



Cross-Border Investment in Asian Banks

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Why It Matters

- ✓ Cross-border investment has risen dramatically
- ✓ Cross-border investment is changing Asian banking sectors
- ✓ Investors are earning outstanding returns



Reasons for Opening

- ✓ Banks want outside expertise
- ✓ Governments want to improve corporate governance
- ✓ No other buyers available for privatizing banks
- ✓ Recapitalization surprisingly unimportant



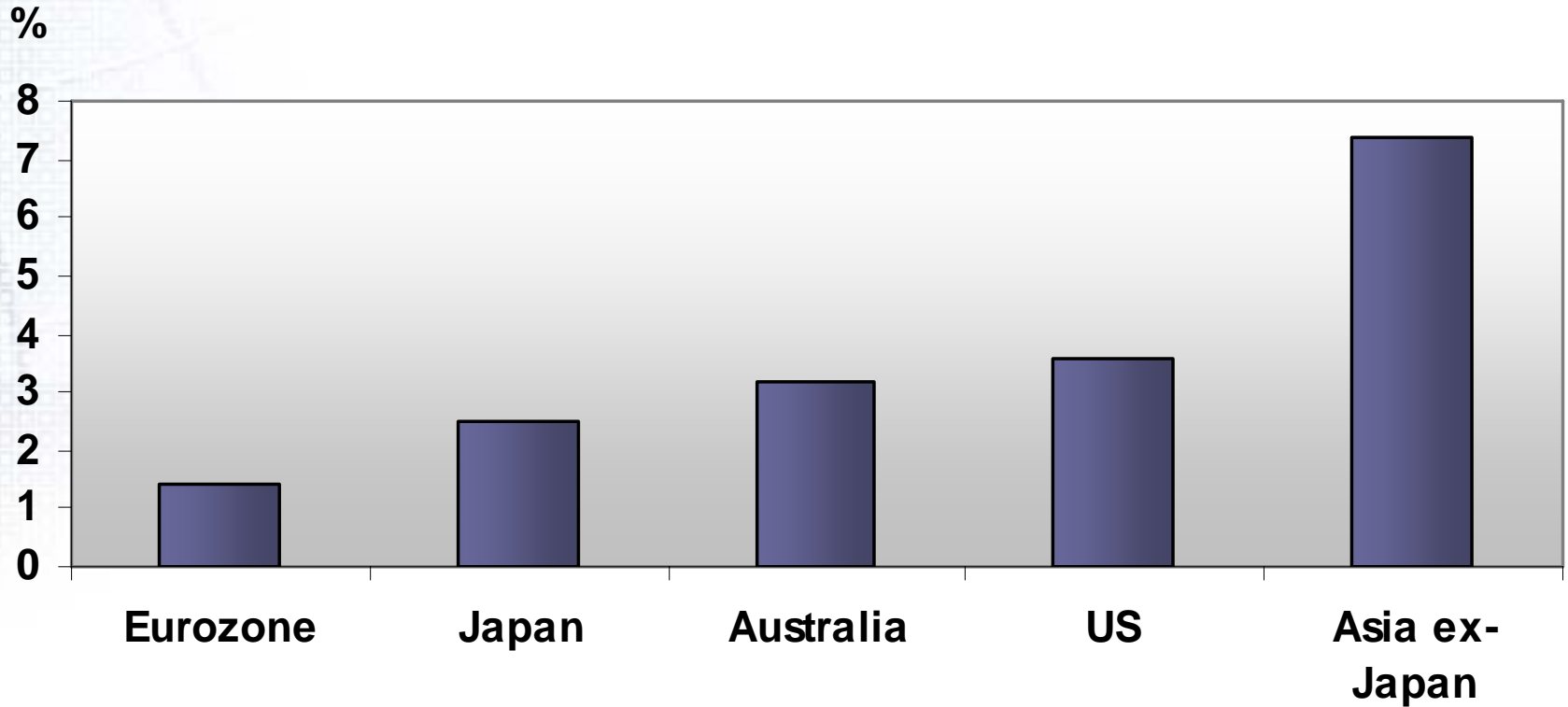
Why Foreigners Are Buying

- ✓ Growth
- ✓ Consumer market
- ✓ Reform potential



Asia's Advantages: Growth

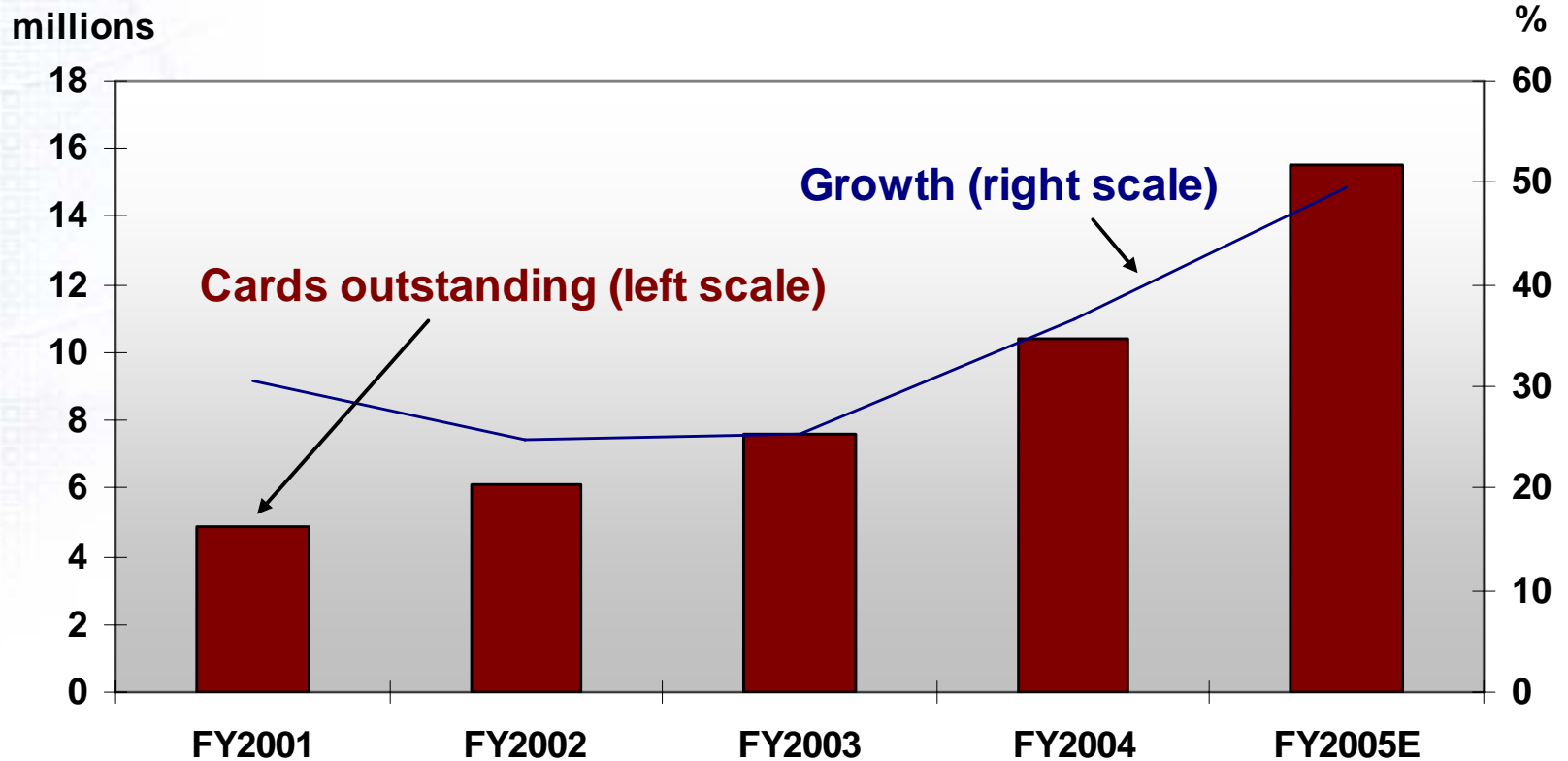
2005 GDP Growth





Asia's Advantages: Consumers

Indian Credit Card Growth



Source: Venture Infotek



Asia's Advantages: Reform

- ✓ Poorly managed banks can be bought cheaply
- ✓ Profits and market values rise after reform
- ✓ Encouraging precedents in Japan and Korea



A Three-Speed Continent

- ✓ Newly Opening Markets
- ✓ High Penetration Markets
- ✓ High Entry Barrier Markets



Newly Opening Markets

- ✓ China
- ✓ Indonesia
- ✓ Thailand

China's Boom

Recent Mainland Bank Acquisitions

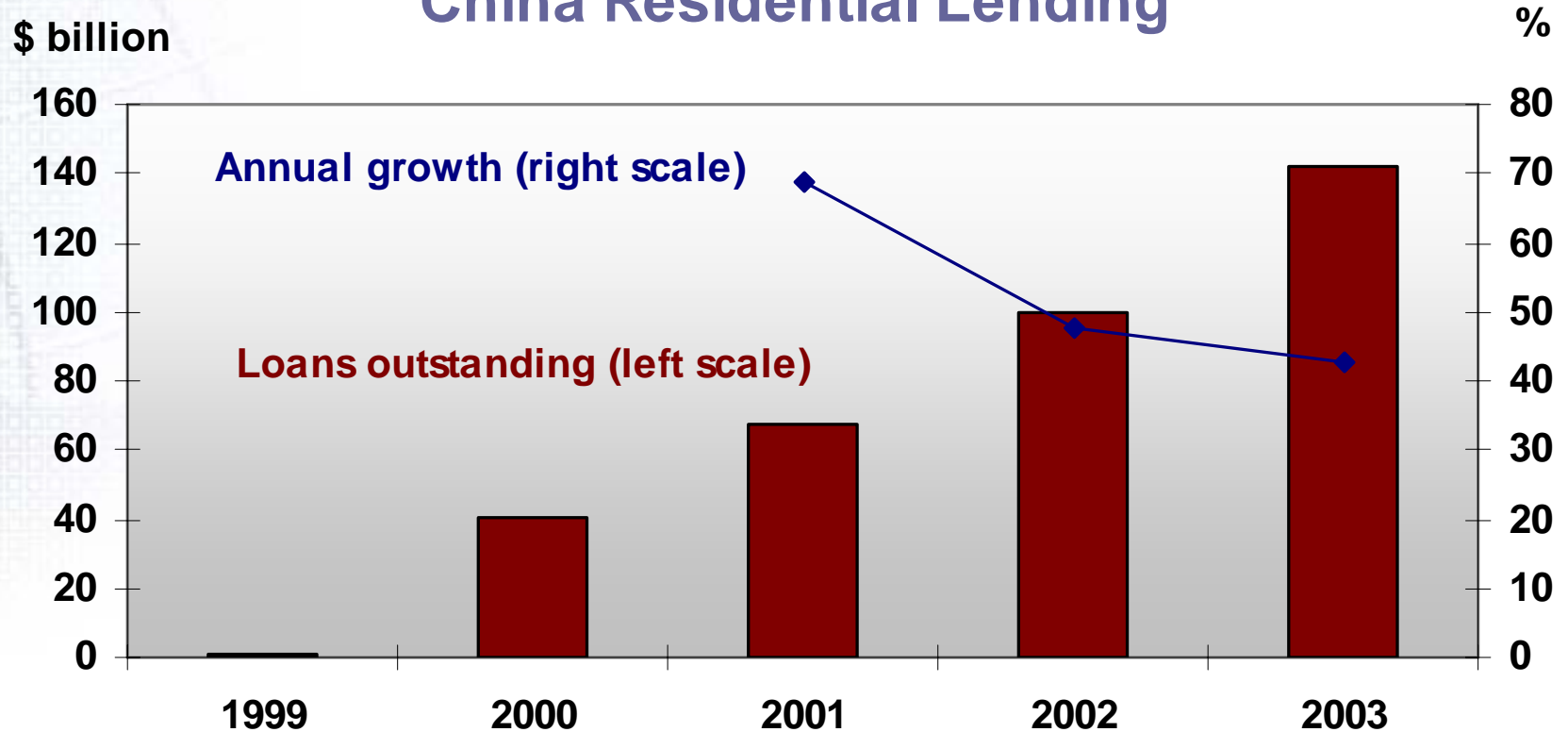
Bank	Foreign Investor	Stake	Price paid \$ million	Date
Bank of Communications	HSBC	19.9%	1,747	Aug-04
Bohai Bank	Standard Chartered	19.9%	123	Nov-04
Shenzhen Development Bank	Newbridge Capital	17.9%	150	Dec-04
China Minsheng Bank	Temasek	4.6%	110	Jan-05
Bank of Beijing	ING	19.9%	215	Mar-05
China Construction Bank	Bank of America	9.0%	3,000	Jun-05
China Construction Bank	Temasek	6.2%	1,575	Jul-05
Bank of China	UBS	1.6%	500	Aug-05
Bank of China	RBS, Merrill, et al	10.0%	3,100	Aug-05
Huaxia Bank	Pangaea	6.9%	125	Sep-05
Huaxia Bank	Deutsche Bank	9.9%	109	Oct-05
Tianjin City Commercial Bank	ANZ Group	19.9%	120	Dec-05
Bank of China	Temasek	5.0%	2,000	Dec-05
Industrial Commercial Bank of China	American Express	1.0%	200	Jan-06
Industrial Commercial Bank of China	Allianz	2.0%	1,000	Jan-06
Industrial Commercial Bank of China	Goldman Sachs	7.0%	2,600	Jan-06
Total sales of value less than \$100 million			499	n.a.
TOTAL			17,173	

Source: Bloomberg, FRBSF calculations



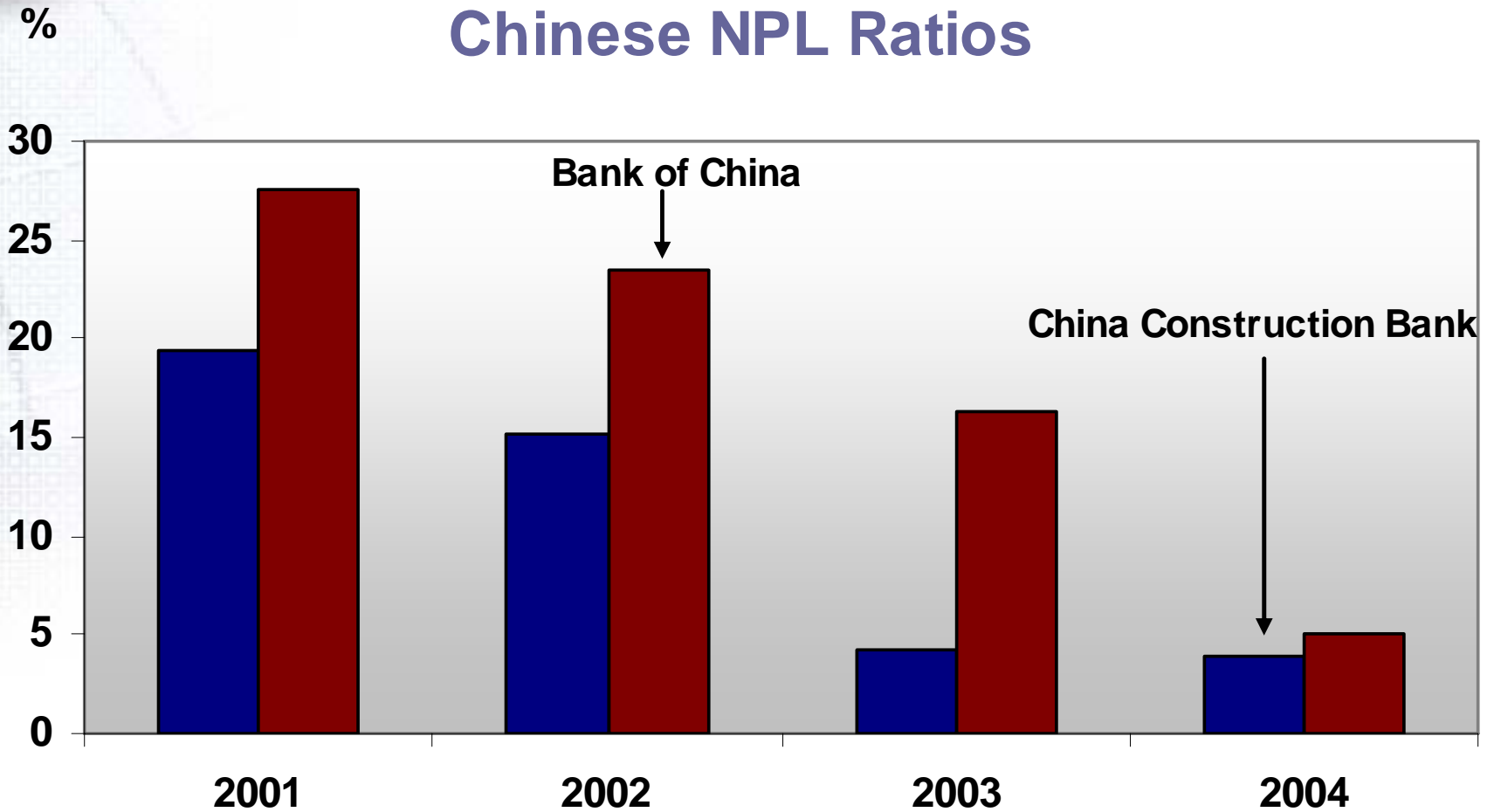
China's Retail Lending Promise

China Residential Lending





China Seeking Expertise



Source: Bank annual reports



Types of China Deals

- ✓ Pre-IPO strategic stake sales at big banks
- ✓ Healthy small bank sales
- ✓ Troubled small bank sales



Big Profits in China

Unrealized Gains on Investments in Listed Chinese Banks

Investor	Bank	Stake %	Date	Price paid \$ million	Gain on investment \$ million	Return on investment %, annualized
HSBC	Bank of Communications	19.9	Aug-04	1,747	4,185	151
Newbridge Capital	Shenzhen Development Bank	17.9	Dec-04	150	153	82
Temasek	China Minsheng Bank	4.6	Jan-05	110	99	77
Bank of America	China Construction Bank	9.0	Jun-05	3,000	6,904	307
Temasek	China Construction Bank	6.2	Jul-05	1,575	5,193	495
Pangaea	Huaxia Bank	6.9	Sep-05	125	87	139
Deutsche Bank	Huaxia Bank	9.9	Oct-05	109	194	427

Source: Bloomberg, FRBSF calculations



Further Liberalization

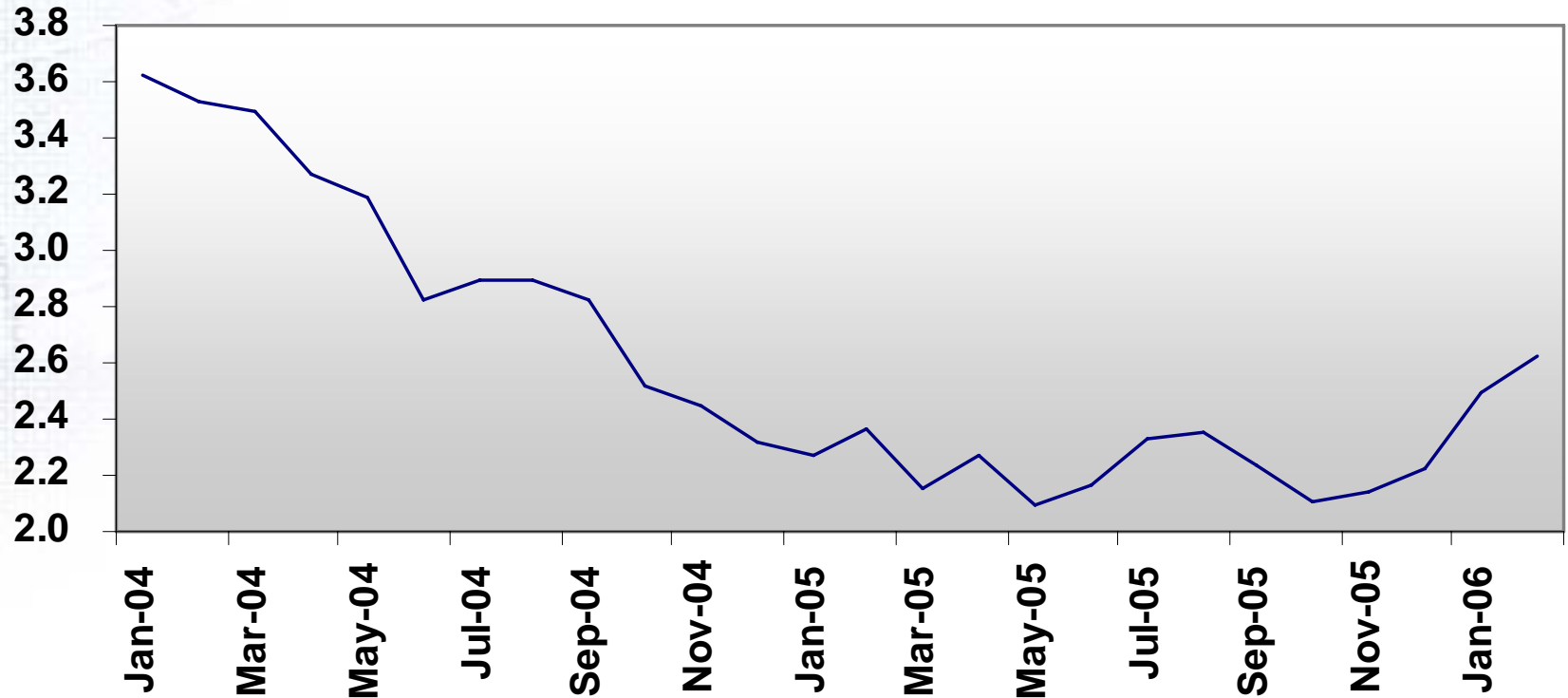
- ✓ Across-the-board liberalization: unlikely
- ✓ Selective liberalization focused on troubled small banks: likely
- ✓ Feeling the stones



Chinese Banks No Longer So Cheap

Mainland-Listed Bank Price-to-Book Ratio

Times



Source: Bloomberg, FRBSF calculations



Indonesia's Quiet Boom

Foreign Acquisitions of Indonesian Bank Stakes

Bank	Investor	Stake %	Bank assets 1H05 \$ billion
Bank Buana	UOB (Singapore)	53	1.6
Bank NISP	OCBC (Singapore)	72	2.0
Bank Lippo	Khazanah (Malaysia)	51	2.7
Bank Panin	Australian and New Zealand Bank	28	3.1
Bank Permata	Standard Chartered, Astra (Indonesia/Hong Kong)	63	3.2
Bank Niaga	Commerce Asset Holdings (Malaysia)	52	3.5
Bank Internasional Indonesia	Temasek (Singapore), Kookmin (Korea)	51	4.4
Bank Danamon	Temasek (Singapore), Deutsche Bank	66	6.7
Bank Central Asia	Farallon Capital (US)	46	15.2

Source: Fitch



Thailand: A New Frontier?

- ✓ Legal restrictions now limit foreign access
- ✓ But Free Trade Agreement with U.S. could open the market



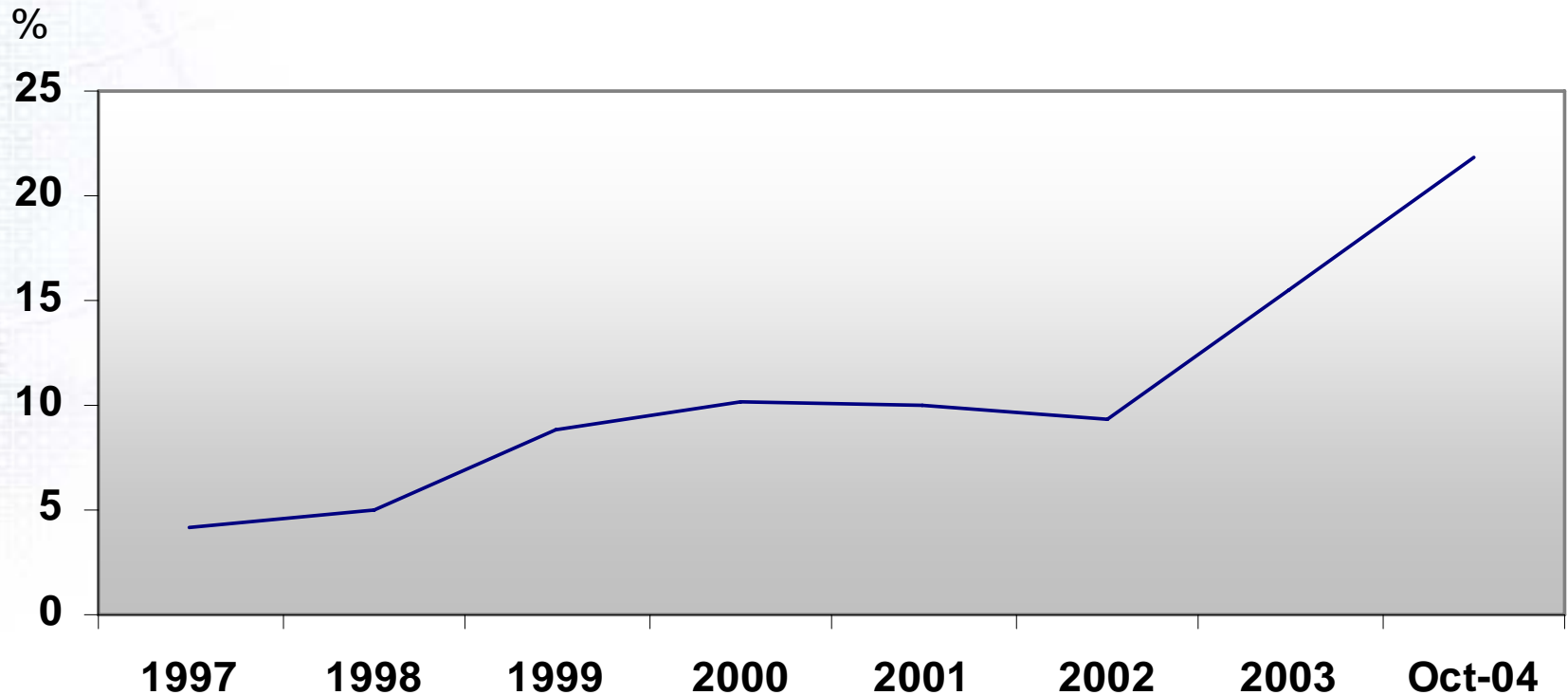
Heavily Penetrated Markets

- ✓ Korea
- ✓ Philippines
- ✓ Hong Kong



Korea's Example

Foreign-Controlled Bank Market Share in Korea



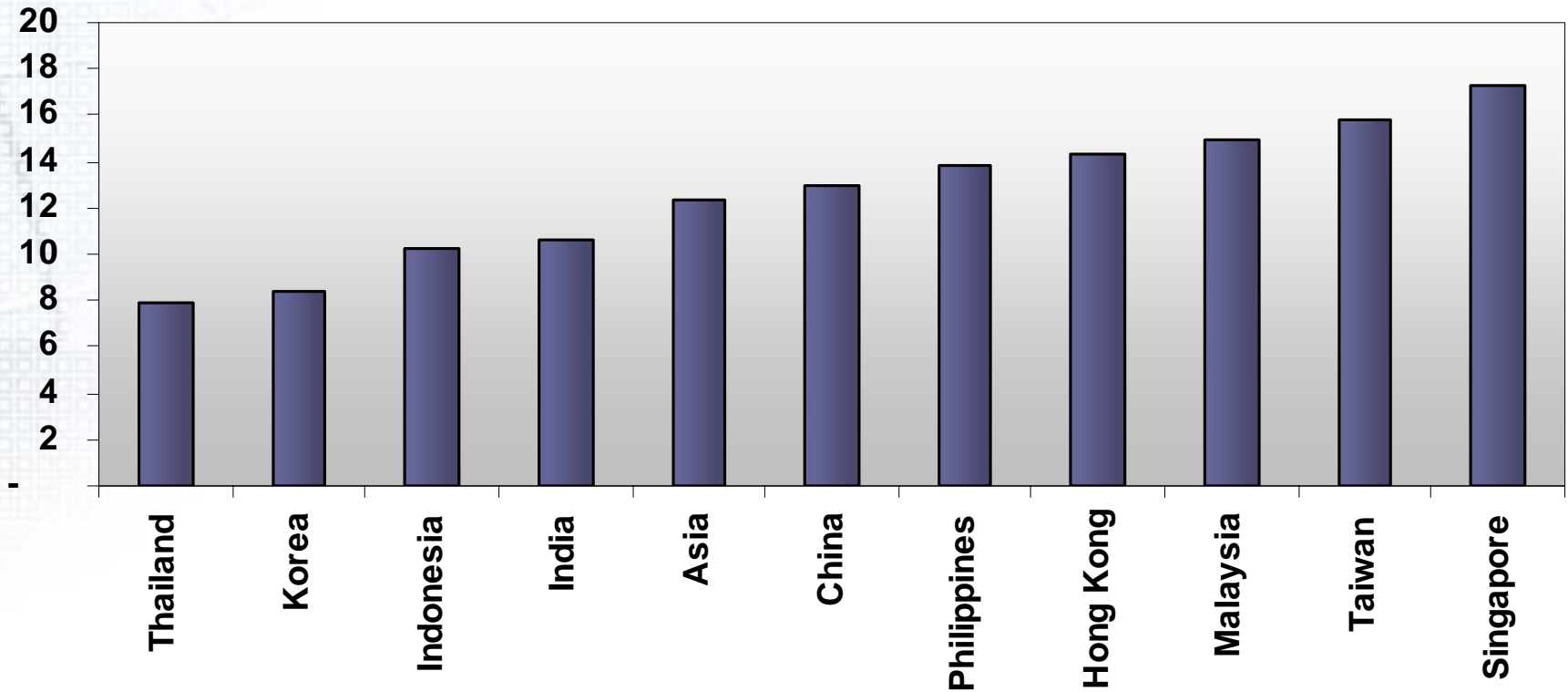
Source: Fitch



Philippine Banks Not Cheap

Asia Bank End-2005 Price-to-Earnings Ratio

Times



Source: Bloomberg, FRBSF calculations



Hong Kong: Already Established

- ✓ Many small banks ripe for acquisition
- ✓ But families unwilling to sell
- ✓ Foreign banks already highly active in the local market



High Entry Barrier Markets

- ✓ India
- ✓ Taiwan
- ✓ Malaysia
- ✓ Singapore



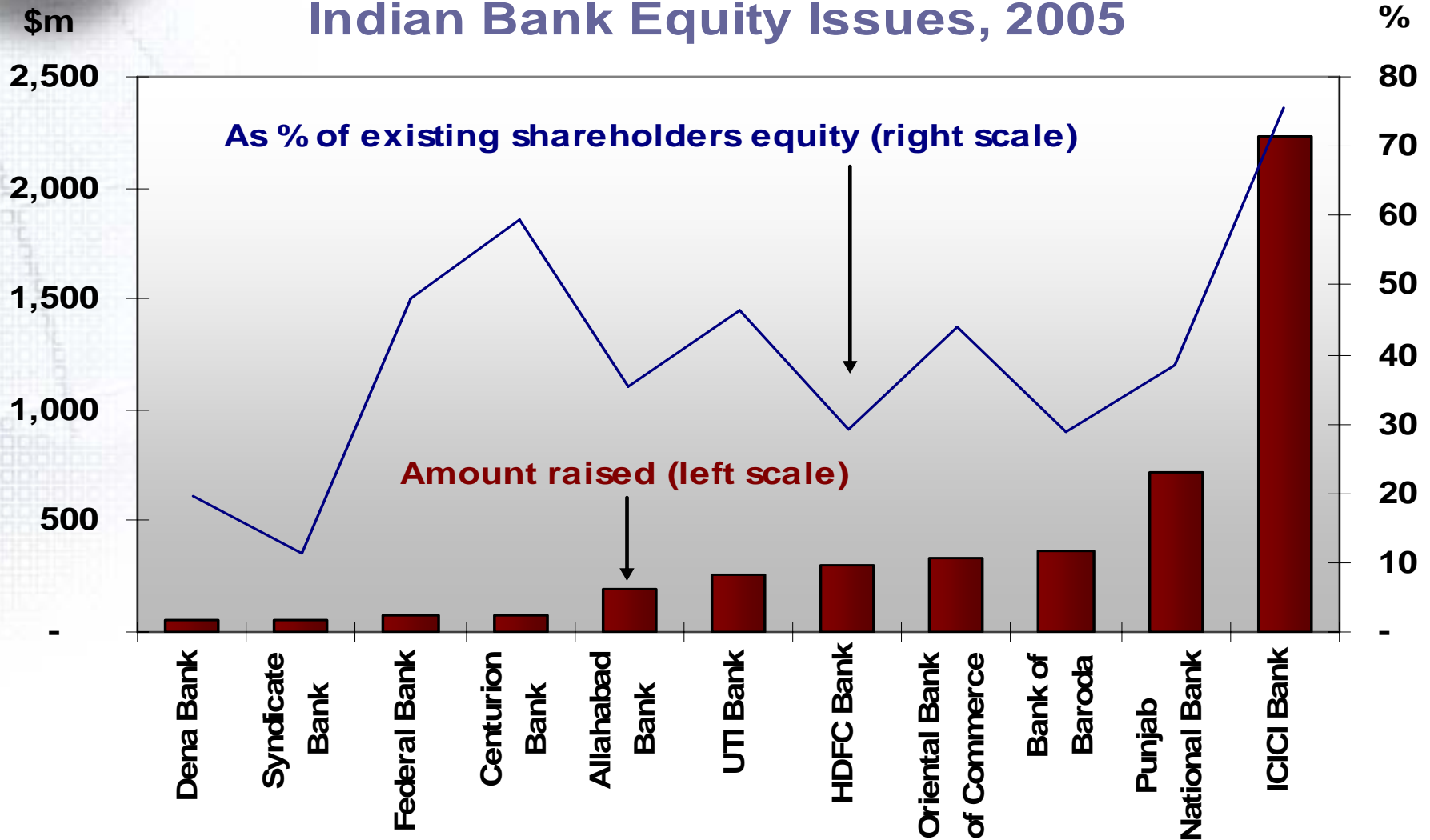
India: Legal Restrictions

- ✓ Foreign ownership of Indian banks limited to 49% for healthy banks, 74% for banks identified as distressed
- ✓ State required to maintain minimum ownership of 51% of designated banks



India: Markets Provide Capital

Indian Bank Equity Issues, 2005



Source: Reserve Bank of India, Bloomberg, FRBSF calculations



Taiwan: Few Sellers, Few Buyers

- ✓ Highly competitive, thin margins
- ✓ Families reluctant to relinquish control
- ✓ High government shareholdings



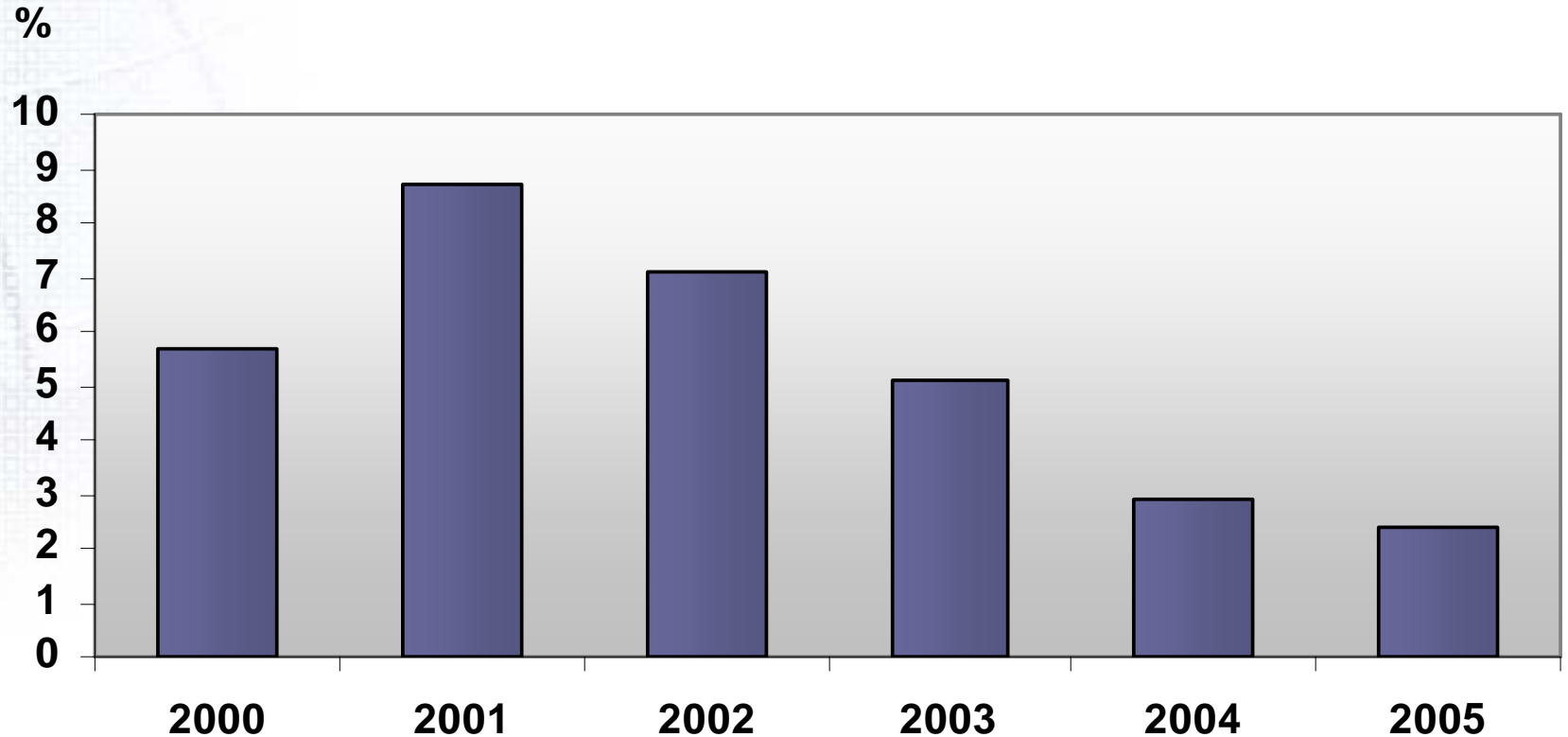
Domestic Consolidators

- ✓ Malaysian government focusing on consolidation, not liberalization
- ✓ Singapore creating national champions



Japan: Expansion More Feasible

Japan Bank NPL Ratios



Source: Bank of Japan



Conclusion

- ✓ Cross-border investment is just one part of broader, fundamental changes underway in Asian banking
- ✓ The most important impact is on banking practices, not industry structure or capitalization
- ✓ Successes in Japan, Korea, and possibly China could encourage further liberalization