Asia Case
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Poon Kam Kai Series

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# MINSHENG BANK: PENETRATING THE US MARKET THROUGH ACQUISITION

Founded in 1996, China Minsheng Banking Corporation Limited ("Minsheng") was the first private commercial bank in China. By 2006, Minsheng had acquired almost US$130 billion in total assets and established nearly 330 banking offices across the nation.[1] One of the world's most respected financial publications, *The Banker* magazine, had consistently praised Minsheng's development, ranking it number 310 in its top 1,000 business banks in the world in 2004, number 287 in 2005, and number 247 in 2006.[2] In early March 2008, Minsheng obtained the green light from the China Banking Regulatory Commission to buy a 4.9% stake in US-based banking holding company UCBH Holdings, Inc ("UCBH") for US$95.7 million.[3] The deal, which was first reported in October 2007, would eventually bring Minsheng's stake in UCBH to 9.9%, totalling around US$200 million.[4] The acquisition not only distinguished Minsheng as the first Chinese mainland institution to invest in a US bank, but was also viewed as a milestone for Chinese banks to expand into the US and international markets. On the flip side, UCBH would soon use this opportunity to make its own moves into China, leveraging its affiliation with Minsheng to acquire other Chinese banks. Would UCBH's agenda in China hamstring Minsheng's global expansion? How would Minsheng address other issues, such as post-acquisition integration and international banking regulations? Should other Chinese banks follow suit and go on a shopping spree of foreign banks?

## Minsheng Bank

Given China's tight restrictions on the banking sector, Minsheng's founding as a non-state-owned commercial bank in Beijing on 12 January 1996 was hailed as a breakthrough. Focusing on the richer, coastal areas of China, Minsheng offered a wide range of financial

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1 Minsheng (2007) "Annual Report". US$1 = Rmb 7.10140 on 10 March 2008.
2 中国民生银行（2008）「民生银行简介」，http://www.cmbc.com.cn/about/jianjie.shtml（于 2008 年 3 月 10 日登陆）。[Minsheng (2008) "Brief Profile", http://www.cmbc.com.cn/about/jianjie.shtml (accessed 10 March 2008).]
3 *SinoCast China Business Daily News* (4 March 2008) "China Entitles Minsheng Banking to Buy 4.9% in UCBH".
4 Tucker, S. (9 October 2007) "China Minsheng in Pioneer US Deal", *Financial Times*.

*Ricky Lai prepared this case under the supervision of Dr Gerald Yong Gao, Dr Jiangyong Lu and Prof Hung-gay Fung for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.*



*Ref. 08/383C*

services [see **Exhibit 1**] and was the first to prepare its financial statements in accordance with international accounting regulations, with PricewaterhouseCoopers as its auditor.[5] Minsheng also differed from state-owned banks and other Chinese banks in origin and ownership as a standard joint-stock financial institution set up strictly in accordance with the Company Law and the Commercial Bank Law.

Minsheng listed its A-shares on the Shanghai Stock Exchange on 19 December 2000. On 18 March 2003, Minsheng issued US$563 million worth of convertible corporate bonds. A further US$817 million worth of subordinated bonds was issued on 8 November 2004 on the inter-bank bond market,[6] making Minsheng the first commercial bank in China to issue subordinated bonds through private placement. Its achievement was further enhanced on 26 October 2005 when it became the first commercial bank in China to accomplish a shares merger reform and establish itself as a successful model for China's capital market reform.

Minsheng had centralised its business processing systems and adopted a net profit-oriented performance evaluation and incentive mechanism for each business unit. It also attracted and retained talent by enhancing its incentive system through a project named Three Cards, which promoted employees' salaries, welfare and training, making Minsheng one of the most attractive employers in the industry. The independent credit assessment framework also contributed to a low non-performing loan ratio of below 1.5% (1.22% as of the end of 2007),[7] one of the lowest in the nation. In addition, Minsheng had started to adopt strategic business unit mechanisms in its most important business lines.

With a young and dynamic management team, Minsheng had charted successes in the Chinese banking sector, winning numerous domestic and international awards, including nods from *The Banker* and *Forbes* magazines. In tandem with the recent trend among Chinese banks of moving into insurance and investment banking businesses, Minsheng had maintained considerable growth in intermediary business by proactively exploring non-traditional business fields: innovating investment banking products; realising fast growth in credit card issuance, transaction volume and operational income; reinforcing e-banking and asset custody business, which had significantly increased overall income; and accelerating preparation and implementation of pilot programs such as small- and medium-sized enterprise ("SME") financing, derivatives products, funds and financial leasing business.[8]

## United Commercial Bank

Through its subsidiary, United Commercial Bank, UCBH operated a leading bank in the US, serving Chinese communities and American companies doing business throughout China. With assets of US$12 billion as of 31 December 2007, UCBH maintained 70 locations in the US (mostly in California), Hong Kong, Taiwan and the Chinese cities Shanghai, Shantou, Beijing, Guangzhou and Shenzhen.

Headquartered in San Francisco, UCBH provided not only commercial banking services for SMEs and professionals in a variety of industries, but also consumer and private banking services for individuals. It engaged in a full range of lending activities, including commercial real estate and construction loans, commercial credit facilities, international trade finance,

5 Minsheng (2000) "Annual Report".

6 Minsheng (10 August 2004) stated in an announcement filing with the Shanghai Stock Exchange that the funds collected from the subordinated bonds issuance were to be used to substantiate the company's capital. 上海证券交易所 (2004)「民生银行董事会决议公告」，http://www.sse.com.cn/cs/zhs/scfw/gg/ssgs/2004-08-10/600016_20040810_1.pdf，第 4 页（于 2008 年 4 月 2 日登陆）。[Shanghai Stock Exchange (2004) "Notice of Minsheng Bank Board Decision", p. 4 (accessed 2 April 2008).]

7 Minsheng (2007) "Annual Report", p. 7.

8 Minsheng (October 2007) "Interim Report 2007", p. 19.

cash management, private client services, loans guaranteed by the US Small Business Administration, residential mortgages, home equity lines of credit and online banking services for businesses and consumers. In terms of service and clientele profiles, UCBH and Minsheng were considered similar.

United Commercial Bank started out as United Federal Savings and Loan Association ("UFSLA") in 1974 and served the financial needs of the Chinese community in San Francisco. As the Chinese-American population grew significantly and expanded into new communities throughout California, UFSLA became United Savings Bank, F.S.B. and began providing state-wide banking services. In 1998, reflecting a rapidly growing focus on their commercial banking capabilities, the charter was converted to become United Commercial Bank.

On 11 January 2007, UCBH announced that, for approximately US$131 million, it would acquire The Chinese American Bank, which had a number of strategic branch locations in the state of New York. The acquisition was completed in May 2007, expanding UCBH's foothold in the New York metropolitan area.

## Acquisition of Business Development Bank

On 27 March 2007, it was announced that UCBH would acquire 100% of the equity interest of Shanghai-based Business Development Bank ("BDB") in a US$205 million cash transaction. After the acquisition, Business Development Bank would operate as a subsidiary of UCBH under the UCB brand.[9]

Established in 1992 as the first wholly foreign-owned bank in China, BDB operated banking offices in Shantou, Beijing and Guangzhou, offering a range of financial products and services to SMEs. In particular, it was licensed to conduct renminbi and foreign currency business with foreign-invested enterprises and individuals and planned to apply for an expanded license to conduct a full scope of renminbi business with all types of customers, including domestic companies and individuals. Following the acquisition, UCBH would take over this application process as part of the merger application to the China Banking Regulatory Commission.

> *We are extremely pleased with this acquisition in China, especially after two years of extensive research on different options and opportunities. The proposed acquisition of BDB provides UCBH with an immediate and well-organised infrastructure to accelerate the implementation of our Greater China strategy. In addition to its licenses to conduct different types of business throughout China, BDB has an experienced management team in place and has built a good foundation in its credit risk management, IT, operations and systems. This acquisition is expected to save us at least 4–5 years in achieving our expansion plans in China, compared to a* de novo *incorporation of a new foreign-funded bank in China.*

[9] UCBH (27 March 2007) "UCBH Holdings, Inc. Announces that United Commercial Bank Has Signed Definitive Agreements to Acquire 100% of Shanghai-Based Business Development Bank Ltd.", Press Releases.

> *After the completion of this transaction, we will be able to provide full-banking services to our customers who are doing business in China. We project significant growth opportunities in China from the local SMEs doing business with US companies. As a result of a strong banking platform in the Greater China region, we also anticipate significant growth in our commercial banking and trade finance business in the domestic market, as we target companies in the US that are doing business in China. Over the next three years following this acquisition, we plan to add 2–3 more branches in other strategic locations in China, which will further enhance our capabilities to tap into China's market potentials, particularly the SMEs, for even greater trade finance opportunities.*[10]
>
> - Thomas S. Wu, chairman, president and CEO of UCBH

As of the end of 2006, BDB had US$217 million in total assets, US$188 million in loans, US$26 million in deposits and US$76 million in equity.[11] The acquisition was declared completed in early December 2007.[12]

## China's Banking Industry and Its Reforms

Historically isolated and tightly regulated, China's banking system had undergone significant changes in the previous two decades, with banks gradually adopting the standards of their international counterparts. Nevertheless, the government's direct control over the banking industry remained strong even as banks had gained a certain degree of market autonomy. The gradual relaxation was accelerated by China's accession to the World Trade Organization ("WTO"), which had been pushing the Chinese government to significantly open the industry to foreign participation.

### Supervisory Bodies

China's central bank, The People's Bank of China ("PBOC"), was responsible for formulating and implementing the nation's monetary policy. The PBOC maintained the banking sector's payment, clearing and settlement systems and managed official foreign exchange and gold reserves. It also oversaw the State Administration of Foreign Exchange in setting foreign exchange policies.

Acting under the guidance of the State Council, the PBOC exercised full autonomy in applying monetary instruments, including setting interest rates for commercial banks and trading in government bonds. The PBOC reported to the State Council on its decisions concerning the annual money supply, interest rates, exchange rates and other important issues specified for approval by the State Council. It was also obliged to submit work reports to the Standing Committee of the National People's Congress, China's de facto legislative body, on the conduct of monetary policy and the performance of the financial industry. All capital of the PBOC was invested and owned by the state.

On 28 April 2003, the China Banking Regulatory Commission ("CBRC") was officially launched to take over the supervisory role of the PBOC. The goal of the landmark reform was

[10] UCBH (27 March 2007) "UCBH Holdings, Inc. Announces that United Commercial Bank Has Signed Definitive Agreements to Acquire 100% of Shanghai-Based Business Development Bank Ltd.", Press Releases.
[11] UCBH (26 November 2007) "UCBH Holdings, Inc. Announces Receipt of All Necessary Regulatory Approvals for the Acquisition of Shanghai-Based Business Development Bank Ltd.", Press Releases.
[12] UCBH (11 December 2007) "UCBH Holdings, Inc. Completes Acquisition of Shanghai-Based Business Development Bank Ltd.", Press Releases.

to improve the efficiency and focus of supervision over the Chinese banking industry and to allow the PBOC to concentrate on the larger economy and currency policy [see **Exhibit 2** for a list of CBRC's functions].

## Domestic Key Players

### *State-Owned Commercial Banks*

In 1995, the Chinese government passed the Commercial Bank Law to commercialise the operations of the four state-owned banks, the Industrial and Commercial Bank of China, the Bank of China, the China Construction Bank and the Agricultural Bank of China, collectively dubbed the "big four" of the Chinese banking industry.

Industrial and Commercial Bank of China ("ICBC") was the largest bank in China by total assets, number of employees and customer base. It was also one the world's largest banks by market value and one of the world's top ten by assets. ICBC differentiated itself from the other Chinese state-owned commercial banks by being second in foreign exchange business and first in renminbi clearing business. It was traditionally a major supplier of funds to China's urban areas and manufacturing sector. On 30 December 2006, ICBC signed an agreement of acquisition with the directors of Bank Halim Indonesia to acquire 90% of its shares. This was ICBC's first international bank acquisition and was also its first entrance into the foreign market by means of acquisition. Meanwhile, Hong Kong-based ICBC (Asia) Co. Ltd was the largest ICBC business unit outside China.

Bank of China ("BOC") was China's oldest bank, tracing its roots to 1905, in the final years of the Qing dynasty. It specialised in foreign exchange transactions and trade finance. In 2002, BOC Hong Kong (Holdings) was successfully listed on the Hong Kong Stock Exchange. The US$2.8 billion offering was over-subscribed by 7.5 times, paving the way for international investment in China's banking industry and subsequent industry reforms.

China Construction Bank ("CCB") was a specialist in medium- to long-term credit for long-term specialised projects, such as infrastructure projects and urban housing development. It had a close relationship with Bank of America, starting with an agreement in mid-2005 that allowed Bank of America to progressively invest in CCB, up to a 19.9% cap. This was followed by CCB's 100% acquisition of Bank of America (Asia), a subsidiary of Bank of America, in October 2006.

Agricultural Bank of China ("ABC"), as its name suggests, originally specialised in providing financing to China's agricultural sector and offered wholesale and retail banking services to farmers, township and village enterprises and other rural institutions. It had since diverged to a range of financial services in renminbi and foreign currencies, with a high penetration in the retail market with its extensive branch network.

### *Policy Banks*

In 1994, the Chinese government established three "policy banks": the Agricultural Development Bank of China, China Development Bank and the Export-Import Bank of China. These banks exercised China's macroeconomic policies and carried out macro-control functions in support of national economic development and strategic structural readjustment. In effect, they took over the government-directed spending functions of the four state-owned commercial banks, providing financing for key state-invested projects and infrastructure construction and for basic and pillar industries. In particular, the Agricultural Development Bank of China focused on agricultural development projects in rural areas, the China

Development Bank specialised in infrastructure financing and the Export-Import Bank of China engaged primarily in trade financing.

### *Second-Tier Commercial Banks*

In addition to the big four state-owned commercial banks, there were smaller commercial banks in China. The largest ones in this group included the Bank of Communications, China CITIC Bank, China Everbright Bank, Hua Xia Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank and Minsheng. The second-tier banks, with their relatively short history, were generally in better shape than the big four, with higher asset quality and profitability and lower non-performing loan ratios.

### *Trust and Investment Corporations*

In the mid-1980s, the Chinese government established a group of agencies known as the international trust and investment corporations ("ITICs") to engage in various forms of merchant and investment banking activities. One of the aims in setting up the ITICs was to attract foreign capital and technologies, thereby accelerating China's opening up to the international community.[13] However, many of the 240 or so ITICs experienced severe liquidity problems following the bankruptcy of the Guangdong International Trust and Investment Corporation in late 1998. The largest surviving ITIC was China International Trust and Investment Corporation (CITIC), which owned the second-tier commercial bank, China CITIC Bank.

## Reforms in the Chinese Banking Industry

Since the economic reform that began in 1979, the Chinese government had been wary of the need to reform the banking industry to cope with economic development and internationalisation. In 1994, the PBOC ceased handling credit and savings business to concentrate on central bank functions through macro-control and supervision of the banking system. The credit and savings business was transferred to the big four banks, though not until 1995, when the Commercial Bank Law was passed to create a legal basis for changing the specialised state banks to state-owned commercial banks.

However, years of government-directed lending with virtually no credit assessment had raked in a large amount of non-performing loans in the Chinese banking system. In 1999, four asset management companies were established to repackage the non-performing loans into viable assets and sell them off to investors. The CBRC's data showed that non-performing loans accounted for 19.6% of total lending in the first half of 2003.[14] By the end of 2007, the figure had dropped to 6.2%.[15]

Apart from institutional-level reforms, the PBOC had encouraged banks to diversify their portfolios by raising the share of their services to the private sector and individual consumers. A personal credit rating system was launched in Shanghai in July 2000 for the assessment of consumer credit risk and the setting of ratings standards.

13 CITIC Group (2008) "Brief Introduction", http://www.citic.com/wps/portal/citicen (accessed 12 March 2008).

14 中国银行业监督管理委员会 (2008)「2003 年上半年主要银行业金融机构贷款五级分类情况表」，http://www.cbrc.gov.cn/chinese/home/jsp/docView.jsp?docID=721（于 2008 年 3 月 13 日登陆）。[CBRC (2008) "Five Categories of Loans among Major Banking and Financial Institutions in First Half of 2003", http://www.cbrc.gov.cn/chinese/home/jsp/docView.jsp?docID=721 (accessed 13 March 2008).]

15 中国银行业监督管理委员会 (2008)「2007 年商业银行不良贷款情况表」，http://www.cbrc.gov.cn/chinese/home/jsp/docView.jsp?docID=20070516A4DD51DB0062F0CBFF883AB8A21E4800（于 2008 年 3 月 13 日登陆）。[CBRC (2008) "Non-Performing Loans among Commercial Banks in 2007", http://www.cbrc.gov.cn/chinese/home/jsp/docView.jsp?docID=20070516A4DD51DB0062F0CBFF883AB8A21E4800 (accessed 13 March 2008).]

The Chinese government also allowed several small banks to raise capital through bonds or stock issues. Minsheng's A-share listing on the Shanghai Stock Exchange followed in the footsteps of Shenzhen Development Bank and Pudong Development Bank.

The reform of the banking system was accompanied by the PBOC's decision to relinquish control of interest rates. Market-based interest rate reform was introduced to establish the pricing mechanism of the deposit and lending rates based on market supply and demand. The PBOC continued to adjust and guide interest rate development, but let the market mechanism play a more dominant role in financial resource allocation.

The Chinese government had also been relaxing control on foreign exchange. Although far from complete, a sequence of reform had been established:

- Liberalising interest rates of foreign currencies before that of domestic currency
- Lending before deposit
- Large and long-term loans before small and short-term loans.

As a first step, the PBOC liberalised the interest rates for foreign currency loans and large deposits (US$3 million and over) in September 2000. The rate for deposits below US$3 million remained under the PBOC's control. In March 2002, the PBOC unified foreign currency interest rate policies for Chinese and foreign financial institutions in China. Small foreign exchange deposits by Chinese residents with foreign banks in China were included in the PBOC interest rate administration of small foreign exchange deposits so that domestic and foreign financial institutions would be treated fairly with regard to the interest rate policy of foreign exchange deposits.

Although the Chinese banking industry had yet to be fully liberalised and reformed, China's accession to the WTO and opening up to the international market meant that the nation's banking system could only move to be more in line with those of developed economies.

## Entry of Foreign Banks into China

In a move to honour the nation's WTO commitments, the PBOC issued the "Rules for Implementing the Regulations Governing Foreign Financial Institutions in the People's Republic of China" in January 2002.[16] The rules governed the establishment, registration, scope, qualification, supervision, dissolution and liquidation of foreign financial institutions. They also required foreign bank branches conducting all aspects of foreign-currency and renminbi business to all categories of clients to have operating capital of at least US$72.3 million, of which at least US$48.2 million must be held in renminbi and at least US$24.1 million in freely convertible currency.

The stipulation was made in response to the lifting of client restrictions that took place immediately after China's accession to the WTO on 11 December 2001. Since then, foreign financial institutions had been permitted to provide foreign currency services to Chinese enterprises and individuals and, since the end of 2006,.to provide local currency business to all Chinese clients.

Furthermore, upon China's accession to the WTO, geographic restrictions placed on renminbi-denominated business were phased out in the four major cities Shanghai, Shenzhen,

[16] CBRC (2008) "The CBRC Senior Officials Spoke to the Press on the Newly Revised Rules for Implementing the Regulation of the People's Republic of China Governing Foreign-Funded Financial Institutions", http://www.cbrc.gov.cn/english/home/jsp/docView.jsp?docID=818 (accessed 13 March 2008).

Tianjin and Dalian. This was followed by a further relaxation on 1 December 2002 that allowed foreign-funded banks to commence renminbi-denominated business in Guangzhou, Zhuhai, Qingdao, Nanjing and Wuhan.

## Citigroup

Citigroup had a rich history in China dating back to 1902, when it was the first American bank to establish operations in the country. On 2 January 2003, following China's reform of the banking industry, Citigroup acquired a 4.6% stake in Shanghai Pudong Development Bank. The stake was subsequently raised in December 2005 to 19.9%, just shy of the legal maximum. The acquisition not only helped Citigroup enter the credit card business in China, but also paved the way for Citigroup to acquire another Chinese bank in November 2006, when Citigroup was declared the winner in bidding for Guangdong Development Bank.[17] The acquisition, in which Citigroup led a consortium comprising IBM and four Chinese institutions, came after a year-long struggle due to Citigroup's push for a waiver on the legal maximum for foreign ownership of Chinese banks. Citigroup was nevertheless able to assume "a significant management role" in the Chinese bank, despite holding only a 20% share.[18] Such an arrangement was unusual because of considerable nationalist sentiment against foreign control of domestic enterprises.

## Standard Chartered

Though headquartered in London, Standard Chartered's main revenue actually came from Asia, Africa and the Middle East. Thanks to its roots in the British colonial era, Standard Chartered had established considerable presence in former British colonies. As the colonies successively gained independence in the mid-20th century and amid threats of hostile takeovers, Standard Chartered began making provisions against third-world debt exposure and loans to corporations and entrepreneurs who could not meet their commitments. Standard Chartered also began a series of divestments, notably in the United States and South Africa, and entered into a number of asset sales.

In the early 1990s, Standard Chartered started to focus on developing its franchises in Asia, Africa and the Middle East using its operations in the United Kingdom and North America to provide customers with a bridge between these markets. It also began to focus on consumer, corporate and institutional banking and on the provision of treasury services, areas in which Standard Chartered had particular strength and expertise.

Standard Chartered began an aggressive expansion into China following the turn of the century. In September 2005, it acquired 19.99% of China Bohai Bank, the bulk of whose businesses was in north-eastern China, for US$123 million. The stake put Standard Chartered in second place among major shareholders of the Chinese bank.

In April 2007, Standard Chartered became one of the first foreign banks to incorporate business in China and soon launched renminbi services for Chinese citizens. Leveraging its expertise with SMEs, Standard Chartered saw its wholesale banking clientele in China rise by 92% in the first half of 2007. It also pursued higher profit margins by launching private banking services and an array of new wealth management products. In the first half of 2007, Standard Chartered's business in China more than doubled its income. Hiring just over 2,000 staff in 30 locations in 15 cities, Standard Chartered planned to expand its China operations to more than 3,500 staff and about 40 locations by the end of 2007.[19]

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[17] Luo, J. (27 December 2005) "Citigroup to Raise Pudong Bank Stake", *International Herald Tribune*.

[18] Chen, S. (16 November 2006) "Citi Wins Guangdong", *Forbes.com*, http://www.forbes.com/2006/11/16/citigroup-guangdong-china-markets-emerge-cx_jc_1116markets06.html (accessed 13 March 2008).

[19] Standard Chartered (September 2007) "Interim Report 2007", pp. 6–7.

### HSBC

One of the world's largest financial groups, HSBC traced it roots to Shanghai in 1865. By 2008, it was one of the largest investors among foreign banks in China, having poured over US$5 billion into acquiring Chinese institutions and expanding its own operations in the country. In December 2001, it acquired 8% of the Bank of Shanghai for US$64 million. From November 2002 to August 2005, HSBC spent US$1.8 billion building a 16.8% stake in one of China's largest insurers, Ping An Insurance. Through its subsidiary, Hang Seng Bank, HSBC controlled 12.8% of Industrial Bank Company Limited, a sizable bank based in Fujian. In June 2005, HSBC completed its build-up of a 19% stake in Bank of Communications. Following CBRC's relaxation on foreign banks incorporating in China, HSBC set up HSBC Bank (China) in Shanghai in April 2007 as a wholly foreign-owned bank. Having consolidated its operations, HSBC's service network became the largest foreign bank in China, with over 60 banking locations in major cities across the country offering a wide range of services to individual, commercial and corporate customers [see **Exhibit 3**].

## Minsheng's Acquisition of UCBH

On 5 March 2008, UCBH announced that it had completed the sale of approximately 5.4 million newly-issued shares of its common stock—representing 4.9% of its total outstanding shares as of the end of February 2008—to Minsheng. The price per share was US$17.79, the 90-day average UCBH closing price as of 28 September 2007. The total proceeds to UCBH were US$95.7 million.

In the second investment phase, anticipated to close in 2008, Minsheng would increase its ownership to 9.9% through a combination of the purchase of secondary shares and the issuance of primary shares, at the discretion of UCBH. Any primary shares might be issued at a premium of up to 5% above the average UCBH closing price for the 90 trading days preceding the fifth business day prior to the issuance. Under mutual agreement and subject to regulatory approval, Minsheng could increase ownership of UCBH to 20% by June 2009.[20]

According to a company announcement, Minsheng would pay for both phases of acquisition in cash, equivalent to around 5.8% of Minsheng's book value as of the end of June 2007. The cash capital used to fund the acquisition was to be supplied by a non-public share placement of around US$2.6 billion in the first half of 2007, with Minsheng stating that the acquisition would not affect its cash flow.[21]

The motion to acquire UCBH shares was passed by the Minsheng board on 27 September 2007 with 17 approval votes to one opposing vote. The approval felt that UCBH complemented Minsheng's clientele coverage and provided Minsheng with a promising platform from which the Chinese bank could accelerate its entry into the US market as a primer for its international strategic expansion. Meanwhile, the opposition was concerned that UCBH's concentration in real estate and construction loans diverged from Minsheng's strategic development.[22] UCBH stated that, while it was not directly involved in sub-prime lending activities, current economic pressures on housing and land values in certain

[20] UCBH (11 October 2007) "Form 8-K", United States Securities and Exchange Commission, http://www.sec.gov/Archives/edgar/data/1061580/000095013407021194/f34498e8vk.htm (accessed 26 March 2008).

[21] 中国民生银行 (2007 年 10 月 8) 「对外投资公告」，http://www.cmbc.com.cn/news/gb_dshgg/2007-10/8/09_58_31_741_3.shtml（于 2008 年 3 月 26 日登陆）。[Minsheng (8 October 2007) "External Announcement on Investment", http://www.cmbc.com.cn/news/gb_dshgg/2007-10/8/09_58_31_741_3.shtml (accessed 26 March 2008).]

[22] 中国民生银行 (2007 年 10 月 8) 「对外投资公告」，http://www.cmbc.com.cn/news/gb_dshgg/2007-10/8/09_58_31_741_3.shtml（于 2008 年 3 月 26 日登陆）。[Minsheng (8 October 2007) "External Announcement on Investment", http://www.cmbc.com.cn/news/gb_dshgg/2007-10/8/09_58_31_741_3.shtml (accessed 26 March 2008).]

Californian markets had impacted a certain segment of the overall loan portfolio. Approximately 10% of the loan portfolio was concentrated in the stressed Californian markets, with noted increases in loan delinquencies and some migration to criticised credit categories that were predominantly related to construction lending [see **Exhibit 4** for selected financial data of UCBH].[23]

## Way Forward

Having spent US$200 million on a 9.9% stake in UCBH, Minsheng got its first taste of international expansion through an ambitious, trans-national acquisition process [see **Exhibit 5** for selected financial data of Minsheng]. How should it position itself in an industry that was, though highly regulated, witnessing more international interactions than ever before? Would Minsheng's deal open the floodgates of acquisition-seeking funds from China, setting off a buying frenzy of banks around the world by Chinese banks? Would Minsheng have to keep acquiring to stay ahead in the wave of global expansion among Chinese banks? Given UCBH's agenda to expand into the Chinese market through the deal, could Minsheng have short-changed itself by expanding into a slower-growing market in the US, or could the fact that UCBH's leadership was predominantly Chinese be helpful to Minsheng?

[23] UCBH (2007) "Annual Report", p. 67.

## EXHIBIT 1: MINSHENG SERVICES AND MAJOR BRANCHES

Minsheng offered a range of services that included the following:

- Full retail and commercial deposit services
- Short-, medium- and long-term loans
- Entrusted loans
- Domestic and international settlement
- Receivable financing
- Issuing financial institutional bonds
- Agency in issuing, settling and underwriting government bonds
- Trading of bonds issued by financial institutions, government and corporations
- Inter-bank borrowing and lending
- Foreign exchange trading
- Trading of other derivative financial instruments
- Letters of credit and financial guarantees
- Complete wire services
- Insurance products
- Safe deposit boxes
- Credit cards
- Fiduciary service for national social insurance funds.

| | Office | Address | Postal code |
|---|---|---|---|
| 1 | CMBC Head Office | 2 Fuxingmen Nei Street, Xicheng District, Beijing | 100031 |
| 2 | Beijing Management Office | 2 Fuxingmen Nei Street, Xicheng District, Beijing | 100031 |
| 3 | Shanghai Branch | 48 Weihai Road, Shanghai | 200003 |
| 4 | Guanzhou Branch | Yueneng Building 45, Tianhe Road, Guangzhou | 510075 |
| 5 | Shenzhen Branch | 11th Xinzhou Street, Futian District, Shenzhen | 518048 |
| 6 | Wuhan Branck | 20 Jianghan Road, Jiang'an District, Wuhan | 430014 |
| 7 | Dalian Brach | 28 Yan'an Road, Zhongshan District, Dalian | 116001 |
| 8 | Nanjing Branch | Xinchen International Building, 26 Zhongshan Bei Road, Nanjing | 210008 |
| 9 | Hangzhou Branch | Yuanyang Building, 25 Qingchun Road, Hangzhou | 310009 |
| 10 | Taiyuan Branch | 2 Bingzhou Bei Road, Taiyuan | 030001 |
| 11 | Shijiazhuang Branch | 10 Xidajie, Shijiangzhuang | 050011 |
| 12 | Chongqing Branch | Floor 22 Tongju Yuanjing Building, 9 Jianxin Bei Road, Jiangbei District, Chongqing. | 400021 |
| 13 | Xi'an Branch | CMBC Building, 78 Erhuan nanlu xiduan, Xi'an | 710065 |
| 14 | Fuzhou Branch | 173 Hudong Road, Fuzhou | 350001 |
| 15 | Ji'nan Branch | 229 Leyuan Street, Jinan | 250012 |
| 16 | Ningbo Branch | 166-168 Zhongshan Xi Road, Ningbo | 315010 |
| 17 | Chengdu Branch | 22 Renmin zhonglu 2 duan, Chengdu | 610031 |
| 18 | Tianjin Branch | Floor 11, Tianxin Building, 125 Weidi Road, Tianjin | 300074 |
| 19 | Kunming Branch | 331 Huancheng Nan Road, Kunming | 650011 |
| 20 | Suzhou Branch | 200 Xinghai Street, Suzhou Industrial Park | 215021 |
| 21 | Qingdao Branch | 18 Fuzhou Nan Road, Nan District, Qingdao | 266071 |
| 22 | Wenzhou Branch | 335-345 Xincheng Dadao, Wenzhou | 325003 |
| 23 | Xiamen Branch | Lixin Plazza, 90 Hubin Nanlu, Xiamen | 361004 |
| 24 | Quanzhou Branch | 336 Fengze Street, Quanzhou | 362000 |
| 25 | Shantou Branch | Floor 1-2 BinhaiBuilding, Huashan Nan Road, Shantou, Guangdong Province | 515041 |

**Source: Minsheng (2008) "CMBC Home", http://www.cmbc.com.cn/index_en.shtml (accessed 10 March 2008).**

## EXHIBIT 2: CHINA BANKING REGULATORY COMMISSION (CBRC)

### The Main Functions of the CBRC

- Formulate supervisory rules and regulations governing banking institutions
- Authorise the establishment, changes, termination and business scope of banking institutions
- Conduct on-site examination and off-site surveillance of banking institutions and take enforcement actions when rules are broken
- Conduct fit-and-proper tests on the senior managerial personnel of the banking institutions
- Compile and publish statistics and reports of the overall banking industry in accordance with relevant regulations
- Provide proposals on the resolution of problem deposit-taking institutions in consultation with relevant regulatory authorities
- Administer the supervisory boards of the major State-owned banking institutions and other functions delegated by the State Council.

### The Supervisory Focuses of the CBRC

- Conduct consolidated supervision to assess, monitor and mitigate the overall risks of each banking institution as a legal entity
- Stay focused on risk-based supervision and improvement of supervisory process and methods
- Urge banks to put in place and maintain a system of internal controls
- Enhance supervisory transparency in line with international standards and practices.

### The Regulatory Objectives of the CBRC

- Protect the interests of depositors and consumers through prudential and effective supervision
- Maintain market confidence through prudential and effective supervision
- Enhance public knowledge of modern finance though customer education and information disclosure
- Combat financial crimes.

### The Supervisory and Regulatory Criteria of the CBRC

- Promote financial stability while facilitating financial innovation
- Enhance the international competitiveness of the Chinese banking sector
- Set appropriate supervisory and regulatory boundaries and refrain from unnecessary controls
- Encourage fair and orderly competition
- Clearly define the accountability of both the supervisor and the supervised institutions
- Employ supervisory resources in an efficient and cost-effective manner.

**Source: China Banking Regulatory Commission (2008) "About the CBRC", http://www.cbrc.gov.cn/english/info/yjhjj/index.jsp (accessed 12 March 2008).**

## EXHIBIT 3: HSBC'S SERVICE OFFERING IN CHINA

### Corporate, Institutional and Commercial Banking

#### *Business Finance*

HSBC China arranged and provided financing for multinational corporations, large companies and institutions and SMEs in China. Financing could be provided in either local or foreign currency, including working capital, international trade, fixed assets, project finance, syndicated loans and intra-group entrusted loans.

#### *Corporate Deposits and Loans*

HSBC provided renminbi banking services and conducted renminbi business from nine of its branches—Beijing, Dalian, Guangzhou, Qingdao, Shanghai, Shenzhen, Tianjin, Wuhan and Xiamen—the widest geographical reach of any foreign bank in China. In addition, all 14 branches of HSBC China were able to offer foreign currency banking to local and foreign companies.

#### *Cash Management*

HSBC China provided comprehensive cash management solutions to help enhance customers' operational efficiency. Through HSBCnet, its worldwide web-based financial services delivery platform, HSBC China provided customers with a wide range of flexible cash management services to automate payments, speed up collections and optimise liquidity management. Through cooperation with local banks, HSBC China could tap into local banks' clearing systems and networks to shorten customers' payment and clearance times. HSBC was named "Best Cash Management Bank in China" by *Trade Finance* magazine in 2006.

#### *Trade Services*

A wide range of import and export services and trade finance facilities were offered, including factoring, import documentary credit, export documentary credit advising and transferring, non-recourse discounting and draft collection. HSBC was named "Best Trade Finance Bank" by *FinanceAsia* 10 years in a row. In addition, HSBC became the first bank to be named "Best Trade Bank in China" by *Trade Finance* magazine in 2006.

#### *Custody and Clearing*

HSBC China had extensive custodial experience providing services to Chinese commercial banks that were qualified to provide overseas wealth management services. Meanwhile, it offered custody and clearing services to foreign institutional investors in China's B-share market and qualified foreign institute investors in China's A-share market, holding the largest share in both markets. Additionally, HSBC China was licensed to provide custodian services to Chinese insurance companies for their domestic and overseas investments. In 2006, HSBC was named "Best Sub-Custodian in China" by *Global Finance* for the fourth consecutive year.

#### *Treasury and Capital Market*

HSBC China was one of the first market makers for renminbi trading against foreign currencies on China's inter-bank foreign exchange market. A wide range of treasury services was also available, including foreign exchange, currency derivatives and fixed income. Based at the Shanghai branch, HSBC China's dealing room offered foreign currency and renminbi services, including foreign exchange spot, foreign exchange and renminbi forward, currency swap and derivatives.

### Personal Financial Services

HSBC China's retail banking focused on providing "premier services", which was HSBC's global wealth management proposition.

#### *HSBC Premier*

Customers with an average monthly account balance of US$70,409 or above could enjoy the benefits of one-to-one relationship banking and a series of value-added services without a monthly service charge. For Premier accounts with a balance below that threshold, a monthly fee of US$42 would be charged. For non-Premier accounts, a monthly service charge of US$24 would be waived if an average monthly account balance of US$14,802 or equivalent was maintained.

In May 2007, HSBC Premier was revamped and launched in China, adding additional globally linked capabilities that enabled customers to enjoy personalised banking and wealth management services.

#### *Deposit Services*

HSBC China offered renminbi deposit services to Chinese citizens, foreign passport holders and residents of Hong Kong, Macau and Taiwan in eight cities (Beijing, Dalian, Guangzhou, Qingdao, Shanghai, Shenzhen, Tianjin and Xiamen). HSBC China also offered foreign currency deposit services to Chinese citizens, foreign passport holders and residents of Hong Kong, Macau and Taiwan in 14 cities. In addition, a range of investment products were available to meet customers' investment needs.

#### *Insurance Distribution Services*

HSBC China, as an agent of Ping An Life Insurance, could recommend a variety of life insurance products to meet customers' protection needs.

#### *Loan Services*

HSBC China provided renminbi and foreign currency mortgage loan services to assist customers with their business and residential property purchases. A high mortgage advance ratio of up to 70% and a maximum loan tenure of up to 30 years were offered. A wide choice of repayment options was also available.

#### *Credit Cards*

HSBC and Bank of Communications launched the Pacific Dual Currency Credit Card and the Pacific Liu Xiang VISA Credit Card. Issued by the Bank of Communications' Pacific Credit Card Centre with technical and management support from HSBC, both credit cards carried the logos of each bank. HSBC had also provided support in developing the Bank of Communications Pacific Suning Credit Card and Pacific Wal-mart Credit Card. Bank of Communications was HKBC's key strategic partner in China.

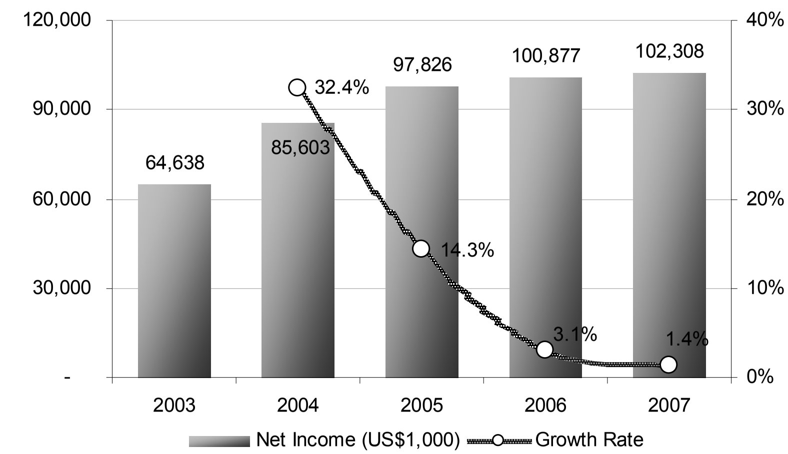
#### *ATMs*

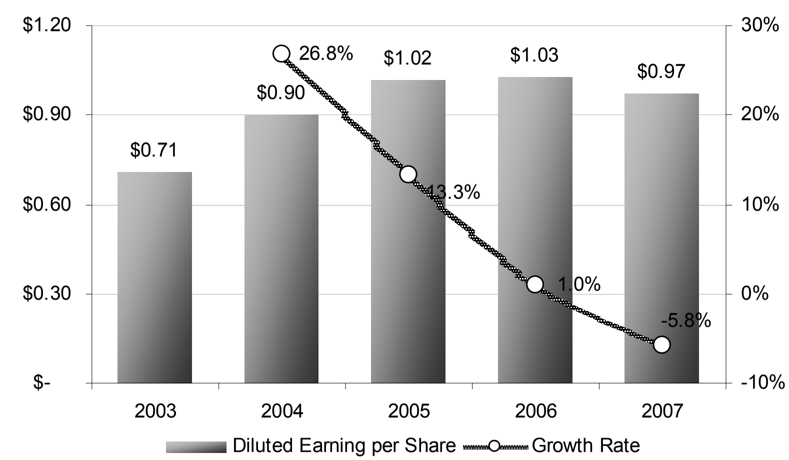
Approximately 90 HSBC ATMs were available in China. In all cities where HSBC China had 24-hour cash withdrawal or cash advance services, these services were also available to holders of Visa/Plus, Master/Cirrus and other ATM cards.

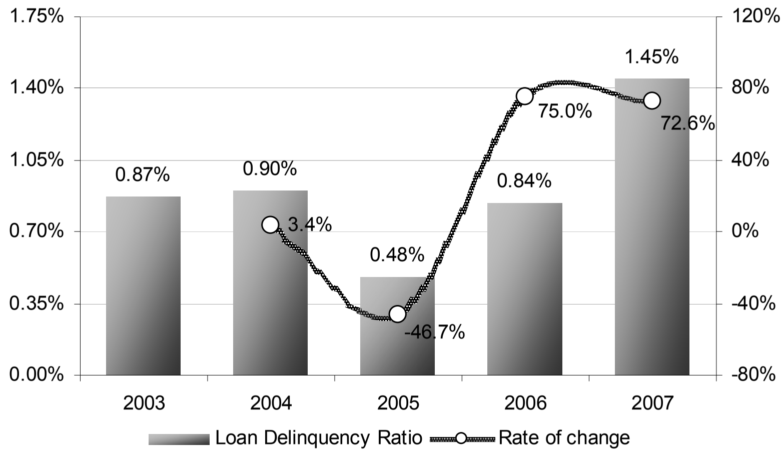
**Source: HSBC (November 2007) "Fact Sheet, HSBC Corporate Services in China", http://www.hsbcnet.com/hsbc/china/hsbc-in-china (accessed 16 March 2008).**

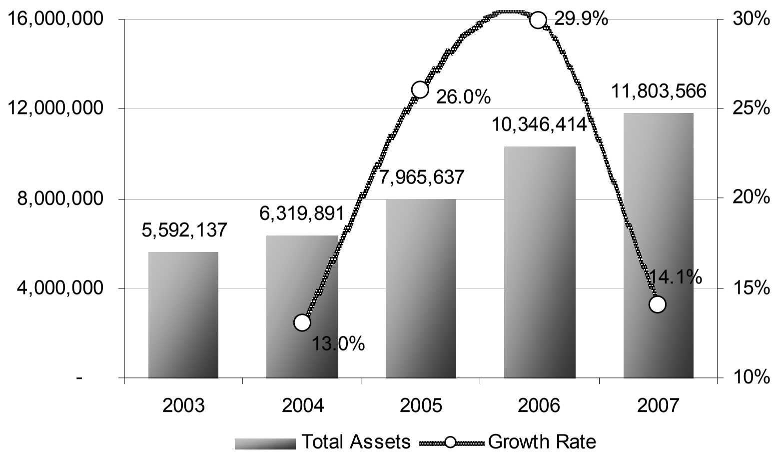
# EXHIBIT 4: SELECTED FINANCIAL DATA ON UCBH (2003–2007)

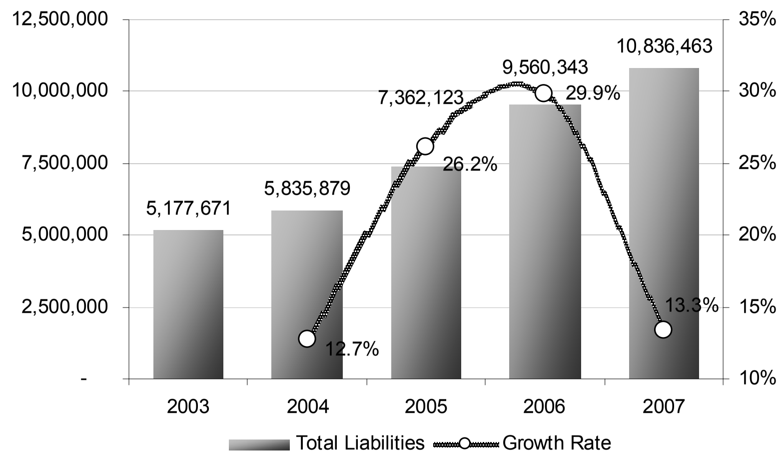
| **Unit: US$1,000** (except otherwise) | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Net Income** | 102,308 | 100,877 | 97,826 | 85,603 | 64,638 |
| *Growth Rate* | *1.4%* | *3.1%* | *14.3%* | *32.4%* | |
| **Diluted Earning per Share** | $ 0.97 | $ 1.03 | $ 1.02 | $ 0.90 | $ 0.71 |
| *Growth Rate* | *-5.8%* | *1.0%* | *13.3%* | *26.8%* | |
| **Loan Delinquency Ratio** | 1.45% | 0.84% | 0.48% | 0.90% | 0.87% |
| *Rate of change* | *72.6%* | *75.0%* | *-46.7%* | *3.4%* | |
| **Total Assets** | 11,803,566 | 10,346,414 | 7,965,637 | 6,319,891 | 5,592,137 |
| *Growth Rate* | *14.1%* | *29.9%* | *26.0%* | *13.0%* | |
| **Total Liabilities** | 10,836,463 | 9,560,343 | 7,362,123 | 5,835,879 | 5,177,671 |
| *Growth Rate* | *13.3%* | *29.9%* | *26.2%* | *12.7%* | |
| **Shareholders' Equity** | 967,103 | 786,071 | 603,514 | 484,012 | 414,466 |
| *Growth Rate* | *23.0%* | *30.2%* | *24.7%* | *16.8%* | |

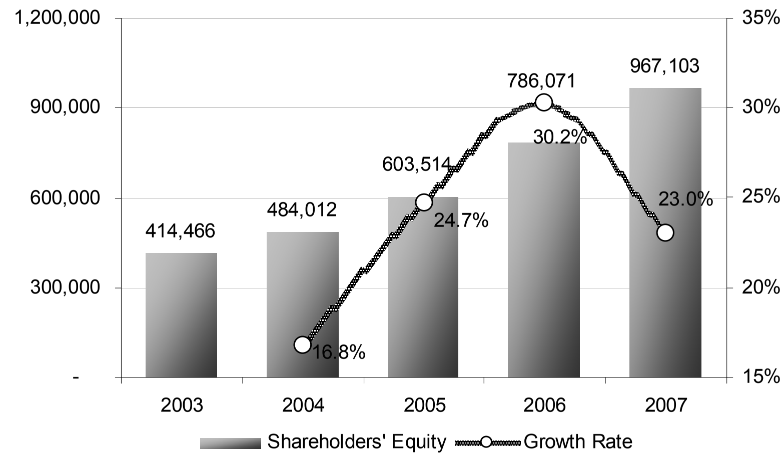




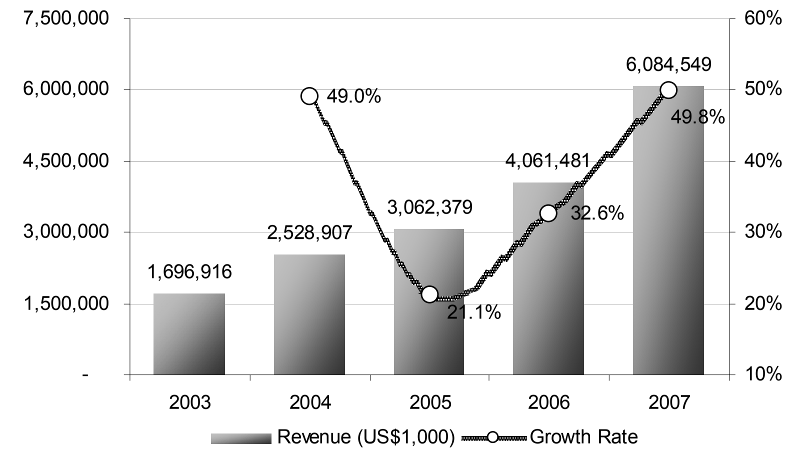



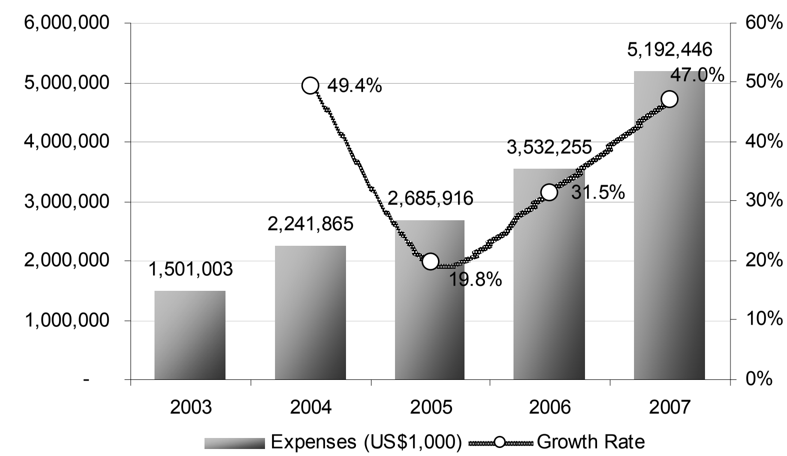



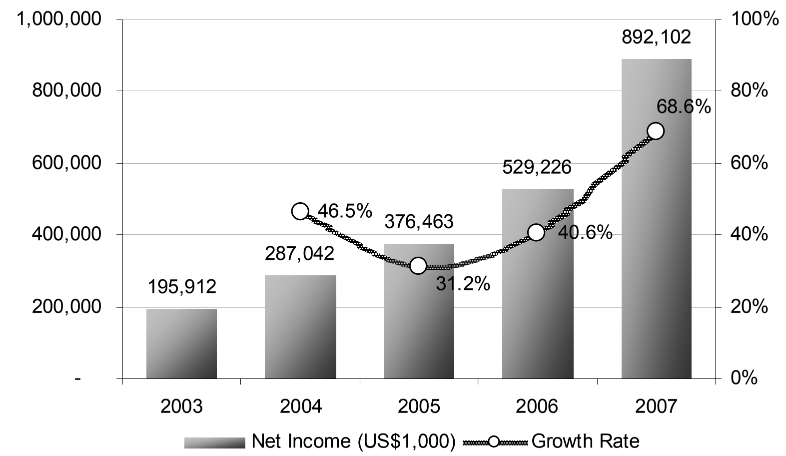

**Source: UCBH (2007) "Annual Report", pp. 24–25.**

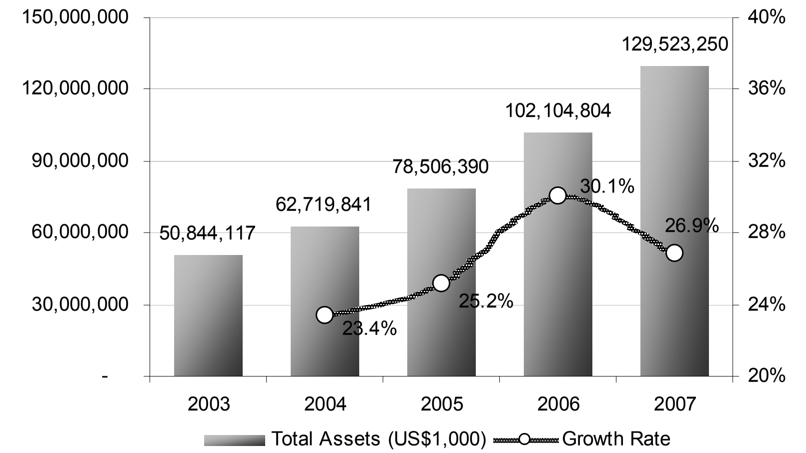
# EXHIBIT 5: SELECTED FINANCIAL DATA ON MINSHENG (2003–2007)

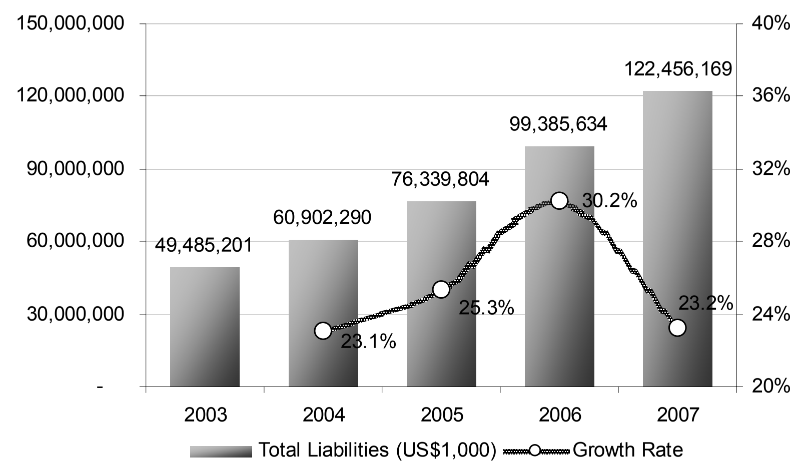
| Unit: US$1,000 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Revenue** | 6,084,549 | 4,061,481 | 3,062,379 | 2,528,907 | 1,696,916 |
| *Growth Rate* | *49.8%* | *32.6%* | *21.1%* | *49.0%* | |
| **Expenses** | 5,192,446 | 3,532,255 | 2,685,916 | 2,241,865 | 1,501,003 |
| *Growth Rate* | *47.0%* | *31.5%* | *19.8%* | *49.4%* | |
| **Net Income** | 892,102 | 529,226 | 376,463 | 287,042 | 195,912 |
| *Growth Rate* | *68.6%* | *40.6%* | *31.2%* | *46.5%* | |
| **Total Assets** | 129,523,250 | 102,104,804 | 78,506,390 | 62,719,841 | 50,844,117 |
| *Growth Rate* | *26.9%* | *30.1%* | *25.2%* | *23.4%* | |
| **Total Liabilities** | 122,456,169 | 99,385,634 | 76,339,804 | 60,902,290 | 49,485,201 |
| *Growth Rate* | *23.2%* | *30.2%* | *25.3%* | *23.1%* | |
| **Shareholders' Equity** | 7,067,082 | 2,719,169 | 2,166,586 | 1,817,551 | 1,358,916 |
| *Growth Rate* | *159.9%* | *25.5%* | *19.2%* | *33.8%* | |

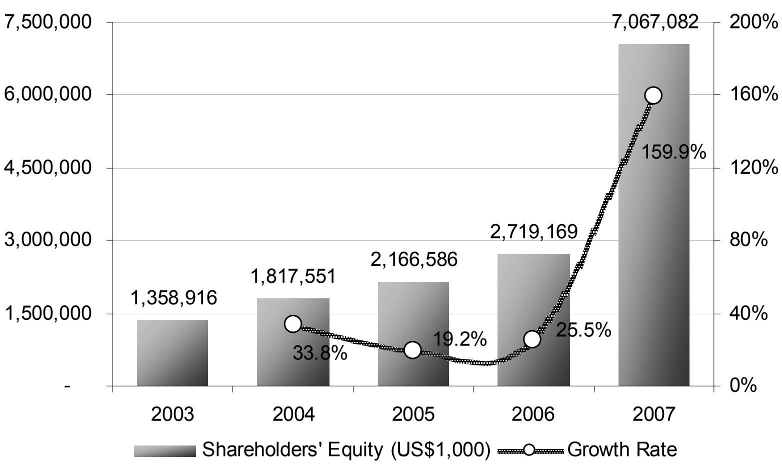





**Source: Minsheng (2004–2007) "Annual Report".**