



Chinese and Foreign banks in China



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- Chinese Banking market
- In which format foreign banks operate in China
- What do foreign and Chinese banks do well for MNC and do not do so well
- How to finance your business in China in 2014
- Q&A

Chinese Bank market

The banking market in China is still protected, heavily regulated but in a rapid development and transformation phase.

As of end-2012, there are 3,747 financial institutions in China (vs 13,835 in Europe) and their total economic dimension is :

in trillion RMB	China	Europe
assets	133.6	283.8
liabilities	125	268.7
Deposit	94.3	26.2
Loan	67.3	158.6
<i>loan/deposit ration</i>	<i>71.4%</i>	<i>605.3%</i>
loan loss reserves**	1.46	1.89
<i>loan loss reserves/Loan</i>	<i>2.2%</i>	<i>1.2%</i>

* The Fx rate EUR/RMB = 8.00 ** by commercial banks

Chinese Bank market

Who are the 3,747 financial institutions?

- Central bank, Development bank and big global commercial bank: 7, *representing 53% of Chinese Bank's Total Assets (CBTA)*
- National commercial bank: 12, *representing 17.6% of CBTA*
- Regional commercial bank: 144, *representing 9.3% of CBTA*
- City / village Bank et mutual structure: 3260, *representing 15.6% of CBTA*
- Financial company (including large groups, Trust, Leasing, Loan, Consuming financing): 271, *representing 2.4% of CBTA*
- **Foreign invested bank: 42 representing 1.8% of CBTA**
- Others: 10



Foreign banks in China

Foreign banks have rushed into the market since China opened its financial services sector under its WTO commitments in the early 2000s.

412 foreign banks from 49 countries are operating in Mainland China (by end of 2012) :

- **42 leading players have set up locally-incorporated subsidiaries**
(to gain more complete access to the onshore market, especially in RMB products)
- 95 banks operating under the branch format
- 197 representative offices
- Some have also established Sino-foreign JV or have taken financial investments in local institutions.

Foreign banks in China

Yet foreign banks remain marginal players - Market share in 2012:

- 
- 1,82% in Banking assets
 - < 2% in corporate lending
 - Around 7% in onshore investment Banking
 - <1% in interbank debt issuance
 - 15% in Trade Finance
 - 33% in FX trading
 - Number of staff: 44,560 (1,33%)

This is due to structural constraints, such as stringent local regulations and limited access to the domestic corporate and institutional client base.

Foreign banks equity stakes in Chinese banks

Around 10 years ago, many foreign banks had taken participation in Chinese bank:

ICBC (Goldman Sachs), BoC (UBS, RBS), CCB (BoA), Bocom (HSBC), Huaxia (Deutsche Bank), Bank of Beijing (ING), SPDB, (Citi), BoN (BNPP), etc.

⇒ **Today, with few exception, this experience is only half-succes, far from ambitions annoned initially at the creation of strategic partnership**

⇒ **Most of foreign banks have already sold whole or part of their participations**

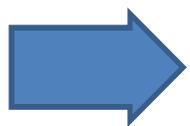
Goldman Sachs / ICBC, UBS & RBS / BoC, BoA / CCB, HSBC / Bank of Shanghai , etc.

Foreign banks in China

Participations often financial and non-strategic

- **Chinese Regulation : Max 20% of one Chinese bank's capital.**
 - ⇒ Structurally limited to a minority shareholder role.
 - ⇒ Generally quite few influence on the Chinese bank's strategy.
- **The Chinese banks are not often interested in the creation of strategic industrial partnership**
 - ⇒ “To make modern and international” but no interference with the business “in Chinese way”
 - ⇒ Only technology transfers and training
 - ⇒ Contradictory ambitions and competitive strategies in China and abroad

Most of these “strategic participations” are in fact only financial investment.



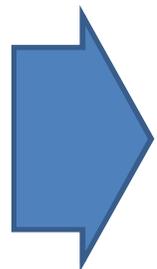
**Several rare but interesting cooperation with true strategy:
BNP Paribas & Bank of Nanjing**

Consequences for Foreign own enterprises

Nearly all foreign banks suffer from sub-scale operations in China, have limited branch network and, because of their licenses and structural limitations, are usually really efficient only for some specific products and services.

Chinese banks remain globally extremely profitable with their traditional Chinese clientele (the 16 listed Chinese banks represent 58% of the cumulated profit of all listed companies in China!)

Foreign Corporates are not necessarily the most attractive clientele for Chinese banks: specific and more complex service requirements, often lower profitability, difficulties to apprehend risks, etc.

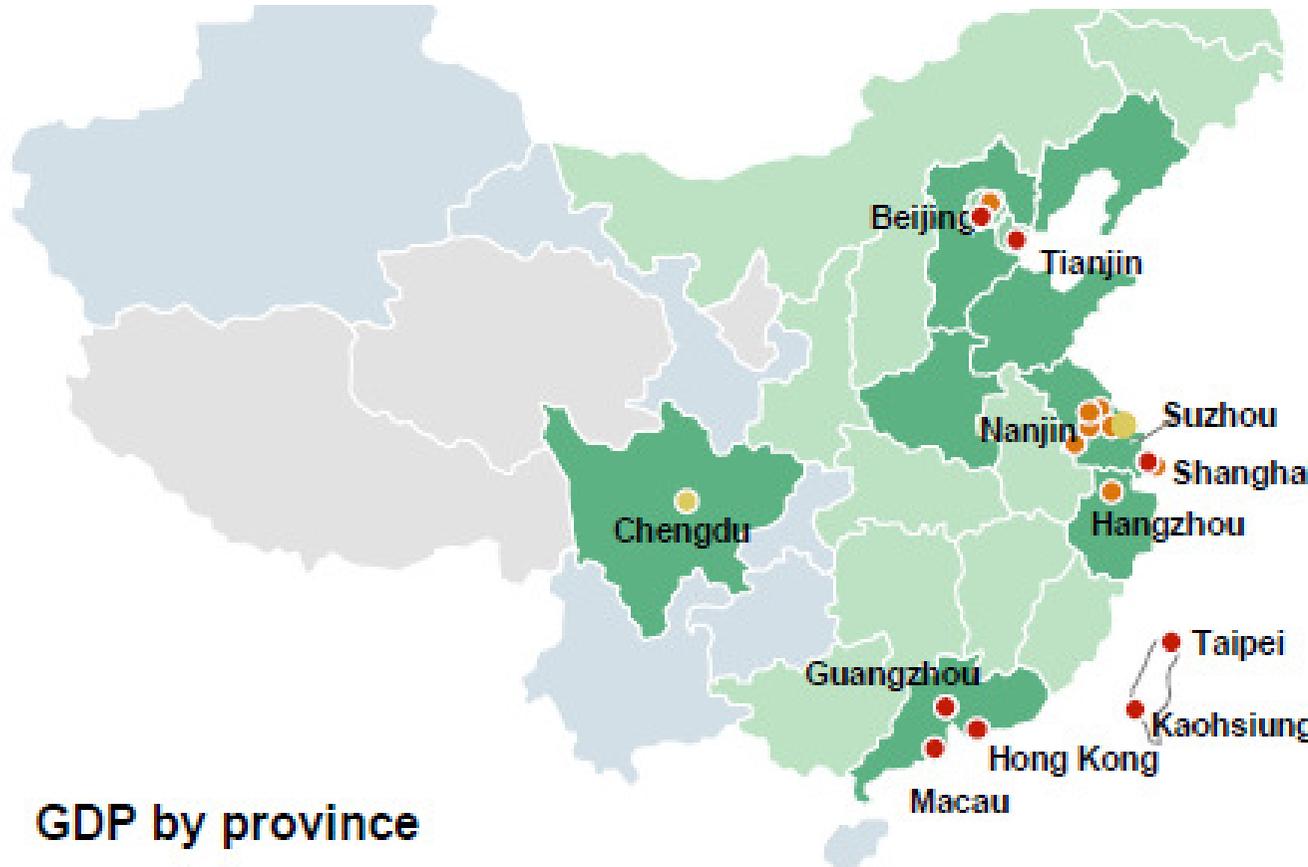


Most foreign companies in China have to use 2 sets of banks, Chinese and Foreign banks, in order to efficiently cover all their banking products and services needs.

Strategic Partnership BNP Paribas – Bank of Nanjing



A presence that covers all the key Chinese economic regions



BNP Paribas:
 379 staffs in China,
 1935 in Hong Kong
 179 in Taiwan

Bank of Nanjing:
 4297 staffs in China
 113 branches

GDP by province

- GDP >1000Bn RMB
- GDP 500Bn-1000Bn
- GDP 100Bn-500Bn
- GDP <100Bn
- BNPP Branch
- BNPP Representative office
- Bank of Nanjing

Bank of Nanjing - Overview

- **BNPP largest single shareholder with 16.2%; Nanjing Municipality controls ~26%;** (the remaining equity is free floated in the Shanghai stock market)
- **BoN is one of the 16 banks listed in China; Market Cap ~ €3.0bn**
- **Branch network covering the Yangtze delta area and Beijing**
 - 120 branches in 11 cities (Nanjing, Shanghai, Beijing, Hangzhou, etc.)
 - 4 affiliated banks, 1 financial leasing company, 1 Asset Management Co.
- **Mostly a commercial corporate bank with a strong bond franchise**
 - (>72k corporate clients representing about 85% of loans & deposits)
 - Growing capabilities in Retail (SME, Consumer Finance, Private Banking, ...)
- **Rated BBB- by Standard & Poors** (strongest among regional banks)
- **Net banking Income (2013): €1.2bn, Net Profit before tax (2013): €683m, ROE: 18%, Loan to Deposit ratio: 55%**

How to finance your business in China in 2014

In 2014, we could expect a slow down of the economy growth, and a moderate risk increase.

Banking reforms will continue at a rapid pace; for example:

- interest rate progressive liberalization,
- Internationalization of the RMB,
- digital banking revolution,
- strict loan quota growth,
- Development of the Interbank bond market
- Free Trade Zones (FTZ),
- etc.

The Chinese banking market is progressively experiencing a major shift in its business paradigms

How to finance your business in China in 2014

With limited Loan quotas, companies could face difficulties in finding bank financing.

In China, corporate financing needs are insured:

- ⇒ 61.6% by Bank loan
- ⇒ 26.3% by Entrust loan
- ⇒ 10.8% by Corporate bonds (mostly for large companies)
- ⇒ 1.3% by equity

(Vs. US market, up to 58% corporate financing are covered by Corporate bonds)

How to finance your business in China in 2014

Our view: benefit the maximum from changing financial market, try to get bank financing in your production cycle like, so called Supply chain :

- ❖ Trade – import and export
- ❖ Domestic business

How to finance your business in China in 2014

The last evolution on internationalization of RMB:

All companies registered in Shanghai with on-line RMB payment license or subsidiaries registered in SFTZ of groups out of Shanghai which have on-line RMB payment license can proceed RMB payment abroad.

This grant the possibility to perform the two-way RMB cash pooling for SFTZ entity



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Appendices

- ❖ Short focus on Shanghai Free Trade Zones
- ❖ Latest evolution on interest rate deregulation
- ❖ BNPP China Co. Ltd. presence
- ❖ Bank of NanJing network
- ❖ Platform BNPP-BoNJ and its full rang of bank services
- ❖ Cross border RMB and Supply chain finance
- ❖ Consumer financing and co-brand credit card

Short focus on Shanghai Free Trade Zones

As of December 2013, 1434 new companies, including 38 FIEs are established in the Shanghai FTZ, 60 are financial institutions (12 foreign banks).

69% of the companies involve in trading business, 26% in service sectors and 5% in finance or logistics.

A further 6,000 companies are in the process of applying.



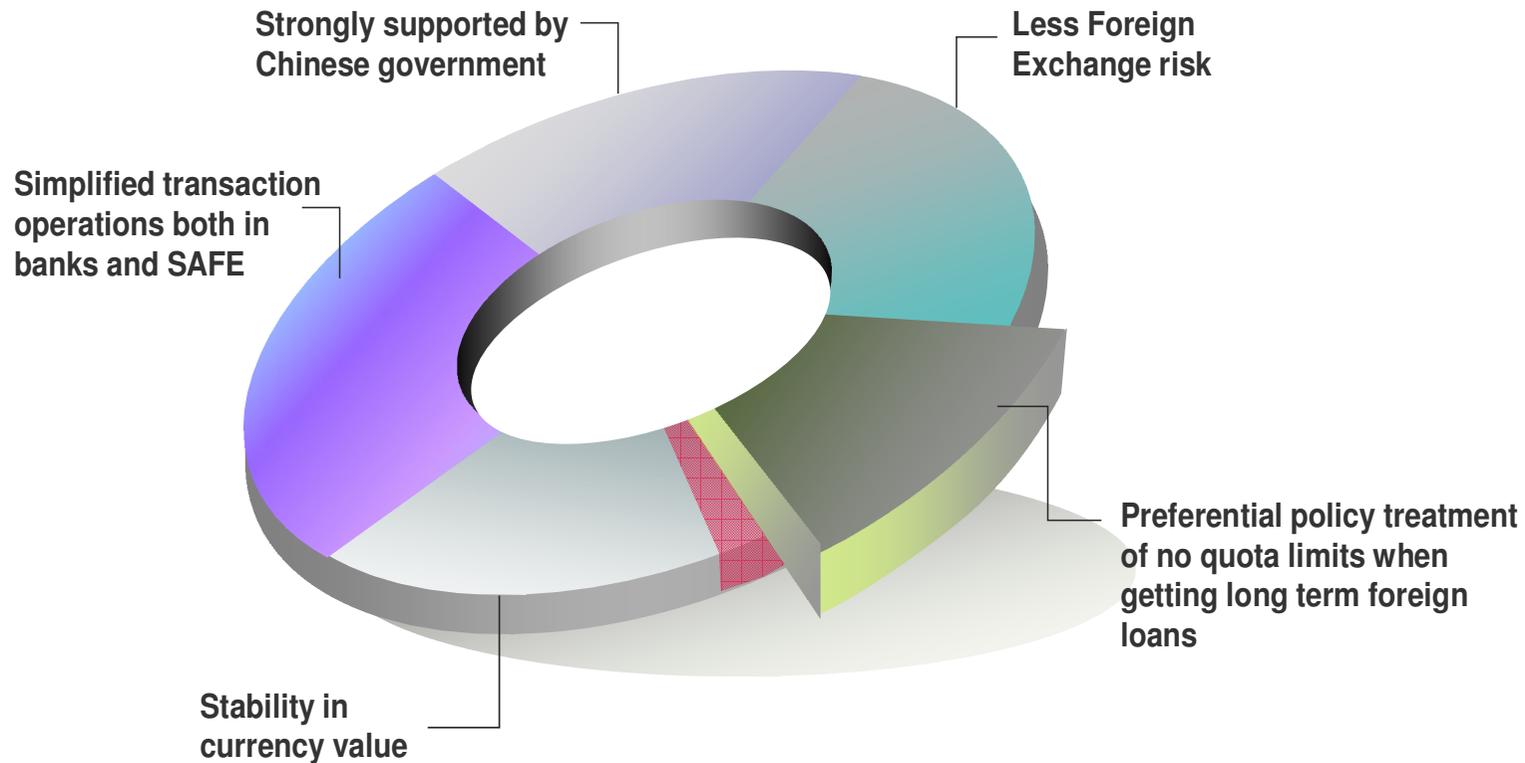
How to finance your business in China in 2014

The last evolution on interest rate deregulation: the interest rate reforms would continue firstly with deposit rate. Already on the Feb. 26th 2014, PBoC announced that from March 1st there was no cap for small amount FCY deposit rate. This measure is considered step of RMB deposit rate liberation which is capped today.

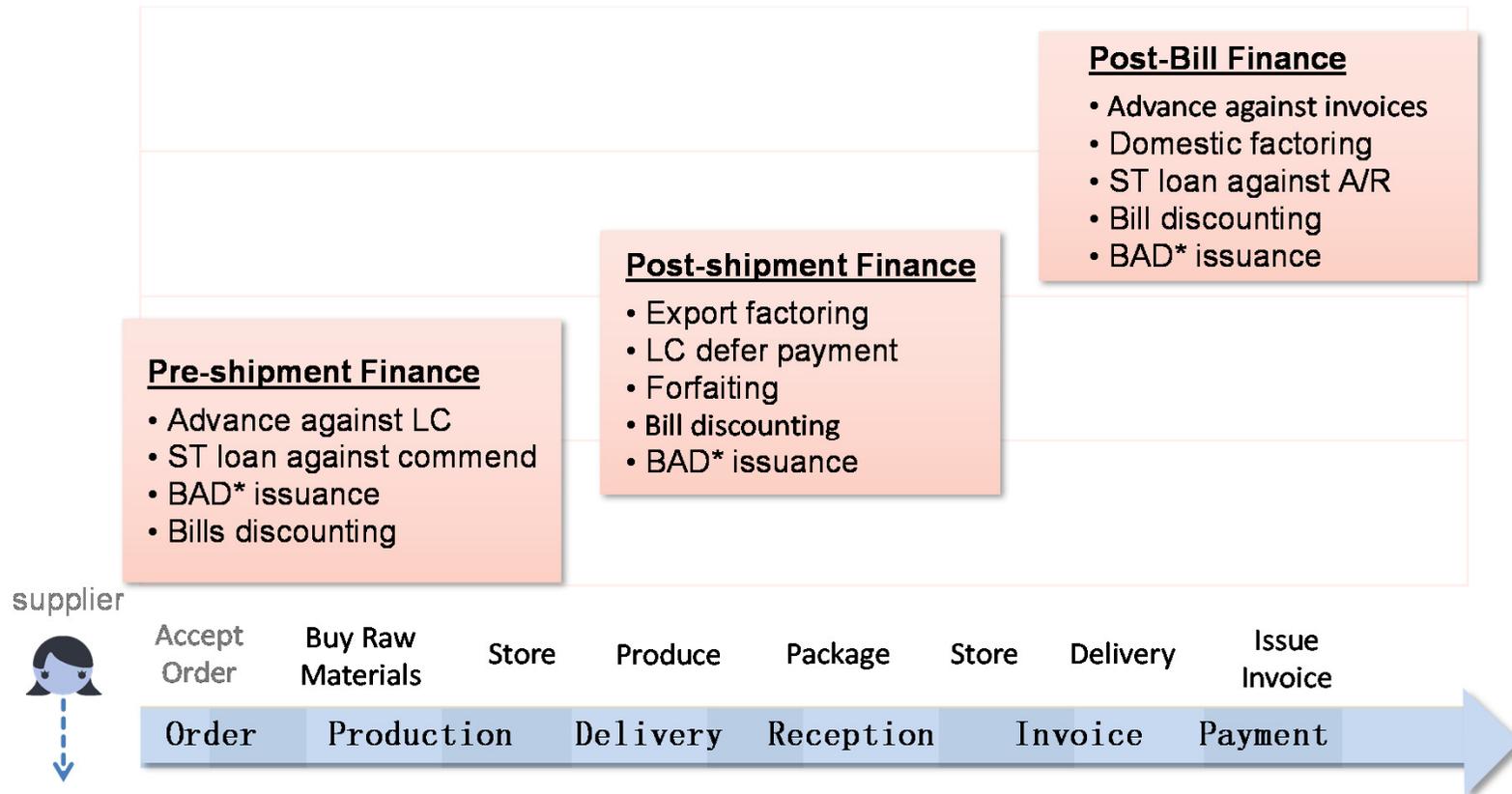
	Annual interest rate
Balance at sight	0,35%
Term deposit (minimum 10 KRMB)	
3 months	2,86%
6 months	3,08%
1 year	3,30%
Agreement deposit (minimum 50 KRMB)	1,265%
Margin deposit (minimum 50 KRMB)	
1 day	0,88%
7 day	1,485%

How to finance your business in China in 2014

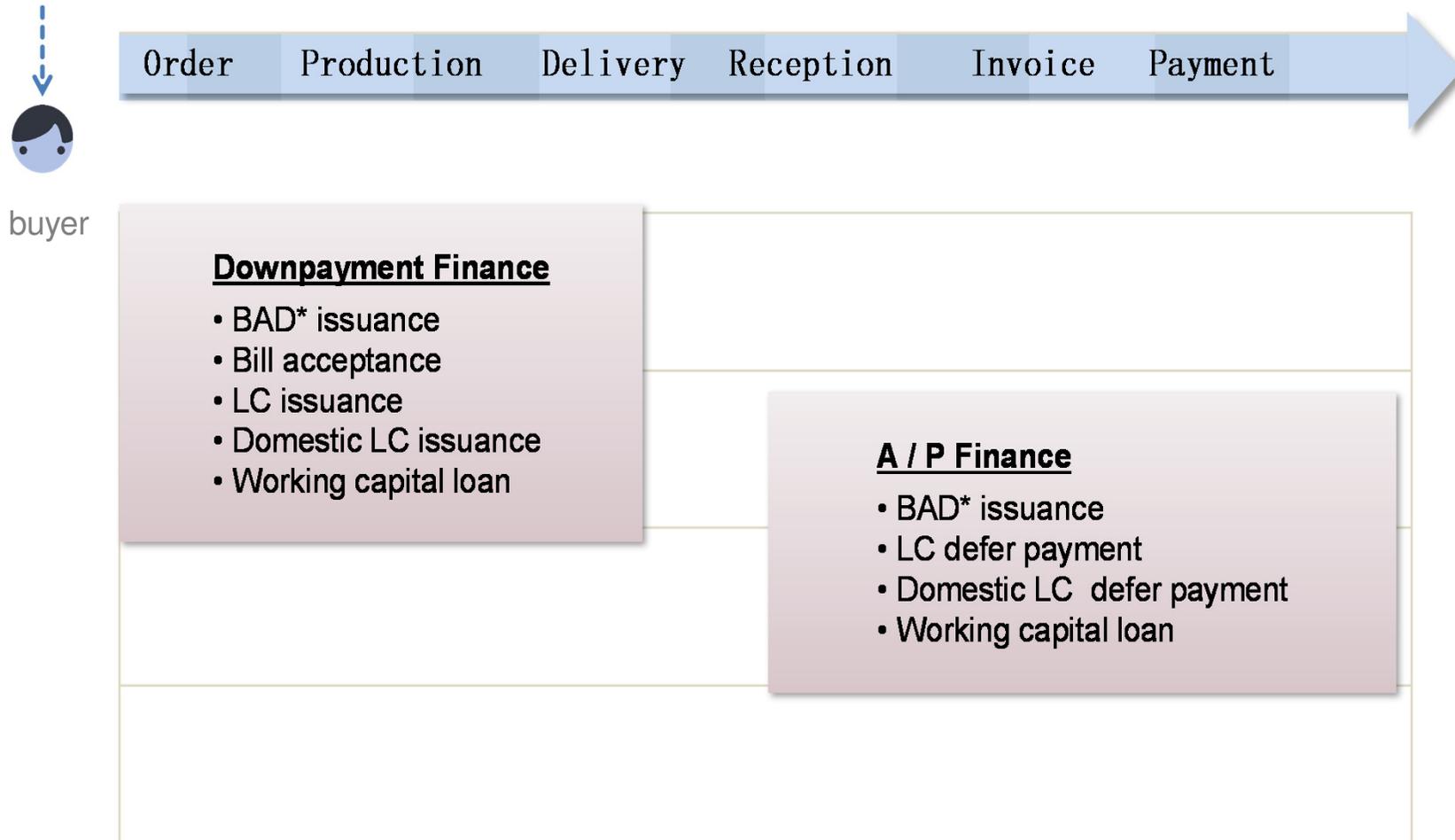
➤ cross-boarder RMB settlement



How to finance your business in China in 2014



How to finance your business in China in 2014



BNP Paribas China Ltd



Headquartered in Shanghai, BNPP (China) Ltd is a locally incorporated bank with a strong **Corporate & Investment Banking focus** (Structured Finance, Fixed Income, Energy & Commodities, M&A, Cash Management, trade finance, etc.)



- **Top 10 foreign bank in China in term of Net Income and Equity**
- **379 staffs across CIB, IS and Retail Banking**
- Client base: large corporates and financial institutions, high net worth clients and Institutional investors
- Strategic partner with Bank of Nanjing (14.7% stake)
- Holds 49% stake in local fund management joint venture, HFT Investment Management

Bank of Nanjing



- **Fast expanding network covering the Yangtze delta area and Beijing**
 - 103 branches in 11 cities (62 in Nanjing, 11 in Shanghai, 7 in Beijing, 6 in Wuxi etc.)
 - 4 affiliated banks and 1 leasing company
 - >3.4 millions individual clients and >72 thousands corporate clients
- **Mostly a commercial corporate bank (>82%) with some strong products capabilities** (trade finance, Debt Capital Market, etc.)
- **Rated BBB- by Standard & Poors** (strongest among all regional banks).
- **One of the 16 listed Chinese Banks** Market Cap as of Dec 2012: 27.3 billion CNY
- Total B/S: RMB 343.8bn, Equity:24.6bn, Loan/Deposit <60%, Net Banking Income: 8.8bn, Net Profit before tax: 5bn

The bank transformed itself from a local city bank into a regional bank with strong product capabilities

A platform dedicated to Chinese & Foreign Enterprises



BNP PARIBAS



Leverage on the complementarities of the banking set-ups and on the services & products capabilities

Act in both local and international way

- 
- To Overseas subsidiaries of Chinese corporate companies client of BoN:
 - Offer the worldwide services of the network of one the largest international bank
 - To Chinese subsidiaries of Foreign Enterprises client of BNPP and BoN:
 - Offer jointly the full range of products and services in China

Act in both local and international way

The BNPP – BoN platform has specific advantages compared to both local Chinese banks and foreign banks in China

Strength vs. Most Local Peers

- Deep understanding of the needs of the local subsidiary and of the requirements and strategies of the Mother Companies through BNPP Group
- Access to BNPP Global Trade Services network allows an optimized process of transactions on trade business
- Possibility, if necessary, to evaluate the value of corporate guarantee issued by foreign parent company for their business in China
- Corporate coverage organized as a business line to provides to clients a one-stop-shop covering both banks branch network and a quick, efficient and transparent decision process
- International Corporate Clients have access, as and when required, to a Vice President of Bank of Nanjing

Strength vs. Most Foreign Peers

- Comprehensive and competitive offer of local commercial banking services in English, French, etc.
- BoN can, if necessary, accept local pledges (property, account receivables, etc.) contrary to most foreign banks
- Fast Growing branch network offers a good geographic coverage of all key economic regions in China
- BoN Cash management services can be “plugged” to BNP Paribas cash Management global platform
- BoN and BNPP jointly have a unique set of licenses and can provide an attractive range of fixed income investment and hedging products and all Debt Capital Markets services
- BoN can issue Credit Card to Foreign staffs of its corporate clients

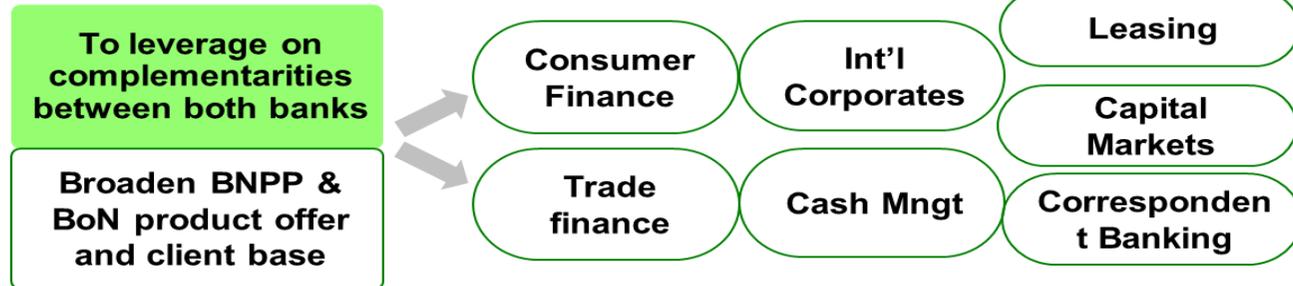
The strategy of BNP Paribas in China

Leverage on the complementary advantages of its 100% Chinese subsidiary , BNPP China Ltd., and of its local bank partner, Bank of Nanjing.

Since 2005, BNPP and BoN are strategic partners in China, BNPP largest single shareholder with 16,2% .



- **Business cooperation**



- **Technical support & Transfer of knowhow**



The full range of Banking Services offered by BNPP and BoN

Credit and Guarantees

S/T Financing

- Straight loans/ overdraft
- Roll over/ Revolving
- Bill of Exchange, Promissory Notes

MLT Financing

Financial

Guarantees

- Bonds
- SBLCs

CIB Offer

Syndicated Loans
Acquisition Financing
Corporate Finance
Debt Capital Market
Project Finance
Etc.

Cash Management

Accounts

- Residents
- Non Residents
- Capital Account

E-Banking

- E-Banking
- Bulk File Transfer

Payables

- Cash and checks
- Cards Issuing
- Direct Credit
- Outgoing Payments

Receivables

- Cash and checks
- Cards Acquiring
- Direct Debit
- Incoming Payments

Liquidity Management

- Physical Cash Pooling
- Notional Cash Pooling

Global Trade Solutions

Documentary

Instruments

- Import and export LCs
- Confirmations
- Discounting of export LCs deferred payment
- Collections

Bonding

- Reinsurance of int'l guarantees and SBLCs

Vanilla funded Trade facilities

- Funded facilities
- Forfeiting

Supply Chain

Financing

- Working capital optimization structures

Fixed Income

FX & Interest Rates

- Deposits
- Structured Deposits
- Interest Rated Derivatives
- FX Spot, Forward, Swaps,
- FX derivatives

Leasing

Operating & Financial Lease
Equipment

Retail Banking Services

All individuals
Banking services

How to do business in China: An integrated and well coordinated platform at the service of International Corporates

China Network Business Development

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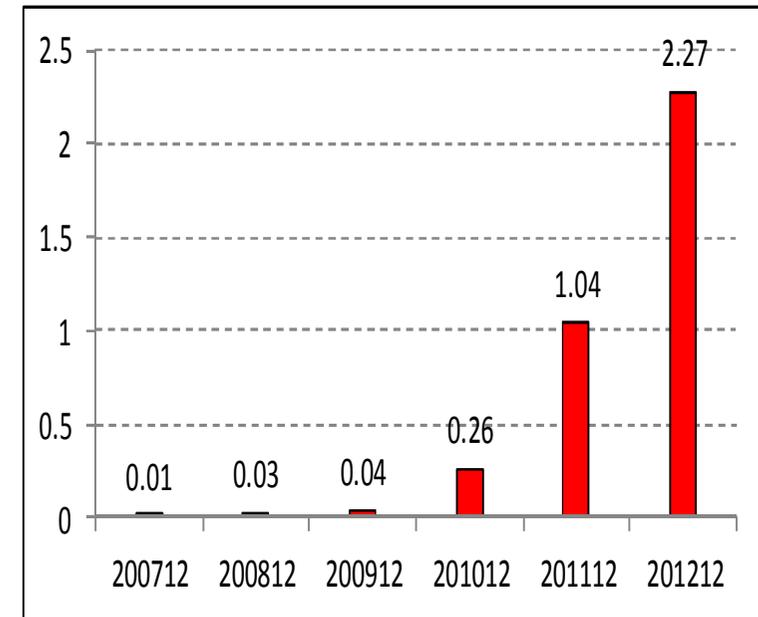
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工作进展

- A. 发行时间：6月末；
- B. 目标客群：有境外旅游、子女境外教育等消费需求的中高端客户