

Asset gathering in Italy: Can margins & growth be sustained?

Goldman Sachs
European Financials Conference 2004



Monte Carlo, June 9-11, 2004

**Ennio Doris
Chief Executive Officer**

3

Margins

4

Price & Margin Defined



Price:

what the customer pays for the product or service



Margin:

what the company obtains from its business acumen with respect to this product or service



5

High Margins = High Prices?

There is the tendency to equate high prices with high margins, but this is not correct



High margins necessitate high prices when there is lack of innovation at the managerial, operational or product level

6

Mediolanum Pension Plans Pricing

Duration	Avg. total loadings	Final loadings*
10 years	10.7%	-3.9%
23 years (average)	10.1%	+1.5%
40 years	5.9%	+12.5%

* When loyalty & terminal bonuses are included
 NB: All Mediolanum Pension Plans are Unit-linked



7

Mediolanum Pension Plans Evaluation of pricing

First-years loadings
are irrelevant by definition



Total actual loadings, thus
capital furnished at maturity
should be used to evaluate price

8

Mediolanum Pension Plans Features

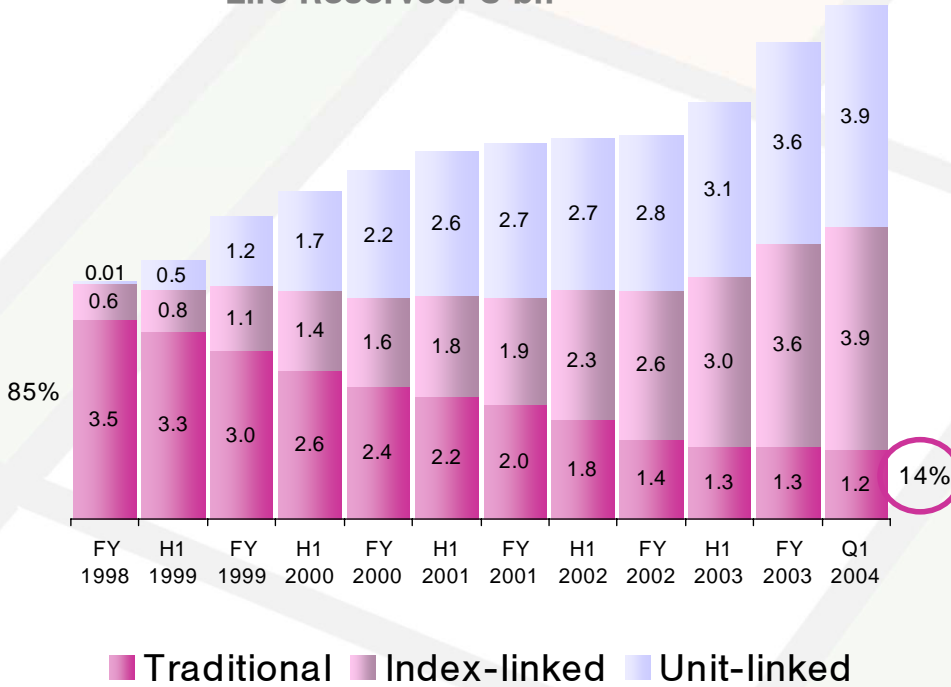
- ✓ For the customer: **Least expensive product** on the Italian market - thanks to bonuses
- ✓ For the industry: **Benchmark for profitability**
Our pension plans deliver about 90% of 1st year premiums in terms of distributable earnings



9

Mediolanum Pension Plans How we promote margins

Life Reserves: € bn



Market leader for product design & business profitability

- ✓ We switched from traditional 80-20 policies at the right time (1998)
 - these deliver very modest yield to policyholders, and are
 - much less profitable than before
- ✓ We transformed most of in-force portfolio into unit-linked
- ✓ We pioneered long duration policies

10

Mediolanum Pension Plans Margin source

- ✓ Long duration (on average 23 years)
- ✓ Low lapse rate
- ✓ Tax advantage due to underlying mutual funds domiciled in Ireland
- ✓ Efficiency of operations that result in low administrative expenses
- ✓ “Automatic increase in premiums” linked to the Cost of Living Index plus a certain number of points: doubling or tripling of premium over the life of the policy



11

Mediolanum Pension Plans Margin sustainability in our DNA

Our sources of margin will not disappear



They are **inherent in our way of selling** the product, and **in establishing a long-term good relationship** with the customer

12

Mediolanum Mutual Funds Pricing: Total Expense Ratio* (T.E.R.)

Fineco Gestioni Sgr	3.06
Bim Intermobiliare	2.71
Azimut	2.68
MontePaschi AM	2.42
Anima	2.39
DWS Investment Italy	2.39
BPU Prumerica	2.22
Aletti Gestielle	2.16
Euromobiliare AM	2.16
Pixel	2.12
Pioneer Investments	2.11
Gestnord Fondi	2.04
Bipielle Fondicri	2.01
Mediolanum	1.91
Nextam Partners	1.83
Nextra	1.79
Bipiemme Gestioni	1.66
Fineco AM	1.62
BNL Gestioni	1.61
Generali AM	1.48
Arca	1.19

Costs included in T.E.R. Calculation:

- Management fee
- Performance fee
- Bank custody costs
- Administrative agent
- Transfer agent
- General expenses

Market Average 2.0%

**Mediolanum T.E.R.
is below the Italian
market average**

* average T.E.R. for Italy-based funds in 2003
Source: Milano Finanza March 13, 2004



13

Fund performance vs. Investor Behavior

- Investors are concerned with value, not price
- Everywhere investors are victims of the improper use of mutual funds, even of those whose performance is excellent



- ✓ Peter Lynch, manager of Fidelity's Magellan Fund from 1977 to 1990 posted a **29%** average annual return
- ✓ He outperformed market by 13% annually
- ✓ **But**, more than half the investors in the fund lost money

14

Dalbar: Quantitative Analysis of Investor Behavior

“Investment return is far more dependent upon investment behavior than on fund performance”

	1984-2002	
	Cumulative return	Annualised return
S&P 500 Index	793%	12%
Average equity fund investor	62%	3%
Average fixed income investor	120%	4%

Source: Dalbar, Inc.
 The Quantitative Analysis of Investor Behavior Study 2003
 Equity & Fixed Income funds



15

Mediolanum Mutual Funds Our strength: advising

Our advisors guide their customers in managing their emotions

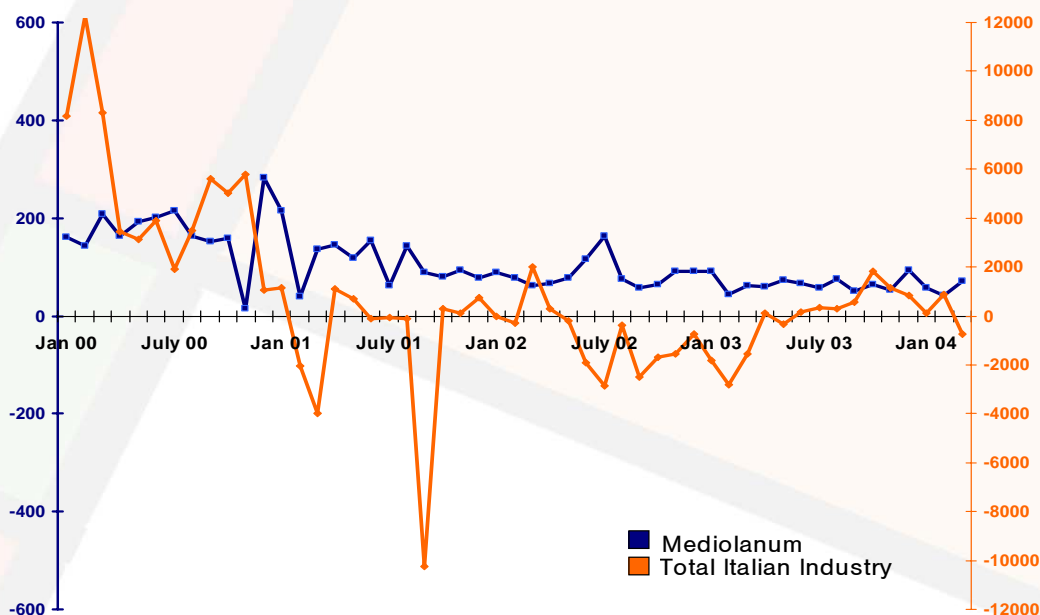


The aim: to regard equity investments as an investment intended for a minimum of 8 years to take advantage of the stock market over a long-term time horizon

16

Mediolanum Mutual Funds Net inflows into equity funds*

€ mn



* Including Managed Accounts & Unit-linked policies
Source: Assogestioni



17

Mediolanum Mutual Funds Margin sustainability

- ✓ Our **flexibility** will allow us to **adjust pricing structure to respond to any changes** in the regulatory environment as per guidelines from IOSCO
- ✓ Due to a relatively low TER, there is room to **increase management fees** compensating any reduction in performance fees, thus **increasing profit stability & the related EV**

18

Mediolanum Banking Products Current account pricing comparison

Current account costs*
(€)

Banca di Roma	253
San Paolo-Imi	191
Unicredit	182
Popolare Milano	178
Banca Sella	174
Popolare Bergamo	166
Banco Sicilia	148
Banca Intesa	121

Source: *CorrierEconomia*, February 2, 2004

Mediolanum "Standard Account"

27

Source: *Company data*

*Calculated based on the lowest costs available for a family of 2 adults and 2 children considering: average balance of 10.000 euro, annual fee, credit card fee, ATM fee, 122 transactions, o/w: 26 paycheck automatic deposits, 12 check deposits, 24 cash withdrawals – own bank, 24 cash withdrawals – other banks, 12 checks used, 4 wire transfers, 12 credit card statements sent, 4 bank statements from teller's counter, 4 cash withdrawal at teller's counter, 3 bank transparency statements sent, 4 bank account statements sent.



Margin sustainability

Managerial approach to pricing & margins is required

- ✓ **Management's responsibility** is to constantly look for ways to increase the value for the customer and to price accordingly
- ✓ Our **business model & product design capacity** allows us to maintain or even increase margins over time



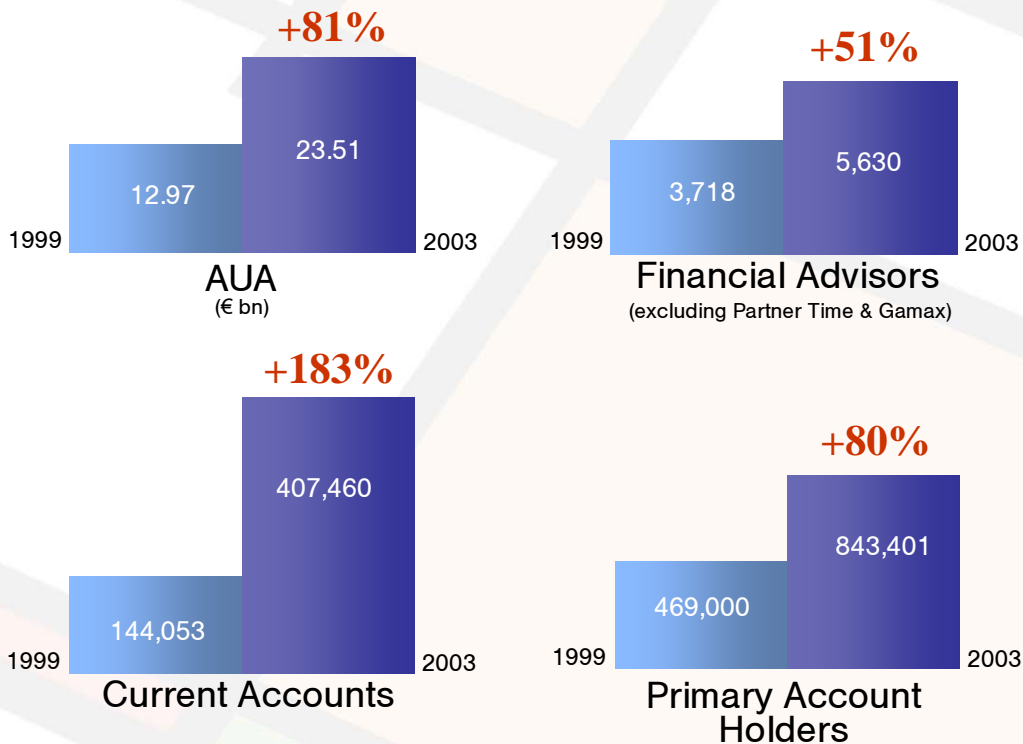
Growth

20

Growth

21

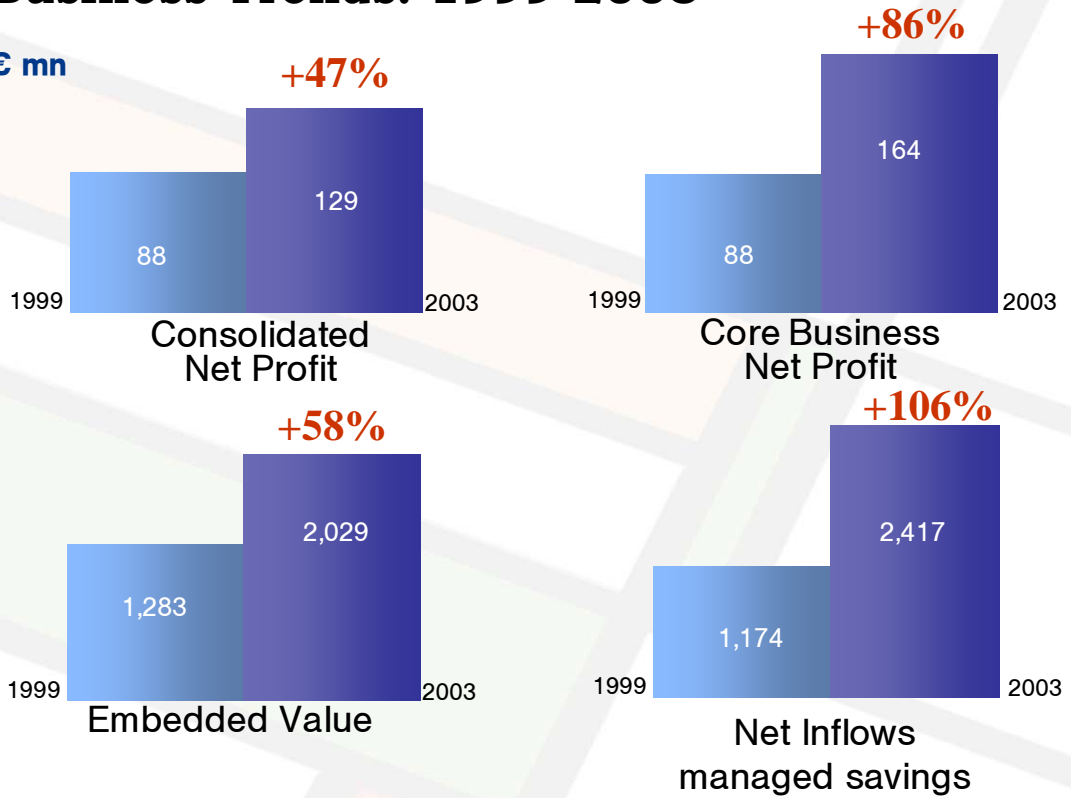
Consolidated Trends: 1999-2003



22

Business Trends: 1999-2003

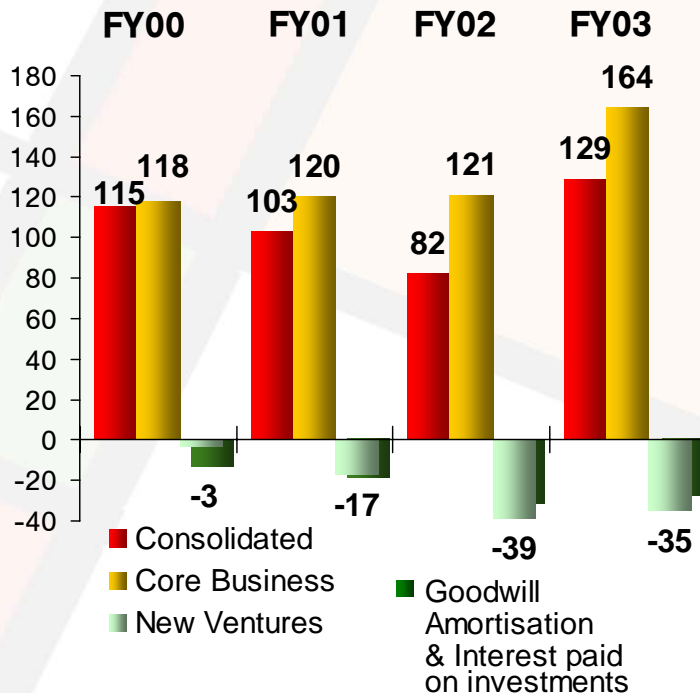
€ mn



23

Net Profit Trend

€ mn



Performance Factors

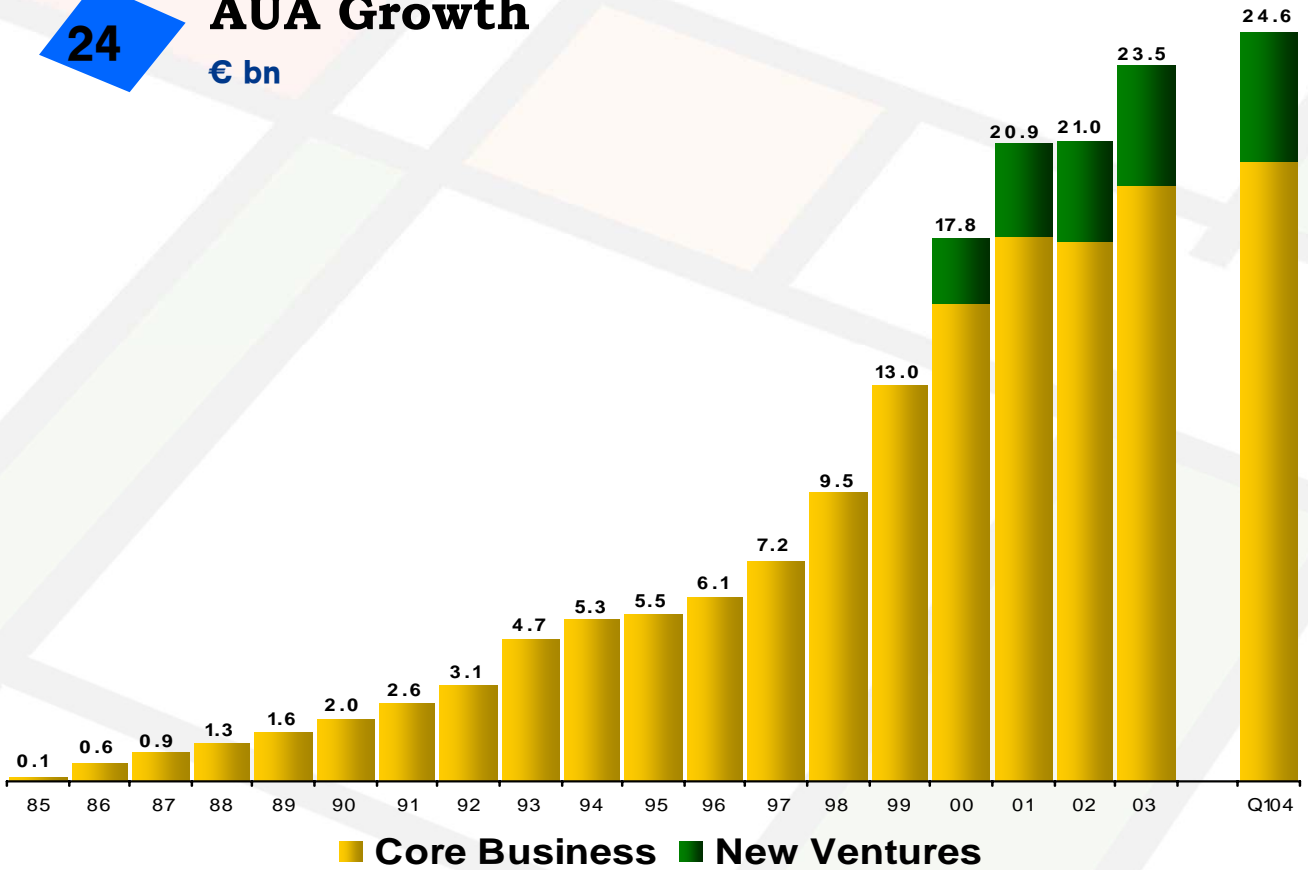
- ✓ Reduction in the loss of New Ventures during 2003
- ✓ Very strong results coming from Core Business



24

AUA Growth

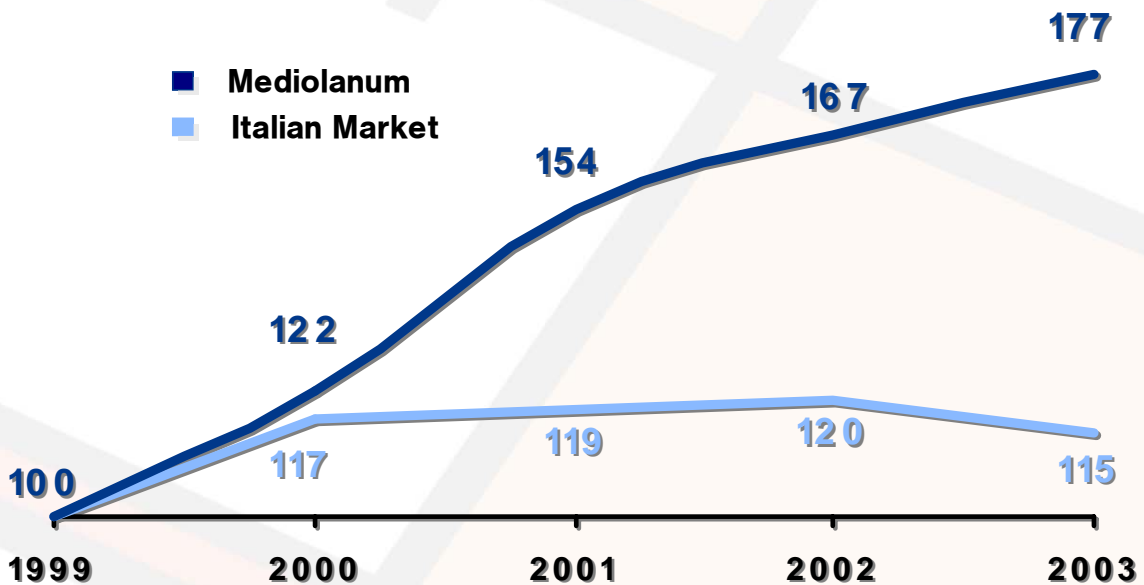
€ bn



25

Mediolanum Growth Recurring Premiums *

1999 = Base 100



Source: ISVAP + Mediolanum

* Including both New Business and Portfolio



26

Mediolanum Growth Pension plans

- *Private pensions will be the backbone of retirement income*
- *Premiums currently paid are totally insufficient*

We are proposing to our policyholders that they
increase their premiums

- ✓ In Q1 2004: 7,000 “discretionary increase in premiums” worth 5 million euro with average increase of 700 euro
- ✓ Huge potential with 500,000 policies in-force: a new production worth 350 million euro

27

Mediolanum Growth Re-launch of current account

Current Account is strategic to our business

- ✓ Allows us to offer higher quality service (consultancy & comprehensive information)
- ✓ Permits us to provide much better advice
- ✓ The customer tends to transfer all assets to us when our current account is used as primary account:
- ✓ Provides us with a full picture of customer’s financial situation



28

Mediolanum Growth AUA per bank customer as at April 30, 2004

	Avg. AUA	Cross-Selling*
Non-bank customers	€12,100	1.27
Bank customers	45,100	2.77
Bank customers/heavy-users	54,300	2.97
Bank customers/heavy-users over age 55	156,200	3.31
Non-bank customers over age 55	19,200	1.30

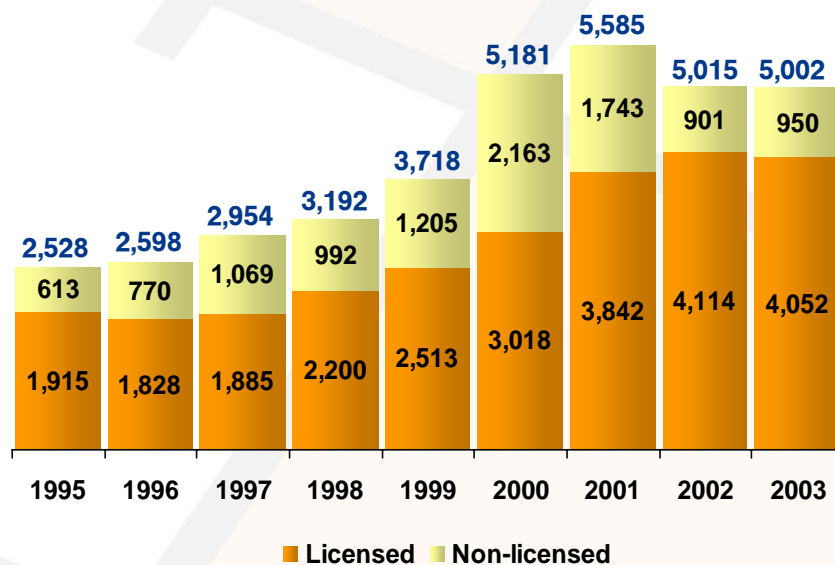


Opening of Current Account mandatory with any managed savings contract

* Out of 10 Products

29

Mediolanum Growth Sales network



30

International Expansion

31

International Expansion Spain

- ✓ Spain expansion undertaken in 2000
- ✓ Launch of operations in November 2001
- ✓ Start-up phase already passed:
break-even in 2003
- ✓ 560 financial advisors at Q104
- ✓ Net profit should cover goodwill amortisation
in 2006



32

International Expansion Germany

- ✓ German expansion undertaken in 2001: substantial contribution to Group profitability in 3-4 years.
 - ✓ B.A. Lenz purchased to gain banking license to replicate Mediolanum model in Germany
 - ✓ B.A. Lenz started operations in December 2002 & breakeven forecasted by 2007
 - ✓ Gamax sales network acquired in 2001
 - ✓ Gamax reached breakeven in 2003 & expect a significant contribution to profits this year
-

33

International Expansion The Future

- ✓ **Next Objective:**
to export our business model abroad possibly by 2005
- ✓ **Note:**
Amortisation of goodwill will not be required by the IAS accounting standards that take effect in 2005: consolidated profits will increase as a result



34

Expansion Banca Esperia

The Private Banking joint-venture
with Mediobanca operating in Italy,
targeting H.N.W. customers

- ✓ Launch of operations in 2001
- ✓ Banca Esperia's contribution to Group profits significant in 2003
- ✓ Important source of future profits

