



Asian Financial Sector – The Changing Landscape

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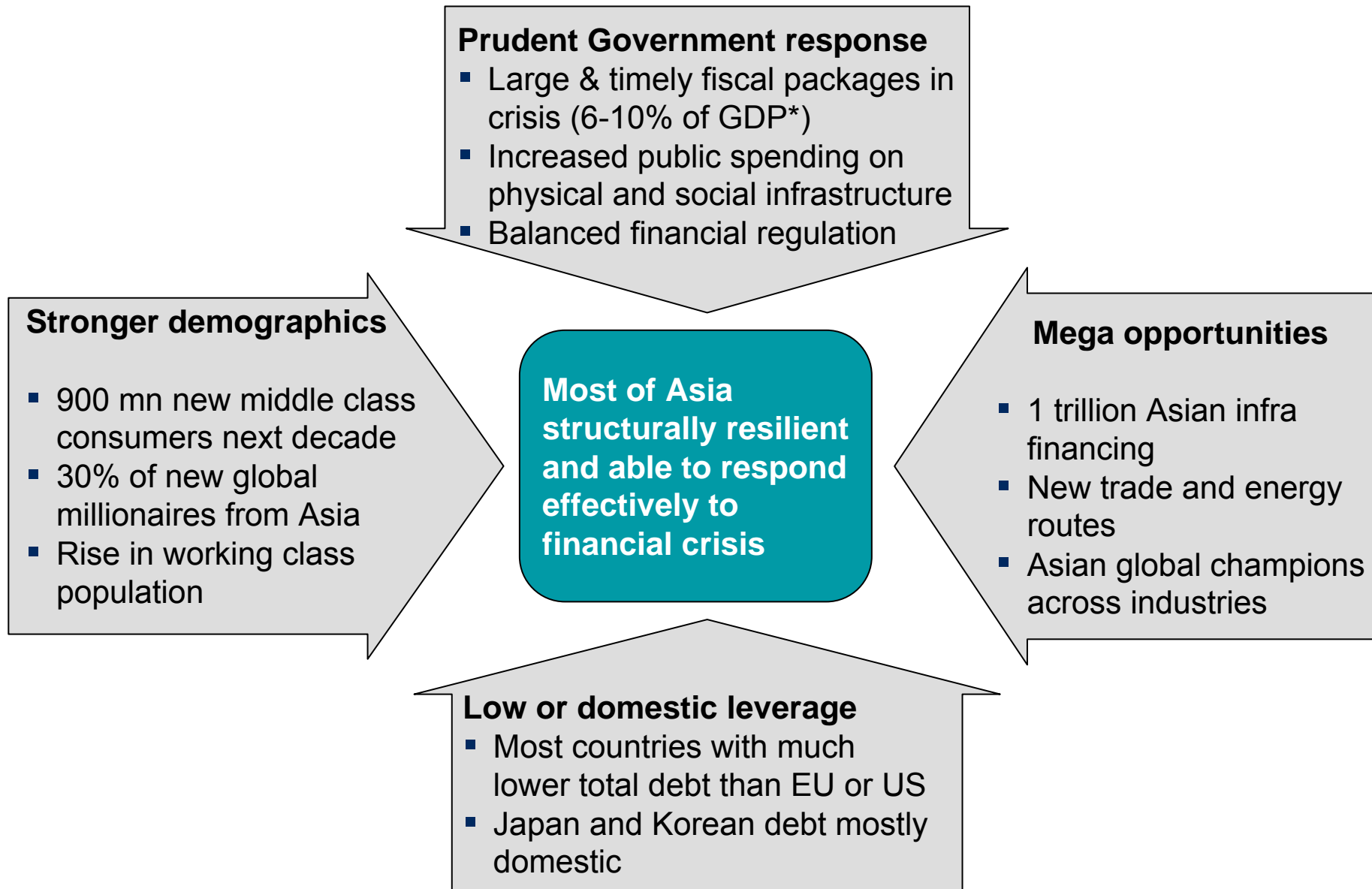
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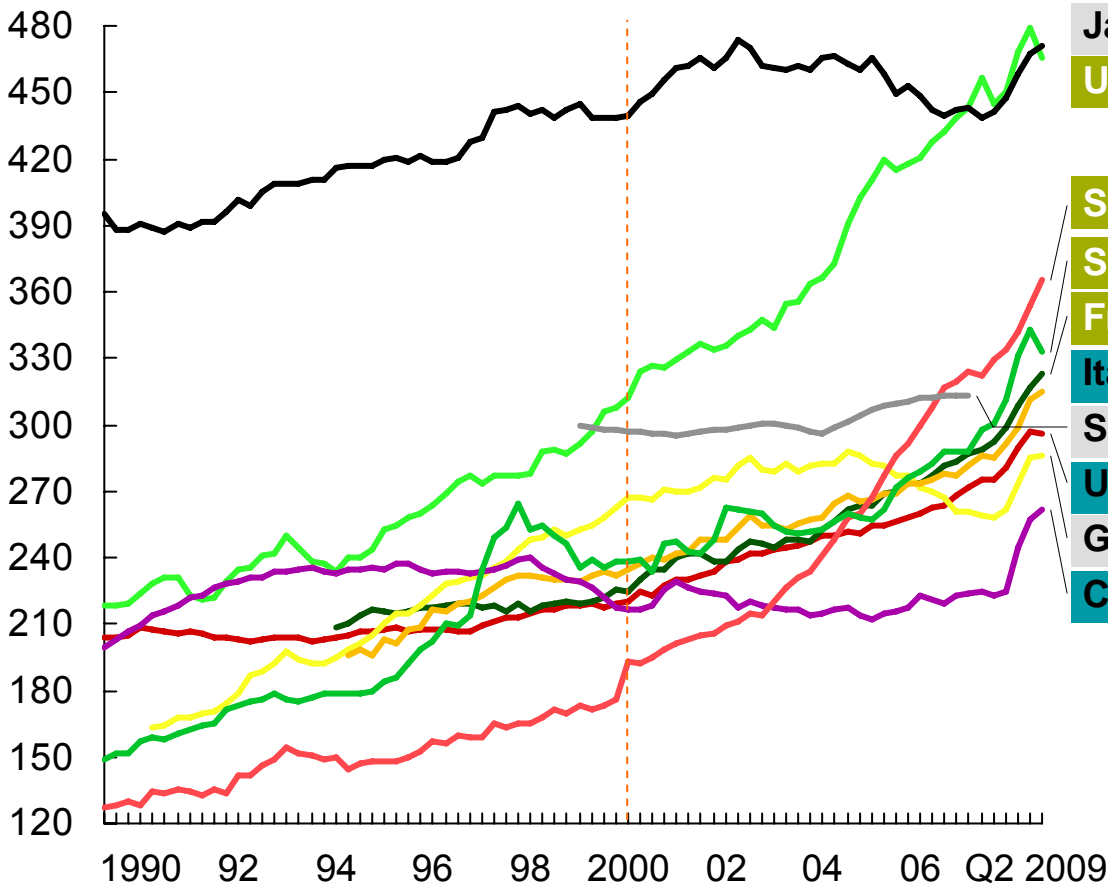
Asia weathering financial crisis relatively well, due to four main factors



Except Japan and Korea most Asian economies have lower debt than US or Europe

- Rapid growth
- Moderate growth
- Slow/negative growth

Domestic private and public sector debt¹ by country
% of GDP



CAGR², % **Change, p.p.**
1990-00 2000-08 2000-08

| | | | |
|-----------------|-----|-----|-----|
| Japan | 1.2 | 0.5 | 19 |
| UK ³ | 3.3 | 5.2 | 157 |
| Spain | 4.1 | 7.4 | 150 |
| S. Korea | 4.3 | 4.2 | 93 |
| France | 1.2 | 3.9 | 83 |
| Italy | 2.9 | 3.1 | 64 |
| Switzerland | N/A | 0.8 | 17 |
| US | 0.6 | 3.5 | 70 |
| Germany | 5.6 | 0.3 | 7 |
| Canada | 0.3 | 1.5 | 28 |

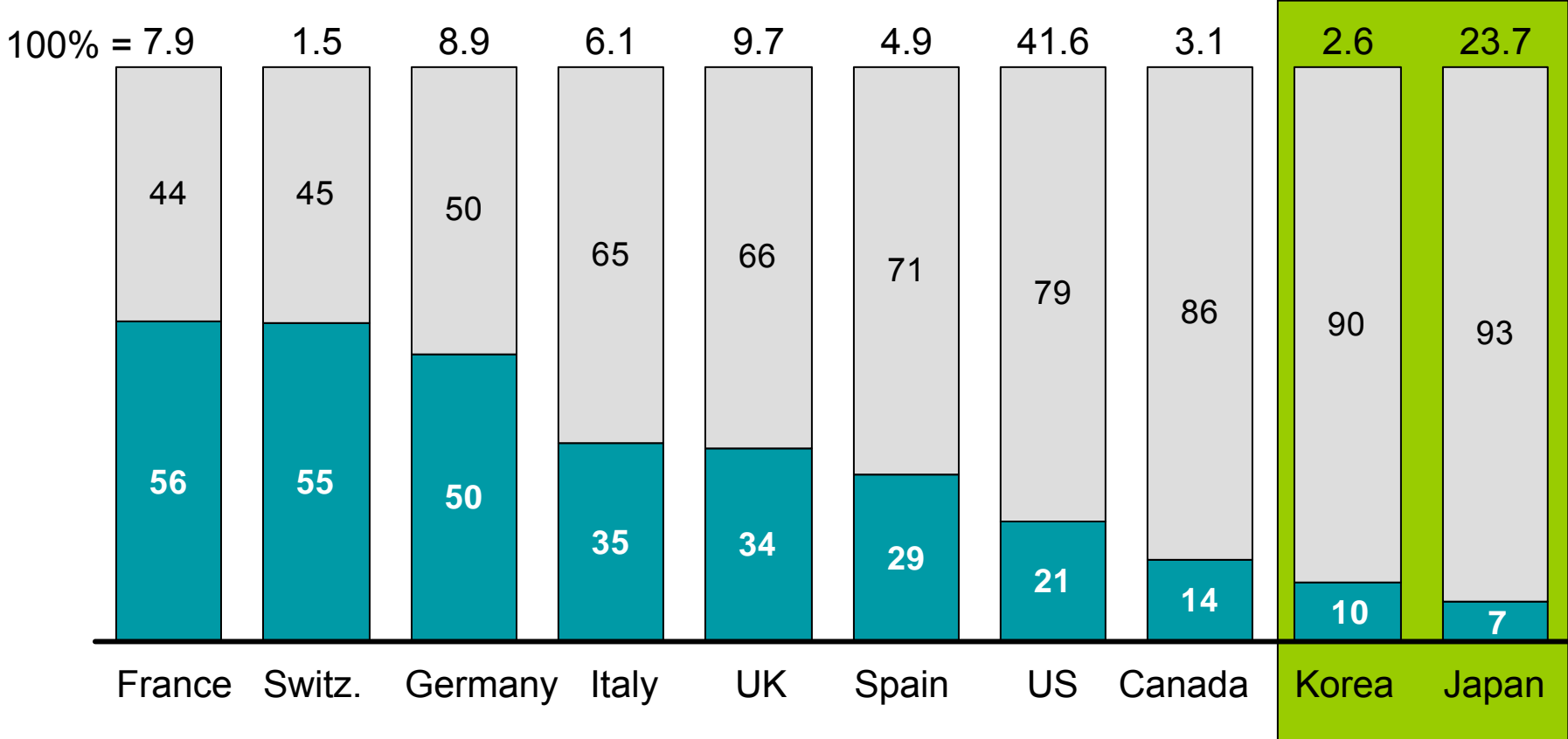
1 "Debt" is defined as all credit market borrowing including loans and fixed-income securities.
 2 Compound annual growth rate. Where data are unavailable, the longest possible period is used.
 3 Even after removing foreign lending by UK banks, UK debt/GDP remains higher than every country except Japan.

Japan and Korean debt mostly owned domestically

Domestically owned share
 Foreign-owned share

Composition of public and private debt by nationality of creditor¹, 2008

%, \$ trillion



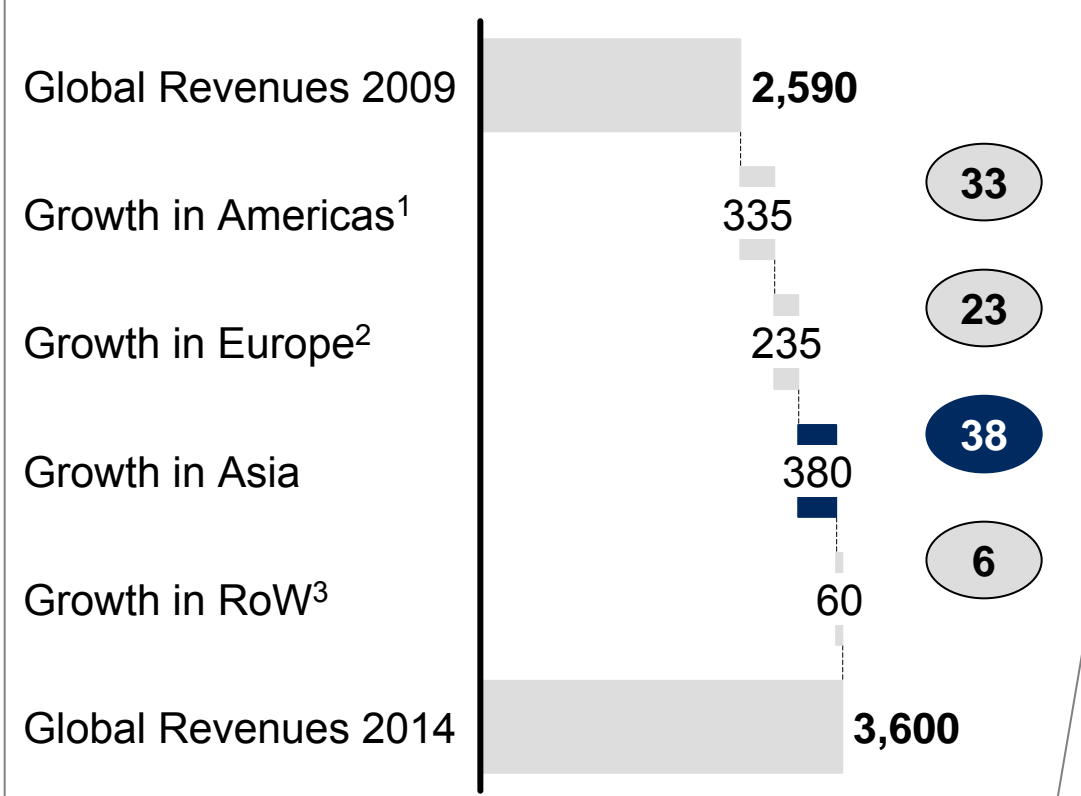
¹ We calculate the percentage of foreign-owned debt by comparing the sum of foreign debt and loan liabilities, reported in the international investment position, with total debt calculated from national balance sheet accounts.

² Switzerland represents year-end 2007 data.

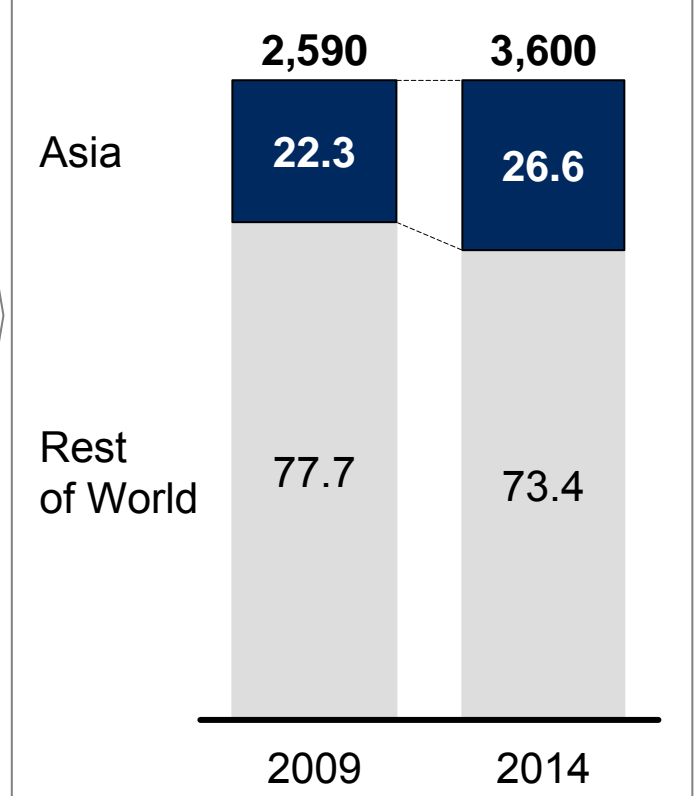
Going forward, Asia will be the land of opportunity with ~40% of incremental global banking revenues

x Percentage share of incremental growth

Global banking revenue pools, risk-adjusted US\$ bn; Percent



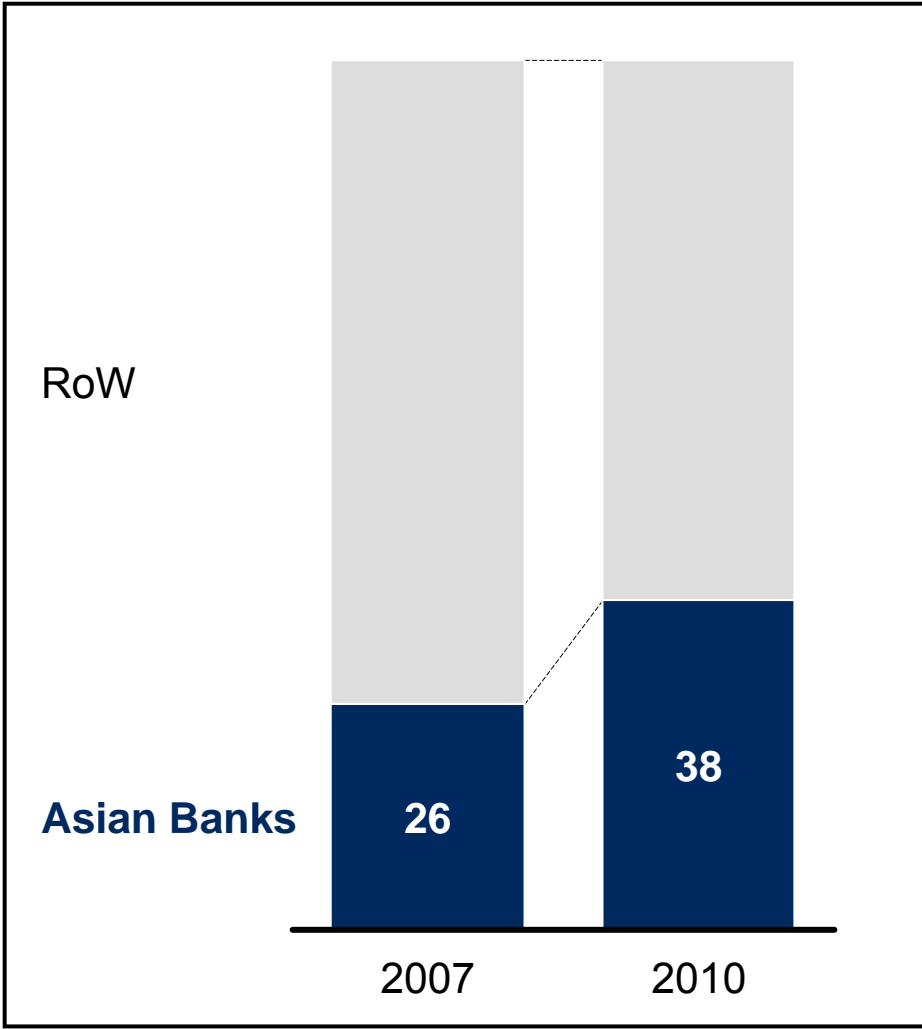
Asia's share in global banking revenue pools US\$ bn; Percent



1 Includes North America and Latin America
 2 Includes Eastern Europe and Western Europe
 3 Includes Africa and the Middle Eastern region

Asia: The land of opportunity for Financial Institutions

Number of Top 100 banks globally

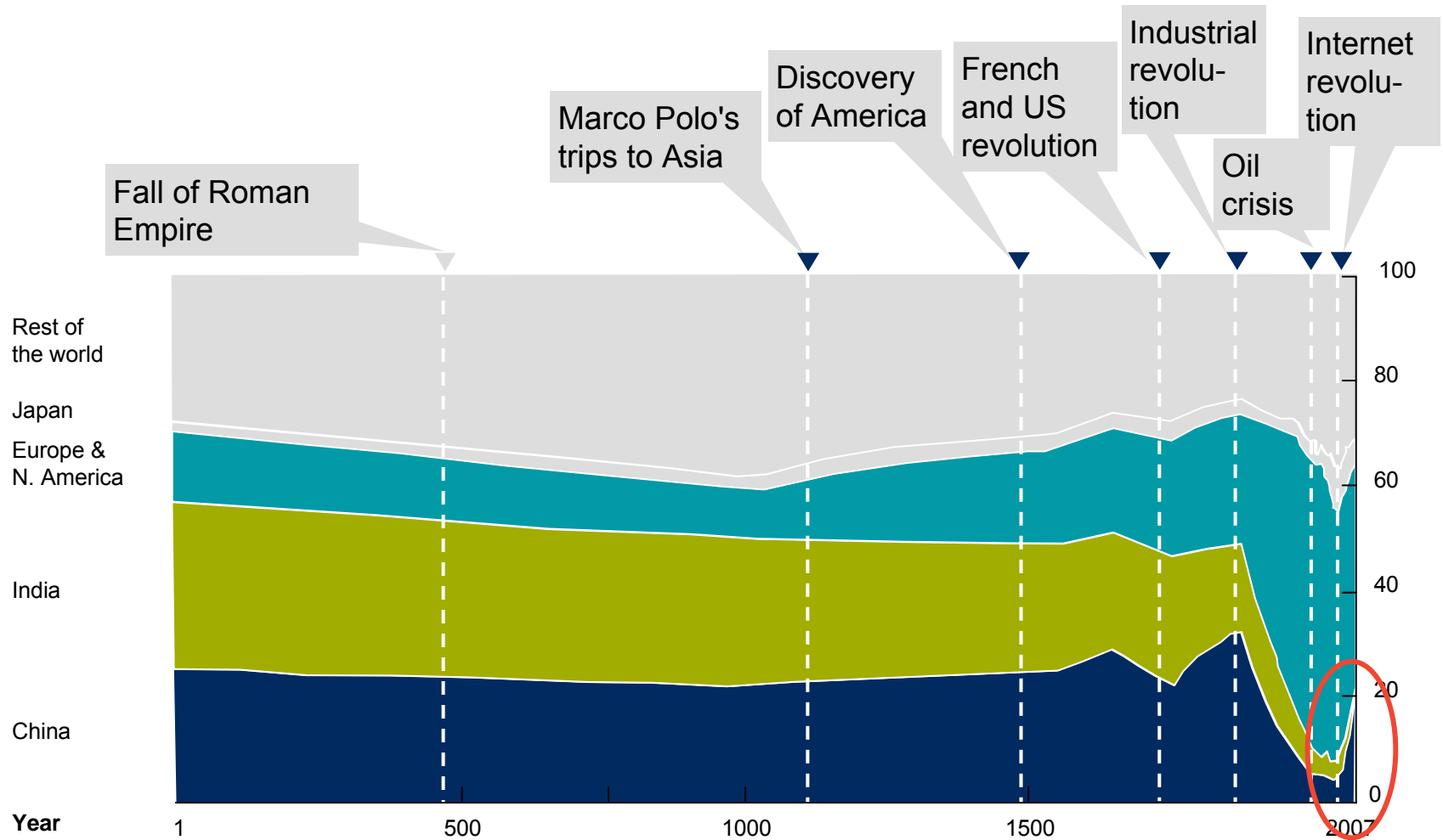


- ¹Asian Banks in Top 30**
- 1. ICBC
 - 2. CCB
 - 3. HSBC
 - 7. BOC
 - 14. CBA
 - 15. Westpac
 - 16. MUFG
 - 21. Bank of Comm.
 - 23. ANZ
 - 25. Standard chartered
 - 29. NAB

¹ Ranking by Market Cap, as at Dec 30 2007; Mar 9 2010

... as Asia looks set to return to its natural “half share” of the world economy

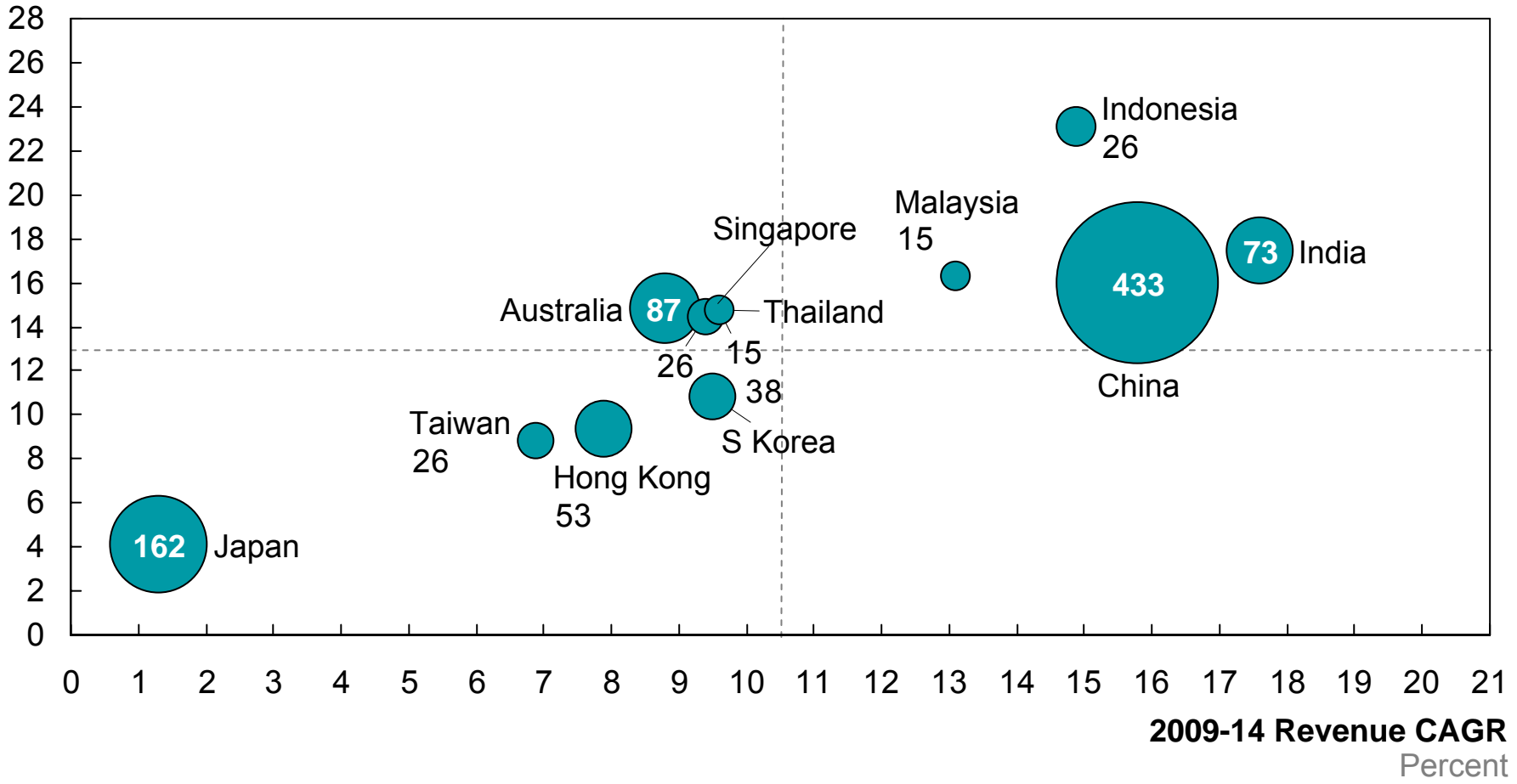
Share of total world GDP (1 AD-2007 AD), GDP share, percentage



However, there are very significant differences in attractiveness across Asian markets

● 2014 risk-adjusted revenues (US\$ bn)
 Mid point scenario

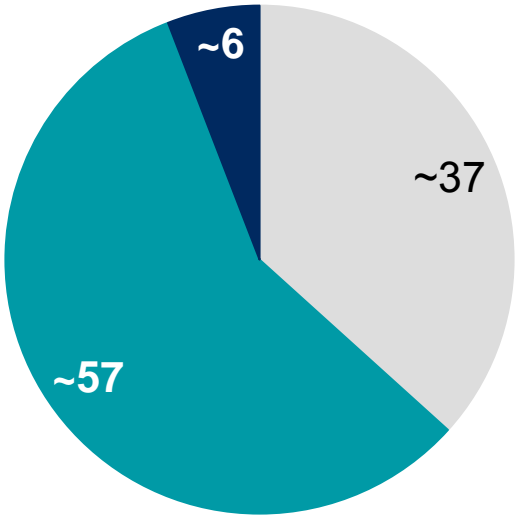
2014 expected RoE
 Percent



... and current regulations imply that non-locals have limited access to 60-65% of the Asian revenue opportunity

Asia banking revenue pools risk adjusted, 2014; Percent

100% = US\$ 960 bn



Not possible to access without branch licensing

- Regulatory constraints
- E.g., retail deposits in India and China

No entry barriers

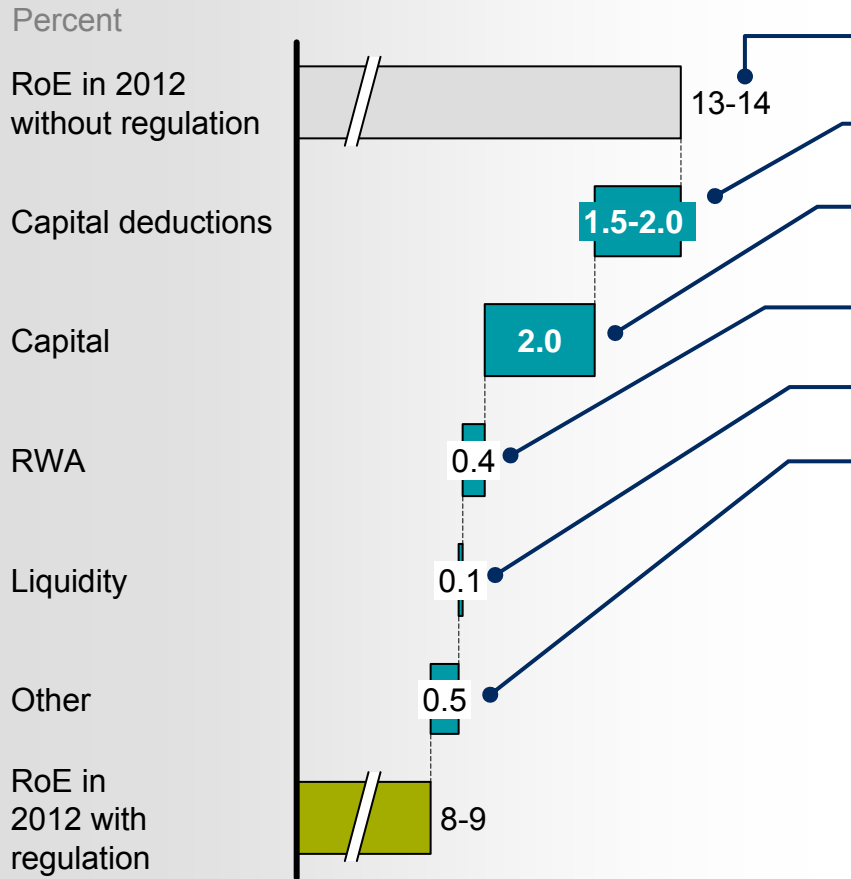
- Open access for non-domestic players if they have capabilities
- E.g., capital markets, large corporates, investment banking

Some difficulty without free branch licensing

- Customer preferences require branch proximity and large branch footprint
- Need for innovative models to access opportunity

New landscape will be shaped by regulation, with changes expected to have a 5% impact in ROE globally

Potential implications for the banking industry



Key changes expected

- Based on Core Tier 1 ratio of 6.5% industry average 2006/07
- Deductions from capital according to "Basel III"
- Core Tier 1 ratio increase to 8%
- 5% increase of banking book RWA and 2.5 x of market risk RWA
- Liquidity buffer increase from 3% to 6%
- IB- and retail-banking-specific regulations¹

Further changes not included

- Introduction of leverage ratio
- Stricter rules on subsidiarization
- Potential "too big to fail" (TBTF) capital buffer
- Living wills
- Separation of banks/narrow banking
- Further consumer/investor protection
- Incremental counterparty risk charges
- Additional new rules on securitization²

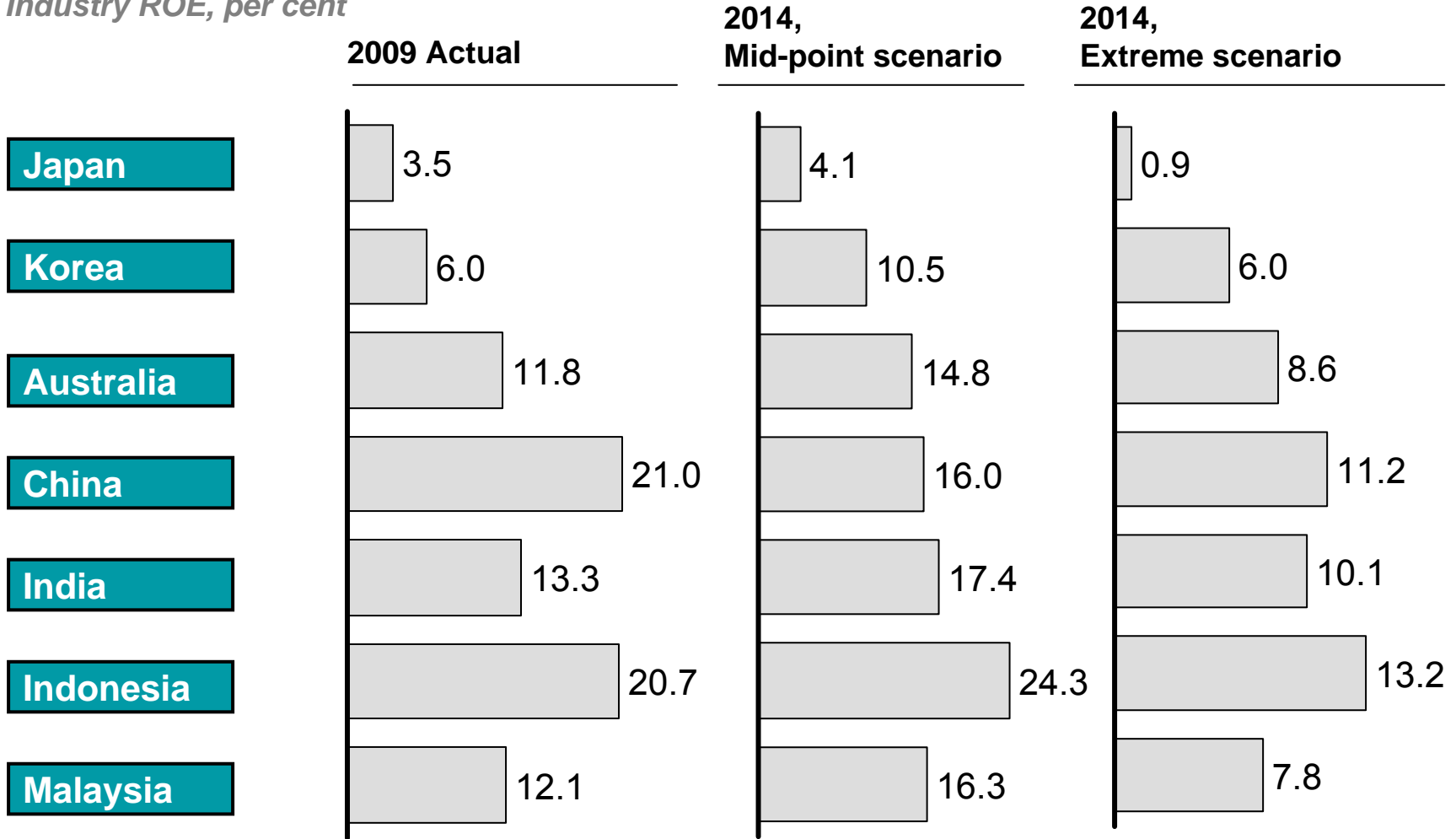
¹ Includes other investment-banking- and retail-specific regulations due to overdrafts, credit cards, mortgages, and OTC derivatives regulatory changes; funding impact of living wills not modeled under assumption that living wills are private agreements with regulators

² E.g., securitizations not eligible as financial collateral according to "Basel III"

Evolution in returns in each country will depend on their specific regulation and macro-economic developments

Based on sample of ~40 Asian banks across countries

Industry ROE, per cent

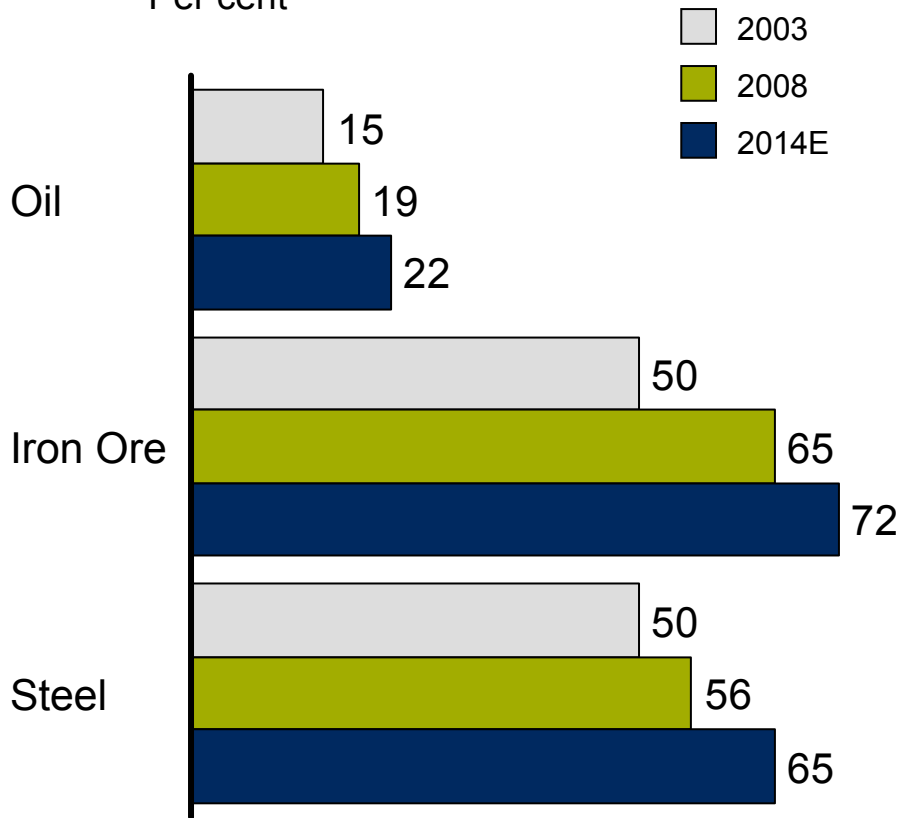


The new landscape also offers many opportunities for Financial Institutions

- 1 Emergence of a new class of ~900 mn consumers
- 2 Rapid urbanization – stepping into the 22nd century
- 3 Infrastructure financing opportunity worth ~USD 4 trillion
- 4 Opening up of new trade routes, especially intra-Asia
- 5 Healthcare reform
- 6 Commodity hub
- 7 Hubs of ‘innovation and ideation’
- 8 Islamic Finance
- 9 Asia as the ‘global capital provider’
- 10 Consolidation with strong players acquiring weaker ones

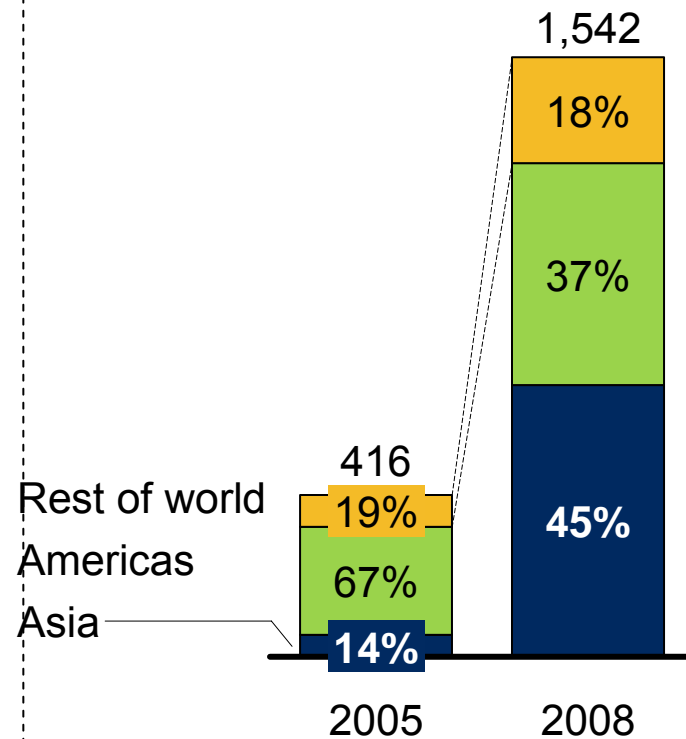
Rising importance of Asia in global commodity consumption

Asia's share of world consumption, Per cent



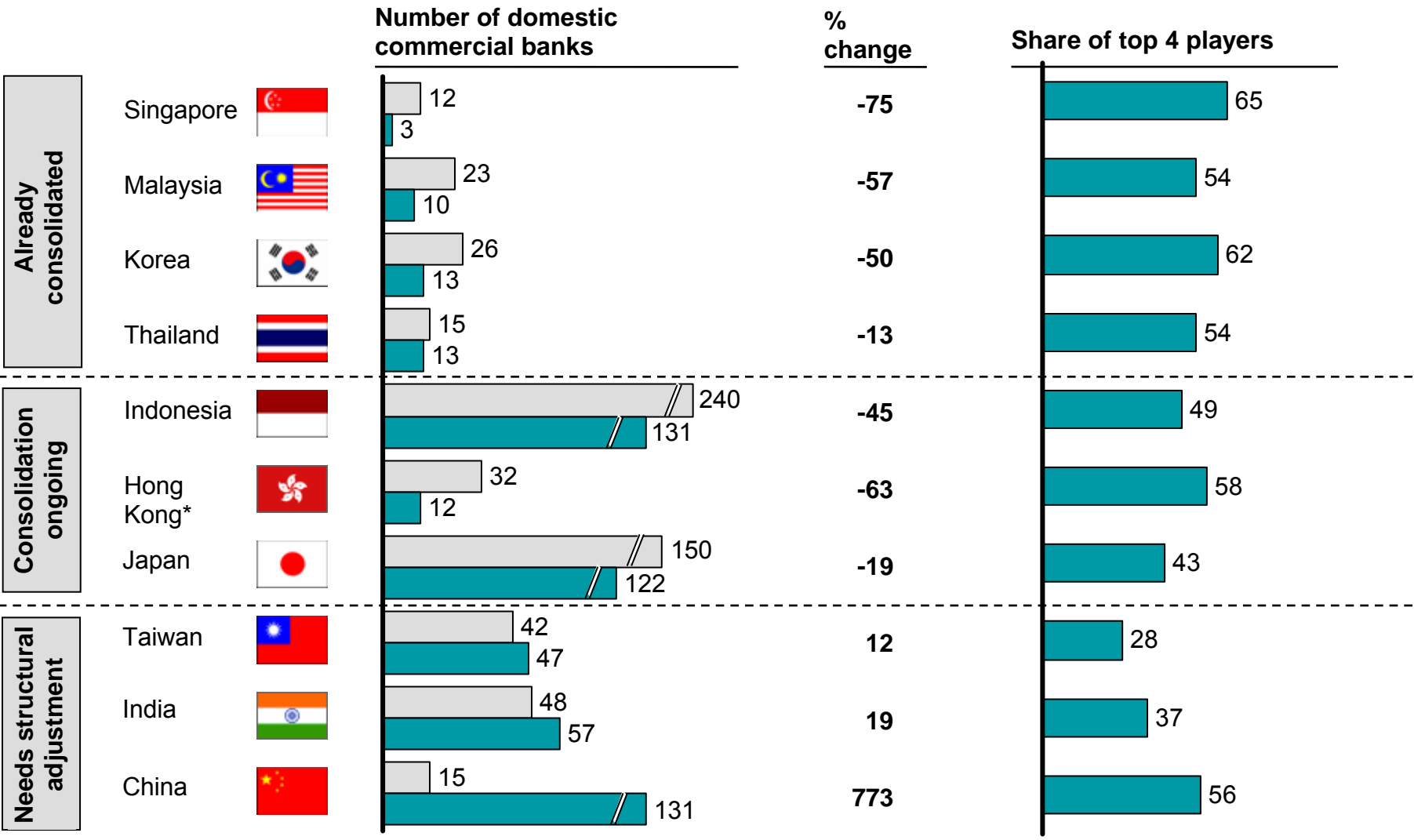
Rising importance of Asia in global commodity exchanges

Commodity futures traded- number of contracts traded in exchanges
Contracts millions



Consolidation likely to continue in fragmented markets, with strong players acquiring weaker ones

1994 2008







* 2004 data

Wholesale markets polarized between foreign and local banks – can this be reversed or is the new order in Asia?

■ Dominated by global banks
■ Dominated by local banks

Percent, 2009

| | | Share of foreign banks in | | | | | |
|-----------------|--|---------------------------|------------------------|------------------|------------------------|-----------------|--------------------|
| | | Inbound and outbound M&A | Int'l ECM ¹ | Instit. equities | Int'l DCM ² | Corporate loans | Corporate deposits |
| Japan |  | 95 | 34 ⁵ | 27 | ~99 | 1 | 1 |
| China |  | 88 | 82 | 20 | ~71 | 2 ⁴ | 1 ⁴ |
| India |  | 85 | ~99 | 65 | 86 | 7 | 6 |
| Malaysia |  | 33 | 67 ⁶ | 35 ³ | 79 | 16 | 15 |

MNCs building up capabilities to play in this space too!

1 Includes ADRs, GDRs and FCCBs

2 Includes international DCM flows defined as ECBs

3 Total revenues with foreign brokers; 4 As of Q3 2009

5 2008 numbers, as 2009 had only two deals taking the share of foreign players close to 100%

6 2008 number as the number of deals in 2009 are very low

On the other hand, unprecedented growth brings additional risk challenges

| | | Risk management implications |
|-----------------|--|---|
| 3,479 | Number of new branches opened in India in 2009 | Large operational and credit risks |
| 109 mn | Number of SMEs in Asia | Significant credit risks |
| 9,500 | Number of new RMs required by Private Banks in Asia by 2014 | Operational risk, especially mis-selling |
| \$8.1 tr | Expected amount of infrastructure investments across Asia in the next 10 years | Liquidity risk |
| \$600 bn | Capital increase required to finance Asia's growth in the next 5 years | Capital management challenge |

Implications for different businesses

1. Business lines

- Capital markets – debt and equity
- **Trade finance**
- Consumer finance
- **Wealth management/asset management**
- Life insurance/retirement planning
- Islamic banking

2. Customer segments

- Ultra-high net worth
- **Middle class/affluent**
- SME
- Unbanked

3. Intra-Asia trade

- **China-India**
- **Silk Road**
- Africa
- South America

4. Intra-region consolidation

- Emergence of 5-6 pan-Asian players
 - Chinese
 - Indian
 - Australian
 - Japanese?

Implications for different businesses

5. Countries

- China
- India
- Indonesia
- Taiwan

6. More significant financial centers

- 4 of top 10 financial centers in Asia
- Emergence of Shanghai
- Islamic hub(s)
- Linkages of centers

7. New players?

- Telecom – China Mobile/NTT
- Conglomerates – Samsung

Challenges and imperatives for Asian financial system

Players

- 1 Ensuring compliance and risk management capabilities keep up with extraordinary growth
- 2 War for talent
- 3 Improving customer service
- 4 Delivering “more with less”
- 5 Creating value through cross-border growth

Regulators and Governments

- 6 Regulatory capability building
- 7 Refraining from ‘over-regulation’
- 8 Formal co-operation – transnational as well public-private
- 9 Contingency planning for political and natural disruptions

