

## CMB to raise funds via bond, share sales

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China Merchants Bank (CMB), the country's sixth-largest bank, is set to raise funds through bond and share sales this year to help cover the rapidly depreciating value of its holdings in recently acquired Wing Lung Bank of Hong Kong, a top bank executive said.

The bank will not rule out the possibility of raising funds by selling new shares this year in an effort to improve its capital adequacy ratio, which has been eroded due to the investment in Wing Lung Bank, CMB chairman Qin Xiao said earlier in Hong Kong.

The bank completed its acquisition of Wing Lung Bank in October last year.

CMB's core capital adequacy ratio also dropped 1.44 percentage points to 6.56 percent at the end of last year, compared to 8 percent at the end of the third quarter in 2008.

According to CMB's 2008 earnings report, the decrease in its core capital adequacy ratio was mainly due to the partial offsetting of surplus capital by the premium of the secondary acquisition of Wing Lung Bank.

CMB set aside 579 million yuan as provision for impairment losses on goodwill mainly because of its takeover of Wing Lung Bank, the bank said in the report.

Although the bank had raised 30 million yuan in September 2008 to supplement capital through sale of subordinated bonds, analysts said CMB would continue to face enormous pressure in 2009 from its acquisition of Wing Lung Bank.

"CMB's provision of 579 million yuan for impairment losses on goodwill is far below our estimate of 2 to 3 billion yuan," Guohai Securities' analyst Feng Wei said.

Feng said that CMB would have to set aside a similar amount for impairment losses on goodwill in the next few years, due to the acquisition.

CMB had earlier said that it planned to issue up to 149 billion yuan worth of financial bonds in the next three years. The total amount to be raised will be no more than 10 percent of the bank's liabilities at the end of the previous year, a bank statement on April 22 said.

CMB's total liabilities at the end of 2008 stood at 1.492 trillion yuan.

Although accumulated profits of the past few years may help CMB keep its core capital adequacy ratio above 6 percent this year, it has to raise at least 40 billion yuan through bond sales to maintain the regulatory minimum of 8 percent capital adequacy ratio, Industrial Securities analyst Wang Qian wrote in a report.

CMB agreed on June 2, 2008 to buy 53.1 percent of Wing Lung Bank for HK 19.3 billion dollars in cash and then made a general offer for the rest of the Hong Kong bank, valued at 4.66 billion U.S. dollars. (chinadaily.com.cn)

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