

Foreign banks in China May 2007



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This brochure is printed on Magno Satin



Foreword

Welcome to the second PricewaterhouseCoopers survey on foreign banks in China, following the inaugural survey published in September 2005. This year, we are very pleased to have 40 financial institutions participate in the survey, up from 33 in 2005. The key objectives of the survey are to:

- raise awareness of strategic and emerging issues for foreign banks in China;
- establish data on certain industry trends;
- understand the thinking of Chief Executive Officers in the banking industry;
- provoke discussion and debate on the best options for capitalising on trends to enhance and improve performance of foreign banks;
- provide insights and perspectives on how banking in China may evolve over the next three years.

The growth of foreign banks in the Chinese market has continued to accelerate with the recent announcements of local incorporation marking another key stage in the development of the sector. The strong economy and a growing middle class, together with the continued opening up of the banking sector under the terms of China's WTO accession, has led many foreign banks to continue to invest in China's financial sector. 2006 saw an influx of foreign institutions buying into Chinese retail banks in advance of the new WTO measures to allow foreign banks to compete on more equal terms with local institutions. According to

the CBRC (China Banking Regulatory Commission), at the end of 2006, 74 foreign banks from 22 different countries and regions had established 200 branches and 79 sub-branches in 25 Chinese cities. A further 242 representative offices have been established. The growth in foreign bank participants also demonstrates the continued commitment of the Chinese government to bank reform and the role that foreign banks can play in improving the competitiveness of the overall Chinese banking sector.

Findings of particular interest in the survey include observations on the changes in China's financial market, the development of the regulatory environment, banking risks in China, future opportunities and the results of the peer review.

We trust that bankers and other readers will find the material useful in this industry-wide survey.

I would like to thank the Chief Executive Officers and Senior Executives who participated in this survey for their time and efforts in making this publication possible. I would also like to thank Dr Brian Metcalfe for his research and producing this report. We look forward to feedback on this survey and on topics to be included in future surveys on the China banking industry.

To obtain further information, please contact the PricewaterhouseCoopers banking and capital markets specialist partners in your area of interest. They are listed at the back of this survey.



Mervyn Jacob
Financial Services Leader for
China and Hong Kong

Hong Kong
May 2007

About the author

Dr Brian Metcalfe is an Associate Professor in the Business School at Brock University, Ontario, Canada. He has a doctorate in financial services marketing and has researched and produced over 30 reports, such as this one, on behalf of PricewaterhouseCoopers in 11 different countries including Australia, Canada, China, India, Japan and South Africa.

Previous reports have examined strategic and emerging issues in corporate, investment and private banking, life and property and casualty insurance, insurance broking and wealth management.

In the past he has been employed by National Westminster Bank, Bank of Ireland and Connecticut Bank & Trust Co. He has consulted for a wide range of organisations, including Royal Bank of Canada, Bank of Nova Scotia, Barclays Bank, Clarica Life Insurance Company, Equitable Life of Canada and several major consulting firms.

He has also taught an executive management course entitled “Financial Services Marketing” at the Graduate School of Business, University of Cape Town.

This report was researched and written by Brian Metcalfe, Ph.D. Information presented herein, while obtained from sources believed reliable, is not guaranteed as to accuracy or completeness. This report has been commissioned by and distributed through PricewaterhouseCoopers Inc.

Additional copies of this report can be obtained from Anna Lai of PricewaterhouseCoopers on [852] 2289 8719 or at anna.th.lai@hk.pwc.com.

Executive summary

This survey focuses on the strategic and emerging issues surrounding foreign banks' expanding activities in China. It builds on the inaugural survey in 2005.

The survey attempts to synthesise diverse viewpoints, protect confidentiality and offer insights into this fast changing financial services environment.

It is based on interviews with CEOs and senior executives and branch managers of 40 foreign banks.

The interviews were approximately one hour in length and were conducted in five centres, Beijing, Hong Kong, Shanghai, Shenzhen and Tianjin, between January and March 2007.

The participants in alphabetical order were:

ABN AMRO

Australia & New Zealand Banking Group

Bank of America

Bank of Montreal

Bank of Nova Scotia

BNP Paribas S.A.

Business Development Bank

Calyon

Citibank

Dah Sing Banking Corporation

DBS

Deutsche Bank

Dresdner Bank

First Sino Bank

Fortis Bank

Hang Seng Bank

Hongkong and Shanghai Banking Corp.

Industrial Bank of Korea

ING Bank

JPMorgan Chase Bank

KBC Bank

Korea Exchange Bank

Maybank

Mizuho Corporate Bank

Natexis Banque Populaires

Norddeutsche Landesbank

OCBC

Rabobank

Raiffeisen Zentralbank Osterreich AG

Royal Bank of Canada

Royal Bank of Scotland

Sanpaolo Imi Bank

Shinhan Bank

Société Générale

Standard Chartered Bank

The Bank of East Asia

The Bank of New York

Wachovia Bank

UBS

Wing Lung Bank

The following findings are based on interviews with 40 banks who are considered to provide a sound representation of the views of the 74 foreign banks from 22 countries/regions that are actively engaged in the Chinese banking market in 2007. The main findings are summarised below:

Recent changes

The most frequently cited change by the foreign banks was the facility to move to local incorporation. These entities will be allowed to provide foreign currency and RMB services to customers and will be subjected to the same regulations as domestic banks. In December 2006, the geographic and customer restrictions on RMB services were also removed.

The opinions of the foreign bankers expressed in this report suggest that 20 to 30 banks will incorporate locally (26 of the 37 respondent banks recorded a viewpoint in this range). However, not all locally incorporated banks will have an interest in serving the retail market.

Commitment to the Chinese Market

The head offices of the foreign banks are highly committed to their Chinese operations. Twenty nine banks recorded a score of 8 out of 10 or higher in terms of support.

Regulatory frustration

Many foreign banks remain critical of the regulatory environment particularly in areas of coordination, consistency and clarity. They are frustrated by currency restrictions and by the lack of credit history. The banks seek changes to foreign exchange regulations, foreign debt quotas, liquidity ratios and capital requirements. Although the banks continue to define regulatory change as the most important driver of change, capital markets, globalisation and technology are also influential.

Staffing issues

Human resources along with regulations are the two most pressing issues. The rapid growth in personnel needs over the next three years will fuel an already tight labour market. Annual turnover rates are high, 35% of the banks recorded a rate of 15% to 20% and over two thirds were above 15%. Significant salary inflation is widespread.

Brand recognition

Brand name recognition was highlighted as a growing concern as a number of banks plan to gear up for the retail market.

Domestic bank challenges

The foreign banks continue to believe that their domestic counterparts face on-going challenges in the domestic loan market and in governance and market related practices. No improvements in their perceptions of these areas have been made since the 2005 survey.

Continued opportunity

The banks clearly see growing opportunities in the Chinese market. Few could envisage a slowdown in economic growth before 2010. Although 74 foreign banks have branch operations and a further 186 have representative offices, only a third of respondents think the market is overcrowded.

Many point out that the foreign banks represent less than 2% market share. Foreign banks are expected to enter and leave the market over the next year. The current number of 74 banks is expected to exceed 85 banks by 2010 by over half the group.

Product development

Credit cards, followed by investment products and mortgages are forecasted to grow strongly in the retail market. In the wholesale market the top three areas of growth mentioned were interest rate and currency swaps and structured products.

Future growth

The 40 banks interviewed employ 16,752 people and this will grow by 113% to 35,685 by 2010. Twenty five banks will more than double in size. Expatriate employees are being used to alleviate a growing skills shortage. There are already almost 3,000 expatriates working in the industry.

Assets are expected to double by 2010 to over \$100 billion while net profits are expected to triple in size.

On the retail side at least six banks plan to serve in excess of 100,000 customers by 2010 and total customers will exceed the 1 million mark.

Home country and global corporates are strongly represented in the banks' loan portfolios but Chinese based corporates are becoming very important to some, particularly European banks.

Performance

Four banks anticipate 100% revenue growth in 2007 and another 10 banks expect between 50% and 100%. By 2010 one bank continues to forecast 100% growth and only four banks predict growth will fall below 20% at that time.

Of the 24 banks that provide income data more than half acknowledge that profits are minimal. Despite this a number of segments such as corporate banking, investment banking and treasury show improvements in profitability since 2005. Trade finance was an important source of revenue to 19 banks.

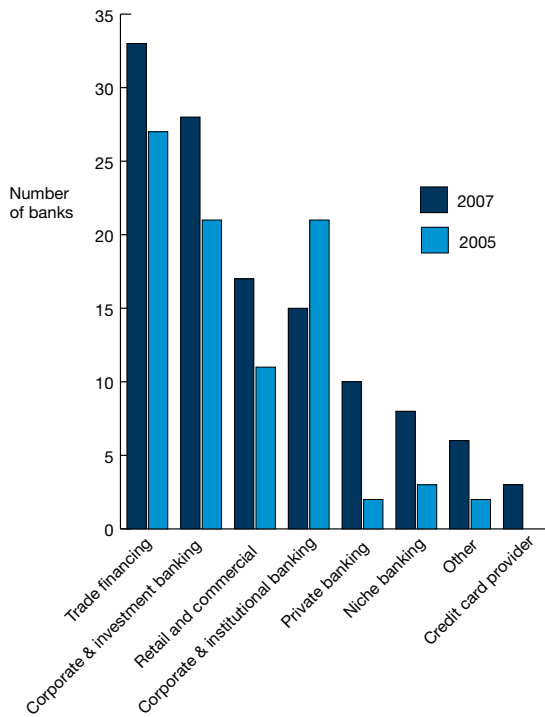
Peer ranking summary

A summary of the top ranked foreign banks/financial institutions in each category based on peer ranking is shown in the table below. Full details including indications of how the rankings have changed since 2005 are shown later in the report.

	First	Second	Third
Foreign exchange trading	Citibank	HSBC	Standard Chartered
Treasury	Citibank	HSBC	Standard Chartered
Derivatives	Citibank	HSBC	Deutsche Bank
Corporate lending	HSBC	Citibank	Standard Chartered
Project financing	Citibank	HSBC	BNP Paribas
Investment banking	Goldman Sachs	Morgan Stanley	Citibank
Asset management	HSBC	UBS	Citibank
Corporate finance	Citibank	Goldman Sachs	HSBC
Mergers and acquisitions	Morgan Stanley	Goldman Sachs	Citibank
Trade finance	HSBC	Standard Chartered	Fortis
Retail banking	HSBC	Citibank	Standard Chartered
Credit cards	Citibank	HSBC	Standard Chartered

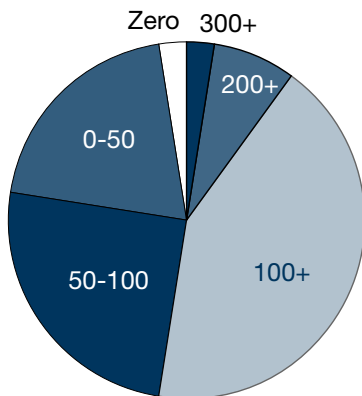
Market environment

Classification of banks by participants



Based on responses from 40 banks in 2007 and 35 banks in 2005

Projected increases in employment by 2010



Percentage increases in employment by 2010
Based on responses from 40 banks

Number of employees

The 40 banks interviewed employ 16,752 people and this total is forecasted to expand by 113% to 35,685 people by 2010. In 2005, 35 banks predicted a growth of 154% to 16,910 by 2008. This former prediction is in line with the 2007 number which includes one large foreign bank not surveyed in 2005.

The strong growth predicted is assisted by six banks that plan to add over 1,000 new employees over the next three years. Three banks in this group will add 3,000 or more new employees.

The percentage increases also show impressive employment growth. For instance, 21 banks will more than double their existing personnel and four banks anticipate growth above 200% by 2010.

Number of expatriate employees

At present the 40 foreign banks employ 2,872 expatriates. This is a significant jump from 2005 when the 35 banks surveyed employed 475 expatriates. As a result one can conclude that many of the banks are supporting their expansion by importing trained personnel from within their banks. Over the next three years they plan to add another 639 expatriates to produce a total of 3,511. The overall employment growth will however, reduce the expatriate

percentage from 17% in 2007 to 9.8% in 2010.

There is a significant variation amongst the banks in terms of the level of expatriate staff. For example, 10 banks have more than 10% expatriate staff and seven of these are Asian banks. Twenty one banks have less than 5%. Two smaller banks have no expatriate staff.

Assets and onshore loans

Thirty one of the 40 participants provided information on their assets in 2007 and projections for 2010. The total assets in 2007 were \$51 billion increasing by 111% to \$108 billion in 2010. This total excluded data for one large foreign bank. Those larger foreign banks that provided individual data estimated that they may reach \$15-20 billion in assets by 2010.

Net income

Twenty four participants estimated a combined net income of \$328 million in 2007 rising to \$940 million by 2010. This figure excludes three large foreign banks. In addition to the 24 respondents an additional four banks confirmed that they were profitable. Twenty banks recorded net income of \$10 million or less in 2007. Within this number 13 banks are generating small profits.

Retail customers

Seventeen banks indicated they had retail customers and were able to project growth forward to 2010. Seven banks had a retail base of less than 1,000 customers. Around six banks indicated that they planned to have a retail base exceeding 100,000 customers by 2010 and three of this group might be considered “front runners” on retail expansion.

In total the 17 banks had 173,200 customers in 2007 growing by over 500% to 1.1 million by 2010.

The participants provided credit card projections but the small number of players and the issuance of cards by some of the banks joint venture partners made this data too sensitive for publication.

Retail operations

Fifteen participants confirmed that they had an interest in serving the retail sector. In addition several banks indicated that their parent had not yet decided on whether to formally enter the retail sector. Other banks indicated that they had investments in domestic banks and this would be the entry vehicle to the retail market not the foreign bank entity.

Eighteen banks said they had no interest in the retail sector.

Local incorporation

The following banks have indicated publicly that they wish to incorporate locally.

Approved:

- Citibank
- HSBC
- Standard Chartered Bank
- The Bank of East Asia

Applications in process:

- ABN AMRO
- Bank of Tokyo-Mitsubishi - UFJ
- DBS
- Hang Seng Bank
- JPMorgan Chase
- Mizuho Bank
- OCBC
- Wing Hang Bank

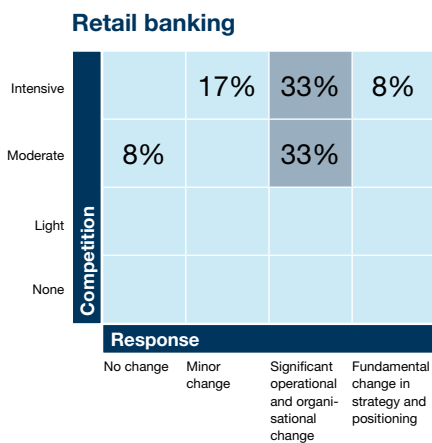
Ten of these 12 banks plan to locate their head office in Shanghai while JPMorgan Chase will locate in Beijing and Wing Hang Bank in Shenzhen.

CBRC has confirmed applications are being considered for:

- Nanyang Commercial Bank
- Citic Ka Wah Bank
- United Overseas Bank

Competition in the marketplace

Retail banking

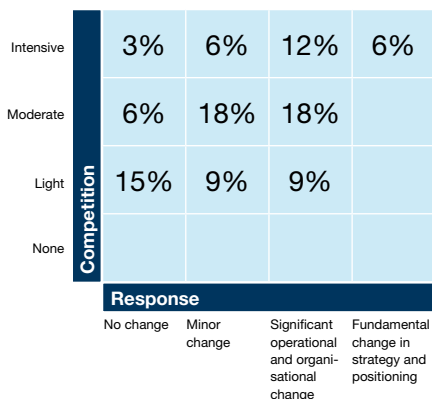


Twelve banks responded to this question and almost 60% indicated that they consider retail banking to be intensively competitive.

Over 70% of the respondents indicated that they had made significant or fundamental changes to their retail strategy. The first four banks to incorporate domestically all plan to offer Yuan-denominated mortgages, wealth management products and deposit and loan services.

Press reports stated that, with the exception of Citibank, they would also launch their own brand of credit card.

Money market



Money market

Only 27% of the 34 banks that responded to this question suggested that competition was intensive. A higher percentage – 33% – indicated that it was light.

Almost 60% of banks have made either no change or minor change to developments in the money market. There has been little change in this market since 2005.

Numbers of banks reporting a response in the eight markets reviewed will vary as participants were requested not to comment on a specific market unless they were familiar with the competitive nature of that market.

Foreign exchange and derivatives

Competition	Intensive	13%	3%	25%	6%
	Moderate	9%	19%	13%	3%
	Light		6%	3%	
	None				
		Response			
		No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning

Note: Based on responses from 32 banks
Shading represents greater than 20%

Foreign exchange and derivatives

The opinion on the degree of competition in foreign exchange and derivatives remains similar to 2005 although a higher percentage of respondents suggested they had made minor or no change to strategy – 50% in 2007 compared to 43% in 2005.

Trade finance

Competition	Intensive	14%	22%	25%	3%
	Moderate	8%	17%	11%	
	Light				
	None				
		Response			
		No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning

Note: Based on responses from 36 banks
Shading represents greater than 20%

Trade finance

In 2005, trade finance represented the most competitive market for foreign banks in China.

Ninety per cent believed it to be intensively competitive while over half had made significant or fundamental changes.

In 2007, the level of competition has been scaled back to 64% and 61% of the banks have made no change or minor change.

Treasury

Competition	Response			
	No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning
Intensive	18%	6%	6%	3%
Moderate	9%	18%	30%	3%
Light	3%	3%		
None				

Note: Based on responses from 33 banks
Shading represents greater than 20%

Treasury

The treasury market continues to be relatively underdeveloped.

Although a third of the 33 respondents believed the market was intensively competitive only two banks have made fundamental changes.

Corporate lending

Competition	Response			
	No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning
Intensive	15%	27%	12%	6%
Moderate	6%	21%	9%	
Light			3%	
None				

Note: Based on responses from 33 banks
Shading represents greater than 20%

Corporate lending

Almost 70% of the banks have made minor or no change to corporate lending strategy.

Fewer banks in 2007 recorded an intensively competitive environment. The percentage declined from 75% to 60%.

Investment banking

Competition	Intensive	10%	24%	33%	5%
	Moderate	19%		5%	
	Light	5%			
	None				
Response		No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning

Note: Based on responses from 21 banks
Shading represents greater than 20%

Investment banking

The investment banking market has become marginally more competitive than in 2005.

However seven of the 21 respondents said they had not altered the strategy while five banks indicated they had made a minor change.

Credit cards

Competition	Intensive	25%	25%		25%
	Moderate		25%		
	Light				
	None				
Response		No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning

Note: Based on responses from four banks
Shading represents greater than 20%

Credit cards

Only four banks responded to this question and three of them said the market was intensively competitive. In 2005, five banks unanimously recorded an intensive market.

The market will become more competitive with the local incorporation of foreign banks. The media has reported that three banks already plan to launch local cards while Citibank plans to issue debit cards and continue to issue credit cards through its local partners, Shanghai Pudong Development Bank and Guangdong Development Bank.

Q Can you score on a scale 1 to 10 your perception of the level of competitiveness of the following domestic banks in the Chinese market?

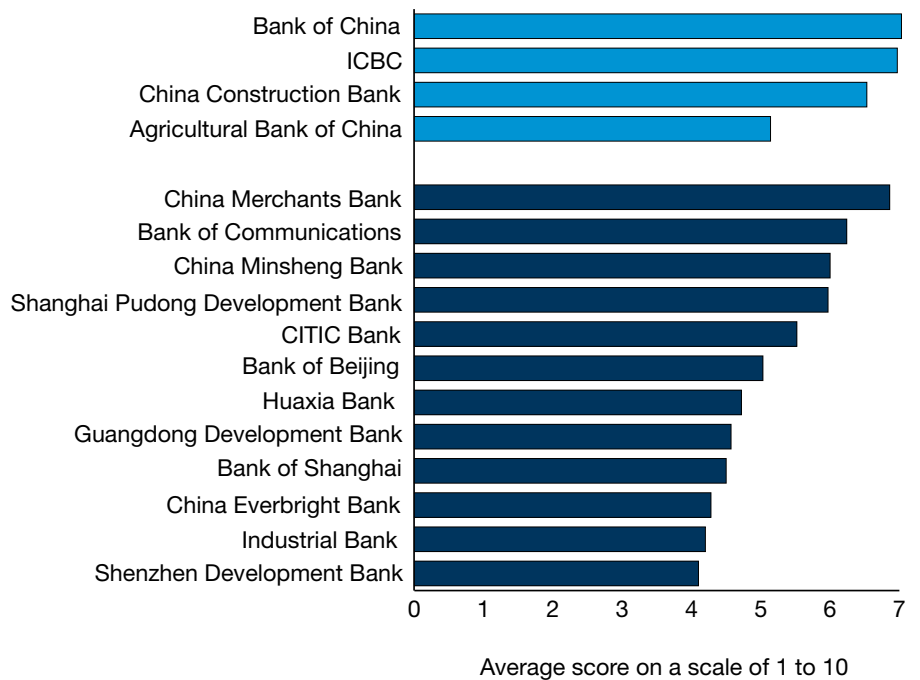
The foreign banks were asked to score the level of competitiveness of 16 banks operating in the domestic market.

These views are recognised as being very subjective but they nevertheless reflect a degree of differentiation in the minds of the foreign bankers interviewed.

Not all banks were able to provide scores on some of the less well known banks and the scores reflect the averages of scores provided by bankers that had some knowledge or experience of these banks.

The “Top 3” banks were identified as Bank of China, ICBC and China Merchants Bank.

Six banks recorded a score below 5.



Q How would you characterise the commitment of your parent bank to the Chinese market in comparison to other markets around the world on a scale of 1 to 10 (where 1 represents no commitment and 10 is extremely aggressive)?

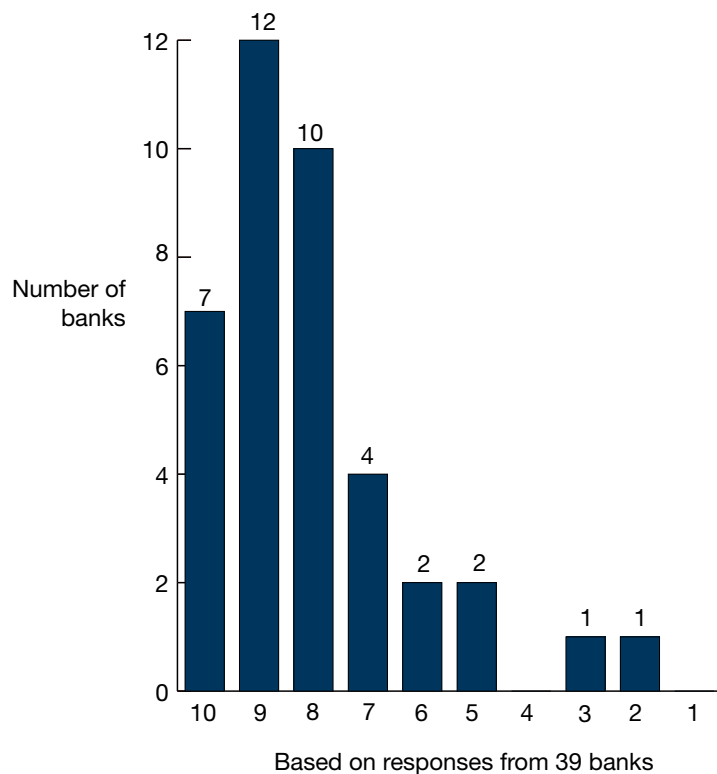
Thirty nine banks shared their views on the commitment of their parent bank to the Chinese market. Only four banks recorded a score of 5 or below.

At the other end of the scale 29 banks recorded a score of 8 or higher, with seven banks awarding their parents the maximum score of 10 out of 10.

The high levels of support identified in the 2005 report remained in place in 2007, suggesting that the foreign banks commitment and interest in the Chinese market has not faltered.

The majority of banks found it difficult to explain what might initiate a decline in interest. Some suggested an Asian economic crisis similar to that of the 1990s but most could not envisage an economic slowdown before 2010.

Several European banks suggested that a lowering of interest by their parent in Eastern Europe might be reciprocated by an increased interest in China. Another bank commented that its parent's interest might increase if a foreign bank was allowed to gain control of a domestic Chinese bank.



Q Can you identify three major concerns of the Chinese banking system at present?

Regulatory issues

The bankers continued to express concern about the level and nature of regulation. They indicated that regulation was multi-layered and often lacked a “clarity of co-ordination”.

They reported a lack of co-ordination between SAFE (State Administration of Foreign Exchange) and CBRC and suggested different CBRC offices provided contrasting interpretations.

Senior management in the big banks

One bank commented that the big banks’ management teams have been in place since the 1990s and the system would benefit from more turnover at this level.

Currency controls

The banks noted that the currency is not fully convertible and recorded their frustration with currency restrictions.

Credit history

The lack of a comprehensive credit history was considered a shortcoming of the banking system especially by banks planning to enter the retail market.

Other concerns included:

- Every bank has a foreign debt quota and once reached the borrower has to pay a 5% business tax
- There may be an underestimation of the NPL (non-performing loan) portfolios in the big banks
- There is no national treatment regarding the capital requirement for each foreign bank branch
- There is a lack of market discipline and good governance regarding personal relationships in the domestic loan market
- Limits on offshore funding
- Too protectionist in a financial market where foreign banks have less than 2% market share
- The policy of directing the foreign banks to expand north, south and west needs further clarification
- Low productivity in the domestic banks

Q What are the most important changes taking place in China's financial market?

“Foreign banks don't pose a significant threat to Chinese ones. What China's banking industry needs next, in the post-IPO period, is transformation, innovation and deregulation.”

Zhang Jianguo, President of China Construction Bank

Bloomberg News, December 11, 2006

Local incorporation of foreign banks

The most important change taking place in the financial market was widely recognised as local incorporation.

The impact of this move will have far reaching implications for foreign banks.

Areas mentioned included increased capital requirements, wider supervision, greater transparency and new product opportunities.

One of the biggest obstacles for foreign banks will be attracting enough low-cost deposits to fund their yuan banking operations.

Lifting of geographic restrictions

The banks predicted further expansion with the removal of the previous restriction to 25 “open” cities following the expiry of the WTO accession five year adjustment period in December 2006.

The CBRC had increased the number from 18 to 25 in December 2005 with the addition of Shantou, Ningbo, Harbin, Changchun, Lanzhou, Yinchuan and Nanning.

Opening of capital markets

A general opening of the capital market was forecasted with bond market development and further development of derivatives.

One banker compared the current situation in China to his experiences in Japan in the 1980s and 1990s.

Foreign exchange market

One bank mentioned that the foreign banks were now being required to arrange onshore funding for foreign exchange transactions.

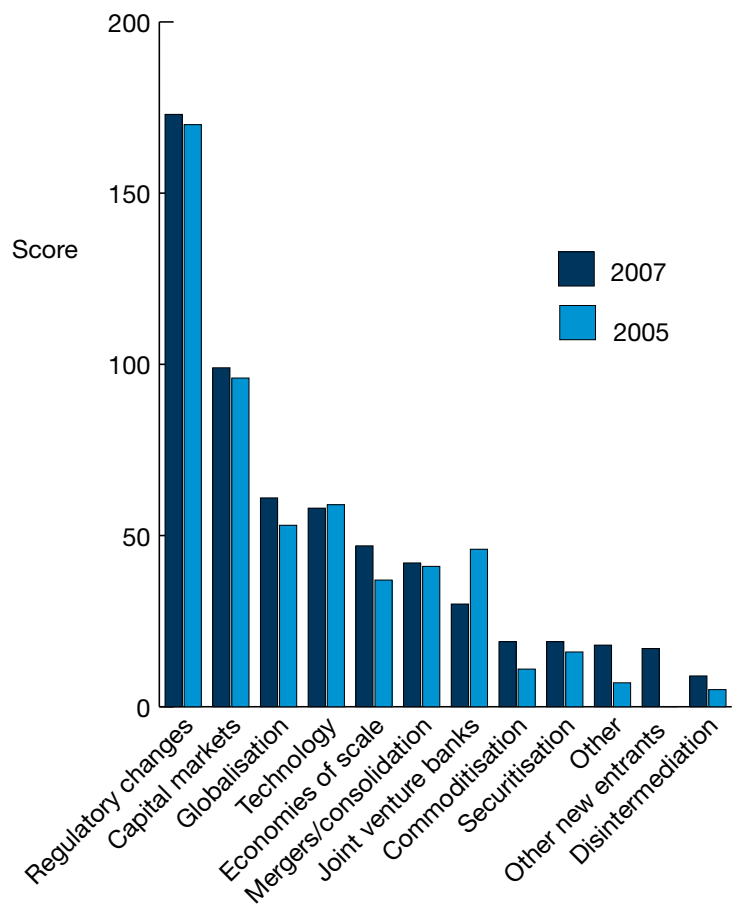
Other predicted changes include:

- a lifting of the SAFE quota and the ability to do RMB options
- further stock market reforms
- the ongoing restructuring of the state-owned banks

Q What are the major drivers of change in the Chinese banking industry?

The most important driver of change among the 40 banks continues to be the pace of regulatory change.

This factor exceeded the next driver, capital markets, by almost two to one and overshadowed other drivers such as technology, new entrants and globalisation.



Based on responses from 40 banks
2005 responses adjusted

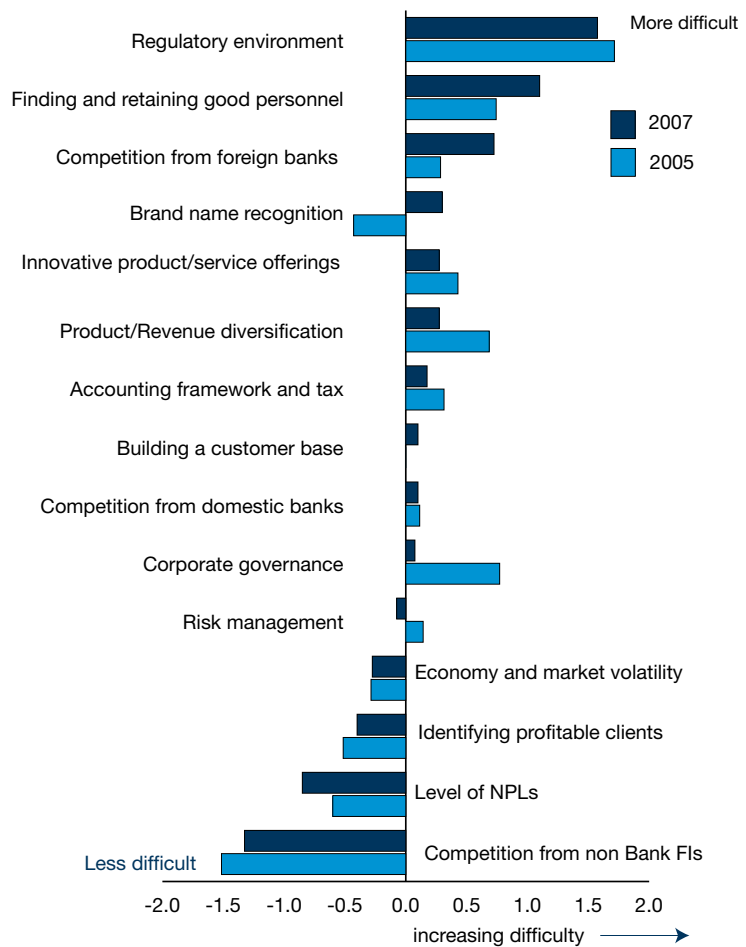
Q What does your bank find the most/least difficult aspects of the Chinese banking industry?

The regulatory environment remains the most difficult aspect of Chinese banking in 2007. On a scale of 1 to 5 where 5 is most difficult the regulatory environment almost received the maximum possible score.

Finding and keeping good personnel have been elevated to second place followed by competition from other foreign banks.

Brand name recognition has become more important perhaps reflecting the foreign banks' wider launch into the retail banking space.

Product and revenue diversification along with corporate governance has declined in relative importance since 2005.



Q Can you score on a scale of 1 to 5 the following challenges for the Chinese banking system, according to your perception, where 5 represents the greatest challenge?

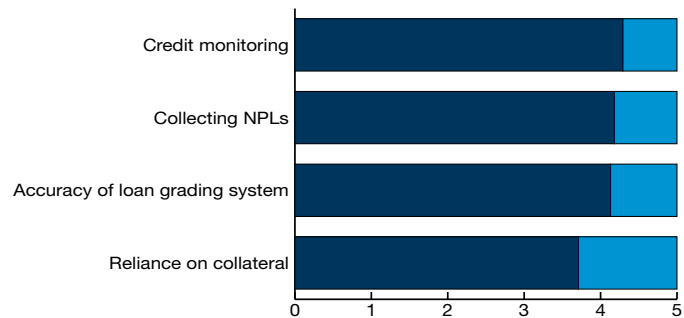
The graphs below show that the foreign banks continue to record very high scores regarding the scale of the challenges facing the domestic banks.

In the loan market little has changed since 2005. Indeed the magnitude of the challenge has only receded in the collateral area, and that decrease was only marginal.

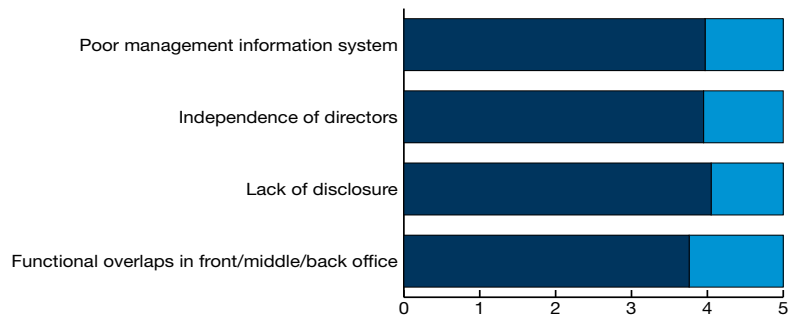
In governance and market practice the scores closely mirror the 2005 scores.

In terms of market practice there is one exception to the 2005 findings – cross selling limitations imposed by the regulator has declined from 4.03 in 2005 to 3.05 in 2007. In all other areas the perceived level of challenge faced by the domestic banks remains extensive and formidable.

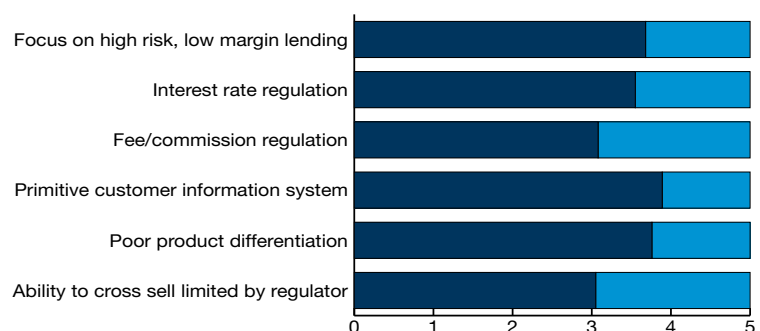
Domestic loan market



Governance



Market practice



Q What are the most pressing issues you face? Can you rate them 1 to 5?

Participants were required to score each issue on a scale of 1 to 5, where 5 was most pressing.

The 0 centre axis therefore represents 3 in the 1 to 5 scale and those to the right side are “most pressing” and range from 3 to 5.

New regulations continue to be the most pressing issue faced with recruiting and training and operational risk management becoming more important pressing issues in 2007.

Revenue growth, governance and threat of an economic downturn all recorded a lower level of importance.



Q Which of the following types of risk represent the greatest potential threat to you as a foreign bank in China? Please rate each risk between 1 and 4, where 1 is among the greatest threats and 4 is not a threat.

Confirming the responses in other questions in this report the foreign banks ranked regulatory risk as the greatest threat in 2007. Regulatory risk was placed ahead of credit risk and reputational risk. At the bottom of the scale representing minimal risk was IT risk and business continuity risk.

Operational risk and market risk were considered to be major threats but a collection of risks including fraud, treasury, liquidity, currency, business strategy and governance were all judged to be minor threats. Political risk was considered to be a minor threat by 70% of the participants.

The second part of this question asked respondents to comment on how effectively they managed these different risks.

Only credit risk achieved a 100% score by combining effective and extremely effective management.

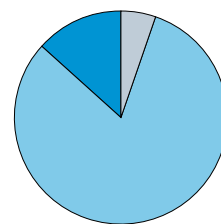
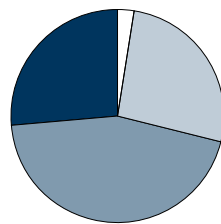
The banks believe they have an effective handle on managing the list of different risks.

Setting aside political risk, which is outside the banks' sphere of influence, the risk that had the lowest combined score of effective and extremely effective, at 84%, was regulatory risk.

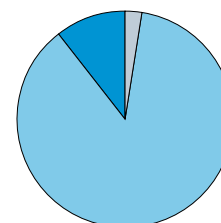
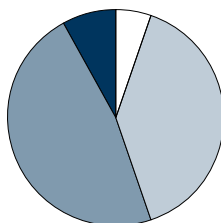
Magnitude of the risk

Effectiveness of risk management

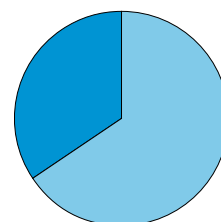
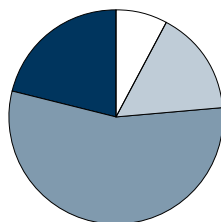
Reputational risk

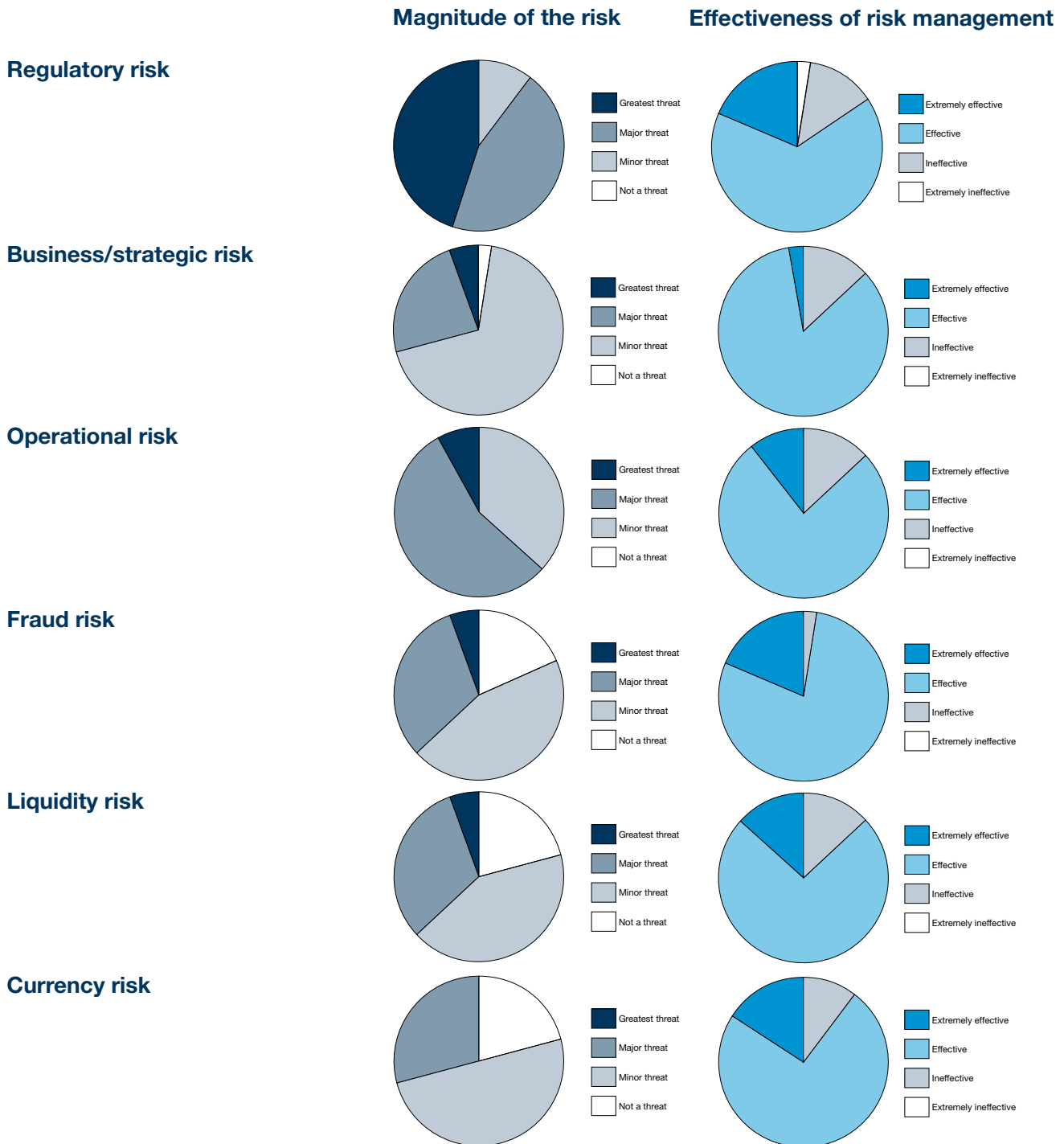


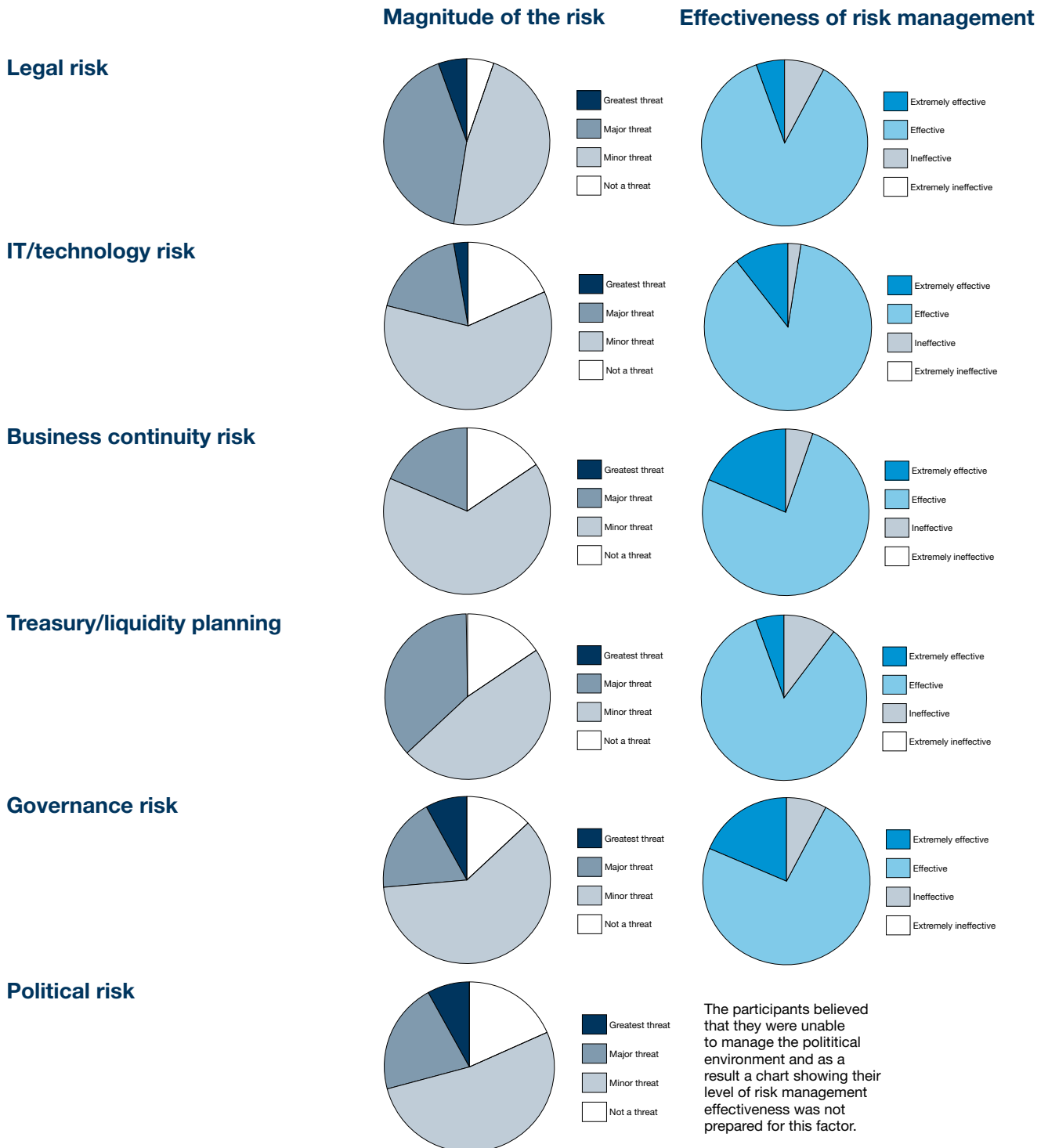
Market risk



Credit risk







Q What is your staff turnover rate?

One of the greatest challenges for the foreign banks in China is talent management. The banks are finding it difficult to recruit and retain staff. Over two-thirds of the banks are experiencing turnover above 15%, and 35% recorded turnover levels of 15% to 20%.

A small group of the leading international banks appear to be the most effective in holding staff and have managed to suppress turnover rates to below 5%.

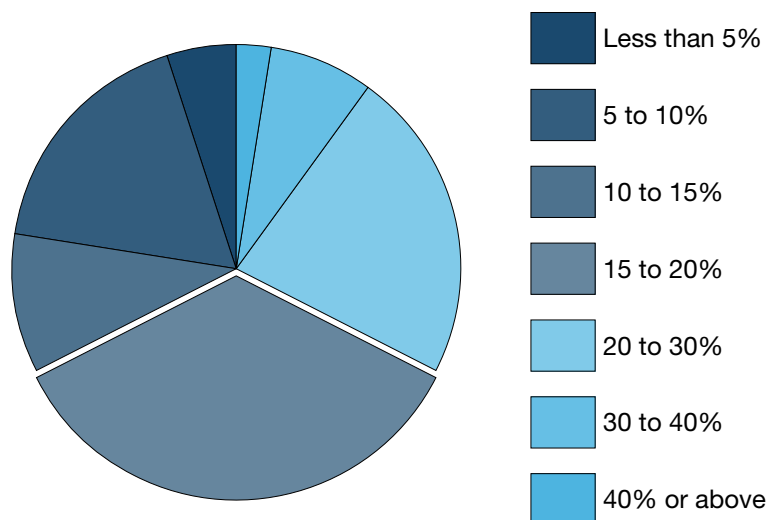
At the other extreme some banks have experienced acute staffing problems. One Asian bank said that two years ago it had 80% turnover; last year it dropped to 50% and in 2007 it predicted turnover would be 20%.

Another Asian bank indicated it had lost a key member of their wealth management team as a result of a competitive offer of triple the employee's salary.

A European bank voiced concern that employees had returned from head office training programmes and immediately resigned.

Several participants pointed out that although the banking industry was growing rapidly there was a chronic shortage of experienced, senior management.

It was predicted that the move to local incorporation and continued expansion will increase the staffing needs.



35% recorded 15% to 20% turnover
Over two-thirds were above 15%

Competition and positioning

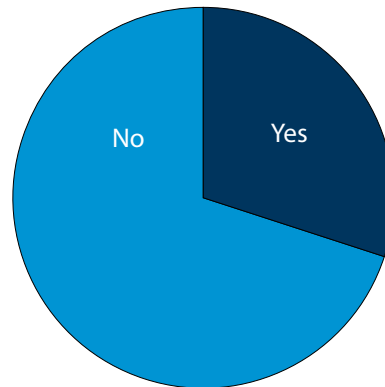
Q Do you believe the banking market continues to be overcrowded?

In 2005 over half the participants believed the banking market was overcrowded. In 2007 only a third of the 40 banks viewed it as overcrowded.

This reversal reflects the opening up of the market along multiple

dimensions such as product range, geographic coverage and regulatory framework.

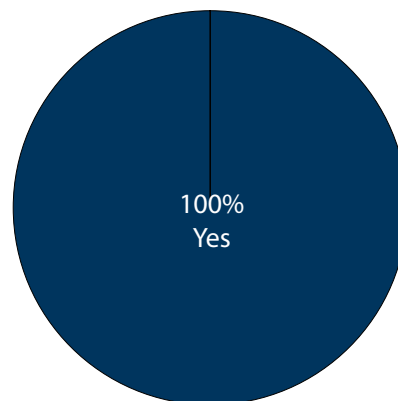
The foreign banks acknowledge that they currently account for less than 2% of the banking market.



Based on responses from 40 banks

Q Will other foreign banks enter or leave?

The banks unanimously agreed that foreign banks would continue to enter and leave the Chinese market.

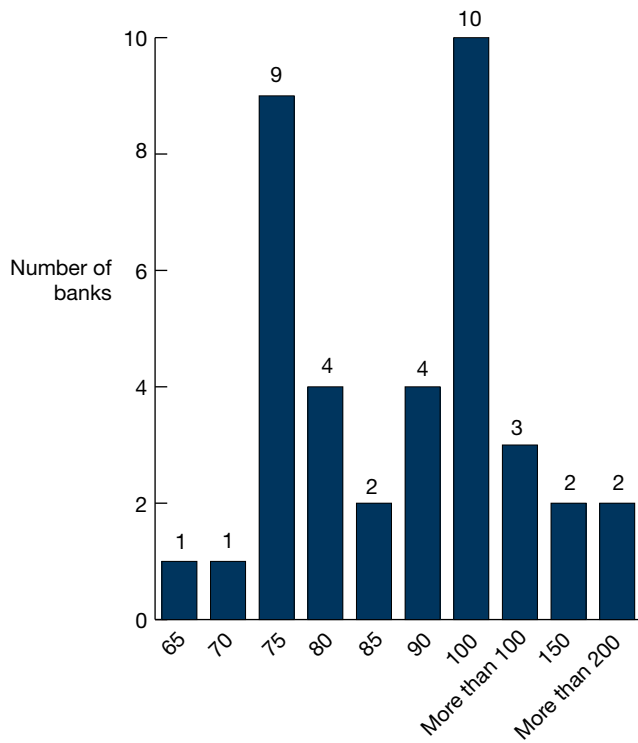


Based on responses from 37 banks

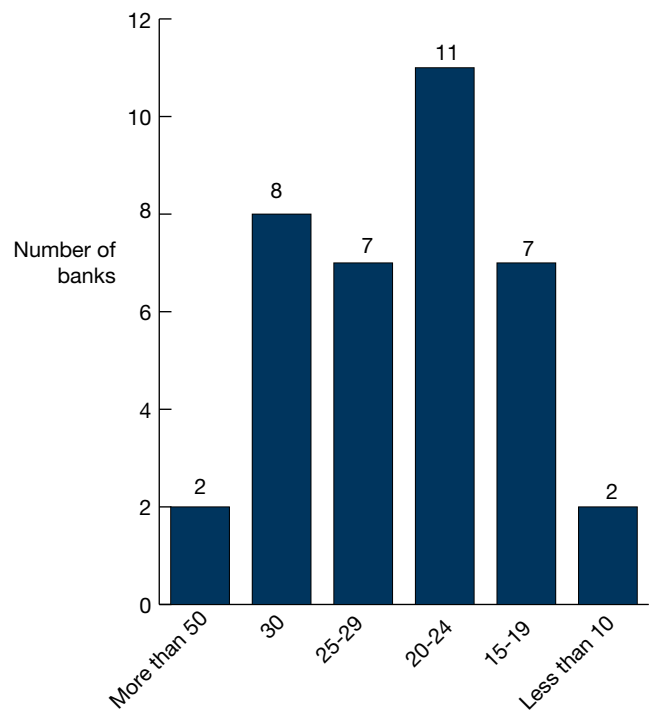
Q How many foreign banks will be operating in the Chinese market in 2010? Of these how many will incorporate locally by 2010?

Although 15 banks predict a marginal increase to less than 80 banks by 2010 the majority anticipate a larger number. Seventeen banks anticipate 100 or more foreign banks.

Twenty six banks anticipate 20 to 30 banks to incorporate locally by 2010. Two banks expect more than 50 banks to incorporate.



Based on responses from 38 banks

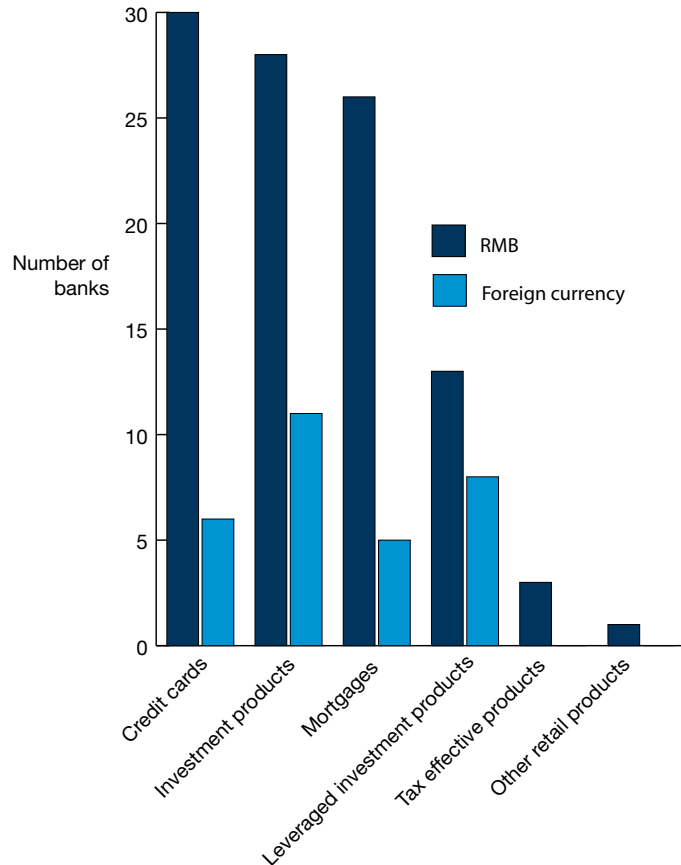


Based on responses from 37 banks

Q What product areas do you see as becoming increasingly important in the Chinese retail banking industry in the next three years?

Three product categories are expected to experience rapid growth by 2010. They are credit cards, investment products and mortgages.

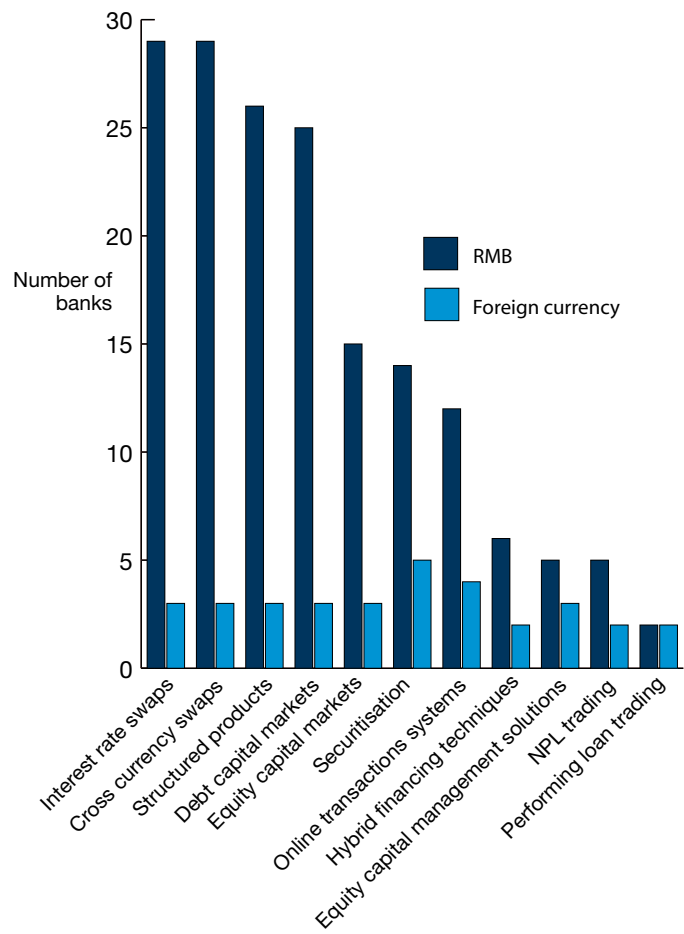
In April 2007 media reports stated that the first four banks to incorporate locally will offer yuan-denominated mortgages, wealth management products and deposits and loans. The reports also stated that The Bank of East Asia plans to waive its account management fees as a promotional incentive while HSBC will charge 300 yuan a month for value-added premium services to customers with balances below 500,000 yuan. There will be no fees for customers with balances exceeding this amount.



Based on responses from 40 banks

Q What product areas do you see as becoming increasingly important in the Chinese wholesale banking industry in the next three years?

The four RMB denominated product areas expected to grow by 2010 are interest and cross currency swaps, structured products and debt capital markets with over 25 banks expecting these areas to become increasingly important.



Based on responses from 40 banks

Q Can you name three new entrants from outside the financial services industry that you believe will represent a significant threat in the financial services market over the next three years?

The foreign banks expect a range of new entrants into the financial sector. Suggestions on “new” entrants (some already are present) included:

- Auto finance companies such as Ford Credit, Toyota Finance, GMAC, etc.
- Large international insurance companies expanding their financial services presence
- Private equity firms participating in some of the domestic banks or financial institutions (for example, the Carlyle Group with its partner Prudential Financial acquired a 25% stake in China Pacific Life in 2005)
- Leasing companies such as VW Leasing or Siemens Leasing
- Global retailers such as Carrefour which plans to have 112 outlets by year end 2007 and Wal-Mart (perhaps in a credit card joint venture) which plans to have 123 outlets

Q How successful has your bank been in penetrating the following markets in the last year?

Twenty one different markets were identified, covering both retail and investment and merchant banking. If the participating banks were deemed to be active in a particular market, they scored their perceived levels of success on a scale of 1 to 5 where 1 was “very unsuccessful” and 5 was “very successful”.

Since 3 is perceived as neutral, to suggest a degree of measurable success, it is important that the average scores for the participants

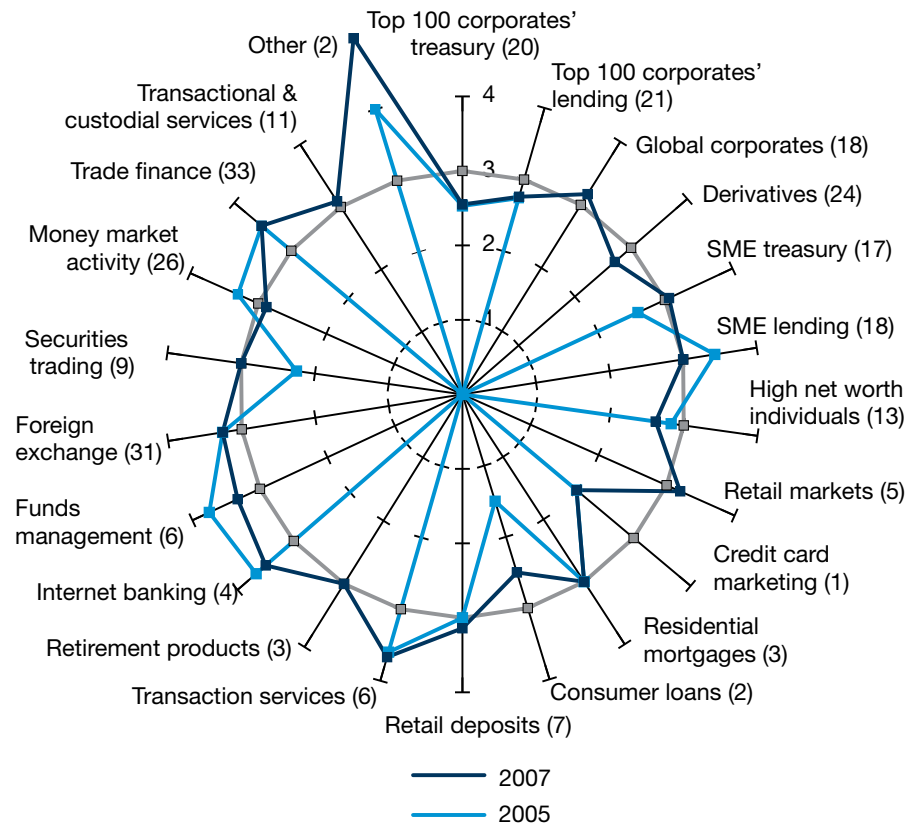
in that market exceed 3. Figures in parentheses indicate the number of participants providing a score in that particular market. In the radar diagrams appearing on the following pages, a 21-sided frame based on the value of three has been drawn.

If the line pierces the frame (i.e. the line moves to the outside of the circle frame), success has been achieved in that respective market.

All banks – Levels of success

The foreign banks as a group repeated average levels of success in their chosen market segments. In most product categories, the score hovers around 3 out of 5 or neutral in an index of success.

The chart indicates only one category, other, where the score exceeded 4 out of 5. In one case it referred to correspondent banking and in the other home country corporates of an Asian bank.

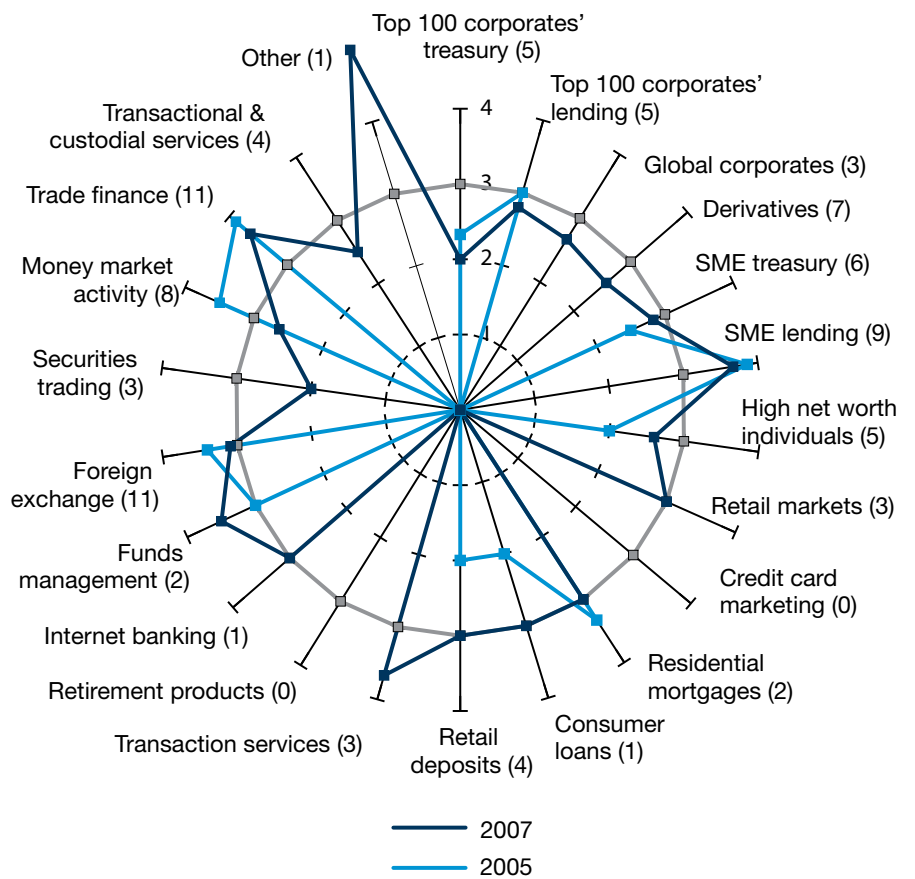


Global corporates, derivatives and transactional & custodial services are new categories in 2007

**Asian banks –
Levels of success**

The Asian banks in both 2005 and 2007 considered themselves to be successful in trade finance and SME lending.

They scored below 3 among Top 100 and global corporates.



Global corporates, derivatives and transactional & custodial services are new categories in 2007

**European banks –
Levels of success**

The European banks record only average levels of success. Fifteen banks believe they were successful in trade finance.

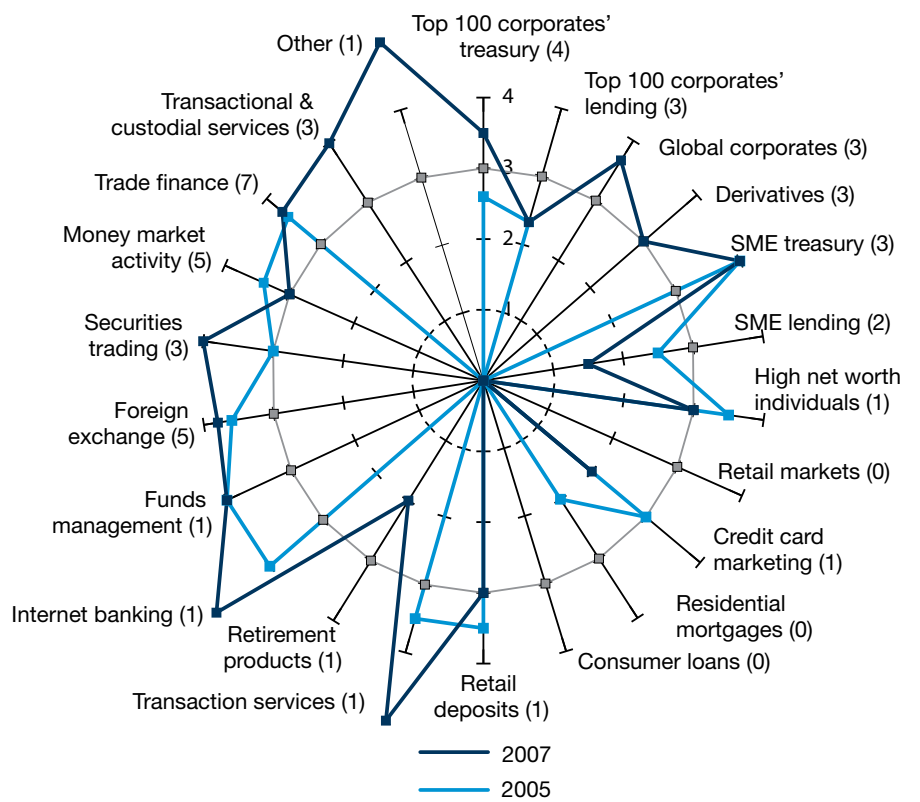


Global corporates, derivatives and transactional & custodial services are new categories in 2007

**North American banks –
Levels of success**

The North American banks recorded strong scores in foreign exchange, top 100 corporates lending, global corporates and trade finance.

As a group they were unsuccessful in the retail segment, SME lending and HNWI individuals.



Global corporates, derivatives and transactional & custodial services are new categories in 2007

Q How important are the following markets for your bank over the next three years?

To identify the markets that the banks believe will be of greatest importance over the next three years, the 40 participants ranked the following 21 markets on a scale of 1 to 5.

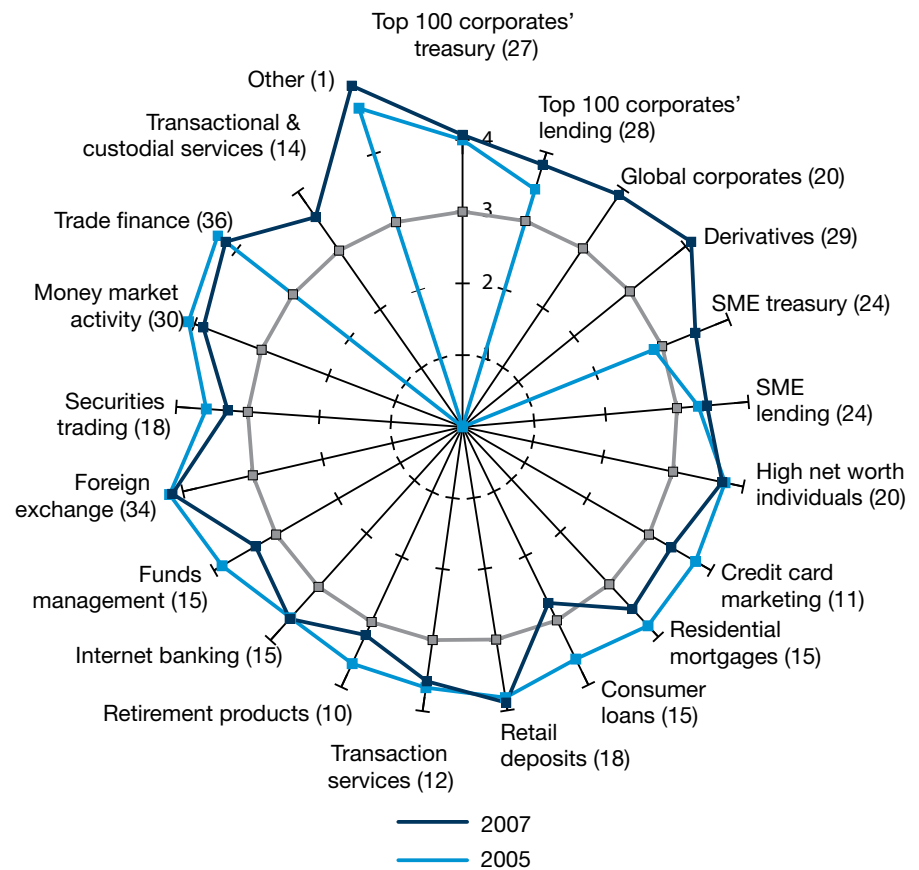
A score of 1 indicates little or no importance while a score of 5 can be considered very important.

Since 3 is perceived as neutral, average scores for the group should exceed 3, and therefore markets viewed as important project beyond that line.

Future importance – All banks

Going forward the foreign banks scored above 3 for most segments.

They attached major levels of importance to the top 100 and global corporates, trade finance, foreign exchange, retail deposits, high net worth individuals and the SME sector.

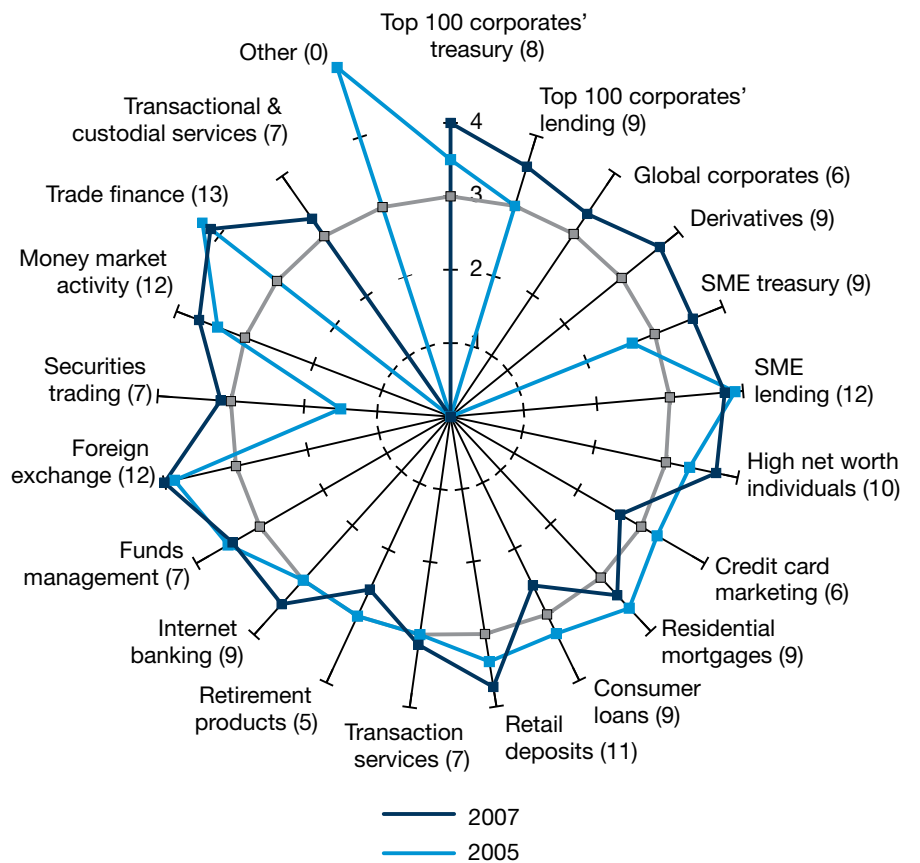


Global corporates, derivatives and transactional & custodial services are new categories in 2007

Future importance – Asian banks

A group of Asian banks attached major importance to the large corporates and a sizeable number

also propose to be very active in the retail sector. Areas such as trade finance and foreign exchange also received strong scores.

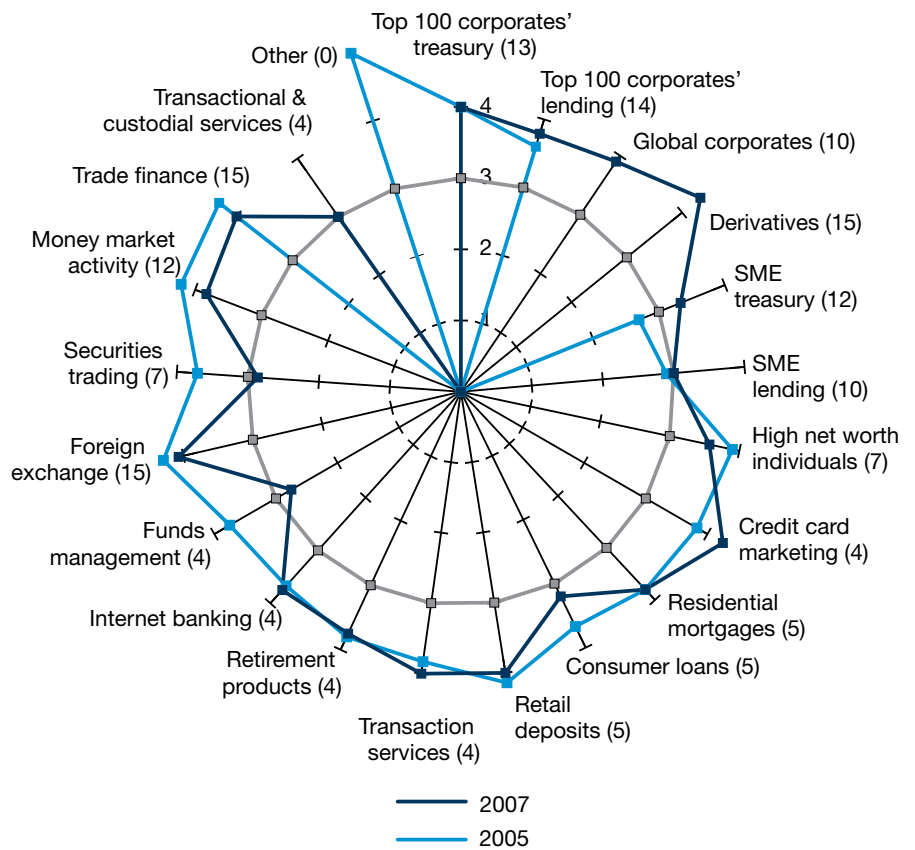


Global corporates, derivatives and transactional & custodial services are new categories in 2007

Future importance – European banks

The European banks assigned high importance to the Top 100 and global corporates, derivatives, foreign exchange and trade finance.

A smaller group attached strong importance to the retail sector.



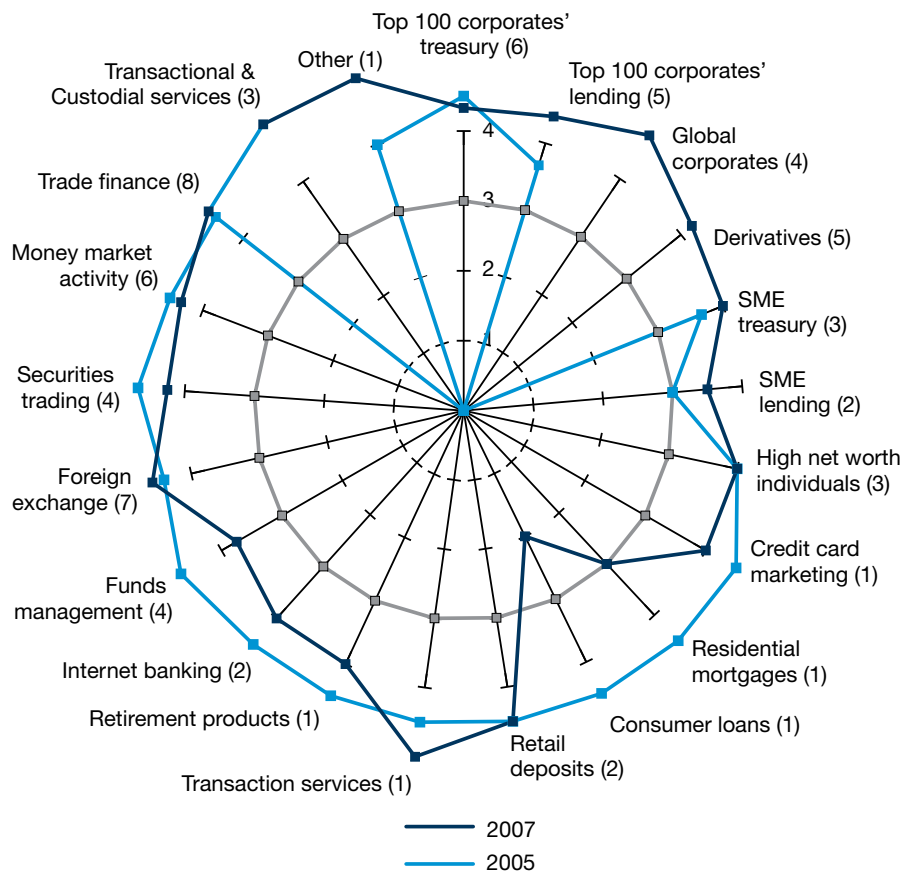
Global corporates, derivatives and transactional & custodial services are new categories in 2007

Future importance – North American banks

The North American bank group although smaller in number than the Asian and European bank groups assigned significant scores to almost all the different market segments.

Values closely matched those given in 2005 with the exception of consumer loans and mortgages where only one participant provided lower levels of importance.

The SME sector demonstrated an increased level of interest.



Global corporates, derivatives and transactional & custodial services are new categories in 2007

Q Which of the following areas are you presently involved in or plan to be in by 2010?

To disguise the identity of individual banks, the 36 banks that responded to this question have been grouped into Asian banks, European Banks and North American banks.

At least 14 banks plan to be active in private banking and small and medium enterprise lending by 2010. Not all banks seeking to incorporate locally plan to enter the retail banking market.

The results suggest that around 12 banks plan to be active in the retail arena. The Asian banks will make up almost half of this group.

On the wholesale banking side, most participants are already active in core areas such as corporate banking, treasury/FX/money market and trade finance.

The bond market will become increasingly important.

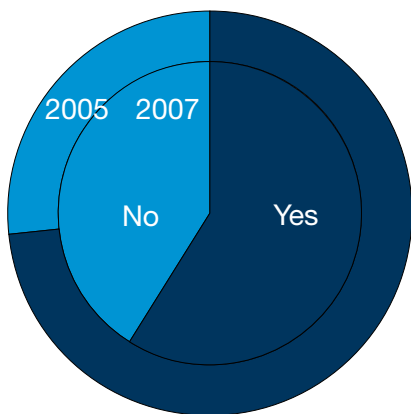
Present and future product areas by number of respondents

	Asian banks		European banks		North American banks		All banks	
	2007	2010	2007	2010	2007	2010	2007	2010
Retail banking								
Credit cards	3	4	2	5	1	1	6	10
Mortgages	5	7	3	4	1	1	9	12
Term deposits	5	8	6	5	1	1	12	14
Internet banking	1	5	3	5	1	1	5	11
Transaction & custody services	2	3	4	5	1	1	7	9
Private banking	5	7	5	5	1	2	11	14
SME lending	7	8	3	5	1	1	11	14
SME venture capital	2	3	1	3	1	1	4	7
Wholesale banking								
Bonds	1	4	8	11	1	3	10	18
Treasury/FX/money market	9	10	14	15	5	6	28	31
Corporate banking	10	11	15	16	4	4	29	31
Project financing	7	8	10	12	2	2	19	22
Investment banking	7	8	10	13	3	4	20	25
Corporate finance	7	9	8	11	3	3	18	23
Trade finance	10	10	15	16	6	7	31	33
Correspondent banking	5	6	10	11	6	6	21	23
Wealth management	2	2	0	1	0	1	2	4
Funds management	1	4	6	7	0	1	7	12
Life insurance/risk products	1	3	2	4	0	1	3	8

Q Will your business model change over the next three years?

In 2005, almost three quarters of respondents said their business model would change by 2008. That response fell to just over half in 2007 looking forward to 2010.

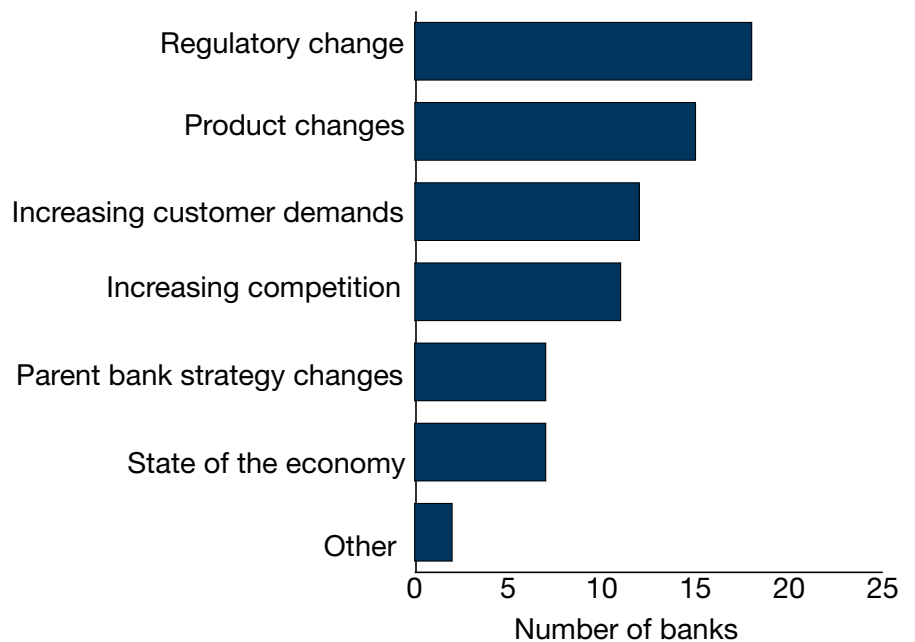
This suggests that the banks' strategies are becoming more defined in the new post WTO environment. Sixteen banks said their model would not change by 2010.



The primary influence on strategy continues to be regulatory change followed by product changes and increasing customer demands.

The pace and direction of regulatory change continues to dictate the strategic responses of the foreign banks.

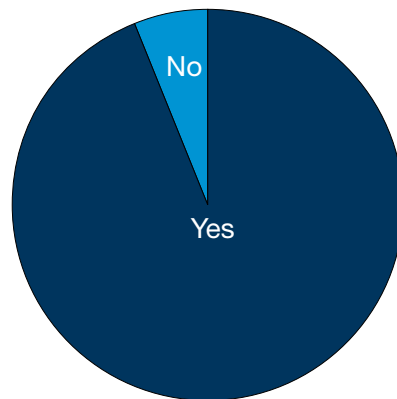
Based on responses from 39 banks in 2007 and 34 banks in 2005



Q Will the local operation primarily implement parent systems?

Of the 33 banks that responded to this question, 31 banks indicated that they would implement their parents' systems.

One of the requirements of local incorporation requires that banks selecting this vehicle will be required to maintain full control of their operational systems in China.

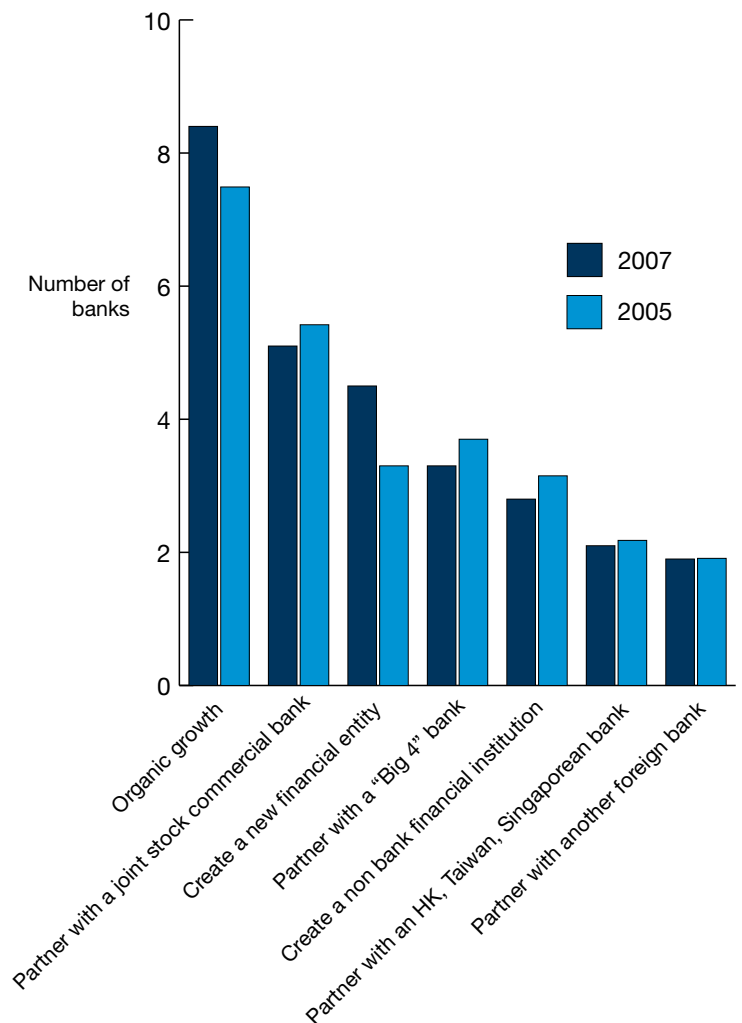


Based on responses from 33 banks

Q Below are a list of strategic options that your bank may choose to increase its presence in the Chinese market. Can you score on a scale of 1 to 10 the attractiveness of each option?

As in 2005 the most popular strategic option for expansion in China remains organic growth followed by partnership with a commercial bank.

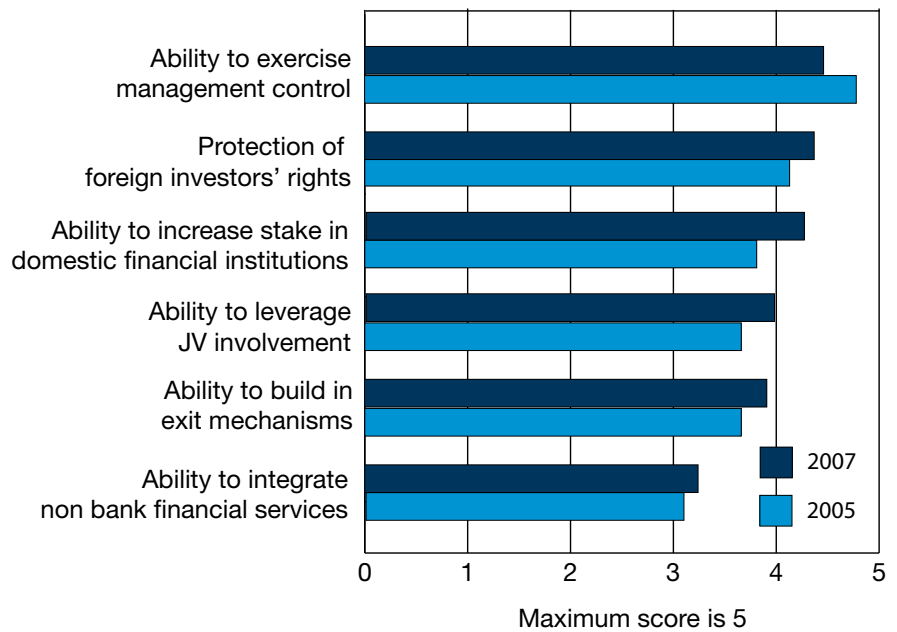
Creating a new financial entity increased its attractiveness score in 2007.



Based on responses from 37 banks in 2007 and 35 banks in 2005

Q On a scale of 1 to 5, where 5 represents greatest importance, if you were to choose a joint venture how important would the following concerns be to your bank in China?

If a foreign bank was to select a joint venture relationship then the greatest concern would be its ability to exercise management control. The pattern of other issues that are important in a joint venture relationship remain unchanged.



Based on responses from 35 banks in 2007 and 35 banks in 2005

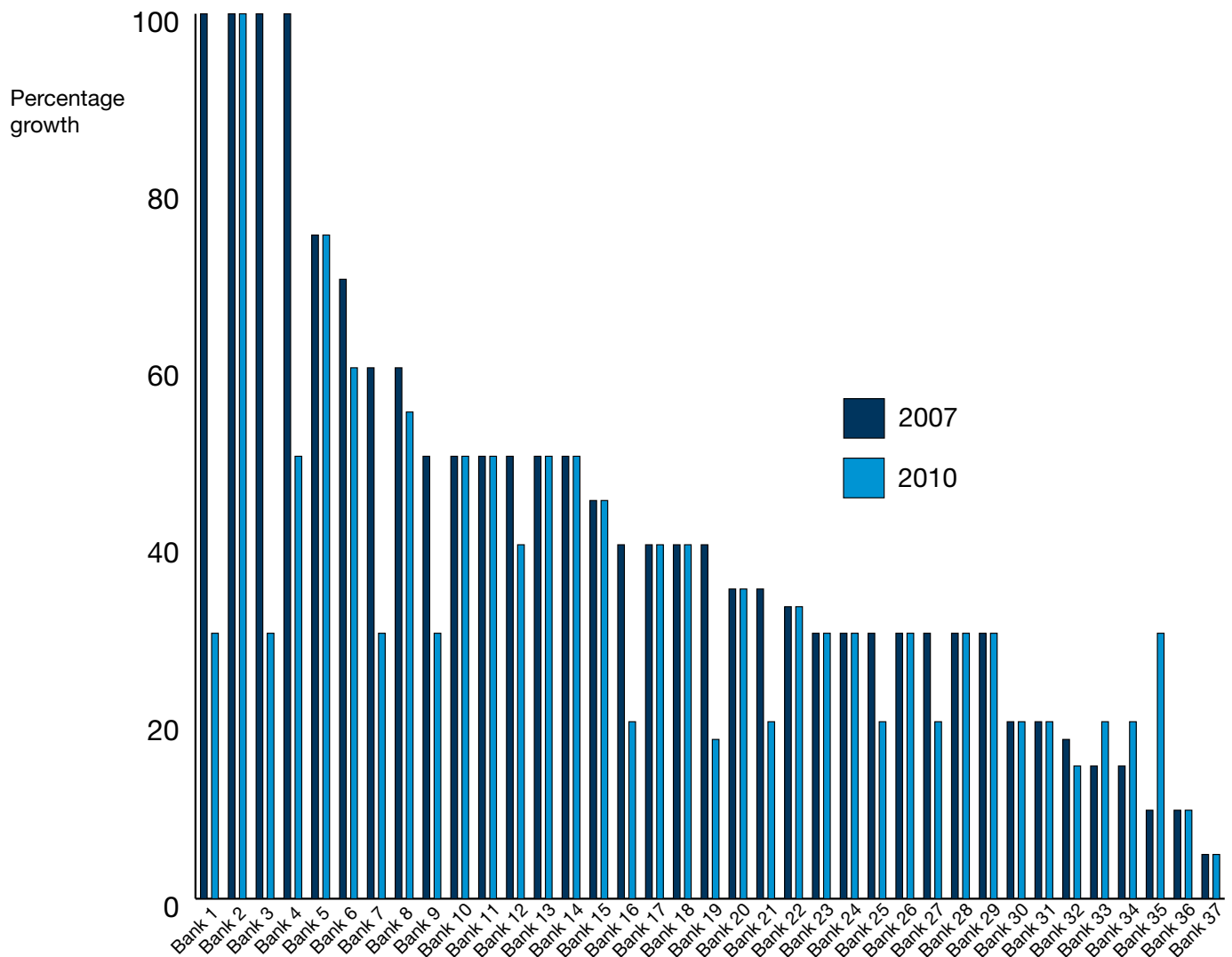
Performance

Q What is your estimate of the annual growth in revenues of your business for 2007 and over the next three years?

The chart indicates the rate of revenue growth anticipated by 37 respondents.

Four banks anticipate 100% growth in 2007 and another 10 banks envisage growth between 50% and 100%. Only six of the 37 respondents predicted revenue growth of less than 20% in 2007.

By 2010, one bank continues to expect 100% growth while a further eight banks plan growth to be 50% or greater. Only four banks forecast annual growth below 20% in 2010.

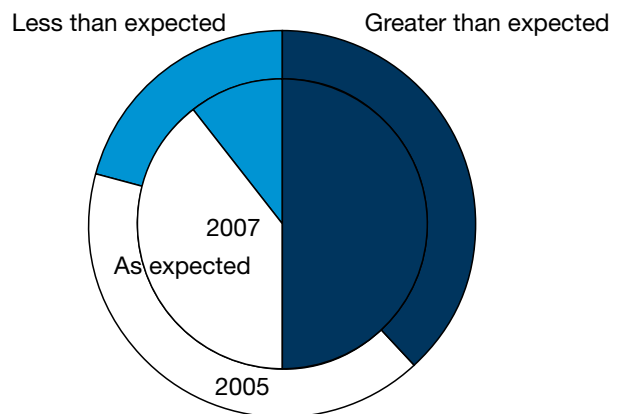


Based on responses from 37 banks

Q Over the last three years in the market, have your bank's profit expectations been greater than expected, as expected or less than expected?

The performance of the foreign banks has improved since 2005.

The level indicating profits greater than expected has expanded to 50% while the less than expected category has declined from seven banks to four banks.

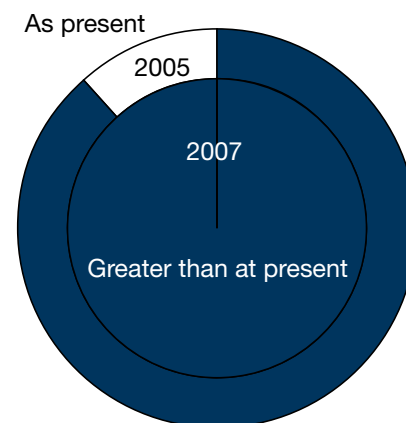


Based on responses from 34 banks in 2005 and 38 banks in 2007

Q In the next three years, do you think profits for your bank will be greater than at present, as at present or less than at present?

Optimism on profit performance is also apparent in this related question which suggests that all 39

respondents expect their profits to be greater in 2010 than at present.



Based on responses from 35 banks in 2005 and 39 banks in 2007

Bank profitability in a number of different segments over the last year

To ascertain which bank segments have recorded contrasting levels of profitability, the banks were asked to identify levels of return from market sectors in which they were active.

The overall pattern of profitability portrays improved profitability in all segments in 2007 relative to 2005.

For example, in the retail banking area no banks fell above marginally profitable in 2005. By 2007, four banks were in this category.

In 2005, 20 banks were marginally profitable in corporate banking and 10 banks were profitable or very profitable. In 2007, 28 banks were profitable, very profitable or extremely profitable in corporate banking.

The pattern repeats in private banking where seven banks are profitable or above and in Treasury, where the number in profitable or above expanded from 14 banks in 2005 to 19 banks in 2007.

	Loss <0%	Marginally profitable 0-10%	Profitable 10-20%	Very profitable 20-30%	Extremely profitable >30%
Retail banking	☑☑☑	☑☑☑	☑☑☑		☑
Corporate banking	☑	☑☑☑☑ ☑☑☑	☑☑☑ ☑☑☑ ☑☑☑ ☑☑☑	☑☑☑ ☑☑☑ ☑☑☑ ☑	☑☑☑ ☑☑☑
Investment banking	☑	☑☑	☑☑☑☑	☑☑☑ ☑☑☑	☑☑☑☑
Private banking		☑☑	☑☑☑	☑☑☑	☑
Treasury		☑☑☑☑☑	☑☑☑☑ ☑☑☑ ☑☑☑	☑☑☑ ☑☑	☑☑☑☑
Internet banking	☑☑	☑☑			☑
Credit cards	☑				
Wealth management	☑☑	☑	☑☑	☑	
Life insurance		☑			☑

☑ Individual banks

Q Can you provide some more details on your loan portfolio?

The foreign banks provided insight into their loan portfolios by revealing the percentage of loans to Chinese-based corporates, global corporates, home country corporates, Chinese banks and foreign banks (a home country corporate would be a loan to a Korean corporate, granted by a Korean bank).

Thirty six banks provided data and 29 banks had loans to Chinese corporates, 27 to global corporates and home country corporates, 29 to Chinese banks and 11 to other foreign banks. Eight banks (Asian and European) had more than 50% of their portfolios with global corporates.

	To Chinese-based corporates	To global corporates	To home country corporates	To Chinese banks	To foreign banks	Other	Total
Asian bank	10	60	20		10		100
Asian bank	80	10		10			100
Asian bank	20	8	48			24	100
Asian bank	20		80				100
Asian bank	10	55	35				100
Asian bank	60	20	15	5			100
Asian bank			100				100
Asian bank	5	5	90				100
Asian bank		10	80		10		100
Asian bank	10	30	50	5	5		100
Asian bank	10	15	65	10			100
Asian bank	5	40		45	10		100
Asian bank	22		70	8			100
European bank	10	40	20	15	15		100
European bank	20	80					100
European bank	4	90	4	2			100
European bank	10		90				100
European bank	40	40		10		10	100
European bank	10	60	20	8	2		100
European bank	20	60	20				100
European bank	25	55	15	5			100
European bank		100					100
European bank	60		30	10			100
European bank	50	20	30				100
European bank	90	5		5			100
European bank	90	5	5				100
European bank	34	5	12	35	14		100
European bank			100				100
European bank	50	25	20	5			100
European bank	15	45	20	20			100
North American bank				100			100
North American bank	30	35	10	20	5		100
North American bank	50	25	25				100
North American bank	60	20	10	8	2		100
North American bank			60	25	15		100
North American bank					100		100

Based on responses from 36 banks

Q What percentage of your business in terms of banking revenue is undertaken in the following business lines?

Thirty five banks provided an estimate of their revenue across 19 different lines of business. To respect confidentiality the regional location of the banks was omitted from this table. In a few cases, banks were only willing to breakdown revenue by retail versus wholesale/investment banking.

As a result the table displays, for instance, a 30:70 line split but no further detail. The most populated columns relate to the Treasury and corporate banking. Trade finance was a source of revenue to 19 banks and generates over 80% of revenue for two banks.

	Retail banking	Mortgages	Term deposits	SME lending	Wholesale/ investment banking	Bonds	Treasury/ FX/money market	Corporate banking	Project financing	Investment banking	Corporate finance	Trade finance	Corresp. banking	Wealth management	Total
Bank 1	30				70										100
Bank 2	10						30	20			10	30			100
Bank 3								90			10				100
Bank 4	10							90							100
Bank 5						10	10	20	5	30	10	15			100
Bank 6							10	50				10	30		100
Bank 7							30					20	50		100
Bank 8							50	25		25					100
Bank 9								80				20			100
Bank 10		5		10			5	70				10			100
Bank 11							70	10	10			10			100
Bank 12							10	80		10					100
Bank 13							20	20				60			100
Bank 14	30				70										100
Bank 15	25						30	45							100
Bank 16			10	80								10			100
Bank 17							20	30	10	40					100
Bank 18								25		50	25				100
Bank 19							10	50				40			100
Bank 20							30	40				30			100
Bank 21							5	90		5					100
Bank 22							20	80							100
Bank 23							30	20		40		10			100
Bank 24							10	30	10			30	20		100
Bank 25				5	80									15	100
Bank 26						5	30	50		5		10			100
Bank 27							35	25	25	15					100
Bank 28								5	15			80			100
Bank 29								60				40			100
Bank 30							5	30				60	5		100
Bank 31	5							95							100
Bank 32							30	50	10			10			100
Bank 33										90				10	100
Bank 34												100			100
Bank 35		90	4	6											100

A further five areas were included in this question: credit cards, internet banking, transaction and custody services, SME venture capital and private banking. However the respondents reported no revenue in any of these areas. As a result the columns have been eliminated.

Peer review

Q Can you name the top three banks in terms of success (performance, presence, momentum, etc.) across a variety of different markets?

A simple scoring method awarded three points to first place, two points to second and one point to third place. This allowed the banks to be ranked based on a total score.

Banks were asked not to record an opinion unless they were active in that segment and were comfortable in providing an accurate ranking in terms of success (performance,

presence and momentum) as opposed to mere size.

They were not permitted to rank their own institution. Often banks would choose just to indicate first or second places.

The “Change” column indicates whether the ranking has moved up, down or remains unchanged from that recorded in the 2005 survey.

Foreign exchange

	First	Second	Third	Score	Change
Citibank	13	11	1	62	↗
HSBC	7	11	7	50	↘
Standard Chartered	2	1	13	21	→
Deutsche Bank	4	1	1	15	→
ABN AMRO	1		1	4	↗
JPMorgan Chase		2		4	↗
Mizuho Bank	1			3	↗
UBS		1	1	3	↗
Société Générale		1		2	↗
BOTM UBJ			1	1	↗
Bank of Montreal			1	1	↗

Based on 28 banks

Treasury

	First	Second	Third	Score	Change
Citibank	12	7	3	53	↗
HSBC	6	10	4	42	↘
Standard Chartered	1	2	9	16	→
Deutsche Bank	2	2	1	11	→
JPMorgan Chase	2	1	2	10	→
ABN AMRO	2	1		8	↗
Bank of Montreal	1			3	↗
The Bank of East Asia			1	1	↘
BOTM UBJ			1	1	↗
Lehman Brothers			1	1	↗

Based on 26 banks

Derivatives

	First	Second	Third	Score
Citibank	11	2	3	40
HSBC	1	9	3	24
Deutsche Bank	3	2	5	18
JPMorgan Chase	4			12
Société Générale	1	2	1	8
ABN AMRO	1	2		7
Goldman Sachs	1	2		7
Standard Chartered		1	5	7
UBS	1			3
BNP Paribas	1			3
Credit Suisse		1	1	3
Sumitomo Bank		1		2
Merrill Lynch		1		2
The Bank of East Asia		1		2
BOTM UFJ			1	1
Morgan Stanley			1	1
RBOS			1	1

Based on 24 banks
New category in 2007 therefore no change

Corporate lending

	First	Second	Third	Score	Change
HSBC	15	10	3	68	→
Citibank	10	5	5	45	→
Standard Chartered	3	10	9	38	→
The Bank of East Asia		1	4	6	↗
Mizuho Bank	1	1		5	↗
BOTM UFJ		1	2	4	↘
DBS		1	1	3	→
Deutsche Bank			1	1	↗
Société Générale			1	1	↗
BNP Paribas			1	1	↗

Based on 29 banks

Project financing

	First	Second	Third	Score	Change
Citibank	10	4	2	40	➔
HSBC	4	8	3	31	➔
BNP Paribas	3	3	2	17	↗
Société Générale	4	2	1	17	➔
Standard Chartered		4	6	14	↘
Deutsche Bank	2	1		8	↗
BOTM UFJ	1			3	↗
ABN AMRO			2	2	↘
Mizuho Bank		1		2	↗
Calyon			1	1	↘
DBS			1	1	↗

Based on 24 banks

Investment banking

	First	Second	Third	Score	Change
Goldman Sachs	13	3		45	↗
Morgan Stanley	2	8	4	26	↗
Citibank	2	3	3	15	↘
JPMorgan Chase	3	1	4	15	↗
UBS	1	4	1	12	↗
HSBC	1		2	5	↘
Lehman Brothers		1	3	5	↗
Merrill Lynch	1		1	4	↘
Deutsche Bank		1	1	3	↘
Standard Chartered		1		2	↗
ABN AMRO			1	1	↗

Based on 23 banks

Asset management

	First	Second	Third	Score	Change
HSBC	3	1		11	↗
UBS	3			9	↗
Citibank	1	2	1	8	↘
JPMorgan Chase	1	1	1	6	➔
ABN AMRO	1		1	4	➔
Fortis	1		1	4	↗
AIG	1			3	↗
Deutsche Bank		1		2	↘
Standard Chartered		1		2	↗
Allianz Global Investment		1		2	↗
The Bank of East Asia			2	2	↗
Merrill Lynch		1		2	↘

Based on 11 banks

Corporate finance

	First	Second	Third	Score	Change
Citibank	9	1	1	30	→
Goldman Sachs	3	3		15	↔
HSBC	1	5	1	14	↓
Deutsche Bank	1	1	2	7	↔
ABN AMRO	1		3	6	↔
Morgan Stanley	1	1	1	6	↓
Standard Chartered	1	1	1	6	→
UBS	1	1		5	↔
JPMorgan Chase		2	1	5	↓
BOTM UFJ		1	1	3	↔
BNP Paribas		1		2	↔
Société Générale			1	1	↔
Bank of America			1	1	↔

Based on 18 banks

Mergers and acquisitions

	First	Second	Third	Score	Change
Morgan Stanley	4	5	1	23	→
Goldman Sachs	6	2		22	→
Citibank	5	3		21	→
HSBC	1	2		7	→
JPMorgan Chase		1	5	7	→
UBS	2			6	↔
ABN AMRO		1	1	3	↔
Deutsche Bank		1	1	3	↓
The Bank of East Asia		1		2	↔
Merrill Lynch			2	2	↓
Standard Chartered			1	1	↔
Lehman Brothers			1	1	↔

Based on 18 banks

Trade finance

	First	Second	Third	Score	Change
HSBC	13	5		49	→
Standard Chartered	6	5	5	33	↗
Fortis	5	1		17	↗
Citibank		6	5	17	↘
BOTM UBJ	2			6	↗
JPMorgan Chase	1	1		5	↗
DBS		1	2	4	↗
ABN AMRO		1	1	3	→
ANZ Bank		1	1	3	↘
ING		1		2	↗
Nord Deutsche Landesbank		1		2	↗
The Bank of East Asia		1		2	↘
Mizuho Bank		1		2	↗
RZB			1	1	↘
Sumitomo Mitsui			1	1	↗
Hang Seng Bank			1	1	↗
Deutsche Bank			1	1	↗
Wachovia			1	1	↗

Based on 27 banks

Retail banking

	First	Second	Third	Score	Change
HSBC	15	7	3	62	→
Citibank	10	8	4	50	→
Standard Chartered		5	14	24	→
The Bank of East Asia		3	4	10	→
ABN AMRO	1	2	1	8	↗
Hang Seng Bank		1		2	↗

Based on 26 banks

Credit cards

	First	Second	Third	Score
Citibank	9	5		37
HSBC	6	7	2	34
Standard Chartered		2	6	10
The Bank of East Asia	1		1	4

Based on 16 banks

New category in 2007 therefore no change

Appendices

Appendices

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Chinese banks ranked by Tier 1 capital and assets	92

Previous experience has shown that personal interviews with senior bankers using a standard questionnaire offers the best research approach. The questionnaire contained 40 questions and was completed during interviews of approximately one hour. The author conducted all interviews between January and March 2007 in Beijing, Hong Kong, Shanghai, Shenzhen and Tianjin.

Responses have not been attributed to individual banks but rather collectively within three groups: Asian banks (14), European banks (18) and North American banks (8).

At times, individual banks declined to answer particular questions or were unable to provide sufficiently accurate data. This is noted where applicable.

The time commitment and support by all banks in this survey was outstanding.

Bank groups

The information provided has been considered proprietary and remains confidential. Results are therefore presented in a “disguised” group format, in the form of regional groups of banks. The members of the bank groups are as follows:

Asian banks:

- ANZ Banking Group[†]
- Business Development Bank
- Dah Sing Banking Corporation
- DBS
- First Sino Bank
- Hang Seng Bank
- Industrial Bank of Korea
- Korea Exchange Bank
- Maybank
- Mizuho Corporate Bank
- OCBC

- Shinhan Bank
- The Bank of East Asia
- Wing Lung Bank

European banks:

- ABN AMRO
- BNP Paribas S.A.
- Calyon
- Deutsche Bank
- Dresdner Bank
- Fortis Bank
- HSBC
- ING Bank
- KBC Bank
- Natexis Banque Populaires
- Norddeutsche Landesbank
- Rabobank
- Raiffeisen Zentralbank Österreich AG

- Royal Bank of Scotland
- Sanpaolo Imi Bank
- Société Générale
- Standard Chartered Bank
- UBS

North American banks:

- Bank of America
- Bank of Montreal
- Bank of Nova Scotia
- Citibank
- JPMorgan Chase Bank
- Royal Bank of Canada
- The Bank of New York
- Wachovia Bank

[†] As ANZ Banking Group was the only Australian bank to be included in the survey it has been grouped with the Asian banks for convenience.

Participants

City	Country/region	Name of bank
Shanghai	Australia	Australia and New Zealand Banking Group
Beijing	Austria	Raiffeisen Zentralbank Osterreich AG
Shanghai	Belgium	Fortis Bank
Shanghai	Belgium	KBC Bank
Shanghai	Britain	Hongkong and Shanghai Banking Corporation
Shanghai	Britain	Royal Bank of Scotland
Shanghai	Britain	Standard Chartered Bank
Hong Kong	Canada	Bank of Montreal
Hong Kong	Canada	Bank of Nova Scotia
Beijing	Canada	Royal Bank of Canada
Beijing	France	BNP Paribas S.A.
Shanghai	France	Calyon
Shanghai	France	Natexis Banque Populaires
Shanghai	France	Société Générale
Shanghai	Germany	Dresdner Bank
Shanghai	Germany	Norddeutsche Landesbank
Shanghai	Germany	Deutsche Bank
Shanghai	Hong Kong	The Bank of East Asia
Shenzhen	Hong Kong	Dah Sing Banking Corporation
Hong Kong	Hong Kong	Hang Seng Bank
Shenzhen	Hong Kong	Wing Lung Bank
Shanghai	Italy	Sanpaolo Imi Bank
Shanghai	Japan	Mizuho Corporate Bank
Tianjin	Korea	Industrial Bank of Korea
Tianjin	Korea	Korea Exchange Bank
Tianjin	Korea	Shinhan Bank
Shanghai	Malaysia	Maybank
Shanghai	Netherlands	ABN AMRO
Shanghai	Netherlands	ING Bank
Shanghai	Netherlands	Rabobank
Shanghai	Singapore	DBS
Shanghai	Singapore	OCBC
Beijing	Switzerland	UBS
Shanghai	Taiwan	First Sino Bank
Shanghai	Thailand	Business Development Bank
Shanghai	USA	The Bank of New York
Shanghai	USA	Citibank
Shanghai	USA	Bank of America
Beijing	USA	JPMorgan Chase Bank
Shanghai	USA	Wachovia Bank

Background comments on participants Asian bank group

Asian banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
ANZ Bank 101 employees www.anz.com	52	63	2	ANZ has more than six million personal, private banking, small business, corporate, institutional and asset finance customers worldwide. It has 1,265 worldwide points of representation. It employs more than 30,000 people worldwide and holds assets of AUD\$335 billion.
The Bank of East Asia 2,000 employees www.hkbea.com	207	248	4	Incorporated in Hong Kong in 1918, The Bank of East Asia (BEA) is the largest independent local bank in Hong Kong. Recognising the enormous market potential of China, BEA set up its first China branch in Shanghai in 1920 and has been operating continuously in the country ever since. BEA received approval from the CBRC to establish a locally incorporated bank in China in March 2007.
Business Development Bank 80 employees www.ibankunited.com	N/A	N/A	N/A	Privately held BDB was established in 1992 as China's first wholly foreign-owned bank. BDB was owned in part by the Charoen Pokphand Group (CP Group), a multinational conglomerate founded by Thai Chinese. In March 2007 UCBH – the San Francisco-based parent of United Commercial Bank – said it would pay \$205 million in cash for BDB which will become a unit of United Commercial Bank and take the latter's brand name. The transaction is expected to close in the fourth quarter, pending US and Chinese regulatory approvals.
Dah Sing Bank 22 employees www.dahsing.com	730	482	11	The Dah Sing Group is a leading financial services group in Hong Kong, active in the banking and insurance business. The group has expanded rapidly in recent years, and DSFH had total assets of over HK\$63 billion as at 31 December 2003. The Dah Sing Group has been a pioneer of the development of the consumer banking, SME lending and bancassurance sectors amongst the mid-size financial services groups in Hong Kong.

^{††} The background comments were taken from the respective banks' websites in April 2007

Asian banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
First Sino Bank 270 employees www.fsbankonline.com	N/A	N/A	N/A	First Sino Bank, founded in 1997 in Shanghai, is the first joint-venture bank in China established by Taiwanese investors and a Chinese bank. While 85% of its shares are held by the Hong Kong-registered Lotus Worldwide Ltd., Shanghai Pudong Development Bank and Wing Hang Bank also hold 10% and 5% ownership respectively. First Sino Bank offers consumer banking, corporate banking and wealth management services.
Hang Seng Bank 1,500 employees www.hangseng.com	N/A	N/A	N/A	In April 2007, Hang Seng Bank opened its seventh outlet in Shanghai, expanding its network in mainland China to 17 outlets. Founded in 1933, Hang Seng Bank is a principal member of the HSBC Group. It operates around 150 branches and automated banking centres and 13 business banking centres in Hong Kong.
Industrial Bank of Korea 80 employees www.ibk.co.kr	133	123	7	Industrial Bank of Korea (IBK) is one of Korea's largest financial institutions, with approximately US\$6,579 million in revenues, US\$4,696 million in capital and US\$84 billion in assets at year-end 2005. Established in 1961 under the Industrial Bank of Korea Act by the Korean government, IBK serves Korea's small and medium-sized enterprises (SMEs) as the nation's sole SME-focused bank. IBK has over 8,000 employees in 400 domestic branches and six international branches located in New York, Tokyo, Hong Kong, Tianjin, Qingdao and Shenyang.
Korea Exchange Bank 100 employees www.keb.co.kr	131	150	6	The bank has 296 domestic branches, eight overseas subsidiaries and 16 overseas branches in the United States, Europe, Asia, China, Japan and other countries. KEB posted a net profit of 1.006 trillion won in 2006, following a record high profit level of 1.93 trillion won in 2005. The bank continued to make over 1 trillion won in net profit for the two consecutive years.

^{††} The background comments were taken from the respective banks' websites in April 2007

Asian banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
Maybank 35 employees www.maybank2u.com	136	188	1	The Maybank Group has been involved in the Malaysian banking industry for over three and a half decades. Maybank offers commercial banking, insurance, finance, asset management, and investment banking. In China, Maybank's Shanghai Branch opened on December 28, 2000. The focus of Maybank Shanghai is to serve Malaysian/Singaporean/ASEAN customers.
Mizuho Corporate Bank 800 employees www.mizuhocbk.co.jp	9	10	3	Established April 1, 2002, Mizuho Corporate Bank has a capitalisation of 1,070.9 billion yen, and is headquartered in Tokyo. MHCBC is preparing to establish Mizuho Corporate Bank (China) and to transfer the business of MHCBC's five existing branches in China (Beijing, Shanghai, Shenzhen, Dalian and Wuxi) to the new banking subsidiary, which is planned to commence operations in the first half of fiscal 2007.
OCBC 300 employees www.ocbc.com.sg	112	130	3	OCBC is one of Asia's leading financial services groups, with group assets of SING\$151 billion. It is also one of the largest financial institutions in the combined Singapore-Malaysia market in terms of assets. OCBC has a network of more than 370 branches and representative offices in 15 countries and territories including Singapore, Malaysia, Indonesia, Vietnam, China, Hong Kong SAR, Brunei, Japan, Australia, the UK and the US. This network includes more than 250 branches and offices in Indonesia operated by OCBC Bank's subsidiary PT Bank NISP.
Shinhan Bank 50 employees www.shinhan.com	88	79	3	On April 1 2006, Choheung Bank and Shinhan Bank were merged, creating the newly integrated Shinhan Bank. As of June 2006, Shinhan Bank had total assets of 172.6 trillion won, equity capital of 8.5 trillion won, 994 branches, 16 million customers and 13,600 employees. Shinhan Bank is a member of Shinhan Financial Group Co. Ltd., a financial holding company in Korea.

^{††} The background comments were taken from the respective banks' websites in April 2007

European banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
ABN AMRO 1,500 employees www.abnamro.com	15	13	1	ABN AMRO is a prominent international bank, its history going back to 1824. ABN AMRO ranks 11th in Europe and 20th in the world based on Tier 1 capital, with over 3,000 branches in more than 60 countries, a staff of more than 97,000 full-time equivalents and total assets of EUR 742.9 billion (as at 31 March 2005).
BNP Paribas 150 employees www.bnpparibas.com	24	6	2	BNP Paribas operates in over 85 countries, and has 138,000 employees, including 51,600 in Europe, among whom are 20,400 in Italy, 56,100 in France and in the overseas departments, 15,100 in North America and 5,200 in Asia.
Calyon 120 employees www.calyon.com	6	7	1	Formed in May 2004, Calyon is the Crédit Agricole Group's corporate and investment banking entity. Calyon has some 15,000 staff (in May 2004) enabling it to support its large corporate clients, financial institutions, and its regional customer base of French SME/SMIs. Calyon's business activities are focused on capital markets, investment banking and financing services, as well as international private banking. With over a century of activity in China, Calyon has five fully operational branches. Calyon China also provides equity brokerage, distribution and direct investment capabilities via CLSA.
Deutsche Bank 450 employees www.deutsche-bank.de	23	12	1	Deutsche Bank offers financial services in 73 countries, holds EUR 1,126 billion in assets, and has 68,849 employees from 130 nations. Deutsche Bank first established a presence in China in 1872 in Shanghai. Deutsche Bank now maintains branch offices in Beijing, Shanghai and Guangzhou. In October 2005, the bank and private bank Sal. Oppenheim bought a 14% interest in Huaxia Bank, a nationwide bank listed on the Shanghai Stock Exchange. Deutsche Bank and Huaxia Bank will cooperate in a wide range of fields including credit card issuance.

^{††} The background comments were taken from the respective banks' websites in April 2007

European bank group

European banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
Dresdner Bank 55 employees www.dresdner-bank.com	44	29	4	With around 950 branch offices and about 27,625 full-time staff, the Dresdner Bank Group is active in some 50 different countries. Dresdner has offices in Shanghai, Hong Kong, Beijing and Guangzhou. Dresdner offers a broad range of corporate and investment banking services to institutions based both in China and overseas. Dresdner Bank is a member of the Allianz Group, which is active in China in all key business segments, including property and casualty insurance, life insurance and asset management.
Fortis Bank 80 employees www.fortis.com	33	22	1	With a market capitalisation of EUR 39 billion, Fortis ranks among the 20 largest financial institutions in Europe. It has a sound solvency position, presence in 50 countries and has a workforce of 58,000.
HSBC 3,000 employees www.hsbc.com	2	4	1	Headquartered in London, HSBC's international network comprises around 10,000 offices in 82 countries. HSBC has invested more than US\$5 billion in mainland financial services entities including an 8% stake in Bank of Shanghai, a 19.9% stake in Ping An Insurance and a 19.9% stake in Bank of Communications.
ING Bank 42 employees www.ing.com	22	16	3	ING is one of the world's largest financial services companies, offering banking, insurance and asset management with 120,000 employees in over 50 countries. Based on market capitalisation, ING is one of the 20 largest financial institutions worldwide and in the top 10 in Europe with total assets of EUR 866 billion.
KBC Bank 90 employees www.kbc.com	45	42	3	KBC has a market capitalisation of about EUR 36 billion. One of the top bancassurers and asset managers in Belgium, the KBC Group also has a key position in Central and Eastern Europe and boasts a pan-European private banking network. It serves over 11 million customers and employs around 50,000 people.

^{††} The background comments were taken from the respective banks' websites in April 2007

European banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
Natexis Banque Populaire 45 employees www.natixis.fr	36	46	6	Natexis is the listed vehicle of the Banque Populaire Group and the Caisse d'Epargne Group. Natexis is a key player in the banking sector in France and Europe, offering corporate and investment banking, asset management, services, receivables management, private equity and private asset management. With more than 23,000 employees, Natexis operates in 68 countries and supports the development of large businesses, SMEs, institutions and retail banks.
Norddeutsche Landesbank 20 employees www.nordlb.de	85	60	11	NORD/LB is Germany's top bank for national and international bond issues. As at June 30, 2006, the NORD/LB Group had 5,833 employees. As an international commercial bank, NORD/LB maintains a presence in all the major financial and trading centres, including London, Singapore and New York. It has representations and service offices worldwide and a network of more than 1,500 correspondent banks. As at June 30, 2006, the group had total assets of EUR 203.4 billion and an operating result before loan loss provisions and valuation at EUR 349.5 million.
Rabobank 40 employees www.rabobank.com	20	25	2	Rabobank's roots lie in agriculture. Rabobank Group is a full-range financial services provider, comprised of 218 independent local Dutch Rabobanks, a central organisation (Rabobank Nederland), and a large number of specialised international offices. Today Rabobank has 289 offices in 38 countries. In China, Rabobank offers credit and loans, M&A advisory and trade services.
RZB 61 employees www.rzb.at	126	94	3	With a balance sheet total of EUR 103.2 billion as of June 2006, Raiffeisen Zentralbank Österreich AG (RZB) is the third largest bank in Austria and one of that country's leading commercial and investment banks. RZB was founded in 1927 and is headquartered in Vienna. It employs over 53,000 people in more than 2,700 business outlets. In addition to Austria, RZB is also active in a number of international financial centres and in the growth markets in Asia.

^{††} The background comments were taken from the respective banks' websites in April 2007

European banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
Royal Bank of Scotland 30 employees www.rbs.com	7	8	2	The Royal Bank of Scotland was founded in Edinburgh by royal charter in 1727 and is one of the oldest banks in the UK. In 2000 the Royal Bank acquired National Westminster Bank plc. Chinese operations focus on three main areas: Global Banking & Markets provides financing, risk management and investment solutions for a wide range of institutional and corporate customers, the Corporates division supports corporate and institutional customers, and RBS Aviation Capital provides aerospace capital solutions to airlines in China.
Sanpaolo Imi Bank 16 employees www.intesasanpaolo.com	46	49	3	Intesa Sanpaolo is a new banking group resulting from the merger between Banca Intesa and Sanpaolo IMI. It is strong in the Italian market and has an international presence focused on Central-Eastern Europe and the Mediterranean basin. Intesa Sanpaolo is among the top banking groups in the euro zone, with a market capitalisation exceeding EUR 74 billion, and in Italy has an average market share of more than 20% in all business areas (retail, corporate and wealth management).

^{††} The background comments were taken from the respective banks' websites in April 2007

European banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
Société Générale 110 employees www.socgen.com	26	15	4	Société Générale Group serves 22.5 million customers in France and worldwide. In France, the bank operates both Société Générale and Crédit du Nord. Outside, its retail banking arm is present in 30 countries and overseas. The Global Investment Management and Services division employs some 11,100 people. Société Générale Group is the fourth largest bank in the euro zone with EUR 422 billion in assets under management and the third largest bank in the euro zone by assets under custody EUR 2,262 billion. Activities in China include asset management, brokerage, corporate and investment banking, private banking and trade services.
Standard Chartered Bank 2,000 employees www.standardchartered.com	61	62	7	Standard Chartered Bank has a global network of over 1,400 branches in over 50 countries. It is well positioned in the emerging trade corridors of Asia, Africa and the Middle East and derives over 90 per cent of profits from these areas. In China, the bank set up its first branch in Shanghai in 1858, and has remained in operation throughout the past 150 years. Standard Chartered Bank (China) Limited was one of the first banks to incorporate officially in China on March 29, 2007.
UBS 300 employees www.ubs.com	18	2	1	With headquarters in Zurich and Basel, Switzerland, UBS is present in all major financial centres worldwide. With offices in more than 50 countries, it employs around 78,000 people, with 39% in the Americas, 35% in Switzerland, 16% in the rest of Europe and 10% in Asia Pacific. UBS is a global wealth manager, a top tier investment banking and securities firm, and one of the largest global asset managers.

^{††} The background comments were taken from the respective banks' websites in April 2007

North American bank group

North American banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
Bank of America 300 employees www.bankofamerica.com	3	9	2	Bank of America serves more than 55 million consumer and small business clients with more than 5,700 retail banking offices, nearly 17,000 ATMs and online banking with more than 20 million active users. The bank serves clients in 175 countries and has relationships with 98 per cent of the US Fortune 500 companies and 80 per cent of the Global Fortune 500.
Bank of Montreal 90 employees www.bmo.com	49	55	3	Established in 1817 as Canada's first bank, Bank of Montreal had total assets of CDN\$320 billion at October 31, 2006 and almost 35,000 employees. In May 2003, BMO became the first foreign company to acquire an interest in an established fund management firm in China. The bank opened a BMO Capital Markets office in Beijing in 2006.
The Bank of New York 82 employees www.bankofny.com	95	104	19	The Bank of New York employs 22,900 employees in 33 countries worldwide, and has assets of US\$103.4 billion. It serves corporate and institutional clients, consultants and advisors, as well as private banking clients. In China, the bank offers securities services, treasury management and investment management services.
Bank of Nova Scotia 60 employees www.scotiabank.com	38	54	2	Scotiabank is one of North America's leading financial institutions, and Canada's most international bank. With close to 57,000 employees, Scotiabank Group and its affiliates serve approximately 12 million customers in some 50 countries around the world, offering personal, commercial, corporate and investment banking. Scotiabank purchased a minority stake in Xi'an City Commercial Bank, an investment initiative undertaken jointly with the International Financial Corporation.

^{††} The background comments were taken from the respective banks' websites in April 2007

North American banks	World ranking The Banker [†] , July 2006		Home country ranking [†]	Background comments ^{††}
	Tier 1	Assets	Tier 1	
Citibank 2,000 employees www.citibank.com	1	5	1	Citigroup has some 200 million customer accounts in more than 100 countries. Citi employs 300,000 people around the world, and has assets of \$1.5 trillion. Citigroup's history in China dates back to 1902 when it became the first American bank to establish operations. In January 2003, Citigroup acquired a stake in Shanghai Pudong Development Bank (SPDB), and together with SPDB launched a dual currency credit card, the first of its kind in China.
JPMorgan Chase Bank 120 employees www.jpmorganchase.com	4	11	3	With assets of approximately \$1.4 trillion and operations in more than 50 countries, the firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, asset and wealth management and private equity. JPMorgan Chase offers asset & wealth management, card services, commercial banking, investment banking, retail financial services.
Royal Bank of Canada 20 employees www.rbc.com	37	40	1	RBC employs approximately 70,000 full and part-time employees who serve more than 14 million personal, business, public sector and institutional clients through offices in North America and 34 countries. RBC's history in China began in 1954, when it became the first Canadian bank to offer financial services to China. In addition to the branch in Beijing, RBC also has a branch in Hong Kong.
Wachovia Bank 60 employees www.wachovia.com	21	33	5	Wachovia maintains more than 7,000 correspondent relationships in more than 130 countries through a network of 33 offices and seven overseas branches. It was the first bank in the world to allow its customers to initiate letters of credit by accessing a web site. Wachovia has an expanding presence in Greater China, with offices in Beijing and Shanghai to perform liaison functions between Wachovia's offices in the United States and customers.

^{††} The background comments were taken from the respective banks' websites in April 2007

Foreign ownership in Chinese banks

Date	Chinese bank	Foreign financial institution
Sep-99	Bank of Shanghai	International Finance Corporation
Nov-01	Bank of Nanjing	International Finance Corporation
Dec-01	Bank of Shanghai	HSBC
Dec-01	Bank of Shanghai	Shanghai Commercial Bank (HK)
Mar-02	Bank of Shanghai	International Finance Corporation
Sep-02	Xi'an City Commercial Bank	Bank of Nova Scotia
Sep-02	Xi'an City Commercial Bank	International Finance Corporation
Dec-02	Shanghai Pudong Development Bank	Citibank
Oct-03	China Minsheng Bank	International Finance Corporation
Dec-03	Industrial Bank	Government of Singapore Investment Corp.
Dec-03	Industrial Bank	International Finance Corporation
Dec-03	Industrial Bank	HSBC (Hang Seng Bank)
Jun-04	Shenzhen Development Bank	Newbridge Capital
Aug-04	Bank of Communications	HSBC
Nov-04	China Bohai Bank	Standard Chartered Bank
Dec-04	Chinese Mercantile Bank	ICBC (Asia)
Dec-04	Jinan City Commercial Bank	Commonwealth Bank of Australia
Jan-05	China Minsheng Bank	Temasek (a Singapore government firm)
Mar-05	Bank of Beijing	ING/Deutsche Bank
Jun-05	China Construction Bank	Bank of America
Jul-05	China Construction Bank	Temasek
Aug-05	Bank of China	RBS
Aug-05	Bank of China	Temasek
Sep-05	Bank of Nanjing	BNP Paribas
Sep-05	ICBC	Goldman Sachs, American Express, Allianz
Oct-05	Bank of Beijing	International Finance Corporation
Oct-05	Bank of Beijing	ING Group
Oct-05	Tianjin Rural Coop Bank	Rabobank
Dec-05	Bank of Tianjin	ANZ Bank
Jan-06	Bank of China	UBS
Jan-06	URCB Hangzhou	Rabobank
Apr-06	Huaxia Bank	Deutsche Bank and Sal Oppenheim
Jul-06	Hangzhou City Commercial Bank	Commonwealth Bank of Australia
Nov-06	Guangdong Development Bank	Citibank, IBM, China Life, State Grid
Mar-07	Bank of Dalian	Bank of Nova Scotia
Apr-07	Huishang Bank	ABN AMRO and UCBH

1. Foreign Debt Policy

The conversion of onshore currency loans into RMB should be reinstated as a means to increase access to and reduce the costs of FIEs. Tightened foreign exchange regulations, on the other hand, could result in increased credit risk in China.

2. Increased issues for new banks entering China

Abolish the 3 year, including 2 years profitability, waiting period for foreign banks to obtain an RMB license, as all banks with a foreign currency business license should be allowed to conduct RMB business as well. The waiting period is restricting the growth and maturation of the Chinese banking market, to its detriment.

3. Quotas

Allow banks more freedom to apply for their quota to be increased and loosen restrictions on foreign debt quotas as the current regulations have the effect of adversely restricting the growth of foreign banks.

4. Liquidity Ratios

Define liquidity ratios on a consolidated basis for each legal entity according to international practice. The current calculation exacerbates operating costs, reduces profitability and frustrates collection of tax revenues.

5. Capital Requirements

Further reduce excessive capital requirements and eliminate the mandatory 30% deposit of working capital. High capital requirements do not provide additional guarantees, and instead result in inefficient allocation of resources, reducing returns on equity and lowering levels of investment.

6. Business Scope of Representative Offices

Clarify what forms of business representative offices are legally allowed to conduct.

Source: Provided by a European Bank

Report on the Opening-up of the Chinese Banking Sector

Published by the China Banking Regulatory Commission, January 25, 2007

Foreword

As an integral part of China's national economic reform and opening-up as well as a natural outcome of China's increasing integration into the world economy, the opening-up of the Chinese banking sector is instrumental in promoting the banking industry reform and thereby improving the competitiveness of China's banking sector as a whole.

The China Banking Regulatory Commission (CBRC) attaches great importance to the banking sector opening-up, and is committed to promoting the banking industry reform and opening-up, both strengthening the supervision and improving the services quality. It is the government's conviction that strengthened supervision and improved services will pave the way for further opening-up.

Since 1980, the banking market opening-up has rolled out from certain regions to the entire country. At the same time, it has extended from foreign currency business to local currency activities, from foreign residents and enterprises to local customers.

Along the process, the foreign banks have been growing steadily in numbers, and the range of products and services permitted to foreign banks has expanded progressively. Meanwhile, the foreign banks are encouraged to forge business and equity partnership with the local banks, and thus become an important component of the Chinese banking sector.

It is shown in practice that the policy of opening up the Chinese banking sector is in line with the overall economic opening-up strategy, and is instrumental in helping China build up a socialist market economy while aligning the Chinese banking industry with the latest developments in global banking market. With the opening-up initiative, China has not only invited in the foreign capital needed in the economic development and financial system reform, but also, more importantly, introduced new banking products and best banking practices from abroad. These resources have benefited the Chinese banking sector with notably improved stability and competitiveness. In

the meantime, the achievements in China's economic and financial development have been well recognized internationally, as more and more foreign banks are establishing themselves in the vast and fast growing Chinese market, or seeking extensive and mutually beneficial business cooperation and partnership with their local counterparts.

Along with the fully opening-up of China's banking market at the end of 2006, profound changes will be surely witnessed in the market competition and the overall banking landscape. In view of this historical opportunity and the challenges behind it, China will, on the precondition of national financial safety, unswervingly press ahead with the banking sector's opening-up, faithfully honor its WTO commitments, introduce supervisory tools and risk control measures in accordance with the prudential principles and international best practices, and thereby ensuring the sustainable and healthy development of the banking industry.

History and the Status Quo

Foreign-funded banks' presence in China already has a history of over 100 years. After the establishment of the People's Republic of China in 1949, four foreign banks retained their offices in Shanghai city, namely, Hong Kong Shanghai Banking Corporation, Bank of East Asia, Overseas-Chinese Banking Corporation and Standard Chartered Bank. In 1978, the Chinese economy began to open up to foreign participation. Since then, the Chinese banking sector has gone through three stages in its opening-up process.

First Stage (1980-1993)

During this period, the opening-up strategy of the banking industry was, in general, to bring in the foreign funds and improve the environment for foreign investment by facilitating better financial services to foreign business corporations in China. In 1980, Japan Import and Export Bank established a representative office in Beijing. In 1981, Nanyang Commercial Bank established a branch in Shenzhen, becoming

the first foreign-funded bank doing business in China since 1949. As the domestic need for financial services continued to expand, the Chinese government gradually unleash the geographical restrictions on foreign-funded banks by allowing their presence to expand into the costal and major cities from the previously opened Special Economic Zones. After 13 years of development, foreign banks altogether established 76 operational entities in 13 cities as of end-1993, with their combined assets amounting to US\$8.9 billion and their business scope covering the foreign exchange services to both foreign business corporations and foreign residents.

Second Stage (1993-2001)

During this period, significant progress was witnessed in the Chinese economic reforms featured by the accelerated pace in building up a socialist market economy, the blooming foreign trade, the flourishing foreign direct investments. In order to further encourage foreign participation in the Chinese market through further improvement of investment environment, the Chinese government adopted a series of policies and amended the relevant laws and regulations to encourage foreign investment. Along with the rapid growth of foreign investment in China as well as the gradual expansion of the Chinese enterprises into the world market, the foreign financial services providers were more than ever enthusiastic in establishing themselves in China. In response, the Chinese government promulgated in 1994 the first comprehensive law governing the nation-wide activities of foreign-funded banks in China, namely, the Regulations of the PRC on the Administration of Foreign-funded Financial

Institutions. Largely based on the amendments to the original Regulations of the PRC on the Administration of Foreign-Funded Banks and Chinese-foreign Joint-venture Banks operating in Special Economic Zones enacted in 1985, the new Regulations provided the legislative guidance for the market-entry and supervision of foreign-funded banks. Meanwhile, the geographical coverage allowed for foreign banks' business activities was expanded from the coastal and major cities to nationwide and it became possible for foreign banks to establish branches in all Chinese cities. In 1996, the Chinese government promulgated the Provisional Regulations on Foreign Financial Institutions' RMB Business on a Trial Basis in Shanghai Pudong Area. This regulation allowed the foreign banks' access to RMB businesses for foreign enterprises and overseas residents, thus serving as a boost to the development of foreign banks in China. As of end-1997, the number of foreign-funded banks in China reached 175, an increase of 99 in four years, while their assets quadrupled in the same time interval.

In the aftermath of Asian financial crisis, foreign banks became more cautious in expanding their business in the Asia-Pacific region, and foreign banks' business in China also slowed down. Several banks even retreated from the Chinese market. From 1998 to 2001, only 15 new operational foreign banking organizations were established in China. In order to encourage foreign banks' development in the Chinese market, the Chinese government adopted a series of measures, including choosing Shenzhen as the second pilot city next to Shanghai to allow foreign-funded banks to conduct RMB business; allowing foreign-funded banks to join the inter-bank market to tap RMB funds; permitting Shanghai-based foreign-funded banks to conduct RMB business in Jiangsu and Zhejiang provinces and permitting the Shenzhen-based banks to expand their RMB business to Guangdong, Guangxi and Hunan provinces. Though their foreign exchange business shrank during those years, foreign-funded banks were able to expand their RMB business.

Third Stage (2002 to 2006)

During this period, China's banking sector underwent profound changes. On 11 December 2001, China gained accession to the World Trade Organization. During the five-year grace period allowed under the WTO accession agreement, the Chinese government has faithfully honored its commitments, and opened up more business areas to the foreign-funded banks. The continuous efforts in opening-up and appropriate policy adjustments enabled a rapid expansion of foreign banks' business. In the five years following the WTO accession, the operational entities opened by foreign banks expanded from 190 to 312, an increase of 122 despite of several merger cases. Hereinafter were the major opening-up measures taken in this stage.

Honoring WTO commitments

Upon China's accession to the WTO in 2001, the customer restrictions on foreign exchange business of the foreign-funded banks were immediately removed.

In the following years, the RMB business activities of foreign-funded banks were gradually expanded from the four major cities of Shanghai, Shenzhen, Tianjin and Dalian at the time of the accession, to the entire nation, and foreign-funded banks were allowed to expand their RMB business clients from foreign enterprises and individuals to domestic corporations and residents. At the same time, the other restrictions on the foreign-funded banks were gradually relaxed. For instance, the limit of RMB liabilities not exceeding 50 per cent of foreign currency liabilities was removed; the limit on the proportion of foreign currency deposits accepted domestically by foreign-funded banks was relaxed; the other non-prudential restrictions on foreign-funded banks were gradually removed to accord national treatment to foreign-funded banks under the WTO commitment.

Initiatives independent of the WTO commitments

China also took a series of liberalization initiatives independent of its WTO commitments in order

to meet the reform and market needs of the Chinese economy. First, in a bid to encourage the foreign banks to branch in the non-coastal areas, namely, the central and western and northeastern regions of China, which remain under-banked, a number of cities including Xi'an, Shenyang, Harbin, Changchun, Lanzhou, Xining were opened ahead of schedule to the RMB business of foreign-funded banks, while foreign banks applying to set up new establishments and open new businesses in these regions are entitled to expedited review and approval procedures. Second, the minimum requirement on foreign-funded banks' operating capital was appropriately lowered, so as to ease their liquidity constraints. Third, the foreign-funded banks were allowed, like their local counterparts, to engage in trading of financial derivatives, QDII investments, offshore wealth management and custodian business and insurance agency business. Fourth, according to the Closer Economic Partnership Arrangements (CEPA) with Hong Kong and Macau Special Administrative Regions, the

banks in Hong Kong and Macau, including foreign banks located there, will enjoy comparatively favorable treatment when seeking to establish branches or open new businesses in the mainland. Fifth, in order to promote the participation of foreign banks in the domestic banking sector, China permitted and encouraged qualified overseas strategic investors to acquire equity in the Chinese banks on a commercial and voluntary basis.

In general, the opening-up of the Chinese banking system has evolved around three strategic hubs, covering the Yangtze River Delta, the Pearl River Delta and the Bohai Economic Zone, with the opening-up extended gradually nationwide and into increasingly diversified market segments.

Steady improvement of legal framework

In line with China's WTO commitments and by taking into account the Chinese realities, the Chinese government has amended or promulgated a series of laws and regulations. The major

legislations include the Law of the PRC on Banking Regulation and Supervision, the Law of the PRC on Commercial Banks, and the Regulations of the PRC on the Administration of Foreign-funded Financial Institutions and its Implementing Rules. These regulations provide a solid foundation for the continuous opening up of the Chinese banking sector. In December 2003, the Chinese government promulgated the Administrative Rules Governing the Equity Investment in Chinese Financial Institutions by Overseas Financial Institutions, which set forth the qualification requirements on the overseas investors with respect to their asset scale, capital adequacy and profit earning capacity, as well as the upper limits on such equity investment. This legislation provided additional impetus to the cooperation between Chinese and foreign banks.

Expanded market presence of foreign banks

As of end-December 2006, there were 14 locally incorporated wholly foreign-funded banks and Chinese-

foreign joint venture banks in China, which opened 19 branches and sub-branches. In addition, 74 foreign-funded banks from 22 different countries and regions established 200 branches and 79 sub-branches in 25 Chinese cities; 186 foreign-funded banks from 42 countries and regions established 242 representative offices in 24 cities. Among all the operational entities, 168 were established by Asian banks, making up 54 per cent of the total, and including 102 from Hong Kong, 19 from Japan, and 17 from Singapore, etc.; 77 were established by European banks, accounting for 25 per cent of the total, including 21 from the UK and 15 from France; 32 or 10 per cent of the total were established by north American banks, including 26 from the USA and 6 from Canada. In terms of the locally geographical coverage, 100 of operational entities of foreign-funded banks were located in Shanghai, making up 32 per cent of the total number; 40 located in Shenzhen, accounting for 13 per cent; 37 located in Beijing, making up 12 per cent; 28 located in Guangzhou, making up 9 per cent; 17 in Tianjin, making up 5

per cent; 16 in Xiamen, making up 5 per cent; the rest located in other cities accounted for 24 per cent of the total number. In recent years, foreign-funded banks have accelerated their pace in entering into the western and northeastern regions of China, where 30 foreign-funded banking entities were established, accounting for 10 per cent of the total foreign-funded banks in China.

Larger business scope and scale of foreign banks

According to the existing Chinese laws and regulations, foreign bank branches, the wholly foreign-owned banks and the Chinese-foreign joint venture banks are collectively called as operational foreign banking entities, and are allowed to take in deposits, make loans, engage in clearing, custodian and insurance agency business. If the operational foreign banking entities are able to fulfill such conditions as the length of operational period, profitability and other prudential requirements, they will be permitted to apply for conducting RMB business. At the same time, China has been

encouraging financial innovation, allowing foreign-funded banks to engage in derivatives trading, QFII custodian business, personal wealth management, offshore banking service on an agency basis, and electronic banking etc, so that their product scope has been further diversified and expanded. As of end-December 2006, the number of products permitted to foreign banks exceeded 100, and 115 foreign-funded banks have already gained the permission to provide RMB services. The foreign-funded banks altogether owned US\$103.3 billion in assets, accounting for 1.8 per cent of the total banking assets in China. Meanwhile, their total deposits amounted to US\$39.7 billion, and the loans totaled US\$61.6 billion. To be specific, their foreign currency assets amounted to US\$67.6 billion, foreign currency deposits totaled US\$17.8 billion and foreign currency loans totaled US\$35.9 billion. Their RMB assets amounted to RMB278.8 billion, the RMB deposits totaled RMB170.6 billion and RMB loans totaled RMB200.3 billion.

Improved risk-based supervision

Against the background of gradual opening-up, the CBRC has been persistently learning from international best practices and expertise to strengthen the prudential supervision of foreign-funded banks. Accordingly, the CBRC strengthened the ability to conduct off-site surveillance and analysis, and improved the planning and conduct of on-site examinations. As the result, the quality of supervision has been significantly improved which has in turned contributed to the healthy development of foreign banks in China. As of end-December 2006, the NPL ratio of the foreign-funded banks in China recorded at 0.70%, while the banks had adequate loan loss provisions and have been consistently profitable for years. At the same time, the preventive and enforcement measures against infringements of the laws and regulations were applied strictly and fairly. There were a few cases involving large-amount fraudulent transactions, transactions out of business scope, connected lending in violation of regulatory requirement, or other misconducts,

which resulted in the removal of 9 senior executives and a total fine of over RMB200 million.

Major Contributions: Contributing to the growth of foreign trade and investment

In comparison with the Chinese banks, foreign banks have considerable competitive advantages in a sense that they are the first mover in business innovation and they have ample product experience, especially in such areas as international trade and settlement infrastructure, syndicated lending, cash management and wealth management. The entry of foreign banks has enriched the products in Chinese banking market, improved the quality of banking services, including those in the under-banked regions such as western, central and northeastern China, and thereby contributed to promoting foreign trade and introduction of foreign investment. On the other hand, the foreign banks can use their international network to support the Chinese enterprises to trade and invest abroad. Through direct investments

in China or capital allocation to their Chinese establishments or strategic investments in Chinese banks, foreign banks bring in the foreign capital needed for economic development.

Contributing to deepened financial markets in China as well as the restructuring and reform of the Chinese banking sector

As the Chinese market is gradually opened to foreign participation, foreign-funded banks have been growing in both number and business scale. As an integral part of the Chinese banking sector, these banks have helped raise the quality of banking services at all levels, liven up the market competition, and deepen the banking sector's capacity to respond to market needs. In order to improve the overall capacity and competitiveness of the Chinese banking sector, China has firmly introduced a series of reforms to support the opening-up process. The National Financial Working Conference in 2002 clarified and affirmed the direction and objectives of reform of the state-owned banks. At the

end of 2003, China Construction Bank and Bank of China were selected for pilot restructuring into shareholding banks, with a total of US\$45 billion infused into their capital base. At the end of 2005, Industrial and Commercial Bank of China received a capital injection of US\$15 billion. Currently, except for Agriculture Bank of China, the other state-owned banks have already completed their restructuring, introduced domestic and foreign strategic investors, and been successfully listed in the stock markets. At the same time, small and medium-sized commercial banks and rural credit cooperatives are also undergoing restructuring and reforms. These reform measures, together with the participation of foreign financial institutions as strategic investors, have contributed to better corporate governance, better risk management, deepened innovation capacity and enhanced competitiveness. In general, the opening-up of the banking sector has served as a boost to the sector's reform.

Contributing to product and business innovations

The entry of foreign banks also brings in the advanced management skills and technology, as well as mature and market-tested products and services, and helps the Chinese banks to raise their financial innovation capacity. At the organization level, the Chinese banks are already strengthening their internal management through optimized management structure, exploring and implementing the line management models. In the area of business process and procedures, many Chinese banks have placed the customer-relationship function at the core, streamlined the business process and procedures to facilitate effective risk control, and established front-office, mid-office and back-office systems to strengthen internal controls. They have accelerated the upgrading of their IT systems with a view to improve their business information analysis and business management capacity. Concerning the operating model, many Chinese banks have adopted new assessment models, such as EVA and RAROC,

and accordingly identified fee-based income, consumer services and profit-oriented sectors as their strategic directions of development. Most appropriately, they have improved their capacity to innovate and introduce new products and services to meet the competitive challenge.

Contributing to wider and deepened cooperation between Chinese and foreign banks

Since the opening up of the Chinese banking sector, the cooperation between Chinese and foreign banks has deepened in all respects towards a win-win result. Through the business cooperation, the Chinese banks are assisted by their foreign partners to develop new products or services as well as improve their risk controls, and the foreign banks benefit from a larger source of RMB funding, more efficient settlement services and a larger business and customer range. Based on the business cooperation, both Chinese and foreign banks are actively proceeding with the equity partnership. As of end-December 2006, 29 foreign

banks invested a total of US\$19.0 billion in 21 Chinese banks. Such equity investments not only strengthened the capital base and international standing of the Chinese banks, but also changed their unitary ownership structure. More importantly, such equity participation has helped the Chinese banks improve their corporate governance and benchmark with international rules and best practices. At the same time, the foreign banks are able to benefit from the fruits of Chinese market development and establish a niche position in the Chinese market.

Contributing to improved supervisory capacity

The Chinese government attaches great importance to mitigating the risks arising in the process of opening-up through prudential supervision. By drawing upon the international supervisory standards and best practices, China has endeavored to create a fair and transparent supervisory environment, and has made notable progress in integrating the supervisory standards and

requirements for both local and foreign banks. China also keeps improving its supervision of foreign-funded banks, including adopting a risk assessment system, together with the systems of ROCA and SOSA for the supervision of foreign bank branches. In addition, China has endeavored to strengthen the cross-border supervision through supervisory cooperation agreements with many countries and regions. As of end-December 2006, China has signed bilateral memorandums of understanding (MOUs) with 22 overseas regulatory counterparts including those from the United States, United Kingdom, Canada, Germany, South Korea, Singapore, France, Australia, Italy, Hong Kong SAR, Macao SAR, France, Australia, Italy and other jurisdictions. The MOUs cover information exchange, licensing, on-site examination, confidentiality, supervisory consultation, etc. As a representative of the developing countries, China also actively participated in the negotiations and consultations on the Core Principles of Effective Banking Supervision and the New Basel Capital Accord, and has

been working actively on their implementation domestically as part of the efforts to upgrade the professionalism and international standing of China's banking supervisory authority.

Fundamental Principles and Strategies in a New Stage

At the end of 2006, the Chinese banking sector will step into a new stage. China will steadily push forward the opening-up process, upgrade the level of opening up, enhance the risk management capacity of the banking sector, safeguard the overall stability of the banking system, and thereby promote the sound and stable development of the national economy.

In formulating the opening-up strategy in the new stage, the Chinese banking sector should adhere to the following four fundamental principles.

First, the opening-up strategy shall respond to the needs of economic development with an optimized framework. With the growth of Chinese economy, the

financial needs of enterprises and consumers become increasingly diversified. Enterprises in China will need a whole range of financial products and services, including risk hedging, corporate banking, trade financing and local and overseas investments. In particular, the small and medium-sized enterprises will need better access to credit and financial advice. Consumers will require more mortgage finance and better asset management and financial advisory services. Many parts of China are still under-banked, particularly the rural areas. The opening-up strategy must therefore meet the development needs of Chinese economy.

Second, the opening-up strategy shall be able to promote the deepening of banking reforms, fair market competition, mutual benefits and enhanced competitiveness of Chinese banking sector. Through competition and cooperation with foreign banks, Chinese banks will be able to improve their corporate governance, service quality and their management and innovation capacity, strengthen their internal

controls and risk management, adopt and introduce modern IT systems and in general raise their competitiveness. The opening-up process will boost the financial innovation and enable the banking system to better support national economic development through the enhancement of its overall strength.

Third, the opening-up strategy shall honor our WTO commitments and further dispark the domestic banking sector. China is a large and responsible country. In this new stage, China will continue to honor its commitments to the WTO and practice prudential supervision within the framework of the WTO rules, so as to prevent cross-border contagion and systemic risks. Moreover, China will continue to actively participate in the bilateral and multilateral negotiations, and take part in the review and formulation of WTO rules so as to promote the healthy development of trade in financial products and services. This is also to ensure that Chinese banks will progressively meet international standards and foreign banks will be able to expand their business in China on a fair and level playing basis.

Fourth, the opening-up shall be accompanied by prudential regulation in order to maintain the stability of the banking system and to safeguard the financial security. International experience shows that

financial liberalization does carry risks and that the effectiveness of financial supervision during the opening-up process is crucial to the maintenance of the overall financial stability. Hence, China will continue to strengthen its supervisory capacity in this new stage, improving both off-site surveillance and on-site examination and integrating its supervisory standards with international rules. In this new stage, China will also actively consider a deposit insurance mechanism so as to protect the interests of depositors.

In accordance with the above fundamental principles, China has adopted the following policies:
Honoring its WTO commitments and opening wider to the outside world.

In line with its WTO commitments, China removed the customer and geographic restrictions on foreign-funded banks doing RMB business on 11 December 2006, as well as all the non-prudential restrictions on foreign-funded banks. In the meantime, with a view to carry out the State development strategy, foreign-funded banks are encouraged to conduct business in Northeastern, Western and Central China, where they will enjoy preferential treatment in setting up new establishments and gaining market access.

Adopting the local incorporation oriented policy to meet the development needs of foreign-funded banks

In line with their business strategies, foreign-funded banks may choose the legal form of their business operations in China on a voluntary basis. In order to promote the all-around development of foreign-funded banks, protect the interests of Chinese depositors and follow the international banking trends, China encourages foreign banks to set up locally incorporated subsidiaries or convert their existing branches into subsidiaries. These locally incorporated entities of foreign banks are allowed to offer full foreign currency and RMB services to all customers, enjoy the identical treatment with the Chinese banks in terms of registered capital and working capital, and are subject to the same regulations as domestic banks when determining the interest rates for deposits and loans, the rates of service fees, depositing required reserves and drawing loan loss provisions. These subsidiaries shall also meet the same requirements as the Chinese banks in their asset-liability management activities, including capital adequacy and large exposure requirements, and connected lending activities.

Providing an enabling operational environment for foreign bank branches

While implementing the local incorporation oriented policy, China has also given foreign bank branches greater flexibility in their operations. The major elements of this policy include: foreign bank branches may continue the current business, and are allowed to take in a RMB time deposit of no less than RMB1 million yuan from Chinese citizens; the business approval process is further streamlined and the working capital requirement is lowered; the requirement that “the foreign exchange deposits taken by a foreign-funded bank shall not exceed 70% of its aggregate foreign exchange assets within the Chinese territory” is removed, and; foreign bank branches may, if they wish, convert into locally incorporated subsidiaries at any time according to their own business development strategies.

Encouraging foreign-funded banks to adopt diversified operational forms to develop in China

China continues to support foreign banks to set up new establishments in China, and at the same time refine the policy to encourage their equity investment in Chinese banks. With the aim of boosting the overall development of the Chinese market, promoting

fair market competition and expanding the scope of financial services, China will continue pushing forward the development of foreign-funded banks that can either buy shares in Chinese banks or operate via their own locally registered entities. Meanwhile, conflicts of interests and monopoly behaviors will be closely monitored and supervised.

Prudential Supervision

A higher degree of opening-up will not only significantly transform the Chinese banking system, but also bring along certain risks. The Chinese government recognizes that different types of risks will be encountered in the opening-up process, so that it would be necessary to enhance the overall supervisory capacity, use more systemic, diversified and specialized supervisory methods to ensure the safety and soundness of the Chinese banking system, so that the opening-up could proceed more smoothly.

Opening-up must be in parallel with strict prudential supervision benchmarked with international standards and best practices.

The basic principle of China’s banking supervision is to “practice consolidated supervision, manage risks, improve internal controls and raise transparency” while the focus is placed on monitoring the major risks in commercial banks and the

systemic risks in the entire banking system. This approach aims to enhance commercial banks’ own risk management and control systems, and require a higher degree of transparency to impose market discipline on the banks. In the next stage of opening-up, China will raise the professional standards of supervision and its effectiveness from various aspects.

First, efforts will be made to accelerate the pace in unifying the supervisory standards for the Chinese banks and for the foreign-funded banks, in particular the locally incorporated foreign banks. The intention is to create a level playing field for competition. Second, efforts will be made to benchmark the Chinese supervisory and regulatory practices with international rules and standards. In this respect, China is in the process of moving towards the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision, with an objective to focus on raising the effectiveness and transparency of supervision. Last but not least, the implementation of the international accounting standards in China will be pushed forward so as to create better external environment for sound banking supervision.

The laws and regulations relating to opening-up will be further improved.

The Chinese government has always stressed that opening-up and banking supervision should be in strict compliance with the laws. In that case, the build-up of a sound legal framework is always on the top of the opening-up agenda. First, banking supervisory rules and guidelines should adapt to the update development of foreign banks' business in China. For instance, in accordance with the newly promulgated Regulations on Administration of Foreign-funded Banks and related Implementation Rules, the supervisory rules and guidelines will be further improved with respect to the corporate governance of foreign-funded banks, cross-border transactions, asset transfers, and support from the parent bank to the locally registered banks or branches in China, so as to build a solid legal basis for the opening-up as well as the healthy development of foreign banks in China. Second, the supervisory framework will be further improved to enhance the adequacy and effectiveness

of supervision and improve the rating systems of foreign banks' subsidiaries in China. Third, the off-site surveillance framework and methodology will be improved so as to raise the evaluation and assessment capacity while, at the same time, efforts will be made to improve the effectiveness of on-site examination and the enforcement and sanctioning powers.

The risk-focused supervisory methods will be further improved to highlight prudential and effective supervision.

Given the above-mentioned supervisory principles, legal and supervisory frameworks, China will place equal importance on protection of the financial stability at a macro level and the healthy operation of individual banks at a micro level, combine both the compliance oversight and risk-based oversight, in order to ensure sound and healthy development of foreign banks in China. From the micro perspective, China will push forward comprehensive risk-based supervision, overseeing the exposures of foreign-funded banks

both within and outside China, arising from both in- and off-balanced sheet activities, and from both local and foreign currency businesses. China is also to perform consolidated supervision, looking at the overall risks of a single bank's all branches within China in order to prevent regulatory arbitrage. China will also follow the risk-based approach to focus the regulatory attention on high-risk areas, encouraging foreign banks to continuously update their risk management and internal controls in consistency with their business activities in China. From the macro perspective, China will closely follow the international banking and supervisory practices and the development trends in order to monitor and prevent global, regional and national risks that could spread contagion through foreign banks into China. With the supervisory information system in operation, China can monitor the foreign banks' cross-border capital flows to screen out unusual or large-amount cross-border capital flows. China will also conduct specialized and systematic examinations on high-risk and new businesses. In addition, China

will organize special examination taskforces to supplement normal surveillance and examination cycles, particularly to capture non-compliance and illegal activities.

Different levels of prudential and preemptive measures will be adopted to maintain the safety and soundness of the Chinese banking system.

With respect to foreign bank branches, China has requested under the market entry conditions that the parent bank of foreign-funded banks should guarantee without conditions the liabilities of its branch in China. The former requirement that ‘the foreign exchange deposit taken by a foreign-funded bank shall not exceed 70% of its aggregate foreign exchange assets within the Chinese territory’ has been abolished, and replaced by the requirements that the domestic assets of a foreign bank branch in China should not be less than the domestic liabilities of the branch, so that the interests of depositors will be protected at times of crisis; that 30% of the branch’s operating capital should

be placed with the Chinese banks in deposits or in Chinese treasury bills with a maturity of no less than 6 months. With respect to the locally incorporated foreign banks, under the conditions of market entry relating to capital, the minimum daily capital adequacy ratio shall not be less than 8%, and its capital level should be commensurate with its business size and risk profile at any point of time. Where a locally incorporated foreign bank or a foreign bank branch transfers assets into the territory of China, it has to obtain a prior approval so that high-risk assets or illegal trading assets are not imported into China. Moreover, China will develop appropriate contingency plans to address different types of risks arising from emergency cases, natural disasters or systemic failures.

Conclusion

The objective of the Chinese banking sector’s opening-up is to enhance the sector’s overall competitiveness and help build up a healthy and developed banking system. China, as always, will press ahead with the opening-

up of its banking market. By drawing on the past experience, China will mobilize the resources offered in both domestic and overseas markets, take more proactive approach to promote international cooperation and market competition under the win-win principle, elevate the opening-up to a higher level, and thereby ensuring the healthy development of its banking sector.

Appendix: A Chronology of Key Events

First Stage

1980 Japan Import and Export Bank set up the first foreign bank representative office in Beijing.

1981 Nanyang Commercial Bank set up a branch in Shenzhen as the first operational foreign-funded bank since the adoption of opening up and reform policy.

1983 The Regulations for the Establishment of Representative Offices in China by Overseas Chinese and Foreign Financial Institutions was promulgated.

1985 The Regulations on the Administration of Foreign Banks and Chinese-foreign Joint-venture Banks in Special Economic Zones of the People's Republic of China was promulgated, allowing foreign banks to set up operational branches in Shenzhen, Zhuhai, Xiamen, Shantou and Hainan.

August 1990 The Regulations on the Administration of Foreign Financial Institutions and Chinese-foreign Joint-venture Financial Institutions in Shanghai was promulgated.

Second Stage

1994 The Regulations of the People's Republic of China on the Administration of Foreign Financial Institutions was promulgated as the first regulations standardizing foreign banks behavior in China, including market access requirements and supervisory standards for foreign banks operating in China.

1996 The Provisional Regulations for Foreign Financial Institutions to Undertake RMB Business on A Trial Basis in Shanghai Pudong

Area was promulgated, allowing foreign banks to undertake RMB business to foreign enterprises and residents on a trial basis in Shanghai Pudong area.

March 1998 The Circular of Issues Concerning the Approval to Foreign Banks to Engage in the Inter-bank Borrowing in China was issued, allowing foreign banks access to domestic inter-bank offering market, and to engage in RMB inter-bank trading and cash transaction.

August 1998 Shenzhen was approved to be a second trial city where foreign banks could start RMB business.

July 1999 The Circular about Expanding Foreign Banks' RMB Business Scope in Shanghai and Shenzhen was issued, relaxing the geographical and volume restrictions of RMB business for foreign banks, and allowing them to borrow RMB capital from other banks with the maturity of more than one year.

Third Stage

December 2001 China joined the WTO. The geographical and customer restrictions on foreign currency for foreign banks were removed. Foreign banks were allowed to undertake foreign currency business to Chinese enterprises and residents, and to undertake RMB business in Shanghai, Shenzhen, Tianjin, and Dalian.

December 2001 The Regulations of the People's Republic of China on the Administration of Foreign Financial Institutions (Amended) was publicized.

January 2002 The Rules for Implementing the Regulations of the People's Republic of China on the Administration of Foreign Financial Institutions (Amended) was publicized.

December 2002 RMB business was opened to foreign banks in five cities i.e. Guangzhou, Qingdao, Zhuhai, Nanjing and Wuhan.

December 2003 RMB business was opened to foreign banks

in four cities i.e. Jinan, Fuzhou, Chengdu and Chongqing. Foreign banks were permitted to undertake corporate RMB business in all the cities where RMB business was opened to foreign competition.

December 2003 The Regulations on Equity Investment of Foreign Financial Institutions in Chinese Financial Institutions was promulgated, stipulating the qualifications of the investors and the proportion of shares they could hold in the Chinese banks.

December 2004 RMB business was opened to foreign banks in five cities i.e. Kunming, Beijing, Xiamen, Shenyang and Xi'an.

December 2005 RMB business was opened to foreign banks in seven cities i.e. Shantou, Ningbo, Harbin, Changchun, Lanzhou, Yinchuan, and Nanning.

November 2006 The Regulations of the People's Republic of China on Administration of Foreign-funded Banks and its implementing rules were made public.

December 2006 The geographical and customer restrictions of RMB business on foreign banks were removed, thus allowing foreign banks to offer RMB business to all kinds of customers. The non-prudential restrictions on foreign banks' operations in China were also removed.

Source: China Banking Regulatory Commission

Chinese banks ranked by Tier 1 capital and assets

Rank		Bank	Tier 1 capital		Assets	
China	World		US\$m	%ch.	US\$m	Rank
1	11	China Construction Bank (12/05)	35,647	48	568,232	4
2	16	Industrial and Commercial Bank of China (12/05)	31,670	53	799,745	1
3	17	Bank of China (12/05)	31,346	11	587,352	3
4	60	Agricultural Bank of China (12/05)	9,864	2	591,190	2
5	65	Bank of Communications (12/05)	8,949	52	176,382	5
6	173	China Merchants Bank (12/05)	2,948	18	90,949	6
7	188	China CITIC Bank (12/05)	2,644	9	75,826	7
8	247	China Minsheng Bank (12/05)	1,893	22	69,037	9
9	251	Shanghai Pudong Development Bank (12/05)	1,831	9	71,067	8
10	297	Industrial Bank (12/05)	1,501	16	58,733	10
11	311	China Everbright Bank (12/03)	1,435	-7	47,655	11
12	339	Huaxia Bank (12/05)	1,238	9	44,129	12
13	356	Bank of Shanghai (12/05)	1,170	35	29,667	14
14	370	Bank of Beijing (12/05)	1,090	24	28,817	15
15	495	Guangdong Development Bank (12/03)	707	4	36,456	13
16	548	Shenzhen Development Bank (12/05)	625	51	28,403	16
17	672	Bank of Tianjin (12/05)	440	n/a	8,565	19
18	683	Shanghai Rural Commercial Bank (12/05)	432	n/a	15,789	17
19	821	Hangzhou City Commercial Bank (12/05)	307	71	5,734	20
20	839	Shenzhen Commercial Bank (12/05)	298	429	8,912	18
21	896	Bank of Dalian (12/05)	264	n/a	5,088	24
22	927	Shenzhen Rural Commercial Bank (12/05)	249	n/a	5,452	22
23	937	Ningbo Commercial Bank (12/05)	243	2	5,221	23
24	963	Chongqing Commercial Bank (12/05)	233	5	3,772	25
25	1000	Bank of Nanjing (12/05)	216	14	5,472	21

Source: The Banker, July 2006

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- Advice on fundraising
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- Financial and business economics
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