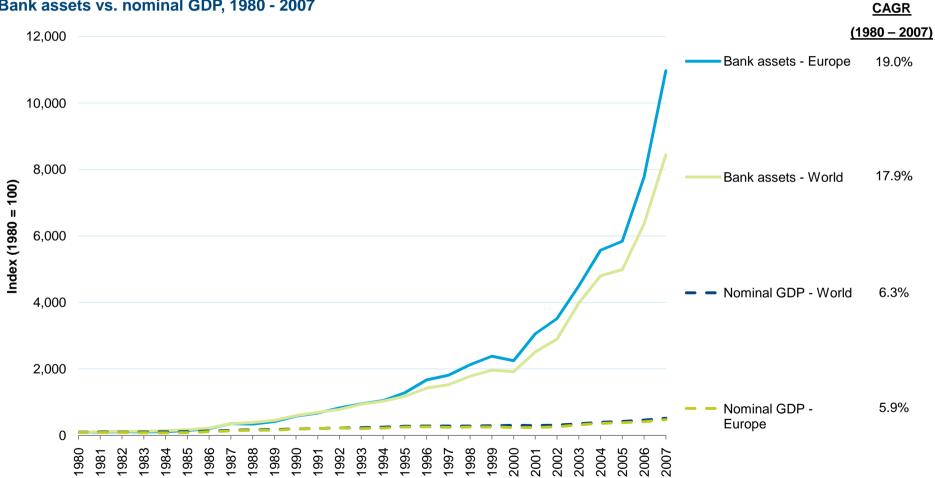
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25 May 2011

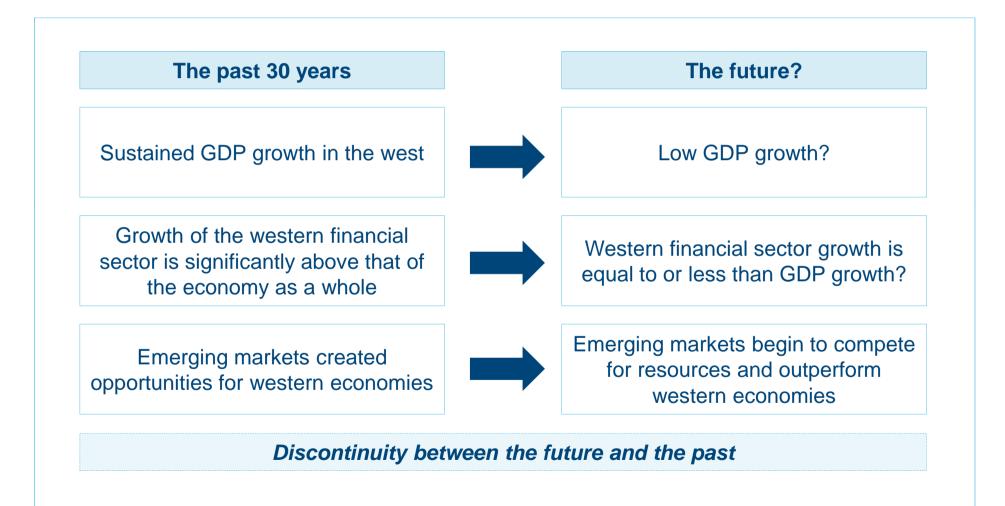
Andrew S. Nevin, PhD



Bank assets vs. nominal GDP, 1980 - 2007

Source: Datastream, IMF

Note: Bank asset indices are calculated based on total assets for listed banks only



Long term drivers (5-20 years)

Rise of SAAAME

Demographic shift

War for Resources

Rise of state-directed capitalism

Source: PwC analysis Note: SAAAME = South America, Africa, Asia and the Middle East

Rise of SAAAME

'Business as usual' Banking continues on its existing course

- The west remains the centre of decision making and economic power in global banking
- London and New York remain by far the largest global financial centres
- Western regulators and central banks, alongside the IMF, continue to be recognised as the thought leaders in global financial services

←?→

'New world order' Banks are attacked on multiple fronts

- South America, Africa, Asia and the Middle East become a largely self-sufficient and dominant economic, financial and trading bloc, confirming a shift in global economic power
- Western banks are locked out of the major emerging growth markets and struggle to remain relevant in the new world order
- Emerging market banks can freely enter the west and do so aggressively (both organically and by acquisition)

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Source: PwC analysis Note: SAAAME = South America, Africa, Asia and the Middle East

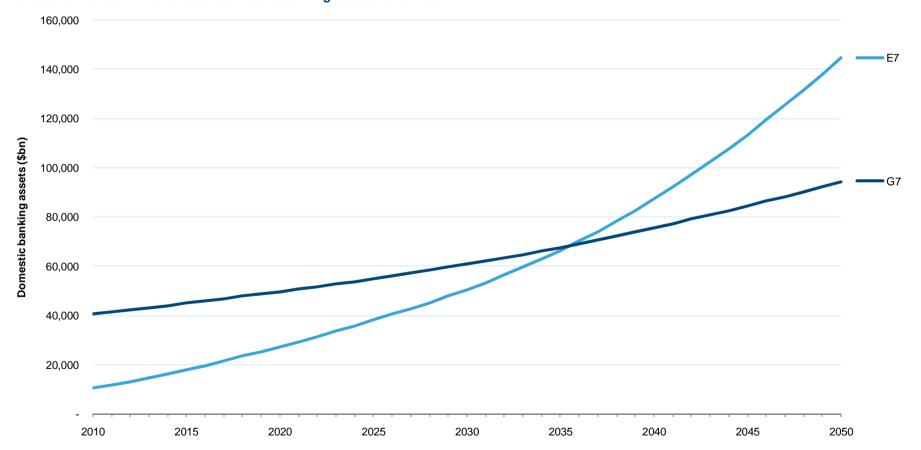


Question: What is the largest IPO of all time?

World's biggest IPO: Petrobras raises \$70 billion on Sao Paulo exchange

Source: Bloomberg

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Forecasted trends in the value of domestic banking assets 2010-2050

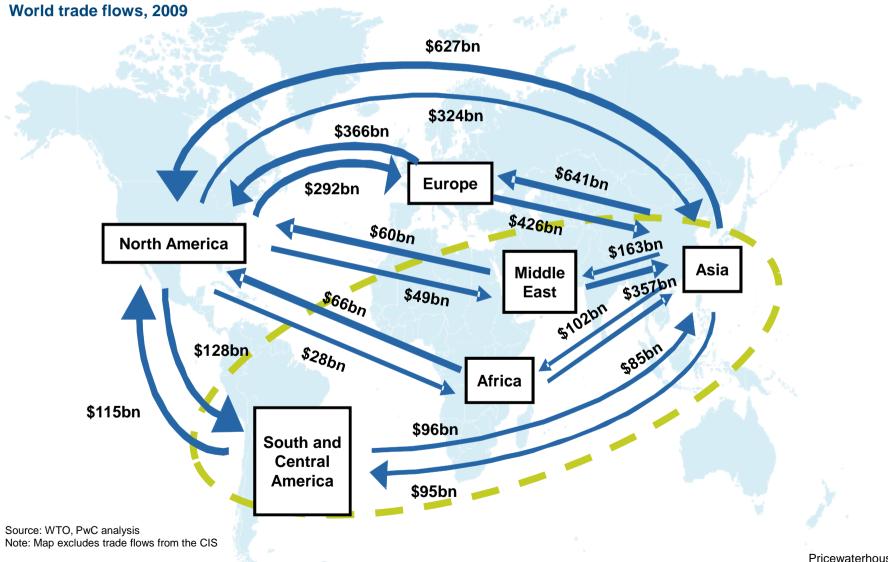
Scale and growth of world trade to and from developing and emerging regions, 2005 - 2009

	Value of trade (2005)	Share of trade (2005)	Value of trade (2009)	Share of trade (2009)	CAGR (2005 - 2009)
Developed to developed	\$5,180bn	51%	\$5,500bn	46%	1.5%
Emerging to developed	\$1,982bn	20%	\$2,302bn	19%	3.8%
Developed to emerging	\$1,360bn	13%	\$1,789bn	15%	7.1%
Emerging to emerging	\$1,577bn	16%	\$2,387bn	20%	10.9%

Source: WTO, PwC analysis

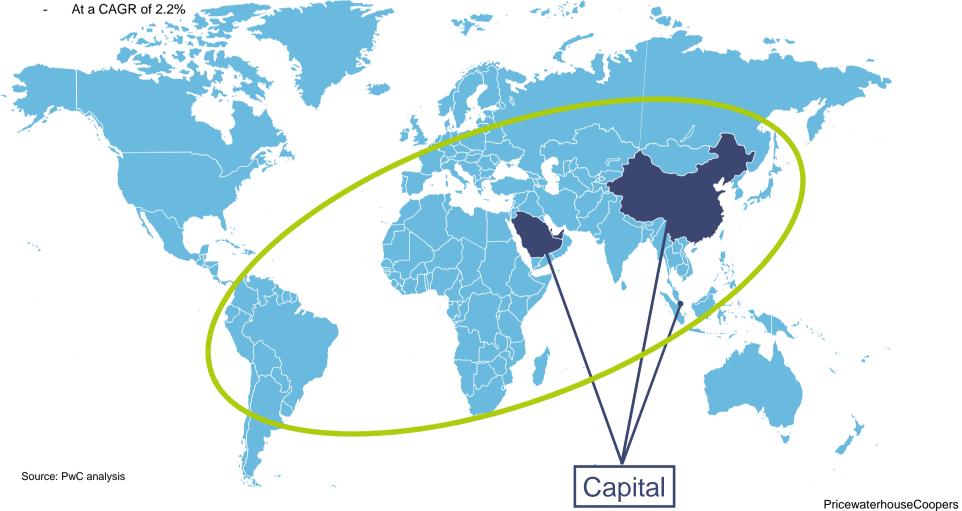
Note: Developed countries include North America, Europe (includes 27 EU and Eastern European countries), Japan, Australia and New Zealand. Emerging countries include South and Central America, the CIS, Africa, the Middle East and Asia (excluding Japan, Australia and New Zealand)
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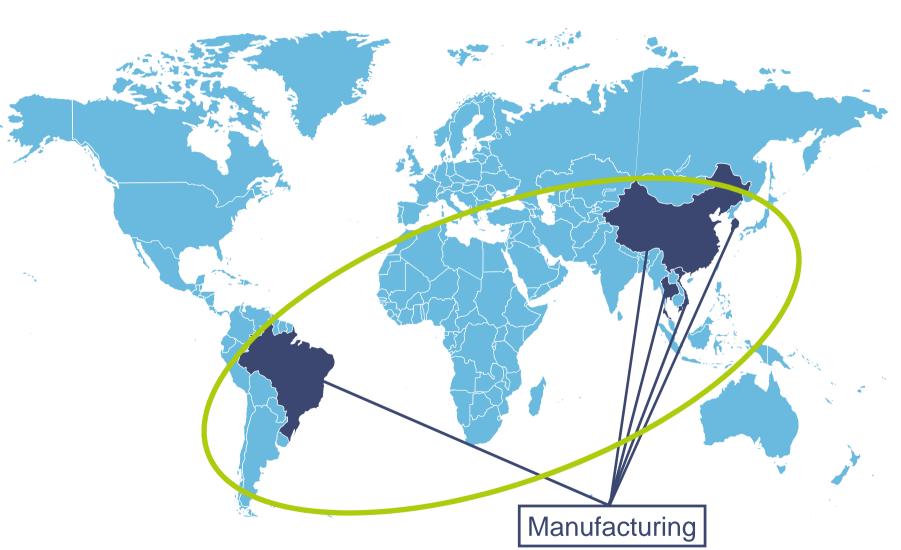
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- From 2009-50 the **E7** will:
 - Grow from \$21trn to \$138trn in 2050
 - At a CAGR of 4.8%
- From 2009-50 the **G7** will:
 - Grow from \$29trn to \$69trn in 2050

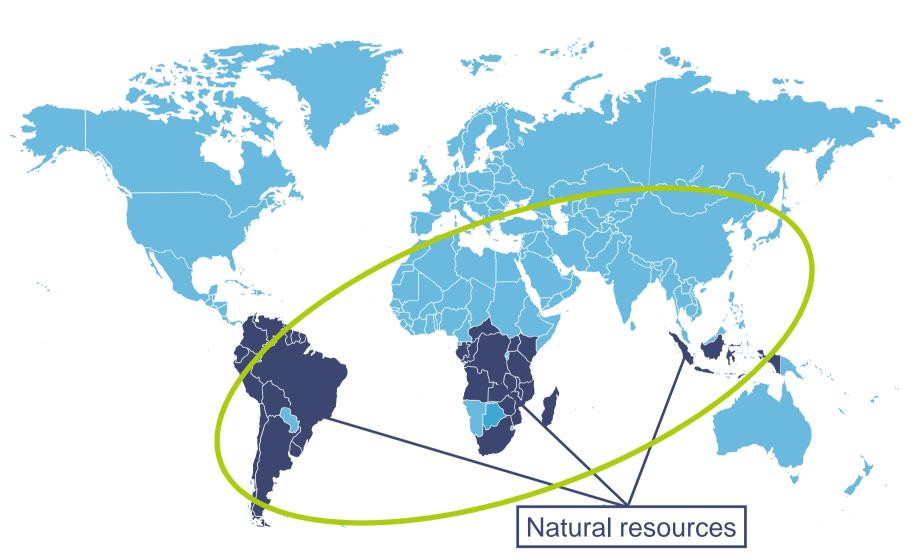


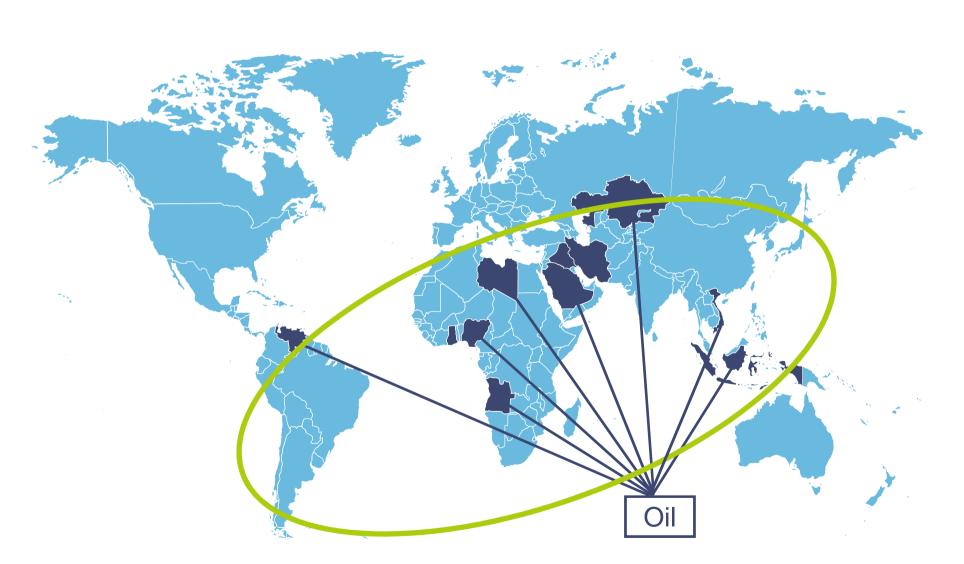
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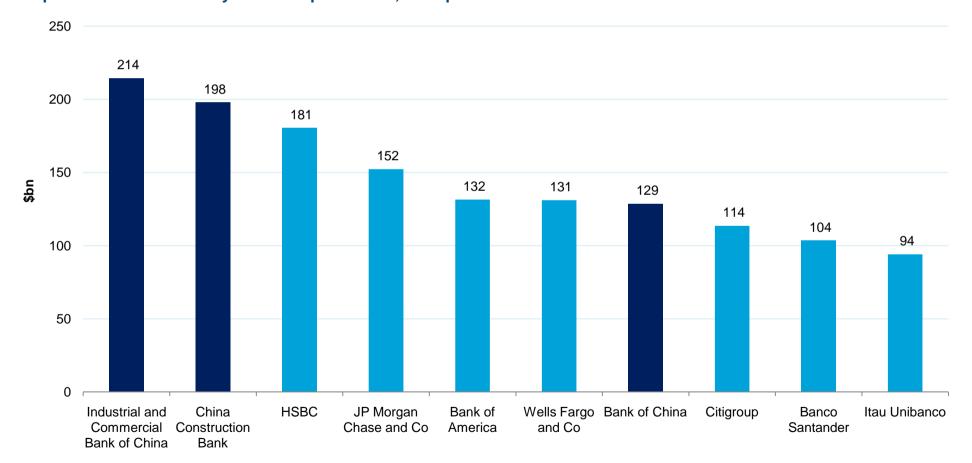










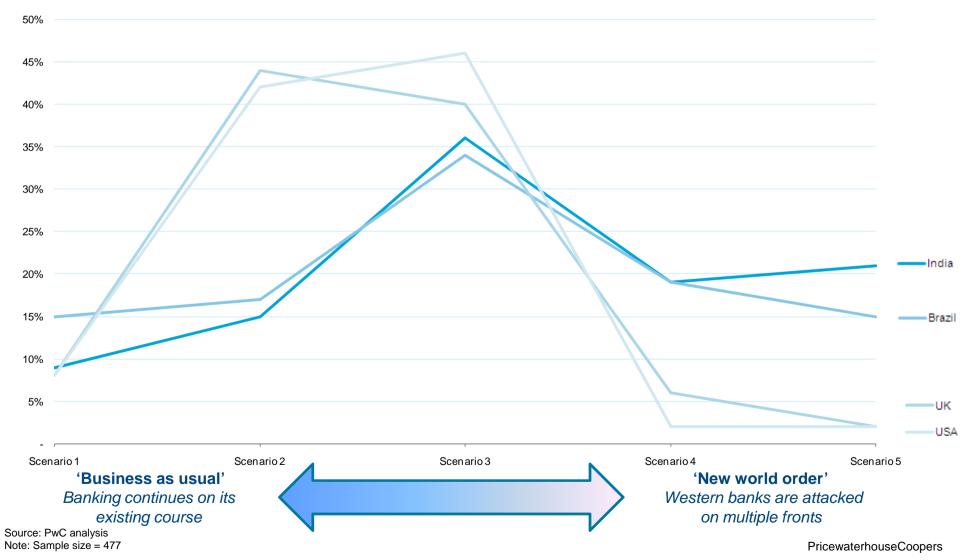


Top 10 banks worldwide by market capitalisation, 29 September 2010

Note: Market capitalisation calculated as total US \$ value of all categories of shares, including preference shares

Source: Datastream

Industry survey – most likely scenarios Rise of SAAAME



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- There will be a continued and inexorable shift of power to SAAAME, both in terms of capital and influence. SAAAME is likely to become a self-sufficient trading bloc
- Increasingly, emerging market banks will compete in western markets
 - It is relatively simple for emerging market banks to enter western markets
 - At present, these banks are cautious and may focus on other emerging markets first
 - However, as they gain scale, they are increasingly likely to seek returns from banking both ends of the 'trade pipe'
- It will remain difficult for western banks to enter and expand in protectionist SAAAME markets, although opportunities will continue to exist in African and South American markets
- Overall, for western banks, the market will become increasingly competitive and growth will come primarily from taking share from others

Demographic change

'Business as usual' Banking continues on its existing course

- Healthier and longer-living populations mean western GDP continues to grow
- Western banks thrive as they develop new products to support demand for financial services from ageing populations
- Growing and more affluent populations in emerging markets present new opportunities for western banks to offer financial services and / or assist in managing their assets

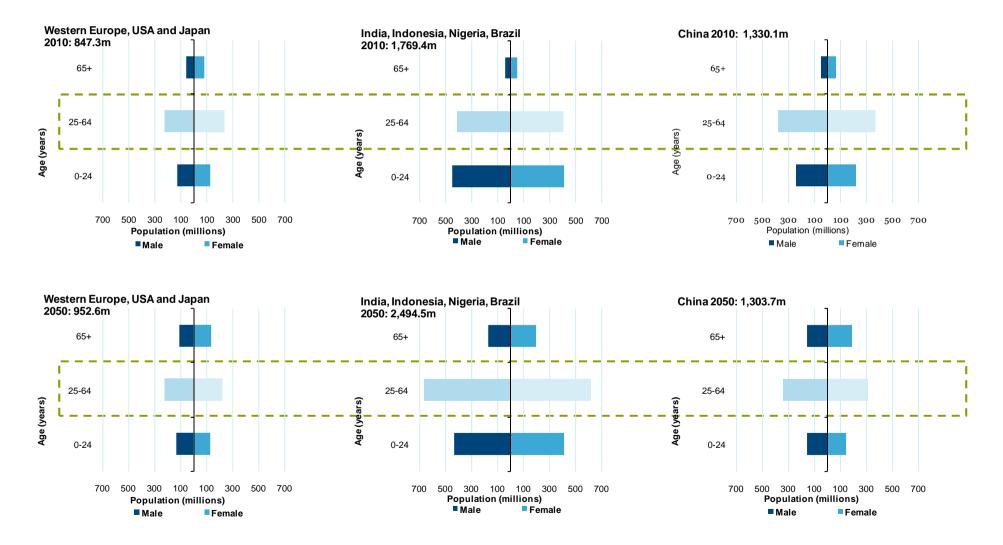
'New world order' Banks are attacked on multiple fronts

- Major intergenerational conflict emerges in aging societies, denting already slowing economic growth
- Younger people in the west do not trust banks and use non-bank alternatives, further decreasing the market for banking
- Cross-border investment faces increasing regulatory issues, essentially preventing young people in emerging economies from buying assets from retirees in developed countries, thus further depressing asset prices
- Many western banks need to shrink to survive

Source: PwC analysis

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Source: US Census Bureau, PwC analysis

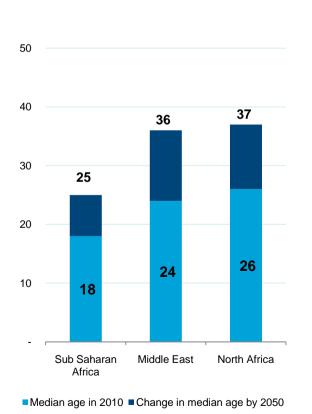
PricewaterhouseCoopers

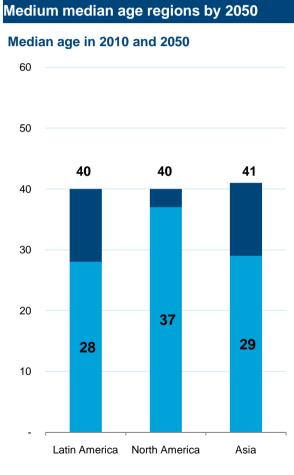
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Low median age regions by 2050

Median age in 2010 and 2050

60

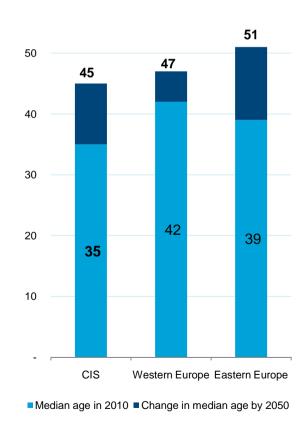




High median age regions by 2050

Median age in 2010 and 2050

60



Source: US Census Bureau, PwC analysis

■ Median age in 2010 ■ Change in median age by 2050

PricewaterhouseCoopers

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- The size of the total addressable market may reduce in certain European countries with declining and ageing populations (e.g. Germany). Caution needs to be taken to avoid overinvesting in low growth or declining markets
- Demographic shifts will impact the mix of financial products consumed, given that consumers require different products at different stages in their lives. Banks will need to ensure that their product offerings remain relevant to the changing customer base
- Younger generations will interact in a different way, as demonstrated by the rapid growth of social media, and will likely demand a new and distinct offering from their banks
- The mechanism for funding retirement will need to change given population ageing. It is likely that assets will increasingly need to be divested to younger people in high growth markets in order to fund retirement

War for resources

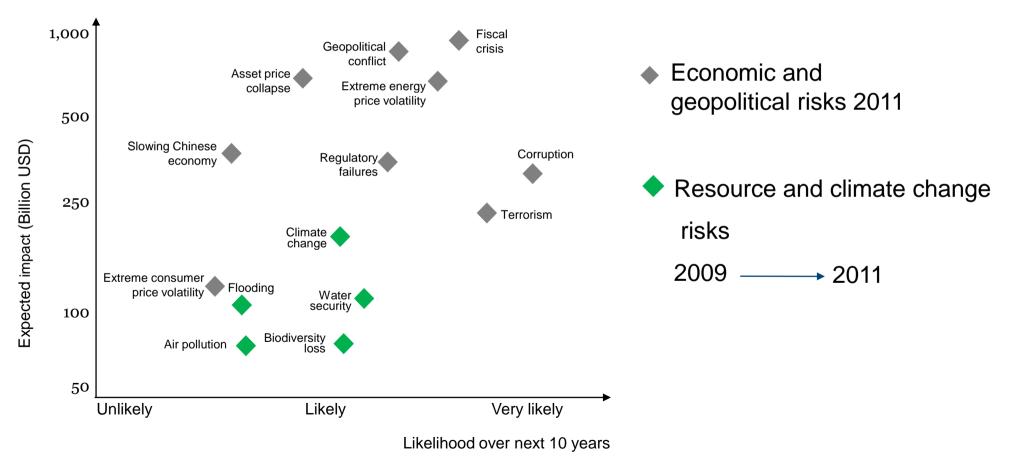
'Business as usual' Banking continues on its existing course

- There will be limited, if any, disputes (economic, political or military) over resources. Global supply will meet demand
- Banks will continue offering similar product mixes and pursue the same investment strategies

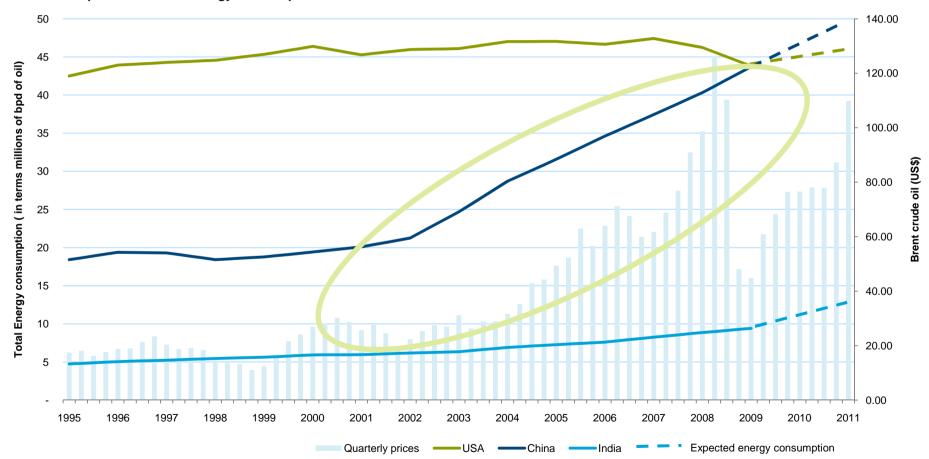
'New world order' Banks are attacked on multiple fronts

- There will increasingly be disputes (economic, political or military) over resources. Global supply will fail to meet demand
- The requirement for investments to be sustainable will become a key driver of the way banks allocate capital



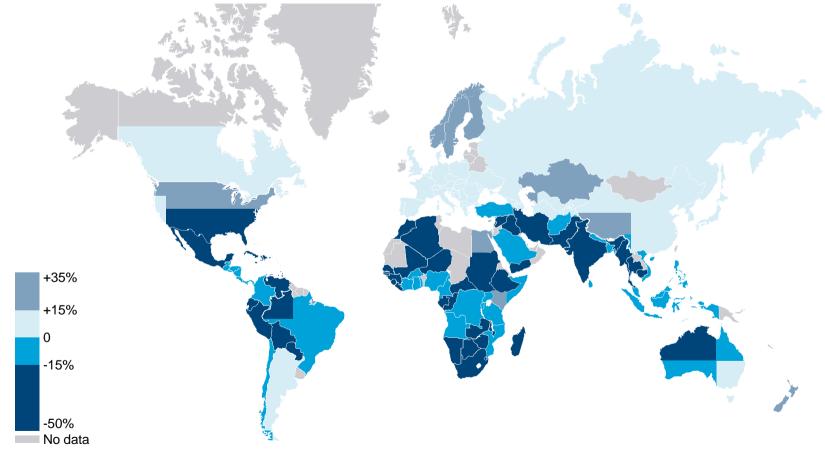


Source: World Economic Forum Global Risks Report (2009 – 2011)



Trends in oil prices and total energy consumption

Source: International Energy Agency (IEA), Public speeches of Jeff Rubin



Projected change in agricultural productivity by 2080 due to climate change*

Source: UNEP / GRID-Arendal Maps and Graphics Library *Projections incorporate the effect of carbon fertilisation



Non-domestic land purchased by governments and private companies, as at December 2008

Source: GRAIN.org

- As global demand for natural resources continues to rise, supply will not be able to keep pace
 - The growing scarcity of resources such as oil and rare earths is already apparent
 - Increasingly, the west will be faced with shortages of resources it currently takes for granted, such as water
- Climate change is likely to exacerbate the problem
- Disputes over resources (economic, political or military) are increasingly likely
 - Governments and private companies have already made a series of unprecedented land grabs to secure food and other resources for the future. Further such moves may create international tensions
- Going forward, banks will need to invest in and finance resources and technologies that are sustainable. Stakeholder pressure will ensure that sustainability becomes a key driver in capital allocation decisions
- Banks will need to adjust to a world in which certain assets, many of which are currently readily available, become increasingly scarce and valuable

Rise of state-directed capitalism

'Business as usual' Banking continues on its existing course

- Governments rapidly revert to laissez-faire policies, both for banks and the real economy
- Banks do not face greater requirements to demonstrate their social utility

'New world order' Banks are attacked on multiple fronts

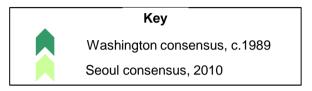
- Governments continue to believe in capitalism and a strong financial system; however, they exert increasing control over both banks and the real economy
- Banks increasingly need to demonstrate that they are socially useful

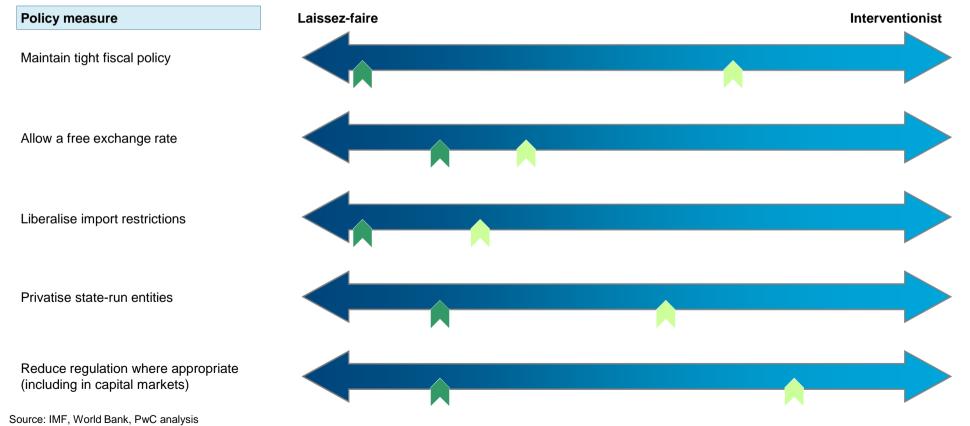
Source: PwC analysis

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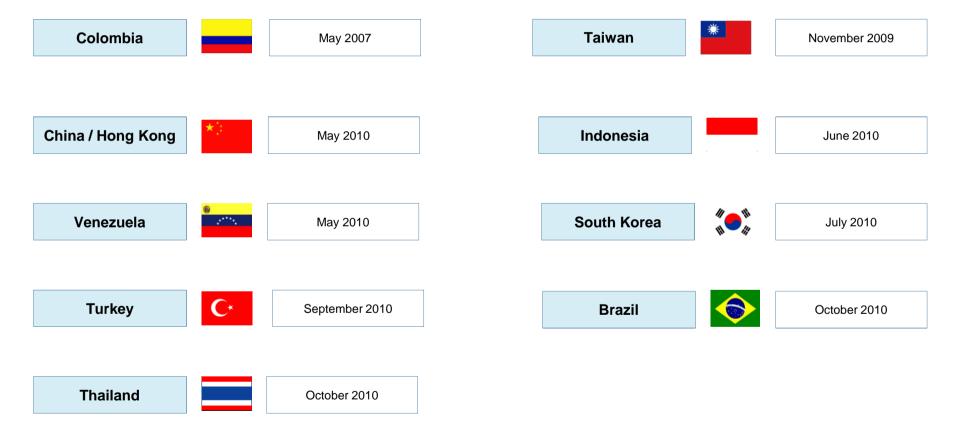
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The evolution of development economics, 1989 - 2010





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Countries which have imposed or tightened capital controls and date of introduction

There is currently speculation that capital controls could also be introduced in Russia, the Ukraine, the Philippines and Chile

Source: Factiva, FT, IMF, PwC analysis

The government of Saskatchewan has urged the Canadian federal government to block BHP Billiton's hostile bid for Potashcorp to protect the province's best interests.

"In the interests of jobs for Saskatchewan families, in the interests of the quality of life that we prize that is funded by revenues to the government, in the interest of the place of our province and our country in the world, we must say no to this hostile takeover ... the people of Saskatchewan deserve nothing less than a potash industry unequivocally managed, operated and marketed for the benefit of Canada and Saskatchewan."

Brad Wall, Saskatchewan Premier, October 2010

The US government has both blocked M&A activity it perceives as harmful to America's interests ...

"Unocal is located in the United States and has approximately 1.75 billion barrels of oil. It would be foolish, to say the least, to allow a foreign government ... to own that much of such a strategic resource so vital to the U.S. Economy ..."

Byron Dorgan, US Senator, July 2005, introducing a bill to bar a merger between China National Offshore Oil Corporation (CNOOC) and Unocal

... and approved M&A activity aligned to national interests and its industrial policy.

"This deal is completely consistent with what the U.S. government has said they would like to see Chinese energy companies do, which is to provide capital into America to acquire minority interests and for American companies to use that capital to go out and develop American oil fields and to reduce oil imports."

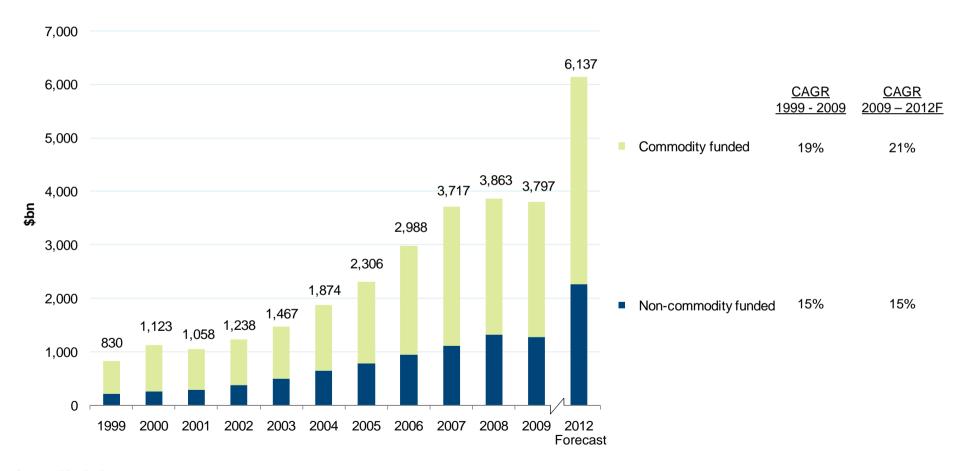
Aubrey McClendon, CEO of Chesapeake Energy, October 2010, speaking after CNOOC's successful, government approved purchase of a 33% stake in Chesapeake's Eagle Ford shale project

Some business leaders in the UK have begun to call for similar government intervention.

"If as a country we are more accessible to foreign control than other countries are, we need to look at changing the philosophical stance on it rather than just the rule book – and that decision is a matter for the government".

Roger Carr, Former Chairman of Cadbury, October 2010, calling for the UK government to rethink its free-market stance on foreign takeovers of UK companies

Source: BBC News, Various press reports



SWF AUM, 1999 – 2012 Forecast

Source: IFSL, PwC analysis Note: Chart excludes assets held within other sovereign investment vehicles (e.g. pension reserve funds) "People might not understand the minutiae of over-leveraging or short-selling, but they know that the roots of our current crisis lie in irresponsibility ... We need to make sure the financial sector serves the long-term interests of the economy, not just its own short-term interests ... The financial sector must understand that it cannot behave like this crisis never happened."

David Cameron, July 2009

"Banks need to show some restraint and show some discipline and show some sense of responsibility."

President Obama, January 2009

"The financial crisis resulted in a massive socialisation of losses after decades of private gain ... The public have already paid for the failure of the banks twice, first by bailing them out, and then by suffering a programme of drastic cuts to public services to appease the financial markets. We need urgent reform of the banking system to ensure that bailed-out banks are not allowed to repeat their failures. The government should ensure that banks use public money in a way that is socially useful ..."

New Economics Foundation, October 2010

"Banks are meant to serve a socially useful function by channelling savings into productive businesses but they lost sight of that. Radical restructuring is needed to separate their genuine utility functions from their gambling activities."

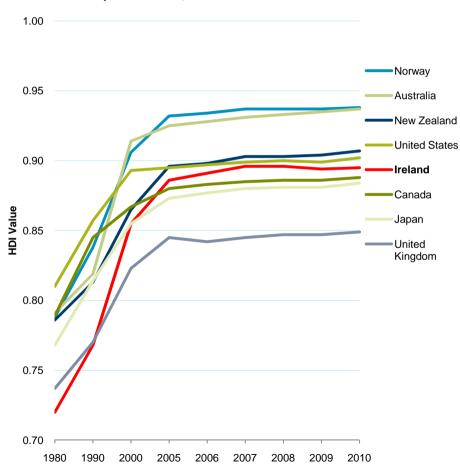
Observer, June 2010

"If there is to be a recovery, it will be a trade recovery and banks will have a crucial role in funding that trade through their commercial and investment banking arms. That's their "socially useful" purpose."

Telegraph, November 2009

Source: Various press reports

- All businesses will need to adjust to governments exerting greater control over both their activities and the real economy
 - In developed markets, the crisis necessitated a rapid increase in state intervention and, in many people's eyes, has legitimised ongoing intervention
 - In emerging markets, governments have exerted significant control for many years and this is likely to persist
- All businesses will increasingly need to demonstrate that they are socially useful
- All businesses will also need to assess the impact of government intervention on the real economy when considering how to allocate investments across asset classes and industry sectors



Human Development Index, 1980-2010

Human development index score, 2010

