BANCO ESPIRITO SANTO

Retail: The leading growth driver

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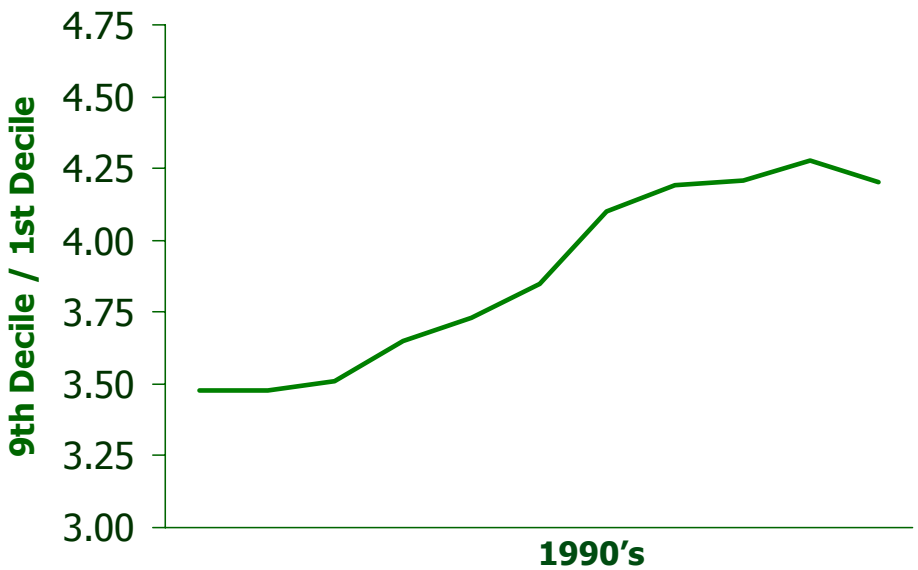
Agenda

1. Recent Market Trends
2. BES' Competitive Advantages / Strategic Developments
3. Renewed Segmentation and Commercial Approach to Retail
4. Objectives for Retail Business

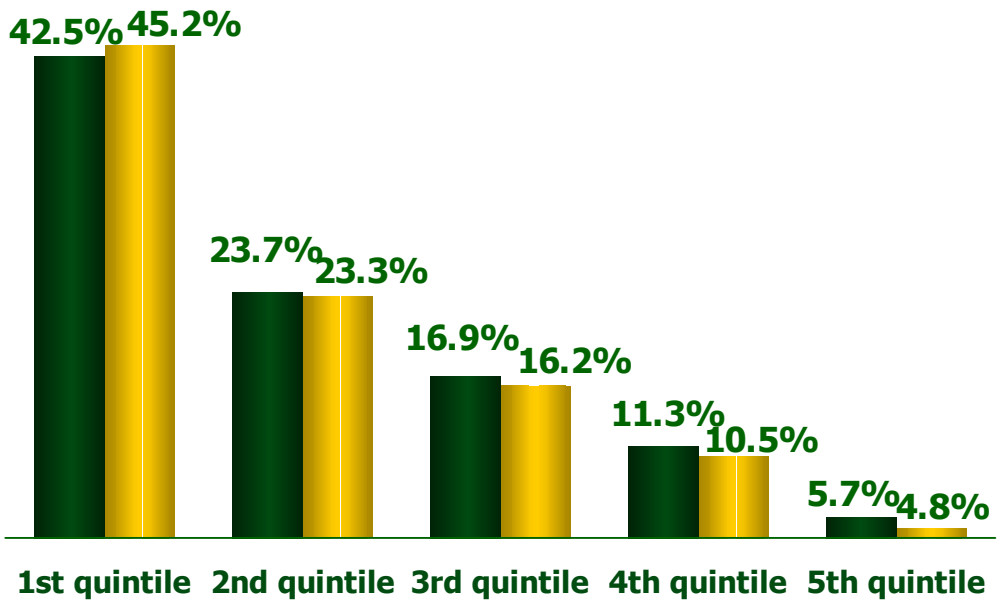
Demand Structure: Growing Differentiation of Client Segments

Income asymmetries are large and have been increasing in the past decade

Growth of Wages
(Portugal)



Income Distribution
(Portugal)

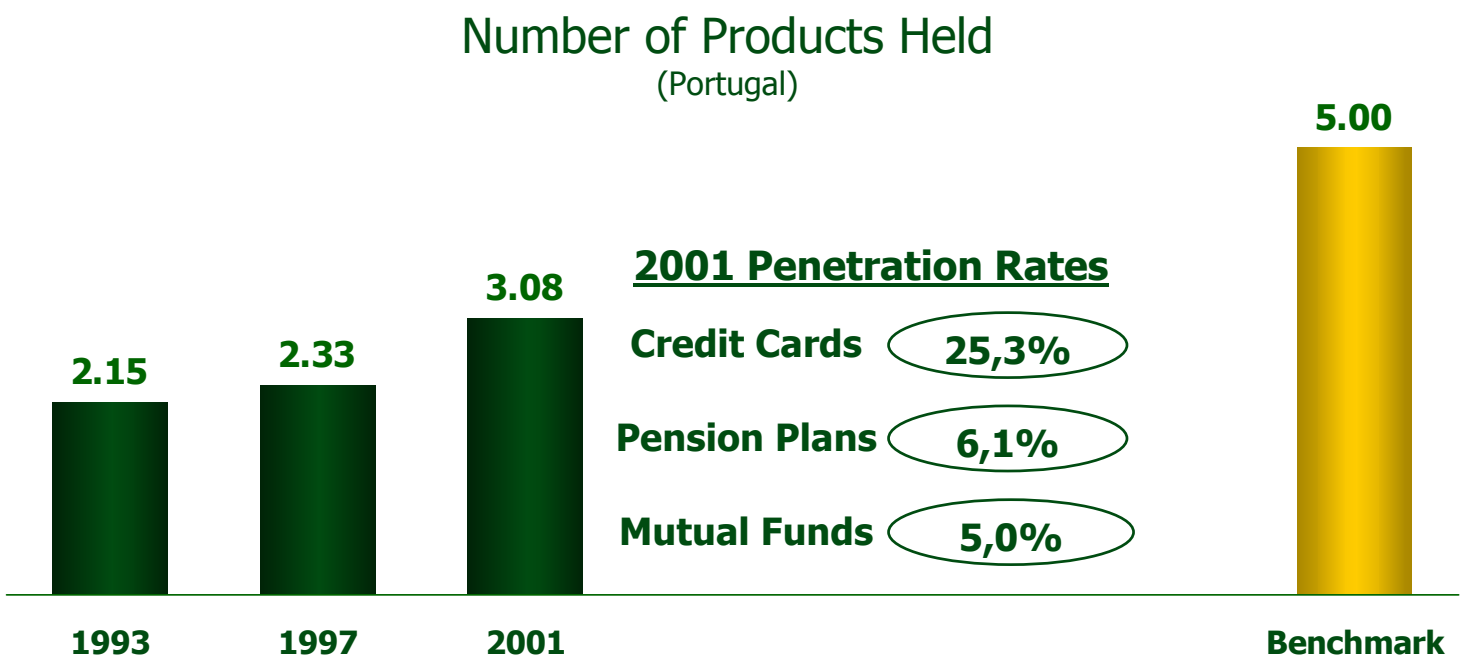


Additionally, clients are increasingly different in their banking needs, sophistication and demands

Source: BoP, Labour Ministry

Key Demand Trends: Increasing Usage of Banking Services

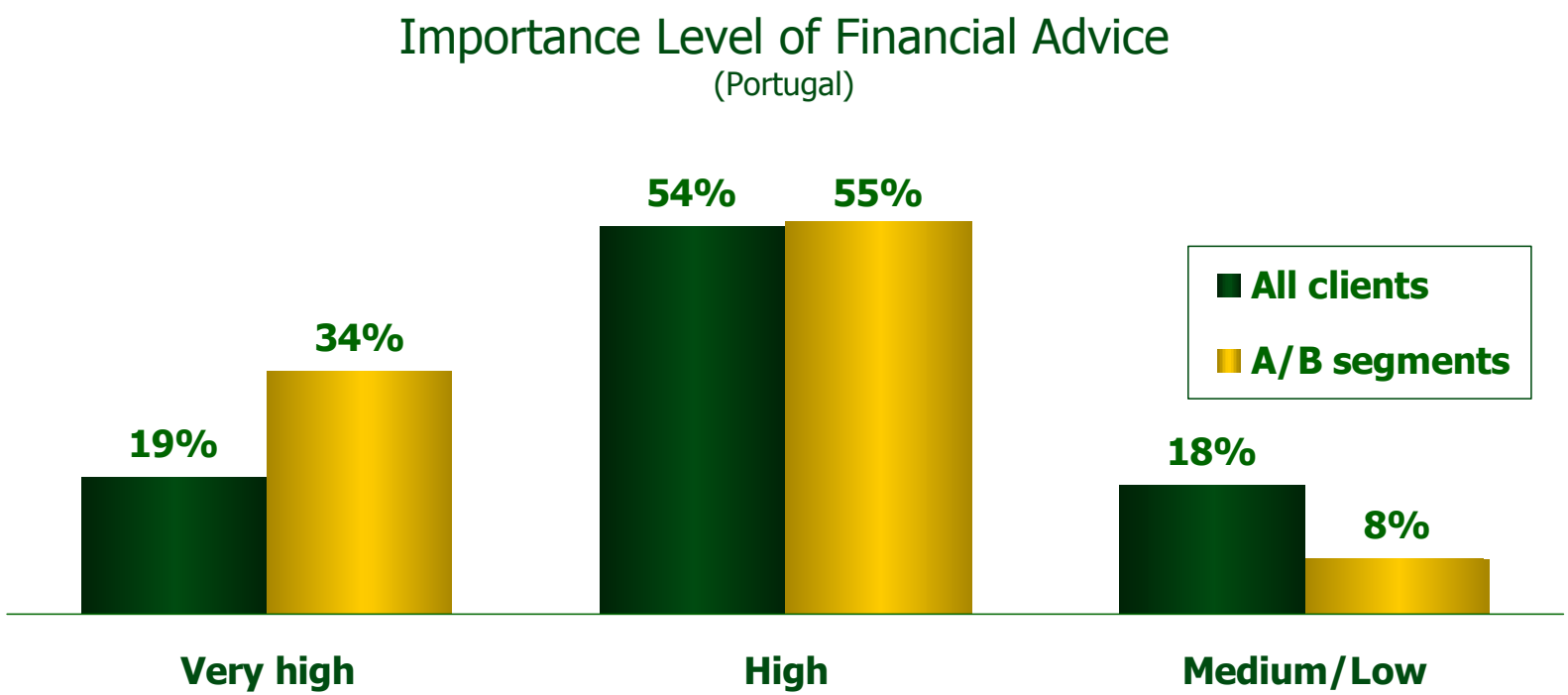
- Despite the historical increase in product ownership by consumers, additional potential exists for higher cross-sale levels, enhancing value captured from clients
- Given client preference for one-stop shopping, being "the" Relationship bank constitutes a huge advantage



Source: BASEF

Key Demand Trends: Increasing Need of Advice on Financial Investments

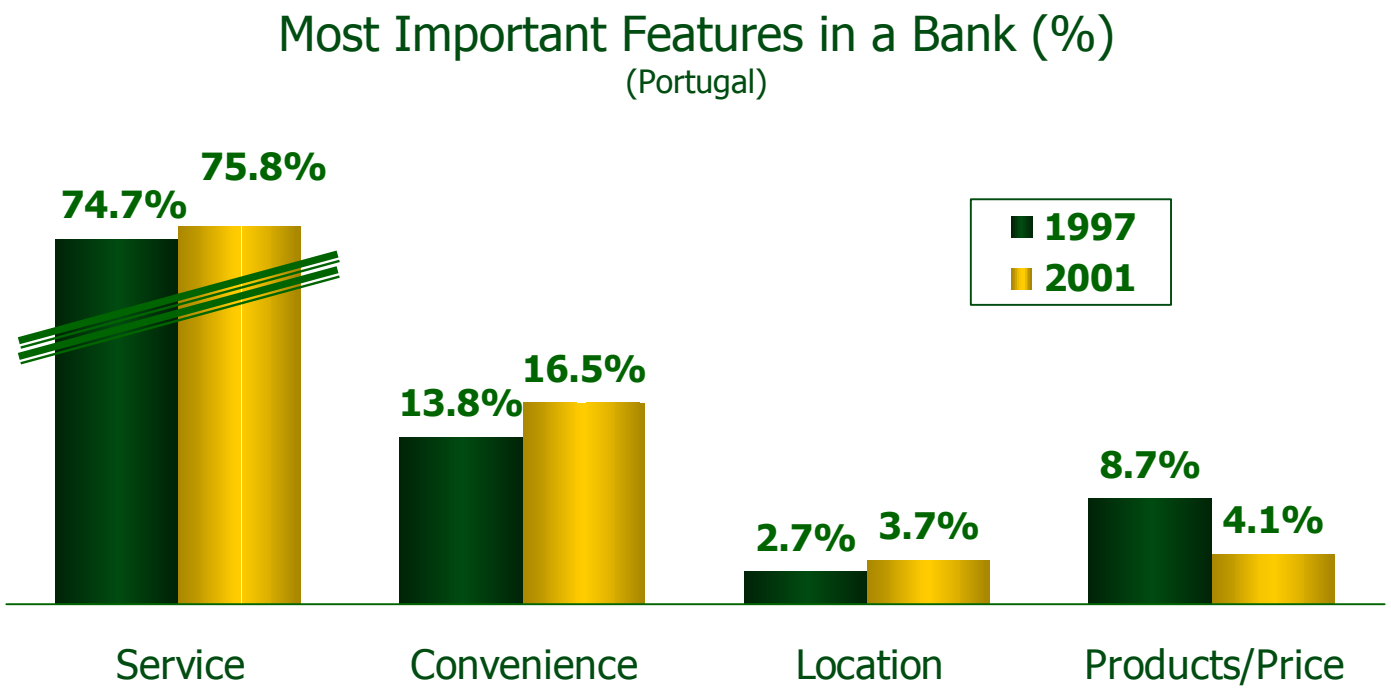
- Ability to advise clients well on their investment strategy is essential to maintain / improve penetration and loyalty, especially in higher socio-economic segments (the most valuable ones)



Source: BASEF 2001

Key Demand Trends: Changing Importance of Banking Relationship Drivers

- Apart from service levels (quality), clients are increasingly favouring convenience related aspects (incl. remote access to the bank)



Source: BASEF

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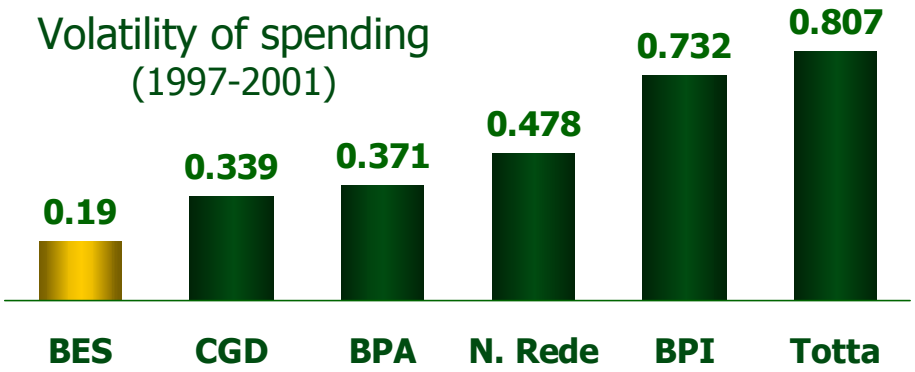
Strongest Franchise: Top-of-Mind Awareness

The BES brand shows the highest awareness of all non-State owned banks in Portugal, sustained by moderate and stable investments in communication

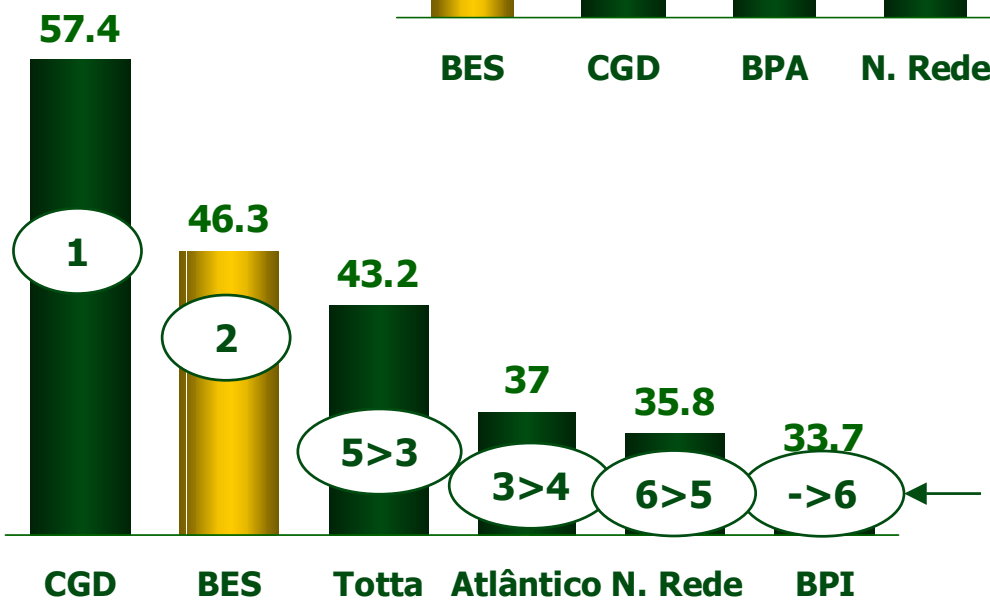
BES' average share of spending in communication (1997-2001):

12.2%

Volatility of spending
(1997-2001)



Top-of-mind awareness
(3 first references)

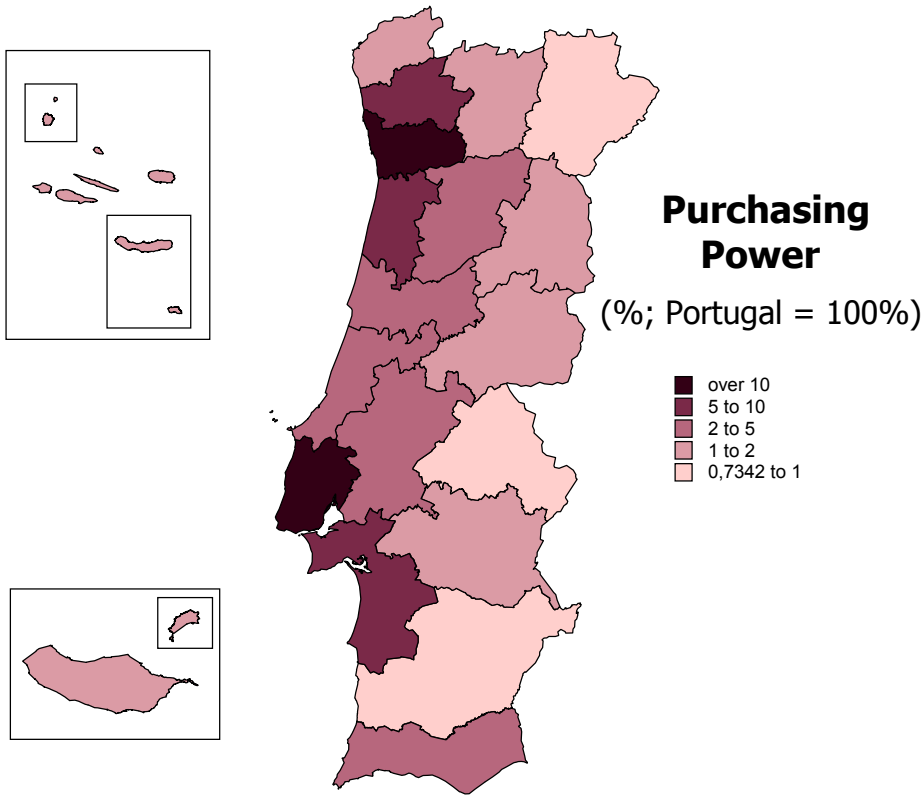


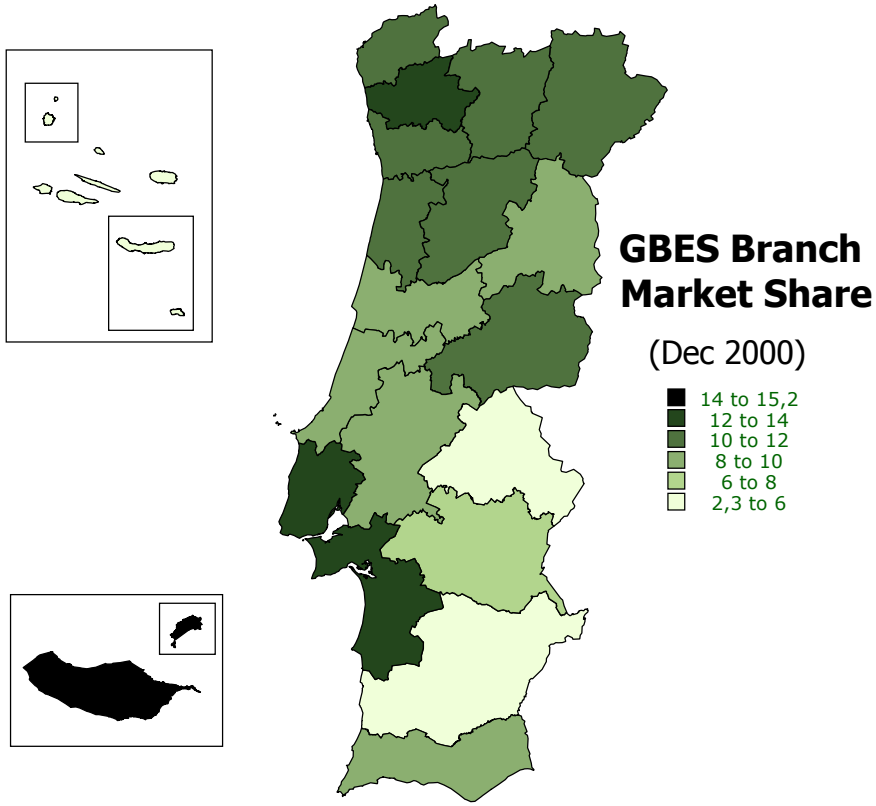
Rank evolution: 1998/9 > 2000/1

Source: Sabatina; BASEF 2001

Well Located, Right Sized Branch Network, with no Redundancies

Good fit between Portuguese PPC and BES' Branch Network





(72% <<< weight of 5 largest districts >>> 66%)*

* Considering only BES branches opened after 1991: 71% of total branches are in 5 largest districts

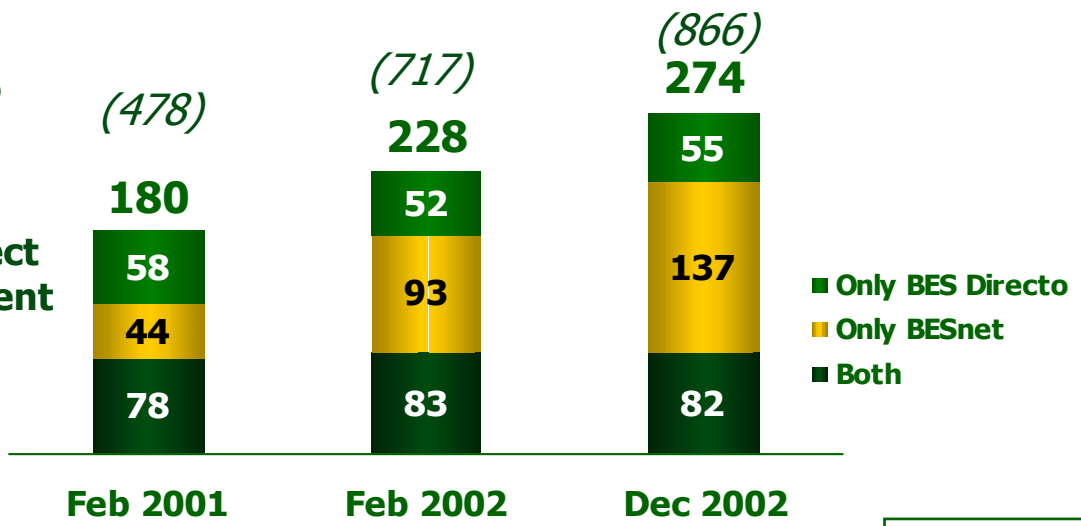
Source: Sales Index, INE, BoP

Leadership in Multichannel Distribution: Internet Banking

The role of direct channels in the multi channel offering relies not only on servicing (cost side), but also on sales (income side) …

(Subscribers; 000')

Number of Direct Channels Frequent Customers
(000')



Average 2001 efficiency gains from migration of transactions* from branch to direct channels: equivalent to 97 full time employees**

	Feb 2001	Feb 2002	Dec 2002
Total of Inbound Contacts per month (calls +logins)	352	840	1.176
VRU Weight	20%	53%	60%
Off branch Rate of LVA* transactions	12%	17%	23%

High growth of inbound contacts (phone, net) represents huge potential to develop commercial activity based on a push over pull approach

Promoted VRU gains and migration of BES Directo to BESnet allows a cost base reduction of call center operations in 2002

-15%

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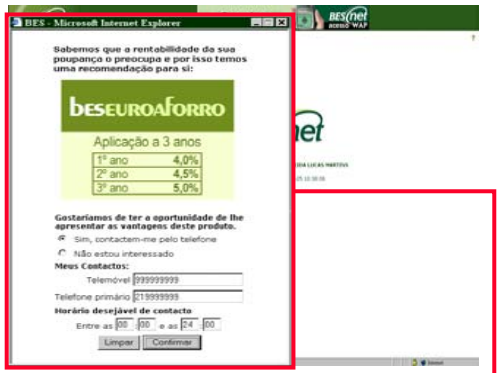
* LVA (low value added) transactions: Transfers + Checks requests
** Average cost per transaction (HR, communications)

Leadership in Multichannel Distribution: Internet Banking

Infrastructure to support commercial collaborative approach to inbound contacts in a multi-channel platform (1st Stage: BESnet + BES Directo; 2nd Stage: + Branches)

BESnet login

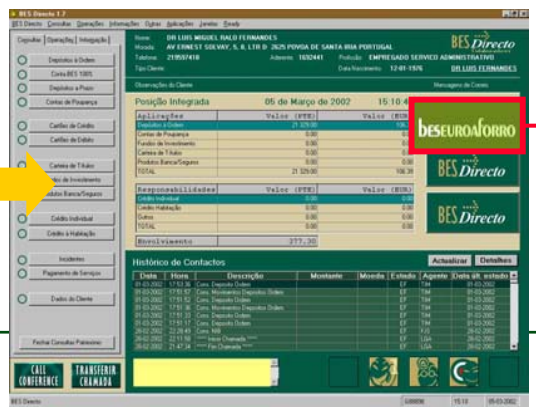


To all clients

Best Offer & Campaign Definition

Sales Proposition → **Inbound Customer Contacts** → **Presentation Adapted to Channel used**

BES Directo call



Examples of obtained success rates

(% of sales on approached client)

Service accounts	**20%**
Cards	**33%**
Savings Products	**25%**
PPR's	**33%**

- **Customer Accepts**
- **Customer Refuses**
- **Customer demands a new contact**

Channel Colaboration

Introduction of Value Based Management

- BES is strengthening value based management tools to boost value creation:
  - All products are valued using DCF methodology (revenues, costs, risk)
  - Client value estimated as sum of:
    - Embedded value: Present value of all products currently held
    - Add-on value: Present value of expected evolution of client (additional products, increased balances), based on the profile / propensities of the client

Integrated vision of each client's value and potential

Best value enhancing propositions to each client

Value based pricing tools

Introduction of Value Based Management

- At the "tactical" product level, BES is launching pilot initiatives aiming at increased value creation, as well as elimination of value destruction (first results already available in consumer lending):

Initiative (consumer lending)	Average price uplift (b.p.)	Expected annual value creation (M €)
Sale at branch (value based pricing tool, giving more discretion to branch)	**35 - 70**	**1.5**
Rejection of value destroying loans and approval of value creating loans (previously rejected)	**-**	**1.5**
Pre-approved loans (direct marketing)	**150 - 200**	**2.5**

BES is currently preparing:

- The roll-out of these initiatives in the consumer lending business
- The extension of these methodologies to other business areas (mortgage lending, credit cards, etc.)

Increased Focus in Service Quality (key differentiator)

Key Actions

- Improvement of Service Recovery
- Close Monitorisation of Service Experience
- Assessment of Internal Service Chain
- Reinforcement of Quality Parameters in Compensation Schemes

Objectives & Results

Increase Satisfaction Level by 10 pp in 3 years

(BES currently 2nd place in Portugal, 1 p.p. below 1st)

Reduce Customer Asset Erosion by 25%

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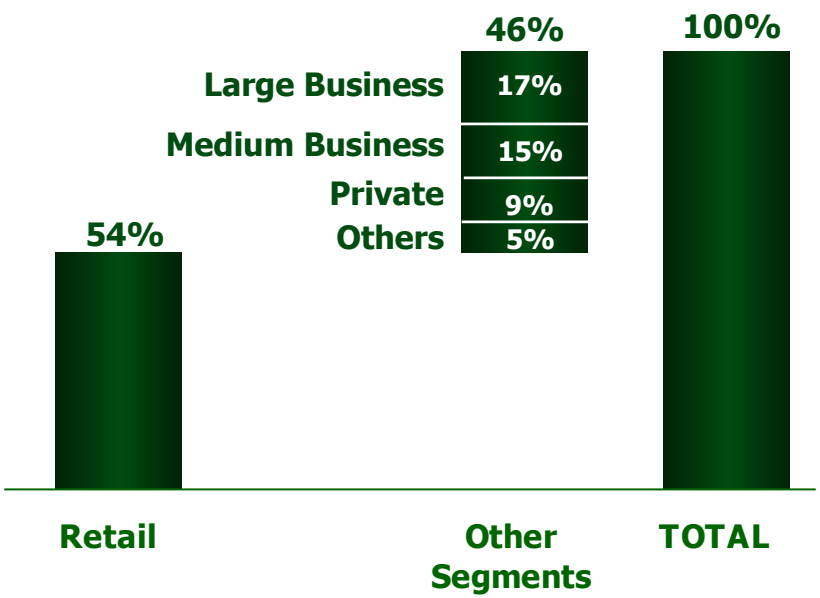
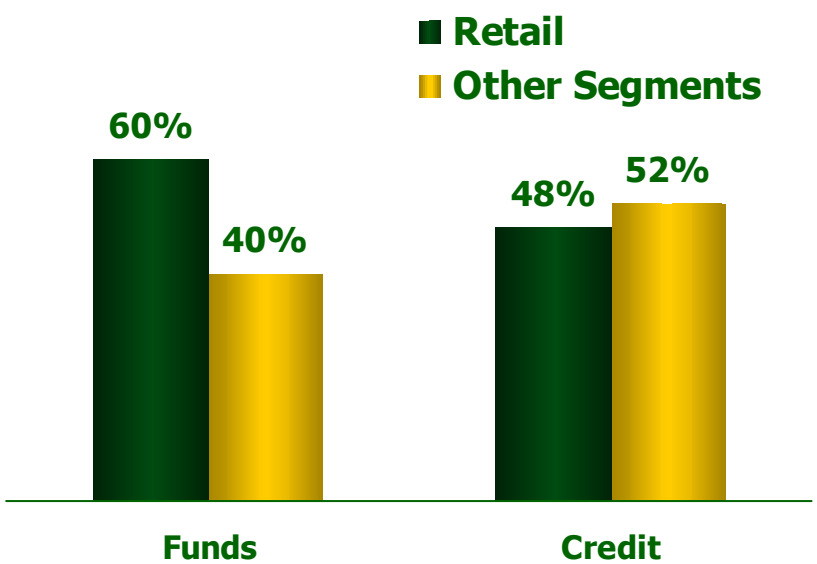
Dimension and Importance of Retail

The importance of Retail is well demonstrated by the following indicators:

Retail Banking activity represents 98% of total customers and 54% of total involvement

60% of total funds captured and 48% of total credit granted during 2001 were originated in the retail customer base



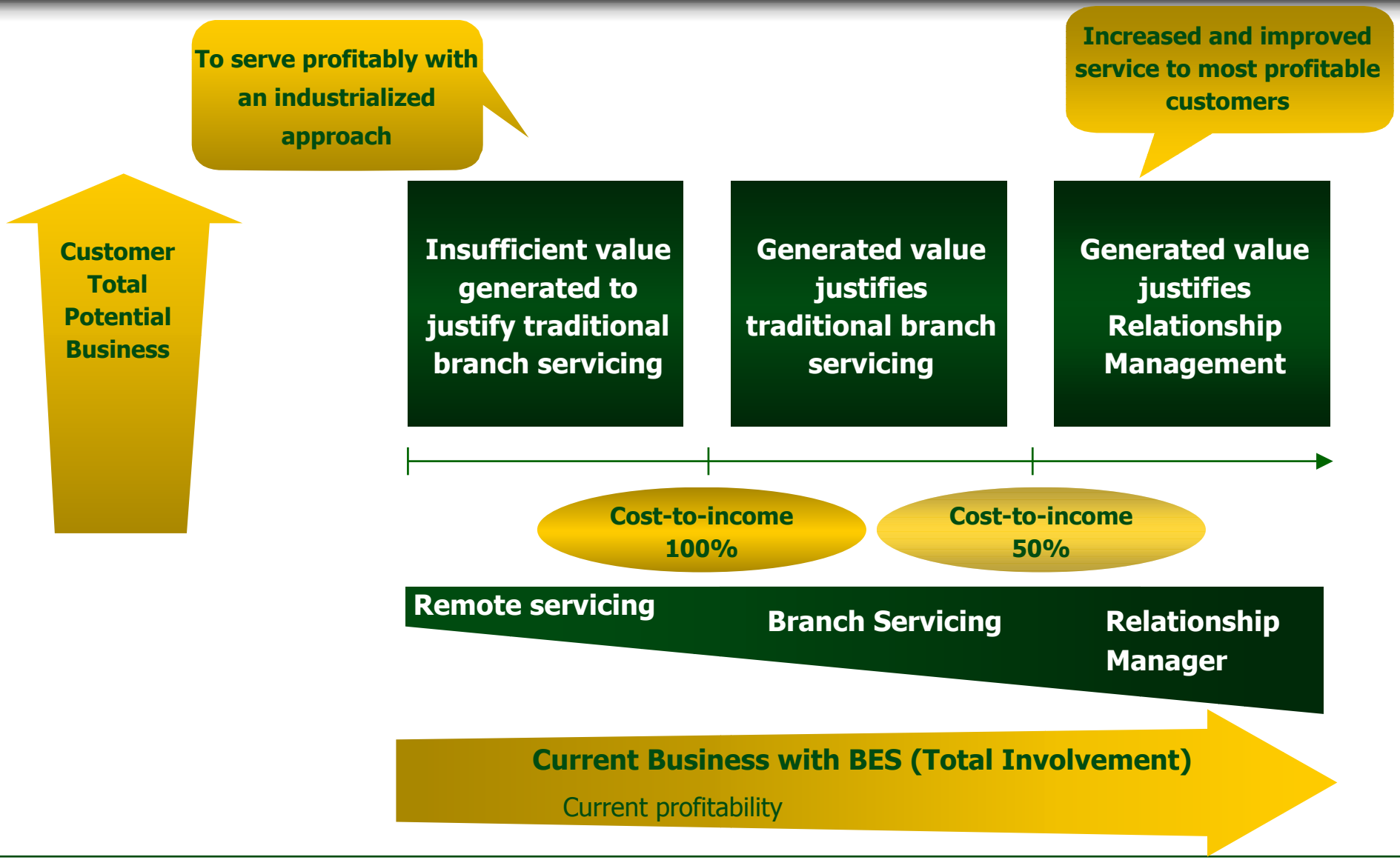


75% of BES' gross financial margin

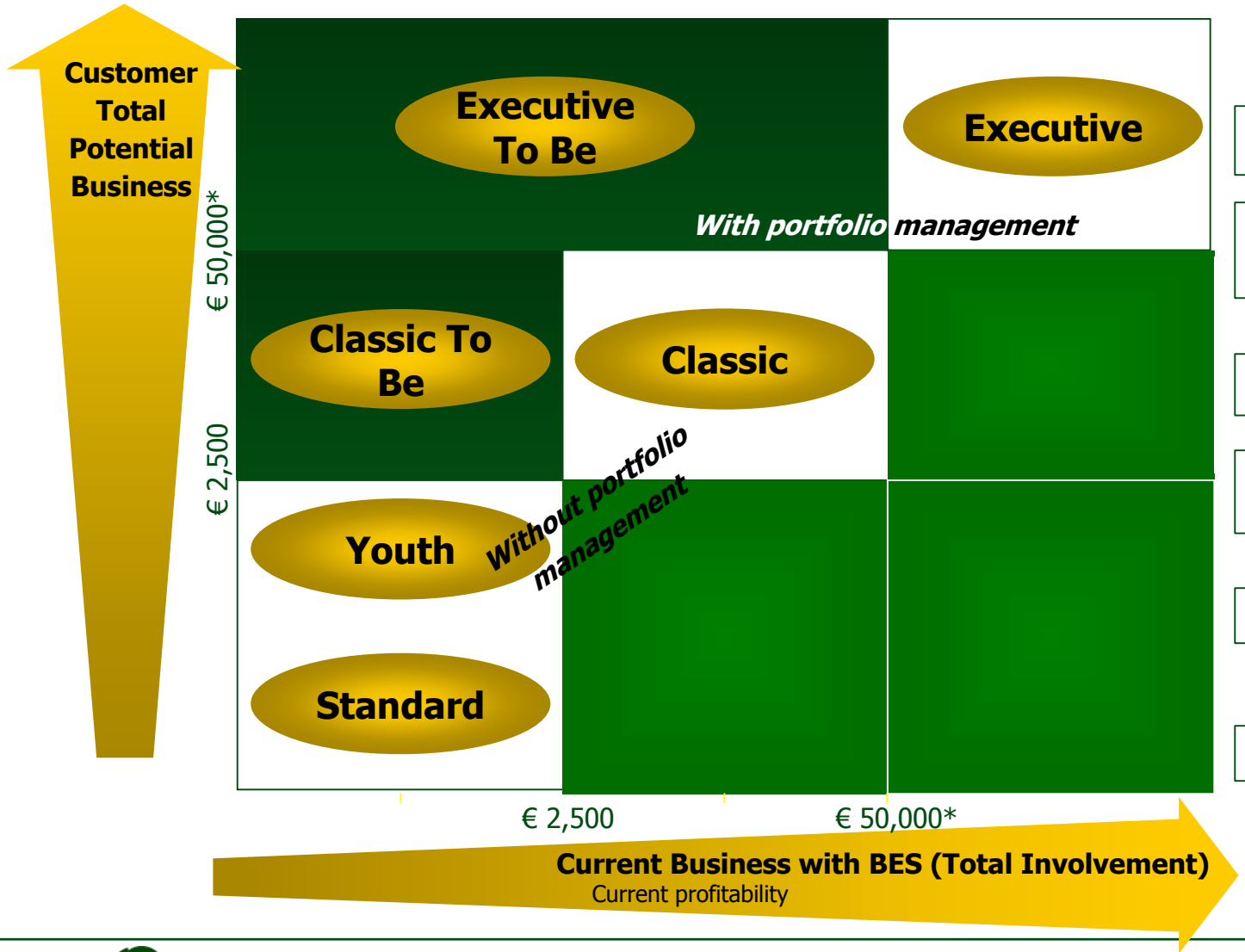
The New Segmentation and Commercial Approach in Short

Maximize Growth of Bank's profitable business

The New Segmentation Scheme Allows for an Adjusted Service Based on the Customer's Value...



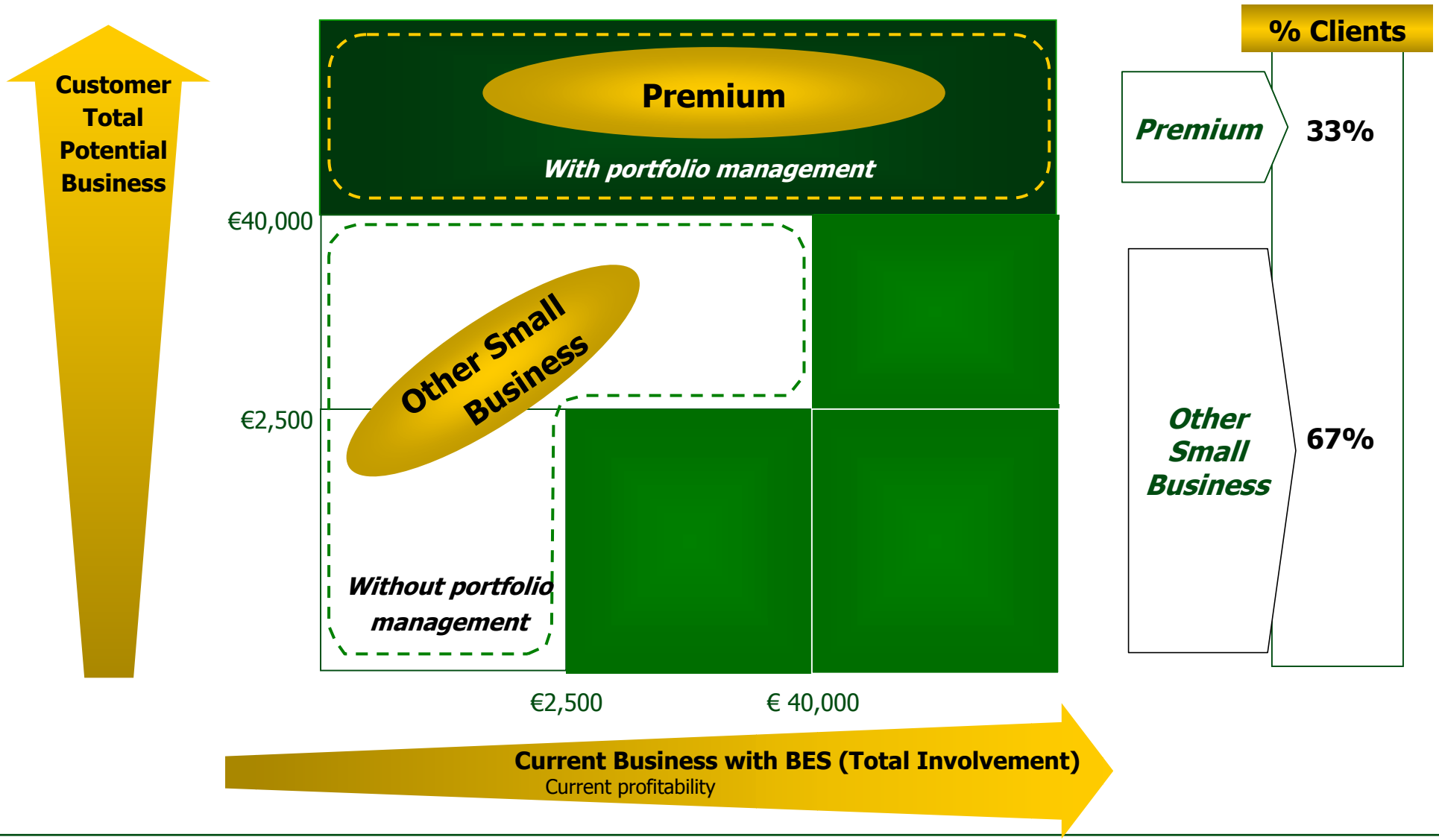
...for Individuals



	% Clients	Av. Client Value (€)
Executive	2%	4,696
Executive To Be	11%	1,192
Classic	27%	1,208
Classic To Be	39%	51
Youth	11%	506
Standard	10%	-23

* Excluding mortgages

...and for Small Businesses



The Individuals Segmentation Scheme Produced 7 Segments, 3 of them Represent ca. 72% of Existing Retail Business

	Total Involvement in 2001		Involvement Rate Growth Objective for 2002	
Segments based on actual business				
Executive	20%	32% of customers	13.1%	58% of Total Growth
Classic	41%	72%	12.4%	
Imigrants	11%		9.2%	
Growth segments				
Executive To Be	10%	39% of customers	21.7%	20% of Total Growth
Classic To Be	1%	11%	99%	
Segments to become profitable				
Standard	0.3%	20% of customers	1.6%	1% of Total Growth
Youth	0.3%	1%	67.5%	

Introduction of Value Based Management

Actions are being implemented aiming at maximizing value creation, for each client:

- Elimination of cases of value destroying clients
  - E.g., 20% of a client segment destroy value on a variable cost basis
- Identification of features of most valuable clients within each peer group, in order to boost value from less valuable clients in that group
  - E.g. top 5% clients in one segment are worth 5.6 x the average client value in that segment
- Prioritisation of commercial actions (e.g. product offer)
  - E.g. Allocation of resources to product campaigns according to their value contribution
- Optimisation of resource usage
  - E.g., Time / sophistication of account manager according to client value

Commercial Approach Improvements: Individuals

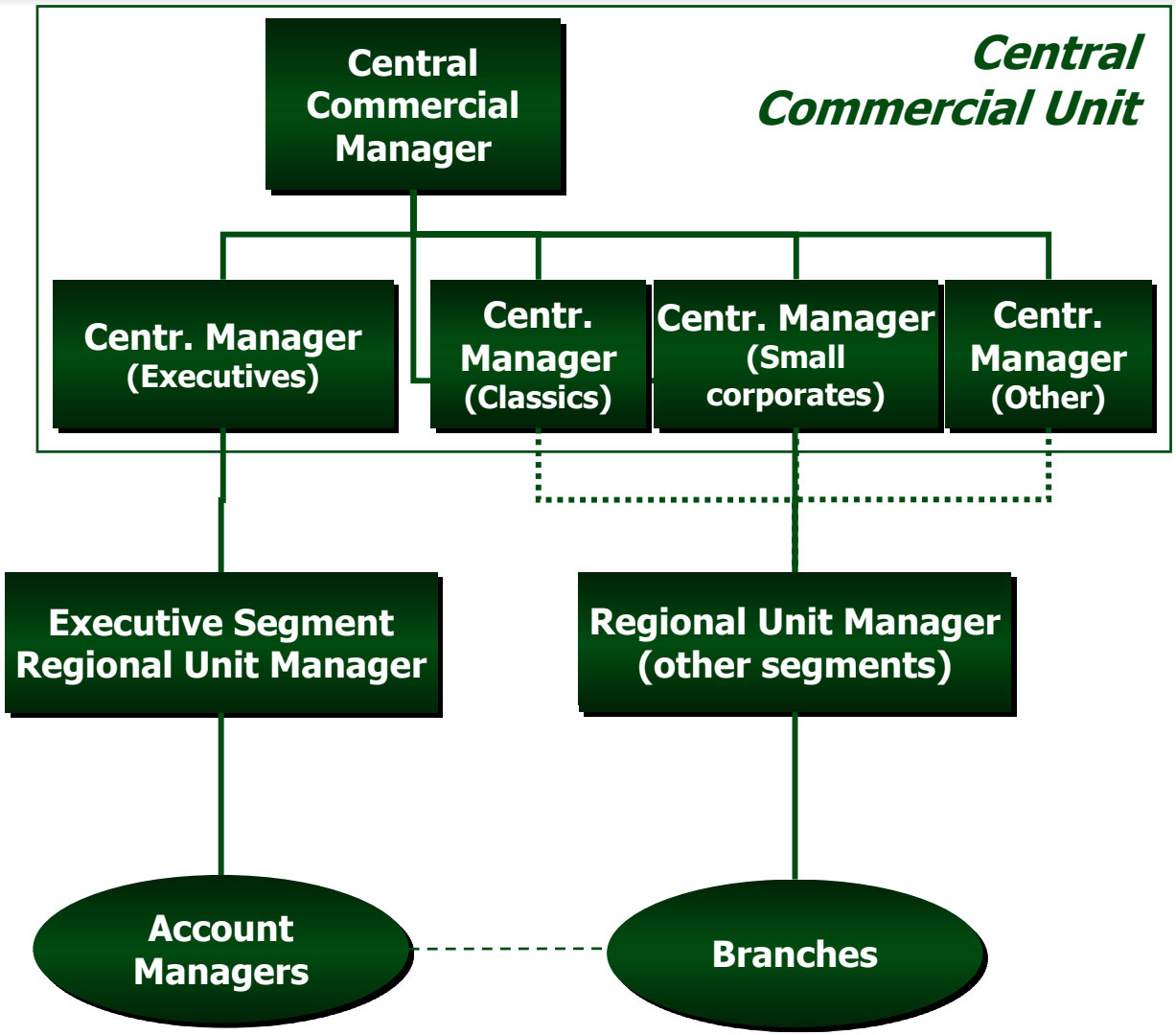
	Commercial approach - Main improvements	Main Objectives
Executive	• Client management through portfolios • Relationship banking approach	• Increase average involvement per customer
***Executive* To Be**	• Account Managers specialized in relationship management and share-of-wallet increase • Increase in size of AMs portfolio: 2.7x over 2001	• Convert 10% p.a. in Executives
Classic	• Introduction of performance metrics	• Increase # products held per customer
***Classic* To Be**	• Continuous product campaigns supported by Central Marketing	• Convert 15% p.a. in Classic
Standard	• Development of specific account packages (Self-Service Account)	• Reduce costs • Increase fees
Youth	• Integrated commercial actions at Universities / entry in labour market	• Monitor key moments in life cycle

Commercial Approach Improvements: Small Business

	Main Objectives	Commercial approach - Main improvements
Premium	– Increase average assets per customer	– Systematical personal approach – Increasing focus on partners individuals needs
Other Small Business	– Reduce costs – Increase fees	– Introduction of special offer to reduce relation costs of this segment

	Total Assets in 2001	Involvement Rate Growth Objective for 2002
Premium	**14.6%**	**20.2%**
Others	**2.3%**	**4.9%**

Organizational Structure – Aligned with the Segmentation schema



Main changes intended

- Central Commercial Departments structured in a segmented logic
- Executive Regional Unit Manager is directly responsible for the Executive segment
- Test of two new Urban commercial units specialized in the Executive and Executive To Be segments; eventual roll-out for entire network in 2003
- Best resources allocated to the more valuable segments

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Objectives for Retail: 2002-03

Ambitious set of objectives for Retail business:

Business

- Overall growth above market levels: 20% p.a. in 2002/03, achieving 1% p.a. increase in market share
- Upgrade of 10% p.a. Executive To Be customers and 15% p.a. Classic To Be customers
- Increase in number of products per client: 4.3 in 2002 (3.85 in 2001)

Revenues

- Increase in margin by 20 b.p. until 2003
- Increase in fee income: 20% p.a. in 2002/03

Income / value

- Estimated differential accumulated earnings 2002-03 (before taxes): € 60 million