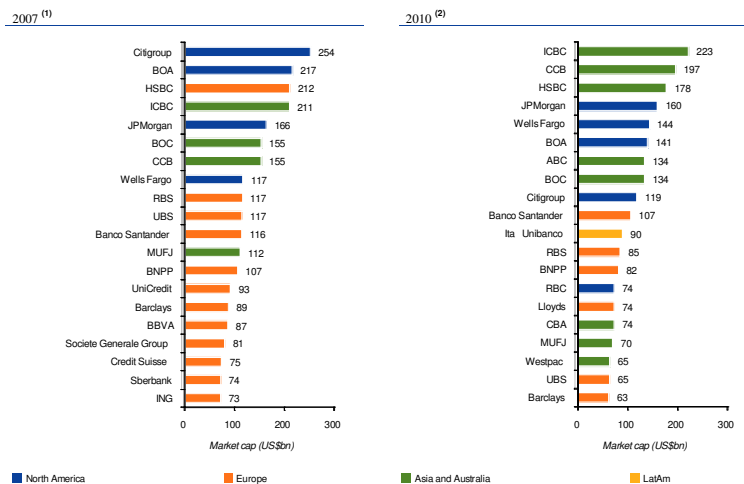


The Emergence of China's Banks as Global Players:  
Implications on Asian Banks

Peter Lo, Chief Country Officer, Hong Kong, Deutsche Bank

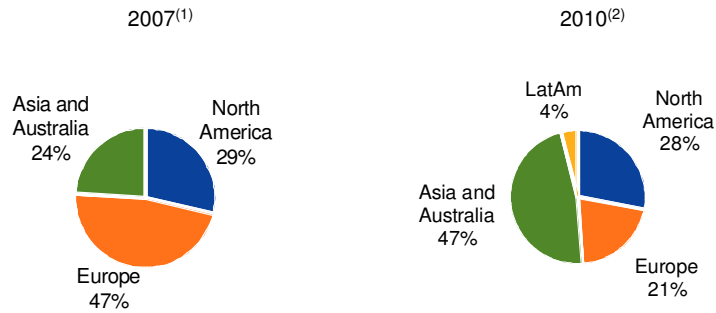
Presentation for the Asian Bankers Association  
27<sup>th</sup> Annual General Meeting and Conference  
November 2, 2010 in Taipei, Taiwan

Top 20 global banks by market capitalisation



Note: (1) As of July 31, 2007; (2) As of July 31, 2010  
Source: Capital IQ

## Regional Breakdown of Top 20 global banks by market capitalisation



Note: (1) As of July 31, 2007; (2) As of July 31, 2010  
Source: Capital IQ

## What happened in the West

- **Easing of monetary policy:** Post-dot com bubble, the federal funds rate was reduced by 550 bps in less than 3 years, driving negative real interest rates
- **Increase in leverage:** 44x tangible book equity, compared to mid-20x earlier this decade
- **Growth of short-term financing:** Asset-backed commercial paper ballooned to US\$1.2 trillion, up from \$600 billion in 2001
- **Real estate bubble:** Homeowners purchased houses they could not afford using easy financing options; home prices appreciated rapidly
- **Mortgage origination:** Within 4 years, sub-prime and alt-A originations grew from ~10% to ~40% of the US\$14.7 trillion market for US residential and commercial loans
- **Securitisation:** Creation and dissemination of securitised sub-prime loans reached new highs, spreading the risk throughout the financial system
- **Mark-downs:** 550 billion euros in write downs were required from 2Q2007 through FY2008

## What happened in the East

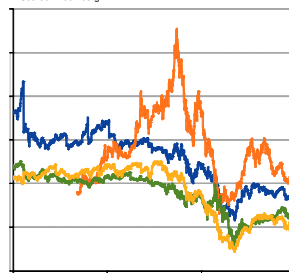
- **GDP growth:** China projected at 7% in Q3 2010; IMF predicts 4.9% - 5.6% GDP growth for Asia in 2010, compared to 4.2% for the rest of the world
  - Emerging markets' share in global economy has surpassed the 50% mark
  
- **New financial centres:** The financial crisis helped already-developing financial centres like Sao Paulo, Singapore, Shanghai and Seoul to make gains in financial services market share
  - Emerging market financial centres now enjoy higher growth economies, and abundance of capital
  
- **SWFs:** Sovereign wealth funds have become a permanent feature of the global financial landscape
  - Chinese SWFs are particularly important to securing resources for future growth
  
- **Resilience of local banks:** Local financial institutions suffered less during the financial crisis than larger, international institutions

## Capitalisation of regional banks

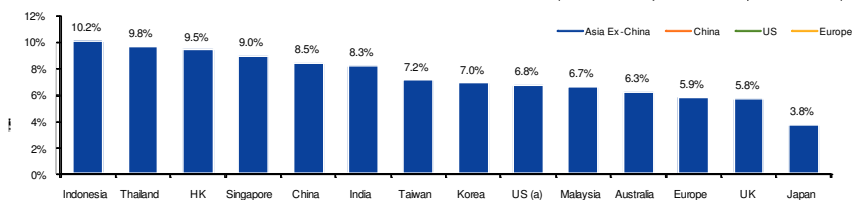
- **IPOs of PRC banks**
  - CCB in 2005 raised US\$8.0 billion
  - ICBC in 2006 raised \$21.9 billion
  - BoC in 2006 raised \$11.2 billion
  - ABC in 2010 raised US\$20.8 billion

### Evolution of trailing P/B ratios

Source: Bloomberg



### Tier 1 Capital Ratios



Note (a): Aggregate core Tier 1 ratio of select US banks under Basel III, as of 2009  
Source: Wall Street research



## Why foreign banks expanded

### Deutsche Bank

- Increased competition in home market
- Fragmented industry in home market
- Expansion was necessary to grow as a bank

### HSBC

- Political changes in major markets
- A desire to diversify the concentration of risks
- Push into the US and UK, as well as entry into household finance solutions

### Bank of America and Citigroup

- The two largest banks in the 1970s and 1980s
- Firm leaders in the US - the world's largest economy
- Expanded globally to follow existing clients into new markets



## What it takes to be a global player

- **Leading share in the home market**
  - Big ten banks globally have dominant market share in their home country
- **Financial strength**
  - Chinese banks are well capitalised and growing
  - Operating performances are very favourable
- **Operations in all major financial centres**
  - BoC operates in 27 cities
  - ABC operates in only 2
- **Global client base**
  - Deutsche earns only 1/3 of total revenue from its home market
  - Need balanced operations in different geographic regions
- **Diversity within the organisation**
  - In age, gender and races
  - English as official business language
  - Local management
- **Sophisticated capital markets**
  - Leaders in the introduction of financial instruments
  - Seen as innovators moving the markets ahead

Global Financial M&A Transactions

Global

	Date	Acquirer	Target	% stake	Firm value (\$bn)	Transaction value (\$bn)	
Jan 2005 \$ Dec 2007	04/25/07	RBS	ABN-AMRO Holding NV	98.8	99.4	98.2	
	02/18/05	Mitsubishi Tokyo Financial Group	UFJ Holdings Inc	100.0	41.4	41.4	
	08/26/06	Banca Intesa SpA	San Paolo IMI SpA	100.0	37.6	37.6	
	06/30/05	Bank of America Corp	MBNA Corp	100.0	35.8	35.8	
	05/15/07	Unicredit Italiano SpA	Capitalia SpA	100.0	29.5	29.5	
	05/07/06	Wachovia Corp, Charlotte, NC	Golden West Financial Corp, CA	100.0	25.5	25.5	
	04/23/07	Bank of America Corp	ABN-AMRO North America Holding	100.0	21.0	21.0	
	05/30/05	Unicredit Italiano SpA	Bayerische Hypo- und Vereins	100.0	18.3	18.3	
	12/03/06	Bank of New York Co Inc, NY	Mellon Financial, Pittsburgh, PA	100.0	15.7	15.7	
	03/12/06	Capital One Financial Corp	North Fork Bancorp, Melville, NY	100.0	15.1	15.1	
					<b>Average:</b>	<b>33.8</b>	
	Jan 2008 \$ Jul 2010	09/14/08	Bank of America Corp	Merrill Lynch & Co Inc	100.0	48.8	48.8
		02/26/09	HM Treasury	RBS	57.9	45.0	26.1
09/17/08		Lloyds TSB Group PLC	HBOS PLC	100.0	25.4	25.4	
09/29/08		Netherlands Government	Fortis Bank Nederland (Holding)	100.0	23.1	23.1	
05/12/08		Westpac Banking Corp	St George Bank Ltd	100.0	17.9	17.9	
10/03/08		Wells Fargo, San Francisco, CA	Wachovia Corp, Charlotte, NC	100.0	15.1	15.1	
10/06/08		BNP Paribas SA	Fortis Bank SA/NV	74.9	17.0	12.8	
10/08/08		CNCE	Banque Federale des Banques	100.0	8.9	8.9	
11/03/08		Banco Itaú Holding Financeira	Unibanco Holdings SA	100.0	8.5	8.5	
09/22/08		Mitsubishi UFJ Financial Group	Morgan Stanley	21.9	35.8	7.8	
				<b>Average:</b>	<b>19.4</b>		

Note:  
■ Distressed transactions  
■ Strategic transactions  
 Source: SDC Plunk, Newsrun

Asia-based Financial M&A Transactions

Asia

	Date	Acquirer	Target	% stake	Firm value (\$bn)	Transaction value (\$bn)
Jan 2005 \$ Dec 2007	08/31/05	Goldman Sachs, Allianz, American Express	ICBC	9.0	42.1	3.8
	01/10/05	Standard Chartered PLC	Korea First Bank	100.0	3.3	3.3
	06/18/05	RBS, Merrill Lynch, Li Ka-Shing, UBS	Bank of China	10.0	31.0	3.1
	11/16/06	China Life, Citigroup consortium	Guangdong Development Bank	85.6	3.6	3.1
	08/17/07	Central Huijin Investment Ltd	China Everbright Bank	70.9	3.7	2.6
	06/16/05	Bank of America Corp	China Construction Bank	9.0	27.8	2.5
	09/03/07	ING	Bank of Beijing	19.3	10.3	2.0
	06/30/05	SinoPac Financial Holdings Co Ltd	International Bank of Taipei	100.0	1.5	2.0
	08/31/05	Temasek	Bank of China Ltd	5.0	30.0	1.7
	06/06/05	CIMB	BumiPutra-Commerce Bank Bhd	100.0	1.4	1.5
				<b>Average:</b>	<b>2.2</b>	
Jan 2008 \$ Jul 2010	03/05/10	China Mobile Group Guangdong Co	Shanghai Pudong Dvip Bk	20.0	29.2	5.8
	06/02/08	China Merchants Bank Co Ltd	Wing Lung Bank Ltd	53.1	4.7	2.5
	02/25/08	HDFC Bank Ltd	Centurion Bank of Punjab Ltd	100.0	2.4	2.4
	06/12/09	Ping An Insurance (Group) Co of China	Shenzhen Dvip Bank Co Ltd	16.8	13.6	2.3
	11/23/09	BBVA	China CITIC Bank Corp Ltd	4.9	33.5	1.7
	12/17/09	Hong Leong Bank Bhd	EON Capital Bhd	100.0	1.6	1.6
	10/15/09	OCBC	ING Asia Private Bank Ltd	100.0	1.5	1.5
	8/11/10	ICBC	ICBC (Asia)	27.2	5.1	1.4
03/26/08	Maybank	Bank Internasional Indonesia	100.0	1.3	1.3	
06/03/08	BBVA	CITIC International Finance Ltd	15.2	8.1	1.2	
				<b>Average:</b>	<b>2.6</b>	

Note:  
■ Foreign Investments  
 Source: SDC Plunk, Newsrun

Is this the future of the world's banking sector?



We will have to wait and see