidation purpose, includes an additional 20% referred to the options contained in the new shareholders pact, which probability to become effective is considered very high. The company fully holds: By You Piemonte srl, By You Liguria srl, By You Mutui srl, By You Adriatica srl, Rete Mutui Nord srl, Rete Mutui Centro srl and Rete Mutui Sud srl, all consolidated using the proportional method in the BPU Banca Group.
- (3) On the 30th of October, the participations were sold to BPB Immobiliare srl for the subsequent incorporation of Immobiliare BPU in BPB Immobiliare.
- (4) On July, 8th the merger of Esaleasing in BPU Esaleasing took place, the new company was named BPU Esaleasing.
- (5) On July, 31st 2006, the extraordinary Shareholders Meeting changed the name from Centrosiel SpA to BPU Centrosystem SpA.
- (6) The merger by incorporation in Banca Popolare di Ancona is under way.



## Key figures

The following table shows the key figures taken from the balance sheet and income statement at 30 September 2006 with comparative figures at 31 December 2005 for the balance sheet and 30 September 2005 for the income statement.

The figures relate to the financial statement formats recommended by the Bank of Italy in its Circular no. 262 of 22 December 2005 and are prepared according to IFRS.

<b>Assets</b>	<b>30/09/2006</b>	<b>31/12/2005</b>
Financial assets held for trading	3,055,892	2,208,420
Financial assets at fair value	5,290,972	5,158,686
Other financial assets (1)	4,780,003	4,782,796
Due from banks	1,907,591	3,331,015
Loans to customers	49,798,318	47,460,761
Property, plant and equipment and intangible assets	2,607,861	2,616,533
Tax assets	573,229	706,822
Other assets	2,172,660	2,598,601
<b>Total assets</b>	<b>70,186,526</b>	<b>68,863,634</b>

<b>Liabilities</b>	<b>30/09/2006</b>	<b>31/12/2005</b>
Due to banks	6,607,514	6,366,914
Customer deposits (2)	52,145,824	50,368,962
Financial assets held for trading	449,994	348,941
Tax liabilities	526,596	622,277
Provisions for specific use (3)	679,737	681,833
Technical reserves	2,473,415	2,247,693
Other liabilities	2,004,598	3,101,300
Capital	861,135	860,124
Reserves (4)	3,402,498	2,926,234
Revaluation reserves	120,395	241,838
Minority interests	405,743	416,658
Net income for the period	509,077	680,860

<b>Total liabilities and shareholders' equity</b>	<b>70,186,526</b>	<b>68,863,634</b>
---	-------------------	-------------------

- (1) Sum of captions 40 and 50
- (2) Sum of captions 20 and 30
- (3) Sum of captions 110 and 120
- (4) Sum of captions 170, 180 and 200

<b>Income statement</b>	<b>30/09/2006</b>	<b>30/09/2005</b>
Net interest income	1,264,699	1,204,952
Net commission income	609,785	606,029
Net interest and other banking income	2,033,836	1,948,822
Net financial income	1,914,433	1,829,108
Net financial and insurance income	1,889,584	1,812,572
Operating expenses	(1,088,116)	(1,119,536)
Profit from operating activities before tax	860,183	925,288
Profit from operating activities after tax	542,452	624,704
Net income for the period	542,452	625,002
<b>Group net income for the period pertaining to the parent bank<sup>1</sup></b>	<b>509,077</b>	<b>593,680</b>

#### Operating structure

	<b>30/09/2006</b>	<b>31/12/2005</b>
Number of employees	14,011	14,316
Number of bank branches	1,186	1,184

### **Corporate structure**

BPU's capital at the date of this report amounts to Euro 861,206,710 represented by 344,482,684 shares of par value Euro 2.50 each.

BPU is a co-operative company with liability limited by shares (S.c.p.a.) governed by Book V, Title VI, Chapter I of the Italian Civil Code (being applicable to co-operative banks in relation to the

<sup>1</sup> Net income adjusted for non-recurring items comes to around 375 million euro at 30/9/06, an increase of more than 13% on 330 million euro at 30/9/05.

provisions of art. 150 bis of Decree 310 of 28 December 2004) and by Chapter V, Section I of Decree 385 of 1 September 1993 (the Banking Consolidation Act or "BCA")

BPU's shares are widely held by the general public given its co-operative status, which is in compliance with art. 30 of the BCA. In fact, art. 30.1 lays down that no-one can hold more than 0.50% of the share capital. This ceiling does not apply to UCITS (Undertakings for Collective Investment in Transferable Securities), which are subject to their own internal limits (art. 30.2).

Any time that the Bank sees that the 0.50% limit has been exceeded, it notifies the investor immediately of the violation. The excess shares have to be sold within a year of notification; after this deadline, the capital rights accruing to the excess shares up to the time of their disposal are acquired by the Bank.

As laid down in art. 30 of the BCA, each shareholder has one vote, however many shares they own.

One can acquire the official status of Shareholder by sending a written application to the Board of Directors containing the various elements laid down in art. 8 of the Articles of Association. The Board of Directors decides whether to accept such applications depending on the interest of the Bank, including its independence and autonomy, and respect for the spirit of the Bank's co-operative status.

At the date of this Report, there were 60,310 shareholders recorded in BPU's Shareholders Register.

As an issuer of shares listed on Italian organised markets, BPU is subject to the specific regulations laid down in Title III, Chapter II, Section I of Decree 58 of 24 February 1998 (the Finance Consolidation Act or FCA).

Art. 120 of the FCA lays down that anyone holding more than 2% of the shares in a listed company has to communicate this fact to the company and to Consob.

In this regard, we should mention that, as of the date of this Report, we had received a communication dated 10 August 2006 from Fidelity International Limited, based in Hamilton (Bermuda), certifying that it was holding 6,910,226 shares equal to 2.006% of the share capital at the date of the communication.

## **Agreements pursuant to art. 122 of Decree 58 of 24 February 1998**

On 1 August 2003 a joint commitment was signed by the directors of BPU formerly of Banca Popolare Commercio e Industria Scrl.

Bearing in mind the objectives of integrating the original banks, this commitment is designed to ensure adequate representation of the original ownership interests within BPU. Without affecting the exclusive management role of the administrative body and the related governance rules, the commitment introduces a system of advance consultation among the signatories as regards the nomination and/or expression of appreciation of the competence of the BPU's Appointments Committee, to be decided by the members formerly of Banca Popolare Commercio e Industria Scrl. The purpose of the commitment is to permit a collegial assessment of the candidates and the acquisition of information on which to base a judgment from all of the members of BPU's Board of Directors formerly of Banca Popolare Commercio e Industria scrl.

The commitment emphasises the moral rather than legal value of the signatories' undertaking, which lasts for three years, automatically renewed on expiry, unless one or more of the signatories cancels at least six months prior to the expiry date.

### **1.3.2 The Company Being Merged - Banca Lombarda e Piemontese S.p.A.**

#### **Brief history and recent developments**

The Banca Lombarda Group is active above all in Lombardy and Piedmont, principally in the provinces of Brescia, Cuneo, Pavia and Alessandria. Banca Lombarda is the listed parent company of the Banca Lombarda Group. The organisational structure of the Group is based on a federal model, with the parent company principally responsible for strategic planning on behalf of the Group, as well as other centralised functions, whereas the commercial banks and other operating companies are active in all segments of near-banking, asset management and bancassurance under their own names and brands.

At 31 December 2005 the Banca Lombarda Group carries on its activity through 787 branches, including a branch in Luxembourg and one in Nice (France), a representative office in Shanghai (China) and a network of 553 financial consultants.

The current structure of the Banca Lombarda Group derives from the merger of CAB S.p.A. (“**CAB**”) and Banca San Paolo di Brescia S.p.A. (“**Bank San Paolo**”) in 1998 and subsequent acquisitions. During the period from 31 December 1997 to 31 December 2005 the Banca Lombarda Group increased its total assets from Euro 8.8 billion to Euro 38.3 billion and transformed itself from a local business to one of Italy's main banking groups.

CAB was founded in 1883 as a co-operative called “Credito Agrario Bresciano”. Over the years, it pursued a policy of constant growth, mainly in the province of Brescia, gradually diversifying its activity into new sectors in the field of financial intermediation. From the end of the '80s, CAB carried out numerous acquisitions of local banks, thereby consolidating its position in the area. In 1978, CAB's shares were admitted for listing on Milan's Restricted Market and then on the MTA in 1995.

Banca San Paolo was founded in 1888 as a co-operative called “Banca San Paolo”. Over the years, the bank progressively developed the various sectors of its banking activity, diversifying it, among other things, in the field of asset management and near-banking, consolidating its institutional role as the local bank of reference in the areas where it had its historical roots.

In 1996, Banca San Paolo's shares were listed on the Stock Exchange (MTA).

As part of the process of consolidation affecting the entire Italian banking industry in recent years, the CAB Group and the San Paolo Banking Group felt the need to grow even more, to a size that would allow them to compete with the main Italian groups and offer them a chance to extend their product diversification and consolidate their positioning in their historical markets. On 13 and 14 November

1998, Extraordinary Meetings of the shareholders of Banca San Paolo and CAB approved a plan for Banca San Paolo to be absorbed by CAB, after which the merging bank changed its name to Banca Lombarda S.p.A. with effect from 31 December 1998.

In order to give the Group a new organisational structure to achieve the objectives of internal development and external growth, the federal model current in use was chosen and in November 1998 CAB and Banca San Paolo set up a new company called Banco di Brescia San Paolo CAB S.p.A. to which most of the commercial banking activities run by Banca Lombarda were transferred.

After this restructuring, Banca Lombarda took on the role of parent company based on the new federal model. As a result, it became responsible mainly for strategic planning and control, administration, finance, risk management and internal audit, marketing strategy, information technology and logistics (these last two functions were transferred to a subsidiary Lombarda Sistemi e Servizi S.p.A. (“**Lombarda Sistemi e Servizi**”) in 2001).

Banco di Brescia also took on the role of the Group's principal commercial bank with the specific objective of developing commercial relationships with customers and promoting the Group's products and financial services through its own branches.

Since the merger of Banca San Paolo and CAB, the Banca Lombarda Group has made a number of important acquisitions, as well as setting up a number of new companies so as to reinforce its market position by expanding operations in the North-West of Italy. The main acquisitions and incorporations are as follows:

- the acquisition of a controlling interest in BRE Bank, which operates principally in Piedmont and Lombardy;
- the acquisition of the entire share capital of Banca Cassa di Risparmio di Tortona S.p.A (“**CR Tortona**”), a bank operating mainly in the province of Alessandria, which was merged with BRE Bank in 2006;
- the incorporation of Lombarda Vita, a life insurance company, together with Cattolica Assicurazioni;
- the acquisition of the entire share capital of Mercati Finanziari SIM S.p.A. (“**Mercati Finanziari**”), a stockbroker.
- the acquisition of Veneta Factoring S.p.A. (“**Veneta Factoring**”), in part through a subsidiary, CBI Factor S.p.A. (“**CBI Factor**”). Veneta Factoring was then merged with CBI Factor.
- the acquisition of the entire share capital of Electrolux Financiera S.A., a Spanish company operating mainly in factoring, which then changed its name to Financiera Veneta S.A.

- the acquisition of the entire share capital of Artesia Bank Luxembourg S.A., a Luxembourg bank specialising in private banking, which was subsequently merged with Banca Lombarda International S.A. (“**Banca Lombarda International**”), a bank controlled by Banca Lombarda.
- the acquisition, in part through BRE Bank, of the entire share capital of Grifogest SGR S.p.A. (“**Grifogest**”), a mutual fund management company;
- the incorporation of Capitalgest Alternative Investments SGR S.p.A. (“**Capitalgest Alternative**”), a hedge fund management company;
- the acquisition of 100% of Banca Idea S.p.A., a bank operating mainly through financial consultants; Banca Idea S.p.A. then changed its name to Banca Lombarda Private Investment;
- the acquisition, through Banca Lombarda International, of the entire share capital of Caboto International S.A., a Swiss company that provides portfolio management services; the Company then changed its name to Gestioni Lombarda (Suisse) S.A.. (“**Gestioni Lombarda Suisse (Suisse)**”);
- the incorporation of Lombarda China Fund Management, a China-based asset management company in which BL has a 49% interest.

### **Group structure**

The organisational structure of the Banca Lombarda Group is based on a federal model featuring a high level of integration of the commercial banks and other operating companies. The parent company performs the functions of policy and coordination which are normal for a bank holding company, above all in the fields of strategic planning and control, administration, finance, risk management and internal audit as well as marketing strategy on behalf of the Group.

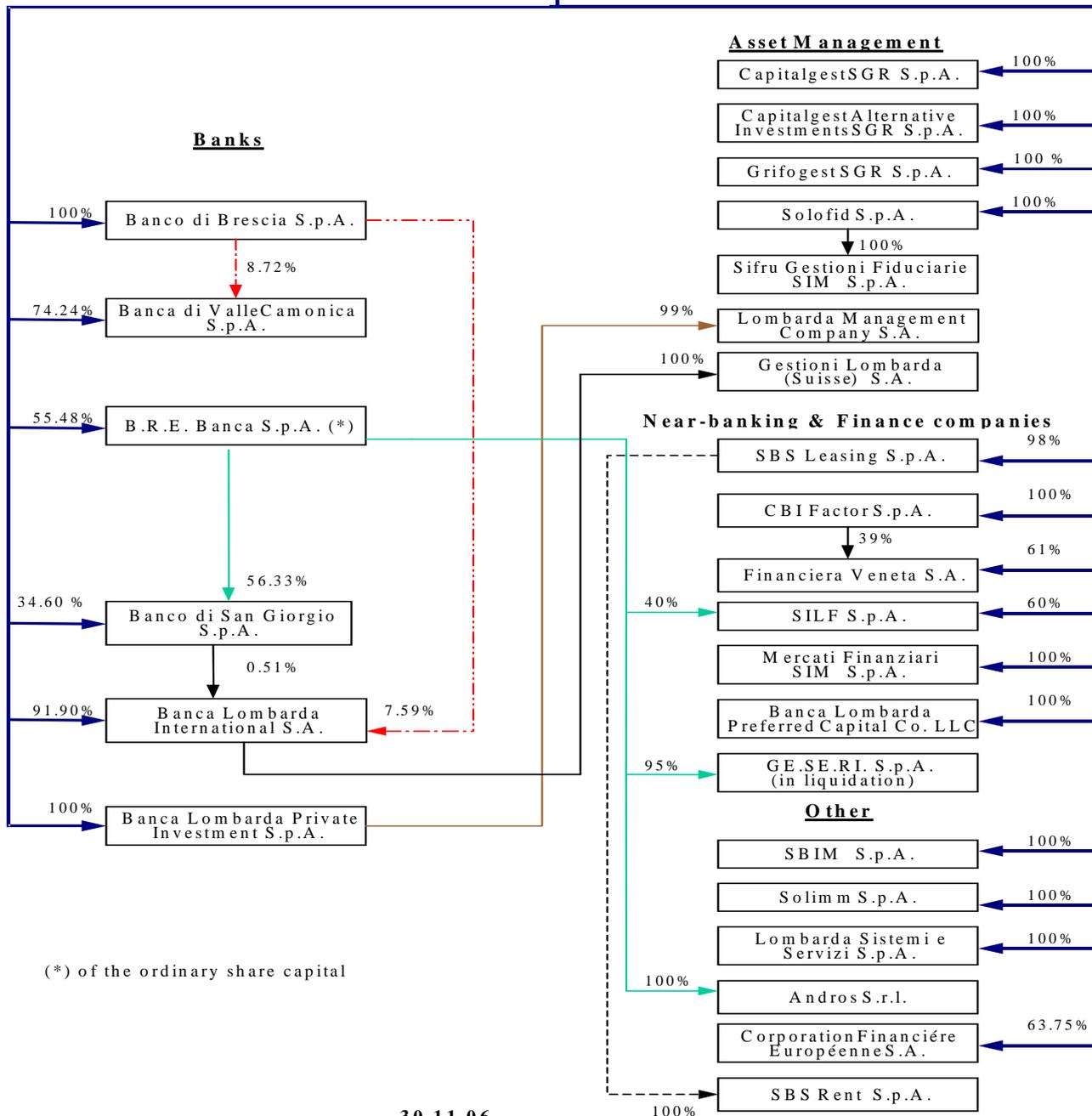
Banca Lombarda also handles the treasury function and the securities portfolio on behalf of the Group's commercial banks; other centralised services (such as information technology and purchasing) are provided by Lombarda Sistemi e Servizi S.p.A.

The other Group companies operate according to the lines of strategy laid down by the parent company, though with a degree of independence designed to preserve that sector specialisation that is considered an essential condition if positive results are to be achieved.

The federal model has allowed the Banca Lombarda Group to achieve significant economies of scale, especially in terms of costs; it has also managed to integrate the various banks that it has acquired without too many problems.

The following chart shows the current structure of the Banca Lombarda Group, bearing in mind that the consolidation area also includes the following companies (securitisation vehicles and trusts for the issuance of preferred shares): Banca Lombarda Preferred Securities Trust, Lombarda Lease Finance 1 S.r.l., Lombarda Lease Finance 2 S.r.l.; Lombarda Lease Finance 3 S.r.l., Lombarda Lease Finance 4 S.r.l. and Lombarda Mortgage Finance 1 S.r.l.

**Banca Lombarda e Piemontese S.p.A.  
Group Structure**



30.11.06

## Key figures

The following table shows the key figures taken from the balance sheet and income statement at 30 September 2006 with comparative figures at 31 December 2005 for the balance sheet and at 30 September 2005 for the income statement.

The figures relate to the financial statement formats recommended by the Bank of Italy in its Circular no. 262 of 22 December 2005 and are prepared according to IFRS.

<b>Assets</b>	<b>30/09/2006</b>	<b>31/12/2005</b>
Financial assets held for trading	2,903,739	3,015,182
Other financial assets (1)	1,003,035	864,905
Due from banks	2,100,772	3,076,529
Loans to customers	29,954,211	28,229,071
Property, plant and equipment and intangible assets	1,466,827	1,468,985
Tax assets	271,375	375,630
Other assets	1,199,623	1,316,834
<b>Total assets</b>	<b>38,899,582</b>	<b>38,347,136</b>

<b>Liabilities</b>	<b>30/09/2006</b>	<b>31/12/2005</b>
Due to banks	2,896,008	3,464,625
Customer deposits (2)	30,036,258	28,909,687
Financial liabilities held for trading	555,301	1,220,886
Tax liabilities	347,577	342,210
Provisions for specific use (3)	276,751	285,133
Other liabilities	1,569,192	1,448,064
Capital	351,752	322,292
Reserves (4)	1,734,746	1,311,924
Revaluation reserves	465,291	359,164
Minority interests	430,057	444,167
Net income for the period	236,649	238,984
<b>Total liabilities and shareholders' equity</b>	<b>38,899,582</b>	<b>38,347,136</b>

- (1) Sum of captions 40 and 50  
(2) Sum of captions 20 and 30  
(3) Sum of captions 110 and 120  
(4) Sum of captions 170, 180 and 200

<b>Statement of income</b>	<b>30/09/2006</b>	<b>30/09/2005</b>
Net interest income	658,991	599,559
Net commission income	357,701	347,025
Net interest and other banking income	1,095,042	999,315
Net financial income	1,027,961	932,320
Operating expenses	(579,819)	(579,255)
Profit from operating activities before tax	457,154	360,259
Profit from operating activities after tax	267,705	204,122
Net income for the period	272,528	203,826
<b>Group net income for the year pertaining to the parent bank</b>	<b>236,649</b>	<b>173,380</b>

### Operating structure

	30/09/2006	31/12/2005
Number of employees	7,518	7,562
Number of bank branches	794	787

### Corporate structure

Banca Lombarda's share capital, subscribed and paid in, amounts to Euro 355,015,926 represented by 355,015,926 ordinary shares of par value Euro 1 each.

According to information available at the date of this Report, shareholders with more than 2% of capital are as follows:

Shareholders	% of share capital
Carlo Tassara S.p.A.	4.95%
Fondazione Cassa di Risparmio di Cuneo	4.93%
Fondazione Banca del Monte di Lombardia	4.89%
Findim Group S.A.	3.51%
Solofid S.p.A. <sup>(a)</sup>	3.43%
Societa` Cattolica di Assicurazione Scarl	2.69%
La Scuola S.p.A. <sup>(b)</sup>	2.10%

(a) Investment held on a trust basis. Based on a declaration by the trust company, none of the settlors, directly or indirectly, holds more than 2% of the share capital.

(b) Company controlled by Opera Educazione Cristiana.

The Bank has approximately 42,000 shareholders.

There is currently a “**Banca Lombarda e Piemontese shareholder syndicate**” which regulates share transfers and requires concerted voting but only at Extraordinary Shareholders' Meetings called to vote on amendments to the articles of association (*305 shareholders are members of the syndicate to which they have assigned Banca Lombarda shares representing 46.88% of the share capital*).

## **1.4 Strategic and economic reasons for the operation and the business objectives of the companies taking part in the merger**

### **1.4.1 The basic concepts of the business plan**

In the last decade, the banking system has seen an increase in competitive pressure, partly as a result of a new phase of intense consolidation, both nationally and internationally. This has been encouraged by evolutionary pressures such as the globalisation and deregulation of markets, regulatory harmonisation within the European Union, technological and financial innovation, development of capital markets and a more open Italian market that has permitted the entry of foreign operators.

It is therefore very important for mid-sized banks to be involved in this aggregative process as it enables them to achieve greater competitiveness in line with these current trends; at the same time, they are able to preserve the specific features that each bank expresses at a local level in terms of both skills and links with its chosen territory.

In this context, the plan to integrate the BPU and Banca Lombarda Groups will allow the new Group that will be created by the merger to rank among the largest players in Italy.

The merger will lead to the integration of the two parent banks, with the establishment of a single listed unifying entity, which will be able to lay down strategy and exercise control over all of the structures and companies of the New Group, within which the Network Banks will in any case maintain operating autonomy in their traditional territories.

The New Group's aggregates<sup>2</sup> will be of considerable importance in absolute terms:

- Market capitalisation at 18 January 2007 of more than €13.5 billion;
- a network of around 1,970 branches (the 4th largest network in Italy with a national market share of 6.3%);
- around 21,500 employees;

---

<sup>2</sup> Balance sheet figures at 30 September 2006.

- more than 4 million customers;
- direct deposits of around €82 billion (5th place in Italy, 1st among co-operative banks);
- loans to customers of around €80 billion (5th place in Italy, 1st among co-operative banks);
- assets under management of around €59 billion (3rd place in Italy, 1st among co-operative banks), of which €23 billion as part of the private banking business;
- total assets of around €112 billion (6th place in Italy, 2nd among co-operative banks).

The Operation takes on considerable strategic importance for both Groups, also thanks to the fact that their distribution and production structures, products and customers are highly complementary.

For example, in terms of the distribution structure, the New Group would have:

- a very strong presence in the country's wealthiest regions: Lombardy (more than 930 branches with a market share of 15.4%), Piedmont (around 220 branches with a market share of 8.6%) and Marche (around 110 branches with a market share of 9.8%);
- leadership in their chosen provinces with a market share of 25%: Bergamo (around 180 branches with a market share of 26.5%), Brescia (around 250 branches with a market share of 29.5%), Varese (around 130 branches with a market share of 29.6%) and Cuneo (around 130 branches with a market share of 25.9%);
- a market share of more than 10% in all of 21 provinces: in addition to the 4 provinces mentioned above, Milan (the new Group's 10.1% market share is particularly significant in this marketplace), Pavia, Alessandria, Ancona, Macerata, Viterbo, Crotone, Bari, Cosenza, Reggio Calabria, Matera, Potenza, Catanzaro, Vibo Valentia, Brindisi, Foggia and Taranto<sup>3</sup>;
- a lack of significant territorial overlaps.

the following chart shows the territorial distributions of the networks reporting to BPU (chart 1), BL (chart 2) and the New Group (chart 3).

---

<sup>3</sup> The threshold of 10% in terms of market share is typically considered significant in order to benefit from a funding capacity that is higher than would normally be expected from the number of branches in the territory.



The Main Product Factories
----------------------------

	BPU Group	Banca Lombarda e Piemontese Group
<b>Asset management</b>	BPU Pramerica (AUM approx. € 23.7bn)	Capitalgest2/Grifogest (AUM approx. €21.6bn)
<b>Leasing</b>	BPU Esaleasing (approx. €3.3bn in assets under lease, new business approx. €750m)	SBS Leasing (approx. €3.2 bn in assets under lease, new business approx. €900 m)
<b>Consumer credit</b>	B@nca 24-7 (approx. €2.3bn in loans to customers, new business approx. €720m), focused on mortgages, salary-based loans and credit cards	SILF (approx. €1.5bn in loans to customers, new business approx. €600m), focused on special purpose loans
<b>Corporate banking</b>	Centrobanca (approx. €5.6bn in loans to customers)	
<b>Factoring</b>		CBI Factor (approx. €1.2bn in loans to customers)
<b>Non-life bancassurance</b>	BPU Assicurazioni (approx. €180m in premium income)	
<b>Life bancassurance</b>	Partnership with Aviva (Aviva Vita, approx. €550m in premium income) BPU Assicurazioni Vita ( €230m in premium income)	Partnership with Cattolica (Lombarda Vita, approx. €1.2bn in premium income)

## 1.4.2 Integration policies

The main integration policies can be summarised as follows:

- the creation of a New Group able to compete with the leading players on the Italian market with international growth potential featuring:
  - a co-operative banking philosophy
  - a federal model that can enhance the distribution strength of the network banks, safeguarding the identity of their brand names and territorial roots, and able to act as a pole of attraction for other banks
  - a strong emphasis on the enhancement of human capital and the development of the professional skills present in the two original Groups
- focus on customers' needs and requirements by means of:
  - service models differentiated by segment
  - constant innovation
  - considerable effort in sales and marketing aimed at customers, backed by IT systems and training of high quality staff
  - initiatives designed to provide customers with international support
- enhancement of the two original Group's Product Factories, also through partnerships with leading international operators, taking advantage of the chance to:
  - access a wider customer base located throughout the country
  - internalise margins in those sectors where one of the two Groups is not currently present (Factoring for BPU, Corporate & Investment Banking, Assignment of one-fifth of salary and Non-life Bancassurance for BL)
  - provide customers a level of service and a product quality that makes the new Group stand out in the marketplace
- rapid achievement of economies of scale, helped by the proven track record of both Groups' management teams in handling integration processes, in order to:

- maximise the Operation's synergy potential
- improve the overall cost/income ratio of the New Group and, in the end of the day, raise its profitability
- integrated control over financial, credit and operating risks.

### **1.4.3 Value Creation**

The Operation will enable the New Group to benefit from synergies generated by:

- optimising the personnel assigned to the various infrastructures (central offices, IT, back office, Product Factories, etc.);
- reduction of administrative expenses;
- centralised purchasing to benefit from greater negotiating leverage;
- alignment of best practices within each Group (in terms of both costs and revenues);
- enhancement of specialist skills on a broader scale (e.g. corporate & investment banking, non-life insurance, factoring).

For example, based on benchmark analyses that will have to be confirmed when the Integration Plan is prepared once the Merger has been approved by the shareholders of both Banks, the synergy potential of the New Group once it is up and running has been prudently estimated at around €365 million per year, pre-tax, of which around €225 million would come from lower costs (9.1% of the two Group's 2005 costs) and around €140 million from higher revenues (3.4% of the two Group's 2005 revenues). The integration is expected to be completely "up and running" by the end of 2010, with more than 90% of the synergies achievable by the end of 2009.

On the assumption that the new Parent Company is operational by the end of June 2007, feasible synergies should be achieved in line with the calendar shown in Table 1.

**Table 1. Synergy calendar**

<b>(€million)</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Revenue synergies	5	50	110	140
Cost synergies	25	100	225	225
<b>Total synergies</b>	<b>30</b>	<b>150</b>	<b>335</b>	<b>365</b>

We have not yet quantified the potential synergies that could derive from:

- rationalisation of the distribution network;
- better management of credit and operating risks;
- better access to capital markets;
- stronger international presence in support of customers.

Integration expenses have been prudently estimated at €380 million, of which €360 million will be written off in 2007 and €20 million charged to goodwill as directly related to the business combination. The potential for value creation is therefore in excess of €2.3 billion, already net of integration expenses.

### **Cost synergies**

Integrating the two Groups will make it possible to generate cost synergies for an estimated total of €225 million.

- the cost synergies relating to personnel are put at €90 million, as a result of staff reductions involving around 1,300 people. This rationalisation will derive principally from:
  - use of redundancy incentives (involving around 900 people)
  - non-replacement of turnover/non-renewal of interim or fixed-term labour contracts (for a total of around 400 people, according to a ratio of non-replacement of turnover/non-renewal of interim or fixed-term labour contracts of 1:4)
- the cost synergies relating to other administrative expenses are put at €135 million, around 17% of the two Group's administrative expenses, in line with in-house experience and taking a prudent approach compared with market benchmarks in that they discount the good level of efficiency already achieved by both Groups.

- the main cost synergies will be obtained from:
  - unification of the IT platform: unification of the telecommunication network and of the separate HW systems and rationalisation of the applications SW used in the banking information system and of the Product Factories
  - rationalisation of the info providers
  - centralisation of the purchasing function, with optimisation of sourcing policies and better buying conditions according to the volumes achieved
  - rationalisation of office/storage space and optimisation of logistics
  - optimisation of governance, consulting and marketing expenses
  - reduction in administration expenses in line with the reduction in headcount

### **Revenue synergies**

The synergies expected once integration is completed in 2010 will come to around €140 million (€80 million from exploiting potential synergies at segment/product level and €60 million by improving the network's commercial productivity):

- potential synergies at segment/product level include:
  - development of mid-sized enterprises, thanks the increase in size which facilitates growth not only in traditional banking business, but also in more sophisticated types of banking services (structured finance); it also makes it easier to acquire specialist skills
  - asset management, by taking advantage of the alliance with Pramerica to sell to a wider customer base
  - consumer credit, thanks to a larger and more competitive situation and by expanding the range of products distributed through the branch network
  - non-life bancassurance, by distributing BPU Assicurazioni products through the BL network and expanding the product range
  - leasing, thanks to the higher competitiveness of the New Bank and synergies with the services provided by Centrobanca
  - factoring, thanks to CBI Factor's use of the BPU network

- the improvement in commercial productivity will be made possible by sharing sales and marketing models, support tools (CRM), training initiatives, etc.

The Operation will also have interesting effects on the business with SMEs. The integration plan will emphasise the skills provided by Centrobanca and by the New Group's leasing and factoring companies, thereby facilitating the development of services in support of mid-sized enterprises in their processes of growth and internationalisation, also by developing new areas of competence in structured finance and capital transactions.

### **Integration expenses**

Integration expenses have been prudently estimated at €380 million, of which €360 million will be written off in 2007 and € 20 million charged to goodwill as directly related to the business combination. The € 360 million of expenses that will be written off are principally to do with redundancies and system migrations:

- personnel (€210 million): management of surplus staff by means of redundancy incentives and access to the Solidarity Fund, as well as suitable training and professional requalification programmes
- IT (€120 million): integration of IT systems (HW, SW, logistics, training, data migration, etc.);
- merger costs (€30 million): management of the transformation programme and of the necessary corporate operations

### **The New Group's main post-synergy financial objectives**

The main financial objectives of the New Group, taking into account the stand-alone business plans of the two original Groups and of the synergies deriving from the Merger are:

- a cost/income ratio of less than 45% in 2009;
- a net profit of more than 1.4 billion euro in 2009;

- ROE<sup>4</sup> of more than 17% in 2009;
- a dividend policy on the part of the New Parent Company not less than that currently applied by BPU Bank.

## **2. THE MERGER BALANCE SHEETS**

In accordance with article 2501-*quater* of the Italian Civil Code, the balance sheets used for the purposes of the merger are as follows:

- (i) the balance sheet of Banca Lombarda at 30 September 2006 as approved by the Board of Directors on 13 November 2006; and
- (ii) the balance sheet of BPU at 30 September 2006 as approved by the Board of Directors on 13 November 2006;

## **3. SHARE EXCHANGE RATIO AND THE CRITERIA USED IN CALCULATING IT**

### **Introduction**

To determine the number of BPU shares to be assigned to the shareholders of Banca Lombarda as a result of the Merger, the Board of Directors took account of the reports (the “**Reports**”) issued by Mediobanca – Banca di Credito Finanziario S.p.A. (“**Mediobanca**”) and Rothschild S.p.A. (“**Rothschild**”, together with Mediobanca, the “**Advisors**”). In adopting the Reports as their own, the Board of Directors agree with the valuation methods used, the conclusions regarding the economic values attributed to the capitals of the companies involved and their opinion on the fairness of the ratio between the economic capital of the Merging Company and that of the Company Being Merged.

No particular valuation problems were encountered in estimating the economic values of BPU and Banca Lombarda other than those normally found when estimating the value of the economic capital of enterprises, except for the fact that as a result of the Merger there will be a change in the administrative rights of Banca Lombarda's shareholders, as they will go from being shareholders of a joint-stock company to being shareholders of a co-operative.

---

<sup>4</sup> NET OF THE GOODWILL GENERATED BY THE OPERATION

As in the Advisors' Reports, this critical aspect of the valuation has been handled by applying an adjustment coefficient (the “**Adjustment Coefficient**”) to the exchange ratio. This Adjustment Coefficient was determined as the difference between the multiples reflected in the listed stock prices of banks similar to Banca Lombarda, being joint-stock companies, to which the market attributes a higher value as they incorporate an expectation of participation in future integration processes, and the multiples reflected in the listed stock prices of banks that are similar to BPU, being co-operatives. The samples were chosen so as to identify the value linked to the fact that joint-stock banks are more exposed to takeover bids. This Adjustment Coefficient, estimated at between 1.25 and 1.35, was applied solely to the analytical methods (Dividend Discount Model (DDM) and Contribution Margin Analysis), as the market methods applied by the Advisors (Market Multiples and Market Prices) already incorporate the difference in value between Banca Lombarda and BPU caused by their different legal status.

The Board of Directors, also in compliance with art. 2501-*quater* of the Italian Civil Code, has the following brief comments to make on this matter:

The Board of Directors has determined the Share Exchange Ratio on the basis of a carefully considered valuation of Banca Lombarda and BPU.

In determining the Exchange Ratio between the shares of BPU and Banca Lombarda, the valuation methods adopted were those commonly used, also at an international level, in operations of this kind between enterprises operating in the banking sector.

The valuation methods and the economic values that resulted from applying them were identified for the sole purpose of indicating an Exchange Ratio interval that was considered reasonable for the purpose of the Merger; in no way are these valuations to be considered possible indications of market price or of a value applicable in a context other than the one in question. In fact, an essential element in estimating financial conditions in a merger situation is to quantify the relative value of each of the companies involved in the valuation, the final objective being not so much to reach an absolute value for each of them, but rather comparable values calculated on a consistent basis so that the fairness of the exchange ratio can be established.

In order to ensure consistency in the valuation, the same valuation methods were applied to both companies, bearing in mind the specific characteristics of each, the different legal status of the Banks and the fact that they are listed on the Stock Exchange.

## **Result of the Due Diligence**

The accounting, legal and administrative due diligence envisaged in the Letter of Intent did not give rise to any material adjustments to the economic values used in determining the Exchange Ratio, nor did any facts, deeds or circumstances emerge that could have a significant impact on the situation or on BPU's activities.

## **Valuation methods used in determining the Share Exchange Ratio**

The methods used in calculating the Share Exchange Ratio were the Dividend Discount Model (“**DDM**”), as an analytical method, applying the Adjustment Coefficient to the values obtained, Market Multiples and Market Prices as market methods. The Share Exchange Ratio was also verified by carrying out a Contribution Margin Analysis, again applying the Adjustment Coefficient.

### *THE DIVIDEND DISCOUNT MODEL (DDM) METHOD*

The Dividend Discount Model or DDM determines the economic value of a bank as the sum of (i) the present value of the future dividend flows potentially distributable to the shareholders over a reasonable time horizon for analytical forecasts, while maintaining an adequate level of capitalisation, and (ii) the present value of the Terminal Value or TV, calculated assuming constant perpetual growth in dividend flows beyond the time horizon for analytical forecasting. In other words, the approach was applied regardless of the bank's actual profit distribution policy. In order to calculate the over- or under-capitalisation and the normalised flow of dividends that would be economically sustainable in the long term, a minimum level for the Core Tier 1 Ratio was established at 7.0%. This minimum objective is considered necessary to guarantee the operational continuity and medium/long-term development of the companies being valued.

The DDM – Excess Capital method therefore estimates the value of the economic capital of a bank based on the following formula:

$$WWW = \text{Diva} + \text{VA} + \text{AS}$$

where:

WWW represents the economic value of the bank being valued;

Diva represents the present value of future distributable cash flows in a certain time horizon, maintaining a satisfactory level of capitalisation;

VA represents the present value of the bank's "Terminal Value"

Application of the DDM – Excess Capital takes place in the following steps:

1. *Identification of the future economic flows and of the reference time period*

The explicit time period chosen for the determination of cash flows to be used in this valuation is the period 2006-2008, based on the economic and financial plans communicated to the market by Banca Lombarda and BPU; in order to normalise the two companies' earnings, we assumed a gradual reduction in the growth rate, reaching the hypothetical long-term growth rate (of 2.5%) in the year 2010. Beyond 2010, the value of BPU and Banca Lombarda was determined by discounting the Terminal Value.

2. *Determination of the perpetual growth rate and the discount rate*

The rate used to discount cash flows is equal to the return on equity required by investors/shareholders for investments with similar risk characteristics and was calculated on the basis of the Capital Asset Pricing Model, according to the following formula:

$$E = R + \text{Beta} \times (R - R)$$

where:

R is the "risk-free rate", in other words the rate of return on risk-free investments (in this case, we chose the return on 10-year BP, namely 3.92%);

R – R is the "market premium", in other words the premium for the risk of an investment in shares compared with one that is "risk-free", quantified at 5.5%;

Beta is the correlation factor between the effective yield of a share and the overall yield of the reference market, measuring the volatility of the stock compared with the market portfolio. This parameter was put at 0.84 for both banks.

Based on these parameters, the cost of capital was put at 8.54%.

3. *Calculation of the Terminal Value*

The Terminal Value was calculated on the basis of the Gordon Formula:

$$\text{Terminal Value} = \text{Sustainable Dividend} / (E - \text{goo})$$

where:

goo is the nominal rate of growth that is sustainable in the long term, equal to a nominal 2.5%;

E is the discount rate represented by the cost of risk capital.

### *THE MARKET MULTIPLES METHOD*

The market multiples method involves applying to the companies being valued a series of ratios between the stock market capitalisation of comparable listed companies and certain earnings and capital parameters related to them. Numerous ratios can be used to apply this method, so in practice multiples are generally chosen based on the characteristics of the system in which the companies being valued operate and on the characteristics of the sample in question. To determine the economic value of the Banks, we used the multiples based on net equity and the expected net profit.

Considering the different legal status of Banca Lombarda and BPU, we decided to choose different samples of comparable companies for the two banks. For Banca Lombarda, reference was made to banks that were joint-stock companies with a high perceived level of exposure to takeover bids, which have also been involved in recent speculation about aggregations. For BPU, we took a sample of comparable co-operative banks.

### *MARKET PRICES METHOD*

The market prices method leads to a value for the company involved in the valuation based on the capitalisation expressed by the prices of the shares traded on organised stock markets. The market prices method is considered relevant for the valuation of listed companies providing the volumes being traded are significant, which is the case with Banca Lombarda and BPU.

Stock prices for BPU and Banca Lombarda were taken into consideration up until 10 November 2006, as this was the last trading day for BPU and Banca Lombarda shares prior to the announcement of the Merger. After this date, the prices of their respective shares have clearly been influenced by the announcement, so are not relevant for the purposes of this analysis.

Starting in September 2006, the Banca Lombarda stock turned in a considerable rise in price, also as a result of market rumours about Banca Lombarda's possible involvement in a merger or acquisition; this presumably led to the price gradually incorporating the expectation of an operation of this kind. This situation made it possible for the share price to reflect in full the value of Banca Lombarda's exposure to a takeover bid as empirically estimated by the Adjustment Coefficient.

### *CONTROL METHOD: CONTRIBUTION MARGIN ANALYSIS*

The contribution margin method identifies the relative weighting of the companies taking part in the merger. In other words, this method does not express absolute values, but the relative contribution

made by each company to the new entity resulting from the aggregation. This method is based on a comparison of key balance sheet and income statement figures that are considered significant for the banks intending to integrate.

In practical terms, for each of the figures used, we identified the corresponding value per share, based on which we determined the implicit exchange ratio, taking into account the Adjustment Coefficient mentioned previously.

### Valuation summary

€ mn	BL	BPU	BL + BPU	Exchange ratio	
				Adjustment Coefficient 1.25	1.35
Loans to customers	29,954	49,798	79,753	0.73	0.79
Total deposits	74,501	106,789	181,290	0.85	0.91
<i>Direct deposits</i>	30,036	51,526	81,562	0.71	0.76
Shareholders' equity	2,819	4,893	7,712	0.70	0.75
Total revenues	1,166	1,958	3,124	0.72	0.78
Gross operating income	534	820	1,354	0.79	0.85
Profit from operating activities before tax	457	702	1,159	0.79	0.85
Net income	232	374	606	0.75	0.81
Branches in Italy (no.)	792	1,181	1,973	0.81	0.88

Based on the estimated economic values for Banca Lombarda and BPU deriving from the application of the valuation methods used, the following ranges have been determined for the exchange ratio:

Method	In	Max
Dividend Discount Model	0.77	0.83
Market Multiples	0.74	0.85
Market Prices	0.74	0.85

The control method (contribution margin analysis) indicated a range of between 0.70-0.91 BPU ordinary shares for each Banca Lombarda share.

### **Conclusions**

As a result of this valuation process and a reasoned comparison between the results of applying the various valuation methods that had been chosen, we decided on the following Share Exchange Ratio:

- 0.83 BPU ordinary shares with a par value of Euro 2.50 for each Banca Lombarda ordinary share with a par value of Euro 1.

No balance will be payable in cash.

This share exchange ratio will be checked by the common expert appointed in accordance with art. 2501-*sexies* of the Italian Civil Code.

### **4. METHODS OF ASSIGNING THE MERGING COMPANY'S SHARES AND THE DATE ON WHICH THEY HAVE RIGHTS**

Once the Merger deed takes effect, the outstanding ordinary shares of BL will be cancelled and replaced by newly issued shares of BPU on the basis of the above exchange ratio.

To service the exchange, BPU will issue up to 294,663,219 ordinary shares of par value Euro 2, 50 each.

Note that at the date of this Report, BPU does not hold any shares in BL.

Note also that the Company Being Merged does not hold any of its own shares at the date of this Report.

Note that no balances are due in cash to the shareholders of the companies taking part in the merger, nor are any particular benefits foreseen for the Directors and Statutory Auditors.

The merger deed will provide information on any waivers by BL shareholders of fractional shares needed to square the entire operation.

In any case, the shareholders of the Company Being Merged will be provided with a service to handle any fractional shares, at market prices, without any further charges for expenses, stamp duty or commission.

The new shares of the Merging Company issued to service the exchange, which will be listed at the same price as the shares already in circulation, will be made available to the shareholders of the Company Being Merged according to the usual methods for dematerialised shares held centrally by Monte Titoli S.p.A. from the first working day after the date on which the merger takes effect for legal purposes. This date will be announced in a specific notice concerning the merger that will be published in at least one national newspaper.

Exchange operations will take place, starting on the first day that the Merger is effective, at branches of the Merging Company and of the other companies of the BPU Group, as well as at the offices of any other legally authorised intermediary.

The new ordinary shares of the Merging Company, which will be issued in exchange for the shares of Banca Lombarda, will have the same rights as those of the Merging Company outstanding at the date of issue, which means that they will have normal dividend and voting rights (from 1 January 2006).

In this regard, it is foreseen that after the effective date of the Merger, the competent bodies of the Merging Company will approve, without distinction for all shareholders of the Merging Company, the distribution of a dividend for 2006 to be assigned to each share of the post-Merger Merging Company, which will be proposed for an amount of Euro 0.80 per share.

**5. EFFECTIVE DATE OF THE MERGER AND THE DATE FROM WHICH ALL TRANSACTIONS OF THE COMPANIES TAKING PART IN THE MERGER WILL BE BOOKED TO THE FINANCIAL STATEMENTS OF THE MERGING COMPANY, ALSO FOR TAX PURPOSES**

In accordance with art. 2504*bis*, para. 2, of the Italian Civil Code, the effects of the Merger vis-à-vis third parties will run from the final registration of the Merger Deed, or from a subsequent date that will be indicated in the Merger Deed and, in any case, not prior to 1 April 2007.

With reference to the provisions of art. 2501-*TR*, para. 1.6, of the Italian Civil Code, transactions carried out by the Company Being Merged will be booked to the financial statements of the Merging

Company from the date that the Merger takes legal effect in accordance with the previous paragraph. The tax effects of the Merger will also run from the same date.

## **6. ACCOUNTING AND TAX ASPECTS OF THE OPERATION**

### **6.1 Accounting aspects of the Operation**

As regards the accounting effects of the Operation, BPU and BL both adopted international financial reporting standards (IFRS) for their annual reports from 2005.

This means that the Merger will be accounted for and disclosed in the statutory and consolidated financial statements of the Merging Bank based on both domestic regulations and IFRS 3 on business combinations.

As mentioned in paragraph 1 above, the Merger between BPU and BL has always been conceived as a merger of equals, with the choice of the "dualistic" system of corporate governance being particularly relevant in this connection. The fact that BL is being absorbed by BPU is solely a question of the legal approach that has been chosen to implement the Merger.

IFRS 3 also requires a buyer to be identified in any business combination. Based on this standard, mergers that involve one entity being absorbed by the other are considered acquisitions, to the extent that they involved a transfer of control.

The buyer is identified by IFRS as the entity that obtains control, by which is meant the power to decide on the financial and operating policies of an entity in order to receive the benefits deriving from its activities. The following elements are of considerable importance to this end: (i) the number of ordinary shares with voting rights issued compared with all of the ordinary shares with voting rights that will constitute the share capital of the Merging Company after the Merger; (ii) the fair value of the entities involved in the Merger; (iii) the composition of the new corporate bodies of the Merging Company; (iv) the entity that issues the new shares.

As far as this particular Merger is concerned, based on the elements mentioned in points (i), (ii) and (iv) (the number of new shares, the fair value of the two Groups, and the entity that will issue the new shares) BPU has to be considered the buyer from a financial reporting/accounting point of view.

Having said this, under IFRS 3, all business combinations have to be accounted for using the purchase method. This method means that the buyer has to account for the operation by recognising its cost, as indicated below, and allocating it to the fair value of the assets and liabilities of the company acquired.

In particular, the cost of a business combination has to be determined as the sum of the fair values at the date of the share exchange: (i) of the assets sold, (ii) of the liabilities incurred or taken on and (iii) of the equity instruments issued by the buyer in exchange for control over the company acquired. To this value then have to be added (iv) the costs indirectly attributable to the business combination.

Hence, in the combination between BPU and BL the acquisition cost will be represented by the fair value, at the issue date (date of the share exchange), of the shares that BPU will issue in exchange for the shares of the merged company BL.

Given that they are listed shares, the fair value of the BPU ordinary stock will be represented by its stock market price on the day that the operation legally takes effect (which, as we said, will be the date of final registration of the merger deed, or from a subsequent date that will be indicated in the merger deed and, in any case, not prior to 1 April 2007), or by the latest available market price. To the value determined in this way will have to be added the costs of the operation (e.g. professional fees paid to auditors, legal advisors, expert appraisers and other consultants used to carry out the business combination).

The cost of the business combination - as determined above - therefore has to be allocated to the assets, liabilities and contingent liabilities of the company acquired as of the acquisition date.

A balance sheet situation therefore has to be drawn up as of the effective date of the Merger (effective for accounting purposes, which as we have seen, is the same date as for legal purposes) valuing the assets, liabilities and contingent liabilities of the merged company at fair value. Any residual difference

between fair value of the shares issued, integrated by the cost of the operation, and the value allocated to the assets and liabilities of the merged company can be attributed to any intangible assets not already shown on the balance sheet of the merged company. Any residual balance left after this allocation has to be booked as goodwill.

In light of the above, the cost of the acquisition and the consequent merger difference that emerges from the pro-forma documents included in this report, calculated on the basis of the fair value of the Merging Company's shares and the share exchange ratio is therefore provisional, to the extent that it has to be updated according to the fair value of BPU's ordinary shares at the legally effective date of the Merger.

Allocation of the cost will have to be made in the bank's financial statements by valuing the assets and liabilities and identifying the intangible assets of the Merged Company. The same process will have to be carried out when preparing the consolidated financial statements.

It should also be noted that IFRS 3 allows the fair value of the assets, liabilities and contingent liabilities of the entity acquired to be determined on a provisional basis, and therefore provisional allocation of the merger difference. However, the buyer has to account for any adjustments to the provisional figures and complete the initial entries within twelve months of the acquisition date, with effect from that date.

To facilitate companies taking part in mergers, the statutory rules (art. 2504-*bis*, para. 3, of the Civil Code) lay down that the accounting effects can run from a date prior to the legally effective date of the merger. According to this rule, up until the point where IFRS were adopted, it was normal practice to have mergers take effect for accounting purposes from 1 January of the year in which the operation took place, to avoid having to prepare another set of financial statements for the merged company. A similar approach was taken for the tax effects, given that the tax period (relevant for tax purposes) coincides with the financial year (art. 76, para. 2, Decree 917 of 22 December 1986, the Income Tax Consolidation Act or ITCA).

Under IFRS, this approach is no longer feasible as the figures of the merged company have to be acquired from the merging company at the acquisition date. This is because, even though IFRS 3 only

gives a positive indication of the date from which the figures of the company acquired have to be booked by the buyer (the date of acquisition of control), this rule can also be read from a negative point of view, as a ban on the buyer booking the figures of the company acquired prior to the date of acquisition of control. This interpretation also appears to be consistent with the rationale underlying IFRS 3, for which business combinations are similar to business sales; and, as is well-known, the effects of a business sale cannot be booked prior to completion of the deal.

The acquisition date is that on which the buyer effectively obtains control over the company acquired and this is the date on which the balance sheet figures of the latter get recorded in the books of the buying company for the first time.

Pursuant to IAS 27, control over a company is presumed when one has a majority of the voting rights or a majority of the directors, or the power to determine the company's financial and operating policies, or the power to nominate or remove a majority of the directors. In the case of the Merger between BPU and BL, these conditions come about on the legally effective date of the Merger. In fact, this date coincides with the issue of the new shares and the simultaneous annulment of the merged company's shares, cancellation of the merged company from the Companies Register and the winding-up of its corporate bodies. From that moment, the merging company takes over the rights and obligations of the extinct company. Prior to and up to that date, BL's shareholders retain all of their rights, while the directors are still in office. Up until that date, the shareholders and directors of BPU do not have any way of intervening in the operational decisions of the Company Being Merged.

Therefore, as regards the provisions of art. 2501-*ter*, para 1.6, of the Italian Civil Code, any transactions carried out by the Company Being Merged (BL) will be booked to the accounts of the Merging Company (BPU) from the starting date of the legal effects of the Merger (the date of final registration of the merger deed, or from a subsequent date that will be indicated in the merger deed and, in any case, not prior to 1 April 2007). The tax effects of the Merger will also run from the same date.

## **6.2 Tax aspects of the Operation**

### **6.2.1. Tax treatment for the companies**

The merger is neutral for direct tax purposes. Under art. 172 of the ITCA, the merger does not give rise to any positive or negative income elements that are taxable for those involved in the merger (the merged company, the merging company and their respective shareholders)

In particular, as far as the merged company is concerned, the transfer of its equity to the merging company does not give rise to the realisation of the latent capital gains or losses in the assets and liabilities transferred, including goodwill.

In the same way, the assets and liabilities received by the merging company are taken on by it at the same fiscal value that they had in the books of the merged company (according to the principle of "recognised fiscal values").

In determining the taxable income of the merging company, no account is taken of the surplus or deficit booked as a result of the share exchange ratio and the higher values booked as a result of allocating the deficit to balance sheet items of the merged company, including goodwill, are not taxable for the merging company nor are they recognised for tax purposes.

The reserves in suspense for tax purposes shown in the last set of financial statements of the merged company have to be reconstituted in the financial statements of the merging bank as laid down in para. 5 of art. 172 of the ITCA and the related rules in the event of distribution.

The merger is excluded from the ambit of VAT and is subject to registration, mortgage and cadastral taxes for a fixed amount.

### **6.2.2. Tax treatment for the shareholders**

The fact that BL's shareholders exchange their shares in the merged company for shares in the merging company does not constitute a realisation of gains or losses, entailing merely a substitution of the shares of the merged company with those of the merging company. In the end of the day, the value of

the investment in the merged company recognised for tax purposes gets transferred to the shares in the merging company received in exchange.

## **7. EFFECTS OF THE MERGER**

### **7.1 Effects on the balance sheet and income statement**

This chapter provides pro-forma consolidated figures at 30 September 2006 which reflect the principal effects of the merger.

The pro-forma consolidated figures are based on the financial statement formats recommended by the Bank of Italy in its Circular no. 262 of 22 December 2005 and have been prepared in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union on 30 September 2006.

These figures are the result of combining the figures published by the BPU and Banca Lombarda Groups in their respective interim reports at 30 September 2006. The accounting policies used by the two entities involved in the combination in preparing their interim accounts are substantially the same.

The pro-forma consolidated figures were obtained by making appropriate pro-forma adjustments to the historical figures to reflect retroactively the main effects of the operations mentioned above: in particular, these effects have been reflected retroactively in the pro-forma consolidated balance sheet as though these operations had taken place on 30 September 2006 and in the pro-forma consolidated income statement as though they had taken place on 1 January 2006.

The combined accounting figures, obtained in this way, were then adjusted as required to reflect the impact of the merger, calculating a provisional acquisition cost by valuing the new shares that BPU Banca will have to issue to service the share exchange on the basis of the market price of its shares on 10 November 2006, the last price available prior to the date that the merger plan was approved by the two Boards of Directors (provisional because the definitive value of the increase in capital will be represented by the market price on the day that the merger becomes effective for legal purposes, or by the last available market price, times the number of shares to be issued on that date). The difference between the value of the shares to be issued by BPU Banca and the consolidated net equity of the

Banca Lombarda Group at 30 September 2006 has been booked on a provisional basis to "Merger difference". This difference is only indicative and does not precisely represent the difference to be determined in accordance with international accounting standards which ought to be quantified with reference to the fair value, and not the book values shown in the following tables, of the assets, liabilities and contingent liabilities of the company acquired as of the acquisition date. Moreover, this difference has been determined without considering the costs directly attributable to the business combination.

Lastly, the combined accounting figures resulting from the application of these procedures are adjusted to eliminate material intercompany balances and transactions between the BPU and Banca Lombarda Groups.

For a correct interpretation of the information provided by the pro-forma figures, it is necessary to consider the following aspects:

- o given that these are representations based on a number of hypotheses, had the merger actually taken place on the dates used to prepare the pro-forma consolidated figures, rather than at the effective date, the historical figures may not necessarily have been the same as the pro-forma ones;
- o the pro-forma accounting figures only show the objectively measurable effects of the merger and do not take into consideration any potential future effects due to changes in management policies and operating decisions taken after the merger;
- o the pro-forma accounting figures and the figures published in the interim reports were not prepared for the same purpose in terms of disclosure and are also reflect different methods of calculating the effects of the acquisition on the balance sheet and income statement. As a result, the pro-forma consolidated schedules should be read and interpreted on their own, considering the particular purpose for which they were drawn up.

## Consolidated pro-forma balance sheet as of 30 September 2006

Assets	BPU GROUP	BL GROUP	NEW GROUP PRO-FORMA
Financial assets held for trading	3,055,892	2,903,739	5,959,631
Financial assets at fair value	5,290,972		5,290,972
Other financial assets	4,780,003	1,003,035	5,783,038
Due from banks	1,907,591	2,100,772	4,002,978
Loans to customers	49,798,318	29,954,211	79,569,655
Property, plant and equipment and intangible assets	2,607,861	1,466,827	4,074,688
Merger surplus			3,298,814
Tax assets	573,229	271,375	844,604
Other assets	2,172,660	1,199,623	3,366,117
<b>Total assets</b>	<b>70,186,526</b>	<b>38,899,582</b>	<b>112,190,497</b>

Liabilities	BPU GROUP	BLP GROUP	NEW GROUP PRO-FORMA
Due to banks	6,607,514	2,896,008	9,309,167
Customer deposits	52,145,824	30,036,258	82,182,012
Financial liabilities held for trading	449,994	555,301	1,005,295
Tax liabilities	526,596	347,577	874,173
Provisions for specific use	679,737	276,751	956,488
Technical reserves	2,473,415	-	2,473,415
Other liabilities	2,004,598	1,569,192	3,573,790
Capital	861,135	351,752	1,591,021
Reserves	3,402,498	1,734,746	8,523,215
Revaluation reserves	120,395	465,291	120,395
Minority interests	405,743	430,057	835,800
Net income for the period	509,077	236,649	745,726
<b>Total liabilities and shareholders' equity</b>	<b>70,186,526</b>	<b>38,899,582</b>	<b>112,190,497</b>

## Consolidated pro-forma income statement as of 30 September 2006

RECLASSIFIED STATEMENT OF INCOME	BPU GROUP	BL GROUP	NEW GROUP PRO-FORMA
Net interest income	1,264,699	658,991	1,924,076
Net commission income	609,785	357,701	967,485
Net interest and other banking income	2,033,836	1,095,042	3,129,263
Net financial income	1,914,433	1,027,961	2,942,779
Net financial and insurance income	1,889,584	1,027,961	2,917,930
Administrative expenses	(1,088,116)	(579,819)	(1,668,320)
Profits (losses) from ordinary activities before tax	860,183	457,154	1,317,337
Profits (losses) from ordinary activities net of taxes	542,452	267,705	810,157
Net income for the period	542,452	272,528	814,980
Net income (loss) attributable to minority interests	(33,375)	(35,879)	(69,254)
<b>Group net income for the period pertaining to the Parent Bank</b>	<b>509,077</b>	<b>236,649</b>	<b>745,726</b>

## **7.2 Effects on the composition of the shareholder base**

Based on the share exchange ratio indicated in paragraph 3 above, as a result of the Merger the shareholder base of the Merging Company will be made up around 54% by shares held by BPU shareholders and around 46% by shares held by former BL shareholders.

From the effective date of the Merger, BL shareholders will become shareholders of the Merging Bank, which will maintain its previous status as a co-operative bank. They will therefore become subject to the regulations governing co-operative banks, in particular, the rules contained in art. 30 of Decree 385 of 1 September 1993 (the Banking Consolidation Act).

As explained in further detail in paragraph 1.3.1 of this report, this article establishes a limit on share ownership of 0.50% of the share capital (art. 30.1). This ceiling does not apply to UCITS (Undertakings for Collective Investment in Transferable Securities), which are subject to their own internal limits (art. 30.2).

Any time that the Bank sees that the 0.50% limit has been exceeded, it notifies the investor immediately of the violation. The excess shares have to be sold within a year of notification; after this deadline, the capital rights accruing to the excess shares up to the time of their disposal are acquired by the Bank.

At the time of the Merger Deed and as a result of it, BL shareholders will be automatically recorded in the Shareholders' Register of the Merging Bank, in accordance with transitory rule 1 of the Articles of Association..

## **8. EFFECTS OF THE MERGER ON THE SYNDICATE AGREEMENTS INVOLVING THE SHARES OF THE COMPANIES TAKING PART IN THE MERGER**

To date, no communication has been received from the members of the Common Commitment signed by the directors of BPU formerly of Banca Popolare Commercio e Industria S.r.l. regarding the continuation or termination of the Commitment for all of some of the current members.

With regard to the Banca Lombarda e Piemontese shareholder syndicate which regulates share transfers and requires concerted voting but only at Extraordinary Shareholders' Meetings called to vote on amendments to the articles of association (*305 shareholders are members of the syndicate to which they have assigned Banca Lombarda shares representing 46.88% of the current share capital*), the syndicate has expressed its full and unanimous appreciation of the plan to combine the BL and BPU Groups.

In particular, the Banca Lombarda e Piemontese shareholder syndicate has sent BL a communication saying that 100% of the syndicated shares voted in favour of:

- (i) voting at Shareholders' Meetings in favour of the Merger between BL and BPU and, as a result, pre-announcing its wish not to exercise the right of withdrawal;
- (ii) approving the rules of governance that will discipline the New Parent Company and the New Group;
- (iii) not acting as a promoter nor taking part in any negotiations involving hypothetical combinations as an alternative to the merger with BPU covered by the Letter of Intent.

The members of the Banca Lombarda e Piemontese shareholder syndicate will promote the setting up of an Association of Banca Lombarda e Piemontese shareholders (the “**Association**”) for the purpose of preserving, within the Merger, BL's mission as a local bank with close links to the business and entrepreneurial fabric of the province of Brescia and of northern Italy in general. This new Association also proposes to reinforce the cohesion and collaboration of its Associates in order to encourage the development of the New Parent Company, in line with the criteria that to date have characterised BL's activity, also for the purpose of guaranteeing a stable shareholder structure for the New Parent Company.

## **9. RIGHT OF WITHDRAWAL**

Pursuant to art. 2437 of the Civil Code, completion of the Merger will entitle the shareholders of Banca Lombarda who did not approve the merger plan at the Shareholders' Meeting to withdraw all or part of their shares. Under this hypothesis, in accordance with art. 2437 $TR$ , para. 3, of the Civil Code, Banca Lombarda will be required to pay the shareholders that exercise this right of withdrawal an amount based on the average closing price during the six months prior to publication of the notice of calling of Banca Lombarda's Extraordinary Shareholders' Meeting called to vote on the Merger.

Payment of this redemption to the shareholders who withdraw will take place in accordance with the liquidation procedure laid down in art. 2437 *quater* of the Civil Code.

The effectiveness of the Merger and hence the stipulation of the Merger Deed are subject to the condition that the right of withdrawal on the part of BL's shareholders is not exercised for shares representing more than 10% (ten percent) of the share capital. This condition can be waived by common accord between the Merging Company and the Company Being Merged within 10 (ten) working days from the day on which the definitive figures for the withdrawal rights actually exercised are communicated by BL to the Merging Company.

The Merger operation submitted for approval at the Shareholders' Meeting does not exclude BPU's shares from being listed. Shareholders of the Bank that did not take part in the voting on the Merger are not entitled to the right of withdrawal pursuant to art. 2437 *quinquies* of the Civil Code.

Similarly, given that the situations envisaged in art. 2437, paras 1 and 2 of the Civil Code do not apply, shareholders of the Bank that did not take part in the voting on the Merger are not entitled to the right of withdrawal pursuant to the said article.

THE BOARD OF DIRECTORS

## ATTACHMENT

### **SUMMARY OF THE PRINCIPAL CHARACTERISTICS OF THE NEW ARTICLES OF ASSOCIATION OF THE MERGING BANK FOLLOWING THE MERGER**

#### **Articles relating to the adoption of the dualistic model**

##### **Name (art. 1)**

The plan is to adopt a new name: “Unione di Banche Italiane Società Cooperativa per Azioni – UBI Banca”.

##### **Shareholders' meeting (from art. 21 to art. 29)**

The Shareholders' Meeting will be granted powers in accordance with the legal rules governing the "dualistic" system, foreseeing among other things that the Shareholders are to be called to approve the financial statements in the event that the Supervisory Board fails to do so.

In line with the recent evolution in the relevant legislation, the new articles will also include a series of minority shareholder rights, including the right to present lists of candidates for positions on the Supervisory Board according to conditions and methods defined by law and detailed in the Articles of Association (art. 29).

##### **The Supervisory Board (from art. 44 to art. 49)**

The Supervisory Board of the Bank post-Merger will consist of 23 members appointed by the Shareholders' Meeting from among shareholders that satisfy the current legal requirements of integrity, professionalism and independence.

At least 15 (fifteen) members of the Supervisory Board will have to have the professionalism required by the *pro tempore* regulations applicable to those who act as bank directors. In particular, at least three members of the Supervisory Board will have to be chosen from those recorded in the Register of Auditors, who have performed legal audits for a period of not less than three years.

They will remain in office for three years.

Their appointment will take place by means of voting lists according to the methods detailed in the Articles of Association (art. 45). Unless required otherwise by legal or regulatory provision, these lists

will have to be presented by the outgoing Supervisory Board or by at least 500 shareholders who have the right to take part in and vote at the Shareholders' Meeting called to elect the Supervisory Board and who can document this right in accordance with current regulations, representing at least 0.5% of the share capital (based on the capital outstanding 90 days prior to the date set for calling the Shareholders' Meeting and to be shown on the Notice of Calling).

The Supervisory Board will meet at least every 60 days, as called by the Chairman; meetings will alternate between Bergamo and Brescia, and will take place once a year in Milan. For meetings to be valid, they have to have a quorum consisting of a majority of the members currently in office. For the Board to pass resolutions, an absolute majority of the members present at the voting will have to vote in favour, except in those cases where the Articles of Association require a larger majority (art. 48).

In addition to the matters that the law requires the Supervisory Board to approve, the Articles (art. 46) will also give it the power to vote on proposals made by the Management Board regarding the general strategies and policies of the Company and of the Group, also authorising business plans, financial plans and budgets of the Company and of the Group prepared by the Management Board, as well as authorising strategic operations, though the Management Board will always remain responsible for its actions. The Supervisory Board will also have to power to authorise:

- (i) proposed changes in capital, issues of *cum warrant* bonds convertible into shares of the Company, merger and spin-offs;
- (ii) proposed amendments to the Articles of Association;
- (iii) purchases or sales by the Company or its Subsidiaries of majority investments in companies of significant strategic value or of a value individually higher than 5% of consolidated net equity, as well as the purchase or sale of companies, blocks of relationships or business divisions of significant economic and/or strategic value;
- (iv) investments or disposals of strategic importance and/or that entail commitments for the Company that individually amount to more than 5% of consolidated net equity;
- (v) signing commercial, collaboration or company/shareholder agreements without prejudice to the fact that the authorisation of the Supervisory Board for the operations listed above will not be necessary where they are specifically envisaged in business plans already approved by the Supervisory Board.

The other attributes of the Supervisory Board include the power to decide:

- a) on policies regarding cultural and charity initiatives, as well as matters involving the image of the Company and of the Group, with special reference to enhancement of the historical and artistic heritage, ensuring that all projects comply with the agreed objectives;
- b) on mergers and spin-offs covered by arts. 2505 and 2505-bis of the Civil Code;
- c) on the opening or closing of secondary offices;
- d) on reducing the share capital in the event of withdrawal on the part of a Shareholder;
- e) on amendments to the Articles of Association to bring them into line with new legislation or regulations, after consultation with the Management Board.

### **The Chairman of the Supervisory Board (art. 47)**

In addition to acting as a catalyst for the activities of the Supervisory Board, its Chairman will also play an important role in the way that the Board exercises its powers: - in supervising and activating the procedures and systems of control over the activities of the Company and of the Group, which will also include requesting and receiving information from the person in charge of preparing accounting documents for the Company and from those in charge of the various functions concerned; - in relations between the Supervisory Board and the Management Board, ensuring efficient coordination of the activities of the corporate bodies.

The Chairman of the Supervisory Board will call - on his own initiative and in any case in those circumstances envisaged by law and by the Articles of Association - and will chair meetings of the Board, drawing up the agenda, taking into account any proposals made by the Senior Vice Chairman or by the other Vice Chairmen, and making sure that adequate information on the matters to be discussed is made available to all members of the Supervisory Board.

The positions of Chairman and Senior Vice Chairman of the Supervisory Board will go respectively to the first and second members shown on the list that obtains the most votes, or on the single list if only one is presented or, alternatively, to the members appointed as such by the Shareholders' Meeting in the event that no list is presented (art. 45).

### **The Internal Control, Compensation and Nominations Committees (art. 49)**

The Articles of Association lay down that the Supervisory Board has to set up from among its members an Internal Control Committee, a Top Management Compensation Committee and a Nominations Committee.

At least a majority of the members of the Internal Control Committee will have to satisfy the requirements of Article 44, para. 5, of the Articles of Association. The Internal Control Committee will be able to use the Group's internal audit and internal control structures to carry out checks and controls at any moment in time, as well as exchange information with Group companies' control functions regarding the internal control and administration systems and trends in the company's performance.

### **The Management Board (from art. 30 to art. 41)**

The Management Board will consist of a minimum of 7 and a maximum of 11 members appointed by the Supervisory Board, which will decide on the number of members at the time they are to be appointed.

The members of the Management Board will remain in office for three years and will be eligible for re-election. The members of the Supervisory Board cannot be appointed members of the Management Board.

Moreover, it should be noted that: (i) at least one of the members of the Management Board will have to satisfy the independence requirement laid down in art. 148, para. 3, of Decree 58 of 24 February 1998; (ii) at least a majority of the said members will have to have at least three years' experience in the form of professional and/or management activity in finance companies, brokerage houses, banks or insurance companies in Italy or abroad.

The Management Board will meet at least once a month, as well as any time that the Chairman considers it opportune to call one or when a meeting is requested by 5 members. Meetings will alternate between Bergamo and Brescia, and will take place once a year in Milan. Generally speaking, more than half of the current members have to be present for meetings of the Management Board to be valid, whereas different quorums may be needed to pass resolutions. Resolutions of the Management Board are to be voted on openly and pass if a majority of the members present vote in favour, except in the case of certain types of resolutions for which the Articles of Association (art. 36) require a higher quorum:

- a) proposed amendments to the Articles of Association to be submitted to the Supervisory Board for subsequent approval by the Extraordinary Meeting;
- b) total or partial sale of the investments held by the following companies: Banca Popolare Commercio e Industria, Banca Popolare di Bergamo, Banca Popolare di Ancona, Banca Carime, Centrobanca, Banco di Brescia and Banca Regionale Europea, as well as the constitution of any kind of encumbrance over these companies' shares;
- c) deciding on how to vote at the Shareholders' Meetings of the companies listed in point b) above, called to approve increases in capital with the exclusion of option rights (for cash or conferral in kind), issues of convertible or cum warrant bonds, excluding option rights, which, if subscribed, would lead to the Company losing control;
- d) deciding on how to vote at the Shareholders' Meetings of the companies listed in point b) above, called to approve a merger with the Company or with other companies, their transformation, spin-off, early winding-up, change in the corporate purpose, change in the company name or transfer of the registered offices outside the municipality where it is currently located, transfer of the banking business or of a substantial part of it of one of the subsidiaries mentioned in point b) above to third parties that do not form part of the Group;
- e) the nomination as members of the Board of Directors and of the Board of Statutory Auditors of the companies listed in point b) above, taking into account the proposals of the Nominations Committee, where this is foreseen;
- f) the appointment, if considered opportune, of one its members to superintend the functioning of the internal control system.

In addition to the powers that cannot be delegated by law, the Articles of Association (art. 37) will give the Management Board various exclusive powers, strictly linked to the functions of management and organisation of the business, though some of them will require approval by the Supervisory Board.

The Management Board will report to the Supervisory Board in writing on the general trend in performance and on major transactions in terms of size and characteristics carried out by the Company or by its subsidiaries and, in any case, it has to report on transactions in which the members of the Management Board have an interest on their own behalf or on behalf of third parties (art. 38). Such matters will be communicated every time that a meeting of the Supervisory Board is held and, in any case, at least every quarter; it can also be communicated in writing.

### **The Chairman of the Management Board (art. 39)**

The Chairman of Management Board will act as the legal representative of the Company and will have signatory powers; he will also have the powers that are typical of the Chairman of the Company's management body and these powers will have to be exercised in suitable coordination with the other corporate bodies.

The Chairman of the Management Board and the Vice Chairman of the Management Board – who will be required to act as Chairman in the event of his absence or impediment - will be appointed by the Supervisory Board (art. 46).

### **The Chief Executive Officer (from art. 42 to art. 43)**

The Chief Executive Officer will be nominated by the Management Board on the proposal of the Supervisory Board (art. 37).

The Chief Executive Officer will superintend the operations of the Company and of the Group, ensuring that there is strategic coordination and management control. Of the various responsibilities that the Articles of Association assign to the Chief Executive Officer, it is worth noting that he can be granted the following powers (art. 43):

- a) to look after implementation of the organisational and business structure decided by the Management Board and approved by the Supervisory Board;
- b) to decide on the operating directives for Senior Management;
- c) to superintend Group integration, consulting with and involving the Vice Chairman of the Management Board;
- d) to submit to the Management Board the operating policies, strategic and business plan and the budget, ensuring that they are implemented with the help of Senior Management;
- e) to propose the accounting policies and the approach to be taken to optimise the use and enhancement of resources, and to submit the draft financial statements and interim accounts to the Management Board;
- f) to propose to the Management Board nominations for management and executive positions at the Bank and other Group companies, in agreement with the Chairman and the Vice Chairman of the Management Board, having heard the opinion of the General Manager;

g) to encourage the introduction of integrated risk management.

The Chief Executive Officer reports on a quarterly basis to the Management Board and to the Supervisory Board on the results of operations and on the future outlook, as well as on major transactions carried out by the Company and its subsidiaries; he also reports on a monthly basis to the Management Board and at least every 60 days to the Supervisory Board on the main financial results of the Company, its main subsidiaries and the Group.

### **Senior Management (art. 50)**

The Articles of Association will provide for the appointment by the Management Board of a General Manager, a Joint General Manager, as well as the power to appoint one or more Deputy General Managers, according to the organisation chart decided by the Management Board, which will also establish their powers and duties.

The General Manager will be the head of the operating structure and the head of personnel; generally speaking, unless indicated otherwise by the pertinent administrative body, he will look after execution of the matters decided by the Management Board and by the Chief Executive Officer and will run the day-to-day business in accordance with the policies laid down by the administrative bodies.

The Joint General Manager will help and support the General Manager in superintending all of the functions assigned to him.

### **Other matters in the Articles of Associations concerning implementation of the integration plan**

#### **The Company's registered and operating offices (art. 3)**

The Company will have its registered offices in Bergamo and operating offices in Brescia and Bergamo. This is designed to ensure that the new corporate structure resulting from the Merger will have a balanced allocation of the central functions that takes account of the need for the new structure to be functional and economical, also to foster effective implementation of the integration process.

#### **Requirements for acceptance as a Shareholder (art. 6 and art. 9)**

The Articles of Association expressly lay down the criteria and requirements that will be considered when evaluating applications for acceptance as a Shareholder.

#### **Notice of calling of the Shareholders' Meeting (art. 22, para. 5)**

In the circumstances required by law, the Articles of Association establish that the Shareholders' Meeting can be called within 180 days (rather than the usual 120 days) from the end of the financial year. In this case, the Management Board will have to explain the reasons for this extension in their report issued in accordance with art. 2428 of the Italian Civil Code. The proposed amendment is designed to take advantage of the opportunity offered by para. 2 of art. 2364 of the Italian Civil Code which states that in the case of companies required to prepare consolidated financial statements or in particular circumstances affecting a company's structure or business purpose, the deadline for calling the Ordinary Shareholders' Meeting can be raised from 120 to 180 days from the end of the financial year.

### **Location of the Shareholders' Meeting (art. 23)**

The Shareholders' Meeting will alternate between the city or province of Bergamo and the city or province of Brescia. The new text of this article is based on the principle of equality between the companies involved in the Merger, which will give rise to the New Parent Company. In accordance with the underlying concepts of equilibrium and equal opportunity, it is designed to facilitate participation at shareholders' meetings by both components of the shareholder base originating from the two banks involved in the integration plan.

### **Quorum required for an Extraordinary Meeting at second calling (art. 27)**

To hold a valid Extraordinary Meeting at second calling, the Articles of Association will require the presence - in person or represented by a proxy - of at least 1/400th of the Shareholders with voting rights (at present, the quorum is 1/200th of the Shareholders with voting rights). This is to adjust the percentage of shareholders required to hold a regular Extraordinary Meeting at second calling to the increased size of the New Parent Company's shareholder base resulting from the Merger, taking account of the average shareholder participation at shareholders' meetings of BPU and BL over the last decade.

In fact, on completion of the proposed Merger between BL and BPU, the number of shareholders of the New Parent Company will rise from around 60,000 to around 100,000, bearing in mind the provisions of Transitional Rule no. 1, introduced by this proposed amendment to the Articles of Association. The provision is also in line with art. 2538, para. 5, of the Civil Code, applicable to co-operative banks in virtue of art. 150 bis of Decree 385 of 1 September 1993, which lays down that "The quorums required to hold shareholders' meetings and the majorities needed for resolutions to be valid are determined by

the memorandum and articles of association and are calculated according to the number of votes that shareholders are entitled to".

**Higher quorums needed to amend or revoke certain provisions of the Articles of Association (art. 28)**

The proposal is to abrogate some of the higher voting majorities in order to make the Articles of Association more flexible, as well as to make it easier to take advantage of any opportunities that may arise in the future in terms of new regulations or further processes of integration.

On the other hand, for certain rules that are considered fundamental for the positive outcome of the integration process, higher voting majorities would be specifically introduced to abrogate or amend those articles of the Articles of Association that concern the constitution and regulation as part of the Supervisory Board of the Nominations Committee, a body that already exists in the current Articles of Association of the Merging Company. This body is in fact considered of fundamental importance to ensure proper application of the rules of governance to the proposed composition of the New Parent Company's corporate bodies, which is meant to encourage equal board representation by representatives of the two original banks, BPU and BL, in accordance with the principle of equality mentioned in art. 1 of these proposed Articles of Association.

Resolutions to be passed on the request of the Banking Supervisory Authority or in connection with regulatory or legal changes, can be passed by both Ordinary and Extraordinary Shareholders' Meetings with an absolute majority of the votes; in these cases, resolutions of the Supervisory Board will pass with a vote in favour by an absolute majority of the members present at the voting.

**Manager in charge of preparing accounting documents (Art. 37, para. 2.n)**

In accordance with art. 154 bis of the FCA, the Manager in charge of preparing accounting documents for the Company will have to be appointed by the Management Board, after necessarily hearing the opinion of the Supervisory Board.

The Manager in charge of preparing accounting documents for the Company will have to satisfy not only the requirements of integrity requested by current regulations for those who hold directorships or carry on management functions, but also the requirements of professionalism, meaning specific administrative and accounting skills and experience in fields such as banking, finance, stockbroking or insurance. These skills, which the Management Board must ascertain, has to have been acquired

through work experience in positions of adequate responsibility for a suitable period of time and in businesses similar to that of the Company.

#### **Transitional Rule I**

In derogation of the rules governing the acceptance of new Shareholders, the holders of ex-BL shares that become holders of at least one share in the Merging Company based on the exchange ratio, will automatically take on the status of Shareholder without having to send in an application or carry out any other formality. They will automatically have full rights as Shareholders of the Merging Company from the effective date of the Merger. The reason for proposing the introduction of this transitional rule is to protect the participatory rights of the Shareholders of the Company Being Merged (BL) once it has been combined with the Merging Company (BPU), allowing them to take part in the Shareholders' Meeting called to approve the distribution of earnings for the year 2006.

#### **Transitional Rule II**

In derogation of the current Articles of Association, all Shareholders' Meetings, starting with the one called to approve distribution of the earnings for the year 2007, will be chaired by the Chairman of the Management Board, assuming he is not absent or impeded in some way. The proposed rule, which constitutes an application of the power attributed to the Chairman of the Supervisory Board by the second paragraph of art. 26 of the new Articles of Association, reflects the agreements reached between BPU and BL to implement the integration plan.

#### **Transitional Rule III**

The Company resulting from the merger between BPU and BL will adopt the Regulations of the Nominations Committee attached to the merger plan from the effective date of the Merger. For the reasons underlying this rule, reference should be made to the explanation given above with regard to the amendment to the last paragraph of art. 28 of the Articles of Association.

#### **Transitional Rule IV**

In derogation of the Articles of Association, it will be possible for the initial members of the Supervisory Board and of the Management Board to be appointed from among persons who have been registered Shareholders for less than 90 days. The purpose of this proposal is to facilitate implementation of the agreements reached between BPU and BL regarding realisation of the Integration Plan.

### **Transitional Rule V**

It provides for a special procedure for the appointment of the initial members of the Supervisory Board. More in particular, the rule established that members of the Supervisory Board will be appointed the first time round by the Ordinary Shareholders' Meeting of BPU in application of specific transitional rules contained in the Articles of Association. These transitional rules lay down that 23 members are to be appointed to the Supervisory Board for a period of three years, applying the list voting mechanism provided for in art. 44 of BPU's current Articles of Association for the appointment of the Board of Statutory Auditors. Under this mechanism, the first 22 candidates taken from the list that obtains the highest number of votes get elected, together with the first-named candidate on the list that obtains the second highest number of votes.

Lists that do not obtain at least 10% of the total votes expressed at the Shareholders' Meeting will not be taken into consideration; if only one of the lists presented exceeds this limit, all of the members of the Supervisory Board will be taken from it.

If only a single list is presented or no list has been validly presented, the Shareholders' Meeting will vote the appointees by relative majority. The proposal is designed to permit the use of the list voting mechanism to appoint the members of the Supervisory Board ever since the Ordinary Shareholders' Meeting of the Merging Bank to be held at the same time as the Extraordinary Meeting called to approve the amendments to the Articles of Association and to appoint the first Supervisory Board, laying down in particular the rules needed to allow interested Shareholders advance presentation of lists of candidates to this position.

**Transitional Rule VI**

The rule lays down that the Shareholders' Meeting called to approve the distribution of earnings for the year 2006 will be able to allocate 1% of the profits earned by the Merging Company in 2006, having deducted the portion attributed to reserves, to remunerate the members of the Board of Directors in office up until 31 December 2006.

\* \* \* \* \*

As regards adoption of the new text of the Articles of Association, it should also be noted that under art. 28 of the Merging Company's Articles of Association some of the new clauses entail an amendment to the Articles which can be passed by at least 1/20th of all of the Shareholders voting in favour of it, providing they are entitled to vote.

This means that if the resolution approving the Articles of Association by BPU's Shareholders' Meeting was passed by a lower majority than the one just mentioned, the resolution will have to be understood as regarding approval of the Articles of Association, but replacing the previous articles reformulated as shown in Appendix B attached to the Merger Plan.

\* \* \*

***Please note that the original report is in Italian. In case of doubt, the Italian version prevails.***