

**Banking Industry Study in Shenzhen**

**Summary**

Background

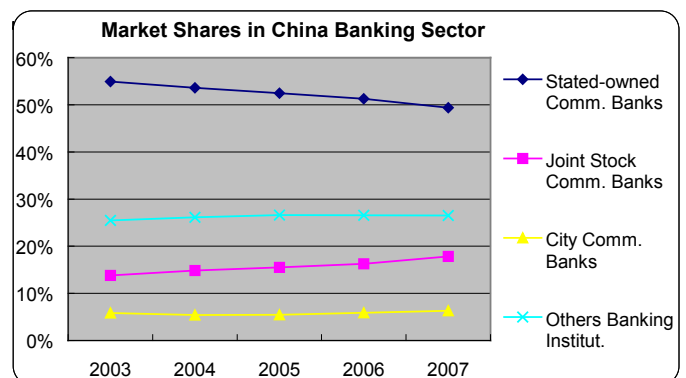
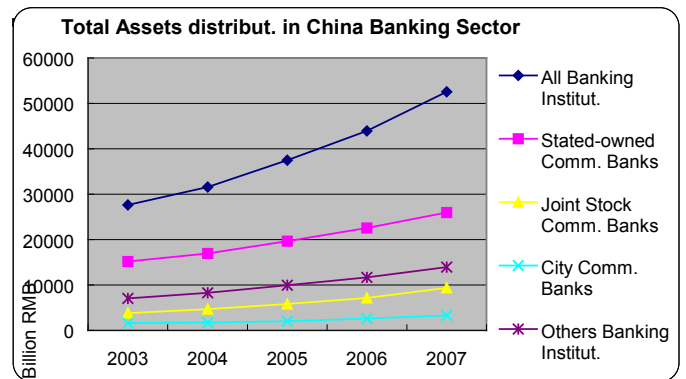
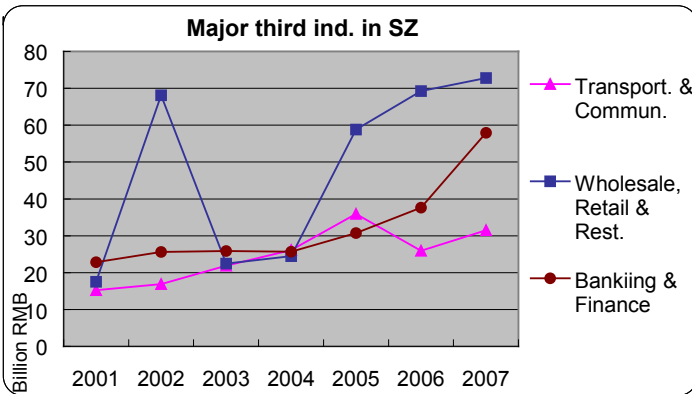
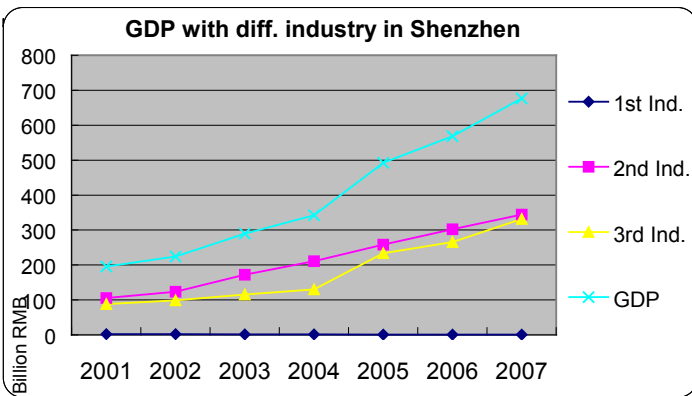
(1) Background of Banking Industry in Shenzhen

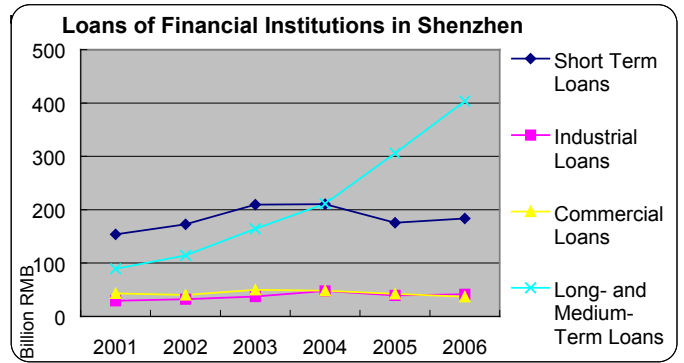
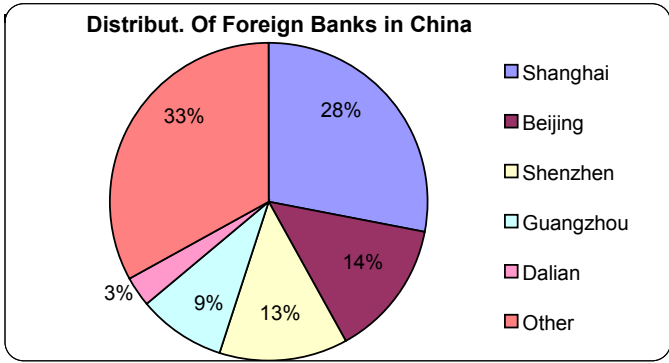
(2) Characteristics of Banking and Finance in Shenzhen

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- ( II)Communicate frequently with the foreign corporations.
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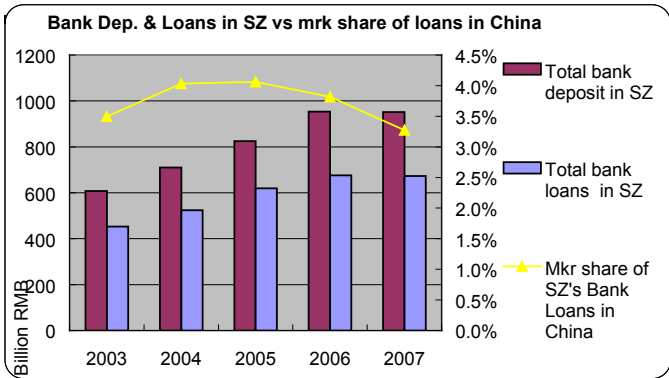
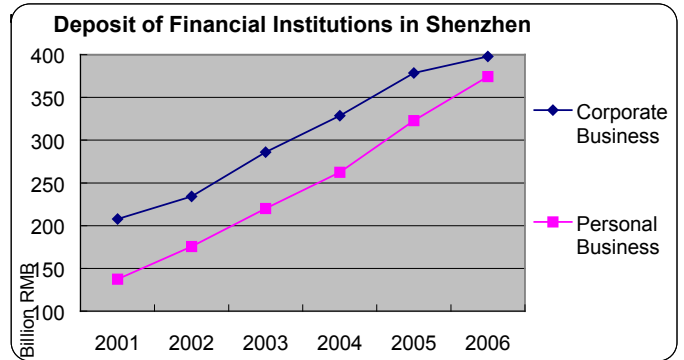
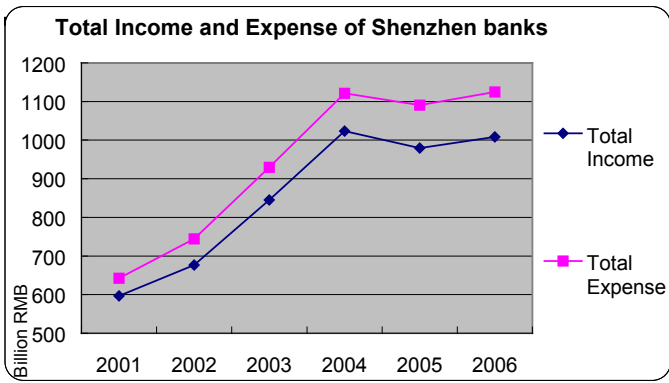
(3) Asset Situation

(3.1) Banks in China





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Prospect

- (1) The Future Directions of Chinese Bank in China
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**Original Content**

**Introduction**

Shenzhen is a major city in the Greater Pearl River Delta in China. It is also one of the first Special Economic Zones in the region. The report is to investigate Banking Industry in Shenzhen and tries to give more information and have a well understand its future development. It hopes that business opportunities can be discovered.

**Methodology**

The approach will start from taking a macro view to look at the whole Banking and Finance industry in Shenzhen as compared with other industries. It is then introduce the detail financial situation in Shenzhen. According to the analysis and current economic scene, it has a brief summary at the end.

**Background**

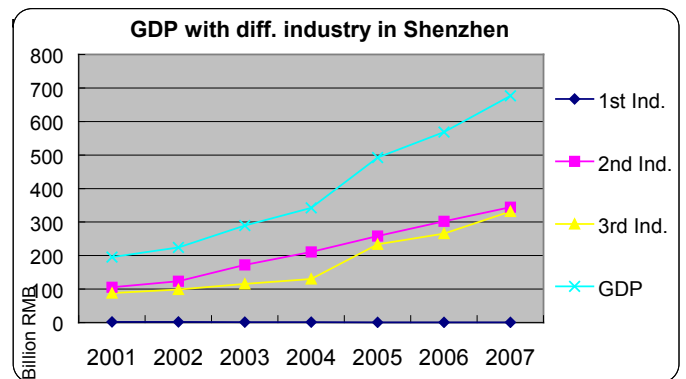
**(1) Background of Banking Industry in Shenzhen**

Shenzhen is a one of the special economic zones, which starts to develop greatly as an economic medium after the Chinese Economic Reform and Opening-up Revolution in early 80's in the 20th century. In this twenty some years of development, second industry, the manufacturing industry, is the leading industry

in Shenzhen and the third industry, the service industry, follows.

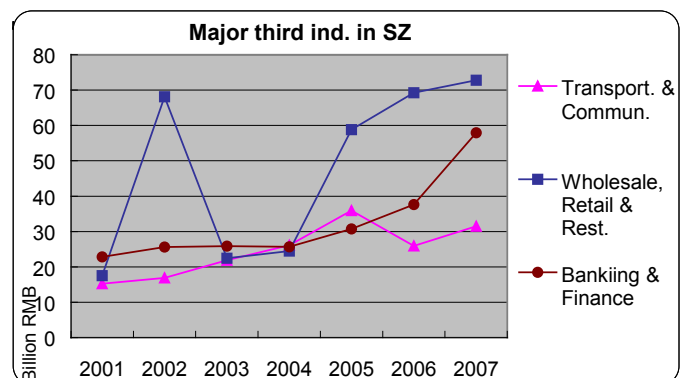
Among the third industry, Banking and Finance comes as the second major industry business in Shenzhen. It covers about 17 % of the third industry in GDP. (Source: Shenzhen Statistic & Census Dep. 2007). Exhibit 1 shows the GDP by types of industry in Shenzhen and Exhibit 2 shows some major third industries with their proportions.

Exhibit 1



(Source: Shenzhen Statistic & Census Dep. 2007)

Exhibit 2



(Source: Shenzhen Statistic & Census Dep. 2007)

From Exhibit 2, comparing with the other two activities, banking and finance climbs more steadily and faster especially from year 2005. Obviously, with the quick moving trend, it still has large room for banking development in Shenzhen.

## (2) Characteristics of Banking and Finance in Shenzhen

### (2.1) An infrastructure to economic development of Guangong Province

It has been over twenty years after Chinese economic reform and Pearl River Delta is the first Chinese region which benefits the rewards after this. To smoothly cultivate those various industries to growth healthily, banking and finance is a very critical factor. It is because any business trade relates very much on transaction of money or anything equivalent. Banking and Finance is a business hub that facilitates these developments. Places like Shenzhen, Guanzhou, Foshan and Zhuhai are those major business cities in Pearl River Delta Region. Among them Shenzhen is treated as a main financial center in PRD.

(2.2) Communicate frequently with the foreign corporations.

Due to the location of Shenzhen, it has been an open market trading center with strong import and export trade in Guangong region for a period of time. A lot of foreigners or their companies have already set up their office in Shenzhen. In the same token, Shenzhen is the first city that allowed foreign Banks to established their branch office in China region. These branches serve as a head bridge for these large corporations. It also creates an opportunity that Chinese banks and financial institutes can communicate with foreign Banks and indirectly increasing the level of standard in this field.

### (2.3) Presence of Stock Exchange market

Stock Exchange market has been set up in June 1991 in Shenzhen. This is a symbol of recognition of Shenzhen as an important finance and commercial center in China, besides Shanghai. Stock Exchange market is a place where listed companies and investors can do their investing and fund raising business. The presence of Stock Exchange market can help to bolster its bank and finance industry in Shenzhen. As of year 2007, there are 670 no. of listed companies present in Shenzhen and with total market capital of 5730.2billion RMB. The total yearly transaction volume is 18764.6 billion RMB (Source: Shenzhen Statistic Bureau)

#### (2.4) Concession of WTO

The fact that China's joining of WTO in the year 2001 has implied a profound changes in China's economy in the following decades. With the regulation of WTO concession, banking and financial market in China has to be opened in December 2006 to those foreign banking corporations. The influence of this act is two sides as it will increase the competition of Banking Industry in China but, on the other side, it will lift up the level standard in Banking Industry. In the long run, it is a valued added process towards China's Banking and Finance Industry.

#### (2.5) Rooms for improvement towards international standard

Concerning about the professional standard in Banking and Finance in China, there are still a lot of areas that the Industry has to focus on in order to narrow the gap between that of international requirement. Some major areas like: Financial products' knowledge, international procedural requirement, management skill and technology upgrading are the major sections to for those Chinese bankers to watch out for.

#### (2.6) Under strong political influence

In the light of political governance, China is a communist country. Banking and Financial development is affected by political matters. The autonomy of business development is constrained by the China government. With the encroachment of foreign international bank, a higher transparency for management of those Chinese banks will be initiated.

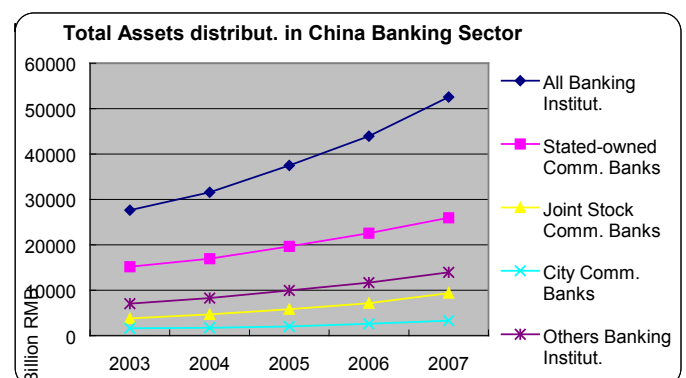
### (3) Asset Situation

#### (3.1) Banks in China

According to ownership of banks or financial institutions in China, it can be classified into eight types. These eight types are: Policy Bank, Stated-owned Comm. Bank, Join Stock Comm. Banks, City Comm. Banks, Rural Comm. Banks, Foreign Banks, Postal Saving and Non-bank Fin. Institutions.

Exhibit 3 shows the total market capital of these Financial Institutions in China in recent years.

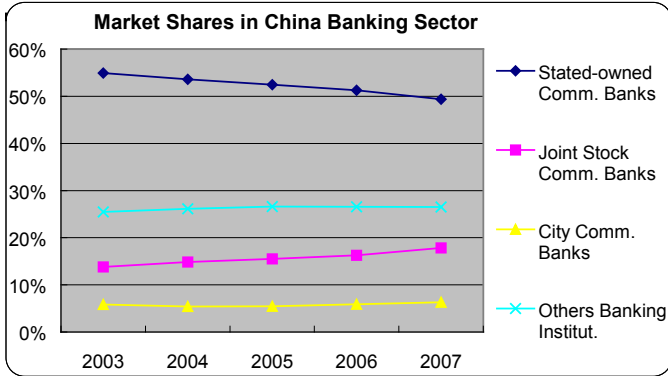
Exhibit 3



(Source: China Banking Regulatory Commission)

Exhibit 4 demonstrates the proportional market share of different types of Banks in China.

Exhibit 4

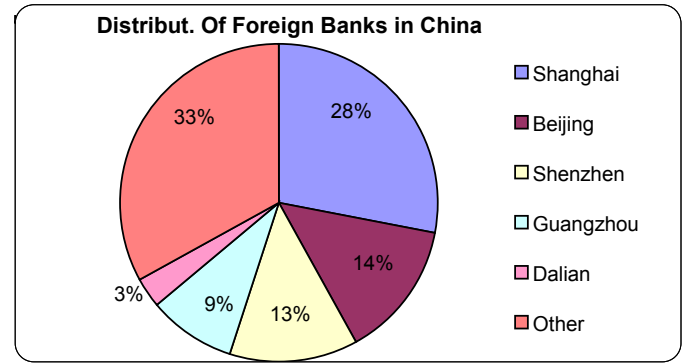


(Source: China Banking Regulatory Commission)

The market share diagram, which describes the situation for the whole China, can be applied more or less in Shenzhen also, as Shenzhen is one of the main commercial cities in China with the presence of Stock Exchange market. Although the market share of stated-owned commercial bank has declined, it is still at the dominating place in China. It is worth noting that corresponding with current banking situation, joint stock commercial bank presents a rising trend.

As for China's opening up, it is inevitable that more and more foreign banks will affect the country's financial market. Exhibit 5 shows the details about the distribution of foreign banks in China.

Exhibit 5



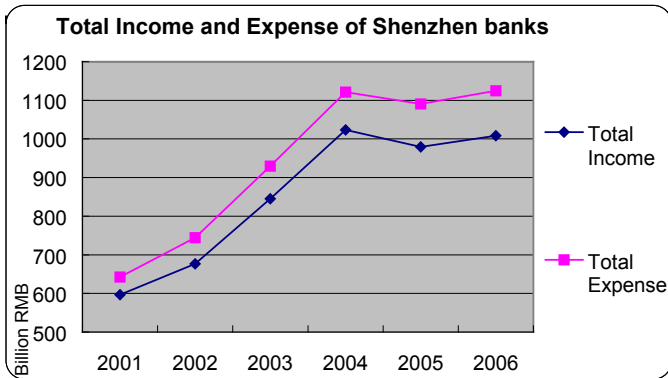
(Source: China Banking Regulatory Commission)

It is easier to conclude that Shanghai, Beijing and Shenzhen are the three important cities to accept foreign banks in China with a total proportion of 55%.

### (3.2) Banks in Shenzhen

For the prosperous development of financial industry in Shenzhen, total income of banks is growing by leaps and bounds. Exhibit 6 shows total income and expense of Shenzhen banks in recent years. It is obvious a slowdown in year 2005 and 2006, for government has enhanced the cash flowing system to control and get a well financial operating environment.

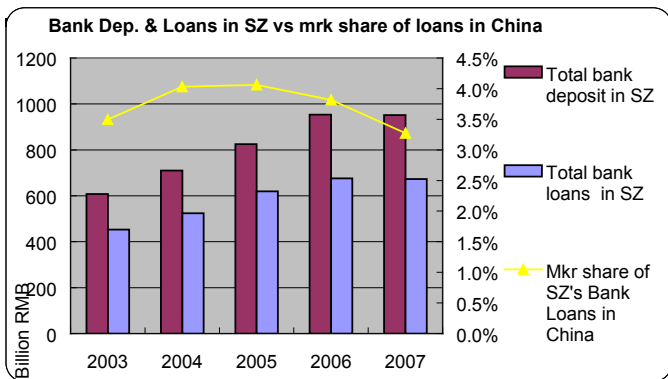
Exhibit 6



(Source: Shenzhen Statistic & Census Dep. 2007)

It is also of use to look at the total deposit and the total loan in advanced situations in banking industry of Shenzhen as this can reflect the further incurred interest income of banking industry. Exhibit 7 displays the status.

Exhibit 7

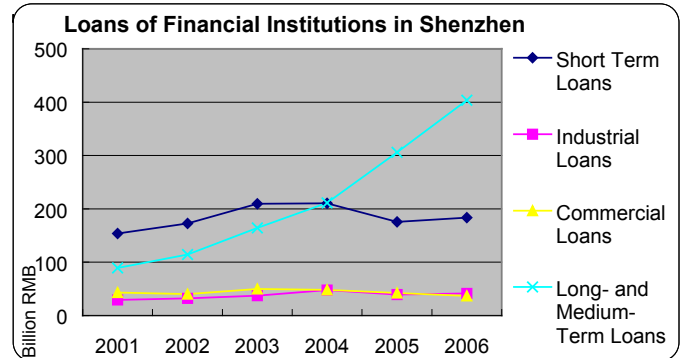


(Source: CBRC & Shenzhen Statistic & Census Dep. 2007))

In the graph above showing the deposit and loans situation in Shenzhen, the market share of bank loans versus the whole China has declined below 4% in year 2007 after the peak in year 2004 and 2005.

Getting down to the detail businesses situation, Exhibit 8 shows the loans of financial institutions in Shenzhen. it can be divided into four parts: short-term loans, industrial-loans, commercial loans and long and medium-term loans.

Exhibit 8

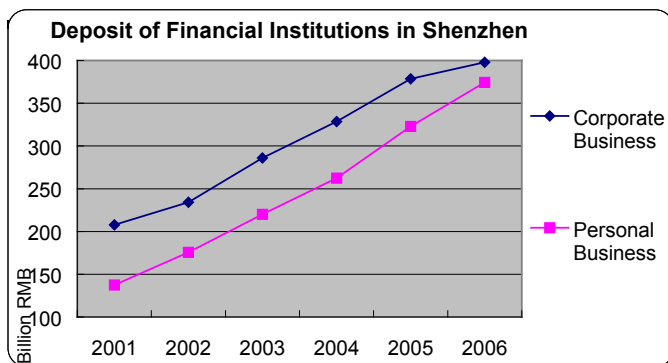


(Source: Shenzhen Statistic & Census Dep. 2006)

Long-and-medium term loans keeps a high growing rate and overtook the short-term loan in year 2004. It seems that at present, the large project and personal business are the two mainly customers of banks in Shenzhen. For China's macroeconomic readjustment and control in year 2007, it is expected the trends will present some changes in the coming years.

The flow of deposit business can be divided into corporate business and personal business. Exhibit 9 displays the deposit of financial institutions in Shenzhen. It is obviously that both of the two businesses increase fast and the gap between them becomes smaller and smaller.

Exhibit 9



(Source: Shenzhen Statistic & Census Dep. 2006)

### (3.3) Registration requirement of banks

As for the registration rules for Banking sector, it will mainly concentrated on the registration fee in different types of banks or financial Institutes. The details of registration fee (RF) are as following:

- RF for national commercial banks is one billion RMB.
- RF for a city commercial bank is 100 million RMB.
- RF for a rural commercial bank is 50 million RMB
- RF for a foreign bank is one billion RMB
- The mini. operation capital for a branch of a registered foreign bank is 100 million RMB.
- By law, a branch's total operation capital of a foreign bank should not excess 60% that of its main branch office in China.
- RF for an insurance company is 200 million RMB.

### Prospect

#### (1) The Future Directions of Chinese Bank in China

There are three main types of bank which covers over 80 % assets of the total China's banking and financial. They are: (1) Stated-owned Commercial Bank, (2) Joint Stock Commercial Bank and (3) City and Rural Commercial Bank. In term of the size and natural of them, they are very different. Hence their possible development directions are also diverse.

#### ( I ) Stated-owned Comm. Banks

Stated-owned commercial banks are the largest market share coverage in term of their total assets, with over 50% of market share. (Source: China Banking Regulatory Commission 2006 ). In the light of it, further enlargement of their market share is not their first priority.

In instead, to become one of the excel international bank is what they will pursuit. So upgrading their business to an international banking standard and practice is what they should follow. That is, building up a good financial infra-structure with an international context is their essential need, especial mega bank like Industrial and Commercial Bank of China.

## (II) Joint Stock Comm. Banks

Joint stock commercial banks are China's national banks. They get the second largest market share in term of total assets. Their prime target will be concentrated on augmenting their market shares by increasing their services quality and marketing. Basically they will go after the model of those state-owned commercial banks. Their competitors would be those city and rural commercial banks and some of the foreign banks in China.

## (III) City and Rural Comm. Banks

The main characteristics of those city and rural commercial banks are their closely relationship with their clients and a more flexible operation of their business but in a comparatively limited resources.

Their major threat is diminishing of the present market share and hence their client's number. Under this situation, the main target is to strengthen their relationships with their clients and to increase their services abilities.

## (2) The future Development of Banks in Shenzhen

The special location and social status of Shenzhen provides a good environment for financial market. With the enhancement of China's Reform and Opening-up, an economy role of Shenzhen will be changed more or less. In year 2006 the government claimed that the strategy of Shenzhen is towards to be an internationalization city of China. The crucial direction injects new and greater vitality for the financial future development of Shenzhen. The relationship with Pearl River Delta, Macau and Hong Kong also affords many good chances of success.

As China has totally opened RMB business to foreign banks at the end of year 2006, the financial environment in Shenzhen provides a large platform for their development. It is no doubt that foreign banks will increase their investing strength. This is just as a bridge for Shenzhen to integrate with international market, at the same time, the competition becomes more and more fierce, so how to deal with the market changes and stabilization is a crucial consideration.

## Conclusion

Shenzhen is an important industrial and financial city in China. This report tries to investigate the present Banking and Finance situation in Shenzhen.

In the near future, Shenzhen will continue to develop as one of the financial center in China as the economy in China is growing in such a high speed. It is worth noting that a good banking industry is a must to assist a successful business and economic growth of a country. Hence, it is foreseeable that the banking standard in Shenzhen will have to be improved greatly to cope with the possible more complex business environment in Shenzhen. It is especially so for the encroachment of foreign corporations after the joining of WTO in China.

Generally speaking, due to the natures of Banks in China, there will have different strategic developments for these banks. For those State-owned Comm. Banks, their target is to become one of an international banks with good reputation and management skill. For those Joint Stock Comm. Banks, they will generally follow those state-owned giant banks and augment their client base as their mission. The same situation can also be applied in those foreign banks. City Comm. Banks will emphasis on the protection of their market share for they are most vulnerable of them all.

- End of Report -

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April 2008

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I come from North and work in South of China. Perhaps, for some one, north is not a good place for cold weather, bad living standard and dirty streets... by the way, on the premise of their own mind.