



Target Operating Model

Customer Segmentation Corporate & SME

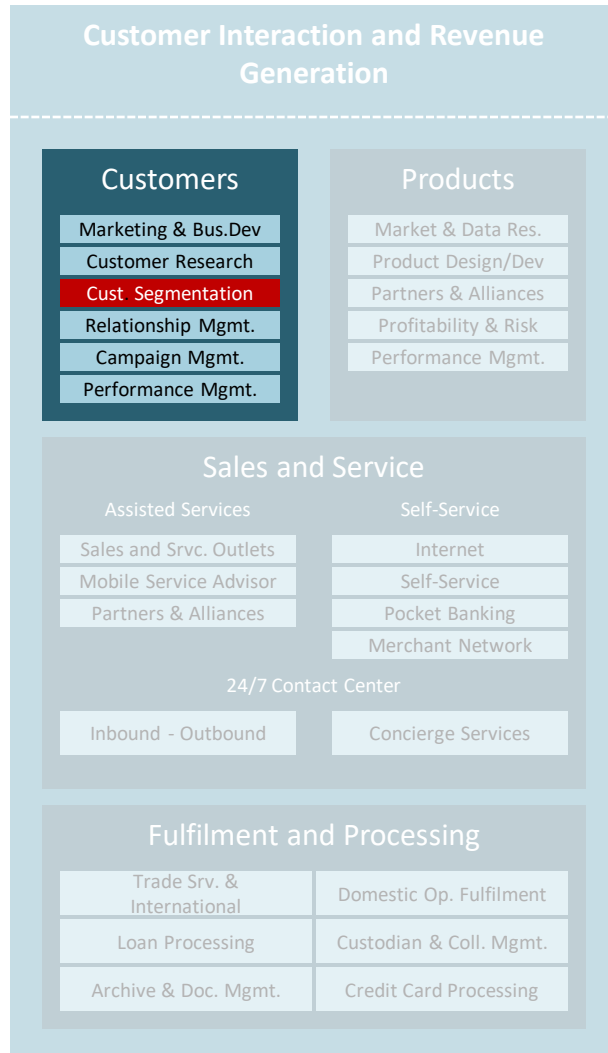
Release 1 | Discussion Draft

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Customer Management



What is the Customer Management Process?

Customer Management is the process to manage ABCBank's customers in line with the bank's strategic intent and designed for the specific requirements of each business unit, risk management division, business control and technology.

The Customer Management Process sets the guidelines for customer segments, relationship management and also the design and execution of micro campaigns.

Customer management also deals with underwriting , customer profitability and risk management



Corporations have needs beyond lending.

Segment	ABCBank Strategic Posture	ABCBank Value Proposition	% of Market Segment
Top 30 Accounts	"Broaden relationships beyond lending"	<ul style="list-style-type: none"> Strong balance sheet, government relationships, Integrated value proposition across lending, transaction banking 	?
Large Corporations	"Invest and grow"	<ul style="list-style-type: none"> Best-in-class transactional banking solution coupled with larger credit lines 	?
Mid-size Corporations	"Invest and grow"	<ul style="list-style-type: none"> High quality specific RM coverage and service, Best-in-class TAT (lending, trade finance), Large credit line 	?
MNCs	"Gain the right to play via BTMU partnership"	<ul style="list-style-type: none"> BTMU offers credibility, capabilities and cross-border linkage 	?
FI	<p>Correspondent banking: "Play on strengths and build capabilities"</p> <p>Non-banking Fis: "Selective play when counterparty risk meets requirements"</p>	<ul style="list-style-type: none"> Wide correspondent banking network and wide range of solutions 	?

Source: GSO enterprise database; ABCBank Client Interviews; McKinsey analysis



A large turnover cut-off segmentation for corporate banking will allow ABCBank to better serve the different customer needs, thus increasing market penetration.

CB Segmentation Criteria

Segmentation Criteria

- Enterprise Sales Turnover
- Separate FI Segment
- Separate FDIs Segment

Turnover Cut-off similar to that used by most international banks

- Different segments by sales turnover have different profiles, needs and optimal coverage models.

Corporate Market Segmentation Approach (By Annual Sales Turnover)

Priority Accounts (Top 30)

- Top 30 Accounts by annual sales turnover

Large Corps

- Annual sales turnover > \$100mn (outside top 30)

Mid Corps

- Annual sales turnover between \$40 and \$100mn

FI

- Int'l and domestic financial institutions

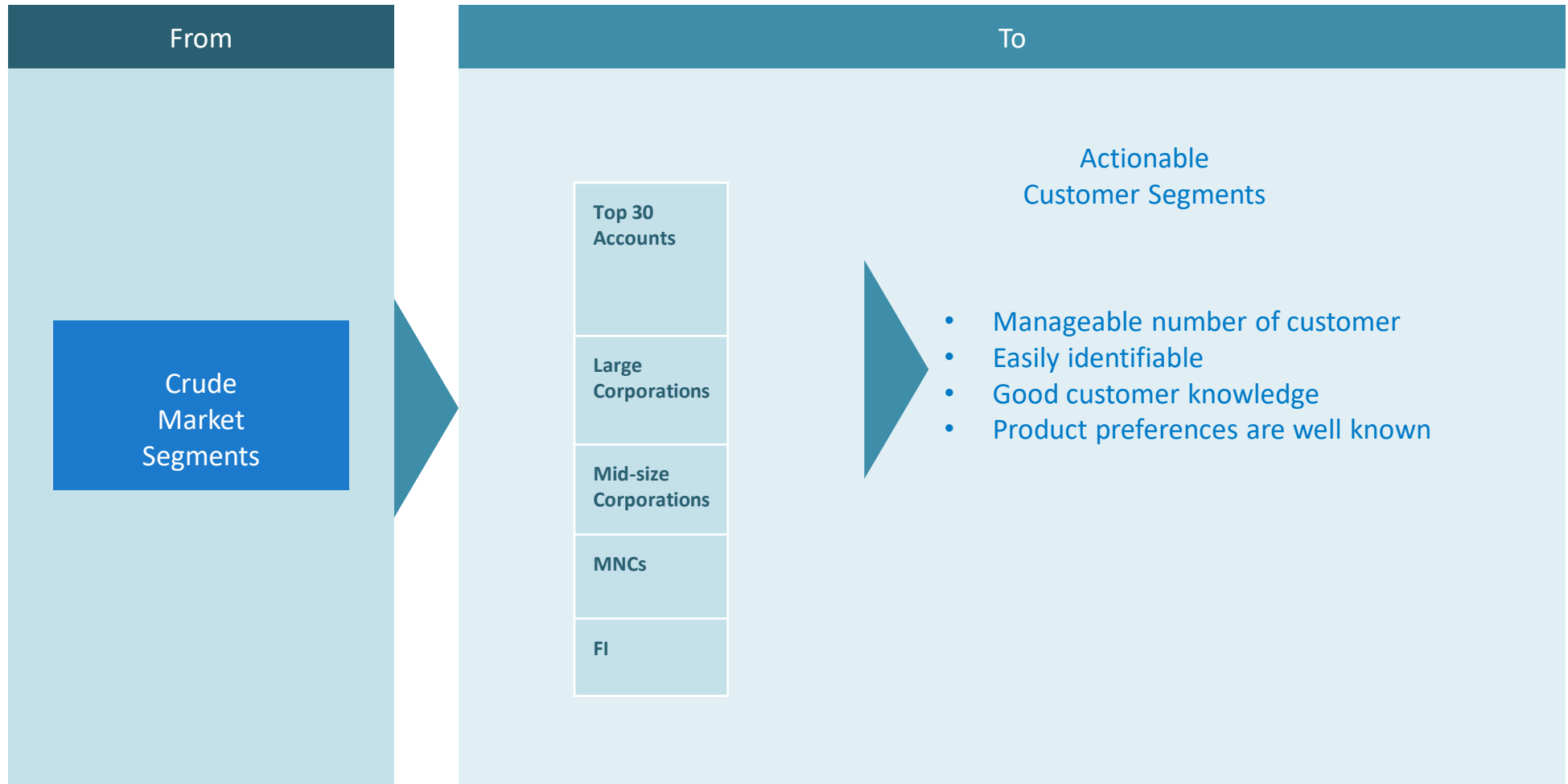
FDIs

- FDIs with annual turnover > \$100 mn



For corporate customer a crude market segmentation is sufficient

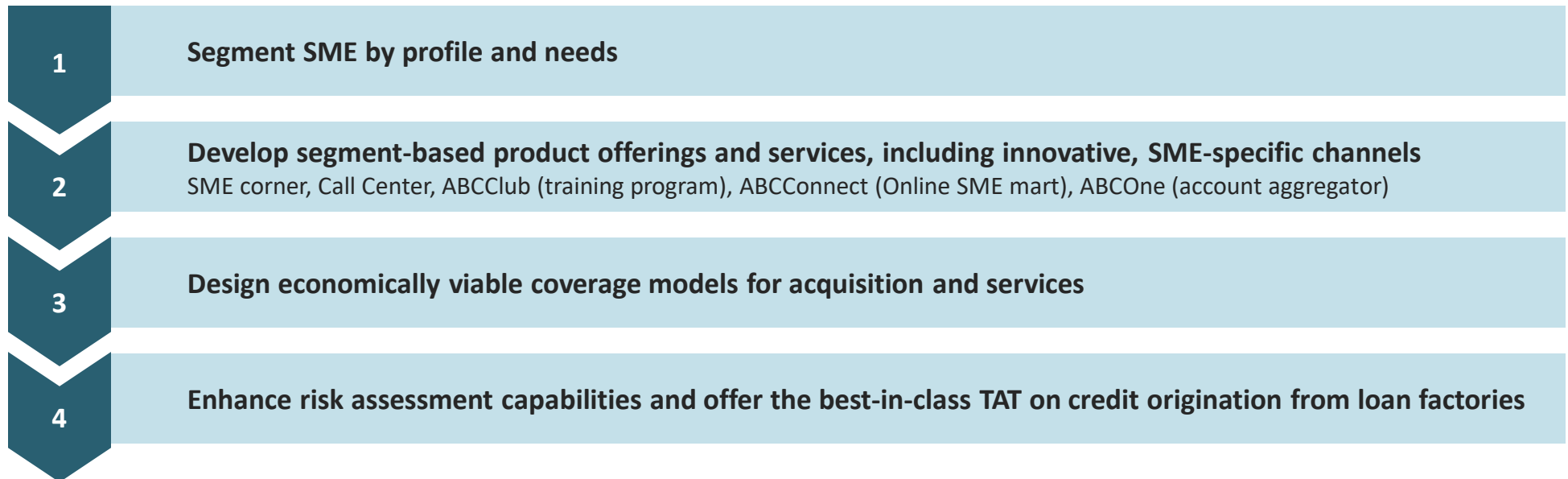
Principles





Key Shift #2: Increase profitability in SME banking

ABCBank can aggressively and profitably grow SME Banking by following these steps:





SME Customers are typically classified in 5 segments, but we need more granularity for clear action plans

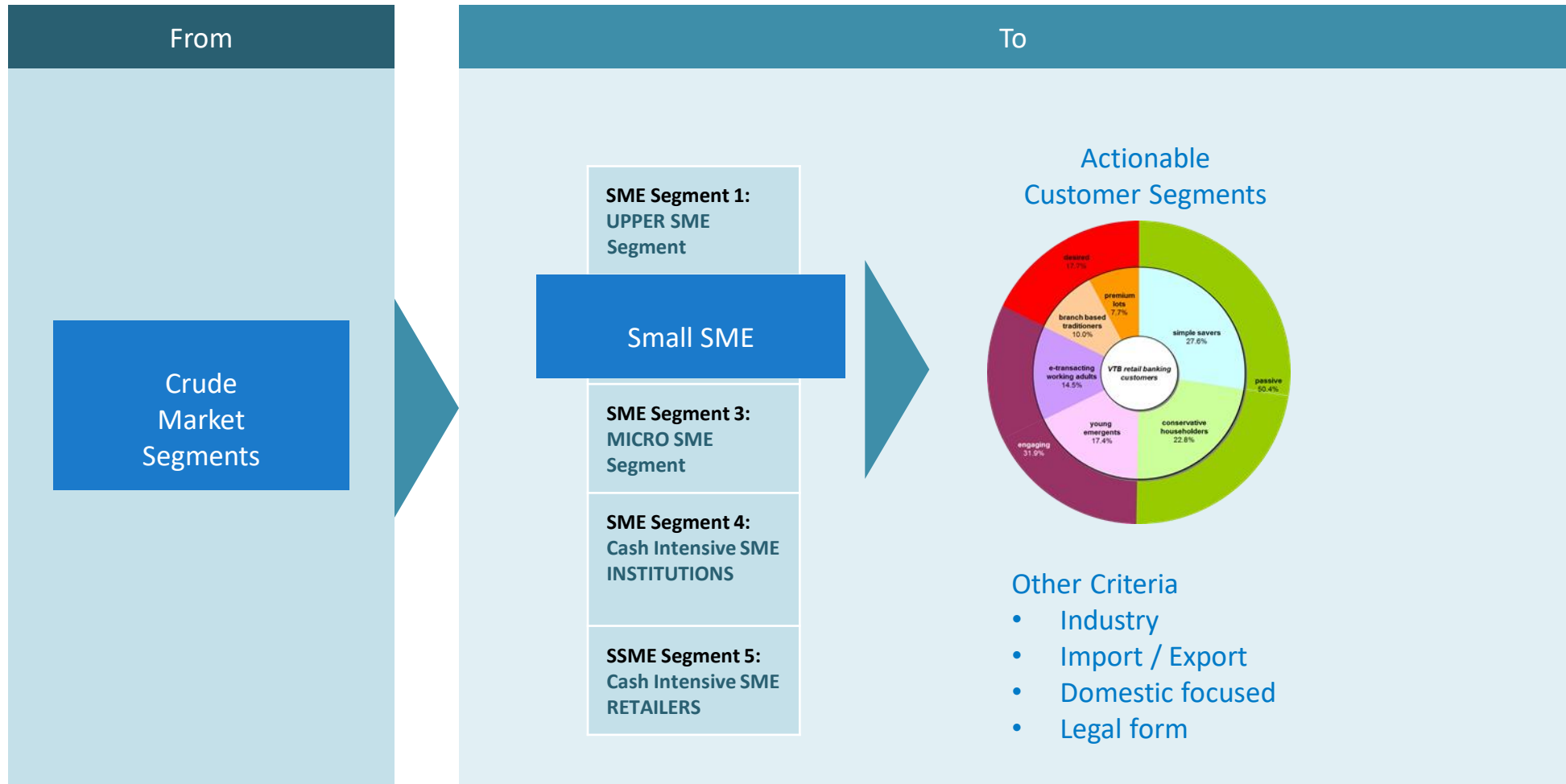
Corporate Customer Segments	Segment Criteria	% of customer	Implementation Considerations / Issues to be resolved
SME Segment 1: UPPER SME Segment	<ul style="list-style-type: none"> Annual sales turnover between US\$ 11 to 40 Mn 	?	<ul style="list-style-type: none"> Segmentation criteria excludes commercial retailer, hospitals, professional groups, franchisees Is this calculation done on an annual basis? How to handle SME who fall below the threshold? Are they downgrade? By whom? What is the impact on products & services received? Who is accountable for and maintains the segmentation in the system
SME Segment 2: SMALL SME Segment	<ul style="list-style-type: none"> Annual sales turnover of US\$ 3 to 10 Mn 	?	<ul style="list-style-type: none"> Is this calculation done on an annual basis? How to handle SME who fall below the threshold? Are they downgrade? By whom? What is the impact on products & services received? Who is accountable for and maintains the segmentation in the system
SME Segment 3: MICRO SME Segment	<ul style="list-style-type: none"> Annual sales turnover below US\$ 3 Mn 	?	<ul style="list-style-type: none"> Is this calculation done on an annual basis? How to handle SME who fall below the threshold? Are they downgrade? By whom? What is the impact on products & services received? Who is accountable for and maintains the segmentation in the system
SME Segment 4: Cash Intensive SME INSTITUTIONS	<ul style="list-style-type: none"> Temple, churches, trusts, foundations, NGO, schools, universities 	?	<ul style="list-style-type: none"> Criteria from strategy
SSME Segment 5: Cash Intensive SME RETAILERS	<ul style="list-style-type: none"> Commercial Retailer, hospitals, professional groups, franchisees 	?	<ul style="list-style-type: none"> Criteria from strategy

WHAT WE NEED IS A DISTINCT CUSTOMER SEGMENTATION



Customer Market Segmentations are not actionable. We need more granularity

Principles

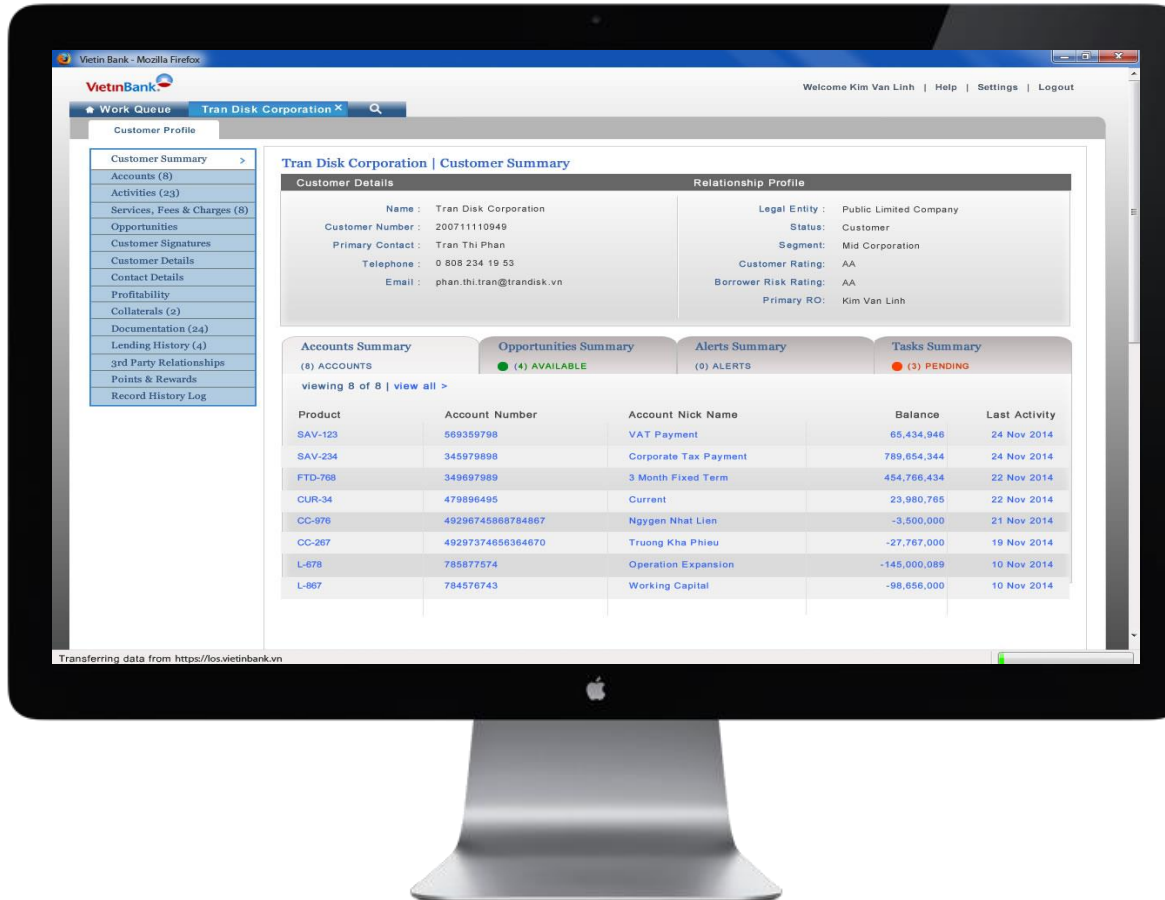




Customer data, stored in a virtual relationship folder are there to be explored for segmentation patterns

KEY SUCCESS FACTORS

- One single source of the truth
- Customer data are all stored in a single customer relationship folder (on in technical terms: a CIR (Customer Information Repository))



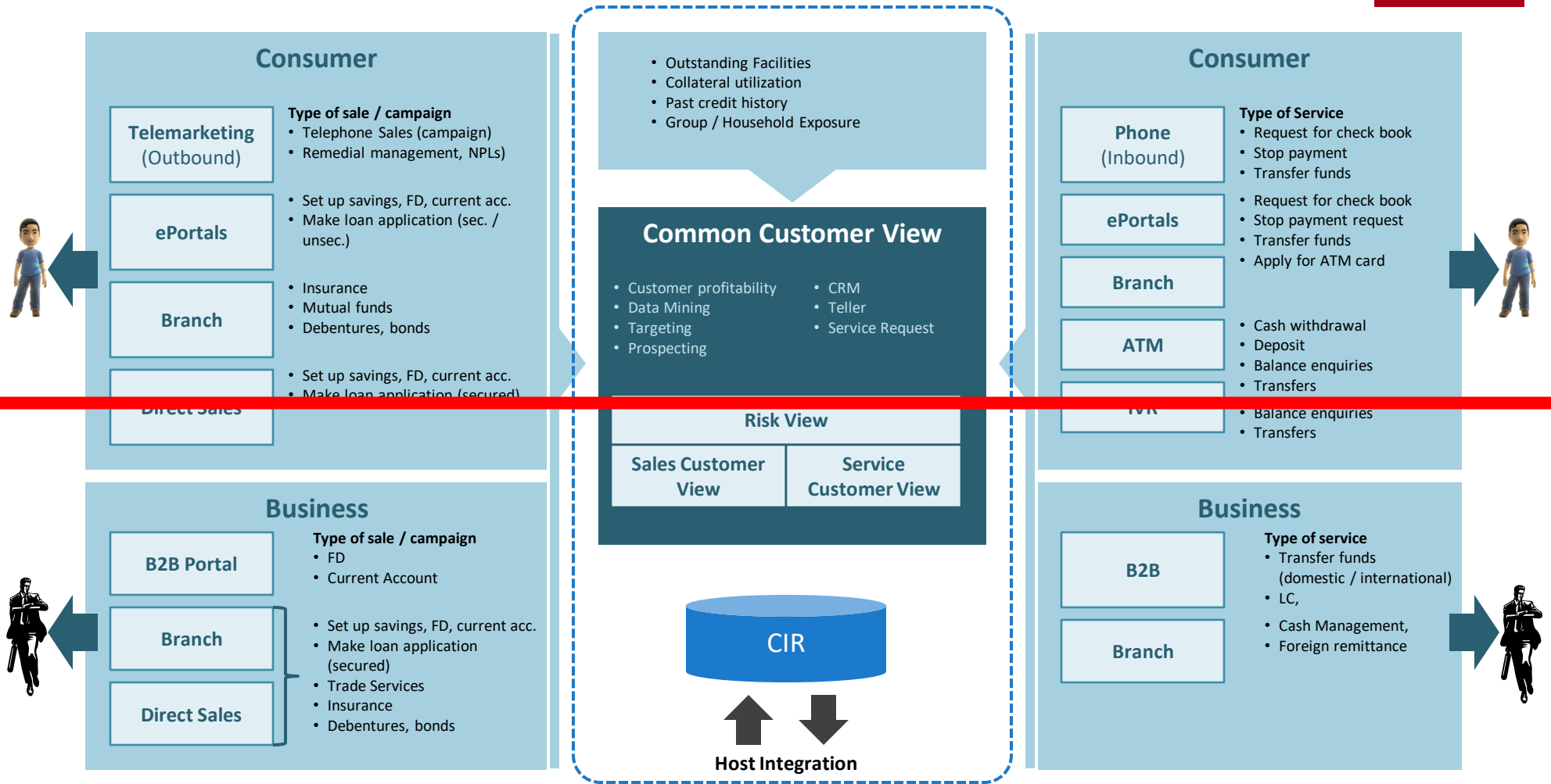
Relationship data are here to be explored for customer segmentation and sales

Sales View

Risk View

Service View

Illustrative



CUSTOMER PROFITABILITY IS AN IMPORTANT INPUT FOR SEGMENTATION



Data are captured from the Hosts to populate the model, perform calculations and provide an aggregate view of the relationship profitability.

Loan Contribution Analysis

Loan Contribution Analysis					
	Overall Relationship	Loan Assets			
		Risk Assets		Non Risk Assets	
		Term Loan	EPCL	EPCL	Back-to-Back
basic info		active	active	active	active
status					
funding code	PHP	PHP	PHP	PHP	PHP
currency code	165	165	165	165	165
YTD aggregate	11.08%	11.78%	8.50%	8.50%	10.28%
interest rate	100%	100%	100%	100%	100%
utilisation					
committed & outstanding amount					
approved amount	251,000,000.00	200,000,000.00	40,000,000.00	10,000,000.00	1,000,000.00
average daily balance	251,000,000.00	200,000,000.00	40,000,000.00	10,000,000.00	1,000,000.00
income contribution					
interest income	12,797,236.01	10,801,128.77	1,559,195.57	389,793.62	47,118.05
fee income					
total income	12,750,117.96	10,801,128.77	1,559,195.57	389,793.62	47,118.05
funding source					
capital employed	25,100,000.00	20,000,000.00	4,000,000.00	1,000,000.00	-
funding from deposit	6,662,709.68	-	-	-	1,000,000.00
funding from pool	219,237,290.32	180,000,000.00	36,000,000.00	9,000,000.00	-
funding costs					
cost of capital	1,380,500.00	1,100,000.00	220,000.00	55,000.00	-
cost of fund from deposit	144,287.20				51,225.20
cost of fund from pool	8,541,119.44	7,012,500.00	1,402,500.00	350,625.00	-
breakeven funding	10,065,906.64	8,112,500.00	1,622,500.00	405,625.00	51,225.20
operating costs					
cost to serve	1,357,491.67	1,081,666.67	216,000.00		
general provision					
risk premium					
total operating costs	1,357,491.67	1,081,666.67	216,000.00		
other income					
insurance commission					
forex					
LC commission					
front end fees					
discount interest					
other fees					
total non interest income					
total net income	1,326,719.66	1,606,962.10	(279,000.00)		
return on risk assets	1.15%	1.75%			
return on equity	23.53%	29.53%			

Relationship Profitability Scorecard

Borrower	XYZ Corp.
Risk Rating	BB
YTD (days)	165
Return on Risk Assets (RORA) p.a.	1.15%
Return on Equity (ROE) p.a.	23.52%
Target ROE p.a.	20.00%

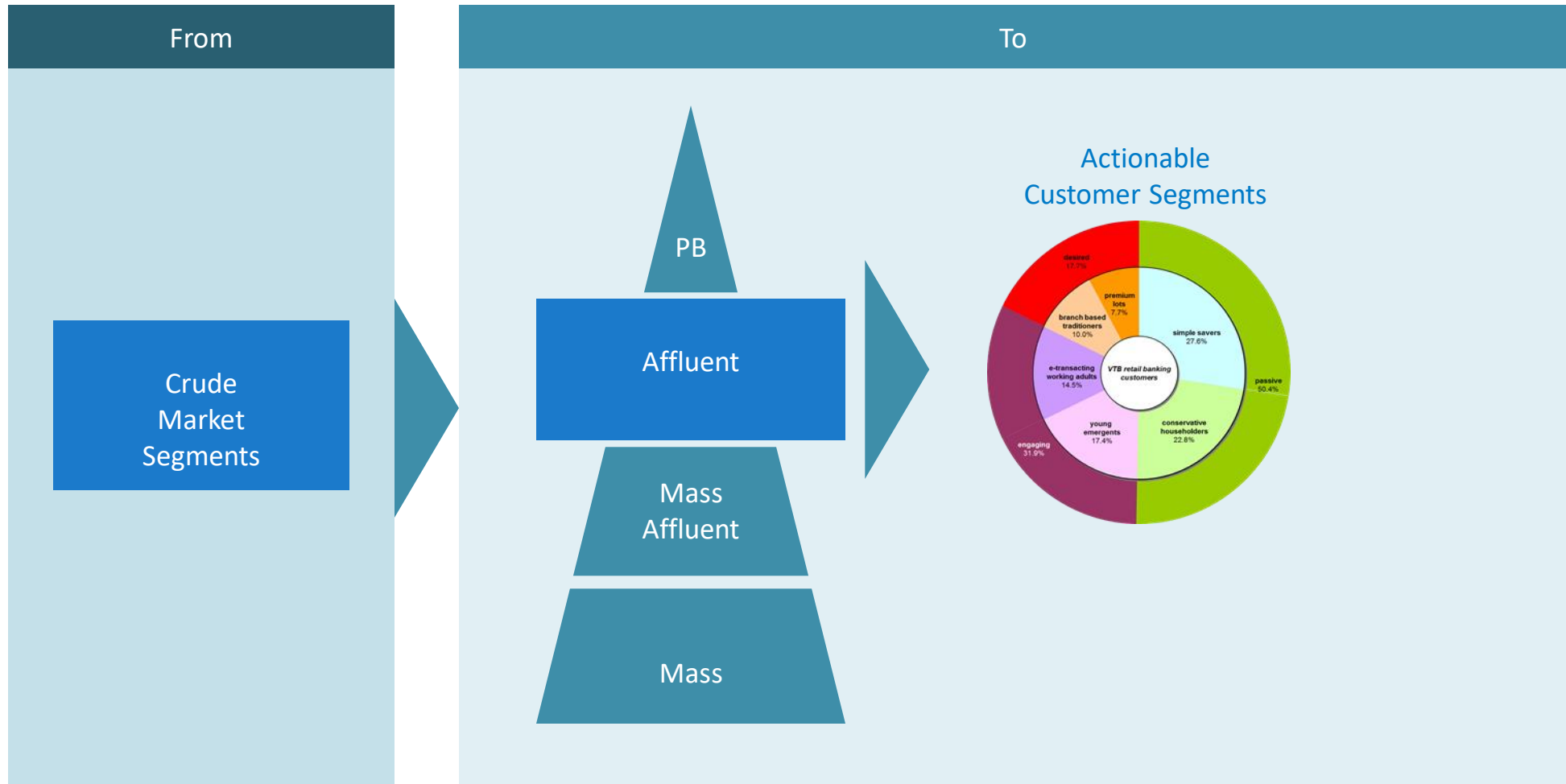
Deposit Cost Analysis					
	Overall	Deposit			Collateral
		CASA	CTA	CTA	
basic info		active	active	active	active
status					
currency code	PHP	PHP	PHP	PHP	PHP
YTD aggregate	165	165	165	165	165
interest rate p.a.	2.82%	2.58%	2.83%	2.90%	8.49%
average daily balance	7,571,261.00	1,256,933.00	2,767,433.00	3,546,895.00	1,211,479.00
reserve @ 12% of deposit	908,551.32	150,831.96	332,091.96	425,627.40	145,377.48
interest expense & operating cost					
interest expense	96,552.91	14,649.78	35,418.01	46,485.12	46,485.12
cost to serve	58,184.62	9,659.44	21,267.53	27,257.65	9,310.13
total costs	154,737.53	24,309.22	56,685.54	73,742.77	55,795.25
income					
tax floats @ 20% of interest	1,003.89	152.32	368.25	483.32	483.32
liquid return from reserve	9,446.44	1,568.24	3,452.85	4,425.36	1,511.53
income from transfer spread	259,568.06	43,091.85	94,876.83	121,599.38	-
income from excess fund (back-to-back)					2,575.21
total income	270,018.39	44,812.41	98,697.92	126,508.06	4,570.05
net income from deposit-taking	115,280.86	20,503.19	42,012.38	52,765.30	(51,225.20)
internal transfer					
fund available to pool	6,662,709.68	1,106,101.04	2,435,341.04	3,121,267.60	-
excess fund (back-to-back)					66,101.52
cost of deposit	144,287.20	22,588.67	52,864.45	68,834.09	51,225.20
cost of deposit % p.a.	2.17%	2.04%	2.17%	2.21%	

WHAT WE NEED IS A DISTINCT CUSTOMER SEGMENTATION



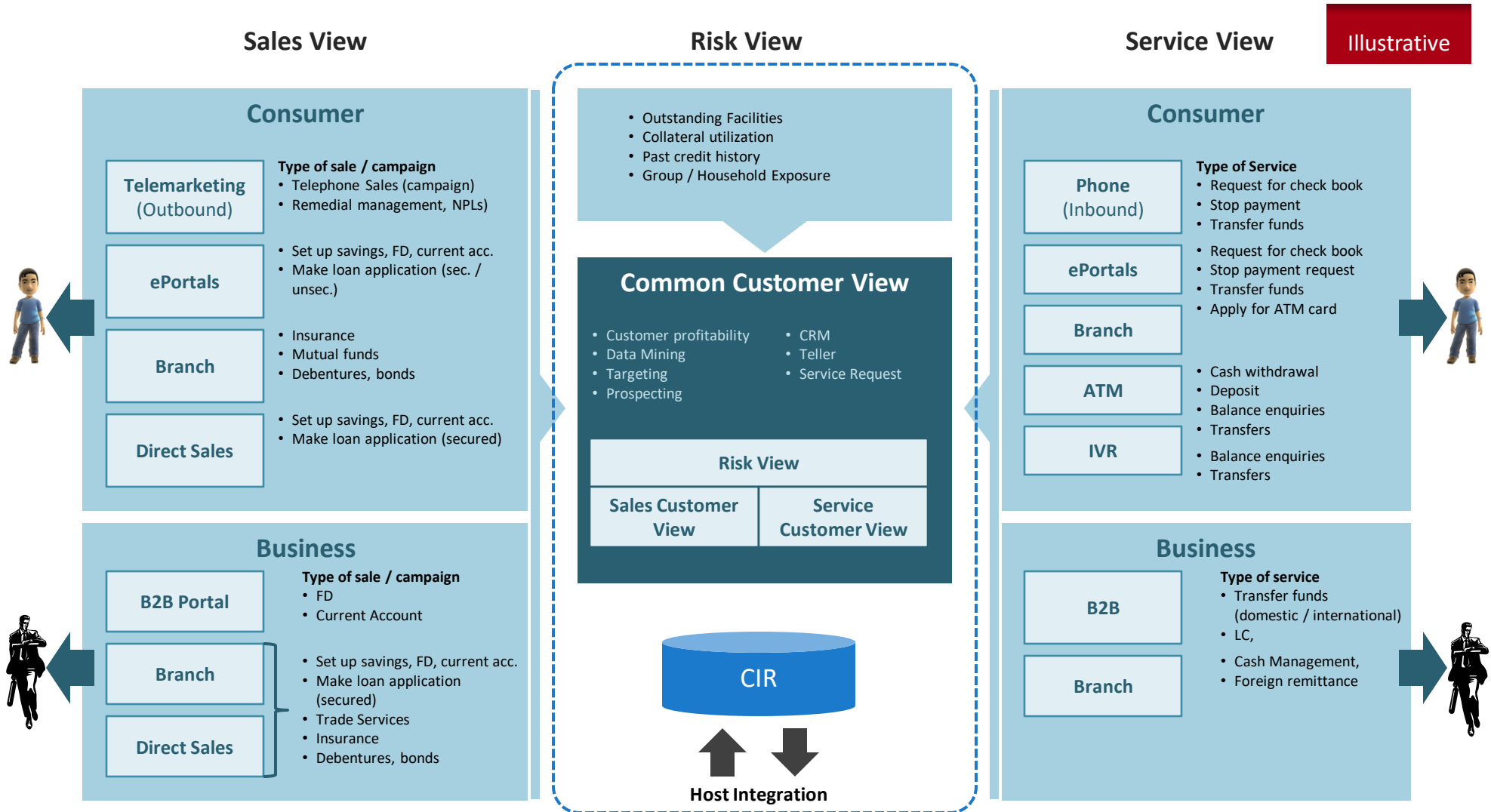
Customer Market Segmentations are not actionable. We need more granularity

Principles



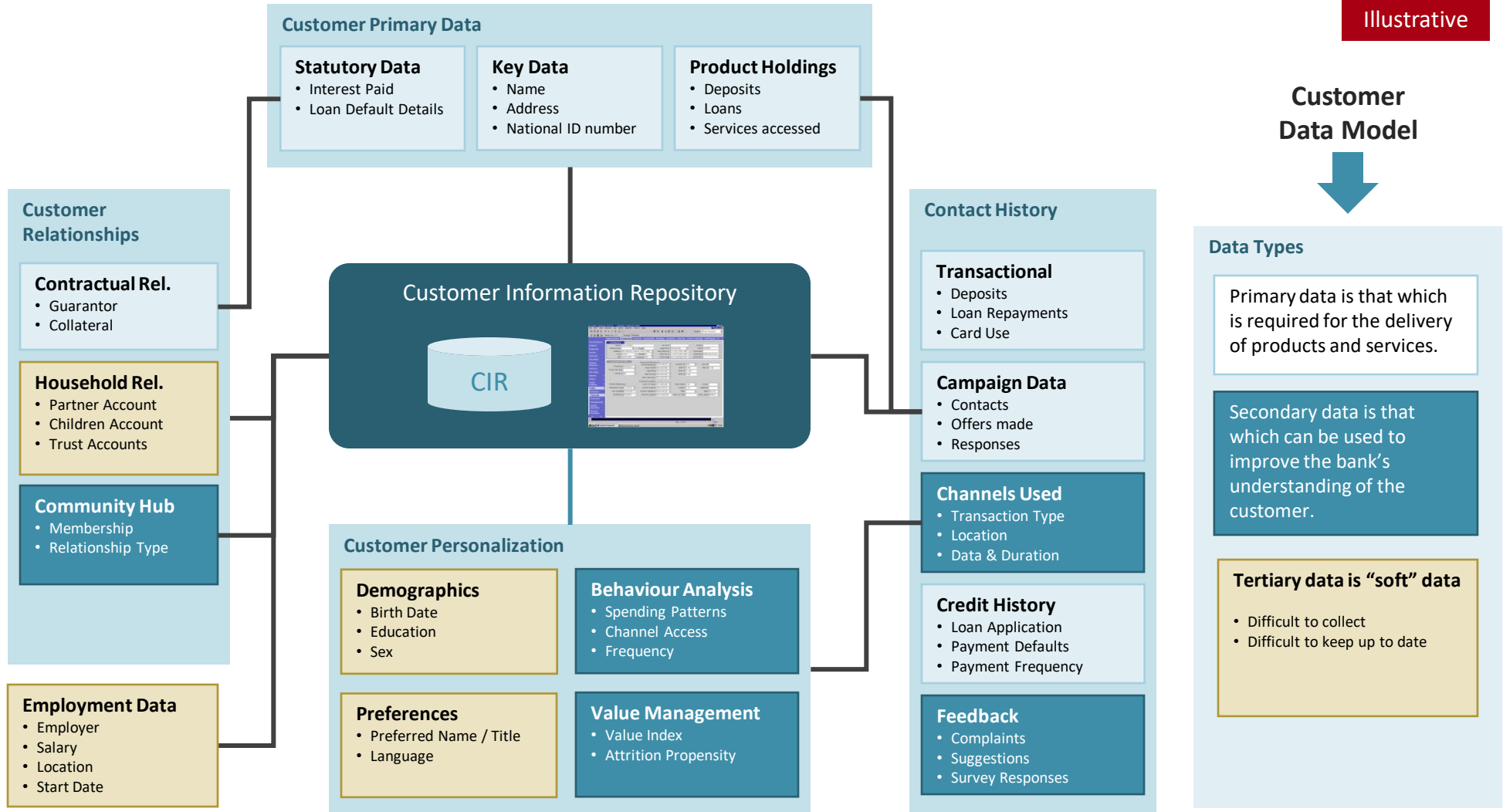


Customer have many interactions with the bank which will help us in the segmentation



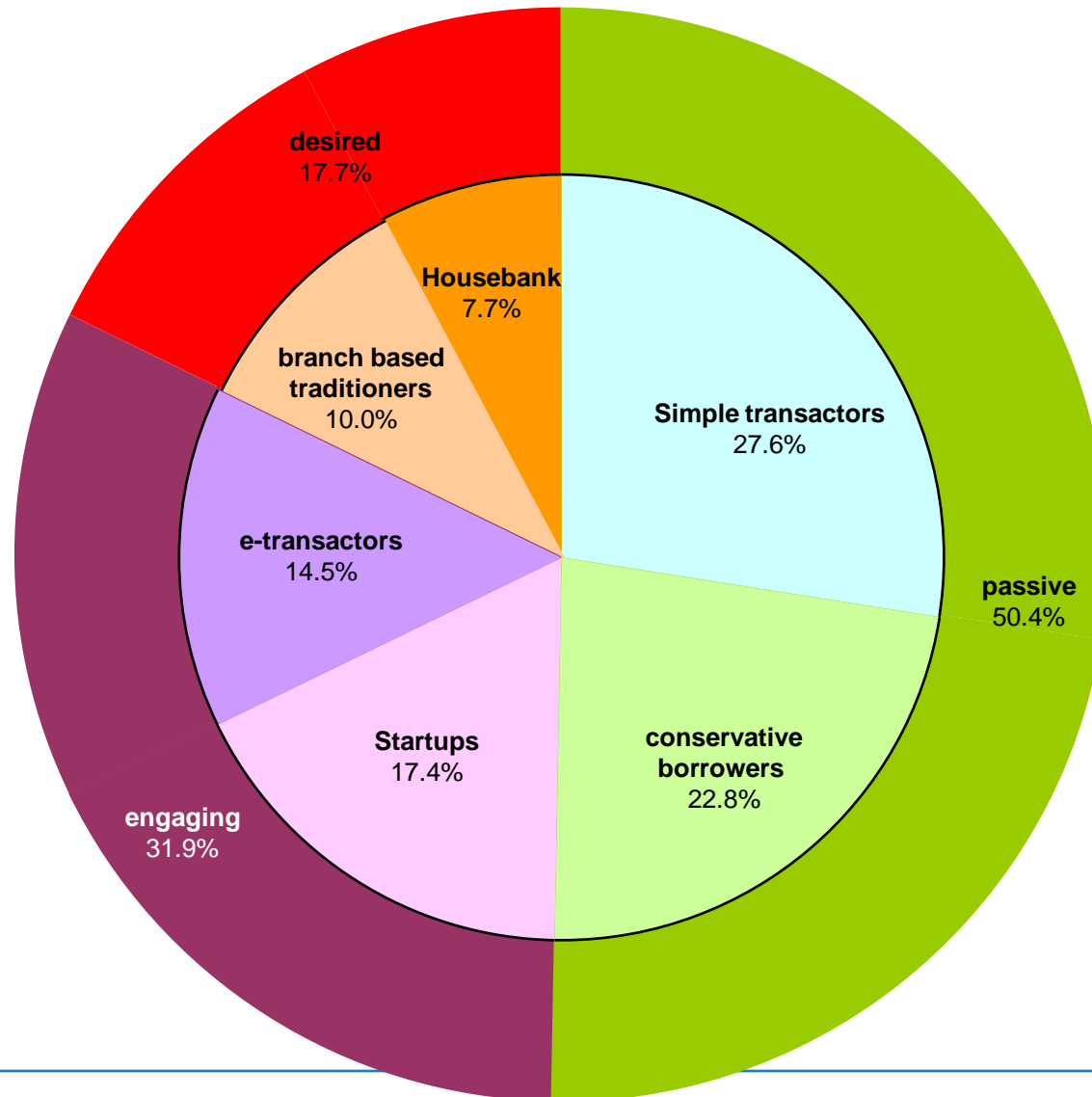
Technical this information is managed through a data model

Illustrative



FROM MARKET SEGMENT TO (ACTIONABLE) CUSTOMER SEGMENT

Distinct behavioral segments for customer segments are identified

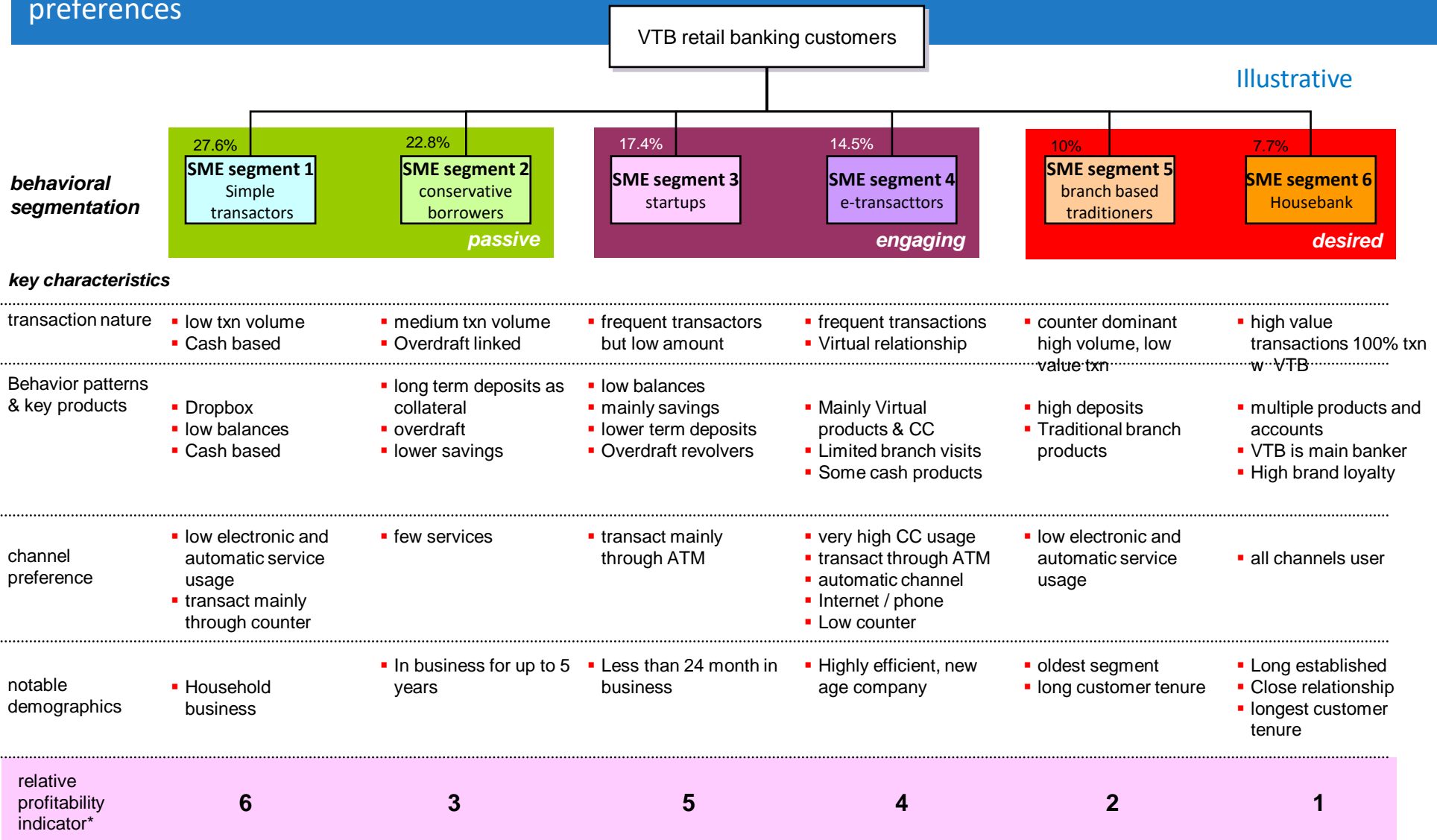


Illustrative

note:
Data are illustrative based

VALUE BASED CUSTOMER SEGMENTATION

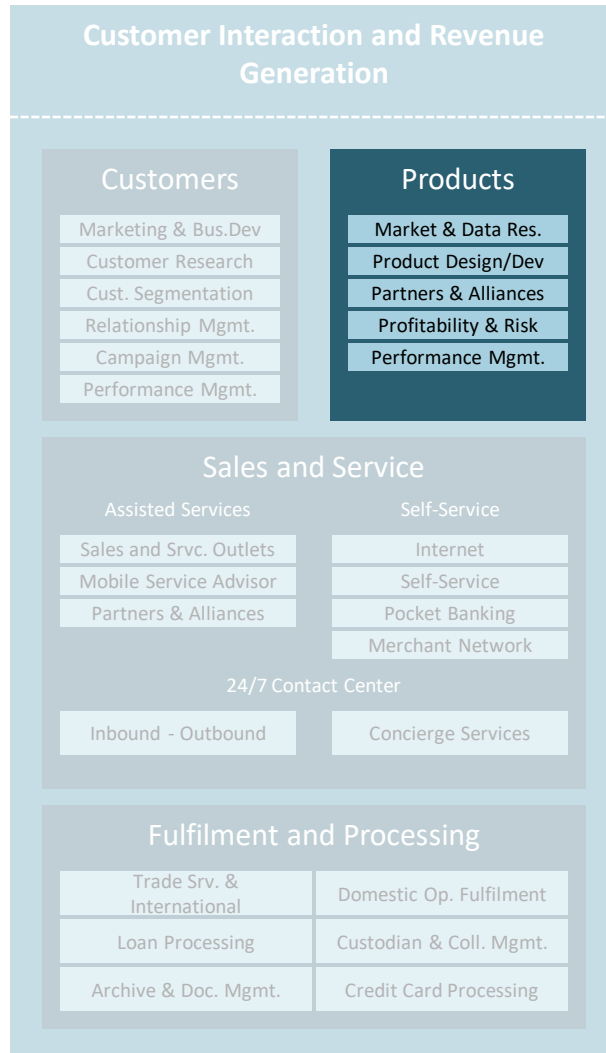
The segmentation serves to answer the key questions: 'who are they', 'how valuable are they', product preferences



*1 = high, 6 = low, based on revenue & cost structure defined by VTB product manager



Product Management



What is the Product Management Process?

Product Management is the process to manage the bank's products in line with the strategic intent and requirements of strategic business units, risk management and technology.

Products are designed in accordance with the bank's customer segment and customer needs analysis. There are ABCBank-owned products as well as partner products, resulting from product partnerships with third parties and product alliances.

For new product design, a business justification and product performance projection is needed, in addition to channel selection and product features.

Product management also conducts regular product rationalizations and purges non-performing products and services. Product specialists are supporting the organization with specialized product knowledge.



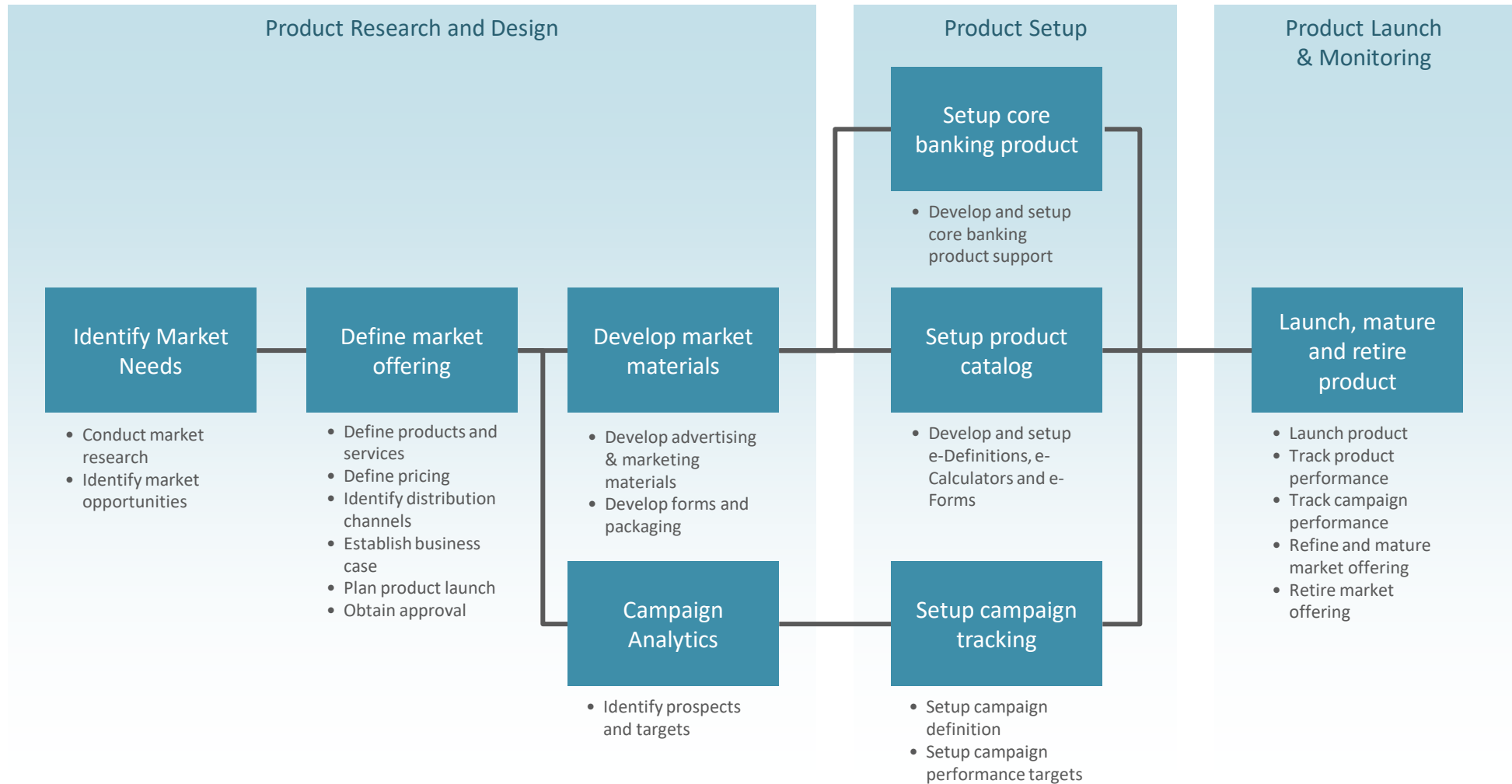
Segment-focused value propositions for SME banking need to be identified and confirmed.

SMEs with turnover of...		< \$3mn	\$3 – \$10 mn	< \$10 - \$40 mn	Entities with deposit and payment needs
Value Propositions	Value Proposition	① Micro and Small		② Upper	③ Cash-Intensive
		<ul style="list-style-type: none"> Fast and easy credit Simple products Innovative and convenient services 		<ul style="list-style-type: none"> Sector-specific bundles Convenient service 	<ul style="list-style-type: none"> Institutions – best-in-class cash management POS Merchants – best-in-market payment solutions
		<ul style="list-style-type: none"> Convenient cash management account Bundle 	<ul style="list-style-type: none"> Quick loans Smart working cap management Bundle <div> </div>	<ul style="list-style-type: none"> Sector-based bundle Insurance ABCBank Premier retail products <div> </div>	<ul style="list-style-type: none"> Institution SMEs – smart investment bundle, doortstep cash services POS Merchants – POS solutions and franchise loans
ABCBank Offerings	Products & Services				
	Sales Coverage	<ul style="list-style-type: none"> Personal banker aim cross-trained SME officers Direct sales force 	<ul style="list-style-type: none"> RM (leverage 1:200) 	<ul style="list-style-type: none"> RM (leverage 1:80) 	<ul style="list-style-type: none"> Institution RM (leverage 1:100-150) Direct Sales force for POS merchant

Source: McKinsey&Company



The Product Lifecycle commences with market research and product development





Support complex relationship structures

Relationship Pricing

- Create innovative pricing schemes, e.g. customer, family or group company based pricing
- Calculate interest for aggregated balances of multiple accounts across currencies

Multi-Account Products

- Overdraft Protection
- Complex Savings/investment Plans

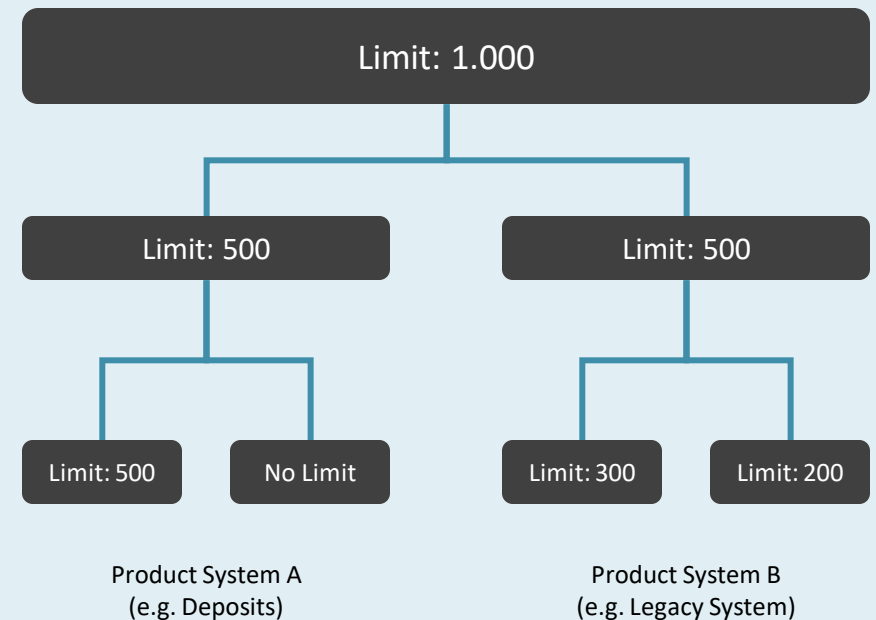
Global Corporate Cash and Management

- E.g. intraday, multi-currency, multi-level, multi-bank cash pooling

Real-time Limit Management

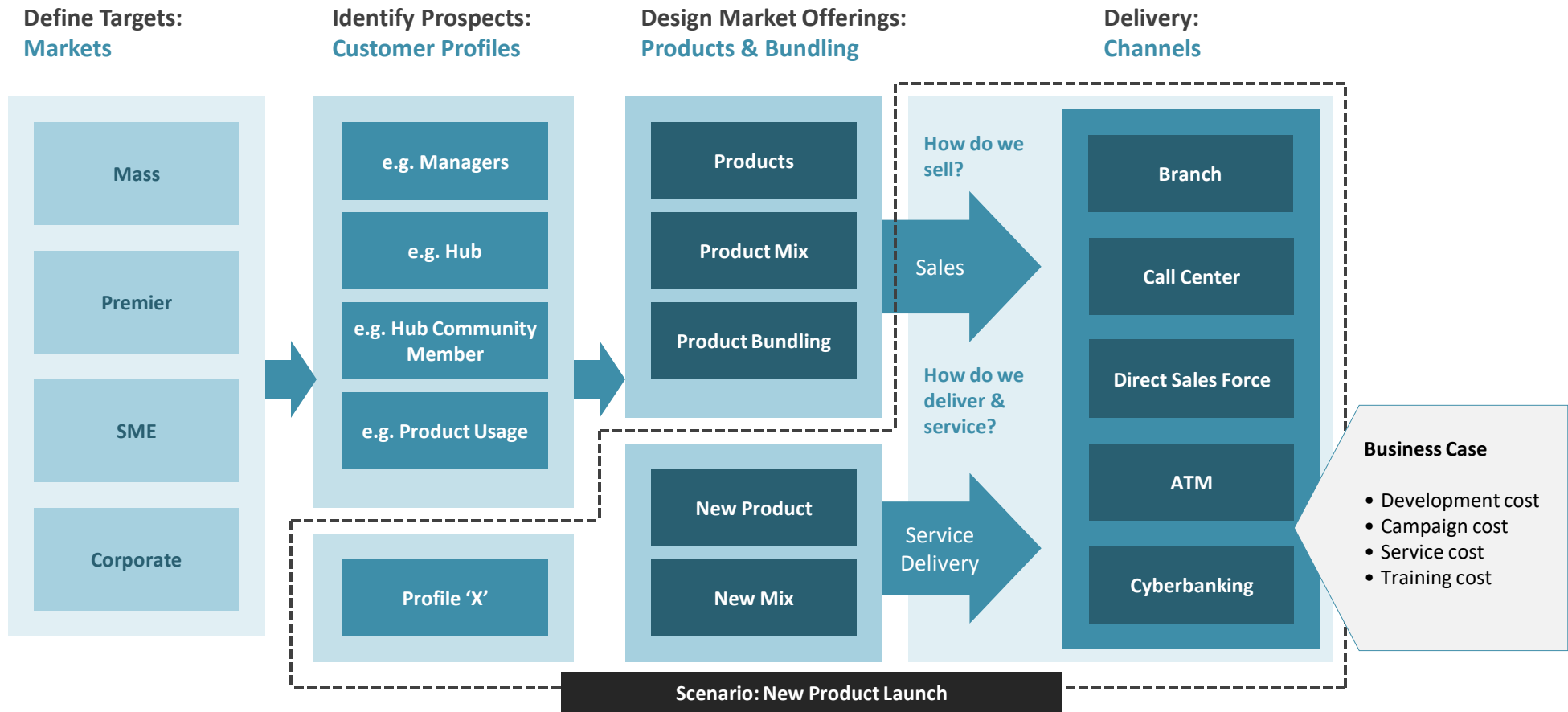
- Multi currency, multi-level credit facilities
- Online limit check incl. accounts managed outside core
- Freely definable limit hierarchies, not restricted to customer level

Credit Facility Management





Develop going to market strategy



Enabling Technology:

- Funds flow analysis
- Customer profiling
- Data mining
- Customer insight analysis
- Customer scoring
- Product profitability
- Campaign tracking & management
- Campaign effectiveness
- Channel utilization/efficiency
- Channel profitability



The funds flow concept looks at funds flow between related organizations and their employees.

Community Banking Hub Background

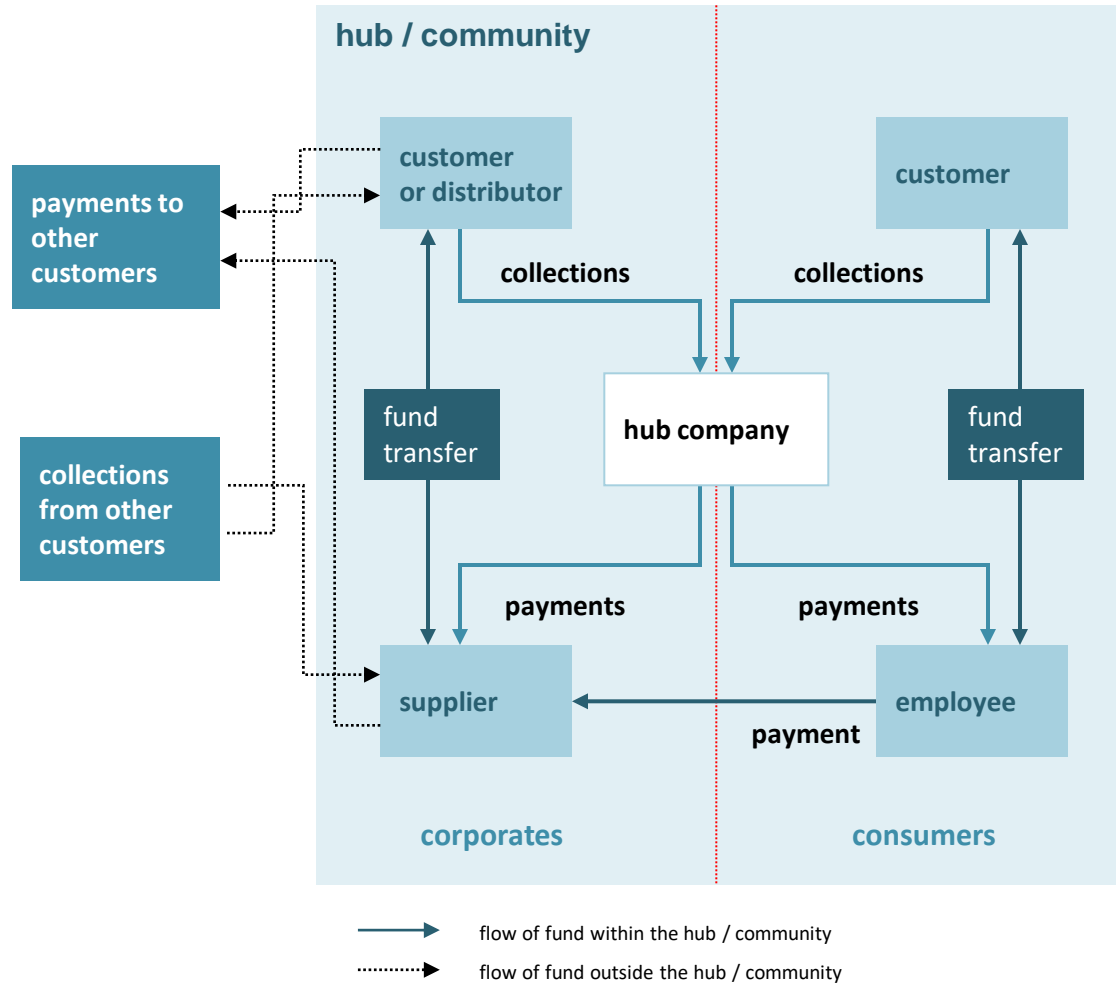
- Retail banking has received requests to “bundle” consumer products for the employees of corporate clients
- Such ad hoc requests were either from the commercial banking or retail bank
- Consumer products offered to these corporations can be highly competitive in terms of pricing (lower interest rates &/or fee) and credit limits, depending on:
 - I. Relationship between the corporation and VTB
 - II. Size of the potential consumer customer base
- Objective of such arrangements is to support commercial banking and retail by providing value added consumer products and services as an incentive
- A profitability analysis of the consumer product offerings need to be conducted
- Corporate relationship and the blending of commercial and consumer product offerings is described as a “hub” or “community”

Outcome and implication

- Main factor considered the “hub concept ” is pricing. Ad hoc marketing response results in low profitability in some products and inconsistent response rates.
- The “hub concept ” delivered right, can achieved quick result in increasing overall business volume for retail banking

Source: ABCBank product & marketing interviews, analysis

The “flow of funds” concept is also important for VTB Cash Management products and services.



Cash Management: the lead product

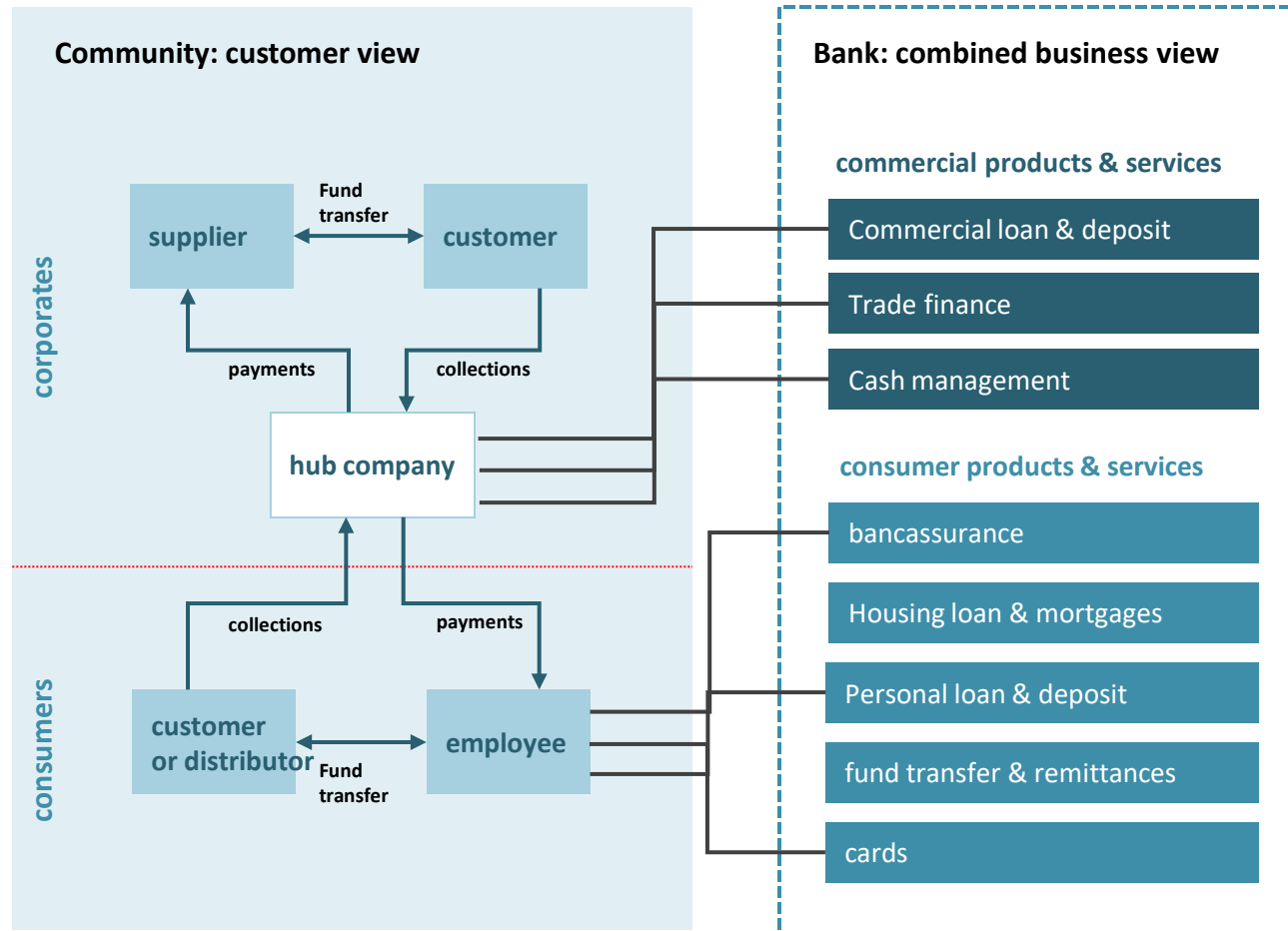
The fund flow concept helps the Bank to identify the target client for Cash Management within a hub. By following the fund outflow, the Bank is able to analyze the needs and requirements of the hub company and offer payment, collection and other cash management services to the hub company.

The Bank may also offer cash management services to entities other than the hub company, as lead targets. It will then track the flow of fund from the lead target back to the hub company and provide cash management services to the hub company.

Cash management services is not restricted to corporates. The Bank will also track the fund flow in/out from the employee group and identify the consumer needs for payments and fund transfer services, either within or outside the hub / community.



The Bank can also leverage on the hub/community relationship for cross-selling and up-selling



Future: no boundary

VTB intends to offer banking products and services to meet the total banking needs of the community, by removing the boundary between the two business lines. It can leverage the established cash management relationship within the community, to cross-sell and up-sell product offerings to both corporate and consumers.

This implies great change in terms of organization structure, business processes, operations workflow, and IT infrastructure.

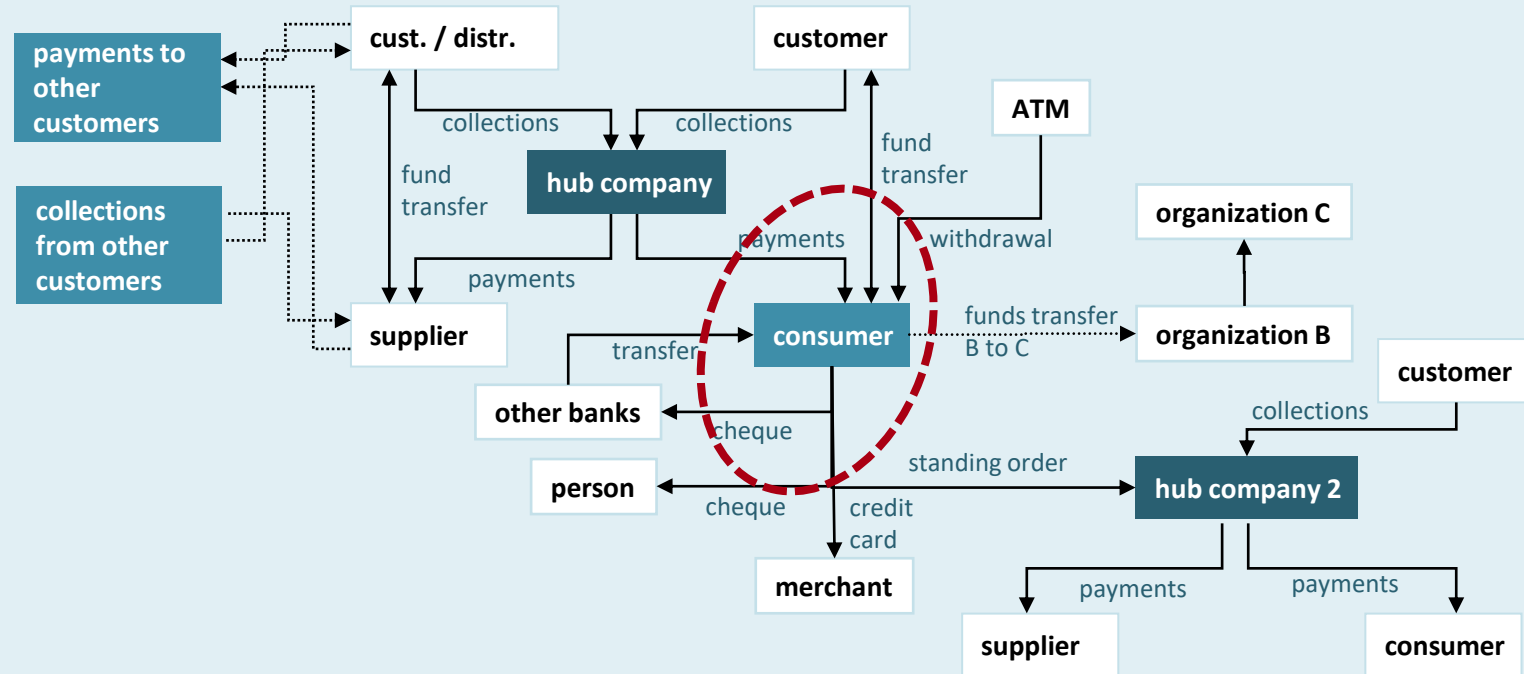
└─ Products and services cross-selling and up-selling

FUNDS FLOW CAN INCLUDE RETAIL CUSTOMER



... giving rise to a network of inter-related customers.

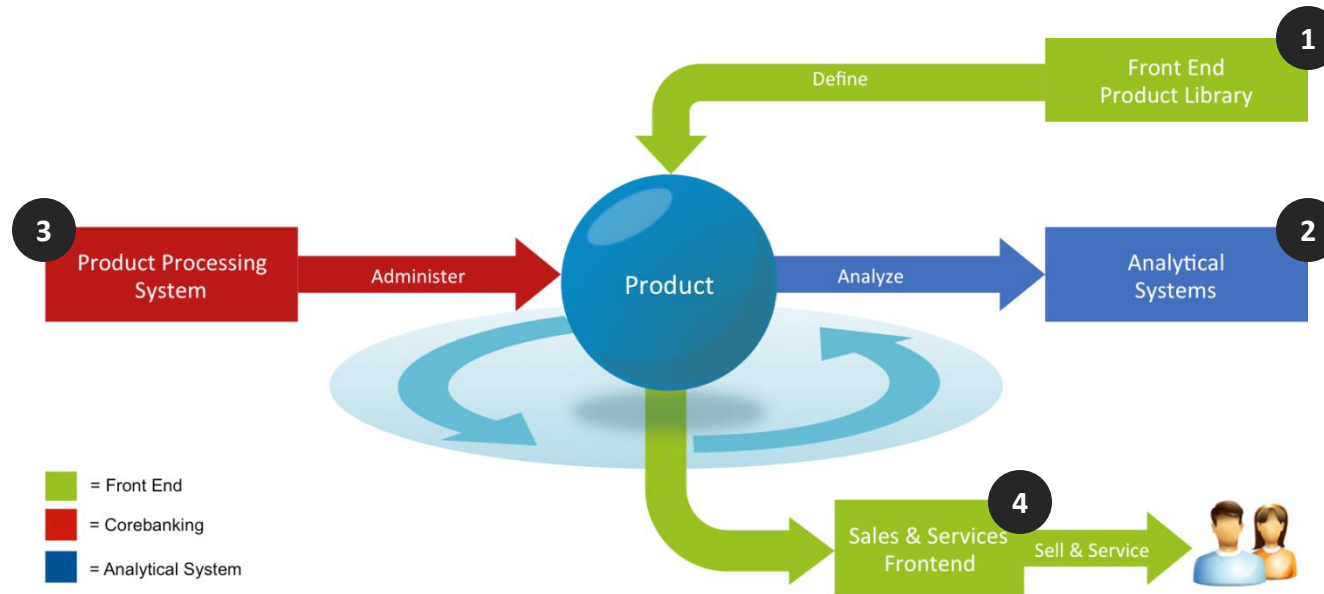
flow of funds for integrated business and consumer customers



- the relationship information is key
 - which communities does the customer belong to
 - what funds flows are initiated from the individual payments

- each other party can be thought of as the center of another funds flow (consumer or community/hub)
- this then leads to a network of relationships
- VTB can examine the collection of these relationships. i.e.,
 - many card customers are obtaining cash advances in area x
 - many housing loan customers have standing order to insurance company y

Each dimension needs its own distinct technology support to function. (continued)



1	2	3	4
Product Library	Analytical Systems	Product Processing Systems	Sales and Service Systems
<ul style="list-style-type: none"> Provide catalog of products & services Provide product application and setup forms Provide product calculators 	<ul style="list-style-type: none"> Campaign Management – allocate and track campaign opportunities Customer Profitability – track profitability of the bank’s customers Product Profitability – track profitability of the bank’s products and services 	<ul style="list-style-type: none"> Core Banking – administer accounts based on the bank’s deposits and lending products Credit Cards – administer accounts based on the bank’s credit card products Other Product Processing Systems – administer accounts based on the bank’s other products (e.g. treasury, trade finance, etc.) 	<ul style="list-style-type: none"> Product sales support tools integration (e-definitions, e-forms, e-calculators) Management of channel-specific product-related workflow

The End