**China banks prepare to raise capital**

*Jamil Anderlini*

*China's banks are preparing to raise tens of billions of dollars in additional capital to meet regulatory requirements following an unprecedented expansion of new loans this year, according to people familiar with the matter.*

China's 11 largest listed banks will have to raise at least Rmb300bn ($43bn) to meet more stringent capital adequacy requirements and maintain loan growth and business expansion, according to estimates from BNP Paribas.

China's banking regulator has warned it would refuse approvals for expansion and limit banking operations if lenders did not meet new capital adequacy requirements, a move that has prompted the country's largest state-owned banks to prepare capital-raising plans for next year and beyond.

Expectations of giant cash calls from the listed Chinese banks spooked investors on Tuesday, helping to send the benchmark Shanghai Composite Index down 3.45 per cent on a day of record turnover on the Shanghai and Shenzhen markets.

China's banking regulator "is definitely aware of potential asset quality issues and is pushing for higher capital adequacy requirements to offset deterioration in asset quality", according to Dorris Chen, an analyst with BNP Paribas.

Following government orders to prop up the domestic economy in the face of the global crisis, Chinese banks extended a record Rmb8,920bn in loans in the first 10 months of the year, up by Rmb5,260bn from the same period a year earlier.

This unprecedented loan expansion resulted in a record fall in their core capital adequacy rates from just over 10 per cent at the end of last year to 8.89 per cent by the end of September, a drop that worries regulators.

Bank of China has been the most aggressive lender this year, adding more than Rmb1,000bn in new loans in the first half of the year alone.

The bank told the Financial Times on Tuesday that it was "actively considering various options to replenish capital to achieve its sustainable development".

BNP Paribas estimates BoC would have to raise Rmb137bn to maintain its capital adequacy rates into next year and beyond.

Credit Suisse estimates that Bank of Communications, the country's fifth-largest lender by assets, in which HSBC holds close to 20 per cent, will have to raise about Rmb27bn over the next year.

China Minsheng Bank raised $3.8bn in an initial public offering in Hong Kong last week while Industrial Bank and China Merchants Bank plan to raise Rmb18bn and Rmb22bn respectively through rights issues to boost their capital.

The banking regulator said the vast majority of Chinese commercial banks met current capital adequacy requirements but lenders were expected to conduct reviews of their asset quality and ensure they continued to meet regulatory requirements.

In the aftermath of last year's financial crisis, the banking regulator has introduced so-called dynamic provisioning and capital adequacy requirements that are tailored for each bank and take into account the quality of a bank's assets and capital as well as the quantity.

The banks will be able to raise money through a variety of methods, including capital injections from existing shareholders such as state holding companies, selling new shares to the public or by issuing bonds. The capital-raising is unlikely to dilute the state's ownership in the banks.

On Monday, the regulator ordered banks to maintain a "stable and sustained" rate of new lending, without any major jumps or falls, until the end of the year.

**Financial Times, London, Nov. 24th 2009, Companies, online.**