

The Effects of Public Listing on the Performance of Banks in China

Bin Liu

CCB International (Holdings) Limited
Hong Kong Institute for Monetary Research

February 2011

Summary

China's banking industry has by and large experienced five phases of development since 1949, with unique characteristics in each phase. The fifth phase which started around 2002 was symbolized by public listing. The ten largest commercial banks in China have now all been listed, among which nine went public in the past decade. Among the 16 currently listed banks 8 banks were listed solely in the Mainland, and another 8 banks were listed both in the Mainland and in Hong Kong.

This paper conducts an empirical investigation on how public listing affects the performance of Chinese banks. Particularly, we examine the pre-listing restructuring effect and the different effects of public listing locations such as Shanghai and Hong Kong, an issue which has not received much attention in the previous literature. Our sample covers all 16 listed banks in China and another 17 unlisted banks during the period of 1997-2008. Using a pooled cross-section regression, we compare three modified models built upon Berger et al (2005) to consider the following three effects: 1) the static governance effect; 2) the selection effect and 3) the dynamic effect.

We found that the public listing effect should be modeled as a dynamic process rather than a sudden structural change at a cut-off point, thus it is important to compare the banks' performance during the pre-listing restructuring period with the after-listing period. Moreover, the public listing in Hong Kong is found to have more positive and persistent effects on banks' performance in terms of both profitability and financial safety than the public listing in Mainland China. Possible reasons include more attention from the participants of the Hong Kong stock market on performance fundamentals, a better market supervision mechanism, and benefits brought by higher foreign-investor ownership such as corporate governance culture, shared management experience and overseas business development opportunities. The policy implications include encouraging more banks to go public in Hong Kong, making the Mainland stock market more transparent and maturely supervised, and demanding consistent attention from the shareholders as well as management of Chinese banks to truly and strictly govern with internationally acceptable corporate structures and spirit, adequate capital, stringent internal controls as well as safe and sound business operations.