January 19, 2007

INITIATION

# Banca Generali (BGN.MI)

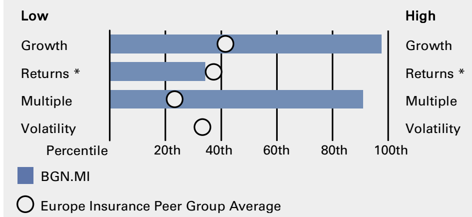
Neutral

## Rapid operational improvement increasingly discounted

### Investment view

In our view Banca Generali is well positioned to benefit from strong secular growth in demand for financial advice in Italy, given its competitive product offering, strong brand and stable platform. Growth in AUM, together with increased focus on improving revenues per asset and high operational gearing, should lead to significant medium-term growth in net income and free cash flow, and an underleveraged balance sheet offers further opportunities for capital restructuring. We believe valuation largely discounts this improvement and execution on management targets, and, following strong performance post-IPO, initiate with a Neutral rating.

**Investment Profile: Banca Generali**




* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

### Core drivers of growth

We believe high net flows to AUM, together with margin expansion from an improved revenue mix, should drive mid-teens revenue growth through 2008E; and high operational gearing as a result of current excess capacity, together with a reduction in provisions for adviser recruitment, should drive a near four-fold expansion in net income by 2008E.

### Risks to the investment case

Our revenue assumptions and target price are predicated on management sustaining net flows at c.€2 bn pa through 2008E and asset appreciation of c.7% in equity markets. Any out/under performance of these assumptions would lead to up/downward revisions to earnings and valuation.

### Valuation

Our DCF valuation gives a 12-month target price of €10.5, which is in line with the current share price and therefore offers limited upside.

### Industry context

Italian household savings remain unsophisticated, with deposits dominating; reduced state pension provision and increasing sophistication are likely to drive growth in financial advice.

**INVESTMENT LIST MEMBERSHIP**

Neutral

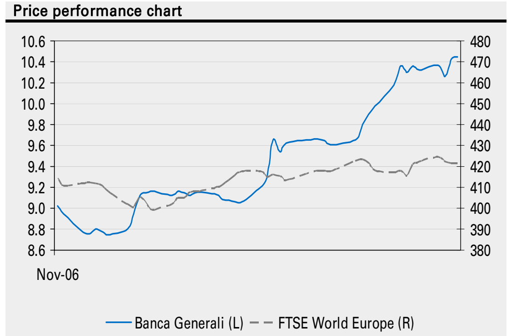
**Coverage view:** Attractive

Italy:
Insurance

| Key data | Current |
|---|---|
| Price (€) | 10.45 |
| 12 month price target (€) | 10.47 |
| Upside/(downside) (%) | 0 |
| Market cap (€ mn) | 1,163.2 |
| Debt/EV (%) | -- |

| | 12/05 | 12/06E | 12/07E | 12/08E |
|---|---|---|---|---|
| Pretax profit (€ mn) | 27.5 | 50.8 | 75.3 | 102.4 |
| Net income (€ mn) | 1.7 | 9.9 | 28.5 | 54.7 |
| EPS (€) | 0.02 | 0.09 | 0.26 | 0.49 |
| ROEV (%) | 0.8 | 4.7 | 14.4 | 24.6 |
| Dividend yield (%) | 0.1 | 0.4 | 1.8 | 3.5 |
| P/E (X) | NM | 116.9 | 40.8 | 21.3 |
| P/EVPS (X) | -- | -- | -- | -- |

**Price performance chart**




| Share price performance (%) | 3 month | 6 month | 12 month |
|---|---|---|---|
| Absolute | -- | -- | -- |
| Rel. to FTSE World Europe | -- | -- | -- |

*Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/18/2007 close.*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# Banca Generali: Summary financials

| Profit model (€ mn) | 12/05 | 12/06E | 12/07E | 12/08E |
|---|---|---|---|---|
| Non-life pretax result | -- | -- | -- | -- |
| Life pretax result | -- | -- | -- | -- |
| Banking pretax result | 0.0 | 0.0 | 0.0 | 0.0 |
| Asset management pretax result | 27.5 | 50.8 | 75.3 | 102.4 |
| Other pretax result | -- | -- | -- | -- |
| Holding company pretax result | -- | -- | -- | -- |
| Eliminations | -- | -- | -- | -- |
| **Group pretax result** | **27.5** | **50.8** | **75.3** | **102.4** |
| Goodwill & other amortisation | 0.0 | 0.0 | 0.0 | 0.0 |
| Group exceptional & other items | (24.8) | (33.7) | (28.5) | (12.8) |
| Group pretax result | 2.7 | 17.1 | 46.8 | 89.6 |
| Minorities & associates | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax expense | (1.0) | (7.2) | (18.2) | (35.0) |
| **Published net income** | **1.7** | **9.9** | **28.5** | **54.7** |
| **GS normalised net income** | **--** | **--** | **--** | **--** |

| Embedded value (€ mn) | 12/05 | 12/06E | 12/07E | 12/08E |
|---|---|---|---|---|
| Adjusted NAV (excl. GW/prefs/other) | -- | -- | -- | -- |
| Additional in-force | -- | -- | -- | -- |
| **Total embedded value** | **--** | **--** | **--** | **--** |
| **Published shareholders' equity** | **212.1** | **197.8** | **221.9** | **255.2** |

| Per share data | 12/05 | 12/06E | 12/07E | 12/08E |
|---|---|---|---|---|
| Published EPS (€) | 0.02 | 0.09 | 0.26 | 0.49 |
| GS normalised EPS (€) | -- | -- | -- | -- |
| DPS (€) | 0.01 | 0.04 | 0.19 | 0.37 |
| GS EVPS (€) | -- | -- | -- | -- |
| Published BVPS (€) | 1.96 | 1.61 | 1.82 | 2.12 |

| Ratios | 12/05 | 12/06E | 12/07E | 12/08E |
|---|---|---|---|---|
| Published P/E (X) | -- | 102.3 | 40.8 | 21.3 |
| GS operating P/E (X) | -- | 20.0 | 15.5 | 11.4 |
| Published ROEV (%) | 0.8 | 4.7 | 14.4 | 24.6 |
| GS operating ROEV (%) | -- | -- | -- | -- |

Note: Last actual year may include reported and estimated data.

*Source: Company data, Goldman Sachs Research estimates.*

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**EXPECTED NEWS FLOW/EVENTS**

| DATE | EVENT | COMMENT |
|---|---|---|
| March 14 | Full year 2006 results, analyst meeting and call | We expect earnings of c.€9.9 mn for full-year 2006 |
| May 7 | 3M results and conference call | |
| June 13 | GS Financials conference, Lisbon, Portugal | |
| July 31 | 1H results and conference call | |
| October 30 | 9M results and conference call | |

Source: Company data, Goldman Sachs Research estimates
*The prices in the body of this report are based on the market close of January 17, 2006.*

# Investment view: Turnaround now largely discounted

**Exhibit 1: SWOT analysis for Banca Generali**

| STRENGTHS | WEAKNESSES |
|---|---|
| Brand awareness; Generali is one of the most recognised financial services brands in Italy<br>€90 mn of excess capital; can be redeployed more efficiently or distributed<br>Modern open architecture model; can meet client demand for inhouse or external funds<br>Scope for margin expansion given existing product mix<br>Low regulatory risk; no offshore funds which have exposure to any tax regime changes | Current margins are at the low end of its peer group<br>Low levels of current profitability<br>Current valuation highly dependant on high levels of future earnings growth<br>Ownership structure limits potential for takeover |
| Good potential to shift to higher margin products<br>Well placed to benefit from structural growth in the market<br>Potential to act as a consolidator | Margins in the Italian retail asset management market are high and could see compression<br>Operationally geared to any increases in the cost of hiring/retraining financial advisors<br>Weaker than expected capital markets could depress fees and inflows |
| OPPORTUNITIES | THREATS |

*Source: Goldman Sachs Research estimates.*

## Well positioned for growth, but turnaround in financials discounted

**Despite Banca Generali's strong market positioning in the Italian financial adviser market, we initiate coverage with a Neutral rating, reflecting our view that the current share price is now largely discounting expected medium-term growth in AUM and the resultant turnaround in group financials.** In our view, the three most important business drivers for asset gathering businesses are net inflows, the persistency of the asset base and the stability of fees. In the case of an Italian Promotori network, we believe this boils down to the stability of the agency network. We believe that Banca Generali screens well on the key criteria for success as it has a strong brand name, a comprehensive and high quality customer offering, and a generally stable environment due to its position as part of the Generali group.

## High operational gearing is feeding through to bottom-line growth

Following a period of restructuring which left the group with c.30% excess capacity and a cost income ratio for 2005 of 76.3%, in 2006 management shifted the focus to growing AUM as well as improving the revenue per asset through a number of initiatives. As a result we believe 2006 earnings will see a sharp improvement from 2005's c.€4.1 mn (proforma) to €9.9 mn in 2006.

As further excess capacity remains in the group's infrastructure, we estimate that management can continue to grow AUM at a CAGR of c.10% out to 2009 while incurring only limited cost growth of c.3% pa. Coupled with some modest margin expansion, as a result of planned initiatives to convert single fund holdings and older insurance portfolios into higher margin fund of fund and unit-linked products, this should lead to significant pre-tax operating earnings growth of c.33% pa over the same period.

Further, below the operating line recruitment-related provisions should fall in 2008 from c.€21 mn in 2007E as management's expansion of the network slows. As a result, we expect net income to grow to €67.6 mn by 2009 from €9.9 mn in 2006, equivalent to compound growth of 89% pa.

**Exhibit 2: Summary financial information**
Year to December 31

| | EPS € | DPS € | FCF PS € | BV PS[1] € | P/E x | Div Yld % | FCF Yld % | P/Bk x | % AUM % |
|---|---|---|---|---|---|---|---|---|---|
| 2006E | 0.09 | 0.04 | -0.07 | 1.78 | 116.6 | 0.4% | -0.7% | 5.9 | 4.9% |
| 2007E | 0.26 | 0.19 | 0.18 | 1.99 | 40.7 | 1.8% | 1.7% | 5.2 | 4.5% |
| 2008E | 0.49 | 0.37 | 0.37 | 2.29 | 21.2 | 3.5% | 3.6% | 4.5 | 4.1% |
| 2009E | 0.61 | 0.46 | 0.61 | 2.53 | 17.2 | 4.4% | 5.8% | 4.1 | 3.8% |
| 2010E | 0.72 | 0.54 | 0.72 | 2.80 | 14.5 | 5.2% | 6.9% | 3.7 | 3.5% |

1 Stated IFRS book value inc goodwill

*Source: Goldman Sachs Research estimates.*

## Secular growth in financial advice

Changing demographic trends are leading to a rapidly ageing Italian population and a dependency ratio that is expected to increase from c.33% currently to c.41% by 2020. As a result, the Italian government is steadily reducing state pension provision and placing greater emphasis on individuals becoming more self reliant in retirement. Coupled with a conservative investment strategy – c.50% of Italian household net assets are invested in bank deposits – we expect this to lead to steadily rising demand for managed savings products and financial advice as individuals seek higher returns to support their retirement.

Recently announced consolidation in the Italian financial services industry may provide additional opportunities for Banca Generali to accelerate growth through recruitment as competing networks and senior customer relationship managers in the banks concerned may become unsettled.

## Valuation increasingly challenged; prefer Azimut (Buy, €10.5)

We value Banca Generali using a DCF model, compared for reasonableness against peer valuations; we derive a 12-month price target of €10.5, which means the stock is trading close to fair value. We note additional upside could be unlocked if management can put to better use c.€90 mn of excess capital via either a bolt-on acquisition or by returning it to shareholders. This valuation puts Banca Generali on c.21x 2008E earnings, compared with c.16x implied by our price target for Azimut. We believe this differential is justified given stronger near-term EPS growth at Banca Generali and the greater contribution of performance fees to Azimut's earnings. Of the two, we prefer Azimut (rated Buy); our 12-month DCF-derived target price is €12.23 implying 16% upside (equity market weakness is a risk to our target price as it could slow AUM growth via lowered demand and asset values, reducing fee revenue and consequently valuation).

## Risks to Banca Generali boil down to markets and execution

- **Slower or faster overall AUM growth:** whether driven by lower than anticipated net inflows or weaker overall returns from capital markets, lower AUM growth would lead to reductions in fee revenues as well as earnings and, as a direct result, valuation. Conversely, faster growth would lead our estimates and valuation to be exceeded.
- **Failure to execute on shift in mix of AUM:** our earnings estimates and resulting valuation assume management is successful in improving the product mix in order to expand fee revenues. Any failure in executing on this strategy would, all else equal, lead to a reduction in our earnings and valuation.
- **Industry-wide margin compression:** current margins on Italian retail financial products remain relatively high, suggesting that revenues could in time be exposed to some degree of margin compression.

**Exhibit 3: GS DCF Model gives a target price of €10.5 on a 12-month view, leaving limited upside**

DCF model, key sensitivities and implied valuation metrics (€ mn)

**Estimated cash flows**

| | 2005 | 2006E | 2007E | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|---|
| Net Income | 1.7 | 9.9 | 28.5 | 54.7 | 67.6 | 80.2 |
| Add back net Depreciation & Amortisation | 7.3 | 8.6 | 8.9 | 9.1 | 9.4 | 9.7 |
| Capex | -2.8 | -1.8 | -3.0 | -3.0 | -3.0 | -3.0 |
| Add back net provisions for recruitment | 9.0 | 17.0 | 13.7 | 3.4 | 3.4 | 1.7 |
| Actual cash payments for recruitment | 1.4 | -19.9 | -21.7 | -17.4 | -4.4 | -4.4 |
| Retained regulatory capital | -20.3 | -21.8 | -6.6 | -5.3 | -5.7 | -4.4 |
| **Free cash flow for shareholders** | **-3.7** | **-7.9** | **19.8** | **41.5** | **67.4** | **79.8** |
| Less interest income of excess cash | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 |
| **Adjusted free cash flow** | **-5.6** | **-9.8** | **17.9** | **39.7** | **65.5** | **78.0** |
| Discount factor | | | 1.00 | 0.92 | 0.85 | 0.78 |
| PV of cash flow | | | 18.0 | 36.6 | 55.5 | 60.6 |

**DCF valuation summary**

| Valuation | €mn | % Total |
|---|---|---|
| Excess cash | 90.0 | 8% |
| PV of cash flows to 2010 | 170.6 | 15% |
| PV of terminal value | 904.8 | 78% |
| Debt | 0.0 | 0% |
| Pension deficit | 0.0 | 0% |
| **Equity value (12-mths out)** | **1,165.5** | |
| Number of shares (diluted) (mn) | 111.3 | |
| **Current DCF value (€)** | **9.6** | |
| **12-mth target price (€)** | **10.5** | |
| **Share price (€)** | 10.42 | |
| **Potential upside/downside** | **0.5%** | |

| Key Assumptions | |
|---|---|
| Risk free rate (%) | 4.0% |
| Comfort margin | 0.0% |
| Equity risk premium | 3.5% |
| Beta | 1.4 |
| Cost of equity | 8.9% |
| Cost of debt | 2.8% |
| Debt/total capital | 0.0% |
| WACC | 8.9% |
| Terminal growth | 2.2% |
| Terminal multiple | 14.9 |

**Valuation metrics at share price of €10.4**

| | EPS € | DPS € | FCF PS € | BV PS[1] € | P/E x | Div Yld % | FCF Yld % | P/Bk x | % AUM % |
|---|---|---|---|---|---|---|---|---|---|
| 2006E | 0.09 | 0.04 | -0.07 | 1.78 | 116.6 | 0.4% | -0.7% | 5.9 | 4.9% |
| 2007E | 0.26 | 0.19 | 0.18 | 1.99 | 40.7 | 1.8% | 1.7% | 5.2 | 4.5% |
| 2008E | 0.49 | 0.37 | 0.37 | 2.29 | 21.2 | 3.5% | 3.6% | 4.5 | 4.1% |
| 2009E | 0.61 | 0.46 | 0.61 | 2.53 | 17.2 | 4.4% | 5.8% | 4.1 | 3.8% |
| 2010E | 0.72 | 0.54 | 0.72 | 2.80 | 14.5 | 5.2% | 6.9% | 3.7 | 3.5% |

1 Stated book value inc goodwill

**Implied valuation metrics based on 12-mth target price of €10.5**

| | P/E | Div Yld | FCF Yld | P/Bk | % AUM |
|---|---|---|---|---|---|
| 2006E | 117.2 | 0.4% | -0.7% | 5.9 | 4.9% |
| 2007E | 40.9 | 1.8% | 1.7% | 5.3 | 4.5% |
| 2008E | 21.3 | 3.5% | 3.6% | 4.6 | 4.1% |
| 2009E | 17.2 | 4.3% | 5.8% | 4.1 | 3.8% |
| 2010E | 14.5 | 5.2% | 6.9% | 3.7 | 3.5% |

**12-month value under differing assumptions**

| WACC | Terminal growth rate 0.2% | 0.7% | 1.2% | 1.7% | 2.2% | 2.7% | 3.2% | 3.7% | 4.2% |
|---|---|---|---|---|---|---|---|---|---|
| 7.9% | 9.6 | 10.1 | 10.7 | 11.4 | 12.2 | 13.1 | 14.3 | 15.7 | 17.5 |
| 8.4% | 9.1 | 9.5 | 10.0 | **10.6** | **11.3** | **12.0** | 13.0 | 14.1 | 15.5 |
| 8.9% | 8.6 | 9.0 | 9.4 | **9.9** | **10.5** | **11.1** | 11.9 | 12.8 | 13.9 |
| 9.4% | 8.2 | 8.5 | 8.9 | **9.3** | **9.8** | **10.3** | 11.0 | 11.8 | 12.7 |
| 9.9% | 7.8 | 8.1 | 8.4 | 8.8 | 9.2 | 9.7 | 10.2 | 10.9 | 11.6 |

**Implied valuation % 2007E AUM**

| WACC | Terminal growth rate 0.2% | 0.7% | 1.2% | 1.7% | 2.2% | 2.7% | 3.2% | 3.7% | 4.2% |
|---|---|---|---|---|---|---|---|---|---|
| 7.9% | 4.2% | 4.4% | 4.6% | 4.9% | 5.3% | 5.7% | 6.2% | 6.8% | 7.5% |
| 8.4% | 3.9% | 4.1% | 4.3% | **4.6%** | **4.9%** | **5.2%** | 5.6% | 6.1% | 6.7% |
| 8.9% | 3.7% | 3.9% | 4.1% | **4.3%** | **4.5%** | **4.8%** | 5.1% | 5.5% | 6.0% |
| 9.4% | 3.5% | 3.7% | 3.8% | **4.0%** | **4.2%** | **4.5%** | 4.7% | 5.1% | 5.5% |
| 9.9% | 3.4% | 3.5% | 3.6% | 3.8% | 4.0% | 4.2% | 4.4% | 4.7% | 5.0% |

**Implied 07E P/E multiple**

| WACC | Terminal growth rate 0.2% | 0.7% | 1.2% | 1.7% | 2.2% | 2.7% | 3.2% | 3.7% | 4.2% |
|---|---|---|---|---|---|---|---|---|---|
| 7.9% | 37.6 | 39.6 | 41.8 | 44.5 | 47.6 | 51.2 | 55.7 | 61.2 | 68.3 |
| 8.4% | 35.5 | 37.2 | 39.1 | **41.3** | **43.9** | **47.0** | 50.6 | 55.0 | 60.5 |
| 8.9% | 33.6 | 35.1 | 36.7 | **38.7** | **40.9** | **43.4** | 46.4 | 50.0 | 54.4 |
| 9.4% | 31.9 | 33.2 | 34.7 | **36.3** | **38.2** | **40.4** | 42.9 | 45.9 | 49.4 |
| 9.9% | 30.4 | 31.5 | 32.8 | 34.3 | 35.9 | 37.8 | 39.9 | 42.4 | 45.3 |

**Implied 08E P/E multiple**

| WACC | Terminal growth rate 0.2% | 0.7% | 1.2% | 1.7% | 2.2% | 2.7% | 3.2% | 3.7% | 4.2% |
|---|---|---|---|---|---|---|---|---|---|
| 7.9% | 19.6 | 20.6 | 21.8 | 23.2 | 24.8 | 26.7 | 29.1 | 32.0 | 35.6 |
| 8.4% | 18.5 | 19.4 | 20.4 | **21.6** | **22.9** | **24.5** | 26.4 | 28.7 | 31.6 |
| 8.9% | 17.5 | 18.3 | 19.2 | **20.2** | **21.3** | **22.7** | 24.2 | 26.1 | 28.4 |
| 9.4% | 16.6 | 17.3 | 18.1 | **18.9** | **19.9** | **21.1** | 22.4 | 23.9 | 25.8 |
| 9.9% | 15.8 | 16.4 | 17.1 | 17.9 | 18.7 | 19.7 | 20.8 | 22.1 | 23.7 |

*Source: Goldman Sachs Research estimates.*

# Valuation unexciting; use of cash critical to performance

**Our DCF analysis (Exhibit 3) suggests a value of €1,165 mn on a 12-month basis, giving a target price of €10.5 which offers limited upside from the current share price. This equates to 40.9x 2007E and 21.3x 2008E earnings. Banca Generali therefore trades at the upper end of its principal peers in the Italian market, leaving us with a relative preference for Azimut where we continue to see 16% upside and which remains better placed to benefit from our Strategists' positive stance on equity markets on a 12-month view.**

## Key assumptions of our DCF model

See Exhibit 3 for our full DCF model, together with the related sensitivities to revised assumptions for the WACC and terminal growth. The main assumptions are:

- **Cash flows** in line with our underlying earnings model.
- **WACC of 8.9%**: As it has net cash, the WACC of Banca Generali is simply the cost of equity. In deriving this we have assumed: a risk free rate of 4%, in-line with the 12-month forward 10-year bond yield; a beta of 1.4x consistent with that observed for the group's three main Italian peers (Exhibit 4); and an equity risk premium of 3.5%, in-line with our Strategists' estimates.
- **Terminal growth of 2.2%** from 2010 consistent with expected real GDP growth.

**Exhibit 4: Peer group betas**

| | 2 Year Beta | 5 Year Beta | 7 Year Beta |
|---|---|---|---|
| Azimut | 1.4 | na | na |
| Banca Fideuram | 0.9 | 1.4 | 1.4 |
| Mediolanum | 1.3 | 1.5 | 1.5 |

Source: Datastream, Goldman Sachs Research estimates.

## Key sensitivities in the model

Aside from the standard sensitivities for any DCF model of the WACC and terminal growth (Exhibit 3), we consider the most relevant sensitivities to our valuation to be:

- **Growth rate of AUM:** based on our estimates, 1% pa faster growth in AUM out to 2010 would add c.4% to our 12-month target price;
- **Margin expansion:** an immediate increase in management fees per AUM of 10 bp would add c.15% to our 12-month target price;
- **Potential to further leverage the balance sheet:** at present Banca Generali has an estimated €90 mn of excess capital on the balance sheet, valued in our DCF at book. In the event that this capital could be used more productively via either a share buyback or via a transaction with an RoI in excess of c.9%, our valuation would increase.

With no debt at present management has scope to increase group leverage. Although this is constrained by normal bank Tier 1 requirements, we estimate that the current balance sheet structure could withstand c.€50 mn of debt. If management were to make use of this to fund a share buyback, we estimate the benefit to our 12-month target price would be in the order of 4%. However, management has stated that it would not look to buy back stock due to the already constrained free float.

**Most likely use of excess capital and incremental debt would be an acquisition**
More likely in our opinion would be a bolt-on acquisition of a smaller Italian financial adviser network (in line with management's stated strategy to increase focus on high net worth customers), which could offer similar accretion to our valuation if financed by debt and the existing excess capital. Given historical multiples paid in the Italian market, this could suggest an acquisition of up to €3.5 bn of incremental AUM – equivalent to c.14% of the current group's size. However with valuations for acquisitions and the potential for synergies varying widely, we believe it is imprudent to build any specific allowance into our target price currently.

**Exhibit 5: Valuation comparables for selected Italian peers**

| | | Price/Earnings | Price/Cash Earnings | Price/AuM | Dividend Yield |
|---|---|---|---|---|---|
| Azimut | 2005 | 33.2 | 25.8 | 10.9% | 0.95% |
| (Buy) | 2006E | 20.8 | 17.7 | 9.6% | 1.90% |
| | 2007E | 16.8 | 14.2 | 8.4% | 1.90% |
| | 2008E | 13.9 | 11.9 | 7.5% | 2.86% |
| Mediolanum | 2005 | 19.4 | 18.0 | 14.5% | 3.21% |
| (Neutral) | 2006E | 23.0 | 21.1 | 14.3% | 3.47% |
| | 2007E | 19.0 | 17.6 | 13.8% | 4.20% |
| | 2008E | 17.9 | 16.6 | 13.3% | 4.48% |
| Banca Fideuram | 2005 | 21.1 | 25.3 | 7.5% | 3.66% |
| (NC) | 2006E | 19.9 | na | na | 4.05% |
| | 2007E | 17.2 | na | na | 4.49% |
| | 2008E | na | na | na | na |

1. Share price as at January 17, 2007 for Azimut €10.50; Mediolanum €6.24; Banca Fideuram €4.94

*Source: Datastream, I/B/E/S consensus, Goldman Sachs Research estimates.*

## Peer comparison does not support Banca Generali at present

Exhibit 5 shows the current valuation metrics for Banca Generali's main peers: both Azimut and Mediolanum are trading at lower 2008E earnings multiples than Banca Generali.

Although it could be argued that Banca Generali will see more rapid growth than these names post 2008, this is in part offset by Banca Generali's lack of a track record of delivery; in our view it will need demonstration of delivery for the stock to be able to expand its relative multiple from here.

Although Banca Fideuram is perhaps the closest peer in terms of asset mix (Exhibit 23), style of business and the onshore nature of the business, the ongoing buy-out and delisting of the residual minority of Fideuram by the Eurizon unit of its parent Intesa-Sanpaolo distorts the group's share price in our view, making it less appropriate for valuation comparisons.

# Key risks: Securing advisers together with capital markets

**Our earnings estimates are heavily dependent on Banca Generali being able to grow AUM over the coming years to take advantage of the group's high operational gearing and relatively fixed cost base. Therefore the main risks to both the up- and down-side relate to the factors that drive AUM growth.**

## Net flows dependent on network stability and product performance

Net flows are closely linked to the financial advisers' relationships with their clients. Any disruption to the financial adviser network, either through a fall in productivity, loss of advisers or a general inability to recruit could have a negative impact on levels of net flows. Conversely, flows could benefit from disruption to competing networks. In addition to the impact on flows, increased competition for experienced financial advisers could drive up costs for Banca Generali.

## Capital markets will play a role in AUM growth

Around 60% of the group's asset management products are invested in equity orientated funds. We estimate a 1% market fall/increase would equate to a c.1% reduction/increase in overall management fees and 30 bp in earnings.

The remainder of the group's funds under management are invested in bond and liquidity funds. Rising bond yields will result in falling asset values and lower management fees. We estimate a 0.5% rise in yields would equate to a c.1% reduction in management fees. As an aside, the revenue reduction would occur at the same time that the market's view on the cost of equity increases.

Consumer sentiment on capital markets will also have an impact on net flows.

## Management execution on margin enhancement initiatives

Our estimates allow for management being able to switch c.€400 mn pa of single fund holdings into higher margin fund of fund products and c.€500 mn pa of older life insurance products which lack a management fee being converted into more modern unit-linked products with ongoing fees over the next three years. Any failure to execute on these initiatives would have a negative impact on our assumed fee revenues and thus reduce both earnings and valuation. Conversely, in the event that management is able to effect this transition quicker than currently assumed, then some upside could exist.

## Charges on Italian retail funds remain high in a global context

As has been seen in other mature markets such as the UK and US, the level of fees charged on wealth management products tends to fall due to greater competition as penetration increases. This would pressure revenue and reduce earnings growth and has recently been the case for liquidity funds in Italy. With Banca Generali starting from an already relatively low level in terms of average revenue per asset, we would expect the group to be less affected by any such changes than the broader industry.

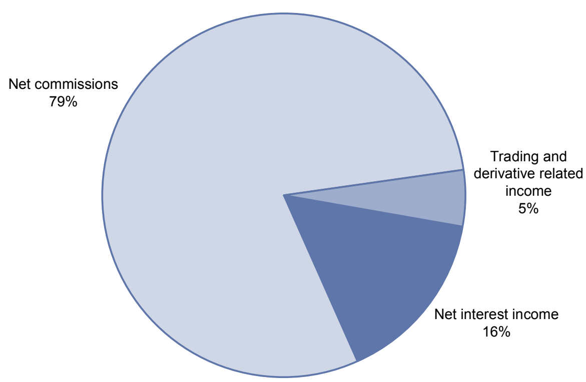
## As a minority, shareholders lack of control

As with all minority situations there remains a risk that the interests of minority shareholders and those of the group's parent Assicurazioni Generali (which controls 59.78% of the shares) may not be fully aligned. In addition, some overhang risk exists from the residual 6% holding of Intesa-Sanpaolo which was not sold as part of the IPO.

# Financials: We forecast 83% net income CAGR in 2006-2009

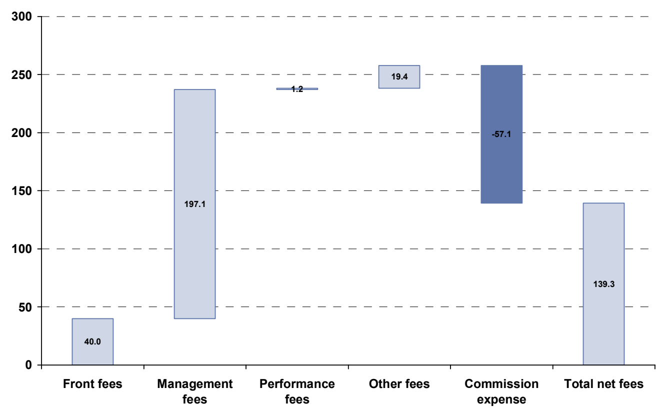
**A key feature of the group's financials to-date has been the lack of leverage in the business, both in terms of leveraging the current fixed infrastructure and the balance sheet to a greater degree for the benefit of shareholders. As a result operational gearing is high in our view. This should allow the group to see significant growth in net income, from €9.9 mn in 2006 to €67.6 mn in 2009, a CAGR of c.89%.**

**Exhibit 6: Net commissions dominate revenues**
Split of FY06E revenues €176.6 mn




*Source: Company data, Goldman Sachs Research estimates.*

**Exhibit 7: Net commissions driven by management fee**
Split of FY06E net commission income €139.3 mn




*Source: Company data, Goldman Sachs Research estimates.*

## Stable sources of revenue and high operational gearing

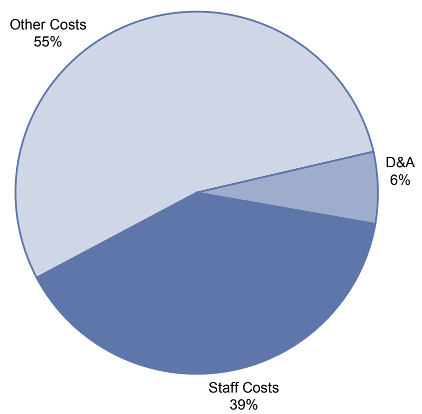
Historical analysis of Banca Generali's income statement highlights the following key features (Exhibit 14):

- **Revenue line dominated by more stable management fees and net interest income:** 81% (2006E) of group revenues come from net commissions, of which we estimate c.90% come from management fees, with more volatile performance fees accounting for less than 1% of revenues. A further 13% of revenues come from net interest income within the banking activities where the group earns a relatively low c.91 bp net interest margin as a result of a conservative investment policy and limited duration mismatching. As a result Banca Generali's revenue line is likely to prove more stable than many of its major peers.

- **High proportion of fixed costs leads to high operational gearing**: The bulk of the group's expenses (ex-commission payments to the financial adviser network included in net commissions) are staff and other costs representing, we estimate, 39% and 55% of the total cost base respectively. Excluding the staff-related costs, we estimate that the costs break down roughly 70% fixed and 30% variable – suggesting that, in total, fixed costs account for c.80% of the group's entire cost base. As a result, Banca Generali has a high degree of operational gearing; the cost income ratio is currently in excess of 70%.

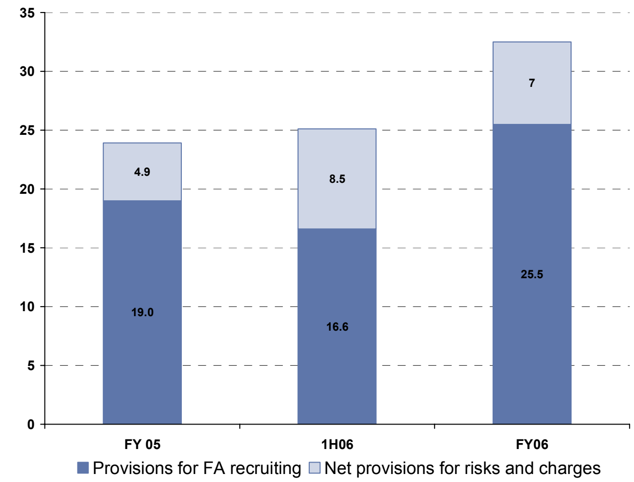
- **Provisions for risks and charges the only big item below the operating line**: In contrast to some competitors, Banca Generali expenses fully all expected adviser payments in the year of hiring rather than amortise them over time. Total provisions are expected to be c.€33.2 mn for 2006. Of these €25.5 mn relate to provisioning for future incentive payments for newly hired financial advisers. Over time this line is likely to fluctuate significantly, tracking the levels of group recruitment to the adviser network.

**Exhibit 8: Staff and other dominate the cost base**
Split of 2006E costs €133.2 mn




*Source: Company data, Goldman Sachs Research estimates.*

**Exhibit 9: Majority of provisioning is FA recruitment**
Provisions for risks and charges 2005, 1H06, 2006E (€ mn)




*Source: Company data, Goldman Sachs Research estimates.*

## Key model inputs relate to adviser recruitment and net flows

Our earnings out to FY2010E are based on the following key assumptions:

- **Adviser recruitment:** Management has stated that it will continue to focus on opportunistic hiring of new advisers particularly those targeting the higher net worth clients and who have the potential to bring upwards of €15 mn of incremental assets to the network. We have assumed 45 net new advisers of this type are hired in 2006, with a further 40 in 2007, 10 in 2008 and 10 in 2009.
- **Net flows**: Our assumptions on net flows are driven by two components: 1) the recruitment outlined above, and 2) efficiency improvements from the existing adviser base. Our net flow assumptions are shown in Exhibit 13.
- **Asset appreciation**: Our central case forecasts are based on assumed asset appreciation of 7% for equities, and current prevailing bond yields of 4% for fixed interest investments netted down for average levels of management fees.
- **Fee levels**: Management is seeking to improve the quality of the asset base and thereby the level of fee revenue. We have assumed a 5 bp pa expansion in the net management fee out to 2009.
- **Limited capex**: We expect limited capex over the next few years as a result of: 1) management's extensive use of outsourcing to support growth and 2) management's belief that the current group fixed cost infrastructure could absorb a c.30% increase in overall volumes.
- **Low single-digit cost growth**: With limited need to grow the group infrastructure in the near term, we expect overall expense growth to remain relatively low. We assume 4% pa growth in staff and other expenses reflecting general levels of inflation only.
- **Provisions for risks and charges**: We assume a general level of underlying provisioning of c.€7 mn pa to which we add provisions for recruitment. Our provisions for recruitment are based on typical costs of 2.9% of AUM brought across plus a further 0.6% of AUM as a retention bonus after seven years. Assuming an average of €15 mn of assets acquired with each adviser, we calculate recruitment related provisions at €0.53 mn per adviser hired.

- **Tax**: We assume a standard Italian corporate tax rate of 39%.
- **We assume no future dilution in earnings as a result of employee share option schemes**: As at December 31 there were 111 mn shares in issue, however, of these c.1.2 mn were held as treasury shares, which are expected to be used to meet liabilities under employee/management share option schemes.

**Exhibit 10: Lack of leverage is a key feature of the balance sheet**
Year to December 31, € mn

| | 2004 | 2005 | 2006E[1] | 2007E | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|---|---|
| Cash | 5 | 10 | 2 | 22 | 63 | 131 | 211 |
| Securities held for trading | 987 | 1,362 | 1,635 | 1,827 | 2,020 | 2,206 | 2,282 |
| Securities held for sale | 16 | 12 | 28 | 29 | 30 | 31 | 32 |
| Loans and Receivables from Banks | 899 | 594 | 2,264 | 2,377 | 2,496 | 2,621 | 2,752 |
| Loans and Receivables from Customers | 240 | 281 | 322 | 335 | 349 | 363 | 377 |
| Tangible Assets | 6 | 7 | 7 | 7 | 7 | 7 | 7 |
| Intangible Assets | 9 | 19 | 19 | 19 | 19 | 19 | 19 |
| Tax receivables | 11 | 19 | 19 | 19 | 19 | 19 | 19 |
| Other assets | 76 | 91 | 84 | 84 | 84 | 84 | 84 |
| **Total Assets** | **2,247** | **2,395** | **4,381** | **4,719** | **5,087** | **5,480** | **5,782** |
| Liabilities due to banks | 2 | 19 | 20 | 21 | 22 | 23 | 24 |
| Liabilities due to customers | 1,935 | 1,977 | 3,942 | 4,237 | 4,555 | 4,897 | 5,142 |
| Securities issued | 4 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Liabilities held for trading | 4 | 7 | 10 | 10 | 10 | 10 | 10 |
| Taxes payable | 3 | 13 | 14 | 17 | 27 | 44 | 66 |
| Other liabilities | 70 | 126 | 140 | 140 | 140 | 140 | 140 |
| Liability for termination indemnity (TFR) | 4 | 6 | 9 | 10 | 10 | 10 | 10 |
| Provisions for liabilities and contingencies | 11 | 35 | 48 | 62 | 68 | 74 | 79 |
| **Total Liabilities** | **2,035** | **2,183** | **4,183** | **4,497** | **4,832** | **5,198** | **5,471** |
| **Shareholders Equity** | **212** | **212** | **198** | **222** | **255** | **282** | **311** |

1 Proforma figures: 2005 proforma is based on Banca Generali including Banca Generali SGR and Banca Generali Fiduciaria; 1H06 proforma figures include BSI Italia. Goldman Sachs 2006E forecast is proforma for the inclusion of BSI based on a full year's contribution

*Source: Company data, Goldman Sachs Research estimates.*

## Opportunity to optimize capital structure

The most important feature of Banca Generali's balance sheet in our view is that it contains no debt, leaving the business with a suboptimal capital structure.

According to management at the end of 2006, the company has c.€90 mn in excess of the group's regulatory capital requirements, which are principally driven by the group's banking activities. This capital structure has a number of important implications in our view:

- Future cash generation should be largely free to be paid as dividends to shareholders.
- Scope exists to leverage up the balance sheet and return capital: at the very least we believe that Banca Generali has the scope to return the c.€90 mn of capital in excess of regulatory requirements.
- Management has significant scope for acquisitions: The level of previous transactions – between 3% and 7.5% of AUM (Appendix C) – suggests that management could afford to acquire a business with €1.3-3.2 bn of AUM by just using the excess equity of €90 mn. A larger transaction could be considered if debt were used.

## Cash flow: Fairly limited adjustments needed from net income

As with net income, we expect Banca Generali's free cash flow to grow quickly (Exhibit 11). The move from net income to free cash flow to shareholders is a relatively simple one at Banca Generali with only the following adjustments needed to make the transition:

- **Add back after tax depreciation and amortization:** Banca Generali has c. €9 mn pa miscellaneous after tax depreciation and amortization charges which need to be added back when considering free cash flow.
- **Allow for capex:** Following the development of recent years, we expect growth at Banca Generali to require only limited incremental capex, relating primarily to IT systems and incremental properties. We have assumed €3 mn pa of capex.
- **Add back proportion of provisions for agent hiring:** Newly recruited agents receive up to 3.6% of the AUM brought to the group, with this full cost expensed (via the provisions line) in the P&L on day 1. However, in terms of cash flow the recruited agent receives c.80% of the total after one year and the remainder after seven years. We have adjusted for this effect but note recent strong hiring will lead to a slightly depressive effect on cash flows beyond the forecast period – equivalent to c.€3-4 mn pa for 2012-2014.
- **Deduct incremental capital required to meet regulatory requirements:** As it is a bank, Banca Generali is required to maintain a minimum level of regulatory capital. In our free cash flow estimates we deduct an amount equivalent to 4% of incremental risk-weighted assets.

**Exhibit 11: Cash flow should grow quickly**
Reconciliation between net income and free cash flow, year to December 31, € mn

| | 2005 | 2006E | 2007E | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|---|
| Net Income | 1.7 | 9.9 | 28.5 | 54.7 | 67.6 | 80.2 |
| Add back net Depreciation & Amortisation | 7.3 | 8.6 | 8.9 | 9.1 | 9.4 | 9.7 |
| Capex | -2.8 | -1.8 | -3.0 | -3.0 | -3.0 | -3.0 |
| Add back net provisions for recruitment | 9.0 | 17.0 | 13.7 | 3.4 | 3.4 | 1.7 |
| Actual cash payments for recruitment | 1.4 | -19.9 | -21.7 | -17.4 | -4.4 | -4.4 |
| Retained regulatory capital | -20.3 | -21.8 | -6.6 | -5.3 | -5.7 | -4.4 |
| **Free cashflow for shareholders** | **-3.7** | **-7.9** | **19.8** | **41.5** | **67.4** | **79.8** |
| Less interest income of excess cash | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 |
| **Adjusted free cashflow** | **-5.6** | **-9.8** | **17.9** | **39.7** | **65.5** | **78.0** |

*Source: Company data, Goldman Sachs Research estimates.*

### Dividend: Large part of cash flow should be free for dividends

Management has not indicated a specific dividend policy, however, as Banca Generali's cash/capital position is already more than comfortable, the majority of the ongoing cash generation should be free to be used for dividends. We have assumed a 75% payout ratio.

## Sensitivity analysis shows significant gearing to fees and AUM

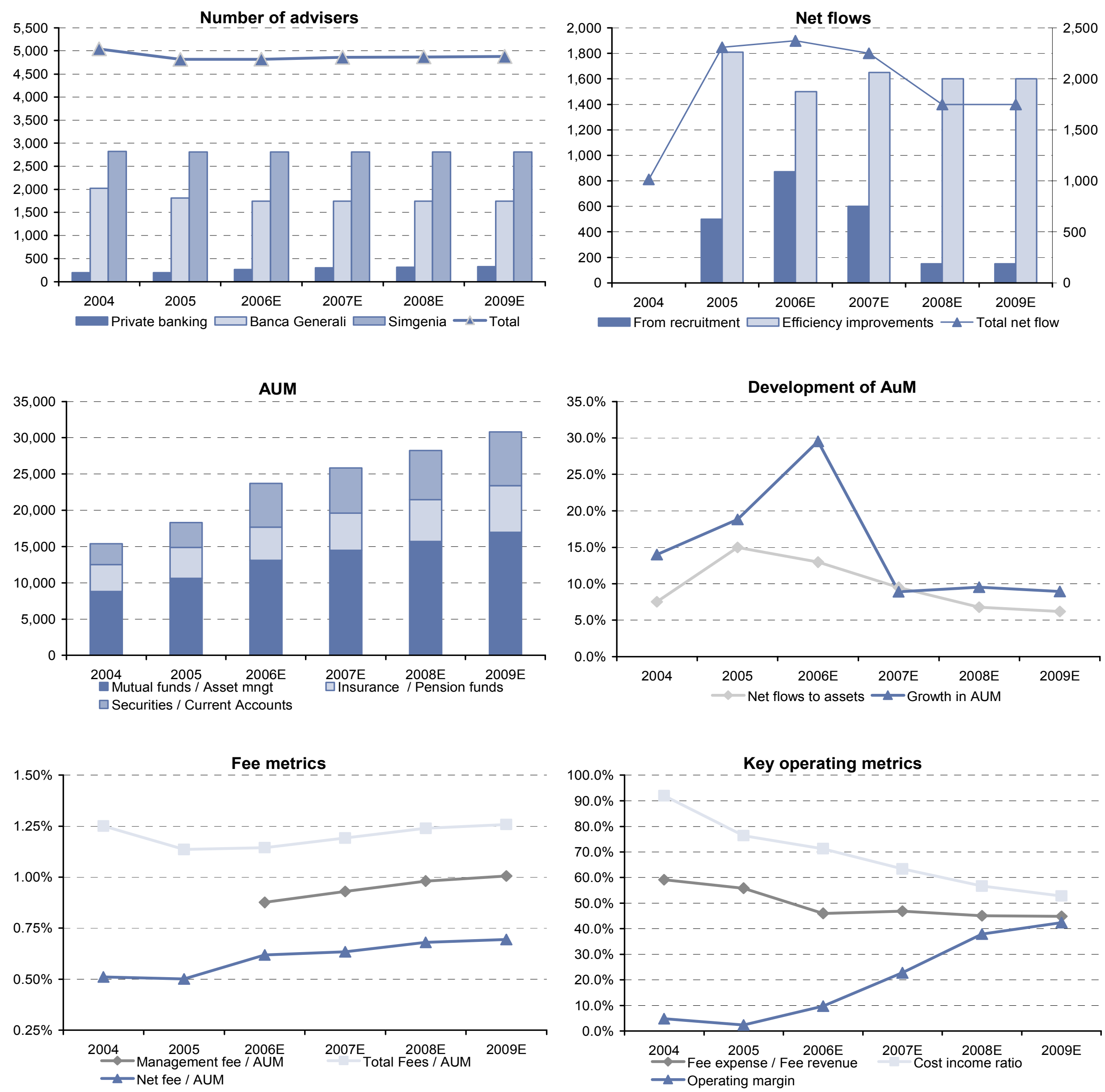
In addition to our central scenario above, we have also conducted a number of sensitivities to our 2008E cash flow and earnings estimates to reflect the impact of changes in the key model inputs.

**Exhibit 12: Key sensitivities for 2008E net income and cash flow**
€ mn, %

| | | | 2008E | |
|---|---|---|---|---|
| | Base assumption | Sensitivity | Net Income | Cash-flow |
| **Base case** | | | **54.7** | **41.5** |
| **Average management fee** | 0.98% | +5bps | 9.8% | 12.9% |
| | | -5bps | -9.8% | -12.9% |
| **Average AUM** | 27,039 | +5% | 14.8% | 19.5% |
| | | -5% | -14.8% | -19.5% |
| **Recruited advisers** | 10 | +5 | -2.9% | -3.9% |
| | | -5 | 2.9% | 3.9% |
| **Fixed costs** | -67 | +5% | -3.7% | -4.9% |
| | | -5% | 3.7% | 4.9% |

*Source: Goldman Sachs Research estimates.*

**Exhibit 13: Key model inputs and financial metrics** (€ mn, year to December 31)




*Source: Company data, Goldman Sachs Research estimates.*

**Exhibit 14: P&L shows strong turn around in the bottom line**
Year to December 31, € mn

| | 2004 | 2005 | 2006E[1] | 2007E | 2008E | 2009E | 2010E | Proforma 2005 |
|---|---|---|---|---|---|---|---|---|
| Interest Income | 34.6 | 45.6 | 75.5 | 104.3 | 112.1 | 120.5 | 129.6 | 48.4 |
| Interest Expense | -18.7 | -26.3 | -47.1 | -65.1 | -70.0 | -75.2 | -80.9 | -28.0 |
| **NET INTEREST INCOME** | **15.9** | **19.3** | **28.4** | **39.2** | **42.1** | **45.3** | **48.7** | **20.4** |
| *Front fees (GS estimate)* | *na* | *na* | *40.0* | *42.7* | *45.7* | *48.9* | *52.4* | *na* |
| *Management fees (GS estimate)* | *na* | *na* | *197.1* | *230.3* | *265.4* | *297.1* | *322.6* | *na* |
| *Performance fees (GS estimate)* | *na* | *na* | *1.2* | *1.3* | *1.4* | *1.6* | *1.7* | *na* |
| *Other fees (GS estimate)* | *na* | *na* | *19.4* | *20.9* | *22.5* | *24.2* | *25.4* | *na* |
| Commission Income | 180.8 | 191.4 | 257.7 | 295.2 | 335.1 | 371.8 | 402.0 | 234.6 |
| Commission Expense | -106.8 | -106.8 | -118.5 | -138.1 | -150.9 | -166.5 | -179.5 | -115.1 |
| **NET COMMISSIONS** | **74.0** | **84.5** | **139.3** | **157.1** | **184.2** | **205.3** | **222.5** | **119.5** |
| Trading Income | 2.2 | 10.6 | -15.0 | 5.0 | 5.5 | 6.0 | 6.5 | 13.4 |
| Dividends | 5.3 | 1.8 | 24.0 | 4.0 | 4.5 | 5.0 | 5.5 | 1.8 |
| **TOTAL REVENUES** | **97.4** | **116.2** | **176.6** | **205.3** | **236.4** | **261.6** | **283.2** | **155.1** |
| Staff Costs | -30.7 | -32.7 | -52.4 | -54.4 | -56.2 | -58.0 | -59.8 | -49.9 |
| Other Costs | -58.7 | -55.2 | -72.2 | -74.9 | -77.6 | -80.4 | -83.3 | -70.8 |
| D&A | -4.1 | -7.3 | -8.6 | -8.9 | -9.1 | -9.4 | -9.7 | -8.1 |
| Other Income | 3.9 | 6.5 | 7.4 | 8.1 | 8.9 | 9.7 | 10.5 | 6.8 |
| **OPERATING COSTS** | **-89.6** | **-88.7** | **-125.8** | **-130.0** | **-134.0** | **-138.1** | **-142.2** | **-122.0** |
| **OPERATING PROFIT** | **7.8** | **27.5** | **50.8** | **75.3** | **102.4** | **123.5** | **141.0** | **33.1** |
| Write Offs & Provisions | -0.5 | -0.8 | -0.5 | -0.5 | -0.5 | -0.5 | 0.0 | -0.8 |
| Provisions for Risk and Charges | -2.6 | -23.9 | -33.2 | -28.0 | -12.3 | -12.3 | -9.6 | -24.0 |
| Extraordinary Income | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 |
| **PROFIT BEFORE TAX** | **4.7** | **2.7** | **17.1** | **46.8** | **89.6** | **110.8** | **131.4** | **8.2** |
| Income Tax | 0.5 | -1.0 | -7.2 | -18.2 | -35.0 | -43.2 | -51.2 | -4.1 |
| **NET INCOME** | **5.2** | **1.7** | **9.9** | **28.5** | **54.7** | **67.6** | **80.2** | **4.1** |
| Operating Profit / (Loss) - from above | 7.8 | 27.5 | 50.8 | 75.3 | 102.4 | 123.5 | 141.0 | 33.1 |
| *add back* D&A | 4.1 | 7.3 | 8.6 | 8.9 | 9.1 | 9.4 | 9.7 | 8.1 |
| **EBITDA** | **11.9** | **34.8** | **59.4** | **84.1** | **111.5** | **132.9** | **150.7** | **41.2** |

| **OTHER KEY DETAILS** | 2004 | 2005 | 2006E[1] | 2007E | 2008E | 2009E | 2010E | Proforma 2005 |
|---|---|---|---|---|---|---|---|---|
| AUM at end of period | 15,400 | 18,300 | 23,705 | 25,810 | 28,268 | 30,795 | 33,335 | 20,900 |
| Average AUM | 14,455 | 16,850 | 22,503 | 24,758 | 27,039 | 29,531 | 32,065 | 19,350 |
| Number of Financial Advisors | 4,815 | 4,775 | 4,820 | 4,860 | 4,870 | 4,880 | 4,885 | na |
| AuM per Financial Advisor (€ mn) | 3.2 | 3.8 | 4.9 | 5.3 | 5.8 | 6.3 | 6.8 | na |
| Net flows | 1,015 | 2,309 | 2,372 | 2,250 | 1,750 | 1,750 | 1,575 | na |
| Net flows per Financial Advisor (€ mn) | 0.21 | 0.48 | 0.49 | 0.46 | 0.36 | 0.36 | 0.32 | na |

| **Key Ratios** | 2004 | 2005 | 2006E[1] | 2007E | 2008E | 2009E | 2010E | Proforma 2005 |
|---|---|---|---|---|---|---|---|---|
| Revenue Growth | 30.1% | 19.3% | 13.9% | 16.2% | 15.1% | 10.7% | 8.3% | na |
| Expense Growth | 36.2% | -1.0% | 3.1% | 3.3% | 3.1% | 3.0% | 3.0% | na |
| Cost Income Ratio | 92.0% | 76.3% | 71.2% | 63.3% | 56.7% | 52.8% | 50.2% | 78.7% |
| Tax Rate | -10.7% | 37.0% | 42.0% | 39.0% | 39.0% | 39.0% | 39.0% | 50.0% |
| Commission income per AUM | 1.25% | 1.14% | 1.15% | 1.19% | 1.24% | 1.26% | 1.25% | 1.21% |
| Commission expense per AUM | -0.74% | -0.63% | -0.53% | -0.56% | -0.56% | -0.56% | -0.56% | -0.59% |
| Net commission revenue per AUM | 0.51% | 0.50% | 0.62% | 0.63% | 0.68% | 0.70% | 0.69% | 1.24% |
| Revenue per advisor (€) | 20,237 | 24,335 | 36,641 | 42,237 | 48,533 | 53,602 | 57,970 | na |
| Cost per AUM | 0.62% | 0.53% | 0.56% | 0.53% | 0.50% | 0.47% | 0.44% | 0.63% |
| Staff costs per advisor (€) | 6,376 | 6,848 | 10,871 | 11,198 | 11,533 | 11,879 | 12,236 | na |
| Commission expense / Commission income | 59.1% | 55.8% | 46.0% | 46.8% | 45.0% | 44.8% | 44.7% | 49.1% |
| Operating margin | 8.0% | 23.7% | 28.8% | 36.7% | 43.3% | 47.2% | 49.8% | 21.3% |
| Growth in AUM | 14.0% | 18.8% | 29.5% | 8.9% | 9.5% | 8.9% | 8.3% | na |
| Net flows to BOP AUM | 7.5% | 15.0% | 13.0% | 9.5% | 6.8% | 6.2% | 5.1% | na |

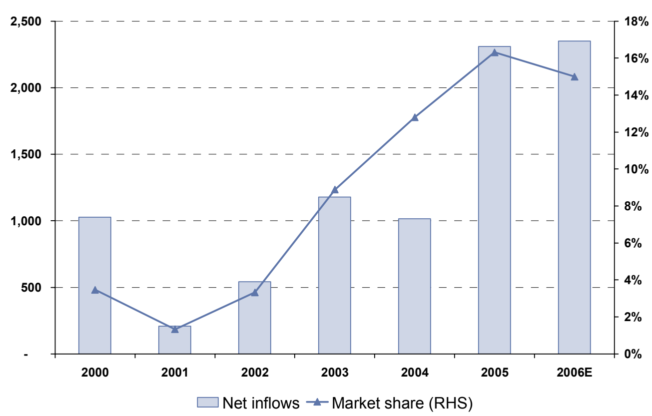
1 Proforma figures: 2005 proforma is based on Banca Generali including Banca Generali SGR and Banca Generali Fiduciaria; 1H06 proforma figures include BSI Italia. Goldman Sachs 2006E forecast is proforma for the inclusion of BSI based on a full year's contribution

*Source: Company data, Goldman Sachs Research estimates.*

# Italian wealth manager of the Generali group

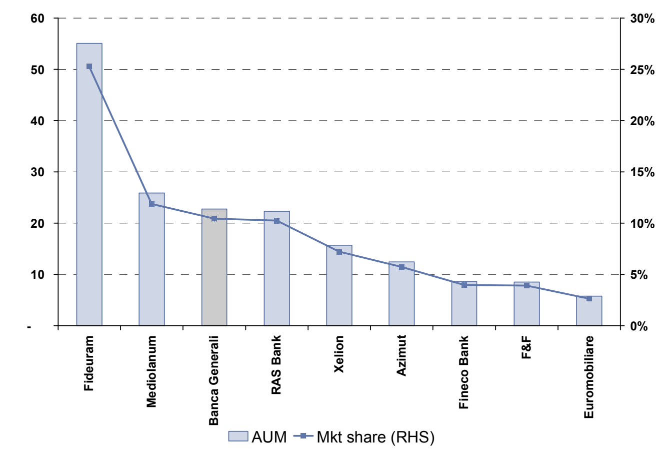
**Banca Generali is a network of Italian financial advisers controlled by Italian insurance group Assicurazioni Generali, which owns 59.8% of the group. The group currently ranks third among financial adviser networks, with c.€23.7 bn of AUM at the end of 2006 on our estimates.**

**Exhibit 15: Rapid growth in share of inflows**
Banca Generali net flows (€ mn), market share 2000-2006E




*Source: Assoreti, Goldman Sachs research estimates.*

**Exhibit 16: Now number three in the market**
Leading Italian wealth managers by AUM, Sept 06 (€ mn)




*Source: Assoreti.*

## An Italian private wealth manager selling through three networks

Although incorporated as a bank for the purposes of enabling the group also to offer basic banking products, Banca Generali is first and foremost an Italian wealth manager focused on the provision of advice to retail customers and the administration of their financial assets. To this end the group combines the roles of asset manager and independent financial adviser, selling both in-house and external third party products. Banca Generali's distribution comprises three distinct networks of financial advisers, each targeting a slightly different section of the market:

- **BSI Italia/BG Private banking:** focusing on the high net worth market
- **Banca Generali:** servicing the mass affluent market
- **Simgenia:** providing wealth management to Generali's insurance clients

**Exhibit 17: Three distinct networks with different customer focuses, June 30, 2006**

| | Advisers[1] | AUM € mn | 1H 06 Net flow € mn | Customers 000's | Clients / Adviser € mn | AUM / Adviser € mn | Net flow / Adviser € mn | AUM / Customer € 000's | Net flow / Customer € 000's |
|---|---|---|---|---|---|---|---|---|---|
| BSI / BG Private Banking | 218 | 5,900 | 630 | 30 | 137.6 | 27.1 | 2.9 | 196.7 | 21.0 |
| Banca Generali | 1,744 | 13,600 | 380 | 270 | 154.8 | 7.8 | 0.2 | 50.4 | 1.4 |
| Simgenia | 2,813 | 2,700 | 370 | 60 | 21.3 | 1.0 | 0.1 | 45.0 | 6.2 |
| **Total** | **4,775** | **22,200** | **1,380** | **360** | **75.4** | **4.6** | **0.3** | **61.7** | **3.8** |

1 Includes 25 BSI relationship managers under BSI/BG Private Banking

*Source: Company data.*

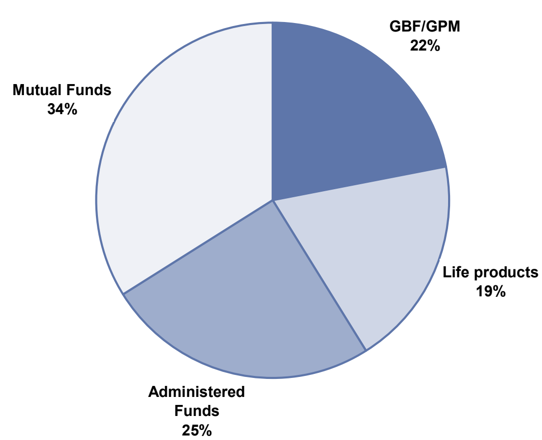
## Sophisticated and broad reaching product mix

Banca Generali's model is among the more sophisticated in the Italian market in our view: the group aims to provide holistic financial advice across banking, asset management and insurance products to its clients. This is reflected in the balanced split of the group's AUM, with roughly even contributions from mutual funds, fund portfolio products (GPF/GPM), administered funds (mainly bank deposits) and life insurance (Exhibit 18).

As well as providing a range of its own funds to clients, management has been an early adopter of an open architecture approach to wealth management products, offering the products of 19 other leading fund managers so that it can better cover clients' investment needs as well as reduce the risk to overall net flows from periods of underperformance by in-house funds. In total third party funds account for 41% of managed assets (mutual funds, GPF/GPM), with a further 22% managed by Generali group companies outside Banca Generali.

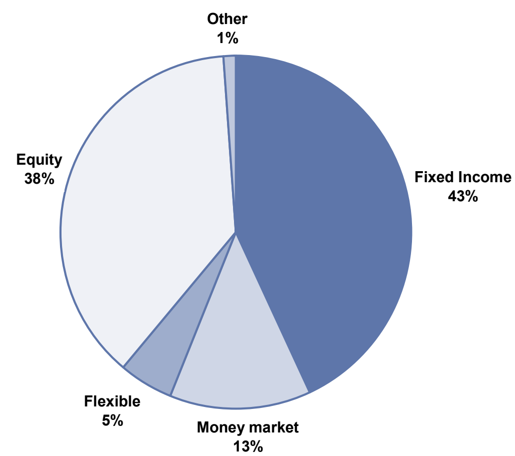
The final highlight of the group's product mix is its relatively limited exposure to equities: only c.40% of mutual funds are invested in equities.

**Exhibit 18: Products split four ways**
Split of AUM €23.7 bn at December 31, 2006, by product




*Source: Company data.*

**Exhibit 19: Low exposure of mutual funds to equities**
Split of mutual fund AUM by type, December 31, 2006



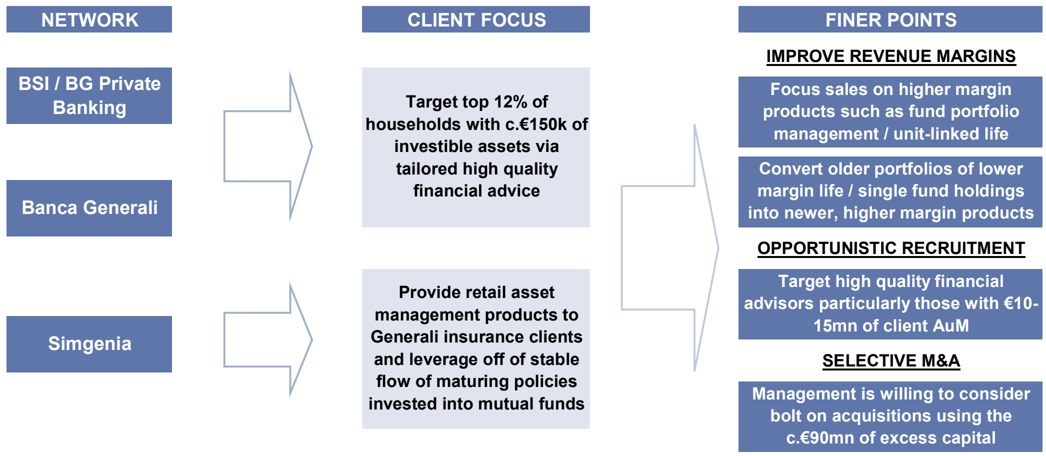

*Source: Company data and Goldman Sachs Research estimates.*

## Focus on high net worth customers enhanced by cross-selling to Generali's insurance clients

Management has a set itself a relatively straightforward goal, namely to "strengthen the group's position in the Italian market as an institution specializing in the integrated distribution of financial, banking and insurance products to medium and high wealth customers". We believe this can be broken down into two slightly different strategies:

- **BSI/BG Private banking (as from January 1, 2007) and Banca Generali networks:** To target the Italian "affluent"/"private banking" segments – and specifically the 2.5-3 mn households (c.12% of the total) which have net disposable incomes in excess of €50k pa and net financial wealth in excess of €150k.
- **Simgenia:** To focus on increasing the wealth management offering to Assicurazioni Generali group clients.

**Exhibit 20: Summary of group strategy**




*Source: Company data and Goldman Sachs Research.*

### A possible acquirer if it makes financial sense

Management has also stated that it would consider bolt-on acquisitions, to augment its own focus area of high net worth customer segments. In our view, as management is able to recruit senior financial advisers from banks and competing financial adviser networks at a cost of up to 3.5% of the assets they bring to the Banca Generali networks, the economics of acquiring an entire network rather than recruiting the best advisers is questionable. Further, we see few genuine acquisition opportunities in the Italian market at present.

## Role of Banca Generali in the Generali group

Banca Generali is run on an independent basis from the other operations of the Generali group in Italy. We believe that Generali benefits from having Banca Generali within the group through the exposure that it gives the parent to the upper end of the Italian wealth management market as well as to the Italian mutual fund market – areas that are not well covered by the parent's more insurance-focused operations.

In addition, the Simgenia network of financial advisers, which is attached to the insurance agencies of Generali, enables the Generali group to cater for the broader financial needs of the insurance client base. In particular, the network helps to retain assets from maturing policies within Generali group companies by providing customers with an alternative investment opportunity for the maturing proceeds of life insurance savings.

# Stacks up well in a market context on all but profitability per AUM

Direct comparison with the other Italian wealth managers is in our view made more difficult by Banca Generali comprising three distinct financial adviser networks, which target specific client segments. Therefore simple comparisons based on the aggregated Banca Generali – often the only possible approach due to disclosure – are less appropriate than would ordinarily be the case. This is particularly true when comparing metrics on a per client and per adviser basis, as the inclusion of the Simgenia network has a dilutionary effect on the figures. Adjusting for this effect shows the BSI/Private banking and core Banca Generali network to be reasonably comparable with Banca Fideuram in terms of client/promoter demographics, while Simgenia stands out as having fewer clients per adviser, primarily because it only has the possibility of meeting its clients' needs in relation to wealth management products but not insurance.

**Exhibit 21: Key metrics of the major Italian financial adviser networks**
December 31, 2005[1]

| | Banca Fideuram | Mediolanum | Azimut | Euromobiliare | Rasbank | Banca Generali | BG ex Simgenia (1) | Simgenia |
|---|---|---|---|---|---|---|---|---|
| **AUM € mn** | **64,312** | **30,399** | **11,593** | **6,203** | **23,000** | **22,200** | **19,500** | **2,700** |
| **Inflows** | **1,222** | **1,068** | **1,970** | **21** | **1,195** | **2,309** | **1,360** | **949** |
| **Number of:** | | | | | | | | |
| Financial Advisers | 4,150 | 3,978 | 947 | 328 | 3,569 | 4,775 | 1,962 | 2,813 |
| Employees | 1,866 | 1,057 | 188 | 198 | 848 | 635 | na | na |
| Branches | 257 | 533 | 202 | 22 | 407 | 33 | na | na |
| Clients '000s | 691 | 798 | 120 | 35 | 479 | 360 | 300 | 60 |
| **Clients/Promoter '000s** | **167** | **201** | **127** | **107** | **134** | **75** | **153** | **21** |
| **AUM/Promoter € '000** | **15.5** | **7.6** | **12.2** | **18.9** | **6.4** | **4.6** | **9.9** | **1.0** |
| **AUM/Client € '000** | **93.1** | **38.1** | **96.6** | **177.2** | **48.0** | **61.7** | **65.0** | **45.0** |

1 For Banca Generali agent, client and AUM numbers as at June 30, 2006, net flows for last full year 2005

*Source: Company data, Goldman Sachs Research.*

## Mid-sized, with core business in the mid-high end segment

Although Banca Generali has the largest financial adviser network in Italy based on adviser numbers, this is in part due to the high number of advisers in the Simgenia network attached to the insurance agencies of Generali. Excluding the Simgenia network and focusing on the core Banca Generali/private banking networks, the group sits more in the middle ground of Italian financial advisory networks.

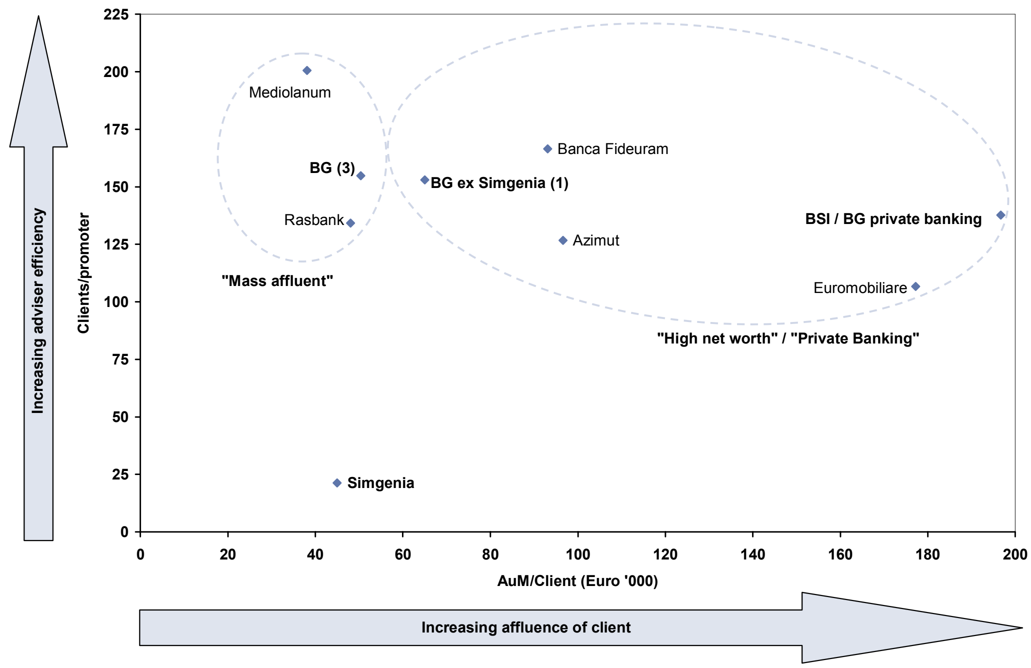
### Two high-end networks

In general the financial adviser networks in Italy can be classified as those catering for the generally "high net worth/private banking" markets and those that cater for the more "mass affluent market". In Exhibit 22, we show the positioning of the Banca Generali and BSI/private banking networks combined, as in our view this is more directly comparable to the group's peers (we do not have sufficient data to disaggregate peer adviser networks into those targeting "private banking" and the more "mass affluent" markets).

This analysis shows that Banca Generali's network excluding Simgenia is broadly comparable with those of both Banca Fideuram and Azimut in terms of the wealth of their relative customer bases and also in terms of clients per adviser. A further dis-aggregation of the adviser network shows the "BSI/private banking" part of the network to be at the very high end of group peers in terms of the wealth of the client base.

Although serving the clients of the Generali group insurance companies could suggest a generally less affluent customer base, this does not appear to be the case – the average AUM per client appears very similar at Simgenia as at Banca Generali (ex private banking advisers) and other insurance company-owned networks such as Ras Bank and Mediolanum. However, with promoters of Simgenia also selling insurance products of the Generali group which are not in the AUM of Simgenia – the overall number of clients per adviser is naturally lower than for other parts of the Banca Generali network.

**Exhibit 22: Market positioning of Italian financial adviser networks**
December 31, 2005[2]




1 BG ex Simgenia includes both the Banca Generali and the BSI/Private banking networks
2 For Banca Generali agent, client and AUM numbers as at June 30, 2006, net flows for last full year 2005
3 Banca Generali excluding Simgenia and BSI / Private banking

*Source: Company data, Goldman Sachs Research estimates.*

### Lower AUM per promoter suggests scope for efficiency improvement

At €9.9 mn of AUM per promoter, the core Banca Generali (ex-Simgenia) screens relatively lower against its main peer networks of Banca Fideuram, Azimut and Euromobiliare – however, again there is a big divergence between the "private banking" advisers at c.€27 mn and the other advisers at just under €8 mn. While this could be seen as a negative for Banca Generali, we believe it suggests there is scope for further efficiency improvements at Banca Generali over time. In particular, we would expect the AUM per promoter to continue to expand as the average tenure of the group's agency force increases (Exhibit 41).

## A more sophisticated model than many in the Italian insurance market

At first glance many of the Italian financial adviser networks may appear to operate similar business models; in reality this is not the case as a wide variety of models is being used, ranging from purer distribution models to highly integrated asset gatherers offering predominantly access to in-house funds.

We believe the major adviser networks that we have considered in the discussion above can be categorized as follows:

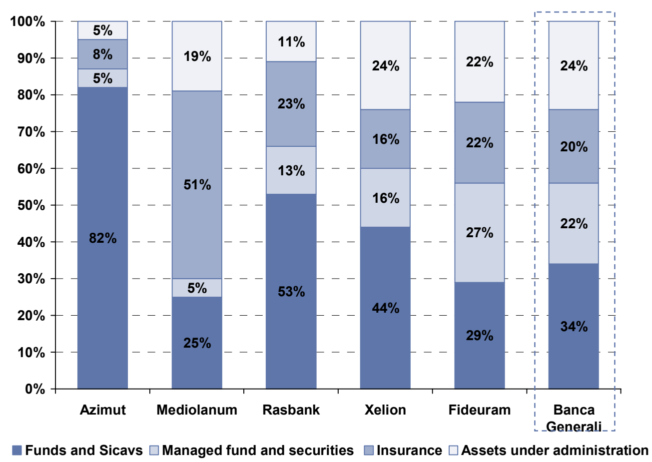
- **Purer distributors:** Xelion, RasBank, Simgenia
- **Predominantly distributors of in-house funds:** Mediolanum, Azimut
- **More complex private wealth models:** Banca Fideuram, Banca Generali

In terms of the latter category, the businesses are differentiated from the other models as they provide a more comprehensive banking and advisory service than that typically offered by the other networks. In particular, these models are differentiated through 1) the provision of a full service bank offering full transaction services as well as lending and credit cards rather than the often simpler pure deposit taking operations of some of their peers, and 2) more intensive private banking style advice spanning the full breadth of wealth accumulation services.

### Extensive use of open architecture

In addition to the sophistication of the advice given and product offering, another key differentiator between Italian financial advice networks, comes from the level of usage of "open architecture" platforms. In this regard, we note that Banca Generali is at the forefront of the industry having one of the most extensive offerings of fund managers in the market. Banca Generali has thus established a slight lead over most of its rivals in terms of the sophistication of the model.

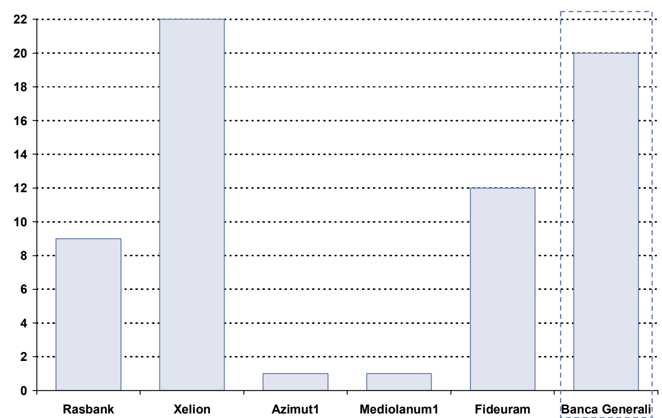
**Exhibit 23: Split of AUM by product type 1H06 (%)**




Assets under administration include bank deposits

*Source: Assoreti.*

**Exhibit 24: No of fund managers products offered[1]**




1 including in-house managers. Azimut and Mediolanum offer limited access to third party funds through their fund of fund offerings

*Source: Company data, Goldman Sachs Research.*

## Low profitability per AUM but improving; a source of opportunity

As the pricing of funds in both the Simgenia and the Banca Generali/BSI networks are the same, we believe that unlike per adviser/client figures it is reasonable to compare fee-based and profitability metrics with the peers on a "group" basis. Analysis of the key historical metrics for the four quoted Italian financial adviser networks shows the following features (Exhibit 25):

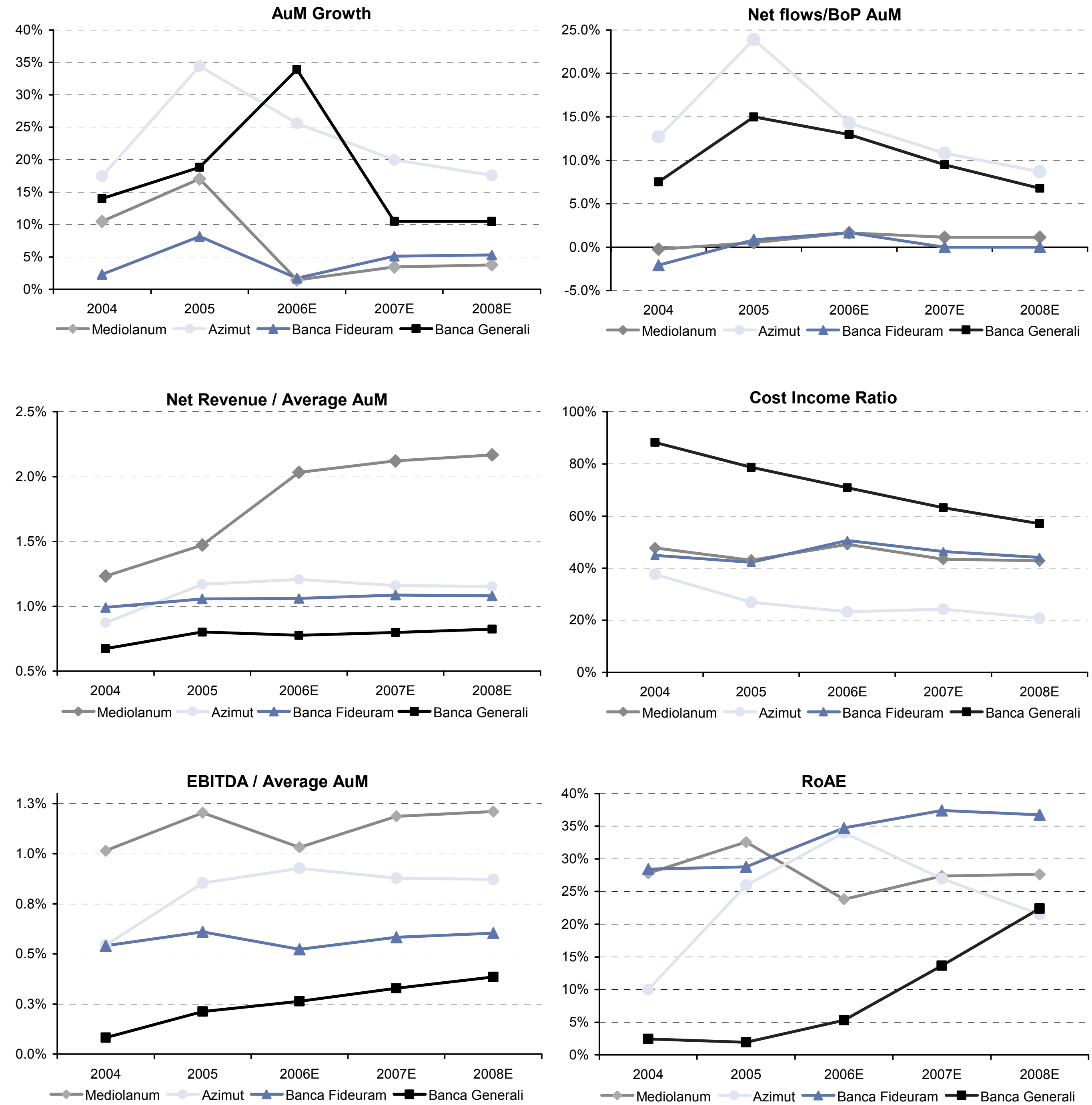
- Banca Generali's average net commission per asset at c.0.7% (1H06) lies at the low end of the peers;
- Banca Generali has a higher cost/income ratio than the peers. However, this has narrowed over 1H06: its cost/income ratio fell to 62%, compared with 47% for Fideuram and 32% for Azimut.

- This poor comparative in terms of historical financial metrics can be explained by a number of factors. On the revenue side, we see these as:
  - A portfolio of older life insurance policies which had front fees only and no longer produce revenue for the network.
  - The more extensive use of open architecture at Banca Generali means that the group loses the margin for asset management to the fund manager impacting the gross fee on these assets by up to 30% or 60 bp and the net fee by c.40 bp.
  - Both Mediolanum and Azimut have seen their revenues boosted by significant levels of performance fees due to strong equity markets in recent years.
- The relatively high cost/income ratio can be explained in part by:
  - The lower overall revenue level at Banca Generali which leads to a naturally higher cost/income ratio.
  - Costs of developing the more sophisticated open architecture model have been fully expensed in recent years.
  - In addition, overall net income is depressed below the operating line by significant hiring of agents at Banca Generali in recent years – the full cost of up to 3.5% of AUM brought across are expensed on day one, whereas at other networks it is usual that only a part of this recruitment cost is expensed up front.

We believe that it is reasonable to expect these historical differences to narrow for a number of reasons:

- Management has a number of initiatives in place to convert older life policies into newer products with ongoing management fees.
- We expect fees at competitors to come down as a result of 1) competitors moving more towards more open architecture, and 2) the level of performance fees falling as a result of changes to the calculation basis (albeit we note with some offset from higher management fees).
- We expect Banca Generali to increase the proportion of sales of own in-house funds on the back of improved investment performance leading to an increase in the net revenue per asset.
- More rapid near-term growth at Banca Generali has a greater effect, driving faster revenue growth with little need for incremental fixed cost infrastructure, leading to a further reduction in the cost/income ratio.
- We expect the costs of development of the open architecture model at Banca Generali to reduce gradually, while other competitors may need to increase expenditure to develop similar platforms of their own.
- Following recent high levels of hiring, we expect this to subside over 2007/8 reducing the upfront impact on the P&L.

**Exhibit 25: Key comparative metrics of quoted financial adviser networks**




1 Banca Fideuram is not covered by Goldman Sachs Research, for this we have used I/B/E/S consensus forecasts for EBIT, EBITDA, total revenues and net income; other items are based on Goldman Sachs Research calculations

*Source: Company data, I/B/E/S consensus estimates, Goldman Sachs Research estimates.*

# Key drivers: Stability of network central to flows & persistency

**In our view, the three most important business drivers for asset gathering businesses are net inflows, the persistency of the asset base and the stability of fees. In the case of an Italian Promotori network, such as Banca Generali, the stability of the agency network is central to the other two drivers.**

## Key business drivers: Flows, sticky assets, stability of fees

In their report "*Asset Managers: A correction is due, but not expected until 2006*" (November 21, 2005) our US colleagues identified three critical drivers for traditional asset management businesses, namely:

- **Net flows:** As asset management revenues are derived from a combination of "load" fees on the initial deposits and annual management fees on the assets, the level of net flows of new assets into the business is a key driver. Net flows in asset management businesses will always be subject to some level of market influence, with investment performance and investor sentiment critical drivers of market-wide flow levels. At the company level, we believe that brand and distribution strength also contribute to an asset manager's ability to gather funds.
- **Stickiness of the asset base:** As well as the ability to attract new funds, the stickiness of the accumulated asset base is an important indicator of the reliability of fee streams. In our view, asset stickiness is impacted by business mix (institutional vs. retail assets) as well as the type of assets managed (i.e., equities vs. fixed income). In general the stickier the asset base, the higher the valuation multiple that can be applied due to the increased duration over which fees will be earned.
- **Stability of fees:** The stability of fees is largely driven by the pricing structures on the funds managed (i.e., mix of management fees versus performance fees), as well as the volatility of the underlying assets managed.

## In reality it boils down to "Network" stability

These drivers apply equally to Banca Generali, as its revenues are driven by a combination of front fees and annual management fees, as for any asset manager. However, in the case of a wealth management network where there is a strong relationship between the individual advisers and the customer, we see these drivers more as a secondary function of the stability and quality of the adviser base and the ability of the company to incrementally grow this over time.

### Understanding what makes a network stable

In our view the main reason that an individual adviser remains with a particular network, is the belief that the network will enable the adviser to maximize their personal earnings together with the retention of their clients. The key drivers of agency stability relate predominantly to features that allow the adviser to perform their principal role of selling more successfully, together with the avoidance of unnecessary change for advisers. These include:

- **The level of financial compensation:** While compensation levels will always play a role in individual decision making, successful financial advisers recognize that the greater driver of their income is the ability to attract incremental flows of business to the network rather than the exact level of fee earned on the assets. To this end, we believe that the level of fee sharing with the network will only form one part of an adviser's decision to remain with, or join, a particular network.

- **Quality of product:** The existence of a high quality product offering within a network is crucial to retain and attract advisers. Quality is determined by a range of factors including the breadth of product and the overall performance of the product range. The greater the breadth of the product offering available, the more easily an adviser can meet clients' needs and affect a sale in all market conditions.
- **Investment performance:** Investment performance is a critical determinant of sales of savings-related products. A poorly performing range of funds/products is likely to lead to dissatisfied clients, reduced inflows and lower adviser earnings. This in turn is likely to make recruitment difficult and lead to greater attrition rates among advisers.
- **Brand strength:** Brand remains a significant driver of the sale of retail financial services, as retail customers prefer to deal with a well-known and respected brand. As with product quality, we see the brand of the host network and the "perceived" attributes of the brand as pre-requisites for attracting and retaining individual advisers. To this end, we believe that advisers are more likely to remain with a network which seeks to maintain the quality of the brand image and which is seen as reliable and trustworthy by clients.
- **Support of the network:** Support in day-to-day administration allows advisers to focus on their core role of selling new products, thus maximizing their earnings opportunity.
- **Stability of the organization and management:** As with all people-orientated businesses, significant restructuring (particularly following M&A) or management change can result in unease or dissatisfaction among staff, which in turn makes them more susceptible to approaches from competing organizations in our view.

## Banca Generali screens well on most key business drivers

We believe Banca Generali scores relatively well on most points, with the possible exception of in-house mutual fund performance which – although strong currently – has been weaker in the past. However, considering the combination of the group's open architecture platform and a strong short-term track record, we believe that this does not pose an issue for the group. Having restructured through 2000 to 2003, the group has been in a relatively steady state for the past couple of years, suggesting Banca Generali is well placed to benefit from any disruption to competitors caused by bank mergers or management change.

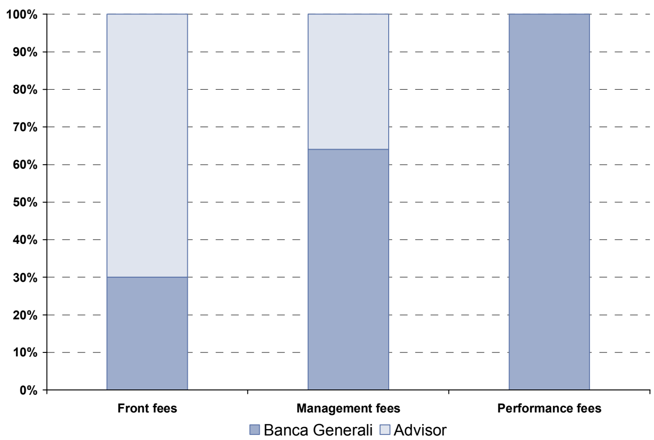
### 1. Adviser compensation in line with the industry

Fee sharing arrangements (Exhibit 26) for Banca Generali advisers are, we believe, broadly in line with market norms: advisers receive c.70% of all front fees paid to the network together with 36%-37% of management fees and nothing from performance fees.

Where an adviser sells a third-party fund, the overall level of management fee available to be shared is lower than on an equivalent sale of an in-house fund. The third-party fund manager typically retains c.35% of the annual management fee leaving Banca Generali with 100% of the upfront fees together with 65%-70% of the management fee to be shared with the individual adviser. The split of these fees is then on the same basis as for in-house funds.

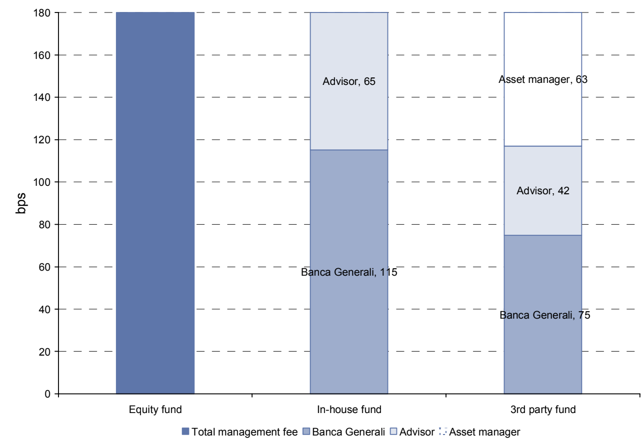
Advisers therefore earn around a third less from the sale of third-party funds. While this reduction in income suggests that individual advisers would be less attracted to networks with open architecture platforms, we believe this is largely offset from the advisers' perspective by the greater choice of funds and better access to strongly performing funds for their clients; and where necessary they can switch clients from underperforming funds.

**Exhibit 26: Split of fees between adviser and company**
Typical split of front, management and performance fees




*Source: Goldman Sachs Research estimates.*

**Exhibit 27: Advisers receive less on third-party funds**
Split of management fees on a typical equity fund




*Source: Goldman Sachs Research estimates.*

## 2. Broad product range helps meet client needs

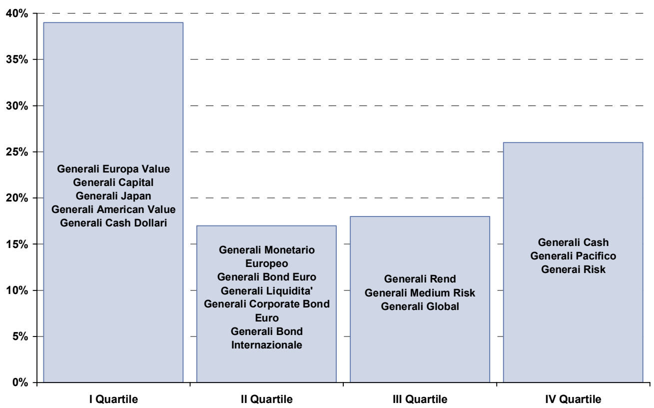
The inclusion of a bank in Banca Generali is a key competitive advantage, in our view, over the SIM (Società di Intermediazione Mobiliare) model, as the bank helps in the retention of assets and the acquisition of higher net worth customers.

The business model chosen by Banca Generali – namely that of a bank rather than a simpler SIM – together with the group's links to Generali Italy's largest insurance group, ensures that Banca Generali can offer a broad product range to advisers. As a result advisers can provide banking products, life insurance and mutual funds as well as having the ability to handle individual securities trades. As such we believe Banca Generali is well placed to meet clients' individual needs for all financial services.

The availability of a bank deposit offering with an attractive deposit rate (Banca Generali currently pays 80% of one-month Euribor on deposits where the customer also has managed savings with the company) should aid asset stickiness/long-term flows – with advisers able to channel redemptions from managed savings into the group's own deposit accounts rather than allowing the funds to leave the firm and enter the broader banking system. By maintaining control of the funds within the organization, Banca Generali is better placed to recycle the funds into more profitable managed savings over time.

Private banking clients require banking services, therefore the bank is critical in our view to the success of Banca Generali continuing to move into the higher end of the mass affluent and private banking segments of the market.

**Exhibit 28: >50% of funds by assets in I/II Quartiles[1]**
% AUM in Generali funds by quartile of performance




1 Quartile performance in 1H06

*Source: Company data.*

**Exhibit 29: Insurance performance leads the market**
Performance of main segregated funds of Italian insurers

| Company | Product | Performance 1996-2005 | Performance 2001-2005 |
|---|---|---|---|
| La Venezia[1] | Ri.Alto | 9.37% | 5.69% |
| RAS | Vitariv | 9.36% | 5.71% |
| Generali[1] | Gesav | 9.13% | 5.11% |
| INA[1] | Moneta Forte | 8.91% | 6.32% |
| Alleanza[1] | S.Giorgio | 8.72% | 5.06% |
| Fond SAI | Fondo Viva | 8.68% | 5.41% |
| Montepaschi | Provvedo | 8.34% | 4.33% |
| Eurizon | 2P | 8.29% | 5.71% |
| Toro | Liquidagevole | 8.26% | 5.08% |
| Unipol | Vitattiva 80 | 8.24% | 5.20% |
| Mediolanum | Medinvest | 7.31% | 4.59% |

Performance = Average return over 1996-2005 and 2001-05
1 = Members of the Generali group

*Source: Company data.*

### 3. Strong recent fund performance

As shown in Exhibits 28 and 29, Banca Generali has enjoyed strong recent 6-12 month performance in both its own in-house mutual funds with 56% of funds in the first quartile of performance over 1H06 and longer term performance in the segregated funds of the group's key life insurance providers La Venezia, Generali, INA and Alleanza.

However, longer-term performance data shows that on the mutual fund side of the business, the number of top quartile ranked in-house funds drops on a three-year basis, albeit with many of the larger and therefore more important funds showing less of a deterioration. Although there may be good reasons for this, with recent restructuring leading to fewer funds having an unbroken three-year track record, it suggests that the core offering of BG SGR based funds may be less attractive to consumers than the more recent data suggest.

While question marks over the performance of the in-house funds would ordinarily raise concerns over the network's ability to attract new inflows and ultimately retain advisers and assets, we believe that this is less concerning at Banca Generali due to 1) the fact that it has improved recently and is currently strong and 2) the extensive nature of the group's open architecture platform, which should ensure that even if the in-house performance were to deteriorate, advisers would still be able to offer their clients strongly performing alternatives.

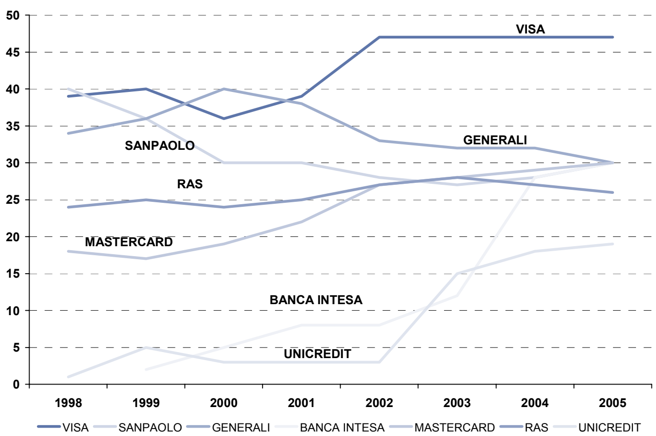
However, the benefit of any additional stability that the third-party model brings comes at a price, with both a degree of incremental cost for maintaining and developing the systems needed to manage the more complex open architecture model, as well as the reduction in the fee revenues earned (Exhibit 27) by approximately a third.

### 4. Generali brand attributes a clear positive

As part of the Generali group, Banca Generali benefits from identification with one of the strongest brands in the Italian financial services industry, with over 30% spontaneous recognition and over 95% prompted recognition according to management.

As typical brand attributes associated with the Generali brand are strength and security, we see this link as being particularly supportive to Banca Generali. Further, unlike many of the group's banking competitors, the Generali brand has not been tarnished by recent financial scandals such as the default of Parmalat bonds sold to retail investors by some banks.

**Exhibit 30: Generali is a top Italian financials brand**
Spontaneous recognition of Italian financial brands (%)




*Source: Company data.*

**Exhibit 31: And pre-eminent in insurance**
Spontaneous recognition of insurance brands (%)]

| RANKING | | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| **Total Respondants** | | **7,050** | **7,050** | **7,050** | **7,050** | **4,500** |
| **1** | **GENERALI** | **33** | **31** | **31** | **30** | **31** |
| 2 | RAS | 27 | 28 | 27 | 26 | 25 |
| 3 | SAI | 24 | 25 | 25 | 21 | 21 |
| 4 | UNIPOL | 11 | 13 | 12 | 14 | 16 |
| 5 | LLOYD ADRIATICO | 17 | 16 | 16 | 13 | 13 |
| 6 | TORO | 15 | 15 | 13 | 14 | 12 |
| 7 | SARA | n.r | 17 | 11 | 11 | 11 |
| 8 | DIRECT LINE | n.r | 4 | 7 | 9 | 10 |
| 9 | FONDARIA | 7 | 8 | 7 | 6 | 6 |
| 10 | REALE MUTUA | 5 | 5 | 5 | 5 | 6 |
| 11 | GENIALLOYD | 1 | 3 | 4 | 3 | 5 |
| 12 | ZURIGO | 5 | 5 | 5 | 7 | 5 |
| 13 | AXA | 4 | 5 | 5 | 4 | 4 |
| 14 | WINTERTHURE | 5 | 5 | 5 | 4 | 3 |
| 15 | MEDIOLANUM | 4 | 3 | 3 | 3 | 3 |
| 16 | MAA | 4 | 3 | 4 | 3 | 2 |
| 17 | ZURITEL | n.r | n.r | n.r | n.r | 2 |
| | Generali Group | 45 | 39 | 38 | 40 | 37 |

*Source: Company data.*

### 5. A vast support network exists to help advisers

Banca Generali places a sizeable support network at the disposal of the group's advisers, including 33 Banca Generali and BSI branches, 156 financial adviser offices and 20 private banking offices of BSI Italy. In addition, clients also have the use of the 3,700 branches of Banca Intesa and BNL branch networks for banking transactions.

**Exhibit 32: Banca Generali is less reliant on performance fees than some peers**
As at December 31, 2005

| | Banca Generali | Mediolanum | Azimut | Banca Fideuram |
|---|---|---|---|---|
| Management Fees | 70-80% | 55% | 62% | 80-90% |
| Front End Fees | 15-19% | 15% | 3% | 9% |
| Performance Fees | 0-1% | 30% | 31% | 0% |
| Miscellaneous Fees | 0-10% | na | 4% | 0-10% |
| **Total** | **100%** | **100%** | **100%** | **100%** |

Miscellaneous fees primarily relate to fees on bank accounts

*Source: Company data, Goldman Sachs Research calculations for Banca Fideuram.*

## Low reliance on performance fees makes for stability

Based on our estimates and analysis of the fund flows and assets under management, together with management's disclosures that the contribution from performance fees is around zero in 1H06, we estimate that management fees account for c.75%-80% of total commission revenue, with front fees accounting for the largest part of the rest at c.17%-20% and the balance being made up primarily from fee revenue on other services such as fee-based bank accounts.

Although under new regulations performance fees at other Italian financial adviser networks are likely to be reduced as the calculation basis is moved to annual rather than monthly or quarterly, we still expect Mediolanum and Azimut to remain exposed to a relatively high level of performance fees due to these being retained on the old basis in their offshore funds.

The absence of significant levels of performance fees at Banca Generali suggests that the group's fee revenue should remain relatively more stable than that of Mediolanum and Azimut.

## Stability of the network a plus at a time of flux in Italian financials

Following the period of steady restructuring from 2000 to 2003, Banca Generali has been in a relatively stable state for the past two years, with only the minor transaction of acquiring the Italian operations of Generali's Swiss private bank BSI (Banca Svizzeria Italiano) providing any disruption to the network, and the acquisitions of BG Fiduciaria and BG SGR only really impacting the back office.

Adding to this stability has been a stable parent group – Generali – and a senior management team that has been in place since 2000 and has overseen the entire integration process, and a significant degree of success attributable to the rapid improvement in the level of net flows.

In our view Banca Generali is less likely to face disruptive management change in the future as it was developed from various assets of the Generali group and as the current management was appointed by Generali. Potential management change is an issue that is currently facing some of Banca Generali's competitors, where the sales network has been built largely on the personality of the founder of the company and where the absence of a clear successor could lead to uncertainty among the adviser network over the future development of the company.

**Exhibit 33: Significant restructuring from 2000 to 2003 but since more stable**
Management fee levels for Italian mutual funds

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 1H 2006 | Outlook |
|---|---|---|---|---|---|---|---|---|---|
| **Equity** | **1.71%** | **1.74%** | **1.77%** | **1.81%** | **1.84%** | **1.83%** | **1.83%** | **1.71%** | |
| Italian | 1.63% | 1.64% | 1.66% | 1.71% | 1.73% | 1.73% | 1.73% | 1.70% | ↔ |
| Euro Area | 1.62% | 1.63% | 1.56% | 1.66% | 1.71% | 1.71% | 1.71% | 1.65% | ↔ |
| US | 1.72% | 1.72% | 1.74% | 1.73% | 1.78% | 1.78% | 1.78% | 1.70% | ↔ |
| Emerging Markets | 1.86% | 1.90% | 1.93% | 1.92% | 1.94% | 1.94% | 1.94% | 1.80% | ↔ |
| **Bond** | **1.07%** | **1.03%** | **1.07%** | **1.07%** | **1.07%** | **1.09%** | **1.09%** | **0.92%** | |
| Euro area (BT) | 0.87% | 0.76% | 0.82% | 0.79% | 0.78% | 0.77% | 0.77% | 0.75% | ↓ |
| Euro Area (M/L) | 1.07% | 1.03% | 1.02% | 1.04% | 1.04% | 1.04% | 1.04% | 1.10% | ↓ |
| Dollar Area | 1.11% | 1.03% | 1.11% | 1.13% | 1.14% | 1.15% | 1.15% | 0.90% | ↓ |
| **Liquidity** | **0.71%** | **0.62%** | **0.62%** | **0.60%** | **0.61%** | **0.60%** | **0.60%** | **0.50%** | ↓ |
| **Flexible** | **1.70%** | **1.70%** | **1.70%** | **1.67%** | **1.71%** | **1.72%** | **1.72%** | **1.72%** | ↔ |

*Source: Goldman Sachs Research estimates.*

In our view this stability makes Banca Generali well placed to benefit from ongoing uncertainty within the group's key competitor, Banca Fideuram, as a result of the merger of SanPaolo-IMI and Banca Intesa, as well as among staff within the core branch network of the two banks, providing Banca Generali with increased opportunities for recruitment of new financial advisers.

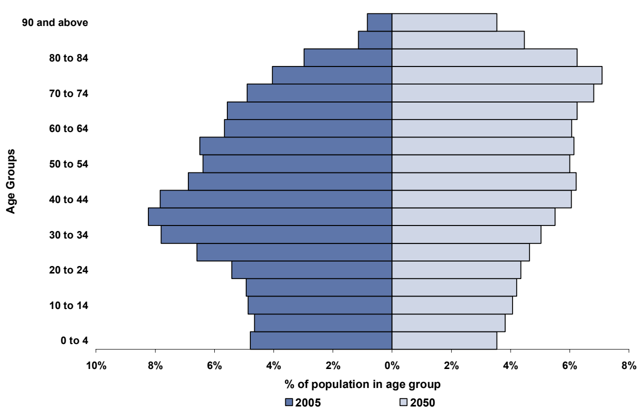
# Opportunities for growth 1: The need for Italians to save

Changing demographic trends are leading to a rapidly ageing Italian population and a dependency ratio that is expected to increase from c.33% currently to c.41% by 2020. As a result, the Italian government is steadily reducing state pension provision and placing greater emphasis on individuals becoming more self reliant in retirement. Coupled with a conservative investment strategy – c.50% of Italian household net assets are invested via bank deposits – we expect this to lead to steadily rising demand for managed savings products and financial advice as individuals seek higher returns to support their retirement.

## The need for Italians to save more is clear from demographics

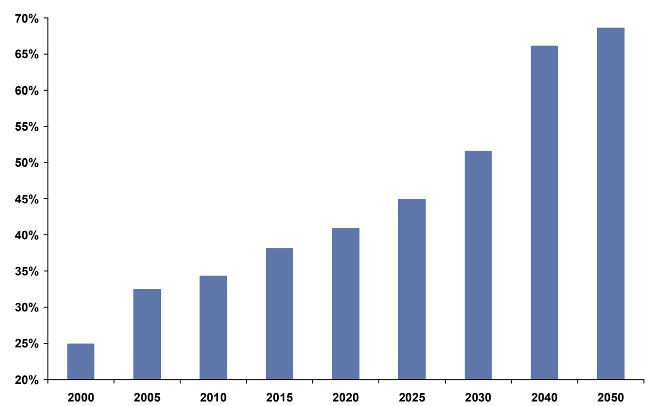
Decreasing birth rates and longer life expectancy are – as elsewhere in the western world – leading to a rapidly ageing society in Italy. This is perhaps best illustrated by the population pyramid in Exhibit 34, which highlights that this ageing process will continue for the foreseeable future. As a consequence the dependency ratio is expected to increase rapidly over the next 15 years from 33% in 2005 to 41% in 2020 as the proportion of the retired population steadily increases.

**Exhibit 34: The Italian population is expected to age**




*Source: ISTAT.*

**Exhibit 35: Italy's dependency ratio is deteriorating**




Dependency ratio is defined as population above age 65 as a proportion of population between ages 20 and 64

*Source: ISTAT.*

The inevitable result of this demographic shift will be a deteriorating financial situation for the Italian government – with falling tax revenues as a result of a smaller active labour force proving insufficient to fund generous state pension provision for those in retirement.

In recent years the Italian government has made some attempt at pension reform in order to reduce the future cost of pension liabilities, however, the general weakness of successive Italian governments has led to only modest progress.

We expect consumer awareness of the need to save for retirement instead of depending on state pensions to grow over the next few years as a result of these reforms. There will be a time lag as generations affected by the pension reform gradually become more aware of the issue as they approach retirement.

Even without further government incentives, those that can afford to are likely to seek to secure their financial future by increasing their savings rate as they see older generations retiring with less state provision than in the past and workers may have more financial obligations to their parents than previously expected.

**Exhibit 36: Italian pension reform has been limited and spread over a long period**

| | Pre-Reform | 1992 Reform | 1995 Reform | 2004 Reform |
|---|---|---|---|---|
| **Normal Retirement age** | 60 (men); 55 (women) | 65 (men); 60 (women) | Any age, starting at 57 (men and women); 60 in 2008 | 61 in 2010 and 62 in 2014 |
| **Pensionable Earnings** | Average of last 5 yrs real earnings | Based on career average earnings | Based on career contributions (capitalised at an annual rate using a five-year moving average of past GDP growth rates | no change |
| **Years of Contribution needed for eligibility** | 15 | 20 | 5 | no change |
| **Total payroll tax (employee and employer)** | 24.5% of gross earnings | 27.1% of gross earnings | 32.7% of gross earnings | no change |
| **Early retirement provision** | yes | yes | none | no change |
| **Pension Indexation** | Cost of living plus real earnings growth | Cost of living | no change | no change |

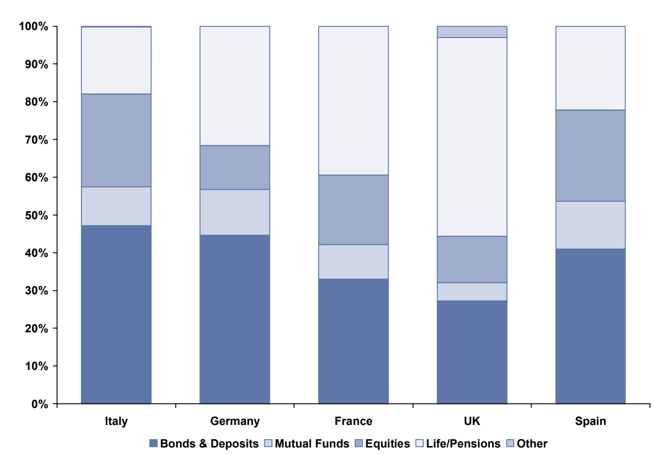
*Source: Italian government data and Goldman Sachs Research.*

## The stage is set for growth in the need for financial advice

To date Italian household savings (Exhibit 37) remain relatively conservative with almost 50% held in bank deposits and direct holdings of government bonds. This is in sharp contrast to other western European countries (with the exception of Germany) where greater use of managed savings – typically life insurance, pensions and mutual funds – can be observed.

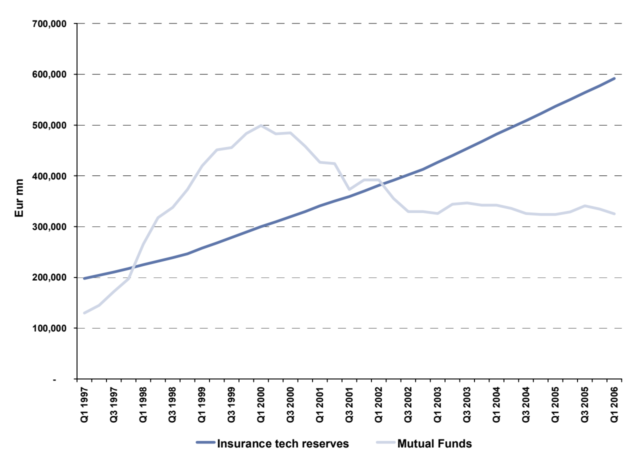
Over time, we expect this picture to show gradual change as individuals become more aware of the need to make their own provisions for retirement and also become more demanding of the returns from their investments. Indeed we believe that this trend has already begun, evidenced by steady growth in investments in life insurance products over the past 10 years.

**Exhibit 37: European household financial asset mix**
as at December 31, 2005




*Source: Banca D'Italia, Deutsche Bundesbank, Office of National Statistics Bank of Spain, Bank of France.*

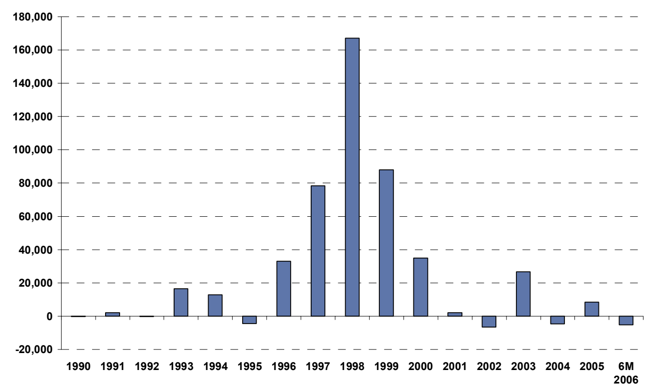
**Exhibit 38: Growth of Italian mutual funds and insurance reserves**
as at December 31, 2005 (€ mn)




*Source: Banca D'Italia.*

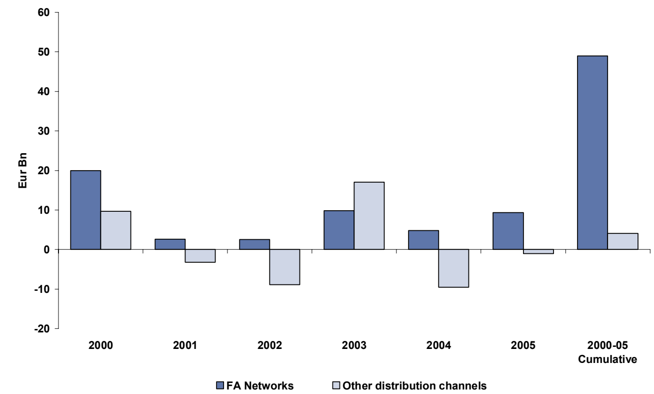
The growth in assets in mutual funds has been less impressive, albeit in part driven by the relatively poor equity market performance at the start of this decade. Following strong net inflows throughout the mid-nineties, as banks sought to take advantage of falling bond yields and rising capital gains to switch their clients out of direct holdings of Italian government bonds and into in-house mutual funds, net inflows have fallen sharply as customers became disillusioned with poor market returns and withdrew their investments. As a result net inflows have fallen dramatically: only €21.1 bn since 2000 compared with €396 bn between 1996 and 2000.

**Exhibit 39: Huge growth and then stagnation**
Inflows into Italian mutual funds (€ mn)




*Source: Assogestioni, Goldman Sachs research estimates.*

**Exhibit 40: FAs have done better than banks**
Net flows by distributor (€ mn)




*Source: Assoreti.*

## Level of flows could change rapidly depending on small shifts in savings habits

While near-term net flows into asset management products have been disappointing, we note that it would not take much to significantly change this picture. In particular, it would only require a slight slowing in the growth of retail deposits to cause a significant shift in the overall net flows of mutual funds and life insurance.

To illustrate, in 2005 household deposits totalled €555,196 mn whereas mutual fund inflows for the year were €10,801 mn; a shift in the investment of incremental savings away from bank deposits that saw growth in retail deposits fall by c.1% (if all redirected to the mutual fund industry) would lead to a 50% increase in the overall level of net flows.

## More sophisticated investment needs should benefit advisory distribution

The increased demand for financial advisory services is an inevitable consequence of a shift into more sophisticated savings products as customers' financial advisory needs are less adequately serviced by the banking business model. This should lead to growth in the more up-market and sophisticated financial advisory networks of which Banca Generali is a part. This trend is already evident; Exhibit 40 shows that net inflows into advisory networks have been larger than inflows into banks over the past five years, and we expect this trend to continue. An additional feature of the AUM in advisory networks is that funds are less volatile than in banks as financial advisory customers are less likely to sell in bear markets. One reason for this being that advisory customers have more contact with specialists who can caution against any knee-jerk reactions in contrast to the unguided bank customers. Thus advisory networks are more able to hold on to inflows and to steadily grow their AUM.

# Opportunities for growth 2: Self improvement

Aside from the more industry-wide dynamics, we believe that significant opportunities exist for Banca Generali to improve the group's growth both in terms of asset flows as well as the revenues per asset on the business. On top of this a scaleable business model which is structured to be able to absorb a significant increase in overall business for limited extra cost should ensure that incremental top-line growth is more than matched at the bottom line.

### Seasoning of agents should increase efficiency

In general agents become more productive as they age and the longer they remain with a financial adviser network. We note the main Banca Generali adviser network still has significant scope for improvement as the bulk of the adviser network has a tenure of less than nine years. As these advisers gain further experience and develop their client relationships over time, we would expect a steady increase in the overall level of adviser efficiency as measured by assets per adviser.

**Exhibit 41: Demographics of the financial advisers of BSI and Banca Generali**

| Banca BSI / Banca Generali private banking | | | | |
|---|---|---|---|---|
| No of advisers | Average tenure | % of advisers | Average portfolio €mn | % Portfolio |
| 74 | 13.0 | 34% | >20 | 73.1% |
| 84 | 11.0 | 38% | 10 - 20 | 21.9% |
| 26 | 3.5 | 12% | 5 - 10 | 4.0% |
| 12 | 3.0 | 5% | 2.5 - 5 | 0.7% |
| 23 | 2.0 | 11% | 0 - 2.5 | 0.3% |
| **219** | **9.4** | **100%** | | **100%** |

| Banca Generali (ex private banking) | | | | |
|---|---|---|---|---|
| No of advisers | Average tenure | % of advisers | Average portfolio €mn | % Portfolio |
| 47 | 11.0 | 3% | >20 | 11.5% |
| 252 | 10.0 | 14% | 10 - 20 | 30.2% |
| 591 | 9.0 | 34% | 5 - 10 | 37.3% |
| 499 | 7.5 | 29% | 2.5 - 5 | 16.6% |
| 355 | 4.5 | 20% | 0 - 2.5 | 4.5% |
| **1,744** | **7.9** | **100%** | | **100%** |

*Source: Banca Generali.*

### Growing share of existing customers wealth

Linked to improving efficiency of agents is the potential for the Banca Generali network to increase its share of the group's existing customers' total financial wealth. While it is difficult to quantify the exact share of the wealth of each client managed by a financial adviser network, we believe that a rough idea for the potential of this can be gained by looking at Banca Generali against its nearest peer, Banca Fideuram.

We believe that the customer base of Banca Fideuram is broadly similar to that of the Banca Generali customer base once clients of Simgenia are excluded. A simple analysis (Exhibit 21) of the two networks shows Fideuram clients to have on average c.€93k of assets with the bank, as opposed to €62k in Banca Generali. If Banca Generali were successful in even halving the gap to Fideuram in terms of AUM per client, this would result in overall incremental AUM in the region of €4.2 bn or c.19% of current assets.

### Scope for ongoing agent recruitment

In our view it is reasonable to expect the Banca Intesa/SanPaolo-IMI merger to result in renewed dislocation of both financial advisers and senior relationship bankers belonging to the two groups. This in turn could provide Banca Generali with further opportunities to grow the adviser force through selected recruitment of seasoned advisers.

Management's stated strategy is to target recruitment at advisers with at least €15 mn of assets under management, therefore hiring a modest number of advisers can add significantly to the net flows in the short term. According to management agent recruitment accounted for 22% and 35% of net inflows in 2005 and 1H06 respectively.

### Simgenia: Potential to capture maturing wealth of Generali customers

Simgenia is the financial adviser network attached to the Generali insurance agencies which aims to facilitate the sale of funds to insurance clients who are interested in broadening their investment portfolio away from the purer insurance products typically offered by insurance agents.

Over the next few years, we expect that Generali's Italian life business will see maturing life insurance policies worth in the region of €3-3.5 bn pa. As with all insurance companies, maturities tend to represent a significant lost revenue opportunity with upwards of 70% of the money lost to other financial services groups (mainly banks).

Simgenia represents a core part of the Generali group's strategy to increase the retention of this money with the agents of Simgenia able to offer banking products in particular as a way of retaining more of these maturing funds within the group with the aim of converting them into other managed savings products over time.

### Improving returns from conversion of older insurance portfolios

At present Banca Generali administers c.€4.4 bn of life insurance assets, with c.66% of this in traditional life contracts and a further 12% in the form of index linked policies – neither of which provide the network with any ongoing income. As these mature over the next few years, management is looking to transition c.€500 mn pa into newer life products which contain an annual management fee. Assuming a typical management fee of c.180 bp on these assets suggests a revenue pick-up of c.€9 mn pa or c.5% of our 2006 revenue estimate.

### Converting customers to fund portfolio management

Similarly, management has identified an opportunity to increase the use of its GPF/GPM fund portfolio management products – with the aim of converting c.€400 mn of assets held in a combination of funds and fixed income securities into these higher margin products.

### Improving performance should drive increased capture of assets for own funds

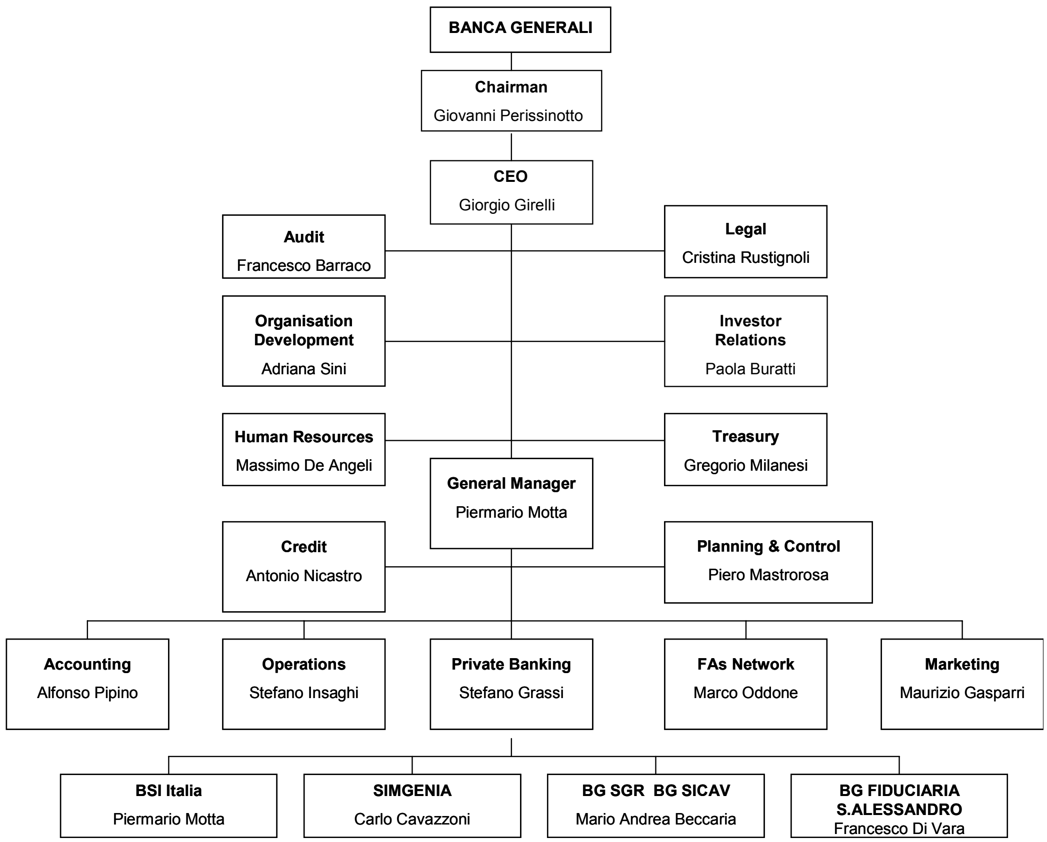
The improvement in the performance of the group's own fund management products over the past couple of years opens up the opportunity for Banca Generali to retain more of the overall fee revenue within the group as advisers sell more in-house product.

Typically 30%-35% of management fees on third-party funds are retained by the fund manager, as a result an increase in the assets held in in-house funds, should result in these fees being retained in Banca Generali with the network capturing both the asset management and distribution margins.

For a typical equity fund with 180 bp of annual management charge, this would lead to additional revenue of c.20 bp of AUM as revenue.

# Appendix A: Management structure and biographies

**Exhibit 42: Organisational structure of the management team**




*Source: Banca Generali.*

**Exhibit 43: Abbreviated management biographies**

| Name | Role | Year joined Banca Generali | Previous Roles |
|---|---|---|---|
| Giorgio Angelo Girelli | Group CEO | 2000 | Senior adviser - Arthur Young & Co<br>Partner - Roland Berger & Partner Inc |
| Piermario Motta | General Manager, Managing Director of BSI Italia | 2005 | Area Manager - Banca Fideuram<br>Managing Director - Sanpaolo Invest S.p.A |
| Stefano Grassi | Manager of Private Banking Division | 2000 | Manager of Planning & Analysis - Bull Italia<br>New Distribution Channel Development Manager - Winterthur Assicurazioni<br>Private Banking & Product Development Manager - Prime Consult SIM |
| Marco Oddone | Manager of financial adviser network | 2000 | Junior Treasurer - Citybank Italy S.p.A<br>Product Manager - RSA<br>Product Manager - ING Group<br>Sales Manager - Finanza & Futuro Consulenza SIM S.p.A<br>Marketing & Network Development manager - Prime Consult SIM |
| Mario Andrea Beccaria | General Manager BG SGR | 2005 | Asset Management Director - Altinia SIM, Fondi Alleanza and PrimeGest SGR<br>Director of Retail Investments - Generali Asset Management |
| Francesco Di Vara | Managing Director BG Fiduciaria | 2005 | Senior Executive - Ambrofid<br>Senior Wealth Manager - Banca BSI |
| Carlo Cavazzoni | General Manager Simgenia | 2004 | Director of Finance - Winterthur Vita S.p.A<br>Director of Investment Banking - Societe Generale<br>Sales Manager of Generali Asset Management - Assicurazioni Generali Group |
| Sergio Perego | Co General Manager Banca BSI | 2005 | Senior Asset Manager - Citibank Group<br>Director of private Banking -American Express Bank<br>Senior Wealth Manager - Deutsche Bank<br>Managing Director - Banca BSI |

*Source: Banca Generali.*

# Appendix B: Third Party Offerings

**Exhibit 44: Third party fund links of Italian financial adviser networks**

| | Banca Generali | Banca Fideuram | Finanza & Futuro | Rasbank | Xelion |
|---|---|---|---|---|---|
| BG Sgr | ✓ | | | | |
| Generali | ✓ | | | | |
| Fondi Alleanza | ✓ | | | | |
| Anima | ✓ | | | ✓ | ✓ |
| Credit Agricole | ✓ | ✓ | | | ✓ |
| Goldman Sachs Asset Management | ✓ | ✓ | | | |
| Invesco | ✓ | ✓ | ✓ | ✓ | |
| JPMorgan Asset Mangement | ✓ | ✓ | | ✓ | ✓ |
| Julius Baer | ✓ | ✓ | | | ✓ |
| Morgan Stanley | ✓ | ✓ | ✓ | ✓ | ✓ |
| Schroders | ✓ | ✓ | ✓ | | ✓ |
| Merrill Lynch | ✓ | ✓ | ✓ | ✓ | ✓ |
| Fidelity | ✓ | ✓ | ✓ | | ✓ |
| UBS Investment Bank | ✓ | | | | |
| HSBC | ✓ | | | | |
| BNP Paribas | ✓ | | | | ✓ |
| Pictet Funds | ✓ | ✓ | | | ✓ |
| DWS | ✓ | | ✓ | | |
| Banca Lombarda | ✓ | | | | |
| Other Third Parties | - | ✓1 | - | ✓3 | ✓11 |

*Source: Company data.*

# Appendix C: Recent corporate transactions in Italian asset management sector

**Exhibit 45: Recent Italian asset management transactions**
€ mn

| Year | Acquiror | Target | Price (€ mn) | P/AuM |
|---|---|---|---|---|
| 2006 | Eurizon Financial Group | Banca Fideuram | 4,841 | 7.6% |
| 2006 | Lombarda | Promotori BPEL | 28 | 4.9% |
| 2006 | SOPAF | Bipielle.net | 134 | 3.7% |
| 2005 | Azimut | Aletti Invest | 13 | 2.4% |
| 2004 | Fortis | Banca Itermobiliare | 86 | 0.9% |
| 2003 | Rasbank | BNL Inv. | 100 | 2.5% |
| 2003 | Xelion | ING Sviluppo | 110 | 3.1% |
| 2003 | Banca Generali | Primavera | 250 | 4.6% |
| 2003 | Lombarda | Banca Idea | 22 | 7.3% |
| 2003 | Banca Profilo | HSBC Italia | 11 | 1.2% |
| 2003 | Unicredit | ING Sviluppo | 170 | 4.0% |
| 2003 | Generali | Banca Intesa | 240 | 4.4% |
| 2003 | Rasbank | Commerzbank AM Italia | 2 | 0.3% |
| 2003 | BIM | Symhonia | 70 | 3.7% |
| 2002 | Xelion | ONBanca | 24 | 5.6% |
| 2002 | Banca Fideuram | Sanpaolo Invest | 613 | 6.2% |
| 2001 | Apax | Azimut | 437 | 7.1% |

*Source: Company data.*

# Reg AC

I, Richard Burden, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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## Coverage group(s) of stocks by primary analyst(s)

Richard Burden: Europe-Insurance.

Europe-Insurance: Aegon N.V., Alea Group Holdings, Alleanza, Allianz AG, Assicurazioni Generali, Aviva plc, AXA, Azimut Holding, Baloise, Banca Generali, Benfield, Catlin Group, CNP Assurances, Converium, Fondiaria - Sai, Fondiaria - Sai (Savings), Fortis, Friends Provident, Hannover Ruckversicherung, ING, Irish Life and Permanent (Ireland), Jardine Lloyd Thompson, Legal & General Group, Mapfre (Corporacion), Mediolanum, Munich Re (reg), Prudential Plc, Resolution plc, Royal Sun Alliance, Sampo, SCOR, Swiss Life Holding, Swiss Re, Unipol (Ordinary Shares), Unipol (Preference Shares), Wiener Stadtische, Zurich Financial Services.

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Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: Banca Generali (€10.45) and Mediolanum (€6.20)

Goldman Sachs has received compensation for non-investment banking services during the past 12 months: Azimut Holding (€10.58), Banca Generali (€10.45) and Mediolanum (€6.20)

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Goldman Sachs had a non-securities services client relationship during the past 12 months with: Azimut Holding (€10.58), Banca Generali (€10.45) and Mediolanum (€6.20)

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|---|---|---|---|---|---|---|
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| Global | 26% | 60% | 14% | 47% | 39% | 36% |

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