

# Intermediary Business Report of China Banking Industry, 2007-2008

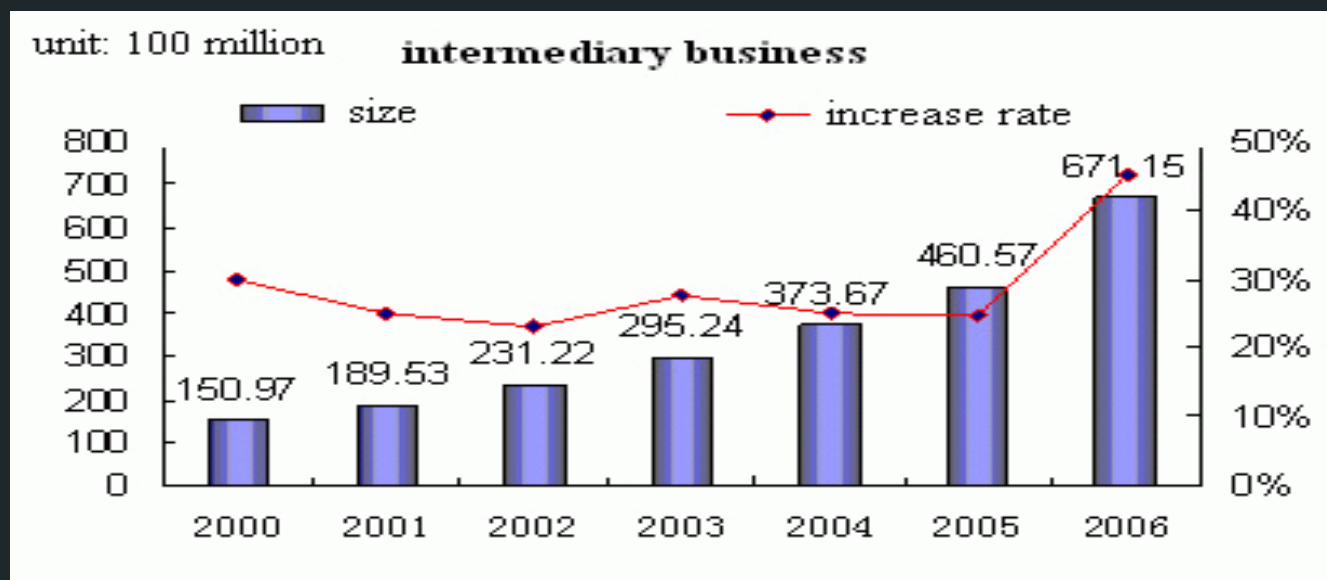


- With the continuous buildup in the revenue proportion of the intermediary business to bank's total, developing the intermediary business has become the priority of the banking industry. At present, the ratio of non-interest revenue to the bank's total in major countries is all around 20% and that of some individual banks is even as high as 70%. So the non-interest revenue has become an extremely important factor in deciding the total revenue of a bank. Our research shows that the average ratio of non-interest revenue to the total of a bank in the United States of America and Canada is 45%, that in European countries is 44% and that in Australia is 28%. The more developed a country's economy is, the higher the ratio of non-interest revenue will be in the country.

- In China, every listed bank had a big growth in business performance in the first half of 2007. The rapid growth in the revenue of the intermediary business has become another reason for the surge in profit of a bank, in addition to the conventional interest revenue.
- Take service charge and commission, the most typical revenue in the intermediary business, for instance, in the first half of 2007, the combined income from service charge and commission of the Bank of Communications reached RMB3.63 billion, 2.24 times the figure in the same period of 2006, that of the China Merchants Bank stood at RMB3.01 billion, 2.28 times the figure in the first half of 2006 and that of the China Citic Bank arrived at RMB715 million, up 77% year on year.
- According to statistics, half of the intermediary business revenue of the listed banks was related to fund commission service in the first half of 2007. The unusual surge in service charge and commission has led to a big rise in ratio of the intermediary business revenue to the total. At present, the China Merchants Bank's proportion of the intermediary business revenue to the total in all banks in China is the highest, reaching 16%, 1.7 percentage points higher against the end of 2006, followed by 11.34% from the Bank of Communications, 9.0% from China Citic Bank, 9.0% from Shenzhen Development Bank, and 6.5% from Industrial Bank. All of them had a growth more or less.

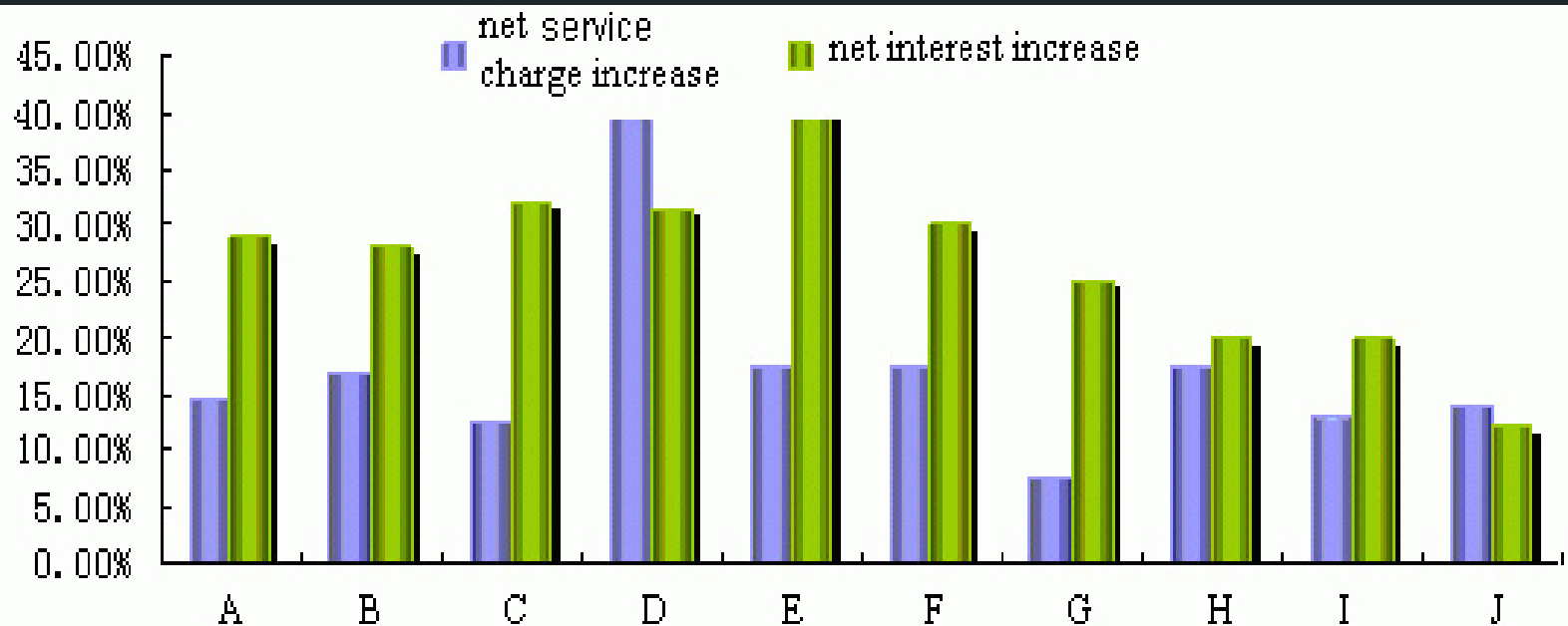
- The unusual surge of the handling charge and the commission leads to a big increase of the intermediary business revenue ratio. Currently, China Merchants Bank gets the highest intermediary business ratio for 16%, 1.7 percentage points higher than the end of the first half of year. The second one is Bank of Communications with the ratio of 11.34%, CITIC Industrial Bank 9.09%, Shenzhen Development Bank 9% and Industrial Bank 6.5%. All of them got an increase more or less.

- Intermediary Business Revenue of China Banking Industry, 2000-2006**



Note: The chart only provide you with data from China's top five banks, namely the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications. The top five banks' combined revenue of intermediary business amounted to 91.3% of China's top 12 banks' total at the end of 2006.

## Growth Differentiation of Interest Income and Service Charge Revenue of China's Commercial Banks, 2006



A. China Merchants Bank

B. Shanghai Pudong Development Bank

C. Hua Xia Bank

D. China Minsheng Bank

E. Industrial Bank

F. China Citic Bank

G. Bank of Communications

H. Bank of China

I. China Construction Bank

J. Industrial and Commercial Bank of China

- Although the intermediary business in China has developed very fast in recent years, there still exists a big gap between China and developed countries no matter in the quantity or in the quality. On the one hand, the proportion of intermediary business revenue to the total in most of the commercial banks in China is about 10%, much lower than the U.S. and Europe, and even compared to Asian countries like Japan and Singapore, the proportion is still lower. On the other hand, the varieties of intermediary business in China's commercial banks are very limited, focused only on the conventional products, like settlement, agiotage, bill payment service, credit card, letter of credit and bill of draft and so on, and the high-tech and high value-added intermediary business regarding the consulting service, investment and financing and derivative trading is much needed.

Therefore, to accelerate the development of intermediary business has become a crucial issue to China's banking industry. We should promote the establishment of automatic clearing system in the same city to automatize accounts process and we should also make more efforts to develop private banking business and asset securitization so as to lay a solid foundation for future development.

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