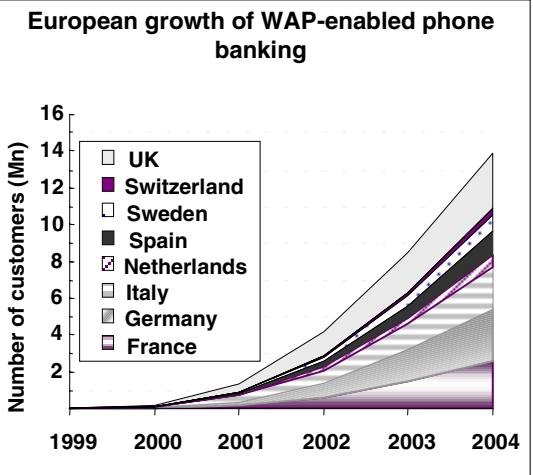
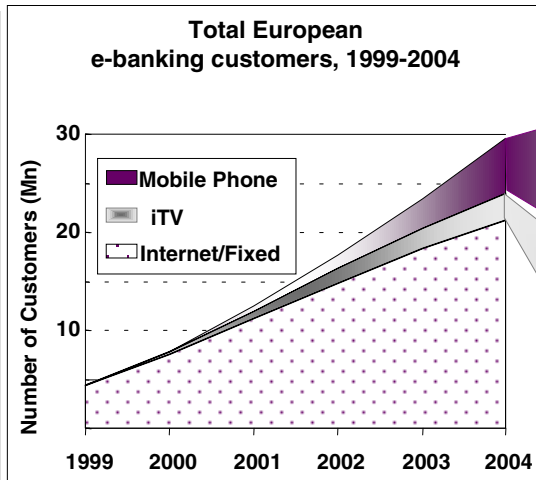


e-Banking Winners

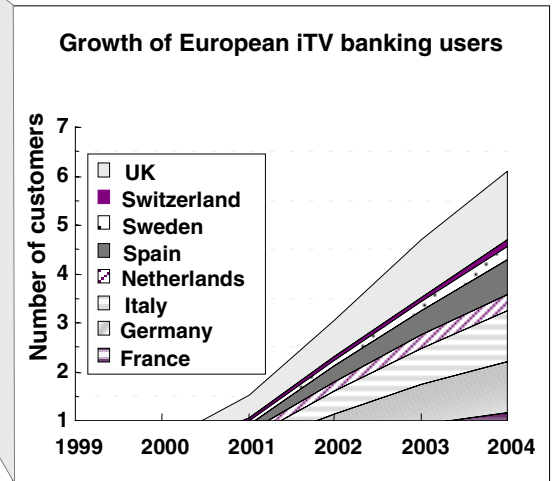
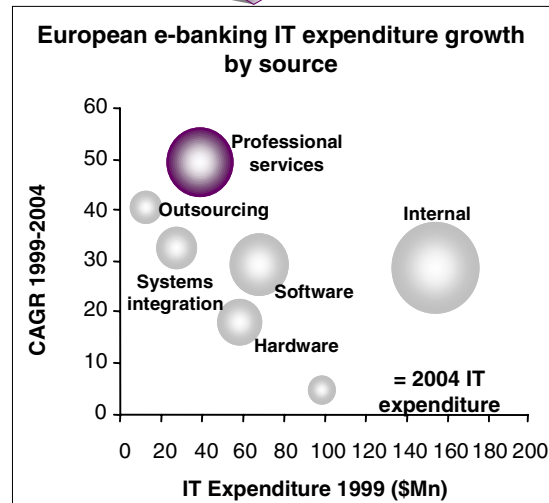
	UK	Germany	Iberia	France	Italy	Nordic	Switzerland
Established Banks							
Management Vision	Barclays, HSBC, Halifax, Woolwich	Deutsche	BBVA, BSCH, Bankinter, BCP	BNP	BIPOP, Unicredito	Handels., Nordic Baltic	Credit Suisse
Customer Centric Banking	Lloyds	BHV	BBVA, Popular	BNP, SG	Unicredito, Intesa	Handels	Credit Suisse
Conversion Strategy	Barclays, Bank of Scotland	Deutsche	BBVA, BSCH, Bankinter	BNP	Unicredito, Intesa	All	All
IT Capacity	HSBC, Barclays	BHV, Deutsche	Bankinter, BCP, BBVA	BNP	Unicredito	Handels, Nordic Baltic, SEB, Swedbank	Credit Suisse
Efficiency Focus / Re-Engineering	HSBC, Lloyds	BHV, Deutsche	BSCH, BBVA	BNP	BIPOP, Unicredito	Handels, Nordic Baltic	-
Growth Strategies /	HSBC	Deutsche	BSCH, BBVA, Bankinter, BCP	BNP, SG	Unicredito, BIPOP	SEB, Nordic Baltic	Credit Suisse, UBS
Economies of Scale	HSBC	Deutsche	BSCH, BBVA	BNP, SG	Unicredito, Intesa	Nordic Baltic, Swedbank	Credit Suisse, UBS
Alliances	HSBC	Deutsche, Commerz	BBVA, BCP	None	BIPOP, Unicredito	BNB, Swedbank	-
Pure Online Banks							
Aggressive Strategy	IF (Halifax), Cahoot (Abbey National)	DAB (BHV), Consors, Comdirect (Commerz)	Ebankinter, Open Bank (BSCH), UNO-e (BBVA)	Banque Direct, Cortal (BNP), Fimatex (SG)	Fineco (BIPOP), Banca 121 (MdP)	-	-
Develop Customer Relationships	IF (Halifax)	Dab, Consors	Ebankinter	Cortal, Banque Direct (BNP)	Fineco	-	-
Economies of Scale	None	Commerz	Ebankinter	Cortal (BNP)	Fineco	-	-
Alliances with Physical Companies	-	-	-	-	-	-	-

Source: Merrill Lynch

Rapid development of alternative channels



Dramatic growth of IT cost



ML Forecast (Spain)

	2000	2001	2002	2003	2004
Population	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
Banking customers	26,000,000	26,000,000	26,000,000	26,000,000	26,000,000
Households	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Internet users	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Penetration (%)	10.0%	10.0%	10.0%	10.0%	10.0%
Internet banking users	780,000	1,820,000	3,900,000	5,720,000	7,800,000
Banking users / customers	3.0%	7.0%	15%	22%	30%
Click & mortar model(1)	585,000	1,365,000	2,925,000	4,290,000	5,850,000
Stand alone internet (2)	195,000	455,000	975,000	1,430,000	1,950,000

Key Assumptions

- Average revenues, costs, provisions and pre-tax profit per retail Spanish client
- Retention rate of 95% of clients. Traditional banking of retention rate between 91-95%
- Sustainable 3% revenues growth
- Costs growing at the rate of inflation
- Cost of capital @ 10%

NPV of Traditional Client (USD) According to Retention Rate & Price Contamination

Retention Rate / Contamination	0%	-10%	-20%	-25%
90%	1,791	1,497	1,202	1,055
93%	1,887	1,576	1,265	1,110
95%	1,960	1,637	1,314	1,152
97%	2,041	1,705	1,368	1,200

Source: Merrill Lynch

Key Assumptions

- Revenues 20% above average client (affluent mix of clients higher online)
- A less costly channel use by client (28% less than traditional client)
- Price contamination of 10% (at least)
- Retention rate @ 93%
- Residual growth rate @ 3%
- Cost of capital @ 10%

NPV of Converted Client (USD) According to Retention Rate & Price Contamination

Retention Rate/ Contamination	0%	-10%	-20%	-30%
90%	3,261	2,480	1,756	1,091
93%	3,440	2,617	1,855	1,155
95%	3,577	2,722	1,930	1,203
97%	3,729	2,838	2,014	1,257

Source: Merrill Lynch

Key Assumptions

- Revenues 20% above average client (affluent mix of clients higher on line)
- A less costly channel use by client (45% less than TCs)
- Price contamination of 30% (at least)
- Retention rate @ 90%
- Residual growth rate @ 3%
- Cost of capital @ 10%
- Acquisitions costs USD 200

NPV of New Internet Client (USD) According to Retention Rate & Price Contamination

Retention Rate/ Contamination	-20%	-30%	-40%	-50%
88%	2,737	2,243	1,749	1,254
90%	2,836	2,324	1,812	1,299
93%	3,007	2,463	1,920	1,376
95%	3,137	2,570	2,003	1,435

Source: Merrill Lynch

Value per Weighted Client on Current Client Mix / Pricing

USD	Traditional Client Mix (%)	NPV per Client	Weighted Value per Client
Traditional Clients	98	1,960	1,920.43
Clicks & Mortar (Integrated Internet)	2	3,440	68.81
Direct Internet Bank	0	2,324	0.00
Value of Client Adjusted for Mix			1,989

Source: Merrill Lynch

Value per Weighted Client on Future Client Mix on a “Do Nothing Strategy” and 10% Price Contamination

USD	Expected Client Mix (%)	NPV per Client	Weighted Value per Client
Traditional Clients	65	1,636.68	1,064
Clicks & Mortar (Integrated Internet)	25.0	0	0.00
Direct Internet Bank	10.0	0	0.00
Value of Client Adjusted for Mix			1,064

Source: Merrill Lynch

-10% price contamination

Losing some clients

-10% price contamination

Value per Weighted Client on Future Client Mix on a “Conversion Strategy” and 10% Price Contamination

USD	Expected Client Mix (%)	NPV per Client	Weighted Value per Client
Traditional Clients	65	1,636.68	1,064
Clicks & Mortar (Integrated Internet)	25	2,617	654.26
Direct Internet Bank	10	0	0.00
Value of Client Adjusted for Mix			1,718

Source: Merrill Lynch

**-10% price contamination
+Cost savings**

-10% price contamination

Losing some clients

Value per Weighted Client on Future Client Mix on a “Conversion + Aggressive Strategy” and 10% Price Contamination

	Traditional Client Mix	NPV per Client	Weighted Value per Client
Traditional Clients	65%	\$1,636.68	\$1,064
Bricks & Mortar	25%	\$2,617.05	\$654.26
Direct Internet Bank	20%	\$2,324.02	\$464.80
Value of Client Adjusted for Mix			2,183

Source: Merrill Lynch

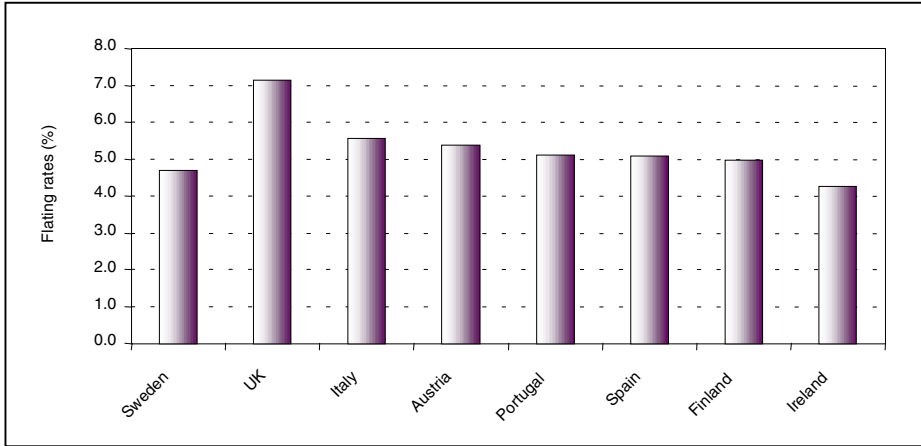
**-10% price contamination
+Cost savings**

**-10% price
contamination**

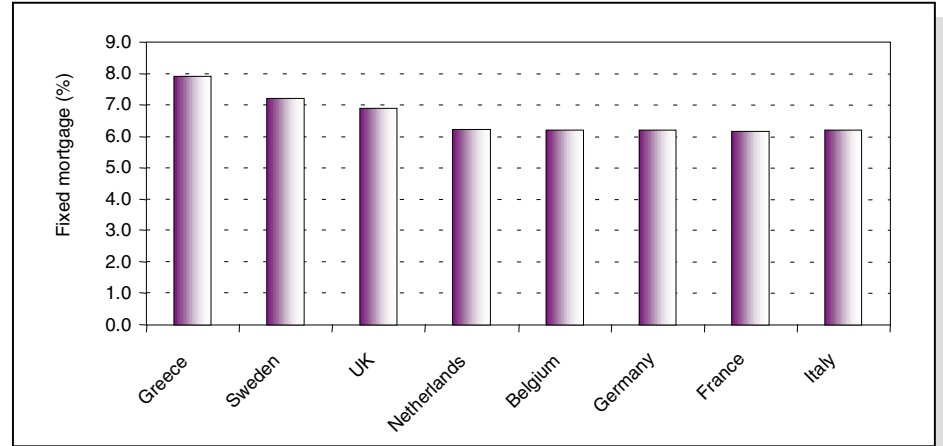
**No loss of clients
-30% price compression
New clients gained from competition (as many new clients as
it would naturally have within your client base)**

- **For Established banks**
- Transform the Bank to flexible product delivery
- Lowest cost producers have advantage
- Diversify the P&L
- Be aggressive where you do not contaminate your business
- Saturate the market where you can be attacked
- Lead the market in technology
- **For Aggressive players**
- Complexity of products
- Advisory
- Customer service
- Scale - Pan European size

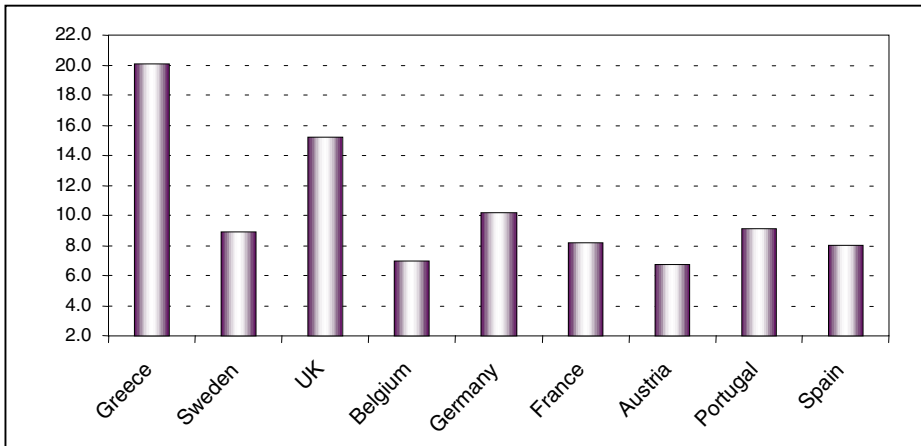
Floating Rate Mortgages



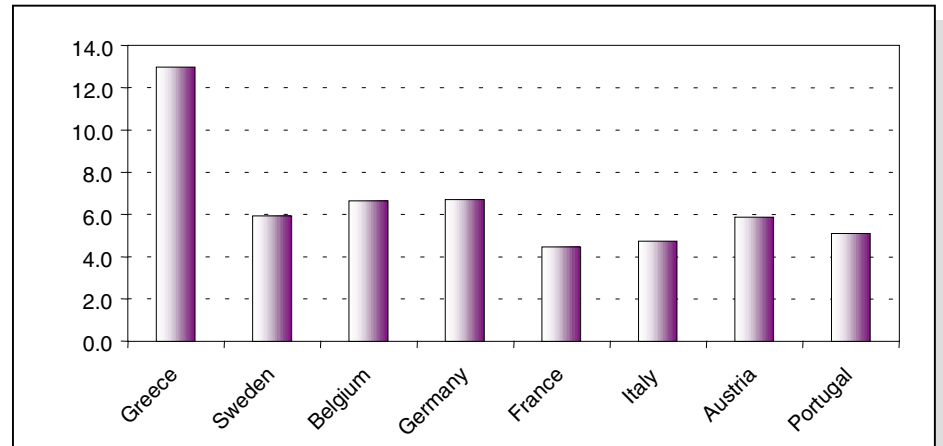
Fixed Rate Mortgages



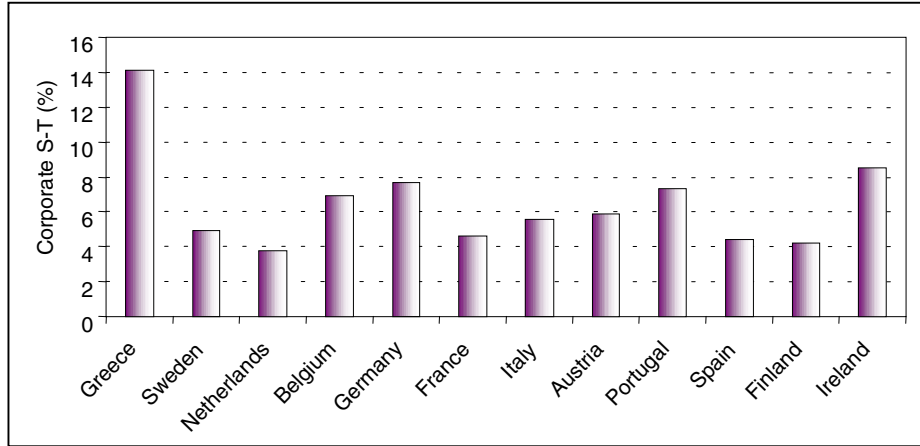
Consumer Loans



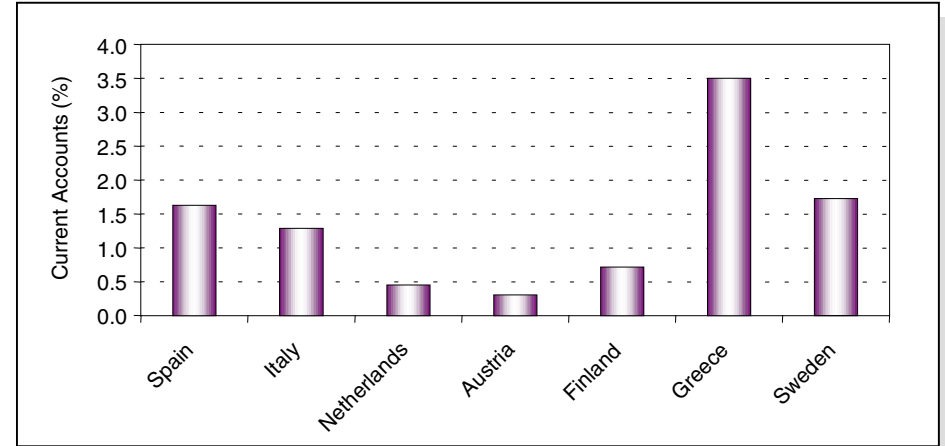
Corporate Long Term



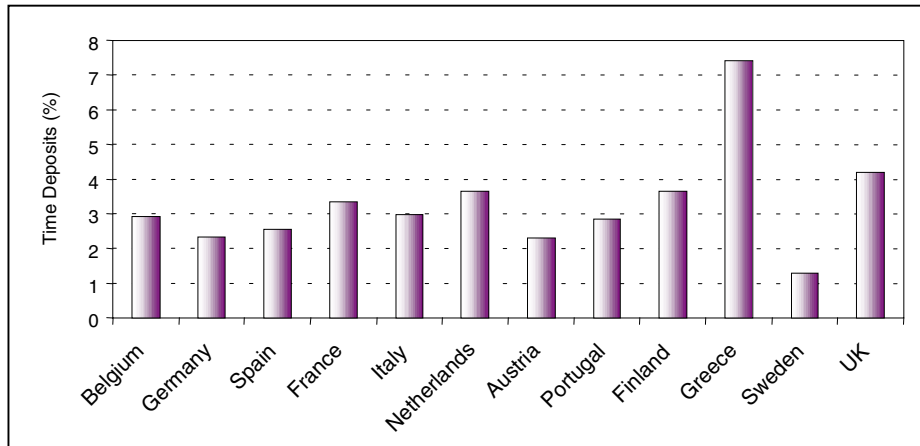
Corporate Short Term



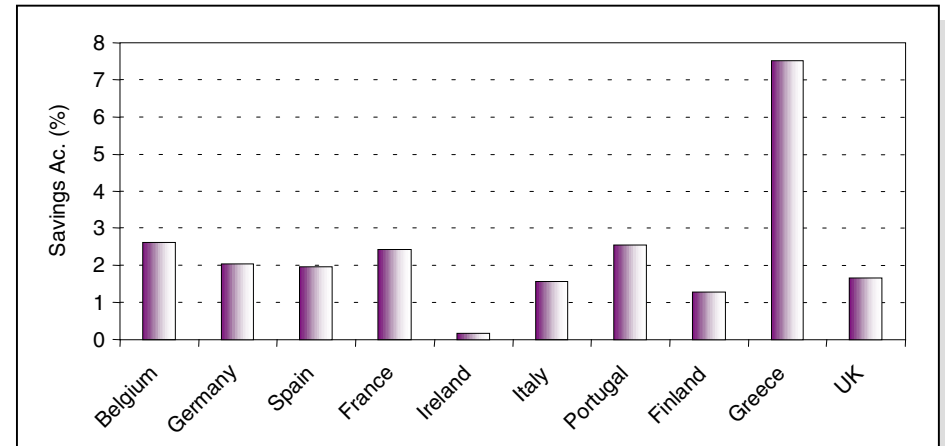
Current Accounts



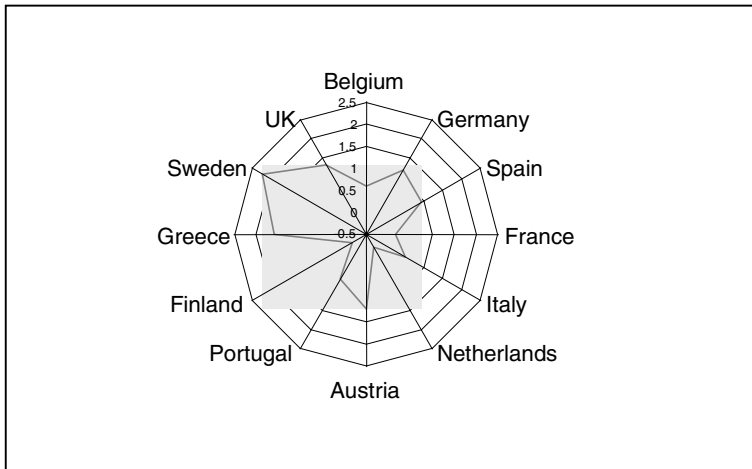
Time Deposits



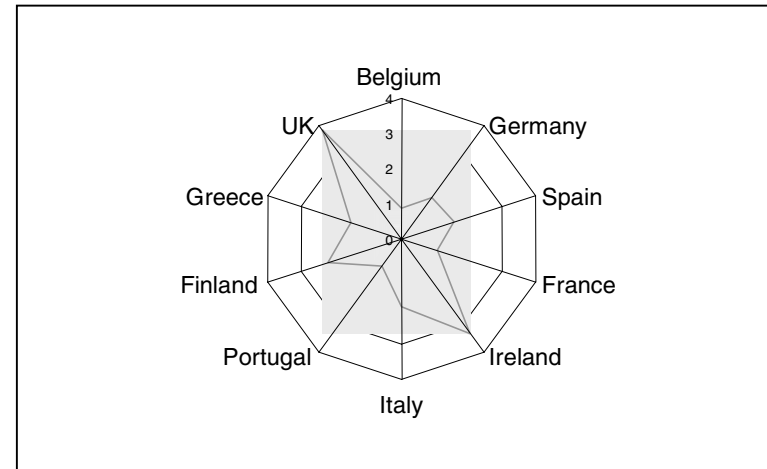
Saving Accounts



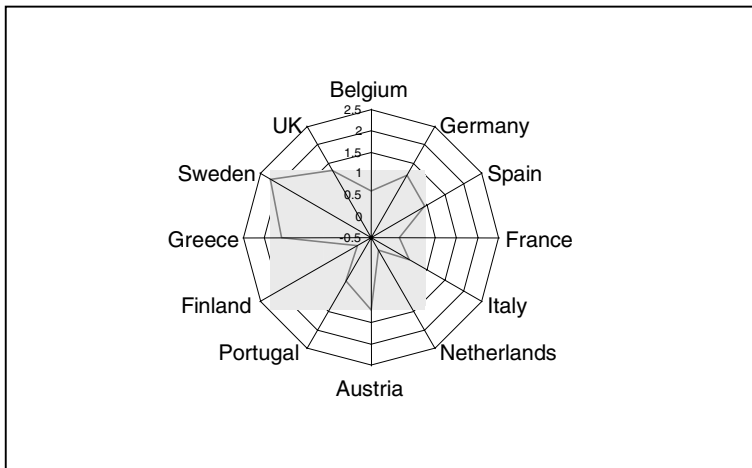
Consumer Spreads



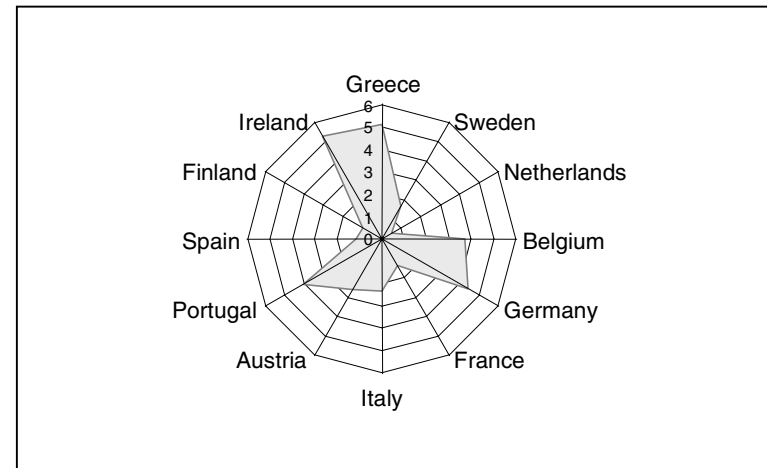
Saving Account Spreads



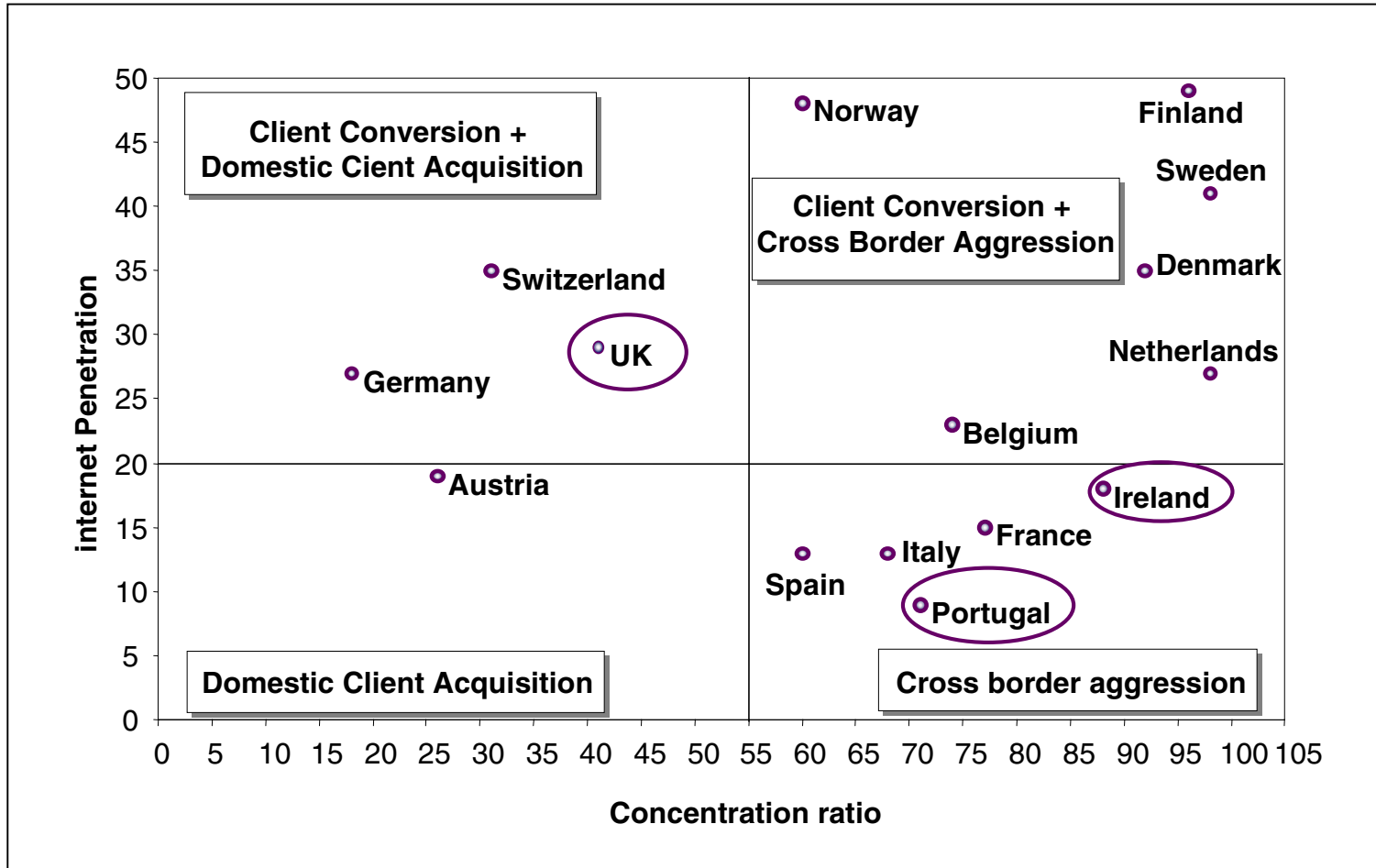
Time Deposit Spreads



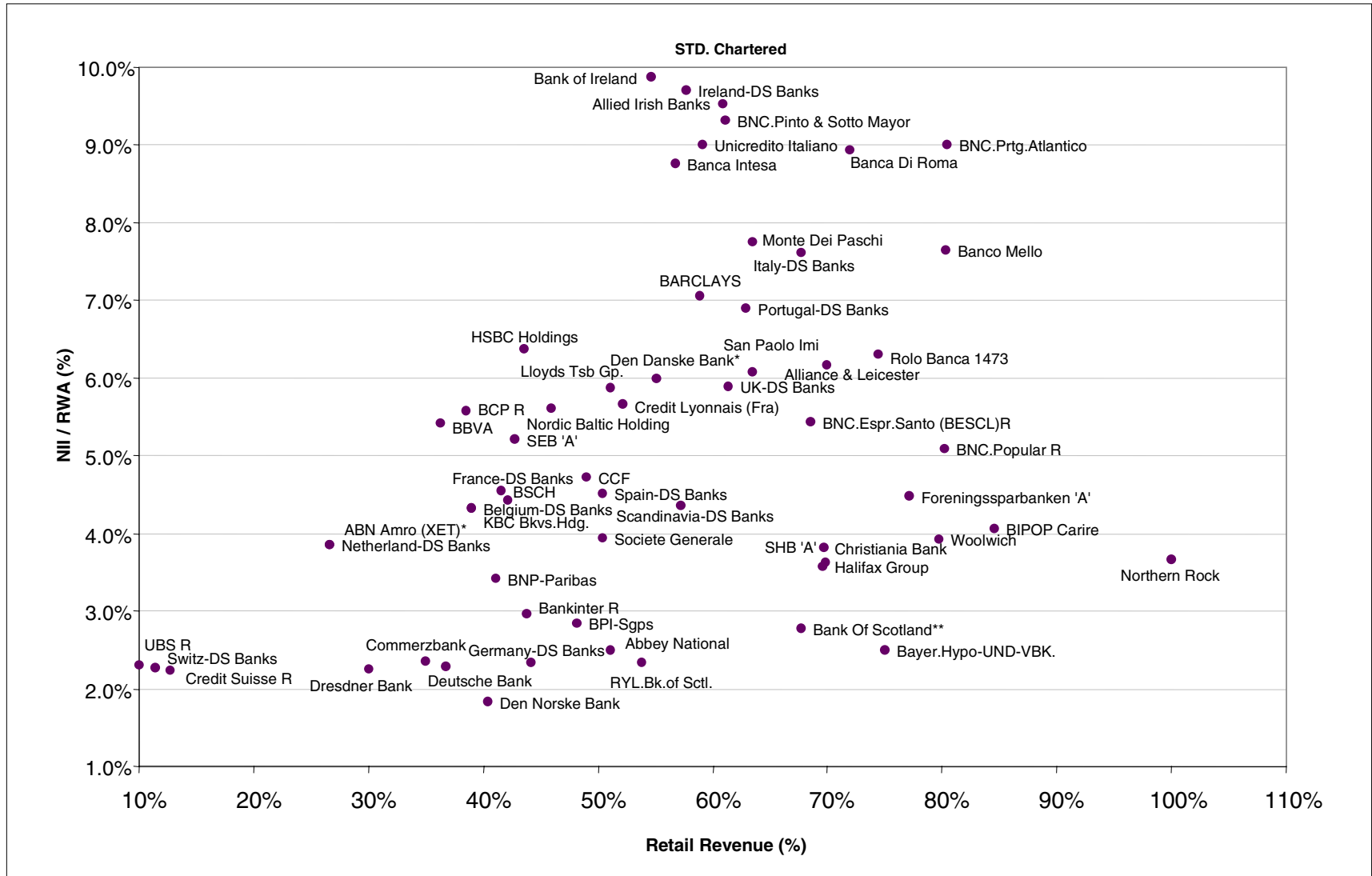
Short Term Corporate Loan Spreads



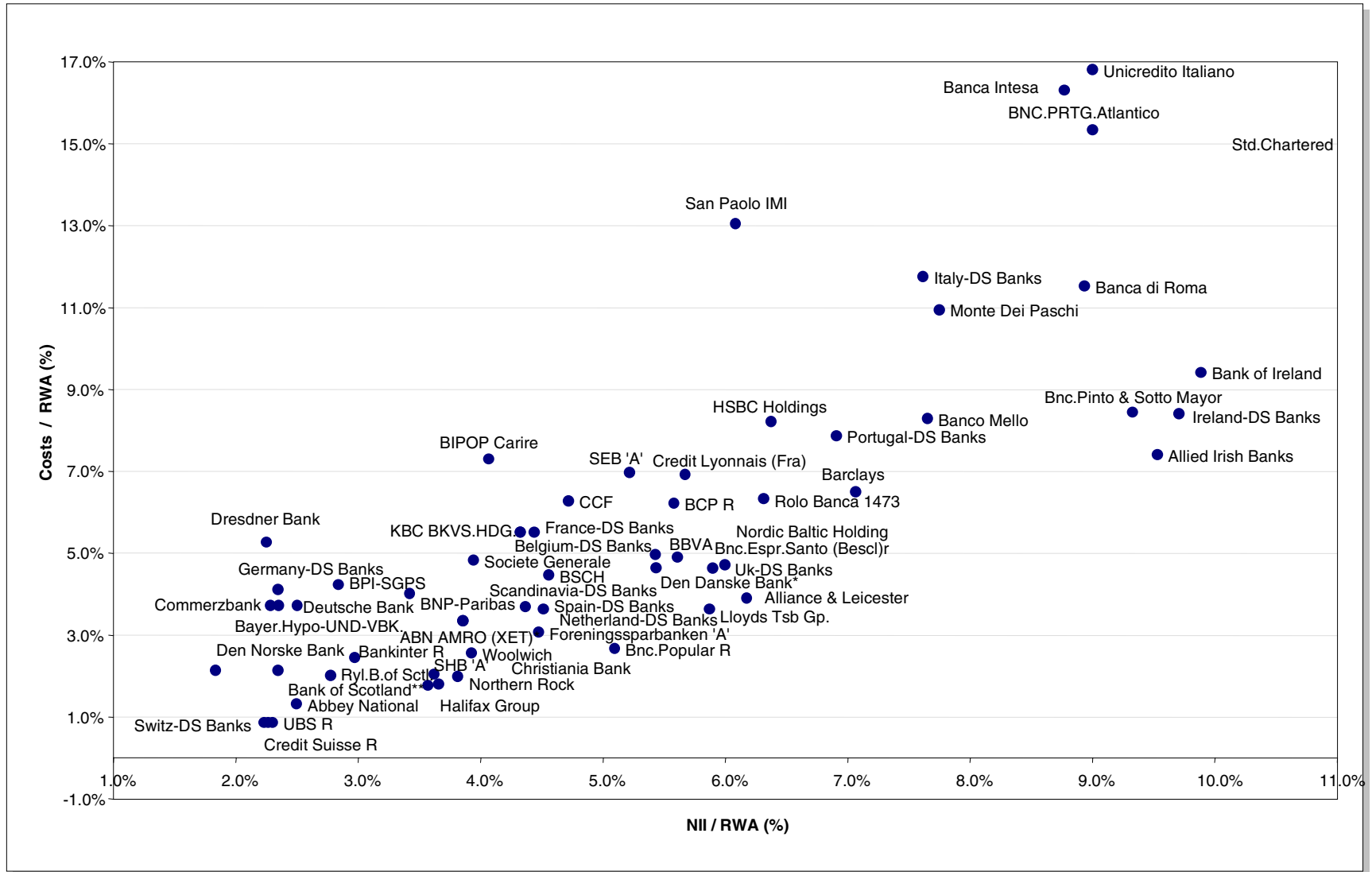
Internet Penetration and Concentration Marks Strategies



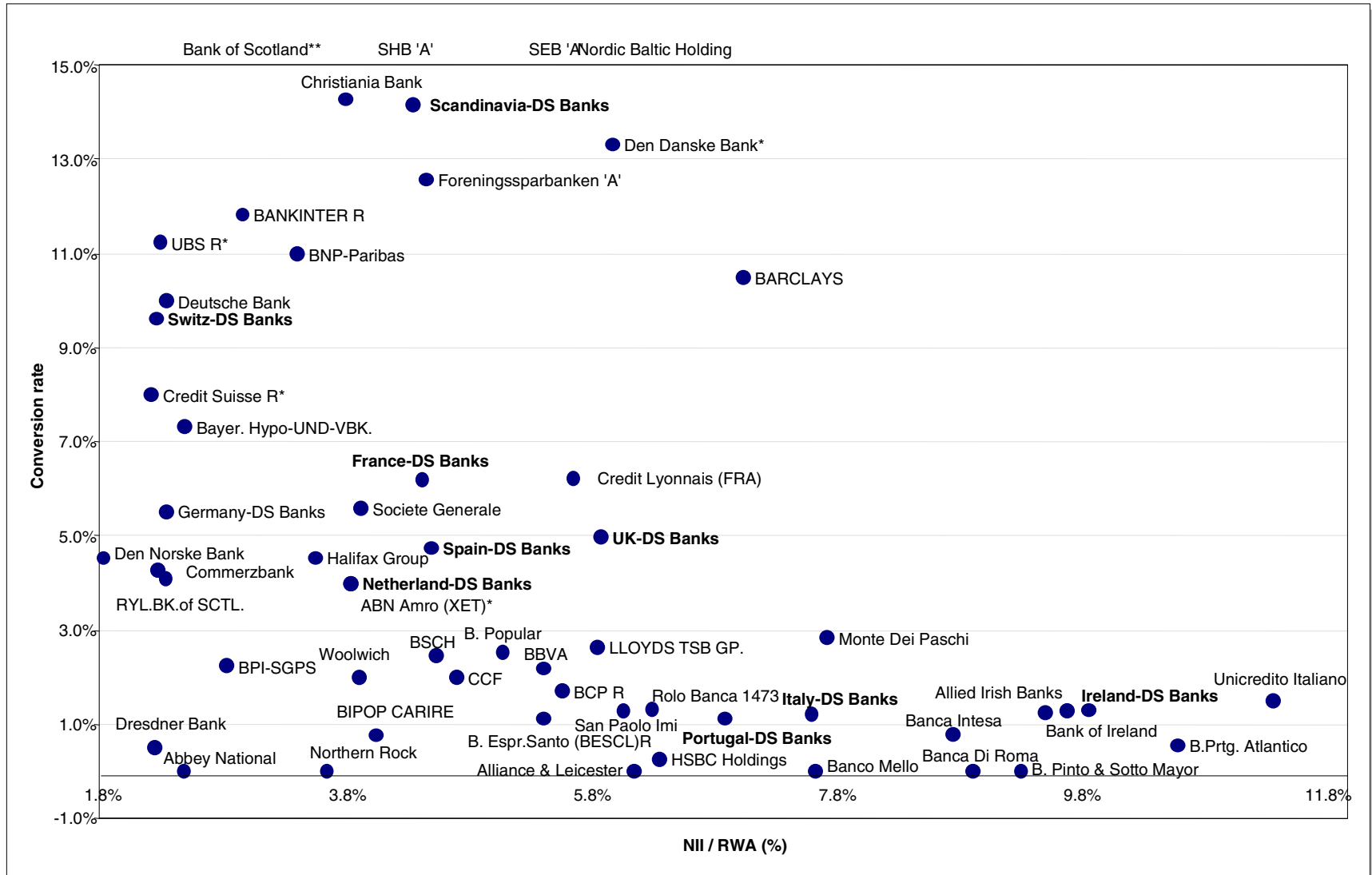
Retail Exposure and Retail Margins



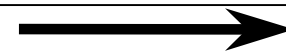
Margins and Costs by Bank



Margins to Conversion Rate



	Internet Support	Internet Aggressor	Internet Aggregator
Value Proposal to Client	Convenience	Convenience, price	Convenience; Price; product range
Brand Name	Same	Same or different	Different
Price Differential	Generally not	Yes	Yes
Access to Branch	Open	Closed	Closed
Value Creation	+ Cost saving - Loss of clients	+ Cost saving - Margin pressure + New client	+ Cost saving - Margin pressure + New client + New product revenues - High acq. Costs
Examples	Swedish Banks Lloyds Abbey National BSCH BBVA BNP SG Barclays	e-brokers Com Direct Fimatex (SG) Cortal (BNP) HSBC BIBOP	Open bank (BSCH) Uno-First (BBVA) e-bankinter Halifax (If) Winspan

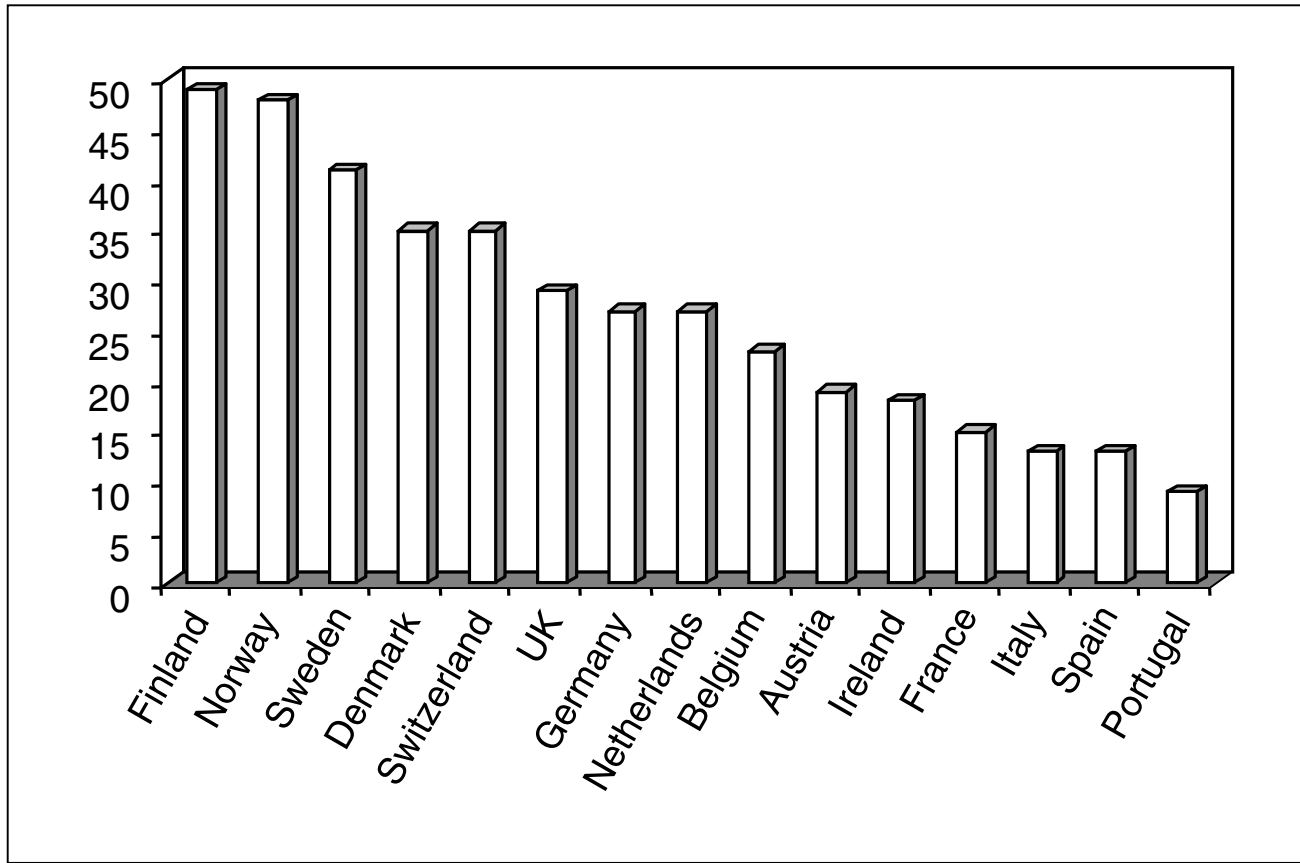


Strategy	Value Creation (Destruction)	
	10% price contamination	20% price contamination
Do-Nothing	(47%)	(53%)
Conversion only	(14%)	(23%)
Stand Alone Internet Bank + Conversion (no New Clients Gained)	(2%)	(12%)
Stand Alone Internet Bank + Conversion + New Clients	+10%*	0%

Assumptions:

- Client mix change: from 98% Traditional clients (TC), 2% Converted Clients (CC) to 65% TC, 25% (CC), 10% (new Internet clients (NC))
- Price contamination on converted clients (10-20%)
- Price contamination on new internet clients (30%)
- Retention rates fall from 95% traditional to 90% in new internet clients

Differing Internet Penetration Rates of Households



Source: Merrill Lynch, drawing on Forrester data

- Internet is max 10% cost of a branch-based transaction

Cost per Transactions Depending on Channel

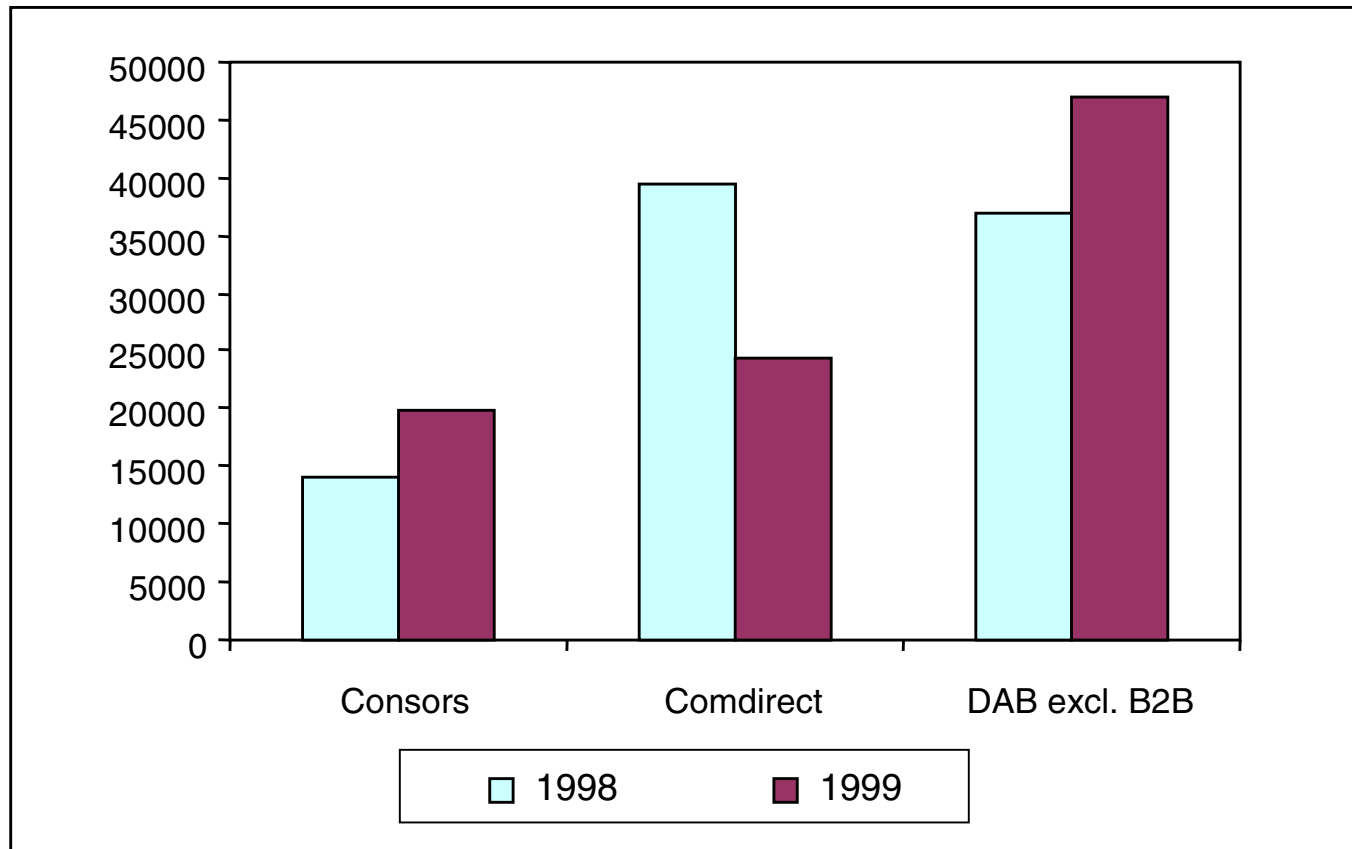
Cost per Transaction	EUR
Branch	1.02
Telephone	0.51
Cards	0.26
Internet	0.10

Source: Booz-Allen & Hamilton

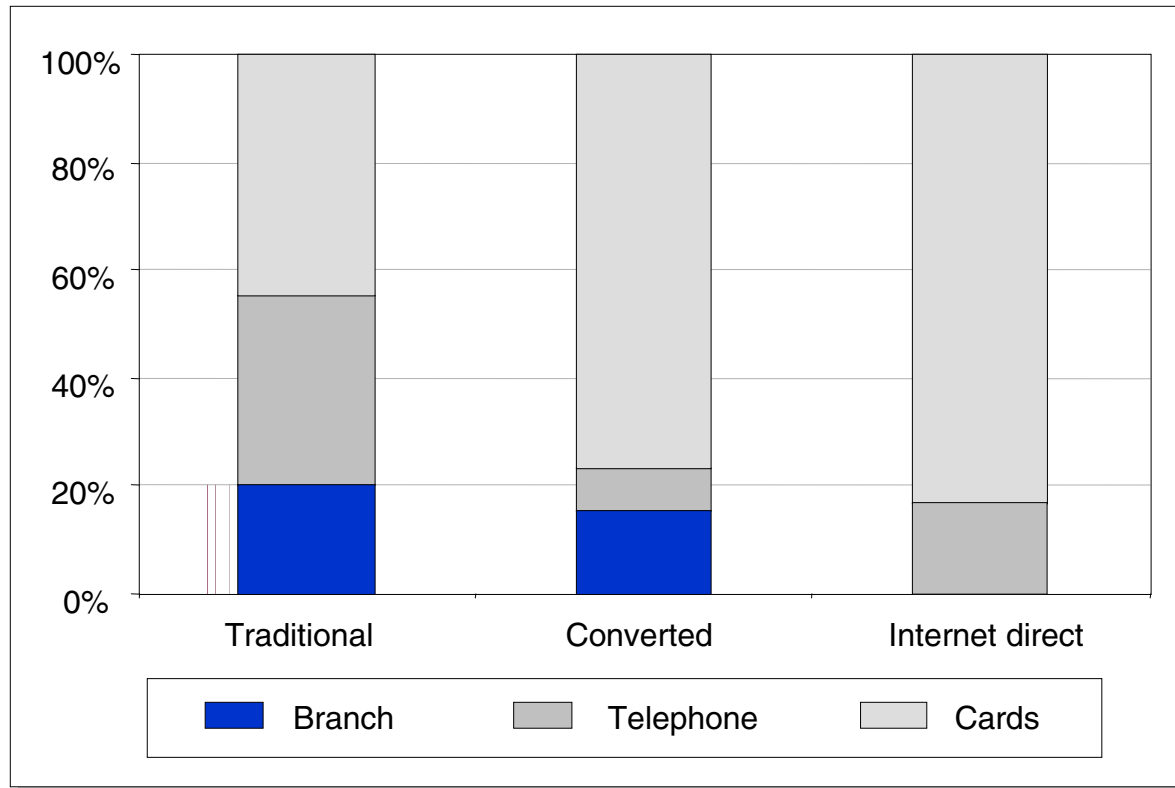
- e-trading is exciting, banking is boring
- Functionality and tech platforms differ hugely

Watch the Stand-Alone Discount Brokers

- Development of client assets on deposit / managed per client (EUR)



Channel Use per Type of Client



Source: Merrill Lynch

General Strategy Summary

	UK	Germany	Iberia	France	Italy	Nordic	Switzerland
Deconstructing in Manufacturing & Distribution Pan-European Manufacturing Platforms	None	Deutsche	BSCH	BNP, SG	Unicredito	None	Credit Suisse, UBS
Product Range: Become Aggregator	None		Bankinter		BIPOP	None	Credit Suisse
Consolidation	RBoS	None	BSCH, BBVA, BCP	BNP	Unicredito, Intesa, San Paolo	Nordic Baltic	-
Pan-European / Global Ambitions / Potential	HSBC, RboS	Deutsche	BSCH, BBVA	BNP	Unicredito	None	Credit Suisse, UBS
Exposure to Emerging Markets / Global Reach	HSBC, Std. Chartered, Lloyds	Deutsche	BSCH, BBVA	BNP, SG	Unicredito	None	-
Winning Strategies							
Growth / Consolidator	HSBC, RBoS	Deutsche	BSCH, BBVA	BNP	Unicredito, San Paolo, Intesa	Nordic Baltic	Credit Suisse
Cost Savings	HSBC, RBoS	Deutsche	BSCH,	BNP, SG BBVA	Unicredito	Nordic Baltic,	- Handels
Innovation (Niche Players)	Woolwich	Deutsche, BHV, Commerz	Bankinter	BNP	Unicredito, BIPOP	Nordic Baltic, Handels, SEB	
All Three Strategies: Innovation, Optimisation & Consolidators (Big Banks)	HSBC	Deutsche	BSCH	BNP	Unicredito	Nordic Baltic	

Source: Merrill Lynch

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