

2013

China Private Wealth Report

China's private banking industry:
Deeper relationships produce stronger ties

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Preface: Deeper relationships produce stronger ties

China Merchants Bank (CMB) and Bain & Company jointly published the *2009 China Private Wealth Report*, providing the first in-depth look at China's private banking sector. The report used rigorous statistical modeling to measure China's private wealth market and reflected pioneering research into the investment attitudes of high-net-worth individuals (HNWIs) by drawing on CMB's private banking customer resources. CMB cooperated once again with Bain to conduct research on China's private wealth market in 2011.

Since our 2011 study, Chinese HNWIs have a more mature attitude toward investing and more rational expectations. They prefer to undertake lower-risk investments while continuing to be active in diverse wealth management activities. A growing number of HNWIs are aware of private wealth management, and a majority are turning to various institutions that can help them better manage their wealth. Chinese banks, with their huge customer base, diversified products and comprehensive financial service platforms, have more advantages than foreign banks in this regard. These advantages give Chinese banks a leg up, particularly among clients who desire diversified products. Not surprising, the competition within China's private banking industry is fierce, and the entire industry landscape is shifting.

China's private wealth market has transformed from a time of opportunity in the early days to a period of fiercer competition in 2011, and now it is in a new phase of building a solid foundation. Compared with 2009 and 2011, China's HNWIs have more complicated demands for investment and wealth management, stronger awareness of mid- and long-term wealth management planning, and increasing demands for wealth preservation and inheritance planning. Given these factors, HNWIs have a more conservative attitude as they face market fluctuations, and they pursue moderate returns by diversifying their investments. Meanwhile, in an era of global capital, demand for overseas asset allocation is increasing among HNWIs.

Previously, financial institutions in China focused primarily on establishing their brand image. Now, they are more focused on their clients—understanding and exploring clients' short-term and mid- to long-term wealth management needs. Financial institutions would like to underscore their professionalism and build strong service platforms by providing differentiated services and wealth management advice.

This year marks the third time CMB and Bain have embarked on a joint wealth report. Producing our *2013 China Private Wealth Report* depended on many resources, including experience gained from our 2009 and 2011 reports, CMB's abundant experience in the retail banking industry and access to its high-end client resources, as well as Bain's data analysis tools and research experience in the private banking industry. The analysis in this report relies on authorized statistical data and rigorous methodology, which was used to create China's private wealth curve. We calculated the number of Chinese HNWIs and the total amount of their private wealth. We also compared 2008 data with 2010 data to infer this growth trend and offer predictions for 2013. Finally, our study is based on findings from nearly 3,300 surveys with HNWIs and interviews with more than 100 industry experts, relationship managers and HNWIs.

Our 2013 report is aimed at providing an accurate description of the major trends in China's current market and a clear picture of HNWIs' investment attitudes, to maximize the synergy between wealth management institutions and specialized advisory firms. We believe this report provides the high-end private wealth market with unique, sustainable and authorized research. We hope to spread information, share ideas and promote the prosperous development of financial institutions.

China's private banking industry has entered a critical stage of development. The key to future success in China's private wealth market is to build a strong brand image, provide a comprehensive service platform and adopt professionalism (i.e., improve the ability to provide services). The final goal of private banks is to build deeper relationships that produce stronger ties in the long run.

Acknowledgments

This report is a joint effort between China Merchants Bank (CMB) and Bain & Company, Inc.

CMB initiated a groundbreaking, high-level analysis of China's wealth market in 2009. The 2011 report built on 2009 research data and observed changes and trends in 2010 and 2011. In 2013, the CMB team suggested conducting advanced research on China's private wealth market, observing behaviors and characteristics of HNWIs and the private banking sector. Our goal was to investigate the shifts and trends in China's private wealth market and HNWIs in the new era.

To collect firsthand information, CMB drew on its high-end customer resources and coordinated 3,300 customer surveys and more than 100 interviews with customers and relationship managers. CMB also provided industry expertise, internal data and input on analytical methodologies, which laid a solid foundation for the further study and analysis of high-end Chinese customers. As part of the joint effort, CMB's executive team provided important suggestions for revising the analytical approaches and refining the recommendations. We would like to thank Mr. Weihua Ma, president of CMB; Mr. Wei Ding, executive vice president of CMB; Mr. Jianjun Liu, director of the retail banking group; Mr. Kunde Chen, wealth management director; Ms. Jing Wang, vice general manager of the private banking division; Mr. Yuennan Chen, vice general manager of the private banking department; and other CMB team members, including Ms. Lei Wang, Ms. Songxue Li, Ms. Yushi Shangguan, Ms. Xiaying Lin, as well as CMB headquarters's investment research, product, operation and marketing management teams.

In addition to the CMB customer and relationship manager surveys, Bain also interviewed many non-CMB customers and relationship managers. For this report, Bain's team built a market-sizing model with innovative methodologies and segmented fast-growing asset categories. In addition, Bain conducted detailed data analysis based on the research and survey results, and developed a clear conclusion and supporting arguments. We extend our gratitude to Bain, including partners Ms. Jennifer Zeng, Mr. Sameer Chishty, Dr. Alfred Shang and principal Ms. Dorothy Cai. We also appreciate the efforts of team members, including Ms. Xin Liu, Ms. Lily Shao, Ms. Jasmine Li, Ms. Lei Qi and Mr. Patrick Li.

We would like to extend our gratitude to each and every customer and relationship manager who participated in our interviews, as well as CMB employees who facilitated the interviews and the research. They were actively involved in data screening, customer surveys and interviews. They also shared their years of experience in the sector, assisting with market research and providing input to Bain's team. During the project, many Bain experts and other colleagues also helped with identifying interviewees, data collection, modeling, methodologies and analytical tools. Finally, many thanks to everyone at Bain Greater China, as well as other offices around the world, for their contributions.

We express our sincere gratitude to all those who contributed their valuable time and resources to the team.

Chapter I

Overview and trends in China's private wealth market for 2013

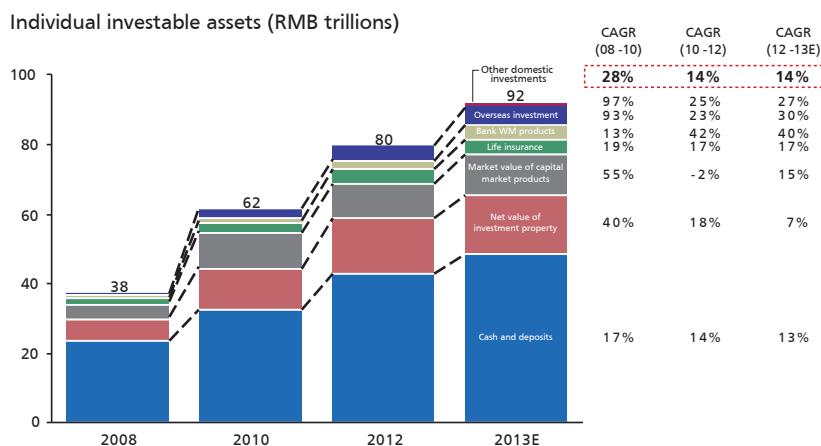
- China's overall individual investable assets totaled RMB 80 trillion in 2012, representing a double-digit (14%) compound annual growth rate (CAGR) from 2010 to 2012.
- By the end of 2012, there were 700,000 Chinese HNWIs with at least RMB 10 million in investable assets. Average investable assets per capita were RMB 31 million. Aggregate investable assets for all HNWIs equaled RMB 22 trillion.
- We predict that the number of Chinese HNWIs will rise to 840,000 in 2013 and their investable assets will reach RMB 27 trillion.
- In 2012, there were 20 provinces or municipalities with more than 10,000 HNWIs. Of these, five are new since our 2011 report: Chongqing, Heilongjiang, Shanxi, Shaanxi and Inner Mongolia. More than 50% of China's wealthy remain clustered in five provinces: Guangdong, Shanghai, Beijing, Zhejiang and Jiangsu.

A growing wealth market in China contains enormous market value¹

China's GDP grew at a 7.8% annual rate and a 7.9% year-on-year (YoY) rate in the fourth quarter of 2012, rebounding from the decline seen in the previous seven quarters. Over the last two years, major investment categories such as the property and capital markets confronted a growth slowdown after the cyclical adjustment in 2011. Nevertheless, bank wealth management products, overseas and other domestic investments grew at a faster pace, becoming major sources of growth.

By the end of 2012, the total value of investable assets² held by individuals in China totaled RMB 80 trillion, which has doubled since 2008—a 14% CAGR for the 2010-2012 period, but slower than the 28% CAGR recorded in 2008 to 2010. A detailed breakdown shows that the market value CAGR of capital market products also fell from 55% to negative 2% and investment property CAGR fell from 40% to 18% during those periods. Given their lower risk, stable returns and ease of purchase, bank wealth management products nonetheless emerged as a popular investment option for personal wealth management, increasing at more than 40% CAGR for 2010 to 2012. Overseas and other domestic investments yielded 23% and 25% CAGRs, respectively, lower than their 2008-2010 rates, yet higher than the overall wealth market (see Figure 1).

Figure 1: Total individual investable assets in China from 2008 to 2013



Notes: "Capital market products" include individually held stock, funds, exchange-traded funds, open-end funds, bonds and over-the-counter bulletin board; "other domestic investments" includes trusts, private equity, private funds invested in secondary markets, gold and futures held by individuals

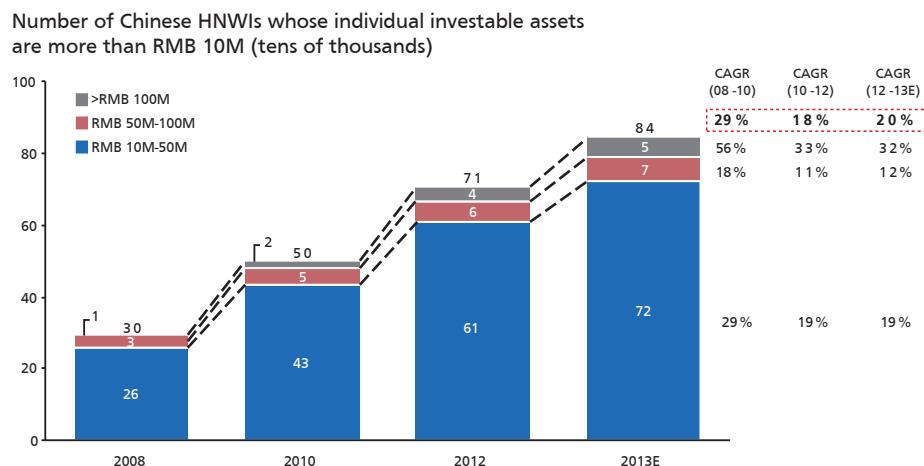
Source: Bain & Company's HNWIs Income-Wealth Distribution Model

1 This report covers mainland China only and excludes Hong Kong, Macau and Taiwan.

2 Investable assets are a measurement of the total investable wealth (assets with secondary markets and certain liquidity) of an individual. Investable assets include an individual's financial assets and investable real estate. Financial assets include cash, deposits, stocks (tradable and non-tradable shares of listed companies, hereinafter inclusive), bonds, funds, insurance, bank wealth management products, overseas investments and other domestic investments (trusts, private equity, private funds invested in secondary markets, gold, futures and so forth), excluding assets such as owner-occupied real estate, non-listed companies held by non-private equity and consumer durables.

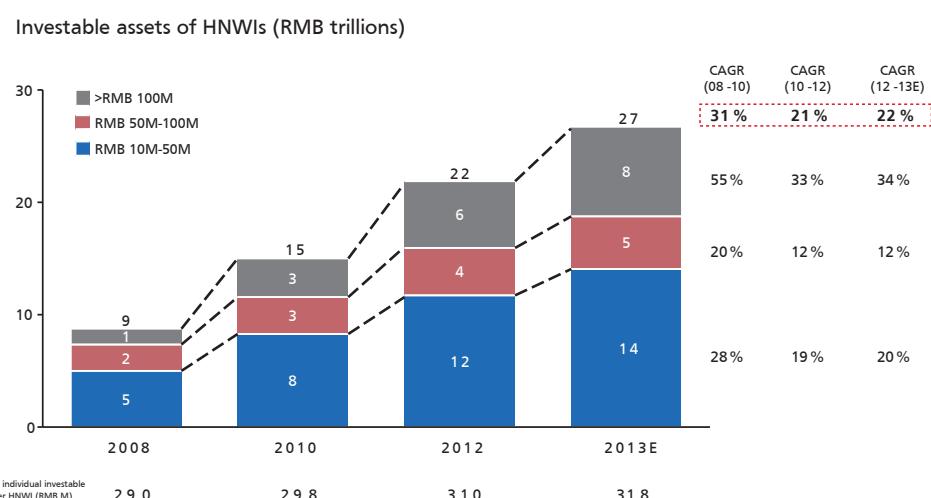
China's population of HNWIs³ continues to increase at a rapid pace. In 2012, there were more than 700,000 HNWIs in China, double the number in 2008. That 700,000 includes 40,000 ultra-HNWIs⁴ and approximately 100,000 HNWIs with investable assets exceeding RMB 50 million. In just two years, about 200,000 HNWIs joined the ranks of the newly wealthy, an 18% annual growth since 2010. In terms of total worth, investable assets owned by Chinese HNWIs totaled RMB 22 trillion in 2012, or, on average, RMB 31 million per HNWI (see Figures 2 and 3).

Figure 2: Number and composition of Chinese HNWIs from 2008 to 2013



Source: Bain & Company's HNWIs Income-Wealth Distribution Model

Figure 3: Total wealth and distribution of Chinese HNWIs' investable assets from 2008 to 2013



Note: Some numbers may not appear to add up due to rounding.

Source: Bain & Company's HNWIs Income-Wealth Distribution Model

3 This study defines high-net-worth individuals (HNWIs) as those who have at least RMB 10 million in investable assets.

4 This study defines ultra-high-net-worth individuals (ultra-HNWIs) as those who have at least RMB 100 million in investable assets.

The annual growth of the HNWI population decreased from 29% between 2008 to 2010 to 18% between 2010 to 2012. This was driven by stock market turbulence and lower returns on investment property and overseas investment, among other factors. Given their stronger ability to cope with market fluctuations, in addition to greater investment resources and diversified investment channels, the population of ultra-HNWIs has enjoyed a higher growth (approximately 30% CAGR) in the past two years than HNWIs.

In 2013, China's private wealth market is expected to experience steady growth. With the restart of the IPO market and the launch of China's new OTC board, the capital market is expected to see a 15% increase in market cap compared with that of last year. Bank wealth management products and other domestic investments will continue to grow steadily. In addition, individual investors will continue to increase their overseas investments to meet the demands of investment migration, children's education and diversified asset allocation.

After examining the macroeconomic factors that can affect China's wealth market, we predict that China's private wealth market will maintain its growth momentum in 2013, and individual investable assets may reach RMB 92 trillion, a 14% annual increase. The population of HNWIs will continue to grow in 2013, reaching about 840,000, representing an estimated 20% annual increase from the previous year. Total wealth owned by HNWIs could reach RMB 27 trillion, a 22% compound annual increase. China's private wealth market demonstrates enormous value and great growth potential (see Figures 1, 2 and 3).

China's private wealth market in 2011 and 2012, and the outlook for 2013

2011 to 2012 review

Macroeconomy. 2011 and 2012 are the first two years of the 12th Five-Year Plan. Although it was impacted by the global economic recession and Europe's sovereign debt crisis, China's GDP increased 9.3% in 2011. The country also experienced a rebound in the fourth quarter of 2012 after slowdowns in the previous seven quarters, with overall GDP growth of 7.8% in 2012. In addition, the consumer price index decreased from 5.4% in 2011 to 2.6% in 2012 as China's government took measures to control inflation.

Cash and deposits. To deal with domestic inflation, the government adopted a relatively prudent currency policy. Broad money supply (M2) growth fell to 13.6% and 13.8% by the end of 2011 and 2012, respectively.

Stock market. Stocks were still in a bear market in China from 2010 to 2012 as China's macroeconomic restructuring and international market factors, such as Europe's debt crisis and the US fiscal cliff, impaired investor confidence. As a result, the Shanghai Stock Exchange Composite Index sharply fell at the end of 2012. Nevertheless, the more than 300-point upside in stocks by the end of 2012 attracted investors' attention, and they are closely watching capital market performance in 2013.

Real estate market. In the past two years, the government issued a series of initiatives to constrain the rapid increase in residential property prices and limit the share of investment property. As a result, the CAGR of investment property dramatically decreased from 40% from 2008 to 2010 to 18% from 2010 to 2012.

Bank wealth management products. Given the sluggish performance of the capital and real estate markets, bank wealth management products became increasingly popular due to their lower risk, stable returns and ease of purchase. They grew fastest from 2010 to 2012, marked by a more than 40% CAGR. By the end of 2012, banks had launched more than 30,000 new wealth management products. Issuers expanded from only 14 commercial banks to more than 100 banks operating in China, including the Big Four banks, national joint-stock banks, city commercial banks, rural commercial banks and even rural credit cooperatives.

Insurance. The life insurance market cap experienced a 17% CAGR from 2010 to 2012, a slight decline compared with the growth rate in 2008 to 2010. This decline was driven by a slowdown of macroeconomic growth, tightened regulatory policy, an adjusted insurance sales channel and an increase in labor costs.

Other domestic investments. Since major investment markets like stocks and investment property were somewhat depressed over the past two years, investors sought other domestic investments, resulting in the growth of this market. Government regulations and capital market dynamics, however, influenced the development and performance of a number of these products.

- **Trust:** Trust products (excluding real estate trust) are very popular among investors because they often deliver relatively higher yields than other investments. Trust products of established industries as well as commercial and industrial enterprises flourished under favorable policies. The annual trust market cap growth exceeded 40% in 2012. The real estate trust cap, on the other hand, experienced a year-on-year decline in 2012 as a result of government property regulatory policies.
- **Futures products:** Less capital was directed into the domestic futures market because of a series of regulation policies instituted over the past two years, including the requirement of "big contracts," increased margins and bilateral fees. But with the launch of China's stock index futures, the turnover on the China Financial Futures Exchange and in the country's futures market increased.
- **Private funds invested in secondary markets:** The legitimacy of private funds invested in secondary markets was first recognized in China's amended Securities Investment Funds Law, passed in 2012. This move helped improve monitoring standards, created innovative products, cut issuance costs and encouraged business expansion. Compared with 2010, the CAGR of private funds invested in secondary markets was higher in 2012, over 35%.
- **Gold investment:** The depreciation of the US dollar and concerns about inflation stimulated investors' demand for gold and other precious metals. To preserve and increase wealth, HNWIs increased their investments in gold at a CAGR of approximately 35% in 2012.
- **Private equity:** After China's IPO market was suspended in the third quarter of 2012, this important exit channel for equity capital was blocked and the private equity market cooled down. HNWIs were less interested in investing in private equity products.

Overseas investment. As investors sought to diversify and balance their portfolios, overseas investment grew rapidly, at a much faster rate than that of the overall wealth market. Hong Kong was still the primary destination for overseas investment, but investors were also tapping into other markets, such as those in Singapore and North America.

Outlook for 2013

Macroeconomy. We expect the global economy to recover and China's economy to step into a mild renaissance in 2013. China's investment in fixed assets and exports will drive its economic development. Moreover, the government is paying more attention to people's livelihoods and has set goals that are seen as beneficial. As a result, the real growth of income per capita (for urban and rural residents) should be consistent with economic development. Also, labor income growth should be consistent with labor productivity improvements. Both income growth and an improvement in distribution will drive domestic demand, maintain the consumption growth rate and stimulate economic development.

Cash and deposits. Monetary policy is forecast to be moderately tight to control inflationary dynamics. By the end of March, M2 rose 15.7% from a year earlier, exceeding the government's 13% target. But it is expected

that the central bank will keep a robust monetary policy and will determine whether or not to tighten liquidity based on market conditions. Therefore, we predict that the cap of cash and deposits will grow at a steady but slightly slower pace in the year ahead.

Stock market. Based on some positive factors, we believe the stock market will slowly recover in 2013. Both the global and Chinese economic renaissance will further improve business profitability. In addition, more capital will flow into the market because of tighter real estate controls and other regulations, pushing the stock index up.

Real estate market. The real estate market is expected to grow more slowly in 2013, due to national macro-control policies. The share of investment property in the domestic market will further decrease given the latest Five Regulations. However, considering the inelastic demand for real estate, we predict that residential housing prices will increase slightly while the deal volume remains stable or even slightly decreases. Our interviews with more than 200 real estate practitioners support this view. Additionally, capital in residential property investments may flow to the commercial real estate market, stimulating an increase of investments.

Bank wealth management products. The Notification to Standardize Wealth Management Business of Commercial Banks ("the Notification"), issued at the end of March 2013, is expected to impact the growth of the bank wealth management market in two ways. In the long term, the issuance of the Notification will facilitate the standardization of these products to meet regulatory requirements of measurable risks, accountable costs and sufficient information disclosure, which in turn will aid in the development of a stable market. In the short term, the control over the percentage of nonstandard credit assets might result in a lower expected return on investment. In addition, we predict that bank wealth management products will continue to outgrow the overall private wealth market in 2013. With lower risk, stable returns and their ease of purchase, these products will still be one of the "hot spots" for investors. Moreover, the Notification aims to keep nonstandard credit assets at an appropriate percentage to control risks across the banking sector, rather than absolutely constraining the development of those assets. Therefore, we believe the Notification will not overly constrain the growth of the bank wealth management product market, and it will continue to grow at a stable pace in 2013.

Insurance. China's life insurance market went through an adjustment period in 2011 and 2012. But in 2013, we expect better market performance under a series of positive news, including a wider range of insurance capital investments, healthcare reform, the piloting of deferred personal pension insurance and the marketization of insurance premium rates. Taking into consideration the challenges of the past few years as well as more recent positive developments, we predict that the insurance market will maintain steady growth in 2013.

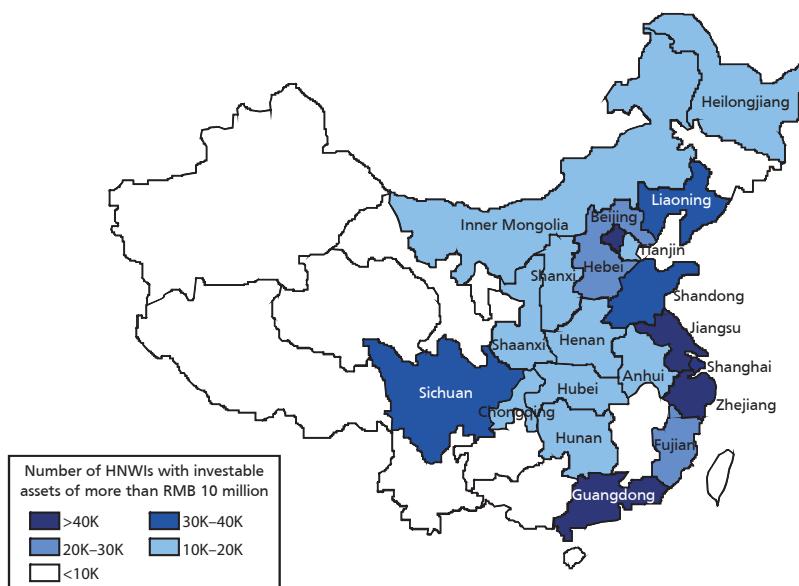
Other domestic investments. We expect that other domestic investments will be embraced by HNWIs in 2013. The state is expected to issue new policies to monitor and control the development of real estate trusts and other trust products. Private funds invested in secondary markets, private equity funds and investment in futures will benefit from China's economic resurgence and capital market rebound. Finally, gold investment prices have declined significantly recently, but the lower price point creates an opportunity to attract investors.

Overseas investment. With greater international capital mobility, China's HNWIs are increasing their overseas asset investments. As a result, overseas investment increased at a higher pace. We expect that overseas investment will grow at a 30% annual rate in 2013, a slight increase from 2010 to 2012. The overseas investment destinations of China's HNWIs will be more diversified, with a wider variety of investment currency and products.

Regional distribution of Chinese HNWIs

By the end of 2012, eight provinces and cities had HNWI populations equal to or exceeding 30,000: Guangdong, Shanghai, Beijing, Jiangsu, Zhejiang, Shandong, Liaoning and Sichuan. Twelve provinces and cities had HNWI populations of between 10,000 and 30,000: Fujian, Hebei, Henan, Tianjin, Hubei, Hunan, Anhui, Chongqing, Heilongjiang, Shanxi, Shaanxi and Inner Mongolia. The HNWI populations in other provinces and cities were less than 10,000. Since 2010, the number of provinces and municipalities with more than 10,000 HNWIs has increased, now totaling 20 with the addition of Chongqing, Heilongjiang, Shanxi, Shaanxi and Inner Mongolia. In Heilongjiang, the growth of the HNWI population is driven by abundant natural resources and the transformation of old industrial bases. The past few years saw a boom in the coal industry and other natural resources industries, which spawned HNWI population growth in Shanxi, Shaanxi and Inner Mongolia. Chongqing has benefited from the development of the midwestern region and the shift of industries from the eastern region to the western region (see Figure 4).

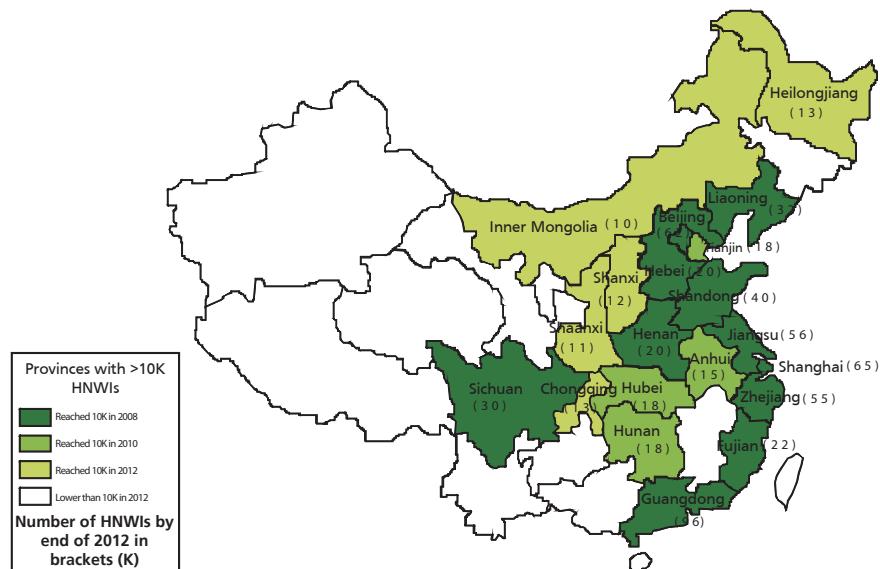
Figure 4: Regional distribution of Chinese HNWIs by the end of 2012



Source: Bain & Company's HNWIs Income-Wealth Distribution Model

From 2008 to 2012, more inland provinces—especially those in the midwestern region—boasted HNWI populations of more than 10,000. In 2008, a majority of the provinces with more than 10,000 HNWIs were located in the southeast coastal region, but by 2010, the number of HNWIs exceeded 10,000 in Tianjin, Hubei, Hunan and Anhui, also. And in 2012, five new provinces with more than 10,000 HNWIs were added. As China shifts its development focus to multiple regions, economic development will gain momentum in the inland provinces (see Figure 5).

Figure 5: Provinces with more than 10,000 HNWIs from 2008 to 2012



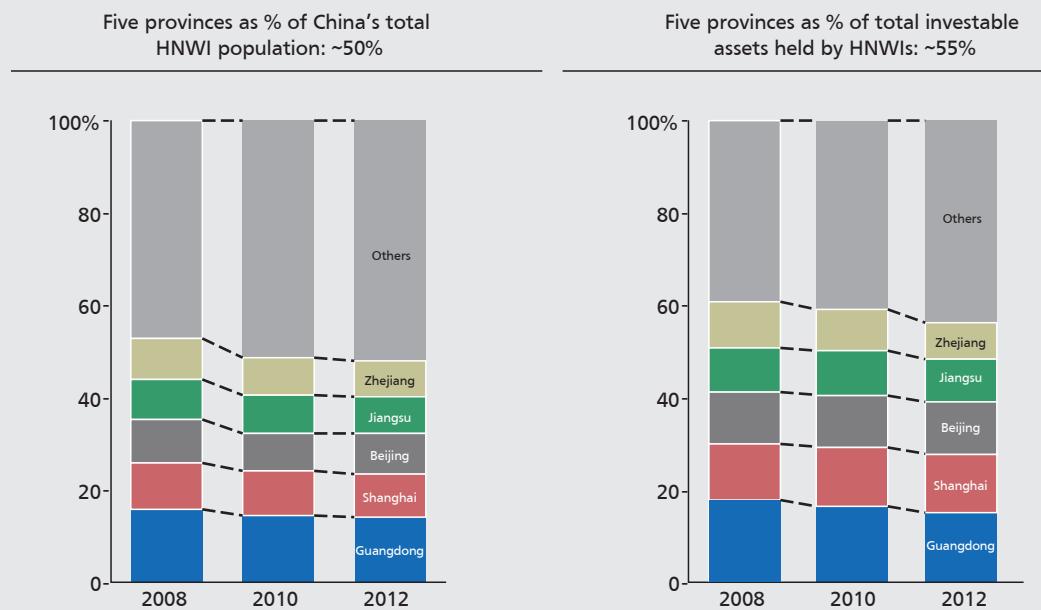
Source: Bain & Company's HNWIs Income-Wealth Distribution Model

Spotlight I. The distribution of HNWIs continues to spread: The inland provinces, especially those in the midwestern region, are growing fastest and the Bohai Economic Rim still maintains strong growth momentum

There are many provinces in China with more than 10,000 HNWIs. Each region of the country, including the eastern coast, the midwestern region and the Bohai Economic Rim, presents a different development trend in the private wealth market. The provinces along the eastern coast have a large base of HNWIs, with stable growth. The midwestern provinces saw strong regional economic growth as well as rapid growth of the HNWI population. Both were driven by government policies such as the Industrial Transition and Upgrading Scheme from 2011 to 2015 and The Guidelines of Inheritance and Transfer of Industries in the Midwest Area, published by the State Council, which facilitate local industry development, industrial transfer and the growth of local high-tech industries. The Bohai Economic Rim, which includes Beijing and is the third-largest source of growth for China's economy, will continue to show its economic strength. This is readily apparent from the rapid growth of the HNWI population in Shandong, Tianjin and Liaoning, which are also located in the Rim.

By the end of 2012, the top five provinces accounted for about 50% of the national HNWI population and contributed around 55% of the total wealth held by HNWIs, although their share of both as a percentage of the total decreased from that of 2010 (see Figure 6).

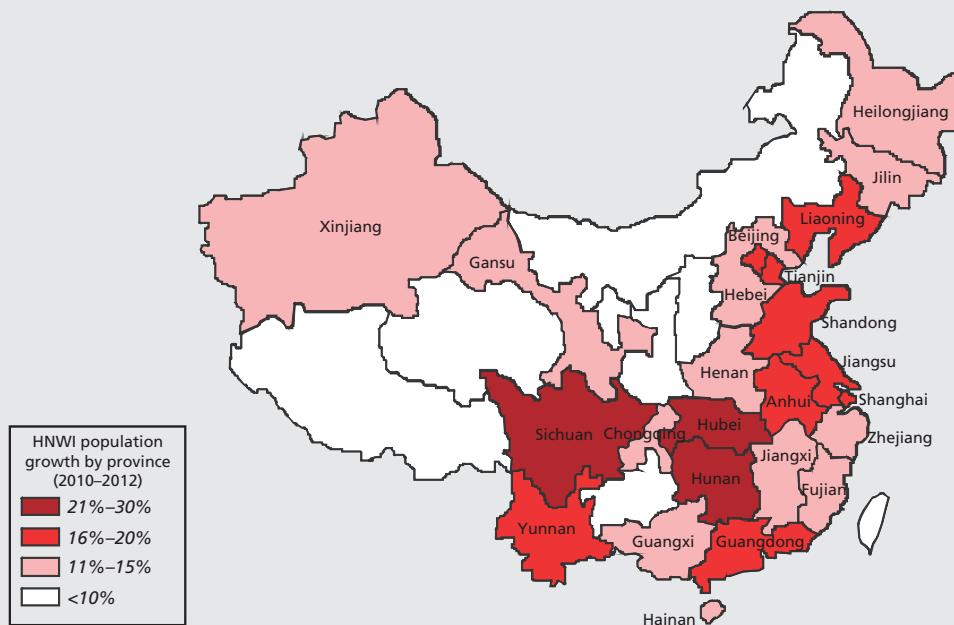
Figure 6: Five provinces as a percentage of national HNWI population and total wealth



Source: Bain & Company's HNWIs Income-Wealth Distribution Model

In three provinces (Sichuan, Hubei and Hunan), the HNWI population grew by an annual rate of more than 20% from 2010 to 2012. During this period, nine provinces (Jiangsu, Shandong, Beijing, Tianjin, Yunnan, Shanghai, Anhui, Guangdong and Liaoning) grew its HNWI population at a 16% to 20% annual rate (see Figure 7).

Figure 7: Comparison of HNWI growth from 2010 to 2012



Source: Bain & Company's HNWIs Income-Wealth Distribution Model

Southeast coastal region. Small and medium-sized enterprises (SMEs) grew more slowly in Zhejiang, Fujian and Guangdong because of a decrease in exports. As a result, the HNWI population in the southeast coastal region is growing at a slower pace. However, new economic growth opportunities will emerge and the number of HNWIs will grow as the economy, both global and domestic, experiences a mild recovery.

Bohai Economic Rim. Much like the Yangtze River Delta and Pearl River Delta, the regional development of the Bohai Economic Rim is driven by its central cities—Beijing and Tianjin. We expect Shandong, Tianjin and Liaoning to see both strong economic growth and an increase in the number of HNWIs. Shandong is focused on developing its high-tech industry, which includes information technology, biotechnology, new materials and new energy. Tianjin is building a leading high-end manufacturing industry as well as a national heavy chemical industry, with aerospace and petrochemicals companies in operation. Liaoning is relying mainly on equipment manufacturing and fine chemicals technology to accelerate its industrial development and economic growth.

Midwestern region. The number of HNWIs increased rapidly in the middle and western regions, spurred by the issuance of the Plan of Boosting Central China Development, the transfer of industries from the east to the midwest and local industrial development, including a growing high-tech industry. According to the 12th Five-Year Plan of Sichuan, future economic development will focus on building next-generation IT, new energy and high-end equipment manufacturing industries, which will also increase the HNWI population in that province. Hubei province encourages the establishment of high-tech industrial parks to attract large IT companies to the region. Hunan province's 12th Five-Year Plan sets a clear target to establish a number of emerging industries in the province: nonferrous metals, biomedical, new energy, new materials and information technology.

Chapter II

Investment behavior of Chinese HNWIs, segmentation and selection of wealth management institutions

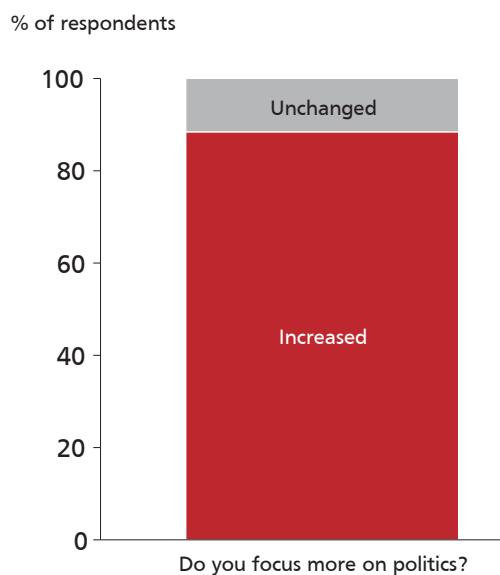
- Chinese HNWIs are showing more interest in political and economic matters. Their enthusiasm about investing and managing wealth has steadily increased.
- Wealth preservation has become the top wealth management objective, and the need for wealth inheritance planning is more pronounced.
- Chinese HNWIs have adopted a more mature and conservative attitude toward investment, and there is an increasing demand for overseas investment.
- Business owners make up the overwhelming majority of HNWIs, and they have diverse needs.

Chinese HNWIs are showing more interest in political and economic matters. Their enthusiasm for investing and managing wealth has steadily increased

HNWIs are paying more attention to political matters, especially policies dealing with real estate controls and the private sector

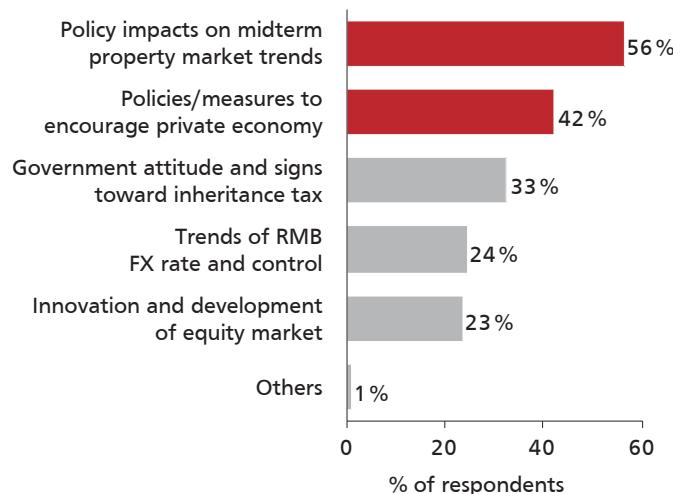
The survey and interviews kicked off in early 2013, when the second plenary session of the 18th Central Committee of the Communist Party of China, the first annual session of the 12th National People's Congress and the National Committee of the Chinese People's Political Consultative Conference finished, suggesting a successful transition to the new Chinese administration. About 90% of the Chinese HNWIs surveyed now pay more attention to politics than they did two years ago, and they are looking forward to the economic initiatives the new administration will undertake. Among the economic policies listed in the survey, real estate regulatory policy was the topic most mentioned by the respondents. Government policies that encourage the development of the private sector was another hot topic. Private business owners and other HNWIs who participated in the survey said they will pay close attention to the new government's initiatives to spur the growth of the private sector and the rapid development of China's economy, and they will observe the impact of those policies and initiatives on their industry and geographic region (see Figures 8 and 9).

Figure 8: Chinese HNWIs' interest in political matters in 2013



Source: CMB-Bain Chinese HNWI survey

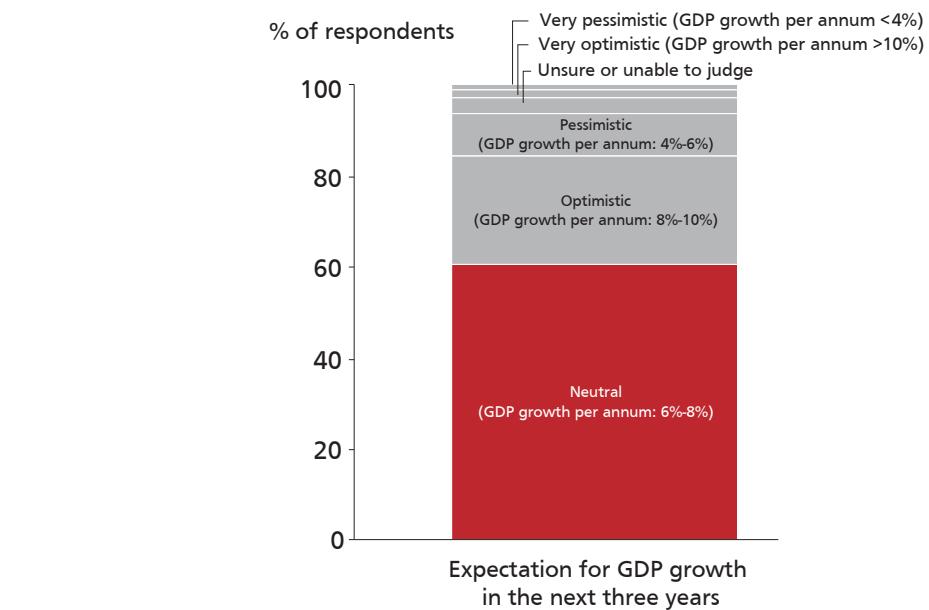
Figure 9: Major economic and policy topics that concern Chinese HNWIs in 2013



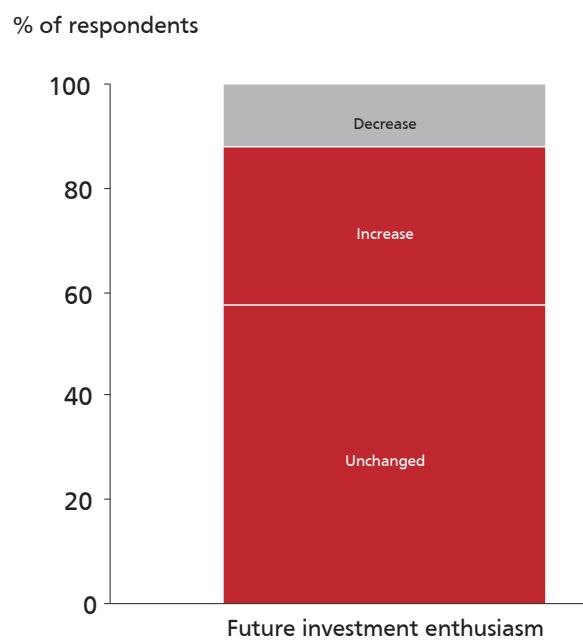
Source: CMB-Bain Chinese HNWI survey

HNWIs expect the economy to grow moderately, and their enthusiasm for investing will likely increase

When asked about domestic economic trends, 60% of survey respondents said they expect China's economy to remain stable or suffer a slight slowdown in the next three years, with a 6% to 8% per annum GDP growth. Although some traditional manufacturing industries face a growth slowdown, many respondents are optimistic about industrial upgrades, opportunities in emerging industries and new industrial policies. Chinese HNWIs' enthusiasm for investing has steadily increased because they expect new government initiatives to develop the economy and improve people's livelihoods, and they have a more sophisticated private wealth management philosophy. Some 30% of respondents expressed high expectations of the new government, and approximately 55% said their enthusiasm for investing has not changed; they will also look for opportunities in subsegments of investment markets (see Figures 10 and 11).

Figure 10: Chinese HNWIs' expectations of China's macroeconomic trend in the next three years

Source: CMB-Bain Chinese HNWI survey

Figure 11: Changes to Chinese HNWIs' investment enthusiasm in 2013

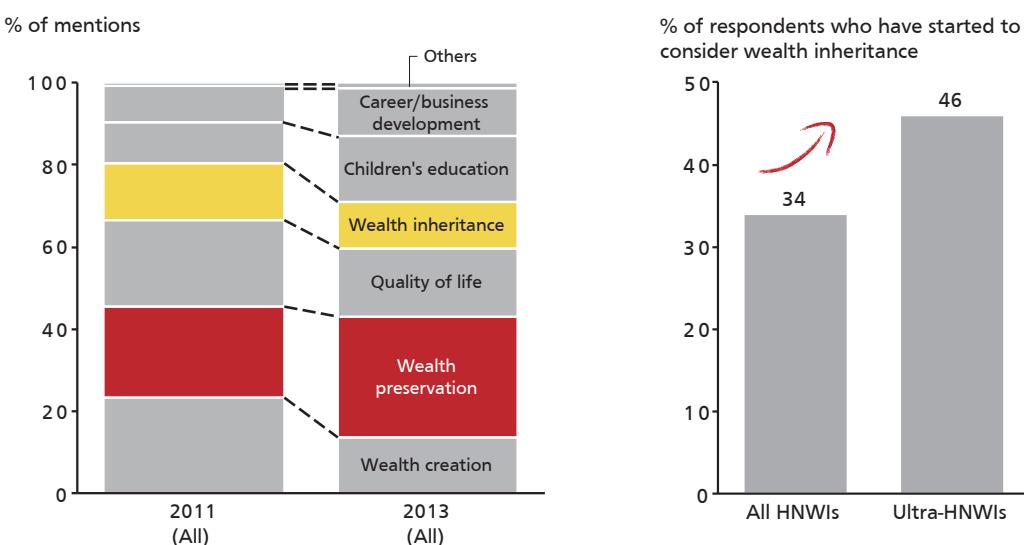
Source: CMB-Bain Chinese HNWI survey

Wealth preservation has become the top wealth management objective, and the need for wealth inheritance planning is more pronounced

Wealth preservation has replaced wealth creation as the primary wealth management objective. Some 30% of respondents cited wealth preservation (the stable growth of wealth) as most important, followed by quality of life and children's education. Wealth creation dropped to fourth place from the top spot in earlier surveys.

According to our interviews, many HNWIs have established their businesses and are now focused on ensuring the future living standards for themselves and their families. To that end, the preservation and stable increase of wealth has become increasingly important. As their children grow, HNWIs are more concerned about their education: In early 2011, 9% of survey respondents cited children's education as their primary wealth management objective; in early 2013, this number jumped seven percentage points to 16%. Some respondents are already taking their children's life, education and development into consideration as they make investments. Meanwhile, some HNWIs are investigating wealth inheritance options. According to our survey, about a third of HNWIs and half of ultra-HNWIs have started thinking about wealth inheritance (see Figure 12).

Figure 12: Chinese HNWIs' wealth objectives in 2011 compared with 2013



Source: CMB-Bain Chinese HNWI survey

Spotlight II. Wealth preservation has become increasingly important, replacing wealth creation as the primary wealth management objective

Of the HNWIs we interviewed, about 60% believe that their current wealth preservation strategy can cope with potential risks, but they still have some concerns regarding policy trends, market risks and business operational risks. Based on our survey findings, HNWIs are especially concerned about the continuity of current economic policies and changes in industrial or regional economic supportive policies. It is worth noting that wealth distribution of ultra-HNWIs is more complicated and fragmented. Therefore they have a stronger defense against systematic risks and fewer concerns about risks arising from financial risk fluctuations. Ultra-HNWIs are more focused on what they perceive as the unpredictability of marriage, family and personal health risks (see Figures 13, 14 and 15).

Figure 13: Chinese HNWIs' concerns on wealth preservation arrangement

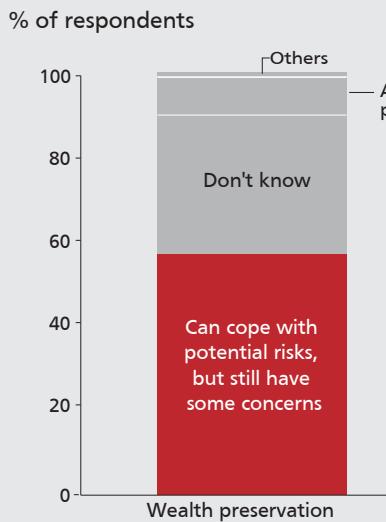
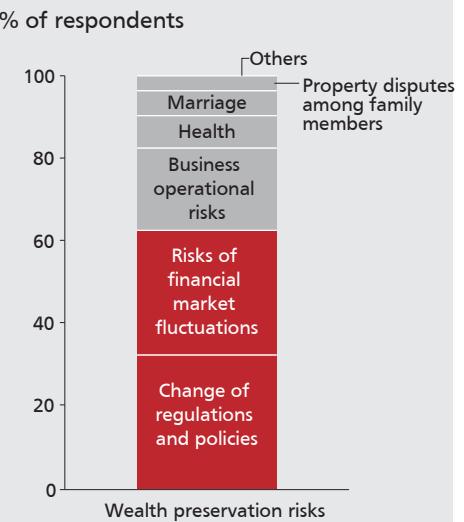
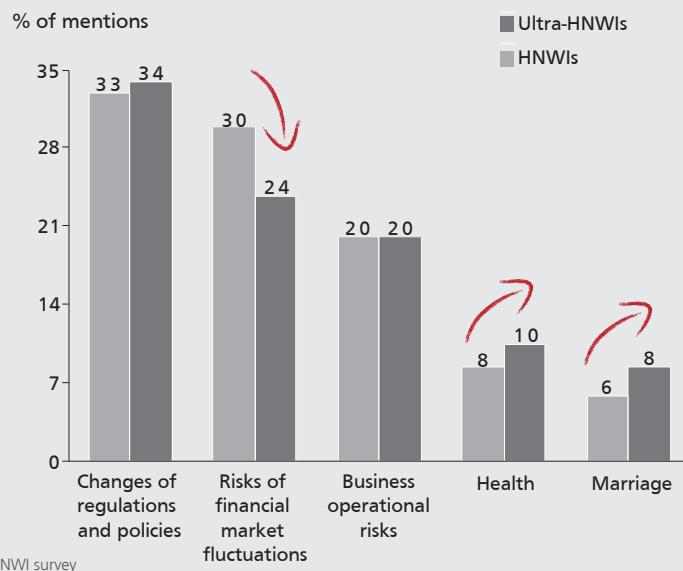


Figure 14: Chinese HNWIs' uncertainties and sense of risks of wealth preservation



Source: CMB-Bain Chinese HNWI survey

Figure 15: Perceptions about wealth preservation risks vary among Chinese HNWIs

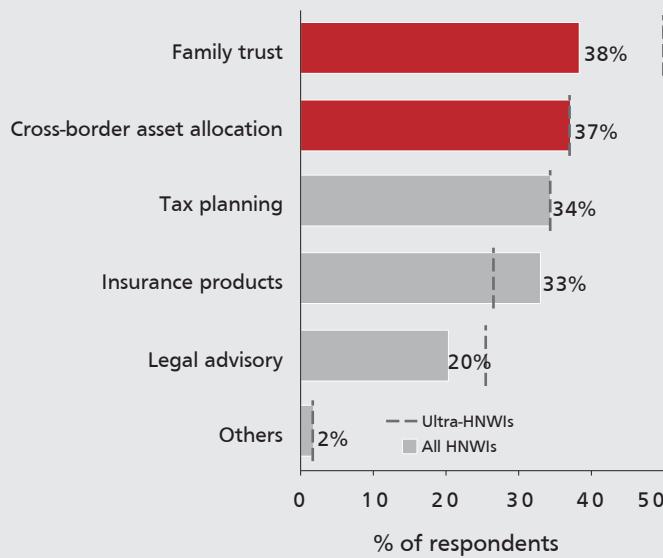


Source: CMB-Bain Chinese HNWI survey

HNWIs are very interested in financial arrangements such as family trusts and overseas asset allocation to preserve wealth and spread out risk

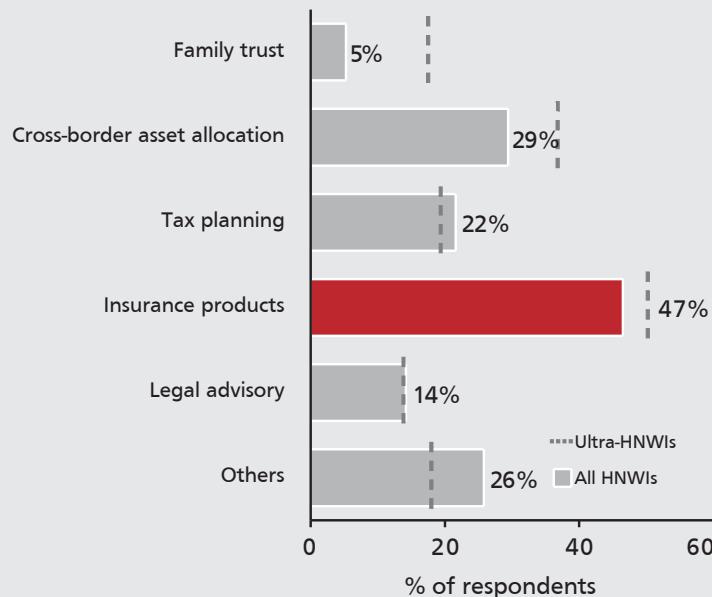
HNWIs in our survey showed high interest in family trusts and overseas asset allocation in addition to the traditional and more stable investments, such as cash, deposits and bonds. Currently, they rely mostly on insurance and overseas asset allocation to preserve their wealth (see Figures 16 and 17).

Figure 16: Chinese HNWIs' wealth preservation arrangement



Source: CMB-Bain Chinese HNWI survey

Figure 17: Chinese HNWIs' demands for wealth preservation



Source: CMB-Bain Chinese HNWI survey

- **Family trust:** As a key financial instrument for long-term family wealth planning and risk isolation, many HNWIs are turning their attention to family trusts. Family trust ranks first on a list of products and services that may help HNWIs preserve their wealth; nearly 40% of HNWI and 50% of ultra-HNWIs said they are interested in this product. Moreover, more than 15% of ultra-HNWIs have started to set up a family trust or already have one in place.
- **Overseas asset allocation:** Our latest survey shows that more HNWIs are investigating investing overseas, or they already have overseas investments: 37% of HNWIs are interested in cross-border asset allocation and about 30% already have such investments to help them preserve their wealth and mitigate risks.
- **Insurance:** Nearly 50% of HNWIs said they bought insurance products with the goal of risk aversion and protecting their families.
- **No arrangement:** Twenty-six percent of HNWIs have not made arrangements to safeguard their wealth other than traditional, stable investments, such as cash, deposits and bonds. They are still exploring and learning about the products and services that are available.

Spotlight III. As HNWIs focus more on mid- and long-term planning to preserve their families' prosperity, the demand for wealth inheritance has become more explicit

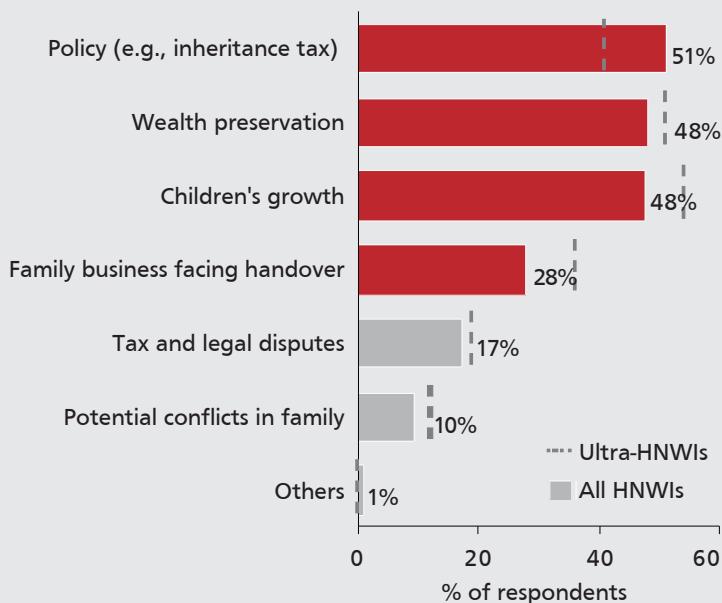
The possibility of an impending inheritance tax, wealth preservation and grown children are the main reasons that Chinese HNWIs consider inheritance planning

Around 70% of Chinese HNWIs are between the ages of 40 and 60. As their businesses become stable and successful and their children approach adulthood, many have begun to consider wealth inheritance. According to our survey results, about a third of the HNWI group and half of the ultra-HNWI group are considering inheritance planning, and this consideration increased with age. The possibility of an impending inheritance tax, wealth preservation, grown children and the desire to transfer the family business are all key factors that drive the demand for inheritance planning (see Figures 18 and 19).

First-generation and second-generation HNWIs' focus on inheritance planning

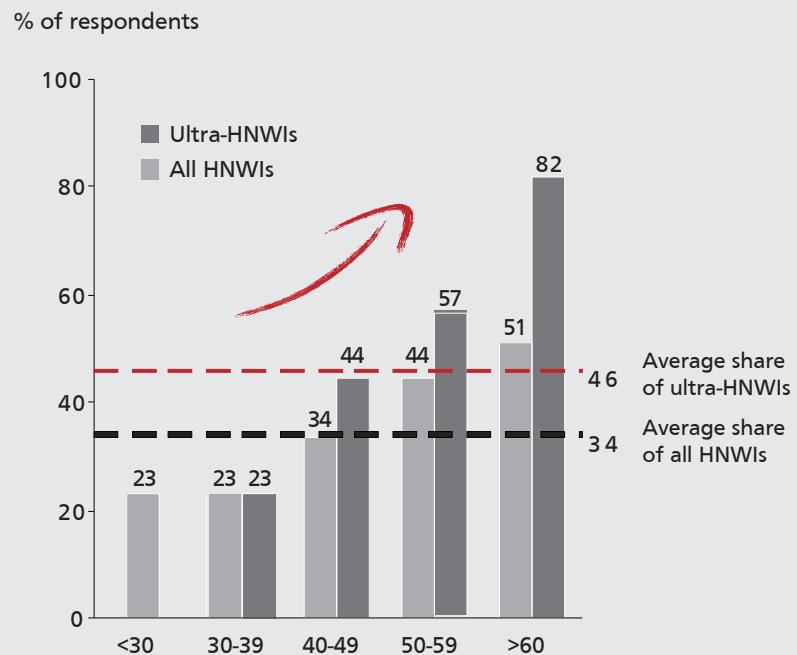
First-generation and second-generation HNWIs have different concerns about inheritance planning. Our survey finds that wealth control, continuity of the family business and wealth allocation are the main concerns for both generations. In addition, first-generation HNWIs would like to preserve their children's lifestyle and pay for their education.

Figure 18: Factors that influence Chinese HNWIs' decision to consider inheritance planning



Source: CMB-Bain Chinese HNMI survey

Figure 19: The share of HNWIs who consider inheritance planning



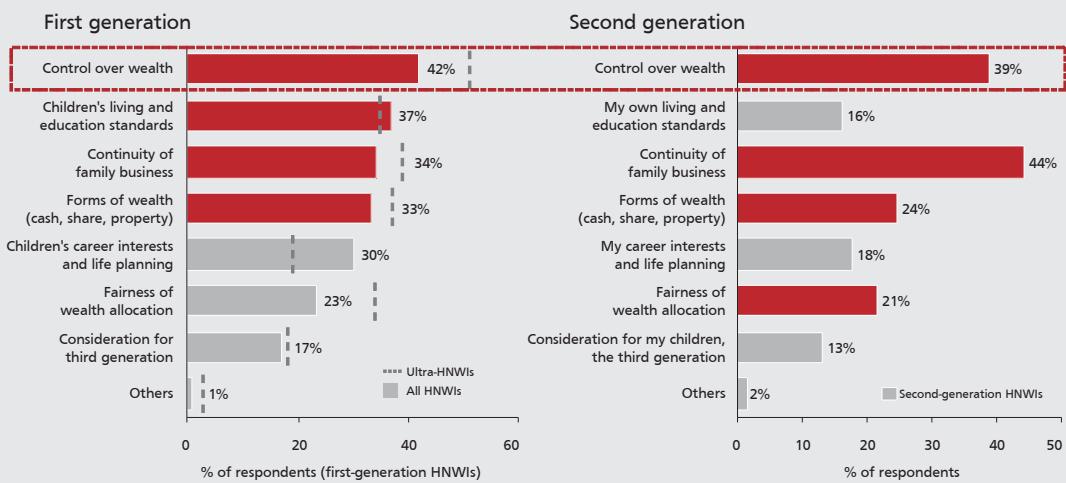
Source: CMB-Bain Chinese HNWI survey

Wealth control continues to be an important issue for both generations, garnering approximately 40% of responses. First-generation HNWIs hope that wealth can fuel their children's futures rather than becoming a burden. Therefore, they plan to transfer their wealth to their children gradually in different stages after they mature. Though they are the beneficiaries, children won't have actual wealth control until they reach a certain age. Second-generation HNWIs, meanwhile, want control over inherited wealth, especially once they begin to manage the family business. They want their rights to their wealth to match their responsibilities and their parents to trust them to manage that wealth.

Compared with their parents, the second generation thought more about the continuity of the family business, expressing a sense of responsibility. Regarding wealth transfer, approximately 45% of second-generation respondents expressed concerns about how they would carry on the family business while meeting the needs of their parents and fulfilling their own goals. It is worthwhile to note, however, that fewer than 20% of second-generation respondents selected "My career interests and life planning" as one of their top priorities, suggesting that their sense of responsibility for the ongoing prosperity of the family business and family wealth is stronger than their personal interests and life plans. Regarding family wealth inheritance, some second-generation respondents said that because they expect to inherit the family business, they would like to become involved early on in every aspect of its operation and also in the transfer of ownership, and they want to have a stronger voice in decision making and the management of the business. Other respondents indicated that the relationships among the business's management team are complicated. And some also revealed that they are not interested in the industry the family business is in, so they hope to exit the business but retain shares in it—or even divest those shares. Yet whichever action they take, the wish to protect both their personal interests and the interests of the family business to the greatest extent possible while achieving their personal goals is strong (see Figure 20).

Among first-generation respondents, 37% said an important objective of inheritance planning is to ensure their children's lifestyle and education level. They use their wealth to achieve these goals and even set aside "start-up funds" to help their grown children get a good start in society and business. Some first-generation respondents also stated that after reserving some funds to secure their children's futures and their education, they want to use their remaining wealth to make a positive contribution to society (see Figure 20).

Figure 20: Inheritance planning issues among the first and second generations

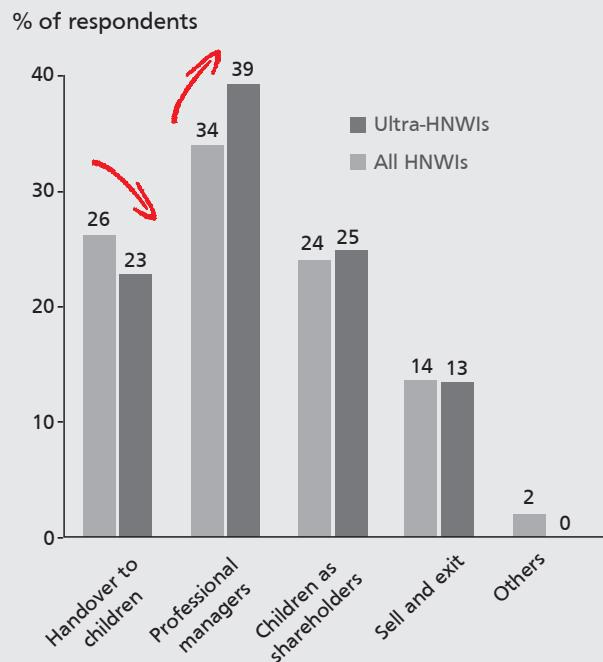


Source: CMB-Bain Chinese HNWI survey

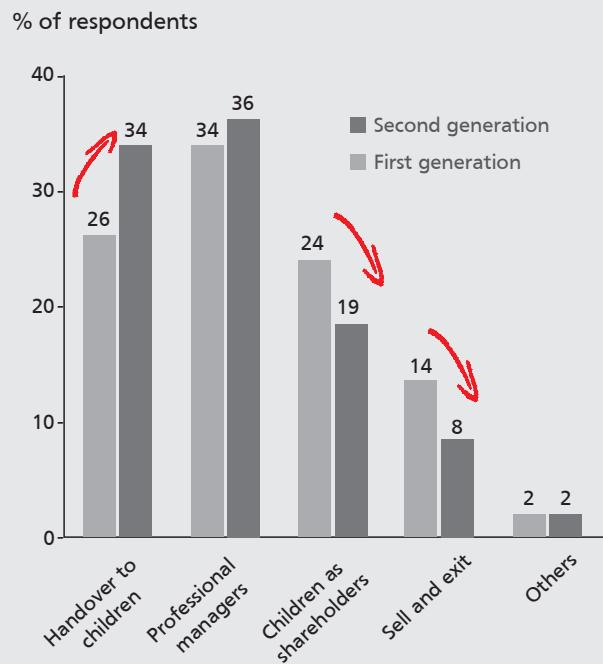
The two generations have different views regarding who will take over the family business. Only about 25% of business owners clearly stated that they would like to transfer the family business to their children. Having endured difficult times early on in their lives, many first-generation HNWIs respect their children's decisions and hope they will be able to pursue their own interests. As a result, the idea of turning the family business into a legal enterprise and introducing professional managers is a popular one.

On an interesting note, 14% of business owners have considered selling and quitting their businesses. As these individuals gradually shift the focus of wealth management from business operations to financial investments, they are also changing the type of inheritance they will leave—the transfer of a business vs. financial wealth allocation.

Fewer than 30% of first-generation respondents said they would transfer the family business to their children. By comparison, nearly 35% of second-generation respondents are willing to take over the family business and assist in its growth. Nearly two-thirds of second-generation respondents plan to retain professional managers, become a shareholder or sell and exit the family business. Their reasons include, but are not limited to the following: The particular industry the business is in is looking bleak, they want to start their own business or they would like to pursue other personal interests. Among second-generation respondents, a considerable number have completed their higher education in China or have studied abroad, giving them a broader vision and better ability to absorb new concepts. Consequently, they are more willing to use specialized institutions to manage their wealth. This means that a large number of HNWIs will consider applying modern business management methods or financial solutions to ensure a smooth transition and the continuity of the family business, suggesting a revolutionary change in the family wealth management philosophy of Chinese HNWIs (see Figures 21 and 22).

Figure 21: First generation's preferences for the future of the family business

Source: CMB-Bain Chinese HNWI survey

Figure 22: Comparison of first and second generations on future planning for the family business

Source: CMB-Bain Chinese HNWI survey

Chinese HNWIs have a more mature and prudent investment philosophy. Demand for overseas asset allocation is increasing

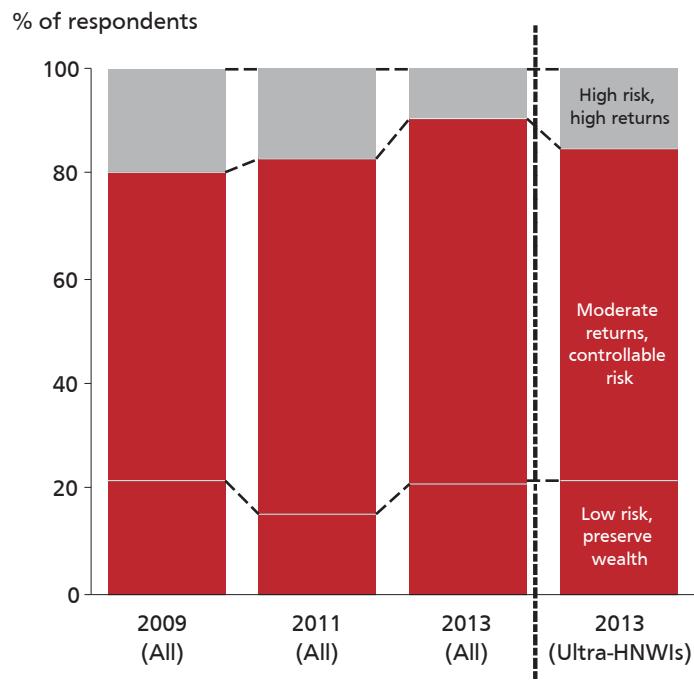
The share of HNWIs who select moderate- and low-risk investments to preserve asset value is increasing

After the market turbulence of the previous two years, Chinese HNWIs have reduced their investments in high-risk, high-return products and increased their allocations to moderate- and low-risk investments. More HNWIs are increasingly focused on preserving their wealth, and hence interest in investments with more moderate risks and returns is growing among this group (see Figure 23).

The percentage of HNWIs pursuing moderate- and low-risk investment strategies has been increasing over the last several years: fewer than 80% in 2009, more than 80% in 2011 and just over 90% in early 2013. Meanwhile, the share of HNWIs preferring high-risk, high-return investments has decreased sharply, from 20% in 2009 to 17% in 2011 to less than 10% in early 2013. The number of HNWIs selecting low-risk investments has also increased, from 15% in 2011 to 21% in 2013.

The percentage of ultra-HNWIs making high-risk, high-return investments is higher than that of the HNWI group as a whole. This may be because ultra-HNWIs have greater access to high-risk, high-return products. It is also likely that many in this group, especially entrepreneurs and professional investors, have more experience with investments like private equities and higher risk tolerance (see Figure 23).

Figure 23: Chinese HNWIs' changing risk preferences from 2009 to 2013



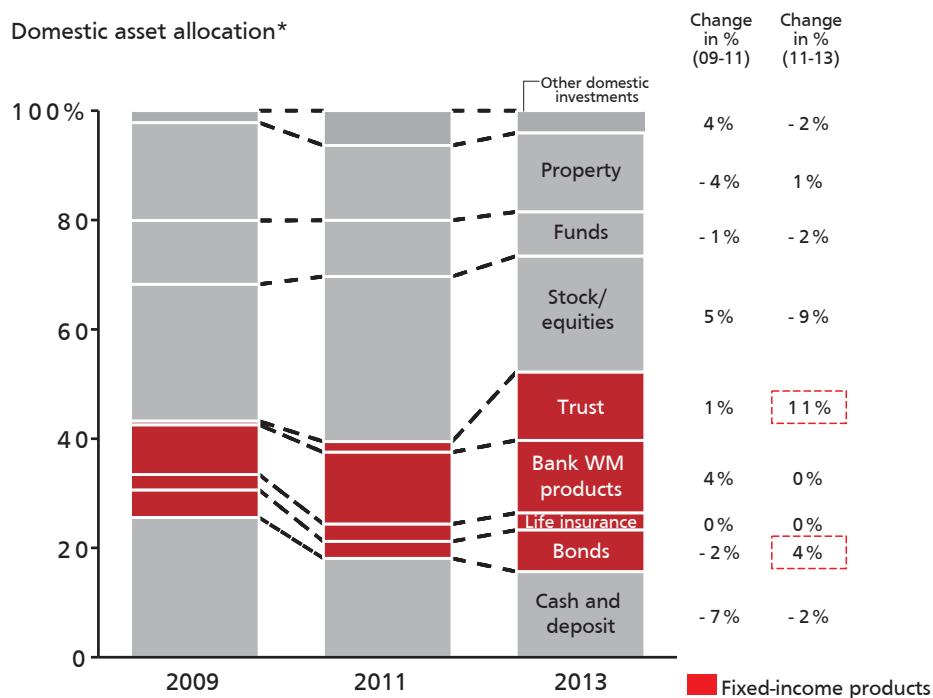
Source: CMB-Bain Chinese HNWI survey

Investors show less enthusiasm for stock, funds and other domestic investments (excluding trusts) and more enthusiasm for fixed-income products

Beginning in the 2010 to 2012 period, most investors downgraded their investment return expectations in response to market volatility, shifted their focus to wealth preservation and sought more moderate- and low-risk investment products. Many HNWIs have indicated that they want to make conservative investments and preserve liquidity for potential investment opportunities.

Chinese HNWIs mainly allocate their domestic assets to savings, stocks and real estate, but the shares given to these investments have decreased. In early 2009, traditional investment instruments, such as cash and deposits, stocks and real estate, captured around 70% of the wealth market. In early 2011, that number fell to about 60%. Thereafter, that figure decreased by 10%, to about 50% in early 2013. Funds and other domestic investments (excluding trusts) account for smaller shares as well. HNWIs also have more bonds on hand, increasing from 3% in 2011 to 7% in 2013. Given their fixed-income features, trust products have been very popular in the past two years, and their share in HNWIs' portfolios has risen by 11% (see Figure 24).

Figure 24: Asset allocation of Chinese HNWIs from 2009 to 2013



Notes: *Bank investment products (more than one year);
 **Trust products (fixed-income products, including one or more years);
 ***Other domestic investments include private equity, private funds invested in secondary markets, gold and futures; trust product is listed separately as its share increased significantly in this year's survey

Source: CMB-Bain Chinese HNWI survey

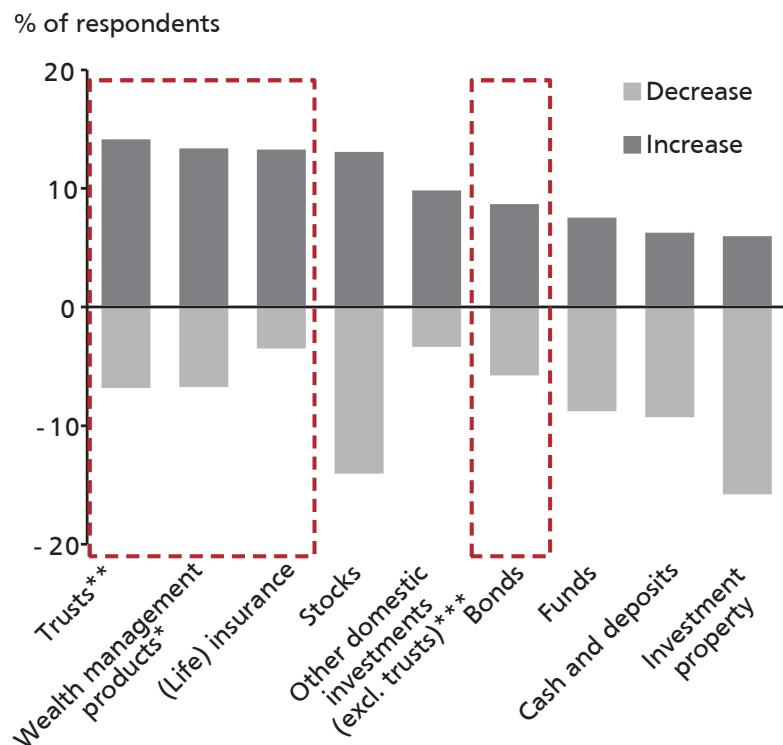
A breakdown of each asset class reveals several key trends:

- **Cash and deposits** as a percentage of total assets have been flat: down to 16% from 18% two years earlier. Given inflation and near-zero real deposit interest rates, HNWIs have proactively sought investments offering higher returns for their savings while maintaining a lower share of cash and deposits to ensure liquidity. Bank investment products and bonds have diverted funds from cash and deposits.
- **Bonds** account for 7% of HNWIs' asset portfolios, a sharp increase from 3% in 2011. China's securities market is developing rapidly, which not only extends the direct financing channel for the government, institutions and businesses, but also provides a relatively stable investment channel for individual investors. Fixed-income products have become a popular choice for investors seeking moderate returns as key investment markets see fluctuations.
- **Bank wealth management products** make up 13% of HNWIs' assets, remaining at a consistently high level. Given their lower risk, stable returns and ease of purchase, these products are good choices for moderate- and low-risk asset allocation, and as such, they are sought after by investors. The China Banking Regulatory Commission (CBRC) now requires audits of "nonstandard" credit assets in bank wealth management products' asset pools and enhanced risk controls, and bank wealth management products are expected to be further regulated, which is beneficial for the market's long-term viability.
- **Trust financing** is an important supplement to both bank and direct financing given domestic financial channels and policies. Accordingly, trusts have attracted the attention of HNWIs with higher expected returns and relatively controllable risks, and its share in asset allocations has risen 11% since 2011. However, risks are accumulating because of aggressive product design and insufficient risk controls among some trust products, and investors have become more aware of these risks.
- **Stocks** as a percentage of HNWIs' asset portfolios have decreased by 9%. In early 2011 stocks represented 30% of HNWIs portfolios, but in 2013, only 21%. This significant decline was caused by the decreasing value of stocks, as well as the reallocation of funds into other investments.
- **The share of funds** also continued to decrease slightly compared with 2011 because of the stock market's negative performance.
- **Real estate investments** in the short term have most investors taking a "hold and see" attitude because of new government regulations. The purchase limitation and tax policies made the domestic residential housing market less attractive from 2010 through 2012, especially in Tier-1 cities. While real estate's share in total assets will be directly affected by trends and signals from both government policy makers and the market, it remains an important aspect of HNWI's domestic asset allocation priorities.
- **Other domestic investments** (excluding trust products) are less attractive to HNWIs, dropping by two percentage points in 2013. As a result of the securities market downturn and the suspension of IPOs, investors are focusing less on private equity and private funds invested in secondary markets. In our survey, most HNWIs said they don't have sufficient knowledge or experience in alternative investments such as collections, and therefore tend not to venture dedicated investments into those areas, even if they have personal interest in them. Some HNWIs with knowledge or expertise in the fine arts, or channels for such information, are spending time and effort to invest in those markets, but also exercising caution because such investments require a large amount of capital and have low liquidity.

Steady investments such as fixed-income and insurance products will maintain their appeal over the next two years, but HNWIs have mixed views about the securities market

Among all investments, HNWIs are most willing to increase their allocation in fixed-income products. Based on our survey results, investments in trusts, bank wealth management products and bonds will increase. As demand for wealth preservation intensifies, demand for insurance is also rising. Despite having a lower share in total asset allocation, investors are still keeping an eye on other domestic investments, which offer diversity and, in some cases, high expected returns (e.g., private equity). The uncertain outlook for the stock market has created a polarized view of investments in stocks and funds, and the ratio of overweight to underweight is about the same. In the real estate market, HNWIs have taken a "hold and see" attitude because of tightened regulations and increased market uncertainty (see Figure 25).

Figure 25: 2013 investment trends by asset class



Notes: *Bank investment products (more than one year);

**Trust products (fixed-income products, including one or more years);

***Other domestic investments include private equity, private funds invested in secondary markets, gold and futures; trust product is listed separately as its share increased significantly in this year's survey

Source: CMB-Bain Chinese HNWI survey

Trusts have become a “hot spot” for investments over the past two years, while investors have become more aware of their risks

Trust products have gained popularity among investors in the past two years, thanks to attractive expected returns, and more trusts of basic industries as well as commercial and industrial enterprises were issued. The outstanding balance of trusts (excluding real estate trusts) increased by more than 40% CAGR from 2010 to 2012. The market size of real estate trusts declined in 2012 from the prior year.

Based on in-depth interviews with HNWIs, we found that some investors had misunderstandings about three issues. First, they think trusts are similar to fixed-income products, with relatively certain returns and low risks. Second, they think it is difficult to fully recognize all the risks because of the product's complexity. As a result, they mainly rely on the brand and reputation of issuers and distributors to make investment decisions. Third, investors think issuers and distributors have “guaranteed payments” to protect their own brand and credit should there be any payment delay risks. These misunderstandings cause some investors to underestimate the risks and raised investment interest because of the high expected returns of the product.

That said, some industry practitioners stated in interviews that HNWIs are becoming more aware of trust risks, and their investment philosophy is maturing. Some trust products have begun to show signs of accumulated risk as a result of aggressive product design or insufficient risk control or disclosure. More HNWIs realize that “guaranteed payments” might not last, and risk awareness has risen.

As a result, customers have started to focus on both product yields and risks. When buying non-bank products (e.g., trust and private funds invested in secondary markets), more than 60% of investors focused on the risks of product design and the investment objective, as well as qualification and capabilities of the management institutions.

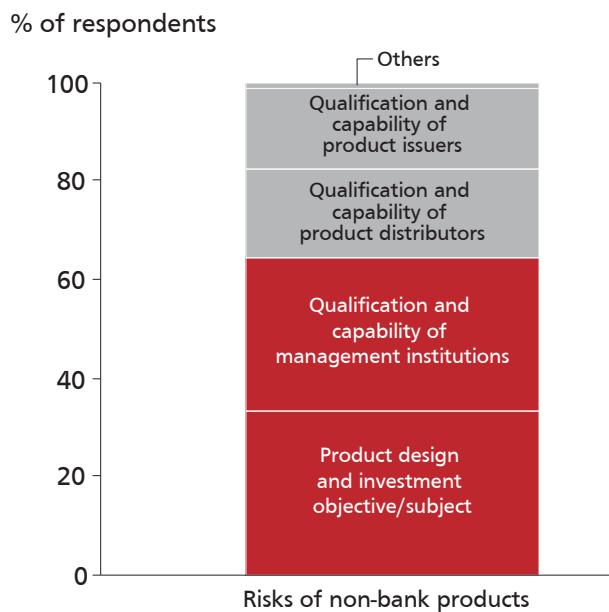
Finally, product referral and distribution institutions still can affect the purchase decisions of some HNWIs because they can interact with these investors directly. These institutions should further improve their own capabilities and expertise, enhance their review of distributed products and provide sufficient risk disclosure and rigid risk control.

That said, they should also offer the right products based on customers' diversified risk appetite. It is only by taking such steps that these institutions can protect the interests of investors and drive the sound development of the trust market (see Figure 26).

HNWIs' demands for financing and value-added services

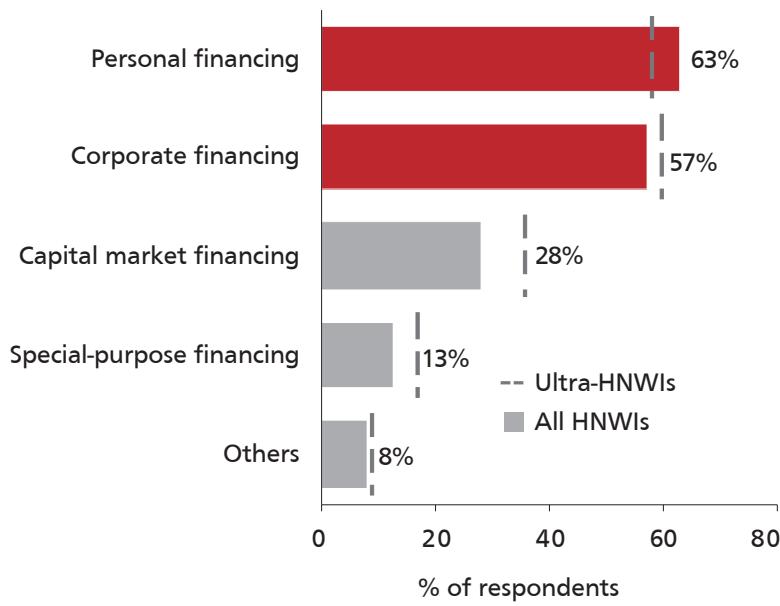
Personal and corporate financing services are the two financing services that most HNWIs want. As many as 63% of respondents mentioned personal financing needs, and 57% mentioned corporate financing needs (e.g., project financing, corporate loans, trade financing, SME financing). Nearly 30% of HNWIs expect wealth management institutions to provide capital market financing to increase investment leverage. In the meantime, a few HNWIs, especially ultra-HNWIs, hope to get special-purpose financing services (e.g., for a yacht or private jet purchase) from wealth management institutions (see Figure 27).

**Figure 26: The risks that concern Chinese HNWIs the most when buying non-bank products
(e.g., trust, private funds invested in secondary markets)**



Source: CMB-Bain Chinese HNWI survey

Figure 27: HNWIs' financing service needs



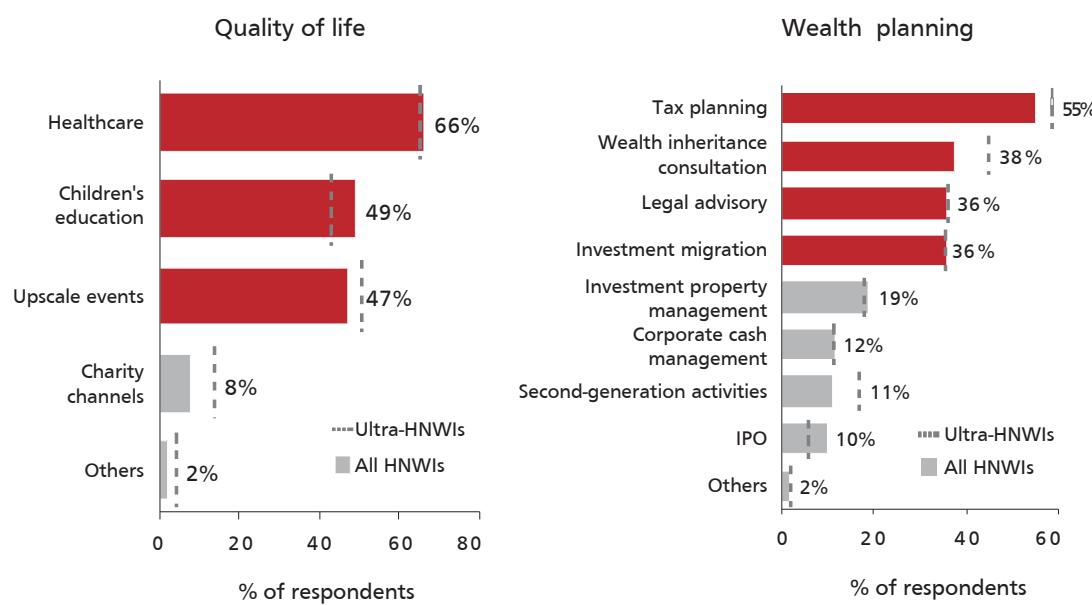
Source: CMB-Bain Chinese HNWI survey

Lifestyle-related value-added services: HNWIs prioritize healthcare, children's education and upscale social events. In terms of healthcare, they expect private banks to help with booking doctors' appointments and lectures given by healthcare experts. For children's education, some HNWIs hope that private banks will provide lectures and training on wealth management and investment for their children. Others want private banks to organize summer camps and events to help expand their children's social networks. In addition, overseas education advisory services are also very popular. Ultra-HNWIs value upscale events more than other HNWIs as a means of expanding their networks, developing their businesses and sharing information.

Some HNWIs also mentioned that they wish private banks would help arrange for them to participate in charity events, while others noted that there are many options for engaging in charitable activities. Some survey respondents said they tend to get involved through individuals or friends, because they can assess the effectiveness of their charitable funding. Others authorize organizations or individuals they trust to make contributions on their behalf. Currently, the number of HNWIs who rely on financial wealth management institutions for charitable giving is low.

Wealth-planning value-added services: HNWIs seek tax planning, wealth inheritance consultation, legal advisory and investment migration-related services. Of these services, ultra-HNWIs care most about tax planning (e.g., tax advice related to investment migration and general tax advice for personal wealth) and wealth inheritance consultation (see Figure 28).

Figure 28: HNWIs' demands for value-added services of private banking



Source: CMB-Bain Chinese HNWI survey

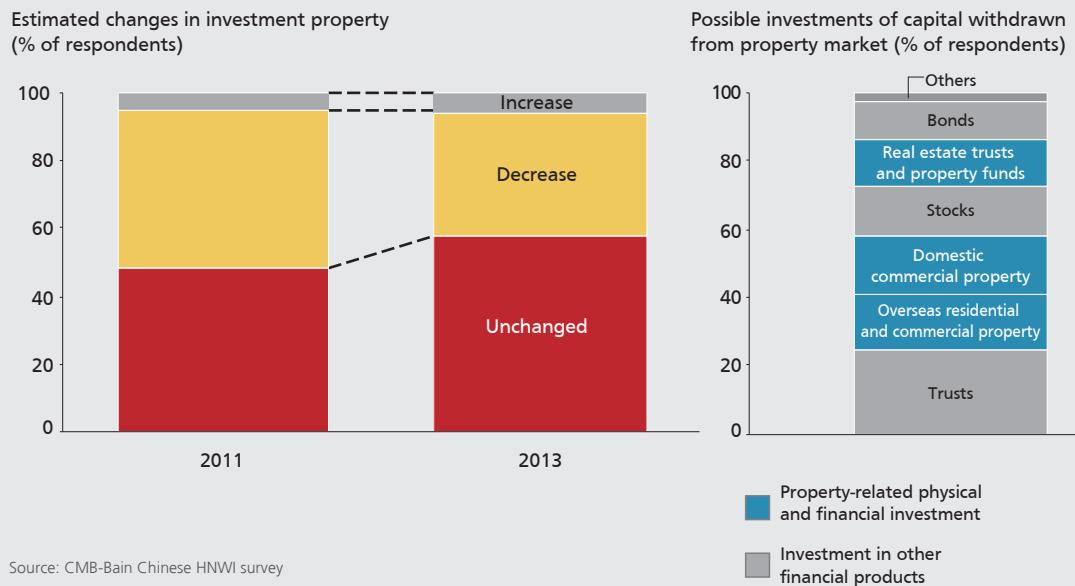
Spotlight IV. With new real estate regulations in place, many HNWIs have a “hold and see” attitude toward property investment. Most are not keen to sell their properties, and their enthusiasm for property investment has decreased significantly

Since 2010, central and local governments have been issuing a series of real estate regulatory policies. They set higher qualifications for residential property purchases and increased the mortgage interest rates of second—or even first—property purchases. In February 2013, the State Council's Standing Committee Meeting approved the Five Policy Initiatives to Tighten Real Estate Control (“Five Regulations”) and also rolled out real estate tax pilots. In addition, the State Council issued GBF (2013) Notice No. 17, specifying that individual income tax is levied based on 20% of net income from a second-hand property transaction.

Based on 200 interviews with realtors nationwide, as well as in-depth interviews with HNWIs and an extensive survey, we have concluded that the new round of real estate controls have strengthened HNWIs’ “hold and see” attitude toward property investments. Nearly 60% of respondents said that they don't have immediate plans to sell; instead, they will observe policy and price trends, as well as investigate other investment opportunities, in next year or two years, before taking further action.

Approximately 35% of survey respondents plan to reduce their investment in the real estate market in the next two years. Those HNWIs say they plans to redeploy the capital withdrawn from the residential real estate market, putting 15% to 20% in overseas property investment, 15% to 20% in commercial property, 15% in real estate trusts and funds, and about 50% in other financial products (see Figure 29).

Figure 29: Chinese HNWIs' attitudes toward future investment in the real estate market in the next two years



Spotlight V. In an era of global capital, demand for overseas asset allocation is increasing among HNWIs

With the greater integration of the global economy and closer trading relationships across different countries, the international capital movement has become an inevitable trend and an era of capital globalization has arrived. Overseas investors have increasing interest in investing in China's capital markets. At the same time, interest in the overseas market is growing among Chinese HNWIs, and their investment needs have become more diverse as they invest in different regions, with different currencies and product types. In 2008, less than 10% of HNWIs' total investable assets were allocated to overseas investment, but this figure rose to about 20% in 2012.

In the next one to two years, overseas investment is expected to increase further, with fixed-income products and property investments becoming major investment categories

According to our survey, more than 30% of Chinese HNWIs and more than 50% of ultra-HNWIs said that they had overseas investments. Among HNWIs who have overseas investments, nearly 60% showed a willingness to increase their overseas investment capital in the future. Among those who have no overseas investments, more than 50% said they are planning to invest overseas (see Figures 30, 31 and 32).

Three factors are promoting overseas asset allocation. First, with more information being exchanged between domestic and overseas markets, Chinese HNWIs have a greater understanding of overseas investment markets. These HNWIs are attracted by the diversity of overseas investment products and the diversity of markets, and they hope to benefit from more overseas investment opportunities. Some HNWIs also hope to invest overseas as a way of hedging and diversifying risk across the global investment market. Finally, as more HNWIs seek to send their children to schools abroad and plan for their children's lives overseas, more HNWIs, themselves, expect to spend more time abroad in the future, creating a natural need for overseas investments.

Figure 30: Share of overseas investment in HNWIs' total investment



Source: CMB-Bain Chinese HNWI survey

Figure 31: Attitude toward overseas investment among HNWIs who already have invested abroad

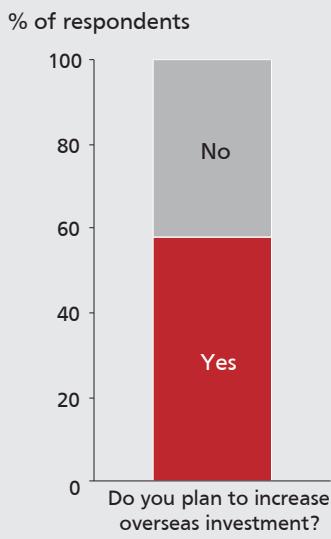
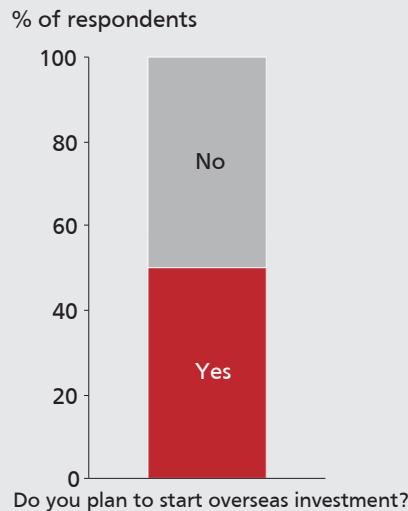
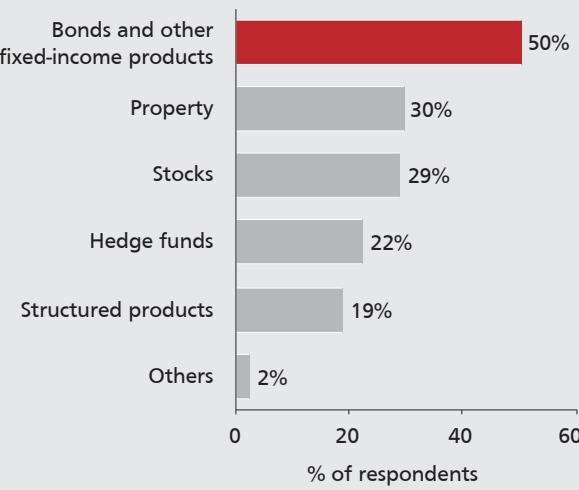


Figure 32: Attitude toward overseas investment among HNWIs who have not yet invested abroad

Source: CMB-Bain Chinese HNWI survey

Among overseas investments, Chinese HNWIs currently invest in fixed-income products, property investments and stocks. Half of the respondents said that they would invest primarily in fixed-income products such as bonds, whose lower risks and moderate returns fit with many HNWIs' desire to preserve wealth. Around 30% of HNWIs would invest in overseas real estate markets for two reasons. First, such investments can meet their residential needs when their children study abroad. Second, some investors believe that there are undervalued investment opportunities in North America, following the subprime mortgage crisis. Additionally, nearly 30% of HNWIs showed interest in overseas stock markets. Because Chinese HNWIs are not familiar with the overseas investment environment, and investment products are relatively complicated, we expect that HNWIs will rely more heavily on professional investment services provided by wealth management institutions for their cross-border allocations (see Figure 33).

Figure 33: HNWIs' preferences regarding different product types when investing overseas

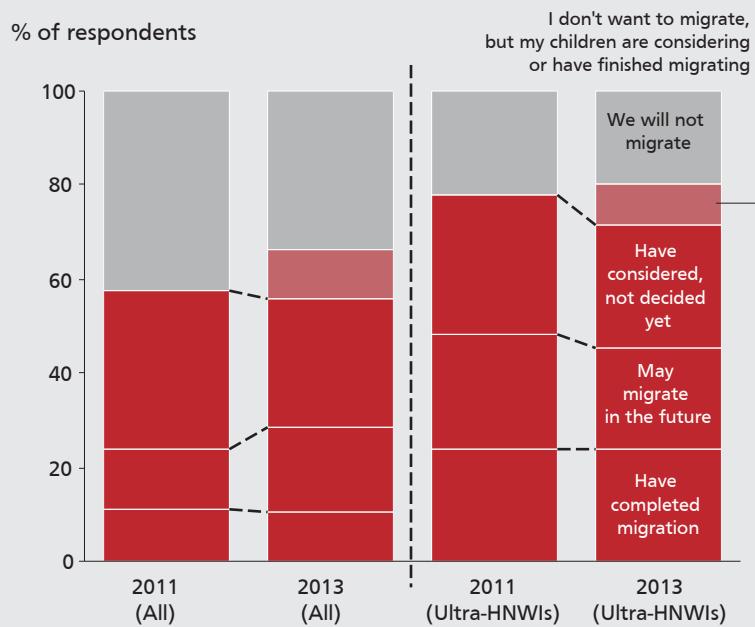
Source: CMB-Bain Chinese HNWI survey

HNWIs still have strong interest in investment migration

Our 2011 survey found that a high share of Chinese HNWIs were interested in investment migration. In our 2013 survey, about 60% of HNWIs indicated that they either considered or had completed investment migration, which is about the same level as it was two years ago. In addition, 70% of ultra-HNWIs have either considered or completed investment migration. About 10% of respondents say they have no plans to migrate, but they are considering migration applications for their children in hopes of providing a better education platform for them.

Our in-depth interviews revealed that HNWIs focus on following issues in particular: overseas asset investment, children's education and planning for retirement. Furthermore, domestic environmental issues in recent years have become another consideration for investment migration. Some respondents are concerned about air pollution, water quality and food safety. As a growing number of HNWIs consider migrating overseas, their need for migration-related financial, tax and legal advisory services are bound to increase (see Figure 34).

Figure 34: Chinese HNWIs' attitudes toward investment migration in 2011 and 2013



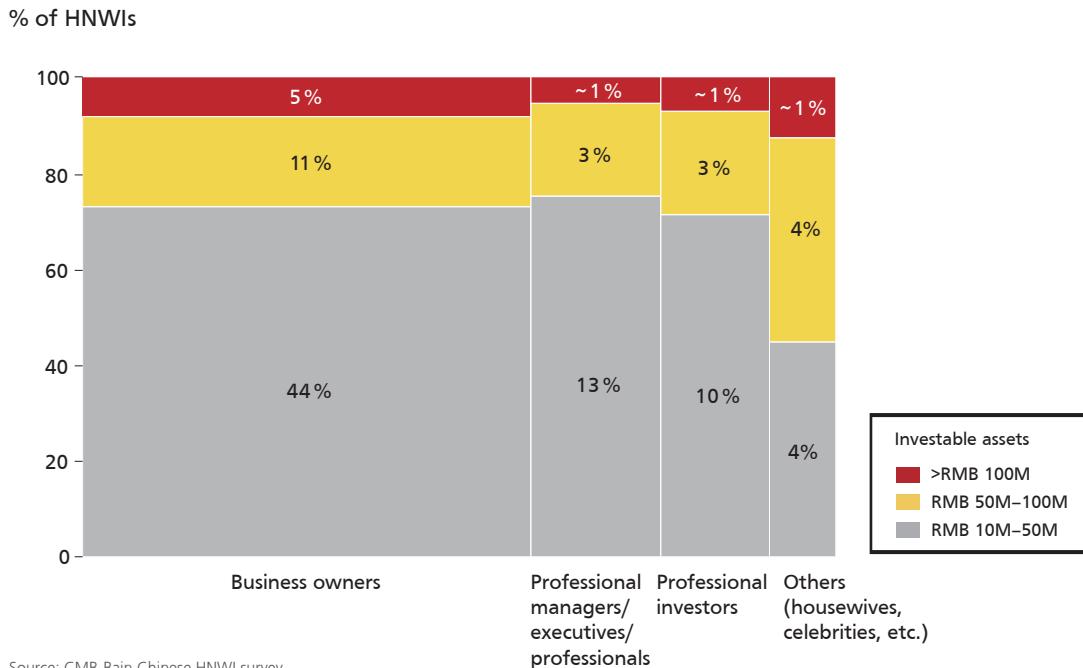
Source: CMB-Bain Chinese HNWI survey

The majority of HNWIs are business owners, and they have increasingly diversified demands

The number of Chinese HNWIs has grown over the past two years, exceeding 700,000 by the end of 2012. Because occupation and total individual investable assets ("investable assets") are major indicators of how Chinese HNWIs invest, we have classified HNWIs based on those two dimensions. The six groups are as follows:

- Business owners with RMB 10 million to RMB 50 million in investable assets
- Business owners with RMB 50 million to RMB 100 million in investable assets
- Business owners with more than RMB 100 million in investable assets
- Managers/executives/other professionals ("professional managers")
- Professional investors
- Others, including housewives, retirees, entertainment personalities and sports stars, etc.

Figure 35: Chinese HNWI segments by occupation and investable assets



Based on our large sample survey and interviews with relationship managers of private banks across China, we found that the majority of HNWIs are business owners: They account for 60% of this group, on a par with that in 2011. Some in this group were owners of traditional businesses, who chose to retire or seek new opportunities when external factors such as industry reform or transformation affected their operations. Others are new business owners in industries that are emerging in different regions of China, backed by a series of national industrial and regional economic policies. These "emerging business owners," who are joining the ranks of the newly wealthy, come mainly from the high-tech and new energy industries or emerging segments of traditional manufacturing. They are mostly young and open-minded, and have a high level of trust in private

banks and other wealth management institutions. They value professional advisory services and comprehensive wealth management planning. They also have higher expectations about the effectiveness of private banks' service platforms and expertise of service teams.

Besides business owners, other HNWIs include professional managers and investors, and "others" includes housewives and celebrities. Among this group, professional managers are seeing both their wealth and numbers steadily grow—they make up 17% of HNWIs today. Professional investors account for 14% of the HNWI population. The others (housewives, retirees, entertainment personalities and professional athletes) account for 9% (see Figure 35).

There are growing differences in investment behaviors and wealth management needs among business owner segments

The group of business owners in our survey can be further segmented by their wealth management needs and investment habits. As we noted earlier, HNWIs are focusing on wealth preservation and overseas investments and investigating the investment channels available to them.

When considering wealth preservation and inheritance, ultra-HNWI business owners have higher requirements than HNWIs with smaller investible assets. They intend to pursue stable wealth growth and are more willing to consider wealth inheritance planning. Most ultra-HNWI business owners have either considered or completed investment migration, and they have a higher proportion of overseas assets. Most of them already have some experience working with overseas wealth management institutions. A typical customer profile would be a business owner who was educated overseas or has lived abroad. These individuals have more international business interactions and have accumulated more experience and knowledge about markets and products overseas.

Business owners also fall into two categories based on their investment behavior: "active investors" and "prudent passive investors."

Active investors rely more on themselves, their families or friends to manage their wealth than institutional wealth management channels. Typically, they have accumulated many years of investing and are experienced investors. They have a deeper understanding of market fluctuations than passive investors. In addition to running their own business, these active investors are more willing to study investment markets and products, collect multifaceted information and listen to suggestions from investment experts to make decisions. They aim to disperse risk and pursue returns by using multiple investment channels. They have very high requirements for the services provided by their banks: They expect effectiveness, convenience, and expert of investment and wealth management advice.

By comparison, prudent passive investors rely heavily on private banks. They put most of their effort into operating their businesses. They desire to build a long-term relationship with a trusted full-service wealth management institution to manage their assets, gaining stable returns while limiting their own time and effort spent on managing their wealth. For such customers, private banks are the channels for wealth preservation rather than rapid wealth creation. They rely more on information and product analysis provided by relationship managers and investment advisers. And they have high requirements for private banks, expecting them to be efficient and reliable, as well as demonstrate a solid performance track record for managing wealth. Their goal is to acquire high-quality comprehensive financial services.

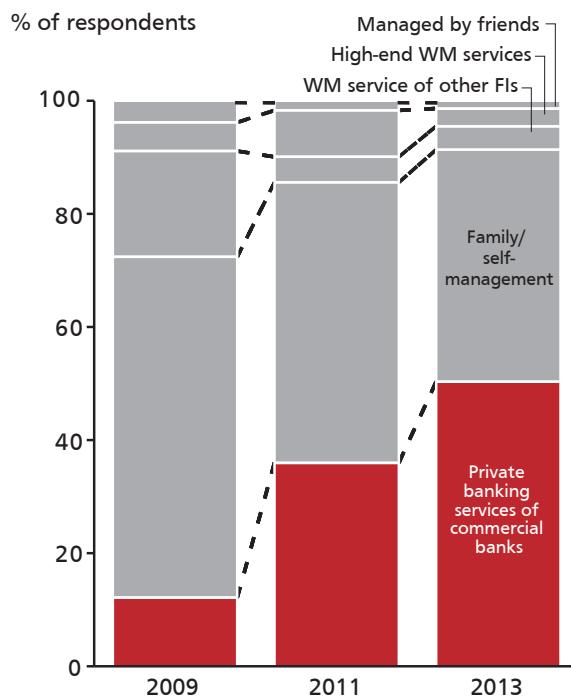
Trust and collaboration between HNWIs and wealth management institutions have deepened. HNWIs we surveyed are more reliant on private banking services

More HNWIs recognize the value of professional wealth management institutions and manage more investable assets through them as they become more aware of risk, face increasing complexity managing their family's wealth and form stronger relationships with wealth management institutions. As full-service wealth management institutions, private banks have become the primary channel for investment and wealth management for HNWIs.

HNWIs are more reliant on private banking services

Our survey findings indicate that almost half of HNWIs use private banks as their primary investment channel, a 10% increase from 2011. Additionally, more than 30% of HNWIs intend to increase their asset allocation in private banks. As HNWIs become more familiar with the concept of private banking wealth management, and as their actual usage of private banking services grows, HNWIs have become more reliant on private banking services (see Figures 36 and 37).

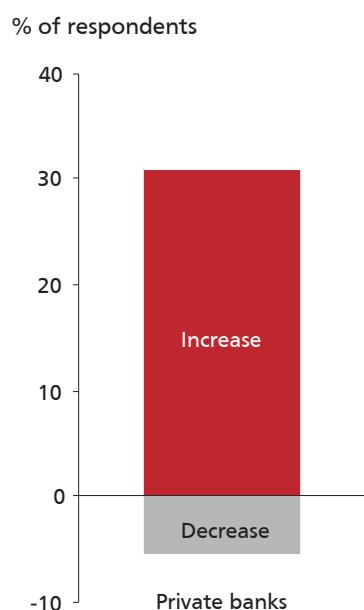
Figure 36: The changing trend for investment channels among Chinese HNWIs from 2009 to 2013



Source: CMB-Bain Chinese HNWI survey

There are three drivers. First, HNWIs have established a long-term and solid relationship with relationship managers and investment consultants at private banks as those institutions have expanded and cultivated a mature market. Second, when HNWIs observe fewer private-channel opportunities or market fluctuations, they focus on financial products provided by professional institutions. Finally, the format of family business is becoming more complicated. More HNWIs are willing to collect information and make a comprehensive wealth analysis and wealth plan under private banks' service platform and their research resources.

Figure 37: The changing trend for the amount of wealth that Chinese HNWIs allow private banks to manage



Source: CMB-Bain Chinese HNWI survey

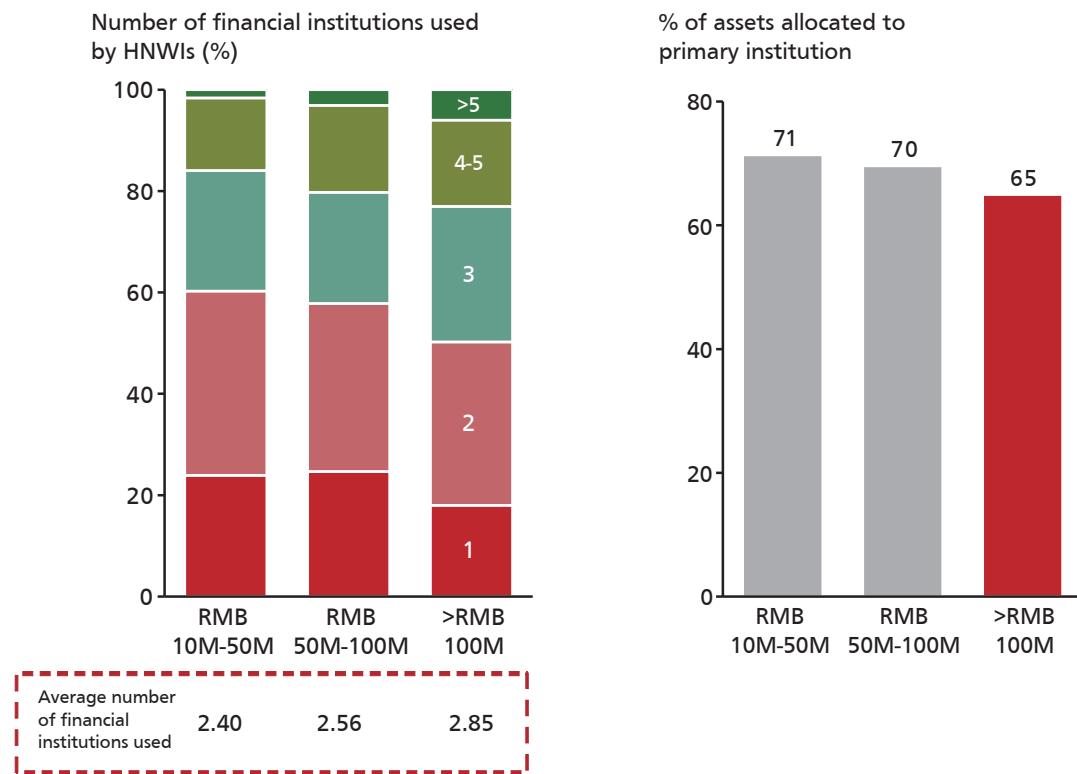
Major wealth management institutions capture a higher share of wallet, but the level of asset concentration will be lower as investable assets increase

According to the survey, HNWIs prefer to use multiple financial institutions for asset management, while allocating 60% to 70% of their assets to a primary financial institution. As investable assets increase, the share of HNWIs using multiple financial institutions is also expected to increase slightly, while the level of asset concentration is likely to decrease (see Figure 38).

HNWIs' selection of a primary wealth management institution is based primarily on long-term trust and good personal relationships with relationship managers of that institution, as well as the recognition of a comprehensive investment and wealth management service platform and service capability of the institution. They expect convenient transactions and services from the institution, while saving the amount of their own time and energy spent on wealth management.

To meet their desire for service diversification and privacy, HNWIs maintain an average of two to three accounts in other wealth management institutions. As their investable assets increase, HNWIs require more complicated and diversified products and value-added services. By choosing to work with more than one wealth management institution, HNWIs get access to a more comprehensive group of products and services. Some HNWIs also use the services of several private banks to keep their overall wealth private.

Figure 38: The number of institutions that HNWIs use and the asset allocation rate of the primary institution



Source: CMB-Bain Chinese HNWI survey

Chapter III

The competitive landscape of China's private banking sector

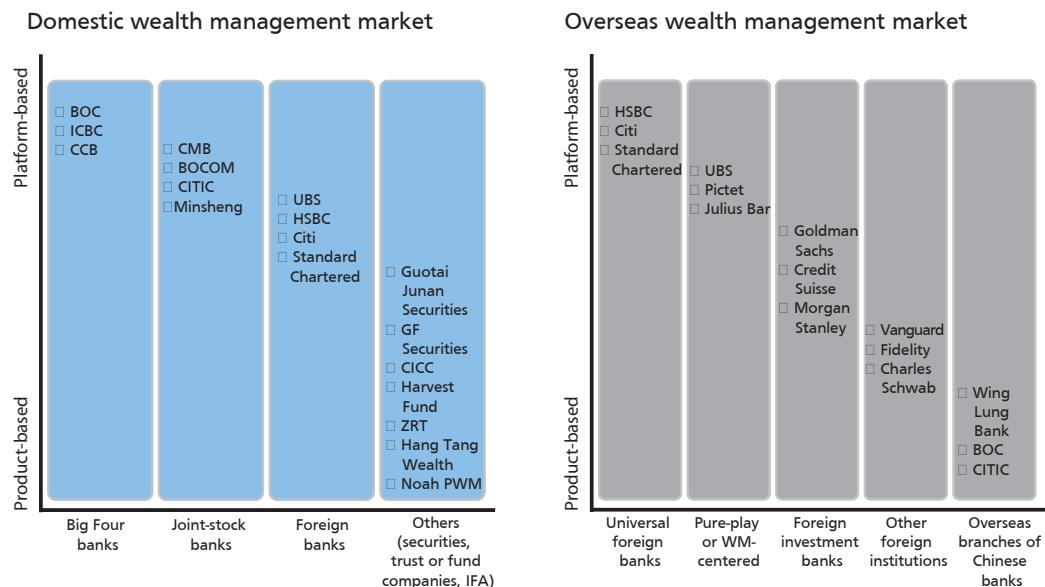
- Competition in the private wealth market is increasingly fierce. The overseas wealth management market has become an important extension of the domestic market.
- China's banks have maintained and strengthened their competitive advantage in the domestic wealth management market following years of development.
- The overseas private wealth market is increasingly important to HNWIs, who prefer private banking services with strong overseas asset allocation capability and expertise.

Competition in the private wealth market is increasingly fierce. The overseas wealth management market has become an important extension of the domestic market

In the past six years, China's wealth management market has experienced rapid development. It is now moving into more intensive development, by leveraging its brand, service and expertise advantages. As more HNWIs focus on the overseas investment market, the overseas wealth management market has become an important extension of the domestic market. Several Chinese institutions have now started to expand their foreign footprint.

In the domestic private wealth market, major wealth management institutions include China's banks, foreign banks, securities firms, fund companies, trust companies and independent financial advisers. In the overseas private wealth market, major wealth management institutions include universal foreign banks, "pure-play" or wealth management-centered institutions, foreign investment banks, other foreign institutions and overseas branches of China's banks. The detailed breakdown is as follows (see Figure 39).

Figure 39: Types of wealth management institutions used by HNWIs



Sources: Company websites; company annual reports; Bain analysis

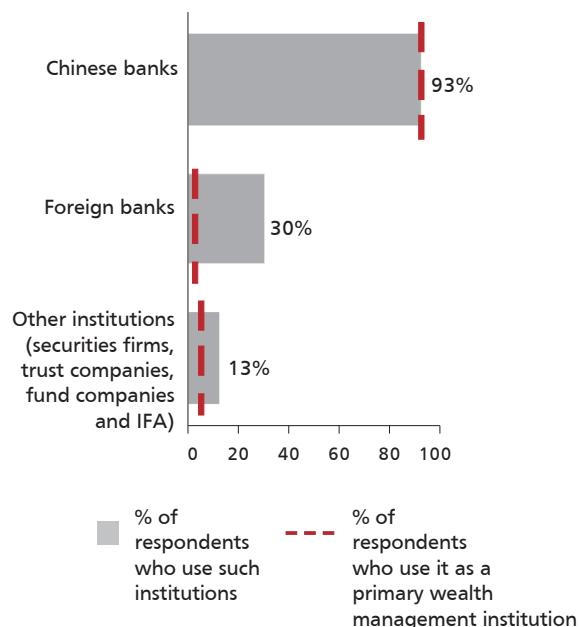
China's banks have maintained and strengthened their competitive advantage in the domestic wealth management market following years of development

With regard to domestic asset management, China's banks are striving to build a wealth management platform providing a full range of services to HNWIs, by leveraging their extensive customer base, strong corporate banking presence and nationwide network. More than 90% of HNWIs in the survey rely on China's banks for domestic wealth management. This figure is much higher than that of foreign banks and other institutions. Given their advantages in brand, service and product selection, China's banks have become the top choice for Chinese HNWIs, further consolidating their leading positions.

Compared with two years ago, foreign banks still face constraints in private banking business in China, due to narrower product selections. HNWIs also tend to choose the bank that handles their personal or daily corporate banking settlements as their primary wealth management bank, which brings more convenience and creates a strong partnership. As a result, it is difficult for foreign banks to compete with China's banks insofar as service network and convenience, which puts them at a competitive disadvantage in the domestic wealth management market.

Compared with private banks, other wealth management institutions, such as securities firms, funds and trusts, also have singular advantages related to the stock market, investment management and assets management. These services are broadening in scope. For example, CSRC published the Provisions on the Administration of Proxy Sale of Financial Products by Securities Companies in 2012, expanding the scope of such products as funds, asset management plans of other securities companies and financial products issued by other institutions such as banks, trusts and insurance companies. The Provisions on Issues about Implementing the Measures for Fund Management Companies to Provide Asset Management Services to Specific Clients on a Pilot Basis, which came into force in November 2012 allows fund companies to establish designated subsidiaries to make specific asset management plans (SAMP), to invest in non-listed companies' equities,

Figure 40: HNWIs' selection of domestic wealth management institutions



financial claims, income rights and other assets. The investment scope is further expanded by regulations lifting restrictions on allocation percentages of a single stock or security. Trust companies also are investing in the development of direct sales teams. In recent years, they have established marketing centers or wealth management centers in major cities, offering a full menu of services from product design to sales. The wealth management business of securities firms, funds and trusts is still in a start-up period, as it takes a long time to build comprehensive abilities in wealth management (see Figure 40).

Brand, expertise and service are still the three key criteria for HNWIs in their selection of domestic wealth management institutions

The survey indicates that more than 50% of HNWIs value brand and credibility when selecting wealth management institutions. A reliable and professional brand image is the foundation to acquire an HNWI's trust and support. The expertise of wealth management advisers and the service provided by relationship managers are other key selection criteria. A professional wealth management advisory team is expected to provide asset allocation recommendations in a scientific and objective way to meet customers' needs while increasing and preserving their investment assets. The better the service provided by the relationship manager, the stronger the partnership with customers.

The survey also touched on HNWIs' views of online transactions. The rapid adoption of mobile smartphones and tablets in recent years is encouraging banks to invest in the development of different kinds of online transaction platforms, predicated on providing convenient user experiences of mobile banking. The advancement of security technologies has improved the security of online banking, and customers have become accustomed to online payment systems, enticing them to trust mobile banking transactions. In today's market, security and convenience of online transactions are users' basic requirements for online banking, and are important criteria to measure the quality of banking services. Finally, comprehensive, safe and convenient online transaction services are expected to improve customer loyalty (see Figure 41).

Figure 41: Major criteria used to select domestic private banks and wealth management institutions



Source: CMB-Bain Chinese HNWI survey

The overseas private wealth market is increasingly important to HNWIs, who prefer private banking services with strong overseas asset allocation capability and expertise

Given stronger demands for investment migration and regional diversification, HNWIs' enthusiasm for investing overseas has increased in the past two years. As shown in Figure 30, more than 30% of HNWIs own overseas investments, an increase of 10% since 2011. More than half of ultra-HNWIs have overseas assets, which is higher than that of all HNWIs, increasing 25% since 2011.

The survey indicates that HNWIs prefer private banking services with strong overseas asset allocation capability and expertise. For many Chinese HNWIs with overseas investments, their focus of life and wealth management is still in China. They have allocated a lower share of their assets to the overseas market, typically related to investment migration. As a result, overseas investment is more of an important supplement than a separate operation of their domestic investment and wealth management. Since most HNWIs spend the bulk of their time in China, they seek straightforward and convenient overseas investment services from wealth management institutions based in the domestic market. These institutions can thus minimize the long traveling time to overseas locations for investment and migration matters. If a domestic private bank used by HNWIs has strengths in overseas asset allocation, it greatly simplifies the overseas investment process, conserves client time and creates convenience.

In the meantime, HNWIs have high requirements with regard to the expertise and service capability of overseas wealth management institutions. Some HNWI respondents mentioned that they prefer overseas banks with superior local markets expertise, and competitive products and services, offering a broad selection of standardized or customized products. In addition, Chinese investors hope overseas institutions can fully grasp their wealth management needs and risk concerns, and respect their culture and language.

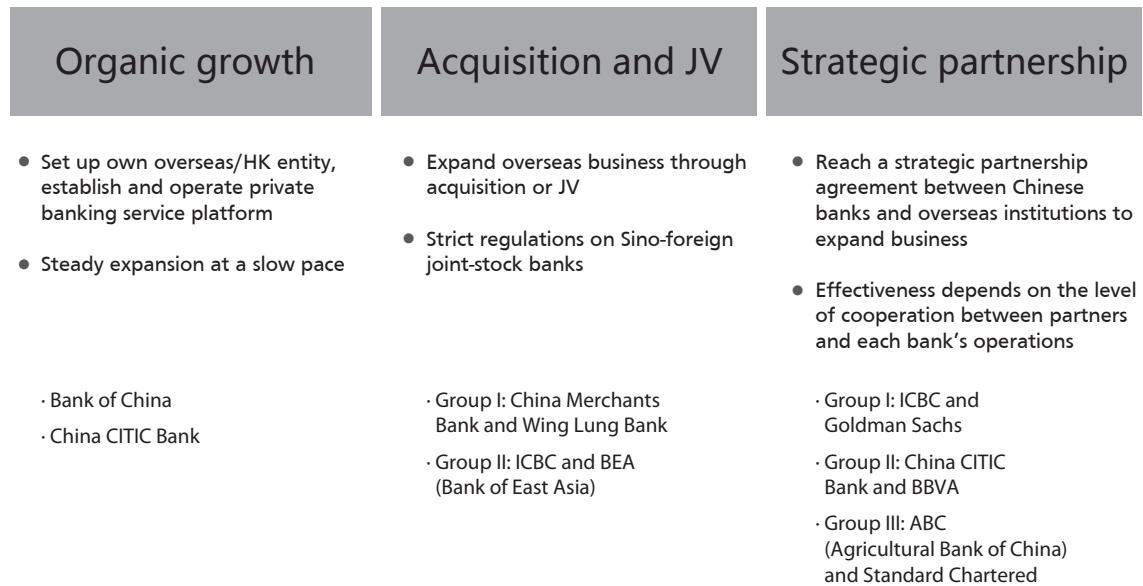
China's banks proactively expand into overseas private wealth market

As the overseas private wealth market becomes increasingly important, China's banks have begun to actively enhance their overseas capabilities through organic growth initiatives and acquisition, joint ventures and strategic partnerships to satisfy Chinese HNWIs' needs for overseas asset allocation.

Bank of China, for example, announced that Royal Bank of Scotland was its strategic investor in the early stages of a private banking service. The bank then expanded in the overseas market, mainly through organic growth, by building private banks in Hong Kong and Macau, and setting up wealth management centers in Singapore, Bangkok, London, Luxembourg and Paris. China Merchants Bank (CMB) acquired Wing Lung Bank in 2008. Then, Wing Lung Bank launched its private wealth management service in 2012. Given Wing Lung's full range of banking service licenses, CMB can help Chinese HNWIs invest in many global financial markets. Agricultural Bank of China (ABC) set up a strategic cooperative relationship with Standard Chartered Bank (SCB) in 2010. HNWI customers of ABC's private banking can now enjoy a range of private banking services through SCB's service network.

In conclusion, China's banks' overseas expansion is still in the exploration stage. Banks should develop overseas expansion models that best suit their overall strategy and enhance their abilities to provide overseas asset allocation services to HNWI customers (see Figure 42).

Figure 42: Chinese banks' development models in the overseas private wealth market



Sources: Company websites; company annual reports; Bain analysis

Chapter IV

Implications for China's private banking sector

- HNWIs have more complicated demands for wealth management, with stronger awareness of mid- and long-term wealth management planning and more explicit demands for wealth preservation and inheritance.
- The intense competition in the wealth management market requires private banks to strengthen and consolidate their advantages, building success on brand, service and expertise—deeper relationships produce stronger ties.
- China's private banks need to satisfy HNWIs' increasing needs for overseas asset allocation, develop expansion models that best suit their strategies and accelerate overseas expansion based on their deep understanding of and good relations with Chinese HNWIs.

HNWIs have more complicated demands for wealth management, with stronger awareness of mid- and long-term wealth management planning and more explicit demands for wealth preservation and inheritance

Following recent market ups and downs, Chinese HNWIs have a more conservative attitude toward investment and an increasingly mature investment philosophy. Compared with the 2011 survey results, HNWIs now prefer more moderate investment risks, focusing their allocation to moderate- and low-risk investment products, rather than high-risk and high-return products. As more HNWIs begin to focus on wealth preservation, more investors are seeking to manage market risks by diversifying their investments and pursuing moderate returns.

The accumulation of personal and family wealth, the need to diversify these forms of wealth and greater complexity in wealth management overall has elevated wealth preservation as a primary objective. Similarly, the demand for wealth inheritance services is also more explicit. In terms of wealth preservation, more HNWIs are interested in spreading risk by investing in diverse investment categories and geographic regions. In terms of wealth inheritance, HNWIs want to plan the transfer of a family business and family wealth in a more timely manner, taking into consideration such goals as the selection of a successor, the continuity of the family business and family harmony. Overall, Chinese HNWIs have more explicit demands for mid- to long-term plans addressing both wealth inheritance and wealth transfer.

At present, HNWIs are paying high attention to such emerging issues as how to obtain a modern management method and financial solution that ensures a smooth transfer and sustainable operation of a family business, as well as the inheritance of family wealth and its continuing prosperity in the future, and ways to sustain harmonious family relations. The innovative concept of private wealth management has great appeal to Chinese HNWIs—if private banks can leverage their strong platform resources and the professional services of their investment teams to tailor wealth preservation and wealth inheritance financial solutions to an HNWI family's mid- to long-term needs.

The intense competition in the wealth management market requires private banks to strengthen and consolidate their advantages, building success on brand, service and expertise—deeper relationships produce stronger ties

The expansion in the number of Chinese HNWIs and fiercer competition in the wealth management market are compelling wealth management institutions to establish business models providing services to the high-end market. To acquire a presence in the wealth market, many financial institutions have created a variety of products and services. These offerings are of a different breadth and depth, based on each institution's market position and business license. Over the past few years, HNWIs have developed a stronger awareness of the need to manage their wealth, which has fostered a higher reliance on private banking services. China's private banks have maintained and strengthened their competitive advantage after several years of market cultivation and expansion. China's private banks have become the primary choice in the domestic market due to their advantages in brand, service and product. Our survey findings indicate that more than 90% of HNWIs rely on China's banks to manage their domestic wealth, while the proportion of those using foreign banks and other institutions to manage their domestic wealth is much smaller.

Since private banks are preferred by Chinese HNWIs, the competitive situation insists on offering tailored and differentiated products and services to targeted customer segments. This requires in-depth study on the overall wealth management demands of each customer segment. To realize a segment's full potential, private banks should segment customer groups using multiple dimensions, such as occupation, asset size and overseas investment needs, giving them a precise and comprehensive understanding of customer needs.

Besides meeting each segment's needs, the core of private bank services should transfer from product portfolio allocation to overall wealth management planning and comprehensive financial services. In the initial development phase of the market, waves of sales efforts may attract customers' attention and investment share. But, as the market develops, and HNWIs' wealth management philosophy matures, they are likely to have increasingly complicated demands. Private banks can respond to these changes and build a long-term partnership with customers by earning their trust. This can be achieved by building an integrity brand, developing and improving capabilities for full wealth management planning and comprehensive financial services, assembling a high-quality professional team, a deep understanding of the complicated and personalized financial service needs of customers, and achieving their aims of long-term wealth preservation and accretion.

The domestic private banking industry is in a critical period of development, and the key to improving competitiveness is to build a high-quality service team and a diversified product and service platform quickly and effectively. Private banks may need to invest in human capital to ensure they have the talent and extensive expertise to meet customer service objectives. They also should consider the need to take advantage of their own networks and resources to expand products and services in accordance with the regulatory framework. To seize opportunities in the fierce competitive environment, innovative ventures must be explored and undertaken to deeply understand customers' needs and enhance service professionalism, creating deeper relationships that build stronger ties.

To meet HNWIs' increasing demands for cross-border asset allocation, China's banks should leverage their deep understanding of and good relationships with Chinese HNWIs to develop overseas business models that best suit their strategies and accelerate overseas expansion

In the past two years, as a growing number of Chinese HNWIs consider migrating abroad and investing in diverse regions, they have expressed higher enthusiasm for investing in overseas markets. More than 30% of HNWIs and more than 50% of ultra-HNWIs now own overseas investments. This proportion has increased significantly since 2011. Given capital globalization, HNWIs show more interest in diversifying the allocation of their assets through overseas investments.

In terms of Chinese HNWIs' overseas investment needs and behaviors, three major trends are apparent. First, Chinese HNWIs are expected to increase their overseas investments to spread risk or due to the need for migration planning. Second, given their increasing understanding of overseas markets, HNWIs are expected to invest in more diversified product categories, including sophisticated investment products. Consequently, HNWIs will set higher requirements insofar as the investment platforms and product offerings of overseas wealth management institutions. Third, as they more extensively participate in overseas investment markets, HNWIs will rely more on the cross-border investment capabilities and professional advice of wealth management institutions.

To better fulfill the overseas investment demands of Chinese HNWIs, China's banks should consider expanding their footprint to the countries and overseas investment markets preferred by Chinese HNWIs—selectively building local wealth management platforms and enhancing the capability of cross-border wealth management. In addition, if China's private banks can seize the opportunities that lie in the domestic market by leveraging the customer advantages that accrue from the same language, currency and culture, and a deep understanding of their lives and wealth management needs, they can better satisfy customer demands and gain a stronger competitive position in the overseas market.

Conclusion

The concept of private banking was first raised by CBRC in 2005. By 2008, two camps—Chinese and foreign banks—had begun competing in the HNWI sector. In 2011, various financial institutions engaged in China's private banking, and cross-border asset allocation became a new investment channel. In 2013, China's banks further strengthened their advantages in the domestic market while also accelerating overseas expansion. After this rapid development, Chinese HNWIs now have more diversified demands for investment with a more conservative attitude. Furthermore, China's private banking industry has entered a critical stage for development, marked by fierce competition and a broad market landscape. For the future development of China's private wealth market, we believe that financial institutions should build a long-term trustful partnership with customers—"deeper relationships produce stronger ties"—by building a legacy brand, developing a comprehensive platform of products and services, and leveraging their competitive advantages in brand, service and expertise.

Appendix: Research methodology

The 2013 *China Private Wealth Report* primarily analyzed the wealth market patterns of China and some key regions. The study analyzed the growing number of HNWIs and their respective private wealth and investment behaviors. It also examined the competitive private banking landscape and the mid- and long-term development trends and implications for the industry.

To estimate the overall HNWI market in China, as well as the distribution of HNWIs and their investable assets by province, we relied on Bain & Company's HNWI Income-Wealth Distribution Model as the basis, as in the 2009 and 2011 China wealth reports. We also deepened our research into the major market trends over the past two years. For example, the 2013 *China Private Wealth Report* estimates the number of HNWIs and the market value of their investable assets at the macro level. We also applied a top-down methodology to estimate the number of HNWIs, which helps avoid potential undersampling errors that often occur when employing a bottom-up methodology. This ensures that the findings are more reliable, comprehensive and predictive.

The model initially estimated the overall value of investable assets held by residents, on a province-by-province basis. Individual investable assets include cash and deposits, tradable stocks, untradable stocks of listed companies, mutual funds, bonds, investment property, insurance, bank wealth management products, overseas investments and other domestic investments. Investable assets exclude the following items: owner-occupied property, non-listed company held by non-private equity and durable consumer goods. By using the same methodology as in 2009 and 2011, we were able to perform a detailed analysis and estimate of overseas investments and other domestic investments. Overseas investments include individually held overseas deposits, overseas stocks, overseas investment property, overseas insurance, QDII and other overseas assets. Other domestic investments include trusts, private equity, private funds invested in secondary markets, gold and futures. Data sources include the People's Bank of China, National Bureau of Statistics, National Development and Reform Commission, China Insurance Regulatory Commission, China Banking Regulatory Commission, Shanghai Stock Exchange and the Shenzhen Stock Exchange.

The major output from this model is the calculation of the HNWI Wealth and Income Lorenz Curve, using a statistical methodology. Based on the latest income distribution, inheritance tax and family-owned asset data from the United Nations, tax authorities and central banks of different countries, we calculated the HNWI Lorenz Curves for more than 10 developed and developing countries in Asia, Europe and the US. We discovered a high correlation between the curve and a country's Gini coefficient, GDP, population and other macroeconomic indexes.

By applying this mathematical correlation to China and individual provinces, and by comparing the UK, US, Japan and South Korea's recent HNWI Lorenz Curves with CMB clients' asset distribution data, we derived the overall domestic HNWI Lorenz Curve and respective curves by province.

Finally, we used the HNWI Lorenz Curve to allocate the investable assets owned by HNWIs by province and calculated the number of HNWIs by asset level—both at the national and provincial levels—and then calculated the value of investable assets owned by each.

To collect data for the *2013 China Private Wealth Report*, we conducted a thorough survey of 36 major cities, with approximately 3,300 research samples and more than 100 face-to-face interviews. Compared with 2011, we collected more samples and conducted more interviews to ensure the samples' representativeness and performed scientific analysis. In order to achieve the best representation, we surveyed all of the major economic regions: the Yangtze River Delta, Pearl River Delta, North China, Northeast China, Middle China and Western China. Our interviewees included industry experts as well as relationship managers from private banks and other financial institutions, private banks' HNWIs clients and other HNWIs. All clients interviewed meet our criteria for HNWIs with at least RMB 10 million in investable assets.

Following the same CMB–Bain HNWIs research analysis methodology used in 2009 and 2011, we used a statistical approach to further test other new segmentation dimensions. By comparing the data with the 2009 and 2011 results, we analyzed changes in HNWIs' investment attitudes and behaviors. In addition, we followed important market trends over the last two years.

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