

# INFORMATION DOCUMENT

MERGER BY INCORPORATION  
OF BANCA LOMBARDA E PIEMONTESE S.P.A.  
INTO BANCHE POPOLARI UNITE S.C.P.A.



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*It must be considered that Banche Popolari Unite S.C.p.A. may purchase shares of Banca Lombarda e Piemontese S.p.A. in transactions not connected with the merger contained in this Information Document, for example on the open market or in private dealings.*

*It must be considered that Banca Lombarda e Piemontese S.p.A. may purchase shares of Banche Popolari Unite S.C.p.A. in transactions not connected with the merger contained in this Information Document, for example on the open market or in private dealings.*

### ***Forecasts and estimates***

*This Information Document contains estimates and forecast calculations concerning Banche Popolari Unite S.C.p.A. and Banca Lombarda e Piemontese S.p.A., as well as on their combined operations on completion of the merger. This information of an indicative nature does not constitute definite fact and it includes projections and financial estimates and the relative basic assumptions, declarations concerning plans, objectives and expectations in relation to operations, future products and services and the relative forecasts concerning capital and operational performance in future years. Forecasts and estimated data are generally identified by expressions such as “it is forecast”, “it is considered”, “it is felt” and “it is possible”.*

*Although the management of Banche Popolare Unite S.C.p.A. and of Banca Lombarda e Piemontese S.p.A. consider the expectations contained in those forecasts and estimates to be reasonable, investors and the holders of shares of Banche Popolare Unite S.C.p.A. and in Banca Lombarda e Piemontese S.p.A. are advised that the forecasts and estimates are subject to risks which are often difficult to predict and that are generally beyond the control of Banche Popolare Unite S.C.p.A. and Banca Lombarda e Piemontese S.p.A., They are risks which could lead to results and developments that are substantially different from those explicitly or implicitly described or calculated in the forecasts and estimates in question. These risks and uncertainties include the aspects discussed or identified in the public documents sent to the CONSOB (public authority responsible for regulating the Italian securities market) by Banche Popolari Unite S.C.p.A. and Banca Lombarda e Piemontese S.p.A.. Except for those cases specified in the applicable laws, neither Banche Popolari Unite S.C.p.A., nor Banca Lombarda e Piemontese S.p.A. assume any obligation to update those estimates and forecasts.*

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## **INFORMATION DOCUMENT**

PREPARED IN ACCORDANCE WITH ARTICLE 70, PARAGRAPH FOUR, OF THE REGULATIONS  
APPROVED BY CONSOB (Italian Stock Exchange Authority) RESULTION NO. 11971 OF 14<sup>TH</sup> MAY  
1999, AS SUBSEQUENTLY AMENDED, CONCERNING THE

MERGER BY INCORPORATION  
OF BANCA LOMBARDA E PIEMONTESE S.P.A.  
INTO BANCHE POPOLARI UNITE S.C.P.A.

Extraordinary General Meeting of the Shareholders  
of Banche Popolare Unite S.c.p.A.  
2<sup>nd</sup> March 2007 / 3<sup>rd</sup> March 2007

Extraordinary General Meeting of the Shareholders  
of Banca Lombarda e Piemontese S.p.A.  
2<sup>nd</sup> March 2007 / 3<sup>rd</sup> March 2007

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## SUMMARY FIGURES AS AT 30<sup>TH</sup> SEPTEMBER 2006

Balance sheet items	BPU Group	BLP Group	Adjustments and eliminations	New Group (Pro-Forma)
<b>Income statement figures (in thousands of euro)</b>				
Net interest income	1,264,699	658,991	386	1,924,076
Net commission income	609,785	357,701	(1)	967,485
Net income from financial and insurance operations	1,889,584	1,027,961	385	2,917,930
Operating costs	(1,088,116)	(579,819)	(385)	(1,668,320)
Profit on continuing operations before tax	860,183	457,154		1,317,337
Profit for the period attributable to the Parent Bank	509,077	236,649		745,726
<b>Balance sheet figures (in thousands of euro)</b>				
Financial assets held for trading	3,055,892	2,903,739		5,959,631
Loans to customers	49,798,318	29,954,211	(182,874)	79,569,655
Total assets	70,186,526	38,899,582	3,104,389	112,190,497
Due to customers and securities in issue	52,145,824	30,036,258	(70)	82,182,012
Shareholders' equity attributable to the Group	4,893,105	2,788,438	3,298,814	10,980,357
<b>Share indicators</b>				
Total number of shares	344,453,810	351,752,470		636,408,360
Earnings per share (euro) *	1.48	0.67		1.17
Shareholders' equity per share (euro)	14.21	7.93		17.25
(*) Earnings per share is calculated as the ratio of profit for the period attributable to the Parent Bank to the total number of shares.				

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## FOREWORD

This information document (hereinafter also referred to as the “**Information Document**”) has been prepared in accordance with Attachment 3B of article 70, paragraph four, of the regulations approved with Consob (Italian Securities Market Authority) Resolution No. 11971 of 14<sup>th</sup> May 1999 and subsequent amendments and additions (hereinafter also referred to as the “**Issuers Regulations**”) and is published jointly by Banche Popolari Unite S.C.p.A. (hereinafter also referred to as “**BPU**” or the “**Merging Bank**”) and by Banca Lombarda e Piemontese S.p.A. (hereinafter also referred to as “**BLP**” or the “**Merged Bank**” and together with BPU as the “**Banks**”).

The merger by incorporation of BLP into BPU (hereinafter also referred to as the “**Merger**”) was approved by the respective boards of directors on 12<sup>th</sup> December 2006 and 19<sup>th</sup> January 2007 to implement the instructions of the Supervisory Authority and it will be submitted for approval to the General Meetings of the Shareholders of BPU and BLP convened in extraordinary session for 2<sup>nd</sup> March 2007 (first call) and the 3<sup>rd</sup> March 2007 (second call).

The CONSOB and Borsa Italiana S.p.A. have been informed of this Information Document which is available for inspection by the public at the registered offices of BPU at No. 8 piazza Vittorio Veneto, Bergamo and of BLP at No. 74 via Cefalonia, Brescia, as well as at the web sites of BPU, [www.bpubanca.it](http://www.bpubanca.it), and of BLP, [www.bancalombarda.it](http://www.bancalombarda.it).

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## 1. PRELIMINARY INFORMATION

A summary is given below of the risks and potential liabilities resulting from the merger and inherent in the activity of the company resulting from the Merger itself.

### 1.1 LEGISLATION APPLICABLE TO THE MERGER CONTAINED IN THIS INFORMATION DOCUMENT

The Merger is disciplined by the following articles:

- 2501 *et seq.* of the Italian Civil Code;
- 114 and 115 of the *Testo Unico delle disposizioni in materia di intermediazione finanziaria* (consolidated law on financial intermediation enacted by Legislative Decree No. 58 of 24th February 1998, hereinafter referred to as “TUF”);
- 70 and 90 of the Issuers Regulations;
- 56 and 57 of the *Testo Unico delle leggi in materia bancaria e creditizia* (consolidated banking law enacted by Legislative Decree, No. 385 1st September 1993, hereinafter referred to as “TUB”).

The Merger was authorised by the Bank of Italy with resolution No. 93 of 26<sup>th</sup> January 2007 (protocol No. 96656 of the same date) in accordance with Art. 57, paragraph one, of the TUB.

The merger project was deposited with the relative company registrars on 26<sup>th</sup> January 2007 for BPU and 27<sup>th</sup> January 2007 for BLP in accordance with Art. 57, paragraph two, of the TUB (hereinafter referred to as the “Merger Project”).

### 1.2 LEGISLATION APPLICABLE TO THE COMPANY RESULTING FROM THE MERGER

As of the date on which the Merger becomes effective, the shareholders of the Merged Bank will become Registered shareholders of the Merging Bank, which will maintain its legal status as a ‘popular’ co-operative bank, subject to the legislation governing co-operative banks and, more specifically, to the provisions contained in Art. 30 of the TUB.

This legislation states that (i) each registered shareholder has only one vote independently of the number of shares owned and that (ii) no registered shareholder, except for collective investment entities, may hold more than 0.50% of the share capital.

On the basis of that legislation, the members of the Merged Bank who become registered shareholders of the Merging Bank will therefore have the obligation to sell any shares they may possess in excess of the above mentioned percentage within one year of the Merging Bank being informed that that limit has been exceeded; on failure to do so the ownership rights on the shares of excess will be purchased by the Merging Bank until no further excess rights exist.

The following will also apply to the company resulting from the Merger:

- the provisions of the Italian Civil Code and more specifically including those of Book V, Title VI, Chapter I (law on co-operative societies), with the exclusion of the provisions referred to by Art. 150-*bis* of the TUB;
- the provisions of the TUF;
- the provisions of the TUB.

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### 1.3 WITHDRAWAL RIGHTS

Implementation of the Merger will entitle the shareholders of BLP who did not vote in favour of the Merger Project at the relative Shareholders' Meeting, to exercise their right to withdraw for all or part of their shares because the Merger will result in a change in the type of the company as well as in changes to the Corporate By-Laws concerning voting rights and participation as provided for by article no. 2437, paragraph 1, letters b) and g) of the Italian Civil Code. In this case, the shareholders who exercised their right to withdraw will be paid an amount of 15,138 euro per share. In accordance with Art. 2437-ter, paragraph 3, of the Italian Civil Code, that amount corresponds to the arithmetic average of the closing prices of BLP shares in the six months prior to 16<sup>th</sup> December 2006, the date of publication in the Official Journal of the notification to hold the Extraordinary General Meeting of Banca Lombarda Shareholders. The effectiveness of the withdrawal from the company will be dependent on the Merger becoming effective.

The effectiveness of the Merger as well as the signing of the Merger deed (hereinafter referred to as the **Merger Deed**) are in turn subject to the condition that BLP shareholders shall not exercise their withdrawal right with respect to more than 10% (ten per cent) of the share capital. This condition may be waived by joint agreement between the Merging Bank and the Merged Bank within 10 (ten) business days following the day when the final data relating to the exercise of the right to withdraw have been communicated by BLP to the Merging Bank.

Furthermore, if the right to withdraw is exercised with respect to less than 10% (ten percent) of the share capital of BLP, the Directors shall grant an option to purchase the shares of those shareholders withdrawing to the other shareholders in proportion to the number of shares that they hold in accordance with articles 2437 *et seq.* of the Italian Civil Code, as indicated in detail in the subsequent section 2.1.2 which may be consulted.

Application of these measures may result in the dilution of the share capital of the company resulting from the Merger amounting to approximately Euro 537 million, if it is hypothesised that the right to withdraw is exercised with respect to 10% of the share capital of BLP at the price set for withdrawal of 15,138 euro for each share.

Recourse will be made to an interbank loan in order to fund the payment to shareholders who might exercise their right to withdraw.

### 1.4 PROPOSALS TO AMEND THE CORPORATE BY-LAWS OF BPU TO BE APPROVED BY A SPECIAL MAJORITY

The shareholders' meeting of BPU convened in extraordinary session to approve the Merger Project will also be called upon to approve the adoption of new Corporate By-Laws (hereinafter referred to as the "**New By-Laws**", the text of which is attached to the Merger Project in enclosure A, which amongst other things, changes the name of the Merging Bank to "Unione di Banche Italiane Società Cooperativa per Azioni" (in abbreviated form also referred to as "UBI Banca") as well as to adopt a dualist type system of administration and control in accordance with the provisions of articles 2409-*octies et seq.* of the Italian Civil Code.

With regard to these matters some of the provisions of articles 3, 23, 28, 31 and 36 of the New By-Laws require an amendment to the Corporate By-Laws of the Merging Bank currently in force to be approved



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with a vote in favour of at least one twentieth of the registered shareholders of BPU with the right to vote, because they are measures which, in accordance with article 28, paragraph 3, of the Corporate By-Laws of BPU currently in force, can only be repealed and/or amended by such a majority.

As a consequence of this, enclosure B of the Merger Project has been attached containing articles 3, 23, 28, 31 and 36 in the form that will be adopted if the Merger Project is approved by an Extraordinary General Meeting of BPU with a majority of less than that indicated above.

More precisely, if the Merger Project, and therefore also the Corporate By-Laws of the Merging Bank attached to it, is approved by an Extraordinary General Meeting of BPU with a majority of less than one twentieth of the BPU registered shareholders with the right to vote, then the new Corporate By-Laws contained in enclosure A will be understood as being approved with the automatic replacement of articles 3 (registered address and operating headquarters) 23 (location of shareholders' meetings), 28 (shareholders' resolutions), 31 (Chairman, Deputy Chairman and Secretary of the Management Board) and 36 (resolutions of the Management Board) with the corresponding articles reported in the enclosure B of the Merger Project.

## **1.5 RISKS AND UNCERTAINTIES CONNECTED WITH THE IMPLEMENTATION OF THE MERGER**

### **The Antitrust Authority**

The prescribed applications were made to the Antitrust Authority in accordance with articles 16 *et seq.* of Law No. 287/1990 on 22<sup>nd</sup> January 2007 and to the ISVAP (Insurance Authority), pursuant to articles. 68 *et seq.* of Legislative Decree No. 209/2005, on 20<sup>th</sup> December 2006, for which the respective authorisations are pending.

On 6<sup>th</sup> February 2007, the Antitrust Authority officially announced the start of its investigation into BPU and BLP; this procedure should be complete within 45 days of the date of that announcement, provided the maximum period of 30 days for the issue ISVAP opinion is met, which, pursuant to article 20, paragraph 4 of Law No. 287/1990, must be taken into consideration by the Antitrust Authority.

## **1.6 FURTHER RISKS AND POTENTIAL LIABILITIES**

### **(i) Information and operational models**

One consequence of the Merger will be the need for the convergence of the BPU and BLP information and operational models. The risks inherent in this convergence on a single standard model are those typical of operations to merge companies.

It must nevertheless be considered that both BPU and BLP have managed processes of this type in recent years and have acquired the necessary specific expertise.

### **(ii) Risk profiles inherent to BPU's activities**

The following documents, available on the web site [www.bpubanca.it](http://www.bpubanca.it), may be consulted for information concerning the risk profiles inherent to BPU's activities:

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2005 Annual Report, pages 140 to 142 (Information on corporate litigation) and 261 to 293 (Notes to the accounts – Part E – Information on risks and the relevant hedging policies);  
half year report as at 30<sup>th</sup> June 2006, pages 46 to 51 (Information on risks and the relevant hedging policies) and 112 to 113 (Information on corporate litigation);  
quarterly report as at 30<sup>th</sup> June 2006, pages 35- 36 (Information on risks and the relevant hedging policies) and 94 (Information on corporate litigation);  
separate report containing the merger financial statement as at 30<sup>th</sup> September 2006, pages 57 (Information on risks and hedging policies) and 112 (Information on corporate litigation);  
registration document deposited with the CONSOB (Italian securities market authority) on 13<sup>th</sup> September 2006, pages 5-6 (Risk factors), 16 (Information, tendencies, uncertainties, requests, commitments or known facts which could reasonably be expected to have significant repercussions on the prospects of the issuer, at least for the current year) and 23 to 24 (Court and arbitration proceedings which might have a significant effect on the performance of the issuer).

### **(iii) Risks connected with BPU court proceedings**

As concerns the litigation between BPU, on the one hand, as the universal successor to Banca Popolare Commercio e Industria S.C.r.l., (hereinafter referred to as either **‘Banca Popolare Commercio e Industria’** or **‘BPCI’**) and two shareholders of the latter, litigation which concerned, primarily: (i) the acquisition of the former Banca Popolare di Luino e di Varese S.p.A. (hereinafter referred to as either **‘Banca Popolare di Luino e di Varese’** or **‘BPLV’**) and Banca Carime S.p.A. (hereinafter referred to as **‘Banca Carime’**) by the aforementioned Banca Popolare Commercio e Industria; and (ii) the subsequent creation of BPU, by the merger of Banca Popolare Luino e Varese, Banca Popolare Commercio e Industria and Banca Popolare di Bergamo – Credito Varesino S.C.r.l (hereinafter referred to as either **‘Banca Popolare di Bergamo – Credito Varesino’** or **‘BPB – CV’**), a settlement agreement was signed at the beginning of December 2006. This agreement was signed in consideration of the fact that to continue to draw out such complex litigation could not have brought any concrete benefit to the bank, although BPU was certain of the grounds of its case. It provides for the following:

A) BPU on its part abandons the corporate liability action and claims for damages against one of the aforementioned shareholders of BPCI for acts committed by him as Chairman of the Board of Directors of BPLV. With regard to that action the Court of Varese ordered the defendant to pay 3,620,621 euro plus interest and legal costs. The case in the second instance is currently pending before the Court of Appeal of Milan (the next hearing is set for 5<sup>th</sup> June 2007);

B) the aforementioned shareholders of BPCI on their part, abandon, for the part which regards them, legal action taken by them against BPU and Banca Carime, and that is:

1) an application to render null and void the resolution approved by an Extraordinary General Meeting of BPLV on 9<sup>th</sup> May 2003, with which it was resolved to merge BPLV, BPCI and BPB, with the creation at the same time of BPU, after first suspending the effects of that resolution and for compensation to be paid for the damages caused by the aforementioned merger. At the end of the case of first instance, the Court of Varese dismissed the demands of the applicant and the case is

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currently pending before the Court of Appeal of Milan (the next hearing is set for 2<sup>nd</sup> December 2008);

2) an application to render null and void (i) the resolutions of the Board of Directors of BPCI, the subsequent agreements stipulated with Banca Intesa and the deeds signed, also through supposed intermediaries, for the purpose of the acquisition of Banca Carime; (ii) the resolutions of the Extraordinary General Meeting of BPCI of 27<sup>th</sup> April 2002 to amend the Corporate Statute and authorise the Board of Directors in relation to an increase in the share capital by 300 million euro, with regard to the acquisition of Banca Carime; (iii) the resolution of an Ordinary General Meeting of BPCI of 27<sup>th</sup> April 2002 which approved the 2001 Annual Report. At the end of the case of first instance, the Court of Milan dismissed all the demands of the applicants. Following the appeal made by the latter, the Court of Appeal of Milan, dismissed the application to render resolutions null and void made in the court of Milan and, noting the need for further proceedings on the part of the Court of Milan with regard to Banca Intesa as the seller of the shares in Banca Carime, passed the case back to the court of first instance for the further proceedings to take place and a subsequent ruling on the matter to be made. The original applicants then notified BPU and Banca Carime that they were appealing to the Court of Cassation against the ruling of the Court of Appeal, for the resolutions to be made null and void without recourse or with recourse to a different section of the Court of Appeal of Milan. BPU and Banca Carime deposited their opposition to the appeal in which an application was made for the dismissal of the adversary's application;

3) an application to render null and void the resolution of an Ordinary General Meeting of BPLV of 3<sup>rd</sup> April 2001 which approved and confirmed the claim for damages made by BPCI (as a shareholder of BPLV) against one of the aforementioned shareholder's of BPCI as Chairman of the Board of Directors of BPLV. At the end of the proceedings of the court of first instance, the Court of Varese dismissed all the demands of the applicant. On appeal, the Court of Milan confirmed the ruling of the court of first instance and ruled in favour of BPU ordering the applicant to pay full legal costs;

4) an action for damages brought against BPCI and some of its current and former corporate officers, in relation to claims of violating a Memorandum of Intent signed between BPCI and BPLV on 21<sup>st</sup> December 1995. At the end of the proceedings of the court of first instance, the Court of Varese dismissed all the demands of the applicants. The case is currently pending before the Court of Appeal of Milan following an appeal made by the original applicant, (the next hearing is set for 15<sup>th</sup> May 2007).

C) the obligation on the part of the parties to the agreement not to take other legal initiatives, and/or to make other claims of an out-of-court nature, concerning the matters described above.

The settlement agreement in question is dependent for its validity on a resolution by a General Meeting of BPU to agree to the terms of the agreement and to consequently abandon the liability action mentioned in point A). Until that moment the agreement will have no effect, with the sole and only exception of making the applications to adjourn the hearings for the existing cases valid, while waiting for the above mentioned agreement to become effective. Furthermore the settlement agreement expires if the aforementioned shareholders' resolution is not approved by BPU not later than 31<sup>st</sup> July 2007. In this

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respect, a proposal to abandon the aforementioned liability action has been placed on the agenda (item 2 of the ordinary part) of the next shareholders' meeting of BPU convened for 2<sup>nd</sup> and 3<sup>rd</sup> March 2007. In addition to the above, the settlement agreement will be considered concluded, when all the parties acting in the various cases of which the litigation in question is composed have signed declarations to abandon the actions in which they are involved.

As a result of carrying out their normal activities, some of the companies in the BPU Group are party to civil and administrative proceedings from which obligations may arise for them to pay compensation.

The BPU Group recognises in its accounts a provision for revocatory risks destined to cover also these potential liabilities that might arise from legal proceedings in progress. As at 30<sup>th</sup> September 2006 that provision amounted to 54.3 million euro.

Legal proceedings which some BPU Group member companies BPU are party to include bankruptcy revocatory actions currently pending initiated by Parmalat S.p.A. in Extraordinary Administration with a claim amounting to 127.5 million euro. In order to meet the claims received, the Group felt that it was appropriate to make a provision of 14.9 million euro on the basis of a reconstruction of the amounts potentially at revocatory risk which took account of established legal opinion on the matters in question.

#### **(iv) Risk profiles inherent to BLP's activities**

The following documents, available on the web site [www.bancalombarda.it](http://www.bancalombarda.it), may be consulted for information concerning the risk profiles inherent to BLP's activities:

2005 Annual Report, pages 159 to 184 (credit risks), 185 to 204 (market risks: interest rate risk, price risk, exchange rate risk), 205 (liquidity risk) and 206 to 208 (operational risk);

half year report as at 30<sup>th</sup> June 2006, pages 105 to 109, in which the systems for controlling and managing risk are described for interest rate, credit, market and legal risks;

quarterly report as at 30<sup>th</sup> September 2006, pages 61 to 66 in which the systems for controlling and managing risk are described for interest rate, credit, market and legal risks;

registration document deposited with the CONSOB (Italian securities market authority) on 29<sup>th</sup> September 2006, pages 10-12 where risk factors relating to market and credit risk are described.

#### **(v) Risks connected with BLP court proceedings**

As a result of carrying out their normal activities, BLP and some of the companies in the Group to which it belongs are party to civil and administrative proceedings from which obligations may arise for them to pay compensation.

The Group to which BLP belongs (hereinafter referred to as the '**BLP Group**') recognises a provision for liabilities and charges in its accounts destined to cover, amongst other things, potential liabilities which might arise from legal proceedings in progress, based also on the indications of external legal advisors responsible for managing the litigation. As at 30<sup>th</sup> September 2006 that provision amounted to 13 million euro. The BLP Group recognises in its accounts a provision for revocatory risks destined to cover also these potential liabilities that might arise from legal proceedings in progress. As at 30<sup>th</sup> September 2006 that provision amounted to 18 million euro.

Legal proceedings which some BLP Group member companies are party to include bankruptcy revocatory actions currently pending initiated by Parmalat S.p.A. in Extraordinary Administration with a claim amounting to 118 million euro. In order to meet the claims received, the Group made a provision as

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at 31<sup>st</sup> December 2005 of 3.3 million euro on the basis of a reconstruction of the amounts potentially at revocatory risk, which took account of established legal opinion on the matters in question.

**(vi) Approval of the accounts of BPU and BLP for the year ended 31<sup>st</sup> December 2006**

The boards of directors of BPU and BLP convened to approve the draft individual company and consolidated accounts as at 31<sup>st</sup> December 2006, will meet on 28<sup>th</sup> February 2007 for BLP and on 20<sup>th</sup> March 2007 for BPU.

Subsequent to the merger taking effect, which is scheduled for not later than 1<sup>st</sup> April 2007, the accounts of the two banks will be submitted to the Supervisory Board of the New Parent Bank for approval in accordance with Art 2409-*terdecies* of the Italian Civil Code. Furthermore, according to Art. 22, letter e), of the New By-Laws, approval of the annual accounts could be delegated to an Ordinary General Meeting if the Supervisory Board fail to approve it or if it is requested by two thirds of the members of that body.

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## **2. INFORMATION ON THE MERGER**

### **2.1. A BRIEF DESCRIPTION OF THE PROCEDURES FOR AND TERMS OF THE MERGER**

#### **2.1.1. Description of the companies involved in the Merger**

##### **Merging Bank**

Banche Popolari Unite S.C.p.A.

##### **Legal status and data on the Merging Bank**

- BPU was formed on 1<sup>st</sup> July 2003 from the merger of three banks: BPB-CV, BPCI and BPLV, which had abandoned its original co-operative status in 1996 to allow it to enter the former BPCI Group. The merger transaction was approved by Extraordinary General Meetings of the banks participating in the merger on 9<sup>th</sup> May 2003 (BPLV) and on 10<sup>th</sup> May 2003 (BPB-CV and BPCI). The merger deed was signed on 24<sup>th</sup> June 2003 (deed No. 17551 – Vol. No. 5312), deed of notary Prof. Piergaetano Marchetti.
- Company registered with the \_Bergamo Register of Companies, Tax code and VAT No. 03053920165.
- Company registered with the Register of Banks, Reg. No. 5559.
- Parent company of the “Banche Popolari Unite Group”, listed in the Register of Banking Groups, Reg. No. 5026.0.
- The company is a Member of the Interbank Deposit Protection Fund and the National Guarantee Fund.

##### **Registered Head Office**

No. 8, Piazza Vittorio Veneto, Bergamo.

##### **Business purpose**

Drawing its inspiration from the traditional principles of Co-operative Societies, the purpose of the Merging Bank is the collection of savings in various forms, both directly and through subsidiary companies, both in relation to registered shareholders and non-registered shareholders. To this end, it may, provided it complies with the legislation in force and subject to the obtainment of the prescribed authorisations, both directly and through subsidiary companies, carry out any transactions and banking or financial services, as well as any other activity credit institutions are allowed to conduct, including the issue of bonds and granting of loans regulated by special laws. Furthermore, the Merging Bank may carry out any other transaction serving as a means or in any case connected to achieving the corporate purpose. The Merging Bank, in pursuing the Shareholders' benefit, pays special attention to enhancing the value of the resources of the territory where it is located through its own distribution network and that of the Group. In compliance with its own institutional aims, the Merging Bank grants special terms to registered shareholder customers with regard to the provision of specific services. In order to attain its purposes, the Merging Bank may become a member of associations and consortia within the banking system, both in Italy and abroad. The Merging Bank, in its position as parent company of the

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BPU Group, pursuant to article 61, fourth paragraph, of the TUB, issues, in exercising its activities of management and co-ordination, provisions regulating the companies belonging to the BPU Group and also for carrying out instructions issued by the Bank of Italy and in the interest of the Group's stability.

### **Legislation and competent Jurisdiction**

BPU was formed under Italian law and is subject to it.

### **Share capital**

The share capital of BPU at the date of publishing this Information Document amounted to 861,206,710.00 euro consisting of 344,482,684 shares with a nominal value of 2.50 euro each.

### ***Own shares***

At the date of publishing this Information Document the Merging Bank possessed none of its own shares.

### **Governing Bodies of the Bank**

#### ***Board of Directors***

At the date of publishing this Information Document, the Board of Directors of BPU, in compliance with Art. 30 of the Corporate By-Laws, is composed of twenty one members elected from among the registered shareholders of the bank with the right to vote.

Directors may be re-elected and are elected to office for a term of not more than three years. Directors are renewed by one third each year in a number sufficient to ensure that twenty one directors remain in office.

At the date of publishing this Information Document, the Board of Directors was composed of the following (members of the Executive Committee are marked by an asterisk):

<b>Name and Surname</b>	<b>Position</b>	<b>Place and date of birth</b>
Emilio Zanetti *	Chairman	Bergamo, 26/10/1931
Giuseppe Calvi *	Senior Deputy Chairman	Chiuduno (BG), 16/05/1931
Mario Boselli *	Deputy Chairman	Como, 27/03/1941
Antonio Bulgheroni *	Deputy Chairman	Varese, 25/06/1943
Giampiero Auletta Armenise *	Managing Director	Rome, 04/01/1957
Gaudenzio Cattaneo	Director	Paladina (BG), 09/06/1935
Enio Fontana	Director	Renate Veduggio (MI), 14/09/1946
Giorgio Frigeri *	Director	Bergamo.15/04/1941
Carlo Garavaglia	Director	Legnano (MI), 15/05/1943
Italo Lucchini	Director	Bergamo, 28/12/1943
Gregorio Magnetti	Director	Bergamo, 18/05/1954
Mario Mazzoleni *	Director	Bergamo, 14/05/1943
Andrea Moltrasio	Director	Bergamo, 07/10/1956
Toti S.Musumeci *	Director	Pesaro, 24/06/1958

Sergio Orlandi	Director	Cassano Magnano (VA), 01/10/1935
Alessandro Pedersoli *	Director	Naples, 24/04/1929
Giorgio Perolari	Director	Bergamo, 05/01/1933
Carlo Pesenti	Director	Milan, 30/03/1963
Carlo Porcari	Director	Matera, 09/02/1940
Emilio Riva	Director	Milan, 22/06/1926
Roberto Sestini	Director	Bergamo, 11/12/1935

### ***Statutory Board of Auditors***

In compliance with Art. 44 of the Corporate By-Laws, the Statutory Board of Auditors is composed of 5 full members, including the Chairman, and of 2 alternate members appointed by an Ordinary General Meeting of the Shareholders of BPU for a term of office of three years and they may be re-elected.

A meeting of the shareholders appointed the current Statutory Board of Auditors with a resolution of 22<sup>nd</sup> April 2006. It is composed, at the date of publishing this Information Document, of the following members:

<b>Name and Surname</b>	<b>Position</b>	<b>Place and date of birth</b>
Luigi Guatri	Chairman of the Statutory Auditors	Trezzo S/Adda (MI), 19/09/1927
Fulvio Albini	Full Auditor	Naples, 02/10/1940
Rodolfo Luzzana	Full Auditor	Schio (VI), 17/03/1938
Pecuvio Rondini	Full Auditor	Fano (PU), 20/08/1938
Giovanni Napodano	Full Auditor	Napoli, 28/10/1938
Adalberto Bottazzoli	Alternate Auditor	Bergamo, 10/10/1951
Giovanni Martinelli	Alternate Auditor	Cernobbio (CO), 27/12/1946

### ***Board of Arbitration***

In compliance with Art. 49 of the Corporate By-Laws, the members of the Board of Arbitrators are composed of a Chairman (Giampiero Donati), two full members (Mario Caffi and Giovanni Lega) and two alternate members (Emilio Usuelli and Attilio Rota) elected by a General Meeting among the registered and non registered shareholders of the Bank. The Arbiters, appointed by a shareholders' meeting on 22<sup>nd</sup> April 2006, remain in office for three years and may be re-elected.

Appeal may be made to the Board of Arbitrators to settle any disputes that may arise between BPU and/or registered shareholders over the interpretation or application of the Corporate By-Laws and over any other resolutions or decision taken by the governing bodies of BPU with regard to its relations; it decides as a friendly arbiter by absolute majority vote.

### ***General Management***

At the date of publishing this Information Document, the General Management consists of:

<b>Name and Surname</b>	<b>Position</b>	<b>Place and date of birth</b>
Alfredo Gusmini	General Manager	Gazzaniga (BG), 29/12/1944



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Graziano Caldiani	Deputy General Manager	Reggio Emilia, 28/08/1951
Francesco Iorio	Deputy General Manager	Sora (FR), 04/05/1968
Renzo Parisotto	Deputy General Manager	Vigodarzere (PD), 26/04/1949
Giorgio Ricchebuono	Deputy General Manager	Carcare (SV), 10/06/1946
Pierangelo Rigamonti	Deputy General Manager	Sirone (LC), 24/05/1953
Gian Cesare Toffetti	Deputy General Manager	Caravaggio (BG), 24/05/1946

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### External auditing of the accounts

On 10<sup>th</sup> May 2003, BPU appointed KPMG S.p.A. to perform audits of the individual company and consolidated annual accounts as well as a limited audit on the half year report and to verify that the bank's accounts are properly kept for the financial years 2003-2004-2005. Subsequently a shareholders' meeting of 22<sup>nd</sup> April 2006 extended the appointment of KPMG Spa for a further period of 3 years (from 2006 until 2008 inclusive).

KPMG S.p.A. is registered with the Milan Company Registrar under No. 00709600159, Milan R.E.A. (Administrative and Economic Reg. No.) No. 512867 and is a member of ASSIREVI (Italian association of auditors).

### A brief history

As already reported in previous sections, BPU was formed on 1<sup>st</sup> July 2003 from the merger of three banks: BPB-CV, BPCI and BPLV.

Banca Popolare di Bergamo, one of the first Italian cooperative banks, was established on 29<sup>th</sup> April 1869 under the name *Banca Mutua Popolare della Città e Provincia di Bergamo*.

The bank has grown gradually and steadily over time, in line with the gradual development of the economic fabric of the territory of origin. Over the years the bank has progressively extended its operations to the nearby provinces and, starting from the early eighties, it has gained a leading presence in nationally important centres including Rome.

In parallel with its own development, from 1913 Banca Popolare di Bergamo acquires some small local banks and then a number of ever larger banking institutions, in line with the trend of its development process, aimed at expanding to the neighbouring areas.

In 1984 Banca Popolare di Bergamo acquires a majority shareholding in Credito Varesino S.p.A., and following such acquisition, which took place in the summer of 1992, it decided to change its business name to Banca Popolare di Bergamo-Credito Varesino S.C.r.l.

Still in 1992 Banca Popolare di Bergamo, the leading cooperative bank in Italy, was admitted to the MTA (Electronic Stock Market) of the Milan Stock Exchange.

In 1995/96, with a view to achieve economies of scale and a good rooting in the local markets, the Bank – having already completed its acquisition of the entire share capital of Switzerland-based Banque de Dépôts et de Gestion – further widened its territorial presence by combining a number of selected credit institutions: in the Centre-Southern area, Banca Popolare di Ancona, Banca Popolare di Todi and Cassa di Risparmio di Fano – subsequently sold in 2005, as part of the final settlement of a claim over the control of Banca Popolare di Ancona – as well as Banca Popolare Campana, later acquired by Banca Popolare di Napoli which was in turn acquired by Banca Popolare di Ancona; in the North western area, Piedmont-based Banca Brignone which was acquired in June 2002.

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Finally, in 2000, other cooperative banks, which held a stake in it, acquired a number of shareholdings in Centrobanca S.p.A., which enabled BPB-CV to obtain control over the aforesaid institution, with a view to boost the bank's support to enterprises in general.

In January 2002, following an agreement signed with the Prudential Insurance Company of America, the bank obtained a stake in FinanzAttiva Gestioni SGR – a company of the BPU Group, subsequently renamed BPU Pramerica SGR – owned by Prudential International Investments Corporation, thus allowing the development of the management, marketing and sale of products and investment solutions (individual and collective management) for Italian private and institutional customers.

Banca Popolare Commercio e Industria was established in Milan on 28<sup>th</sup> December 1888 upon the initiative of seventy-seven industrialists and traders operating in the silk sector.

In the beginning of 1900 the original business activity, which essentially consisted in providing services related to the production and sale of silk, was integrated with financial services for the activities of the sector.

As the country resumed the various production and selling activities in the aftermath of the Second World War, the organization of Banca Popolare Commercio e Industria which adopted that name in 1975, began.

The Bank then expanded its presence on the territory thanks to a series of acquisitions and mergers of credit institutions or branches of Italian and foreign banks (including the merger of Banca Popolare di Codogno in 1977, Credito Lodigiano in 1980, Banca Popolare di Vigevano in 1991 and the acquisition of a business unit from American Express Bank Ltd in 1995 and, at the end of 1998, of nineteen branches of Banco di Napoli).

In 1996 the Bank acquired, both through a take-over bid and subsequent piecemeal acquisitions, 61.19% of the share capital of Banca Popolare di Luino e di Varese S.p.A. The stake held by BPCI in BPLV increased over the years until it reached 79,884% before the merger with BPB-CV. Again in 1996, following the above acquisition, the "Gruppo Bancario Banca Popolare Commercio e Industria" was established.

In 1998 the Group grew further by setting up Banca Popolare Commercio e Industria International S.A., a Luxembourg-based entity operating in the private banking field. A further and more significant increase in size took place in June 2001 with the completion of the acquisition of a majority stake (75%) in Banca Carime S.p.A., a bank based in Southern Italy with headquarters in Cosenza and well over 300 operating branches.

### ***The creation of BPU***

The merger transaction was approved by Extraordinary General Meetings of the banks participating in the merger on 9<sup>th</sup> May 2003 (BPLV) and on 10<sup>th</sup> May 2003 (BPB-CV and BPCI). The merger deed was signed on 24<sup>th</sup> June 2003.

Before the merger was executed and pending its effectiveness, in order to maintain and exploit the presence of the respective brands on the territory, BPB-CV, BPCI and BPLV hived off their individual banking companies made up of a network of branches – except for a single branch of BPB-CV in Bergamo and one of BPCI in Milan – to two new banks, set up as joint stock companies and wholly owned by them: Banca Popolare di Bergamo S.p.A (hereinafter also referred to as “BPB S.p.A.”) and

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Banca Popolare Commercio e Industria S.p.A. (“hereinafter also referred to as “BPCI S.p.A.”). More specifically, the banking units hived off by BPCI and BPLV were sold to BPCI S.p.A., a wholly-owned subsidiary of the two transferring companies, BPCI and BPLV, in proportion to their capital contribution.

BPU, the Parent Bank, and the entire banking group inherited a tradition of values and cultures that are typical of the cooperating banking sector, which the three original banks have kept up for more than one hundred years; in particular, the close relationship – and not a merely economic one - they have developed with the local territory in which they operate helped reap the advantages of a multi-regional size that is overall more coherent with the evolution of the global market.

With a view to strengthening such relationships, the BPU Group has, since its establishment, adopted a model:

- *federal* as the network banks (four so far) supervise all operations with the bank's customers locally;
- *integrated* from an organisational, commercial and financial viewpoint, with principle common functions of support and service centralised in the Parent Bank BPU including risk monitoring functions (Group Management and Control, Commercial Co-ordination of the Group – CRM, Credit Co-ordination of the Group, Finance and Treasury, Risk Management, Group IT system, Back Office, Organisation, Logistics, Purchasing, Institutional Banking, Telephone and on-line-banking, etc.);
- *polyfunctional* thanks to the presence of a number of product companies operating in the asset management, *banc assurance* (life and non life), corporate banking, consumer finance and leasing sectors.

BPU has been listed on the Mercato Telematico Azionario (screen based stock market) in the blue chip segment since it was formed and is also included in the S&P/MIB index.

#### *Evolution of the BPU Group*

Since 1<sup>st</sup> July 2003, the BPU Group has carried out a number of important corporate/organizational transactions as part of the overall integration process, including:

- migration of Banca Carime S.p.A. (May 2004) and of BPCI S.p.A. (November 2004) onto the Group IT target system;
- implementation of a divisional distribution structure by customer segment at all the group's network banks (2004), and focusing of the commercial approach through the widespread application of CRM tools;
- extension of partnership agreements in asset management (Prudential) and in life *banca assurance* (Aviva) to the whole group and consequent strengthening of the specialist product companies;
- repositioning of Centrobanca, to enhance its role as a corporate bank for captive group customers;
- rationalisation and enhancement of the value of the group's property portfolio (2004-2005-2006);

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- settlement of the legal dispute with Banca Popolare di Ancona, with the take over bid for the acquisition of the remaining shares of Banca Popolare di Ancona and sale of the shareholding in Cassa di Risparmio di Fano to Intesa Casse del Centro (3<sup>rd</sup> quarter of 2005);
  - merger of Esaleasing Spa into BPU Leasing Spa, renamed BPU Esaleasing Spa (July 2006);
  - centralisation of the IT activities of the product companies in BPU Centrosystem, a wholly-owned company of the parent company (November 2006);
  - merger by incorporation of Banca Popolare di Todì into Banca Popolare di Ancona (December 2006);
  - gradual rationalisation of the investment portfolio (including Banca Italease, SI Holding, Meliorbanca, Arca Merchant, Arca BIM, ABF Leasing, investments in the private equity sector);
  - partnership with By You S.p.A. in the lending/home mortgage sector (2005 – 2006) and with Prestitalia in the consumer credit sector (salary-backed loans and deductions from salary– end of 2006).

### **The BPU Group**

The BPU Group is composed as follows:

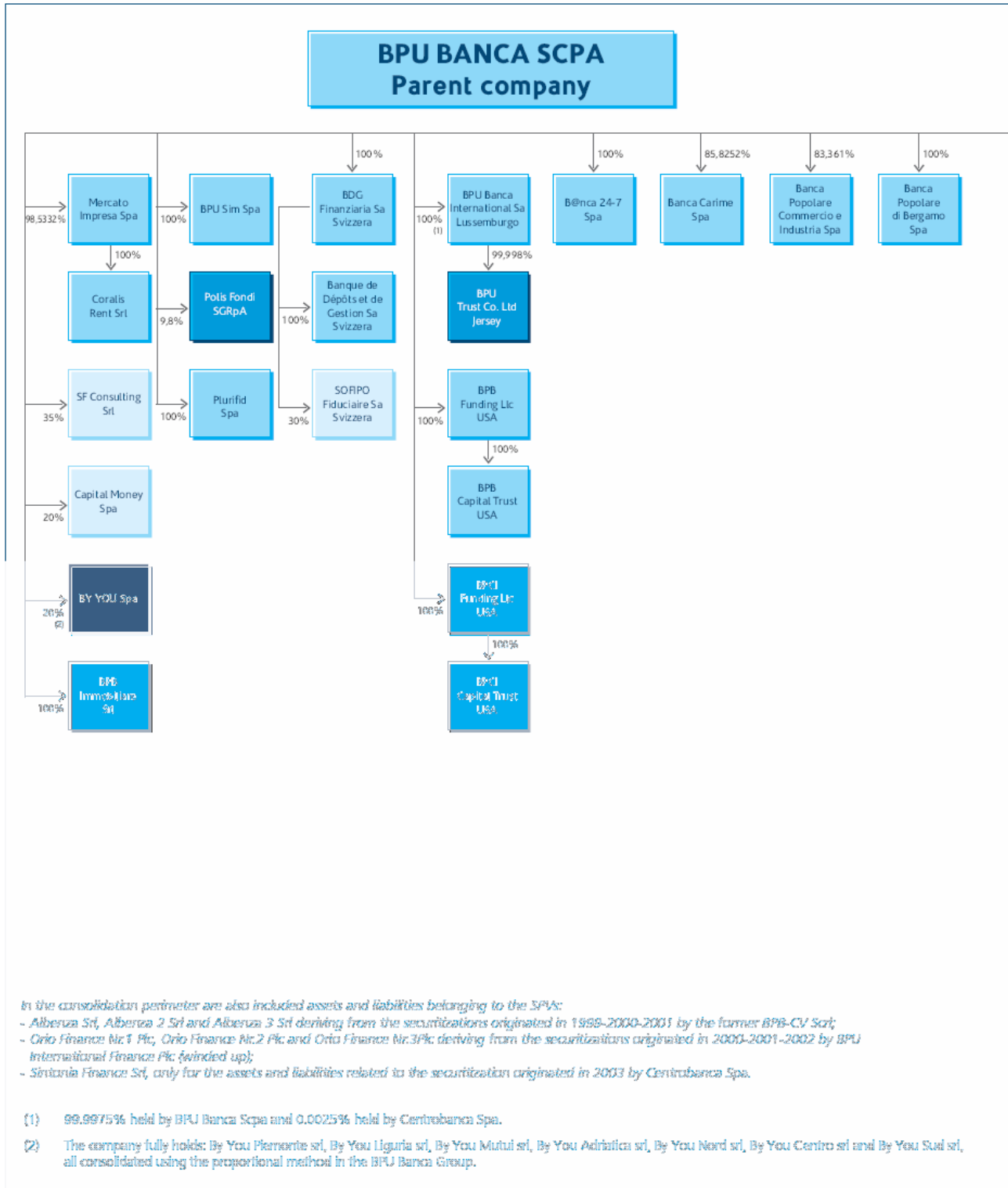
- BPU, Parent Bank of the BPU Group con registered offices and headquarters in Bergamo;
- four network banks:
  - Banca Popolare di Bergamo S.p.A., head office and headquarters in Bergamo;
  - Banca Popolare Commercio e Industria S.p.A., with head office and headquarters in Milan;
  - Banca Popolare di Ancona S.p.A., with head office and headquarters in Jesi;
  - Banca Carime S.p.A., with head office and headquarters in Cosenza.

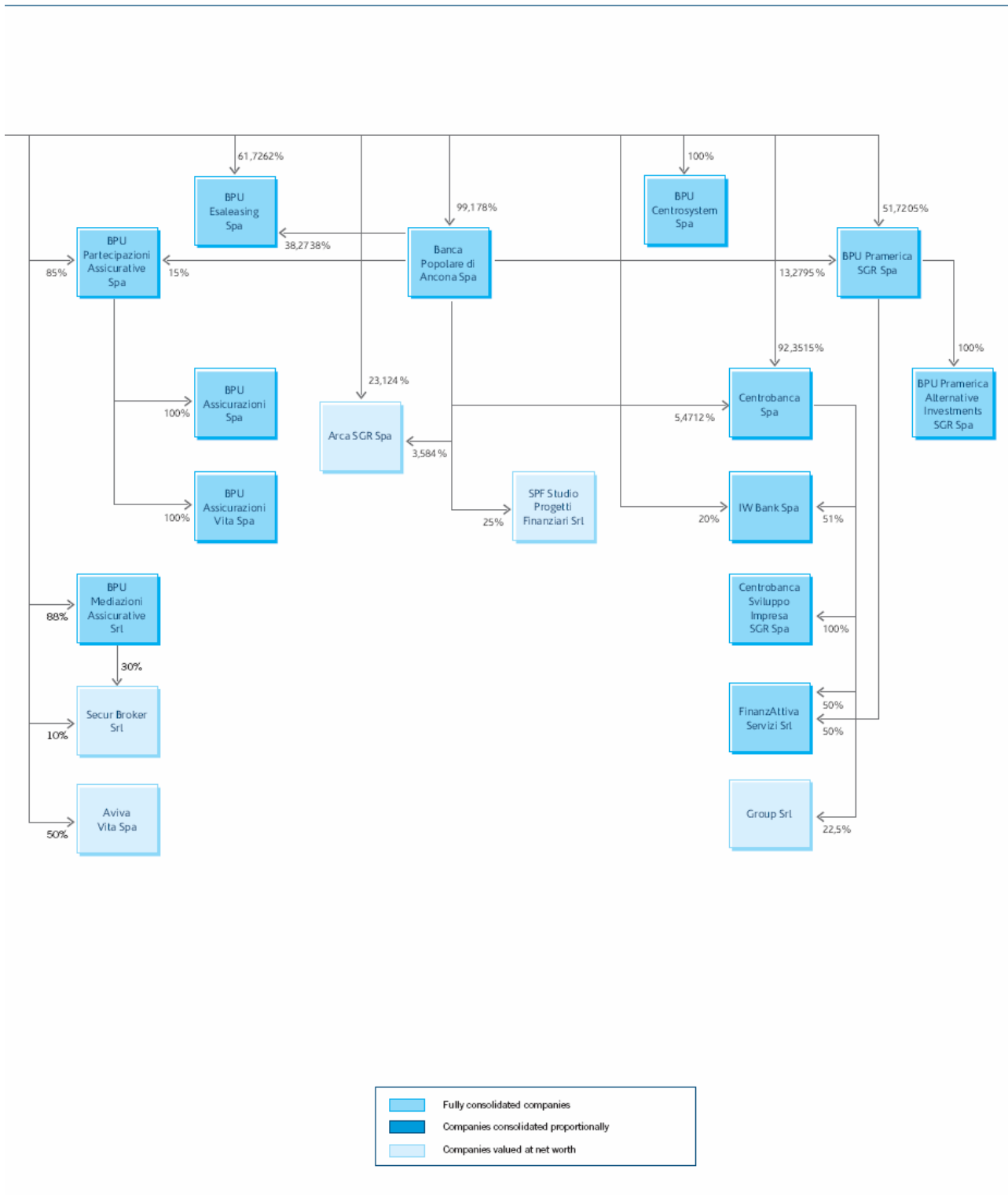
These four network banks all have very deep roots in their respective local markets and concentrate their banking activities on retail customers and on small to medium size business clients;

- one corporate bank, Centrobanca S.p.A., with head office and headquarters in Milan;
- specialist product companies operating mainly in the following areas: asset management, *banc assurance*, consumer finance and leasing;
- a network of financial advisors, BPU SIM S.p.A., with registered head office in Bergamo and its administrative headquarters in Milan;
- services companies operating mainly in the property and IT sectors.

The BPU Group is also present internationally with two foreign banks, Banque de Dépôts et de Gestion in Switzerland and BPU Banca International S.A. in Luxembourg, six representative offices (San Paolo in Brazil, London, Mumbai, Hong Kong, Shanghai and Singapore) and a branch of BPB S.p.A. in Munich, Bavaria.

## Structure of the BPU Banca Group as at 31<sup>st</sup> December 2006





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## **Merged Bank**

Banca Lombarda e Piemontese S.p.A.

### **Legal status and data on the Merged Bank**

- BLP was formed on 23<sup>rd</sup> May 1883, as a co-operative joint stock company under the name Credito Agrario Bresciano (hereinafter also referred to as “**CAB**”). The current structure of the BLP Group is the result of the merger of Banca San Paolo di Brescia S.p.A. (hereinafter referred to as “**Banca San Paolo**”) into CAB in 1998.
- Company registered with the Brescia Register of Companies, Tax code and VAT No. 00285280178.
- Company registered with the Register of Banks, Reg. No. 5392.
- Parent company of the “Banca Lombarda e Piemontese Group”, listed in the Register of Banking Groups, Reg. No. 3111.
- The company is a Member of the Interbank Deposit Protection Fund and the National Guarantee Fund.

### **Registered Head Office**

No. 74, Via Cefalonia, Brescia

### **Business purpose**

The business purpose of the Merged Bank is the collection of savings and the granting of credit in its various forms. To this end, it may, provided it complies with the legislation in force, subject to obtaining the prescribed authorisations and even through subsidiary companies, carry out all other operations instrumental to achieving the business purpose or in any case connected with it.

The Merged Bank may issue bonds in compliance with the relative legislation.

The Merged Bank, in its position as parent company of the BLU Group, pursuant to article 61, fourth paragraph, of the TUB, issues, in exercising its activities of management and co-ordination, provisions regulating the member companies of the BLP Group and also for carrying out instructions issued by the Bank of Italy and in the interest of the Group’s stability.

### **Legislation and competent Jurisdiction**

BLP was formed under Italian law and is subject to it.

### **Share capital**

The subscribed and paid up share capital of BLP at the date of publishing this Information Document amounted to 355,015,926.00 euro consisting of 355,015,926 ordinary shares with a nominal value of 1.00 euro each.

### ***Own shares***

At the date of publishing this Information Document the Merged Bank possessed none of its own shares.

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## Governing Bodies of the Bank

### *Board of Directors*

In compliance with Art. 15 of the Corporate By-Laws of BLP, it is administered by a Board of Directors consisting of a number of members varying from 15 to 21, appointed by a majority of a shareholders' general meeting after first deciding their number. The members of the Board of Directors may be re-elected and unless decided to the contrary by a shareholders' meeting, they are appointed for a three year term.

The current Board of Directors of BLP was appointed by a shareholders' meeting on 29<sup>th</sup> April 2005, and it will remain in office until the General Meeting of the Shareholders convened to approve the Annual Report for the year ending 31<sup>st</sup> December 2007.

At the date of publishing this Information Document that Board of Directors was composed of the following members (members of the Executive Committee are marked by an asterisk):

<b>Name and Surname</b>	<b>Position</b>	<b>Place and date of birth</b>
Gino Trombi*	Chairman	Tizzano Val Parma (PR), 27/05/1923
Alberto Folonari*	Senior Deputy Chairman	Brescia, 08/03/1937
Giovanni Bazoli*	Deputy Chairman	Brescia, 18/12/1932
Corrado Faissola*	Managing Director	Castelvittorio (IM), 10/01/1935
Piero Bertolotto*	Director	Chiusa Pesio (CN), 07/07/1947
Luigi Bellini	Director	Milan, 13/11/1930
Sergio Borlenghi	Director	Turin, 07/04/1947
Giuseppe Camadini*	Director	Brescia, 10/06/1931
Mario Cattaneo*	Director	Genoa, 24/07/1930
Mario Cera*	Director Secretary	San Marco in Lamis (FG), 26/06/1953
Virginio Fidanza	Director	Varese, 04/04/1946
Pietro Gussalli Beretta	Director	Brescia, 28/02/1962
Giuseppe Lucchini	Director	Brescia, 02/07/1952
Federico Manzoni	Director	Romano di Lombardia (BG), 18/08/1949
Felice Martinelli	Director	Ala (TN), 15/01/1937
Giovanni Minelli	Director	Brescia, 03/03/1926
Pierfrancesco Rampinelli Rota	Director	Brescia, 24/11/1946
Adriano Rodella	Director	Castelgoffredo (MN), 17/07/1941
Matteo Viglietta	Director	Fossano (CN), 4 May 1941
Romain Zaleski	Director	Paris, 07/02/1933

### *Statutory Board of Auditors*

In compliance with Art. 24 of the Corporate By-laws, the Statutory Board of Auditors of BLP is composed of three full auditors and of two alternate auditors appointed by shareholders. Statutory Auditors are appointed for a term of three years, which expires on the date of the General Meeting of



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the Shareholders convened to approve the annual report for the third year of their term of office, and they may be re-elected.

A meeting of the shareholders appointed the current Statutory Board of Auditors with a resolution of 29<sup>th</sup> April 2005. It is composed, at the date of publishing this Information Document, of the following members:

<b>Name and Surname</b>	<b>Position</b>	<b>Place and date of birth</b>
Sergio Pivato	Chairman of the Statutory Auditors	Milan, 13/11/1945
Angelo Coen	Full Auditor	Brescia, 09/02/1930
Filippo Rovetta	Full Auditor	Brescia, 08/10/1935
Vincenzo Broli	Alternate Auditor	Brescia, 09/01/1950
Marco Gonfalonieri	Alternate Auditor	Milan 16/08/1953

### ***General Management***

At the date of publishing this Information Document, the General Management consists of:

<b>Name and Surname</b>	<b>Position</b>	<b>Place and date of birth</b>
Victor Massiah	General Manager	Tripoli (Libya), 21/01/1959
Ettore Giuseppe Medda	Deputy General Manager	Massa (MS), 21/10/1953
Elvio Sonnino	Deputy General Manager	Bologna, 30/08/1960
Alberto Pella	Deputy General Manager	Vigliano Biellese (BI), 04/04/1946

### **External auditing of the accounts**

The firm appointed in compliance with Art. 156 of the TUF to perform the compulsory audits of the individual company and consolidated annual accounts of BLP as well as limited audits on the half year reports and to verify that the bank's accounts are properly kept for the financial years 2004, 2005 and 2006, was Reconta Ernst & Young S.p.A., with resolutions passed by an Ordinary General Meeting on 27<sup>th</sup> April 2004.

### **A brief history**

The BLP Group, a multiregional Italian banking group, operates mainly in Lombardy and Piedmont and, in particular, in the provinces of Brescia, Cuneo, Pavia and Alessandria. BLP is the listed parent bank of the BLP Group. The organisational structure of the BLP Group is based on a federal model in which the parent company is mainly responsible for the strategic planning of the BLP Group and other centralised functions, whereas the commercial banks and the other companies carry out operations autonomously and maintain their own names and brands.

The present structure of the BLP Group, as has already been said, is the result of the 1998 merger of CAB into Banca San Paolo di Brescia and subsequent company acquisitions. In the period between 31<sup>st</sup> December 1997 and 31<sup>st</sup> December 2005 the BLP Group increased its total assets from 8.8 billion euro to 38.3 billion euro and turned from a local banking group into a multiregional one.

Over the years, CAB, which was established in 1883 as a co-operative joint-stock company with the company name "Credito Agrario Bresciano", has pursued a constant development programme, mainly

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in the province of Brescia, gradually diversifying its activity in new areas of financial intermediation. Since the late 80s, CAB has acquired many local banks thereby consolidating its own position in the reference territory. In 1978, CAB's shares were admitted to listing on the "Mercato Ristretto" of Milan and, in 1995, on the MTA (Italian screen based stock market).

Banca San Paolo on the other hand was established in 1888 by exponents of the city of Brescia and environs as a credit cooperative joint-stock company operating under the name "Banca San Paolo". In the following years the bank has progressively developed the areas of its credit activities by diversifying, inter alia, in the asset management and parabanking segments, consolidating its institutional role as a reference bank in the territorial markets where it was more strongly rooted.

In 1996, the shares of Banca San Paolo were admitted to listing on the MTA.

With regard to the consolidation process that affected the entire Italian banking system in the last five years, the CAB Group and the Banca San Paolo Group had recognised the need to increase their size in order to be able to compete with the main national groups hence have the opportunity to further diversify production and consolidate their positions in the markets traditionally controlled by them. Through the resolutions of 13<sup>th</sup> and 14<sup>th</sup> November 1998, Extraordinary Shareholders' Meetings of Banca San Paolo and CAB respectively approved the merger by incorporation of Banca San Paolo into CAB and the change at the same time of the Merging company's business name to Banca Lombarda S.p.A. (hereinafter also referred to as "BL"), with legal effect from 31<sup>st</sup> December 1998.

In order to provide the BL Group with a new organisational structure that would fulfil internal development and external growth objectives, the present federal model was identified and, in 1998 CAB and Banca San Paolo set up a new company named Banco di Brescia San Paolo CAB S.p.A. (hereinafter also referred to as "Banco di Brescia") to which they transferred most of the commercial banking activities that were carried out by BL.

Following such reorganisation, BL took the role of Parent bank, based on the federal model outlined above, and became the ultimate entity responsible for strategic planning and control over management, administration, finance, risk management and internal audit, strategic marketing, information technology and logistics (in the 2001 financial year, the last two functions were transferred to the subsidiary Lombarda Sistemi e Servizi S.p.A.).

Banco di Brescia also took on the role of the BL Group's main commercial bank with the specific aim of developing commercial relationships with customers as well as promoting the products and financial services of the Banca Lombarda Group through its branches.

After the merger of Banca San Paolo and CAB, the BL Group made a number of important acquisitions and established new companies with the aim of strengthening its market position by expanding its operations in Northwest Italy. The main acquisitions and new companies include:

- the acquisition of a majority interest in B.R.E. Banca S.p.A. (hereinafter also referred to as '**BRE Banca**'), a bank operating mainly in Piedmont and Lombardy; following that acquisition, in 2000 the bank changed its name to Banca Lombarda e Piemontese S.p.A. –Banca Lombarda in abbreviated form;
- the acquisition of 100% of the share capital of Banca Cassa di Risparmio di Tortona S.p.A., a credit institution operating mainly in the province of Alessandria which, on 25<sup>th</sup> November 2006 was merged into the subsidiary BRE Banca:

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- the formation, with Cattolica Assicurazioni, of Lombarda Vita, of an insurance company operating in the life insurance sector;
  - the acquisition of 100% of the share capital of Mercati Finanziari SIM S.p.A., a company active in securities intermediation;
  - the acquisition of the factoring company named Veneta Factoring S.p.A., also through the subsidiary CBI Factor S.p.A.. Veneta Factoring was subsequently merged into CBI Factor;
  - the acquisition of 100% of the share capital of Electrolux Financiera S.A., a Spanish company operating in the factoring sector, which subsequently changed its name to Financiera Veneta S.A.;
  - the acquisition of 100% of the share capital of Artesia Bank Luxembourg S.A., a Luxembourg-based credit institution specialised in the private banking sector, subsequently merged into Banca Lombarda International S.A., a credit institution controlled by BLP;
  - the acquisition, also through the subsidiary BRE Banca, of 100% of the share capital of Grifogest SGR S.p.A., an asset management company;
  - the formation of Capitalgest Alternative Investments SGR S.p.A., a company that manages speculative mutual investment funds;
  - the acquisition of 100% of the share capital of Banca Idea S.p.A., a credit institution operating mainly through financial advisors; Banca Idea S.p.A. later 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 asset management company specialised in securities; the company later changed its name to Gestioni Lombarda (Suisse) S.A.;
  - the formation, through a 49% share in Lombarda China Fund Management, of an asset management company registered in the People's Republic of China.

### **The BLP Group**

The organisational structure of the BLP Group is based on a federal model characterised by a high level of integration between the commercial banks and the other operating companies. The Parent bank, BLP, performs functions that are typical of a bank holding company, namely the provision of guidelines and coordination, especially with regard to strategic planning and control of management, administration, finance, risk management as well as internal audit and strategic marketing of the BLP Group.

BLP also carries out treasury transactions and manages the securities portfolio of the other commercial banks of the BLP Group; other centralised services (such as information technology and purchases) are provided by Lombarda Sistemi e Servizi.

The other group companies operate in accordance with the strategic lines set by Banca Lombarda e Piemontese S.p.A. through maintaining a certain degree of independence with the aim of preserving the specialization by activity sector that is required to attain positive results.

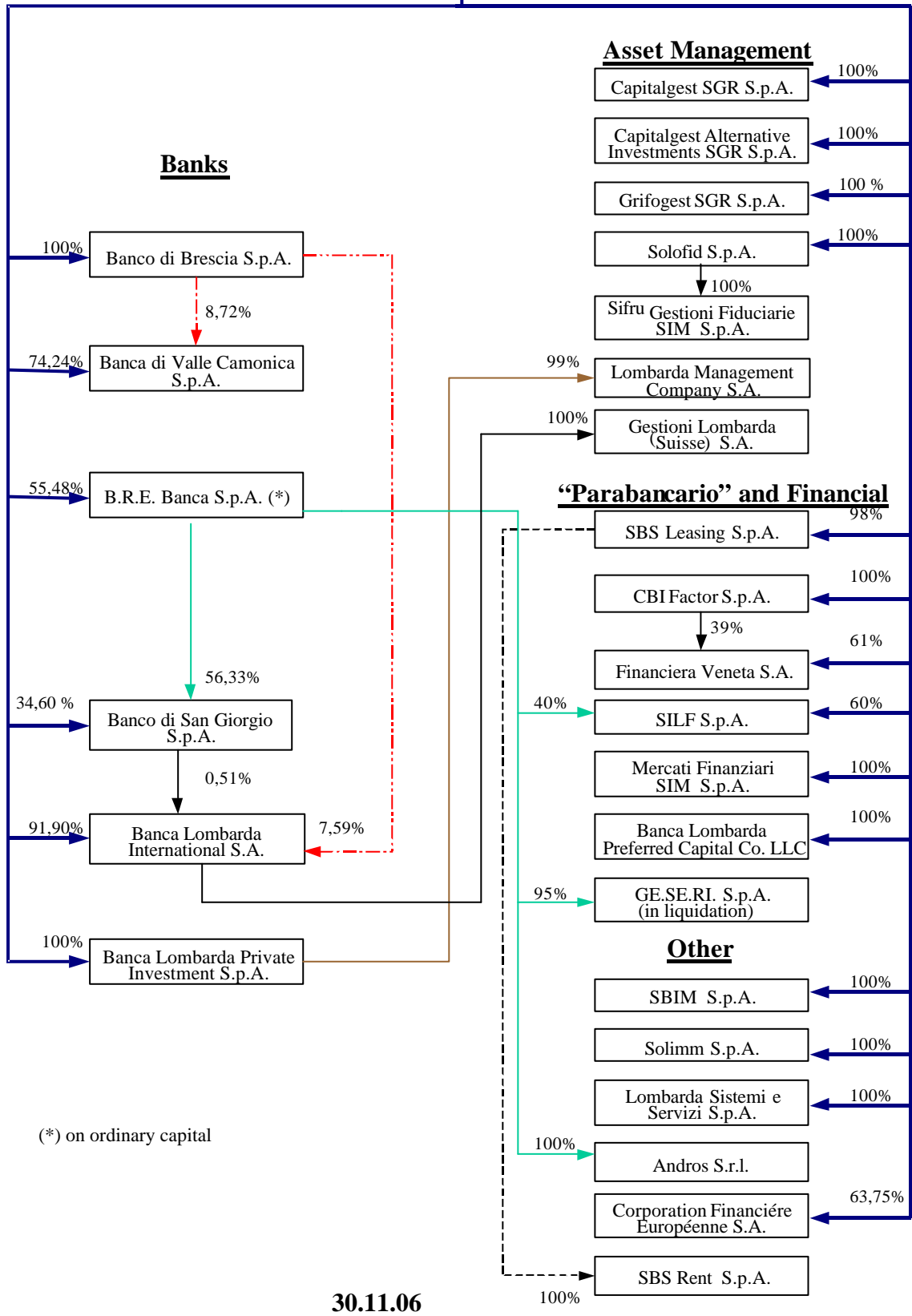
The federal model allowed the BLP Group to attain significant economies of scale, especially in terms of costs and to ensure the smooth integration of the acquired companies.

The following chart shows the present structure of the BLP Group, however it is important to note that the scope of consolidation also includes the following companies (vehicles used for securitisation transactions and trusts for the issue of preferred shares): Banca Lombarda Preferred Securities Trust,

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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. e Lombarda Mortgage Finance 1 S.r.l..

**Banca Lombarda e Piemontese S.p.A.  
Structure of the banking Group**



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## 2.1.2. Procedures, terms and conditions for the Merger

### **The agreement between BPU and BLP concerning the Merger**

On 13<sup>th</sup> November 2006, BPU and BLP signed a programme agreement (hereinafter also referred to as the “**Memorandum of Intent**”) containing the main terms and conditions of the merger of the two banks as well as the corporate model and the governance rules which the two parties to the agreement intend to submit to the examination of their respective shareholders.

The Memorandum of Intent established an equal partnership basis between the two participating banks as a basic principle and, on the basis of that principle implemented by article 1 of the New By-laws, the boards of directors of BPU and BLP drew up proposals concerning the governance of the company that will result from the merger.

These proposals are reflected in part by the New By-Laws attached (enclosure A) to the Merger Project and for the remaining part in the regulations of the Appointments Committee, also attached to the Merger Project (enclosure C).

The governance rules for the new parent bank (hereinafter also referred to as the “**New Parent Bank**”), which will then be submitted to shareholders’ meetings of BPU and BLP, provide above all for the adoption of a dualist model disciplined by articles 2409-*octies et seq.* of the Italian Civil Code as a result of which the administration and control of the New Parent Bank will be organised by means of:

- a Supervisory Board composed of twenty three members (including a Chairman, a Senior Deputy Chairman and two Deputy Chairmen) eleven of which appointed by BPU Banca including one who will be one of the Deputy Chairmen, eleven of which appointed by BLP, including one who will be one of the two Deputy Chairmen and one taken from a minority list, if presented or, if no minority list is presented, the candidate in the twenty third position on the list presented by the Supervisory Board designated jointly by the members of the supervisory board appointed by the two parties; and
- a Management Board composed of ten members for the first three year term of office (including the Chairman, the Deputy Chairman and the Managing Director) of which five appointed by BPU Banca and five appointed by BLP. For the second three year term of office onwards, the Management Board of the New Parent Bank will be composed of eleven members, five of which appointed by BPU, five appointed by BLP and an eleventh who will occupy the post of Managing Director.

In order to integrate the proposal regarding the governance rules for the composition of the governing bodies of the New Parent Bank, as already mentioned, the boards of directors of BPU and BLP have drawn up a draft set of regulations to discipline the duties and rules for the functions of the Appointments Committee, which will be formed by the Supervisory Board in accordance with article 49 of the New By-Laws.

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The aforementioned set of regulations attached (enclosure C) to the Merger Project, states that the Appointments Committee shall be composed of six supervisory board members, including the Chairman of the Supervisory Board and the Senior Deputy Chairman of the New Parent Bank, of which three designated by the members of the Supervisory Board originating from BPU and three designated by members of the Supervisory Board originating from BLP. One of the duties of the Appointments Committee will be to propose candidates to the Supervisory Board for the posts of member of the supervisory board and member of the management board of the New Parent Bank. The Chairman and the Senior Deputy Chairman are considered as from among those members originating from BLP or BPU, according to whether those posts are occupied by members of the Supervisory Board originating from BLP or BPU.

In addition to the above, and in compliance with the equal partnership principle mentioned above, the regulations of the Appointments Committee guarantee:

- the principle of the alternation of origin for the posts of Chairman of the Supervisory Board and Chairman of the Management Board, in the sense that those posts cannot be occupied simultaneously by only one of the two components of the new Group;
- the principle of the alternation of origin with regard to the Supervisory Board and the Management Board for the posts of Senior Deputy Chairman of the Supervisory Board and Deputy Chairman of the Management Board; and
- the principle of a tendency to alternate between members originating from BPU and BLP when renewing senior management appointments.

In a press release of 22<sup>nd</sup> January 2007, BPU and BLP submitted a list of candidates for the post of member of the Supervisory Board of the New Parent Bank to the registered shareholders of BPU based on the criteria indicated in the Memorandum of Intent and in compliance with the provisions of the New By-Laws, for the subsequent formation of lists to be presented to an Ordinary General Meeting of the Shareholders convened for 2<sup>nd</sup> and 3<sup>rd</sup> March.

A summary of the *curricula vitae* of those candidates was disclosed to markets on 25<sup>th</sup> January 2007 by publishing it on the web sites of BPU and BLP.

In the aforementioned press release the boards of directors of BPU and BLP expressed their desire for the post of Chairman of the Supervisory Board to be occupied by *dott.* Gino Trombi, the present Chairman of the Board of Directors of BLP, while they wished the post of Senior Deputy Chairman of the Supervisory Board to be occupied by *avv.* Giuseppe Calvi, the present Senior Deputy Chairman of the Board of Directors of BPU.

BPU and BLP also expressed the following recommendations with regard to the Management Board:

- the post of Chairman of the Management Board to be occupied by Cav. Lav. Dott. Emilio Zanetti for the first two three-year terms of office;
- the post of Deputy Chairman of the Management Board to be occupied by Cav. Lav. Avv. Corrado Faissola for the first three-year term of office;



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- the post of Managing Director of the New Parent Bank to be occupied by dott. Giampiero Auletta Armenise for the first three-year term of office; and
  - dott. Alfredo Gusmini to occupy the post of member of the Management Board.

As concerns the post of General Manager of the New Parent Bank, BPU and BLP expressed the desire for it to be occupied by *dott.* Victor Massiah.

Finally, in compliance with Art. 45, paragraph six, of the New By-Laws, the outgoing Supervisory Board of the New Parent Bank may present its own list of candidates for the post of member of the Supervisory Board for the period following its adoption, after first having considered the proposal of the Appointments Committee and with the approval of the board itself, granted with the vote in favour of at least eighteen of its members.

### **Merger**

The Merger is disciplined by articles 2501 *et seq.* of the Italian Civil Code and will take place in accordance with the procedures and conditions described in the Merger Project attached to this Information Document.

In compliance with that legislation, as of the date on which the Merger takes legal effect, the Merging Bank will conserve its own legal status and will inherit all the rights and obligations pertaining to the Merged Bank, which will cease to exist as a result of the Merger. The shares of the Merged Bank will therefore be cancelled and shares in the Merging Bank will be allotted to shareholders of the Merged Bank to replace them in the proportion determined by the Exchange Ratio.

The Merger Project was approved by the boards of directors of BPU and BLP in the meetings held on 12<sup>th</sup> December 2006 and 19<sup>th</sup> January 2007 to implement the instructions of the Supervisory Authority. The reports of the directors of BPU and of BLP were prepared in compliance with Art. 2501-*quinquies* of the Italian Civil Code and are also attached to this Information Document.

As required by Art. 2501-*quater* of the Italian Civil Code, the financial statements of BPU and of BLP as at 30<sup>th</sup> September 2006, inclusive of the balance sheet, the income statement, the statement of changes in shareholders' equity and the statement of cash flows, complete with the notes to the accounts have been disclosed to markets. These statements were prepared in compliance with the legislation governing the preparation of individual company annual accounts and therefore according to IAS/IFRS international accounting standards.

The documents are attached to this Information Document.

The consolidated reports as at the same date were approved by the boards of directors of BLP and BPU on 13<sup>th</sup> November 2006 and disclosed to markets on 13<sup>th</sup> and 14<sup>th</sup> November 2006 respectively.

For the purpose of the issue of the fairness report on the Exchange Ratio, the following were appointed as experts in accordance with Art. 2501-*sexies* of the Italian Civil Code by the Court of Bergamo and the Court of Brescia respectively:

- the firm of auditors KPMG S.p.A., for BPU;
- the firm of auditors Reconta Ernst & Young S.p.A., for BLP.

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Those experts issued the aforementioned report on 24<sup>th</sup> January 2007 for BPU and on 25<sup>th</sup> January 2007 for BLP. The reports are attached to this Information Document and illustrated in the paragraphs that follow.

As already stated, the Merger was authorised by the Bank of Italy with resolution No. 93 of 26<sup>th</sup> January 2007 (protocol No. 96656 of the same date). The Merger Project was deposited and registered with the relative company registrars on 26<sup>th</sup> January 2007 in accordance with Art. 57, paragraph two, of the TUB.

As a result Merger becoming effective the Merging Bank will proceed to the following:

- the issue of a maximum of 294,663,219 ordinary shares with a nominal value of 2.50 to be allotted to the shareholders of the Merged Bank in application of the Exchange Ratio as indicated below;
- the cancellation without exchange of any ordinary BLP shares that may be held by the Merging Bank.

#### **Amendments to corporate by-laws**

The shareholders' meeting of BPU convened in extraordinary session on 2<sup>nd</sup> March 2007 (first call) and on 3<sup>rd</sup> March (second call) to approve the Merger will be called upon to approve, at the same time as the Merger, the adoption of New By-Laws, which replace the present traditional system of governance of BPU with a system of administration and control termed "dualistic", the legislation for which has recently been introduced into Italian law and is contained in the articles 2409-*octies* to 2409-*quinquiesdecies* of the Italian Civil Code. The special provisions contained in the TUF also apply to the Merging Bank as a listed company.

The New By-Laws, described in more detail below, are attached (enclosures A and B) to the Merger Project.

As concerns the adoption of the New By-Laws, it must also be considered that some of the new clauses require amendments to be made with a vote in favour of at least one twentieth of the registered shareholders of BPU with the right to vote, in accordance with article 28 of the by-laws of the Merging Bank currently in force.

Therefore if the resolution to approve the New By-Laws attached (enclosure A) to the Merger Project is approved with a majority of less than that just mentioned, the resolution must be understood as approving the New By-Laws attached (enclosure A) to the Merger Project, but with the replacement of the articles 3, 23, 28, 31 and 36 with the corresponding articles contained in the attachment, enclosure B, to the Merger Project.

#### **Right of Withdrawal**

Absent, dissenting or abstaining registered shareholders of BPU shall not have the right to withdraw in accordance with article 2437 of the Italian Civil Code.

Shareholders of BLP who have not agreed to the approval of the Merger Project in the shareholders' meeting have the right to withdraw with respect to all or part of their shares as provided for by article 2437, paragraph one, letters *b*) and *g*) of the Italian Civil Code. In that case shareholders who have

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exercised their right of withdrawal will be paid consideration calculated in accordance with 2437-*ter* of the Italian Civil Code as the arithmetic average of the closing prices of the shares in the six months prior to the publication of the notification to hold the Extraordinary General Meeting of BLP convened to approve its merger into BPU and amounting to 15,138 euro per share.

In accordance with article 2437-*bis* of the Italian Civil Code, the right of withdrawal is exercised by means of registered letter, which must be sent within fifteen days of the registration with the Company Registrar of the resolution which legitimates it, with the indication of the particulars of the withdrawing shareholder, of the domicile for communications relating to the procedure and the number and category of the shares for which the right to withdraw is being exercised.

The shares for which the right of withdrawal is exercised cannot be transferred and must be deposited at the registered address of the company.

The payment process will be governed by article 2437-*quater* of the Italian Civil Code.

Furthermore, the directors grant an option to purchase the shares of withdrawing shareholders to the other shareholders in proportion to the number of shares that they hold. A period is granted to exercise the option rights of not less than thirty days from the date of the deposit of the offer with the Company Registrar, which will be promptly notified to shareholders.

Provided a request is made at the time of exercise, those exercising option rights will have pre-emptive rights to the purchase of shares for which options are not taken up.

If shareholders do not purchase all or part of the shares of those withdrawing, then the directors may sell them by offering them for sale on the stock exchange.

If the shares are not sold in accordance with the regulations described above within onehundredandeighty days from the date of communication of the withdrawal, the shares of withdrawing shareholders will be reimbursed by means of the company purchasing them using available reserves, even as an exception to the provisions of article 2357, paragraph three of the Italian Civil Code.

The effectiveness of the Merger as well as the signing of the Merger deed concerning the incorporation of BLP into BPU are subject to the condition that BLP shareholders shall not exercise their withdrawal right with respect to more than 10% (ten percent) of the share capital. This condition may, however be waived by joint agreement between BPU and BLP within 10 (ten) business days following the day when the final data relating to the exercise of the right to withdraw has been communicated by BLP to BPU.

If the shareholders exercise their right to withdraw and the option offer pursuant to article no. 2437 *quater* of the Italian Civil Code is carried out after the effective date of the Merger, the entitled shareholders will be offered BPU shares in option – in place of those of BLP – in proportion to the number of shares held by each shareholder as a result of the application of the Merger Exchange Ratio, as defined below.

**Values attributed to the companies involved in the Merger and the criteria followed to determine the exchange ratio**

As is known the boards of directors of BPU and BLP must determine the number of ordinary BPU shares to allot to the shareholders of BLP for each BLP share to be cancelled (hereinafter also referred to as the ‘**Exchange Ratio**’).

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On 12<sup>th</sup> December 2006 the boards of directors of BPU and BLP decided that the Exchange Ratio shall be 0.83 new ordinary BPU shares for each ordinary BLP share.

In order to arrive at that decision, the boards of directors of BPU and BLP took advice from external expert consultants.

More specifically the Board of Directors of BPU appointed Morgan Stanley International Bank S.A. (hereinafter also referred to as “**Morgan Stanley**”) to assist the board in calculating and determining the Exchange Ratio. In addition to this GBL S.r.l. of the Banca Leonardo Group (hereinafter also referred to as “**Leonardo**” and, together with Morgan Stanley, as the “**BPU Advisors**”) was asked to make its own calculation and determination of the Exchange Ratio, to be used to support the findings that emerged from the Morgan Stanley analysis.

The Board of Directors of BLP, on the other hand, appointed Mediobanca – Banca di Credito Finanziario S.p.A. (hereinafter also referred to as “**Mediobanca**”) and Rothschild S.p.A. (hereinafter also referred to as “**Rothschild**” and, together with Mediobanca, as the “**BLP Advisors**”) to assist the board in calculating and determining the Exchange Ratio.

The income statement and balance sheet figures taken as a reference for the Merging Bank and for the Merged Bank on which the valuation was based are those as at 30<sup>th</sup> September 2006.

The valuations made (attached to this Information Document) are designed to provide a comparative estimate of the economic values of the banks involved in the Merger and must therefore be understood solely in relative terms and as limited to the specific merger transaction in question here.

Although these valuations have been made by the BPU Advisors and the BLP Advisors on the basis of independent approaches and using valuation methods which are sometimes different, they have nevertheless produced consistent results.

In all cases the valuation methods employed were those recommended by best valuation practices and which were considered the most appropriate in consideration of the activities performed and the sector to which BPU and BLP belong.

The BPU Advisors and the BLP Advisors considered the intrinsic limitations of each of the valuation methods in applying them. Possible impacts on valuations of events subsequent to the date on which the Merger was announced have been reflected in some of the valuation methods used.

After careful analysis of the valuations made by the BPU Advisors and the BLP Advisors, the boards of directors of BPU and BLP declared their agreement with the valuation methods used and the results obtained.

#### ***General criteria followed to determine the Exchange Ratio***

The merger valuations usually raise a complex valuation issue the objective of which is to establish the merger exchange ratio, that is the relationship between the value of the shares of the combining companies.

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In this perspective, according to a consolidated principle applied when carrying out this type of valuation, the relative uniformity principle of the valuation criteria applied should be preferred. This is because the aim of merger valuations is not so much that of establishing absolute economic values for the combining companies but that of obtaining comparable values for the determination of the exchange ratio. For this reason, merger valuations become meaningful especially for comparison purposes.

A second principle that is often mentioned in merger valuations is the one that refers to the adoption of the so-called 'stand-alone' perspective, that is based on the current situation as well as the future prospects of the companies being separately considered, that is disregarding the potential synergies deriving from the merger which would generate added value for the two groups of Shareholders.

Furthermore the accounting, legal and administrative due diligence envisaged by the Memorandum of Intent did not reveal significant differences in the economic values considered at the time the Exchange Ratio was calculated, that is events, acts or circumstances which may have a material impact on the activities of BLP and BPU.

#### **Fairness opinion on the Exchange Ratio by the BPU Advisors**

The BPU Directors, sharing the indications provided by Morgan Stanley which were supported by the analyses carried out by Banca Leonardo, adopted them as reference for their calculations.

In particular, the following table summarises the exchange ratios arising from the application of the valuation methods used by Morgan Stanley which are described in detail later in this prospectus.

#### Morgan Stanley – Summary results

Valuation methods	Exchange Ratio	
	Min	Max
Analytical Methods <sup>1</sup>	0.80	0.85
Market multiples method	0.72	0.84
<b>Exchange ratio range</b>	<b>0.72</b>	<b>0.85</b>

The Leonardo findings are also given which, while in some cases they adopt different methods and assumptions, produce similar results.

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<sup>1</sup> Average of the scores of the Dividend Discount Model and the Warranted Equity Method (also known as the Gordon Growth Model)

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Leonardo – Summary Results

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Valuation methods	Exchange Ratio	
	Min	Max
Dividend discount model	0.77	0.84
Gordon growth model	0.76	0.84
Market multiples method	0.75	0.85
Market value method	0.74	0.85
<b>Exchange Ratio Range</b>	<b>0.74</b>	<b>0.85</b>
Control method (contribution analysis)	0.70	0.91

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On the basis of the above values, the Board of Directors felt they were able to conclude that a fair merger exchange ratio would be in the range of 0.72 – 0.85 new BPU ordinary shares for each BLP ordinary share. This range, calculated by Morgan Stanley, is basically confirmed by the analyses performed by Banca Leonardo.

***Principal difficulties of the valuation***

Article 2501-*quinquies* of the Italian Civil Code requires that the directors of companies involved in a merger report “any valuation difficulty” encountered in the process of determining the Exchange Ratio.

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

- use of forecast data: the analyses were performed using forecast data which, by its very nature, entails a degree of uncertainty;
- estimate of the “Adjustment Factor”: for the purpose of establishing the fairness of the exchange ratio, the values which were calculated by applying economic and analytical criteria have been corrected by an adjustment factor that took account of the different legal status of the banks involved in the Merger (hereinafter referred to as the “**Adjustment Factor**”). This “adjustment” was calculated on the basis of estimates and empirical analyses that are, by nature, uncertain and variable.

***Valuation methods used to estimate the Exchange Ratio***

A summary is given below of the methods used by the advisor, Morgan Stanley, to estimate the Exchange Ratio, which were then employed by the Directors of BPU as a point of reference for making their decisions.

On the basis of the “qualitative” characteristics of the Banks and the valuation procedures applied to similar transactions in Italy and abroad, the valuation methods selected by Morgan Stanley are the following:

- “Analytical” valuation methods:
  - Dividend Discount Model;
  - Warranted Equity Method;

- 
- Market Valuation Method:  
Market Multiples.

In addition, for both banks and as a control method, Morgan Stanley compared the results obtained using the share prices at the time of the transaction and immediately prior to it ("Share price Method"). Morgan Stanley preferred not to use the stock price method as one of the principal methods, in order to avoid that possible speculative elements that may have recently occurred could affect the calculation of the Exchange Ratio range.

### ***Valuation considerations***

Morgan Stanley applied to the exchange ratios calculated using the analytical methods (DDM and the Gordon Growth Method) an Adjustment Factor that reflects the difference between the market value of the shares of a company with limited contendibility and the market value of the shares of a company with contensible control. More specifically, the exchange ratios calculated by applying analytical methods were corrected by the Adjustment Factor using the following formula:

$$\text{Exchange ratio} = \frac{\text{BL Share value}}{\text{BPU share value}} \times \text{Adjustment factor}$$

To estimate the Adjustment Factor, Morgan Stanley analysed the ratio between the market capitalisation and net equity of a sample of co-operative banks, comparing it with the same ratio of a sample of banks with joint stock company status. The sample of cooperative banks used includes BP Verona and Novara, BPU, BP Milano and Credito Valtellinese. The sample of banks with joint stock company status includes Banca Intesa, Sanpaolo IMI, Capitalia, Banca Monte dei Paschi di Siena, Banca Lombarda and Credito Emiliano. The analysis of the differential between the multiples also took account of the different profitability (ROE) of the two samples. Such analysis led to an estimate of the Adjustment Factor of between 1.31 and 1.37.

The Adjustment Factor was not applied to the 'Market' methods as the comparable companies selected for Banca Lombarda were joint stock companies and those selected for BPU were cooperative companies therefore, in theory, including the above mentioned adjustment.

\* \* \*

As regards analytical methodologies alone, Morgan Stanley decided to carry out a separate valuation of Banca Lombarda's shareholding in Banca Intesa based on current market prices. To this end, the main financial data of Banca Lombarda were adjusted to obtain values that were representative of the banking activity alone. The market value of the stake in Banca Intesa was then added to these values.

### ***Dividend Discount Model***

The Dividend Discount Model assumes that the economic value of a bank is equal to the sum of:

- Present value of the future cash flows generated in the chosen time period and distributable to shareholders without affecting the capital base required to maintain the expected future development; and

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- "Terminal Value", that is the value of the Bank at the end of the period considered for the analytical estimate of the flows which was calculated using various methods under the assumption that both profitability and growth were sustainable to infinity.

Therefore the DDM method estimates the value of a bank's economic capital using the following formula:

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

where:

W is the value of the bank being valued;  
DIV<sub>a</sub> is the present value of the future cash flows that could be distributed to the shareholders in a specific period of time, maintaining a satisfactory capital base;  
VT<sub>a</sub> is the present value of the terminal value of the bank.

The DDM was applied in three stages, namely:

Stage 1. Identification of the future cash flows and the reference time period

This identification was based on the business plans of BPU and BLP respectively.

For the purpose of estimating the maximum cash flows distributable, the minimum capital requirements necessary to guarantee the operations of BPU and BLP were set and calculated, also taking account of applicable regulations and international best practices, as being equal to a Core capital ratio (Tier I) of 6.0%.

Stage 2. Setting the discount rate

The discount rate used for the cash flows ("**Cost of Equity**") corresponds to the return on equity required by investors/shareholders for investments with similar risk characteristics ( $K_e$ ), and was calculated on the basis of the capital asset pricing model, using the following formula:

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

where:

$R_f$  is the "risk-free rate", that is the rate of return on risk-free investments (in the case at hand it was decided to adopt a value equal to the average of the 30-year euro swap rate during the last two years, that is to say 4.1%);  
 $R_m - R_f$  is the "market premium", that is the premium for the risk of investing in shares rather than in risk-free investments, quantified as being equal to 4.5%;  
 $\beta$  is the correlation factor between the actual yield of a share (more specifically, of the shares that represent the share capital of the company being evaluated and similar companies) and



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the overall yield of the reference market (measuring the volatility of the security compared to the market portfolio). The  $\beta$  applied was equal to 1.09, a forecast value obtained from a sample of comparable companies.

The method set forth above produces an estimated discount rate of 9%. The same Cost of Equity was used for both banks.

### Stage 3. Calculation of the Terminal Value

The terminal value was calculated using the perpetual dividend growth formula. In order to verify the results obtained, the terminal value was also calculated using the terminal shareholders' equity multiples method.

According to the formula of the Perpetual Dividend Growth model, the terminal value is calculated based on a multiple of the distributable dividends, as obtained at the end of the forecasting period (stage 2). This multiple takes the Cost of Equity ( $K_e$ ) and the growth rate ( $g$ ) into account using the following formula:

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

where:

- $g$  indicates the long-term nominal sustainable growth rate ("Sustainable Growth Rate"). Long-term Sustainable Growth Rates were calculated based on estimates of the real growth rate and inflation. Morgan Stanley used a Sustainable Growth Rate of 2.5% for both BPU and BPL.
- $K_e$  indicates the discount rate represented by the Cost of Equity as calculated in the following paragraph.

### ***Warranted Equity Method (or the Gordon Growth Model)***

According to the Warranted Equity Method ("WEM", sometimes also referred to as the Gordon Growth Model), the value ( $W$ ) of a bank may be determined on the basis of the relationship between:

- Estimated future profitability (expressed by the ROE – Return On Equity) that the bank can sustain in the long run;
- Sustainable Growth Rate ( $g$ ) of the bank's profits in the long run; the value used coincides with the one used for the Dividend Discount Model;
- Cost of Equity ( $K_e$ ), return rate required for investments with similar risk characteristics; the value used coincides with the one used for the dividend discount model.

The relationship between these three factors is expressed on the basis of the perpetual dividend growth formula, which ensures that the impact of the net profitability of a bank (in terms of ROE) on its valuation is multiplied by the estimated growth:

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$$\frac{W}{\text{Net equity}} = \frac{(\text{ROE} - g)}{(K_e - g)}$$

Attention is drawn to the fact that the shareholders' equity which the WEM formula refers to is a normalised equity, that is the equity required to maintain an adequate capitalisation for the proper performance of ordinary business activities. Excess Capital is valued at a unitary multiple of the book value, as it represents capital that is potentially distributable to shareholders.

### ***Market multiples method***

The Market Multiples Method is based on the analysis of the share prices of a sample of banks that are comparable to those being valued. In an efficient market and in the absence of speculative movements, share prices in fact reflect market expectations about the growth rate of companies' future earnings and the degree of risk and volatility associated to it.

For the method to be applied, several ratios ("multiples") - referred to the sample of selected comparable companies – between the market value and a number of significant parameters were calculated (usually multiples are calculated on the basis of expected net income and expected equity). The average ratios thus obtained are then applied to the expected shareholders' equity and net income included in the Business Plan of the company being evaluated in order to obtain the theoretical value attributed to it by the market.

For the purpose of this valuation, Morgan Stanley referred to the "price/expected net income" (P/E) and the "price/book value" (P/BV) ratios.

In order to consider the different corporate legal status of the companies being valued (joint stock companies as opposed to co-operatives) it was considered advisable to select a sample of multi-regional banks with the legal status of joint stock companies and market capitalisation of at least 1 billion euro. For BPU, on the other hand, a sample of 'popular' co-operative banks was selected with market capitalisation of greater than 1 billion euro and total assets of more than 10 billion euro, listed on the primary market and for which estimates furnished by I.B.E.S. were available, with the exclusion, however, of Banca Popolare Italiana because the unit price of this share was affected by the merger transaction in progress.

The two sample segments of Italian banks considered to be comparable in terms of size, geographic market and legal status were identified by Morgan Stanley as follows:

For BPU: Banco Popolare di Verona e Novara S.C.r.l., Banca Popolare di Milano S.C.r.l. and Credito Valtellinese S.C.r.l.;

For BLP: Banca Monte dei Paschi di Siena S.p.A., Banca Carige S.p.A., Banca Carifirenze S.p.A. and Credito Emiliano S.p.A..

It was also verified that the shares of the selected banks had regular trading volumes and could express meaningful share prices. According to current practice, the liquidity of the shares of the

comparable companies selected was verified through the value of the turnover ratio, that is the ratio between the total annual trading value of a company' and its average market capitalization.

Profit and shareholders' equity forecasts for the financial years 2006, 2007 and 2008 for the samples of banks considered was calculated on the basis of consensus estimates of financial analysts. For the sake of full information the two tables below give the ratios for P/E and P/BV for the banks included in the two samples. Morgan Stanley used three month averages of share prices calculated as at 8<sup>th</sup> December 2006 for the valuations and the calculation of the multiples (source: FactSet).

#### P/E multiples for the sample of comparable companies

Listed bank	P/E		
	2006	2007	2008
<b>BPU sample</b>			
BP Milano	14.8x	13.0x	11.5x
BP Verona e Novara	11.8x	11.2x	10.2x
Credito Valtellinese	16.6x	13.0x	10.2x
<b>BLP sample</b>			
MPS	15.7x	13.7x	11.9x
Banca Carige	29.7x	26.0x	25.3x
Banca CR Firenze	17.4x	16.0x	13.9x
Credito Emiliano	14.9x	13.1x	11.5x

#### P/BV multiple for the sample of comparable companies

Listed bank	P/BV		
	2006	2007	2008
<b>BPU sample</b>			
BP Milano	1.50x	1.39x	1.30x
BP Verona e Novara	1.83x	1.68x	1.54x
Credito Valtellinese	1.30x	1.24x	1.16x
<b>BLP sample</b>			
MPS	1.86x	1.74x	1.62x
Banca Carige	2.27x	2.18x	2.10x
Banca CR Firenze	2.15x	2.01x	1.85x
Credito Emiliano	2.35x	2.15x	1.96x

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### ***Methods of Verification***

For a further comparison of the Exchange Ratios identified, which included support from the analyses performed by the advisors, the Directors applied the direct quotes method and the non simplified UEC method.

### ***The trading prices method***

The trend for the exchange ratios between BLP shares and BPU shares expressed in quoted market prices for the shares in question was analysed. In order to find a proper balance between mitigating the effect of daily price volatility and using a sufficiently up-to-date figure, indicative of recent market value of the entity subject to valuation, the average implicit exchange ratios were observed over a period of up to six months since the announcement of the operation.

The results obtained confirm that the interval identified in this report reflects the stock exchange price trends for the two shares and, more specifically, that the exchange ratio chosen (0.83) is in line with the most recent data. This consideration may be connected with the circumstance that the different level of strategic attractiveness between joint stock companies and mutual co-operative companies, connected with their competitiveness, has only been reflected in stock market prices in the course of the last few months, when indiscretions concerning the possible merger operations with BLP leaked onto the market.

### ***The UEC Method***

The UEC method provides a summary of the attractiveness of a company which correlates with the dimensions of both its capital assets and its income, by determining the economic value of a bank on the basis of two factors:

- shareholders' equity expressed at present values inclusive of an estimate of intangible assets valued on the basis of the forms of the banking Group's funding and empirical parameters;
- the correction of the goodwill attributable to assets in relation to the company's capacity to produce income above or below the rate of return judged to be satisfactory for the type of investment in question.

The results of applying the method, after the adjustment just mentioned had been made, confirmed the range identified by the principal methods with a range of 0.78 – 0.85 BPU shares for 1 BLP share.

### ***Summary results***

Based on the application of the methods described above, Morgan Stanley obtained a value per share that was within the ranges shown in the table below. Please note that the results set out below for the "analytical methods" are shown before applying the Adjustment Factor already described.

<b>Summary results</b>	<b>Value per share (euro)</b>	
	<b>BPU</b>	<b>BLP</b>
Dividend Discount Model	24.8 – 27.2	15.2 – 16.9

Warranted Equity Method	23.6 – 27.3	14.5 – 16.6
Market Multiples <sup>2</sup>	18.3 - 23.0	15.2 - 17.2

Based on each of the valuation methods used for the two banks and combined on a uniform basis, Morgan Stanley indicated a range of values for the exchange ratio of 0.72x - 0.85x.

Furthermore, Morgan Stanley pointed out that the upper end of the exchange ratio range is in line with the values expressed by the recent share price trends of the two banks.

The Board of Directors of BPU:

- having taken account of the quotations of BPU and BLP shares on the stock market in the period prior to the signing of the Memorandum of Intent (with a ratio between the capitalisation of the two banks as at 10<sup>th</sup> November 2006 of 0.85),
- in consideration of the limited variability between the ranges identified by the advisors, with a difference between the extremes of not more than 18% which confirms the significance of the ranges indicated,
- on the basis of the circumstance that the Exchange Ratio negotiated lies within the range of the Advisors' estimates performed using analytical methods, which are considered more appropriate for expressing the economic value of companies,
- in the light of the high strategic value of the transaction, the significant creation of value in terms of cost and revenue synergies and the expected reduction in the risk of variable results as a consequence of the increase in size,
- and having taken account of the different legal status of the two banks, which is in any case reflected with appropriate measures in the exchange ratios formulated by the advisors,

considered that an Exchange Ratio of 0.83 ordinary BPU shares for each ordinary BLP share, in line with the average stock market prices over the 10 days preceding the signing of the Memorandum of Intent and in the upper part of the range of exchange ratios identified by the advisors, expresses the economic values of the two banks fairly and complies with the economic interests of the registered shareholders of BPU.

#### **Fairness opinion on the Exchange Ratio by the BLP Advisors**

The Board of Directors of BLP took account of the fairness opinion produced by the BLP Advisors in determining the Exchange Ratio.

The BLP Advisors did not encounter any difficulties in estimating the economic values of BPU and BLP other than those normally found when estimating the economic capital of companies, except for the fact that there is a change in the administrative rights of the BLP shareholders associated with the transition from being shareholders of a joint stock company to being shareholders of a co-operative company as a result of the Merger.

This valuation difficulty was considered by applying an Adjustment Factor to the Exchange Ratio, as was also reported in the fairness opinions of the BLP Advisors attached to this Information Document. It was calculated by the BLP Advisors as the difference between the multiples implicit in the quotations of banks that are comparable to BLP, because they have the legal status of joint stock

<sup>2</sup> Extreme values resulting from the application of the six different market multiples discussed in the previous paragraph

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companies and the market attributes a higher value to them because they incorporate an expectation of participating in future merger processes and the multiples implicit in the quotations for banks that are comparable to BPU because they have the legal status of a co-operative company. The selection of the samples was designed to capture the value connected with the contendibility of banks with joint stock company legal status. The BLP Advisors estimated this Adjustment Factor as falling within a range of 1.25 – 1.35 and they applied it solely to the analytical methods (DDM and contribution analysis) because the market methods (market multiples and the trading prices method), as applied by the BLP Advisors, already incorporated the different values for BLP and BPU due to differing type of legal status.

The Board of Directors of BLP summarises its position, also to comply with the provisions of Art. 2501-*quater* of the Italian Civil Code, with the following considerations:

- The Board of Directors of BLP came to decide on the Exchange Ratio following very careful valuation of BLP and BPU.
- Commonly used valuation methods, including those used internationally, for transactions of this type and for companies operating in the banking industry were adopted to determine the Exchange Ratio for BPU and BLP shares.
- The valuation methods and the consequent economic values were identified for the sole purpose of indicating a range of exchange ratios that was considered reasonable for the purposes of the Merger and in no case whatsoever are the valuations to be considered as possible indications of market price or in any context other than that in question. In fact, an essential and necessary condition for estimating the financial conditions in the context of a merger transaction is to quantify the value of the individual companies valued with the final objective of obtaining, not so much an estimate of the economic value of each of them as uniform and comparable values for the purposes of determining the fairness of the Exchange Ratio.
- The same valuation methods were applied to both companies in order to preserve the uniformity of the valuations taking account of the specificities of each of them, the different legal status of banks and the status of these banks in question as listed companies.

#### ***Valuation methods used to estimate the Exchange Ratio***

The following methods were used to estimate the Exchange Ratio: the Dividend Discount Model (“DDM”) as an analytical method, applying an Adjustment Factor to the results obtained and the market multiples method and the trading prices method. The Exchange Ratio was also verified by developing a contribution analysis to which the Adjustment Factor was also applied.

#### ***Dividend discount model method (DDM)***

The dividend discount method (DDM) determines the economic value of a bank as the sum (i) of the present value of future dividend flows, that may be distributed to shareholders over the period predicted, consistent with maintaining an adequate level of capitalisation and (ii) the present value of the terminal value (TV), calculated assuming constant perpetual growth in dividend flows beyond the predicted period. The approach adopted does not take account therefore of the policy employed by the bank in the use of its profits. A minimum core tier 1 ratio of 7.0% was set in order to calculate both the excess/unnecessary capital and the long term, economically sustainable, normalised flow.

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This minimum objective was considered necessary to guarantee medium to long terms operations and growth of the companies valued.

Therefore the DDM – Excess Capital method estimates the value of a bank's economic capital using the following formula:

$$W = DIVa + VTa + SA$$

where:

W is the economic value of the bank being valued;

DIVa is the present value of the future cash flows that could be distributed to the shareholders in a specific period of time, maintaining a satisfactory capital base;

VTa is the present value of the terminal value of the bank; and

SA is the value of the surplus assets.

The application of the DDM – Excess Capital method was performed in the following stages:

- identification of the future cash flows and the reference time period:  
an explicit period, 2006-2008, was assumed for the purposes of the valuation for determining the cash flows, based on the economic and financial plans of BLP and BPU disclosed to markets; a progressive reduction in growth was hypothesised in order to normalise the profits of the two companies with the long term growth rate (2.5%) reached in 2010. Beyond 2010 the value of BPU and BLP was determined by calculating the present value of the terminal value;
- determination of the perpetual growth rate and of the discount rate:  
the discount rate used for the cash flows corresponds 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, using the following formula:

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

where:

Rf is the “risk-free rate”, that is the rate of return on risk-free investments (in the case at hand it was decided to adopt the yield on ten year BTPs of 3.92%);

Rm – Rf is the “market premium”, that is the premium for the risk of investing in shares rather than in risk-free investments, quantified as being equal to 5.5%;

Beta is the correlation factor between the actual yield of a share and the overall yield of the reference market, measuring the volatility of the security compared to the market portfolio. This parameter was calculated for both banks as 0.84.

The cost of capital calculated on the basis of the above parameters was identified as 8.54%.

#### Calculation of the Terminal Value

The Terminal Value was calculated using the Gordon formula

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$$\text{Terminal Value} = \frac{\text{Sustainable Dividend}}{(K_e - g)}$$

where:

g indicates the long-term nominal sustainable growth rate with a nominal value of 2.5%.

$K_e$  indicates the discount rate represented by the cost of risk capital.

### ***Market multiples method***

The market multiples method is performed by applying a series of ratios between the stock market capitalisation of comparable listed companies and various earnings and capital parameters for them to the companies that are being valued. While numerous ratios can be used in applying this method, in practice the selection of the multiples is made on the basis of the characteristics of the system in which the companies being valued and contained in the sample in question operate. Multiples of book value and net income were used for the purposes of determining the economic value of the banks.

Given the different legal status of BPU and BLP, it was decided to select different samples of comparable companies for the two banks. More specifically in order to consider the value to be attributed to shares with different levels of contendibility (joint stock companies as opposed to co-operatives) for the valuation of BLP it was considered advisable to select a sample of multi-regional banks with the legal status of joint stock companies, market capitalisation of at least 1 billion euro, a significant turnover velocity (official indicator of the liquidity of a share which expresses the speed at which the capital turns over on an annual basis: it is calculated as the ratio between the total volume of trading and the average market capitalisation) and for which it seems likely that the share prices incorporate an expectation of participation in future merger transactions. For BPU, on the other hand, a sample of 'popular' co-operative banks was selected with market capitalisation of greater than 1 billion euro and with a significant turnover velocity, with the exclusion, however, of Banca Popolare Italiana, because the unit price for this share was affected by a merger transaction in progress.

### ***Stock market trading prices method***

The market value method calculates the value of a company on the basis of its capitalisation given by the price of its shares traded on regulated stock markets. More specifically, the market value method is considered important for valuing listed companies, where the volumes of shares traded are significant, as is the case of BPU and BLP.

The prices of BPU and BLP shares were considered up until 10<sup>th</sup> November 2006, this being the last day of trading in BPU and BLP shares before the Merger announcement. After that date the prices of the shares were clearly affected by that announcement and were therefore not considered for the purposes of the analysis.

The price of the BLP share started to rise significantly in September 2006 and this followed widespread indiscretions leaked onto the market concerning the possible involvement of BLP in merger or acquisition transactions and it may be presumed that this progressively determined the incorporation of the expectation of an extraordinary financial transaction in the price of the share.



This situation allowed the value of the company's contendibility estimated empirically using an Adjustment Factor to be fully reflected in the stock market price of the BLP share.

***Control method: contribution analysis***

The contribution method identifies the relative weight of the companies involved in the Merger. This method does not therefore give absolute values, but relative values contributed by each new company to the new entity resulting from the merger. The criterion in question is based on a comparison of economic values, capital and operating figures, that are considered significant with regard to the banking companies which are to merge.

In practical terms a share value is identified for each of the values selected and an implicit Exchange Ratio is calculated, having taken account of the Adjustment Factor already described.

Millions of euro	BLP	BPU	BLP+BPU	Exchange Ratio	
				Adjustment Factor 1.25	1.35
Lending to customers	29,954	49,798	79,753	0.73	0.79
Total funding	74,501	106,789	181,290	0.85	0.91
<i>Direct funding</i>	<i>30,036</i>	<i>51,526</i>	<i>81,562</i>	<i>0.71</i>	<i>0.76</i>
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 on continuing operations before tax	457	702	1,159	0.79	0.85
Net profit	232	374	606	0.75	0.81
Branches in Italy (numbers)	792	1,181	1,973	0.81	0.88

***Summary of the valuations***

The following Exchange Ratio ranges were determined on the basis of the economic values for BPU and BLP that resulted from applying the valuation methods adopted:

Method	Min	Max
Dividend Discount Model	0.77	0.83
Market Multiples	0.74	0.85
Stock market trading prices	0.74	0.85

The control method (contribution analysis) identified an Exchange Ratio range of between 0.70 and 0.91 ordinary BPU shares for each BLP share.

**Determination of the Exchange Ratio and valuation by the experts appointed in compliance with Art. 2501-sexies of the Italian Civil Code**

On the basis of the preceding valuations and also on the basis of the valuations of the BPU Advisors and the BLP Advisors, the boards of directors of BPU and BLP proceeded to decide and agree upon an

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Exchange Ratio according to which the newly issued ordinary shares of BPU will be allotted as follows:

- 0.83 number (nought point eight three) newly issued ordinary shares of BPU with a nominal value of 2.50 euro each for each 1 number (one) ordinary share in BLP.

There will be no settlements of balances in cash.

The Exchange Ratio was subject to verification by experts appointed in accordance with Art. 2501-*sexies* of the Italian Civil Code, and that is the auditing firm KPMG S.p.A., designated by the Court of Bergamo for BPU, and the auditing firm Reconta Ernst & Young S.p.A., designated by the Court of Brescia for BLP, for the purposes of the issue of a fairness opinion required by Law.

The opinions formulated by KPMG S.p.A. and Reconta Ernst & Young S.p.A. are attached to this Information Document. The opinions conclude by considering the valuation methods adopted by the Directors of BPU and BLP respectively and also on the basis of the indications furnished by the BPU Advisors and BLP Advisors to be appropriate.

**Procedures for the allotment of shares of the Merging Bank and the date of dividend entitlement for those shares.**

On completion of the Merger, the ordinary BLP shares outstanding will be cancelled and BPU will proceed to issue a maximum of 294,663,219 ordinary shares with a nominal value of 2.50 euro each for allotment to the BLP shareholders in compliance with the Exchange Ratio indicated above, as well as to the cancellation of any ordinary BLP shares that might be held by the Merging Bank without exchange of shares.

In this regard at the date of publishing this Information Document, BPU holds no shares of BLP in its portfolio.

Furthermore, and again at the date of publishing this Information Document, BLP holds none of its own shares.

There will be no settlements of balances in cash made to shareholders of the companies participating in the Merger, nor are any particular benefits proposed in favour of the Directors and Statutory Auditors of those companies.

The Merger Deed will take account of the waiver of the right to fractions of shares by one or more BLP shareholders, which is necessary ensure that the arithmetic for the transaction balances properly.

A service will in any case be provided to BLP shareholders for the treatment of any fractions of shares there may be at market prices, without further cost for expenses, stamp duties or commissions.

The newly issued shares of the Merging Bank used for the exchange, which will be listed on a par with those already in circulation, will be made available to the shareholders of BLP according to the procedures for centralised management of dematerialised shares by Monte Securities Spa starting on the first business day following the date of the Merger taking effect in law. That date will be

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communicated in a special notice concerning the Merger published in at least one national daily newspaper.

The exchange operations will start on the first day on which the Merger takes effect at the branches of the Merging Bank and of the other companies in the new banking group resulting from the Merger (hereinafter referred to as the “**New Group**”) and also through other legally authorised intermediaries.

The new ordinary shares of the Merging Bank, which will be issued in exchange for BLP shares, will have the same rights as those of the Merging Bank in circulation at the date of issue, and therefore they will have normal dividend entitlement from (1<sup>st</sup> January 2006).

It is therefore planned that subsequent to the date on which the Merger becomes effective, the relative bodies of the Merging Bank will pass a resolution to distribute a dividend for the financial year 2006, paid on each share in the Merging Bank *post* Merger, to all the registered shareholders of the Merging Bank without distinction, for an amount to be proposed of 0.80 per share.

#### **Legal, accounting and tax effects of the Merger**

The operation will take effect for accounting and tax purposes from the date on which the Merger becomes legally effective, which is to say from the date of the last registration of the merger deed with the Brescia and Bergamo Company Registrars or from the subsequent date specified in that deed and in any case not prior to 1<sup>st</sup> April 2007.

Furthermore, in accordance with the last paragraph of Art. 57 of the TUB, the privileges and guarantees of any type and by whoever they may have been granted or which in any case exist in favour of BLP, will conserve their validity and their rank and degree without the need for any formalities or registrations in favour of BPU.

#### **Tax effects in Italy of the Merger on the Merging Bank**

The Merger has a “neutral” tax effect with regard to direct taxation in Italy.

In accordance with Art. 172 of Presidential Decree No. 917/86 (*“Testo Unico delle Imposte sui Redditi”* – Consolidated law on income taxes, hereinafter referred to as “**TUIR**”), the Merger does not in fact give rise to any positive or negative components of income for those participating in it (BPU, BLP and shareholders).

For BLP in particular the transfer of its assets does not give rise to any potential gains or losses in the assets and liabilities transferred, nor to the generation of goodwill.

In precisely the same way, the assets received by the Merging Bank are possessed with the same value for tax purposes as they had for the Merged Bank.

No account is taken in determining the income of the Merging Bank of the surplus or deficit recognised in its accounts as a result of the share Exchange Ratio and the greater amounts recognised in the accounts as a result of recording a potential deficit in assets and liabilities of the Merged Bank, including goodwill, are not taxable for the Merging Bank and are not recognised for tax purposes.

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The Merger is not subject to VAT, but is subject to fixed registration, mortgage and land registration duties.

As concerns the tax regime of the Group under articles 117 *et seq* of the TUIR (known as the “national fiscal consolidation”) existing between BPU and some of its subsidiaries, Art. 124, paragraph five of the TUIR states that in the case of a merger of a parent company (BPU) with companies which do not form part of the fiscal consolidation, the continuation of the regime may be requested by making an application under Art. 11 of Law No. 212 of 27<sup>th</sup> July 2000.

#### **Tax effects of the Merger on the shareholders**

The exchange of shares of the Merged Bank with shares of the Merging Bank does not constitute the generation of gains or losses for shareholders of the former according to Italian tax law, since it is merely a substitution of shares of the Merged bank with shares of the Merging Bank. Basically the value recognised for tax purposes of the shares of the Merged Bank is transferred to the shares of the Merging Bank received in exchange.

It has not been ascertained whether the status of being a transaction of no effect for tax purposes will be recognised for the Merger in tax jurisdictions other than Italy.

Shareholders who are not resident in Italy for tax purposes are required to ascertain the consequences of the Merger and of the ownership of shares of the Merging Bank according to the legislation of the country in which they are resident for tax purposes.

#### **System of management and control of the Merging Bank post Merger**

The plan for the integration of the Merged Bank and the Merging Bank is for the former to adopt a dualistic type system, already mentioned, in order to guarantee a system of corporate governance appropriate to the demands of the new corporate situation. This system requires the management and control of a company to be exercised by a Management Board and by a Supervisory Board respectively in accordance with the provisions of articles 2409-octies *et seq.* of the Italian Civil Code and articles 147-ter *et seq.*, of the TUF.

#### **The choice of a dualistic system and its characteristics**

As has been mentioned, the system of governance based on a dualistic system involves the presence, in place of the classic bodies found in traditional systems, of a supervisory board and a management board to which management and control is entrusted by law and by the corporate by-laws.

Following the changeover to a dualistic system, some of the powers typically reserved to a general meeting of the shareholders in traditional systems (approval of the accounts, appointment of the members of the management body and determination of the relative remuneration) are transferred to the Supervisory Board. A clearer distinction is also introduced between the functions of strategy and control on the one hand and current operational management on the other, which amongst other things guarantees the healthy and prudent management of the Merging Bank.

The Supervisory Board takes on board some of the powers typical of shareholders’ meetings, the functions of the Statutory Board of Auditors and some of the powers of “senior management”. It

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therefore performs the duties of strategic policy-making and control, including control of performance, of the management of the company that is broader than that typically performed by the Statutory Board of Auditors in a traditional system of management and control.

The Management Board is responsible exclusively for the management of the company and for performing all those operations necessary for implementing the business purpose of the company in compliance with the general strategies and plans drawn up by the Supervisory Board. The Corporate By-Laws state that in accordance with Art. 2409–*terdecies*, paragraph one, letter *f-bis*), of the Italian Civil Code, that body may pass resolutions submitted by the Management Board which, amongst other things, may concern industrial and financial plans, budgets and strategic and important economic and financial operations. The role and powers of the Management Board are basically modelled on those of boards of directors in traditional systems and reference to the regulations governing them must often be made.

### **The implementation of the dualistic model and the relative clauses in the by-laws**

The choice of a dualistic model made amendments to the Corporate By-Laws of the merging Bank necessary which are illustrated here below. The references to the articles are in the text of the New By-Laws attached (enclosure A) to the Merger Project.

It should also be considered that some of the new clauses require amendments to be made with a vote in favour of at least one twentieth of the registered shareholders of BPU with the right to vote, in accordance with article 28 of the by-laws of the BPU currently in force.

Therefore if the resolution to approve the New By-Laws is adopted with a majority of less than that mentioned above, the resolution must be understood as approving the Merger and the New By-Laws attached (enclosure A) to the Merger Project, but with the replacement of the articles 3, 23, 28, 31 and 36 with the corresponding articles contained in the attachment - enclosure B - to the Merger Project.

The adoption of a dualistic model by the Merging Bank is felt to be more appropriate to the requirements and structure of the New Parent Bank.

Dualistic models are considered an appropriate means for strengthening the protection of shareholders' interests, especially in public companies. This protection is implemented by means of the role of the Supervisory Board (body appointed by registered shareholders). Furthermore a dualistic model is appropriate for guaranteeing effective governance in groups with large and complex structures.

In dualistic models the Supervisory Board is quite distinct from the Management Board, which is responsible for making operational decisions. It lies between the shareholders and management and performs supervisory functions based on a model that allows effective control of management actions.

In fact the New By-Laws state that the approval of industrial plans, budgets and strategic operations must be authorised by the Supervisory Board. In this manner, the registered shareholders of the New Parent Bank increase their power, albeit indirectly, over those responsible for the management of the New Parent Bank (Management Board) as compared to a traditional governance model.

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### **The Shareholders' Meeting (from article No. 21 to article No. 29 of the New By-Laws)**

The powers of the Shareholders' Meeting will be changed in order to bring them in line with the legal regulations dealing with the "dualistic" system, including, amongst other things, a provision requiring the registered shareholders to approve the financial statements if the Supervisory Board fails to do so.

In particular, an ordinary Shareholders' Meeting of the New Parent Bank:

- appoints and removes the members of the Supervisory Board and elects the Chairman and Senior Deputy Chairman;
- decides with reference to the responsibility of the members of the Supervisory Board and, pursuant to art. 2393 and art. 2409-*decies* of the Italian Civil Code, with reference to the responsibility of the members of the Management Board, without prejudice to the concurrent competence of the Supervisory Board;
- decides on the distribution of profits, subject to the filing of the financial statements and of the consolidated financial statements approved pursuant to art. 2409-*terdecies* of the Italian Civil Code;
- appoints and removes the auditing company in charge of the auditing;
- approves the financial statements if the Supervisory Board fails to approve them or if this is required by at least two thirds of the members of the Supervisory Board;
- decides on the other issues that fall within its competence.

Extraordinary Shareholders' Meetings shall resolve on any amendments to the corporate by-laws, on the appointment, removal, substitution and powers of liquidators and on any other subject that falls within its competence pursuant to the law.

Shareholders' Meetings are convened by the Management Board, or, pursuant to art. 151-*bis* of the TUF, by the Supervisory Board or by at least two of its members, without prejudice to the other convening powers provided by the law.

Furthermore, in line with recent developments in the reference legislation, minority registered shareholders will be granted a series of powers.

In detail:

- in compliance with Art. 2367, paragraph one, of the Italian Civil Code, Art 22, paragraph six of the New By-Laws states that General Meetings of the New Parent Bank may be convened on presentation of a request, giving the grounds and the agenda, signed by at least one tenth of the Registered Shareholders in possession of voting rights on the date of the request;
- in compliance with Art. 126-*bis* of the TUF, the last paragraph of article 22 of the New By-Laws states that a number of registered shareholders not less than 1/40 (one fortieth) of the entitled registered shareholders on the date of request may request in writing the integration of the agenda to be dealt with in the meeting, as it results from the notice convening the shareholders' meeting.

If the Merger Project, and therefore also the by-laws of the Merging Bank attached to it, is approved by an Extraordinary General Meeting of BPU with a majority of less than one twentieth of the BPU registered shareholders with the right to vote, then the current provisions of article 23 of the BPU Corporate By-Laws will remain valid. These state that general meetings of the shareholders are held

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at the headquarters of the company or in another place in the province of Bergamo (cf. text of Art. 23 contained in the attachment - enclosure B - to the Merger Project attached to this Information Document).

In that case the provisions contained in article 28 of the BPU Corporate By-Laws currently in force would remain valid according to which certain amendments to corporate by-laws (i.e. amendments to the business purpose, the transformation of the company, the transfer of the registered headquarters of the company, the advance liquidation of the company and the repeal or amendment of articles 23, 31, 36, 42 and 43 [containing regulations concerning the Managing Director], article 49 [concerning the formation of committees by the Supervisory Board] and amendment of the regulations for the Deputy Senior Chairman of the Supervisory Board), require a vote in favour of at least one twentieth of the registered shareholders with the right to vote.

In the version attached (enclosure B) to the Merger Project there is in any case an extension to article 28 with the addition of a fourth paragraph which replaces the special majority consisting of one twentieth of the registered shareholders accounting for at least 20% of share capital specified by Art. 28, paragraph four, contained in the attachment enclosure A, with a majority consisting of one twentieth of the registered shareholders for the repeal or amendment of Art. 45, paragraph six and Art.48, paragraph six. This change is a consequence of the provisions of the third paragraph of article 28 of the Corporate By-Laws currently in force according to which a quorum of one twentieth cannot be repealed or amended except with that same majority.

***The Supervisory Board (articles No. 44 to No. 48 of the New By-Laws)***

The Supervisory Board of the Bank generated by the merger will comprise of 23 members appointed by the Shareholders' Meeting chosen among registered Shareholders possessing the necessary requisites, namely respectability, professionalism and independence as required by applicable legal regulations. At least 15 of the members of the Supervisory Board must be in possession of the requirements of professionalism required by the legislation currently in force for persons who perform functions as administrators of banks. In particular, at least three of the members of the Supervisory Board must be selected from among subjects registered with the Register of Auditors who have performed legal audits for a period of no less than three years. Members of the Supervisory Board will remain in office for three financial years.

They will be appointed by list voting procedures that are dealt with in more detail in the By-Laws (article No. 45). Unless prescribed otherwise by the law or other regulatory provisions, the lists should be presented by the outgoing Supervisory Board or by at least 500 registered Shareholders entitled to exercise their right and vote at the Shareholders' Meeting convened to appoint the Supervisory Board and which can provide evidence of such right in compliance with legal regulations currently in force, representing at least 0.50% of the share capital (such limit being fixed by reference to the outstanding share capital of the bank 90 days before the date set for convening the Meeting and to be indicated in the notice of the meeting).

When the regulations provided for under article 248, paragraph two, of the TUF have been issued by the CONSOB (Italian securities market authority) concerning the procedures for the election of a supervisory director by minority registered shareholders, the relevant bodies of the Merging Bank

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will assess the compatibility of the new regulations cited as specified in article 45 of the New By-Laws and, if necessary, make appropriate amendments within the period permitted by law.

The Supervisory Board will meet, upon notice by the Chairman, at least every 60 days; the meetings will take place, alternating between the city of Bergamo and the city of Brescia, and once a year in the city of Milan. The meetings will be considered as being validly held (i.e. a quorum is present) if the meetings are attended by the majority of the Members in office. The Board will pass resolutions where the absolute majority of the members attending the meeting (resolution quorum) casts a favourable vote, except for those cases where the By-Laws prescribe higher quorums (article no. 48).

The Supervisory Board:

- a) appoints, upon proposal of the Appointments Committee, and removes the members of the Management Board and its Chairman and Deputy Chairman, determining their fees after hearing the Remuneration Committee; determines, after hearing the Remuneration Committee, the fees of the members of the Management Board vested with special offices, tasks or proxies or assigned to committees; without prejudice to what is provided by article 32, paragraph 2, of the New By-Laws, and without prejudice to the case of substitution of members of the Management Board suspended before time, the Supervisory Board renews the Management Board in the first meeting following its appointment by the Meeting;
- b) upon proposal of the Management Board, decides on the definition of the general programmatic and strategic policies of the Company and of the Group;
- c) approves the financial statements and the consolidated financial statements prepared by the Management Board;
- d) authorises the Management Board to exercise the proxy for increases in share capital or for issuing convertible bonds if granted by the meeting pursuant to Art. 2443 of the Italian Civil Code and/or of Art. 2420-ter of the Italian Civil Code;
- e) attends the meetings of the Management Board delegating to it the Chairman and the Senior Deputy Chairman;
- f) carries out the supervision functions provided for by Art. 149, first and third paragraphs, of the TUF;
- g) promotes the exercise of the liability action towards the members of the Management Board;
- h) presents the statement to the Bank of Italy pursuant to Art. 70, paragraph 7, of the TUB;
- i) reports in writing to the Shareholders' Meeting convened pursuant to art. 2364-bis of the Italian Civil Code on the supervisory activity carried out, on the neglects and blameworthy events observed as well as, on occasion of any other ordinary or extraordinary Meeting convened, for what concerns the subject-matters considered part of its competences;
- l) informs Bank of Italy without delay of all the deeds or facts, that comes to its notice when carrying out its duties, which may consist of a mismanagement or of a violation of the rules governing banking;
- m) expresses a binding opinion concerning the person in charge of drawing up the corporate accounting documents set forth in art. 154-bis of the TUF;



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n) upon proposal of the Management Board, decides on the authorisations relevant to the strategic operations, as well as to the industrial and/or financial plans and to the budgets of the Company and of the group prepared by the Management Board, in any case without prejudice to its liability for the fulfilled deeds. In particular, the Supervisory Board decides on the authorisations relevant to:

(i) proposals of transactions on the share capital, issuing convertible bonds and cum warrant in Company securities, merger and splitting;

(ii) proposals for amendments to by-laws;

(iii) purchases or transfers by the Company and by the Subsidiaries of controlling interests in companies with important strategic value or with a total value higher than the 5% of the consolidated equity, as well as the purchase or sale of undertakings, relations in bulk, business units with an important economic and/or strategic value;

(iv) strategically important investments and/or divestments and/or implying commitments for the Company whose overall amount exceeds, for each transaction, the 5% value of the consolidated equity;

(v) stipulation of strategically important trade, collaboration and corporate agreements;

without prejudice to the fact that the authorisation of the Supervisory Board on the operations indicated in the above-mentioned list shall not be necessary if they are operations specifically contemplated in the industrial plans already approved by the Supervisory Board;

o) decides on the lines relevant to cultural and charitable initiatives as well as to the image of the Company and of the Group, with a special reference to the valorisation of the historical and artistic legacy, checking the meeting of the programmed initiatives with the undertaken aims;

p) decides on the merger and splitting set forth in art. 2505 and 2505-bis of the Italian Civil Code;

q) exercises any other power provided by the temporary regulations in force or by the By-laws.

The Supervisory Board is also exclusively assigned, in compliance with Art. 2436 of the Italian Civil Code, the resolutions concerning:

a) the opening and closing of secondary offices;

b) the decrease in the share capital in case of a registered shareholder's withdrawal;

c) adjustment of the By-laws to regulatory provisions, subject to consultation with the Management Board.

The Supervisory Board and its members exercise the powers set forth in Art. 151-*bis* of the TUF (request for information from the Management Board or from the management and control bodies of subsidiaries of the company, request the Chairman of the Supervisory Board to convene a meeting of the Supervisory Board, to convene a Shareholders' Meeting and a Management Board meeting and the possibility to proceed to actions of inspection and control as well as to exchange information with the corresponding bodies of subsidiaries), pursuant to the terms and conditions therein provided.

### ***The Chairman of the Supervisory Board (article No. 47 of the New By-Laws)***

In addition to promoting the activity of the Board, the Chairman of the Supervisory Board, consistently with the functions attributed to the Board itself, will play a significant role: (i) in the

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supervision and implementation of control procedures and systems over the activity of the Parent Company and the New Group also by requesting and obtaining information from the subject in charge of preparing the accounting documents as well as from the subjects responsible for the various functions concerned; (ii) in the relationships between the Supervisory Board and the Management Board, ensuring the efficient coordination of the actions of the Corporate bodies.

The Chairman of the Supervisory Board will convene – at his own initiative and, at any rate, in the cases prescribed by the law or the by-laws – and will chair the meetings of the Board itself, fixing the related agenda, also taking account of the proposals formulated by the Senior Deputy Chairman and the other Deputy Chairmen and ensuring that adequate information about the topics contained in the agenda are provided to all the members of the Supervisory Board.

Furthermore the Chairman of the Supervisory Board:

- a) attends, together with the Senior Deputy Chairman, the meetings of the Management Board with the right to instruct another member of the Supervisory Board to replace him;
- b) receives the proposals of the Management Board concerning subject-matters to be submitted to the approval of the Supervisory Board, including those concerning the strategies and general policies of the Company and of the Group, formulating proposals on this point;
- c) formulates to the Supervisory Board the proposals relevant to the auditing of the company management, with a special attention to its consistency with the strategies and general policies approved by the Supervisory Board;
- d) supervises and enables the procedures and auditing systems on the activity of the Company and of the Group, and this also by asking and receiving information from the subject in charge of drawing up the corporate accounting documents and from the subjects in charge of the different functions concerned;
- e) enables the IT tools required for monitoring the correctness and adequacy of the organisational structure, of the administrative and accounting system used by the Company and by the Group;
- f) convenes and chairs the Appointment Committee;
- g) maintains the relations with the Supervisory Authorities within and for the purposes of the auditing and supervising activity of the Supervisory Board;
- h) keeps up the required and advisable relations with the Management Board and, in particular, with its Chairman and/or Deputy Chairman and/or Managing Director;
- i) requests and receives information on specific aspects of the Company and Group management and on the general management, also in perspective;
- j) supervises, for what is within the competence of the Supervisory Board, the management of the external communication of information concerning the Company, in agreement with the Chairman and the Deputy Chairman of the Management Board and with the Managing Director; plans, after hearing the Chairman and the Deputy Chairman of the Management Board and the Managing Director, and takes care of the realisation of the cultural and charitable initiatives of the Company and of the Group, to be submitted to the Supervisory Board, with a special reference to the valorisation of the historical and artistic legacy;
- k) exercises all the other powers relevant to the carrying on of his office.

In the case of absence or impediment of the Chairman of the Supervisory Board, the Senior Deputy Chairman of the Supervisory Board fulfils his functions; in the case of absence or impediment of the

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latter, the functions are carried out jointly with the two Deputy Chairmen, or, in case of their absence or impediment, by the most senior member of the Supervisory Board in terms of office present and, seniority being equal, by the youngest.

The members elected respectively as Chairman and Senior Deputy Chairman will be those who ranked first and second in the list that obtained the majority of the votes, and/or in the only list presented, or those members thus nominated by the Shareholders' Meeting, in the event that no list was presented (article No. 45).

***Internal control, Remuneration and Appointments Committees (article No. 49 of the New By-Laws)***

The New By-Laws will provide that the Supervisory Board sets up an Internal Control Committee, a Remuneration Committee in charge of fixing the company's top management remuneration and an Appointment Committee.

At least the majority of the members of the Internal Control Committee must be chosen from among Supervisory Board Members who are registered with the Register of Auditors who have performed legal audits for a period of no less than three years. The Internal Control Committee, with the collaboration of the charged internal structures, can proceed to inspections at any time as well as exchange information with the corporate bodies of the companies of the New Group with regard to the management and control systems and to the corporate activity.

The document containing the Regulations of the Appointments Committee is one of the Attachments to the Merger Project.

***The Management Board (articles No. 30 to No. 41 of the New By-Laws)***

The Management Board shall comprise a minimum of 7 members and a maximum of 11 members nominated by the Supervisory Board on the proposal of the Appointments Committee which will first determine their number.

The members of the Management Board will remain in office for three financial years and may be re-elected. The members of the Supervisory Board cannot be appointed as members of the Management Board as long as they continue to hold that office. Furthermore it is reminded that: i) at least one of the members of the Management Board must hold the requirements of independence set forth in art. 148, third sub-paragraph, of the TUF, ii) at least the majority must have at least a three years experience in management and/or professional activities in financial and/or banking and/or insurance institutions in Italy or abroad.

The Management Board shall meet at least once a month, as well as any other time the Chairman shall deem it convenient or when requested by at least 5 members. The meetings will take place, alternately, in the city of Bergamo and the city of Brescia and, once a year in the city of Milan. In general and unless the resolution must be passed by qualified majorities, the meetings of the Management Board will be considered as being validly held if they are attended by more than half of the members in office.

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The resolutions of the Management Board will be passed by open voting, with the favourable vote of the majority of the members attending.

Nevertheless, the favourable vote of at least 8 members of the Management Board (or of all the members minus one, for the case in which the Management Board consists of 7 or 8 members) are required for the resolutions concerning:

- a) the proposal, to be submitted to the attention of the Supervisory Board for the following approval of the extraordinary Meeting, of statutory changes;
- b) total or partial transfer of the shareholdings held in the following companies: Banca Popolare Commercio e Industria S.p.A., Banca Popolare di Bergamo S.p.A., Banca Popolare di Ancona S.p.A., Banca Carime S.p.A., Centrobanca S.p.A., Banco di Brescia S.p.A. and Banca Regionale Europea S.p.A., as well as the setting up of any kind of encumbrances on their shares;
- c) determining the vote to be given in the meetings of the companies listed under b) convened for the approval of increases in share capital excluding the right of option (upon payment or for contribution in kind), issuing convertible bonds or bonds with warrant, excluding the right of option, that imply, if subscribed, the loss of control by the Company;
- d) determining the vote to be given in the meetings of the companies mentioned above under b) convened for deciding on the merger through incorporation in the Company or in other companies, their transformation, splitting, early winding-up, changes in the business purpose, name alteration or relocation of the registered office out of the municipality in which they are currently located, the transfer to third parties not forming part of the group of the banking company or of a substantial part of it ;
- e) appointing the office of member of the Board of Directors and of the Board of Auditors of the companies listed in b) , in the respect of the proposals of the Appointments Committee if provided;
- f) assignment, if considered appropriate, of one member of the board to supervise the functions of the internal control system.

Besides the powers that cannot be delegated by law, the New By-Laws (article No. 37) assign the following exclusive duties to the Management Board, although some of them will be subject to approval by the Supervisory Board:

- a) defining, upon the proposal of the Managing Director, the general programmatic and strategic policies of the Company and of the Group to be submitted to the approval of the Supervisory Board;
- b) assigning and revoking the proxies to the Managing Director; the identification of the member of the Management Board to whom the proxies must be assigned must be carried out upon the proposal of the Supervisory Board, decided in turn, subject to the designation of the Appointment Committee; if this designation has not been formulated by the Appointment Committee with the legal numbers prescribed by the relevant Regulation, the proposal of the Supervisory Board to be submitted to the Management Board shall be decided with the favourable vote of at least 17 (seventeen) members of the Supervisory Board. The revocation of the proxies is decided by the Management Board with the favourable vote of at least 8 (eight) members of the Management Board (or of all the members minus one, for the case in which the Management Board consists of 7 or 8 members), after hearing the Supervisory Board;

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- c) preparing, upon the proposal of the Managing Director, industrial and/or financial plans, as well as the budgets of the Company and of the Group to be submitted to the approval of the Supervisory Board pursuant to Art. 2409-*terdecies* of the Italian Civil Code;
  - d) the management policy of risks and internal auditing;
  - e) assigning, modifying or revoking proxies and powers as well as assigning special functions or proxies to one or more Directors;
  - f) appointing and removing the General Manager, the Joint General Manager and the members of the General Management, defining their functions and competences, as well as appointing corporate top management of the Group;
  - g) appointing the office of member of the Board of Directors and of the Board of Auditors of the companies belonging to the group, without prejudice to the preceding Art. 36, paragraph two, letter e);
  - h) acquiring and selling participations;
  - i) opening and closing branches and representative offices;
  - l) determining the organisational, administrative and accounting structure of the company, as well as, without prejudice to the exclusive competence of the Supervisory Board set forth in Article 49 of the New By-laws, setting up Committees or Commissions with advisory, preliminary, controlling or co-ordinating functions;
  - m) determining the criteria for the co-ordination and management of Group's companies, as well as the criteria for carrying out instructions issued by the Bank of Italy;
  - n) subject to the compulsory opinion of the Supervisory Board, appointing and removing the Manager in charge of drawing up the accounting documents, pursuant to Art. 154-*bis* of the TUF and determining its fee. The Manager in charge of drawing up the corporate accounting documents must have, apart from the requirements of respectability prescribed by the regulations in force for those carrying on administrative and management functions, requirements of professionalism characterised by a specific competence, from the administrative and accounting point of view, in the field of credit, finance, securities or insurance. This competence, which must be ascertained by the Management Board itself, must be acquired through work experiences in an appropriate position of responsibility for a congruous period of time and in undertakings comparable with the Company;
  - o) appointing or removing the Person in charge of the internal auditing function, as well as the persons in charge of the functions whose appointment belongs exclusively to the Management Board as provided by the legislative and regulatory provisions;
  - p) drawing up the draft financial statements and the draft consolidated financial statements;
  - q) exercising the proxy for the increases in share capital granted pursuant to art. 2443 of the Italian Civil Code, as well as issuing convertible bonds pursuant to Art. 2420-*ter* of the Italian Civil Code, subject to the authorisation of the Supervisory Board;
  - r) the duties referring to the Management Board set forth in articles 2446 and 2447 of the Italian Civil Code;
  - s) drawing up merger or splitting projects;
  - t) transactions with a significant strategic, economic and financial importance or preparing the transactions to be submitted to the authorisation of the Supervisory Board;
  - u) defining the identification criteria of the transactions with correlated parties to be reserved to one's own competence.
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The Management Board shall timely report to the Supervisory Board on the general management trend and on the most important operations, for what concerns size and characteristics, carried on by the Company and its subsidiaries and it shall in any case report on the operations in which the members of the Management Board have a self-interest on their own account or on behalf of third parties (Art. 38). The communication is made during the meetings of the Supervisory Board and in any case, at least quarterly; it may be provided also in writing.

If the Merger Project, and therefore also the by-laws of the Merging Bank attached to it, is approved by an Extraordinary General Meeting of BPU with a majority of less than one twentieth of the BPU registered shareholders with the right to vote, then according to Art. 36 of the New By-Laws and similarly to the provisions of the current BPU by-laws, the chairman of the meeting would cast the deciding vote to pass resolutions of the Management Board, in the case of a tied vote (cf. text of Art. 36 contained in the attachment - enclosure B - to the Merger Project attached to this Information Document).

***The Chairman of the Management Board (article No. 39 of the New By-Laws)***

The Chairman of the Management Board, who will act as the company's legal representative and authorised signatory, performs the tasks that are typically carried out by the Chairman of the company's governing body and which he will perform by liaising with the other statutory bodies, if necessary.

In detail, the Chairman of the Management Board:

- shall convene the Management Board, establish the agenda taking into account also the resolution proposals formulated by the Deputy Chairman and by the Managing Director, by ensuring that adequate information regarding the items on the Agenda is provided to all members;
- shall maintain the relations with the Supervisory Authorities, in agreement with the Deputy Chairman and the Managing Director;
- shall maintain the relations with the Supervisory Board and with its Chairman;
- shall see that the Supervisory Board is informed at least quarterly pursuant to the previous Article 38;
- shall maintain, in agreement with the Chairman of the Supervisory Board and with the Managing Director, the external communication of the information concerning the company;
- shall exercise all the other powers relevant to the carrying on of his office.

The Chairman of the Management Board and the Deputy Chairman of the Management Board – called to perform the Chairman function in the event that the Chairman is absent or unable to act – will be appointed by the Supervisory Board upon proposal of the Nomination Committee (article No. 46).

If the Merger Project, and therefore also the by-laws of the Merging Bank attached to it, is approved by an Extraordinary General Meeting of BPU with a majority of less than one twentieth of the BPU registered shareholders with the right to vote, then if appointments to the posts of Chairman and

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Deputy Chairman of the Management Board are not made by the Supervisory Board they will be made by the Management Board by adopting a resolution approved by an absolute majority of its members (cf. text of Art. 31 contained in the attachment - enclosure B - to the Merger Project attached to this Information Document).

***The Managing Director (articles No. 42 and No. 43 of the New By-Laws)***

The Management Board, in compliance with the provisions of the law and the by-laws, may delegate its own powers, that do not fall within its exclusive competence pursuant to the law or these By-laws, to one of its members, who acts as Managing Director, without prejudice to what is provided for cases of urgency.

The Management Board has the power to grant and revoke the powers of the Managing Director after first consulting with the Supervisory Board (Art. 37).

The Managing Director will oversee the management of the Company and the New Group, supervising the strategic coordination and management control.

The Managing Director may also be granted the following and other powers (Art. 43):

- a) supervise the business and management of the New Group;
- b) take care of the strategic co-ordination and of the business management and control of the New Group;
- c) take care of the implementation of the organisational and business structure determined by the Management Board and approved by the Supervisory Board;
- d) determine the working directives for the General Management;
- e) supervise the integration of the new Group, consulting and involving the Deputy Chairman and the Management Board;
- f) submit to the Management Board the management policies, the industrial and strategic plan, the budget and take care of their implementation by means of the General Management;
- g) propose the budgetary policy and the policies on optimisation when using and exploiting the resources and submit the draft financial statements and the periodical statements to the Management Board;
- h) propose the appointments of the corporate top management of the Group to the Management Board, in agreement with the Chairman and Deputy Chairman of the Management Board and after hearing the General Manager;
- i) promote the integrated risk control.

The Managing Director reports quarterly to the Management Board and to the Supervisory Board on operating performance and predictable developments and on the most important operations concerning the company and its subsidiaries; he also reports at least quarterly to the Management Board and at least every 60 days to the Supervisory Board on the main accounting results of the company, of the main subsidiaries and of the New Group.

***Director appointed to oversee the internal control system (article No. 43 bis of the New By-Laws)***

The Management Board may appoint one of its members to oversee the proper operation of the internal control system with the task – to be carried out in close cooperation and agreement with the

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Managing director and the General Manager – of supervising the promotion and implementation of an internal control system that is adequate for the Company and its Group in terms of efficiency and effectiveness.

***General Management (article No. 50 of the New By-Laws)***

The New By-Laws provide for the appointment, by the Management Board, of a General Manager, a Joint-general Manager as well as the appointment of one or more Deputy General Managers, in accordance with the organisation chart established by the Management Board, which will determine their powers.

The General Manager will be the head of the operating structure and the head of personnel; will oversee (unless differently indicated by the competent administrative bodies) that the resolutions passed by the Management Board and the Managing Director are carried out and will manage the day-to-day activity in line with the policies of the administrative bodies.

The General Manager will also attend the meetings of the Management Board, with a consultative vote, and is responsible for co-ordinating the operations of the company and the New Group.

The Joint General Manager helps and supports the General Manager to supervise all the functions assigned to him.

**Other amendments to the by-laws**

The Extraordinary Shareholders' Meeting of BPU will be convened, not only to approve the Merger and the changes to the by-laws that are necessary for introducing the "dualistic" system described above, but also with the aim of deciding on the adoption of a series of additional changes to the by-laws – the most significant of which will be briefly illustrated below – that are required to carry out the overall plan underlying the integration project.

***Company name (article No.1 of the New By-Laws)***

The Company will operate under the new name, Unione di Banche Italiane Società Cooperativa per Azioni.

***Company's registered office and operating offices (article No. 3 of the New By-Laws)***

The Company's registered office and operating headquarters will be based in Bergamo and Brescia. The proposed change is formulated with the aim of guaranteeing the Bank, under the new structure arising from the Merger, a balanced allocation of the central functions that take account of the functional and economic needs of the new structure, also with the aim of promoting the effective implementation of the integration process.

If the Merger Project, and therefore also the by-laws of the Merging Bank attached to it, is approved by an Extraordinary General Meeting of BPU with a majority of less than one twentieth of the Registered Shareholders of BPU with the right to vote, then according to Art. 3 of the New By-Laws and similarly to the provisions of the current BPU by-laws, the registered head office and the General Management of the Merging Bank will be in Bergamo and an operational headquarters will be formed in Brescia. On the basis of the last paragraph of article 3, these provisions could only be changed by a vote in favour of one twentieth of the registered shareholders of the Merging Bank



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with the right to vote (cf. text of Art. 3 contained in the attachment - enclosure B - to the Merger Project attached to this Information Document).

***Registered Shareholders' admission requisites (articles No. 6 and No. 9 of the New By-Laws)***

The third paragraph of article No. 6 of the by-laws currently in force will be cancelled; this article provides that in order to be admitted as a registered shareholder, the aspiring shareholder is expected to have entertained a customer relationship with the Bank or companies of the Group, and/or should be well known for their competencies in the areas in which the Bank and the Group companies operate through their network of branches. The removal of the article is recommended in relation to the proposed introduction of the new second paragraph of article No. 9 according to which, for the purpose of evaluating requisites for membership of the Company, any past relationships of those who presented an admission application to the Group companies will be taken into account, also in the light of the general criteria set forth by the Supervisory Board. The change aims at redefining the criteria and the requisites taken into consideration by the Management Board of the Bank when evaluating the admission applications submitted by aspiring shareholders.

***Convening of meetings (article No. 22, paragraph 5, of the New By-Laws)***

The New By-Laws provide that, where permitted by the law, the Shareholders' Meeting may be convened within 180 days (instead of the usual 120 days) from the accounting year end. In that case, the Management Board will highlight the reasons for the delay in the report prescribed by article no. 2428 of the Italian Civil Code. The proposed change aims at taking advantage of the opportunity allowed by paragraph 2 of article No. 2364 of the Civil Code according to which, in the case of companies that are required to prepare consolidated financial statements or when needs associated with the structure and the object of the company require it, the notice to convene the Ordinary Shareholders' Meeting may be extended from 120 to 180 days from the accounting year end.

***Venue of Shareholders' Meetings (article No. 23 of the New By-Laws)***

The Shareholders' Meetings will be held, alternately, in the city or province of Bergamo and in the city or province of Brescia. The revised version of the article under review is designed to facilitate, according to equilibrium and equal opportunity criteria, attendance at meetings by both members of the Corporate body of the original two banks taking part in the integration project. This is also in compliance with the provision of article No. 13.1 of the Self-regulation Code of BPU, according to which *"The directors encourage and facilitate the greatest attendance by Registered Shareholders at Meetings"*.

***Quorum required for the second call of the Extraordinary Shareholders' Meeting (article No. 27 of the New By-Laws)***

The New By-Laws provide that, on second call, the Extraordinary Shareholders' Meeting shall be validly held with the attendance, either in person or by proxy, of at least 1/400 (one fourhundredth) of the Registered Shareholders entitled to vote (at present a quorum of 1/200 of the Registered Shareholders entitled to vote is required). The purpose of the proposed change is to adjust the percentage of registered shareholders required for the Extraordinary Shareholders' Meeting to be validly held on second call to the new entity of the corporate structure of the New Parent Bank, also

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taking account of the average attendance by Registered Shareholders at the meetings of BPU and BLP in the last decade.

In fact, it is worth noting that, following the completion of the proposed Merger by incorporation of BPL into BPU, the number of registered shareholders of the New Parent Bank, considering the prescription of Transitional Rule I introduced by this by-laws proposal, would increase from approximately 60,000 to approximately 100,000. Moreover, the provision is in line with the requirements of article No. 2538, paragraph 5, of the Italian Civil Code, applicable to 'popular' cooperative banks by virtue of the provisions of article No. 150-bis of the TUB, which states that "*The quorums required for meetings to be validly held and for resolutions to be validly passed are established by the Certificate of Incorporation and are calculated based on the number of votes to which the shareholders are entitled*". The proposal is also in line with the provisions of article No. 13.5 of the Self-regulation Code of BPU which states that "*In the event of major changes in the number of Registered Shareholders, the Board of Directors shall evaluate the opportunity of proposing changes to the Certificate of Incorporation, with regard to the percentages set for implementing actions and exercising the prerogatives that safeguard minorities*".

***Higher quorums for the change or removal of certain clauses of the By-laws (article No. 28, last paragraph, of the New By-Laws)***

The removal of some qualified resolution quorums is recommended in order to make the by-laws more flexible and to allow the company to pursue future opportunities associated with legal provisions and potential integration processes. More specifically, the intention is to repeal provisions which state that the transformation of the company and the transfer of the registered headquarters must be approved with a vote in favour of at least one twentieth of all the registered shareholders with the right to vote.

Differently, with regard to some of the provisions considered to be fundamental for the success of the integration process, specific higher resolution quorums would be introduced (one twentieth of all the registered shareholders with the right to vote, which account for at least 20% of the subscribed and paid up share capital as at ninety days prior to the date of the Shareholders' Meeting) to abolish or make changes to the by-laws related to the setting up and regulation, within the Supervisory Board, of the Appointments Committee, a body that is already envisaged by BPU's current By-laws. In fact, this body is considered to be fundamental for ensuring the application of the governance rules to the proposals regarding the composition of the Corporate bodies of the New Parent Bank, which aim at ensuring that its members are both from BPU and BLP in accordance with the equal partnership principle set out in article No.1 of this by-laws proposal.

Nevertheless, for the resolutions to be taken upon request of the Authority of Credit Surveillance or in relation to modifications of the by laws or legislative modifications, the Meeting, both ordinary and extraordinary, takes resolutions with the absolute majority of votes and not with the previously mentioned larger quorums; in these cases, for the resolutions taken by the Supervisory Board, the resolutions shall be passed by an absolute majority of those present.

***Manager in charge of preparing accounting documents (article No. 37, paragraph 2, letter n, of the New By-Laws)***

In implementation of article No. 154 bis of the TUF, the Management Board, subject to mandatory consultation with the Supervisory Board, will appoint a Manager in charge of preparing the

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company's accounting documents. The Manager responsible for preparing the company's accounting documents is expected to possess the requisites of respectability prescribed by current legal regulations for those who perform administrative and management functions, of professionalism characterised by specific competence, from the administrative and accounting point of view, in the credit, financial, securities or insurance field. Such competence, to be verified by the Management Board, should have been gained through work experience in posts requiring a similar level of responsibility for a significant period of time and in comparable companies.

### ***Obligations of bank exponents***

A proposal has been made to remove article No. 41 dealing with the obligations of company's exponents towards the Company or other Group companies. The proposal to abolish article no. 41 currently in force is driven by the opportunity to expunge a provision from the by-laws which almost literally reproduces a precise legal provision (article no. 136 of the TUB), and as such is in force regardless of the need for a specific reference in the by-laws.

### ***Profits and Reserves (article No. 52 of the New By-Laws)***

The New By-Laws state that the net profit recorded in the financial statements (after deducting the legal reserve to the minimum extent provided for by the law and any amounts decided by the Meeting for setting up or increasing the extraordinary or other reserves, according to precautionary rules) is distributed as follows, for the distributable part:

- 2.75% for social securities and allowances for the benefit of personnel to be used first of all for the needs of the corporate social security and assistance institutions; any rest must be disbursed at the discretion of the Management Board;
- 1.5% for initiatives and institutions with charitable, humanitarian, social, cultural and artistic purposes, to be disbursed at the discretion of the Management Board, in compliance with the lines decided by the Supervisory Board, with a special attention to the territories of reference of the Group;
- the rest, as a dividend to be assigned to the shares, according to the resolution of the Meeting, which decides also on the allocation of any surplus.

The New By-Laws also state that reserves formed from profits and valuations as a result of applying the international accounting principles cannot be distributed to shareholders in the cases provided for by law.

## **2.1.3. Forecasts of the composition of the new registered shareholders and of the situation concerning the control of the Merging Bank following the Merger**

### **Changes in the composition of the Merging Bank *post* Merger**

On the basis of the Exchange Ratio, approximately 54% of the *post* Merger share capital will be held by former BPU shareholders and approximately 46% will be held by former BLP shareholders. The percentages were calculated without taking into consideration the possible effects of withdrawals by BLP shareholders.

As already mentioned, as of the date on which the Merger becomes effective, the shareholders of BLP will become registered shareholders of the Merging Bank, which will maintain its legal status as a

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‘popular’ co-operative bank and will therefore become subject to the legislation governing ‘popular’ co-operative banks and, more specifically, to the provisions contained in Art. 30 of the TUB.

As already stated, that article specifies a limit on the ownership of shares, which may amount to 0.50% del share capital (Art. 30, paragraph two). That limit does not apply to collective investment companies for which the regulatory limits specific to each of them apply (Art. 30, paragraph three).

As soon as the Merging Bank discovers that the 0.50% limit has been exceeded it reports the violation to the owner. The shares over the limit must be sold within one year of being reported; once that period has elapsed, the relative economic rights maturing up to the time of the sale of the excess shares are acquired by the Merging Bank.

As concerns the control structure of the Merging Bank *post* Merger, the first paragraph of article 30, of the TUB, states that each registered shareholder has the right to one vote in Shareholders’ Meetings, no matter how many shares are owned.

A list is given below of those BLP shareholders who, on the basis of the communications made, hold shares amounting to more than 2% of the share capital of BLP, with an indication alongside of the percentage of the shares that they would come to hold in the New Parent Bank, on the basis of the Exchange Ratio and assuming that those shareholders do not change before the date on which the Merger becomes effective:

	% S. C. Banca Lombarda	% S. C. New Parent Bank
CARLO TASSARA S.P.A.	4.95	2.28
FONDAZIONE CASSA DI RISPARMIO DI CUNEO	4.93	2.27
FONDAZIONE BANCA DEL MONTE DI LOMBARDIA	4.89	2.25
SOLOFID SPA	3.43(*)	1.58
SOCIETA' CATTOLICA DI ASSICURAZIONE SCRL	2.69	1.24
LA SCUOLA SPA	2.10	0.97

(\*) The shares are held in trust. None of the beneficiaries of the trust possesses, either directly or indirectly, a number of shares amounting to 2% of the share capital.

#### **Agreements between the registered shareholders of the New Parent Bank**

At the date of publishing this Information Document, no communications had been received concerning the wishes of the registered shareholders of the New Parent Bank to stipulate one for more shareholders’ agreements, and in particular with regard to the intentions of the shareholders of BLP to reorganise their current shareholders’ agreement.

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## **2.1.4. The effects of the Merger on any shareholders' agreements there may be concerning the shares of the companies involved in the Merger**

### **Agreement between members of the board of BPU**

On 1<sup>st</sup> August 2003 a common agreement was signed between members of the Board of Directors of BPU originating from the former Banca Popolare Commercio e Industria S.C.r.l., known as the Committee of Eight.

That agreement, which took account of the objectives of the merger transaction between the original banks, was based on adequate representation of the original companies within BPU. This committee, while respecting the exclusive management responsibility of the governing body and the relative governance rules, formed a preliminary system of consultation between its members concerning the designations and/or expressions of approval for which the Appointments Committee of BPU is responsible and putting the decisions to the members originating from the former Banca Popolare Commercio e Industria S.C.r.l.. The purpose of the agreement was to allow collegial assessment of the candidatures and the acquisition of information on which to judge from all the members of the Board of Directors of BPU originating from the former Banca Popolare Commercio e Industria S.C.r.l..

The agreement places emphasis on the moral and not the legal value of the commitment made by the parties to it. The commitment is for three years with automatic renewal on expiry unless notice to withdraw is given by one or more parties to it at least 6 months prior to the date of expiry.

On 23<sup>rd</sup> January 2007, the Chairman of the Committee of Eight announced that it will cease to exist with effect as of the approval by shareholders of the resolution to merge BLP into BPU.

### **BLP shareholders' agreement**

The *Patto di sindacato Banca Lombarda* (Banca Lombarda shareholders' agreement) is currently in force and concerns a block of shares and the joint exercise of voting rights limited to Extraordinary General Meetings of BLP called upon to vote on amendments to the corporate by-laws.

At the date of publishing this Information Document 305 shareholders were party to the agreement committing shares accounting for 46.88% of the current share capital to the BLP shareholder pact.

On 13<sup>th</sup> November 2006 the members of that pact expressed unanimous appreciation for the project to merge BPU and BLP.

More specifically, the parties to the agreement informed BLP that with the vote in favour of 100% of the shares represented in the pact they had decided:

- to vote in favour of the Merger in the Shareholders' Meetings, consequently giving advance notice of their desire not to exercise their right of withdrawal;
- to approve the governance rules of the New Parent Bank and the New Group;
- to neither initiate nor take part in any other negotiations concerning merger hypotheses as alternatives to that with BPU contained in the Memorandum of Intent.

At the date of publishing this Information Document no communications had been received concerning any intention of the parties to the BLP shareholders' pact to reformulate the agreement.

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BLP has learned that parties to that shareholders' agreement are considering the merits of forming an association of BLP shareholders to preserve, in the context of the Merger, the local character of their bank, its contacts with the local economy and the business community of the province of Brescia and local areas in northern Italy. The new association will also seek to strengthen unity and co-operation between its members in order to favour the development of the New Parent Bank in line with the principles which have always guided the activities of BLP itself.

## **2.2. THE REASONS FOR AND AIMS OF THE MERGER**

### **2.2.1. The reasons for the merger with particular regard to operating objectives**

Over the last decade the banking industry has experienced an increase in competitive pressure. This has been partly the result of an intense process of consolidation on both domestic and international markets and has been driven by developments such as the globalisation and liberalisation of markets, the harmonisation of regulation in Europe, technological and financial innovation, growth in capital markets and a more open Italian market with the entrance of players from abroad.

It is therefore important for medium-sized banks to set merger processes into motion in order to achieve the objective of strengthening competition in line with current developments, while at the same time preserving the specificity of each entity at local level in terms of both expertise and links with individual local realities.

It is in this context that the project to merge the BPU Group and the BLP Group will allow the New Group that is to emerge from the merger to take its place among the top players at national level.

The merger project, implemented with a view to total sharing and co-operation between the BPU Group and the BLP Group will be performed, as has been said, by merging BLP into BPU.

The Merger will therefore lead to the integration of BPU and BLP with the formation of a single unifying listed company able to formulate strategic policies and to exercise control over all the units and companies in the New Group, in which the network banks will nevertheless maintain their operational autonomy and presence in their traditional markets.

The integration between the BPU Group and the BLP Group, both of which are already distinguished by their solid foundations, will be favoured by the strong affinities between the current organisational models of the two entities. The New Group will adopt a poly-functional, federal and integrated organizational model where several operationally autonomous banking, financial and insurance companies will be called to execute a single entrepreneurial plan by developing strong complementary relationships under the guidance and direction of the Parent Bank which will be ultimately responsible for defining strategy, promoting integration and controls.

BPU and BLP believe that the integration of the two groups is the best solution to achieve common value-enhancing objectives by strengthening competition in the reference markets, maximising economies of scale and scope, increasing customer service activities and enhancing the value of the

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respective 'best practice' areas; the transaction is also aimed at safeguarding the autonomy and independence of the banks as well as their contiguity in terms of territory and reference customers.

The BPU Group and the BLP Group intend to pursue such objectives by maintaining and enhancing the strong territorial roots as well as the strength of their respective brands, by combining these elements with greater efficiency by the respective structures and by sharing a single industrial plan characterised by innovation and market-orientation, as well as a corporate governance system, firmly based on a dualistic model, that allows both solid unified management and governance and the representation of the original elements deriving from BPU and BLP, within the business combination, in accordance with the equal partnership principle.

This equal partnership principle is especially reflected in the composition of the governing bodies of the New Parent Bank, as well as in the principle of alternating the top representatives of the corporate bodies of the New Parent Bank with executives of either bank, and their alternate management over time yet safeguarding the higher interest of the company.

The New Group will distinguish itself for significant aggregate figures<sup>3</sup>:

- market capitalisation at 18<sup>th</sup> January 2007 of over 13.5 billion euro;
- a network of approximately 1,970 branches (fourth network in Italy with a domestic market share of around 6.3%);
- approximately 22,000 employees;
- more than 4 million customers;
- direct funding from customers of approximately 82 billion euro (fifth largest bank in Italy and ranking first among the co-operative banks);
- loans to customers of approximately 80 billion euro (ranking fifth in Italy and first among the co-operative banks);
- assets under management of approximately 59 billion euro (ranking third in Italy and first among the co-operative banks), of which 23 billion euro relate to private banking activities.
- total assets of approximately 112 billion euro (sixth in Italy and ranking second among co-operative banks).

The Merger is strategically important for the BPU Group and the BLP Group also due to the strong complementarity of the distribution structures, the product companies and the customers.

In terms of distribution structure the New Group would display:

- an extremely strong presence in the wealthiest regions of the Country: Lombardy (over 930 branches with a 15.4% market share), Piedmont (approximately 220 branches with an 8.6% market share) and the Marches (approximately 110 branches with a 9.8% market share);
- leadership in the reference provinces with a market share > 25% : Bergamo (approximately 180 branches with a 26.5% market share), Brescia (approximately 250 branches with a 29.5% market share), Varese (approximately 130 branches with a 29.6% market share) and Cuneo (approximately 130 branches with a 25.9% market share);

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<sup>3</sup> Balance sheet data as at 30<sup>th</sup> September, 2006

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- a market share greater than 10% in 21 provinces: besides the 4 provinces indicated above, Milan (the 10.1% share of the New Group is particularly significant in this market), Pavia, Alessandria, Ancona, Macerata, Viterbo, Crotone, Bari, Cosenza, Reggio Calabria, Matera, Potenza, Catanzaro, Vibo Valentia, Brindisi, Foggia and Taranto<sup>4</sup>;
  - no significant territorial overlapping.

### **2.2.2. Information on the programmes drawn up by the Merging Bank with particular regard to business prospects**

The main integration guidelines may be summarised as follows:

- setting up of a New Group capable of competing with top national operators and equipped with development potentialities at international level, characterised by:
  - co-operative banking status;
  - a federal model capable of exploiting the distribution strength of the network banks, safeguarding the respective brand identities and territorial roots but also capable of acting as an attraction pole for other credit institutions;
  - strong emphasis on the development of human resources and the skills and competencies of each of the two predecessor Groups;
- focus on customers' requirements and needs through:
  - service models specifically developed for each segment;
  - constant offer innovation;
  - intensive marketing efforts directed at customers combined with top-quality IT systems and personnel training;
  - initiatives aimed at providing support to customers abroad;
- exploiting the product factories of the two predecessor groups, also through partnerships with major international operators, taking the opportunity to:
  - gain access to a broader customer base that is more widely distributed across the national territory;
  - internalise the margins in those sectors where one of the two groups is not yet present (Factoring for BPU, Corporate & Investment Banking, *Cessione del Quinto* [loans secured by one-fifth of salary] and Non-life *banc assurance* for BLP);
  - provide customers with a service level and an offer quality that distinguish the New Group on the market;
- rapid achievement of economies of scale, also thanks to the proven track record of the management of the two groups in handling integration processes, in order to:
  - maximise the synergy potential of the Merger;
  - improve the overall cost income ratio of the New Group and, in the final analysis, increase its profitability;
- integrated control over financial, credit and operational risks.

#### **Business model**

As already stated, the business model for the New Group is that of a polyfunctional, federal and integrated banking group. The New Group will implement a unifying business model which will

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<sup>4</sup> The 10% market share threshold is typically considered relevant in order to take advantage of an increase in the amount of deposits that is more than proportional to the territorial presence in terms of branches.

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preserve the identity of brand names and local banks through strategic control by the New Parent Bank of independent entities, which will take the form of network banks and product companies.

The product companies of the two groups will be integrated and rationalised to exploit their specialist expertise to the maximum and to benefit from potential economies of scale and scope. The New Group will also create a high degree of operational and IT integration in order to fully benefit from the advantages generated by the Merger.

The New Parent Bank will define communication policies designed to co-ordinate the use of the New Group's brand name in a manner that will create synergies with the brand names of the network banks and/or product companies.

### **The New Parent Bank**

The New Parent Bank, a listed bank with 'popular' co-operative status, will have the following mission:

- the management, co-ordination and control of the New Group. The New Parent Bank identifies the strategic objectives of the New Group, determines their common business model principally through the Industrial plan and the budget and, together with the senior management of the companies in the New Group, defines the strategic development objectives of those companies. The New Parent Bank also verifies the setting of strategic guidelines and policies and supervises the different components of risk that originate in the different business areas in which the New Group operates;
- it controls business functions. The New Parent Bank supports the activities of network banks and product companies in their core business with supervision of both markets and customer segments. It ensures that business initiatives and commercial policies are consistent, co-ordinates the development and management of the range of products and services, manages group finances centrally and supervises the lending policies of the New Group;
- the provision, either directly or through subsidiaries, of business support services, with the aim of facilitating business growth and providing effective customer service by optimising operating costs through economies of scale and ensuring that the level of service is up to the highest standards in the industry.

### **Network Banks<sup>5</sup>**

A local presence guarantees more accurate interpretation of trends on the ground and faster decision-making, by encouraging and improving customer fidelity and the management of credit risk. As a consequence it is fundamental to enhance the identities and brand names of individual local banks.

The network banks operate on their original local markets with the objective of consolidating and broadening customer relations and maximising the economic value and the quality of the services they provide at local level.

The network banks share the same organisational architecture, which allow specific different service models to be employed for each customer segment (retail, corporate and private).

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<sup>5</sup> Data as at 30<sup>th</sup> September 2006.

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The network banks will have the use of the same services and instruments (e.g. CRM) made available to them by the New Parent Bank. The investments made in multi-channel banking services by each of the two groups may also be optimised at the level of the New Group.

As concerns financial advisors, BPU Sim S.p.A. (450 financial advisors approx., 40 permanent staff and assets under management of approximately 1.7 billion euro) and BL Private Investment S.p.A. (570 financial advisors approx., 25 private bankers, 100 permanent staff and assets under management of approximately 3.6 billion euro) may merge into a single entity.

### **Product Companies<sup>6</sup>**

The mission of the product companies will be to optimise the quality, the breadth of the range and the value for money of their products and services, concentrating and rationalising the different specialist expertise existing in the New Group. The integration of the two groups does in fact present great potential for the product companies, because of the existence of excellence centres specialising in different sectors.

The following rationalisations could be implemented in the light of existing opportunities:

- **Asset Management:** the success of BPU's strategic alliance with Prudential will be exploited at the level of the New Group. BPU Pramerica (90 employees approx., 23.7 billion euro of insurance products under management and a net profit of 33 million euro, with 70% of commissions feeding back to network banks) could be merged with Capitalgest and Grifogest (a total of approximately 100 employees, 18.5 billion euro of assets under management and a net profit of approximately 4 million euro, with approximately 90% of commissions feeding back to network banks);
- **Leasing:** SBS Leasing (175 employees approx, 3.6 billion of leased assets, of which 0.9 billion during the first nine months of 2006 and net profit of 11 million euro) and BPU Esaleasing (130 employees approx., 3.3 billion of leased assets, of which approximately 750 million in the first nine months of 2006, and a net profit of 13 million euro) could be merged to create the fourth largest operator in the sector in Italy;
- **consumer credit:** the consumer credit business of the New Group could be integrated into one company resulting from the merger of SILF (115 employees approx., 1.2 billion of loans and a net profit of 4 million euro, with a strong focus on special purpose lending) and B@nca 24-7 (70 employees approx., 2.4 billion euro of loans in terms of stock, 720 million euro of new loans granted in the first nine months of 2006 and a net profit of 10 million euro, with the main focus on mortgages, personal loans, *cessione del quinto* [loans secured by one fifth of salary] and credit cards), to create the fourth largest operator in the sector in Italy. The new company could form a strategic partnership, in line with the strategies defined by both groups, with a major operator in the sector from abroad.

The New Group could also exploit on a broader scale the expertise currently existing in the following product companies currently present in only one of the two groups:

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<sup>6</sup> Data as at 30<sup>th</sup> September 2006.

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- Centrobanca (300 employees approx., 5.6 billion euro of loans to customers, 145 million euro of operating income and a net profit of 70 million euro), to develop corporate and investment banking business, even by means of a strategic partnership with a major operator in the sector.
  - CBI Factor (150 employees approx., 1.6 billion euro of loans and a net profit of 10 million euro), for the development of factoring activities;
  - BPU Assicurazioni (190 employees approx., 180 million euro of premiums and a net profit of approximately 1 million euro), for the development of non life business, extended to include credit protection insurance, even by means of a strategic partnership with a major operator in the sector.

The two groups currently have the following partnerships existing in the life *banc assurance* sector:

- BPU with Aviva (Aviva Vita – 50% BPU and 50% Aviva Group – with approximately 2 billion of technical reserves, 545 million euro of premiums and a net profit of 5 million euro);
- BLP with Cattolica (Lombarda Vita, with approximately 4 billion euro of technical reserves, 1 billion euro of premiums and a net profit of 12.6 million euro).

There is also BPU Assicurazioni Vita (100% BPU) in operation with approximately 2.7 billion euro of technical reserves, 235 million euro of premiums and a net profit of approximately 7 million euro.

The possibility of integrating the insurance activities listed above must be assessed in the light of the existing agreements. If this is not possible, the existing partnerships relating to the network banks of each of the two groups will be maintained.

## **2.3 DOCUMENTS AVAILABLE TO THE PUBLIC**

The documentation required by Art. 2501-*septies*, No. 1 and 3 of the Italian Civil Code and also this Information Document is available at the offices of the companies participating in the Merger and at Borsa Italiana S.p.A. – No. 6, Piazza Affari, Milan. The individual company and consolidated financial reports for the years 2003, 2004 and 2005 with the reports of the Directors, the Statutory Auditors and the Independent Auditors are also available at the offices of the companies participating in the Merger.

All the above documentation is also available at the web sites of BPU ([www.bpubanca.it](http://www.bpubanca.it)) and BLP ([www.bancalombarda.it](http://www.bancalombarda.it)).

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### 3. SIGNIFICANT EFFECTS OF THE MERGER<sup>7</sup>

#### 3.1 SIGNIFICANT EFFECTS OF THE MERGER ON KEY FACTORS AFFECTING AND CHARACTERISING THE ACTIVITIES AND TYPE OF BUSINESS OF THE MERGING BANK

The Merger does not involve any changes in the principal type of business carried on by the two groups. As already mentioned the project to merge the BPU Group and the BLP Group will allow the New Group to take its place among the top players at national level.

For purely illustrative purposes, on the basis of benchmark analyses to be confirmed upon preparation of the Integration Industrial Plan once the Merger has been approved by the Shareholders' Meetings of the two Banks, the New Group (target figures) is prudentially expected to generate synergies before tax of approximately 365 million euro each year, of which approximately 225 million euro from cost cutting (equal to 9.1% of the costs incurred by the two Groups in 2005) and approximately 140 million euro from higher revenues (equal to 3.4% of the revenue registered by the two groups in 2005). The New Group is expected to become fully operational by 2010 and more than 90% of the synergies should be achieved by 2009.

The Merger will allow the new Group to benefit from synergies resulting from:

- the optimisation of the staffing levels in various infrastructural areas (central structures, IT, back office, product companies, etc.);
- cuts in administrative costs;
- centralised management of purchases, benefiting from improved negotiating ability;
- uniform application of the best practices applied by each Group (in terms of both cost and revenues);
- better exploitation of specialised areas (e.g. corporate and investment banking, non-life insurance, factoring).

Assuming that the New Parent Bank starts its operations within the first six months of 2007, the synergies are likely to be obtained in line with the time schedule included in table below.

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<sup>7</sup> This section contains estimates and forecast calculations concerning BPU and BLP on their combined operations on completion of the merger. This information of an indicative nature does not constitute definite fact and it includes projections and financial estimates and the relative basic assumptions, declarations concerning plans, objectives and expectations in relation to operations, future products and services and the relative forecasts concerning capital and operational performance in future years. Forecasts and estimated data are generally identified by expressions such as “it is forecast”, “it is considered”, it is possible, “it is felt”, etc.. Although the management of BPU and of BLP consider the expectations contained in those forecasts and estimates to be reasonable, investors and the holders of shares in BPU and in BLP are advised that the forecasts and estimates are subject to risks which are often difficult to predict and that are generally beyond the control of BPU and BLP. They are risks which could lead to results and developments that are substantially different from those explicitly or implicitly described or calculated in the forecasts and estimates in question. These risks and uncertainties include the aspects discussed or identified in the public documents sent to the CONSOB (Italian securities market authority) by BPU and BLP. Except for those cases specified in the laws applicable, neither BPU, nor BLP assume any obligation to update those estimates and forecasts.

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**Table 1. Expected timing of synergies achievement** (target figures)

Millions of euro	2007E	2008E	2009E	2010E
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>

Potential synergies arising from the following have not yet been quantified:

- rationalisation of the distribution network;
- improved management of credit and operating risks;
- easier access to the capital market;
- strengthening of the presence abroad to provide support to customers.

Integration costs have been prudentially estimated at 380 million euro, of which 360 million euro will be expensed in 2007 and 20 million euro will increase the amount of goodwill being directly related to the business combination. The potential value creation therefore will be over 2.3 billion euro after integration costs.

The integration of the two Groups will allow the achievement of cost synergies totalling 225 million euro:

- synergies relating to personnel costs are estimated at 90 million euro and will arise from a reduction of approximately 1,300 staff. Such efficiency levels will derive mainly from:
  - resorting to voluntary redundancy/early retirement incentives (for approximately 900 staff)
  - partial failure to replace natural turnover (estimated at total of approximately 400 staff);
- cost synergies associated with other administrative costs are estimated at 135 million euro, around 17% of the administrative costs of the two groups, in line with internal and prudential experiences vis-à-vis the market benchmark as they reflect the efficiency level of the two groups;

The main expenditure synergies will be achieved by:

- unifying the IT platform: unifying the telecommunication network and the HW equipment and rationalising the software of the banking and product companies' IT systems;
- rationalising the info providers;
- centralising the purchasing function by optimising sourcing policies and obtaining better purchasing terms for volumes achieved;
- rationalising spaces and optimising logistics;
- optimising management, consulting and marketing costs;
- reducing administration costs as a result of the reduction in staff;

The synergies that are expected to be achieved by 2010, when the merged entity is fully operational, amount to approximately 140 million euro (80 million euro by exploiting potential synergies at segment/product level and 60 million euro by improving the commercial production of the network):

- potential segment/product synergies include:
  - development of medium-sized enterprises, thanks to the increase in size that is expected to foster the development of traditional and advanced credit business (structured financing) and facilitate the acquisition of specialist competencies;

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- assets under management, by exploiting the opportunity arising from the alliance with Pramerica with a broader customer base;
  - consumer credit, thanks to a more competitive and larger entity as well as a wider range of products distributed through the network;
  - non-life *banc assurance* through the distribution of BPU Assicurazioni products on BLP's network and a wider range of products;
  - leasing, thanks to both a more competitive new entity and the synergies resulting from Centrobanca's offer;
  - factoring, as a result of distributing CBI Factor products on the BPU network;
- improvement in commercial productivity is possible by sharing commercial models, supporting tools (CRM), training initiatives, etc..

Among other things, the Merger will have interesting effects on the business relationships with SMEs. The integration plan will emphasise the competencies of Centrobanca and of the leasing and factoring companies of the New Group, thus fostering the development of support services for medium enterprises to sustain their growth and internationalisation process, also through the creation of new competence areas in structured financing and capital transactions.

As already stated, integration costs have been prudentially estimated at 380 million euro, of which 360 million euro will be expensed in 2007 and 20 million euro will increase the amount of goodwill being directly related to the business combination. The expensed costs amounting to 360 million euro are mainly due to excess of staff and system migration processes/initiatives:

- personnel (210 million euro): handling excess of staff through voluntary redundancy and/or early retirement incentives and access to the solidarity fund and adequate training and professional retraining programmes;
- IT (120 million euro): integration of IT systems (HW, SW, logistics, training, data migration, etc);
- merger costs (30 million euro): managing the conversion programme and all necessary corporate operations

The main financial objectives of the New Group (target figures), taking account of the stand-alone Industrial Plans of the two predecessor Groups and the synergies arising from the Merger are:

- cost/income lower than 45% in 2009;
- net profit of more than 1.4 billion euro in 2009;
- ROE<sup>8</sup> greater than 17% in 2009;
- dividend policy of the New Parent Bank not lower than BPU's current one.

In line with the procedures employed for the preparing the pro-forma consolidated data contained in Section 5, amortisation and depreciation was not calculated on the possible allocation under finite life tangible and intangible assets of the difference between the present value of the BPU shares that will be issued at the service of the Merger and the consolidated equity of the BLP Group.

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<sup>8</sup> After deducting the goodwill generated by the Merger

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### **The main assumptions of the forecasts given**

At the date of publishing this Information Document, no Industrial Plan had yet been drawn up which takes account of the integration of the two entities. Nevertheless some quantitative estimates have been made on the basis of the financial objectives for the period to the end of the year 2009.

The objectives have been estimated using the following method:

- the use of the 2006-2008 Industrial Plans for BPU and BLP already approved by the respective boards of directors, presented to markets on 14<sup>th</sup> December 2005 and 21<sup>st</sup> March 2006 respectively and available on the web sites of the two banks;
- inertial projections of the BPU and BLP stand alone Industrial Plans currently in progress until 2009, drawn up by the managements of the two banks;
- an estimate of the revenue and cost synergies to 2009 resulting from the integration, which are additional to the BPU and BLP stand alone projections, drawn up jointly by the managements of the two banks and approved by the respective boards of directors;
- an estimate of the integration costs resulting from the merger, considered instrumental to achieving synergies, drawn up jointly by the managements of the two banks and approved by the respective boards of directors;

At the end of 2005 and at the beginning of 2006, the two groups drew up their respective three-year Industrial Plans which, by leveraging on the integration and rationalisation processes carried to completion in previous years were aimed at significant growth in terms of both business volumes and operating results and accompanied by attentive policies for risk management and monitoring asset quality.

The new projections of the two stand alone groups were formulated on the basis of the targets contained in the respective plans and by extending those forecasts on an inertial basis to 2009. Those plans were drawn up using accounting principles that are basically the same as those used for preparing the consolidated financial statements as at 31<sup>st</sup> December 2005 and in compliance with the IFRS adopted by the European Union.

The basic assumptions used for the two stand alone industrial plans are summarised below.

For BPU the 2006/2008 Industrial Plan is an update of the 2005-2007 Industrial Plan that was drawn up:

- taking account of the completion of the integration phase, which allowed the BPU Group to possess: a single, efficient and constantly evolving IT system, which had already been extended to all BPU Group branches at the end of 2004; a standardised commercial structure, divided into divisions and focused by customer segment in all its network banks; and a centralised organisation and control model capable of supporting growth activity and risk monitoring;
- on the basis of the positive results achieved in 2005;
- with a view to developing the most attractive business areas.

The update to the Industrial plan for the three year period 2006-2008 is based on guidelines for growth, which involve the optimisation of the BPU Group's operational support functions (IT and human resources), enhancement of the value of the commercial platform, which will reach its full potential in

2007, and greater value from existing strategic partnerships and those currently being promoted in the product companies of the BPU Group.

The targets for 2008 are profit of more than 750 million euro, a cost/income ratio of 50.5%, ROE of greater than 15% and a core tier 1 of greater than 7%.

The macro-economic variables on which the BPU 2006-2008 Industrial Plan is based are given below.

<b>BPU</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
GDP (Italy)	0.7%	1.4%	1.3%
Reference interest rate	2.5%	3.3%	3.3%
Lending	5.1%	5.0%	4.6%
- <i>short term</i>	0.4%	1.4%	1.7%
- <i>medium to long term</i>	7.9%	7.0%	6.1%

Sources: Prometeia: Forecast Report October 2005, Forecast of banking financial reports November 2005. The reference rates were calculated by BPU on the three month Euribor data included in the Prometeia Forecast Report, October 2005.

The target set by BLP in its 2006/2008 plan is to significantly increase profitability and to further improve efficiency indicators. The levers to be used to achieve the financial and operating results targeted required intervention:

- on the revenues side: to increase the value of assets in areas of activity with strong potential for growth and raising the share of wallet in high value added products; achieving a more efficient allocation of capital by changing the lending mix with repositioning on small to medium sized enterprises and on ‘small economic operators’;
- on the cost side: to maximise staff efficiency, without, however, sacrificing selective commercial and geographical expansion policies;
- on the organisational side: to rationalise the corporate structure of the BLP Group, encouraging growth in business as a whole and investing in innovation.

The targets for 2008 are profit of more than 390 million euro, a cost/income ratio of 47.5%, ROE of greater than 14% and a core tier 1 greater than 6%.

The macro-economic variables on which the BLP 2006-2008 Industrial Plan is based are given below.

<b>BLP</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
GDP (Italy)	1.0%	1.4%	1.3%
Reference interest rate	2.3%	2.8%	3.3%
Lending	6.0%	5.5%	5.5%
- <i>short term</i>	1.3%	2.0%	2.1%
- <i>medium to long term</i>	8.7%	7.3%	6.5%

Sources: for the macro-economic context and the economic policies: ABI (Italian banking association) Financial Outlook, Forecast Report, by the study and research centre of the ABI, December 2005; Prometeia, Forecast Report, December 2005; for the banking operating scenario: the report “Forecast of banking financial reports”, Prometeia, November 2005; Interest Rate forecasts, drawn up by Prometeia, December 2005.



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The tax effects for both plans were calculated by applying different tax rates for the two groups on the basis of past experience of the actual tax burden for each Group as reflected in the long term plans approved by the respective boards of directors of the two groups.

**Report by the firm of auditors on the forecast data.**

The auditing firm KPMG S.p.A. issued a report on its audit of the figures and estimates reported in this section. That report is attached to this Information Document.

**3.2 POSSIBLE IMPLICATIONS OF THE MERGER ON STRATEGIC GUIDELINES CONCERNING COMMERCIAL, FINANCIAL AND CENTRALISED SERVICE PROVISION ARRANGEMENTS BETWEEN GROUP COMPANIES**

The Merger will not produce significant changes with regard to commercial, financial and centralised service provision arrangements between companies in the New Group.

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## 4. ECONOMIC, CAPITAL AND FINANCIAL DATA ON THE MERGED BANK

This section contains the income statement and balance sheet figures for the BLP Group for the financial years ended 31<sup>st</sup> December 2005 and 2004 and for the first halves of 2006 and 2005. The comments must be read together with the financial statements and the notes to the accounts for the financial years presented. Those financial statements subjected to a full audit for the financial years 2005 and 2004 and to a limited audit for the half year figures by Reconta Ernst & Young S.p.A. are available at the registered headquarters of BLP, at Borsa Italiana S.p.A. and at the web site of BLP [www.bancalombarda.it](http://www.bancalombarda.it).

### 4.1 THE CONSOLIDATED FINANCIAL STATEMENTS OF THE MERGED BANK FOR THE FINANCIAL YEARS 2004 AND 2005 AND THE RELATIVE EXPLANATORY NOTES

The consolidated financial statements for the year ended 31<sup>st</sup> December 2005 were prepared in compliance with the accounting standards introduced by European Regulation No. 1606 of 19<sup>th</sup> July 2002, which disciplines the entry into force of the IAS/IFRS international accounting standards and in compliance with the provisions of the Bank of Italy contained in Circular No. 262 of 22<sup>nd</sup> December 2005 which disciplines the layouts and rules for compiling the individual company and consolidated financial statements for banks.

That circular was issued by the Bank of Italy on the basis of the provisions of Legislative Decree No. 38 of 28<sup>th</sup> February 2005, (“IAS Decree”) and it replaces the instructions contained in the provisions of 15<sup>th</sup> July 1992, 7<sup>th</sup> August 1998 and 30<sup>th</sup> July 2002. Resort was also made in preparing the annual accounts for 2005 to the transitory measures issued by the Bank of Italy, which allowed some simplifications to be made mainly with regard to the quantitative information provided in the notes to the accounts.

The accounting standards used for the annual report are those officially adopted by the European Union, which came into force as at 31<sup>st</sup> December 2005. The policies adopted for preparing the annual accounts as at 31<sup>st</sup> December 2005 are the same as those employed to prepare the opening IAS/IFRS balances. No use was made of the exception permitted under Art. 5, paragraph one, or the IAS Decree.

#### **Comparison information**

The international accounting standard IAS 1 “Presentation of Financial Statements”, states as a general rule that comparison information must be provided for the periods compared for all the amounts recorded in the financial statements.

The reporting standard IFRS 1 (“First time adoption of International Financial Reporting Standards”) states that the first financial statements prepared in compliance with IAS/IFRS must contain at least one year of comparative information based on the international standards.

As an exception to this rule and limited to items governed by IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts), comparison information may be presented which is not prepared in compliance with IAS/IFRS. In this case the IAS standards state that:

- a) comparison information must be presented for financial instruments and insurance contracts, which is prepared in compliance with the preceding accounting standards;
- b) the rules used for preparing the comparative information must be given;
- c) a qualitative description must be given of the adjustments required to make the information IAS compliant, without having to quantify the adjustments.

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The “Systematic framework for the preparation and presentation of financial statements” (known as the “IASB Framework”) requires the information presented to in any case ensure that a reader of the statements is presented with comprehensible, relevant, reliable and comparable information.

On the basis of the above considerations, the approach adopted for the presentation of the 2005 statements was as follows:

- a) the balance sheet gives balances as at 31<sup>st</sup> December 2005 compared with balances as at 31<sup>st</sup> December 2004 after the application of IAS 32 and 39 (for the sake of form pro-forma figures as at 1<sup>st</sup> January 2005 were defined). The figures are therefore fully comparable;
- b) the income statement for 2005 presents figures compared to those for 2004 prior to the application of IAS 32 and 39 because they could not be reconstructed. As a consequence the comparison may not be uniform;
- c) the notes to the accounts include tables required by Bank of Italy regulations compared to those of the previous year except for some tables containing items impacted by IAS 32 and 39, for which it was not possible to prepare figures for the previous year. No information was prepared on the basis of the previous accounting standards because the information would not have been comparable and would not have contributed to a clearer reading of the financial statements.

### **General principles of preparation**

The application of international accounting standards was performed by referring, amongst other things, to the “Systematic framework for the preparation and presentation of financial statements” with particular attention paid to fundamental clauses concerning the preparation of financial statements, which concern the predominance of substance over form and the concept of the relevance and the significance of the information. The financial statements were prepared according to pro-rata, accrual accounting principles. Offsetting assets against liabilities and expenses against income and vice versa was only performed if required or permitted by a standard or an interpretation of it.

The classification of items in the annual accounts and in the comparison accounts is uniform.

### **Discretionary assessments**

No decisions were taken in the application of accounting policies during the preparation of the annual accounts which had significant effects on the amounts presented in the financial statements.

### **Elements of uncertainty in the use of estimates**

The preparation of annual financial statements also requires resort to estimates and assumptions to be made that can have significant effects on the values of the items contained in the balance sheet and in the income statement as well as on the information concerning contingent assets and liabilities reported in the financial statements. To draw up estimates implies the use of available information and the adoption of subjective assessments, based, amongst other things, on historical experience, and used for the purpose of formulating reasonable assumptions for the presentation of operating events. It is in the nature of the estimates and assumptions used to vary from year to year, and therefore it cannot be excluded that the present amounts recognised in the accounts may differ even significantly in subsequent years following changes in the subjective assessments used.

The main items for which greater use of subjective assessment is required are as follows:

- assessing the appropriateness of the carrying value of subsidiaries;

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- assessing the appropriateness of the amounts for goodwill and other intangible assets;
  - the quantification of losses for impairment to the value of loans;
  - the quantification of provisions for personnel and provisions for liabilities and charges.

### **Amendments to Accounting standards**

The EC Regulation No. 1910/2005 of 8<sup>th</sup> November 2005 issued by the Commission of the European Community amended EC Regulation No. 1725/2003, which adopted some of the international accounting standards including IAS 19, “Employee Benefits”. The amendments made allowed, amongst other things, actuarial profits and losses on defined pension benefit plans to be recognised entirely in shareholders’ equity. This new standard was implemented when the accounts as at 31<sup>st</sup> December 2005 were prepared. Previously the policy followed, in compliance with the previous version of IAS 19, was to recognise actuarial components according to the “corridor” method which only allow recognition in the income statement of the accumulated excess actuarial profits or losses resulting at the end of the previous year with respect to the greater of 10% of the present value of the benefits generated by the plan and 10% of the present value of the assets at the service of the plan. This amendment was adopted prospectively from 1<sup>st</sup> January 2004.

The impact resulting from the amendment to the accounting standard on the consolidated income statement for 2004 was positive by 804 thousand euro net of the relative tax effects, while the impact on consolidated shareholders’ equity at 31<sup>st</sup> December 2004 was negative by 7,495 thousand euro net of the relative tax effects and the quota attributable to minority interests.

### **Consolidation area and methods**

The consolidated annual accounts include the figures for BLP and for the fully consolidated subsidiaries. Associate companies have been included in the consolidated annual accounts according to the equity method. Account was also taken in defining control of any forward commitments there may be to purchase minority interests in subsidiaries.

The assets and liabilities and the revenues and expenses of the companies included in the consolidation are fully included in the consolidated accounts. The carrying value of subsidiaries is offset against the corresponding proportion of the shareholders’ equity of the consolidated company on the basis of the values at the date of acquisition or of the first consolidation.

The operating results of a subsidiary that is disposed of during the period are included in the consolidated income statement until the date of disposal, which is to say the date on which the parent bank ceases to have control over the company. The difference between the consideration received for the sale of the subsidiary and the carrying value of its assets less that of its liabilities at the date of disposal is recognised in the consolidated income statement as a profit or loss on the disposal of the subsidiary.

Assets and liabilities, revenues and expenses, and profits and losses where the counterparties are companies included in the consolidation are eliminated from the consolidated accounts.

The proportion attributable to minority interests is shown on the consolidated balance sheet separately from liabilities under a special item in shareholders’ equity. The proportion attributable to minority interests is also recognised separately in the income statement.

Equity investments over which the BLP Group exercises considerable influence (associate companies) are valued using the equity method. If an associate company employs different accounting policies to

those employed by the BLP Group, appropriate adjustments are made to the relative financial statements to make them uniform with the group's valuation criteria.

### Consolidated income statement (figures in thousand euro)

Items of the income statement	31/12/05	31/12/04
<b>10.</b> Interest income and similar	1,438,703	1,359,878
<b>20.</b> Interest expense and similar	(609,190)	(555,143)
<b>30. NET INTEREST INCOME</b>	<b>829,513</b>	<b>804,735</b>
<b>40.</b> Commission income	556,656	542,183
<b>50.</b> Commission expenses	(114,590)	(109,598)
<b>60. NET COMMISSION INCOME</b>	<b>442,066</b>	<b>432,585</b>
<b>70.</b> Dividends and similar income	19,690	28,318
<b>80.</b> Net profit (loss) from trading	71,500	39,398
<b>90.</b> Net profit (loss) from hedging	1,226	0
<b>100.</b> Profit (loss) from disposal or repurchase of:	5,576	6,984
<i>a) loans</i>	(594)	(761)
<i>b) available-for-sale financial assets</i>	7,139	7,745
<i>d) financial liabilities</i>	(969)	0
<b>120. GROSS INCOME</b>	<b>1,369,571</b>	<b>1,312,020</b>
<b>130.</b> Net impairment losses on	<b>(103,041)</b>	<b>(99,763)</b>
<i>a) loans</i>	(78,833)	(98,252)
<i>b) available-for-sale financial assets</i>	(24,208)	(1,499)
<i>d) other financial transactions</i>	0	(12)
<b>140. NET FINANCIAL OPERATING INCOME</b>	<b>1,266,530</b>	<b>1,212,257</b>
<b>180.</b> Administrative expenses:	<b>(842,014)</b>	<b>(806,819)</b>
<i>a) staff costs</i>	(505,983)	(486,769)
<i>b) other administrative expenses</i>	(336,031)	(320,050)
<b>190.</b> Net provisions for liabilities and charges	(15,656)	(23,712)
<b>200.</b> Net impairment losses on property, plant and equipment	(34,649)	(33,855)
<b>210.</b> Net impairment losses on intangible assets	(32,786)	(33,810)
<b>220.</b> Other operating income (expense)	128,773	88,642
<b>230. OPERATING COSTS</b>	<b>(796,332)</b>	<b>(809,554)</b>
<b>240.</b> Profits (losses) of equity investments	8,539	7,510
<b>270.</b> Profits (losses) on disposal of investments	853	(599)
<b>280. PROFIT (LOSS) ON CONTINUING OPERATIONS BEFORE TAX</b>	<b>479,590</b>	<b>409,614</b>
<b>290.</b> Taxes on profit for the period for continuing operations	(203,082)	(175,732)
<b>300. PROFIT (LOSS) ON CONTINUING OPERATIONS AFTER TAX</b>	<b>276,508</b>	<b>233,882</b>
<b>310.</b> Profit (loss) after tax on disposal groups held for sale	7,801	0
<b>320. PROFIT (LOSS) FOR THE PERIOD</b>	<b>284,309</b>	<b>233,882</b>
<b>330.</b> Profit (loss) for the period attributable to minority interests	(45,325)	(34,086)
<b>340. PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT BANK</b>	<b>238,984</b>	<b>199,796</b>

**Consolidated balance sheet (figures in thousands of euro)**

<b>Asset items</b>		<b>31/12/05</b>	<b>31/12/04</b>
<b>10.</b>	Cash and cash equivalents	146,839	165,289
<b>20.</b>	Financial assets held for trading	3,015,182	1,227,689
<b>40.</b>	Available-for-sale financial assets	843,338	668,305
<b>50.</b>	Held-to-maturity financial assets	21,567	79,287
<b>60.</b>	Loans to banks	3,076,529	2,524,090
<b>70.</b>	Loans to customers	28,229,071	26,506,328
<b>80.</b>	Hedging derivatives	103,528	284,783
<b>100.</b>	Equity investments	62,800	49,649
<b>120.</b>	Property, plant and equipment	756,900	770,699
<b>130.</b>	Intangible assets	712,085	707,882
	<i>of which:</i>		
	<i>- goodwill</i>	639,818	637,632
<b>140.</b>	Tax assets	375,630	554,938
	<i>a) current</i>	260,266	334,444
	<i>b) prepaid</i>	115,364	220,494
<b>150.</b>	Non current assets and disposal groups held for sale	6,921	15,834
<b>160.</b>	Other assets	996,746	600,682
	<b>Total assets</b>	<b>38,347,136</b>	<b>34,155,455</b>
<b>Liabilities and shareholders' equity</b>		<b>31/12/05</b>	<b>31/12/04</b>
<b>10.</b>	Due to banks	3,464,625	2,543,675
<b>20.</b>	Due to customers	15,792,313	14,727,782
<b>30.</b>	Securities in issue	13,117,374	12,328,944
<b>40.</b>	Financial liabilities held for trading	1,220,886	168,283
<b>60.</b>	Hedging derivatives	16,297	138,796
<b>80.</b>	Tax liabilities	342,210	376,196
	<i>a) current</i>	213,763	200,864
	<i>b) deferred</i>	128,447	175,332
<b>100.</b>	Other liabilities	1,431,767	1,182,543
<b>110.</b>	Staff severance payments	195,161	179,604
<b>120.</b>	Provisions for liabilities and charges	89,972	95,464
	<i>a) pension and similar obligations</i>	28,177	28,850
	<i>b) other provisions</i>	61,795	66,614
<b>140.</b>	Valuation reserves	359,164	307,054
<b>170.</b>	Reserves	650,656	551,053
<b>180.</b>	Issue premiums	661,268	654,723
<b>190.</b>	Share capital	322,292	321,567
<b>210.</b>	Minority interests (+/-)	444,167	379,975
<b>220.</b>	Profit (loss) for the period (+/-)	238,984	199,796
	<b>Total liabilities and shareholders' equity</b>	<b>38,347,136</b>	<b>34,155,455</b>

**Consolidated statement of cash flows (figures in thousands of euro)**

<b>Indirect method</b>		
<b>A. OPERATING ACTIVITIES</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
<b>1. ORDINARY ACTIVITIES</b>	<b>450,514</b>	<b>378,071</b>
- Profit for the period (+/-)	238,984	199,796
- Gains/losses on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	(23,875)	(10,840)
- Gains (losses) on hedging activities (-/+)	(1,226)	-
- Net impairment losses on loans (+/-)	121,765	98,252
- Net impairment losses on property, plant and equipment and intangible assets (+/-)	67,435	67,665
- Net provisions for liabilities and charges and other expenses (income) (+/-)	15,656	23,712
- Outstanding taxes and duties (-)	27,350	16,867
- Staff severance provision charge	22,275	9,607
- Personnel provision charge	1,840	1,330
- Dividends	(19,690)	(28,318)
<b>2. LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS</b>	<b>(4,413,236)</b>	<b>(910,655)</b>
- Financial assets held for trading	(1,763,618)	363,264
- Available-for-sale financial assets	(37,141)	(15,500)
- Loans to banks	(552,439)	(554,564)
- Loans to customers	(1,844,508)	(1,069,407)
- Tax assets	179,308	(64,778)
- Other assets	(394,838)	430,330
<b>3. LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL LIABILITIES</b>	<b>4,025,867</b>	<b>763,716</b>
- Due to banks	920,950	(290,861)
- Due to customers	1,064,531	398,580
- Securities in issue	788,430	1,460,065
- Financial liabilities held for trading	1,052,603	(284,545)
- Hedging derivatives	55,705	(145,987)
- Tax liabilities	(75,870)	(68,015)
- Other liabilities	249,224	(269,801)
- Staff severance provision	(6,718)	(9,566)
- Provision for liabilities and charges	(22,988)	(26,154)
<b>Net liquidity generated/absorbed by operating activities</b>	<b>63,145</b>	<b>231,132</b>
<b>B. INVESTMENT ACTIVITIES</b>		
<b>1. LIQUIDITY GENERATED BY</b>	<b>95,206</b>	<b>43,275</b>
- Dividends received on equity investments	19,690	28,318
- Disposals of held-to-maturity financial assets	57,720	(3,115)
- Disposals of non current assets held for sale.	8,913	1,520
- Sales of property, plant and equipment	8,646	14,179
- Sales of intangible assets	237	2,373
<b>2. LIQUIDITY ABSORBED BY:</b>	<b>(70,277)</b>	<b>(186,864)</b>
- Purchases of equity investments	(13,151)	(13,378)

- Purchases of property, plant and equipment	(15,697)	(73,469)
- Purchases of intangible assets	(41,429)	(100,017)
<b>Net liquidity generated/absorbed by investing activities</b>	<b>24,929</b>	<b>(143,589)</b>
<b>C. FINANCING ACTIVITIES</b>		
- Changes in minority interests	13,542	(37,776)
- Changes in other reserves	3,757	55,467
- Changes in revaluation reserves	(12,258)	0
- Issue/purchase of capital instruments	725	4,923
- Distribution of dividends and other means	(112,290)	(95,218)
<b>Net liquidity generated/absorbed by financing activities</b>	<b>(106,524)</b>	<b>(72,604)</b>
<b>NET LIQUIDITY GENERATED (ABSORBED) IN THE PERIOD</b>	<b>(18,450)</b>	<b>14,939</b>

## 4.2 THE CONSOLIDATED FINANCIAL STATEMENTS OF THE MERGED BANK FOR THE FIRST HALVES OF 2006 AND 2005 AND THE RELATIVE EXPLANATORY NOTES

The first half report was prepared in compliance with the accounting standards introduced by European Regulation No. 1606 of 19<sup>th</sup> July 2002, which disciplines the entry into force of the IFRS international accounting standards. The content and form of that report complies with international accounting standards applicable to interim financial reporting adopted according to the procedure contained in article 6 of EC Regulation No. 1606/2002 and implements the reporting required by the CONSOB (Italian securities market authority) with its communication on financial reporting (Communication No. 6064293 of 28<sup>th</sup> July 2006). The half year report is composed of: the balance sheet and income statement, the statement of changes in shareholders' equity, the statement of cash flows and the illustrative notes. It also contains commentary notes on performance.

### Comparison information

The half year report to 30<sup>th</sup> June 2005 was prepared in compliance with the international accounting standards in force at the date of preparation and according to the indications contained in the draft circular of the Bank of Italy on the financial statements of banks. The following events occurred during the course of the second half of 2005.

- The Bank of Italy issued Circular No. 262 of 22<sup>nd</sup> December 2005 which provides the final discipline for the layouts and rules for compiling the individual company and consolidated financial statements for banks. Those layouts made some amendments to the rules for the classification of balance sheet items with respect to the draft circular. As a consequence the figures to 30<sup>th</sup> June 2005 were restated according to the new rules. The main reclassifications relate to items in the income statement and are as follows:
  - a) operational hedging differences were reclassified from the item interest to the item net profit on trading;
  - b) expenses for commissions payable paid to agents in relation to the sale of medium to long term financial assets recognised in the accounts according to the amortised cost criterion were reclassified from the item commission expenses to a reduction in the item interest income;



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- c) the effects of discounting provisions for liabilities and charges and the provisions for finite benefit plans to present values were reclassified from the item interest to the item net provisions for liabilities and charges and to staff costs respectively;
  - d) the recovery of expenses of a service nature, were reclassified from the item other operating income (expense) to the item commissions;
  - e) the recovery of expenses for staff on secondment was reclassified from other operating income (expense) to a decrease in staff costs;
  - f) Directors' remuneration was reclassified from the item other administrative expenses to the item staff costs;
  - g) depreciation on improvements to third party leased assets classified under the item other activities was reclassified from the item net impairment losses on property, plant and equipment to the item other operating income (expense).

These reclassifications produced no effects on the result for the period and on shareholders' equity as at 30<sup>th</sup> June 2005.

- The European Commission issued EC Regulation No. 1910/2005 of 8<sup>th</sup> November 2005 which amended EC Regulation No. 1725/2003 for the adoption of some of the international accounting standards including IAS 19 "Employee Benefits". The amendments made allowed, amongst other things, actuarial profits and losses on defined pension benefit plans to be recognised entirely in shareholders' equity. The previous version of IAS 19 allowed the option of recognising in the income statement only the accumulated excess actuarial profits or losses resulting at the end of the previous year with respect to the greater of 10% of the present value of the benefits generated by the plan and 10% of the present value of the assets at the service of the plan. The Bank modified the relative accounting policy as at 31<sup>st</sup> December 2005. The figures in the half year report to 30<sup>th</sup> June 2005 were restated on the basis of the provisions of IAS 8 to reflect the effects of the new accounting standard adopted. The impact on the income statement to 30<sup>th</sup> June 2005 amounted to 171 thousand euro, while the impact on consolidated shareholders' equity to 30<sup>th</sup> June 2005 amounted to 4,216 thousand euro net of the relative tax effect.

### **Discretionary assessments**

No discretionary assessments were made in the application of accounting policies during the preparation of the half year reports which had significant effects on the result for the period.

### **Elements of uncertainty in the use of estimates**

The preparation of half year interim financial statements also requires resort to estimates and assumptions that can have significant effects on the values of the items contained in the balance sheet and in the income statement as well as on the information concerning contingent assets and liabilities.

To draw up estimates implies the use of available information and the adoption of subjective assessments, based, amongst other things, on historical experience, and used for the purpose of formulating reasonable assumptions for the presentation of operating events. It is in the nature of the estimates and assumptions used to vary and therefore it cannot be excluded that the present amounts recognised in the accounts may differ even significantly in subsequent years following changes in the subjective assessments used.

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The main items for which greater use of subjective assessment is required are as follows:

- assessing the appropriateness of the carrying value of subsidiaries;
- assessing the appropriateness of the amounts for goodwill and other intangible assets;
- the quantification of losses for impairment to the value of loans;
- the quantification of provisions for personnel and provisions for liabilities and charges.

### **Consolidation area and methods**

The half year consolidated report includes the figures for the parent bank, BLP, and for the fully consolidated subsidiaries. Associate companies have been included in the half year consolidated accounts according to the equity method. Account was also taken in defining control of any forward commitments there may be to purchase minority interests in subsidiaries. No significant changes occurred in equity investments in subsidiaries and associates during the first half of 2006.

The assets and liabilities and the revenues and expenses of the companies included in the consolidation are fully included in the consolidated accounts. The carrying value of subsidiaries is offset against the corresponding proportion of the shareholders' equity of the consolidated company on the basis of the values at the date of acquisition or the first consolidation.

The operating results of a subsidiary that is disposed of during the period are included in the consolidated income statement until the date of disposal, which is to say the date on which the parent bank ceases to have control over the company. The difference between the consideration received for the sale of the subsidiary and the carrying value of its assets less that of its liabilities at the date of disposal is recognised in the consolidated income statement as a profit or loss on the disposal of the subsidiary.

Assets and liabilities, revenues and expenses, and profits and losses where the counterparties are companies included in the consolidation are eliminated from the consolidated accounts.

The proportion attributable to minority interests is shown on the consolidated balance sheet separately from liabilities under a special item in shareholders' equity. The proportion attributable to minority interests is also recognised separately in the income statement.

Equity investments over which the BLP Group exercises considerable influence (associate companies) are valued using the equity method. If an associate company employs different accounting policies to those employed by the BLP Group, appropriate adjustments are made to the relative financial statements to make them uniform with the group's valuation criteria.

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**Consolidated income statement (figures in thousand euro)**

<b>Items of the income statement</b>		<b>30/06/06</b>	<b>30/06/05</b>
<b>10.</b>	Interest income and similar	777,131	685,694
<b>20.</b>	Interest expense and similar	(345,148)	(284,913)
<b>30.</b>	<b>NET INTEREST INCOME</b>	<b>431,983</b>	<b>400,781</b>
<b>40.</b>	Commission income	290,492	266,588
<b>50.</b>	Commission expenses	(43,630)	(35,110)
<b>60.</b>	<b>NET COMMISSION INCOME</b>	<b>246,862</b>	<b>231,478</b>
<b>70.</b>	Dividends and similar income	35,359	19,270
<b>80.</b>	Net profit (loss) from trading	22,091	13,703
<b>90.</b>	Net profit (loss) from hedging	3,177	335
<b>100.</b>	Profit (loss) from disposal or repurchase of:	1,999	(604)
	<i>a) loans</i>		
	<i>b) available-for-sale financial assets</i>	445	
	<i>c) held-to-maturity financial assets</i>		
<b>Items of the income statement</b>		<b>30/06/06</b>	<b>30/06/05</b>
	<i>d) financial liabilities</i>	1,554	(604)
<b>120.</b>	<b>GROSS INCOME</b>	<b>741,471</b>	<b>664,963</b>
<b>130.</b>	Net impairment losses on	(41,907)	(50,858)
	<i>a) loans</i>	(40,752)	(48,538)
	<i>b) available-for-sale financial assets</i>	(175)	(2,442)
	<i>c) held-to-maturity financial assets</i>	(365)	
	<i>d) other financial transactions</i>	(615)	122
<b>140.</b>	<b>NET FINANCIAL OPERATING INCOME</b>	<b>699,564</b>	<b>614,105</b>
<b>180.</b>	Administrative expenses:	(422,770)	(408,812)
	<i>a) staff costs</i>	(253,745)	(245,397)
	<i>b) other administrative expenses</i>	(169,025)	(163,415)
<b>190.</b>	Net provisions for liabilities and charges	(6,950)	(5,835)
<b>200.</b>	Net impairment losses on property, plant and equipment	(16,261)	(16,320)
<b>210.</b>	Net impairment losses on intangible assets	(12,783)	(15,529)
<b>220.</b>	Other operating income (expense)	69,965	60,704
<b>230.</b>	<b>OPERATING COSTS</b>	<b>(388,799)</b>	<b>(385,792)</b>
<b>240.</b>	Profits (losses) of equity investments	3,687	4,783
<b>270.</b>	Profits (losses) on disposal of investments	285	128
<b>280.</b>	<b>PROFIT (LOSS) ON CONTINUING OPERATIONS BEFORE TAX</b>	<b>314,737</b>	<b>233,224</b>
<b>290.</b>	Taxes on income for the period for continuing operations	(126,851)	(101,343)
<b>300.</b>	<b>PROFIT (LOSS) ON CONTINUING OPERATIONS AFTER TAXES</b>	<b>187,886</b>	<b>131,881</b>
<b>310.</b>	Profit (loss) after tax on disposal groups held for sale	4,703	(167)
<b>320.</b>	<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>192,589</b>	<b>131,714</b>
<b>330.</b>	Profit (loss) for the period attributable to minority interests	(23,395)	(17,697)
<b>340.</b>	<b>PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT BANK</b>	<b>169,194</b>	<b>114,017</b>

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**Consolidated balance sheet (figures in thousands of euro)**

<b>Assets</b>		<b>30/06/06</b>	<b>31/12/05</b>
<b>10.</b>	<b>Cash and cash equivalents</b>	132,543	146,839
<b>20.</b>	<b>Financial assets held for trading</b>	3,153,713	3,015,182
<b>40.</b>	<b>Available-for-sale financial assets</b>	878,491	843,338
<b>50.</b>	<b>Held-to-maturity financial assets</b>	21,985	21,567
<b>60.</b>	<b>Loans to banks</b>	2,265,488	3,076,529
<b>70.</b>	<b>Loans to customers</b>	29,831,952	28,229,071
<b>80.</b>	<b>Hedging derivatives</b>	49,711	103,528
<b>100.</b>	<b>Equity investments</b>	64,138	62,800
<b>120.</b>	<b>Property, plant and equipment</b>	730,972	756,900
<b>130.</b>	<b>Intangible assets</b>	727,384	712,085
<b>140.</b>	<b>Tax assets</b>	286,007	375,630
<b>Asset items</b>		<b>30/06/06</b>	<b>31/12/05</b>
<b>150.</b>	<b>Non current assets and disposal groups held for sale</b>	4,115	6,921
<b>160.</b>	<b>Other assets</b>	1,277,186	996,746
<b>Total assets</b>		<b>39,423,685</b>	<b>38,347,136</b>
<b>Liabilities and shareholders' equity</b>		<b>30/06/06</b>	<b>31/12/05</b>
<b>10.</b>	<b>Due to banks</b>	3,454,268	3,464,625
<b>20.</b>	<b>Due to customers</b>	15,735,446	15,792,313
<b>40.</b>	<b>Financial liabilities held for trading</b>	842,807	1,220,886
<b>60.</b>	<b>Hedging derivatives</b>	46,743	16,297
<b>80.</b>	<b>Tax liabilities</b>	276,777	342,210
<b>90.</b>	<b>Liabilities associated with disposal groups held for sale</b>	1,188	-
<b>100.</b>	<b>Other liabilities</b>	2,066,705	1,431,767
<b>110.</b>	<b>Staff severance payments</b>	188,275	195,161
<b>120.</b>	<b>Provisions for liabilities and charges</b>	88,706	89,972
	<i>a) pension and similar obligations</i>	27,509	28,177
	<i>b) other provisions</i>	61,197	61,795
<b>140.</b>	<b>Valuation reserves</b>	366,273	359,164
<b>170.</b>	<b>Reserves</b>	760,996	650,656
<b>180.</b>	<b>Issue premiums</b>	968,677	661,268
<b>190.</b>	<b>Share capital</b>	351,246	322,292
<b>210.</b>	<b>Minority interests (+/-)</b>	417,061	444,167
<b>220.</b>	<b>Profit (loss) for the period/year (+/-)</b>	169,194	238,984
<b>Total liabilities and shareholders' equity</b>		<b>39,423,685</b>	<b>38,347,136</b>

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**Consolidated statement of cash flows (figures in thousands of euro)**

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**Indirect method**

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<b>A. OPERATING ACTIVITIES</b>	<b>30/06/2006</b>	<b>30/06/2005</b>
<b>1. ORDINARY ACTIVITIES</b>	<b>162,099</b>	<b>114,190</b>
- Profit for the period (+/-)	169,194	114,017
- Gains (losses) on financial assets held for trading and on financial assets (liabilities) at fair value (-/+)	(13,134)	(13,703)
- Gains (losses) on hedging activities (-/+)	(3,177)	(335)
- Net impairment losses on loans (+/-)	41,907	64,858
- Net impairment losses on property, plant and equipment and intangible assets (+/-)	29,044	15,529
- Net provisions for liabilities and charges and other expenses (income) (+/-)	6,950	5,835
- Outstanding taxes and duties (-)	(33,326)	(52,741)
- Profits of companies valued using the equity method		
- Dividends	(35,359)	(19,270)
<b>2. LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS</b>	<b>(1,182,639)</b>	<b>(2,469,256)</b>
- Financial assets held for trading	(125,397)	(616,176)
- Available-for-sale financial assets	(32,435)	(57,550)
- Securities held to maturity	(783)	(18,841)
- Loans to banks	811,041	(592,142)
- Loans to customers	(1,643,633)	(1,146,634)
- Tax assets	89,623	152,271
- Other assets	(281,055)	(190,184)
<b>3. LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL LIABILITIES</b>	<b>807,219</b>	<b>2,376,672</b>
- Due to banks	(10,357)	172,117
- Due to customers	(56,867)	30,279
- Securities in issue	571,949	1,350,406
- Financial liabilities held for trading	(378,079)	677,644
- Hedging derivatives	87,440	(43,906)
- Tax liabilities	(32,107)	16,122
- other liabilities	636,126	190,378
- Staff severance provision	(2,670)	(1,928)
- Provision for liabilities and charges	(8,216)	(14,440)
<b>Net liquidity generated/absorbed by operating activities</b>	<b>(213,321)</b>	<b>21,606</b>
<b>B. INVESTMENT ACTIVITIES</b>		
<b>1. LIQUIDITY GENERATED BY</b>	<b>47,832</b>	<b>19,270</b>
- Dividends received on equity investments	35,359	19,270
- Disposals of non current assets held for sale.	2,806	-
- Sales of property, plant and equipment	9,667	-
<b>2. LIQUIDITY ABSORBED BY:</b>	<b>(29,420)</b>	<b>(22,454)</b>
- Purchases of equity investments	(1,338)	1,630

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- Purchases of property, plant and equipment	-	5,927
- Purchases of non current assets held for sale.	-	(95)
- Purchases of intangible assets	(28,082)	(29,916)
<b>Net liquidity generated/absorbed by investing activities</b>	<b>18,412</b>	<b>(3,184)</b>
<b>C. FINANCING ACTIVITIES</b>		
- Changes in minority interests	(27,106)	45,072
- Changes in other reserves	336,636	7,068
- Distribution of dividends and other means	(128,917)	(112,290)
<b>Net liquidity generated/absorbed by financing activities</b>	<b>180,613</b>	<b>(60,150)</b>
<b>NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD</b>	<b>(14,296)</b>	<b>(41,728)</b>

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### 4.3 AUDIT BY THE FIRM OF AUDITORS

An Ordinary Shareholders' Meeting of BLP held on 27<sup>th</sup> April 2004, passed a resolution to appoint the auditing firm Reconta Ernst & Young S.p.A. for the three-year period 2004-2006, in accordance with Art. 159 of the TUF to perform: (i) audits of the individual company and consolidated annual accounts of BLP; (ii) limited audits of the half year reports; (iii) to verify that the accounts are properly kept.

The annual financial statements of BLP for the year ended 31<sup>st</sup> December 2005, prepared in compliance with IFRS and the financial statements for the year ended 31<sup>st</sup> December 2004, prepared in compliance with Legislative Decree No. 87/92, were subjected to a full audit by the aforementioned firm of auditors.

There is no other external auditing body other than the aforementioned firm of auditors.

There have been no particular remarks made or refusals to certify the accounts by the aforementioned firm of auditors with regard to those individual company and consolidated annual accounts of BLP.

The half year report as at 30<sup>th</sup> June 2006, approved by the Board of Directors on 11<sup>th</sup> September 2006, was subjected to a limited audit by the firm of auditors, Reconta Ernst & Young S.p.A., who issued their report on 9<sup>th</sup> October 2006 having found no irregularities worthy of mention.

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## 5. PRO-FORMA INCOME STATEMENT AND BALANCE SHEET FIGURES FOR THE MERGING BANK

### 5.1 PRO-FORMA PRESENTATION OF THE FIGURES

This section contains the pro-forma consolidated financial statements of the New Group as at 30<sup>th</sup> September 2006 and as at 31<sup>st</sup> December 2005 for the purposes of presenting the significant effects of the Merger.

The *pro-forma* consolidated figures contained in the statements that follow are the result of the aggregation of the accounts of the BPU Group and of the BLP Group published in their respective interim financial reports to 30<sup>th</sup> September 2006 and annual reports for the year ended 31<sup>st</sup> December 2005. The *pro-forma* consolidated balance sheet and income statement are structured with layouts analogous to those published in the Bank of Italy Circular No. 262 of 22<sup>nd</sup> December 2005 and have been prepared in compliance with the international accounting standards issued by the International Accounting Standards Board (IASB) and homologated by the European Union on 30<sup>th</sup> September 2006.

The pro-forma consolidated accounts of the New Group were obtained by modifying the figures published in the interim and annual financial reports with the recognition of the significant effects of the operations described previously. More specifically, in accordance with the provisions of CONSOB (Italian securities market authority) Communication DEM/1052803 of 5<sup>th</sup> July 2001, the asset and liability effects were reflected retro-actively in the pro-forma consolidated balance sheet as if the Merger had taken place at the end of the reporting periods (i.e. 30<sup>th</sup> September 2006 and 31<sup>st</sup> December 2005) and the income and expense effects were recorded in the pro-forma consolidated income statement as if the merger transaction had taken place at the beginning of the reporting periods (i.e. 1<sup>st</sup> January 2006 and 1<sup>st</sup> January 2005).

The pro-forma adjustments are presented separately in the statements given below and they are illustrated in detail in this section.

Adjustments necessary to recognise the effect of the Merger have been made to the aggregated accounting figures obtained by the procedure described above by provisionally calculating the cost of the merger. This was achieved by setting a value on the new shares that BPU is required to issue at the service of the exchange on the basis of the market quotation of the BPU shares on 10<sup>th</sup> November 2006, the last quotation available as the closest to the date of the approval of the Memorandum of Intent by the boards of directors of the two entities (a provisional figure has been given because the final value of the increase in the share capital will be determined by the stock market quotation on the day when the transaction takes legal effect, which is to say by the last available quotation and also by the number of shares to be issued on that date). The difference between the value of the BPU shares to be issued (as at 10<sup>th</sup> November 2006) and the consolidated shareholders' equity of the BLP Group at 30<sup>th</sup> September 2006 has been preliminarily recognised under the item "Merger difference" and it is not subject to amortisation. That difference is only of an indicative nature and does not represent the precise difference as determined according to international accounting standards, which should be calculated by considering the fair value of all the assets and liabilities and contingent liabilities of the acquired company on the date of acquisition. Furthermore the expenses directly attributable to the Merger are not considered in the determination of that difference. In addition, the pro-forma income statement does not include the depreciation and amortisation of property, plant and equipment and intangible assets with a finite useful life which might emerge when the cost of the merger is allocated to assets and liabilities.

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Finally the most significant balance sheet and income statement items relating to transactions between the BPU Group and the BLP Group have been eliminated from the aggregated accounts resulting from the application of the procedures described above.

The following aspects should be considered for a proper interpretation of the information contained in the pro-forma accounts:

- since these figures are based on hypotheses, if the Merger had really taken place on 30<sup>th</sup> September 2006 or on 31<sup>st</sup> December 2005, instead of the actual date on which it takes effect, then the accounting figures would not necessarily have been the same as the pro-forma figures;
- the pro-forma figures show solely the objectively measurable effects of the Merger and do not take into consideration potential future effects due to changes in policies by management and operating decisions taken as a consequence of the transaction;
- the pro-forma accounting figures and those published in the interim financial statements are designed to provide information for different purposes and are affected by different methods of calculating the effects of acquisition transactions with reference to the balance sheet and the income statement. As a consequence the pro-forma consolidated financial statements must be read and interpreted separately considering the particular purposes for which they were prepared.



### 5.1.1 The balance sheets and the income statements for last year and the first nine months of 2006.<sup>9</sup>

#### Pro-forma consolidated balance sheet as at 30<sup>th</sup> September 2006

Asset items (figures in thousands of euro)	BPU Group	BLP Group	Eliminations	Merger adjustments	New Group pro-forma
10. Cash and cash equivalents	288,059	142,996			431,055
20. Financial assets held for trading	3,055,892	2,903,739			5,959,631
30. Financial assets at fair value	5,290,972	-			5,290,972
40. Available-for-sale financial assets	3,552,858	980,915			4,533,773
50. Held-to-maturity financial assets	1,227,145	22,120			1,249,265
60. Loans to banks	1,907,591	2,100,772	-5,385		4,002,978
70. Loans to customers	49,798,318	29,954,211	-182,874		79,569,655
80. Hedging derivatives	186,238	45,358			231,596
90. Fair value change of hedged financial assets (+/-)	10,288	-			10,288
100. Equity investments	46,738	78,872			125,610
110. Technical reserves of reinsurers	98,773	-			98,773
120. Property, plant and equipment	1,348,157	727,448			2,075,605
130. Intangible assets	1,259,704	739,379			1,999,083
of which: goodwill	1,209,622	670,285			1,879,907
140. Tax assets	573,229	271,375			844,604
a) current	181,150	169,280			350,430
b) deferred	392,079	102,095			494,174
150. Non current assets and disposal groups held for sale	-	3,234			3,234
160. Other assets	1,542,564	929,163	-6,166		2,465,561
Merger difference (provisional)				3,298,814	3,298,814
<b>TOTAL ASSETS</b>	<b>70,186,526</b>	<b>38,899,582</b>	<b>-194,425</b>	<b>3,298,814</b>	<b>112,190,497</b>

<sup>9</sup> The pro-forma figures have been presented in separate columns for presentation purposes: (i) the income statement and balance sheet figures to be adjusted, (ii) the pro-forma adjustments and (iii) the pro-forma figures themselves.

<b>Liabilities and shareholders' equity (figures in thousands of euro)</b>	<b>BPU Group</b>	<b>BLP Group</b>	<b>Elimin- ations</b>	<b>Merger adjust- ments</b>	<b>New Group Pro-forma</b>
10. Due to banks	6,607,514	2,896,008	-194,355		9,309,167
20. Due to customers	29,607,923	15,812,350	-70		45,420,203
30. Securities in issue	22,537,901	14,223,908			36,761,809
40. Financial liabilities held for trading	449,994	555,301			1,005,295
50. Financial liabilities at fair value	-	-			-
60. Hedging derivatives	320,679	38,779			359,458
70. Fair value change of hedged financial liabilities (+/-)	-	-			-
80. Tax liabilities	526,596	347,577			874,173
a) current	337,581	212,940			550,521
b) deferred	189,015	134,637			323,652
Liabilities associated with disposal					
90. groups held for sale	-	1,188			1,188
100. Other liabilities	1,683,919	1,529,225			3,213,144
110. Staff severance payments	342,700	187,908			530,608
120. Provisions for liabilities and charges:	337,037	88,843			425,880
a) pension and similar obligations	156,645	27,251			183,896
b) other provisions	180,392	61,592			241,984
130. Technical reserves	2,473,415	-			2,473,415
140. Valuation reserves	120,395	465,291		-465,291	120,395
150. Reimbursable shares	-	-			-
160. Capital instruments	-	-			-
170. Reserves	1,858,920	761,046		-997,695	1,622,271
180. Issue premiums	1,543,578	973,700		4,383,666	6,900,944
190. Share capital	861,135	351,752		378,134	1,591,021
200. Own shares (-)					-
210. Minority interests (+/-)	405,743	430,057			835,800
220. Profit (loss) 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>-194,425</b>	<b>3,298,814</b>	<b>112,190,497</b>

**Pro-forma consolidated income statement to 30<sup>th</sup> September 2006**

<b>Items</b>	<b>BPU Group</b>	<b>BLP Group</b>	<b>Eliminations</b>	<b>Merger adjustments</b>	<b>New Group Pro-forma</b>
10. Interest income and similar	2,103,108	1,200,271	-2,273	-	3,301,106
20. Interest expense and similar	-838,409	-541,280	2,659	-	-1,377,030
30. NET INTEREST INCOME	1,264,699	658,991	386	-	1,924,076
40. Commission income	712,429	422,459	-2	-	1,134,886
50. Commission expenses	-102,644	-64,758	1	-	-167,401
60. NET COMMISSION INCOME	609,785	357,701	-1	-	967,485
70. Dividends and similar income	10,355	35,472	-	-	45,827
80. Net profit (loss) from trading	21,297	36,472	-	-	57,769
90. Net profit (loss) from hedging activity	4,126	3,218	-	-	7,344
100. Net profit (loss) from sale or the repurchase of:	123,574	3,188	-	-	126,762
a) loans	38,478	211	-	-	38,689
b) available-for-sale financial assets	83,641	453	-	-	84,094
c) held-to-maturity financial assets	-	-	-	-	0
d) financial liabilities	1,455	2,524	-	-	3,979
110. Net profit (loss) on financial assets/liabilities at fair value	-	-	-	-	0
120. GROSS INCOME	2,033,836	1,095,042	385	-	3,129,263
130. Net impairment losses on:	-119,403	-67,081	-	-	-186,484
a) loans	-120,008	-64,306	-	-	-184,314
b) available-for-sale financial assets	-164	-480	-	-	-644
c) held-to-maturity financial assets	-	-	-	-	0
d) other financial transactions	769	-2,295	-	-	-1,526
140. NET FINANCIAL OPERATING INCOME	1,914,433	1,027,961	385	-	2,942,779
150. Net premiums	350,655	-	-	-	350,655
160. Other net profit (loss) on insurance operations	-375,504	-	-	-	-375,504
170. NET INCOME FROM FINANCIAL AND INSURANCE OPERATIONS	1,889,584	1,027,961	385	-	2,917,930
180. Administrative expenses:	-1,133,324	-628,816	-	-	-1,762,140
a) staff costs	-755,410	-377,343	-	-	-1,132,753
b) other administrative expenses	-377,914	-251,473	-	-	-629,387
190. Net provisions for liabilities and charges	13,853	-10,848	-	-	3,005
200. Net impairment losses on property, plant and equipment	-60,470	-24,909	-	-	-85,379
210. Net impairment losses on intangible assets	-21,234	-19,543	-	-	-40,777
220. Other operating income (expense)	113,059	104,297	-385	-	216,971
<b>Items</b>	<b>BPU Group</b>	<b>BLP Group</b>	<b>Eliminations</b>	<b>Merger adjustments</b>	<b>New Group Pro-forma</b>
230. OPERATING COSTS	-1,088,116	-579,819	-385	-	-1,668,320
240. Profits (losses) of equity investments	57,828	8,106	-	-	65,934
250. Net result of fair valuation of property, plant and equipment and intangible assets	-	-	-	-	0

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260.	Net impairment losses on goodwill	-	-	-	-	0
270.	Profits (losses) on disposal of investments	887	906	-	-	1,793
280.	PROFIT (LOSS) ON CONTINUING OPERATIONS BEFORE TAX	860,183	457,154	-	-	1,317,337
290.	Taxes on income for the period for continuing operations	-317,731	-189,449	-	-	-507,180
300.	PROFIT (LOSS) ON CONTINUING OPERATIONS AFTER TAX	542,452	267,705	-	-	810,157
310.	Profit (loss) on non current assets held for sale and discontinued operations	-	4,823	-	-	4,823
320.	PROFIT (LOSS) FOR THE PERIOD	542,452	272,528	-	-	814,980
330.	Profit (loss) for the period attributable to minority interests	-33,375	-35,879	-	-	-69,254
<hr/>						
340.	PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT BANK	509,077	236,649	-	-	745,726

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**Pro-forma consolidated balance sheet as at 31<sup>st</sup> December 2005**

	<b>Asset items (figures in thousands of euro)</b>	<b>BPU Group (*)</b>	<b>BLP Group</b>	<b>Eliminations</b>	<b>Merger adjustments</b>	<b>New Group Pro-forma</b>
10.	Cash and cash equivalents	373,734	146,839			520,573
20.	Financial assets held for trading	2,208,420	3,015,182			5,223,602
30.	Financial assets at fair value	5,158,686	-			5,158,686
40.	Available-for-sale financial assets	3,721,162	843,338			4,564,500
50.	Held-to-maturity financial assets	1,061,634	21,567			1,083,201
60.	Loans to banks	3,331,015	3,076,529	-4,053	556,074	6,959,565
70.	Loans to customers	47,460,761	28,229,071	-131,052		75,558,780
80.	Hedging derivatives	205,256	103,528			308,784
90.	Fair value change of hedged financial assets (+/-)	29,331	-			29,331
100.	Equity investments	32,859	62,800			95,659
110.	Technical reserves of reinsurers	104,146	-			104,146
120.	Property, plant and equipment	1,377,538	756,900			2,134,438
130.	Intangible assets	1,238,995	712,085			1,951,080
	of which: goodwill	1,197,147	639,818			1,836,965
140.	Tax assets	706,822	375,630			1,082,452
	a) current	294,217	260,266			554,483
	b) deferred	412,605	115,364			527,969
150.	Non current assets and disposal groups held for sale	298	6,921			7,219
160.	Other assets	1,852,977	996,746	-5,417		2,844,306
	Merger difference (provisional)				3,298,814	3,298,814
	<b>Total assets</b>	<b>68,863,634</b>	<b>38,347,136</b>	<b>-140,522</b>	<b>3,854,888</b>	<b>110,925,136</b>

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<b>Liabilities and shareholders' equity (figures in thousands of euro)</b>	<b>BPU Group</b>	<b>BLP Group</b>	<b>Elimin- ations</b>	<b>Merger adjust- ments</b>	<b>New Group Pro-forma</b>
10. Due to banks	6,366,914	3,464,625	-140,009		9,691,530
20. Due to customers	29,443,712	15,792,313	-513		45,235,512
30. Securities in issue	20,925,250	13,117,374			34,042,624
40. Financial liabilities held for trading	348,941	1,220,886			1,569,827
50. Financial liabilities at fair value	-	-			-
60. Hedging derivatives	321,093	16,297			337,390
70. Fair value change of hedged financial liabilities (+/-)	-	-			-
80. Tax liabilities	622,277	342,210			964,487
a) current	388,078	213,763			601,841
b) deferred	234,199	128,447			362,646
90. Liabilities associated with disposal groups held for sale	8	-			8
100. Other liabilities	2,780,199	1,431,767			4,211,966
110. Staff severance payments	350,052	195,161			545,213
120. Provisions for liabilities and charges:	331,781	89,972			421,753
a) pension and similar obligations	163,138	28,177			191,315
b) other provisions	168,643	61,795			230,438
130. Technical reserves	2,247,693	-			2,247,693
140. Valuation reserves	241,838	359,164		-359,164	241,838
150. Reimbursable shares	-	-			-
160. Capital instruments	-	-			-
170. Reserves	983,031	650,656		-889,640	744,047
180. Issue premiums	1,943,203	661,268		4,696,098	7,300,569
190. Share capital	860,124	322,292		407,594	1,590,010
200. Own shares (-)	-	-			-
210. Minority interests (+/-)	416,658	444,167			860,825
220. Profit (loss) for the period (+/-)	680,860	238,984			919,844
<b>Total liabilities and shareholders' equity</b>	<b>68,863,634</b>	<b>38,347,136</b>	<b>-140,522</b>	<b>3,854,888</b>	<b>110,925,136</b>

(\*) The balance sheet figures for asset items 20 and 30 are different from those published as at 31<sup>st</sup> December 2005 following the reclassification of the capitalisation certificates from asset item 20 "Financial assets held for trading" to asset item 30 "Financial assets at fair value" as a result of the decision by the BPU Group to apply the fair value option to those items starting with the accounts as at 30<sup>th</sup> June 2006.

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**Pro-forma consolidated income statement to 31<sup>st</sup> December 2005**

Items	BPU Group (*)	BLP Group	Elimin- ations	Merger adjust- ments	New Group Pro-forma
10. Interest income and similar	2,508,452	1,438,703	-2,300	-	3,944,855
20. Interest expense and similar	-890,010	-609,190	2,665	-	-1,496,535
<b>30. NET INTEREST INCOME</b>	<b>1,618,442</b>	<b>829,513</b>	<b>365</b>	<b>-</b>	<b>2,448,320</b>
40. Commission income	945,610	556,656	-3	-	1,502,263
50. Commission expenses	-127,486	-114,590	1	-	-242,075
<b>60. NET COMMISSION INCOME</b>	<b>818,124</b>	<b>442,066</b>	<b>-2</b>	<b>-</b>	<b>1,260,188</b>
70. Dividends and similar income	10,183	19,690	-	-	29,873
80. Net profit (loss) from trading	90,445	71,500	-	-	161,945
90. Net profit (loss) from hedging activity	3,613	1,226	-	-	4,839
100. Net profit (loss) from sale or the repurchase of:	91,301	5,576	-	-	96,877
a) loans	57,908	-594	-	-	57,314
b) available-for-sale financial assets	33,224	7,139	-	-	40,363
c) held-to-maturity financial assets	-	-	-	-	0
d) financial liabilities	169	-969	-	-	-800
110. Net profit (loss) on financial assets and liabilities at fair value	-	-	-	-	0
<b>120. GROSS INCOME</b>	<b>2,632,108</b>	<b>1,369,571</b>	<b>363</b>	<b>-</b>	<b>4,002,042</b>
130. Net impairment losses on:	-213,503	-103,041	-	-	-316,544
a) loans	-212,148	-78,833	-	-	-290,981
b) available-for-sale financial assets	-75	-24,208	-	-	-24,283
c) held-to-maturity financial assets	-	-	-	-	0
d) other financial transactions	-1,280	-	-	-	-1,280
<b>140. NET FINANCIAL OPERATING INCOME</b>	<b>2,418,605</b>	<b>1,266,530</b>	<b>363</b>	<b>-</b>	<b>3,685,498</b>
150. Net premiums	476,359	-	-	-	476,359
160. Other net profit (loss) on insurance operations	-494,679	-	-	-	-494,679
<b>170. NET INCOME FROM FINANCIAL AND INSURANCE OPERATIONS</b>	<b>2,400,285</b>	<b>1,266,530</b>	<b>363</b>	<b>-</b>	<b>3,667,178</b>
180. Administrative expenses:	-1,544,188	-842,014	-	-	-2,386,202
a) staff costs	-1,027,757	-505,983	-	-	-1,533,740
b) other administrative expenses	-516,431	-336,031	-	-	-852,462
190. Net provisions for liabilities and charges	-34,603	-15,656	-	-	-50,259

Items	BPU Group (*)	BLP Group	Eliminations	Merger adjustments	New Group Pro-forma
200. Net impairment losses on property, plant and equipment	-76,941	-34,649	-	-	-111,590
210. Net impairment losses on intangible assets	-26,296	-32,786	-	-	-59,082
220. Other operating income (expense)	166,114	128,773	-363	-	294,524
<b>230. OPERATING COSTS</b>	<b>-1,515,914</b>	<b>-796,332</b>	<b>-363</b>	-	<b>-2,312,609</b>
240. Profits (losses) of equity investments	238,304	8,539	-	-	246,843
250. Net result of fair valuation of property, plant and equipment and intangible assets	-	-	-	-	0
260. Net impairment losses on goodwill	-	-	-	-	0
270. Profits (losses) on disposal of investments	-267	853	-	-	586
<b>280. PROFIT (LOSS) ON CONTINUING OPERATIONS BEFORE TAX</b>	<b>1,122,408</b>	<b>479,590</b>	-	-	<b>1,601,998</b>
290. Taxes on income for the period for continuing operations	-397,797	-203,082	-	-	-600,879
<b>300. PROFIT (LOSS) ON CONTINUING OPERATIONS AFTER TAX</b>	<b>724,611</b>	<b>276,508</b>	-	-	<b>1,001,119</b>
310. Profit (loss) on non current assets held for sale and discontinued operations	- 17	7,801	-	-	7,784
<b>320. PROFIT (LOSS) FOR THE PERIOD</b>	<b>724,594</b>	<b>284,309</b>	-	-	<b>1,008,903</b>
330. Profit (loss) for the period attributable to minority interests	-43,734	-45,325	-	-	-89,059
<b>340. PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT BANK</b>	<b>680,860</b>	<b>238,984</b>	-	-	<b>919,844</b>

(\*) The income statement figures differ from those published for the year ended 31<sup>st</sup> December 2005 as a result of the classification of interest arrears received and previously written off under item 10 “Interest income” instead of under item 130 “Net impairment losses on loans”, as a result of refinements made subsequent to the first time adoption of IAS/IFRS which led to the restatement of figures for previous periods.

### 5.1.2 Explanatory notes to the pro-forma presentations

The pro-forma balance sheet and income statement figures were produced with the objective of retrospectively presenting the effects of merger transactions as at 30<sup>th</sup> September 2006 and at 31<sup>st</sup> December 2005.

#### The hypotheses adopted for the calculation of the pro-forma figures

Details of the main hypotheses adopted in preparing the pro-forma consolidated figures are given below in order to allow a proper interpretation of the information contained in the statements given above.

- The financial statements were obtained by aggregating the data published in the interim financial reports to 30<sup>th</sup> September 2006 and the annual financial reports for the year ended 31<sup>st</sup> December 2005 of the BPU Group and the BLP Group. That data was then prepared by applying IAS/IFRS international accounting standards and the provisions contained in the Bank of Italy Circular No. 262/2005 and the statements were audited by KPMG S.p.A. and Reconta Ernst & Young S.p.A.



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respectively. More specifically the statements as at and for the year ended 31<sup>st</sup> December 2005 were certified, while those to 30<sup>th</sup> September 2006 were subjected to a limited audit.

- The interim and annual financial statements of both groups for 2005 were prepared in compliance with IAS/IFRS international accounting standards. Although the accounting policies followed by the two merging entities in the preparation of their interim accounts used as a reference are basically the same, there are some differences attributable to alternative accounting treatments allowed by the IAS/IFRS standards. It was nevertheless felt that these differences were not sufficient to impair the significance of the pro-forma figures which as a consequence did not consider them.
- For the balance sheets the merger transaction was assumed to have occurred at the end of the reporting period, while for the income statements it was assumed to have occurred at the beginning of the same period and the merger adjustments were made on that basis.
- The cost of the merger was calculated provisionally by setting a value on the new shares that BPU is required to issue at the service of the share exchange on the basis of the market quotation of the BPU shares on 10<sup>th</sup> November 2006, the last quotation available as the closest to the date of signing the Memorandum of Intent by the boards of directors of the two entities. The actual cost of the merger must also be increased to include expenses directly attributable to the Merger and the accessory costs which have not been considered for the present because they cannot be determined.
- The difference between the value of the BPU shares (equal to 20.85 at 10<sup>th</sup> November 2006) to be issued and the consolidated shareholders' equity of the BLP Group at 30<sup>th</sup> September 2006 has been preliminarily recognised under the item "Merger difference" and it is not subject to amortisation. At present that difference has not been allocated because according to the provisions of IFRS 3, the fair value of the net assets to be allocated will have to be identified as at the date on which the merger takes effect and the cost of the merger allocated to them as a consequence with any surplus there may be recognised as "goodwill". It should be considered that for every 10 cent difference in the value of the shares between the amount of 20.85 per share indicated above and the price on the date on which the merger becomes legally effective, the cost of the transaction and consequently the "merger difference" will vary by 29 million euro.
- The difference mentioned above was calculated on the basis of the number of BLP shares existing as at 30<sup>th</sup> September 2006 and not considering any additional shares that might have been issued subsequent to that date following the exercise of stock options (3,769,787 shares).

### **Eliminations**

The most significant reciprocal balance sheet and income statement items common to the BPU Group and the Group BLP, consisting of amounts due to and from banks and customers as well as interest and commissions, were eliminated on the basis of the principles commonly followed for preparing consolidated accounts.

### **Merger adjustments**

The preliminary cost of the merger, consisting of the fair value of the new BPU shares issued (amounting to 6,087 million euro) was compared with the consolidated shareholders' equity of the BLP Group as at 30<sup>th</sup> September 2006 (2,788 million euro) and, as already stated, the difference that emerged of 3,299 million euro, was preliminarily recognised under the specific item "Merger difference" until it can be

allocated precisely to the relevant balance sheet items on the date on which the Merger becomes effective. With regard to the pro-forma figures as at 31<sup>st</sup> December 2005, the difference in the equity of the BLP Group between 30<sup>th</sup> September 2006 and 31<sup>st</sup> December 2005 was included under the item “due to banks”. This therefore resulted in the “Merger difference” assuming the same value for both the dates cited.

## **5.2 PRO-FORMA PER SHARE INDICATORS FOR THE MERGING BANK**

The table below gives the pro-forma per share consolidated indicators compared with the same figures resulting from the quarterly consolidated report of BPU to 30<sup>th</sup> September 2006 and the annual report as at 31<sup>st</sup> December 2005.

<b>Pro-forma consolidated per share indicators</b>	<b>30<sup>th</sup> September 2006 historical data</b>	<b>30<sup>th</sup> September 2006 pro-forma data</b>	<b>31<sup>st</sup> December 2005 historical data</b>	<b>31st December 2005 pro-forma data</b>
Number of ordinary shares	344,453,810 (1)	636,408,360 (2)	344,049,564 (1)	636,004,114 (2)
Profit on continuing operations net of taxes (3)	1.57	1.27	2.11	1.57
Profit for the period attributable to the Parent Bank (4)	1.48	1.17	1.98	1.45
Shareholders' equity attributable to the (4) parent bank	14.21	17.25	13.69	16.98
Dividend	-	-	0.75	-
Cash flow (5)	1.81	1.48	2.41	1.85

(1) Outstanding shares at the reference date.

(2) The number does not take into account BLP shares issued subsequent to 30<sup>th</sup> September 2006, or which may be issued before the date on which the merger becomes legally effective.

(3) The profit on continuing operations after tax per share was calculated on the basis of the profit on continuing operations after tax, as stated in the pro-forma consolidated income statements given in previous pages and the number of ordinary shares.

(4) The profit for the period attributable to the parent bank per share was calculated on the basis of the profit for the period attributable to the parent bank, as stated in the pro-forma consolidated income statements given in previous pages and the number of ordinary shares.

(5) Net profit, including that attributable to minority interests, plus depreciation and amortisation.

## **5.3 INDEPENDENT AUDITORS' REPORT ON THE PRO-FORMA ECONOMIC, CAPITAL AND FINANCIAL FIGURES**

The reports by the auditors, KPMG S.p.A., on an audit of the preparation of the pro-forma consolidated economic, capital and financial figures and testifying to the reasonable nature of the basic hypotheses used to prepare them are attached to this Information Document.

## 6. THE ACCOUNTS OF THE MERGING COMPANY AND OF THE GROUP IT LEADS

### 6.1 GENERAL INDICATIONS OF THE BUSINESS OF THE BPU GROUP SINCE THE END OF THE FINANCIAL YEAR 2005

The main reclassified balance sheet and income statement aggregates (figures in thousand euro)

	30/9/2006		30/9/2005	
70 Loans to customers	49,798,318		44,918,972	
20+30 Direct funding from customers (*)	51,525,791		48,985,505	
60-10 Net interbank position	-4,699,923		-931,248	
20+30 Financial assets held for trading at fair value	8,346,864		6,987,925	
40 Available-for-sale financial assets	3,552,858		3,329,610	
50 Held-to-maturity financial assets	1,227,145		998,965	
170+180+190 Shareholders' equity (excluding minority interests and profit for the period)	4,384,028		3,945,498	
Indirect funding from customers	55,263,106		52,132,737	
- of which assets under management	32,412,890		29,650,986	
		<b>of which non recurring items</b>		<b>of which non recurring items</b>
10-20 Net interest income	1,199,991		1,142,082	
70 Dividend and similar income	10,355		9,032	
Profit of equity investments valued according to the equity method	5,971		5,337	
40-50 Net commission income	609,785	-4,705	579,318	580
80+90+100+110 Net profit (loss) on trading, hedging and disposal/repurchase activities	154,567	115,865	117,876	59,223
150-160 Net income on insurance operations	45,382		49,425	
220 Other net operating income / (expense)	43,023		60,141	21,980
Operating income	2,069,074	111,160	1,963,211	81,783
180a Staff costs	-754,412	-4,676	-755,014	-15,334
180b Other administrative expenses	-300,003		-307,348	
200+210 Net impairment losses on property, plant and equipment and intangible assets	-88,495		-78,489	
<b>Operating costs</b>	<b>-1,142,910</b>	<b>-4,676</b>	<b>-1,140,851</b>	<b>-15,334</b>
<b>Net operating income</b>	<b>926,164</b>	<b>106,484</b>	<b>822,360</b>	<b>66,449</b>
130a Net impairment losses on loans	-116,234		-131,520	
130b+c+d Net impairment losses on other assets/liabilities	605		943	

190	Net provisions for liabilities and charges	-3,096		988	
240+270	Profit on the disposal of equity and other investments	52,744	51,857	226,914	226,758
	<b>Profit (loss) on continuing operations before tax</b>	<b>860,183</b>	<b>158,341</b>	<b>919,685</b>	<b>293,207</b>
290	Taxes on income for the period for continuing operations	-317,731	-22,366	-298,090	-27,135
310	Profit (loss) on non current assets held for sale and discontinued operations net of taxes	-		3,407	3,434
330	Net profit for the period attributable to minority interests	-33,375	-990	-31,322	-5,206
	<b>Profit for the period attributable to the Parent Bank</b>	<b>509,077</b>	<b>134,985</b>	<b>593,680</b>	<b>264,300</b>

(\*) Net of policies of a predominantly financial character of BPU Assicurazioni Vita, classified as assets under management (620 million as at 30/9/2006 and 678.5 million as at 30/9/2005).

The consolidated income statement for the first nine months of 2006 ended with a net profit of 509.1 million euro compared to 593.7 million recorded in the same period of 2005. Net of the contribution from non recurring items, which practically halved to 135 million euro from 264 million in 2005, profit for the period improved by 13.6%.

Net operating income for the period January-September 2006 recorded an improvement of 12.6% to 926.2 million euro, driven by income of approximately 2.1 billion euro (+5.4%) and favoured by firm control of the main items of cost, with operating costs practically unchanged at 1.1 billion euro.

As a result of this performance, the cost/income ratio, calculated as the ratio of costs to operating income, was further reduced to 55.2% from 58.1% in September 2005 (58.1% compared to 59.8% net of non recurring components).

On the income side, net interest income rose to approximately 12 billion, with an increase of 51% attributable primarily to the good performance of the net balance on interest earned from customers which rose on aggregate by 20% to 1.1 billion euro.

Net commissions increased to approximately 610 million, an increase of 5.3%. The growth is attributable principally to the "securities" area, which further increased as a percentage of total net commission income from 52% to 55% with a net contribution of approximately 339 million, compared to 303 million recorded in 2005.

The net profit on trading, hedging and sale and repurchase activity rose from 118 to approximately 155 million euro. The increased contribution from non recurring components (115.9 million of which 77.4 million from the disposal of non strategic equity investments and 38.5 from the disposal of loans) compensated for the fall in the trading result, which fell in the period from 56 to 31.1 million, in relation to the unfavourable performance of markets in the second quarter, which was only partially offset by the good results achieved in subsequent months.

Net income on insurance operations (which includes net interest, net premiums, profit on trading activity and the balance on other income/expenses from insurance operations and various, relating to BPU Assicurazioni and BPU Assicurazioni Vita) amounted to 45.4 million.

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Other operating income totalled 43 million, compared to 60 million generated in 2005, which, however included approximately 22 million of a non recurring nature (settlement with Banca Intesa and resolution of litigation with IBM).

Operating costs remained in line with the first nine months of 2005. In detail, staff costs, which were more or less unchanged at 754.4 million Euro, included provisions made for the renewal of employment contracts and the recognition of 4.7 million euro of additional expenses relating to variable components of wages in 2005 and reported after year end. The figure to 30<sup>th</sup> September 2005 also included non recurring costs attributable mainly to redundancies at Banca Carime, which can no longer be capitalised under IAS. Other administrative expenses totalled 300 million, to record a further decrease of 7.3 million (-2.4%), the result, primarily, of action currently in progress to contain costs.

Net impairment losses on property, plant and equipment and intangible assets increased from 11.3% to 88.5 million euro in relation to greater depreciation of technological investments as provided for in the industrial plan, while net impairment losses on loans fell to 116.2 million euro (-11.6%), accounting for 0.31% of net lending to customers on an annualised basis (0.39% annualised in the first nine months of 2005).

The income statement also benefited from profits on the disposal of equity investments amounting to 52.7 million, of which 46.5 million related to the earn-out for the period paid by Prudential International Investments Corporation for its interest in BPU Pramerica and 5.8 million related to the disposal of the tax collection companies.

Finally the income statement for the first nine months of 2006 recorded taxes of 317.7 million euro which, benefiting from particular tax treatment for gains on the disposal of equity investments, gave a tax rate of 36.9% (32.4% in 2005).

As concerns the main balance sheet items, Group lending to customers recorded an increase of 11% over twelve months to total 49.8 billion euro. Assisted by the disposal of non performing mortgage loans, the overall quality of the lending portfolio improved: at 30<sup>th</sup> September 2006, the ratio of net non performing loans to net lending was 0.71% (1.24% at 30<sup>th</sup> September 2005), while the ratio of net impaired loans to net lending was 0.91% (1.15% at 30<sup>th</sup> September 2005).

Net indebtedness on the interbank market at 30<sup>th</sup> September 2006 amounted to 47 billion, reflecting a change in the composition of investments, which moved from loans to customers towards the portfolio of financial assets.

Direct funding recorded growth of 52% to total 51.5 billion euro, driven in particular by funding from bonds (+8% the aggregate for securities in issue over twelve months), achieved mainly through Parent Bank issues as part of the EMTN (Euro Medium Term Notes) programme.

Indirect funding, which rose as a whole from 6% to 55.3 billion, recorded an increase of 9.3% in total assets under management to 32.4 billion, against a more modest increase of 1.6% in assets under administration to 22.9 billion.

More specifically, assets under management included growth of 17.1% in insurance products from 4.5 to 5.3 billion, while assets under management in the strict sense of the term (net of insurance products) increased by approximately 8% from 25 billion to 27.1 billion.

During the twelve month period, shareholders' equity (excluding minority interests and profit for the period) increased to approximately 4.4 billion euro (+11%). Estimated supervisory ratios at 30<sup>th</sup> September 2005 were as follows: core tier 1 of 6.06% and a tier 1 of 6.80%.

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The quarterly report as at 30<sup>th</sup> September 2006 approved by the Board of Directors on 13<sup>th</sup> November 2006 and attached to this prospectus may be consulted for further information.

## **6.2 ESTIMATES FOR THE FINANCIAL YEAR 2006**

The first indications at the end of the financial year 2006 seem to confirm the trends seen in the first nine months with regard to both the main income statement results and the balance sheet aggregates.

From the viewpoint of the income statement, the positive performance of operating income, which strengthened in the last quarter as a result of improvements in net commission income and net interest income, was set against a modest increase in operating costs, which allowed for an improvement in the operating result.

Furthermore a lower contribution was made by the item profit (loss) on the disposal of equity investments during the year with a significant reduction, compared to 2005, in the need to make adjustments for impairment losses to the lending portfolio.

From the viewpoint of assets, both the sustained growth in lending and the improvement in the main risk indicators for the portfolio seem to be confirmed.

Similarly, the growth trends with respect to the end of September for indirect funding and for assets under management within the item were also confirmed.

As concerns the performance of direct funding from customers, this would seem, at the end of year, to be in line with the higher growth rates in lending, with regard to both the “due to customers” and the “securities in issue” components, which is also the result of the issues made in the last quarter on international markets by the Parent Bank.

Taken as a whole, the results achieved in the first three quarters of the year and the first projections for the fourth quarter allow a more favourable forecast of overall performance to be made than that contained in the budget and included in the 2006-2008 Industrial Plan.