
Asian Tour

China Banking Investments

Richard Williamson
General Manager China Banking

Hangzhou
8 March 2006



CBA in Mainland China

1960s

Relationships with Chinese Regulators, Banks and Customers

1990s

Established Representative Offices (Beijing, Shanghai)

2000

Established 49% China Life CMG life insurance (Shanghai) joint venture

2002

Built local team to explore opportunities in PRC

2004

Banking Investment in China (11% Jinan City Commercial Bank)

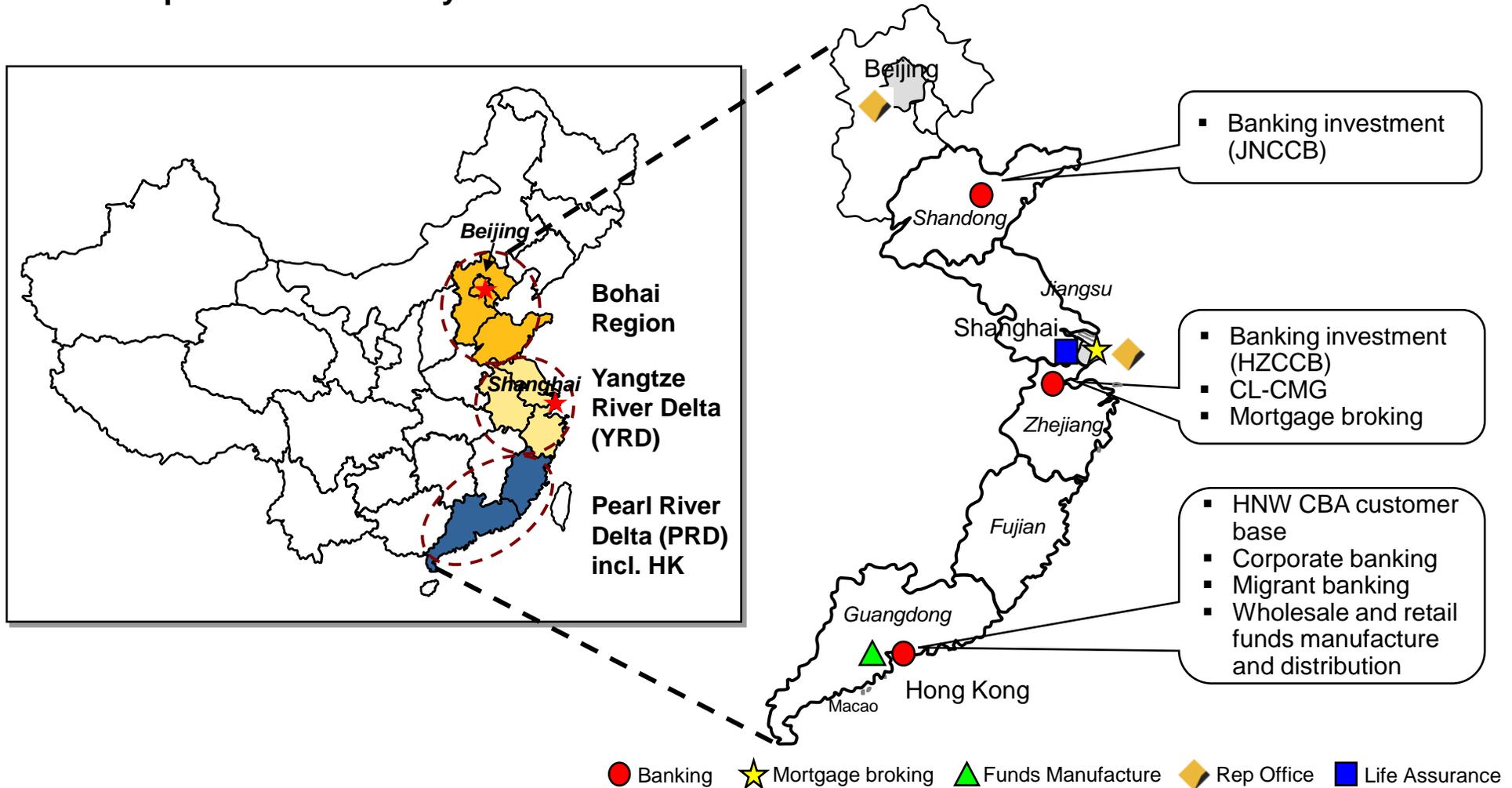
2005

Further investment in China (19.9% Hangzhou Bank and 100% Macquarie Securitisation Shanghai)



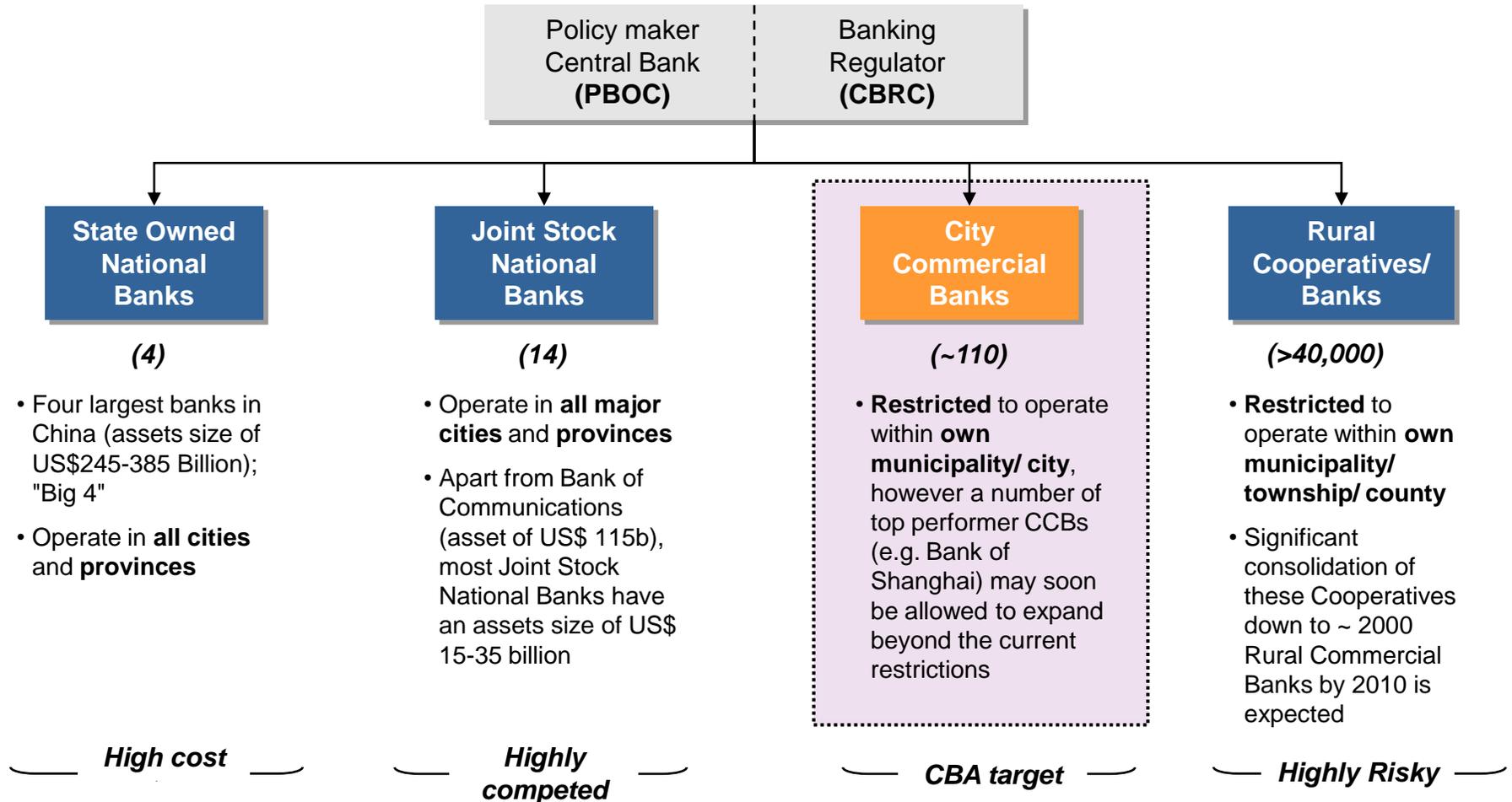
CBA's China Strategy

CBA's Greater China strategy is to build a portfolio of long-term banking options, extending to broader financial services over time. This model initially combines minority shareholdings in selected partners and wholly owned businesses where allowed.



Banking Entry Strategy

City Commercial Banks are an attractive target to CBA given their size, business characteristics and fit with CBA's regional strategy.



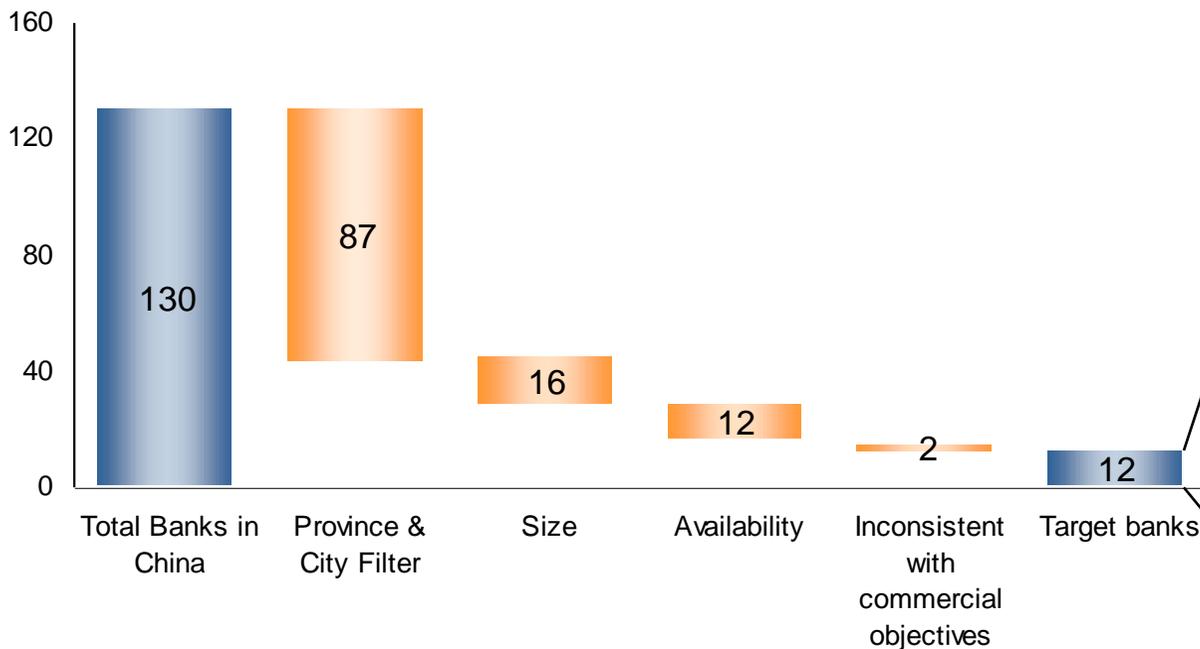
Note: Numbers in parenthesis represent the number of banks

Source: Literature Search, Team Analysis

Banking Entry Process

Extensive desk research and “on the ground” field work undertaken from 2003 – 12 target partners were short-listed.

Total Commercial Banks in China



- In depth “Round 1” discussions and information exchange with at least 12 banking targets
- Conducted 3 due diligence assessments
- Invested in 2 city commercial banks
- Built foreign market entry expertise and resources (covering research, transaction and operational management)

- ▶ CBA’s entry strategy is to establish a banking footprint through a domestic partner, providing Capability Transfer Program and securing options for subsequent expansion.

Entry Price Comparison

A number of foreign players have purchased stakes in Chinese Commercial Banks.

Acquirer	Target	Trans. Year	Equity Stake	Entity Performance				Implied Deal Multiples	
				Asset Growth (CAGR 01-04)	Profit Growth (CAGR 01-04)	CAR FY04'	NPL (%) FY04'	Price Earnings ratio	Price to Book
RBS	Bank of China	2005	10%	10.4%	38.3%	10.0%	5.1%	9.2	1.2
Temasek			10%						
UBS			1.61%						
ADB			0.24%						
Deutsche Bank	Huaxia	2005	9.5%	30.7% ¹	20.1% ¹	8.6%	4.0%	11.4	1.6
Sal Op. Bank of Germany			4.5%						
ING	Bank of Beijing	2005	19.9%	30.6%	5.7%	8.4%	4.8%	12.7	1.0
IFC			5%						
BNP Paribas	Nanjing CCB	2005	19.2%	22.5%	25.7%	10.5%	4.2%	13.4	1.7
OCBC	Ningbo CCB	2005	12.2%	44.8%	59.7%	10.8%	1.2%	10.6	1.9
CBA	HZCCB	2005	19.9%	17.8%	42.4%	6.4% ²	2.3%	8.9	1.5
ANZ	Tianjin CCB	2005	19.9%	17.0% ¹	1.1% ¹	8.1%	9.3%	12.0	1.1
CBA	JNCCB	2004	11%	31.7%	51.5%	5.3%	7.1%	8.1	1.1
HSBC	Bank of Communication	2004	19.9%	21.9% ¹	-14.8% ¹	11.3%	2.9%	10.2	1.4
New Bridge Capital	Shenzhen Dev. Bank	2004	17.98%	19.4%	-10.4%	2.3%	11.4%	19.5 ³	1.7 ³
Hangseng Bank	Fujian Industrial Bank	2003	15.98%	39.7%	31.7%	8.1%	2.5%	6.8	1.5
Singapore Government			5.00%						
IFC			4.00%						
IFC	Minsheng Bank	2003	1.60%	47.5%	46.7%	8.6%	1.3%	21.0	4.2
Citibank	SPDB	2002	4.62%	37.9%	22.0%	8.0%	2.5%	8.6	1.5
HSBC	Bank of Shanghai	2001	8.00%	21.7%	19.7%	10.9%	5.2%	6.2	0.9
IFC			3.00%						
Shanghai Commercial Bank			7.00%						

Source: Bank annual reports, Literature search (1) CAGR between 2002 and 2004; (2) Before CBA capital injection; (3) Based on FY2003 financial results

Regional Economic Information

Both our partner banks are located in key economic regions in China with high growth and attractive market size

All data year end 2004

	National	Shanghai	Beijing	Zhejiang of which; ↗	Hangzhou	Shandong of which; ↗	Jinan
Total Registered Population (m)	1,300	13.5	11.6	47 Ranked #11	6.5	92 Ranked #2	5.9
Urbanisation rate (%)	39%	81%	72%	51%	60%	42%	45%
Total GDP (RMB bn)	13,652	745	428	1,124 Ranked #4	252	1,549 Ranked #2	162
GDP Growth (%)	10%	19%	17%	13%	20%	20%	16%
GDP per Capita (RMB)	10,501	55,307	36,830	23,942 Ranked #4	39,174 Top 1%	16,925 Ranked #8	27,610 Top 6%
Disposable Income per Capita (RMB)	9,422	16,683	15,637	14,546	14,565	9,438	12,005
Total Export (US\$ bn)	593	160	95	58	15	36	1
Fixed Asset Investment (RMB bn)	7,007	308	252	595	121	759	65
Foreign Direct Investment (RMB bn)	1,269	54	25	120	25	177	6
Deposits per capita (RMB)	19,476	147,885	185,958	37,836	87,665	15,810	50,578
Loans per capita (RMB)	14,505	136,481	108,350	31,748	73,733	12,834	47,966



Market Position

In FY 2004, both banks had approximately 6% market share in their home market ...

All data year end 2004	Hangzhou Bank	Ranking in Hangzhou	Jinan Bank	Ranking in Jinan
Retail deposits market share	5%	4	5%	5
Corporate deposit market share	9%	3	7%	5
Total deposits market share	8%	3	7%	5
Retail loans market share	6%	5	8%	5
Corporate loans market share	6%	5	5%	5
Total loans market share	6%	5	8%	5
Number of branches	70	5	65	5
Number of employees	~ 1100	-	~ 1250	-
Number of customers	> 1 million ¹	-	N/A	-

Source: Bank annual reports, Provincial statistical year book
 (1) Based on number of customer accounts with balance > RMB0



Key Financial Highlights

...and have performed relatively well when compared against the Big 4, JSBs and other CCBs

All data year end 2004	Big 4 Average	Joint Stock Bank Average ¹	City Commercial Bank Average ²	Hangzhou Bank	Jinan Bank
Key Financial Ratios					
ROA	0.4%	0.3%	0.5%	0.5%	0.3% (incl. once off write off)
ROE	11.5%	7.3%	11.2%	13.3%	6.0% (incl. once off write off)
NIM	2.2%	2.2%	2.3%	2.8%	2.8%
Cost to income ratio (before provision)	53.8%	51.2%	50.5%	40.4%	41.3%
Cost to income ratio (after provision)	73.7%	73.5%	74.9%	64.3%	55.9%
NPL ratio ³	16%	5%	14%	2.3%	7.1%
Operational Benchmark					
Loans / Staff (RMB)	10,302	27,851	20,439	20,955	13,965
Deposits / Staff (RMB)	7,334	19,713	12,026	13,580	13,887
PBT / Staff (RMB)	63	181	131	219	212 ⁴
Loans / Branch (RMB)	184,182	735,036	421,240	485,849	267,071
Deposits / Branch (RMB)	131,111	520,265	247,852	314,852	265,583
PBT / Branch (RMB)	1,133	4,768	2,690	5,075	4,504 ⁴

Source: FY2004 Banks annual reports

(1) Excludes China Everbright and 4 newly established joint stock banks

(2) Averages of top performers of 32 city commercial banks

(3) CBRC website

(4) Profit before once off write off on staff housing



Way Forward

Creating strong partnerships between our local banking partners and CBA

Strategies of Chinese Partner Banks

- Focus on SME and Retail businesses
- Strengthen bank management, improve skills and key competencies to build solid foundation for future growth platform
- Regional expansion (expand beyond their current cities to neighbouring counties and cities)
- IPO

Contribution of CBA

- CBA's extensive experience in retail and SME banking / general governance
- Capability Transfer Program (CTP) which covers technical areas (such as credit, treasury, IT, marketing, etc), general training and secondment programs between the two banks
- Resource support and, as appropriate capital support
- CBA's experience in privatisation



Asian Tour

China Banking Investments

Richard Williamson
General Manager China Banking

Hangzhou
8 March 2006

