



CONFIDENCIAL

Partnering with Retailers to Capture Growth Opportunities in Latin America

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Presentación para Felaban, Agosto 2008

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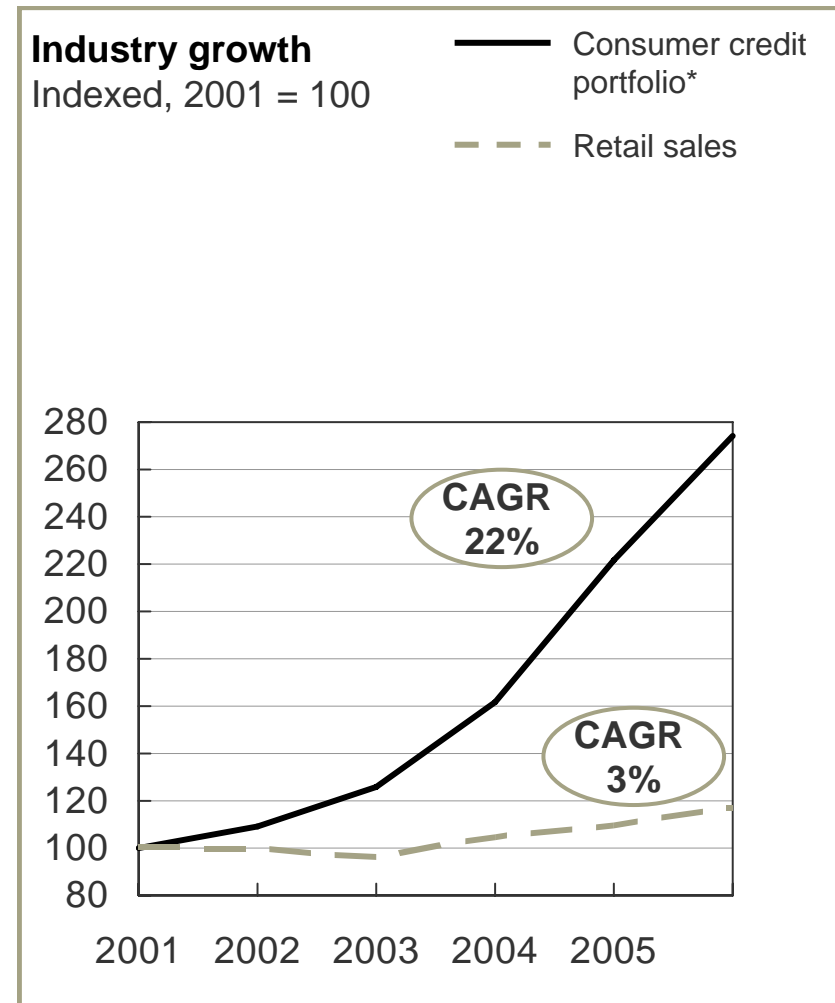
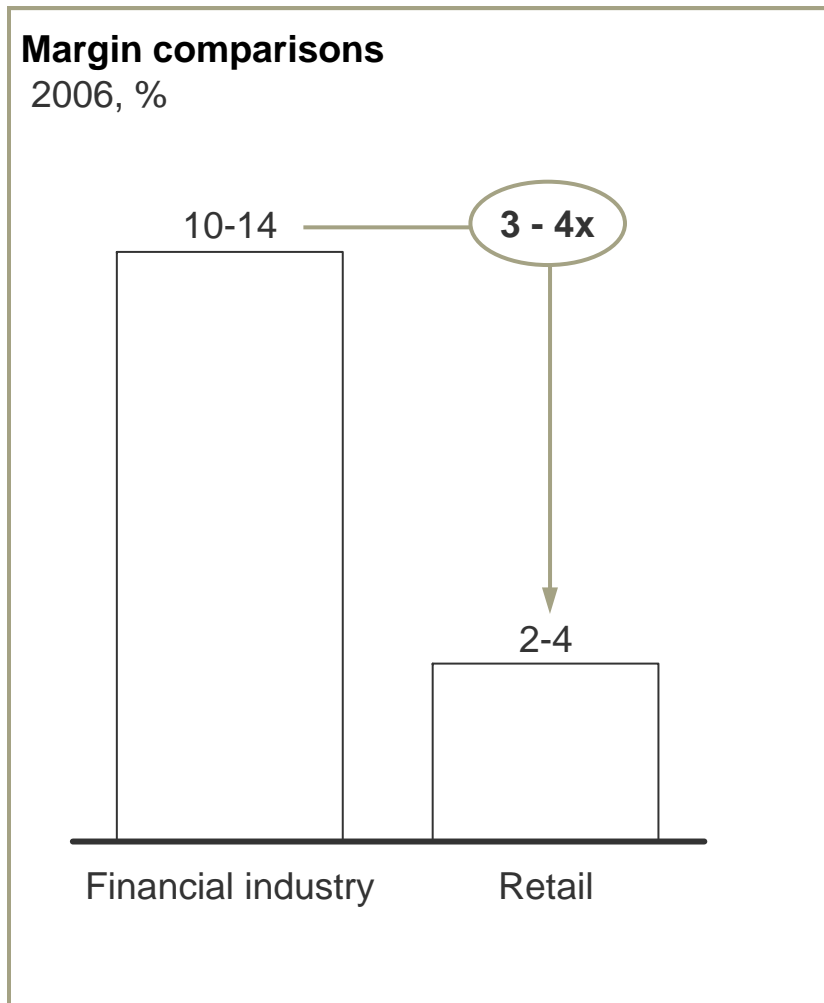
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- **Attractiveness of financial services through retail chains in Latin America**
- Key levers to develop financial services in the retail industry
- Successful cases

THE OFFER OF FINANCIAL SERVICE PRODUCTS IS AN ATTRACTIVE OPPORTUNITY FOR RETAILERS BECAUSE OF THE HIGHER MARGINS AND STRONG INDUSTRY GROWTH

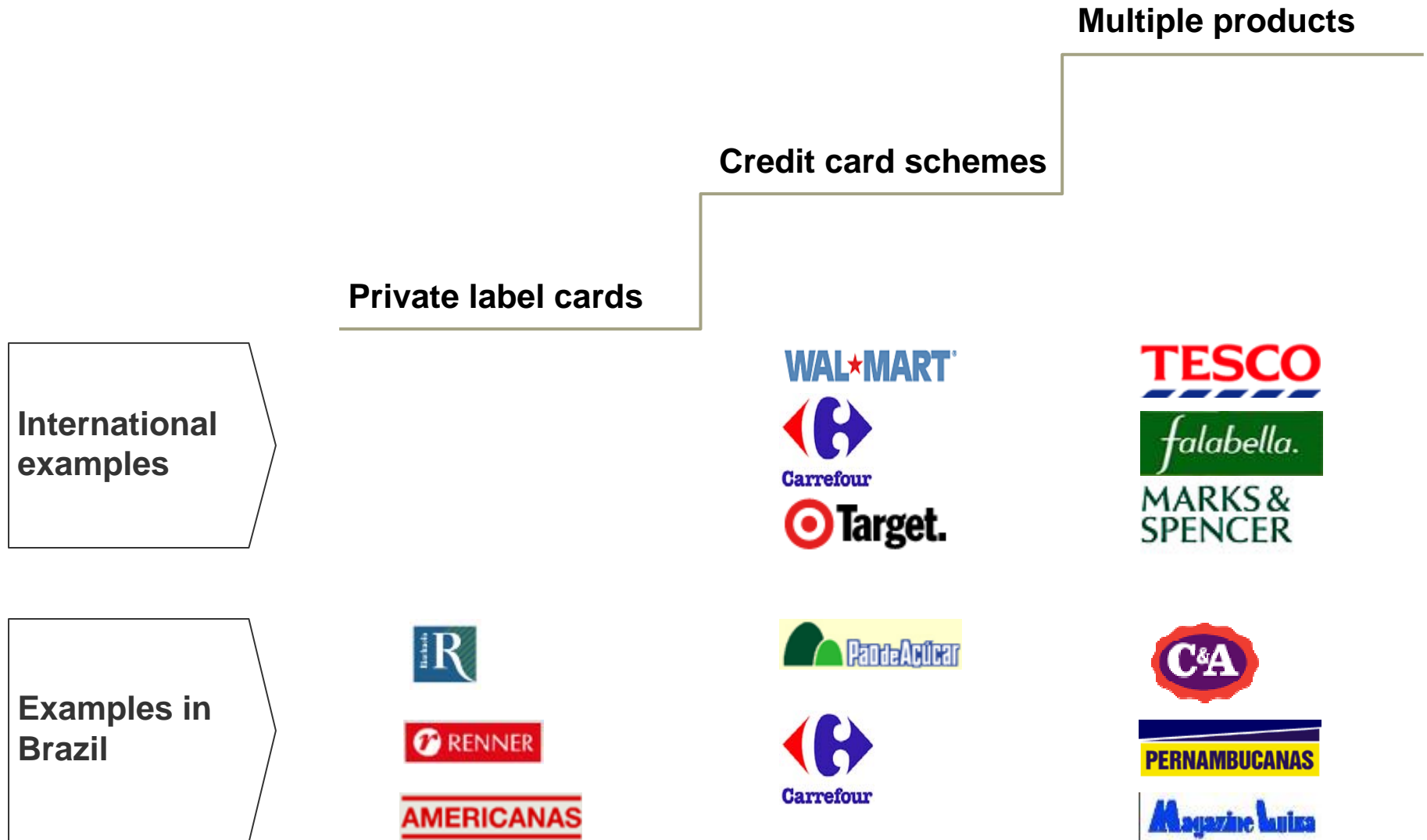
BRAZIL EXAMPLE



* Based on a sample of finance companies
 Source: IBGE, Banco Central; Annual reports; Team analysis

THERE IS A GLOBAL TREND FOR RETAILERS TO OFFER DIFFERENT TYPES OF FINANCIAL PRODUCTS...

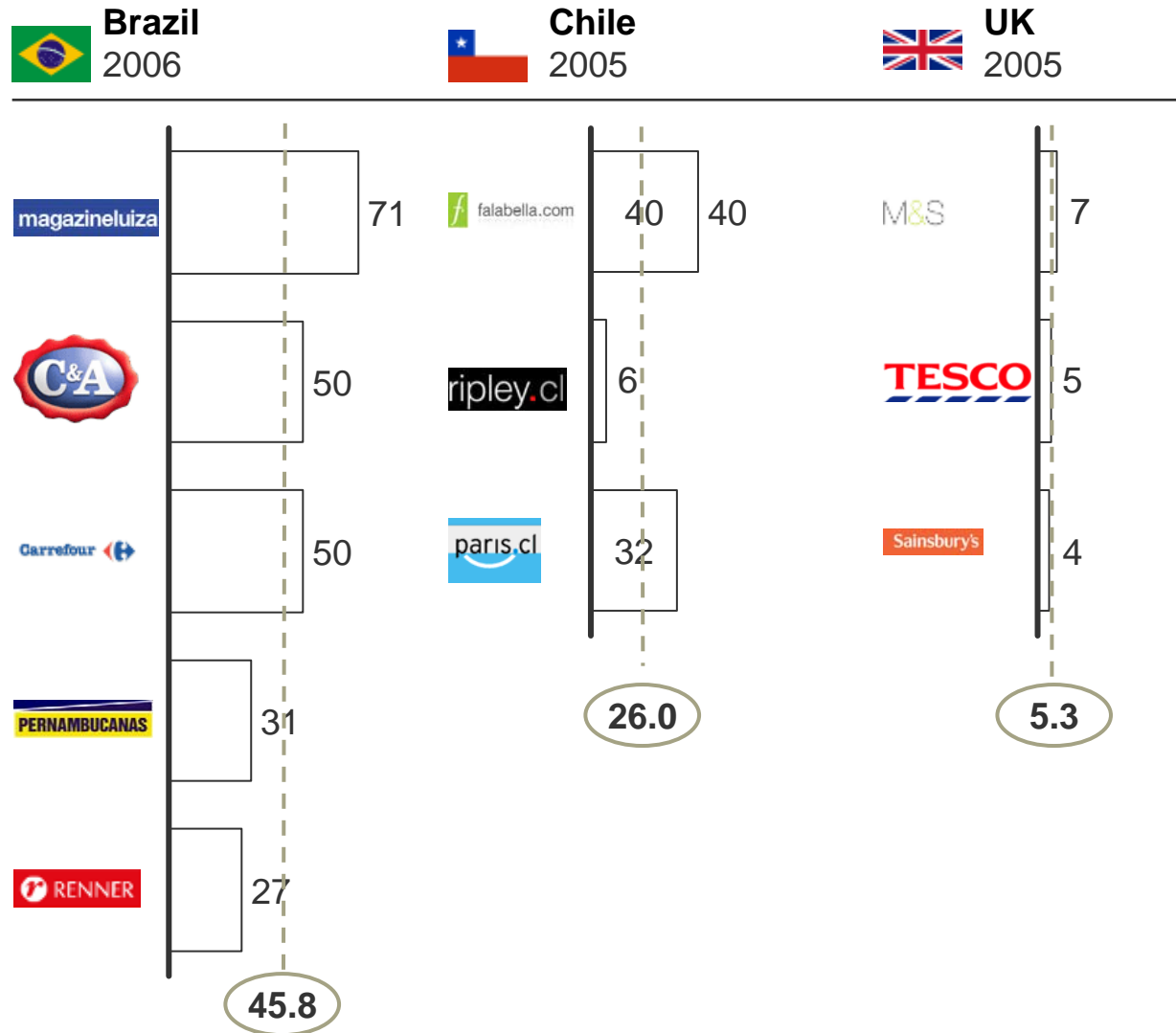
EXAMPLE



... BECAUSE FINANCIAL SERVICES CONTRIBUTE TO THE BOTTOM LINE, ESPECIALLY IN EMERGING MARKETS

○ Average

Share of total profits coming from financial services, %



IN COMPARISON TO RELEVANT INTERNATIONAL PLAYERS, MANY RETAILERS HAVE EXPANDED THEIR FINANCIAL SERVICE OFFERINGS

✓ Available
 ✓ Announced

		 (UK)	 falabella.com (Chile)	 (Brazil)	 (Brazil)	 (Brazil)	 (Brazil)
Consumer finance	• Store card	✓	✓	✓	✓	✓	✓
	• Reward card	✓	✓	✓	✓	✓	✓
	• Co-branded	✓	✓	✓	✓	✓	✓
Personal loan	✓	✓	✓		✓	✓	
Specialty credit	• Car loans	✓	✓				
	• Mortgages	✓	✓				
Insurance	• Personal accident	✓		✓ *		✓ *	✓ *
	• Travel	✓					
	• Pet	✓					
	• Auto	✓	✓				
	• Life	✓	✓				
Transactional services	• Bill payment		✓	✓			
	• Checking accounts		✓				
Investments	• Savings accounts	✓	✓	✓ **			
	• Time deposits	✓	✓				
	• Pension plans	✓	✓				

* Including “extended warranties”

** including “capitalization”

Source: Websites; Team analysis

BY OFFERING FINANCIAL SERVICES, RETAILERS CAN ALSO CAPTURE IMPORTANT INDIRECT BENEFITS...

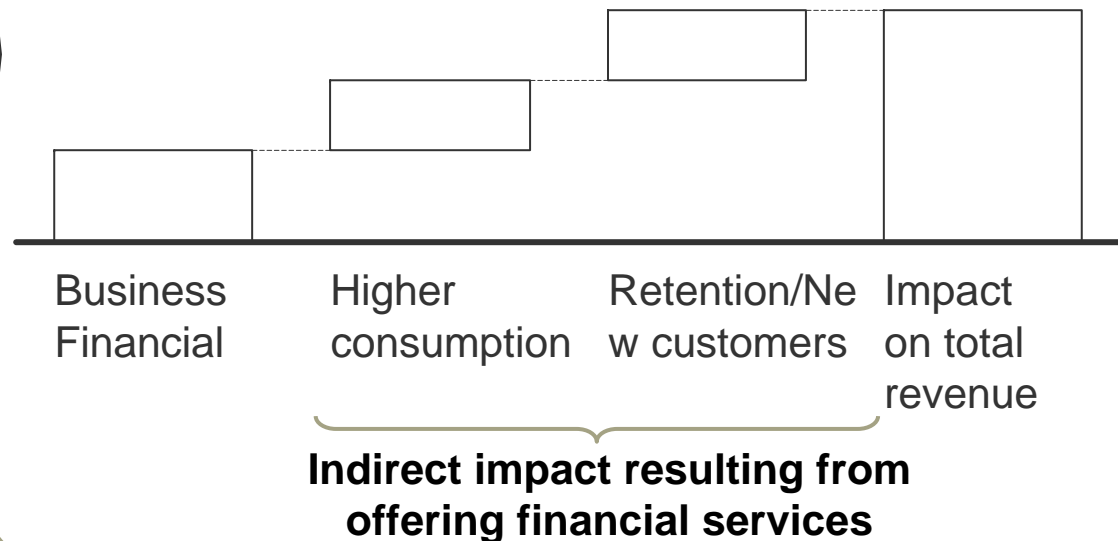
ILLUSTRATIVE

Key benefits

- **Increase the average ticket** of existing customers by offering more convenience (45% will buy more if they have a card*)
- **Increased frequency of store visits** resulting from additional service offerings (e.g. loans)
- **Retain** current customers by offering innovative products
- **Attract new customers** by offering attractive financial services

Economic impact

R\$ million



* Survey conducted in Asia (2006)

Source: McKinsey; Team analysis

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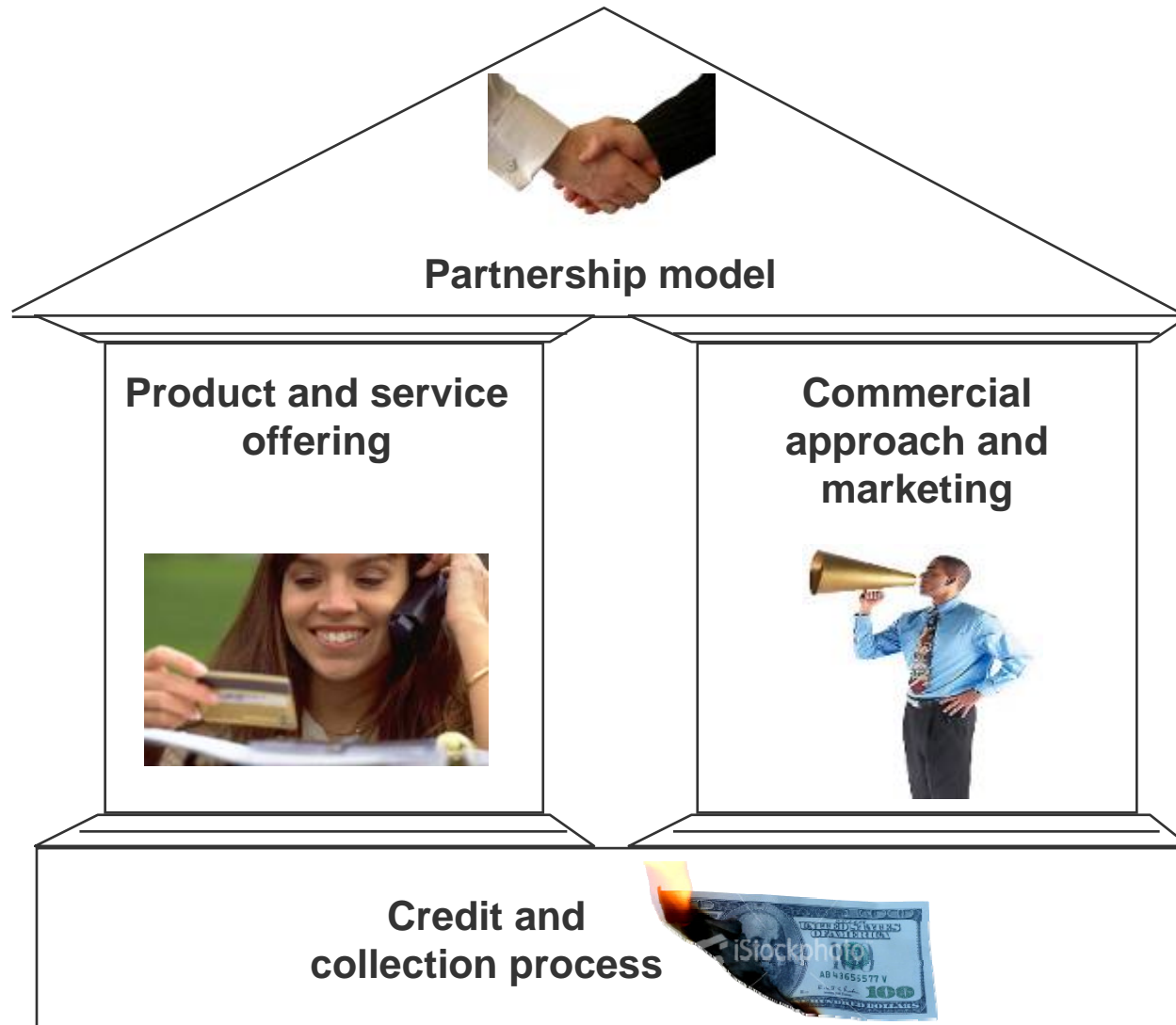
- Attractiveness of financial services through retail chains in Latin America



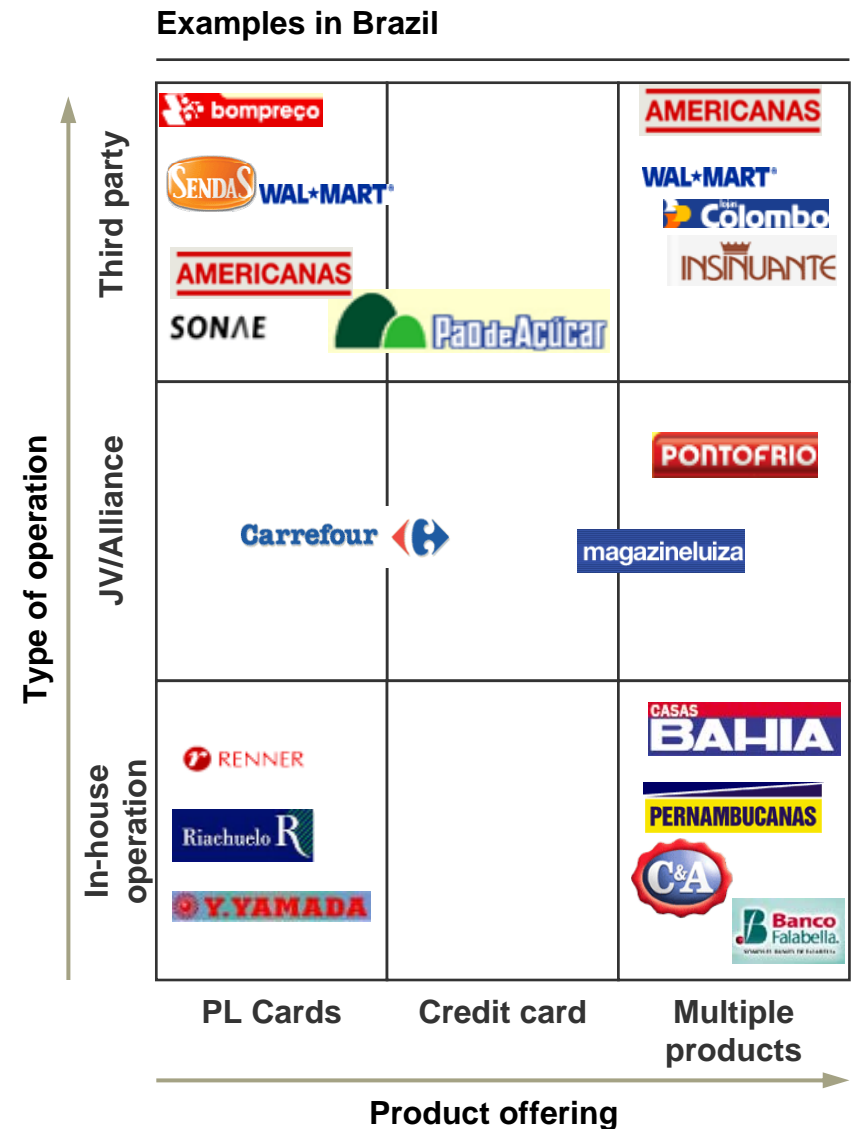
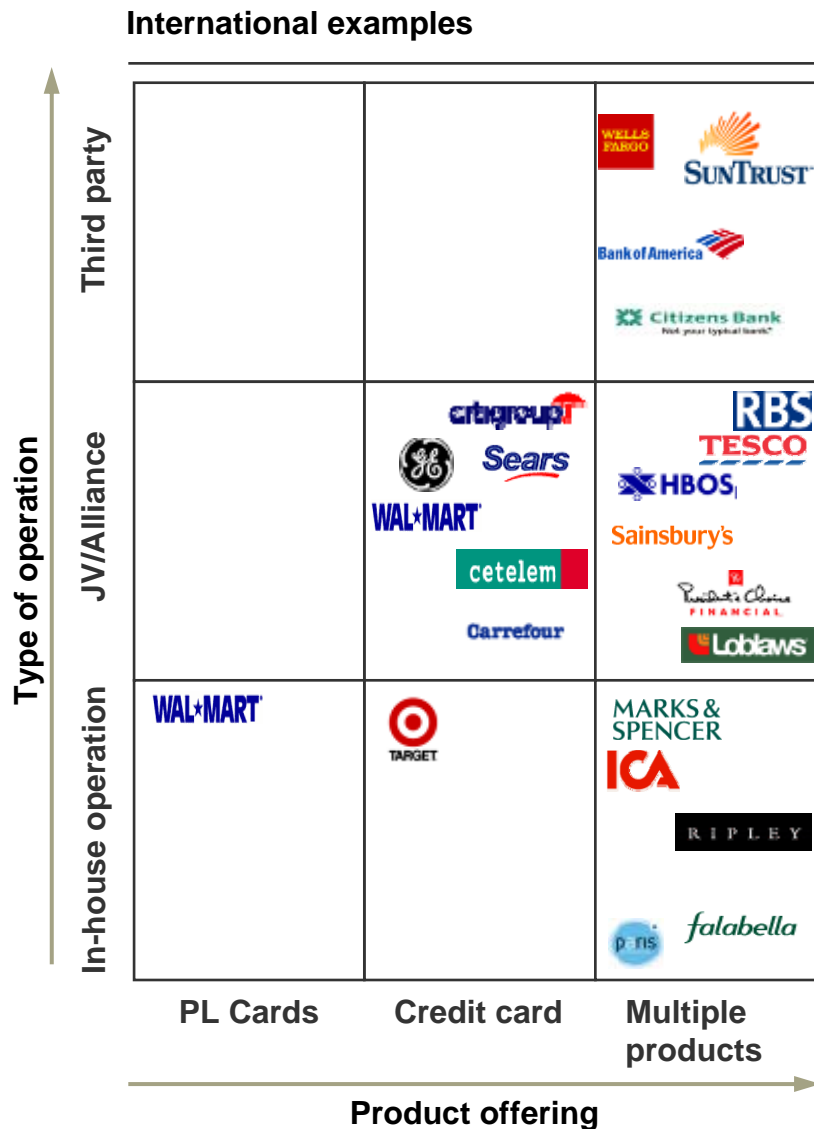
- **Key levers to develop financial services in the retail industry**

- Successful cases

THE SUCCESS OF A FINANCIAL SERVICES OPERATION IN THE RETAIL INDUSTRY DEPENDS ON FOUR KEY LEVERS



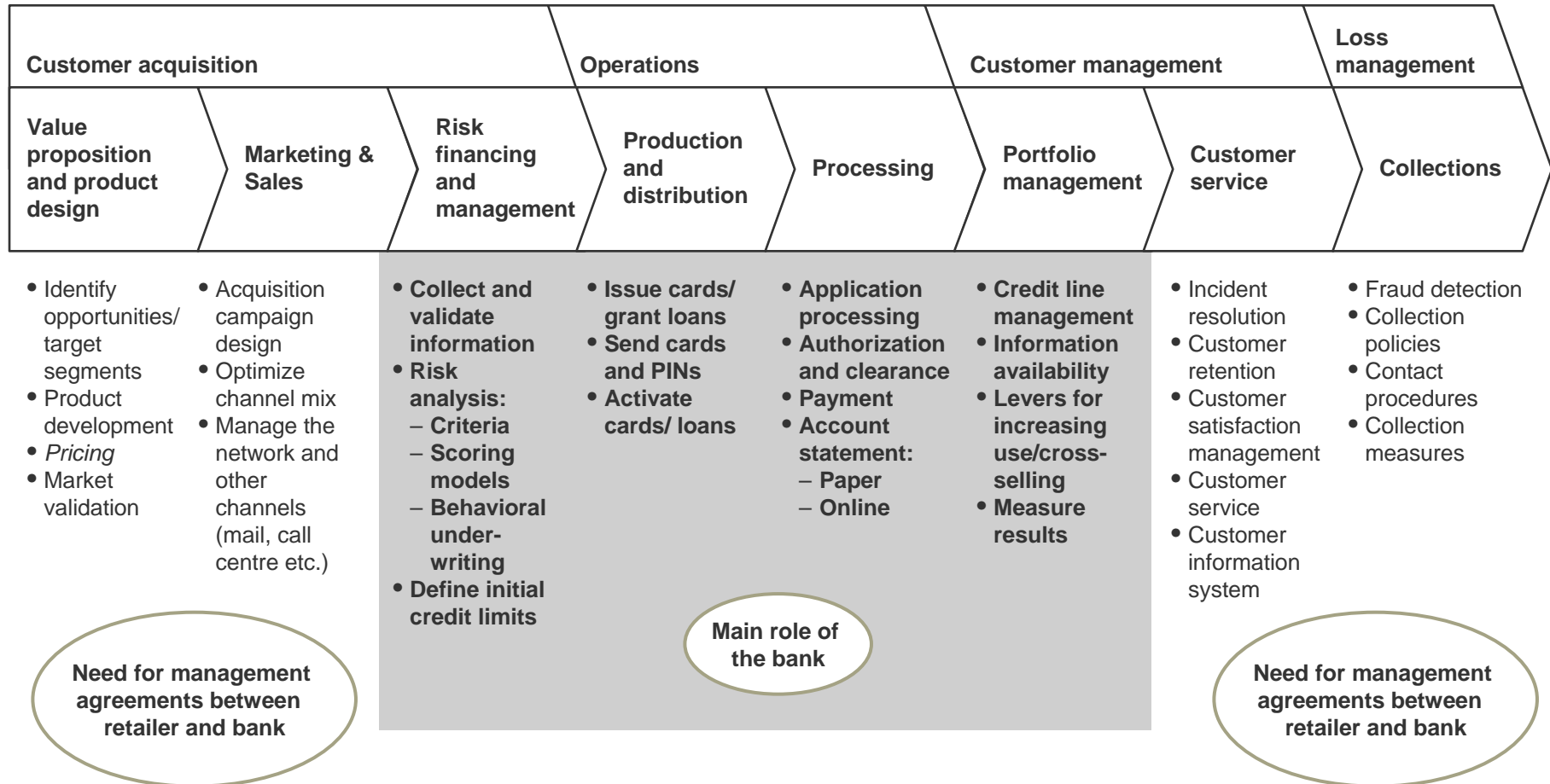
IN BRAZIL, AS IN THE REST OF THE WORLD, THERE ARE NUMEROUS RETAILERS USING PARTNERSHIP MODELS



Source: McKinsey; Team analysis

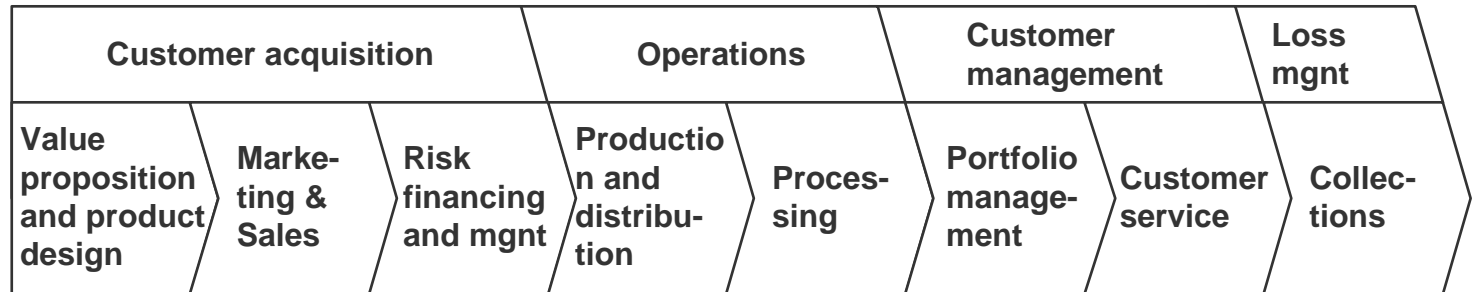


IN ORDER TO ENSURE SUCCESS, A KEY DIVISION OF RESPONSIBILITIES ALONG THE VALUE CHAIN IS ESSENTIAL



... WHICH IS THE CASE IN A NUMBER OF SUCCESSFUL PARTNERSHIPS BETWEEN RETAILERS AND BANKS

ILLUSTRATIVE









- RBS + 
 - Shared
 - Retailer
 - Shared
 - Bank
 - Bank
 - Bank
 - Shared
 - Retailer
- HBOS + 
 - Shared
 - Shared *
 - Bank**
 - Bank **
 - Bank**
 - Bank
 - Bank
 - Shared
- RBS + 
 - Shared
 - Retailer
 - Bank
 - Bank
 - Bank
 - Bank
 - Shared
 - Shared

* Through mailing and stores

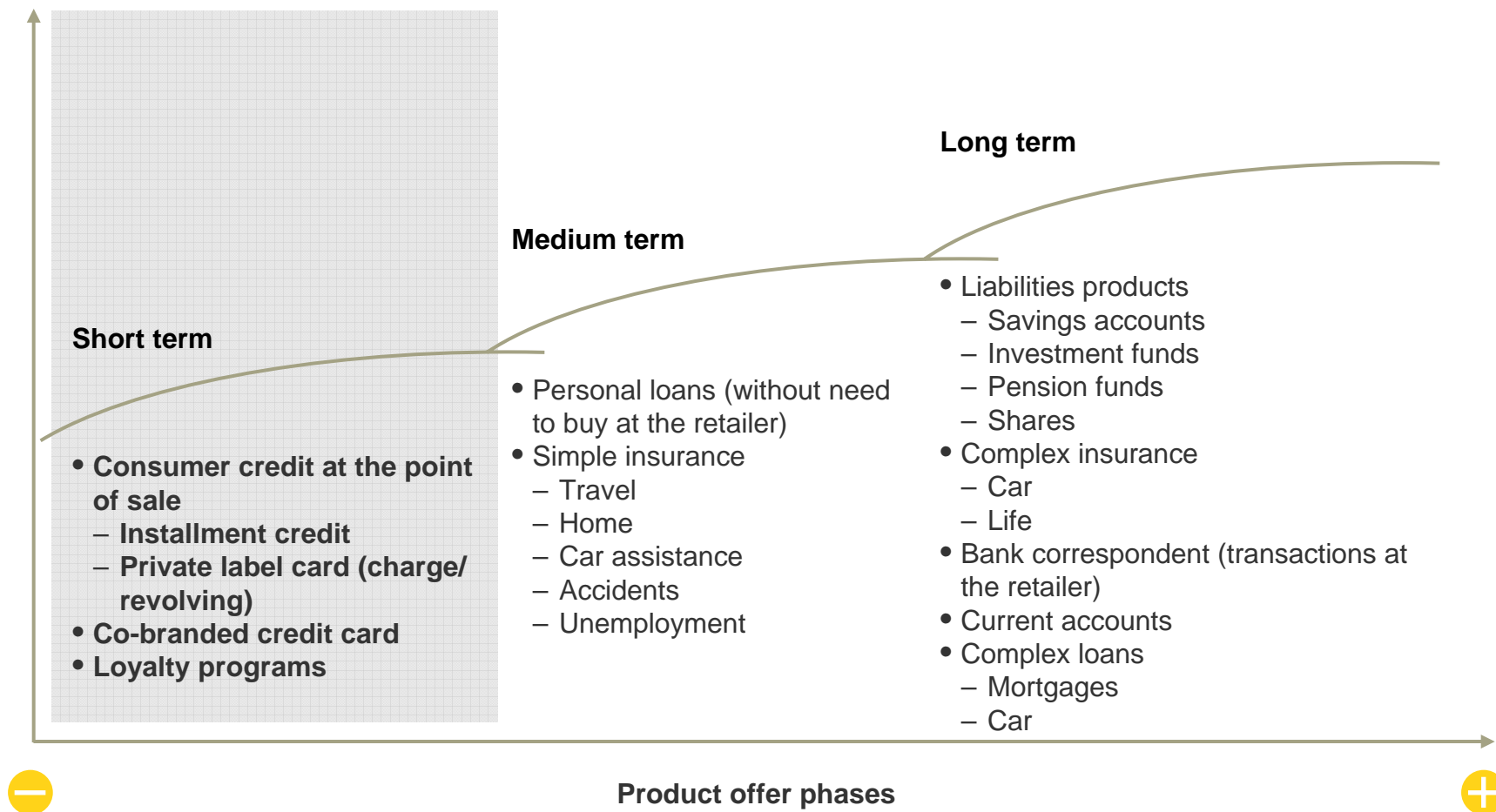
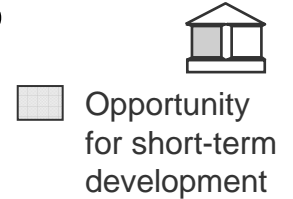
** Selling services to Sainsbury's Bank with a pre-defined fee



RETAILERS CAN OFFER A WIDE RANGE OF PRODUCTS, DEPENDING ON CUSTOMER NEEDS

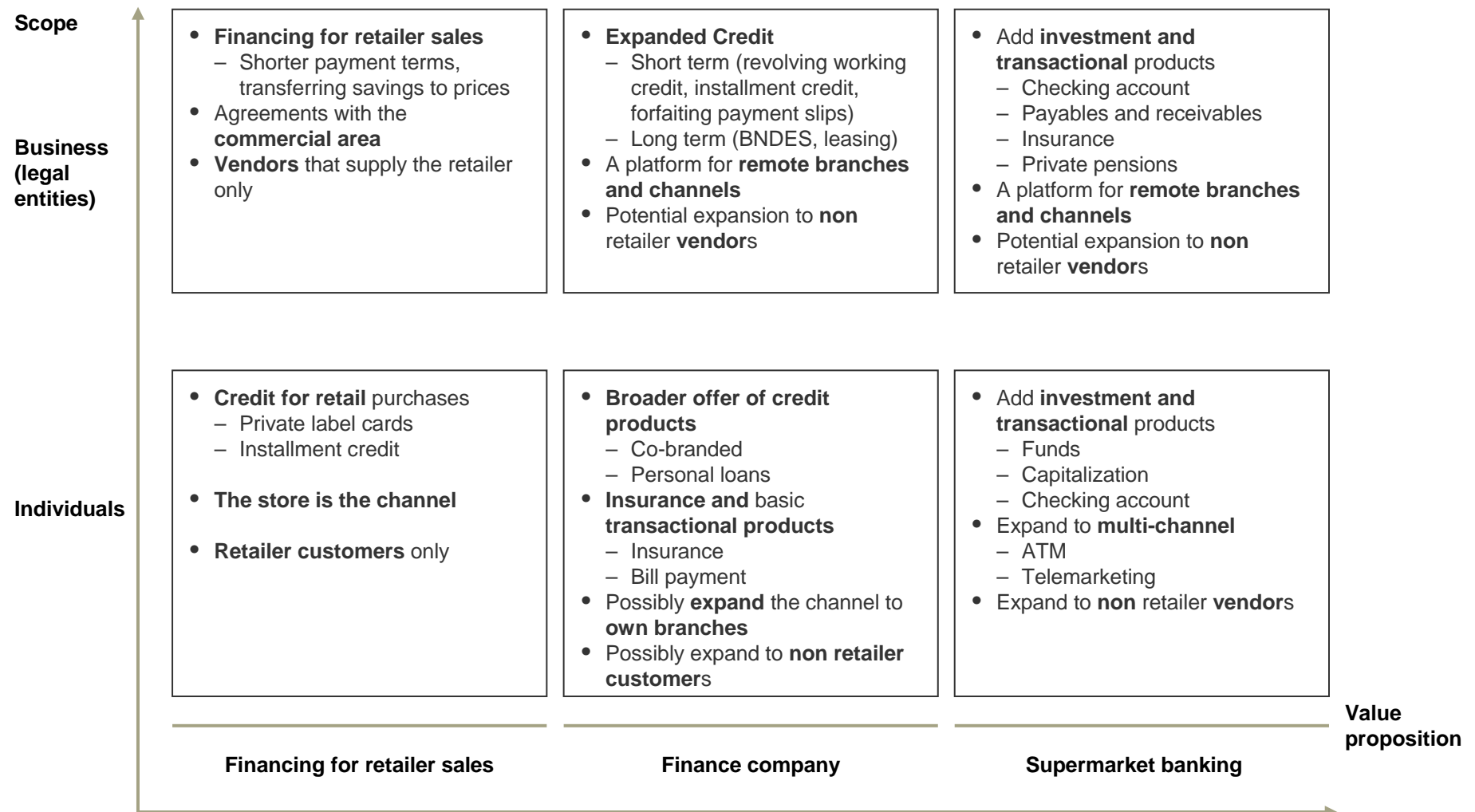
	Customer financial needs	Potential product/financial service	Rationale
	<ul style="list-style-type: none"> Means of payment/credit for supermarket purchases 	<ul style="list-style-type: none"> Credit card with loyalty program 	<ul style="list-style-type: none"> More convenient for the customer Higher average ticket Enhanced customer retention
	<ul style="list-style-type: none"> Financing for high ticket items (e.g. appliances/electronics) 	<ul style="list-style-type: none"> DECK Credit card Extended warranties 	<ul style="list-style-type: none"> 20% of all store sales are in appliances/electronics This is where retail customers have the greatest need for financing
	<ul style="list-style-type: none"> Credit for emergencies (e.g. bills, healthcare, education) 	<ul style="list-style-type: none"> Personal loans 	<ul style="list-style-type: none"> High frequency of store visits provides convenience for the customer
	<ul style="list-style-type: none"> Cheap credit products 	<ul style="list-style-type: none"> INSS consigned loans Civil servant consigned loans 	<ul style="list-style-type: none"> Inexpensive, very low risk credit; explosive market growth
	<ul style="list-style-type: none"> Security/savings 	<ul style="list-style-type: none"> Insurance Capitalization 	<ul style="list-style-type: none"> Products that are easy to cross sell and that are normally sold as stand-alone products
	<ul style="list-style-type: none"> Convenient services 	<ul style="list-style-type: none"> Bill payment and cash withdrawals at store checkouts 	<ul style="list-style-type: none"> Leverage chain capillarity

THE BUSINESS MODEL OF A BANK THAT WANTS TO DEVELOP ITS CONSUMER FINANCE BUSINESS WITH A RETAILER MUST, IN INITIAL STAGES, BE BASED ON A SIMPLE PRODUCT OFFER





REGARDLESS OF THE MODEL CHOSEN, IT IS ESSENTIAL TO HAVE A CLEAR VISION OF THE CURRENT AND EXPECTED STRATEGIC POSITION



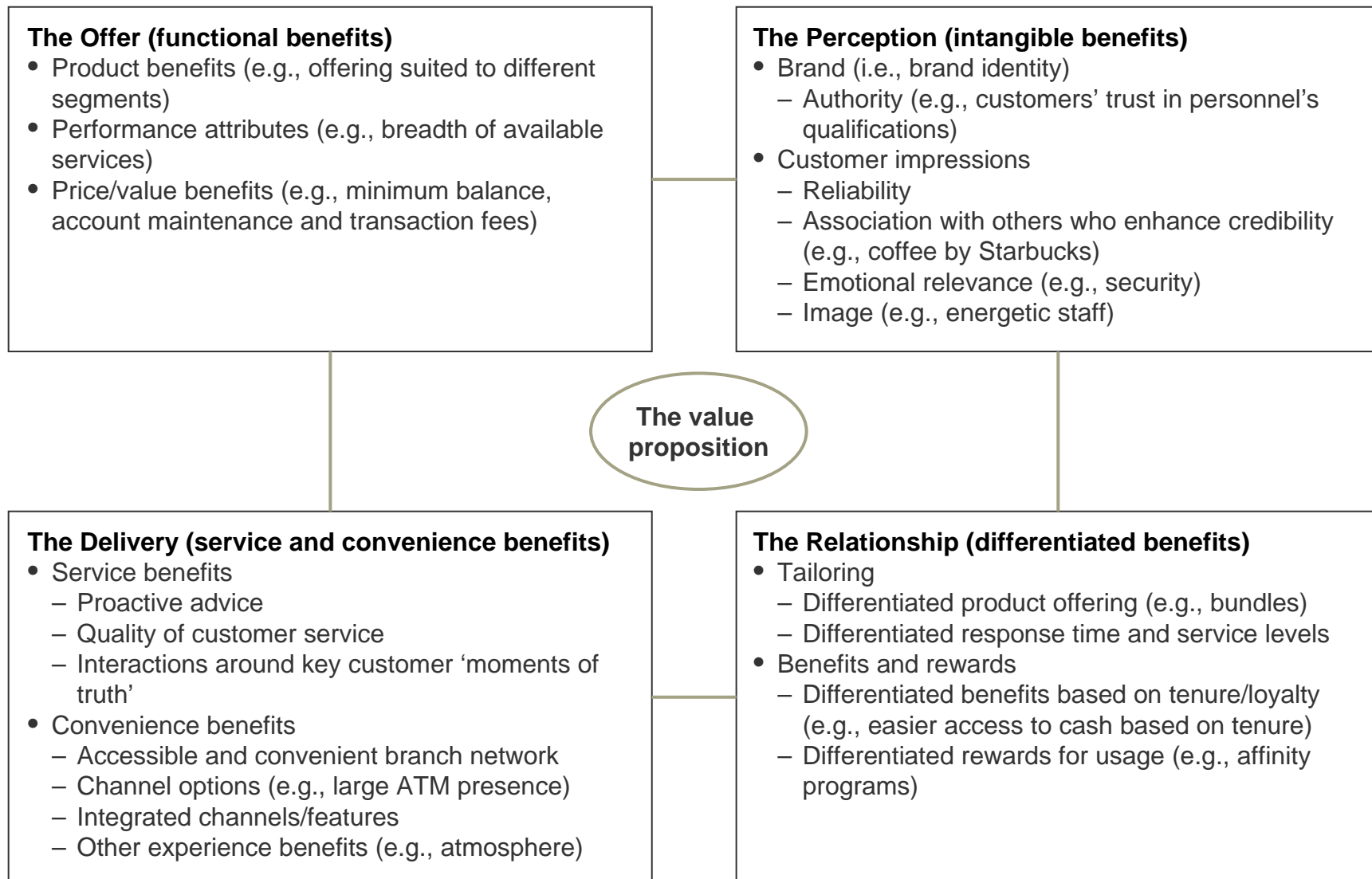


BEST PRACTICE ENTRANCES BY RETAILERS INTO FINANCIAL SERVICES HAVE PURSUED UNIQUE MARKET OPPORTUNITIES

Potential action	Rationale	Example
Profitably serve underserved consumers	<ul style="list-style-type: none"> Underbanked consumers may be a sizeable market 	<ul style="list-style-type: none"> TCF Bank focused on middle- and lower-income consumers offering cheap and simple products
Provide a uniquely priced offer that is difficult for incumbents to imitate	<ul style="list-style-type: none"> Incumbent players may be unwilling to compete (e.g., incumbents may not match more favorable rates as it would require repricing for the entire consumer base) 	<ul style="list-style-type: none"> Tesco and Sainsbury's offered highly competitive deposit and loan rates when entering the banking market
Leverage preferred access to a unique consumer base	<ul style="list-style-type: none"> Capitalize on consumer relationships to launch new products 	<ul style="list-style-type: none"> Marks & Spencer prevented the use of other credit cards to ensure its store card a captive consumer base
Leverage preferred access to a unique consumer base	<ul style="list-style-type: none"> Higher density will allow for faster acquisition time 	<ul style="list-style-type: none"> Charter One carefully selects locations to ensure higher deposit totals and faster customer acquisition



DEVELOPING A DISTINCTIVE VALUE PROPOSITION REQUIRES DIFFERENTIATING BEYOND PRODUCT AND PRICE



TESCO HAS USED AN AGGRESSIVE PROMOTION IN THE DIFFERENT POINTS OF THE STORE AS COMMERCIAL APPROACH...

EXAMPLE Tesco Personal Finance

EXAMPLE



Personal loans promoted in food aisles



Car insurance promoted in the milk aisle: "We won't milk you"



Credit card promotion at the POS



Financial service handouts at the checkout



IN CHILE, RIPLEY AND PARIS PROMOTE CREDIT IN A “FRIENDLY” MANNER...



**¿CAMBIAR EL AUTO?
¿AMPLIAR LA CASA?
¿VIAJAR?**
 El proyecto que quieras, lo puedes tener.

Pide ahora tu Crédito:

- Aprobación en 30 minutos*
- Hasta 60 meses para pagar
- Hasta 2 meses de No pago en el año (No consecutivos)

 **bancoparis**
www.bancoparis.cl

Para que hagas realidad todos tus proyectos.

crédito consumo
 bancoparis

 **bancoparis**

Todo Ripley para ti

TARJETA MASTERCARD
 BANCO RIPLEY

BANCO RIPLEY
 COMPLE TU SUEÑO



... WITH AN AGGRESSIVE PRICE POSITIONING (RIPLEY AND FALABELLA)

LA MEJOR CUOTA MENSUAL
FIJA EN PESOS.



Beneficios:

Cuota mensual fija en pesos.
Prepagos parciales flexibles.
Abonos parciales a cuotas.
Seguros opcionales incorporados.

Características:

Monto de crédito desde \$200.000.
Plazo de 6 a 60 meses.
La primera cuota vence a 90 días.
Periodo de gracia hasta 60 días.

Requisitos:

23 a 72 años de edad.
Sueldo líquido mínimo de \$ 150.000.
Aprobación sujeta a evaluación de Banco Ripley.

Atendido por: _____

Cuálquier duda llama al: _____

Córrame electrónico: _____

BANCO RIPLEY

CUMPLE TU SUEÑO

**TARJETA
DE CREDITO
IMBATIBLE**
DE BANCO FALABELLA



La única con Beneficios Imbatibles y
la tasa más conveniente.

- 0% Comisión por mantención anual.
- 0% Comisión en compras en cuotas.
- 0% Comisión por giros en cuotas.

Y si viajas al extranjero, todas tus compras
en dólares tendrán 0% comisión.

¡Si la tienes, úsala. Y si no, pídelo!

Bf. Banco falabella.

CONTENTS

- Attractiveness of financial services through retail chains in Latin America
- Key levers to develop financial services in the retail industry



- **Successful cases**



CASE EXAMPLE – BANCO FALABELLA

- Founded in 1998 when the department store chain Falabella acquired ING's Chilean subsidiary
- 13th ranked Chilean bank in terms of total assets and currently has 303 FTEs
- Offers simple products, with rapid approval, to satisfy client needs (e.g., small loan amounts since US\$230 for up to 60 months)

Key indicators

2006

• Total loans	US\$ 831 million
• Revenues	US\$ 114 million
• Efficiency ratio	39%
• Operating profit	US\$ 39 million
• Net income	US\$ 34 million
• ROE	35%

Clients

- Young clients mainly from the retail stores businesses and C1, C2 and C3 income classes
- Small businesses

Products

- Consumer loans ("crédito imbatible"),
- Credit Cards (Visa)
- Housing Mortgage
- Checking and saving accounts
- Term deposits, mutual funds
- Others

Channels

- 72 branches
- Call center
- Website

Key success factors

- Strong brand
- Rapid growth by leveraging the retail stores large client base
- Offer of convenience and agility for the customer
- Low operational costs

CMR FALABELLA IS A GOOD EXAMPLE OF A RETAILER CREDIT CARD



Concept

- Promotora CMR is a subsidiary of Falabella and is the company that issues and manages the credit cards of Falabella's group, called CMR card
- The main idea is to offer credit to the clients of the group* in order to charge interest rates and commissions and generate captive clients

Target Market

- Same market of its parent department stores company, i. e., the segments ABC1, C2 and C3
- In dec.2004. Falabella had issued approximately 3.2 millions of credit cards in Chile, from which 2.3 millions are actives**

Evolution of the coverage

- Promotora CMR started as a private label credit card in 1980, just to be used in Falabella's stores
- However, in the last years it has been evolving to an open card due to the alliances that has been creating

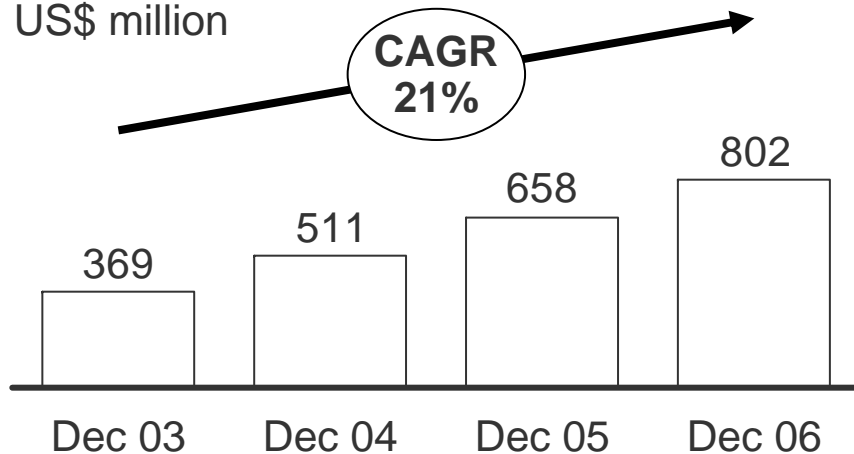
* Includes the department stores, home improvement business (Home Center – Sodimac), its supermarkets (San Francisco) and other businesses with whom Falabella has made strategic alliances (see appendix for a detailed list of the companies in this case)

** i. e., maintain positive balance

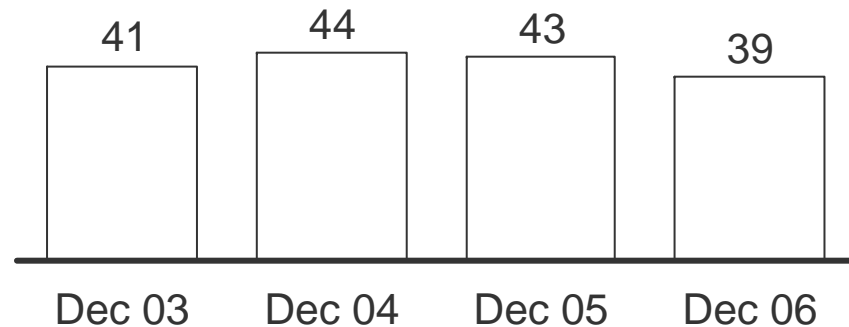


THE MARKETING STRATEGY HAS BEEN VERY SUCCESSFUL, IMPACTING RESULTS

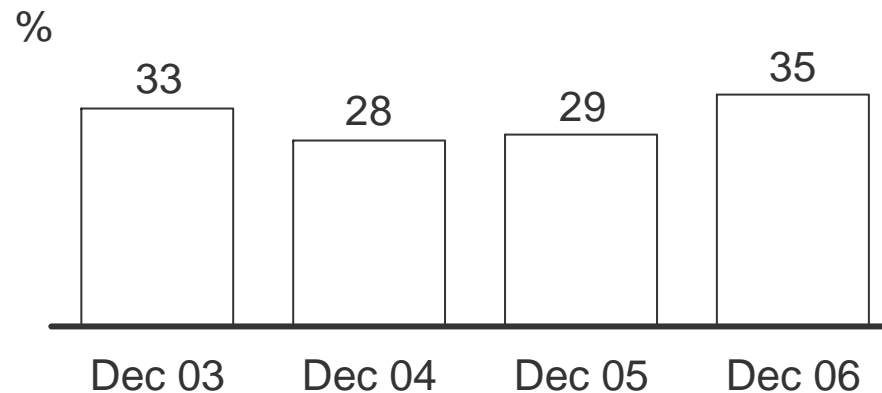
The growth in total loans outstanding
has been high
US\$ million



...with low costs, achieving an efficiency
ratio of 39% in December 2006...



...which has lead to a high ROE...



ADVANTAGES OF HAVING PROMOTORA CMR CREATE THE FALABELA BANK



Shared Database

- Promotora CMR Falabella shares its database with Falabella Bank*, which allows to target very specific segments of clients
- The fact that a client has CMR's credit card** help Falabella's Bank to measure better the risk profile of the potential clients*** and to select better to which type of clients direct its promotion and products

Same facilities/ location

- Falabella Bank uses the same facilities/location and brand of the department store business to target its market, branches of the Bank are located next to or inside Falabella's department stores
- One of the elements of the value proposition of the Bank is the "value of time", i. e., the client can have banking service in department store schedule (7 days a week)

Promotion's channels

- Falabella's bank uses the same direct mailing that its parent company uses for the distribution of special offers and products (clothes, furniture, credit cards, travels, insurance, etc)

* Falabella's bank targets the segment C1. C2 and C3

** There's no benefit for a CMR's client to open an account in Falabella's Bank

*** Taking into account the behavior of payment with the credit card. This can help or harm the person that is applying to a product of the Bank

PROMOTORA CMR CAN BE USED BY SEVERAL OTHER COMPANIES

Strategic Alliances by type of company



Related cos	Telecom	Gas	Entertaining	Health	Food	Charity	Security

Source: CMR Falabella's web page



CASE EXAMPLE – BANCO AZTECA

- Banco Azteca, founded in 2002, absorbed all banking-related activities of its controller Elektra Group, Latin America largest specialty retail group (800 stores in Mexico)
- First Mexican bank to focus on serving the low-income, is the leading consumer finance company of the country
- BA's branches are located in frequently visited stores by the low income such as Elektra's home appliance outlets, Almacenes Garcia (a leading Mexican grocer) and Home Mart (a home improvement store)

Key indicators

2006

- | | |
|---------------|------------------|
| • Total loans | US\$ 1.7 billion |
| • Revenues | US\$ 877 million |
| • ROE | ~35% |

Clients

- Clients mainly from low income segments

Products

- Deposits
- Savings accounts ("guardadito")
- Many types of loans (mainly consumer credit and loans in cash)
- Credit cards
- Mortgages (alliance with the National Working Housing Fund)
- Insurance
- Pension funds ("Afore Azteca")

Channels

- No external branches
- Stores are located inside big retailers and work in non-traditional banking hours, typically from 9:00 am to 9:00 pm

Key success factors

- Its location (inside retailers) and the expertise (from Elektra group) makes it strong in consumer finance within the profitable low income segment
- Low cost channels (no branches and the stores located inside retailers)

BANCO AZTECA DISTRIBUTES VIA IN-STORE BRANCHES INSIDE SOME OF THE MOST IMPORTANT MEXICAN RETAILERS



- Latin America largest specialty retailer
- 800 stores in Mexico
- Focus on segment C and D

**Almanecenes
Garcia**

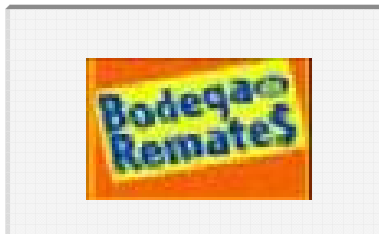
- Leading Mexican grocer
- 67 stores
- 2.300 employees



- Second largest Mexican home improvement retailer
- 39 stores
- 69.000 square feet stores
- Acquired by Home Depot in 2004



- Operates retail distribution services through its chain on furniture stores, department warehouses and exhibitions centers
- 96 branches
- Focus on segments C and C+



- Store specialized in sales for old items
- 93 stores (in 2002)
- Focus on segments D and D+

ELEKTRA HAS MIGRATED INTO BANKING OVER TIME AND HAS NOW A SUCCESSFUL FRANCHISE



* Banco Azteca was created in October 2002

Source: Mckinsey analysis



A NUMBER OF PRODUCTS CATERING TO SPECIFIC CUSTOMER NEEDS HAVE BEEN LAUNCHED



- In-store finance
 - 2 million active clients
 - Weekly payments
 - Active collection model
 - Self funding



- Created in 2003. offering pension funds to Mexican citizens
 - Focus of mid-income classes
 - Low administrative fees



- Low volume savings
- Interest paid for balances above U\$ 5
- 1 million accounts
- U\$ 75 million in deposits
- Partnership with Serfin



- Deposit product with minimum balance of U\$ 450
- Better return to customers
- During first 6 months achieved U\$ 135 million in deposits

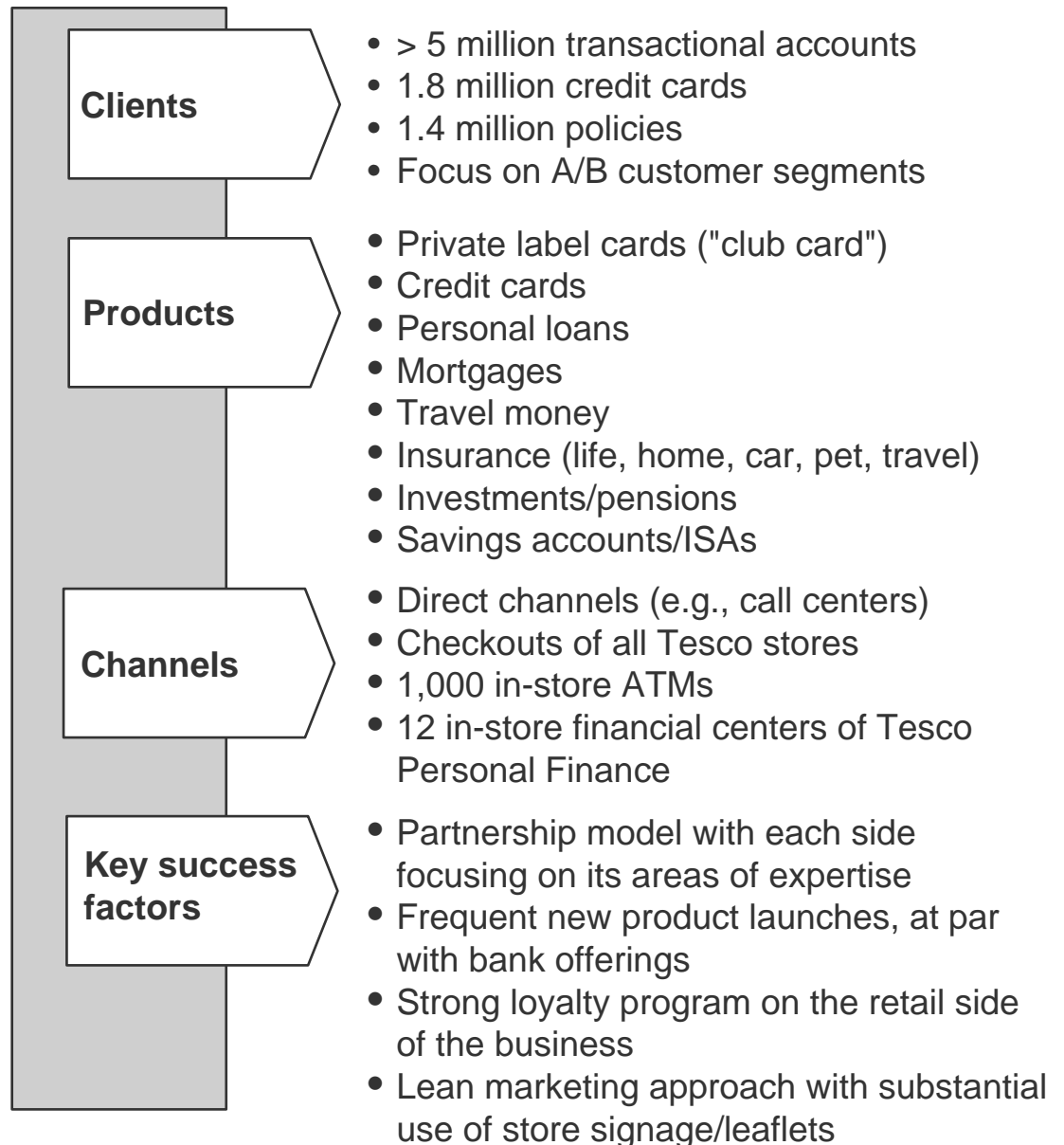
CASE EXAMPLE – TESCO/ ROYAL BANK OF SCOTLAND



- Tesco is one of the world's leading retailers, with ~1,900 stores in the UK (2,300 worldwide), over £ 37 billion in revenue and £ 2 billion in profits
- Financial services launched in 1995, pioneered by private label/loyalty card
- JV to broaden product offering established in 1997 with The Royal Bank of Scotland (RBS) (50/50 ownership)

Key indicators* (2005)

• Total loans	£ 3.408 millones
• Revenues	£ 460 millones
• Operating profit	£ 139 millones
• C/I	34%



TESCO'S DISTRIBUTION RELIES STRONGLY ON ITS CALL CENTERS AND LEVERAGES CUSTOMER TRAFFIC AT THE STORES TO CROSS-SELL FINANCIAL SERVICES



Call center

- 24 hour call center in Glasgow
- Performs direct sales
- Serves customers in telephone banking (preferred channel by majority of customers)



In-store financial centers

- "Bank branch within the store", branded Tesco Personal Finance
- 12 centers in key stores
- Functionalities include deposits, statements, financial advice
- Most transactions ATM-based
- Support staff available for questions, more technical assistance obtained with free phone with link to the call center



Tesco stores

- Ubiquitous leaflets and store signs in every store
- Payments, deposits and withdrawals can be made at the checkouts
- Checkouts as a key source of sales, with clerks referring customers to products

TESCO PF HAS DEVELOPED A DISTINCTIVE STRATEGY TO ATTRACT CUSTOMERS

Description

Pricing

- Aggressive pricing of personal loans and credit cards (~100-200 bp below major bank competitors) to capture mass market customers*
- Attractive rates on deposits (100-200 bp over the market), which entice younger, more affluent customers but also increase churn by attracting a lot of “hot money”)

Promotion

- Extensive marketing of personal loans, savings, and motor insurance products throughout 700 stores, in aisles, POS, and online computer terminals, and via store employees

Cost base

- Low overhead costs for Tesco (~100 people)
- RBS provides a fixed operating cost per account, which is significantly cheaper than large banks like Lloyds and Barclays

Demand stimulation

- In-store visibility through strong signage and leaflets
- Temporary offers/discounts (e.g., 5% or points on loyalty program) for bundle offering, web application, or through targeted programs (e.g., “baby club” for pregnant women)
- Instant quotes available on web 7/24, by phone 6/7; extended validity (3-12 months) with reminder service

* Uses standard risk scoring from RBS

Sources: Annual reports; Press releases; Industry reports; team analysis

TESCO PERSONAL FINANCE'S KEY SUCCESS FACTORS

