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# Scotiabank buys into Guangzhou Bank for C\$719 million

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By Kelvin Soh and Andrea Hopkins  
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(Reuters) - Bank of Nova Scotia ([BNS.TO](#)) said on Friday it will buy a near 20 percent stake in Bank of Guangzhou for about C\$719 million (\$722 million) to expand its footprint in [China](#), becoming the latest foreign bank to invest in a Chinese bank before the bank does an IPO.

Scotiabank, Canada's third-largest lender, said it expects the deal to add to [earnings](#) next year and to close by December this year. Guangzhou is China's third largest city, about 120 kilometers (75 miles) northwest of Hong Kong.

"This is a very, very prosperous region in China. There are a lot of Fortune 500 companies that we would bank through our U.S. corporate banking operations, and there are a lot of Canadian companies in the province and city," Scotiabank's head of international banking, Brian Porter, said in an interview.

"We have a tradition of following our customers, and our customers are in the region, so we view this as very complementary and a nice fit for us."

Bank of Guangzhou is not publicly listed, and is primarily government owned. It has been looking to list in Shanghai and last year invited bids from foreign investors for a 20 percent stake.

The deal marks Scotiabank's second big acquisition in China, where

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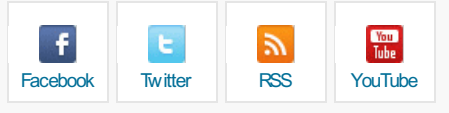
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foreign banks are limited to 20-percent stakes in no more than two Chinese banks. Scotiabank also holds a 14.8 percent interest in Bank of Xi'an, and will increase that stake to 18.1 percent pending regulatory approval.

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Scotiabank is Canada's most international bank and analysts were mostly positive about its move to increase its exposure to China.

Desjardins analyst Michael Goldberg said Scotiabank bought the stake to get more than the "few pennies" that the deal will add to its earnings in the near term.

"Scotia's investment in BGZ, along with its similar but unrelated investment in Bank of Xi'an and its investment in Thanachart Bank in [Thailand](#), all represent strategic investments in Asian markets, where foreign ownership restrictions may ease in the future, and where, in the meantime, Scotia can get paid for the expertise it brings to these banks," Goldberg said in a research note.

Porter said the bank still has room to expand in China.

"We think there are lots of things we can do in terms of bringing the product offering the bank has, whether it is ScotiaMocatta, our gold business, our trading businesses, as well as our trade [finance](#) and bread-and-butter banking."

Many other foreign banks also own the maximum permissible 20 percent stake in second-tier Chinese lenders. For example, Citigroup ([C.N](#)) owns about 20 percent of Guangdong Development Bank, while ANZ ([ANZ.AX](#)) owns 20 percent of Bank of Tianjin and of Shanghai Rural Commercial Bank.

The initial wave of foreign banks investing in Chinese lenders began with global names such as Bank of America ([BAC.N](#)) and Goldman Sachs ([GS.N](#)) buying stakes in top players such as ICBC ([1398.HK](#)) and China Construction Bank ([0939.HK](#)) before those banks did IPOs.

Since then, many of the foreign banks have begun unwinding their investments, typically for a hefty profit. For example, BofA made an after-tax gain of about \$3.3 billion when it sold half of its stake in China Construction Bank in August this year.

"The small- to medium-sized Chinese banks are probably looking to learn from the business models of these foreign banks," said Liu Qiao, a professor at Peking University's Guanghua School of Management.

"The big foreign banks such as HSBC have already bought stakes in the big Chinese banks, so we may see more happening in the second-tier lenders now."

Scotiabank, which has operations across Latin America and the Caribbean as well as Asia, said the Guangzhou buy is a long-term play. The bank typically takes minority stakes in foreign banks in a bid to limit risk, while learning the geography and regulatory environment.

"We are here for the duration, that is how we think of these things. We believe in the long term potential of China obviously -- with its burgeoning middle class (and) low banking penetration," Porter said.

Scotiabank's move into China is also the latest foray by a Canadian bank into the world's No. 2 economy. Rival Bank of Montreal ([BMO.TO](#)) became the first Canadian bank to incorporate in China in November 2010, and has said it wants its Chinese operation to focus on wealth management and trade financing.

The overall market share of the 127 foreign banks operating in China rose to 1.83 percent in 2010 from 1.7 percent in 2009, accounting firm PwC said in a report in June, with total aggregate assets of 1.7 trillion yuan.

(\$1=\$0.995 Canadian)

(Additional reporting by Gowri Jayakumar in Bangalore; editing by Peter Galloway)

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