

## Banks' CAR must exceed 10% in overseas acquisition

Chinese commercial banks are required to have a capital adequacy ratio (CAR) of more than 10 percent when they pursue acquisitions of domestic or overseas non-bank financial institutes, according to a draft rule released recently to solicit opinions.

"The rule deals mainly with regulation of overseas acquisitions, and only a small portion of it deals with domestic ones," said an insider. "This is mainly due to previous regulatory restrictions."

He added that China's Law on Commercial Banks, revised in 2003, prohibited commercial banks from taking up trust investment and securities business or investing in real estate not for their own use or non-bank financial institutes and enterprises, unless otherwise stipulated.

Wing Chan, vice president of Arthur D. Little, a global management firm, said that the rule is a big step forward. "It will help the banking industry achieve business goals through overseas acquisitions."

More importantly, the draft rule sets a threshold for banks that want to make acquisitions, which can help prevent risks from blind acquisitions by Chinese banks, Chan said.

According to their annual reports for 2007, only 3 of the 14 listed banks have a CAR of below 10 percent, and other banks are all qualified for overseas acquisitions.

"Though the US subprime crisis has created a good opportunity for Chinese banks in overseas acquisitions," said Chan, "it is still essential for these banks to perform due diligence and get familiar with and adapt to foreign regulatory environments and legal criteria."

Currently, domestic commercial banks' overseas acquisitions mainly target banks, and the draft rule is expected to boost acquisitions of non-bank financial institutes.

In February this year, the Industrial and Commercial Bank of China completed the purchase of a 20 percent stake in Standard Bank Group Ltd, Africa's largest bank.

China Minsheng Banking Corp purchased a 9.9 percent stake of US-based UCBH Holdings, the biggest bank serving the Chinese community in the United States.

China Construction Bank, Bank of China, and Bank of Communications all have expressed intents to acquire overseas assets.

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