

China Banking

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1

Brief overview

2

Major current trends

- Enhanced supervision
- Better sophistication
- Strong results
- Lending explosion
- Internationalization first steps

3

Foreign banks in China



A well-equipped sector

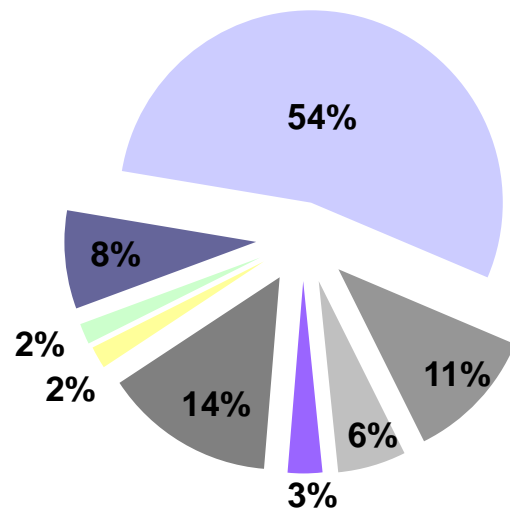
MARKET MONITORING

- Central Bank PBOC
- CBRC (China Bank Regulatory Commission)
- 3 Policy banks

COMMERCIAL BANKS

- 4 Major state-owned banks: ICBC, CCB, BOC, ABC
- 2nd –tier commercial banks
- City Commercial banks

Distribution of total Chinese banking assets per category



- State-owned commercial bank
- Rural cooperative financial institution
- Urban commercial bank / Urban commercial cooperative
- Postal savings bank
- Shareholding commercial bank
- Foreign capital bank
- Non-banking financial institution
- Policy bank

The Big Four 1/2



	Employees	Branches Dec. 2006	Assets Ranking	State Ownership
ICBC	390 000	16 200	6th	71%
CCB	300 000	13 600	13th	57%
BOC	260 000	10 000	17th	71%
ABC	440 000	23 600	15th	82%

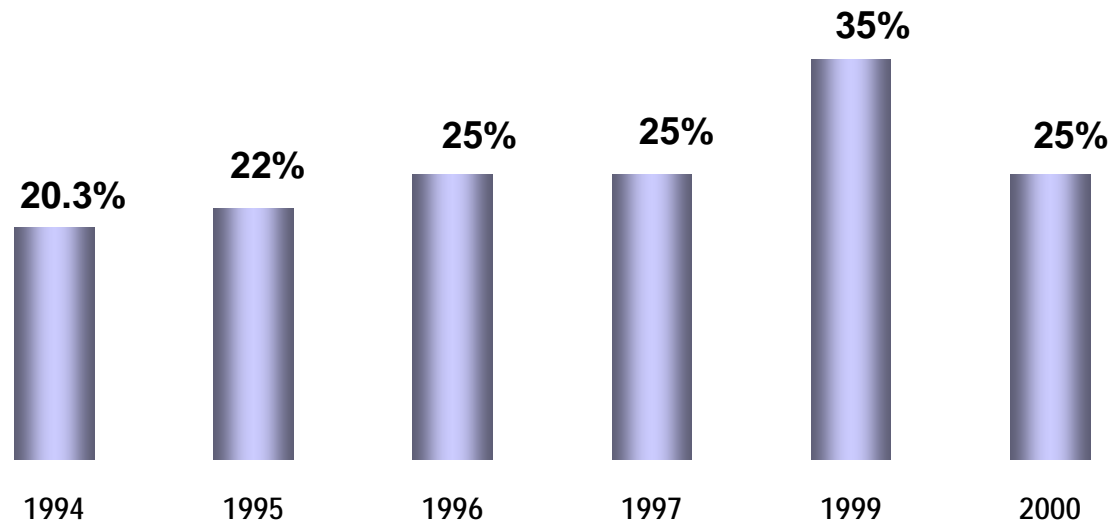
The Big Four 2/2

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1. Global restructuring and enhanced supervision 1/2

- From a centralistic and bureaucratic approach up to the early 2000's...
- ... which led to huge NPL's following the Asian Financial Crisis

State-owned banks average NPL Ratio

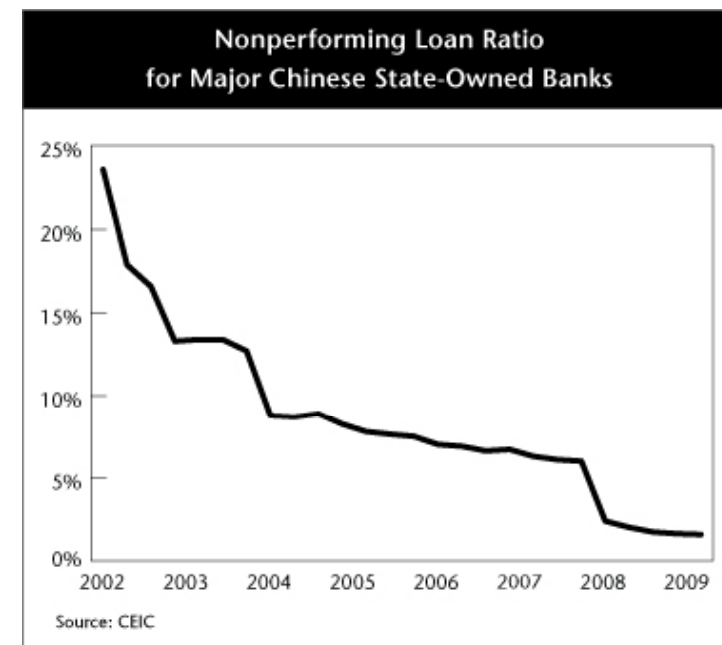


Source: Nicolas R. Lardy 2001

1. Global restructuring and enhanced supervision 2/2

■ ... to a progressive restructuring of the sector

- New governance rules
- Creating credit rating standards
- Progressive rates deregulating
- Progressive privatizing through IPO's
- Foreign “strategic” shareholders : a success / a flop
- Step by step opening to new products



■ ... with a clear reinforcement of the regulator's role

2. Banking sophistication

- In retail banking services
- In Wealth Management products
- In Investment Banking financing and hedging capacities



3. Record results 1/3

- Record results in 2009
- First half 2010 looks even better

State-owned banks Net Profit results

	2009	Net Profit 2009 bUSD	First Half 2010
ICBC	+61,6%	18.97	+27%
CCB	+15,32%	15.66	+27%
BOC	+29,9%	12.55	+44%
ABC	+26,3%	9.53	+37%

3. Record results 2/3

State-owned banks Rankings

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3. Record results 3/3

World Market Cap Changes

Top 50 1999

Business Week Global 1000, May 31

Rank	Company	Market cap (\$bn)
1	Citigroup	150.9
2	Bank of America	112.9
3	HSBC Holdings	93.7
4	Lloyds TSB	72.0
5	Fannie Mae	69.6
6	Banc One	66.8
7	Wells Fargo	66.1
8	UBS	63.4
9	Bank of Tokyo - Mitsubishi	61.8
10	Chase Manhattan	61.1
11	Morgan Stanley Dean Witter	55.1
12	Credit Suisse	48.1
13	Barclays Bank	45.8
14	First Union	44.7
15	Charles Schwab	42.9
16	Freddie Mac	40.5
17	National Westminster Bank	38.8
18	Banco Santander Central Hispano	38.2

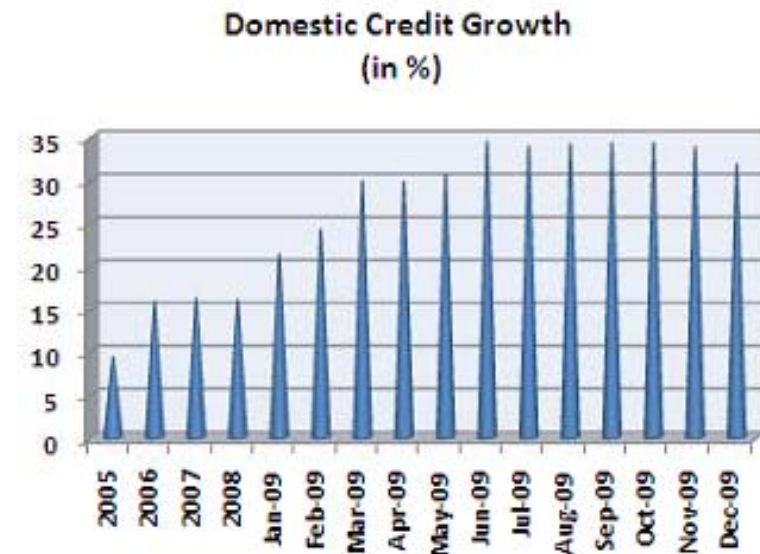
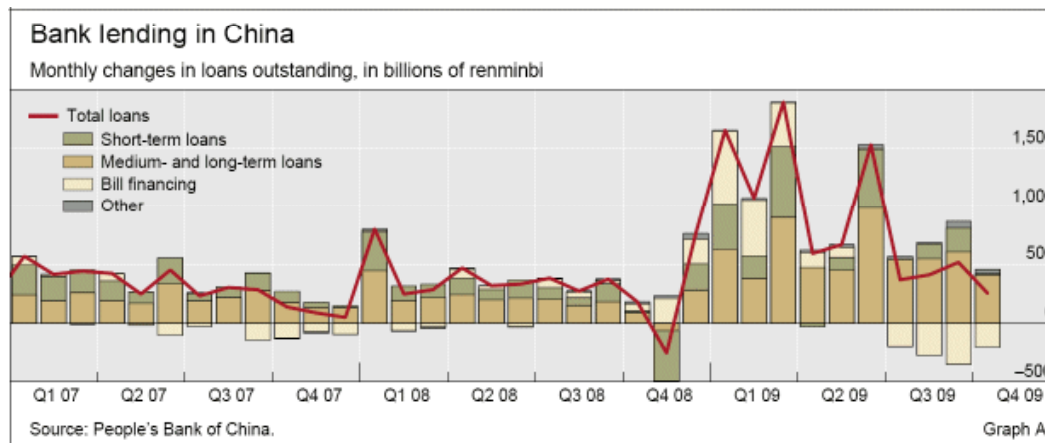
Top 50 2009

March 17

Rank	Company	Market cap (\$bn)
1	Industrial & Commercial Bank of China	175.3
2	China Construction Bank	128.7
3	Bank of China	112.8
4	JPMorgan Chase	94.5
5	HSBC	78.3
6	Wells Fargo	62.1
7	Mitsubishi UFJ Financial	56.2
8	Banco Santander	54.1
9	Goldman Sachs	45.7
10	Royal Bank of Canada	40.3
11	Bank of America	40.1
12	Bank of Communications	38.0
13	BNP Paribas	37.5
14	Westpac Banking	34.0
15	Commonwealth Bank of Australia	31.5
16	Credit Suisse	31.2
17	China Merchants Bank	31.0
18	Banco Itau	30.3

4. Lending explosion and its consequences 1/2

- China Policy during the 2008 financial crisis was based on support
- With lending opened to all



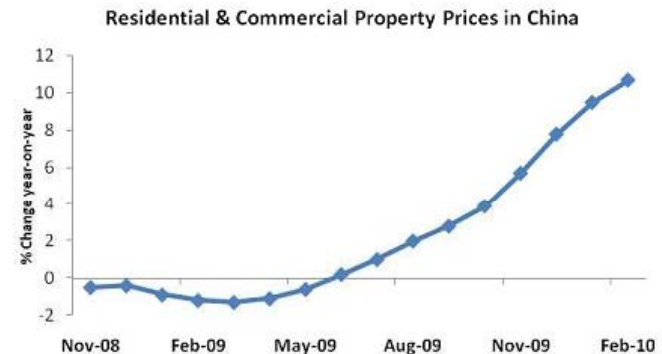
4. Lending explosion and its consequences 2/2

■ Three major consequences

■ Real Estate Bubble

- ▶ Real estate prices in 2009*: **+ 24%**
- ▶ Increases have exceeded the rise in incomes by **30%** in Shanghai and **80%** in Beijing

* Source: National Bureau of Statistics of China



■ Inflation heating

■ Potential NPL's increase within the banking system?

■ Cooling down policy by PBOC throughout 2010 and 2011

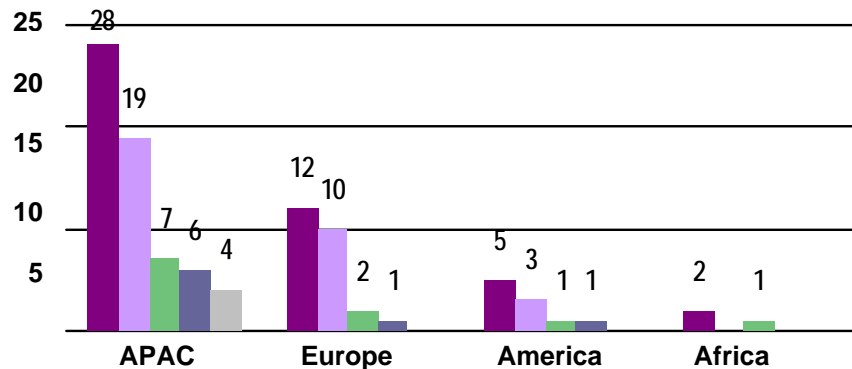
5. Internationalization first steps

- Up to recently the only international bank in China was BOC, for historic reasons



- Just beginning for the other major banks

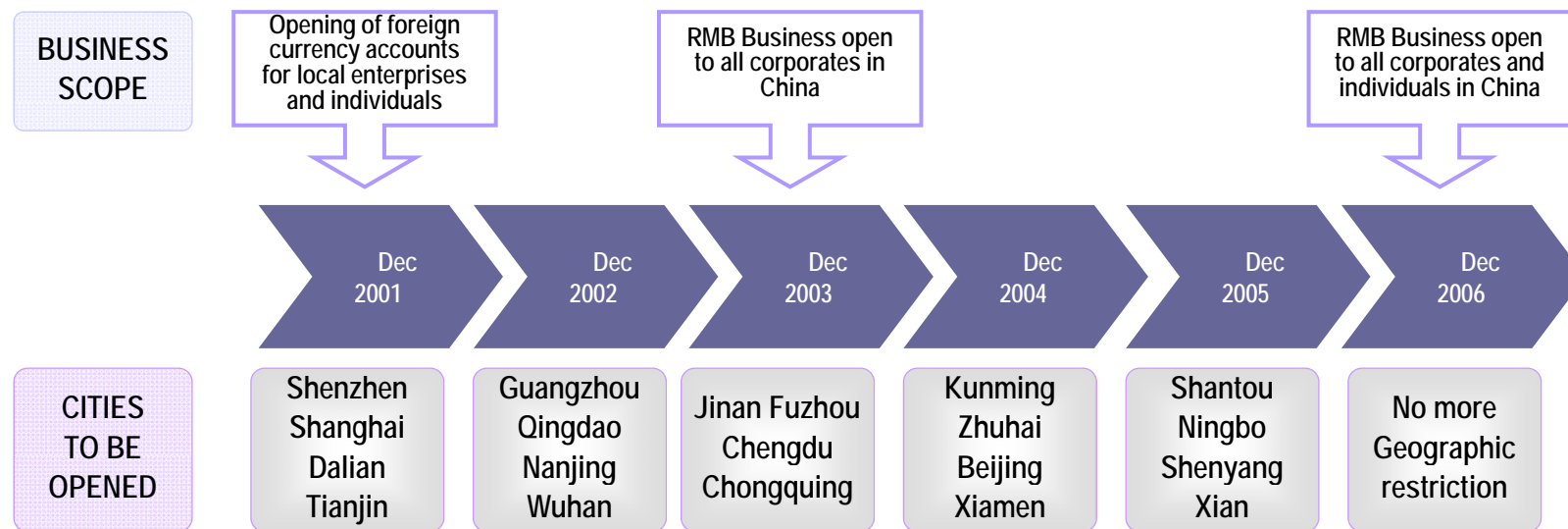
Number of branches/subsidiaries overseas for major Chinese banks (2010)



- A trend which will accelerate

A small share forever 1/2

■ Opportunities created by China entry into WTO (December 2001)



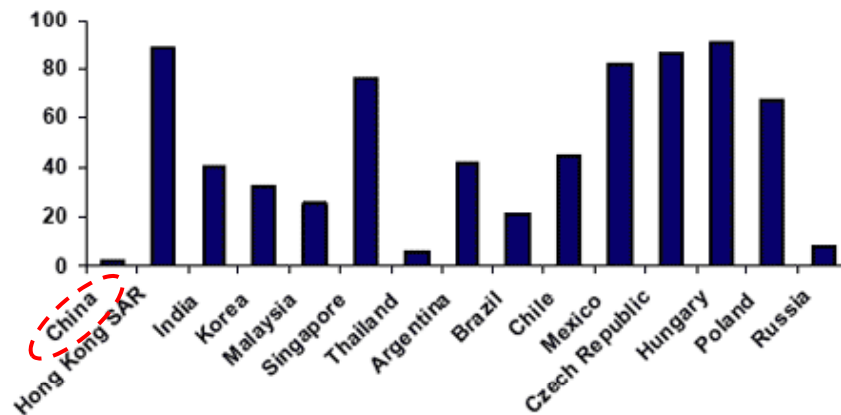
■ Immediately limited by new restrictions in January 2002



A small share forever 2/2

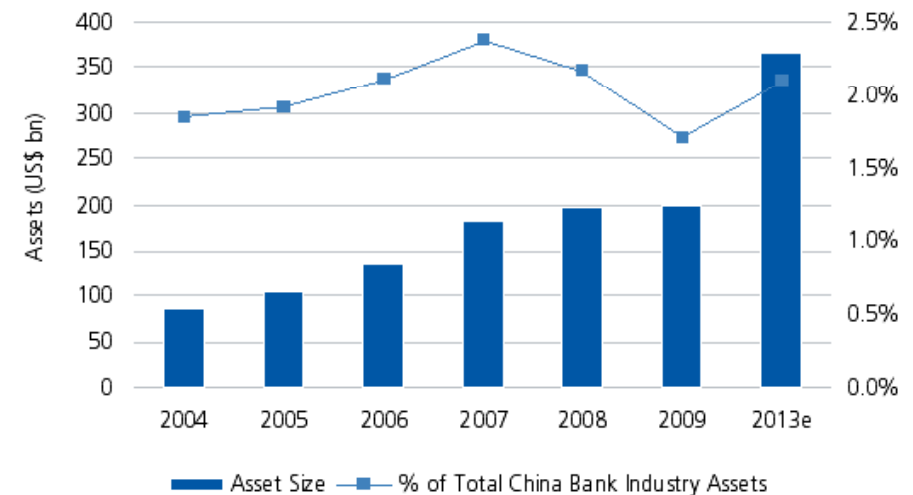
- Those new limitations progressively lifted or softened... But new limitations put forward at each step
- Very limited opening to the asset management, corporate finance and securities business
- Foreign banks have never represented more than 2% of the total

Foreign banks market share per country



Source: Moreno and Villar (2002)

Assets and Market Share of Foreign-Funded Banks



Source: China Banking Regulatory Commission, Celent



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