



26 August 2006

11:58

Reuters News

## **Intesa, Sanpaolo agree to create Europe bank giant**

By Lisa Jucca and Gianluca Semeraro

MILAN, Aug 26 (Reuters) - The boards of Banca Intesa and Sanpaolo IMI on Saturday approved plans to merge, creating Italy's top bank which will rival Europe's biggest lenders.

The link-up between the banks will transform Italy's business landscape, putting the new lender at the pinnacle of the country's fragmented banking system and forging a national champion able to fend off takeovers by foreign banks.

The new bank, which will have a market worth close to \$80 billion, would surpass UniCredit as the biggest retail bank in Italy with a domestic network of 6,300 branches, twice as many as its local rival.

The lender would be one of Europe's top 10 banks, but its presence abroad would far smaller than that of UniCredit, which owns a major bank in Germany and is the leader in central and eastern Europe.

Under the terms of the merger plan, Intesa will offer 3.115 new shares for each ordinary and preferred share in Sanpaolo.

Intesa shares closed on Friday at 5.05 euros and Sanpaolo shares at 16.04 euros, equivalent to a swap-ratio of 3.18.

Analysts said the plan could be considered a merger of equals and that the new bank's governance appeared to be evenly split between both parties.

"They have been very wise in settling for a share deal. You get all the benefits without paying too much, especially now that the stock market prices are quite high," Christopher Kummer, director at the Institute of Mergers, Acquisitions and Alliances in Vienna told Reuters.

This week's sharp rallies in both banks' shares boosted the market value of the combined entity to about \$77 billion on Friday. That does not include Sanpaolo's preferred shares.

The merger, to be completed by the early next year, would generate pre-tax synergies of 1.3 billion euros by 2009 and result in one-off pretax charges of 1.5 billion euros.

Intesa said it expects the new entity to achieve a net profit of 7 billion euros in 2009 post synergies.

Intesa's CEO Corrado Passera is to head the bank which will be headquartered in Turin. Sanpaolo chairman Enrico Salza will head the executive board while Intesa's chairman Giovanni Bazoli will chair the supervisory board.

"The merger makes a lot of sense. Strategically, the banks were in a difficult position and this merger allows them to grow without having to pay a fortune," a bank analyst who declined to be named told Reuters.

## UNANIMOUS BACKING

France's Credit Agricole, Intesa's top investor with an 18 percent stake, and Spain's Santander, which owns 8.4 percent in Sanpaolo, also backed the merger plan.

But the boards of both banks will meet again later in the year to hammer out more detailed integration plans.

Santander, which said on Friday it could make a capital gain of 1.2 billion euros if it sold its stake, declined to comment when asked whether it wanted to sell.

Intesa-Sanpaolo will have a 20 percent market share in Italy with a strong presence in the country's rich north.

The banks said they could close or sell up to 10 percent of their combined network of more than 6,000 branches in Italy after the merger. They made no mention of possible layoffs, which analysts say could run to 10,000, or 10 percent of the two groups' combined workforce.

The statement did not give details of how the two banks plan to address potential conflicts between their respective insurance and asset management business. But it said the merger would not affect the prospective listing of Eurizon, Sanpaolo's wealth management unit, expected in November.

(Additional reporting by Gianni Montani in Turin, Andrea Mandala and Andrew Hurst in Milan)