MEDIOBANCA
Banca di Credito Finanziario S.p.A.

Strictly private and confidential

Valuation report on the share exchange ratio for the merger of Banca Lombarda e Piemontese S.p.A. with and into BPU Banca – Banche Popolari Unite S.C.p.A.

12 December 2006

Contents

1. Introduction

Mediobanca – Banca di Credito Finanziario S.p.A. ("**Mediobanca**") has been engaged by the Board of Directors of Banca Lombarda e Piemontese S.p.A. ("**Banca Lombarda**", "**BL**" or the "**Bank**") to provide assistance (the "**Mandate**") in determining the share exchange ratio (the "**Exchange Ratio**") for the proposed merger of BL with and into BPU Banca – Banche Popolari Unite Scpa ("**BPU Banca**", "**BPU**", jointly with BL, the "**Banks**", the "**Parties**" or the "**Groups**"), also referred to as the "**Transaction**" or the "**Merger**".

In fulfilment of this Mandate, the calculations and analyses detailed below were prepared for consideration by the Board of Directors of BL, which, to the extent deemed appropriate, it may use in determining the financial terms to propose to its shareholders in relation to the Merger.

This document (the "**Valuation Report**" or "**Report**"), within the limits and with the cautions, qualifications, and caveats provided, has been prepared for the sole purpose of supporting the valuation and decision-making process of the Board of Directors of BL and, therefore, may not be used in any other scope and is not intended for use by any other individual or entity.

In addition, it is not appropriate to use this Valuation Report as a basis for granting credit to or conferring rights of any kind on employees, creditors, or other holders of financial instruments issued by BL, companies which it holds directly and/or indirectly, or any other entity whatsoever. Under no circumstances may the Valuation Report be communicated, reproduced, distributed, quoted, summarised or used as a reference, in whole or in part, at any time, in any manner or for any purpose. Neither may BL nor any company within the Group make public reference to the Valuation Report without the prior written consent of Mediobanca.

In fulfilling this Mandate and performing all valuations, Mediobanca has relied on the truth, completeness and accuracy, in all respects, of the documents, data and information provided by BL (the "**Information**"), without undertaking any independent verification, certification and/or analysis. Mediobanca, therefore, accepts no responsibility relating to the truth, completeness and accuracy of the Information used in its analyses, as it is unable to exclude the possibility that such analyses may lead to different results should such Information be incomplete, inaccurate or untruthful.

Additionally, in reference to the forecast data, Mediobanca has relied on this information being correct, based on reasonable assumptions and reflecting the most accurate possible assessment of the management of BL regarding the future performance of its business. None of the information stated in the Valuation Report may be considered a guarantee or an indication of prospective earnings or financial performance of the Parties.

In preparing the Valuation Report, Mediobanca does not and has not given any advice, nor undertaken any verification of a legal or tax nature and/or due diligence relating to the Merger, neither is it responsible for the Information used in performing the same, which shall remain, therefore, the sole responsibility of the parties providing such information.

This Valuation Report is, of necessity, based on current economic and market conditions in addition to the information made available to us and taken into consideration as at the date of this Report. As such, it is understood that subsequent changes in market conditions and other information made available could have a significant impact on the conclusions of the Report. For its part, Mediobanca does not and shall not have any obligation to update, revise or reconfirm its conclusions. Mediobanca is to be compensated by BL for the services it has provided. In addition, within the terms of the Mandate, BL is bound to indemnify Mediobanca against any liability which may result from carrying out this Mandate.

The conclusions provided are based on all of the elements which have been taken into consideration. Each of the valuation techniques selected – which represent recognised methodologies, widely used in valuation practice both in Italy and internationally - presents intrinsic limitations, as discussed in more detail below. These valuations should not be considered individually, but rather interpreted as inseparable parts of a single valuation process. As such, in no event may individual parts of the Valuation Report be used separately from the Valuation Report as a whole. Mediobanca accepts no responsibility, direct and/or indirect, for damages or loss which may result from the improper use of the information contained in the Valuation Report.

The valuation methodologies and the resulting economic values have been determined for the sole purpose of indicating a range for the Share Exchange Ratio for the Merger which may be considered reasonable and in no event should the valuations provided in the Valuation Report be considered indications of the potential market price or value in a context other than that currently being examined. In fact, the essential premise in evaluating the financial terms of a merger transaction is the quantification of the relative value of each company being valued with the ultimate objective, rather than merely determining the economic value of each, of achieving consistent and comparable values to be used in assessing the fairness of the share exchange ratio. Consequently, Mediobanca has not expressed any view regarding the potential future economic value and/or market price of BL shares and/or those issued in connection with the Merger.

The valuations provided in this Report have been carried out on a stand-alone basis and, therefore, the results of the analysis exclude any considerations relating to potential operational synergies resulting from the Merger which may generate value for shareholders.

2. Description of the Transaction

On 13 November 2006, the Boards of Directors of BL and BPU approved the signing of a memorandum of understanding (hereafter, the "**Memorandum of Understanding**") intended to set out the essential elements of a merger between the banks in the form of the merger of BL into BPU, with the status of cooperative bank (*banca popolare*) being maintained (for the "**Parent Bank**").

The financial terms, as defined in the Memorandum of Understanding, anticipate a share exchange ratio of 0.83 BPU ordinary shares for each BL ordinary share (hereafter, the "**Exchange Ratio**"). No cash consideration is included as part of the offer.

A dividend of €0.80 per share for all shareholders of the Parent Bank is to be proposed for the 2006 financial year. This amount, taking into account the exchange ratio of 0.83 BPU shares for each BL share, corresponds to a dividend per share of €0.66 for BL shareholders.

The Exchange Ratio stated in the Memorandum of Understanding is based on the financial statements of the Banks as at 30 September 2006 and with the assumption that:

- any treasury shares held by the Banks do not exceed the maximum number approved in the respective general meetings of shareholders;
- no actions incompatible with implementation of the Merger are undertaken by the Banks or, in any event, are not such as to significantly alter the assets or capital structure of their respective groups.

In the Memorandum of Understanding, the Banks further agreed to undertake accounting, legal and administrative due diligence (hereafter, the "**Due Diligence**") in order to determine any adjustment to the Exchange Ratio in the event the Due Diligence reveals a difference greater than 5% of the consolidated net assets of either Bank.

Following the Merger, the capital will be composed approximately 54% of shares held by former shareholders of BPU Banca and approximately 46% of shares held by former shareholders of Banca Lombarda. It has been agreed that BL shareholders will be automatically registered in the shareholder register of the Parent Bank upon completion and as a result of the Merger.

BL shareholders who are absent from the General Meeting of Shareholders, dissent or abstain shall have the right to withdraw, pursuant to Article 2437 of the Italian Civil Code, by virtue of the changes in the form of incorporation and voting rights. The merger is subject to the condition that the right of withdrawal is not exercised by BL shareholders representing more than 10% of share capital. This condition may, however, be waived by mutual agreement between the parties within 10 business days of the date in which the definitive calculation of any exercise of the right of withdrawal has been communicated by BL to BPU.

The merger will result in the integration of the two Parent Banks, with the constitution of a single listed entity capable of determining strategic direction, carrying out the functions of coordination and exercising control over all structures and companies in the new group. The Network Banks will maintain operational autonomy within their traditional local areas (the "**New Group**").

The merger transaction, based on the principal of equal representation between BL and BPU, contemplates the implementation of a business plan whose strategic value is based on the complementary nature of the retail branch networks, product companies and customer base.

The Parties estimate that the New Group will be the fourth largest Italian bank by number of branches and, on the basis of pro forma figures as at 30 June 2006, will have:

- more than 4 million customers;
- direct deposits of approximately €80 billion (5th in Italy, 1st amongst the cooperative banks - *banche popolari*);
- loans to customers of approximately €79 billion (5th in Italy, 1st amongst the cooperative banks - *banche popolari*);
- high asset quality: non-performing loans/net loans outstanding of 0.7%;
- funds under management of approximately €58 billion (3rd in Italy, 1st amongst the cooperative banks - *banche popolari*) of which €23 billion is related to private banking activities (3rd in Italy, 1st amongst the cooperative banks - *banche popolari*);

- total assets of approximately €110 billion (6th in Italy, 2nd amongst the cooperative banks - *banche popolari*);
- combined shareholders' equity of €7.4 billion (fully diluted);
- combined pro forma net income of €745 million (as at 30 September 2006);
- core Tier 1 ratio of 6.2% (fully diluted) and Total Capital ratio of 10.1% (fully diluted);
- a network of 1,970 branches (4th network in Italy with a 6.3% market share) with no significant overlap;
- significant market share in the wealthiest areas of the country (2nd banking group in Lombardy with 935 branches and a market share over 15%);
- market share in terms of number of branches greater than 10% in 21 provinces including: Bergamo (26%), Brescia (29%), Varese (29%), Cuneo (26%), Pavia (18%) and Milan (10%).

The main strategic operational guidelines are as follows:

- formation of a New Group capable of competing with the top players in the market and further enhancing the value of strong local roots, which includes the preservation of brand identities;
- achievement of significant growth targets as a result of the proximity and complementary geographic presence in areas with high development potential, increase in critical mass and enhancement of the corporate culture and competencies of each Group;
- increase in activities to support customers, particularly SME's and families, through expansion of the range of products and services offered;
- development of the existing product companies of the two original Groups, including partnerships with leading international operators;
- rapid achievement of expected synergies due to the proven track record of the management of the two Groups in managing the integration process.

BL and BPU expect that the transaction will enable the New Group to benefit from synergies resulting from:

- optimisation of the various infrastructures; reduction of IT costs following the adoption of a single IT and telecommunication platform for the Group;
- control of administrative expenses, including benefits from the increased negotiating power of the New Group;
- enhancement in scale of the product companies, including through partnerships with leading international operators, and further enhancements in the level of service and quality offered to customers;
- alignment of best practice within each Group (benefiting both costs and revenues).

The Parties estimate synergies of approximately €365 million annually, on an ongoing basis, of which approximately €225 million relate to reduced costs and €140 million to increased revenues. It is expected that these "ongoing" synergies will be achieved by 2010, with more than 90% of that figure realisable by 2009. Gross integration costs are expected to total about €380 million, of which €360 million will be charged to expenses in 2007 and €20 million will be capitalised as goodwill. As highlighted above, it should be noted that the valuations provided in this Report have been performed on a stand-alone basis and, therefore, the results of the analysis exclude any considerations relating to potential operational synergies from the Merger which may generate value for shareholders.

3. Purpose of the Report

The purpose of this Report is to provide the Board of Directors of BL with elements and points of references that will aid in the determination, in its independent judgement, of the fairness of the Exchange Ratio to be proposed in the Extraordinary General Meeting of Shareholders of BL called to approve the Merger.

The analysis and valuations contained in this Report have, therefore, the sole scope of determining an appropriate value range for the Exchange Ratio. As such, the values obtained cannot in any way be considered estimates of the economic value and/or current or future market value of the Banks on a stand-alone and/or a joint basis.

Furthermore, this Report should not be interpreted by the Shareholders of BL as a recommendation in relation to the exercise of voting rights in the Extraordinary General Meeting of the Bank convened to vote on the Merger.

4. Valuation methodologies

According to standard valuation practice, the fundamental precondition for obtaining significant and comparable valuations in merger transactions is the consistency and comparability of the methods applied according to the characteristics of the companies and/or groups being valued.

In addition, a second fundamental principle often adopted for merger valuations is the "stand alone" assumption. That is, a valuation perspective based on the current configuration and future prospects of the two Banks on an independent basis, without taking any potential synergies from the merger into account.

As stated previously, the selected methodologies – which represent recognised techniques, widely used in valuation practice both in Italy and internationally - should not be considered individually, but rather as different parts of a single valuation process. Independent use of the results obtained from each methodology, without duly considering the complementary relationship with other methodologies, will result in loss of the meaningfulness of the valuation process itself.

On the basis of these considerations and in view of the distinctive characteristics of the two Banks, the type of transaction and the market sector in which they operate, the following valuation methodologies have been selected:

- the Dividend Discount Model or DDM (in particular, the Excess Capital variant);

- the comparable market multiples method;
- the market price method.

For verification purpose of the results obtained from the above valuation methods, the relative contribution method has also been used.

In selecting and applying the stated methods, Mediobanca considered the advantages and limitations implicit in each on the basis of common practice in the banking sector and its own experience.

4.1 Unique characteristics of the Transaction

Considering the specific nature of the transaction, in addition, to evaluating the fundamental drivers of value, the following additional elements were also considered:

- equal partners basis in the New Bank post merger;
- for BL shareholders, the change in rights associated with their shares following the merger into BPU, a cooperative bank.

4.1.1 Corporate governance

In order to guarantee a system of corporate governance which provides solid unified management and governance and at the same time represents the original components of the BPU Banca and BL groups in the new banking group on an equal partners basis, a dual type of governance will be adopted based on a Supervisory Board and a Management Board, characterized also by the principle of alternating the main charges.

The Supervisory Board of the New Parent Bank will be composed of 23 members (11 appointed by BPU Banca, 11 by BL and one from minority interest lists) and will include the Chairman, one Senior Deputy Chairman and two Deputy Chairmen. The first Chairman of the Supervisory Board will be named by Banca Lombarda, while the first Senior Deputy Chairman will be named by BPU Banca.

The Management Board will be composed of between 7 and 11 members and will be appointed by the Supervisory Board. The Management Board will be composed of 10 members for the first three year term of office (5 from BPU Banca and 5 from Banca Lombarda) and will include the Chairman, the Deputy Chairman and the Managing Director.

4.1.2 Change in legal form and the Adjustment Factor

Approval of the Merger in the Extraordinary General Meetings of the shareholders of BL and BPU will give place to the merger of a joint stock company (*società per azioni* or *S.p.A.*) into a cooperative company, with the resulting transformation of the legal form of incorporation of BL and modification of its articles of association, particularly in relation to voting rights. While a joint stock company (*S.p.A.*), within the limits of its articles of association, gives one vote for each share - where the voting and ownership rights of each shareholder are correlated to the number of shares held - in a cooperative company each shareholder has the right to only one vote, regardless of the number of shares held. As a result, control of a cooperative bank - *banca popolare*, given its cooperative nature which imposes a single vote per shareholder and an ownership limit of 0.5% of share capital, is not considered easily contendable.

Consequently, for the purposes of this Report, to account for the value differential in the shares attributable to the different levels of attractiveness associated with the control dynamics, it was considered appropriate to apply an adjustment factor (hereafter, the "**Adjustment Factor**") to the exchange ratio range obtained using the various empirical methods (Dividend Discount Model and relative contribution analysis) in order to compensate for the differences in value between shares of a cooperative society (not easily contendable) and of a joint stock company (contendable).

The Adjustment Factor is based on the differential between the market prices as a multiple of net income (for 2006, 2007, 2008) and book value and book value tangible for 2006 – the latter two were calculated on the values as at 30 September 2006, adjusted for any capital increases subsequent to that date and annualised for full year 2006 consensus earnings estimates taken from the Institutional Brokers Estimate System (hereafter, "IBES". Source: Datastream) – for a sample of cooperative banks - *banche popolari* and the same multiples for a sample of banks with the *status* of joint stock companies, which have a multi-regional dimension, operate predominantly in central northern Italy, with significant turnover velocity (indicator of a share's liquidity which indicates the velocity of turnover of market capitalisation on an annual basis in terms of the relationship between the total value of turnover and the average market capitalisation) and whose price incorporates the expectation of participation in potential future consolidation processes. The Adjustment Factor, therefore, was considered representative of the greater contendability of multi-regional banks incorporated as joint stock companies (SpA's) as compared to cooperatives. The range obtained for the Adjustment Factor, after excluding outlying values, was between approximately 1.32 and 1.35.

Adjustments were not made, however, to the values obtained using the market value methodologies (market multiples method and market price method) as these values – both the comparable listed companies method, due to the two different samples for BL and BPU, and the market price method, due to the time period considered - already discount for such adjustments.

4.2 Reference date for the Valuation Report and documentation used

The reference date for the Valuation Report is 30 November 2006. The Parties have agreed that their respective financial statements as at 30 September 2006 will be used as the reference balance sheet date for the purposes of Article 2501-*ter* of the Italian Civil Code.

In carrying out the Mandate, Mediobanca reviewed – assuming it to be truthful, complete and reliable and without undertaking any independent verification – the relevant available documentation, in particular:

- the approved individual and consolidated financial statements of BPU and BL for 2004 and 2005, complete with Directors' Reports, Reports of the Statutory Boards of Auditors, and the audit certifications;
- the approved individual and consolidated financial statements of BL and BPU for the six months ending 30 June 2006, complete with Directors' Reports and limited audit reports;

- the approved individual and consolidated interim report of BL and BPU as of 30 September 2006, complete with Directors' Reports;
- the consolidated financial plans for BL and BPU for the period 2006-2008, made available by the managements of the two Banks and presented to the financial community on 21 March 2006 and 14 December 2005, respectively (hereafter, the "Financial Plans");
- other financial, strategic and commercial information provided, in writing or verbally, by the management of the Banks or their advisors;
- details of calculations and supporting documentation used for the valuation of BL's stake in Banca Intesa;
- information on the share price performance of the comparable banks used in the Market Multiples method, provided by Datastream (a specialised database);
- number of shares[1] and 2005 consolidated financial statements, interim results as of 30 June 2006 and as of 30 September 2006 for the sample of banks used in the Market Multiples method;
- the Memorandum of Understanding between BPU and BL;
- publicly available information deemed relevant for application of the chosen valuation methodologies.

Significant events occurring after 30 September 2006 which could significantly influence the determination of the Exchange Ratio were also taken into consideration. As of today's date, there have been no events which would significantly influence the valuations performed. Mediobanca was informed by BL, in particular, that the Due Diligence did not reveal variations in the net assets of either Bank which would require adjustments to the Exchange Ratio.

5. Description and application of the valuation methods

5.1 Dividend Discount Model

5.1.1 Description

The Dividend Discount Model (or DDM) defines the economic value of a bank as the sum of (i) the present value of future dividend flows potentially distributable to shareholders, for a predetermined time horizon, consistent with maintaining an adequate level of capitalisation and (ii) the present value of the Terminal Value (or TV), calculated assuming a perpetual constant growth rate for dividend flows beyond the projected time horizon. The approach adopted, therefore, disregards the bank's effective earnings distribution policy.

[1] Source: CONSOB

This “two stage” version of the DDM is expressed by the following formula:

$$W = \sum_{t=1}^{t=n} \frac{Div_t}{(1+k_e)^t} + \frac{TV}{(1+k_e)^n} + SA$$

where:

W	=	economic value of the bank being valued
TV	=	Terminal Value, equal to the estimated value of the bank in the year following the last year of explicitly forecast dividend flows
Div_t	=	dividends potentially distributable in year *t* of the explicit forecast period
SA	=	Value of surplus assets
n	=	the number of years of explicitly forecast dividend flows
k_e	=	discount rate, equal to the bank’s cost of equity
g	=	growth rate of profits beyond the explicit forecast period

Application of the DDM consists in the following steps:

- Determination of the potentially distributable dividend flows for the forecast time period assuming a minimum, predetermined Core Tier 1 ratio[2] target;
- Determination of the discount rate k_e (i.e., the cost of equity) and the growth rate “g”;
- Calculation of the present value of dividend flows for the forecast time period and of the Terminal Value (representing the expected, normalised perpetual earnings stream which is both sustainable and consistent with the long-term growth rate).

Use of this method for the current valuation is justified by the fact that, beyond general analytical motivations, it is based on medium to long-term forecast data and, therefore, enables a more accurate valuation of the growth potential of the Banks.

5.1.2 Identification of the dividend flows potentially distributable for the explicit forecast period

For the purposes of this valuation, a time horizon of 2006-2008 has been assumed for the explicit dividend forecasts, beyond which the value of the banks was calculated by normalising the growth for 2009 and 2010 from which the Terminal Value was then calculated. Income statement and balance sheet projections for the explicit forecast period (2006-2008) are based on the consolidated financial plans provided by the Banks.

In order to calculate both the surplus/deficit in net assets and a normalised earnings stream which is sustainable over the long term, a Core Tier 1 Ratio of 7.0% was set as the minimum level required to support both existing operations and the medium to long-term growth of the Banks being valued.

[2] *Core equity excluding preference shares / Risk Weighted Assets*

5.1.3 Determination of the discount rate and the perpetual growth rate

The rate used to discount dividend flows (k_e) corresponds to the return required by investors for alternative investments having the same risk profile and, therefore, represents the expected return on equity for the Banks (cost of equity).

Consistent with standard valuation practice, this rate was calculated by applying the Capital Asset Pricing Model (CAPM) which is expressed in the following formula:

$$k_e = r_f + \beta \times (r_m - r_f)$$

where:

r_f	=	rate of return for risk free investments. For the current valuation, taking the reference time horizon into account, a risk free rate of 3.92% as at 5 December 2006 was assumed. This represents the current yield on the 10-year BTP maturing 1 August 2016 (source: Il Sole 24 Ore)
r_m-r_f	=	risk premium required by the market set at 5.5%, considered conservative and in line with current valuation practice
β	=	correlation coefficient between the effective return on an individual share and the total return for the reference market; this measures the volatility of a share compared to the market portfolio. For the current valuation, a β of 0.84 has been used for both BL and BPU

On the basis of these assumptions, the discount rate k_e used for both BL and BPU was 8.5%.

The nominal growth rate "g", used to calculate the Terminal Value, was assumed to be 2.5% for both of the Banks involved in the Merger.

5.1.4 Calculation of the Terminal Value

The Terminal Value represents the present value of cash flow theoretically distributed to shareholders over the long term beyond the Explicit Forecast Period and takes account of current regulation and the expected future growth requirements.

The Terminal Value was calculated using the Gordon formula:

$$TV = \frac{\text{normalised dividend}}{(k_e - g)}$$

where:

- "g" indicates the long-term, nominal growth rate;
- "k_e" the equity discount rate.

5.1.5 Unrealised gain on the Banca Intesa stake

The valuation of BL also takes into account the unrealised gain on the shareholding in Banca Intesa which would not be fully valued through the simple growth factor of the DDM. In fact, under IAS/IFRS, the gain in the mark-to-market value of the Banca Intesa shareholding would not be accounted for in the income statement but, rather, is only reflected by a change in the revaluation reserve. As such, in the absence of a separate valuation, this gain (which is not included in either Tier 1 or Total Capital) would not be adequately reflected in the expected equity cash flows.

5.1.6 Summary of results

The table below shows the values of the Banks, total and per share, obtained using the Dividend Discount Model with the assumptions stated above.

Table 1. Summary of results from DDM

DDM	BL	BPU
Value (€ m)	5,199	8,228
Value per share (€)	**14.6**	**23.9**

In order to estimate the impact of any changes in some of the underlying assumptions on the values of BL and BPU, a sensitivity analysis of potential changes to "k_e" and "g" over an interval of ±0.25% was performed. The results are shown in Tables 2 and 3 below.

Table 2. Summary of value per BL share following the sensitivity analysis

		g		
Values in €		2.25%	2.50%	2.75%
ke	8.29%	15.0	15.3	15.5
	8.54%	14.4	14.6	14.9
	8.79%	13.9	14.1	14.3

Table 3. Summary of value per BPU share following the sensitivity analysis

		g		
Values in €		2.25%	2.50%	2.75%
k_e	8.29%	24.7	24.9	25.2
	8.54%	23.7	23.9	24.1
	8.79%	22.7	22.9	23.1

On the basis of the sensitivity analyses, a value per BL share of between €13.9 and €15.5 and per BPU share of between €22.7 and €25.2 was established. By applying the Adjustment Factor to these values, as illustrated in paragraph 4.1.2 below, the results shown in Table 4 below were obtained.

Table 4. Summary of results from DDM following the sensitivity analysis

	Minimum	Maximum
Value per BL share (€)	13.9	15.5
Value per BPU share (€)	22.7	25.2
Exchange Ratio before Adjustment Factor	0.61	0.62
Adjustment Factor	1.32	1.35
Exchange Ratio after Adjustment Factor	**0.80**	**0.83**

On the basis of the analysis, an exchange ratio between 0.80 and 0.83 BPU ordinary shares for each BL ordinary share was obtained.

5.2 Market Multiples method

5.2.1 Description

The Market Multiples method is based on an analysis of the market price of a sample of companies comparable to that being valued. This method is based on the general assumption that in an efficient market, and in the absence of speculative movements, the market price of shares reflects the markets expectations concerning the growth of future earnings and the associated level of risk.

Application of the Market Multiples method consists in the following steps:

(i) selection of the reference sample;

(ii) determination of the reference time interval;

(iii) identification of the fundamental ratios (i.e., multiples) considered significant and representative of each company to be valued;

(iv) application of the selected multiples to the Banks being valued.

5.2.2 Selection of the reference sample

Consistent with the issues described in paragraph 4.1.2, in order to consider the value differential attributable to shares with different levels of contendability (i.e., joint stock company vs. cooperative), it was considered appropriate to choose a sample of multi-regional banks incorporated as joint stock companies, with a market capitalisation of at least €1 billion, significant turnover velocity and for which it can be assumed that the market price incorporates the expectation of participation in future consolidations. For BPU, however, a sample of cooperative banks was selected which have a market capitalisation in excess of €1 billion and significant turnover velocity. Banca Popolare Italiana was excluded from the sample as the current price is influenced by an on-going merger transaction.

5.2.3 Reference time interval

For calculation of the multiples, the simple average price for 1 month prior to 7 December 2006 was chosen as it was considered a more stable value and less influenced by specific events and/or technical factors than the current price on that date.

The multiples of net assets were calculated on the values as at 30 September 2006, adjusted for any capital increases subsequent to that date and annualised using 2006 earnings estimates from IBES.

5.2.4 Identification of multiples considered significant and representative

With the numerous ratios that could be used to apply the Market Multiples method, in practice, the choice of multiples is based on the characteristics of the sector in which the companies being valued and the sample of comparables operate. The following multiples were used to determine the economic value of the Banks:

- P/Book Value (P/BV 2006e)
- P/Tangible Book Value (P/BV tangible 2006e)
- P/Earnings (P/E 2006e-2008e)

5.2.5 Application of the selected multiples and results of the analysis

Table 5 shows the P/E, P/BV and P/BV tangible multiples for the selected sample of banks considered comparable to BL.

Table 5. Comparable company multiples for BL

Listed bank	P/E			P/BV 2006E	
	2006E	2007E	2008E	Accounting basis	Tangible
BMPS	15.6x	13.8x	11.8x	1.84x	2.03x
Banca Carige	29.6x	25.7x	25.7x	1.95x	2.57x
Banca CR Firenze	18.0x	15.7x	14.0x	2.23x	2.80x
Credito Emiliano	14.7x	13.0x	11.6x	2.28x	2.33x
Average	**19.5x**	**17.0x**	**15.8x**	**2.07x**	**2.43x**

Table 6 shows the P/E, P/BV and P/BV tangible multiples for the selected sample of banks considered comparable to BPU.

Table 6. Comparable company multiples for BPU

Listed bank	P/E			P/BV 2006E	
	2006E	2007E	2008E	Accounting basis	Tangible
BP Milano	15.8x	14.0x	12.2x	1.58x	1.91x
BP Verona e Novara	11.7x	11.0x	10.1x	1.78x	1.94x
Credito Valtellinese	17.6x	13.8x	11.3x	1.37x	1.55x
Average Value	**15.0x**	**12.9x**	**11.2x**	**1.58x**	**1.80x**

Application of the market multiples method resulted in the values per share for BL and BPU shown in Table 7.

Table 7. Summary of results for market multiples

	P/E			P/NAV 2006E	
	2006E	2007E	2008E	Accounting basis	Tangible
Value per BL share (€)	15.3	15.7	17.3	16.7	15.0
Value per BPU share (€)	19.0	20.7	21.3	22.5	19.2
Exchange ratio	**0.80**	**0.76**	**0.82**	**0.74**	**0.78**

On the basis of the analysis performed, application of the comparable market multiples method resulted in an exchange range of between 0.74 and 0.82 per BPU ordinary share for each BL ordinary share.

5.3 Market Price method

5.3.1 Description and results of the analysis

For listed companies, standard valuation practice suggests that market prices should be observed over time intervals which can be considered significant in terms of providing the necessary information to assess their economic value. The principal feature of this methodology is its ability to express the relationship between the values of the companies being examined, as perceived by the market, in relative terms.

When determining the economic value of credit institutions, it is appropriate to keep in mind that, on one hand, the banking sector is characterised by complementarity and similarity in products and customers and, therefore, banks tend to reflect the performance of the market overall in a similar manner and, on the other hand, speculative pressures can significantly influence market valuations.

For the current valuation, it was considered appropriate to apply this methodology using the following criteria: (i) use of the arithmetic average of the closing prices and the weighted average of the official prices for BL and BPU; (ii) use of reference periods of 1 day, 15 days, 1 month, 2 months and 3 months prior to 13 November 2006, the date that the Transaction was announced.

Table 8. Market price (simple average)

Value per ordinary share (€)	BL	BPU	Exchange ratio
3-month simple average	16.03	21.68	0.74
2-month simple average	16.76	21.73	0.77
1-month simple average	17.32	21.78	0.80
15-day simple average	17.50	21.53	0.81
Price at 10 November 2006	17.80	20.85	0.85

Source: *Datastream*

Table 9. Market Price (weighted average)

Value per ordinary share (€)	BL	BPU	Exchange ratio
3-month weighted average	16.49	21.68	0.76
2-month weighted average	16.89	21.69	0.78
1-month weighted average	17.35	21.70	0.80
15-day weighted average	17.50	21.44	0.82
Price at 10 November 2006	17.87	20.94	0.85

Source: *Datastream*

The valuation results summarised in the tables above show that the range of exchange ratios is in line with the values expressed by the most recent market prices of the shares of both BL and BPU. In fact, the value differential between the two Banks attributable to the different levels of strategic attraction connected to the control dynamic has only been reflected in the share price performance in recent months following the circulation of rumours in the market concerning the possible merger of BL with a mutual bank. On the basis of the market prices, an exchange ratio between 0.74 and 0.85 BPU ordinary shares for each BL ordinary share was obtained.

5.4 Validation method: relative contribution analysis

5.4.1 Description of the analysis

The analysis of relative contributions was considered as a validation method for the valuations performed. It identifies the relative weight of each company within the combined entity following the merger. This analysis, however, does not show absolute values, but ratios which express the contribution of each company to the combined entity resulting from the merger. This method, specifically, is based on a comparison of indicators considered significant for the banks involved in the merger process which show the relevant strategic characteristics, both in terms of size and the earnings streams produced. For each of the indicators selected, the percentage contribution of BL and BPU to the combined entity resulting from the Merger and - on the basis of the number of shares of each Bank at the Reference Date and of the Adjustment Factor described above – the relative exchange ratio has been determined.

5.4.2 Results of the analysis

The selected indicators, which are based on figures from the consolidated financial statements of the Banks for the three months ending 30 September 2006 (adjusted for any extraordinary income items), and the results achieved via this method are shown in Table 10. For each variable selected, the contribution of each Bank to the combined entity and the related exchange ratio are given.

Table 10. Summary of results (data as at 30 September 2006)[1]

€ million	BL	BPU	Exchange ratio	
Adjustment Factor			**1.32**	**1.35**
Total revenues[2]	1,166	1,958	0.76	0.78
Gross operating profit[2]	534	820	0.83	0.86
Income from continuing operations *before* tax[2]	457	702	0.83	0.86
Adjusted net income[2,3]	232	374	0.79	0.81
Loans to customers	29,954	49,798	0.77	0.79
Direct deposits	30,036	51,526	0.74	0.77
Total deposits[4]	74,501	106,789	0.89	0.92
Book Value[5]	2,819	4,893	0.74	0.76
No. of branches in Italy	792	1,181	0.86	0.88

Source: Consolidated Report and Accounts for BL and BPU for the three months ending 30 September 2006, presentation of the proposed BPU-BL merger to analysts on 14 November 2006, internal BL data
1) Figures restated for the purposes of comparability
2) Earnings figures for BPU adjusted to exclude non-recurring items

3) Figures for BL adjusted to exclude earnings from discontinued activities net of tax
4) Figures adjusted to exclude duplication. Figure for BL adjusted for €4.8 billion
5) Figure for BL includes a €31 million capital increase following the exercise of stock options by management. Source: BL press release dated 20 October 2006

Application of the contribution method produced a range of values for the exchange ratio of between 0.74 and 0.92 BPU ordinary shares for each BL ordinary share.

6. Main difficulties and limitations in valuation

The main difficulties and limitations of the valuations performed are summarized below:

- use of forecast data: the analyses were performed using forecast data, which by its nature contains uncertainty and the potential lack of comparability between related items;
- access to management: the inability to gain direct access to BPU management limited the ability to obtain specific information, above all in relation to assumptions underlying the financial projections used;
- estimation of the Adjustment Factor associated with the different levels of contendability: in order to evaluate the fairness of the Exchange Ratio, an adjustment factor which takes into account the different legal form of incorporation of the two Banks participating in the Merger was applied to the exchange ratios achieved using the empirical methods (Dividend Discount Model and relative contribution method). This "adjustment" was calculated using estimates and empirical analyses that, by their nature, contain uncertainty and variability;
- valuation methods adopted: the valuations performed reflect the limits and particularities of each of the various valuation methods used.

7. Valuation summary

The following range of Exchange Ratio values was achieved using the valuation methods described in this Valuation Report.

Table 11. Summary of results

Valuation method	Exchange ratio	
	Min	Max
Dividend Discount Model	0.80	0.83
Market Multiples method	0.74	0.82
Market Price method	0.74	0.85
Average of principal methods	**0.76**	**0.83**
Validation method (relative contribution analysis)	0.74	0.92

8. Conclusions

Based on the comparison of results achieved from the various valuation methods selected, it is considered that the Share Exchange Ratio which the Board of Directors of BL intends to propose to the General Meeting of Shareholders – that is, 0.83 newly issued BPU ordinary shares for each BL ordinary share - is, from a financial perspective, fair to BL shareholders.

Milan, 12 December 2006 ***Mediobanca – Banca di Credito Finanziario S.p.A.***