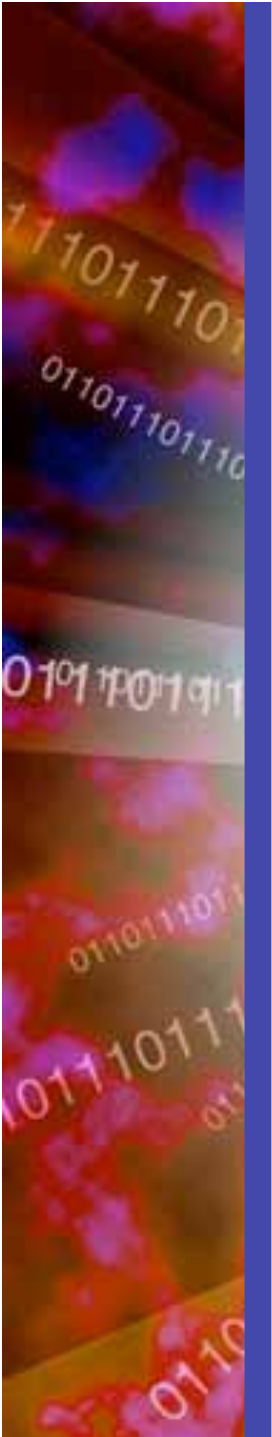




The Power of Experience®

Opening the Vault: Continuing Opportunities in China

January 22, 2008



Agenda



Corporate Needs

Global Payment Infrastructure

Call to Action

Corporate Needs



Corporate Needs - Payments

Efficiency

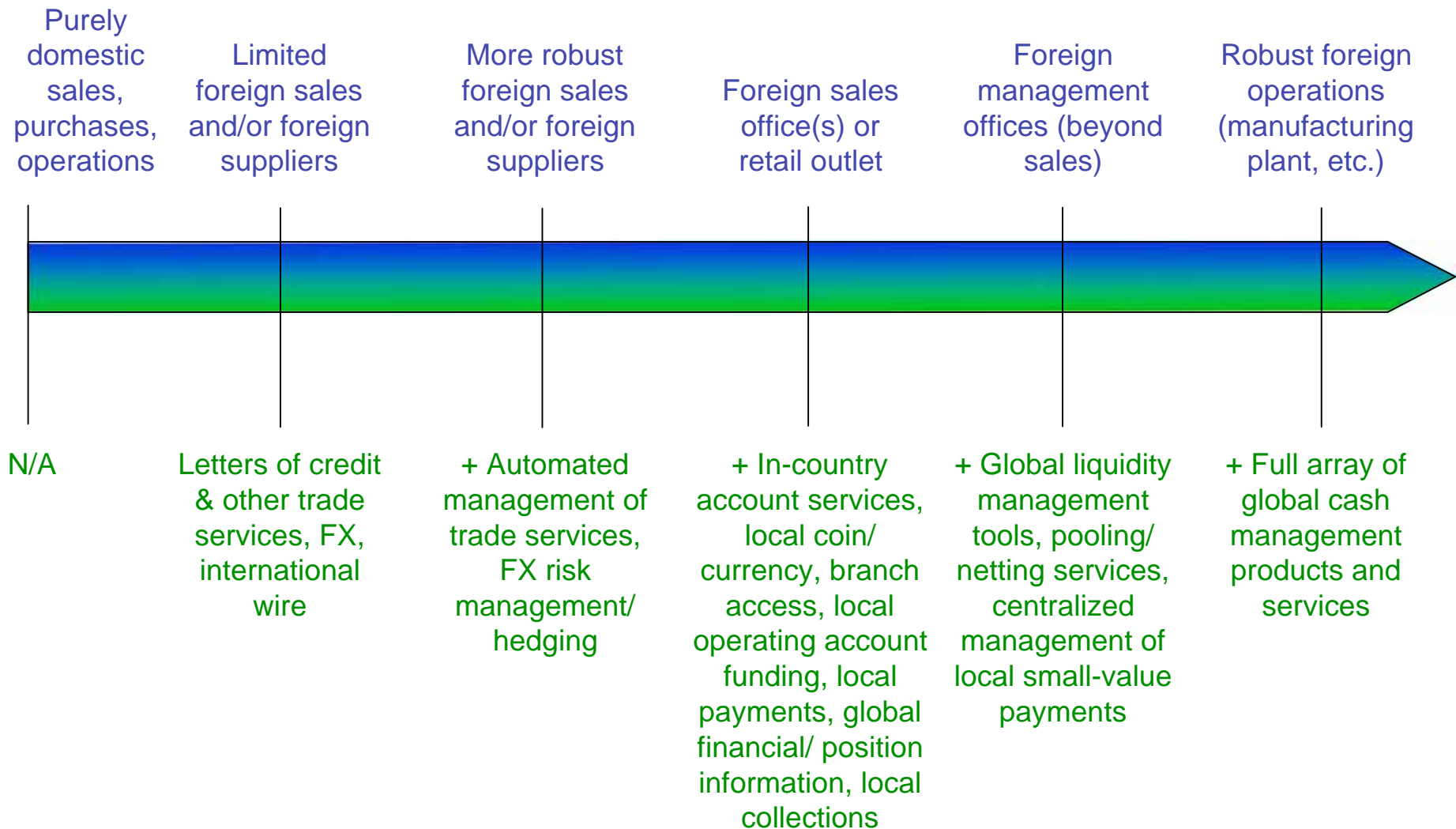
Speed

Customer Experience

Risk Intermediation

Information Content

Corporate Needs - Global Scope



Corporate Needs - Global Scope

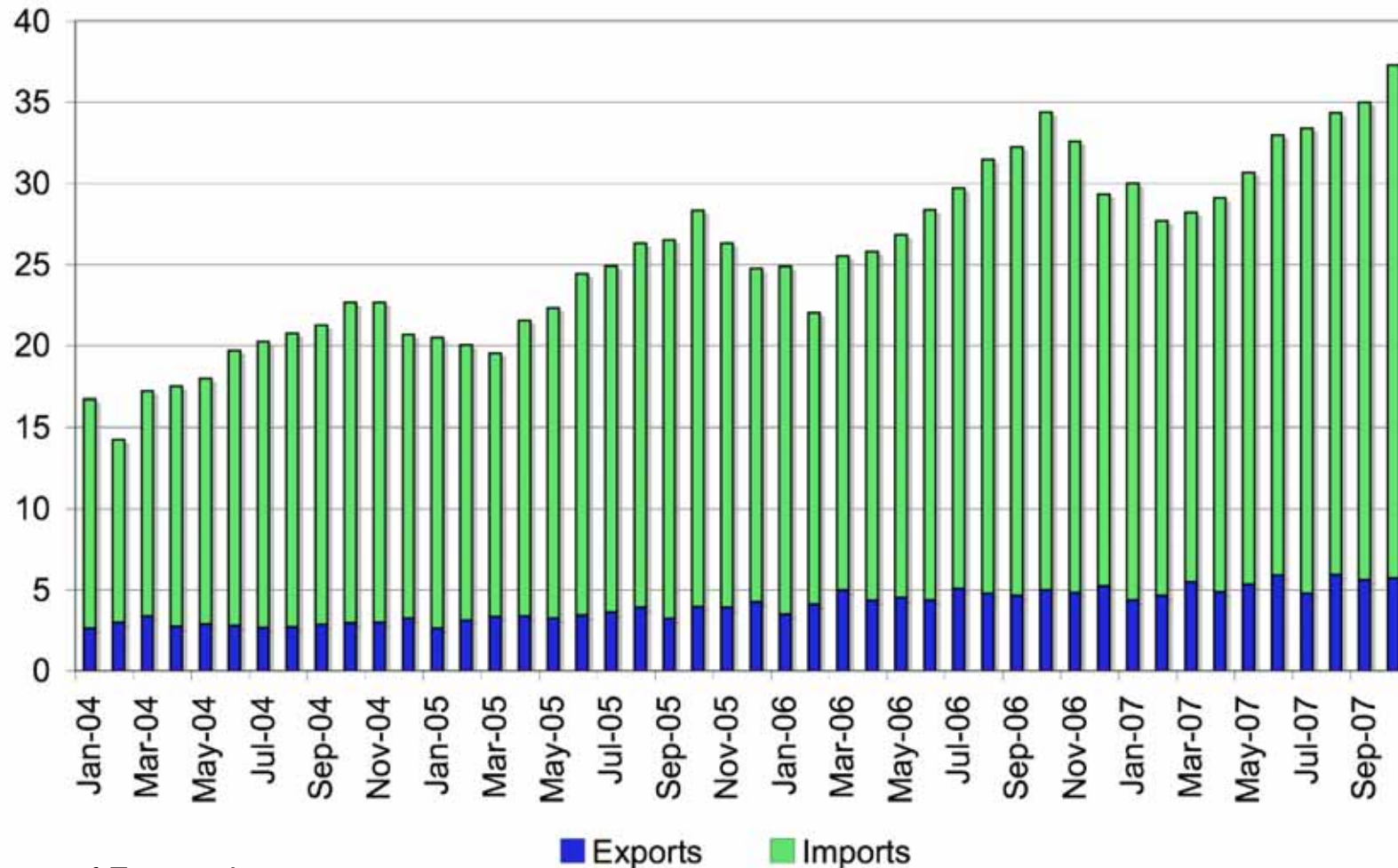
As firms globalize, they are more likely to use a large, global provider.

Cash Management Market Share by Global Phase

Strictly Domestic		Tourists		Emerging Global		Global	
1. BAC	19%	1. BAC	19%	1. BAC	24%	1. BAC	25%
2. JPMorgan	16%	2. JPMorgan	14%	2. JPMorgan	15%	2. JPMorgan	15%
3. Wells Fargo	9%	3. Wells Fargo	10%	3. Wachovia	9%	3. Citibank	12%
4. USBank	8%	4. Wachovia	7%	4. Citibank	7%	4. Wachovia	11%
5. Wachovia	5%	5. USBank	7%	5. PNC	7%	5. Wells Fargo	6%
6. SunTrust	4%	6. PNC	5%	6. Wells Fargo	6%	6. PNC	4%
7. LaSalle	3%	7. LaSalle	4%	7. LaSalle	4%	7. Mellon	4%
8. Mellon	3%	8. Mellon	4%			8. USBank	3%
All Others	<3%	All Others	<4%	All Others	<4%	All Others	<3%
BAC, JPM, CITI	36%	BAC, JPM, CITI	35%	BAC, JPM, CITI	46%	BAC, JPM, CITI	49%
TOP 5	57%	TOP 5	57%	TOP 5	62%	TOP 5	69%

Corporate Needs - Global Scope

China US Trade Flows USD Billions



Corporate Needs - Global Scope

China is a large and growing trade market for Europe and other regions.

- EU - China trade doubled from 2000 to 2005.
- Europe is China's largest export market.
- China - Latin America trade growing by over 50% per year.
- China is moving up the "value curve" in its consumption and exports.

China is critical capital and liquidity market.

- Foreign direct investment in China is leveling off but China remains a top destination for foreign capital.
- M&A activity in China is growing rapidly.
- China holds over \$1 trillion in USD reserves.

Corporate Needs - Resources

Staff Size and Competencies

Technology

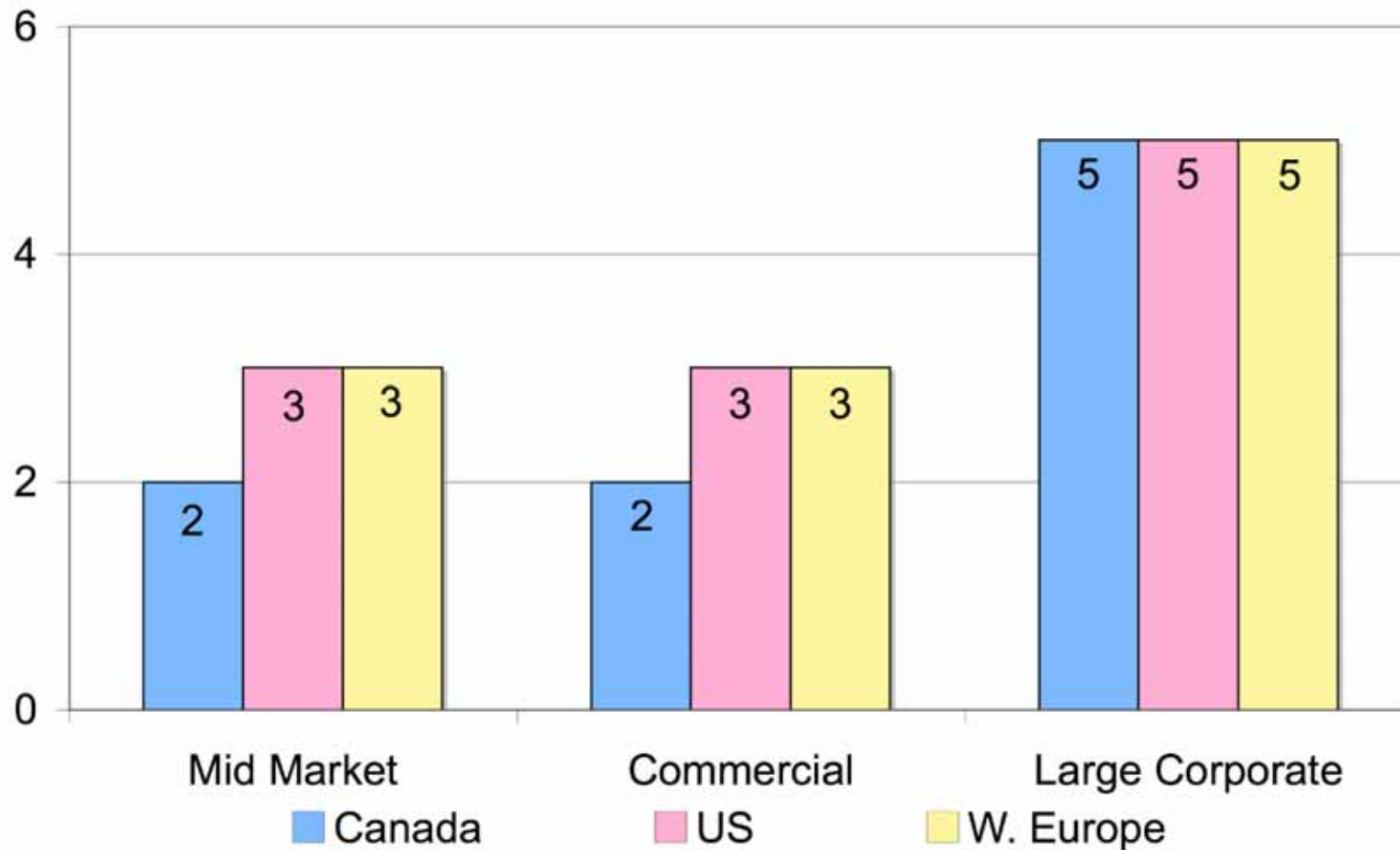
Organizational Mandate

Banking Relationships

Partner Competencies

Corporate Needs - Resources

Median Treasury Staff Level by Country and Firm Size

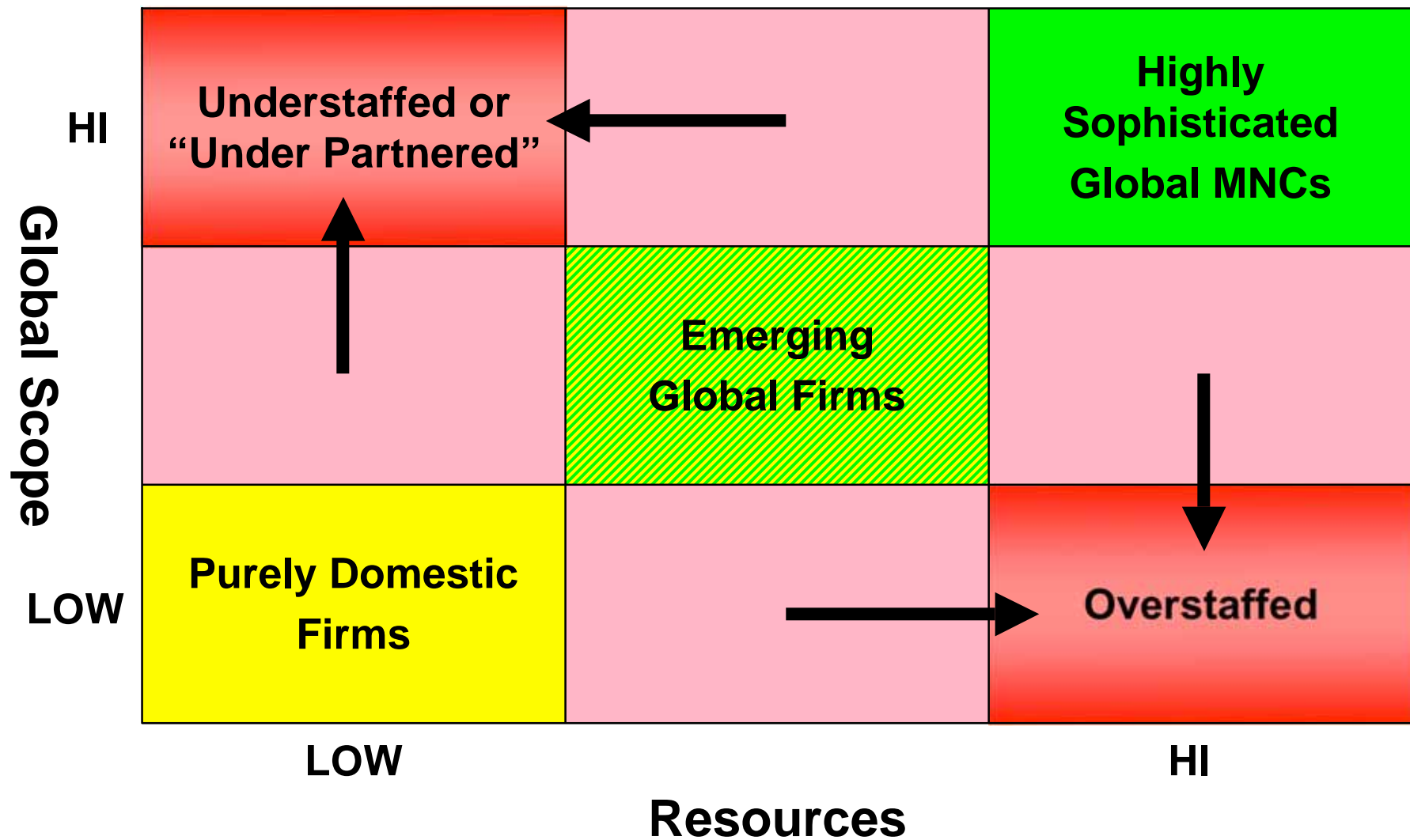


Corporate Needs - Resources

Usage of Treasury Workstations by Region



Corporate Needs - Putting it All Together



Corporate Needs - China

Basic Banking Services

- Yuan Renminbi current (operating) accounts
- Local disbursements - both electronic and paper
- Electronic collections
- Cross-border payments - electronic
- Information reporting via SWIFT and the web
- Short-term investments
- FX

Support

- Documentation
- Regulation
- Integration of information
- Customer service

Global Payment Infrastructure

Reliability

Efficiency

Transparency

Risk Mitigation

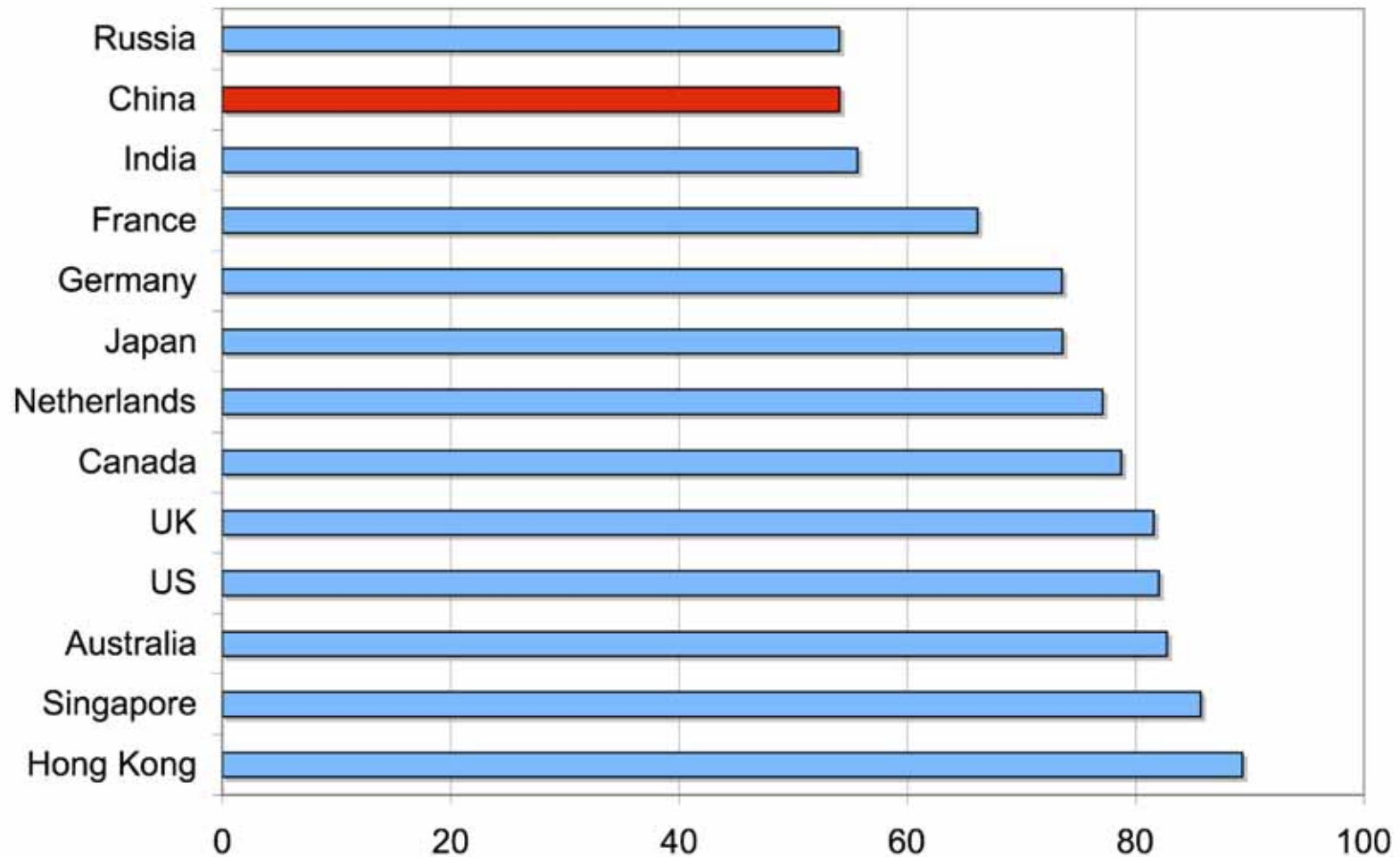
Standards

Freedom

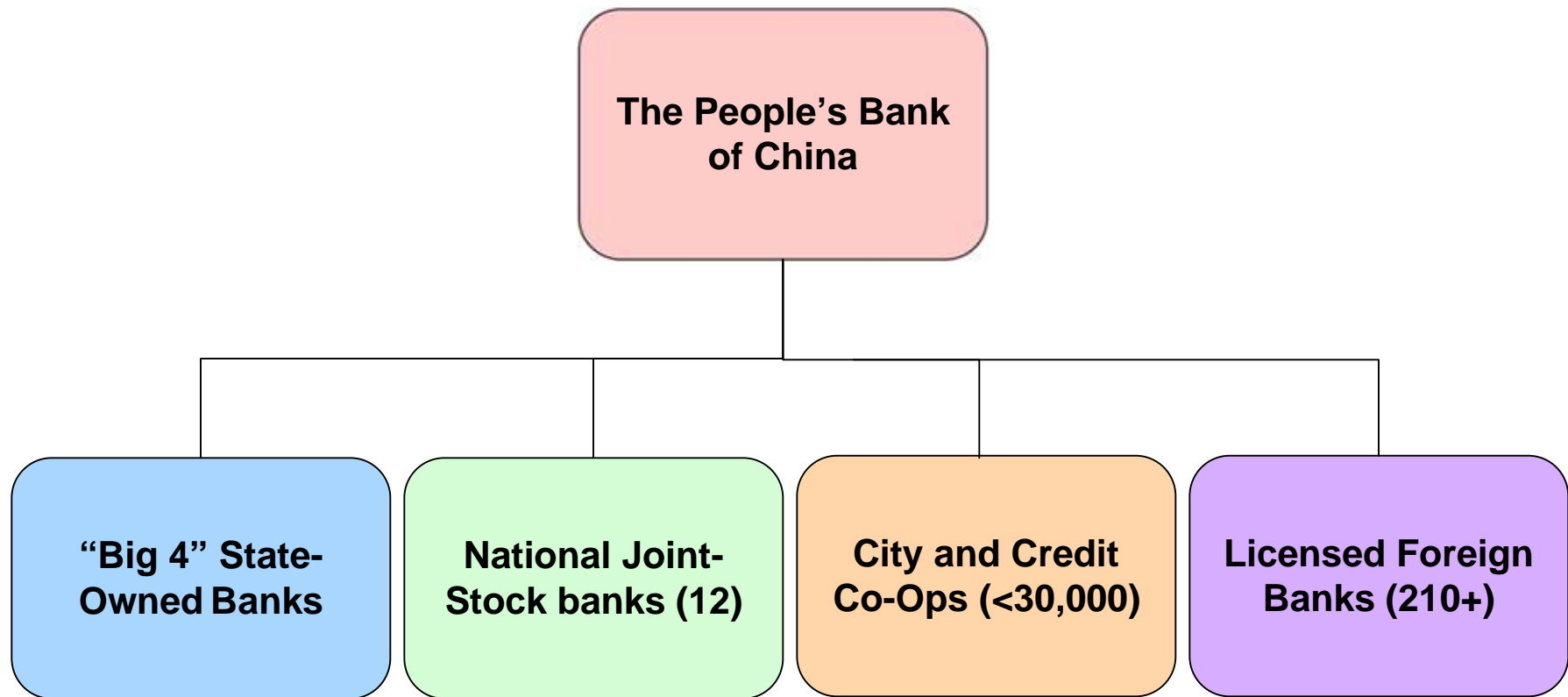
Information Scope

Global Payment Infrastructure

2007 Index of Economic Freedom



Infrastructure - China Banking System



Infrastructure - Local Clearinghouse System

PBOC is primary owner

2,300+ local clearinghouses

All paper-based payments

Infrastructure - On-U.S. Clearing



Big 4 have robust “on-us” clearing capabilities



24 hour clearing



Heavy annual investments



Electronic systems

Priority settlement capabilities

Infrastructure - CNAPS

China National Advanced Payment System

Began plans in early 1990s

Assisted by advisory group from USA, UK, Japan, Germany, Switzerland

6+ years in development

PBOC - sole owner and operator

Two systems:

- High-Value
- Low-Value

Infrastructure - Impact of WTO

Historic Options

- Chinese bank → little international experience
- Foreign bank → limited experience in China

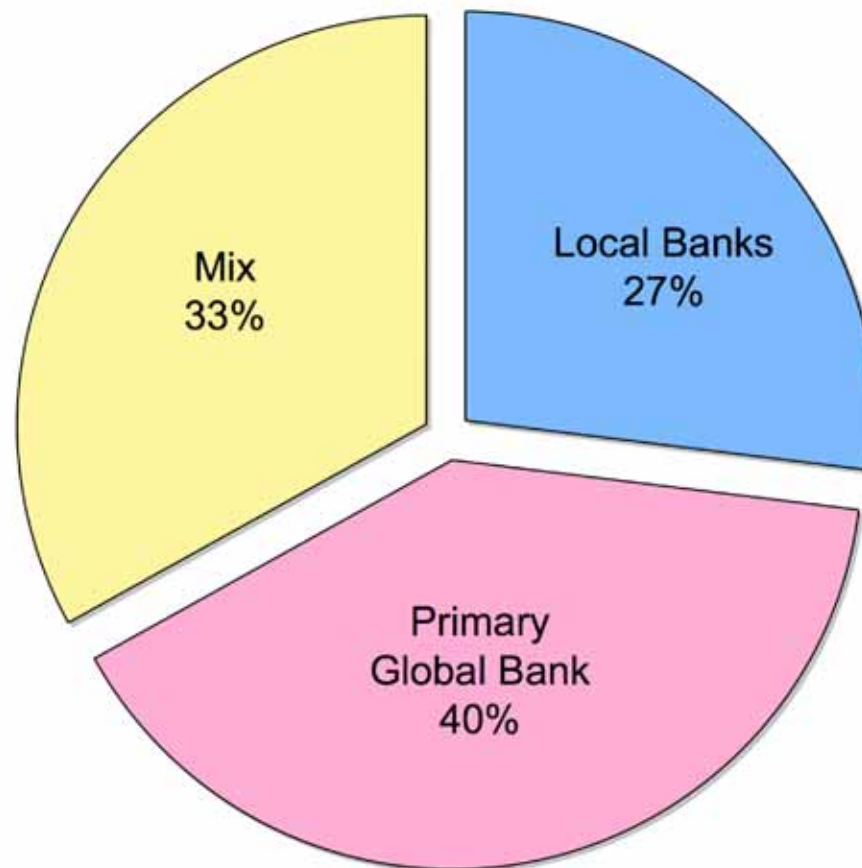
New Option

- Foreign bank with an investment in a Chinese domestic bank



Infrastructure - Banking Arrangements

China banking arrangements of US multinationals



Infrastructure - Liquidity Restrictions

Notional pooling is not permitted

- Bypasses regulated interest rate environment
- Cross-entity guarantees are still uncertain
- Bank reporting limitations

Cross-border netting is not permitted

- State Administration of Foreign Exchange (SAFE) strictly controls of FX

Repatriation of funds is difficult

- Movement of foreign currency is subject to SAFE approval
- Limited options for converting funds

Infrastructure - Intercompany Restrictions

Lending and borrowing require financial institutions

Entrusted Loans

- Off balance sheet
- No geographic limitations
- Bank acts as intermediary
- Fees

Creative solutions

- Multiple participants
- Cash concentration

Infrastructure - Repatriation Restrictions

Current accounts items

- Typically recurrent in nature (e.g. import payments & export proceeds)
- Exchanged through approved banks
- Dividends

Capital account items

- Movements of assets and liabilities (e.g. equity and loans)
- Strictly regulated by SAFE
- Limitations on how much can remain in foreign currency

Approval for repatriation can take 12-18 months

Infrastructure - Other Challenges in China

Functional capabilities lag those of other regions - fraud tools, real-time information, web banking

Lack of transparency

Lack of urgency

Unclear and ever changing regulations / documentation requirements

Limited ability to use commercial cards

Archaic invoicing practices (copy of invoice sent to Government)

Call to Action: Corporates

Centralize

- Maximize scale and control.

Be prepared

- Support deeper expansion into emerging markets such as China.
- Anticipate challenges, particularly around documentation and regulation.

Be flexible

- Maintain a flexible banking and treasury architecture in order to grow efficiently and respond to a rapidly changing environment.

Partner

- Identify strategic banking partners that can help navigate the landscape.

Call to Action: Bankers

Follow your clients

- TSI estimates that 40% of middle market firms have emerging to global needs. China is a critical market.
- Firms are increasingly looking for comprehensive, integrated global solutions.

Partner

- In a consolidating market, banks must maximize scale and strategic identity.
- Mid market firms expect their lead banks to partner on their behalf.

Go beyond product functionality

- Functionality is less important than delivery and support.

Call to Action: Bankers

Regional Bank Case Study: Silicon Valley Bank

- Formed SVB Business Partners (Shanghai) in 2005 to support needs of commercial and private bank clients.
- Provides array of advisory services.
 - Education
 - Networking
 - Professional services referrals
 - Administrative / business services in China
 - Partnership with Dragon Ventures to provide US banking services to China-based companies
- Successful growth model is winning in the marketplace.
- Well defined target segment provides for clear global strategy.

Call to Action: Regulators

Clarify regulations

- Uncertainty slows product and channel development by financial providers.
- Regulatory uncertainty delays and limits corporate investment.

Harmonize regulations

- Accelerate commercial investment.
- Remove friction in managing treasury and working capital.
- Align reporting and accounting requirements; enable companies and their financial partners to understand and manage risk.

Continue to emphasize communication and outreach

Call to Action: Associations

Focus on objectives, not territory

- Avoid individual competition at the expense of overall health of financial system.

Integrate

- Communicate with one another.
- Understand how respective services overlap and integrate with one another and into corporate and banking environments.
- Avoid redundancy.

Partner to promote standards

- Partner with other associations, ERPs, banks, taking a broad view of the financial value chain.

About Treasury Strategies, Inc.

Who We Are

Treasury Strategies, Inc. is the leading Treasury consulting firm working with corporations and financial institutions. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions.

What We Do

Corporations

We help you maximize worldwide Treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

Financial Institutions

Our experience, analytic approach and benchmarks provide unique consulting solutions to help you strengthen and grow your business.

Market Intelligence

We deliver the keys to informed decision making through customized research that gets to the heart of what's happening in the marketplace.