Banking and Capital Markets

Foreign banks in China

May 2010

PRICEWATERHOUSECOOPERS

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Foreword

Welcome to the fifth PricewaterhouseCoopers[1] (PwC) survey on foreign banks in China. This year, we spoke to 42 financial institutions in China.

Our aims in carrying out this 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 foreign banks to capitalise on trends and developments; and
- Provide insights and perspectives on how banking in China may evolve over the next three years.

Foreign banks have been working hard in the last year to expand their reach across China. Local incorporation is predicted to rise markedly in 2010, new branches are opening and foreign banks plan to increase their partnerships with local companies to boost their market access.

They have not benefited from the surge in lending created by the government's stimulus plan. Domestic banks, by contrast, substantially increased their lending, which is one of the reasons why, for the first time, respondents cited the rise of competition from domestic banks as the biggest challenge they faced.

The second concern is the regulatory environment, with some perceived imbalances in the requirements for foreign banks compared to their domestic counterparts. The pace of change and the complexity of regulations continue to prove difficult for some banks to keep up with. Foreign banks anticipate regulations to continue to tighten and change to be significant, with a resulting impact on the speed and scope of their progression.

None of this has dampened the banks' enthusiasm for their China operations. Support and commitment from head office is higher than ever, and while the banks' predictions of growth for 2010 were modest, they were greatly improved from last year. Projections of employment by 2013 are high, with banks saying they expect to employ 48% more staff.

As the most challenging aspects of the financial crisis recede, foreign banks will see a return of the staffing difficulties that preceded the downturn. Increased demand and competition are looming for key posts such as relationship managers and compliance professionals. Human resource costs will rise this year, with both base salaries and bonuses set to increase as the global economy picks up.

Findings of particular interest in the survey include observations on the continuing growth and expansion of services by China's domestic banks, new product and service opportunities for the foreign banks such as wealth management and debt capital markets, reflections on the degree of success of equity investments in China and the results of the peer review.

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

I would like to thank the chief executive officers and senior executives who participated in this survey for their time and effort in making this publication possible. I would also like to thank Dr Brian Metcalfe for his research and analysis. We look forward to feedback on this survey and your suggestions on topics to be included in future surveys on the China banking industry.

For further information, please contact the PwC China and PwC Hong Kong banking and capital market industry partners. They are listed at the back of this survey.

Mervyn Jacob

PricewaterhouseCoopers China and Hong Kong Financial Services Leader

May 2010

1 "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Executive summary

Background

This survey focuses on the strategic and emerging issues surrounding foreign banks' expanding activities in China. It builds on four surveys undertaken between 2005 and 2009.

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, senior executives and branch managers of 42 foreign banks in China.

The interviews were approximately one hour in length and were conducted in Beijing, Hong Kong, Shanghai and Shenzhen in January and February 2010.

The participants in alphabetical order were:

Australia & New Zealand Banking Group (ANZ)

Banco Santander

Bank of America

Bank of Montreal

Bank of Nova Scotia

BNP Paribas S.A.

BNY Mellon

Crédit Agricole

Citibank

Commerzbank

Commonwealth Bank of Australia

Credit Suisse

Dah Sing Bank

DBS Bank

Deutsche Bank

First Sino Bank

Fortis Bank

Hang Seng Bank

HSBC

ING Bank

Intesa Sanpaolo Bank

JPMorgan Chase

KBC Bank

Mizuho Corporate Bank

Natixis

Norddeutsche Landesbank

OCBC Bank

Rabobank

Raiffeisen Zentralbank Österreich AG

Royal Bank of Canada

RBS

Société Générale

Standard Chartered Bank

Sumitomo Mitsubishi Banking Corp.

The Bank of East Asia

UBS

VTB

Wachovia Bank

WestLB

Westpac

Wing Hang Bank

Wing Lung Bank

Foreign banks fail to gain extra traction

The 2009 stimulus plan and lending surge by domestic banks (overall an increase of 26% in assets in 2009) had a major impact on the activities of the foreign banks and their ability to further penetrate the Chinese banking market.

Despite the surge and economic stimulus the foreign banks failed to gain any extra market traction. While they have continued to be proactive in seeking out new opportunities, they remain challenged by policy constraints that dictate the pace, scope and direction of their market penetration.

Meanwhile, the domestic banks continue to add to their service offerings as they steadily evolve towards more broadly based multi-service institutions. Examples of this include direct investments in new lines such as fund management and insurance.

In contrast, the foreign banks are required to navigate a much narrower space. Their primary method of expansion remains organic growth.

In the first half of 2009, foreign bank lending declined, in part because of competition from domestic banks and in part because foreign companies in China reduced their borrowing needs. As a result, foreign banks' market share declined. Their overall market share remains around 2% and half of the 42 participants in this survey predict that it will remain the same in 2010. Reasons given for the lack of growth in market share included an unlevel playing field, economic factors and a limited product offering.

Against this challenging operating environment, the participants continue to believe strongly in the future opportunities of the Chinese financial services market.

Different approaches to the market

Local incorporation

Foreign banks continue to select the option to transition from branch status to local incorporation. Over 30 foreign banks are now locally incorporated and predictions in 2010 regarding this option are more optimistic than those recorded in last year's report.

Three quarters of the respondents anticipate more than 40 locally incorporated banks and about a third believe the number could rise above 50 by 2011.

Some banks that had previously believed that incorporation was too onerous have altered their strategies. One respondent argued that the capital requirements to operate two or more branches persuaded them to choose local incorporation. (The minimum capital requirement for each branch is RMB 200 million).

Another participant said the ability to offer a deeper product range had changed their thinking. This bank valued the opportunity to offer RMB bonds.

Banks that remain cautious on incorporation continue to cite the difficulty in satisfying the 75% loan-to-deposit ratio by 2011. On this issue, opinions varied on whether the rule would be applied rigidly or phased in over a period of time.

Some of the banks that embraced local incorporation early on have moved forward on network expansion. For the first time in this report the branch networks of HSBC, Standard Chartered Bank, Citibank, Bank of East Asia, Hang Seng Bank, DBS and ABN AMRO are shown in the appendix. These tables illustrate how some foreign banks have expanded their ability to capture RMB deposits and gain a competitive edge.

The foreign banks continue to review the most suitable way to capitalise on their strengths and develop their China presence.

Equity stakes

Equity investments have been a popular route for a wide number of players and this trend is expected to continue. (Foreign banks are limited to a 20% individual share in no more than two banks).

Few participants question the financial success of these investments but most question whether they have been successful in the context of a broader market development. Many of the foreign banks have been unable to exert any meaningful degree of management control.

However, the participants predict that foreign banks will continue to make investments in the remaining city commercial banks.

Participation in rural banking

Several participants mentioned that they were interested in investing in rural commercial banks as a strategic option. For example, ANZ owns a 19.9% share in Shanghai Rural Commercial Bank and in September 2009 opened a 100% owned subsidiary, the Chongqing ANZ Rural Bank in Western China.

In January 2010, news reports suggested Banco Santander and China Construction Bank (CCB) would create a financial holding company that would focus on rural banking and automobile financing. CCB would hold 60% and Banco Santander the remainder.

The larger foreign banks with a retail presence such as HSBC, Standard Chartered Bank and Citibank have also opened rural branches.

Diversification across the financial services sector

Other financial sectors that were attractive to participants included asset management, leasing, consumer finance, private equity and trust companies. In addition, eight foreign players now have investments in securities companies and this sector is attracting the attention of players who seek an expanded role in investment banking.

Around three quarters of the participants indicated that they are interested in developing partnerships with local parties. They see this as a way to expand business without facing some of the tight regulation associated with a stand-alone foreign entity.

However, as referenced above the most important development vehicle for the foreign banks continues to be the organic growth of their existing operations. In 2010, 37 banks selected this option ahead of joint ventures and acquisitions.

Ongoing regulatory pressures

Previous reports have emphasised the significance of the regulatory environment on the speed, direction and scope of the foreign banks' progression. In this report, regulation continues to feature prominently.

In a question seeking to explore the concerns of foreign bankers regarding the Chinese banking market, responses suggested many foreign bankers continue to believe that they are treated less equitably than their domestic counterparts by the regulator.

Looking to the future, the foreign banks anticipate that regulation will be tightened. In 2010, 33 banks anticipate that regulatory change will be either significant or very significant. Examples of increased tightening of regulations that the foreign banks have already experienced include new account openings, confirmation of account balances with customers, new restrictions on real estate mortgages, the loan-to-deposit ratio, wholesale funding restrictions, quotas, currency regulations, roll-out of wealth management products, onshore location of core banking systems etc.

An additional challenge faced by the foreign banks is the CBRC request to track the use of funds to ensure clients are not deploying them into real estate or market investments. The foreign banks contend that they do not possess readily available mechanisms to track and monitor such movements.

The continuing rise of domestic bank competition

The special difficulties arising from the domestic bank lending surge have already been mentioned. While the surplus liquidity caused problems for the foreign banks in 2009, they may be impacted as the pendulum now swings in the other direction. Some foreign banks expressed concern about possible lending caps and many more expressed apprehension about the potential rise of non-performing loans (NPLs) in 2011 and 2012.

For the first time, the most difficult aspect of the Chinese banking industry was identified as "competition from domestic banks." In 2008, the regulatory environment and finding and retaining good personnel were at the top of the list. In 2009, it was the regulatory environment.

In 2010, competition from domestic banks is just ahead of regulatory environment and hiring and retaining personnel has fallen to fifth place.

Domestic banks are now considered to be formidable competitors. With their extensive branch networks and rising service expertise they are much better placed to fend off competition from foreign banks in target markets. The limited product range approved for deployment by the foreign banks means it is increasingly difficult for them to differentiate their products from their domestic counterparts.

In areas such as wealth management, cards and internet banking, domestic banks are all continually lifting their game, and as one European banker reflected the only dimension on which foreign banks can compete is by providing a superior level of service.

The domestic banks are expanding their branch networks in centres such as New York, London, Paris, Frankfurt and Sydney. As a result, they are continuing to broaden their global servicing capability.

Growing concerns in HR

In 2008, concerns about personnel shortages abated and staff turnover dropped dramatically. Many foreign bank employees seemed content to sit out the economic storm. In 2009, only four banks had turnover above 20% and 22 banks said it was below 5%. In 2010, mobility is expected to rise. 22 banks project between 10% and 20% staff turnover and five banks expect to exceed 20%.

Salaries which remained flat in 2009 are expected to spike upwards in 2010. 38 banks expect an increase in 2010. The expected salary increases fall between 3% and 20% but most anticipate increases in the 7% to 8% range. Three quarters of respondents also expect bonuses (which had generally remained the same in 2009) to increase in 2010. As a result, human resource costs are expected to grow significantly in 2010, especially amongst foreign banks that continue to expand their branch networks.

Reflecting the nature of the foreign banks business and desire to grow, the most critical staff function remains relationship bankers on the corporate banking side. Risk management personnel moved up one position to second place while legal/compliance was in third place.

Risk management at the domestic banks

The foreign banks remain positive on the CBRC's desire that the "Top Seven" domestic banks align with Basel II capital standards by the end of 2010. Some foreign bankers remain sceptical that the domestic banks will be able to meet this aggressive deadline.

As a result of the 2009 lending surge Chinese banks are now engaged in a significant capital raising programme. By March 2010 up to a dozen Chinese banks had announced plans to raise capital. These banks included ICBC, Bank of China and Bank of Communications.

Despite concerns about loan expansion, the foreign banks recorded relatively optimistic views on the current position for both corporate and consumer credit. The majority of respondents assessed the corporate credit position to be stable while consumer credit was also believed to be generally stable, although nine banks believed it was actually improving.

Product opportunities

Retail banking

Retail products that are expected to experience increased demand, include high net worth individuals/ private banking, investment products and residential mortgages. The participants continue to believe that increasing affluence in China will spur demand for wealth management services at several levels.

Private banking and wealth management

The respondents identified the top three drivers of success in private banking as strong products, top quality people and a recognisable global brand.

In addition to these drivers, the participants also emphasised the need for excellent client service and strong relationship building. There is a need for the foreign banks to educate their clients because many have just recently acquired their wealth, and lack the required level of knowledge and sophistication to make fully informed investment decisions. This situation requires a different approach to service promotion and delivery in China relative to mature markets. Finally, foreign banks moving into private banking need to make sure they have cutting edge systems to support and enhance their services.

In May 2009, the CBRC stated that domestic and foreign banks offered a combined 4,100 wealth management products to 2.3 million clients. It is clear from the foreign bankers' comments that the domestic banks are now active competitors in this segment. As a result, innovative products remain a key axis of differentiation. However, the ability to introduce innovative products into the market is limited by the regulator.

One North American banker, however, cautioned that wealth management services and delivery mechanisms could not be simply dropped into China. They required careful modification given the high percentage of recently affluent individuals who favoured different investment vehicles and wanted to have more of a participatory role.

Corporate banking

On the corporate side, opportunities are anticipated with the gradual opening up of the debt capital market. There is also a view that structured products will return and become more widely used. There is an expectation that private equity may expand at a faster pace as foreign investors enter the Chinese market. Foreign firms such as Blackstone and Carlyle are already positioned to take advantage of these emerging opportunities. In 2009, the Blackstone Zhonghua Development Fund was established with the government of the Pudong New Area of Shanghai, with a goal to raise RMB 5 billion.

In 2010, Carlyle in partnership with Fosun Group, also set up an RMB fund. Other companies involved in private equity in China include SAIF

Partners, Hony Capital, Legend Capital and the New Horizon Fund. It is envisaged that these firms will support private SMEs in China with pre-IPO growth capital.

Trouble in the SME sector

A note of caution was sounded on the performance of loans to small and medium sized businesses.

Although the CBRC has encouraged foreign banks to be more active in this sector, a number of banks remain reticent. They argue that this is a difficult market for foreign players and some have declined to make such a move.

The SME sector is often associated with export-orientated companies and as a result, has experienced difficulties due to the global economic slowdown. Several respondents suggested that foreign banks have suffered losses in this sector.

The Cross-Strait connection

The pending Cross-Strait Financial Cooperation Agreement is expected to spur banking opportunities in both directions between the mainland and Taiwan. Several large Chinese banks are expected to enter Taiwan and use their entrance to expand relationships.

At the same time under the Economic Co-operation Framework Agreement (ECFA), Taiwanese banks will be able to fast track their entry into the RMB market and also invest in Chinese domestic banks. Taiwanese banks are expected to swell the number of locally incorporated banks and to take business away from some foreign banks that have benefited from Asian trade networks.

Future funding sources

The foreign banks provided a detailed breakdown of their funding sources. This showed the continued heavy dependence on their parent bank. Almost all the banks receive at least 20% of their funding from their parent, 14 banks receive 50% or more from their parent. By 2013, eight banks hope to attract 20% or more of their funding from retail deposits. Three of this group predict a higher level of retail deposits.

Commitment to China

The foreign banks' commitment to China remains exceptionally strong. As a group they averaged a score of 8.3 out of 10. The US banks recorded the highest score with 9.2 out of 10 while the European and Asian banks displayed a very marginal decline. Looking forward to 2013, the number of banks assigning the maximum score of 10 out of 10 increases from 11 to 13 banks.

It is very evident from these scores that China remains at the forefront of the foreign banks' future growth strategies.

Another example of this commitment is the growing interest in foreign bank listings. HSBC's CEO, Michael Geoghegan said in March 2010 that the bank was "ready" for a Shanghai listing. Furthermore both Standard Chartered Bank and Bank of East Asia are also understood to be seeking mainland listings.

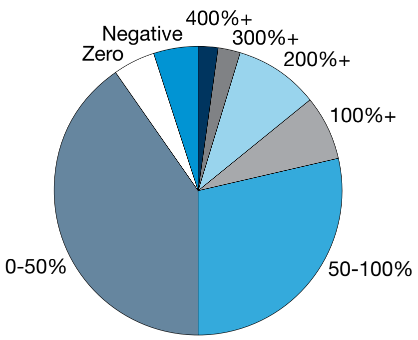
Peer ranking summary

A summary of the peer ranking (top three positions) of the foreign banks/financial institutions is shown in the table below. Peer rankings are based on the opinions of CEOs, senior executives and branch managers that participated in this survey. Please refer to page 76 for full details.

	First	Second	Third
Foreign exchange and treasury	HSBC	Citibank	Deutsche Bank
Derivatives	Citibank	HSBC	Deutsche Bank
Corporate lending	HSBC	Standard Chartered	Citibank
Project financing	Standard Chartered	HSBC	Citibank
Investment banking	Goldman Sachs	Morgan Stanley	JPMorgan Chase
Private banking	HSBC	Citibank	Standard Chartered/UBS
Corporate finance	HSBC	JPMorgan Chase	Goldman Sachs
Mergers and acquisitions	Goldman Sachs	Morgan Stanley	HSBC
Trade finance	HSBC	Standard Chartered	Citibank
Cash management	Citibank	HSBC	Standard Chartered
Equity capital markets	Goldman Sachs	Morgan Stanley	UBS
Debt capital markets	HSBC	Citibank	Standard Chartered
Retail banking	HSBC	Standard Chartered	Citibank
Credit cards	Bank of East Asia	HSBC	Citibank
Brand awareness	HSBC	Standard Chartered	Citibank
Corporate social responsibilty	HSBC	Citibank	Standard Chartered

Market environment

Projected employment increases by 2013



Percentage increases in employment by 2013
Based on responses from 42 banks

Future employment growth

In the 2010 survey, the 42 banks interviewed employed 29,739 people. This is almost identical to the number provided by the 41 banks interviewed in 2009. The top five banks by employment size were HSBC, Standard Chartered Bank, Citibank, Bank of East Asia and Hang Seng Bank. Together they employed over 19,000 people or 64% of the total numbers.

The 42 banks project that they will employ 44,192 by 2013. This represents a 48% increase or 14,453 new employees. Five banks plan to increase their staff numbers by more than 1,000 employees. Nine banks anticipate that they will increase their employee numbers by over 100% by 2013.

The projection to expand by 48% over the next three years is below that forecast in 2009 when 41 banks anticipated a 62% increase, lifting the total number of employees to 48,084 by 2012, although one larger foreign bank scaled back its 2013 projection in comparison to the number given in 2009 for 2012.

The 42 foreign banks employed 1,201 non-PRC nationals in 2010. They plan to increase this number to 1,323 or 10% by 2013. This number includes estimates for two banks based on the 2009 data provided previously. Most banks do not foresee an increase in the number of non-PRC employees over the next three years, suggesting they will make every effort to recruit locally.

Total assets

The total assets based on data provided by 31 banks was US$124.22 billion. This estimate omits two relatively large banks. In 2009, two large banks were also left out and the 29 banks that provided data, estimated their total assets to be US$116.7 billion. This suggests a modest expansion of their asset base between 2009 and 2010.

Looking forward to 2013, the foreign banks expect a much higher growth in their assets. This time, estimates were applied to three of the 31 banks that provided 2010 estimates. The 2013 projection for the group of 31 banks predicted 81.49% growth in total assets from US$142 billion to US$225 billion. Two very large foreign banks predicted very significant growth in assets by 2013.

Net income

The net income for 23 banks in 2010 was estimated to be US$1.28 billion. This figure is almost identical to 2009 but omits one very large foreign bank that was included in last year's findings.

Once again, several foreign banks will exceed US$100 million in net income but 11 of the 23 banks that provided estimates indicated that net income would be below US$10 million. Two banks, one Asian and one European, said they would breakeven in 2010 while one European bank said it would make a loss.

According to CBRC statistics, as of the end of December 2009, the total assets of the banking sector amounted to RMB 78.8 trillion, an increase of 26.3% year-on-year. The assets of the state owned commercial banks stood at RMB 40.1 trillion, an increase of 25.9%; the assets of the joint-stock commercial banks stood at RMB 11.8 trillion, an increase of 33.7%; the assets of city commercial banks were RMB 5.7 trillion, an increase of 37.5%; the assets of other financial institutions reached RMB 21.2 trillion, an increase of 20.5%.

During the same period, the total liabilities of the banking sector amounted to RMB 74.3 trillion, in increase of 26.8% year-on-year. The liabilities of the state owned commercial banks stood at RMB 37.9 trillion, an increase of 26.9%; the liabilities of the joint-stock commercial banks stood at RMB 11.2 trillion, an increase of 34.1%; the liabilities of the city commercial banks were RMB 5.3 trillion, an increase of 37.7%; and the liabilities of other financial institutions reached RMB 19.9 trillion, an increase of 20.6%.

(Source: CBRC website)

Retail customers

Data for 15 foreign banks indicated that they had 835,600 retail customers in 2010. This represents a sizeable increase over 2009 when 16 banks recorded 444,610 retail customers.

The Big Four foreign banks, HSBC, Citibank, Standard Chartered Bank and Bank of East Asia, said that they had 728,000 customers; a major increase over 2009 when this group claimed 340,000 retail customers.

In the 2009 report, the banks forecast aggressive growth to 2012 and expected to service 1.35 million customers. In this report, the 15 reporting banks go even further and anticipate 2 million retail customers by 2013. Four banks expect to add a minimum of 100,000 new retail customers to their totals by 2013.

High net worth individuals

Twelve banks provide estimates on the number of high net worth individuals (HNWIs) based on the definition of US$1 million investable assets.

In the 2010 survey, these 12 banks had 33,026 HNWI clients and they expect to almost double this number to 63,650 by 2013.

In the 2009 survey, their projection were 29,920 HNWI clients by 2012. As a result, this year's results suggest that the banks are advancing quickly into the wealth management market.

However, the totals are influenced by one major player that did not respond to this question in 2009 and two participants that recorded a significantly higher number in 2010 versus 2009.

Therefore, interpretation on the level of growth described should be treated with caution.

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)?

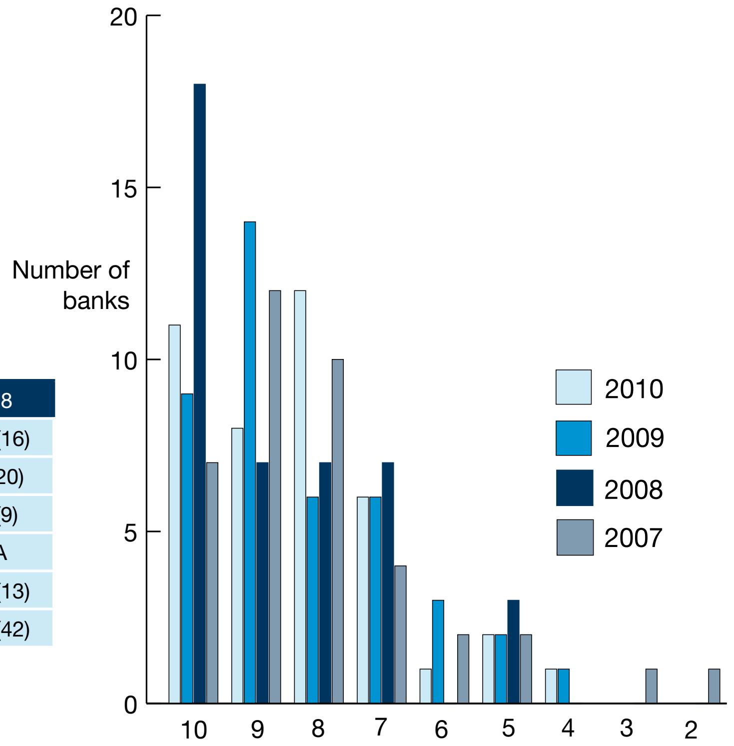
Despite the continuing uncertainty in the global financial markets and increasing competition from domestic banks, the foreign banks' commitment to the China market remains extremely strong.

In 2010, the commitment scores for both the locally incorporated banks and the North American banks increased marginally.

Both the Asian banks and the European banks indicated a modest reduction. However, as a group, the foreign banks averaged 8.3 out of 10 in 2010.

Only four banks assigned scores of 6 or below in 2010 versus six banks in 2009. The four banks that expressed these lower commitment scores were all European.

Commitment of parent	2010	2009	2008
Locally incorporated (20)	9.05	8.7 (20)	9.47 (16)
European banks (21)	7.7	7.8 (19)	8.3 (20)
North American banks (8)	9.0	8.6 (8)	8.6 (9)
US banks (5)	9.2	9.0 (5)	N/A
Asian banks (12)	8.8	9.0 (13)	9.23 (13)
Average (41)	8.3	8.4 (40)	8.64 (42)



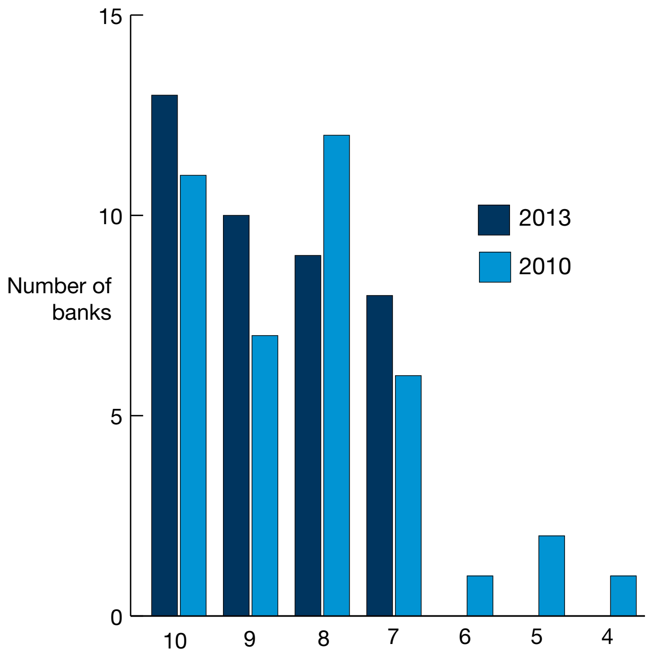
Based on responses from 41 banks in 2010 41 banks in 2009, 42 banks in 2008 and 39 banks in 2007

Q How would you characterise the commitment of your parent bank to the Chinese market in 2013 versus 2010?

Going forward, the number of banks awarding the maximum level of commitment increased from 11 to 13, while the number scoring nine moved up from 7 to 10.

By 2013, all banks anticipate a level of commitment of 7 or greater. This suggests that banks that have suffered during the financial crisis predict that their head offices will increase their support for China in the future. Some of these banks have had to seek home government support which has slowed their rate of expansion in China.

In a few cases it has stalled their plans to locally incorporate. In previous surveys, several banks had indicated that they planned to locally incorporate and to create a retail operation. These plans have been put on hold.



Based on responses from 40 banks for 2010 and 40 banks for 2013

Q Has the global financial crisis changed your business model in China?

A minority of foreign banks have had to alter their business model in China as a result of the global financial crisis.

In 2009, 20 banks said the crisis had no impact on their business model in China. In 2010, this number increased to 24 banks.

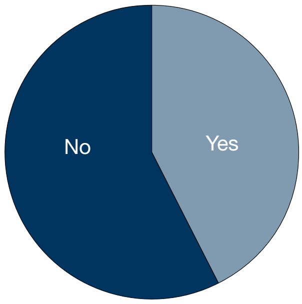
In the yes category are banks that were severely impacted in their home country markets. This includes a number of European banks.

A European bank admitted that it had affected the timing of their local incorporation. Another European bank said it had been forced to retreat to "core relationship banking".

An Asian bank said it had restricted their branch expansions to Tier 1 and Tier 2 cities. If not for the crisis, they would have expanded into more secondary cities.

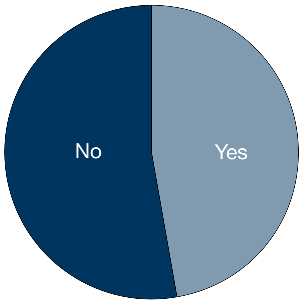
Finally, another Asian bank said that it had diversified its product line and recruited more local talent as a result of the crisis.

2010



Based on responses from 40 banks

2009



Based on responses from 38 banks

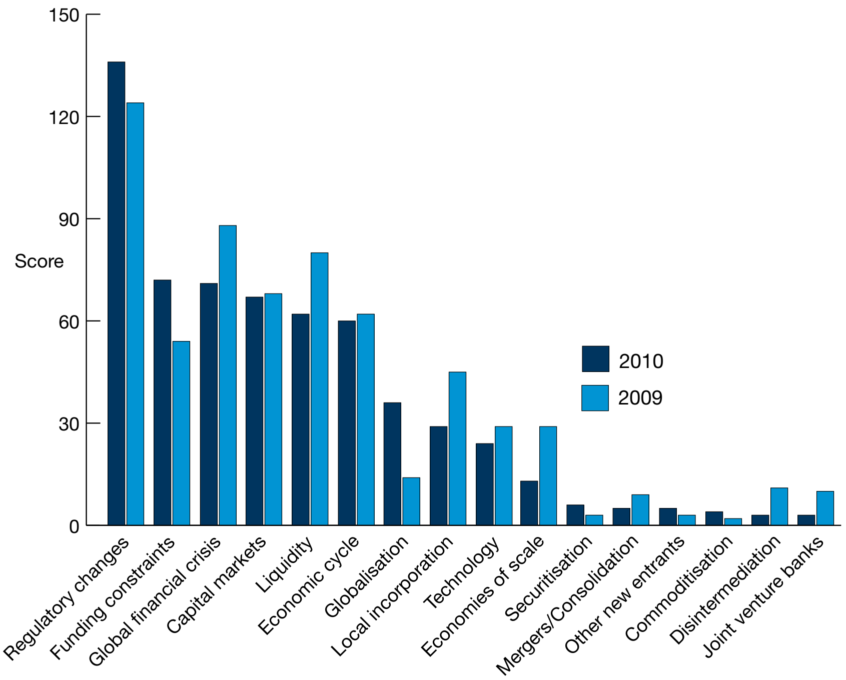
Q What are the major drivers of change in the Chinese banking industry?

As in the 2009 survey, the foreign banks continue to believe that regulatory change dictates the pace of market development in China.

The second most important driver in 2010 was identified as funding constraints. This factor moved from sixth position in 2009.

In third place was the global financial crisis. In other parts of this report, the respondents contend that the crisis has resulted in the regulator adopting a more measured and conservative approach to the opening up of the market.

Capital markets remains in the same position as 2009, but liquidity declined from third to fifth position.



Based on responses from 40 banks in 2010
and scores have been re-adjusted from 38 banks in 2009

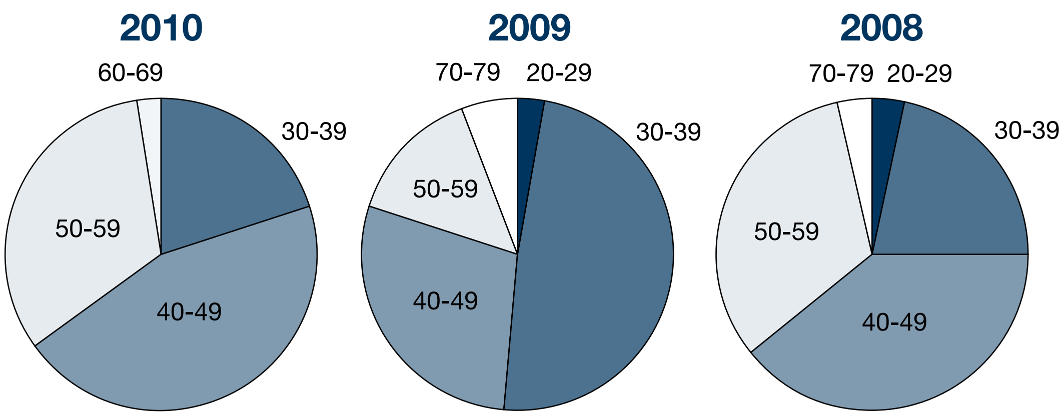
Q How many foreign banks will have incorporated by 2013?

The predictions for 2010 look quite similar to those provided in 2008. The number of banks that selected 30 to 39, 40 to 49 and 50 to 59 are very similar in those two years.

In contrast, almost half the respondents in 2009 predicted that the number of locally incorporated banks would be between 30 and 39. In 2010, 18 respondents believe the number will be around 40-49 banks.

Given that there are currently just over 30 locally incorporated foreign banks, this suggests that the group expects at least another 10 to 15 foreign banks to seek local incorporation. Thirteen respondents selected the 50 to 59 category.

There is also a clear expectation that given the pending Cross-Strait Financial Cooperation Agreement, a number of Taiwanese banks will also choose to locally incorporate.



Based on responses from 40 banks in 2010,
35 banks in 2009 and 28 banks in 2008

Q From the perspective of your head office, has the agenda for your bank's operation in China changed positively/ negatively/or neutral?

The response to a question on the banks' future agenda for China reflects a significant upswing in the 2010 survey.

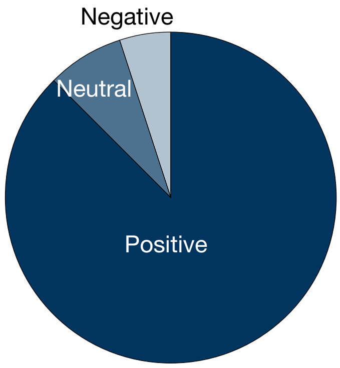
In 2009, 18 banks suggested a positive change in the agenda for China. In 2010, this number almost doubled to 35 banks.

Two banks noted a negative change. Both banks are European and both have needed governmental support.

Three North American banks suggested significantly stronger support for their operations.

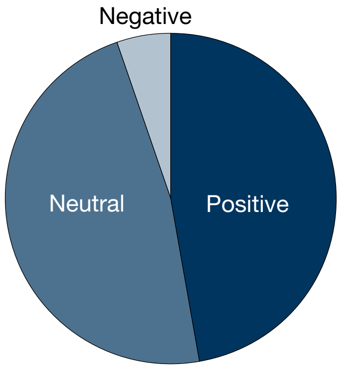
One noted that China and India have become very important; another said China was now a "priority"; while a third suggested China was one of its most important growth markets.

2010



Based on responses from 40 banks

2009



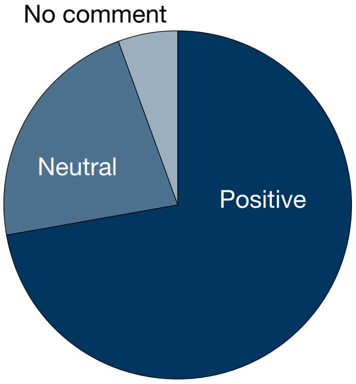
Based on responses from 40 banks

Q If you have incorporated locally, how have your expectations changed since incorporation?

The experience of the foreign banks that have chosen to locally incorporate has been positive.

Thirteen of the 18 respondents indicated a positive experience, while four said neutral.

Experience since local incorporation



Based on responses from 18 banks in 2010

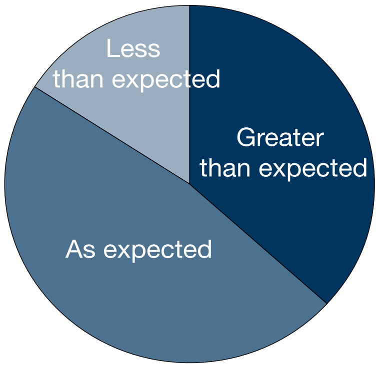
Q Has the growth in locally generated deposits been less than expected/as expected/or greater than expected?

In terms of the growth of local RMB deposits, seven banks said it had been greater than expected, nine banks as expected and three banks less than expected.

The top five foreign banks by branch networks are HSBC, Standard Chartered Bank, Citibank, Bank of East Asia and DBS. Only two in this group said that their deposit gathering had been greater than expected.

Gathering local deposits is a critical need given the requirement to meet the 75% loan-to-deposit ratio deadline set for the end of 2011.

Growth in locally generated deposits since incorporation



Based on responses from 19 banks

Q What concerns do you have regarding the Chinese banking market?

The foreign bankers expressed a number of concerns about the Chinese banking market as they look forward to the next three years.

Some of the common themes expressed by multiple participants included:

- Many of the foreign banks expressed concern over the impact of regulation on their nascent operations. They believe that they are treated differently by the regulator than their domestic counterparts. They cite examples of tight controls such as funding restrictions, branch approvals, new product development and approval and rules on opening accounts
- There is uncertainty on how the lending surge by domestic banks in 2009 may play out in the future. Two North American banks expressed concerns about non-performing loans in 2011-2012
- Slow pace of change in the marketplace. The foreign banks argue that regulations are constantly changing and are unpredictable. They are nervous about the possible introduction of lending caps

Other concerns that were mentioned are:

- Transparency of the domestic banks (European bank)
- Ability of Chinese banks to develop a successful personal banking lending market (European bank)
- Convertibility of the RMB (many banks)
- Narrow range of products (European bank)
- CBRC very policy driven, hence removing the commercial role of banks (European bank)
- Dangerous time for Chinese banks because of excess liquidity and non-floatation of the RMB (European bank)
- Limited size of human resource talent pool (two North American banks)
- Ability of foreign companies to raise capital in China or issue corporate bonds (European bank)
- Intense competition from domestic banks with extensive networks (Asian bank)
- The Chinese real estate market may trigger a financial crisis (Asian bank)
- Lack of synchronisation between various government regulators (Asian bank)
- City commercial banks may have created future non-performing loan (NPL) problems (North American bank)
- Macro-economic guidance may have worked well in a crisis but may not function as well in a recovery (European bank)

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

The most difficult aspect of the Chinese banking industry in 2010 was competition from the domestic banks. It was followed by the regulatory environment and the accounting and tax framework.

In 2007, competition from domestic banks was in ninth place, while the accounting and tax framework was in seventh place.

Finding and retaining good personnel increased slightly in 2010, moving up by one place.

The overall score, however, remains much lower than that recorded in 2008 when it was the second most difficult factor.

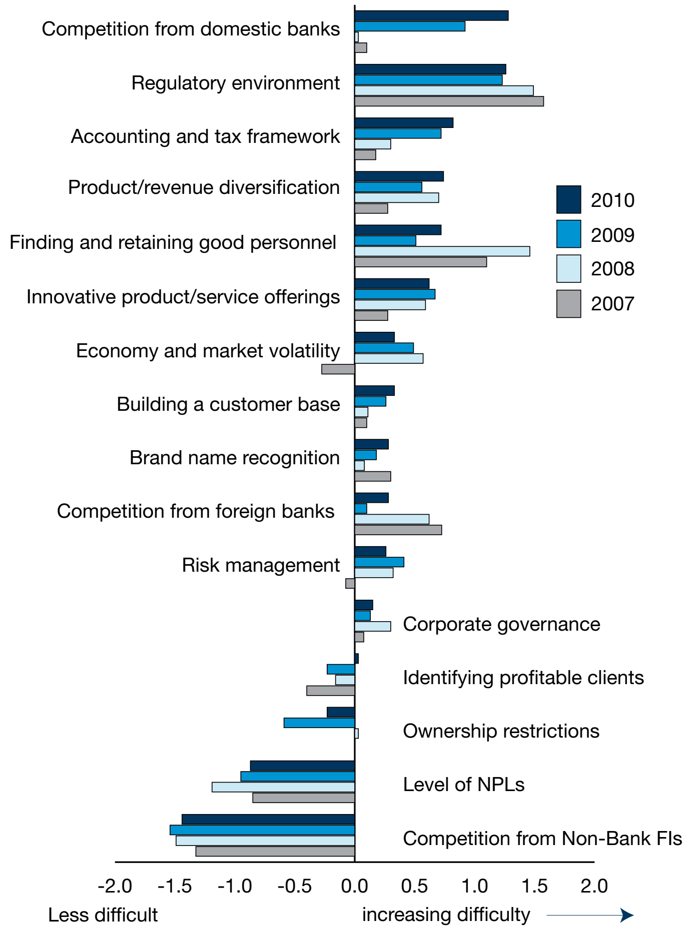
Competition from other foreign banks remains in tenth position with a relatively low score. This suggested that foreign banks operate in their own market space and do not directly compete with other foreign banks.

The rise of competition from domestic banks has been strongly influenced by the 2009 stimulus plan and a 33% surge in bank lending.

(Source: Financial Times, 20 March 2010)

For example, ICBC, China's largest bank by assets, reported in March 2010 that loans grew by 24.27% in 2009.

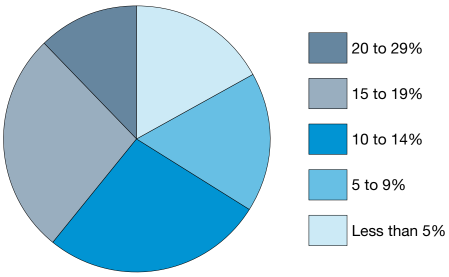
(Source: Wall Street Journal, 7 March 2010)



Based on responses from 39 banks in 2010

Q What was your staff turnover in 2009 and what is it expected to be in 2010?

Anticipated staff turnover in 2010



22 banks recorded 10% to 19%
Based on responses from 41 banks

The adjacent charts show the level of staff turnover that occurred in 2008 and 2009 and what participants anticipate the turnover will be in 2010.

The economic uncertainty experienced in 2009 had a positive impact on turnover.

In 2008, eight banks recorded turnover above 20%.

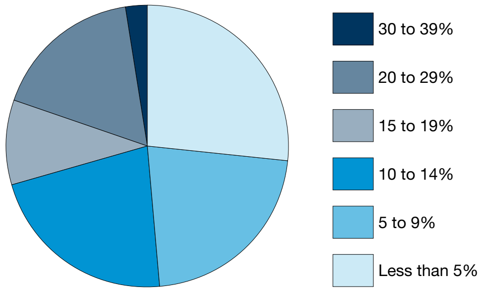
In this year's survey, participants indicated that in 2009 this number fell to just four banks while 22 banks said it was below 5%.

Looking forward to projected turnover levels in 2010, the less than 5% category is anticipated by seven banks.

However, 22 banks project between 10% and 20%, and five banks expect more than 20%.

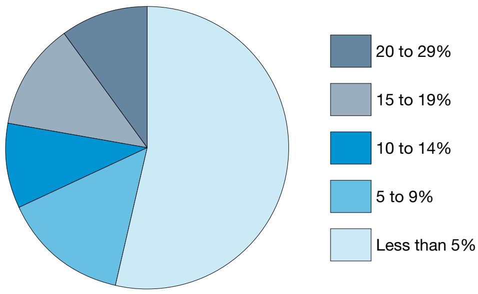
This suggests that bank employees were reluctant to move during 2009 but that mobility is expected to pick up again in the coming year.

Staff turnover in 2008



Eight banks recorded 20% or higher
Based on responses from 41 banks

Staff turnover in 2009



22 banks recorded less than 5%
Based on responses from 41 banks

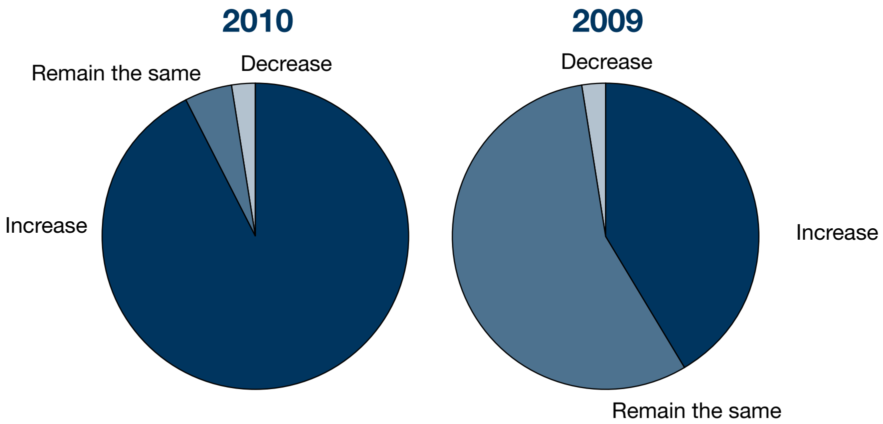
Q In 2010 will base salaries remain the same, increase or decrease?

In 2009, 23 banks stated that base salaries would remain the same, while 17 banks projected an increase.

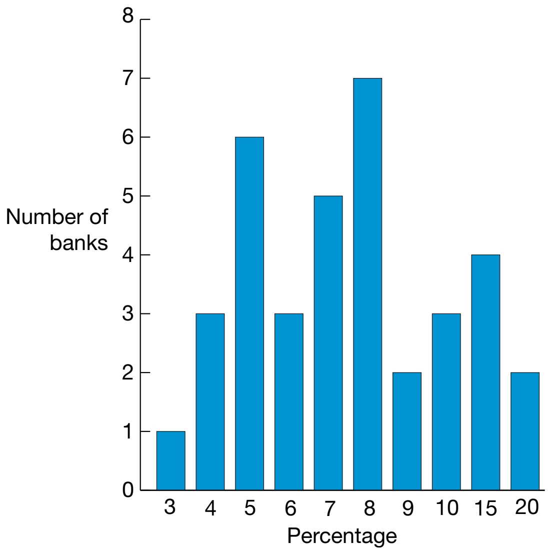
This estimate has changed dramatically for 2010, 38 banks now anticipate an increase and only two banks expect to remain at the 2009 level.

The expected salary increases range from 3% to 20%.

Twelve banks estimate around 7% to 8% increases, but nine banks anticipate 10% or more.



Based on responses from 41 banks in 2010 and 2009



Based on responses from 36 banks that indicated they would increase salaries in 2010

Q Will incentives and bonuses remain the same, increase or decrease in 2010?

A similar reversal is found with a relaxation of controls on salaries and bonuses.

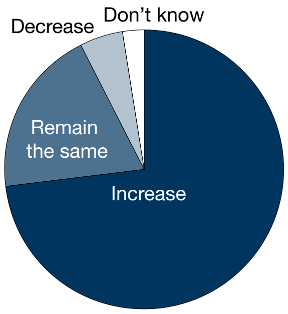
Three quarters of the respondents, 30 banks, expect bonuses to increase in 2010.

This is a major change from 2009 when half the group predicted they would remain the same and 14 banks said they would be reduced.

Several interesting observations were made by participants:

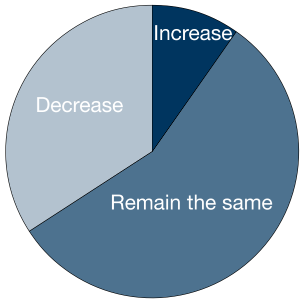
- One Asian bank said that bonus methodology had changed. In 2009, no bonuses were paid but in 2010, they would resume but more closely matched with performance
- An Asian bank said in the past, the bonus were equivalent to one month's salary but this year it would be two months salary
- A European bank noted that it was obliged to pay bonuses in line with competitors
- One North American bank said that bonuses were frozen last year, while another North American bank said bonuses would return to 2007 levels

2010



Based on responses from 41 banks

2009



Based on responses from 41 banks

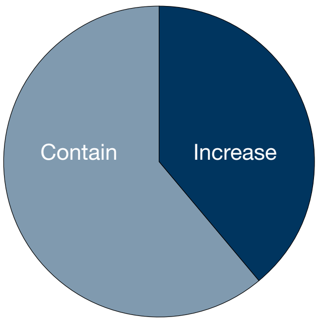
Q Will you contain or reduce overall HR costs in your China operation in 2010?

Fourteen foreign banks expect personnel costs to increase in 2010 while 22 banks hope to be able to contain them.

A number of banks suggested that they would be increasing staff numbers in response to new branch openings and on-going product development.

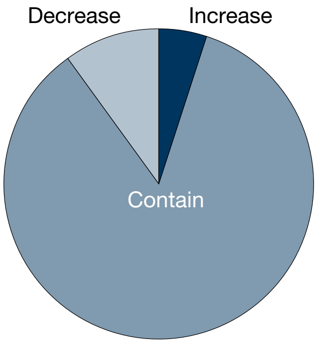
Two banks responded "Contain", indicating that they plan to reduce staff numbers in 2010. They are relatively small foreign banks, both are European and both have government shareholdings.

2010



Based on responses from 36 banks

2009



Based on responses from 40 banks

Q As the city commercial banks expand nationally, they are hiring qualified personnel. What impact is this having on foreign banks? Is the landscape changing?

As city commercial banks expand from their home city bases, it was suggested that they may become a recruitment threat to the foreign banks. The assumption was that they would be anxious to recruit trained foreign bank employees and could match salaries paid by foreign banks.

The experience of the foreign banks on this development was mixed. Eight banks supported this view while 27 banks disputed this view.

It was acknowledged that the city commercial banks were expanding nationally, particularly into coastal areas and that domestic banks were willing to pay the same salaries and benefits.

However, the greatest impact has been on the larger foreign banks which have more middle managers and broader branch networks.

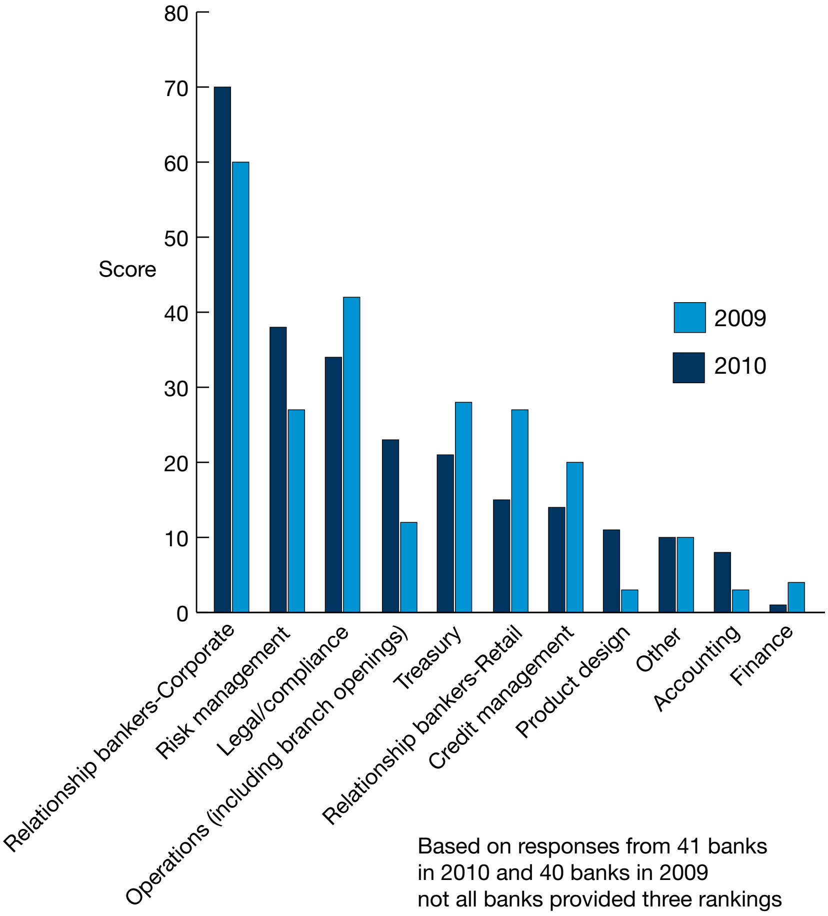
Q Which staff functions have the highest hiring priority in 2010? Can you rank the "Top 3"?

The staff function that has the highest priority in 2010 remains the same as 2009 and that is corporate relationship bankers.

As the foreign banks continue to grow their corporate activities, they seek effective client facing corporate bankers.

Risk management employees which were in fifth place in the chart in 2009 have moved up to second place in 2010, reflecting the increased importance of this function.

Operations (including branch openings) also grew in importance, moving up from seventh to fourth position.



Based on responses from 41 banks
in 2010 and 40 banks in 2009
not all banks provided three rankings

Risk management

Q Chinese regulators plan to apply Basel II capital standards to seven top banks by the end of 2010 as part of their efforts to limit risk as a result of the global financial crisis. Will such a move be 1) positive, 2) negative or 3) are you unsure?

In March 2009, the CBRC announced it planned to introduce Basel II capital standards to the following seven Chinese banks:

- ICBC
- Bank of China
- China Construction Bank
- Agricultural Bank of China
- Bank of Communications
- China Merchants Bank
- China Development Bank

Basel II embraces a set of guidelines on capital standards which have been agreed by the Central Bank Governors of the Industrialised Nations. It is recognised that the Chinese banks may have difficulty meeting these requirements by the end of 2010. As a result, a three-year window to 2013 has been built in to the regulatory guidance.

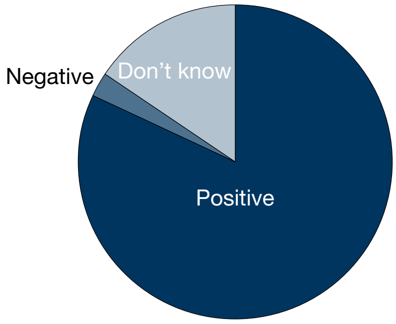
Although a large number of foreign banks acknowledged that adoption of Basel II by the Chinese banks was a step in the right direction, several believe that it will be a Chinese version of Basel II. In 2010, 32 banks indicated that it was a positive move versus 28 banks in 2009.

One Asian bank observed that the uncertainty of the adoption by the first seven banks is reflected in the fact that there is no time frame for more banks to follow.

Some foreign banks commented that it was beneficial from a risk management perspective but noted it would increase borrowing costs.

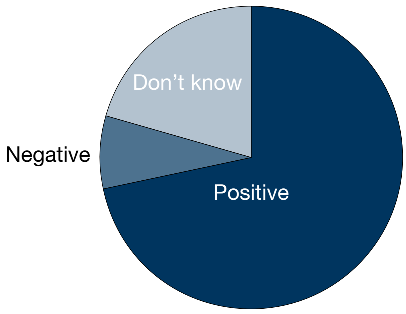
While one Asian bank said the big banks were actively recruiting to help prepare for Basel II another Asian bank predicted that the big banks would fail to meet the 2010 deadline because the required disciplines would not be in place within the required timeframe.

2010



Based on responses from 32 banks

2009



Based on responses from 39 banks

Q Will the global financial crisis impact the rollout of certain financial products in China?

The People´s Bank of China outlined the following objective at its conference in January 2010

Accelerate financial product innovation to promote healthy development of the financial market. In this regard, efforts will be made to accelerate the development of the bond market, develop a wider range of financial derivatives, expand the issuance of short-term financing bills by SMEs and collective bills, and study the introduction of convertible debt financing tools for SMEs and third-party bond repos. Asset-backed bills by enterprises and product innovation in the gold market will be encouraged, and financing in the property market will be improved. Programs that allow mainland-based financial institutions to issue RMB bonds in Hong Kong, foreign institutions and enterprises to issue RMB bonds, or foreign banks with legal person status to issue financial bonds in China will be continued.

(Source: PBOC website)

The overwhelming majority of participants believe that the financial crisis has affected the rollout of new products.

Only two of the 41 respondents disagreed. They argued that the CBRC permitted new products on a "drip by drip" basis and a North American bank stated that they had not experienced a slow down.

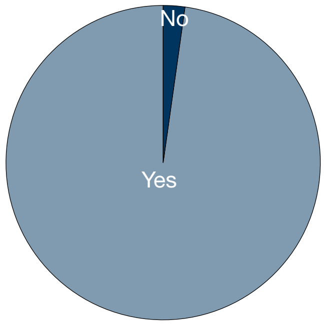
In 2009, 29 out of the 40 respondents believed the crisis would slow down the rollout of new products.

The general feeling was that the spread of securitisation and derivatives had been slowed down by the regulator.

Other related comments were as follows :

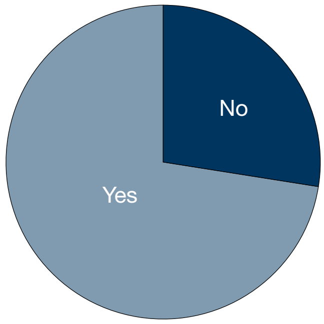
- Investment-linked products affected (Asian bank)
- Slowdown in the deregulation of RMB (European bank)
- CBRC still seeking innovative products but cautious and prefers experiments (European bank)
- CBRC will only approve easy to understand products (North American bank)

2010



Based on responses from 41 banks

2009



Based on responses from 40 banks

In May 2009, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued a notice regarding the supervision of state-owned enterprises' use of financial derivatives.

The purpose of the notice was to prevent the use of speculative derivative transactions which have resulted in huge losses at Central SOEs.

The notice covered the following key areas:

1. The cleanup of existing transactions
2. Internal risk control
3. The need for Central SOEs to adhere to the hedging principle and not to undertake speculative transactions
4. Reporting requirements and management accountability

(Source: China Law & Power, May 2009)

Airline Hedging Contracts

The central government and foreign banks are threatening legal action against each other in an escalating row over ballooning losses racked up by state-owned airlines which ran into the red on derivatives contracts.

Air China, China Eastern and Shanghai Airlines have reported losses of almost US$2 billion since last year on aviation fuel-hedging contracts after taking wrong-way bets on oil prices with their banks.

The State-owned Assets Supervision and Administration Commission (SASAC) said in a statement yesterday it would conduct an internal investigation into the contracts banks sold these airlines.

'The purpose of the move is to protect our own interests by resorting to legal actions in commercial activities,' the statement said. Individuals familiar with the commission's thinking said it might take legal steps to force the banks to forgive the losses.

Beijing's hardline stance on what the banks consider a bread-and-butter activity of selling a simple product has rattled global financial institutions and world commodities markets. In Hong Kong, banks including Citi, Goldman Sachs, JPMorgan and Morgan Stanley regularly sell these derivatives to mainland companies.

(Source: Extracts from South China Morning Post, 8 September 2009)

China's Rules Put Foreign Banks in a Bind

Credit Demands for Derivatives Trade Will Be a High Hurdle

Their credit reputations damaged by the global financial crisis, foreign banks face the prospect of being largely shut out of China's rapidly expanding markets for financial derivatives, a potential key source of revenue.

On Sept. 16, China will put into effect an agreement governing how banks trade domestic derivative products among themselves. But as a condition of dealing with foreign banks, China's five largest commercial banks are seeking to impose tough credit demands that will be difficult to comply with, according to lawyers and knowledgeable people at several foreign banks.

Bank of China Ltd., Industrial & Commercial Bank of China Ltd., China Construction Bank, Agricultural Bank of China Co. and Bank of Communications dominate the domestic money markets, supplying as much as 80% of market liquidity. Not being able to deal with them would punch a big hole in the operations of foreign banks in China.

China's derivatives markets are rapidly developing, and foreign banks have been hoping their extensive international experience will help them tap a stream of revenue from those markets. Under the new trading regime, banks will be allowed to trade only with counterparties with whom they have signed a master agreement. That agreement will initially cover existing trading in interest-rate swaps, bond forwards, foreign-exchange swaps and forwards and cross-currency swaps.

But the five big banks are insisting that foreign banks, and in some cases their major shareholders, guarantee the credit of their China units before they sign any agreement, according to foreign bankers with direct knowledge of the situation. Under existing arrangements, foreign banks can trade derivatives with those banks without providing credit guarantees.

Agreeing to cover any trading defaults would force foreign banks to put aside capital that could otherwise be used productively. Calling on banks' major shareholders to provide an additional guarantee is highly unusual elsewhere in the world, and may be an even greater stumbling block.

Most major Chinese banks had at least some exposure to Lehman Brothers Holdings, the Wall Street investment bank whose collapse last September sparked a global credit crunch, or were hit by losses on complex derivative products. The size of their losses, however, pale in comparison with those of major Western banks.

The demand for credit guarantees is a further source of frustration for foreign banks, given that many of them recently have been through a costly process of incorporating their local units, which are generally capitalized at around four billion yuan ($586 million). That was supposed to qualify them for equal treatment with Chinese banks.

"It goes against the regulator wanting us to stand on our own," said a treasury official at a big foreign bank in Shanghai. "It defeats the purpose of a local subsidiary." Beijing's rules, which require local incorporation as a prerequisite for conducting domestic-currency retail business, have allowed the regulator to tighten control over the banking sector, giving it recourse to assets held within the country in case a foreign bank defaults, while also fencing off foreign banks' local operations from potential risks elsewhere in their organizations.

(Source: Extracts from Wall Street Journal, 3 September 2009)

Q Has local incorporation had a positive influence on risk management?

Almost three quarters of the respondents believe that local incorporation has had a positive influence on risk management by the foreign banks in China.

An Asian bank commented that local incorporation required the bank to focus on its own balance sheet and respective ratios.

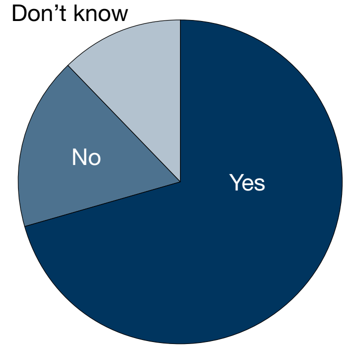
Another Asian bank said it enhanced accountability, while another said that it encouraged a more localised market-oriented approach.

A European bank believed it would lead to more vigorous regulation by the CBRC while another European bank said it significantly added to costs.

A large American bank held a neutral position and emphasised that branches can be just as effective as local incorporation.

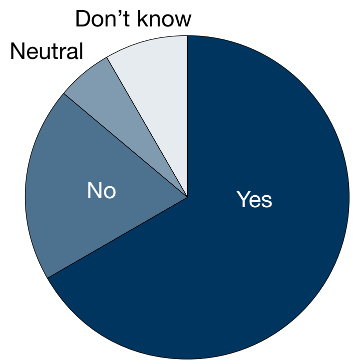
In 2009, 24 foreign banks said local incorporation was positive. By 2010 this number had increased to 29 banks.

2010



Based on responses from 41 banks

2009



Based on responses from 36 banks

Q Can you comment on "risk adjusted returns" in the context of foreign banks in China?

The foreign banks in general believe that the risk/reward relationship in China at the present time is favourable. They recognise that margins came under pressure as a result of the surge in lending by domestic banks in 2009, but at the time of this research, China was deemed to be an attractive market.

One Asian bank noted the wide range between deposit rates and loan rates. Typical comments were as follows: very positive (European bank), good returns (European bank), very satisfactory (Asian bank), margins shrinking but still very attractive (European bank), decent returns (European bank), and higher risks but solid rewards (Asian bank).

Despite these very positive endorsements, around eight banks believe that risk adjusted returns are low in China. One European bank commented "last year Chinese banks almost gave away free money, and as a result we had to avoid any direct competition".

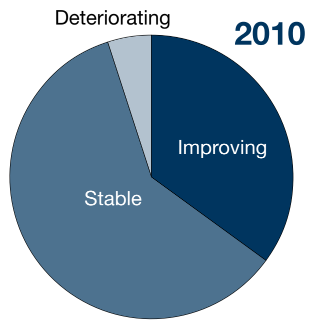
Q How would you describe the current credit position for corporate credit and consumer credit?

Although several banks mentioned that the government stimulus plan and loan surge in 2009 may result in a rise in NPLs in 2011 and beyond, their assessment of the corporate credit position did not reflect this view.

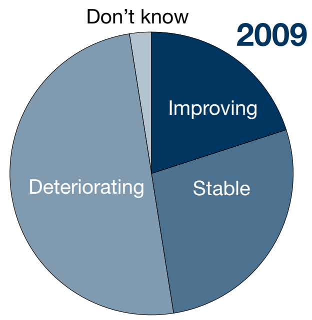
Instead, in contrast to responses to a similar question in the 2009 report, the foreign banks believe the corporate credit situation is stable. In fact, 14 banks believe it is improving.

In 2009, only eight banks suggested it was improving, while 20 banks contended it was deteriorating.

Corporate credit



Based on responses from 40 banks



Based on responses from 40 banks

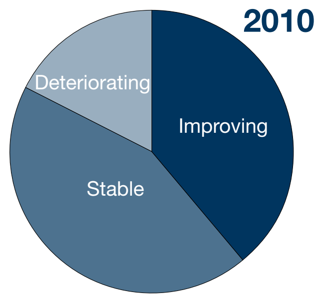
Consumer credit

A similar more optimistic outlook was also expressed on consumer credit.

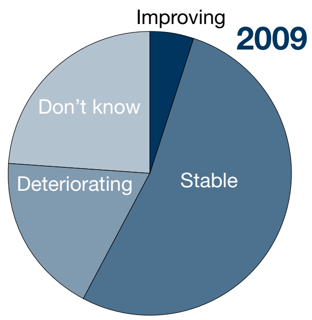
In 2009, 20 banks said consumer credit was stable while seven banks believed it was deteriorating.

In 2010, nine banks said it was improving, while 10 banks thought it was stable and only four banks thought it was deteriorating.

Consumer credit



Based on responses from 23 banks



Based on responses from 38 banks

Q Do you believe the Chinese banks' risk management systems are sufficiently robust?

Although there has been a slight improvement in the foreign banks' assessment on the robustness of the domestic banks' risk management systems, the vast majority of them remain sceptical.

A selection of comments is as follows:

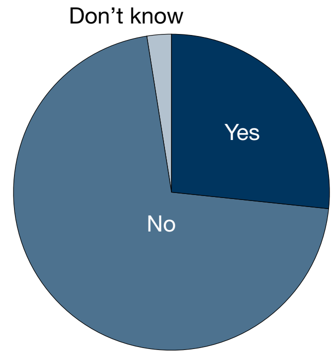
- Good in some banks such as CCB but not in the city commercial banks
- Insufficient checks and balances, subject to outside influence
- If pushed into SME lending, they will need better risk management systems
- Still a long way to go; improvement at head office level but questionable at the branch level
- Too much government influence; not really credible judgements

On a more positive note, several banks recorded progress by the domestic banks on risk management.

A number noted that risk management was improving and has advanced significantly. A European bank said that in some shared deals, the domestic banks were becoming more detailed and precise.

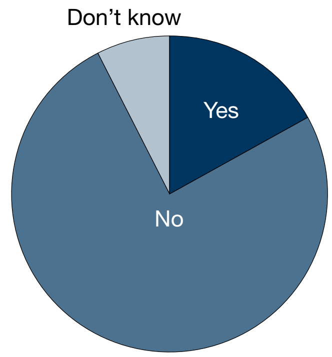
Another European bank said risk management was high on the CBRC agenda and therefore, improvements would follow.

2010



Based on responses from 40 banks

2009



Based on responses from 41 banks

An Asian bank said that the Chinese banks had better systems than some of the foreign banks.

They also commented that the PBOC has a powerful central database which is very effective at the retail level.

Products and market segments

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

China Unionpay Reports Soaring Card Use During Chinese New Year

Chinese consumers spent more than 56.9 billion yuan (US$8.3 billion or 6.1 billion euros) using their debit and credit cards during the week-long Chinese New Year, up 45% from 39.2 billion yuan during the same period last year, data from card company China Unionpay reveals.

Consumers initiated most of the transactions at retail, catering and travel-services locations. They spent 15.7 billion yuan using credit cards that week, up 44% from 10.9 billion yuan a year earlier, while debit card users were still dominant, spending 41.2 billion yuan, up 45.6% from 28.3 billion yuan a year earlier.

More and more Chinese consumers are getting accustomed to using plastic thanks to the constant marketing efforts of all the banks, Hao Hongrui, an analyst at Beijing-based research firm Beijing DHD consulting Co. Ltd., tells PaymentsSource. However, banks should keep an eye on the growing use of credit cards because the country's credit-information system is still not fully developed, Hao warns.

The job market is still stagnant, and chances are card owners, especially migrant workers, would not repay the debt if they lose their jobs, she says.

China established a national credit-information system in 2006. Set up by the central bank, the People's Bank of China, the system connects 23 banks located in major cities, covering only 640 million out of 1.3 billion individuals.

China UnionPay issued 420 million new debit and credit cards in 2009, up 40% from 300 million in 2007. Transaction volume on all the cards totalled 7.7 trillion yuan last year, up 67.4% from 4.6 trillion yuan in 2008, according to the issuer.

(Source: PaymentsSource, 24 February 2010)

The top three products on the retail side are predicted to be:

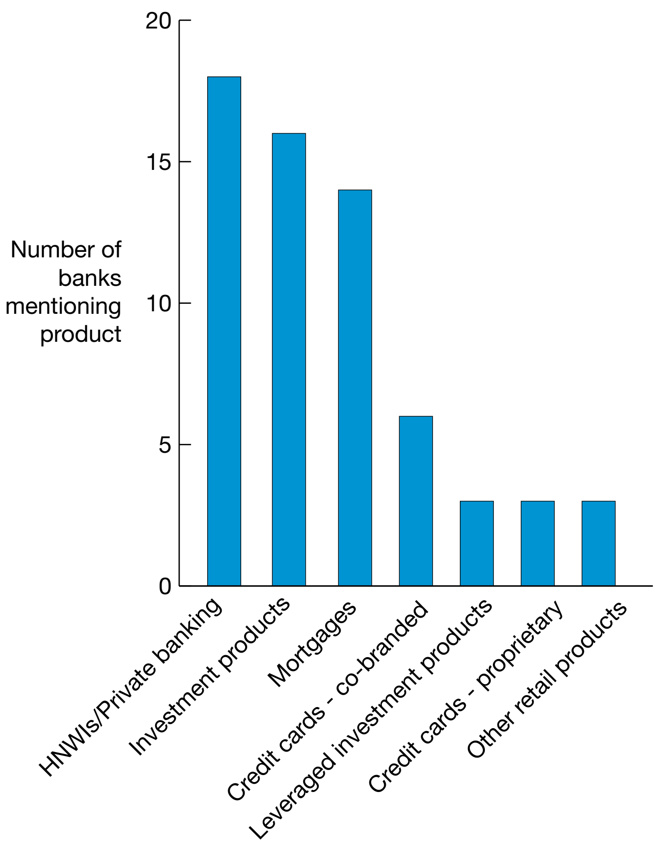
- High net worth individuals/ private banking
- Investment products
- Mortgages

This group remains the same as in 2009 although investment products replaced mortgages in second position. In 2010, only participants that possessed an in-depth knowledge of retail and private banking were asked to respond to this question.

China's continued economic growth has accelerated the number of high net worth and ultra high net worth individuals.

In the 2010, Forbes list of billionaires there were 97 new additions and 27 of these were from mainland China.

China ranks second behind the United States on the Forbes list.



Based on responses from 22 banks in 2010

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

Many of the foreign banks are actively pursuing wealth management and some are positioning their services below the normal threshold of US$1 million in investable assets. This strategy is devised to acquire clients when they have basic needs and then to develop and expand the relationship as their wealth grows and needs mature.

However, the foreign banks face increasing competition from the domestic banks. ICBC, Bank of China, China Construction Bank and Bank of Communications are all active in this area.

In addition to the big banks, medium-sized banks such as China Merchants Bank, China CITIC Bank and China Minsheng Bank are all developing successful wealth management arms.

For example, China Merchants Bank was awarded the title of "Best Private Bank in China 2009" by Euromoney.

Mortgage opportunities are anticipated by the locally incorporated foreign banks.

In early 2010 the number of mortgages issued by the domestic banks declined sharply as the central government implemented measures to cool the real estate market.

For example, the PBOC announced in March 2010 that individual mortgages fell by over 50% in Shanghai in February.

Banks in Shanghai extended individual mortgages of RMB 7.86 billion (US$1.15 billion) in February, a drop of RMB 11.74 billion over January 2010. (source: Shanghai Daily, 12 March 2010)

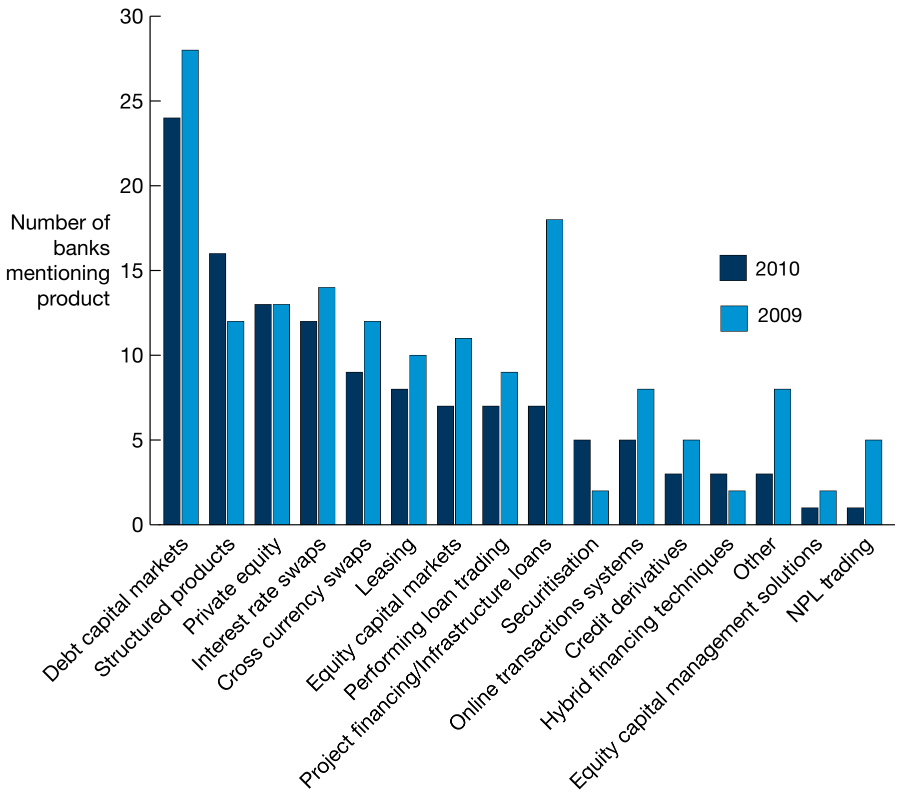
Q Which product areas do you see as becoming increasingly important in the Chinese wholesale banking market in the next three years?

A strong consistency exists between the opinions on product development expressed in both 2009 and 2010.

On the wholesale side, the emergence of debt capital markets continues to be defined as the most important opportunity.

This is followed by structured products, private equity and interest rate swaps.

One noticeable contrast from 2009 is the diminished significance of project financing and infrastructure loans. These areas may offer less opportunity in the future as a result of the scaling back of the stimulus plan.



Based on responses from 39 banks in 2010 and 38 banks in 2009

Q In your opinion, how serious, on a scale of 1 to 10, where 10 represents the maximum level of severity, are the following issues at a retail bank's branch level?

The foreign banks were asked to comment on three areas of the domestic retail banks' operations. These were the level of expertise of branch staff, the mis-selling of products and thirdly, the exercise of controls in the distribution channels.

All three areas experienced lower scores in 2010 versus 2009.

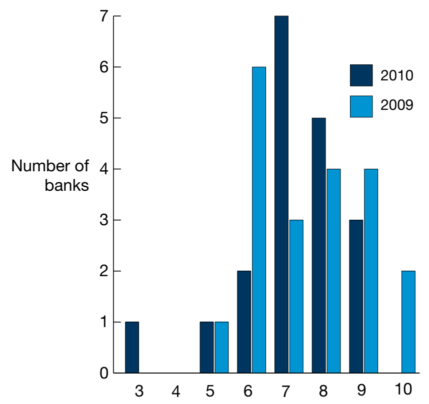
Regarding the lack of expertise in selling particular products, the overall score fell from 7.5 to 7.16 in 2010.

Mis-selling of products registered the greatest with a decline from 7.2 to 6.2 in 2010. Seven out of the 19 respondents scored this factor at 5 or below.

Controls in the distribution channel also improved, falling from 7.0 to 6.1 in 2010.

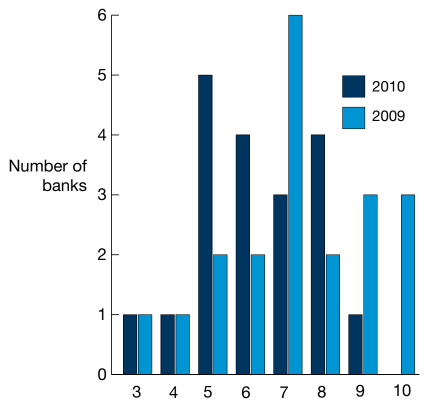
These scores although subjective, suggest that the foreign banks believe that their domestic counterparts are continually improving their service delivery.

Lack of expertise by staff in selling particular products



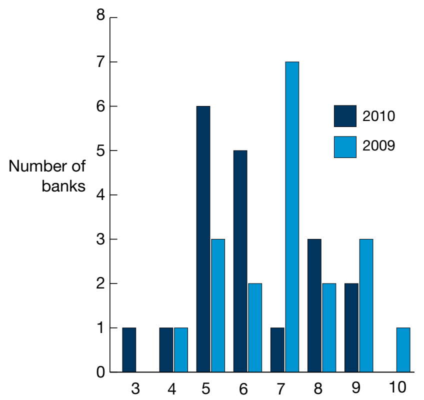
Based on responses from 19 banks in 2010 and 20 banks in 2009

Mis-selling of certain products



Based on responses from 19 banks in 2010 and 20 banks in 2009

Controls in the distribution channel



Based on responses from 19 banks in 2010 and 20 banks in 2009

Q Can you elaborate on how structured products are being used in the market?

One European bank suggested that the structured products market had taken a step backward to a simpler and more straightforward product offering. Another noted the immaturity of both customers and the industry and how the CBRC had become much more cautious over the last two years. It was however predicted that opportunities would further open up by 2013.

Several banks in the wealth management segment believe that structured products will gain wider acceptance as they seek to improve their yields.

A selection of individual bank comments are recorded below :

- We are at a stage of wait and see (European bank)
- Chinese customers will return to higher risk products (Asian bank)
- The markets are tightly controlled (European bank)
- Greater customer expertise needed (North American bank)
- There is a growing need for more risk protection products (European bank)
- There is a real need for more structured products, enormous potential for banks (European bank)
- There will be more bonds issued by large enterprises. This trend is already happening (European bank)
- The market will become increasingly sophisticated and the regulator will become more receptive (North American bank)

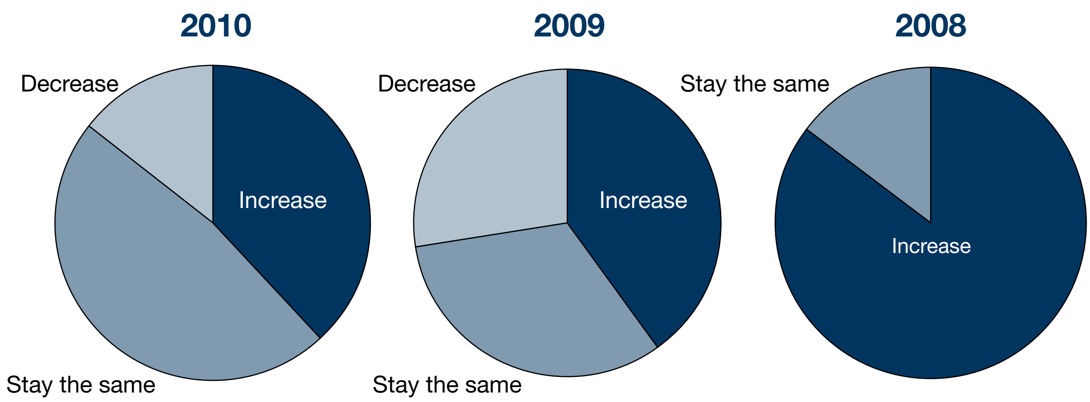
These comments were in line with those made in the 2009 survey. Progress has been slow but the respondents believe that the market will continue to evolve towards a wider use of structured products.

Q Will the aggregate market share of foreign banks in China (versus local banks) continue to increase, stay the same or decline?

A review of the market share expectations over the last three years reveals that in 2008, a sizeable group anticipated an increase; by 2009, eleven banks forecast a decrease; and by 2010, this number dropped to six banks.

In 2010, almost half, 20 out of the 42 banks expected market share to remain the same.

Within an overall market share of around 2%, maintenance of the status quo reflects a lack of progress for the foreign banks.



Based on responses from 42 banks in 2010.

Reasons for changes in market share

The reasons for the disappointing market share are highlighted in order of importance as follows:

- Unlevel playing field
- Economic factors
- Small size of market
- Consolidation
- Limited product range

Several banks pointed out that market share does not reveal the true story.

A number of banks have grown but the significant growth in the overall market as a result of the stimulus plan has masked their individual expansions.

Other explanations given for the lack of progress on market share included a lowering of risk appetite by some foreign banks in the post financial crisis environment and limited if any, involvement in major infrastructure projects.

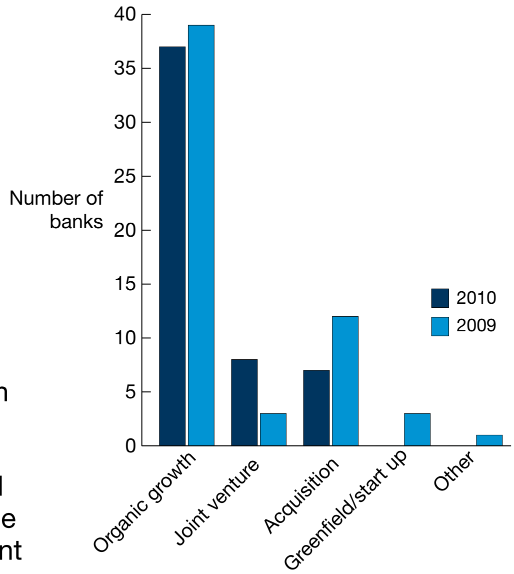
Q What is your bank's primary method of expansion in China?

The most important growth option for the foreign banks continues to be organic expansion of their existing operations.

In 2010, 37 banks selected this option versus 38 banks in 2009. This was followed by joint ventures (eight banks) and acquisitions (seven banks).

In 2009, 12 banks selected acquisitions suggesting this option has become more challenging.

A North American bank said it had formed a leasing joint venture while a European bank had formed a joint venture in the securities sector.



Based on responses from 40 banks in both 2010 and 2009 where on occasion banks selected more than one factor

Q Will you become involved in partnership relationships over the next three years?

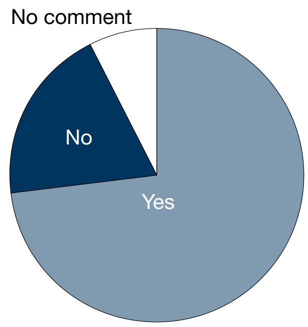
In a separate question looking at partnerships, the foreign banks clearly see this as a positive way to expand their businesses.

Around three quarters of the respondents indicated they would develop partnerships.

Partnerships were seen as a way to collaborate with local companies and gain access to the market.

Leasing, securities and trust companies, capital markets activities in general, corporate finance and asset management were all suggested as opportunities.

Interested in partnerships



Based on responses from 41 banks

Q What are the top three drivers of success in private banking?

Many foreign banks recognise that wealth management will be an important component in their future strategic development in China.

They were asked to identify the three most important drivers of success in the Chinese market.

The top three drivers of success are as follows:

- **Strong products.** Respondents recognise the need to offer as comprehensive a range of wealth management products as possible and to demonstrate superior investment performance
- **Top quality people.** An Asian bank believed "people" were the key differentiator
- **Recognised brand.** Several European banks, one North American and one Asian bank placed brand as the most important success factor; understandably these banks are all "global names" in the wealth management sector

Closely following these top three success factors are:

- **Client Service/relationship.** This factor is related to top quality people. One Asian bank highlighted the importance of providing a one-stop service excellence.
- **Client education.** Many of the respondents mentioned that many clients were "newly rich" and required advice on how to grow and preserve their wealth. A North American bank advised that wealth management products offered by its bank in other parts of the world needed adoption for China. One foreign bank CEO recounted how he had arranged a meeting with a potential billionaire client and had brought along his top private banker. The prospective client however, could not relate to or empathise with the private banker and the discussion on a wealth management strategy failed.
- **Systems support.** It was considered critical to have top quality systems support. This success factor supports several of the previously mentioned criteria such as product design, product performance and client servicing.

In addition to these factors, participants also mentioned the importance of powerful promotions (Asian bank), a receptive market environment (Asian bank), ability to provide an onshore/offshore link (European bank) (although it is not permitted to make referrals), and finally access to private RMB quotas (European bank).

Q How do you differentiate your services from the domestic banks?

The foreign banks believe that they have the ability to differentiate their services from the domestic banks in a few areas.

A European bank suggested that it cannot compete on products but rather on service.

One Asian bank said "We provide a one-stop service to our target customers; a single point of access to our service suite, a professional wealth management portal."

A North American bank referred to its seamless service which allows an integrated onshore/offshore linkage.

Q Can you comment on impairment losses and the specific sectors that have had the greatest impact on your bank?

The sector that has created the greatest challenges for the foreign banks has been small and medium sized companies.

One European bank observed that some of the larger, locally incorporated banks had "jumped into this sector with both feet". More specifically, a North American bank cited the problems of small toy manufacturers.

A European bank mentioned sectors such as steel, cement and textiles.

Respondents collectively referred to some foreign banks that they think have suffered impairments in the SME sector.

Investments

Q Do you envisage making further acquisitions in China over the next three years?

In 2010, foreign banks have a higher expectation that they will make acquisitions over the next three years than in either 2008 or 2009.

In 2008, 22 banks said yes, this increased to 23 banks in 2009 and 32 banks in 2010.

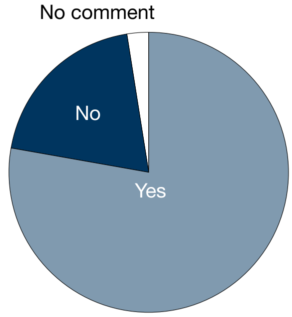
The general feeling, however, was that acquisitions would be undertaken incrementally. The strong levels of commitment to China expressed elsewhere in the report suggests that the foreign banks have a strong desire to acquire and diversify. Market constraints on the scale and pace of growth may be attracting them towards diversification and into less typical areas of expansion for foreign banks.

The potential target sectors for acquisitions are as follows :

- Asset management
- Securities
- Leasing
- Rural banking
- Insurance
- Consumer finance
- Private equity
- Factoring
- Trust companies

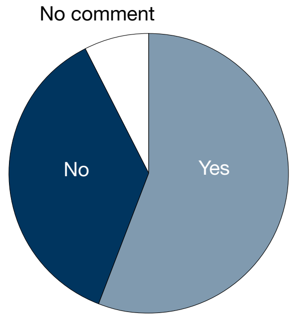
In addition, it was thought that Taiwanese, Italian and Spanish banks might still be interested in acquiring a 20% stake in a city commercial bank.

2010



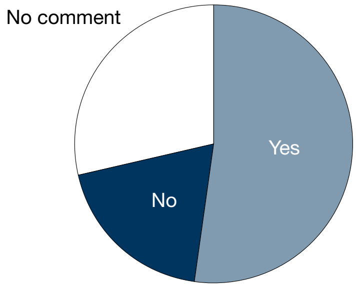
Based on responses from 41 banks

2009



Based on responses from 41 banks

2008



Based on responses from 42 banks

Q Can you provide a few examples of equity investments made by foreign financial institutions that you believe were successful or unsuccessful?

"China is critically important to Citi and our long-term growth ambitions, and remains one of Citi's priority markets around the world. We are committed to pursuing growth across multiple lines of business in China."

Vikram Pandit, CEO Citibank
Citibank press release, 4 February 2010

Responses to this question were varied. In a few cases, one bank would consider the investment successful while another would hold a contrary view. Respondents questioned the criteria used to judge the level of success. If it was financial return on investments then most, if not all, were judged to have been successful. If on the other hand they were to be measured on leveraging skill sets and developing collaborative and beneficial strategies, the group were much more judgemental.

One investment that was mentioned on numerous occasions as a perceived success was HSBC and Bank of Communications.

A second example mentioned by several banks as a success was Citibank and Guangdong Development Bank.

Guangdong Development Bank is reported to be planning an IPO in 2010 (source: Xinhua, 12 March 2010).

Participants did not believe that Citibank's investment in Shanghai Pudong Development had been successful. In March 2010, China Mobile announced plans to buy a 20% stake in SPDB.

Other foreign bank investments that were perceived as "successful" included:

- BNP Paribas and Bank of Nanjing
- Deutsche Bank and Hua Xia Bank
- Standard Chartered Bank and Bohai Bank
- Bank of Montreal and Fullgoal Fund Management Co.
- ING and Bank of Beijing
- OCBC and Ningbo Bank

Deal seen for stake in China Investment Bank

Kohlberg Kravis Roberts & Company and TPG Capital have tentatively agreed to pay close to $1 billion to acquire Morgan Stanley's 34 percent stake in China's leading investment bank, according to people who have been briefed on the deal.

The deal for a stake in China International Capital Corporation would be one of the largest single foreign investments ever made in China's financial services industry. It is the latest sign that global private equity groups are making a huge push to enter a market that has long been restricted to outside investors. Morgan Stanley and one of this country's biggest banks, the China Construction Bank, helped form China International Capital in 1995. But for more than a year Morgan Stanley has been trying to sell its stake to focus on establishing a Chinese joint venture that would give Morgan Stanley more management control.

The deal has not been completed and must still get the approval of regulators. People involved in the deal said an agreement was weeks or months away. Morgan Stanley and China International Capital officials declined to comment Tuesday, and spokesmen for K.K.R. and TPG Capital also declined to comment. A report that K.K.R. and TPG Capital were close to a deal with Morgan Stanley was reported on Tuesday in The Wall Street Journal.

American private equity groups and global investment banks are moving aggressively to increase their presence in China's booming economy and its sizzling hot market for initial public stock offerings.

The Blackstone Group, the Carlyle Group and other firms are even forming private equity funds denominated in China's currency, the renminbi. China International Capital, which is run by Levin Zhu, the son of the former Chinese prime minister Zhu Rongji, generates hundreds of millions of dollars in revenue and usually tops the list of Chinese stock underwriters.

But for years, Morgan Stanley has had little or no role in the company's management decisions, having lost much of its control after rocky relations in the earliest years of the venture.

Now, Goldman Sachs, Morgan Stanley, UBS and other investment banks are trying to strengthen their business here and also form securities firms to compete with China International Capital and Chinese brokerage houses.

(Source: New York Times, 24 February 2010)

RBS seeks securities licence in China

Royal Bank of Scotland is seeking a securities licence in China as part of plans to refashion its mainland business following the disbanding of a key strategic partnership. The bank has signed a securities joint venture deal with a local partner and applied to Beijing for regulatory approval, people familiar with the matter said.

Several foreign banks, including JPMorgan and Barclays, are scrambling to obtain mainland licences for securities joint ventures able to underwrite initial public offerings and trade domestic stocks. Only a handful have received licences so far. The approval process is lengthy and RBS's capital outlay is likely to be negligible.

However, the move is noteworthy because it is the first sign of RBS's willingness to invest in global growth opportunities since being rescued by the UK government in 2008, and comes as European regulators are forcing it to sell coveted assets.

A securities licence would make it easier for RBS to help UK companies, and the country's debt-ridden government, to tap China's deep pools of capital. RBS declined to comment about its plans regarding a securities joint venture but John McCormick, RBS Asia Pacific chief executive, told the Financial Times that the bank was working on several fronts to expand its China platform.

"We have many 'acorns' planted in China and I am confident these will grow steadily in the coming years," he said.

Five years ago, RBS acquired a 5 per cent stake in Bank of China as part of a strategic tie-up that spawned joint ventures in credit cards and wealth management. However, it sold the stake for $2.4bn last year to bolster its balance sheet, triggering a disbanding of the two joint ventures.

Instead, it signed a fresh memorandum of understanding with the Chinese lender covering global wholesale and investment banking deals, dovetailing with its new strategic focus in the region. "China remains a core market," said Mr McCormick. "Our corporate and personal relationships with Bank of China remain strong."

RBS last year decided to exit retail and commercial banking in the Asia Pacific region. It sold assets in six countries to Australia's Australia & New Zealand Banking Group and is waiting regulatory approval to divest operations in China, India and Malaysia.

In addition to the revamped Bank of China tie-up, RBS retains a mainland corporate banking licence, ownership of a profitable leasing operation and stakes in domestic trust and futures companies. RBS owns a 20 per cent stake in Suzhou Trust, a company that stands to benefit from rising demand for annuity and pension products. It also retains a 16.8 per cent stake in the futures subsidiary of Galaxy Securities, a leading trading house.

(Source: Financial Times, 7 March 2010)

Q In your opinion, in which markets are the big Chinese banks likely to expand? How will they undertake this expansion?

The majority of foreign banks believe that the Chinese banks will opt to both grow their domestic business and expand internationally. Seven respondents suggested the Chinese banks would opt for local expansion only versus five banks for international expansion only.

Those that selected domestic expansion commented that the high levels of liquidity required attention to the local market's expansion.

International expansion is already underway for many of the longer Chinese banks. The foreign banks noted their presence in their own home markets. For example, a German bank commented that all of the 'Big Five' were now present in Frankfurt, an Australian bank said Bank of China and ICBC were very aggressive in Sydney. One North American bank commented on branch openings in New York and the potential interest in acquiring a regional bank etc.

The observation made in the 2009 report that they would first expand into Hong Kong is well underway. One North American bank suggested that the domestic banks would be interested in Hong Kong banks with securities arms.

Australia, Brazil and Africa were frequently cited as target markets as the Chinese banks follow their clients and because of opportunities to source for natural resources.

Expansion of large Chinese banks

Based on responses from 40 banks

Recent foreign banking developments as a result of the pending agreement on Cross-Strait Financial Cooperation

A number of participants highlighted the signing in late 2009 of a Memorandum of Understanding on Cross-Strait Financial Cooperation.

Comments made by a Taiwanese bank in Taipei (for this report) suggested that the first two Chinese banks to enter Taiwan would be Bank of Communications and Bank of China. However, he suggested that Taiwan is a small overbanked market and the Chinese banks might be attracted to the option of cooperating with Taiwanese banks in order to develop relationship in other markets.

Taiwanese banks, primarily the large non-government owned banks, are expected to take advantage of the Economic Cooperation Framework Agreement (ECFA) which will fast track their expansion on the mainland.

Under the ECFA, Taiwanese banks will be able to invest in Chinese banks and, in comparison to other foreign banks, establish branches, subsidiaries and enter the RMB market at an accelerated pace.

Several foreign banks hinted that expanded cross-strait activity by both mainland and Taiwanese banks might have a negative impact on the existing business of some already established foreign banks that have an active presence in both markets.

Taiwan draws up regulations for mainland financial operations on island

Taiwan's financial supervisory body issued regulations on mainland banks' operations on the island, two months after China and Taiwan signed a memorandum of understanding on financial cooperation.

The regulations will not go into effect until the Economic Cooperation Framework Agreement is signed.

Mainland banks that meet the criteria outlined in the regulations can now set up representative offices in Taiwan and upgrade them to branches after two years, though the ECFA may stipulate exceptions. They can also hold a minority stake in a Taiwanese bank to form a partnership, though they are limited to handling single deposits over NT$1.5 million.

Mainland banks that want to enter Taiwan must have experience running branches in OECD countries and are subjected to Taiwanese laws and financial regulations. Currently, five mainland banks meet the criteria: Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Bank of Communications, and China Merchants Bank.

Besides banks, mainland insurance companies and stock dealers received the green light as well. Currently, three insurers are eligible to set up representative offices, while another two are qualified to form joint ventures with Taiwanese risk companies.

Mainland securities and futures companies can form joint ventures with only one Taiwanese firm. Like banks and insurers, experience in overseas practices is required.

The FSC also provided detailed regulations for Taiwanese financial institutions on their entry into the mainland. Thirteen of Taiwan's 15 financial holding companies are qualified to seek partnerships in the mainland. Fourteen Taiwanese banks can upgrade their representative offices in the mainland to branches, including Chinatrust Commercial Bank of Taiwan, who is confident enough to skip the local branch route and has applied to be a direct subsidiary instead.

Financial analysts in Taiwan are still concerned about the outcome of the ECFA negotiations but are confident that the mainland banks' participation will benefit the local financial market, such as helping local institutions become more familiar with the renminbi and preparing them for future competition across the Taiwan Strait.

Taiwanese stock brokers say giving clearance for mainland financial institutions is a historical trend but also point out that the Taiwanese market is too limited to attract more mainland investment. But some financial chiefs are optimistic about their operations, saying that their market shares are unlikely to be affected by mainland companies.

(Source: www.china.org.cn, 17 March 2010)

Six Taiwanese banks apply to open branches in China

Six Taiwanese banks applied on Monday to set up branches in China under a package of agreements signed by the former arch rivals last year, the island's top financial regulator said.

The agreements, the latest sign of improving ties between the neighbours, are designed to foster closer cooperation in banking, insurance and securities and became effective in January.

The agreements are eventually expected to make it easier for Taiwanese and Chinese banks to buy each other's assets and to make it possible for Chinese investors to buy shares on the Taiwanese stock market.

The six applicants were Cathay United Bank, Taiwan Cooperative Bank, Chang Hwa Commercial Bank, Land Bank of Taiwan, First Commercial Bank, and Hua Nan Commercial Bank, the Financial Supervisory Commission said in a statement.

China still considers Taiwan part of its territory, even though the island has governed itself since 1949 at the end of a civil war.

But ties between the two sides have improved markedly since Ma Ying-jeou of the China-friendly Kuomintang came to power in 2008, pledging to beef up trade links and allow in more Chinese tourists.

(Source: Agence France Presse, 19 April 2010)

Liquidity and funding

Q Has there been an impact on lending as a result of liquidity issues?

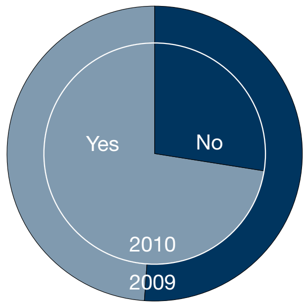
The impact of liquidity issues that was so evident at the end of 2008 had declined dramatically by early 2010.

With regard to the respondents' own bank, 20 banks indicated liquidity was still an issue but 21 banks said this was no longer the case. In 2009, 29 banks recorded an impact on lending as a result of liquidity issues.

Commenting on the group as a whole, 31 out of the 41 respondents believed liquidity was an issue. Although this is a high percentage (around 75%) it represents a reduction from 2009 when 39 out of the 40 respondents suggested liquidity had an impact on lending.

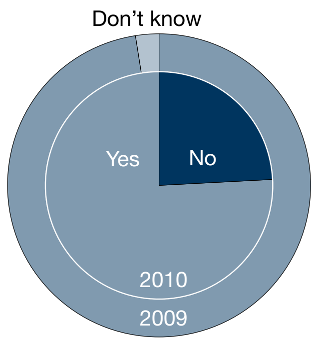
Finally, in relation to the domestic banks, the foreign respondents believe that there has been little problem of liquidity issues and the results are reversed. The six banks that believed the domestic banks had liquidity related issues included four European banks and two Asian banks.

Your bank



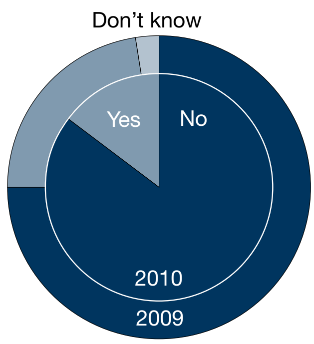
Based on responses from 41 banks in 2010 and 40 banks in 2009

All foreign banks



Based on responses from 41 banks in 2010 and 40 banks in 2009

Domestic banks



Based on responses from 41 banks in 2010 and 40 banks in 2009

Q Has the regulator relaxed restrictions on lending?

In 2009, the respondents provided a mixed response regarding the controversial issue of loan "quotas". Although there are no longer RMB "quotas", there is still a need to request an allocation from the State Administration of Foreign Exchange (SAFE) regarding foreign currency loans.

The majority of banks responded that they anticipate their foreign currency lending allocations are expected to be the same in 2010 as they were in 2009. The normal procedure is that the banks are advised of their quotas at the end of March or the beginning of April.

The banks expressed a variety of views on the implementation of this restriction. Some anticipated that 2010 may see a tightening in quotas in response to a broader economic restraint and concern over inflation. Others believed there might be a modest relaxation.

A large European bank anticipated a 10% increase while another similarly sized bank predicted 2010 would be the same as 2009.

Several banks mentioned that the size of the foreign currency lending opportunity was a key component in their market development strategy. Rigid control of this allocation will therefore have a significant influence on their growth plans.

Q Can you describe your funding sources in 2010 and in 2013 in very approximate percentages?

Thirty nine banks answered this question and each bank has been assigned a number to protect their identities.

As in 2009, the most important source of funding for 2010 remains the foreign banks' parent. Percentages in this category ranged from 6% up to 100%. Closely following parental support is funding from corporate deposits and deposits from domestic banks.

Funding from other foreign banks was important to 17 banks, while 12 banks indicated they were able to secure retail deposits.

In 2009, 10 banks said they attracted retail deposits.

	Parent	Corporate deposits	Domestic banks	Foreign banks	Retail deposits – HNWI/Premier clients >RMB 250K	Retail deposits – Other <RMB 250K	Other	
Bank 1		50%			50%			100%
Bank 2	6%	65%	10%		10%		9%	100%
Bank 3	50%	50%						100%
Bank 4	25%	25%	25%	25%				100%
Bank 5	20%	30%	10%		40%			100%
Bank 6	10%	50%	10%	10%	15%		5%	100%
Bank 7	13%	65%	12%		5%	5%		100%
Bank 8		60%	20%	20%				100%
Bank 9	30%	40%	15%	15%				100%
Bank 10		20%	60%	20%				100%
Bank 11		20%	75%		5%			100%
Bank 12	60%		20%	20%				100%
Bank 13	34%	33%	33%					100%
Bank 14	20%	50%	15%	5%	5%		5%	100%
Bank 15	9%	5%	50%	36%				100%
Bank 16	90%		10%					100%
Bank 17		50%	50%					100%
Bank 18	30%	30%	40%					100%
Bank 19	80%	5%	10%	5%				100%
Bank 20	60%		30%	10%				100%
Bank 21	60%	10%	30%					100%
Bank 22	30%	40%	30%					100%
Bank 23	30%	3%	57%	10%				100%
Bank 24	60%	20%	20%					100%
Bank 25	80%	10%	5%	5%				100%
Bank 26	40%	10%	30%	20%				100%
Bank 27	50%	40%	5%	3%	2%			100%
Bank 28		25%			75%			100%
Bank 29	80%	5%	15%					100%
Bank 30		30%	70%					100%
Bank 31	30%	10%	40%	20%				100%
Bank 32	50%	25%	25%					100%
Bank 33	85%		15%					100%
Bank 34	20%	50%	30%					100%
Bank 35	5%	50%			45%			100%
Bank 36	50%	20%	10%		20%			100%
Bank 37	20%	20%	40%	20%				100%
Bank 38	100%							100%
Bank 39	30%	5%	40%	20%	5%			100%

Q Can you describe your funding sources in 2010 and in 2013 in very approximate percentages? (continued)

By 2013, parent funding will continue to be important for 30 banks but eight banks hope to have migrated away from this funding source. Corporate deposits will become the most important funding avenue.

It is interesting to note that the number of banks that will be accessing retail deposits is only expected to increase from 12 banks in 2009 to 13 in 2010.

One out of the 12 banks in 2009 was unable to project forward to 2013 but it expects to continue to access its retail deposits. As a result, the 13 banks shown could be increased to 14 banks.

Deposits will become a critical factor over the next two years as the locally incorporated banks navigate to conform to the 75% loan-to-deposit ratio by the end of 2011.

	Parent	Corporate deposits	Domestic banks	Foreign banks	Retail deposits – HNWI/Premier clients >RMB 250K	Retail deposits – Other <RMB 250K	Other	
Bank 1		50%			50%			100%
Bank 2	6%	65%	10%		10%		9%	100%
Bank 3	20%	60%	10%	10%				100%
Bank 4	15%	35%	5%		45%			100%
Bank 5		50%	5%	5%	40%			100%
Bank 6	5%	80%			15%			100%
Bank 7		60%	20%	20%				100%
Bank 8	40%	30%	15%	15%				100%
Bank 9		20%	55%	25%				100%
Bank 10		50%	30%		20%			100%
Bank 11	60%		20%	20%				100%
Bank 12	31%	31%	32%		6%			100%
Bank 13	20%	50%	15%	5%	5%		5%	100%
Bank 14	11%	8%	60%	21%				100%
Bank 15	50%		50%					100%
Bank 16		70%	30%					100%
Bank 17	10%	50%	40%					100%
Bank 18	50%	10%	20%	20%				100%
Bank 19	50%	20%	30%					100%
Bank 20	60%	10%	30%					100%
Bank 21	10%	40%	30%		20%			100%
Bank 22	30%	10%	50%	10%				100%
Bank 23	60%	20%	20%					100%
Bank 24	50%	10%	20%	20%				100%
Bank 25	30%	20%	30%	20%				100%
Bank 26	10%	70%			20%			100%
Bank 27	25%	25%	25%	25%				100%
Bank 28	55%	5%	40%					100%
Bank 29		30%	70%					100%
Bank 30	30%	10%	40%	20%				100%
Bank 31	20%	75%	5%					100%
Bank 32	50%	30%	20%					100%
Bank 33	20%	50%	30%					100%
Bank 34	20%	50%	10%		20%			100%
Bank 35	30%	30%	20%	10%	10%			100%
Bank 36	100%							100%
Bank 37	30%	10%	20%	20%	20%			100%

Q Can you provide some details on your loan portfolio?

The pattern of distribution in terms of lending categories remained very similar in 2010 compared to 2009. For example, within a total of 34 banks that provided data in 2010, 29 said that they had loans to Chinese-based listed corporates (29 banks in 2009), 18 banks had loans to Chinese private companies (16 in 2009 and 10 had loans to Chinese SMEs (12 in 2009).

The most comprehensive category was Chinese listed corporates. However, as expected, both the global corporates and home country corporates categories remain extremely significant to the foreign banks. For example, eight within the group of 34 reporting banks acknowledged that they had 50% or more of their loan portfolio with global corporates.

Fifteen banks indicated that 20% or more of their loan portfolio resided with corporates from their home country. For example, loans from a German bank to a German corporate.

Following the stimulus plan, the foreign banks found it increasingly difficult to compete with the domestic banks and this strong dependence on global or home country corporates reflect the challenges faced by the foreign banks in attempting to service Chinese corporates.

	To Chinese based large listed corporates	To Chinese based private corporates	To Chinese based SME corporates	To Global corporates	To home country corporates	To Chinese banks	To Foreign banks	Other	Total
Bank 1	25%	12%	3%	60%					100%
Bank 2	5%	10%	15%	40%		15%		15%	100%
Bank 3	20%	20%		50%	10%				100%
Bank 4				50%		50%			100%
Bank 5	20%	10%		40%		15%	15%		100%
Bank 6	30%	20%	10%		30%		10%		100%
Bank 7	1%	47%	27%		10%			15%	100%
Bank 8				70%	30%				100%
Bank 9	10%	10%		80%					100%
Bank 10	60%			20%	10%	5%	5%		100%
Bank 11	80%			20%					100%
Bank 12	20%					80%			100%
Bank 13	30%			70%					100%
Bank 14	20%	10%	5%	60%		5%			100%
Bank 15	5%			10%	25%	40%	20%		100%
Bank 16	20%	10%			20%	50%			100%
Bank 17	7%			3%	90%				100%
Bank 18	40%	30%		10%	20%				100%
Bank 19	5%	10%	5%	5%	40%	10%	10%	15%	100%
Bank 20	40%				60%				100%
Bank 21	40%	30%			30%				100%
Bank 22	10%	70%			20%				100%
Bank 23	10%			90%					100%
Bank 24	30%				70%				100%
Bank 25			60%	40%					100%
Bank 26	30%	40%	10%			20%			100%
Bank 27	30%		5%		35%	30%			100%
Bank 28	40%			45%	15%				100%
Bank 29	40%	60%							100%
Bank 30		80%	20%						100%
Bank 31	10%	20%		40%	30%				100%
Bank 32	30%	30%		10%	30%				100%
Bank 33							100%		100%
Bank 34	20%				80%				100%
Bank 35	25%		75%						100%
Bank 36	30%	20%	5%	20%	10%	10%	5%		100%
Bank 37	20%			50%		30%			100%
Bank 38	30%	10%		10%	20%	20%	10%		100%

Regulation

Q How significant will the change, in terms of regulation of the foreign banks in China, be as a result of the global financial crisis?

The foreign banks anticipate tighter regulation in the future in a number of areas.

In the recent past the regulator has paid close attention to complex derivatives. One European bank said that there had been emphasis on the risk side of operations, including credit risk, market risk and liquidity risk.

Ten banks mentioned areas associated with asset management. Six banks anticipate tighter regulations on both Qualified Domestic Institutional Investors (QDII) and Qualified Foreign Institutional Investors (QFII), while three banks cited fee-based income.

However, the area in which foreign banks in Shanghai was most vocal related to comprehensive Know Your Customer (KYC) rules and procedures surrounding the opening of new accounts.

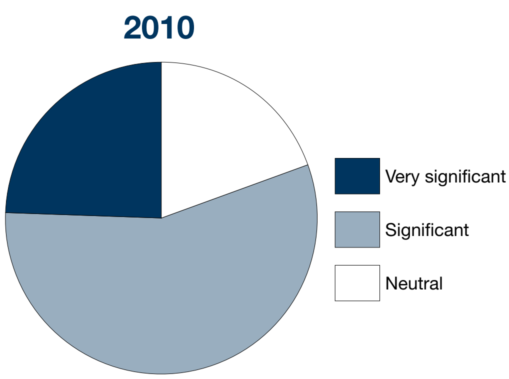
Foreign banks in Shanghai had been instructed by CBRC Shanghai to have officers of a new borrowing client appear in person at their branch with the appropriate corporate documentation.

They were then required to sign the documentation which would be videotaped. This video record was then to be held by the bank for 30 days.

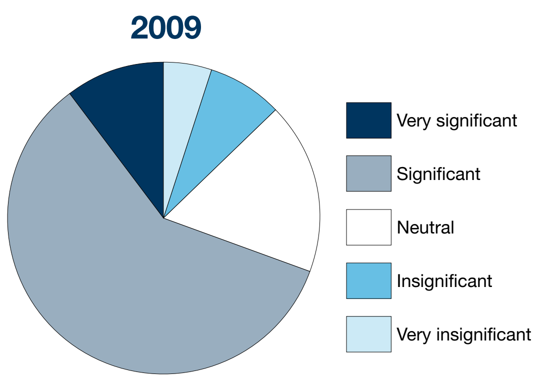
A number of banks mentioned the difficulty associated with this process. One European bank mentioned that a proposed deal had collapsed because its client was unwilling to travel from Southern China to Shanghai to complete the loan documentation. This bank said that as a result, RMB 600,000 in income were lost.

The foreign banks believe that these stringent KYC rules placed them at a disadvantage relative to their domestic counterparts who have extensive branch networks.

One North American bank anticipated tighter regulation of securities companies.



33 banks recorded significant or very significant
Based on responses from 41 banks



27 banks recorded significant or very significant
Based on responses from 39 banks

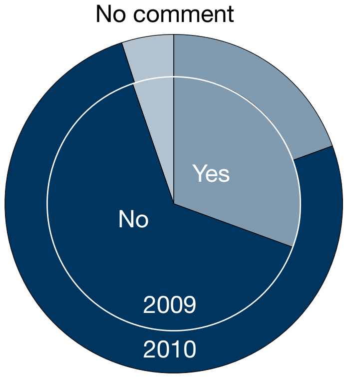
Q Have there been disagreements between your bank and the Tax Bureau?

There was a general feeling that the application of business tax to the foreign banks' operation was too broad in scope.

A European bank commented that the levying of tax on service income is not the same as value added tax. Another European bank indicated that business tax was applied to gross interest income and not net interest income.

Overall, the level of disagreement on business tax has fallen in 2010 from 2009.

Business tax



Based on responses from 41 banks in 2010 and 39 banks in 2009

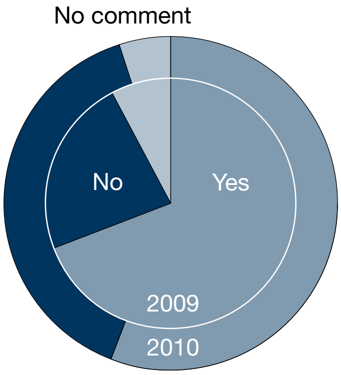
Many banks still believe that the withholding tax was implemented in an unsatisfactory manner.

Nevertheless, the number of banks who said they had disagreements declined from 27 in 2009 to 23 in 2010.

One European bank said they still had not paid the 2008 withholding tax assessment.

Another European bank said it was still an irritant but the issue was more about the notice given.

Withholding tax



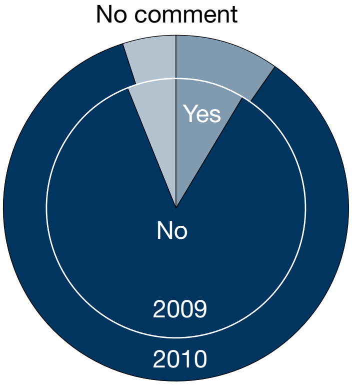
Based on responses from 41 banks in 2010 and 39 banks in 2009

Q Have there been disagreements between your bank and the Tax Bureau? (continued)

There appeared to be little disagreement on income tax. As in 2009, only a few banks said they had issues.

A North American bank said that income tax is too high, while a European bank commented that overall they face a heavy tax burden.

Income tax

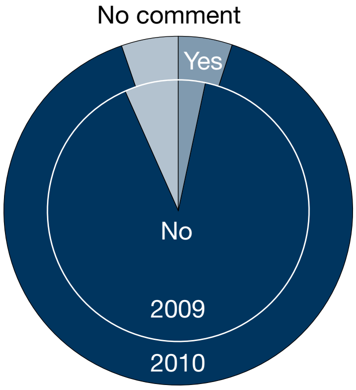


Based on responses from 41 banks in 2010 and 34 banks in 2009

Similarly, the participants expressed only minor concerns regarding other tax issues.

One bank made the general observation that taxes on exports are too high.

Other tax issues



Based on responses from 38 banks in 2010 and 30 banks in 2009

Q Are there tax rules you would like to see changed?

Twenty nine out of 36 reporting banks said that there are tax rules they would like to see changed.

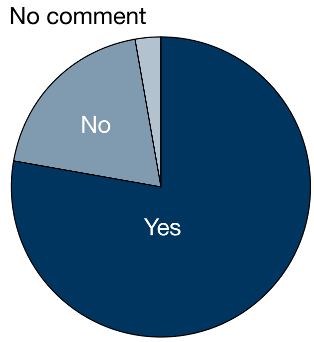
The tax which attracted the greatest amount of criticism remains withholding tax (14 banks) followed by personal income tax (nine banks) and business tax (nine banks).

The participants also mentioned that they would like to see a lowering of the corporate tax rate.

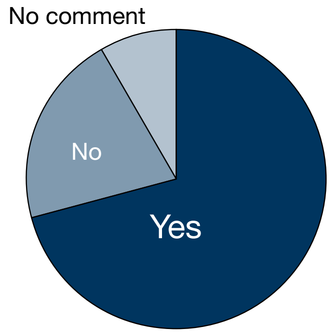
The personal tax rate comments were based on the future progress of Shanghai towards becoming a global financial centre. With a top personal rate of 45%, several banks recommended that Shanghai would need to lower personal taxes if they were to attract top talents.

One European bank mentioned that personal tax was very complicated and that some expatriate staff had experiences where rebates were not forthcoming.

2010



2009



Based on responses from 36 banks in 2010 and 24 banks in 2009

Q Do you have specific concerns regarding regulation?

Twenty five out of the 29 banks that responded to this question expressed concerns about the direction of regulation. The general consensus was that the scale and scope of regulation was expanding over time.

One European bank pointed out that although Chinese banking was changing through increased internationalisation and gradual deregulation simultaneously, the foreign banks were exposed to tightening supervision.

Examples of this include account openings, confirmation of account balances, new restrictions on real estate mortgages, the loan-to-deposit ratio, wholesale funding restrictions, quotas, currency regulations etc.

One Asian bank said that its compliance officer has five or six conversations a day on compliance issues.

A European bank noted that if the CBRC over-emphasised risk, it could impede new product development.

Another European bank stated that regulations are being used to hinder the progress of foreign banks.

Q The CBRC has issued a directive requiring all core banking systems to be located onshore by 2011. Will you comply with this by 2011?

Ten banks confirmed that they have their core banking systems for China onshore and are already compliant. This list included four European banks and six Asian banks.

Eleven banks believe they will meet the 2011 deadline. This includes several North American, European and Asian banks.

Eleven banks said they would not be moving their core banking systems onshore. This group included many banks that do not intend to incorporate locally.

In addition to the 32 responses above, some banks suggested that they would be "potentially compliant", implying there might be some flexibility on the interpretation of this requirement. For example, several banks cited global systems, some said Singapore is their Asian hub, while one European bank believed locating in China created an additional operational risk.

Q How significant is the application of Know Your Customer rules and Anti-Money Laundering (AML) prevention?

A European banker based in Shanghai said that under new draft regulations from the China Banking Regulatory Commission, bank clients could only open new accounts by visiting a bank branch in person. While the new rules would apply to all banks, foreign banks have much smaller branch networks than their domestic peers, limiting their ability to find customers. Some foreign banks have only a single location.

The draft regulations also require that clients be videotaped while they open new accounts. The regulator has asked that the new measures be in place by the end of December, and has said that banks aren't allowed to open new accounts until the requirements are met, the banker said. Violations could potentially result in the suspension of operations for three months, this person said.

In an internal notice sent by the regulator to foreign banks in mid November and reviewed by The Wall Street Journal, Yan Qingmin, head of the CBRC's Shanghai branch, urged foreign banks to increase the number of employees involved in internal risk control and to set up anti-fraud departments.

"Chinese enterprises have gradually become the major source of clients for foreign banks, but many foreign banks have inadequate experience in dealing with Chinese customers, especially small- and medium-sized Chinese companies," Mr. Yan said in the notice. "The failure of foreign banks to identify potential risks (unique to China's small- and medium-sized firms) has created opportunities for criminals."

China's banking system has had a number of problems. In February, China's chief auditor, Liu Jiayi, said his office uncovered illegal activities involving six billion yuan ($878 million) last year during its regular audit of major Chinese financial institutions, including its biggest state banks.

Extracts from Wall Street Journal
15 December 2009

In December 2009, the CBRC announced new more stringent regulations associated with Know Your Customer (KYC) and anti-money laundering (AML). This was reported in the Wall Street Journal article below which suggested the new measures were in response to irregularities in the SME sector.

The new measures, although applicable to all banks, were particularly challenging for the foreign banks because of their limited branch networks.

For example, the rules require clients opening an account to visit the branch in person. The foreign banks are also required to videotape the new client with the necessary documentation as he/she open his/her account.

The participants in this survey considered these new measures to be very intrusive and cumbersome. A number of banks were affronted by the regulations, saying that their own internal guidelines are already very strict and comply with EU and US requirements.

One North American bank noted it was not unusual to have site visits in the US but felt the new regulations amounted to "collective punishment" of all the foreign banks.

Many of the banks believed that the use of a video camera was too harsh.

A North American bank said they were willing to go to the client to complete the documentation but many other banks felt it was a challenge if the client is located at a significant distance from his/her office in Shanghai or Beijing.

Q The China Banking Association (CBA) has recommended locally established foreign banks to produce a Corporate Social Responsibility (CSR) report by June 2009. Did you meet the deadline?

The China Banking Association (CBA) recommended that locally established foreign banks should produce a Corporate Social Responsibility (CSR) report by June 2009.

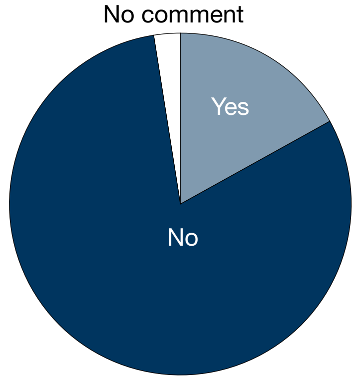
In the 2009, PwC Foreign Banks report, it was revealed that while many foreign banks embrace CSR in China, few had formalised and presented their activities in a CSR report.

In 2010, eight banks indicated that they have produced CSR reports. These foreign banks are all locally incorporated and are representatives of the largest foreign players.

Five of these banks said they had published a report and the remaining three said they had communicated with the regulator.

Many of the banks that acknowledged they have yet to produce a local CSR report said this responsibility was carried out at the head office level.

Q Have you published a CSR report?



Based on responses from 41 banks

Q Do you have a Corporate Social Responsibility (CSR) department?

Ten foreign banks claimed to have local CSR departments, although some of these "departments" were made up of just one individual and some appeared to be part of a broader marketing communications and public relations group.

Q The CBRC has instructed foreign banks to devote greater attention to the SME sector. Can you comment on the challenges in the sector in China?

The foreign banks acknowledged that the CBRC would like to see them focus more attention on the SME sector. This remains a major challenge to foreign banks in any country simply because they have limited networks, management representation and market intelligence to efficiently cater to the need of this segment. Some of the participants commented that SME sector has a higher risk profile. The participants agreed that the CBRC has directed them towards this sector.

Thirty six out of the 38 participating banks responded affirmatively. However, their comments confirmed that only a few of them were actively engaged in this sector.

For example, only 10 banks within the 34 banks that provided details of their loan portfolio recorded that they had exposure in the SME sector. One of three banks indicated that 60% of their portfolio was to SMEs but six out of the 10 banks recorded a level of 10% or below. In comparison to data provided in 2009, the 2010 exposures to SMEs are lower.

Some of the participants' comments were as follows:

- Everyone knows that SMEs are high risk; several foreign banks have a special SME programme but financial statements of SME are not transparent and are questionable
- SMEs are a minefield
- A very difficult sector. We have limited capital and prefer to use it with more secure corporates
- Very immature. Concerned over information gathering, transparency, governance. Very costly. The network is not yet ready
- Very difficult to check credit. Not enough disclosure
- We are very focused on SMEs, not a problem for us
- Prefer to go westward rather than address the SME market

Performance

Q What is your business' estimated annual revenue growth in 2010 and over the next three years?

Growth prospects have improved for many foreign banks in 2010.

In the 2009, survey two banks forecast negative growth of minus 25% and minus 40% and nine banks forecast zero growth. (See following page for last year's growth projections).

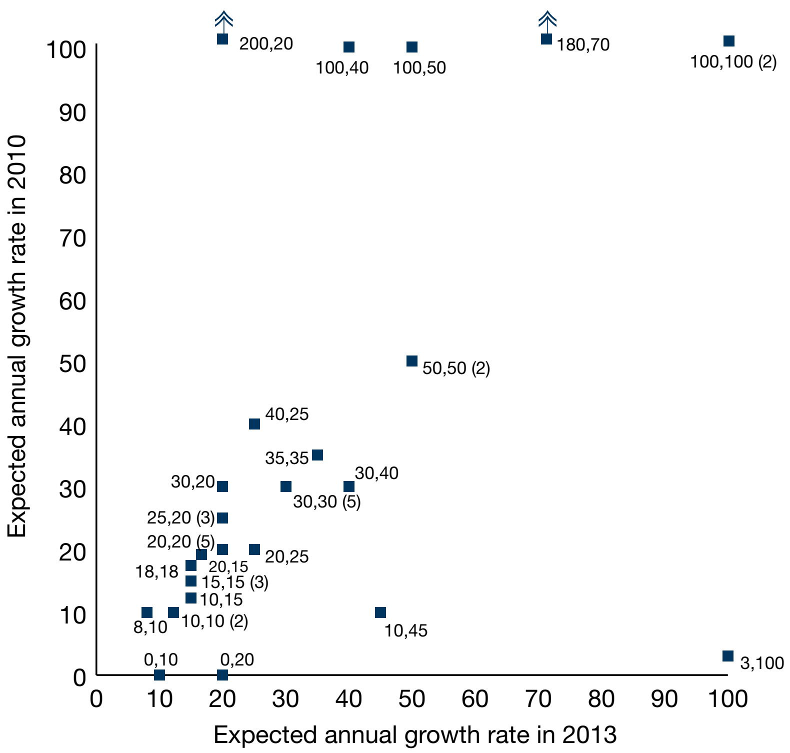
No respondents expressed such a pessimistic outlook in 2010, although three banks predicted flat growth of 0 to 3%. Sixteen banks fell in the 10% to 20% range, while a further 12 banks were between 20% and 40%.

Five banks anticipated growth above 100%, while one in this group, a small European bank, predicted a 200% growth.

Looking forward to annual growth rates in 2013, the lowest prediction provided by a European bank was 8%.

The highest future growth prediction was 100% and this was selected by three banks.

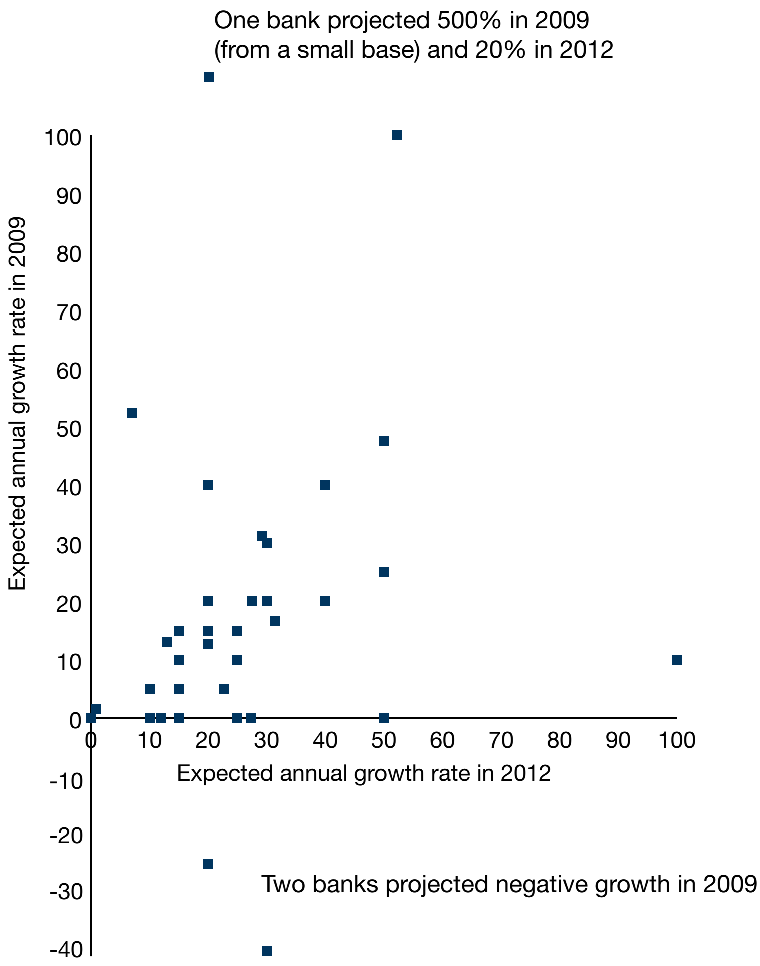
In 2013, the number of banks choosing 10% to 20% increased to 18 banks and 10 banks selecting the 20% to 40% range. The remaining five banks fell in the target area of 40% to 70%.



Based on responses from 39 banks

For comparative purposes, the 2009 and 2012 annual growth in revenues are shown in the chart on this page.

Last year's projections are shown below to allow a direct comparison with the 2010 to 2013 projections which are shown on the previous page.



Based on responses from 39 banks

Q What is your business' estimated annual revenue growth in 2010 and over the next three years?

(Locally incorporated banks only)

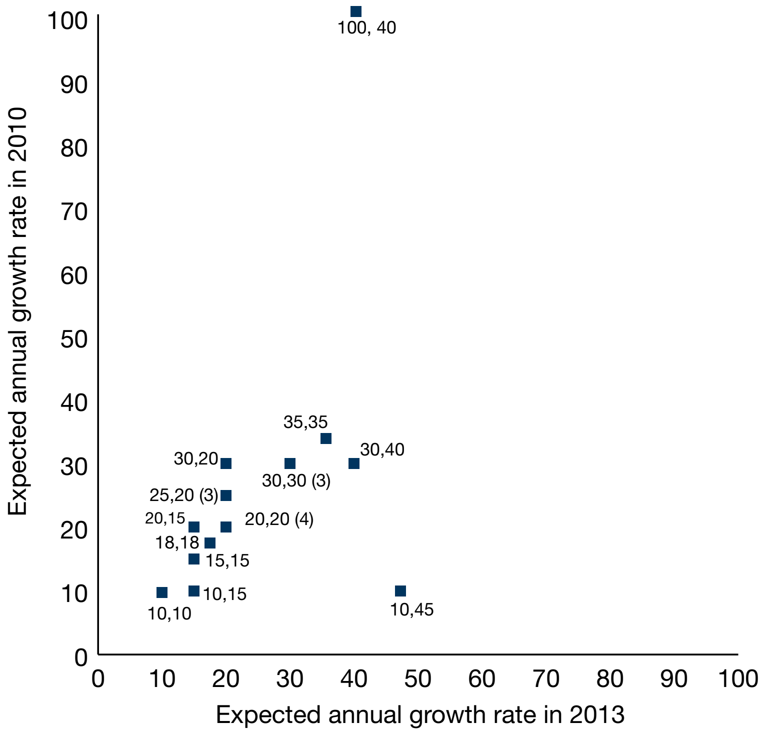
As one might expect, the revenue predictions for the locally incorporated banks were more conservative than the foreign banks as a whole. In 2010, the lowest expected growth rate was 10% (three banks). Most banks fell in the 15% to 25% range, 10 banks in all.

Six banks were in the 30% to 35% range and just one bank predicted a 100%.

A steady rate of growth is expected to continue over the next three years.

Most banks closely matched their 2013 growth rates with that in 2010.

There were a few exceptions. The Asian banks that predicted 100% growth in 2010 scaled this number back to 40% by 2013, while a European bank that predicted 10% in 2010 optimistically forecast 45% by 2013.



Based on responses from 20 locally incorporated banks

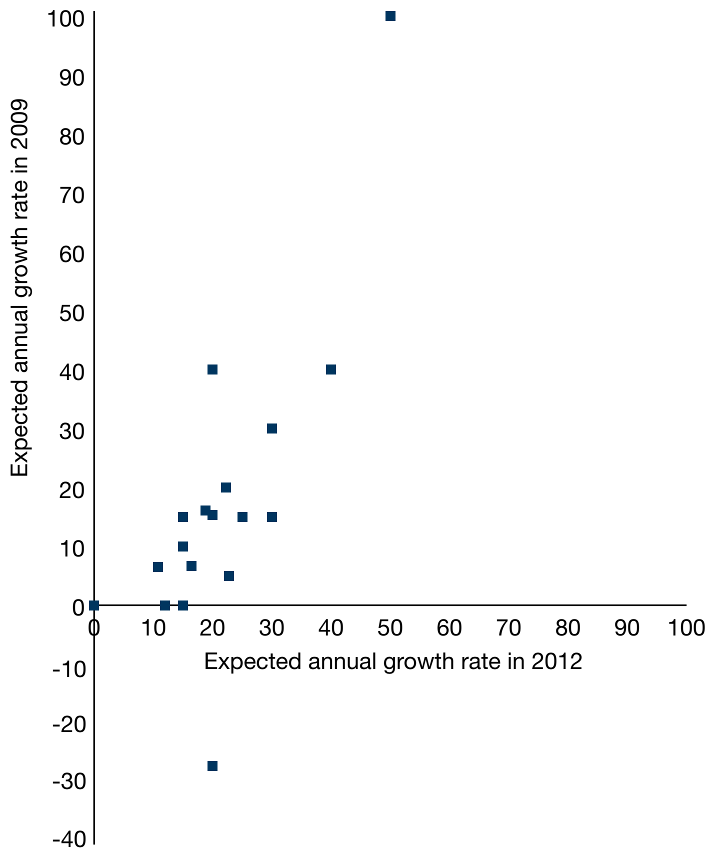
For comparative purposes, the 2009 and 2012 annual growth in revenues are shown in the chart on this page.

(Locally incorporated banks)

In 2009, 18 locally incorporated banks predicted revenue growth ranging from minus 25% to 100%.

Three banks predicted flat growth, while nine banks fell in the 5% to 15% range.

Going forward, all but one bank anticipated greater than 10% growth in 2012, while 11 banks projected growth of 20% or above.



Based on 18 locally incorporated banks

Q Can you outline any opportunities for growth for foreign banks in China over the next three years?

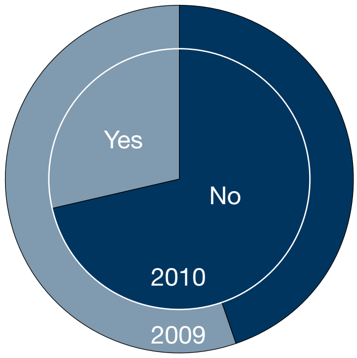
In making their predictions about future growth, the banks were asked to elaborate on future opportunities.

Suggestions on new opportunities that may contribute to growth are as follows:

- SWAP products
- Debt capital markets
- Financing for large Chinese corporates, SOEs and POEs
- Trade finance, for example between China and Africa
- Insurance and pension management
- Syndication market
- Trade growth
- Internationalisation of Chinese corporates
- Commodity finance
- Deregulation of the fixed income market

Q Are there pressures from your head office to reduce the cost of operations in China?

In 2010, eight banks acknowledged that they were under cost pressures. In 2009, 21 banks said they were under cost pressures.



Based on responses from 28 banks in 2010 and 38 banks in 2009

Q If you are implementing cost reductions, will they be blanket reductions/ targeted reductions?

The response to this question was limited to just two banks.

A European bank said that it had been asked to reduce costs by 10% this year. However, in reply, the branch indicated that such action was impossible without putting its business at risk.

An Asian bank revealed that it had reviewed advertising costs, IT costs and general operational costs at the request of its head office.

Many banks commented that they are in a growth mode and therefore, cost containment is impossible.

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 2009 survey.

Foreign exchange and treasury

	First	Second	Third	Score	Change
HSBC	12	8	3	55	→
Citibank	5	7	6	35	→
Deutsche Bank	6	3	2	26	↗
Standard Chartered	1	5	9	22	↘
JPMorgan Chase	2	1	1	9	→
BNP Paribas	1	1		5	↗
Bank of Montreal	1			3	↘
Bank of East Asia		1		2	↗
Bank of Tokyo Mitsubishi			1	1	↗

Based on 28 banks

Derivatives

	First	Second	Third	Score	Change
Citibank	6	5	4	32	→
HSBC	6	2	6	28	→
Deutsche Bank	4	6	3	27	→
JPMorgan Chase	5	3		21	↗
Standard Chartered	3	2	3	16	↘
BNP Paribas		2	2	6	→
Société Générale	1	1		5	↗
UBS		2	1	5	↗
Goldman Sachs		1		2	→
Credit Suisse			1	1	↗
Crédit Agricole			1	1	↗
RBS			1	1	↘

Based on 25 banks

Corporate lending

	First	Second	Third	Score	Change
HSBC	21	8		79	→
Standard Chartered	7	7	6	41	→
Citibank	4	8	5	33	→
Bank of East Asia		2	4	8	→
DBS		3	2	8	→
Deutsche Bank		1	2	4	→
Hang Seng Bank			2	2	→
BNP Paribas			1	1	↗
Bank of Tokyo Mitsubishi			1	1	↗
Mizuho Bank			1	1	↘

Based on 32 banks

Project financing

	First	Second	Third	Score	Change
Standard Chartered	4	4	4	24	↗
HSBC	4	3	1	19	↘
Citibank	3		3	12	→
BNP Paribas	1	4		11	→
Société Générale	2	1	2	10	↘
Crédit Agricole	1	1	1	6	↗
ING	1	1		5	↗
RBS	1			3	↗
Bank of East Asia		1		2	↘
Natixis		1		2	↗
Deutsche Bank			1	1	↘
SMBC			1	1	↗
ANZ			1	1	↗

Based on 17 banks

Investment banking

	First	Second	Third	Score	Change
Goldman Sachs	10	5	3	43	→
Morgan Stanley	2	6	3	21	↗
JPMorgan Chase	2	3	6	18	→
Deutsche Bank	4	1	2	16	↗
UBS	2	4	2	16	↘
HSBC	3		2	11	↗
Citibank		2	2	6	↘
Société Générale		1		2	↗
Standard Chartered			1	1	→

Based on 23 banks

Private banking

	First	Second	Third	Score	Change
HSBC	11	6	1	46	→
Citibank	5	3	4	25	→
Standard Chartered	2	3	5	17	↗
UBS	4	1	3	17	↘
Credit Suisse	1	2	1	8	→
Deutsche Bank		2	1	5	↗
Bank of East Asia		2		4	→
BNP Paribas	1			3	→
RBS		1	1	3	↘
Société Générale			2	2	↗

Based on 24 banks

Corporate finance

	First	Second	Third	Score	Change
HSBC	8	2	1	29	→
JPMorgan Chase	3	1	4	15	↗
Goldman Sachs	4	1		14	↗
Citibank	2	2	1	11	↘
Standard Chartered	1	3	1	10	→
Morgan Stanley		3	1	7	↘
Deutsche Bank		2	1	5	→
Bank of East Asia		2		4	↗
Barclays		1		2	↗
UBS		1		2	↘
BNP Paribas			1	1	↗
Bank of Tokyo Mitsubishi			1	1	↗
DBS			1	1	↗

Based on 18 banks

Mergers and acquisitions

	First	Second	Third	Score	Change
Goldman Sachs	8	3		30	→
Morgan Stanley	1	5	4	17	↗
HSBC	4	2		16	↗
JPMorgan Chase	3	1	3	14	↘
Citibank	1	2	3	10	→
Deutsche Bank	1	1	3	8	→
Merrill Lynch (Bank of America)		2		4	↗
Standard Chartered		1	1	3	↗
UBS			1	1	↘
DBS			1	1	↗

Based on 18 banks

Trade finance

	First	Second	Third	Score	Change
HSBC	20	6	2	74	→
Standard Chartered	6	18	4	58	→
Citibank	3	3	9	24	→
BNP Paribas		2	2	6	↗
Bank of East Asia	1	1	1	6	→
Wachovia (Wells Fargo)	1		1	4	↘
Bank of Montreal	1			3	↗
Société Générale	1			3	↗
Deutsche Bank			2	2	↗
ANZ		1		2	↘
Nanyang		1		2	↗
DBS			2	2	↘
Natixis		1		2	↗
JPMorgan Chase			1	1	↗
Scotiabank			1	1	↗
Sumitomo Mitsui BC			1	1	↗

Based on 33 banks

Cash management

	First	Second	Third	Score	Change
Citibank	14	6	3	57	→
HSBC	11	9		51	→
Standard Chartered	1	6	12	27	→
Deutsche Bank	1	1	3	8	→
Bank of East Asia		2		4	↗
JPMorgan Chase		1	1	3	↘

Based on 27 banks

Equity capital markets

	First	Second	Third	Score	Change
Goldman Sachs	7	2	1	26	→
Morgan Stanley	2	5	1	17	↗
UBS	3	1	2	13	↘
Deutsche Bank	1	4	1	12	↗
Citibank	2	1	1	9	→
HSBC	2	1		8	↘
Standard Chartered		1	3	5	↘
JPMorgan Chase			3	3	→
Bank of East Asia		1		2	↗

Based on 17 banks

Debt capital markets

	First	Second	Third	Score	Change
HSBC	6	5	2	30	↗
Citibank	5	3	1	22	↗
Standard Chartered	3		3	12	↗
Goldman Sachs	2	1	2	10	↘
Morgan Stanley	1	2		7	↘
UBS	1	1	2	7	↘
Deutsche Bank		2	1	5	→
BNP Paribas		2	1	5	↗
JPMorgan Chase		1	1	3	↘
Crédit Agricole	1			3	↗
DBS		1		2	↗
RBS			1	1	↗

Based on 19 banks

Retail banking

	First	Second	Third	Score	Change
HSBC	28	3		90	→
Standard Chartered	3	14	7	44	→
Citibank	1	8	12	31	→
Bank of East Asia		6	7	19	→
Hang Seng Bank		1	2	4	↗
DBS			3	3	↗
ANZ			1	1	↗

Based on 32 banks

Credit cards

	First	Second	Third	Score	Change
Bank of East Asia	26		2	80	↗
HSBC	3	6		21	↘
Citibank	1	1	4	9	→
Standard Chartered		1	1	3	→
Hang Seng Bank		1		2	→

Based on 30 banks

Brand awareness

	First	Second	Third	Score	Change
HSBC	34			102	→
Standard Chartered	1	15	13	46	↗
Citibank		13	12	38	↘
Bank of East Asia		4	4	12	→
Hang Seng Bank		1		2	↗
UBS			1	1	↘
DBS			1	1	↗
Goldman Sachs			1	1	↗

Based on 35 banks

Corporate social responsibility

	First	Second	Third	Score	Change
HSBC	17	2		55	→
Citibank	1	6	5	20	↗
Standard Chartered	2	5	2	18	↘
Bank of East Asia		1	3	5	→
JPMorgan Chase		1		2	↗
Crédit Agricole		1		2	↗
Deutsche Bank			1	1	↘
ING			1	1	↗

Based on 20 banks

Appendices

Appendices

Previous experience has shown that personal interviews with senior bankers using a standard questionnaire offers the best research approach. The questionnaire contained 50 questions and was completed during interviews of approximately one hour. The author conducted all interviews in January and February 2010 in Beijing, Hong Kong, Shanghai and Shenzhen.

Responses have not been attributed to individual banks but rather collectively within three groups: Asian banks (14), European banks (20) and North American banks (8). A group of locally incorporated banks is also used.

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.

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 for and produced over 40 reports, such as this one, on behalf of PricewaterhouseCoopers firms 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 2009, he authored the reports on Foreign Banks in China, Foreign Joint Venture Fund Management Companies in China and Foreign Insurance Companies in China.

He has consulted for a wide range of organisations, including Royal Bank of Canada, Bank of Nova Scotia, Barclays Bank, Sun Life Insurance Company, Equitable Life of Canada and several major consulting firms.

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

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†
- Banco Santander
- Bank of East Asia
- Commonwealth Bank of Australia†
- Dah Sing Bank
- DBS
- First Sino Bank
- Hang Seng Bank
- Mizuho Corporate Bank
- OCBC
- SMBC
- Westpac†
- Wing Hang Bank
- Wing Lung Bank

European banks

- BNP Paribas S.A.
- Crédit Agricole
- Commerzbank
- Credit Suisse
- Deutsche Bank
- Fortis Bank
- HSBC
- ING Bank
- Intesa Sanpaolo Bank
- KBC Bank
- Natixis
- Norddeutsche Landesbank
- Rabobank
- Raiffeisen Zentralbank Österreich AG
- RBS
- Société Générale
- Standard Chartered Bank
- UBS
- VTB*
- WestLB

North American banks

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

† ANZ Banking Group, Commonwealth Bank of Australia and Westpac are Australian banks and for convenience have been grouped with the Asian banks.

* VTB is based in St Petersburg, Russia and has been included in the European banks.

- ABN AMRO Bank (RBS)
- Bank of East Asia
- Bank of Tokyo-Mitsubishi UFJ
- BNP Paribas
- Citibank
- CITIC Ka Wah Bank
- Dah Sing Bank
- Deutsche Bank
- DBS
- First Sino Bank
- Hana Bank
- Hang Seng Bank
- HSBC
- JPMorgan Chase Bank
- Mizuho Corporate Bank
- Nanyang Commercial Bank
- OCBC
- Shinhan Bank
- Société Générale
- Standard Chartered Bank
- Sumitomo Mitsui Banking Corp.
- UBS
- UOB
- Wing Hang Bank
- Woori Bank
- Bank of Bangkok (1 July 2009)

Participants by country/territory of origin

Name of bank	Country/Territory	City
ANZ	Australia	Shanghai
Commonwealth Bank of Australia	Australia	Shanghai
Westpac	Australia	Shanghai
Raiffeisen Zentralbank Österreich AG	Austria	Beijing
Fortis Bank	Belgium	Shanghai
KBC Bank	Belgium	Shanghai
HSBC	Britain	Shanghai
RBS	Britain	Shanghai
Standard Chartered Bank	Britain	Shanghai
Bank of Montreal	Canada	Shanghai
Bank of Nova Scotia	Canada	Hong Kong
Royal Bank of Canada	Canada	Beijing
BNP Paribas	France	Shanghai
Crédit Agricole	France	Shanghai
Natixis	France	Shanghai
Société Générale	France	Shanghai
Commerzbank	Germany	Shanghai
WestLB	Germany	Shanghai
Norddeutsche Landesbank	Germany	Shanghai
Deutsche Bank	Germany	Shanghai
Bank of East Asia	Hong Kong	Shanghai
Dah Sing Bank	Hong Kong	Shenzhen
Hang Seng Bank	Hong Kong	Shenzhen
Wing Hang Bank	Hong Kong	Hong Kong
Wing Lung Bank	Hong Kong	Shenzhen
Intesa Sanpaolo Bank	Italy	Shanghai
Mizuho Corporate Bank	Japan	Shanghai
SMBC	Japan	Shanghai
ING Bank	Netherlands	Shanghai
Rabobank	Netherlands	Shanghai
VTB	Russia	Shanghai
DBS	Singapore	Shanghai
OCBC	Singapore	Shanghai
Banco Santander	Spain	Shanghai
Credit Suisse	Switzerland	Beijing
UBS	Switzerland	Beijing
First Sino Bank	Taiwan	Shanghai
Bank of New York Mellon	USA	Shanghai
Citibank	USA	Shanghai
Bank of America	USA	Shanghai
JPMorgan Chase Bank	USA	Beijing
Wachovia Bank	USA	Shanghai

Background comments on participants
Asian bank group

Asian banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
ANZ Bank 400 employees www.anz.com	53	52	2	Headquartered in Melbourne, ANZ operates in more than 30 countries. With assets of A$471 billion, ANZ has near six million personal, private banking, small business, corporate, institutional, and asset finance customers worldwide. ANZ has had a continuous presence in mainland China since 1986 when a representative office was established in Beijing. It is the only Australasian based bank with both local and foreign currency commercial banking capabilities in mainland China. ANZ also has long-term strategic partnerships with Tianjin City Commercial Bank (20% stake) and Shanghai Rural Commercial Bank (19.9% stake).
The Bank of East Asia 3,500 employees www.hkbea.com	216	208	4	Incorporated in Hong Kong in 1918, The Bank of East Asia (BEA) is the largest independent bank in Hong Kong, with consolidated assets of HK$434.13 billion. BEA operates over 140 outlets in Hong Kong and over 70 outlets within China, offering both retail and commercial services. BEA has an international network of more than 240 outlets and over 10,000 employees with a presence in US, UK, Canada, and Southeast Asia. Headquartered in Shanghai, BEA China set up its first branch in 1920 and has been operating continuously in the country ever since.
Commonwealth Bank of Australia 70 employees www.commbank.com.au	58	51	3	The Commonwealth Bank was founded in 1911 and now headquartered in Sydney, Australia. Between 1920s and the end of 1950s, it functioned as both a commercial bank and a central bank. Its first Chinese representative office was established in Beijing in 1994, and in Shanghai in the following year.

† The background comments were taken from the respective banks' websites in March 2010

Asian banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Dah Sing Bank 120 employees www.dahsing.com	628	480	12	Dah Sing Banking Group Limited has been listed on the Hong Kong Stock Exchange since 2004. Majority owned by Dah Sing Financial Holdings Limited, it has four banking subsidiaries (Dah Sing Bank, MEVAS Bank and Banco Comercial de Macau and Dah Sing Bank (China) Limited)), and a securities trading company, as well as an offshore joint venture private banking business with SG Hambros Bank. Dah Sing Bank was locally incorporated in China in 2008 and now has a head office in Shenzhen. Dah Sing Bank is the strategic investor holding a 20% interest in Bank of Chongqing, which is a leading city commercial bank in Chongqing, the largest city in Western China. Bank of Chongqing is operating mainly in Chongqing with a branch network of over 70 branches.
DBS 1,000 employees www.dbs.com	54	74	1	Singapore-based DBS is a large financial services group in Asia that operates in 16 markets including China. It first entered the Chinese market with a representative office in Beijing in 1993. In May 2007 DBS became one of the first few foreign banks to incorporate in China. DBS offers commercial, corporate and consumer banking services. Other than the head office in Shanghai, DBS now has 8 branches and 7 sub-branches in mainland China. In the past three years, DBS China has increased its number of customers by four times and doubled its employee hired.
First Sino Bank 450 employees www.fsbankonline.com	N/A	N/A	N/A	Established in 1997 as the first joint-venture bank between Taiwanese investors and a Chinese bank, First Sino Bank is headquartered in Shanghai. Its shareholders include the Hong Kong-registered Lotus Worldwide Limited, Shanghai Pudong Development Bank and Wing Hang Bank. The major shareholders of Lotus Worldwide are Taiwanese investors. First Sino Bank also has branches in Tianjin, Shenzhen and Shanghai.
Hang Seng Bank 1,500 employees www.hangseng.com	N/A	N/A	N/A	Hang Seng Bank is a principal member of HSBC Group, which holds a 62.14% equity stake in the bank. It offers personal, commercial and corporate banking services. Hang Seng Bank (China) Ltd. was established on 28 May, 2007 as a wholly-owned subsidiary of Hang Seng Bank, and operates a network of 11 branches and 27 sub-branches in mainland China.

† The background comments were taken from the respective banks' websites in March 2010

Asian banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Mizuho Corporate Bank 1,200 employees www.mizuhocbk.co.jp * Mizuho Financial Group	16*	14	2	Headquartered in Tokyo, Mizuho Bank was established on 1 April, 2002 by Mizuho Financial Group Inc. Mizuho Bank has branches in Asia, Europe, the Americas and the Middle East. About 25 million individual customers have accounts with Mizuho Bank, and it has loans outstanding to roughly 100,000 SMEs and middle-market corporations. It is locally incorporated in China with 6 outlets.
OCBC 500 employees www.ocbc.com.sg	90	120	3	Singapore-based OCBC offers both consumer and business banking services through 500 branches and representative offices in 15 countries. It has group assets of S$194 billion and a market capitalisation of S$27.8 billion (as at 26 Feb, 2009). On 1 August, 2007, OCBC opened its locally incorporated, wholly-owned subsidiary.
Sumitomo Mitsui Banking Corp. 1,001 employees www.smbc.co.jp	19	19	3	Based in Tokyo, Japan, Sumitomo Mitsui Banking Corporation (SMBC) was established in April 2001 through the merger of two leading banks, The Sakura Bank and The Sumitomo Bank. In December 2002, Sumitomo Mitsui Financial Group, Inc. was established through a stock transfer as a holding company, under which SMBC became a wholly owned subsidiary. SMBC China is locally incorporated in Shanghai, and now has 6 branches and 2 sub-branches.
Westpac 20 employees www.westpac.com.au	62	57	4	Westpac began trading in 1817 in Sydney. Westpac employs approximately 37,000 people worldwide and has global assets of A$590 billion. It has been represented in Hong Kong since 1971 and mainland China since 1982. Its first branch in China opened in 2008 in Shanghai. It offers services including Corporate and institutional banking, foreign exchange and treasury. In 2008 Westpac merged with St George Bank to become Australia's leading provider of home lending, with a market share of 25 per cent, Australia's largest wealth manager with funds under administration of $108 billion and the largest bank by market capitalisation at approximately A$66 billion.

† The background comments were taken from the respective banks' websites in March 2010

Asian banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Wing Hang Bank 679 employees www.whbhk.com	532	436	9	Wing Hang Bank (WHB) was founded in Guangzhou as a money changing business in 1937 and has operated in Hong Kong for the past 70 years. WHB now has over 60 branches and representative offices throughout Hong Kong, Macau and Mainland China. The principal activities of the bank in Hong Kong and Macau are retail banking, corporate banking and foreign exchange and treasury services. Bank of New York Mellon owns 20.28% stakes of the bank. In June 2007, WHB established its local incorporation in mainland China, and WHB is the first foreign bank to be headquartered in Shenzhen.
Wing Lung Bank 41 employees www.winglungbank.com	551	531	10	Wing Lung opened in 1933 in Hong Kong. The Bank has altogether 39 banking offices. Wing Lung Bank provides comprehensive banking services, such as deposits, loans, corporate financing, securities, credit cards, wealth management, etc. The Bank also provides hire-purchase and leasing, trustee, insurance agency and underwriting, through its wholly-owned subsidiaries. In 2008, China Merchants Bank started buying Wing Lung Bank's equity and became the largest shareholder of the bank. In January 2009, China Merchants Bank acquired the remaining shares and now fully owns Wing Lung Bank.

† The background comments were taken from the respective banks' websites in March 2010

European banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Banco Santander 21 employees www.santander.com * Santander Central Hispano	10	15	1	Headquartered in Spain, Banco Santander is the third largest bank in terms of profit in 2008. Santander operates mainly in Continental Europe, the United Kingdom and Latin America. It opened the first Chinese representative office in Beijing in 1993.
BNP Paribas 300 employees www.bnpparibas.com	14	1	2	BNP Paribas is a global banking and financial services group that is present in over 84 countries. The group operates in three major segments: Corporate and Investment Banking, Investment Solutions and Retail Banking, with banking income of EURO 40.2 billion by the end of 2009. In October 2005, BNP Paribas signed an agreement to buy 19.2 per cent of Bank of Nanjing (BON). In June 2008, it converted the branches of BNP Paribas in Beijing, Tianjin and Guangzhou into branches of its existing local subsidiary, BNP Paribas (China) Limited, which is now headquartered in Shanghai.
Crédit Agricole 150 employees www.ca-cib.com	9	6	1	With a network of more than 59 million customers globally, 160,000 staff in 70 countries, Crédit Agricole specialises in capital markets, investment banking and financing. It earned EURO 2.7 billion net income in 2009. Building on over a century of activity in China, Crédit Agricole has five fully operational branches in Shanghai, Beijing, Guangzhou, Tianjin, Xiamen and a representative office in Shenzhen. Crédit Agricole China was among the first foreign banks to be licensed for Chinese currency (RMB) operations.
Commerzbank 100 employees www.commerzbank.com	29	28	2	Commerzbank is the second largest credit institution in Germany, With the merging of Dresdner Bank into Commerzbank in May 2009, it has a total of around 14.5 million private and corporate customers worldwide. In China, Commerzbank now has three branches in Shanghai, Beijing and Tianjin.
Credit Suisse 100 employees www.csfb.com	27	21	1	Credit Suisse Group is a global financial services company headquartered in Zurich. Founded in 1856, Credit Suisse serves companies, institutional clients and high-net-worth private clients worldwide. Credit Suisse is active in over 50 countries and employs more than 47,600 people from approximately 100 different nations. The Company provides its clients with a range of products and services that include Investment Banking, Private Banking and Asset Management.

† The background comments were taken from the respective banks' websites in March 2010

European banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Deutsche Bank 600 employees www.deutsche-bank.de	21	2	1	Founded in Berlin in 1870, Deutsche Bank is a global investment bank, employing over 80,000 people in 75 countries. Deutsche Bank first established its presence in 1872 in Shanghai. Deutsche Bank in China and Hong Kong now have business interests in corporate advisory and capital markets, transaction banking, private and retail banking, as well as asset management. Deutsche Bank also has a retail presence in China, acquiring a 13.7 percent stake in Hua Xia Bank. Deutsche Bank locally incorporated in China in January 2008.
Fortis Bank 44 employees www.fortis.com	31	30	1	Fortis is an international provider of banking and insurance services to personal, business and institutional customers. Confronted with the international financial crisis, its Dutch banking and insurance activities were acquired by the Dutch State. The other banking activities have been acquired by BNP Paribas. Within China, Fortis Bank offers a range of services including corporate banking, personal banking, trade finance and risk management.
HSBC 5,300 employees www.hsbc.com	5	5	2	Established in Hong Kong and Shanghai in 1865, HSBC operates roughly 9,500 offices in 86 countries and territories. HSBC Bank (China) Company Limited began operations on April 2, 2007 as a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation (HSBC) Limited. HSBC has had a continuous presence in mainland China for 144 years. It has invested over US$5 billion in select mainland financial services entities, including acquiring 19% stakes of Bank of Communication. Its current network in mainland China comprises 99 outlets. It has become the first foreign bank in China doing gold-exchange business and debit cards linking with RMB and foreign currency accounts.
ING Bank 70 employees www.ing.com	20	11	1	ING is a global financial services company providing banking, investments, life insurance and retirement services. It serves more than 85 million customers in Europe, the United States, Canada, Latin America, Asia and Australia. ING expanded into retail banking through acquisition of a 16.07% stake in the Bank of Beijing. ING is active in lending, financial markets and corporate finance in China, as well as private banking services operating out of Hong Kong.

† The background comments were taken from the respective banks' websites in March 2010

European banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Intesa Sanpaolo Bank 24 employees www.intesasanpaolo.com	25	26	2	Intesa Sanpaolo is an Italian banking group resulting from the merger between Banca Intesa and Sanpaolo IMI. In addition to its operations in the Italian market it has an international presence focussed on Central-Eastern Europe and the Mediterranean basin. With total assets of more than EURO 630 billion, it servers 19.6 million customers and has about 8,000 branches worldwide. Intesa Sanpaolo expanded its business in China by acquiring a 20 percent stake in Bank of Qingdao, which is a local commercial bank in Shandong Province.
KBC Bank 50 employees www.kbc.com	51	49	3	Established in 1935, KBC Bank N.V. is a bank and insurance company in Belgium. It operates in 30 countries with over 2,200 branches, as well as subsidiaries in Germany, the Netherlands, Ireland, the United Kingdom, the United States, France and Singapore. KBC's Shanghai branch operation was established in May 1997, followed by two other branches in Shenzhen and Nanjing.
Natixis 44 employees www.natixis.fr * Groupe Banques Populaire	36*	46	5	Natixis is the listed subsidiary of the Banque Populaire Group and the Caisse d'Epargne Group. Natixis is a French-based financing, investment banking, and services bank with 22,000 employees and 116 offices in 68 countries. Natixis offers Corporate and Investment Banking, Asset Management, Private Equity and Private Banking, Services and Receivables Management. It has a branch in Shanghai.
Norddeutsche Landesbank 25 employees www.nordlb.de	89	61	8	Norddeutsche Landesbank (NORD/LB) has representations and service offices worldwide and a network of more than 1,500 correspondent banks, a staff of 6,200 employees and a consolidated balance sheet total of EURO 242.3 billion. It offers a wide range of financial services to its private, corporate and institutional clients and to the public sector. The main areas of specialisation of NORD/LB are investment, agricultural and real estate banking, corporate finance, ship and aircraft financing and private banking.

† The background comments were taken from the respective banks' websites in March 2010

European banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Rabobank 60 employees www.rabobank.com	22	29	2	Rabobank is a full-service financial services provider founded on cooperative principles. Rabobank Group comprises 152 independent local Dutch Rabobanks, a central organisation, and several international offices and subsidiaries. Food and agribusiness is the main focus of Rabobank. It actively expanded its Chinese business into agriculture, food processing, communication and environmental sectors through its two branches in Shanghai and Beijing. It also has a rural banking presence. In 2005, Rabobank acquired a 10 percent stake in United Rural Cooperative Bank of Hangzhou, which has 124 branches and 10 million customers.
RBS 1,200 employees www.rbs.com	4	1	1	RBS has had a presence in China since opening as a National Westminster (afterward it was merged by The Royal Bank of Scotland) Representative Office in Shanghai in 1994 and a Representative Office in Beijing in 1997. RBS China had a strategic partnership with Bank of China by an acquisition of a 9.6% stake in 2005, but it sold them off in January 2009. RBS has branches in Shanghai and Beijing, as well as those of ABN AMRO China acquired in 2007. ABN AMRO opened its first banking branch in Shanghai in 1903. It maintains five branches in Shanghai, Shenzhen, Beijing, Chongqing and Chengdu and three representative offices in Guangzhou, Tianjin and Wuhan. The bank has obtained licenses to provide derivatives services, QFII, and is authorised to invest in the domestic stock markets. ABN AMRO also became one of the first foreign banks to enter China's inter-bank foreign exchange trading market.
RZB 110 employees www.rzb.at	85	85	2	With a balance sheet of EURO 151.3 billion on 30 September 2009, Raiffeisen Zentralbank Österreich AG (RZB) is the third-largest bank in Austria. RZB was founded in 1927 and is headquartered in Vienna. In addition to operations in Austria and Central and Eastern Europe, RZB is also active in a number of international centres. Within China, RZB offers services to retail and corporate customers, as well as financial institutions and sovereigns. RZB has two branches in Beijing and Xiamen, and three representative offices in Zhuhai, Harbin and Hong Kong, together with a finance company in Hong Kong.

† The background comments were taken from the respective banks' websites in March 2010

European banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Société Générale 550 employees www.sgcib.com	23	13	3	Société Générale dates back to May, 1864, the date of the authorization decree signed by Napoleon III. Société Générale Group serves 30 million customers in France and worldwide. Outside of France its retail banking arm is present in 36 countries. The Corporate and Investment Banking arm of the Société Générale Group operates in over 41 countries across Europe, the Americas and Asia Pacific, and employs around 12,000 staff worldwide. Société Générale has locally incorporated in China.
Standard Chartered Bank 4,800 employees www.standardchartered.com	50	50	6	Standard Chartered has an extensive global reach. It has a network of over 1,600 branches and outlets in more than 70 countries across Asia, the Middle East, Africa, Europe and the Americas. Standard Chartered employs 70,000 people, representing 115 nationalities and derives over 90 per cent of its profits from the emerging trade corridors of Asia, Africa and the Middle East. 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 is one of the first foreign banks to locally incorporate in China in April 2007. Standard Chartered has one of the largest foreign bank networks – with 15 branches, 37 sub-branches, 1 representative office and a Village Bank in China.
UBS 500 employees www.ubs.com	28	10	2	With headquarters in Zurich and Basel, Switzerland, UBS operates in over 50 countries and is present in all major international centres. UBS employs more than 65,000 people globally. It offers global wealth management and business banking, global asset management and investment banking services.

† The background comments were taken from the respective banks' websites in March 2010

European banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
VTB Bank 16 employees www.vtb.com	70	121	2	VTB Group is the first international financial group of Russian origin representing Russia in global markets and providing professional financial services. As of 1 October 2009, its shareholders equity totalled more than US$19 billion and assets more than US$90 billion. Presently, the Government of the Russian Federation is the major shareholder of VTB, with its share accounting for 85.5%. VTB works with foreign export insurance agencies and the Export-Import banks, including Export-Import Bank of China and the Industrial and Commercial Bank of China.
WestLB 19 employees www.westlb.de	104	55	11	WestLB AG is a European commercial bank with German roots. With total assets of EURO 258.8 billion as of 30 September 2009, it is an internationally operating commercial bank with links to the global financial markets. WestLB offers a range of products and services, focusing on lending, structured finance, capital market and private equity products, asset management, transaction services and real estate finance.

† The background comments were taken from the respective banks' websites in March 2010

North American banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Bank of America 400 employees www.bankofamerica.com	2	12	2	Bank of America serves individual consumers, small and middle market businesses and large corporations with a range of banking, investing, asset management and other financial and risk-management products and services. Within the United States, it serves approximately 59 million consumer and small business relationships with more than 6,000 retail banking offices, more than 18,000 ATMs. The company serves clients in more than 150 countries and has relationships with 99% of the US Fortune 500 companies and 83% of the Fortune Global 500. After its acquisition of Merrill Lynch in January 2009, it became the largest financial services company in the world.
Bank of Montreal 230 employees www.bmo.com	52	53	4	BMO Bank of Montreal, Canada's first chartered bank, opened for business on 3 November 1817. With total assets of C$389 billion in 2009 and almost 36,000 employees, BMO provides a broad range of retail banking, wealth management and investment banking products and solutions. It is currently active in Europe, Latin America, and East Asia as well as in the United States. BMO's history in China dates back to the early 1800s. BMO currently has branches in mainland China and Hong Kong, as well as a representative office and an Investment Banking Representative office.
Bank of Nova Scotia 55 employees www.scotiabank.com	40	48	2	With approximately 68,000 employees, Scotiabank Group and its affiliates serve more than 14.6 million customers in some 50 countries around the world. Scotiabank has been in China for more than 20 years. Its Chinese business includes loans, deposits, trade finance, cash management and treasury services. Scotiabank purchased a minority stake in Xi'an City Commercial Bank, an investment initiative undertaken jointly with the International Financial Corporation. It also has a 20% stake in Dalian City Commercial Bank.
BNY Mellon 150 employees www.bnymellon.com	60	79	11	Headquartered in New York and established in 2007 from the merger of Mellon Financial Corporation and The Bank of New York Company, Inc., BNY Mellon has US$1.1 trillion assets under management and 42,000 employees in 34 countries worldwide. The company has had a physical presence in China since 1994 when it opened its first office in Shanghai, and later another in Beijing,

† The background comments were taken from the respective banks' websites in March 2010

North American bank group

North American banks	World ranking The Banker, July 2009		Home country ranking	Background comments†
	Tier 1	Assets	Tier 1	
Citibank 4,000 employees www.citi.com	3	9	1	Citi is a US-based financial services company with some 200 million customer accounts in more than 100 countries. Citi's history in China dates back to 1902 when it became the first American bank to establish operations, and now offers corporate and investment banking, consumer banking and private banking services. On 2 April 2007, Citi locally incorporated as Citibank (China) Co. Ltd. As of April 2009, Citi operates eight corporate bank branches and 27 consumer bank outlets in China.
JPMorgan Chase 260 employees www.jpmorganchase.com	1	7	1	JPMorgan Chase & Co. is a US-based global financial services firm with assets of US$2 trillion and operations in more than 60 countries with over 200,000 employees. JPMorgan's history in China dates back to the 1920s, yet in the past few years its revenues more than doubled and onshore staff increased to over 200. It offers wholesale and commercial banking products, with over a third of JPMorgan's employees in Asia based in Greater China. On 23 July 2007, JPMorgan Chase locally incorporated in China.
Royal Bank of Canada 20 employees www.rbc.com	34	33	1	RBC provides personal and commercial banking, wealth management services, and corporate, investment banking services on a global basis. RBC employs more than 77,000 full and part-time employees who serve more than 18 million clients in Canada, the US and 53 other countries. RBC's history in China began in 1954, and currently has operations in the mainland and Hong Kong.
Wachovia National Bank 60 employees www.wachovia.com * Wells Fargo & Co.	6*	18	4	Wachovia is a US-based institution and it offers complete banking services, retail brokerage services, asset management, and wealth management services. Globally, international correspondent services and trade finance, as well as corporate and investment banking in selected sectors are provided. Wachovia Corporation was purchased by Wells Fargo on 31 December 2008. In July 2005, as well as marking the ten-year anniversary of its presence in Mainland China, Wachovia opened its first branch in Shanghai.

† The background comments were taken from the respective banks' websites in March 2010

I. General Issues

1. Risk Based Lending

- Adopt the Basel II principles more swiftly and risk weighted value added concepts as well as sector and portfolio concentration thresholds to measure loan growth

2. Foreign Debt Quota

- Increase (and ultimately remove) the short-term debt quota for genuine trade related uses which are not affecting the money supply in China
- Deepen onshore liquidity by putting in place market-based means of funding with the People's Bank of China (PBOC) acting as lender of the last resort using international rates as a benchmark
- Waive the 5% business tax on onshore and offshore lending
- Waive the 10% withholding tax on offshore intergroup funding

3. Ownership Rules

- Clarify ownership rules of Chinese funded banks by foreign funded banks to be undoubtedly in line with government statements and the agreed World Trade Organization (WTO) commitments

4. Data Processing System Location

- Maintain section 13.5 of the current existing bank card policy stating data processing systems should be "safe and efficient" without specifying where they should be located
- Apply the principles of "safe and efficient" rather than location specific rules for databases relating to all banking products and services

II. Wholly Foreign-funded (Locally Incorporated) Banks

1. Branch/Sub Branch Network and Business Expansion

- Allow multiple branch and sub branch simultaneous expansion submissions
- Enable a unique and bundled RMB retail and corporate process after incorporation to allow the newly incorporated banks to start operations immediately

2. Capital Requirements

- Allow locally incorporated foreign banks to take 30% of working capital deposits from other branches of foreign banks, on an equal basis with local banks

3. Loan Deposit Ratio

- Broaden the definition of deposits used to compute the loan to deposit ratio
- Foresee a transition period of 5 years for the newly incorporated banks, starting from the day of incorporation, to comply with the loan to deposit ratio

4. RMB Derivatives Market

- Allow equal access to the RMB derivatives market and provide clear transparent application rules on qualifications for approval

III. Branches of Foreign Banks

1. Waiting Period for RMB Licences

- Abolish the waiting period for RMB licences

2. Capital Requirements

- Eliminate the mandatory 30% deposit of working capital or at least incorporate the 30% into the liquidity ratio calculations
- Reduce the capital adequacy ratio for branches or at least allow calculation on a consolidated basis for all Chinese branches of the same foreign legal entity

3. Prudential Ratios

- Remove the net of long-term borrowings from overseas branches from the current liabilities, to compare assets and liabilities with the same tenor

4. China National Advanced Payment System (CNAPS) Membership

- Improve CNAPS payment formats to allow the identification of the final beneficiary in a specifically allocated field to increase efficiency, cut manual intervention and reduce risks. Note that this recommendation is applicable for all CNAPS members, including locally incorporated foreign banks
- Allow CNAPS membership to all market players

IV. Securities and Fund Management Related Business

1. Custody Business

- Grant equal treatment to foreign banks and domestic banks with regards to Qualified Domestic Institutional Investors (QDII) authorisation
- Allow the parent company's capital base to apply for new custody business licences under the local incorporation model. Licences given before incorporation should be grandfathered
- Allow locally incorporated banks to obtain custody licences to manage insurance funds, trustee products, private equity funds, and social security and pension funds

2. Bond Underwriting

- Grant foreign banks the right to underwrite bonds traded on the securities stock exchange on the same terms as local banks
- Allow foreign banks to trade corporate bonds for their customer accounts

3. Local Fund Agency

- Open local fund agency sales to foreign banks on an equal footing with Chinese banks

4. Ownership Access

- Raise the 33% limit on foreign ownership in Securities Joint Venture (SJV) to allow majority foreign ownership
- Remove the restriction that the domestic partner in a SJV firm has to be an existing domestic securities firm
- Grant SJV firms a full licence instead of the present one which is limited to underwriting
- Raise the 49% limit on foreign ownership in Joint Venture (JV) fund management companies and allow foreign majority ownership

Top 30 Chinese banks ranked by Tier 1 capital and assets

Rank		Bank	Tier 1 capital		Assets	
China	World		US$m	%ch.	US$m	Rank
1	8	Industrial and Commercial Bank of China (12/08)	74,701	12.7	1,427,685	1
2	11	Bank of China (12/08)	64,961	15.6	1,017,718	4
3	12	China Construction Bank Corporation (12/08)	63,113	20.7	1,105,471	2
4	24	Agricultural Bank of China (12/08)	39,998	229.7	1,026,300	3
5	49	Bank of Communications (12/08)	19,336	17.5	391,867	5
6	67	China CITIC Bank (12/08)	13,467	152.0	173,798	8
7	87	China Merchants Bank (12/08)	10,457	20.8	229,976	6
8	107	China Minsheng Banking Corporation (12/08)	7,507	28.3	154,267	9
9	117	Industrial Bank (12/08)	6,777	33.7	149,372	10
10	137	Shanghai Pudong Development Bank (12/08)	5,537	46.4	191,588	7
11	158	Bank of Beijing (12/08)	4,641	23.0	68,917	15
12	166	China Everbright Bank (12/08)	4,200	26.1	124,636	11
13	177	Huaxia Bank (12/08)	3,865	124.2	107,049	12
14	241	Guangdong Development Bank (12/08)	2,691	27.4	79,890	13
15	256	Bank of Shanghai (12/08)	2,516	27.9	53,805	16
16	280	Shenzhen Development Bank (12/08)	2,152	23.9	69,417	14
17	340	Shanghai Rural Commercial Bank (12/08)	1,674	43.6	25,360	19
18	351	Huishang Bank (12/08)	1,574	278.5	19,212	22
19	360	Bank of Jiangsu (12/08)	1,529	18.8	33,701	17
20	366	Nanjing City Commercial Bank (12/08)	1,513	17.7	13,711	26
21	430	Shenzhen Ping An Bank (12/08)	1230	43.4	21,351	21
22	432	Bank of Ningbo (12/08)	1229	17.8	15,109	24
23	476	Beijing Rural Commercial Bank (12/08)	1088	13.0	33,303	18
24	513	Tianjin City Commercial Bank (12/08)	950	30.5	17,970	23
25	609	Bohai Bank (12/08)	726	9.3	9,106	33
26	634	Hangzhou City Commercial Bank (12/08)	655	37.3	14,575	25
27	644	Dalian City Commercial Bank (12/08)	632	na	10,473	30
28	661	China Zheshang Bank (12/08)	602	103.9	12,262	27
29	663	Evergrowing Bank (12/08)	600	119.9	22,093	20
30	666	Shenzhen Rural Commercial Bank (12/08)	595	29.2	9,593	31

(Source: The Banker, July 2009)

HSBC Branch network

City	Province	Branch	Sub-branch
Beijing	Beijing	1	8
Changsha	Hunan	1	
Chengdu	Sichuan	1	3
Chongqing	Chongqing	1	4
Dalian	Liaoning	1	4
Dongguan	Guangdong	1	
Guangzhou	Guangdong	1	9
Foshan	Guangdong		1
Hangzhou	Zhejiang	1	3
Hefei	Anhui	1	
Jinan	Shandong	1	
Ningbo	Zhejiang	1	
Qingdao	Shandong	1	4
Shanghai	Shanghai	1	9
Shenyang	Liaoning	1	2
Shenzhen	Guangdong	1	9
Suzhou	Jiangsu	1	3
Taiyuan	Shanxi	1	
Tianjin	Tianjin	1	6
Wuhan	Hubei	1	4
Xiamen	Fujian	1	5
Xi'an	Shaanxi	1	2
Zhengzhou	Henan	1	

(Source: HSBC website)

Bank of East Asia Branch network

City	Province	Branch	Sub-branch	Rep office
Beijing	Beijing	1	3	
Shanghai	Shanghai	1	9	
Guangzhou	Guangdong	1	8	
Foshan	Guangdong		1	
Shenzhen	Guangdong	1	8	
Dalian	Liaoning	1	4	
Zhuhai	Guangdong	1	3	
Zhongshan	Guangdong		1	
Xiamen	Fujian	1	4	
Xi'an	Shaanxi	1	4	
Chongqing	Chongqing	1	3	
Qingdao	Shandong	1	1	
Hangzhou	Zhejiang	1	1	
Wuhan	Hubei	1		
Nanjing	Jiangsu	1		
Chengdu	Sichuan	1	2	
Shenyang	Liaoning	1	2	
Tianjin	Tianjin	1		
Urumqi	Xinjiang	1		
Hefei	Anhui	1		
Shijiazhuang	Hebei	1		
Fuzhou	Fujian			1
Suzhou	Jiangsu			1
Dongguan	Guangdong			1

(Source: BEA website)

Standard Chartered Bank Branch network

City	Province	Branch	Sub-branch
Beijing	Beijing	1	6
Tianjin	Tianjin	1	2
Qingdao	Shandong	1	1
Dalian	Liaoning	1	
Shanghai	Shanghai	1	7
Nanjing	Jiangsu	1	2
Suzhou	Jiangsu	1	2
Hangzhou	Zhejiang	1	
Nanchang	Jiangxi	1	
Shenzhen	Guangdong	1	6
Guangzhou	Guangdong	1	4
Zhuhai	Guangdong	1	2
Xiamen	Fujian	1	2
Chongqing	Chongqing	1	1
Chengdu	Sichuan	1	2

(Source: SCB website)

Hang Seng Bank Branch network

City	Province	Branch	Sub-branch	ATMs only
Shanghai	Shanghai	1	9	8
Beijing	Beijing	1	3	4
Tianjin	Tianjin	1		
Nanjing	Jiangsu	1	1	
Hangzhou	Zhejiang	1		
Ningbo	Zhejiang	1		
Fuzhou	Fujian	1		
Guangzhou	Guangdong	1	6	6
Shenzhen	Guangdong	1	5	8
Foshan	Guangdong		1	
Dongguan	Guangdong	1	1	1
Kunming	Yunnan	1		

(Source: HSB website)

Citibank Branch network

City	Province	Branch	Sub-branch	Rep office
Shanghai	Shanghai	1	8	
Beijing	Beijing	1	6	
Guangzhou	Guangdong	1	2	
Xiamen	Fujian			1
Shenzhen	Guangdong	1	3	
Chengdu	Sichuan	1	1	
Tianjin	Tianjin	1	1	
Hangzhou	Zhejiang	1	1	
Dalian	Liaoning	1		
Chongqing	Chongqing	1		

(Source: Citibank website)

DBS Branch network

City	Province	Branch	Sub-branch	Rep office
Beijing	Beijing	1	2	
Dongguan	Guangdong	1		
Guangzhou	Guangdong	1	1	
Nanning	Guangxi	1		
Shanghai	Shanghai	1	3	
Shenzhen	Guangdong	1	1	
Suzhou	Jiangsu	1	1	
Tianjin	Tianjin	1		
Fuzhou	Fujian			1
Hangzhou	Zhejiang			1

(Source: DBS website)

ABN AMRO Branch network (Currently part of RBS)

City	Province	Branch	Sub-branch
Shanghai	Shanghai	1	4
Beijing	Beijing	1	2
Shenzhen	Guangdong	1	3
Chengdu	Sichuan	1	
Chongqing	Chongqing	1	

(Source: RBS website)

Partners in success

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