



Chinese Banking Development

Prof. Shi Jianping
Central University of Finance and Economics

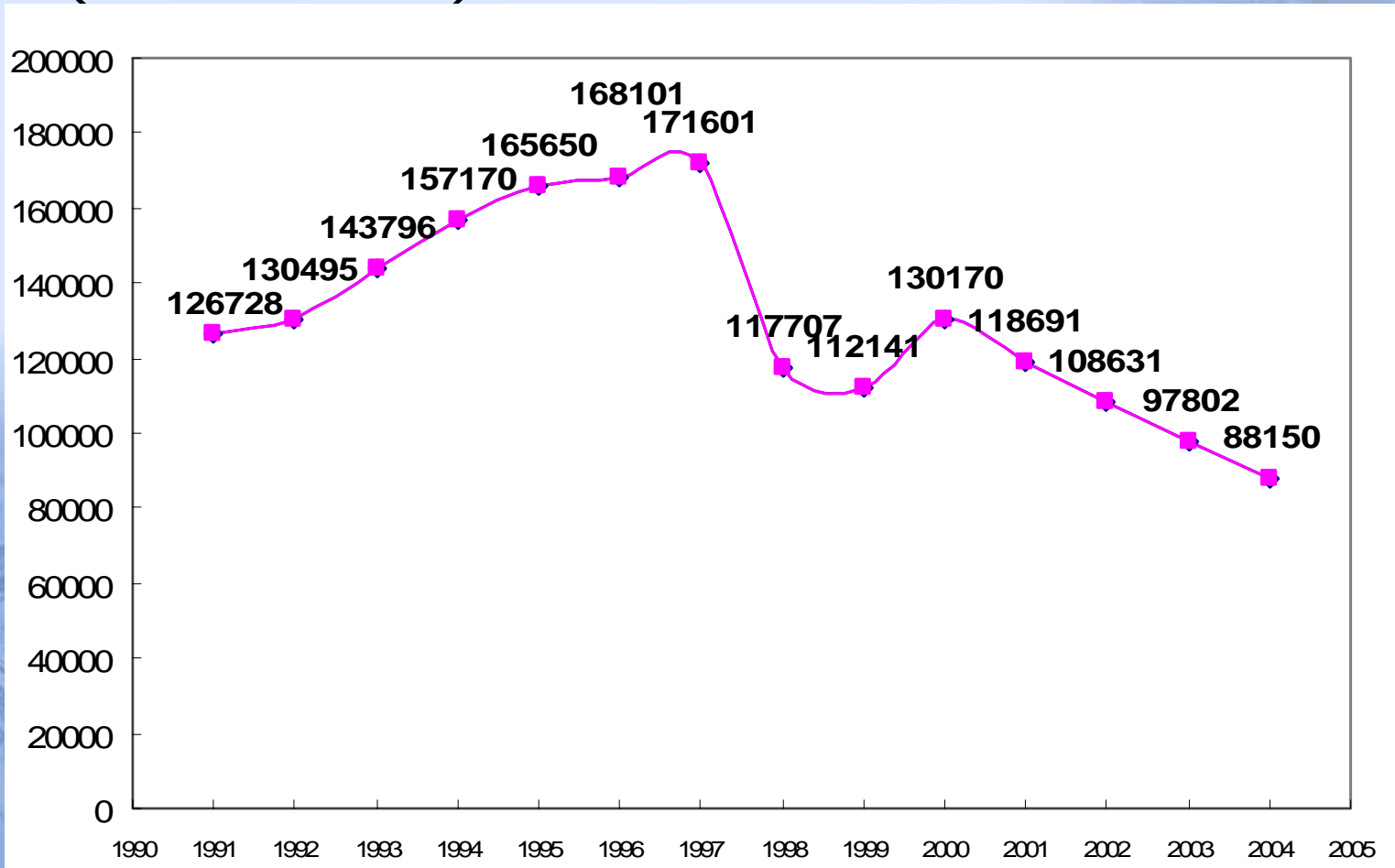
2006.6

Session Agenda

- Chinese banking introduction: structure, size, development, assets and branches concentration...
- Chinese banking assets quality (NPLs) and rating.
- Chinese banking performance. and risk management

Chinese banking system

If we consider only the State-owned Big 4, 11 joint-stock banks, Central Bank and Policy Banks, there are almost 90 thousand banking institutions now (based on branches).



Source: Chinese Statistical Yearbook

Chinese Banking System Structure

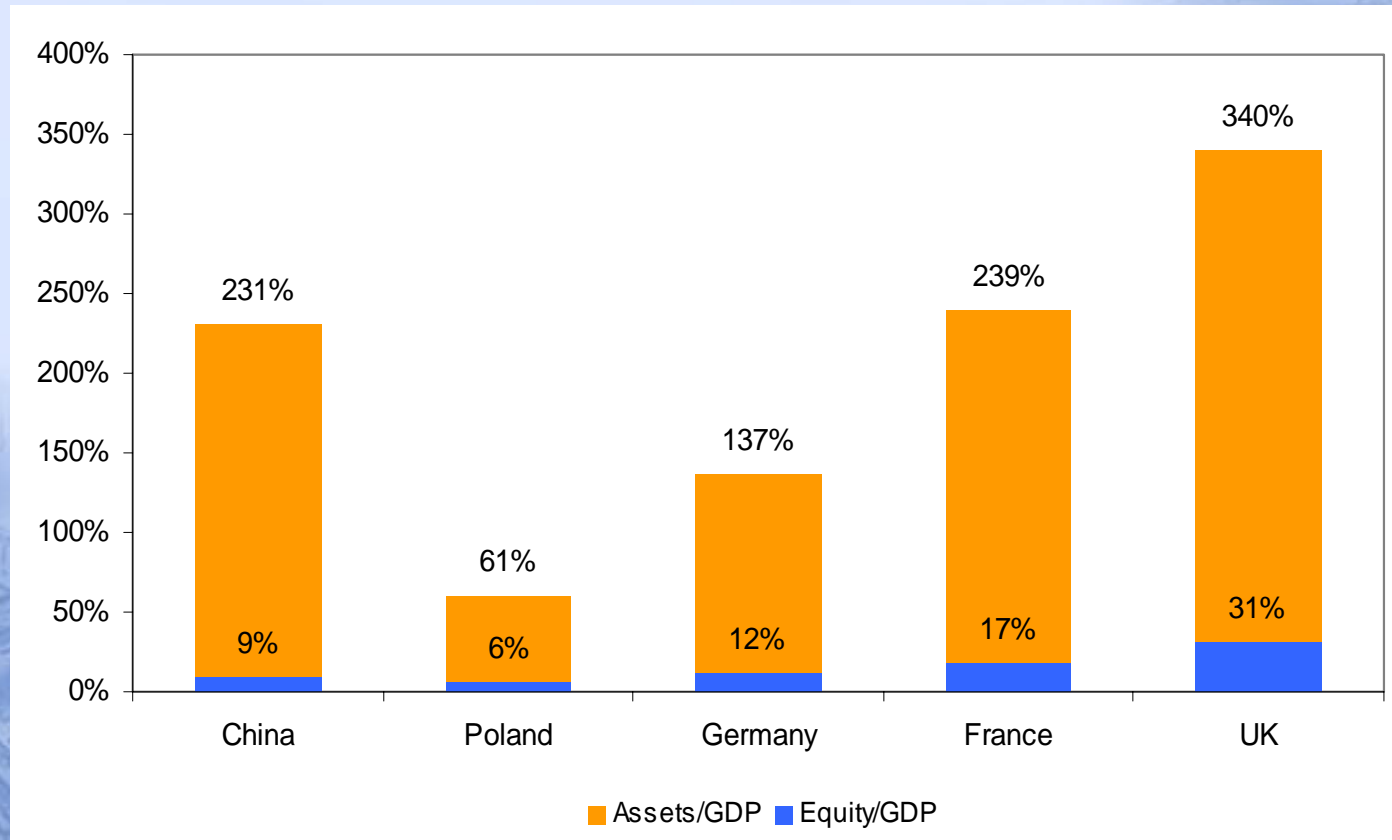
Type	Sample Firms	No. of Firms	Assets (US\$ billions)
State-Owned "Big 4"	BC ABC CCB ICBC	4	\$1,525
Joint-stock Banks	Bank of Communications China Everbright Bank China Merchants Bank	10	\$285
policy banks	China Development Bank The Export-Import Bank of China Agricultural Deve. Bank of China	3	\$345
central Bank	People's Bank of China	1	\$220
City Commercial Banks	Bank of Shanghai	108	\$105
Postal Savings	China Post	1	\$68
Credit Cooperatives	--	44,700	\$22

Chinese Banking System

- In 2006, the Chinese banking system consisted of some 40,000 firms, about 230,000 institutions, including state-owned big 4 banks, 11 joint-stock commercial banks, 3 policy banks, 108 city commercial banks, 238 operational entities of foreign banks and the rest is made of urban and rural credit cooperatives and other financial institutions.

Size

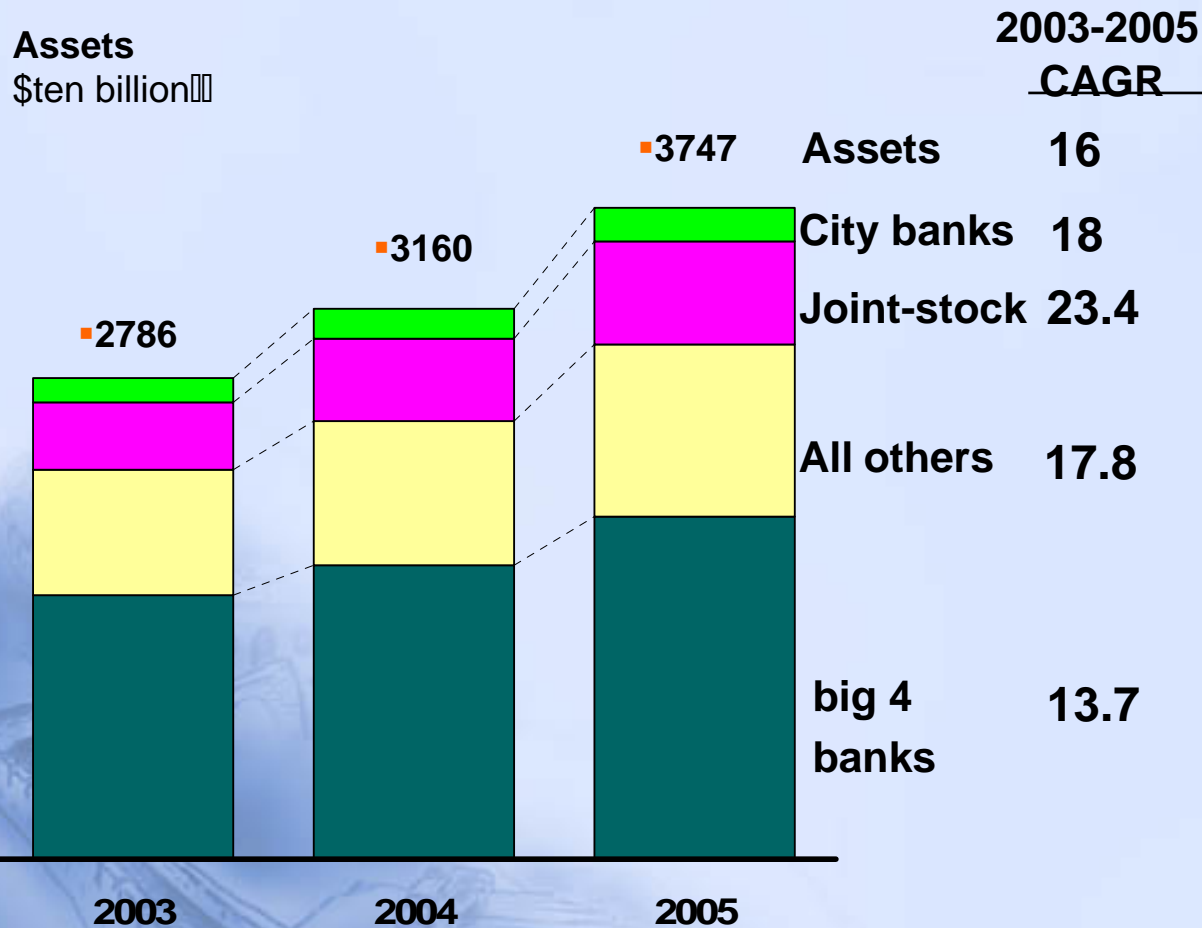
it is close to banking systems in developed countries...



Still extensively growing: total assets YoY growth rate in 2004 was +14%, equity +20%, net profit +200%, loans +11%

Source: www.worldbank.org; www.cbrc.gov.cn; www.pbc.gov.cn

Chinese commercial banking industry had a rapid development in recent years



Key drivers

Chinese economy has a continuous development, GDP growth is over 8% for six years.

Commercial banks play a more and more important role in the economy.

Assets Concentration

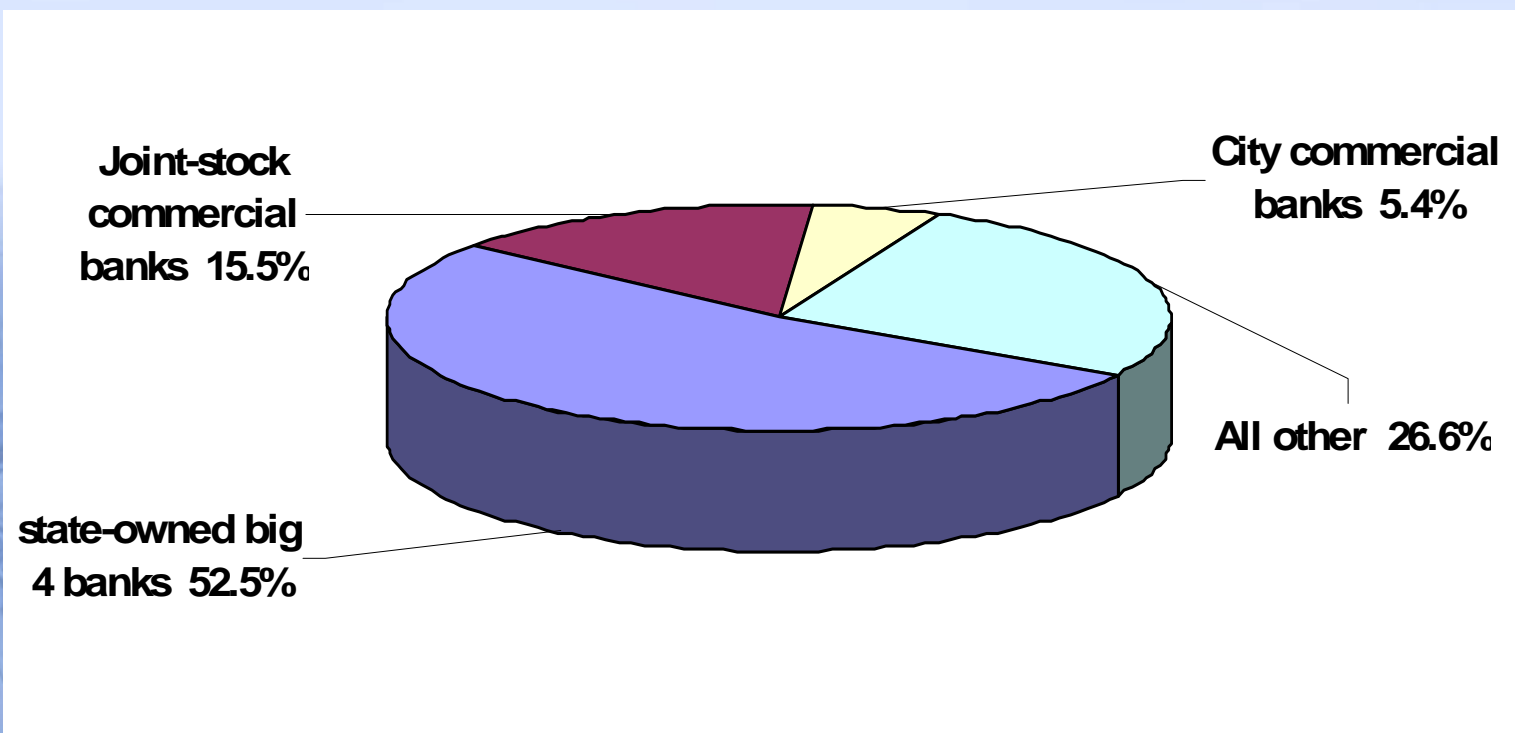
■ In the end of 2005

The state-owned big 4 banks concentrates 52.5% assets

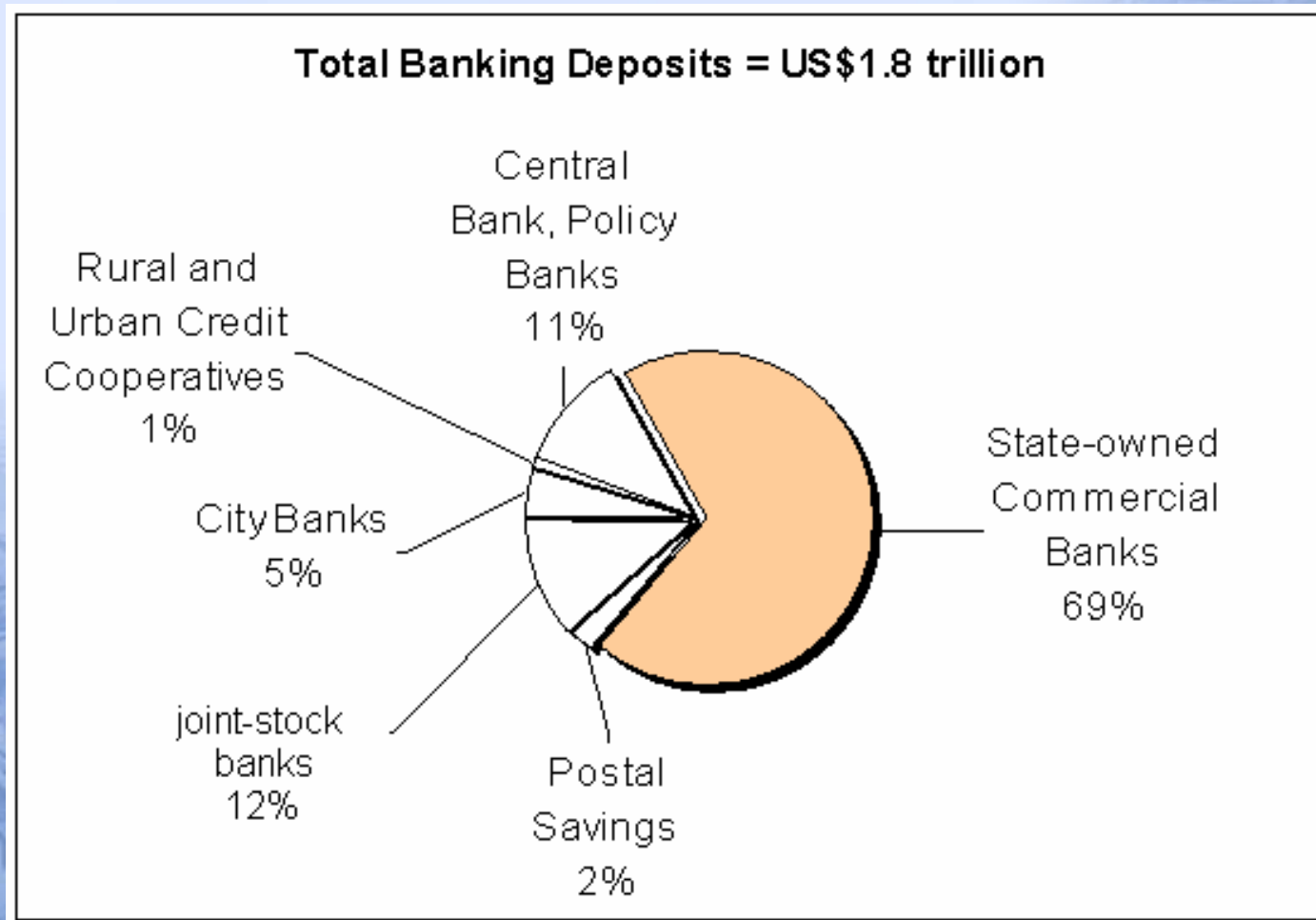
Joint-stock commercial banks concentrate 15.5% assets

City commercial banks concentrate 5.3% assets

All other less than 26.1%

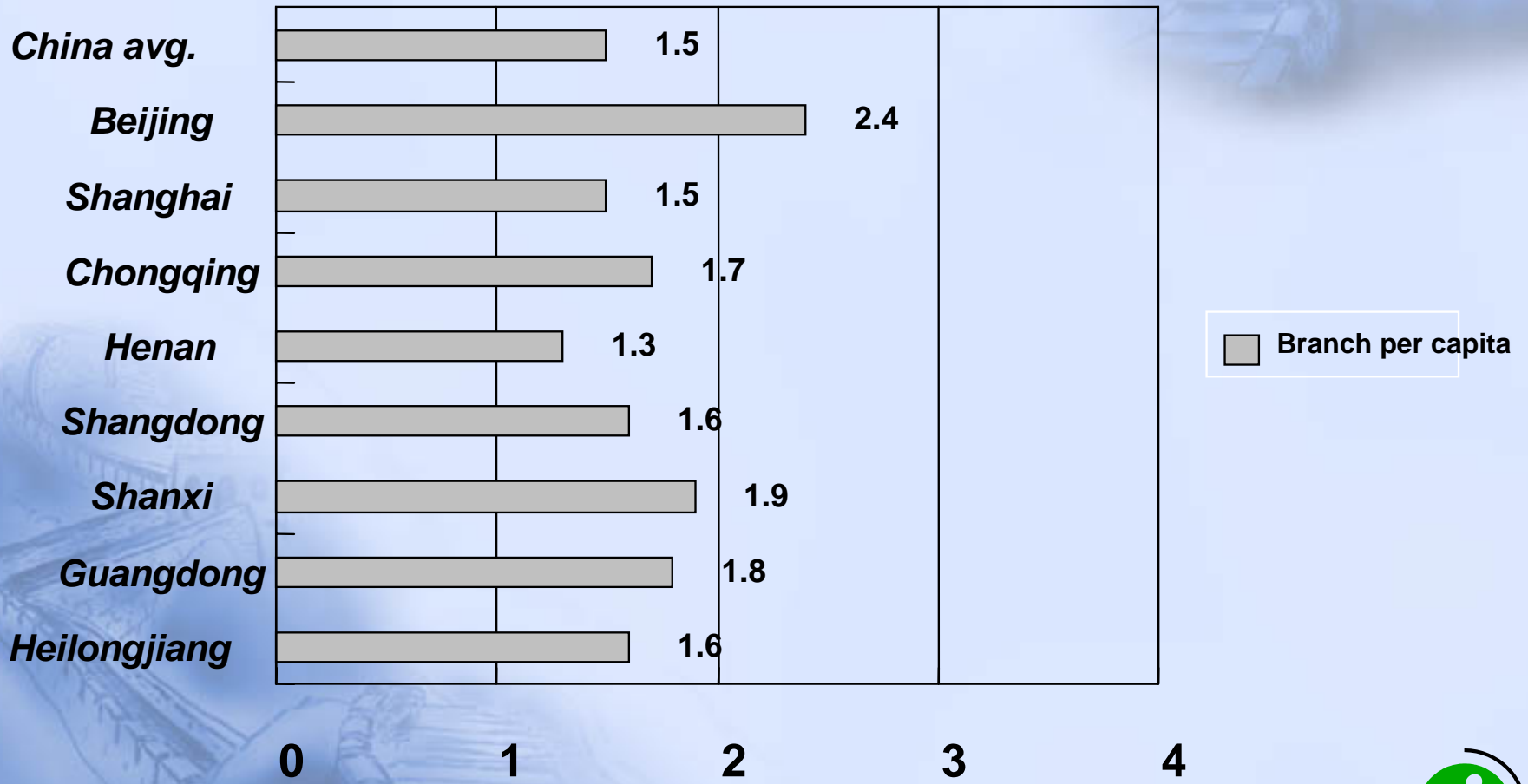


The Big 4 hold nearly 70% of all banking deposits



Branches Concentration

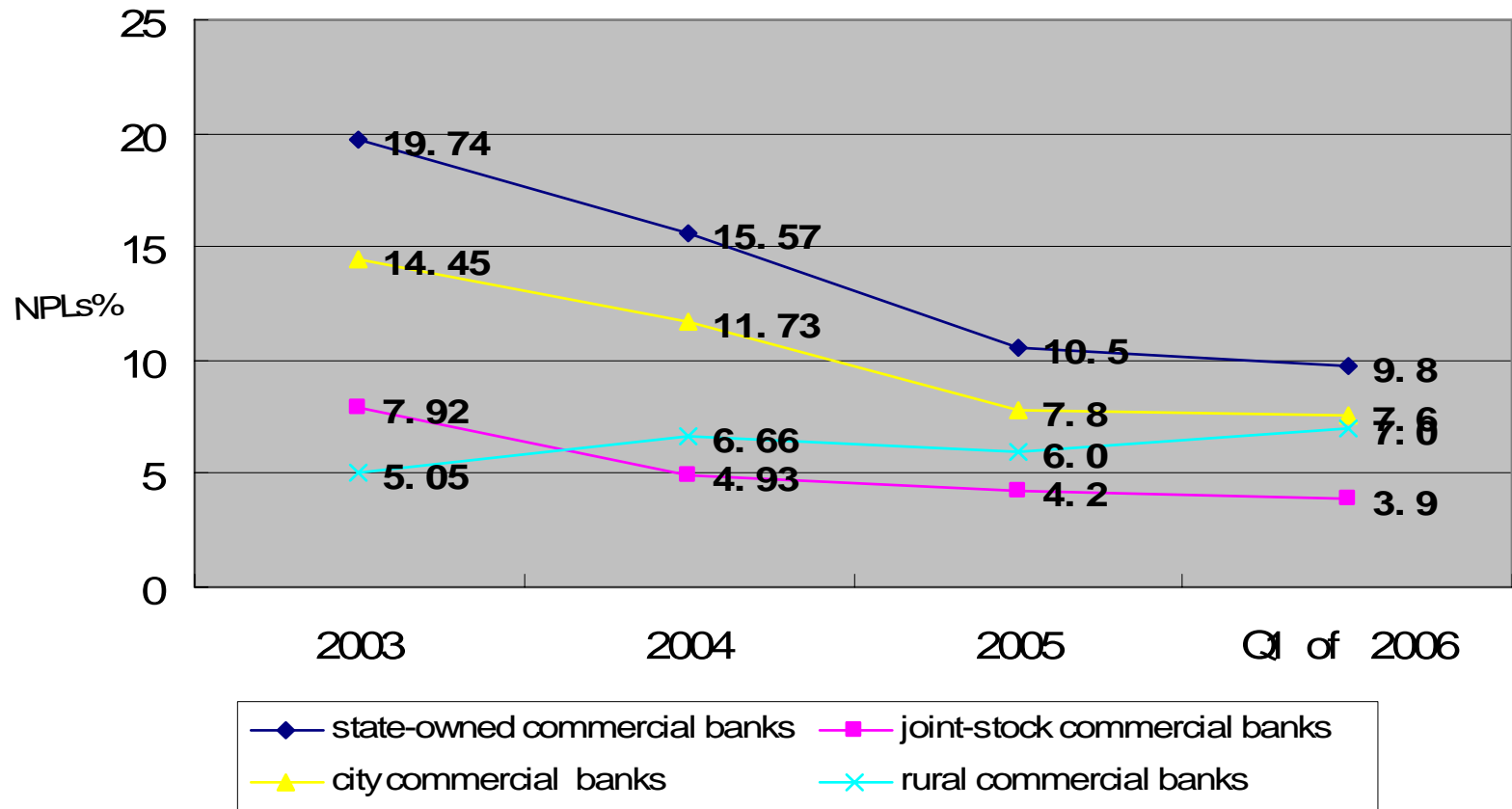
There are 1.5 branches on average per 10 000 capita (take 200,000 as total number)



NPL Rate

Less than 10% annual NPL rate since 2005

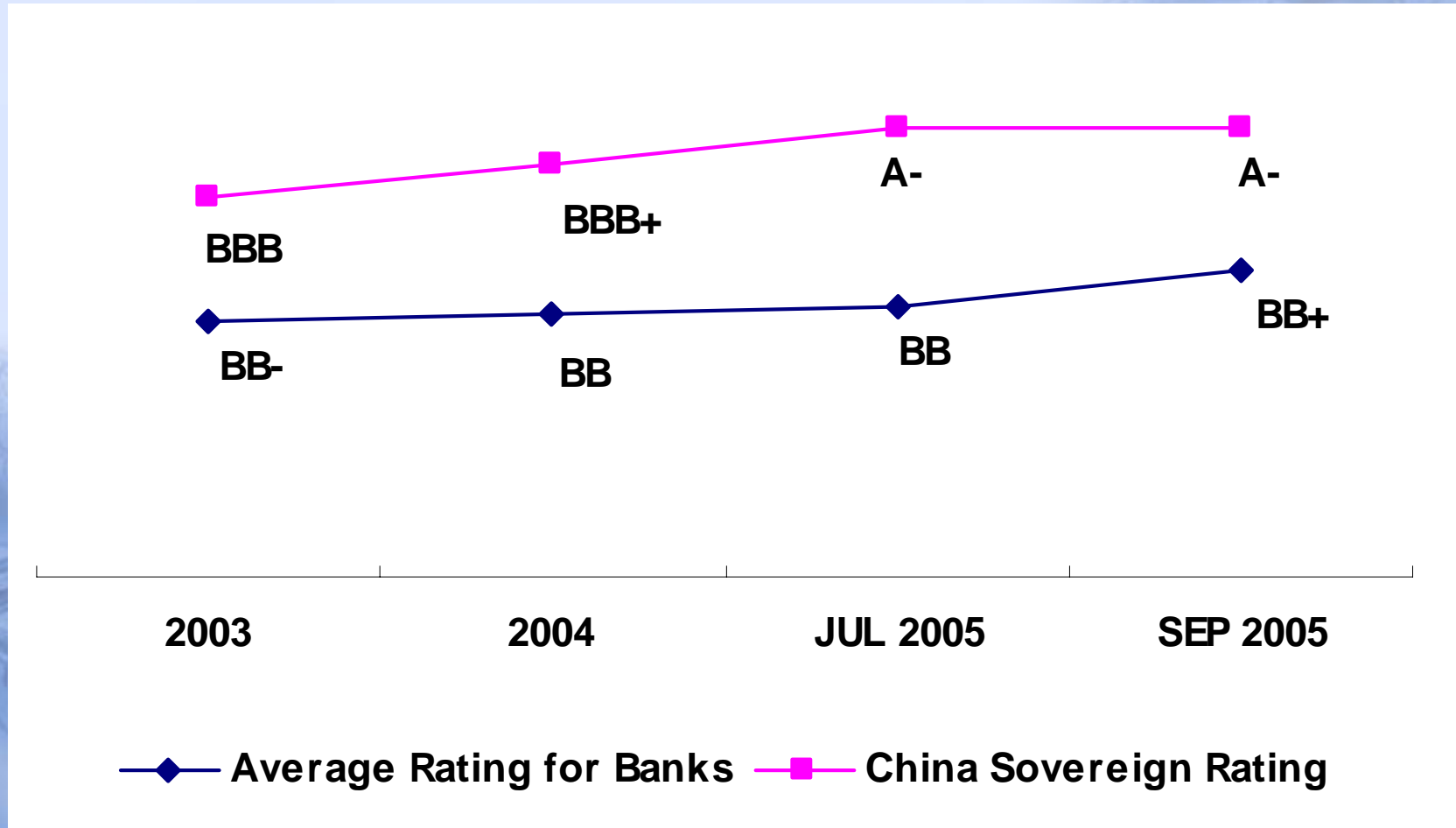
NPLs of commercial banks



sources: China financial statistical yearbook, www.cbrc.gov.cn

Ratings

S&P appreciates Chinese banks: the average rating for Chinese banks have some promotions in these years.



Source: Standard and POORS

Ratings (cont.)

Most of the ratings for Chinese banks have been enhanced in these years.

Bank Name	S&P Rating			
	2003.11	2004	2005.7	2005.9
Agricultural Bank of China	BBpi	BBpi	BBpi	BBBp i
Bank of China	BB+	BBB-	BBB-	BBB+
China Development Bank	BBB	BBB	BBB+	A-
The Export-Import Bank of China	BBB	BBB	BBB+	A-
Industrial Bank of China	BB+	BB+	BBB-	BBB+
China Construction Bank	BB+	BBB-	BBB-	BBB+
China Merchants Bank	BBpi	BBpi	BBpi	BBpi
China MinSheng Bank	Bpi	Bpi	Bpi	Bpi
China Everbright Bank	Bpi	Bpi	Bpi	Bpi
GuangDong Development Bank	CCCpi	CCCpi	CCCpi	Bpi
ShangHai PuDong Development Bank	BBpi	BBpi	BBpi	BBpi
Bank of Communications	BB	BB+	BB+	BBB-
ShenZhen Development Bank	Bpi	Bpi	Bpi	Bpi
HuaXia Bank	Bpi	Bpi	Bpi	Bpi
Citic Bank	BB	BB	BB	BB+
Average rating	BB-	BB	BB	BB+

Source: Standard and Poors

Ratings (cont.)

Source: Moody's, Standard and Poors

About 15 top banks have rating information since 2003.

No	Bank Name	S&P	Moody's
1	Agricultural Bank of China	BBBpi	A2
2	Bank of China	BBB+	A2
3	China Development Bank	A-	A2
4	The Export-Import Bank of China	A-	A2
5	Industrial Bank of China	BBB+	A2
6	China Construction Bank	BBB+	A2
7	China Merchants Bank	BBpi	Ba1
8	China MinSheng Bank	Bpi	
9	China Everbright Bank	Bpi	
10	GuangDong Development Bank	Bpi	B1
11	ShangHai PuDong Development Bank	BBpi	
12	Bank of Communications	BBB-	Baa2
13	ShenZhen Development Bank	Bpi	Ba3
14	HuaXia Bank	Bpi	
15	Citic Bank	BB+	Baa3



Chinese banking performance

Variable	1997	2002	2004
Total Deposits to GDP	99.1%	149.9%^a	190.5%^a
Big 4 Employment	1,394.8 thousand	1,467.8 thousand	1,409 thousand^e
Big 4 Market share%assets	-	71.4%	54.1%
ROAA big4*	0.24%	0.19%	0.55%
Cost-Income Ratio big4*	93.3%^c	61.9%	45.4%

a) Including foreign currency deposits,

*e) estimated, * weighted average by asset share,*

c) two state owned banks only

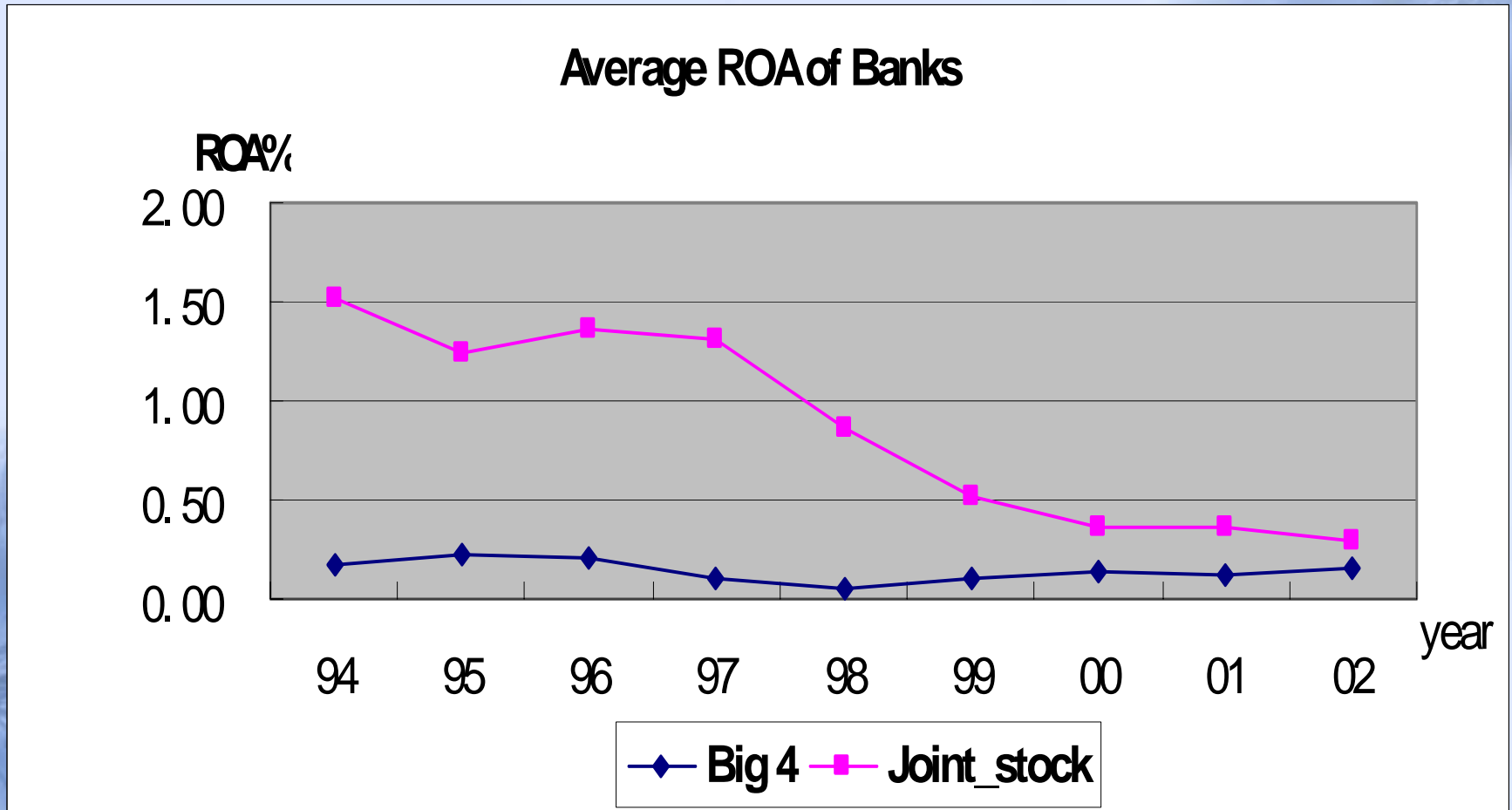
Sources: IMF International Financial Statistics, Annual Accounts, The Banker, China Regulatory Banking Corporation website, Almanac of China's Finance and Banking

Chinese banking performance⁽²⁰⁰⁵⁾

Bank name	Capital Adequacy Ratio(%)	ROE(%)	ROA(%)
ICBC		1.42	0.04
CCB	11.29	25.40	1.24
CB	10.04	10.19	0.49
Merchant Bank	9.55	15.06	0.52
FuJian Xingye Bank	8.07	16.64	0.49
ShangHai Pudong Deve. Bank	8.03	14.29	0.42
MinSheng Bank	8.59	15.79	0.46

Source: FC station(2005.12.31)

Chinese banking performance



Source: China Financial Annuals [1995-2004]



The Opening and market operation of Chinese banking systems speed up

Foreign Bank Ownership Stake

Chinese Bank	Foreign Bank-Stake%	Date
Bank of Shanghai	HSBC - 8%	Dec. 2001
Shanghai Pudong Bank	Citigroup - 4.6%	Dec. 2003
Fujian Asia Bank	HSBC - 50%	Dec. 2003
Industrial Bank	Hang Seng - 16%	Apr. 2004
Bank of Communications	HSBC - 19.9%	Jun. 2004
Xian City Comm. Bank	Scotia Bank - 12.4%	Oct.2004
Jinan City Comm. Bank	C Bank of Australia - 11%	Nov. 2004
Shenzhen Develop. Bank	Newbridge Cap - 17.9%	Dec.2004

Foreign Bank Ownership Stake (cont.)

Chinese Bank	Foreign Bank - Stake %	Date
Minsheng Bank	Temasek - 4.6%	Jan.2005
Hangzhou City Com. Bank	C Bank of Australia - 19.9	
China Construction Bank	Bank of America - 9% Temasek - 5.1%	Jun. 2005
Bank of China	RBS-5%, UBS-1.6%. Temasek-10%	Aug. 2005
Industrial Bank of China	Goldman Sachs, Allianz, American Express - 10%	Aug. 2005
Nanjing City Com. Bank	BNP Paribas - 19.2%	Oct. 2005
Hua Xia Bank	Deutsche bank - 9.9% Sal Oppenheim Jr. - 4.1%	Oct.2005

Challenges for the RM of Chinese banks

- 1. Competition from foreign banks is motivating domestic players to modernize their products, and improve risk management level.

Full competition from foreign banks, mandated by the WTO agreements, is scheduled for 2006.

- 2. Intense domestic competition is also forcing banks to develop new product lines and improve their RM systems.
- 3. Upcoming challenges for RM- Basel II

Current situation of Chinese banking RM

- Short history of internal data accumulation and the process of data system integration just began.
- Absence of centrally organized IT and MIS systems -one of most important causes of insufficient monitoring of large exposure limits.
- Changes in RM: most banks has realized the importance, and start to reform their corporate governance, focus on building RM institutions and system.
 - China Everbright Bank: SAP
 - China Merchants Bank: Kamakura
 - China Citic Bank: Sungard
 - China bank: Reuters or else



THANK YOU !