THE "GOING OUT" OF CHINESE BANKS

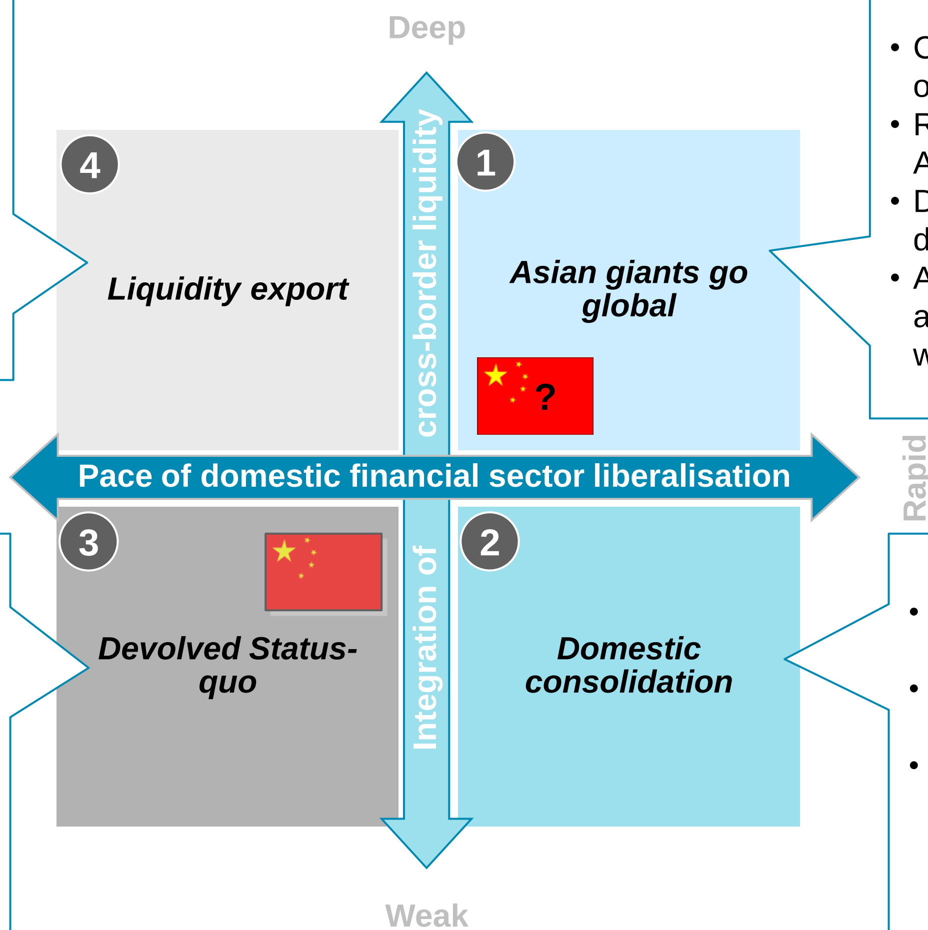
JUNE 11, 2012

Rafael Gil-Tienda
Chairman, Asia-Pacific

We have translated these regulatory uncertainties into four potential scenarios for the banking sector

- China opens up capital account and currency
- Under-developed fixed income markets, cause bulk of flows to be intermediated through banking system
- Asian banks use liquidity strength to fund foreign banking activities globally

- China accelerates opening up of capital account
- RMB is convertible, preferred Asian trade currency
- Domestic financial (FI, derivatives) markets open up
- Asian Giants expand globally and grow cross-border wholesale operations[1]



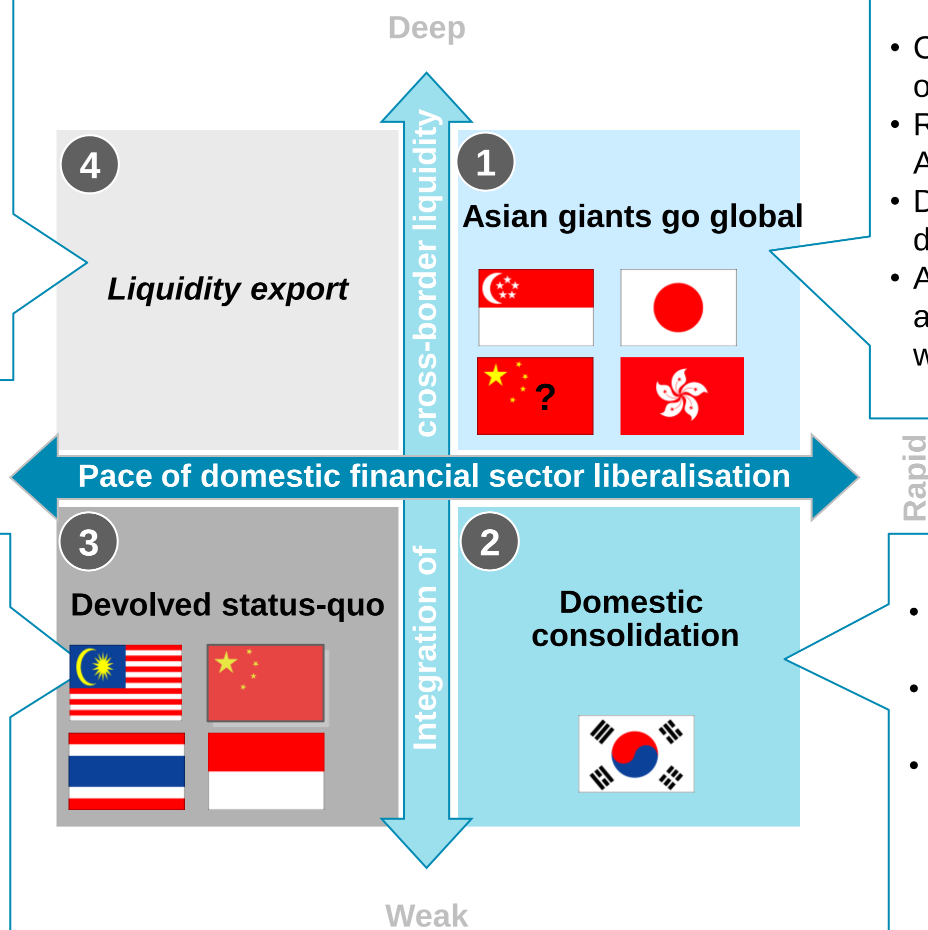
- Cross-border flows are constrained by:
  - Tighter capital controls
  - No additional clearing houses or swap facilities
  - USD funding availability
- Under-developed capital markets mean banks defend loan finance business rather than extending capabilities

- Capital and currency controls are kept in place
- Banks consolidate in each market to pool capital
- Asian banks build business into securities activity but are limited by dependence on dollar funding

We have translated these regulatory uncertainties into four potential scenarios for the banking sector

- China opens up capital account and currency
- Under-developed fixed income markets, cause bulk of flows to be intermediated through banking system
- Asian banks use liquidity strength to fund foreign banking activities globally

- China accelerates opening up of capital account
- RMB is convertible, preferred Asian trade currency
- Domestic financial (FI, derivatives) markets open up
- Asian Giants expand globally and grow cross-border wholesale operations[1]

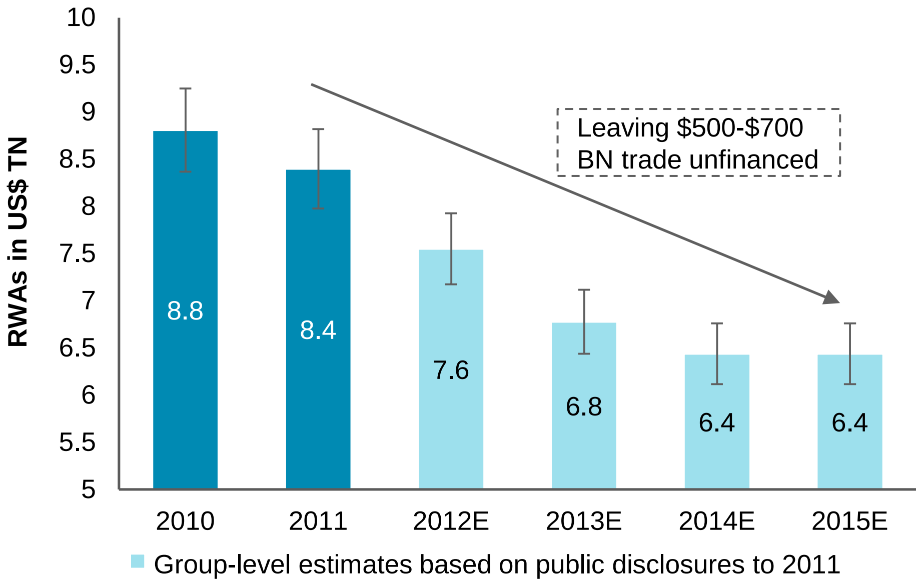


- Cross-border flows are constrained by:
  - Tighter capital controls
  - No additional clearing houses or swap facilities
  - USD funding availability
- Under-developed capital markets mean banks defend loan finance business rather than extending capabilities

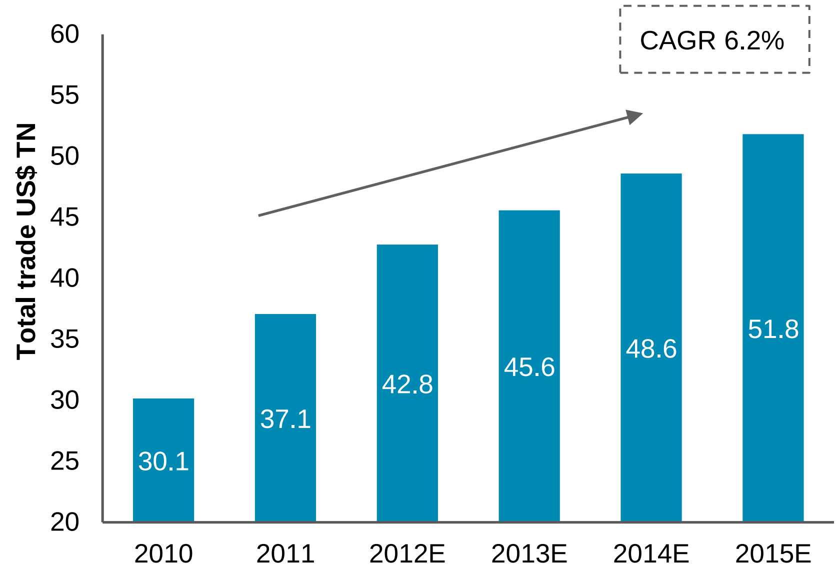
- Capital and currency controls are kept in place
- Banks consolidate in each market to pool capital
- Asian banks build business into securities activity but are limited by dependence on dollar funding

In the midst of growing trade, Western banks are deleveraging due to Basel III and home market instability – driving the emergence of a "credit gap"

Major European and American banks deleveraging assets …



… whilst world trade flows continue to grow



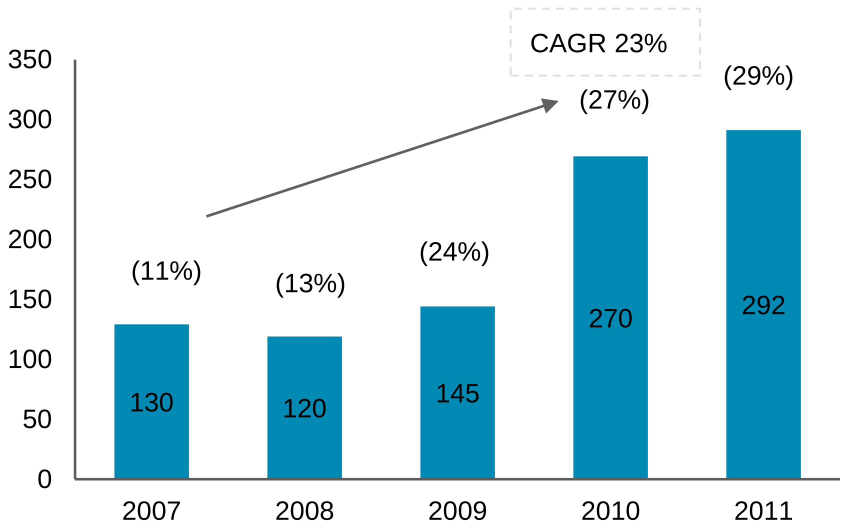
- **Asian trade finance has been dominated by European and US banks who provide 46% of Asian trade finance[1]**
- **As a short-term, self-liquidating product, Trade Finance has become a product that is "relatively easy" to run off**

Asian banks have a critical window of opportunity to step-up through the continued development of their capabilities and cross-border footprint

Note 1: shown by OW analysis of major banks including BNP, Societe Generale, Deutsche Bank, RBS, UBS, Credit Suisse, HSBC, Citi, Standard Chartered, JPMorgan, Barclays Capital, Bank of America, as well as statements by Monetary Authority of Singapore
Source: Asia Money *(Jan 31 2012)*, WTO and Global Insight trade data, Oliver Wyman analysis and estimates

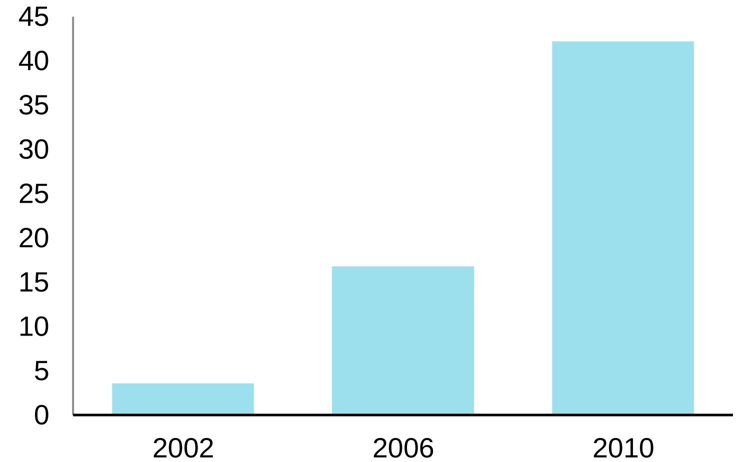
The global expansion of Chinese corporates and the parallel interest this has drawn from foreign portfolio investors creates a two-way opportunity for Chinese banks

China outbound M&A market revenue
USD MM, (% of total Asia outbound M&A) 2007-2011



- Lower M&A costs and a growing mid-cap market has prompted Chinese companies to look for opportunities outside of their domestic markets
- Chinese banks have entrenched relationships with their corporate client base[1]
- A global presence would allow Chinese banks to follow their corporate clients abroad

Foreign portfolio investment into China
USD BN



- Since the launch of QFII by PRC in 2002, we have seen foreign investment in Yuan denominated shares grow with tremendous momentum
- Given the local market knowledge and relationships of Chinese banks, they are well positioned to service this new client base

Source: Dealogic, IMF CPIS, Oliver Wyman proprietary data and analysis
Note 1: relationships grounded in credit