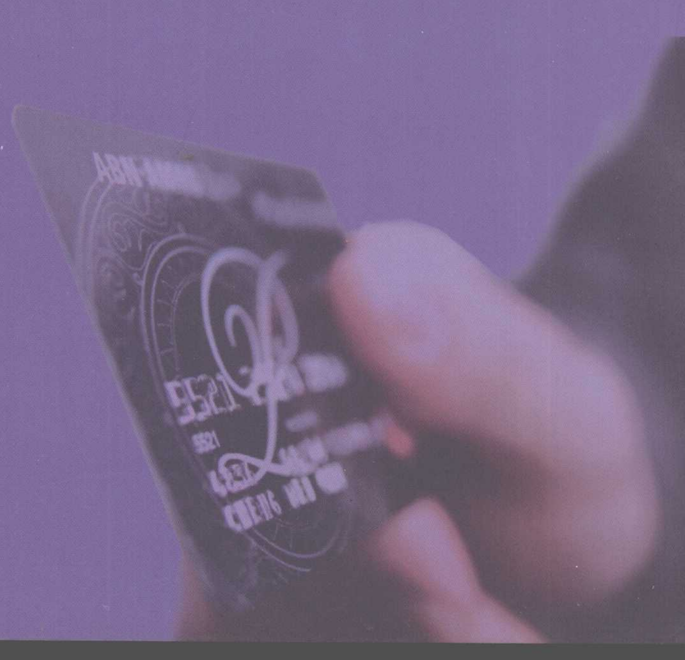
MODERN BANKING BUSINESS PRACTICE

邹勇 主编

英汉对照

现代银行业务实务



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Modern Banking Business Practice

现代银行业务实务(英汉对照)

邹 勇 主编

责任编辑	许 茜
封面设计	彭小柯
技术设计	杨 潮
责任校对	叶 勇
责任印制	李 剑 孔凌凌
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前 言

商业银行作为现代市场经济中金融体系的主体，在西方国家已经有了300多年的发展历史。银行具有雄厚的资金实力、全方位的金融服务与较完善的管理体系，是其他任何类型的金融机构无法比拟的。它对社会资源的有效配置和维持经济的稳定运行都发挥着重要的作用。

随着中国进一步的开放，金融服务业以及其他行业将进一步向国外公司开放，外资银行和外资公司将进一步扩大它们在中国市场的份额。在这一形势下，外资银行将进一步扩大其业务规模，向更多的外资公司以及中国企业和居民提供全面的国内、国际金融业务。本书正是以此作为目的进行编写的，力图使读者能够迅速掌握有关的银行业务知识，并能够使用英语来处理银行业务。《现代银行业务实务》（英汉对照）一书利用了国内外的最新资料，针对当前中国国内银行部门的需要和大学生的接受能力，向有志于从事商业银行工作的人们提供了商业银行的主要经营业务以及管理方法，可作为高等财经院校、对外贸易院校以及综合性大学的金融、国际金融、国际贸易、经贸英语及MBA等专业的教学用书，也对中资银行工作人员熟悉英文有一定参考价值。

本书具有以下特点：

一、反映了国内外最新的银行业务发展的现状，能够使读者在最短时间内掌握银行业务的知识。

二、本书采用中英文对照的方式，将英文课文全部翻译为中文，

有利于提高读者对银行专业英语的阅读能力。

三、对于重点问题，本书采用注释的方式进一步进行了补充说明，有助于读者全面掌握相关知识。

四、每一章都配有习题，帮助读者回顾这一章的主要内容。

本书共分为八章。由西南财经大学邹勇教授、文博拟出大纲初稿，全书由邹勇、罗军总纂。第一章，主要介绍了中国银行体系，由四川银监局的黄可、西南财经大学罗军执笔；第二章写银行财务报表，由西南财经大学的杨一萍、王红雨执笔；第三章写存款业务，由西南民族大学的蒋霞执笔；第四章写银行贷款业务，由天津财经大学的郭红、西南财经大学马惟佳执笔；第五章写信用风险管理，由西南财经大学的文博、中国人民银行郑州培训学院冯长甫执笔；第六章写中间业务，由中国人民银行郑州培训学院冯长甫执笔；第七章写国际结算，由中国人民银行郑州培训学院冯长甫执笔。第八章写坏账及坏账损失准备，由西南财经大学刘琦执笔。最后，本书由西南财经大学经贸外语学院邓海教授审校。

在编写的过程中，我们参考了许多国内外的书籍、杂志、报刊和资料。但在参考文献中列出的只是其中的一部分。在此，我们对这些文献的作者、编辑和出版社表示深切的感谢。此外，由于时间的关系，虽然已经经过多次修改，但是本书在编写的过程中仍然还存在一定的不足甚至错误之处，欢迎读者和国内同行斧正。最后，我们还要对出版本书的四川人民出版社所付出的辛勤劳动表示感谢。

编　者

2007年8月于成都光华园

Contents

Chapter 1

China's Banking Industry

Ⅰ. The Evolution and Role of the Banking Sector in China

Although banks share many common features with other profit-seeking businesses, they play a unique role in the economy through mobilizing savings, allocating capital funds to finance productive investment, transmitting monetary policy, providing a payment system and transforming risks.

First, banks serve as principal depository of liquid funds for the public. The safety and availability of such funds for transactions and other purposes are essential to the stability and efficiency of financial system.

Second, by channeling savings to productive investments, banks play a key role in facilitating efficient allocation of scarce financial resources.

Third, banks serve to transmit the impulse of money policy to the whole financial system and ultimately to the real economy.

Fourth, the banking sector provides the indispensable national payment mechanism for the development of modern financial and business system.

Fifth, the banking system as a whole reduce risks through aggregation and enable them to be carried by those more willing to bear them.

Through nearly six decades of evolution, particularly more than two decades of reform and opening up to the outside world, China's banking sector has entered a stage of vigorous development. The past few years have been a marked acceleration of China's banking reform, particularly significant strengthening of the central bank's capacity for maintaining financial stability and macroeconomic management, substantial improvement in the management of the commercial banks, and greater openness of the banking industry.

The evolution of the Chinese banking system can be broadly divided into four phases. The establishment of the People's Bank of China (PBC) in December 1948 marked the beginning of the first phase, which was characterized by a mono-bank engaged in both policy and commercial banking operations. It was dictated by a high centralized planned economic system.

The second phase began in 1984 when the State Council decided to make the PBC as a central bank. The decision, which was made in response to the increased role of market forces in the economy, promoted diversification of financial institutions with the establishment of four specialized banks, later known as "big four" wholly state-owned commercial banks when distinction in their line of business become vague and joint-equity commercial banks emerged.

The third phase began in 1993 when the State Council issued the decision on financial reform, recognizing the urgent need for developing new financial markets, institution and instruments. The government introduced a comprehensive package of measures aimed at restoring financial orders as well as addressing the inflationary pressure and signs of overheating, particularly in the real estate sector and the stock market.

During this period, a number of important structural measures were taken with particular significance for banking sector. The first was the unification of the Renminbi (RMB) exchange rate and foreign exchange market in January 1994. Second, the passage of central bank and commercial bank laws in 1995 provided a legal basis for the banking system in China. Third, the acceptance of the obligation of Article Ⅷ of *The Article of Agreement of the International Monetary Fund* in December 1996, namely, commitment to RMB current account convertibility, officially removed the remaining restrictions on international payments for trade and service transaction. Fourth, the establishment of a unified inter-bank money market in 1996 facilitated better liquidity adjustment for financial institutions. Fifth, the gradual shift from direct to indirect monetary policy instrument greatly improved transmission of monetary policy and effectiveness of macroeconomic management. Sixth, the segregation of banking business from securities and insurance business contribute to the stability of the financial system in a transition period characterized by massive institutional changes, inadequate regulatory resources and insufficient self-discipline.

In addition, three policy banks were established in 1994 to facilitate the separation of policy banking from commercial banking operations. These policy banking institutions are playing a special role in financing major infrastructural projects and promoting agricultural development and international trade and investment.

China's accession to the World Trade Organization (WTO) ushered in a new era of the evolution of the banking system. With the Chinese economy integrating into the world economy further, China's banking sector is confronted with many unprecedented challenges and opportunities and required to adopt a number of effective measures to promote the steady development of banking. The reform since then has been focused on developing a sound and robust financial system to guard against and dissolve financial risks, cleaning up the balance-sheet of the banks, improving their ownership structure, strengthening their corporate governance, developing market infrastructure, enhancing supervisory capacity, and further opening the banking sector to foreign participation.

Through more than two decades of reform efforts, China has developed a diversified and competitive banking system, which including policy banks, wholly state-owned commercial banks, joint-equity commercial banks, city commercial banks and urban/rural cooperatives banks. Moreover, the non-banking financial institutions mainly consisted of trust and investment companies, finance companies, leasing companies, asset management companies, as well as securities firms and insurance firms.

The banking sector has been playing an important role in facilitating the implementation of the stabilization and structural measures as well as sustaining strong economic growth. The macroeconomic stability and structural improvement in turn have enabled the banking sector to develop vigorously. Although capital market development is expected to speed up, banks are likely to continue playing a leading role in financing economic and technological development as well as the economic reform in the foreseeable future.

Ⅱ. Institutional Overview of China's Banking System

1. The Banking Sector

There are five types of banks in China: wholly state-owned banks, commercial banks, postal savings bank, credit cooperatives, and foreign banks.

(1) ***Wholly State-owned Banks***: They in turn comprise state-owned commercial banks and policy banks.

① *State-owned Commercial Banks*: There are four state-owned commercial banks, commonly referred to as the "big four". They are the most dominant, influential and formidable players in China's banking sector. Together they account for around 60% of the banking sector's total assets. How they evolve will determine the direction of the sector and the pace of economic reform. The "big four" are:

Industrial and Commercial Bank of China (ICBC): ICBC is originally mandated to provide working-capital loans to the industrial and commercial sectors in the urban areas. With the development of the banking sector, ICBC gradually became a full service commercial bank. On April 21, 2005, the Chinese government formally approved ICBC's plan of shareholding structural reform. On October 28, 2005, ICBC was officially transformed from a state-owned commercial bank into a shareholding company and renamed as ICBC Limited, which indicates a beginning of another important new stage of the development of ICBC.

Agricultural Bank of China (ABC): ABC is originally set up to provide loans to the agricultural and rural sector. At present, the branches and banking offices of ABC have covered urban and rural areas of China, enable ABC becomes a large state-owned commercial bank with the largest number of the branches and banking offices and widest range of business. The scope of business has developed from the original rural credit and settlement to a wide range of financial businesses with RMB or foreign currency.

Bank of China (BOC): In 1949, OBC became the state-designated specialized foreign exchange bank. In 1994, BOC was converted into a wholly state-owned commercial bank with the deepening of the reform of the financial sector. Together with the other three wholly state-owned commercial banks, it constituted pillars of the country's financial industry. BOC London Branch, the first overseas branch of the Chinese banks, was established in 1929. From then on, BOC successively opened branches in global financial centers, and has built up its network in 27 countries and regions. BOC is initially mandated to specialize in international transaction, e. g. foreign exchange service and trade credits. At present, its businesses cover commercial banking, investment banking and insurance. Members of the group include BOC Hong Kong, BOC International, BOC Insurance and other financial institutions. The bank provides a comprehensive range of financial services to individual and corporate customers as well as financial institutions worldwide. In 2003, BOC was named by the State Council as one of the pilot banks for joint-stock reform of wholly state-owned commercial banks. On August 26, 2004, BOC Limited was formally incorporated in Beijing as a state-controlled joint stock commercial bank.

China Construction Bank (CCB): The history dates back to 1954, when the People's Construction Bank of China was founded as a wholly state-owned bank under the direction of the Ministry of Finance of the PRC to administer and disburse government funds for construction and infrastructure related projects under the state economic plan. In 1979, the People's Construction Bank of China became a financial institution under the direction of the State Council and gradually assumed more commercial banking functions. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to CCB. In 2003, CCB was named by the State Council as one of the pilot banks for joint-stock reform of wholly state-owned commercial banks, the same as the BOC. On September 17, 2004, CCB Limited was formally incorporated in Beijing as a state-controlled joint stock commercial bank.

②*Policy Banks*: The government established three policy banks in 1994 to relieve the "big four" of their state-directed lending role.

They are:

Agricultural Development Bank of China (ADBC), which primarily took over the policy lending role of the ABC. As a policy financial institution under the direct leadership of the State Council, ADBC has seriously implemented the policies of the government on grain and cotton procurement and other relevant economic and financial policies to play an important role in safeguarding the national food security, protecting the interests of the farmers and promoting development of agriculture and rural economy. Since the 16th National Congress of the Communist Party of China, agriculture, rural areas and farmers have become the top priority of the new leading group of the CPC Central Committee. According to a scientific theory on development and a new thought about combining rural and urban economic development, the guidelines of " more support, less tax burden and more liberal attitude" in rural areas have been put forward and the strategic readjustment of agriculture and rural economy has been advanced. Facing a speed-up of reforming marketing system of grain and cotton and rural financial system, ADBC is confronted with both opportunities and challenges.

China Development Bank (CDB), which primarily took over the policy lending role from the CCB and to a certain extent from the ICBC. CDB is under the direct jurisdiction of the State Council. At present, it has 32 branches and 4 representative offices across the country. Over the past decade, CDB has conscientiously followed China's macroeconomic policies and carried out its macro-control functions in support of national economic development and strategic structural readjustment. CDB has been a major player in long-term financing for key projects and supportive construction in infrastructure, and basic and pillar industries, which are vital to the development of the national economy.

Export-import Bank of China, which primarily took over the policy lending role from the BOC, particularly the trade financing function, is solely owned by the central government. The China Ex-imbank is a state policy bank under the direct leadership of the State Council. Its international credit ratings are compatible to the national sovereign ratings. At present, the bank has 7 business branches, 6 domestic representative offices and 2 overseas representative offices — one for Southern & Eastern Africa and the other is Paris Representative Office. It has established and maintained correspondent relationship with 140 foreign banks worldwide. As an important force in the backup system of foreign trade and economy and a significant component of the financial system, China Ex-imbank has developed into a key channel of policy financing for both Chinese export of mechanic and electronic products, complete set of equipment, and high new-tech products and undertaking of offshore construction contracts and overseas investment projects. Meanwhile, the bank is also the major onlending bank of foreign government loans and the sole lending bank for Chinese government concessional loan entrusted by the Chinese government. The bank is playing a more and more important role in promoting the development of the open and export-oriented economy of the country.

Policy banks fund themselves primarily through the issuance of bonds, and they accept few deposits. The combined assets of the three policy banks have grown rapidly and now make up around 10% of the total banking sector, which bears evidence of the continued presence of state-directed lending in the banking sector.

(2) ***Commercial Banks***: Equity ownership of these banks is distributed among the state and private investors. There are currently 120 commercial banks, together accounting for 18% of the banking sector's assets. While not as prominent as the "big four", they are nevertheless an important group within the banking sector, and their market share is growing. Commercial banks are divided into 2 sub-groups:

①*The Shareholding or Joint-stock Commercial Banks*: These banks incorporated as joint-stock limited companies under *The People's Republic of China's Company Law*. Most, however, still have fairly concentrated and predominantly state-dominated shareholding structures. There are currently 11 shareholding banks, include well-known names such as Bank of Communications, China Minsheng Bank, China Everbright Bank, China Merchants Bank, Shanghai Pudong Development Bank and Shenzhen Development Bank. They are allowed to engage in a wide variety of banking services including accepting deposits, extending loans as well as providing foreign exchange and international transaction service. Given their smaller size and a corporate culture oriented more to the private sector, they are more nimble than the state-owned counterparts and have been successful at gaining market share at the expense of the "big four". They have made inroads particularly into the small and medium enterprise (SME) loan market, the area in which the state-owned banks are traditionally weak. They also tend to be more profitable, recording higher ROA (Return on Assets). Joint-stock banks have recently been the preferred joint-venture partner of international banks trying to gain access to China's budding private sector, particularly the SME segment, which is essential for laying a firm foundation for the market economy in China.

②*City Commercial Bank*: City commercial banks have evolved from urban credit co-operatives. Due to their history, mandate and capital strength, the scope of city commercial banks' businesses tend to be concentrated in the city where they are located. They are thus unable to operate on their own on a national or regional scale, unlike the joint-stock commercial banks, which is a major comparative disadvantage for their future expansion.

(3) ***Postal Savings Bank***: As the fifth largest commercial bank of China, the establishment of the PSB on March 20th, 2007 indicates another essential step of the reform of the postal savings system of China, after the setting up of China Post Group. Besides traditional banking business, PSB engages in intermediaries and focuses on developing various financial products.

(4) ***Credit Co-operative***: The co-operatives typically provide credit and to service SMEs and individuals. The co-operative sector is divided into urban credit co-operatives and rural credit co-operatives. Together there are close to 50,000 of them, accounting for around 11% of total banking sector assets. The rural credit co-operatives were formerly supervised by the Agricultural Bank of China (ABC) and then by China's central bank, the People's Bank of China (PBC). A new regulatory agency, the China Banking Regulatory Commission (CBRC), has taken over the supervisory function in 2003 and also supervises the urban credit co-operatives. Due to their collective-ownership status, both types of credit co-operatives are subject to state control, thus their loan extension is still influenced by local policy considerations. Some private analysts estimate that the non-performing loan (NPL) level at rural credit co-operatives will face heavy losses when China's agricultural sector opens up under WTO requirements. Given the significance of the rural sector in China, with around 800 million people (almost two-thirds of the total population) living in rural areas, the government has been explicit about its intention to provide financial support for the rural co-operatives in need.

(5) ***Foreign Banks***: There are close to 200 foreign banks operating in China, most of which are branches of foreign banks, and the rest is a handful of locally incorporated banks (either joint ventures or wholly foreign-owned banks). Foreign banks currently account for only around 2% of total banking-sector assets as their role is still constrained by China's domestic law. However, WTO requirements will gradually allow foreign banks greater access to China's domestic banking business.

The local currency business (based in Chinese yuan—CNY) was until some years ago closed to foreign banks. The original role of foreign banks was to provide foreign currency intermediation in order to facilitate the operation of foreign investors and manufacturers in China. The CNY business has been opened only gradually since 1996 when foreign banks were first allowed to provide CNY services, but only to foreign companies and individuals in Shanghai and Shenzhen. Since China gained WTO entry in December 2001, the geographical restriction has started to be phased out, while rules on the types of customers to whom foreign banks can provide CNY services will start to be relaxed soon. By December 2006, all geographical and customer -related restriction have been lifted.

Ⅲ. Regulatory Agencies

1. China Banking Regulatory Commission (CBRC)

The CBRC is a new institution established in April 2003 to take over the regulatory function of the banking sector from the PBC in order to leave the PBC free to concentrate on monetary policy matters. It must be noted, however, that the exact division of powers between the CBRC and the PBC was formalized when the proposed revisions to *The Law of the People's Republic of China on the People's Bank of China* and *The Law of the People's Republic of China on Banking Regulation and Supervision* were passed by the National People's Congress in December 2003.

The CBRC reports to the State Council and it is entrusted with the regulation and supervision of financial institutions. The key objective of the CBRC is to protect the interests of depositors and consumers through prudential and effective supervision; maintain market confidence through prudential and effective supervision; enhance public knowledge of modern finance through customer education and information disclosure and combat financial crimes.

The main functions of the CBRC is to formulate supervisory rules and regulations governing the banking institutions and their businesses; authorize the establishment, changes, termination and business scope of the banking institutions according to the laws, rules and regulations; conduct fit-and-proper tests on the senior managerial personnel of the banking institutions; conduct on-site examination and off-site surveillance of the banking institutions; and take enforcement actions against rule-breaking behaviors; compile and publish statistics and reports of the overall banking industry in accordance with relevant regulations; provide proposals on the resolution of problem deposit-taking institutions in consultation with relevant regulatory authorities; responsible for the administration of the supervisory boards of the major state-owned banking institutions and other functions delegated by the State Council.

The CBRC has set as priorities the reduction of banks' non-performing loans (NPLs) and the alignment of financial institutions' indicators to international standards. Chinese banks have been required to implement the existing *Basel Capital Adequacy Rules*. The CBRC also announced that new regulations would be issued on the appropriate capital levels for Chinese banks along the lines of *Basel II*, in order to help reduce the gap between Chinese and international banks. Other priority tasks awaiting the CBRC include a wider reform of state-owned banks, rural credit co-operatives and the financial sector at large. In addition, the CBRC is in the process of modernizing and streamlining rules and regulations that govern various types of financial institutions.

2. People's Bank of China (PBC)

Although a central banking system began taking shape in 1984, the transformation of the PBC into a full-fledged central bank has turned out to be a lengthy process. The PBC did not have a clear legal status until the enactment of *The Law of the People's Republic of China on the People's Bank of China* in March 1995. This law, as amended in December 2003, provides that the PBC's key functions are to conduct monetary policy, prevent and dissolve financial risks, and maintain financial stability under the leadership of the State Council. The law clearly states that the objective of the monetary policy is to maintain the stability of the currency and thereby promote economic growth.

The decision of the National Financial Work Conference in November 1997 and the Ninth National People's Congress in March 1998 accelerated the reform of the PBC. Significant restructuring took place at its head office. For example, the supervisory departments were reorganized in the way that supervisory function were consolidated and each new supervisory department was responsible for licensing, routine supervision and exit of one type of financial institutions, the PBC branch structure, which had been formerly based on administrative division, was also overhauled. Nine regional branch offices were set up. These measures were aimed at increasing the independence of central bank and the effectiveness of monetary policy.

With the transfer of supervisory function to the new supervisory bodies, namely, CBRC, China Securities Regulatory Commission (CSRC) and China's Insurance Regulatory Commission (CIRC), the central bank's task has become more focused. The establishment of the Financial Stability Bureau, the Financial Markets Department and the Credit Information Bureau as well as the Shanghai Headquarter of the PBC has indicate that greater attention has been devoted to financial stability and development of market infrastructure.

The PBC performs the following major functions: a. drafting and enforcing relevant laws, rules and regulations that are related to fulfilling its functions; b. formulating and implementing monetary policy in accordance with law; c. issuing the Renminbi and administering its circulation; d. regulating financial markets, including the inter-bank lending market, the inter-bank bond market, foreign exchange market and gold market; e. preventing and mitigating systemic financial risks to safeguard financial stability; f. maintaining the Renminbi exchange rate at adaptive and equilibrium level; holding and managing the state foreign exchange and gold reserves; g. managing the state treasury as fiscal agent; h. making payment and settlement rules in collaboration with relevant departments and ensuring normal operation of the payment and settlement systems; i. providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement; j. developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast; k. administering credit reporting industry in China and promoting the building up of credit information system; l. participating in international financial activities at the capacity of the central bank; m. engaging in financial business operations in line with relevant rules; n. performing other functions prescribed by the State Council.

In recent years, there has been a significant improvement in the conduct of monetary policy with greater reliance on indirect policy instruments. The central bank used to rely on credit ceilings for commercial banks as a major tool for monetary policy. This direct instrument has been abolished while such indirect instrument as required reserve ratio, interest rate adjustment and open market operation have emerged as major monetary policy tools. These policy instruments have helped sustain strong economic growth.

3. State Administration of Foreign Exchange (SAFE)

The supervision of the foreign exchange activities of China's financial institutions is under the purview of SAFE, which was established in 1979. In practice, SAFE and the PBC work closely together to ensure the goal of monetary stability as prescribed by the PBC.

The SAFE is designated with the following functions: a. designing and implementing the balance of-payments (BOP) statistical system in conformity with international standards, developing and enforcing the BOP statistical reporting system, and collecting relevant data to compile the BOP statement; b. analyzing the BOP and foreign exchange positions , providing policy proposals with aim to achieving an equilibrium BOP position, and conducting feasibility study on the convertibility of the Renminbi under capital account; c. drafting rules and regulations governing foreign exchange market activities , overseeing the market conduct and operations, and promoting the development of foreign exchange market ; analyzing and forecasting the foreign exchange supply/demand positions and providing the PBC with propositions and references for the formulation of exchange rate policy; d. promulgating regulatory measures governing foreign exchange transactions under current account and supervising the transactions accordingly; monitoring and regulating the foreign exchange account operations both in China and abroad; e. supervising and monitoring foreign exchange transactions under capital account, including inward and outward remittance and payments; f. managing foreign exchange reserves of the country in accordance with relevant rules and regulations; g. drafting foreign exchange administration rules, examining the domestic entities' compliance with foreign exchange administration rules and regulations , and penalizing institutions engaging in illegal practices; h. participating in relevant international financial activities; i. performing other duties and responsibilities assigned by the State Council and the PBC.

Ⅳ. Development and Reform of China's Banking Sector

The structure of China's banking sector has remained largely unchanged since 2003 in terms of key players. The state-owned commercial banks continue to command the highest market share, although there has been a marginal decline. Going forward, it is likely that the turf war for China's banking sector assets will continue to be fought between the big four banks and the joint stock banks. The relevance of other domestic institutions will, at best, remain stable. Rural credit co-operatives will be undergoing a major consolidation exercise, which may see their market share decline further. Policy banks, meanwhile, are unlikely to show a big market share increase since the central government's policy thrust has been to reduce their role in the financial system. In contrast, foreign banks' share will possibly see an increase as the remaining restrictions on RMB business were lifted by WTO accession requirements in December 2006. In terms of deposits, the market shares are similar to those by assets. The big four banks, well supported by their extensive nation-wide network, command the largest share of retail deposits. Smaller banks compete for corporate deposits, which tend to be a more volatile source of funding.

The reform of the financial system and particularly the diversification of banking institution have increased competition in the banking sector and improved financial service in China. Apart from the traditional deposit taking and lending business, commercial banks now offer a broad rang of intermediary service such as international settlement, bankcards, personal banking, and financial consulting. As the economy become increasingly complex, there is an emerging need for develop universal bank.

1. Big four, Big Reforms: Towards a Commercial Credit Culture

Three of the big four banks have undergone major structural reform aimed at promoting a commercially-driven business culture. Reform has been implemented in the CCB, BOC and ICBC. Reform in ABC has been slower as its main assets comprise mainly loans to the agricultural and rural sectors, the restructuring of which will likely only be possible under a broader rural sector reform.

The reform roadmap for the CCB, BOC and ICBC comprises four main steps: recapitalization, reform of internal structure, strategic partnership and stock market listing.

(1) ***Recapitalization***: The recapitalization exercise started in December 2003 with a capital injection of \$ 22.5 billion each into BOC and CCB by the central bank,

PBC. The PBC transferred the funds from its international reserves to a newly created entity, the Central Huijin Investment Company (Central Huijin), which acts as the holding company for the government's shares in BOC and CCB. A similar exercise was conducted in April 2005 with ICBC for a sum of $ 15 billion. As in the previous cases, Central Huijin is the shareholder of government's shares in the ICBC. As a result of capital injection, the capital adequacy ratio (CAR) of these banks has improved. Improvements in the capital adequacy ratio have allowed these three banks to write down their NPLs faster.

(2) ***Reform of Ownership/Internal Structure***: Three of the big four banks — BOC, CCB, and ICBC — have changed from a wholly-owned state bank structure to a shareholding one. They are now referred to as state-owned commercial banks (SOCB) as opposed to wholly-owned state commercial banks previously. Other shareholders besides the Chinese government are now allowed to hold shares of these banks, but the state remains their largest shareholder.

Changes have been implemented to instill an independent credit culture and equip the credit managers with an appropriate system to monitor various elements of risks. These include the 10-plus loan classification system and plans to set up the internal rating-based (IRB) loan systems (consistent with *Basle II regulations*). The risk function has been separated from the business function. Internal audit and compliance systems have also been strengthened, by system upgrading and staff training, to install more effective safeguards against fraud. Generally speaking, improvements in governance and risk management are encouraging, but the process is still ongoing and remains a work in progress.

(3) ***Strategic Partnership***: The central government has welcomed greater foreign ownership in banks, but it is not yet willing to surrender majority control of key banks. The ceiling of foreign ownership was lifted in January 2004 to 25% from 20%. The ceiling for single foreign ownership was also lifted to 20% from 15%.

In addition to providing additional sources of capital, strategic partnerships with foreign banks are expected to help Chinese banks in product knowledge and innovation, expanding businesses and markets, as well as technology & know-how on internal management. Having a foreign partner on board is expected to give Chinese banks an additional impetus to behave under a more commercially-driven, profit-oriented business culture.

The reformed big three banks have had no trouble finding major foreign investors or strategic partners. BOC's major foreign investors or strategic partners are Royal Bank of Scotland, Merrill Lynch, Singapore's Temasek Holdings, Union Bank of Switzerland, and Asian Development Bank, which together hold around 16% of BOC's capital. CCB's major foreign investors or strategic partners are Bank of America and Singapore's Temasek, which together hold a 14% stake of CCB. ICBC's major foreign investors or strategic partners are Goldman Sachs, Allianz, and American Express, which together hold around 10% of ICBC's shares.