

Lotus knows.

Smarter software for a Smarter Planet.

Winning in the “New Normal Economy”

Vince Leat | Financial Services Leader ASEAN - Software Group



lotusknows.com



CREATED WITH LOTUS[®] SYMPHONY™

Agenda

- Fit, Focused and Ready to Fight – How Smart banks can get in shape for the battle ahead
 - Business Model
 - Customer
 - Risk
- Accelerating Solutions for Smarter Banks – IBM's Banking Industry Framework
- Lotus' role in IBM's Banking Framework

Our banking study draws on surveys of hundreds of individuals, businesses and secondary research to determine how firms will compete for the future

- Which forces will disrupt the industry landscape?
- What will clients pay for?
- How will the bases for competition change?
- What steps must firms take today to win?

IBM Institute for Business Value



Economist Intelligence Unit



Scope

- Our analysis focused on gaining insights from select financial institutions including:
 - Traditional banks (Universal banks, National and Multinational banks, Regional banks, Specialized banks, Savings & Loans / Cooperative banks and building societies)
 - Specialist and boutique banks
 - Regulators / government officials
 - Operational specialists, service providers,
 - Others: non-governmental organizations, academics

Approach

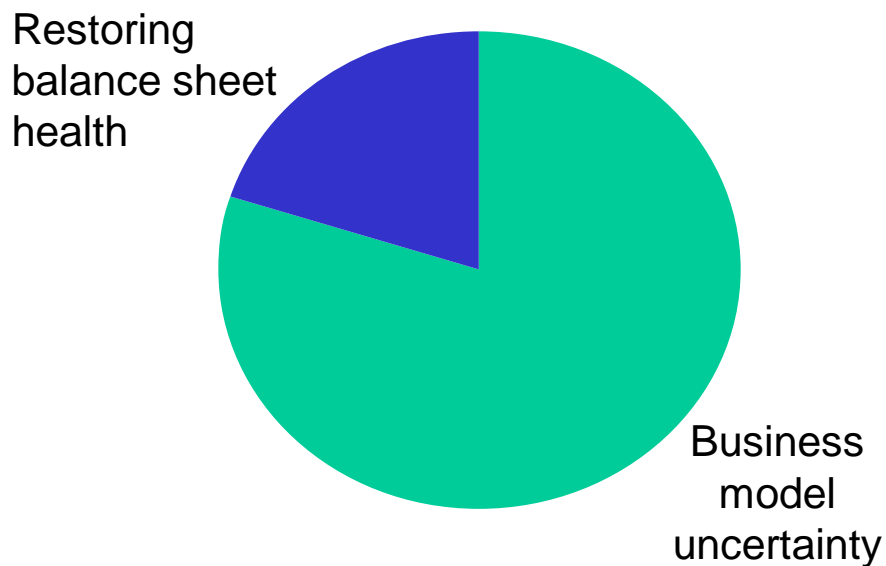
- The IBV Financial Services studies surveyed 7,343 consumers and 2,569 business leaders from 500 firms²:
 - Qualitative interviews of 100 executives
 - Survey of 2,569 executives, in partnership with the CFA Institute and the Economist Intelligence Unit
- We conducted secondary research and developed quantitative models of 139 financial institutions
 - Top 117 of the Top 200 banks by assets (Top 79 of the Top 100)
 - 34% Americas, 36% Europe and 30% Asia and Australia



Bankers remain uncertain of their business model

What Keeps you Awake at Night¹?

(Percentage of Executives Interviewed)



Note: Question asked: (1) What keeps you up at night?;

Source: (1) IBM / EIU survey 2008; IBM Institute for Business Value analysis n=100



Banks must redefine their business models to return to long term health

Business Models

- Strengthening balance sheets is a multi-year journey that requires a combination of raising equity, redefining business models and retaining profits for multiple years
- Reduction in the industry profit pool will require banks to
 - Achieve radically lower costs with reduced complexity
 - Accelerate mergers, acquisitions and divestitures in the banking eco-system

Clients

- Restoring client trust will require banks to gather deeper customer insights **and** craft products and services that are in clients' best interests

Risk

- Radically increased regulatory oversight will require financial institutions to approach compliance with a holistic perspective
- Responsible risk management with a culture of transparency is vital the health of the eco-system

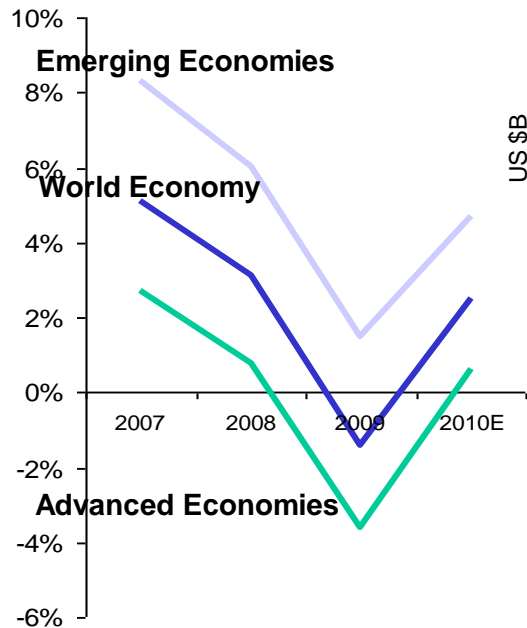


Redefined business models, greater customer focus and superior risk management will separate the winners from the rest

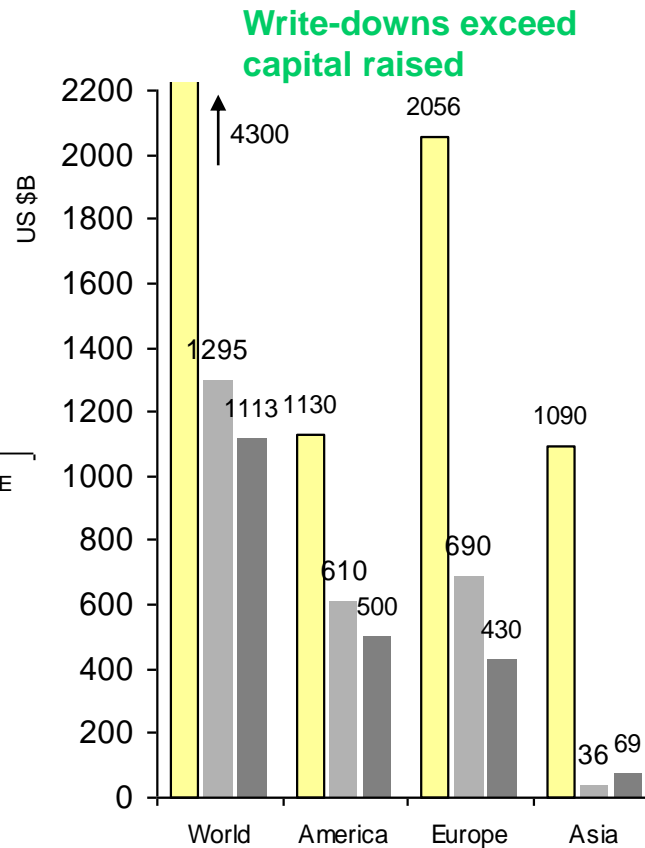


With the economy on course to a recovery, banks are faced with new opportunities and significant write-downs from the past

Gross Domestic Product (2007, 2008, 2009-10E)

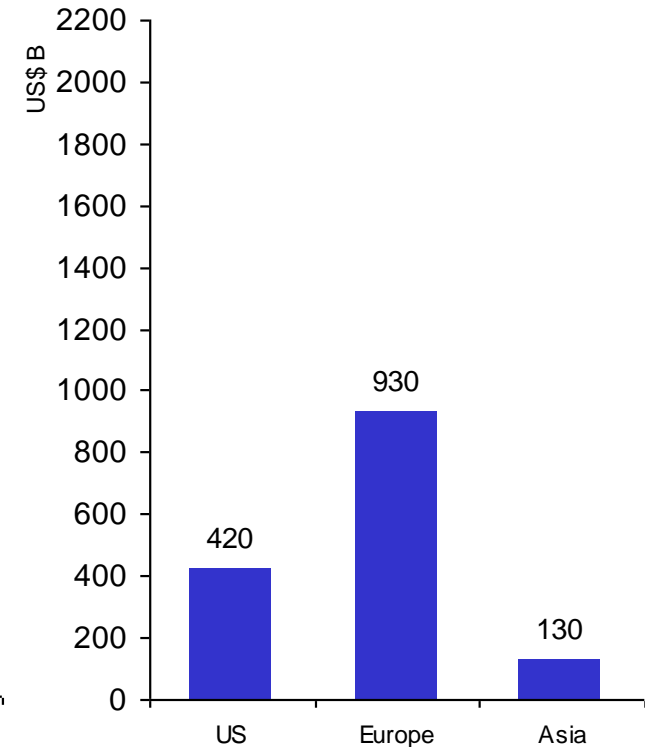


Write-downs & Capital Raised Q2 2007 – Q2 2009



FI¹ Future Write-downs 2009 Q3 – 2010 Q4E

An additional ~\$1.5 T write-downs is expected²



Legend: Tier 1 Capital (Yellow), Asset Write-downs (Grey), Capital Raised (Dark Grey)

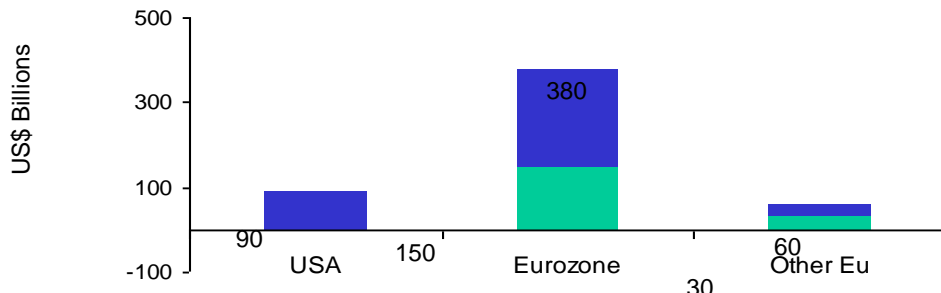
Legend: 2009 Q3 - 2010 Q4E (Blue)

Notes: 1: FI Financial Institutions; 2: IMF 30 Sept 2009 Global Write-down by market (UK valuations covered by Asset Protection Scheme and included in estimate), Source: World Bank⁴, World Economic Outlook 2007-11, IBM Institute for Business Value Analysis, Asia Development Bank, Asia Capital Markets Monitor, citing Bloomberg, April 2009, IMF GFSR, Sept 2009

Banks need to focus on strengthening their balance sheet by raising capital, increasing asset quality and profits – a multi-year exercise

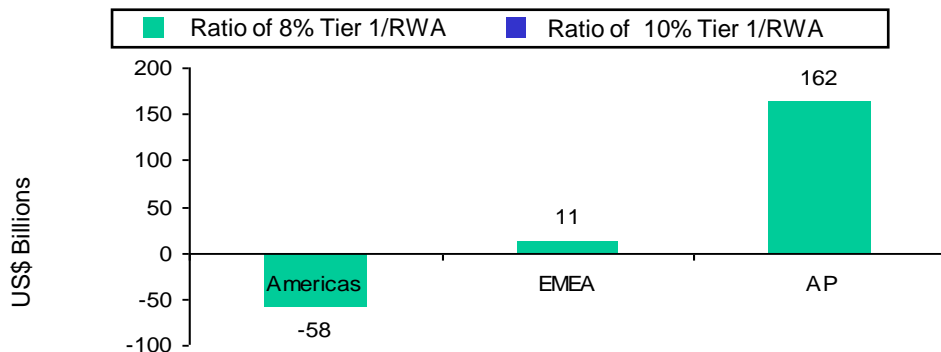
Capital Needed for Target Ratio

Capital needed by 2010 Q4



Earning their way back to health?

Net Profits 2008



New Basel Rules Will Constrain Profits

Capital Rules effective Y/E 2010

- ~2* times capital against the trading book
- ~3* times capital against securitized products

Proposals being reviewed/ finalized

Sec'y Tim Geithner's proposals: **"New capital rules by 2010"** and **"in force two years later"** Sept 4 2009

... against high quality assets
Banks would **"be required to hold more and better quality capital"** once recovery is assured"

Sept 5 2009, G20 Finance Ministers Final Statement, London

Specialization remains a winning theme within the ecosystem

Traditional Banking	Risk & Capital Market Specialists ¹	Customer Intimacy	Operational Excellence
<ul style="list-style-type: none"> • Revenues + 9% CAGR 2003-08 • Pre-tax profits - 9% CAGR 2003-08 • Universal banks: Profits - 194% • Government has facilitated mergers of major banks and have funded many others to maintain solvency 	<ul style="list-style-type: none"> • Capital market firms have become banks and are now supervised by the bank regulator • Many US and Europe based risk (mortgage) specialists have been nationalized 	<ul style="list-style-type: none"> • Revenues + 10% CAGR 2003-08 • Pre-tax profits - 1% CAGR 2003-08 	<ul style="list-style-type: none"> • Revenues + 13% CAGR 2003-08 • Pre-tax profits + 12% CAGR 2003-08

- Specialists firms in the Customer Intimacy and Operational Excellence domains continue to succeed, thanks to their insights (specialization)
- Opaque products and disconnects with the client have resulted in failures and nationalization of many risk specialists²
- Traditional banking and capital market domains are witness to loss of capitalization, and government intervention to provide liquidity

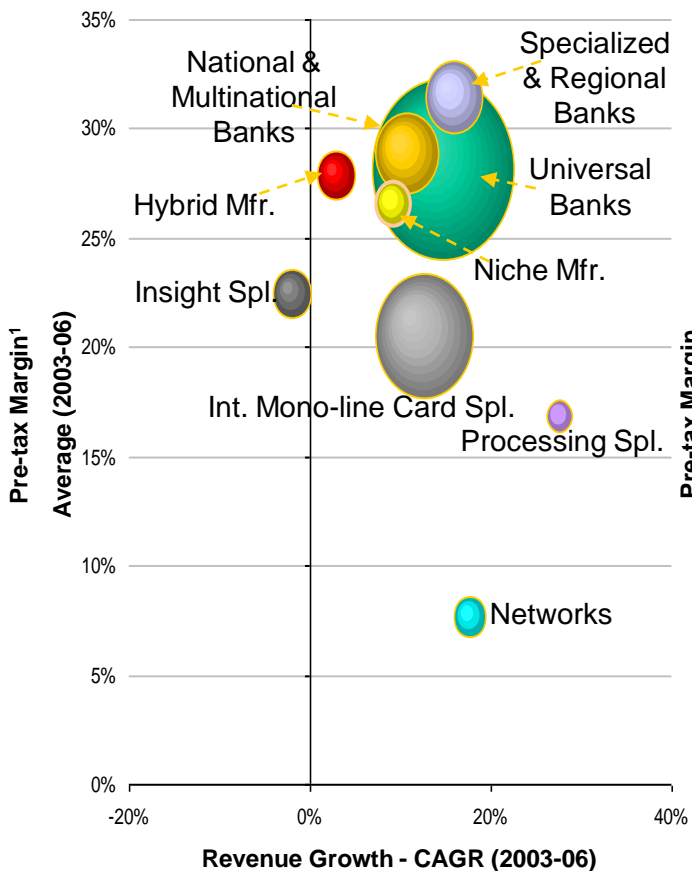
The rise of banks from emerging economies, failures of old brands, and government facilitated mergers are harbingers of the future eco-system

Traditional Banking	Risk & Capital Management ¹	Customer Intimacy	Operational Excellence
<p><u>Universal Banks</u></p> <ul style="list-style-type: none"> § Bank of America, Citigroup, JP Morgan Chase, UBS § ING, RBS, • Deutsche Bank, Santander, BBVA, HSBC, Standard Chartered, Barclays, BTMU, SMBC, Mizuho Financial Group 	<p><u>Integrated Capital Markets Firms</u></p> <ul style="list-style-type: none"> § Morgan Stanley, Goldman Sachs • Bear Sterns, Merrill Lynch × Lehman 	<p><u>Integrated Mono-lines</u></p> <ul style="list-style-type: none"> • American Express, Capital One, • MBNA (Bank of America) 	<p><u>Hybrid Manufacturer & Processors</u></p> <ul style="list-style-type: none"> § Bayerische Landesbanks, • Bank of NY-Mellon • Northern Trust,, Other Landersanks, RBC Dexia, London Capital Group, Saxo-Bank, Shinkin Central Bank
<p><u>National & Multinational Banks</u></p> <ul style="list-style-type: none"> § Wells Fargo, USBancorp,, § Lloyds TSB, Commerzbank,, Allied Irish Bank, Dexia,, Resona Holdings • ABN Amro, Wachovia, WaMu • China Construction Banks, China CITIC, ICBC < OCBC, DBS, UOB • KEB, NAB, ANZ Bank Group, Commonwealth Bank, Westpac, UniBanco - Bank Itau, SBI, ICICI, Gazprombank 	<p><u>Risk Specialists</u></p> <ul style="list-style-type: none"> § Fannie Mae, Freddie Mac § ORX, 	<p><u>Niche and Cross-Product Distributors</u></p> <ul style="list-style-type: none"> • E*Trade, Charles Schwab, TD Ameritrade • Prosper.com, Zopa.com • Americredit, LendingTree • Royal Mail Post Office • Western Union, PayPal 	<p><u>Processing Specialists</u></p> <ul style="list-style-type: none"> • Metavante, Fidelity National, Symcor, Baker Hill (Experian), Fidelity Information Services, Tsys, First Data, FiServ, Xoom • Kas-Bank
<p><u>Specialized Banks & Regional Banks</u></p> <ul style="list-style-type: none"> § Euro Hypo × Many small regional bank failures • Rabobank 		<p><u>Insight Specialists</u></p> <ul style="list-style-type: none"> • Dun & Bradstreet, Equifax, Fair Isaacs • Moody's, Morningstar • Experian, Reuters 	<p><u>Networks</u></p> <ul style="list-style-type: none"> • Visa, MasterCard, Interac, Cirrus, FedWire, JCB • SWIFT

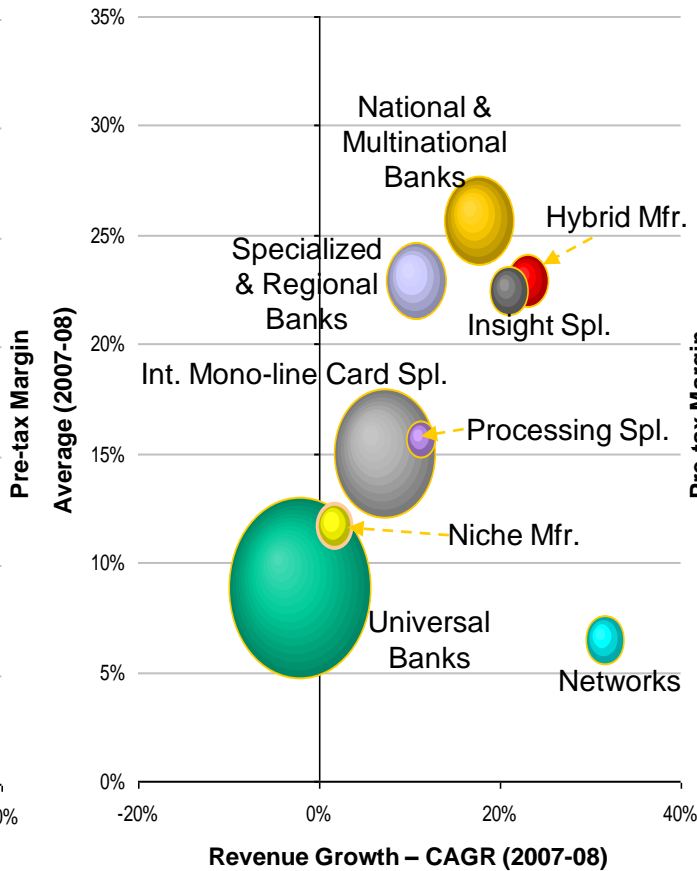


Profit pools within the eco-system are shifting with the Universals losing most ground

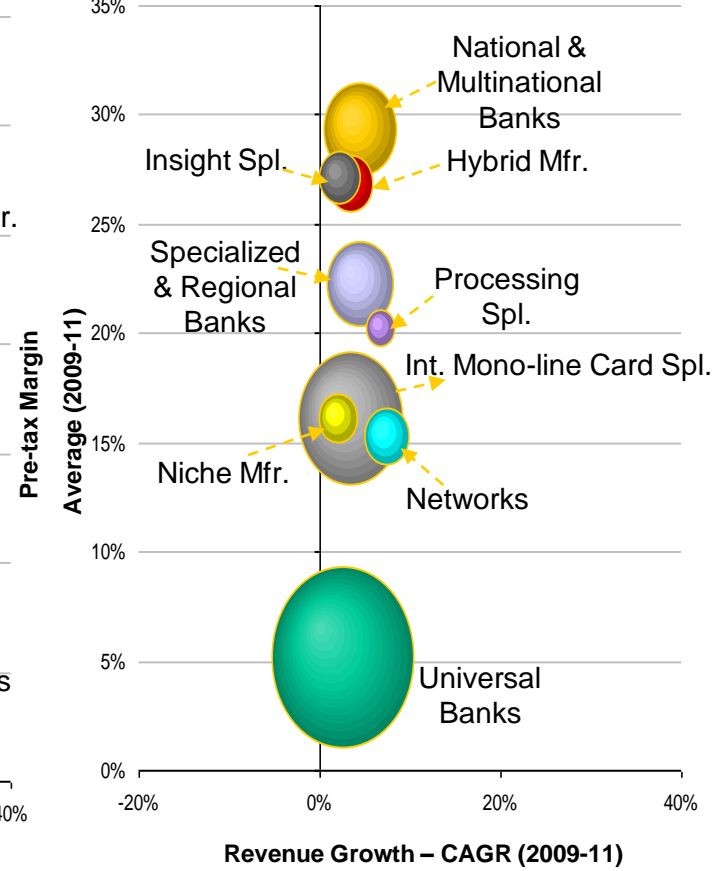
Pre-tax Margin vs. Revenue Growth
2003-6



Pre-tax Margin vs. Revenue Growth
2007-8



Pre-tax Margin vs. Revenue Growth
2009-11E²

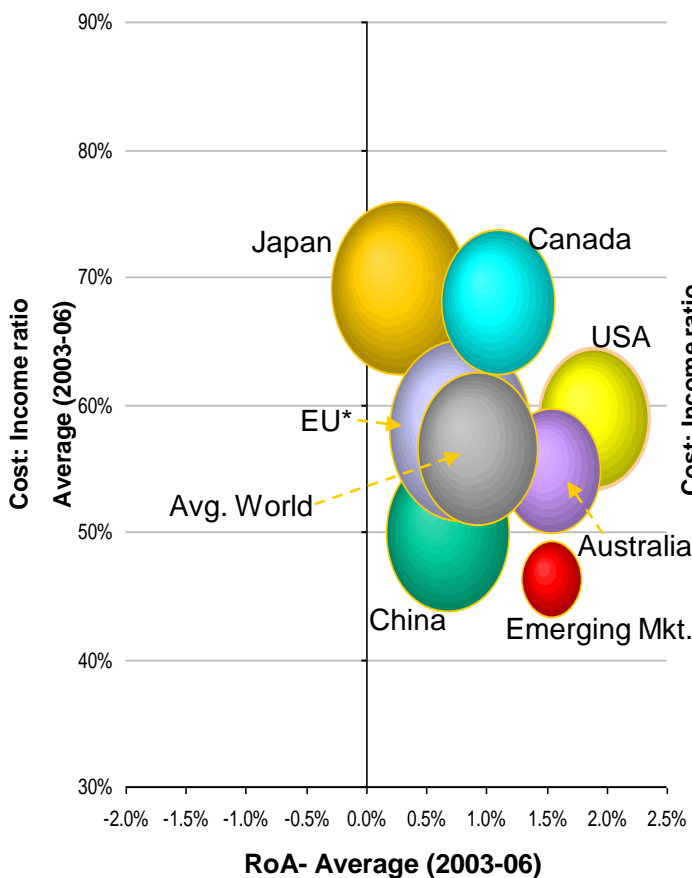


“Those profits from the past were not real profits³”

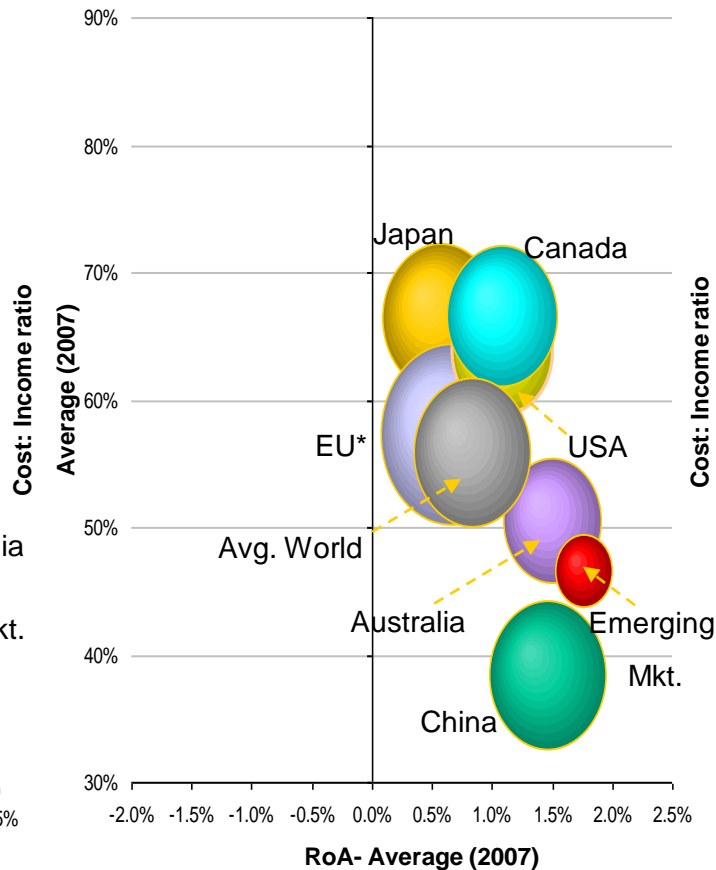
Franco Passacantando, M.D., Central Banking, Banca d'Italia at Sibos Sept 2009

Banks in emerging markets, unlike banks in mature markets, have improved their cost structure over the last two years

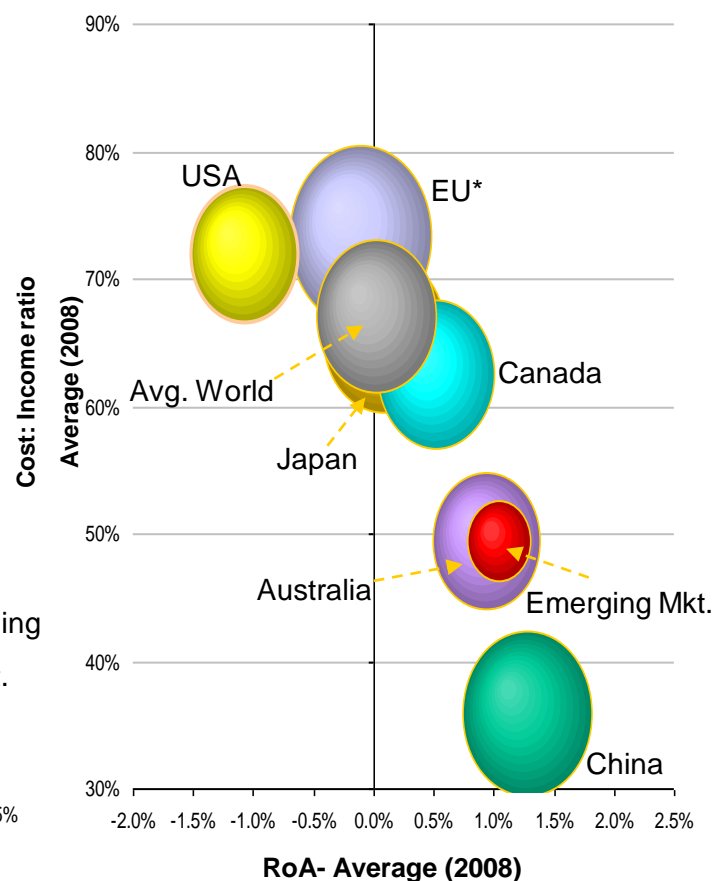
Cost: Income ratio vs. RoA
2003-6



Cost: Income ratio vs. RoA
2007



Cost: Income ratio vs. RoA
2008



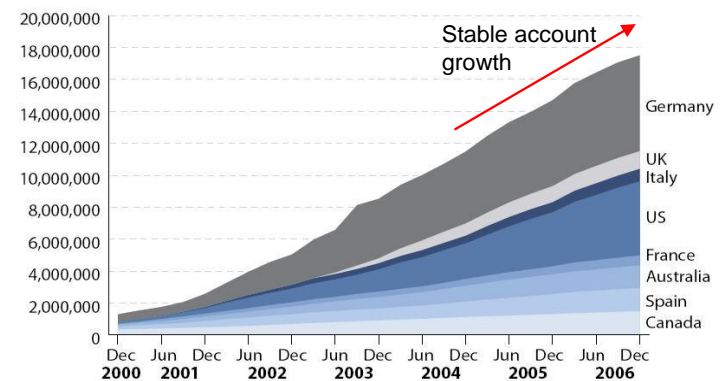
Notes: Cost is defined as operating expenses, including depreciation but without provisions; Income as the sum of net interest income and non-interest income. Return on assets is calculated as: (Pre-tax Profit) / (Total Assets). Size of bubble represents average size of assets. EU* = European Union, Norway, Switzerland and Turkey; Emerging Markets include Asia (excluding Japan & China), Brazil, Russia and South Africa. n= The Top 200 banks as ranked by thebanker.com on the basis of Tier 1 Capital.

ING Direct

- Established in 1997 as a direct banking subsidiary targeting Europe, North America and Australia, offering:
 - A few simple financial products
 - High savings rate
 - Direct distribution exclusively
- Other banks had embraced direct banking previously, but the ING Direct significantly disrupted major markets by:
 - Clearly differentiated
 - Marketing locally, within a common global message
 - Providing simple design, and flexible, reusable operational architecture
- Since 2005, ING has experienced more intensive competition from HSBC, Citi and others
- Late 2007, ING Direct USA acquired ShareBuilder (7th largest US online broker)
- By 2008, ING Direct had 21.5 million customers globally

"I'm actually surprised it took five years [for Citi and HSBC to enter the direct banking space] ... we don't worry about having a number of competitors. I think they have a real handicap – in that they are big traditional banking institutions" Arkadi Kuhlmann, ING Direct, CEO³

ING Direct Number of Direct Accounts²

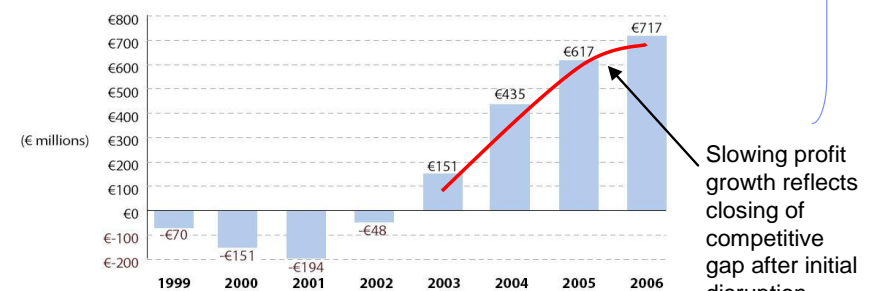


Source: ING Group

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Source: Forrester Research, Inc.

ING Direct Annual Pre-tax Profit²



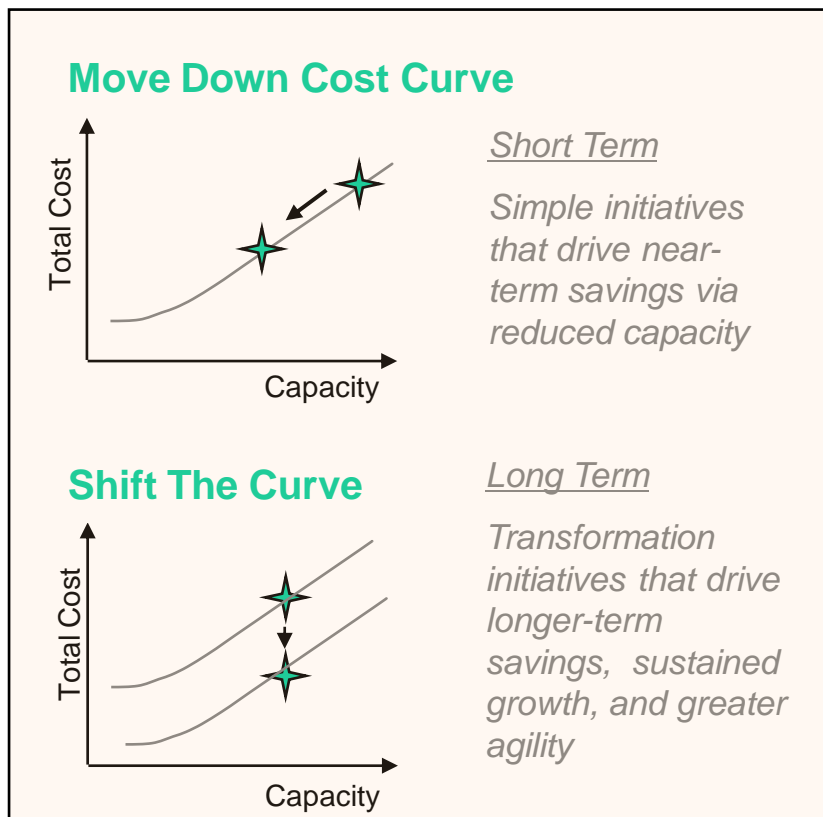
Source: ING Group

41632

Source: Forrester Research, Inc.

¹ <http://home.ingdirect.com/about/about.asp>, May 2008; ² Forrester, The Sources of ING Direct's Success (2007), ING Infiltrates the Brokerage Market with ShareBuilder (2008); IBM analysis ³ http://www.paymentsnews.com/2006/04/ing_direct_ceo_.html

While smart cost management will reduce complexity, future growth is contingent on understanding the client and managing risk holistically

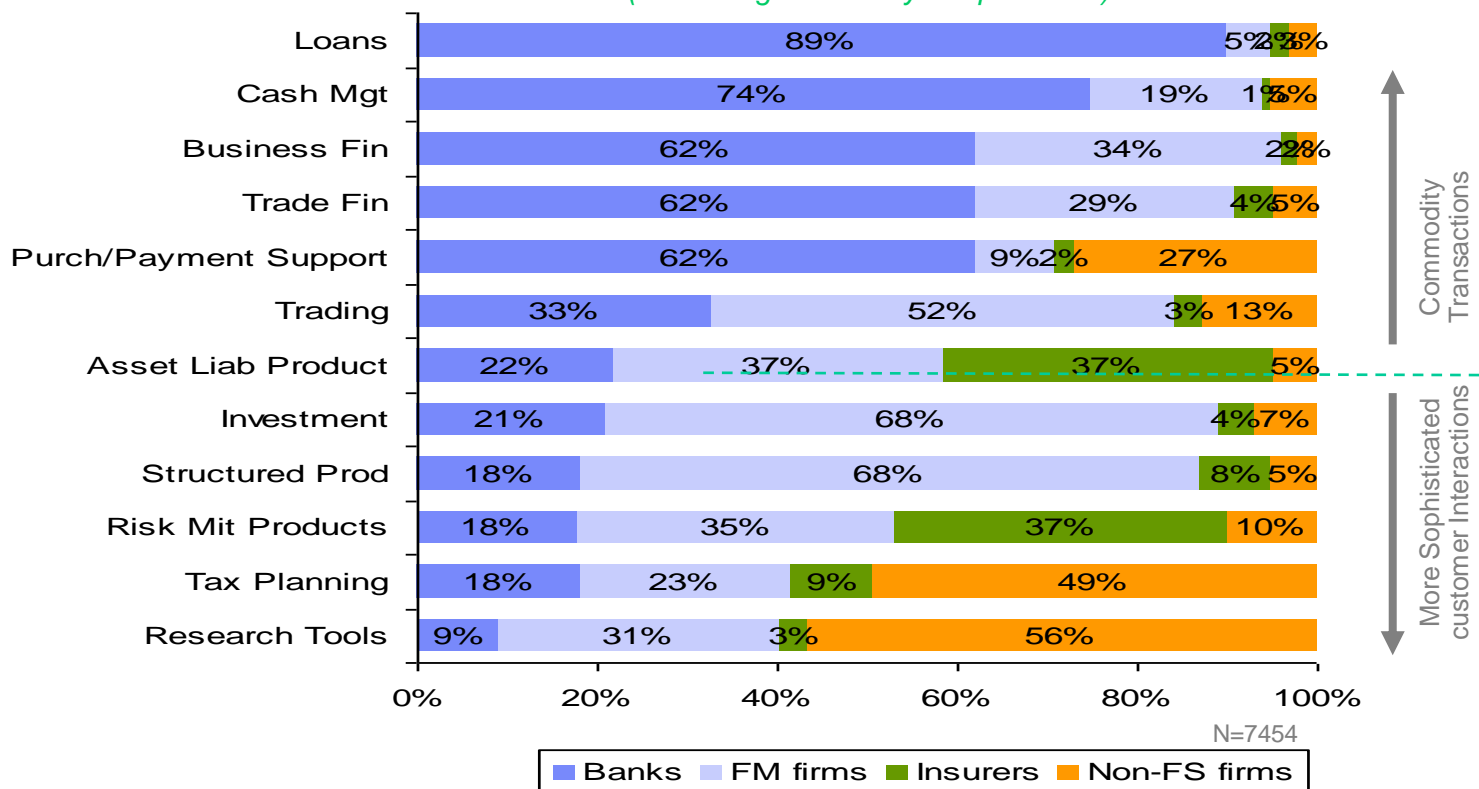


Understanding the Client
Holistic Risk Management

Customers perceive bank services as commodity and are looking elsewhere for more sophisticated needs

Customers preferences for providers of financial products and services

(Percentage of Survey Respondents)



58% of executives believe specialists will outperform large universal banks in better meeting clients needs over the next 3-5 years

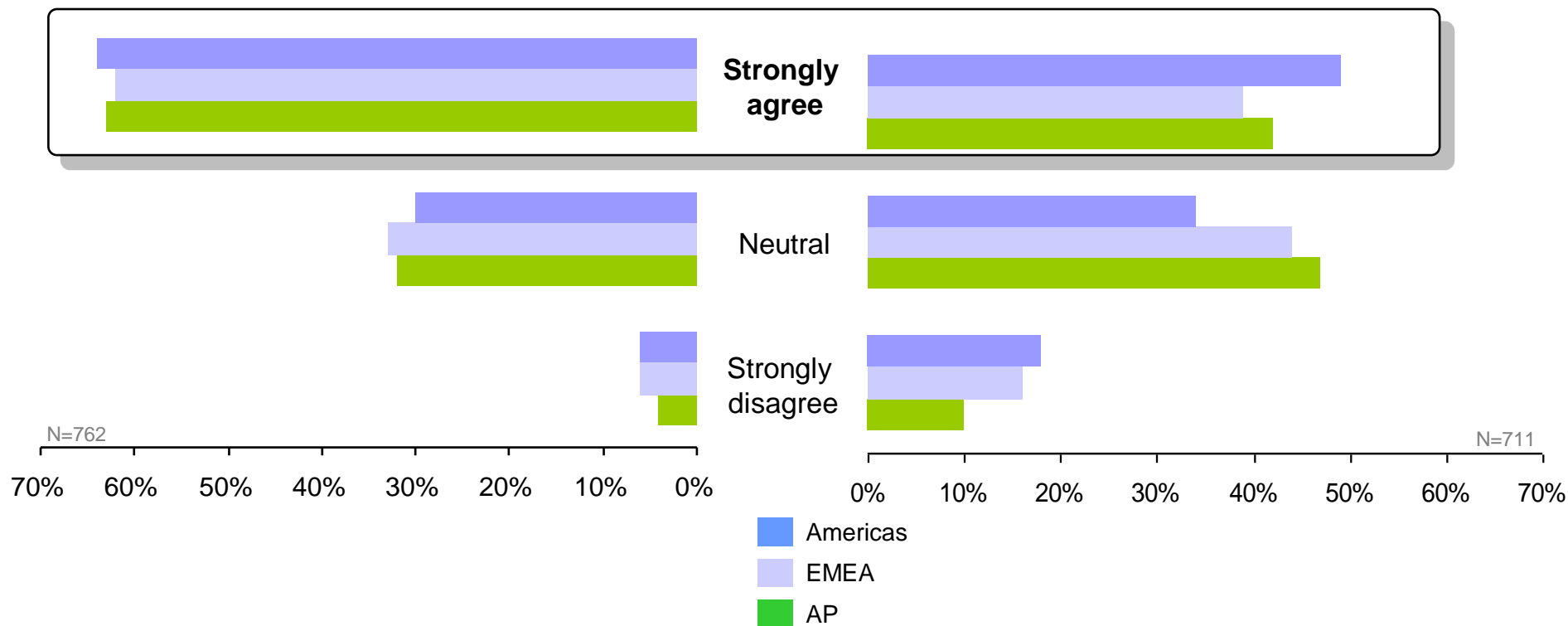
Note: Question asked: For each product, which type of firm will be best able to meet clients' needs in the future? Source: IBV/Economist Intelligence Unit Banking Survey 2008; IBM Institute for Business Value analysis

Banks need to overcome the trust gap with their client as they move beyond today's crisis

Trust Gap

Client Opinion: Providers offer products in the firm's best interest
(Percentage of Survey Respondents¹)

Provider Opinion: Providers offer products in the firm's best interest
(Percentage of Survey Respondents¹)

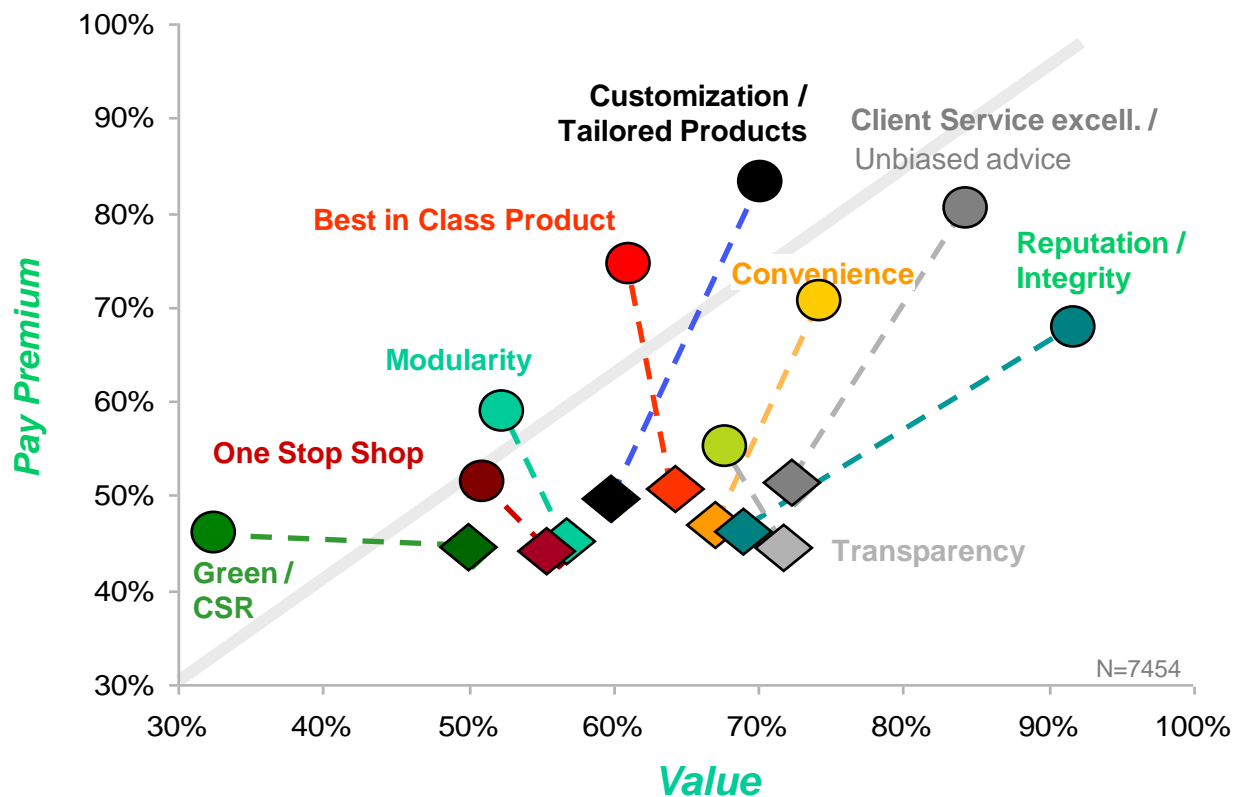


Note: Question asked: To what extent do you agree / disagree with the following statements about trust, Please rank on a scale of 1-6 where 1=strongly disagree and 6=strongly agree, Investment firms are likely to offer products & services in the investment firm's own best interest. Source: IBV / CFA Survey 2008; IBM Institute for Business Value analysis

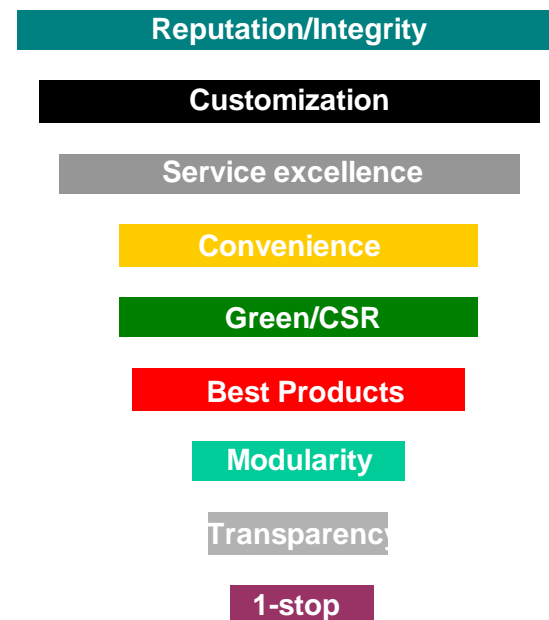
Banks have overlooked their customers' values and behaviors

Disconnects: Client Vs. Provider Perceived Value and Premiums

(Percentage of Survey Respondents)



“Size” of disconnects



◇ Client Rankings ○ Provider Rankings ----- Disconnects

Note: Question asked: Which financial services capabilities become more/less important to you in the next 3-5 years? Rank 1-6. How much would your clients be willing to pay over existing rates to ensure that you deliver on specific factors. Select 0%, 5%, 10%, 15% or more, don't know. IBV/Economist Intelligence Unit Banking Survey 2008, IBM Institute for Business Value analysis

Customer collaboration at Garanti Bank

- Garanti Bank is the 4th largest bank in Turkey
- To differentiate from competitors, they introduced a bevy of innovative products
 - Customized cards: customers are given literally hundreds of options to design their own card
 - Paypass: a contactless credit card payment product in the form of a key-ring, Garanti branded watch
 - CepBank: integrated SMS messaging, which enables bank customers to send authorization codes to bank and non-bank customers, who can then withdraw funds using the code from Garanti ATMs
 - Collaboration with leading Turkish cell phone provider to develop a mobile wallet
 - Coin-dispensing ATMs with bill-pay option for bank and non-bank customers
 - Early adopter of shared service operational architecture, and paperless back office

“Garanti maintained its growth momentum ... by the continued introduction of innovative products and services and ... long-standing and successful customer-oriented growth strategy”

Ergun Ozen, Garanti Bankasi, President and CEO²



Banks are struggling to cope with the combination of the economic recession, increasing risks and greater compliance burdens

Financial Risk

80% of firms don't have integrated risk processes¹

300% rise in FDIC bank closures

Financial Crimes

Millions of electronic attacks, yearly, focused on the finance sector²

Operational Risk

Billions of market trades each day: global trading systems are under extreme stress with limited insight into the risk assumed³

Governance, Compliance

Thousands of regulations worldwide; **Hundreds** more being added.⁴

FDIC-insured "Problem Institutions"

(Number of institutions, 2001-2009)



Toxic Assets in the System

- Governments worldwide have spent more than **\$10T** to rescue the financial sector
- IMF has estimated the global toxic assets to be **~\$3T**⁵

Source: : 1 Governance, risk and compliance in financial services, The Economist June 2008, IBM CRO Survey; 2 IBV analysis; 3 "The Smarter Financial Services Industry: Creating a Smarter Financial Services Industry" (Deloitte), IBM; 4 IBM "Navigating the Compliance Labyrinth: The Challenge for Banks 2007" (Deloitte), IBM Forecast; 5. IMF - GFSR Sept 2009

Agenda

- Fit, Focused and Ready to Fight – How Smart banks can get ready for the battle ahead
 - Business Model
 - Customer
 - Risk
- Accelerating Solutions for Smarter Banks – IBM's Banking Industry Framework
- Lotus' role in the banking Framework



There are reasons to be optimistic...there is an extraordinary opportunity !

5.8% CAGR

Growth in world GDP¹ from 2010 thru 2025 will put the current crisis in context.

2.5 billion

Half the world is unbanked. Just over half of world's adult population do not use formal financial services to save or borrow.²

\$1,264 trillion

The value of global assets³ will quadruple by 2025 – calling on a vibrant global financial system to intermediate and manage.



Our research confirms that growth requires smart banks to think and act in new ways

**Rethink the
business model**

**Drive a simplified
and streamlined
agile enterprise that
balances growth,
efficiency and
business resiliency**

**Develop new
intelligence**

**Develop enterprise
wide capabilities to
enable informed
judgment, client-
centricity and
profitable growth**

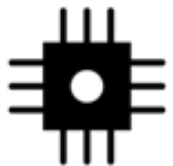
**Integrate risk
management**

**Achieve compliance
objectives while
mitigating
operational risk,
fighting crime and
optimizing financial
returns**



Smarter banking solutions have a common set of attributes

INSTRUMENTED



+

INTERCONNECTED



+

INTELLIGENT



=

SMARTER BANKING



Financial products are decomposed and managed at the atomic level, allowing the participants to measure, control, sense and respond quickly and precisely based on a “single source of truth.”

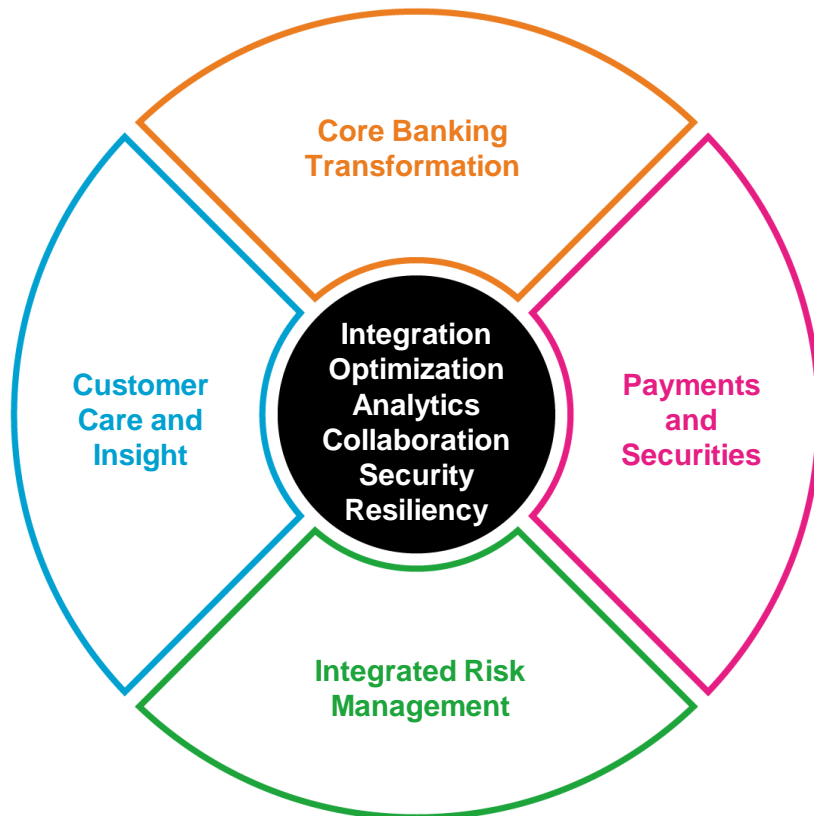
A smart bank is built on systems that advance processing to better automate transactions with counterparties, partners and suppliers to enable innovation across the value chain.

A smart bank enables the rapid, intelligent analysis of a vast mix of structured and unstructured data to improve insight, enable informed judgment and fight abuse.

A smart bank anticipates client needs and delivers innovative products more quickly and consistently than the competition. It can respond nimbly to changes in market conditions.



IBM has developed a comprehensive framework that delivers & accelerates solution deployment



Our framework provides a banking-specific software platform with...

- Banking extensions and pre-built solution accelerators to speed deployment
- Best practices and business-specific usage patterns to lower risk
- Support for adoption of open and industry standards
- A choice of business applications from IBM business partners
- An approach to align technology with business needs

The framework gives you speed, flexibility and choice in deploying solutions while reducing cost and risk!



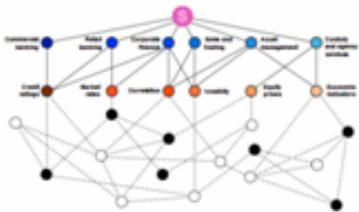
Our banking framework delivers business value



- Simplify your infrastructure, reduce costs, and enable growth through innovation
- Enable integration of information and processes across the bank
- Build an efficient technology roadmap that you can adjust over time based on business needs
- Implement framework projects to address business problems across the enterprise
- Drive a greater return on project investment through asset re-use
- Speed deployment of solutions

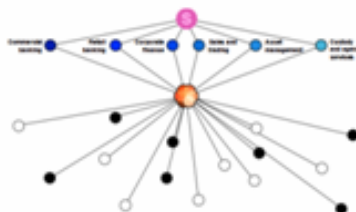
With a framework approach you progressively transform to a simplified, strategic infrastructure

1



Pick a framework project and start rationalizing to deliver quick ROI

2



Build on the value of previous projects and reuse assets

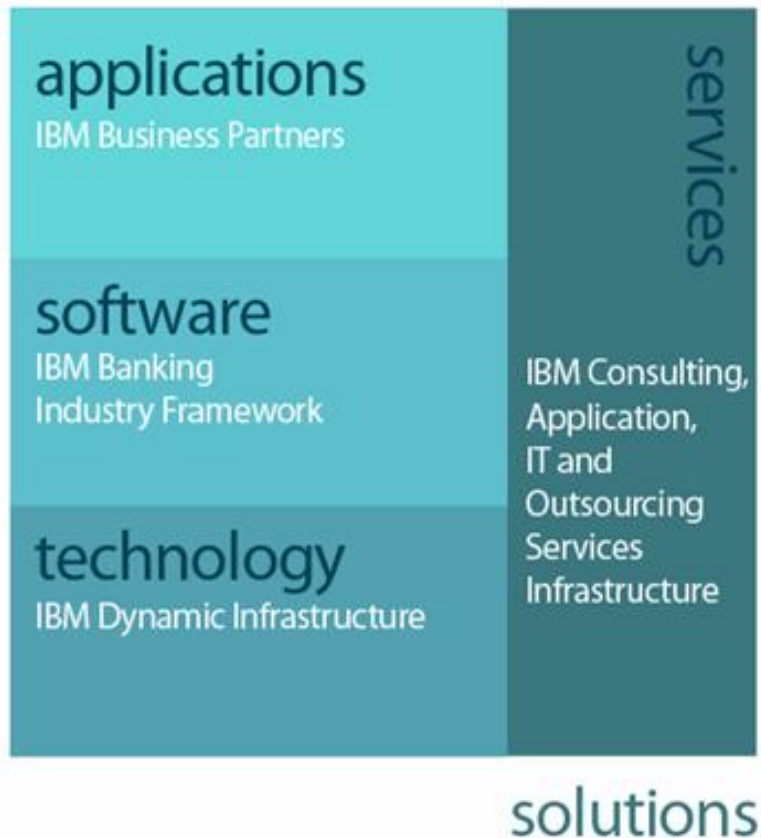
3



Achieve a simplified and agile strategic infrastructure

Increasing reuse and gain business agility!

Our framework provides the software foundation for end-to-end IBM banking solutions



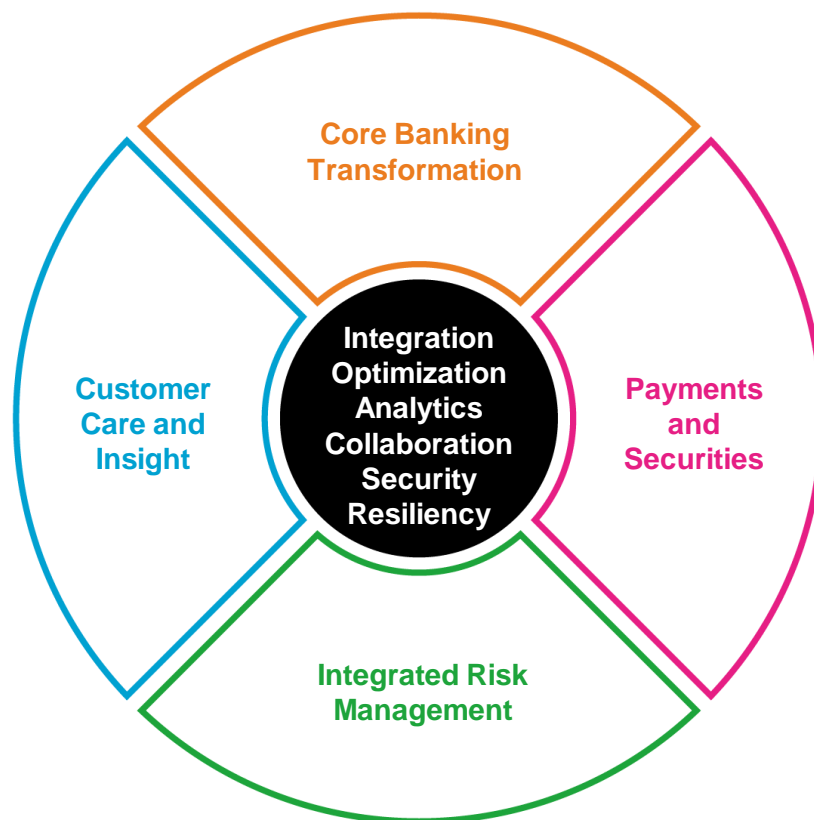
- Banking solutions address the diverse business and IT needs of our clients through integrated IBM offerings
- Applications are provided by IBM best-in-class independent software vendor (ISV) business partners
- Software that supports banking solutions is delivered by the IBM Banking Industry Framework
- Services help clients maximize their investments, decrease costs, and realize value more quickly
- Technology, including hardware and storage, supports flexible and scalable solutions in a dynamic infrastructure

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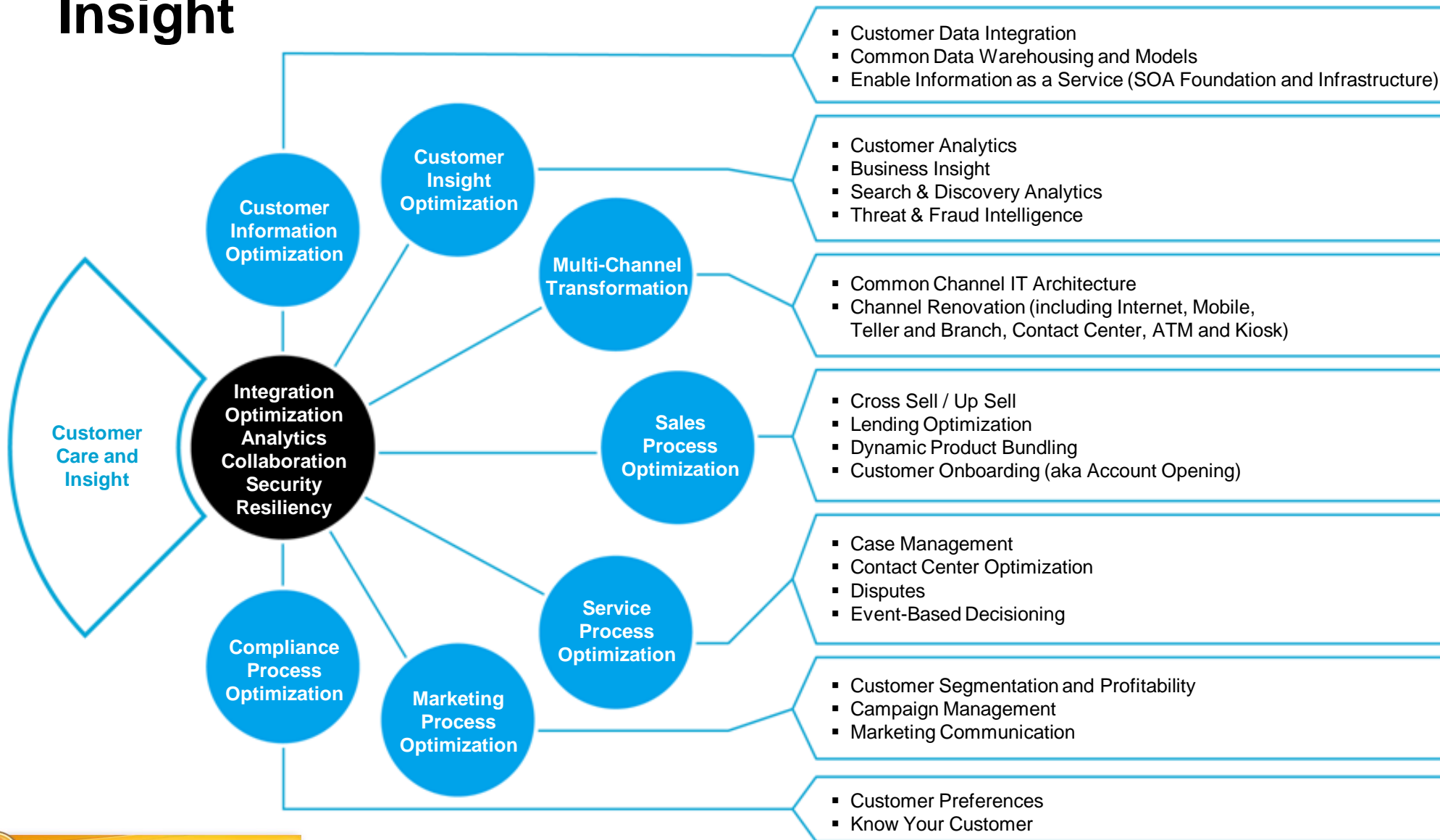
Recap Banking Framework



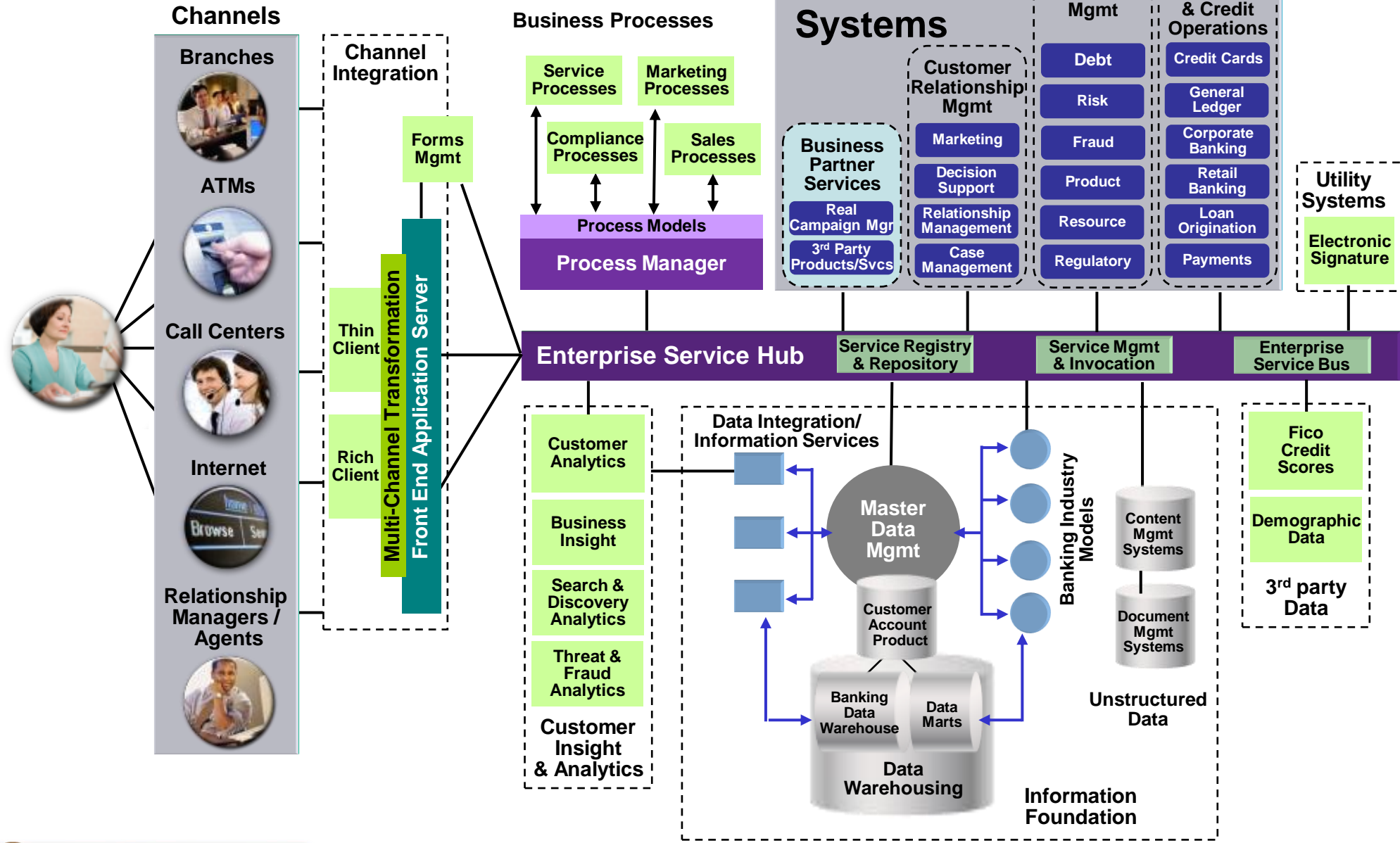
The framework gives you speed, flexibility and choice in deploying solutions while reducing cost and risk!



Lotus is a key enabler for Customer Care and Insight



CCI Framework Architecture

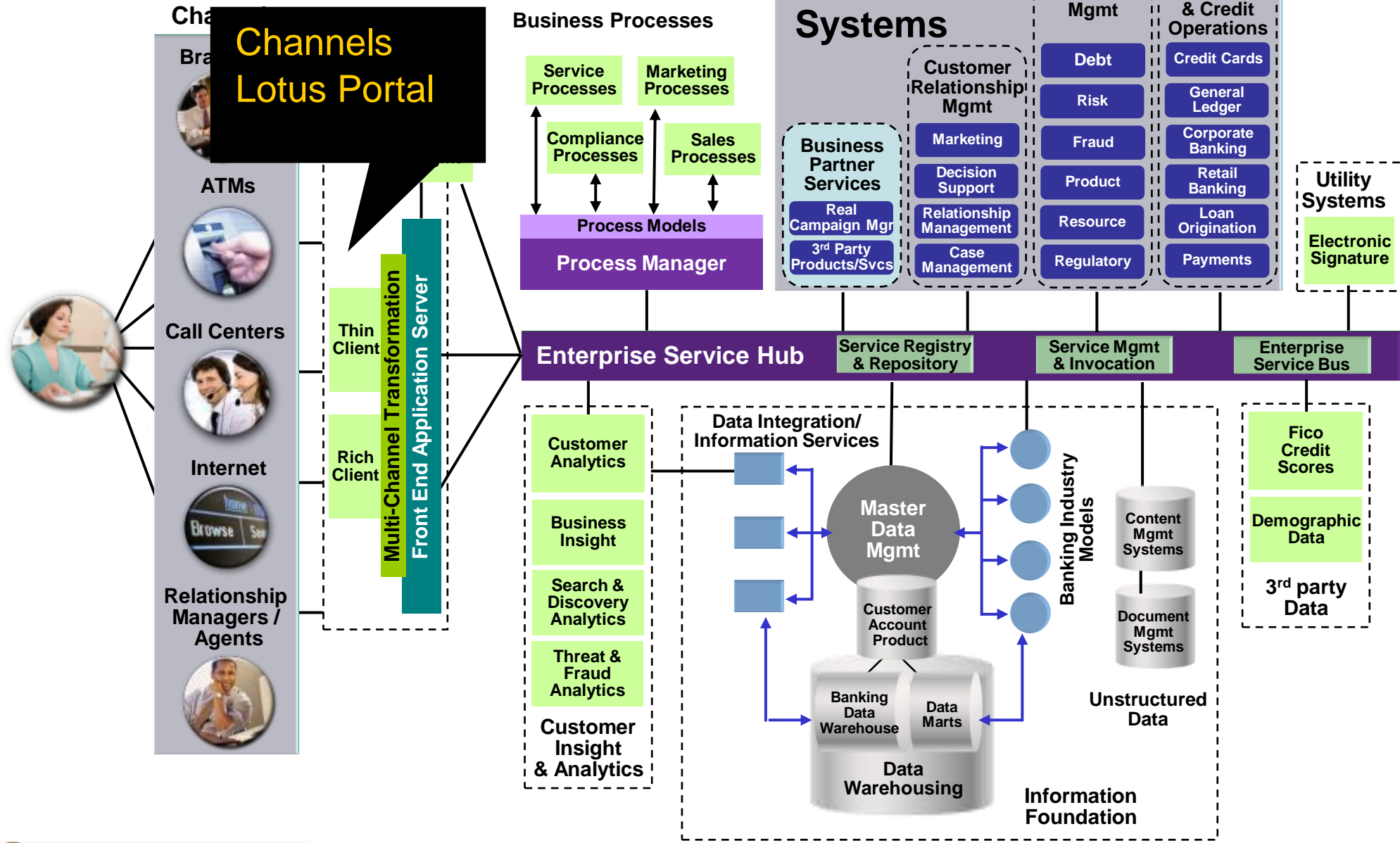


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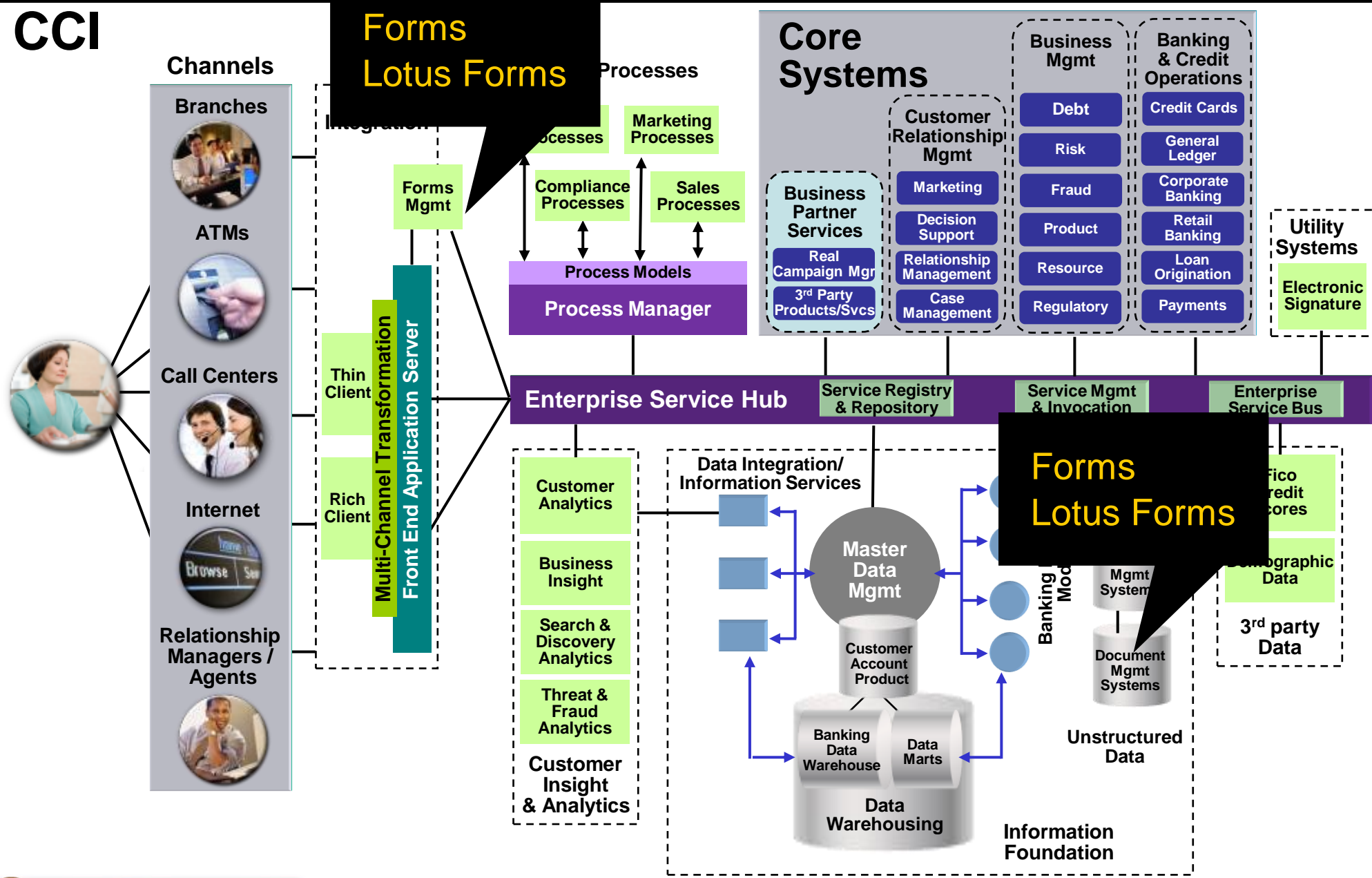
**Channels
Lotus Portal**



Lotus knows.

Smarter software for a Smarter World

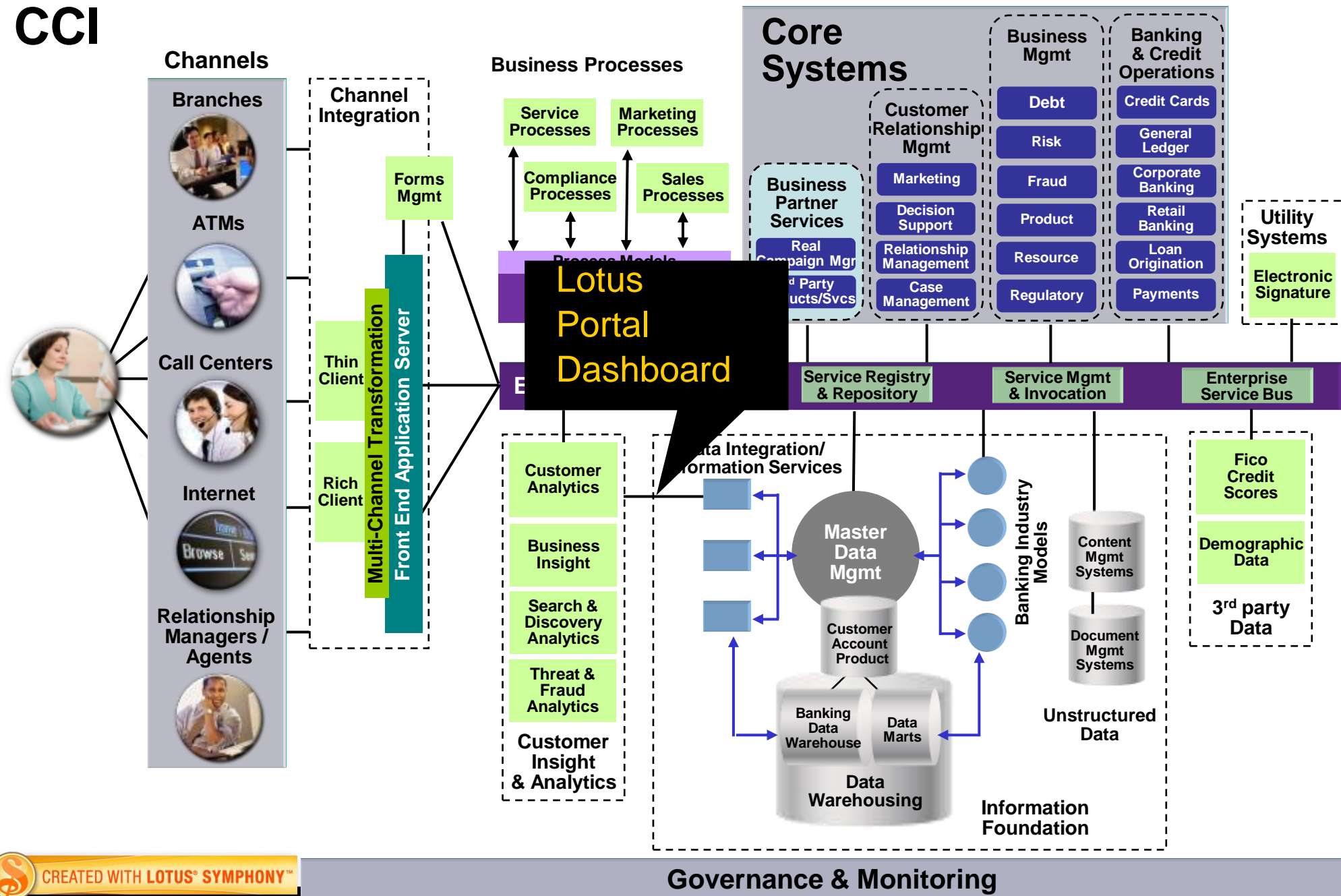
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CCI

Channels

Branches

Call Centers

Internet

Relationship Managers / Agents

Mobile
Lotus Mobile
Banking

Channel Integration

Forms Mgmt

Multi-Channel Transformation
Front End Application Server

Thin Client

Rich Client

Business Processes

Service Processes

Marketing Processes

Compliance Processes

Sales Processes

Process Models

Process Manager

Core Systems

Business Partner Services

Real Campaign Mgr

3rd Party Products/Svcs

Customer Relationship Mgmt

Marketing

Decision Support

Relationship Management

Case Management

Business Mgmt

Debt

Risk

Fraud

Product

Resource

Regulatory

Banking & Credit Operations

Credit Cards

General Ledger

Corporate Banking

Retail Banking

Loan Origination

Payments

Utility Systems

Electronic Signature

Enterprise Service Hub

Service Registry & Repository

Service Mgmt & Invocation

Enterprise Service Bus

Customer Analytics

Business Insight

Search & Discovery Analytics

Threat & Fraud Analytics

Customer Insight & Analytics

Data Integration/ Information Services

Master Data Mgmt

Customer Account Product

Banking Data Warehouse

Data Marts

Data Warehousing

Banking Industry Models

Content Mgmt Systems

Document Mgmt Systems

Unstructured Data

Information Foundation

Fico Credit Scores

Demographic Data

3rd party Data

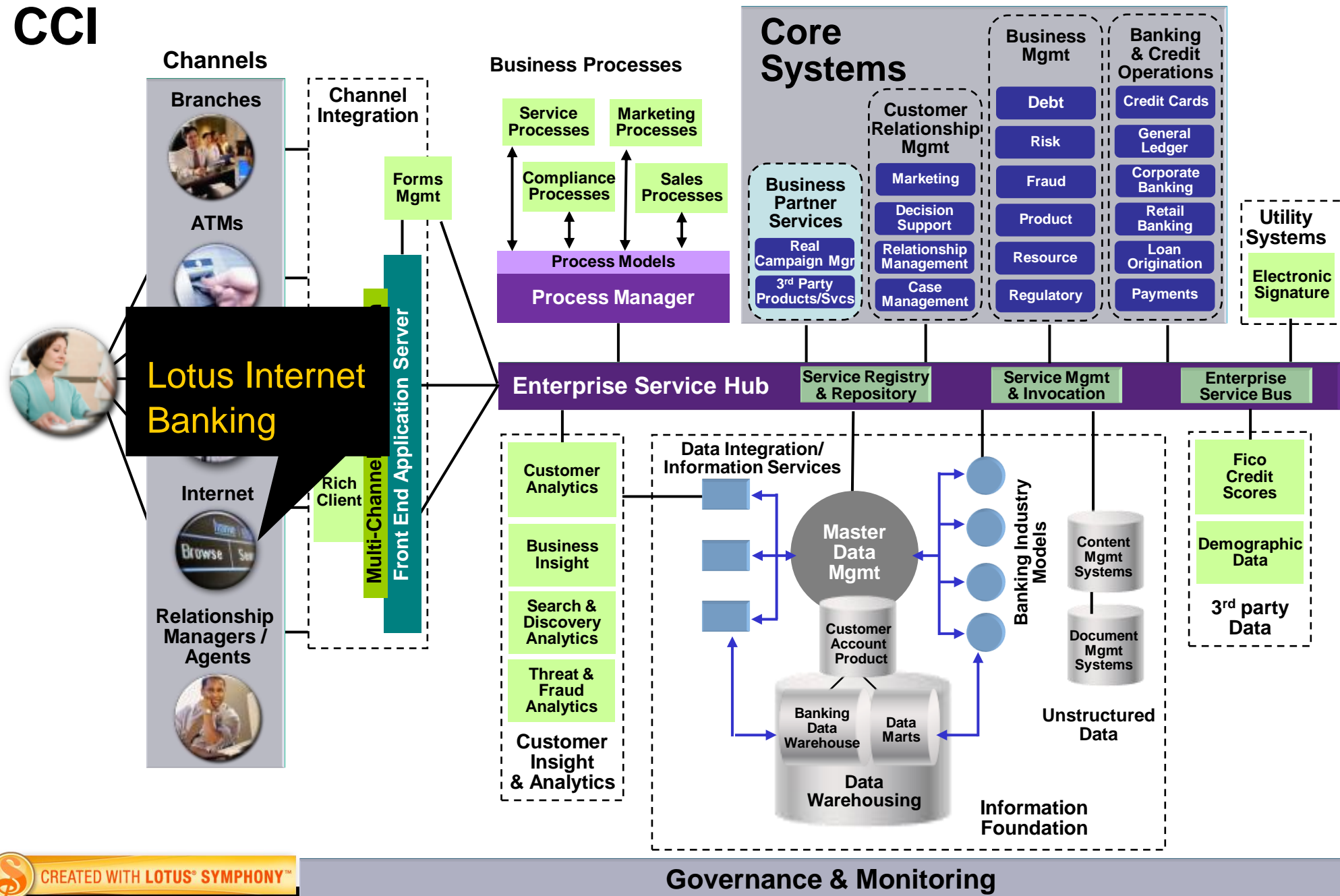
Governance & Monitoring

Rapid Development & Integration

Lotus knows.

Smarter software for a Smarter Planet.

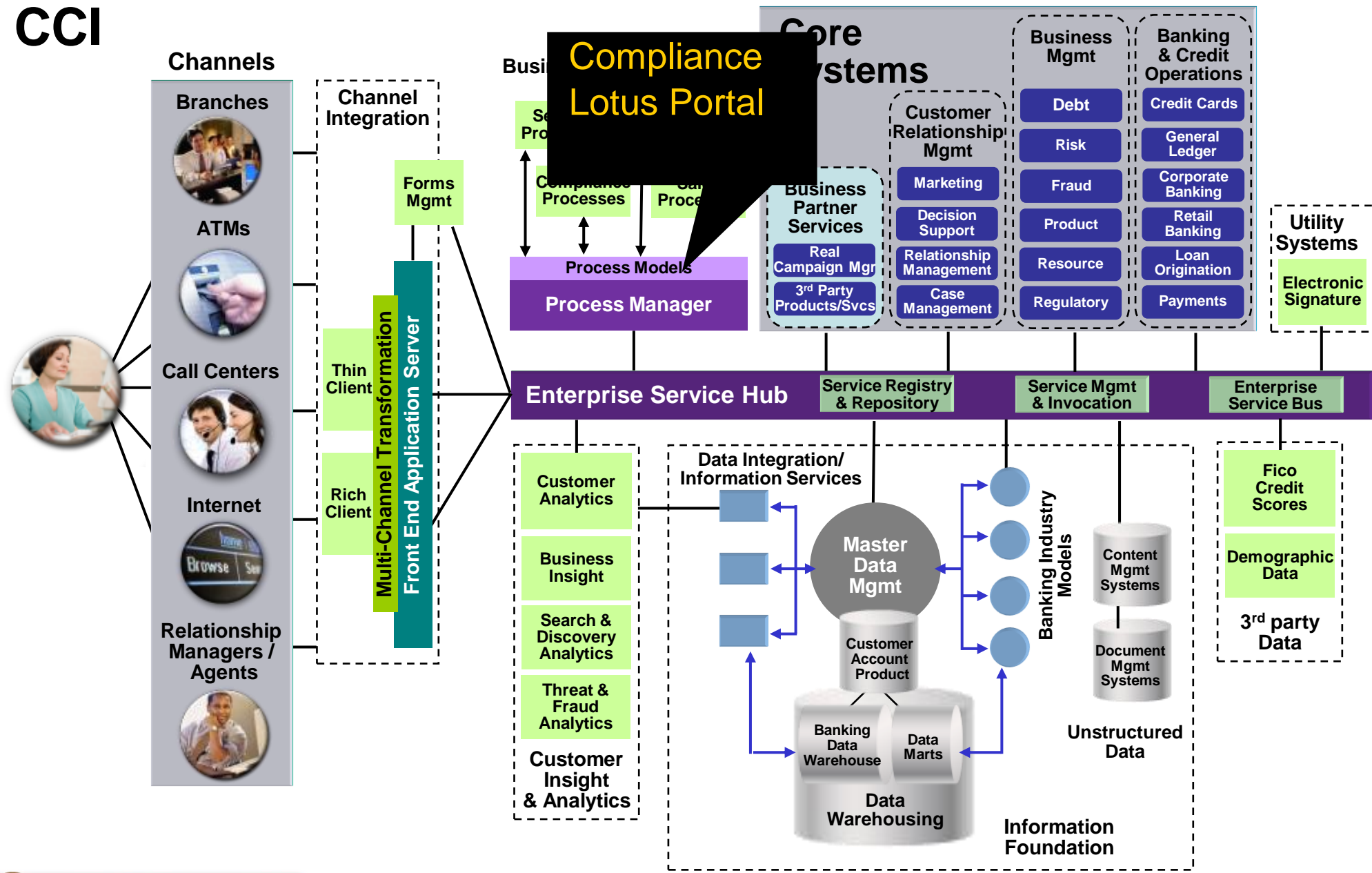
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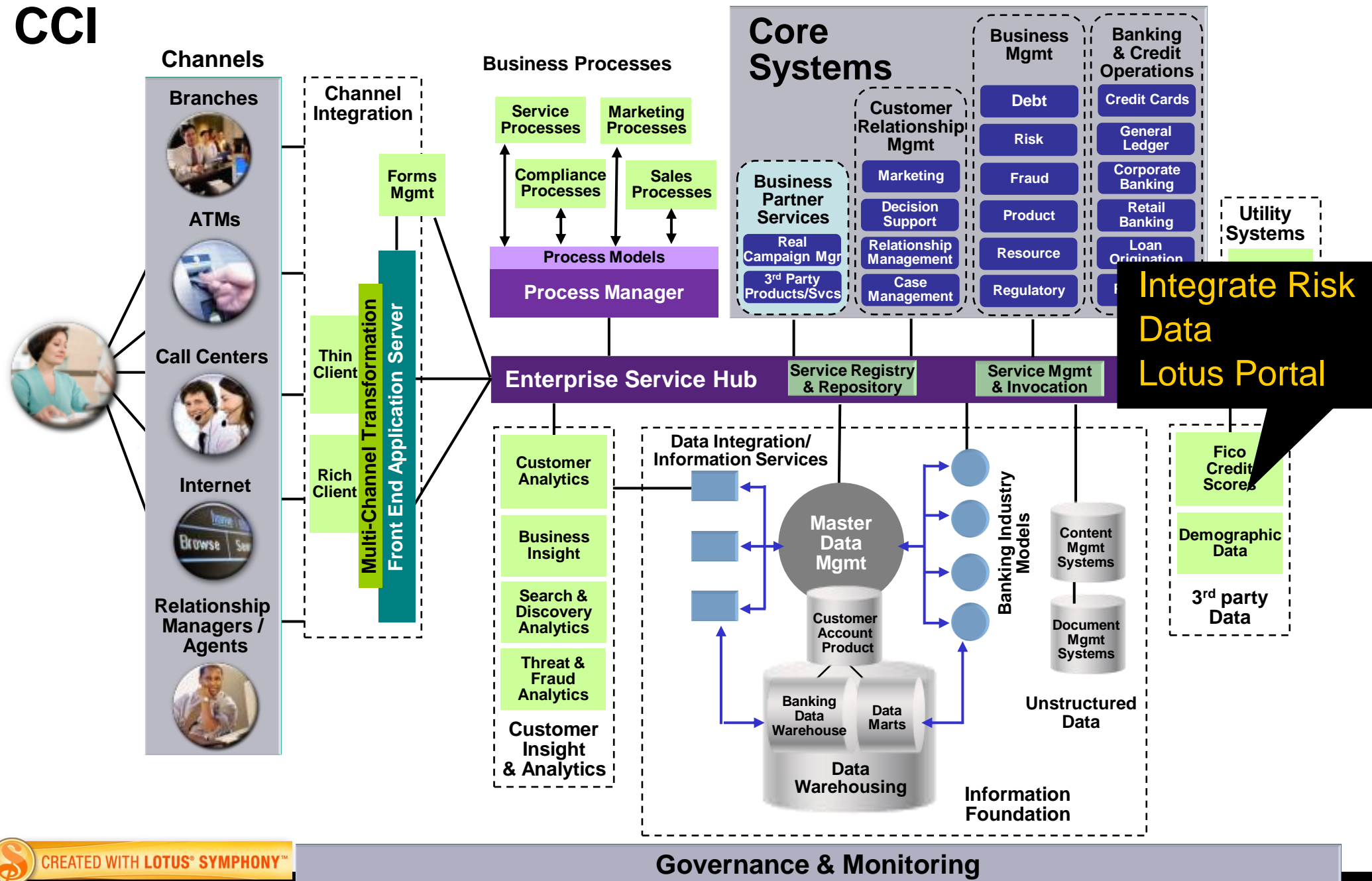
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Lotus knows.

Smarter software for a Smarter Planet.

CCI



Integrate Risk Data Lotus Portal

Lotus knows.

Smarter software for a Smarter Planet.

CCI

Channels

- Branches
- Call Centers
- Internet
- Relationship Managers / Agents

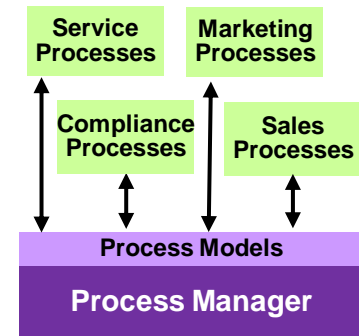
Collaboration Lotus Notes



Channel Integration



Business Processes

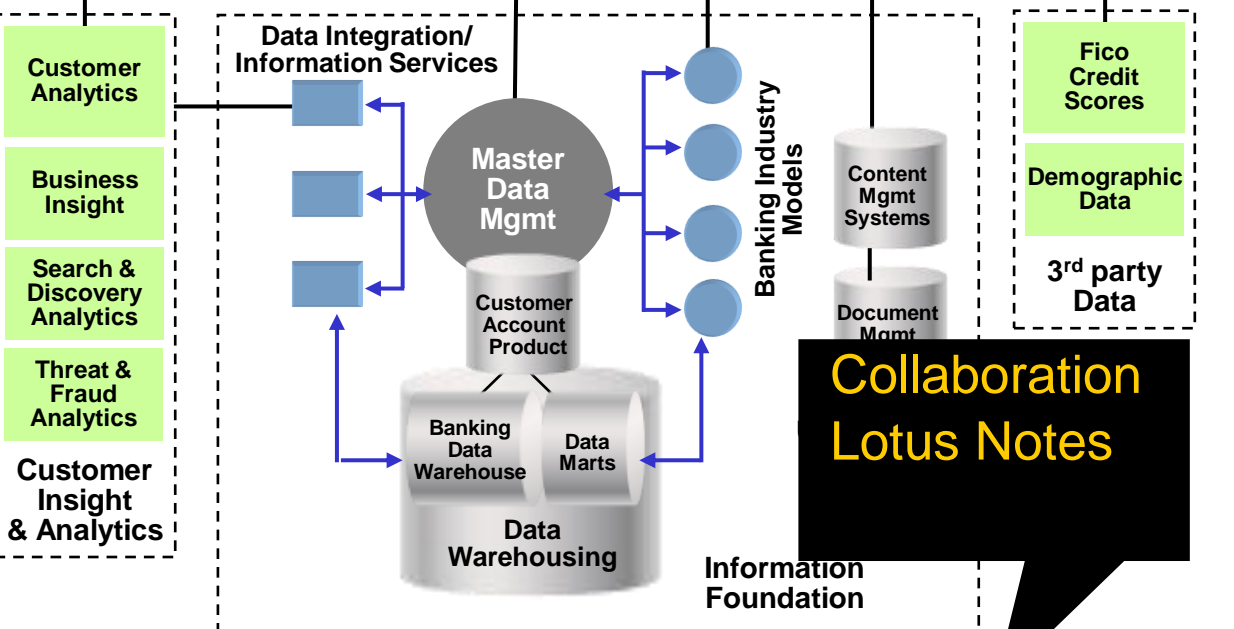
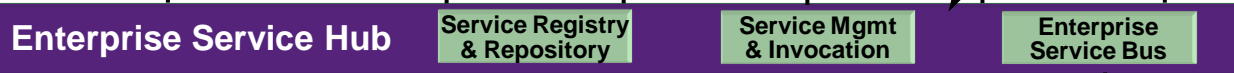


Core Systems



Collaboration Lotus Notes

Enterprise Service Hub



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Governance & Monitoring

Rapid Development & Integration

Summary

Banks need to transform their business models to capitalize on the opportunities ahead

- Banks will simplify their business models (and costs) to compete
- Client Focus- Deeper understanding of customers
- Risk - Integrated Risk Management systems and practices
- Specialization remains a winning strategy

IBM's Smarter Framework is an enabler for banks to transform their business

- Progressively transform to a simplified infrastructure
- Combines Software, Services, Hardware and partners\

BM's Lotus Portfolio Supports

- Customer Insight
- Customer Interaction... Mobile Banking and Internet
- Collaboration
- Integration

Lotus knows.

Smarter software for a Smarter Planet.

Thank You



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