



Globalization of China's Banking Industry

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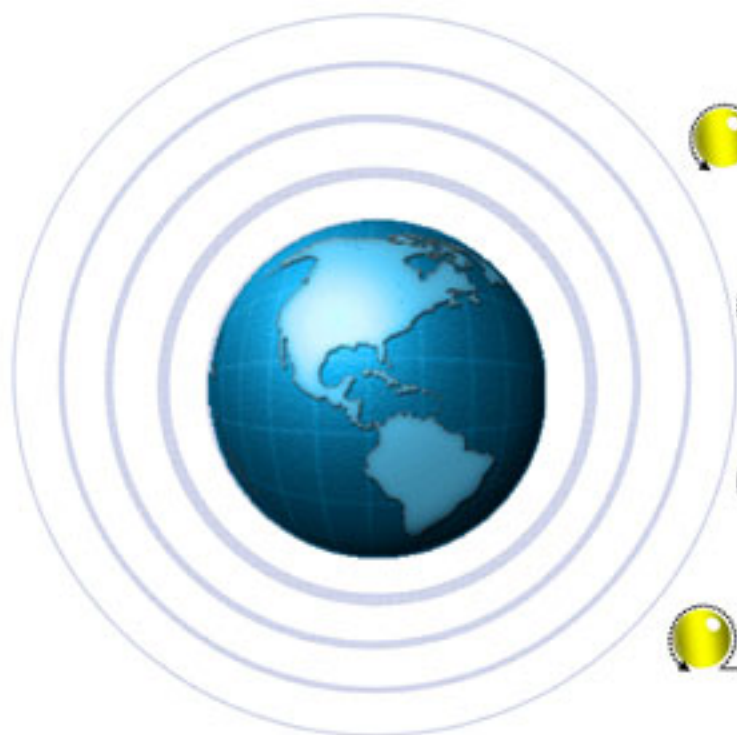


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- Tremendous Challenges in Globalization
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● Great Achievements in Globalization

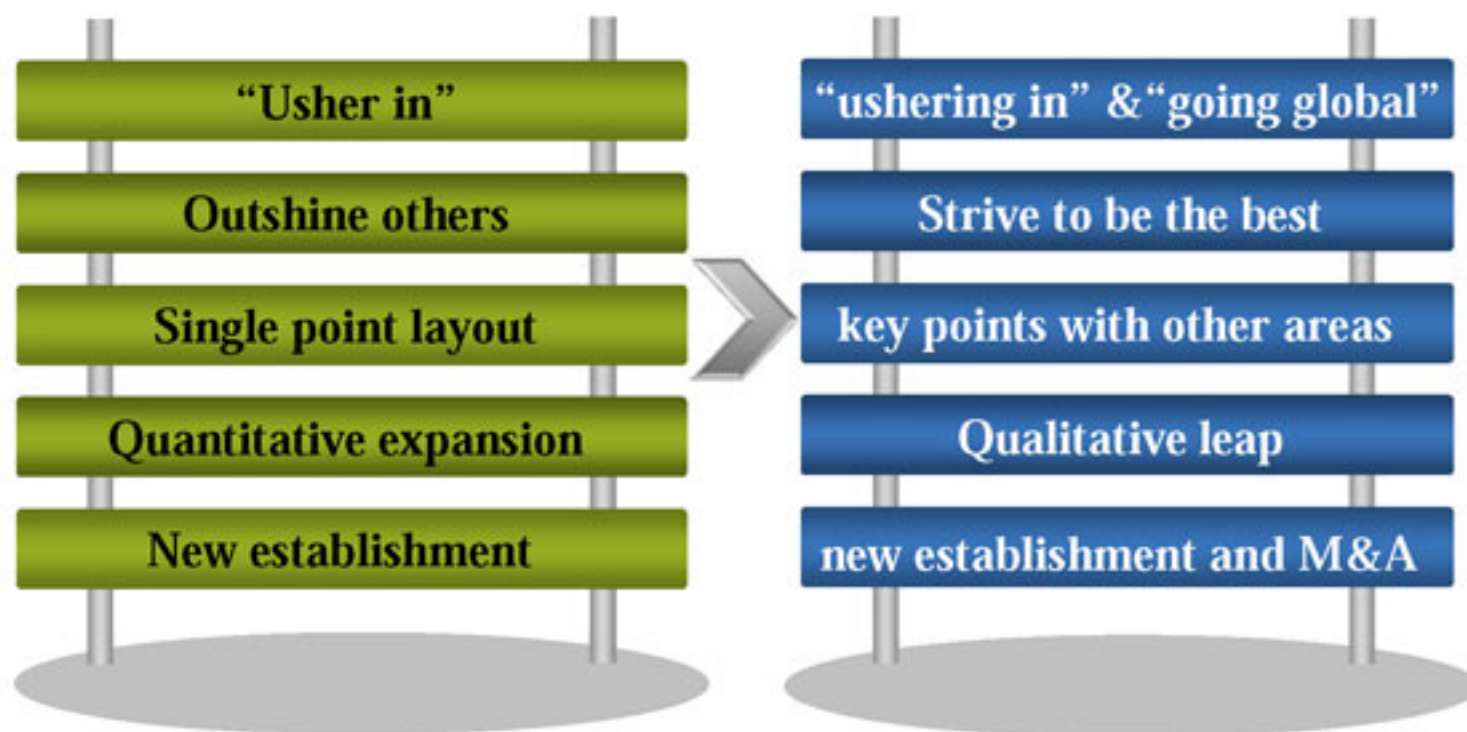
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1. Great Achievements in Globalization of China's Banking Industry

The transnational development of China's banking industry, with ups and downs over the past nearly one century, has experienced five transformations.



Transformation 1: Internationalization of Banking Industry



❖ In the early period of the opening of China's financial industry, the focus of work was to usher foreign banks into China.

❖ Since 1990s, China's banking industry has achieved remarkable progress and laid a solid foundation for its overseas expansion. The 12th Five-Year Plan Outline put forward the requirements on development of multinational financial institutions for the first time.

Transformation 2: Overseas Financial Institutions



❖ BOC achieved many firsts in China's banking history, and is still the most globalized bank in China.

❖ By the end of 2010, such banks as ICBC, ABC, CCB, BOCOM, CMB and Minsheng have established overseas branches.

Transformation 3: Global Branch Layout

Single point
layout



key points
with work in
other areas

❖ The overseas branches of China's banking industry had not formed a sound globalization network by early this century.



Transformation 4: Overseas Business



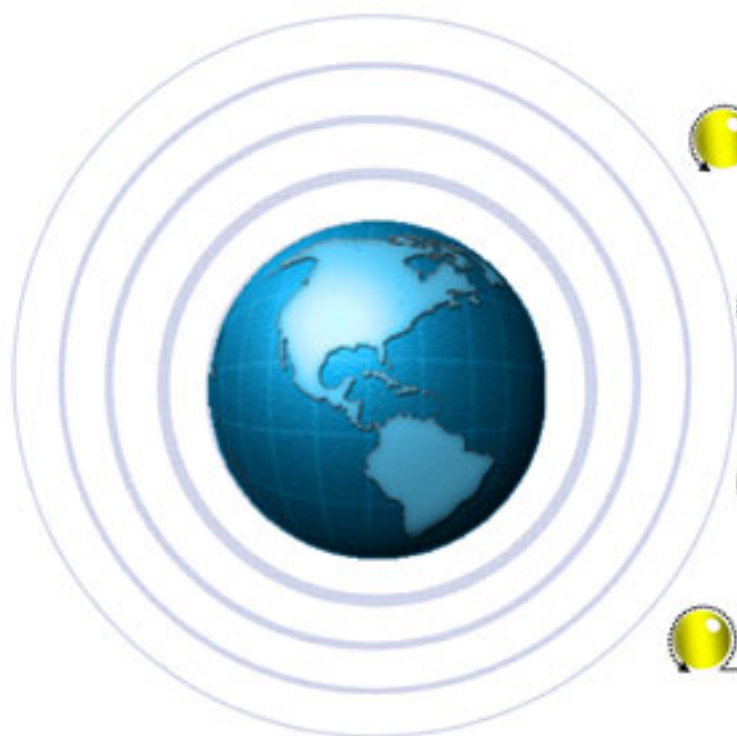
Transformation 5: Way of Establishing Overseas Institutions



❖ In the early period of development, China's banking industry primarily adopted the mode of establishing overseas institutions.

❖ Since 2006, China's banking industry participated in nearly 20 overseas mergers and acquisitions, rapidly exceeded the original business regions and scope within a short period of time, and achieved mutually beneficial outcomes.

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2. Tremendous Challenges Facing China's Banking Industry in Globalization

Internationalization is the foundation and precondition of globalization, while the latter is a further development and leap of the former. The transnational development of China's banking industry is still at the stage of internationalization and still has a big gap with globalization.



2. Tremendous Challenges Facing China's Banking Industry in Globalization

Challenge 1: China's banking industry should enhance its strength

- ❖ Proportion of overseas assets were relatively low
- ❖ International talented people were insufficient
- ❖ Overseas institutions had weak operating capability
- ❖ Overseas institutions had weak risk management capability
- ❖ Overseas institutions had low management efficiency

Challenge 2: Financial protectionism reemerges

- ❖ The US promulgated the Foreign Bank Supervision Enhancement Act of 1991
- ❖ Subsidiarization

2. Tremendous Challenges Facing China's Banking Industry in Globalization

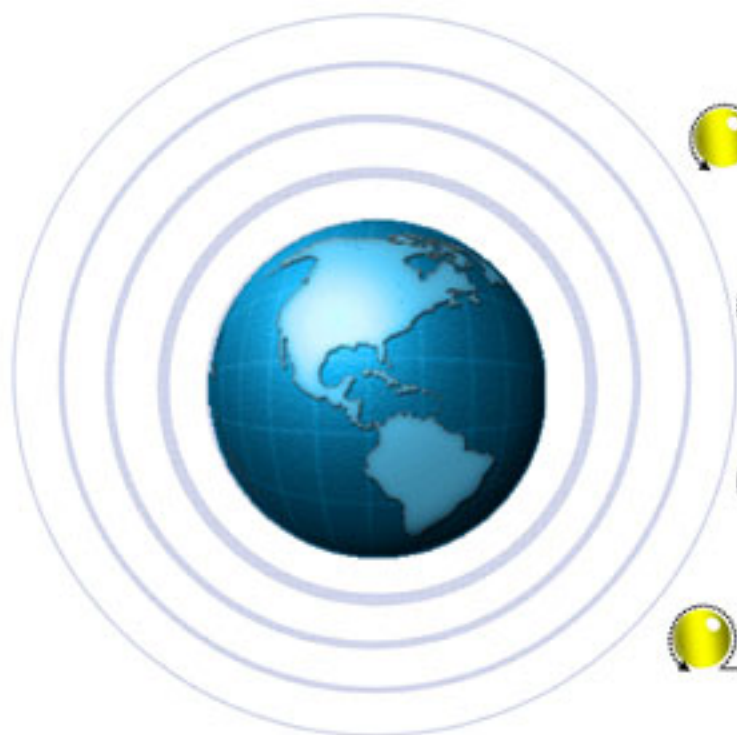
Challenge 3: "Domination of banking sector" of foreign economy

- ❖ Since 1970s, global banking industry has quickened the pace of expansion, and the characteristics of "domination of banking sector" have become increasingly prominent.
- ❖ Foreign banks entering such saturated markets as Europe, the US and Japan face fierce competition, and have to develop business in the selected narrow markets.

Challenge 4: Volatile international economic environment

- ❖ American and Japanese economy still recover slowly
- ❖ The prospect of European economy is uncertain due to the impact of sovereign debt crisis
- ❖ The situations in North Africa and Middle East become turbulent
- ❖ The world faces the risks of inflation and economic stagnation

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3. Significant Opportunities Facing China's Banking Industry in Globalization

There are both challenges and opportunities.
The 12th Five-Year Plan period is the golden age for the transnational development of China's banking industry, which is full of significant opportunities.



Opportunity 1: Rise of Great Power

“Rise of great power” Lay a solid foundation	RMB internationalization Create favorable conditions	Chinese enterprises “Going global” Continuously promote transnational development	Strength of China’s banking industry increases while that of foreign banking industry decreases Bring about rare time window	Domestic and foreign regulations tend to be uniform Create relatively fair competitive environment.
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❖ Distribution of Top 10 Banks in the World in 1970-2010 (Unit: Bank)

	US	Europe	Japan	China
1970's	7	3	0	0
1980's	2	7	1	0
1990's	0	4	6	0
2010's	4	2	1	3

❖ Source: Banker of the UK

Opportunity 2: RMB Internationalization



- ❖ China's foreign exchange reserves accounted for one third of the world's total, and the economic foundation of RMB internationalization has become increasingly solid.
- ❖ Historically, currency internationalization would give birth to a number of real international leading multinational companies and banking groups.

Opportunity 3: Chinese Enterprises “Going Global”



- ❖ Chinese enterprises have quickened the pace of “going global” and the “China factor” has become a non-negligible force in the world’s economic development.
- ❖ Chinese enterprises kept going global, and their demand for overseas banking services grew rapidly, which will propel China’s banking industry to accelerate transnational development.

Opportunity 4: Strength of China's Banking Industry Increases While That of Foreign Banking Industry Decreases



- ❖ The banking sectors of Europe and the US are in the process of the "deleveraging" and "back to basics".
- ❖ Depending on the fast-growing big market of China, the country's banking industry developed domestic business rapidly. Its capital was adequate, operation was sound, loan to deposit ratio was low, and leverage ratio was around 14 times on average. Therefore, China's banking industry may provide funding for domestic and overseas enterprises.

Opportunity 5: Domestic and Foreign Regulations Tend to Be Uniform



❖ Following the financial crisis, it has been agreed by most countries to unify regulatory rules. Advocated by the G20 Summit, the financial regulatory system centering on Basel III was established and detailed implementation plans and requirements were drafted.

❖ Unification of the regulatory rules, to a certain degree, could prevent each country from introducing financial protectionism, thereby maintaining the transparency and opening of global financial system to the maximum and providing a relatively fair environment for the transnational operation of China's banking industry.

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4. A Long Way to Go in Globalization of China's Banking Industry




Measure 1: Properly deal with the relationship between local and transnational operation



Depend on local market

- ❖ The focus of the transnational development strategy of China's banking industry is to enhance local business, maintain and strengthen advantage position in domestic market, and thereby promote transnational operation worldwide.



Transnational operation

- ❖ Take full advantage of domestic and overseas markets.
- ❖ Grasp the two resources of RMB and foreign currency.
- ❖ Utilize the two channels of "ushering in" and "going global".

Measure 2: Devise regional strategy in consideration of characteristics of overseas market

Asia

- ❖ Consolidate advantage position and further expand the market coverage and operation room in Asia.
- ❖ Penetrate into other regions based on Asia.

Emerging countries

- ❖ Emerging countries, typically the BRICS countries, achieved rapid economic development.
- ❖ That, to a certain degree, could bring about diversified profit sources for China's banking industry, and reduce the concentration risk incurred to China's banking industry by overly depending on Asian market.

Measures 3: Flexibly adopt the strategies of new establishment and transnational M&A



New establishment

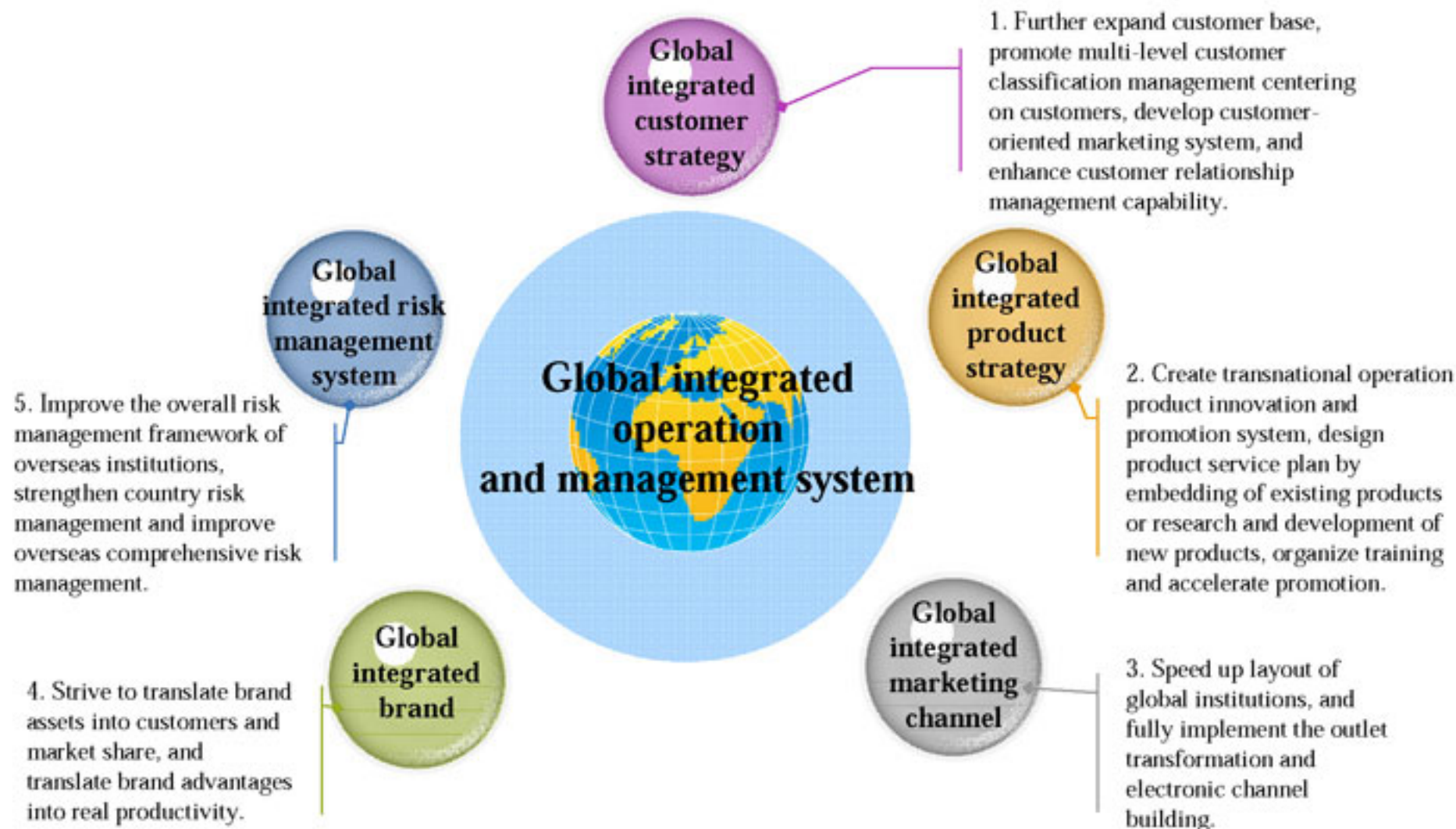
- ❖ Accelerate the construction of local institutions by means of establishing institutions, counters and task forces on its own or cooperation with correspondent banks, according to different market positioning and business functions.



Transnational M&A

- ❖ Focus on partial shareholding backed by whole share controlling.
- ❖ Give priority to banking first and then insurance, trust and fund business.
- ❖ Gradually spread to European and American developed countries with focus on emerging market.

Measure 4: Establish global integrated operation and management system





**We wish to join hands with you to create a bright future
for the globalization of China's banking industry.**

Thanks.

