



**25th Anniversary of the ABA**  
**23rd ABA General Meeting and Seminar**

# Regional Financial Integration

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# Drivers of Regional Financial Integration

- Asian Financial Crisis has exposed the inadequacies of the banking systems in East Asian economies
- Under-representation of Asia in international monetary affairs and a call for regional cooperative measures in dealing with crisis
- China's proactive stance towards regional cooperation has resulted in the successful implementation of some key initiatives
- Successful provision of aid from within the region during the AFC has encouraged more regional cooperation
- Gradual liberalisation under the WTO and bilateral/regional Free Trade Agreement (FTAs) has facilitated the integration of regional financial sectors

# Key Policy Initiatives

Year	Events
2000	Chiang Mai Initiative (CMI): network of bilateral currency swaps among ASEAN, China, Japan and Korea (ASEAN + 3)
2001	Voluntary monthly data exchange among ASEAN + 3 on short term capital flows to facilitate effective policy dialogue
2003	1 <sup>st</sup> stage of the Asian Bond Fund Initiative (ABF) was launched by the Executives' Meeting of the East Asia and Pacific (EMEAP) – US\$ 1 billion
2003	Asian Bond Market Initiative (ABMI) was initiated to promote greater issuance of bonds in the region
2004	Second stage of Asian Bond Fund Initiative (ABF2) to raise the amount of domestic currency bonds issued to US\$2 billion

# Chiang Mai Initiatives (CMI)

- Network of swap arrangement agreed among Asean plus 3 (China, Japan and South Korea)
- Permits a country beset by speculative attack to draw on reserves of other nations.
- Ensures the availability of sufficient liquidity which is crucial in instilling market confidence and allowing for policy maneuver
- An important step in regional financial integration in which it is the first time that regional countries have pre-committed resources as a means of regional financial safeguard

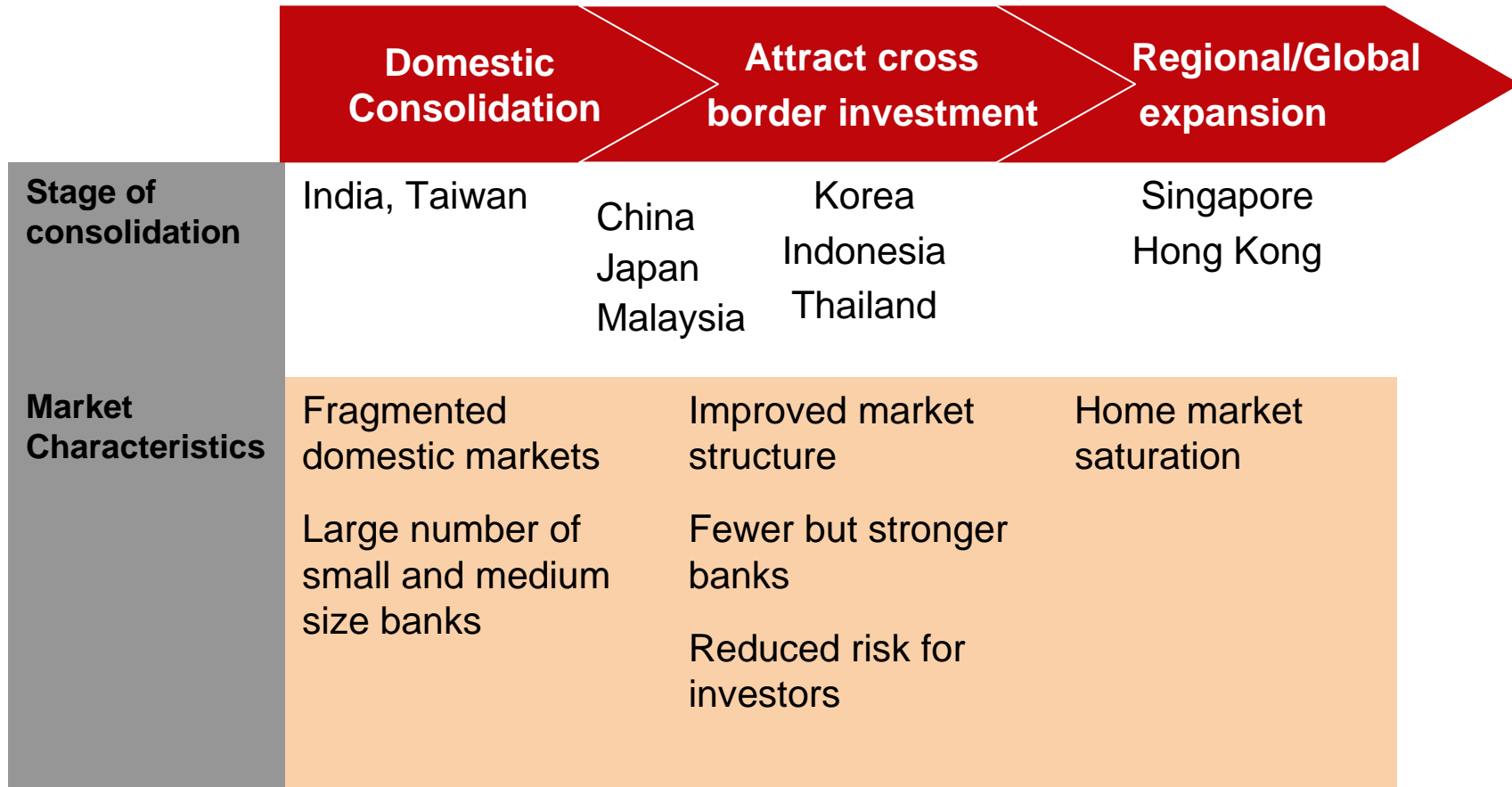
# Asian Bond Fund and Bond Market Initiatives

- Diversification of regional financial structures away from bank-based systems to bond markets so as to reduce maturity and currency risk
- Instilling stability into the system through long term bond issues
- Creation of a regional bond market would help in consolidating risks inherent in local bond markets
- Having a regional bond market would allow for economies of scale and improve liquidity in the regional market

# Response from the Banking Sector - M&A

- Domestic M&A
  - Increase in domestic and foreign competition
  - Domestic regulatory pressure to restructure or merge
  - Consolidation of resources would allow banks to compete more effectively
  - Improve efficiency through economies of scale
- Cross Border M&A
  - Geographic/regional market expansion
  - Regional liberalisation in the financial services sector to foreign participation

# Stages of Consolidation



Source: Deloitte

## Increase in Cross Border M&A in Asia (cont.)

Year	Investor	Target	Details	Value
2001	DBS Group, holding company of DBS bank (Singapore)	Dao Heng Bank (Hong Kong)	DBS Group Holding bought 71% of Dao Heng Bank from Hong Kong-based Guoco Group in 2001	US\$5.93 Bn
2001	HSBC	Bank of Shanghai (China)	HSBC acquired an 8 % holding in Bank of Shanghai	US\$62.2 Mn
2003	Lone Star (US based investment fund)	Korea Exchange Bank	Lone Star acquired approximately 51% stake in the bank	US\$1.16 Bn
2003	Citibank	Shanghai Pudong Development Bank (China)	Citibank purchased 5% of Shanghai Pudong Development Bank	US\$72 Mn
2003/4	Hang Seng Bank and IFC	Industrial Bank Company Ltd	Hang Seng acquired 15.98% and IFC acquired 4% equity stake in the bank	US\$210 Mn
2004	Citibank	Koram Bank (South Korea)	Citibank acquired near 100% ownership of Koram Bank	US\$2.7 Bn
2004	DBS Group, holding company of DBS bank (Singapore)	Thai Military Bank and Industrial Finance	DBS holds a 16% stake in Thai Military Bank	Share swap value estimated at US\$0.36 Mn

Source: Deloitte



# Increase in Cross Border M&A in Asia

Year	Investor	Target	Details	Value
2004	OCBC (Singapore)	Bank NISP, a non-IBRA bank (Indonesia)	OCBC bought a 22.5% stake in Bank NISP	US\$70.6 Mn
2004	HSBC	Bank of Communications (China)	HSBC acquired a 19.9% stake in the Bank of Communication	US\$70.6 Mn
2004	Wing Hang Bank (Hong Kong)	First Sino Bank (Shanghai)	Wing Hang acquired 5% stake in First Sino Bank, a Shanghai-based lender owned by Chinese and Taiwanese investors	NA
2004	Commonwealth Bank (Australia)	Jinan City Commercial Bank	Preliminary agreement for Commonwealth to take an 11% stake in the bank	Est. US\$14.5 Mn – US\$29 Mn
2004	Standard Chartered PLC (UK)	PT Bank Permata (Indonesia)	The consortium acquired 51% stake. Govt will retain 46% while the public will own the remaining 3 %	US\$300 Mn
2004	Newbridge Capital	Shenzhen Development Bank (China)	Newbridge acquired a 17.9% stake in the bank	US\$152 Mn

Source: Deloitte

# Outlook - More banking M&As will be in China

	Investor	Target	Value	Stake
2005	Goldman Sachs (US) and consortium	Industrial and Commercial Bank of China	US\$3.8 Bn	10%
2005	Standard Chartered (UK)	Korea First Bank	US\$3.2 Bn	100%
2005	Bank of America	China Construction Bank	US\$3.0 Bn	9%
2005	Royal Bank of Scotland (UK)	Bank of China	US\$1.6 Bn	5.16%
2005	Sumitomo Trust & Banking (Japan)	First Credit Corp (Japan)	US\$1.1 Bn	100%

“M&A in China’s financial services sector (including insurance) skyrocketed to more than US\$15 Bn in 2005, up from US\$2.4 Bn in 2004”

“Almost 52% of senior executives thought they would conduct M&A in China in the coming 5 years”

Source: PricewaterhouseCooper

# Outlook - Catalysts for Further Regional Financial Integration

- Closer and more comprehensive regional cooperation
- Strengthening of the financial system through adoption of international standards and best practices
- Minimizing risk through risk based supervision
- Harmonization of rules and practices to improve efficiency
- Creation of a single currency (i.e. the Asian Currency Unit) to enhance exchange rate stability

# Opportunities and Challenges for Banks in Asia

- Opportunities

- Further deregulation in Asian's banking and financial industry
- Larger and higher value added customer base due to the better economic growth and higher income level in the region
- More IPOs and cross listing due to closer integration of businesses and markets

- Challenges

- Protectionism may increase with regulations such as foreign ownership ceilings, branch capitalisation requirement, foreign exchange, capital control etc
- A relatively weak bond market, resulting in heavy reliance on banks for financing needs
- High political risk