



**Goldman Sachs
European Financials Conference 2003**

"Surviving in a Low Interest Rate Environment"



Rome, June 18-20, 2003

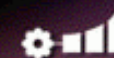
**Goldman
Sachs**





Edoardo Lombardi

Chief Operating Officer



Interest Rates & the Economic System

Interest rates:

- ▶ crucial to banks and insurance companies
- ▶ a determining factor in the health of the business



low interest rates often create an environment
that endangers survival



3

Mediolanum Product Line Integration



personalised solutions



4

A Business Model built for Flexibility



to respond to or even anticipate economic & market changes & resulting client needs



5

The Mediolanum Multi-channel Bank imports the concepts of diversification & integration



integrates all 'points of contact'

optimises added-value & convenience



6

Banca Mediolanum's Strategy creates a high level of loyalty & persistency

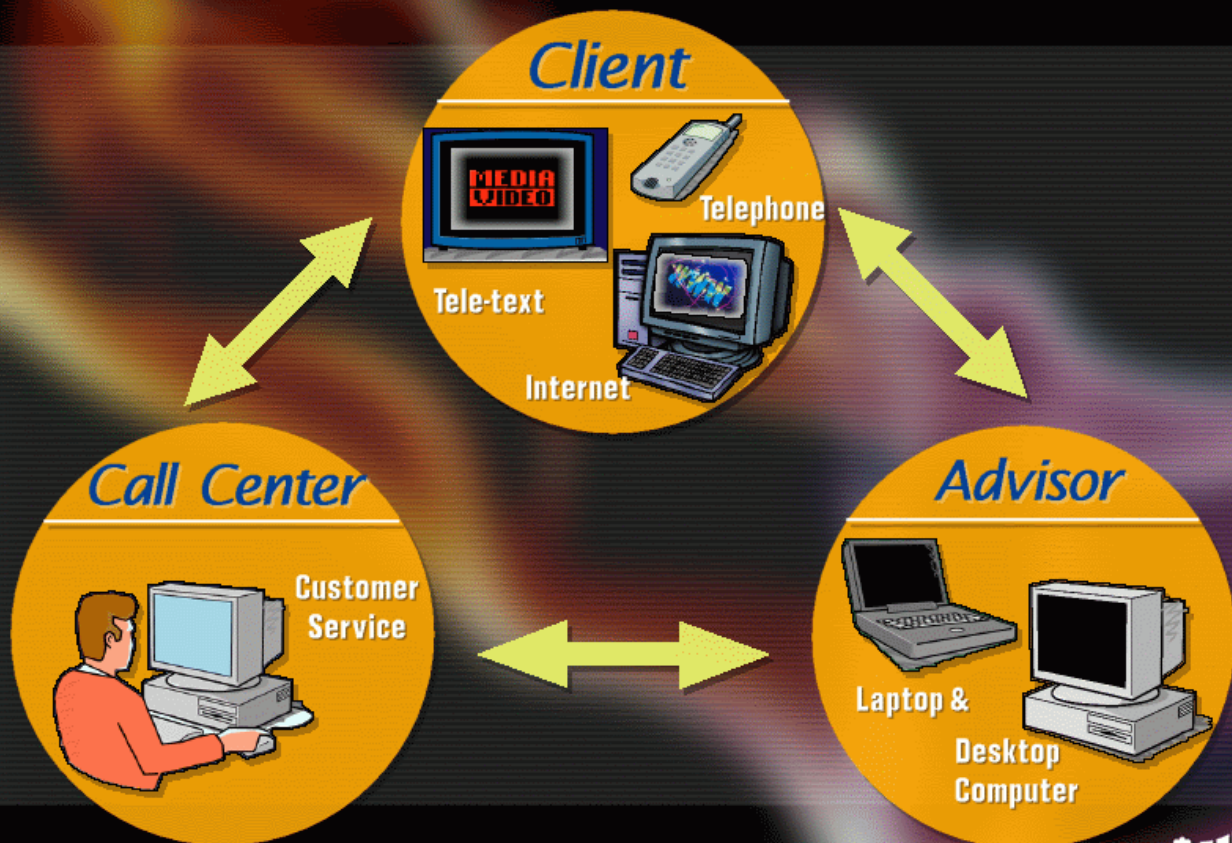
to provide service
when and where
the customers want it
&
through the channel
they choose

more convenience
better service



7

The Virtuous Triangle



8

Interest Rate & Risk Premium of Equity

Nominal Interest rate below historical minimum reduces

- ▶ bank interest spread
- ▶ life investment income



Risk Premium of equity goes down



makes the prospect of investing in equity even more interesting



9

Mediolanum Proactivity A defining characteristic

Proactivity:
"controlling a situation by taking Initiative"

our Proactive Actions have helped us to:

- ▶ defend revenues
- ▶ reduce costs
- ▶ offer products that provide interesting alternatives to fixed rate products



10

The "Era" of Traditional Policies

Single premium & annual premium traditional policies sold until 1998

- ▶ invested in government bonds
- ▶ revenues equal to 20% of the yield generated on segregated funds
- ▶ guaranteed the policyholder a minimum yield of 3.8% on average



a "cocktail" of risks & liabilities



11

The "Era" of Unit-Linked

we stopped selling Traditional policies in favor of Unit-Linked

Unit-Linked characteristics:

- ▶ invest in equity
- ▶ revenues based on the size of the assets
- ▶ not tied to the interest rate
- ▶ no guarantee of a minimum yield
- ▶ no guarantee of a level of annuity

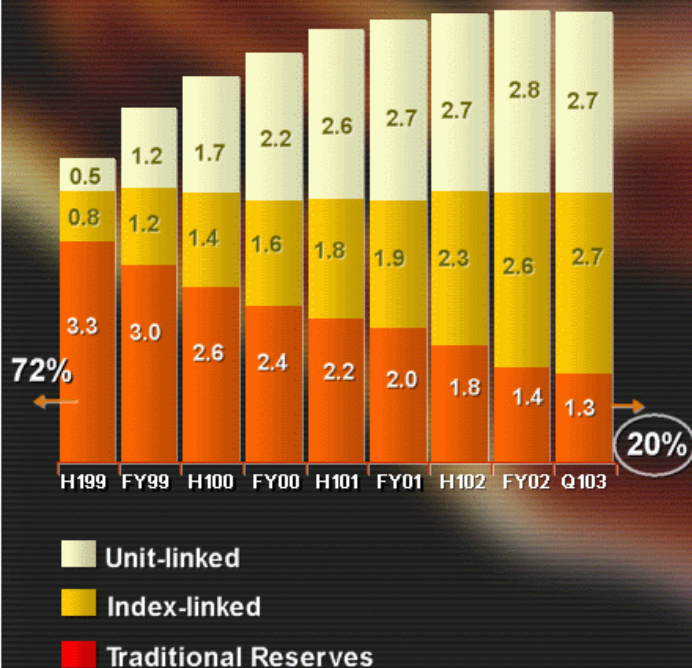
80% of the "transformable" traditional policies were transformed



12

Evolution of Mediolanum Life Reserves

Euro billion



- ▶ Interest rate-sensitive traditional reserves in decline
- ▶ Guarantees relate only to traditional reserves, i.e. 20% of Life assets
- ▶ Traditional reserves modestly affected by writedowns
- ▶ Unit & Index-linked don't require solvency margins
- ▶ Cost & availability of capital present no issue: network commission financed by 1st-year loadings



13

Proactivity: the Bank Business

1999: current accounts with no costs & high interest rates

Interest rate cuts put pressure on Interest Spread



2002: we lowered our rates at the right time while maintaining a significant edge over the competition



today our interest spread generates important revenues while interest rates we offer on current account remains among the highest



14

Proactivity: Cost Control

Important to Preserve Margins

G&A costs contained despite increase in number of:

- ▶ customers
- ▶ direct channel contacts
- ▶ total transactions



15

Proactivity: Cost Control

	2002	2001	Change
G&A (Euro million)	172	166	+4%
Bank Customers ('000)	438	369	+19%
Direct Channel Contacts ('000)	9,290	7,770	+20%
Total Transactions ('000)	3,296	2,810	+17%



16

Proactivity: Cost Control Direct Channel Contacts by type

Million	2002	2001	Change
Internet	4.6	3.4	+35%
VRU (Automatic Response Unit)	2.5	1.9	+32%
Call Center Operators	1.2	1.6	-25%
Other	1.0	0.9	+11%
Total Direct Channel Contacts	9.3	7.8	+20%

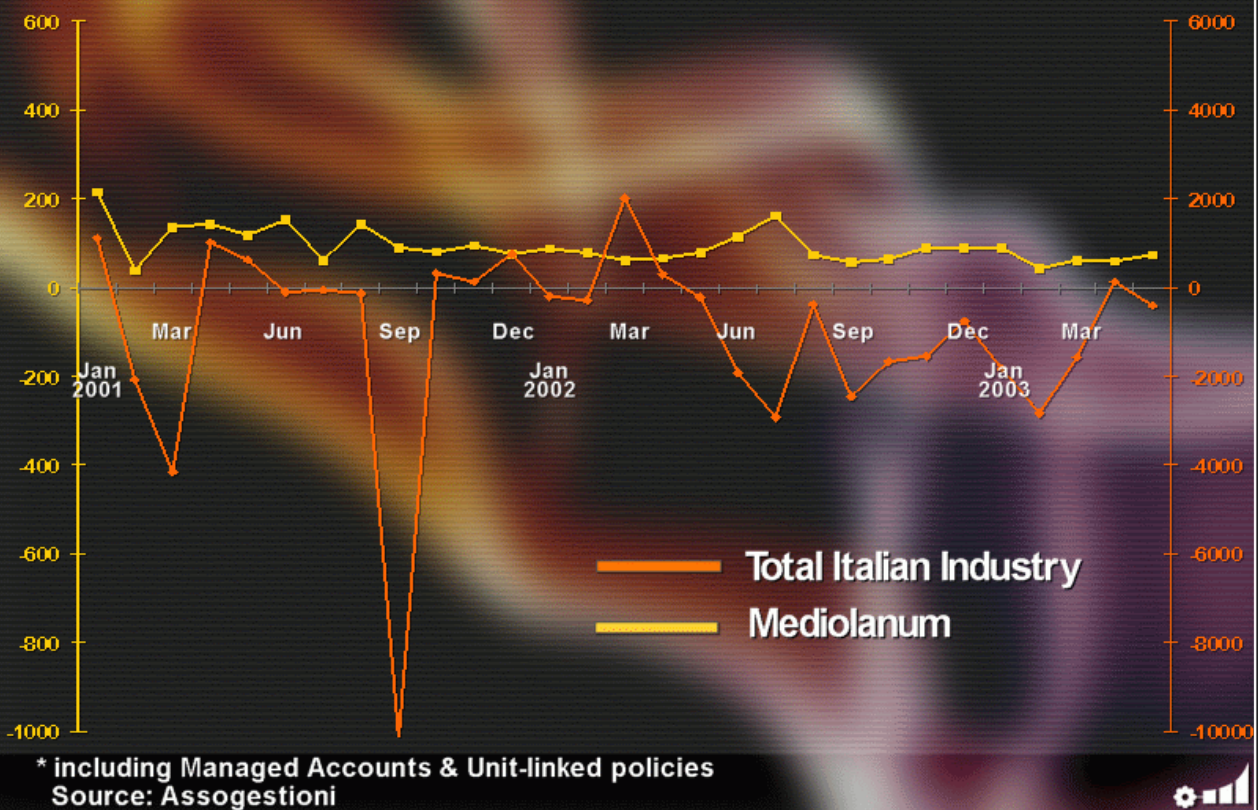
17

Proactivity: Cost Control - Achievements

- ▶ promotion of the Internet channel - strongly supported by the advisors
- ▶ adoption of the "Electronic Contract" - eliminates data-entry and reduces errors & inaccuracies
- ▶ re-negotiation of all Supplier Contracts - has generated important cost savings
- ▶ successful development of "Improvement Teams" - volunteer work teams focused on cost savings & quality issues

18

Net Inflows into Equity Mutual Funds* differentiate Mediolanum from competition



19

Products for a Low-Interest Environment

- ▶ suitable for Short and Medium-term needs
- ▶ Transparency & Simplicity
- ▶ none negatively affected by an increase in interest rates



- ▶ current accounts like "Conto Unico" with 2% interest rate
- ▶ index-linked policies (principal is guaranteed):
 - ▶ "VAM" - gives 1% more than rate of inflation
 - ▶ "Dipiù Money" - gives yearly coupon
 - ▶ "Dipiù Power" - takes advantage of even limited gains in the index



20

Closing Comments

*Proactivity, adaptability, cooperation,
& responsiveness
are key values in Mediolanum*

