

The Emergence of China's Banks as Global Players: Implications on Asian Banks

Paul Yang November 2nd, 2010

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China banks leapfrog in global banking landscape

- In 2010, 84 banks in Mainland China are ranked top 1,000 banks worldwide, accounting for 9% and 25% of tier 1 capital and pre-tax profits of these 1,000 banks, respectively.

Top 10 banks in Mainland China are ranked in "Top 1000 World Banks 2010" in terms of Tier 1 capital, US\$bn

Banks	2010 Ranking	2009 Ranking	2007 Ranking	Tier 1 Capital	Total Assets
ICBC	7	8	7	91	1,726
Bank of China	14	11	9	74	1,281
China Construction Bank	15	12	14	72	1,409
Agricultural Bank of China	28	24	65	40	1,026
Bank of Communications	49	49	68	23	485
China CITIC Bank	67	67	160	15	260
China Minsheng Banking Corp	80	107	230	13	209
China Merchants Bank	81	87	101	13	303
Industrial Bank	97	117	260	11	195
SPDB	108	137	191	10	238

Source: The Banker Magazine "Top 1000 World Banks 2010"

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China banks outpaced Japanese banks in the past decade

■ Top 15 banks ranked in “Top 1000 World Banks ” in terms of Tier 1 capital

Ranking	2010	2006	2001
1	Bank of America Corp (USA)	Citigroup (USA)	Citigroup (USA)
2	JP Morgan Chase (USA)	HSBC Holdings(UK)	Bank of America Corp (USA)
3	Citigroup (USA)	Bank of America Corp (USA)	Mizuho Financial Group (Japan)
4	Royal Bank of Scotland (UK)	JP Morgan Chase (USA)	JP Morgan Chase (USA)
5	HSBC Holdings(UK)	Mitsubishi UFJ (Japan)	HSBC Holdings(UK)
6	Well Fargo (USA)	Crédit Agricole Group (France)	Sumitomo Mitsui (Japan)
7	ICBC (China)	Royal Bank of Scotland (UK)	Crédit Agricole Group (France)
8	BNP Paribas (France)	Sumitomo Mitsui (Japan)	Mitsubishi Tokyo (Japan)
9	Santander (Spain)	Mizuho Financial Group (Japan)	UFJ Holdings (Japan)
10	Barclays Bank (UK)	Santander (Spain)	ICBC (China)
11	Mitsubishi UFJ (Japan)	China Construction Bank (China)	Bank of China (China)
12	Lloyds (UK)	HBOS (UK)	Deutsche Bank (Germany)
13	Crédit Agricole Group (France)	UniCredit (Italy)	Royal Bank of Scotland (UK)
14	Bank of China (China)	Barclays Bank (UK)	Bank One Corporate (USA)
15	China Construction Bank (China)	AMRO Bank (Netherlands)	BNP Paribas (France)

Source: The Banker Magazine "Top 1000 World Banks "

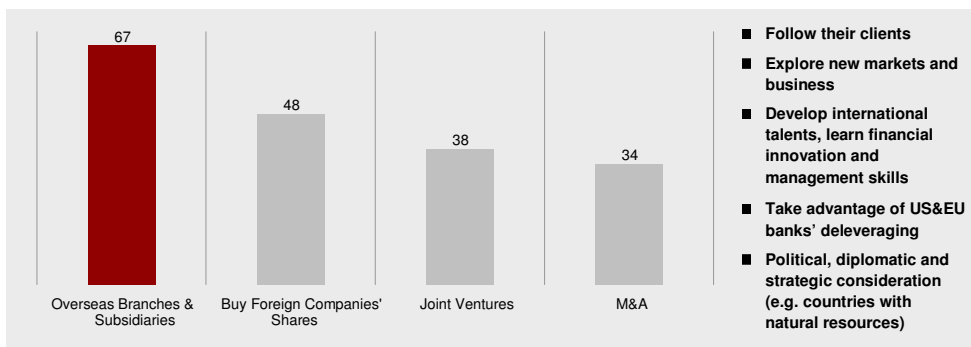
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China banks appear to eager to go global now . . .

■ Setting up overseas branches & subsidiaries is the most favorable approach for China bank's to go global

The survey of China bankers' intention to go global, percent of the poll



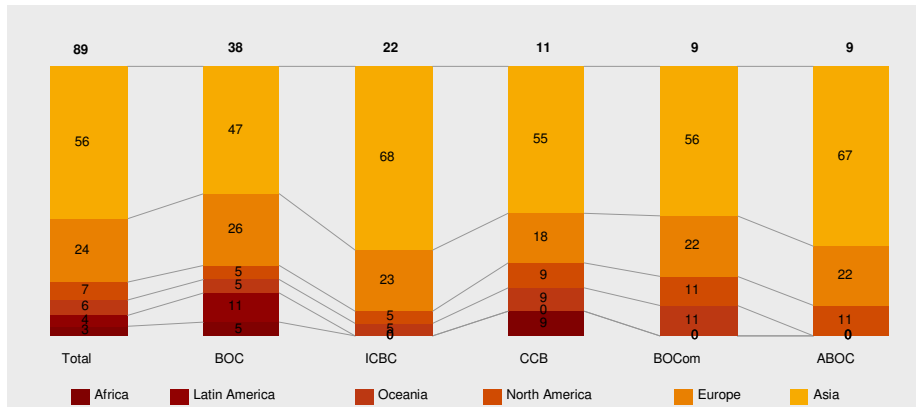
Source: "China Banker Survey 2009" published by China Banking Association and PricewaterhouseCoopers

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More than 50% China banks offices located in Asian countries

- The state-owned banks' overseas subsidiaries and branches by region, number of outlets, percent of total



Source: Company data

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M&A activities are also concentrated in Asia, primarily Hong Kong & Macao

- China banks' successful M&A transactions in recent years

Bank	M&A activities
ICBC	<ul style="list-style-type: none"> Set up ICEA (JV) with Bank of East Asia (BEA) in Hong Kong in 1998 Acquired a 100% stake in Union Bank of Hong Kong which was renamed as ICBC (Asia) in 2000 ICBC (Asia) acquired a 100% stake in Fortis Bank Asia in 2003 Acquired a 90% stake in Halim Bank (Indonesia) in 2007 Acquired a 79.93% stake in Seng Heng Bank (Macao) in 2007 Acquired a 20% stake in the Standard Bank (South Africa) in 2008 Acquired a 70% stake in BEA Canada in 2009 Acquired a 97.24% stake in ACL Bank (Thailand) in 2010
Bank of China	<ul style="list-style-type: none"> Acquired 30% stakes of Heritage Fund Management (Swiss) in 2008 Acquired a 100% stake in SALE (Singapore Aircraft Leasing Enterprise) in 2006 and SALE was renamed as BOC Aviation
China Construction Bank	<ul style="list-style-type: none"> Acquired a 100% stake in Bank of America (Asia) in 2006
China Merchant Bank	<ul style="list-style-type: none"> Acquired a 100% stake in Wing Lung Bank in 2009

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Although China banks have increasing presence in Asia, they are not likely to become truly global

- Primarily serving existing PRC customers. (Japanese banks are actually good proxies)
- Most large Chinese customers are very much still China-focused. Long way from becoming true MNCs.
- RMB is not freely traded. Restricted capital accounts in China.
- Cultural & language barriers.
- Management systems.
- Best opportunities are at home.

We expect "peaceful emergence" of China banks

- China banks are not likely to become competitors in the near-to-medium term for local customers in Asian markets.
- Will most likely to focus on cross-border transactions of existing Chinese customers.
- Potential for Asian banks to form partnerships to address cross-border opportunities.

Taking Taiwan as an example

■ China banks are not competitors for Taiwanese customers

1. An already overly-crowded market
2. Lack company specific knowledge for local customers including credit history, industry knowledge, etc.
3. Much lower margins than opportunities in Mainland

■ Bank of China, Bank of Communication and China Merchant Bank have applied to set up representative offices in Taiwan after cross-strait Economic Cooperation Framework Agreement (ECFA) took effect in September 2010

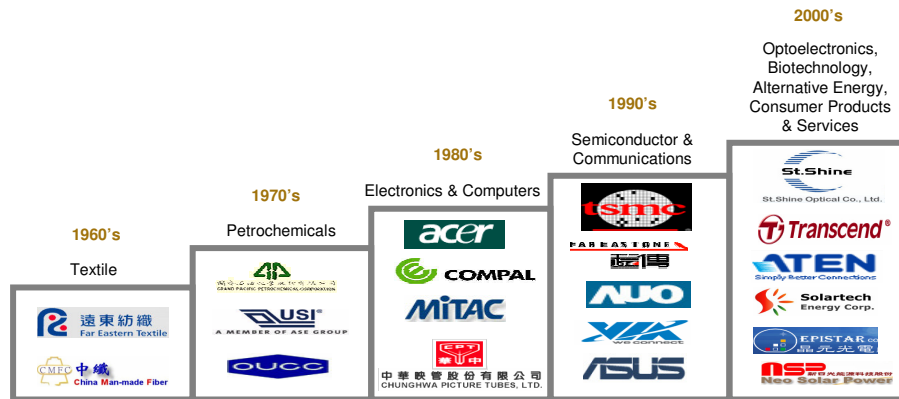
1. Politically driven
2. Following Chinese customers in Taiwan

Case study for forming partnership with China banks China Development Financial Holding ("CDFH")



CDFH has played a vital role in Taiwan's industrial development

- We provide financing, investment and capital markets services to key corporate customers since 1959



Source: company data

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Highlights of major business lines

Principal Investment

- As Taiwan's largest investment institution, principal investments consists of roughly US\$2.4bn proprietary capital in 360+ companies. Listed/pre-IPO accounts for one third of portfolio.
- Since 2006, we complemented our direct investment strategy by committing to 27 tier private equity funds across Asia, the US and Western Europe. In addition, CDIB deployed in excess of US\$190mn via selected co-investments with best-in-class GPs.
- Principal investment has generated unlevered return on investment (IRR) > 20% over the past 10 years.

Corporate Banking

- CDIB has been well regarded as one of the best project finance banks in Taiwan since 1992 due to our years of knowledge on industries and valuable resources.
- While most banks' margins declined in a falling interest rate environment, corporate banking division still generated an annualized return on equity for over 10%.
- As asset quality continues to improve, the bank's NPL ratio hits new low at 0.63% in June 30, 2010.

Securities

- As a perennial leader among Taiwanese securities houses and investment banks, GCSC were consecutively named "The best domestic investment bank in Taiwan" and "The best bond house in Taiwan" by several international acclaimed magazines including The Asset, Finance Asia and Asiamoney.
- GCSC have completed 200+ underwritings over the past 20 years, representing an overall market share of 15% which ranks us first amongst market players.

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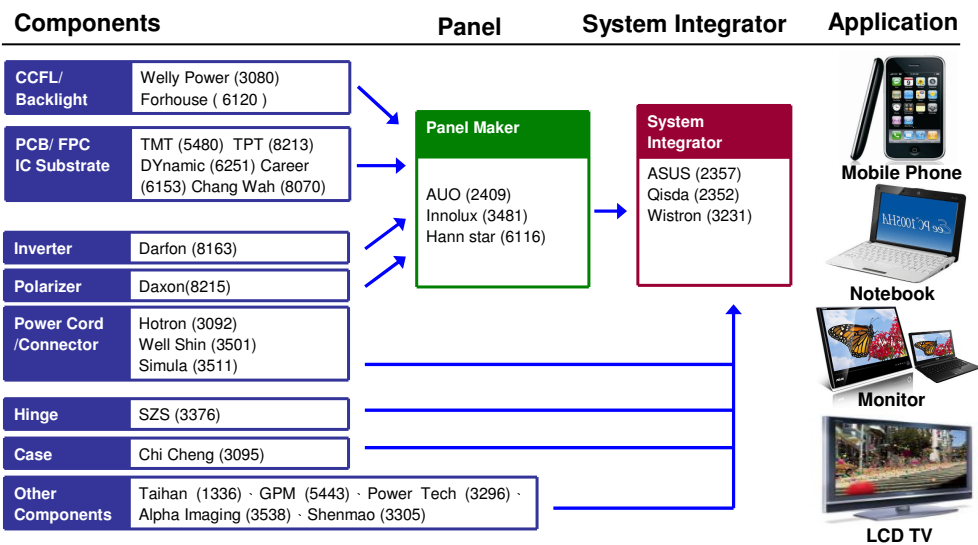
Most of CDFH's customers have significant presence in China



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Taiwanese corporations operate through virtual network along industry supply chain



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Opportunities for partnership

Paid-in Capital (NT\$Bln)



Large enough companies whereby China banks are ready to provide on-shore financing

Smaller suppliers may not qualify for the China banks due to lack of on-shore credit history or asset size



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Opportunities for partnership (cont'd)

	China banks	CDIB	Taiwanese SME companies in China
Issues	<ul style="list-style-type: none"> Lack of specific credit information of Taiwanese companies No or little industry knowledge 	<ul style="list-style-type: none"> No existing business presence in China No RMB deposits leads to no RMB lending capacity 	<ul style="list-style-type: none"> Lack of asset size Little on-shore credit history
Collaboration	<ul style="list-style-type: none"> Make RMB loans to Taiwanese companies with guarantees by CDIB 	<ul style="list-style-type: none"> Offer secured or unsecured credit guarantees to Taiwanese companies in China base on their credit/operating history in Taiwan 	
Benefits	<ul style="list-style-type: none"> Increase revenues from segments not otherwise accessible to China banks 	<ul style="list-style-type: none"> Customer retention by extending services to existing Taiwanese customers in China 	<ul style="list-style-type: none"> On-shore RMB financing became available. Reduce overall funding cost

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