Turning Point:

How the crisis is re-defining the future of the financial services industry

Chris Gentle
Global Head of Research

WTO, Genéve, 31 March 2009
Agenda

1. An era of liberalisation
2. Turning point?
3. Future landscape of financial markets
Global financial assets outpace growth of global GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal GDP $ trillion</th>
<th>Financial Assets/GDP%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>10</td>
<td>120</td>
</tr>
<tr>
<td>1990</td>
<td>22</td>
<td>195</td>
</tr>
<tr>
<td>1995</td>
<td>29</td>
<td>221</td>
</tr>
<tr>
<td>2000</td>
<td>32</td>
<td>294</td>
</tr>
<tr>
<td>2001</td>
<td>32</td>
<td>288</td>
</tr>
<tr>
<td>2002</td>
<td>33</td>
<td>291</td>
</tr>
<tr>
<td>2003</td>
<td>37</td>
<td>316</td>
</tr>
<tr>
<td>2004</td>
<td>42</td>
<td>319</td>
</tr>
<tr>
<td>2005</td>
<td>45</td>
<td>316</td>
</tr>
<tr>
<td>2006</td>
<td>49</td>
<td>341</td>
</tr>
<tr>
<td>2007</td>
<td>55</td>
<td>356</td>
</tr>
<tr>
<td>2010*</td>
<td>63</td>
<td>340</td>
</tr>
</tbody>
</table>

* Estimate

Source: McKinsey Quarterly and Deloitte Analysis

©2009 Deloitte LLP. Private and confidential
Higher capital mobility a major contributor to banking crises

Source: Kennedy School of Government, Harvard University
## Go East: Banks market cap

<table>
<thead>
<tr>
<th>1999</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citigroup</td>
<td>137,499</td>
</tr>
<tr>
<td>Bank of America</td>
<td>119,415</td>
</tr>
<tr>
<td>Lloyds TSB</td>
<td>79,640</td>
</tr>
<tr>
<td>UBS</td>
<td>69,113</td>
</tr>
<tr>
<td>Bank of Tokyo - Mitsubishi</td>
<td>67,766</td>
</tr>
<tr>
<td>Bank One</td>
<td>62,649</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>61,991</td>
</tr>
<tr>
<td>HSBC</td>
<td>56,250</td>
</tr>
<tr>
<td>American Express</td>
<td>54,904</td>
</tr>
<tr>
<td>Chase Manhattan</td>
<td>52,431</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>761,658</strong></td>
</tr>
<tr>
<td><strong>Indl &amp; Coml Bank of China</strong></td>
<td><strong>140,299</strong></td>
</tr>
<tr>
<td>China Construction Bank</td>
<td><strong>129,007</strong></td>
</tr>
<tr>
<td>JP Morgan Chase</td>
<td><strong>108,454</strong></td>
</tr>
<tr>
<td>HSBC</td>
<td><strong>104,187</strong></td>
</tr>
<tr>
<td>Bank of China</td>
<td><strong>89,520</strong></td>
</tr>
<tr>
<td>Wells Fargo</td>
<td><strong>73,441</strong></td>
</tr>
<tr>
<td>Mitsubishi UFJ Financial</td>
<td><strong>61,279</strong></td>
</tr>
<tr>
<td>Banco Santander</td>
<td><strong>60,194</strong></td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td><strong>51,688</strong></td>
</tr>
<tr>
<td>Bank of America</td>
<td><strong>49,931</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>818,067</strong></td>
</tr>
</tbody>
</table>

Proportion of profits from foreign markets

* - Revenue figure for 2008, since profits distribution unavailable
^ - Asia is the only region to post a profit in 2008, domestic market incurred a loss

Source: Company Annual Reports and Deloitte Analysis
Fine tuning regulations? - Major regulatory events

- Glass Steagall Act 1933
- Bank Holding Company Act 1956
- International Banking Act 1978
- Investment Company Act 1940
- Bank Secrecy Act 1970
- Financial Institutions Reform, Recovery and Enforcement Act 1989
- Financial Services and Markets Act (UK) 2001
- Sarbanes-Oxley Act 2002
- Gramm-Leach-Bliley Act 1999
- Tax Reform Act 1986
- Banking Act 1998
- Riegle-Neal Interstate Banking And Branching Efficiency Act 1999
- Basel I 1998
- Basel II (US) 2004
- Basel II (EU) 2004
- USA PATRIOT Act 2001
- Solvency I
- Solvency II (EU)
- Basel I
- Solvency I
- Basel II
- Solvency II

Source: SEC, FSA, US Treasury, HMT and Federal Reserve
Agenda

1. An era of liberalisation
2. Turning point?
3. Future landscape of financial markets
Most significant financial crisis in a lifetime

2007

- Bear Stearns hedge fund collapses
- JPM reveals $1.3bn writedown and MS posts $3.7bn loss
- Abu Dhabi SWF invests $7.5bn in Citi
- China Inv Corp Corp invests $5bn in MS
- BoE nationalises Northern Rock
- KIA, Korea Investment Corp and Temasek invest $10bn in ML
- Carlyle’s $22bn bond fund collapses
- BAC acquires Countrywide
- GIC invests $11bn in UBS

2008

- RBS and HBOS announce rights issue of £12bn and £4bn, respectively
- Nomura acquires Lehman’s Asia ops
- B&B nationalises and partially sold to Santander
- ML sold to BAC. Lehman files for bankruptcy
- US Govt seizes Fannie / Freddie
- Buffett invests $5bn in Goldman
- Germany injects €500bn into credit markets
- Germany rescues Hypo Real Estate
- Aegon receives a 3bn Euro lifeline
- UK Gov to inject £37bn into banks
- Incealand’s major banks nationalised
- IndyMac fails
- B&B cash call for £300mn
- Fannie and Freddie halve in value
- US takes over AIG
- Barclays agrees to buy Lehman
- Goldman, Morgan become banks
- WaMu goes under, bought by JP Morgan
- Mitsubishi acquires 20% of MS
- Barclays raised £7.3bn from Abu Dhabi & Qatara SWF’s
- Lloyd’s and HBOS merger approved
- $700bn US Emergency Economic Stabilization Act
- Government of Iceland collapses

2009

- China creates a stimulus plan
- Australia unveils stimulus plan
- Madoff ponzi scandal erupts
- Obama signs $787bn Act into law
- Eastern European financial crisis arises
- Buffett given additional government assistance
- B&B nationalised and partially sold to Santander
- Barclays raised £7.3bn from Abu Dhabi & Qatara SWF’s
- Lloyd’s and HBOS merger approved
- Aegon receives a 3bn Euro lifeline
- Barclays raises £7.3bn from Abu Dhabi & Qatar SWF’s
- Barclays agrees to buy Lehman
- Goldman, Morgan become banks
- WaMu goes under, bought by JP Morgan
- Mitsubishi acquires 20% of MS
- Government of Iceland collapses
- Citi given additional government assistance

Source: Deloitte Analysis
Governance Risk and Controls framework

Risk Governance Framework

1st line of defence

Board

Chief Executive

Business units

- Managing and managing of risks to deliver value to stakeholders

Management control activities stream

Business Lines

2nd line of defence

Risk Management and Compliance

- Establish and maintain risk management and compliance frameworks
- Support and challenge the 1st line of defence

Audit/related committees

3rd line of defence

Internal Audit

- Evaluation of internal systems and controls in providing assurance and in managing exposure to risk

Finance and Control

Source: Deloitte
In Control?: Best practice in short supply

Governance and controls performance

- **Next generation**
  - e.g. building an active risk intelligent governance and controls culture

- **Governance leaders**
  - e.g. have defensive and sometimes an active approach to governance and controls

- **Followers**
  - e.g. beginning to move beyond a passive approach to governance and controls

- **Governance laggards**
  - e.g. see governance and controls as a ‘necessary evil’

- **0 percent of companies**
- **32 percent of companies**
- **23 percent of companies**
- **45 percent of companies**

Source: Deloitte Governance and Controls Survey 2008
Reshaping of the financial services industry

![Graph showing market cap of financial institutions by tier]

As of March 31, 2008:
- Tier 4 players: 25 Financial institutions, Total market cap: $1.4 trillion
- Tier 3 players: 41 Financial institutions, Total market cap: $482 billion
- Tier 2 players: 2 Financial institutions, Total market cap: $1.4 trillion
- Tier 1 players: 16 Financial institutions, Total market cap: $1.8 trillion

As of March 17, 2009:
- Tier 4 players: 75 Financial institutions, Total market cap: $165 billion
- Tier 3 players: 25 Financial institutions, Total market cap: $337 billion
- Tier 2 players: 4 Financial institutions, Total market cap: $790 billion
- Tier 1 players: 11 Financial institutions, Total market cap: $1.45 trillion

Source: DataStream and Deloitte Analysis
Agenda

1. An era of liberalisation
2. Turning point?
3. Future landscape of financial markets
Is the long boom over?

Debt boom = asset price boom

Total credit market debt/US GDP, %

Source: Ned Davis Research, 2008
Basis of competition is shifting in financial services

Yesterday
‘Focus on Growth’

Today
“This is Focus on Cost”

Tomorrow
“Focus on Standardisation”

Source: Deloitte LLP

Basis of Competition
- Sourcing is mostly fuelled by rising markets and overheat metropolitan labour markets
- Lack of centralised strategy, silo mentality predominant
- Emerging war for talent, resulting in high attrition
- Relatively less pressure on margins

Today
- Significant offshore operations consolidate, standardise and automate processes and technology
- Unrelenting focus on costs efficiencies
- Enterprise wide view of sourcing

Tomorrow
- Consolidation standards, platforms
- Optimisation of global service delivery model
- Lifting and Shifting end-to-end processes
- Taking a portfolio based view of offshored functions
Hallmarks of Success

- International markets and a business model to match
- Mass efficiency with focused premium service
- Consolidation with a purpose
- Winning the struggle for growth through stronger customer relations
- Transparency and compliance as a performance springboard
- Cracking the IT code value
### How the market may look: Some speculative strategies

<table>
<thead>
<tr>
<th>Driving Theme</th>
<th>Hypothetical examples</th>
<th>Who?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preference for stability over growth</td>
<td>“Back to Basics Bank”</td>
<td>LBG</td>
</tr>
<tr>
<td>Opportunity to secure value by leveraging scale</td>
<td>“International Arbitrage Bank”</td>
<td>HSBC, Barclays, Santander</td>
</tr>
<tr>
<td>Need for differentiated deposit gathering</td>
<td>“Convenience Bank”</td>
<td>ING Direct</td>
</tr>
<tr>
<td>Differentiating as customer champion</td>
<td>“Ethical Bank”</td>
<td>Co-op, Post Office</td>
</tr>
</tbody>
</table>
Liberalisation & globalisation – the future

• After liberalisation – an issue we must address proactively, not reactively

• Positive impact of globalisation of finance over the last decade

• Is big beautiful in banking?

• Developed world banks vs developing?

• Regulation must be re-drawn, but investors have a big part to play
This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom. Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ("DTT"), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other’s acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.