

# Chinese Banks Big Picture

## Mixed Feedback from Visits, but Reflected in Valuations

- **Continue to prefer big banks** – We met several banks and the regulator at Citi's China Investor Conference 2013. Feedback is a bit of a mixed bag – capital is a positive, asset quality is neutral and upcoming interbank clampdown is a near-term negative. But this is reflected in valuations (2014E 0.9x P/B, 5.1x PE), and we estimate 6-7% NPLs are priced in for major banks. The government now seems focused on the problems (local government debt, shadow banking, NPL sales to AMCs) – we view this positively. Prefer big banks as they are less leveraged and have strong liquidity and deposit profiles. Joint stock banks have somewhat overstretched balance sheets and are vulnerable to tightening of interbank/ shadow banking. Top picks CCB, ABC and CRCB. Least preferred MSB.
- **Capital relief on the radar** – The key positive takeaway was capital, that the big banks could soon receive approval for IRB (flagged by banks themselves and concurred by the regulator). Capital benefit could be c50-100bps, transitioned over three years. Additional Tier 1 capital in the form of preference shares is also on the agenda for 2014; ABC appears keen to issue.
- **Upcoming interbank clampdown** – New rules on the interbank business are being drafted (as reported by the press) and will likely impact capital and provisioning. Interbank assets for the sector have grown 140% in the three years to mid-2013 (led by joint stock banks) but have begun to decline in the last two quarters (down 15%) in response to the government's tightening on shadow banking. MSB is most exposed to interbank (27% of total assets).
- **NPL situation: under pressure but not getting worse** – Many banks believe asset quality in Zhejiang is stabilizing but overall outlook remains mixed. The NPL picture seems neither to be improving nor deteriorating significantly. Banks remain confident on LGFV loans despite market concerns. NPL formation has been highest at the joint stock banks, 60bps of loans YTD and double the rate of the big banks.
- **NPL disposal to AMCs to rise** – Banks have increased write-offs and have begun selling NPLs to the state-owned AMCs to manage down NPLs. Loan write-offs are set to more than double in 2013, but this capacity is limited since the stock of NPLs in China is relatively small and only older NPLs can be written off. Disposal to AMCs will become more popular in our view; BoCom has already sold cRmb9bn of NPLs this year and CCB is in the process of selling Rmb6bn of NPLs.

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## Capital Relief on the Radar

### Approval for IRB could be near

We met several banks and the regulator at Citi's China Investor Conference 2013 in Beijing and Macau. The outright positive takeaway from our meetings was capital. Most of the big banks flagged to us that they expect to soon receive CBRC's approval for IRB approach (internal ratings based) for the calculation of RWAs. This was concurred by our discussion with the regulator. Moving from the standardized to the IRB approach will result in capital savings, and several banks estimated this capital benefit to be around c50-100bps.

### c50-100bps capital benefit from IRB

This amount will be transitioned over three years. According to China's capital standards and consistent with the Basel rules, there are limits on how much capital is released from IRB adoption through RWA floors, which are set at 95%, 90% and 90% of the standardized approach RWA in years one, two and three respectively. This means that the maximum RWA savings will be limited to 5% in the first year.

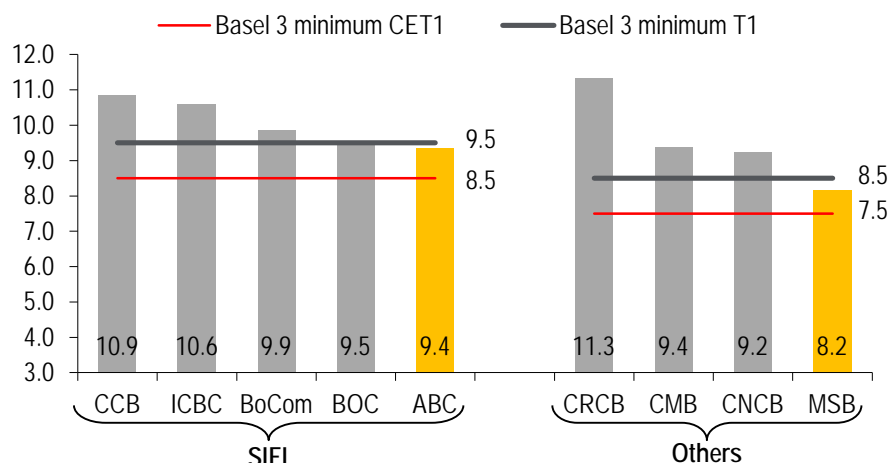
### AT1 capital is on the agenda for 2014

Additional Tier 1 capital (AT1) in the form of preference shares is also on the agenda in China for 2014. The CBRC allows 1% point of Tier 1 capital to consist of AT1 (i.e., non-core or non-equity Tier 1 capital). This is the gap between the 5% minimum core Tier 1 requirement and the 6% minimum Tier 1 requirement. Currently there is no AT1 at all in China and so the minimum Tier 1 must be satisfied with equity. Our European credit strategist recently published a primer on this new type of bank capital ([Junior Capital Grows Up – A Primer on New Bank Hybrid Capital](#)).

### ABC most keen to issue AT1

Based on 3Q13 capital ratios, ABC, BOC and MSB are the banks that we believe have capital pressure – where Tier 1 ratios are at or below the fully phased-in minimum by 2018. Not surprisingly, based on our discussions, ABC appears most keen in the sector to issue AT1 capital.

Figure 1. 3Q13 Equity Tier 1 Ratio (%)



Source: Company Reports and Citi Research Estimates

## Upcoming Clampdown on Interbank

### New interbank rules are being drafted

New rules on the interbank business are being drafted, as reported last week by the press and now commonly referred to as the "number 9 document", and we believe this will have an impact on capital and provisioning.

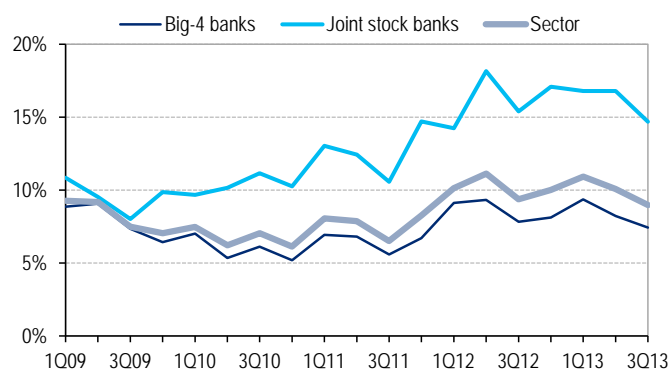
**Interbank business has surged in recent years – banks are effectively lending out interbank funds ...**

Banks' interbank business has grown rapidly in the past 2-3 years led initially by a few joint stock banks. Interbank assets for the H-share banks have grown 140% in the three years to mid-2013 (led by the joint stock banks). Through this method, banks effectively borrow funds from the interbank market and channel them into corporate loans through various structures and booking these loans as interbank assets.

**... and avoiding regulatory requirements**

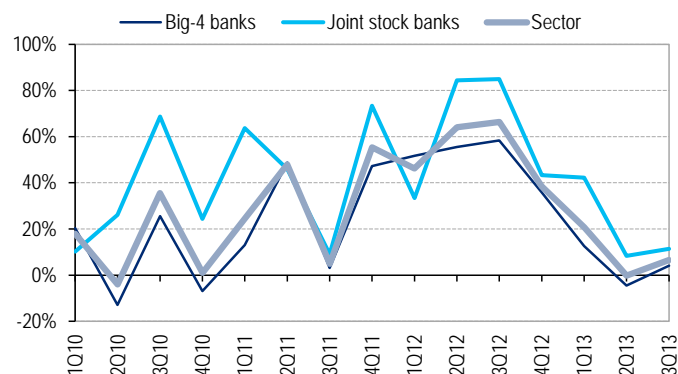
The purpose of this type of business is to avoid regulatory requirements, such as loan quotas, capital, LDR ceiling. After the CBRC's number 8 rule on wealth management products in April, there have been expectations that the interbank business will be clamped down. Although no new rule has yet been issued in this area, interbank assets for the H-share banks have begun to decline in the last two quarters (down 15%) in response to the government's tightening stance on shadow banking and in anticipation of new regulatory rules.

Figure 2. Interbank Assets as Percent of Total Assets by Type of Bank



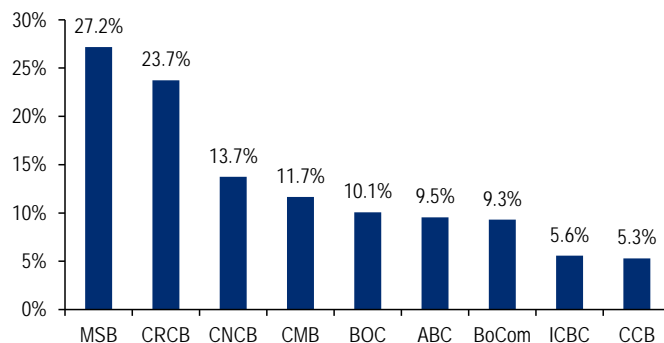
Source: Company Reports and Citi Research

Figure 4. Interbank Assets YoY Growth (%)



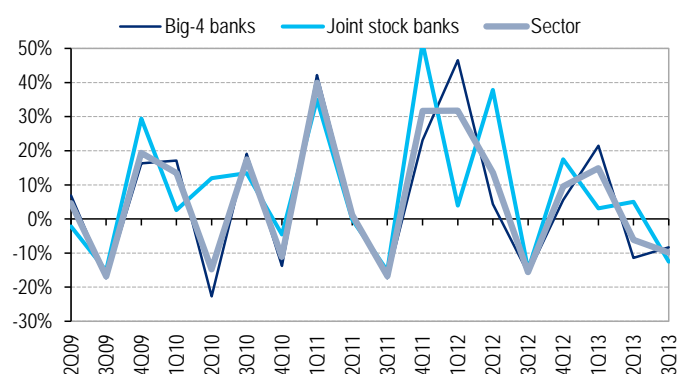
Source: Company Reports and Citi Research

Figure 3. Interbank Assets as Percent of Total Assets (3Q13) (%)



Source: Company Reports and Citi Research

Figure 5. Interbank Assets QoQ Growth (%)



Source: Company Reports and Citi Research

**MSB most exposed to interbank business**

MSB appears to be the most active among the H-share banks in the interbank business – interbank assets accounted for 27% of total assets at 3Q13. But this is not a full picture of MSB's exposure in the interbank business because the amount of interbank assets booked on the balance sheet only reflects a bank's role as the "funding bank" (the bank that borrows from the interbank market and funds the loan) and not its role as the "guarantor bank" (the bank that provides the credit guarantee to the funding bank, and hence allows the funding bank to book the transaction as an interbank asset).

The new interbank rules will mainly impact the guarantor bank in our view and most likely require adequate capital and provisions to be set aside for such credit exposures. Unfortunately there is insufficient information on each banks' activity as a guarantor bank to estimate the potential impact.

## NPL Situation: Still Under Pressure but Not Getting Worse

### NPL outlook still mixed

Many banks believe asset quality in Zhejiang is stabilizing but there is no consistent view on the overall outlook – for example, CCB believes in a 4Q improvement while CNCB believes that pressure will remain; CMB believes NPL ratios will continue to edge upwards.

### Contagion risk in 2014?

CNCB sees mutual-guarantees among manufacturers in Zhejiang province as still the main asset quality threat. They see risk of NPLs potentially spreading in 2014 to Central/Western China (currently resilient but manufacturing has in recent years somewhat migrated westwards) and into SOEs from mainly SMEs and private enterprises currently. The CBRC has already warned banks on loans to five major loss-making SOEs.

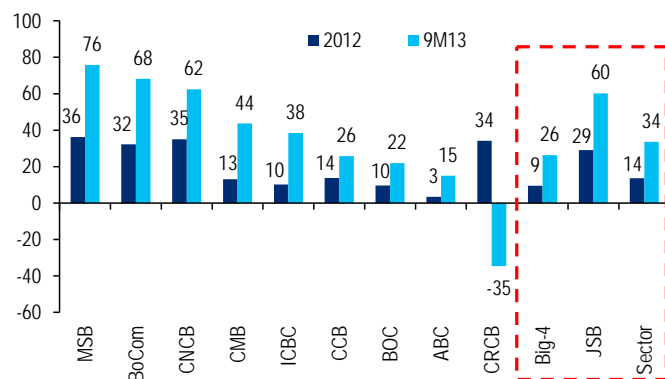
### Banks confident on LGFV loans

Overall, we think that the NPL picture versus the last six months seems neither to be improving nor deteriorating significantly. Banks continue to be confident on LGFV loans despite market concerns.

### Joint stock banks seeing most NPL deterioration

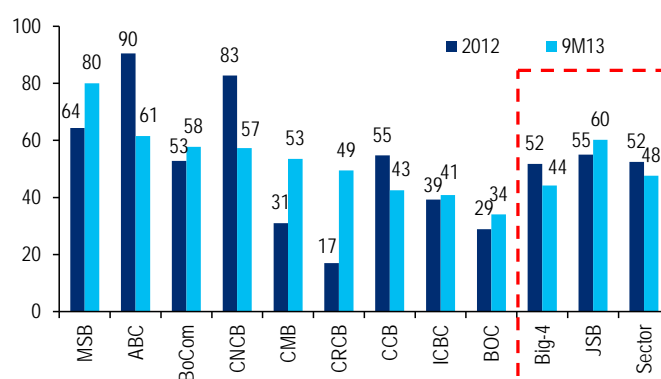
NPL formation has this year been highest at the joint stock banks, annualized 60bps of loans and double the rate of the big banks. New provisions (simply the provision charge through the P&L) are generally running at 40-60bps of loans and so in the worst cases (e.g., MSB, BoCom, CNCB), new provisions are just about covering new NPL formations 100%.

Figure 6. Annualized Gross NPL Formation (bps)



Note: [1] Gross formation rate = (Change in NPLs + Write-offs) / Avg. Loans  
[2] 9M13 values have been annualized for the purpose of this comparison  
Source: Company Reports and Citi Research

Figure 7. New Provisions as Percent of Avg Gross Loans (bps)



Note: [1] Refers to New Provisions (i.e. Provision Charge) / Avg. Gross Loans.  
[2] 9M13 values have been annualized for the purpose of this comparison  
Source: Company Reports and Citi Research

## Expanding Channels for NPL Resolution

### Loan write-offs set to more than double

Banks have increased write-offs and begun selling NPLs to the state-owned AMCs to manage down NPLs. Loan write-offs are set to more than double in 2013 (H-share banks 2012 total write-offs Rmb28bn vs. total YTD write-offs of Rmb72bn).

**Write-offs are still not easy despite some policy relaxation**

However in our meetings, banks still find it difficult to write off loans because MOF approval is required and 18 conditions set by the MOF need to be met. In 2010, the write-off of retail loans was relaxed by the MOF by allowing banks to automatically write off retail loans of a certain size and maturity. However, loans are usually written off only after being classified as non-performing for more than three years and the bank has exhausted all recovery methods.

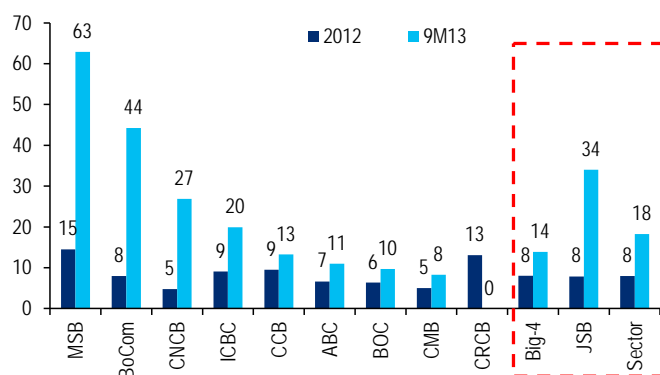
**Capacity for write-offs is limited**

We believe the capacity to write off loans is in fact limited because (1) only more seasoned NPLs can be written off and new NPLs need to first go through the ageing and recovery cycle before being written off, and (2) the current stock of NPLs in the banking system is fairly small (c1% system NPL ratio), and so there is not that many NPLs available for write-off to begin with.

**MSB and CNCB have written off all or most of their loss category loans**

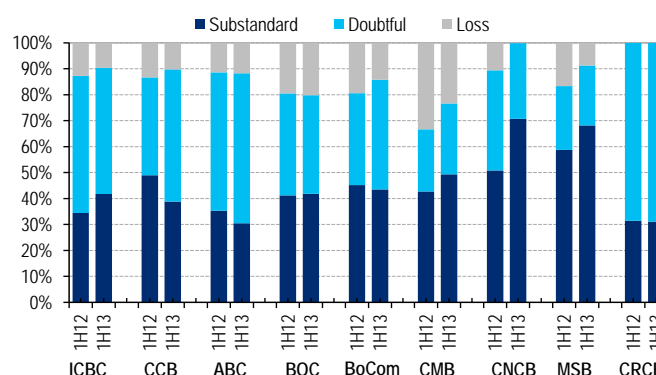
Due to the aggressive write-off policies by some banks, the amount of loss category loans (this is the loan category where write-offs occur) has in some cases fallen significantly - for example, loss category loans for MSB and CNCB were only 9% and 0% respectively of NPLs, down from 17% and 8% respectively a year ago. As a result, MSB and CNCB have far more substandard loans (the first of the three NPL categories) within their NPL mix (68% and 71% respectively), suggesting that their NPL stock is newer and younger than peers.

Figure 8. NPL Write-offs as Percent of Gross Loans (bps)



Note: 9M13 values have been annualized for the purpose of this comparison  
Source: Company Reports and Citi Research

Figure 9. Non-Performing Loan Breakdown by Category (%)



Source: Company Reports and Citi Research

**NPL disposals to the AMCs will rise**

Given the limited capacity for banks to write-off NPLs, we believe disposal of NPLs to the four state-owned asset management companies (AMC) will be a growing trend. In 2H12, the MOF issued a new rule allowing banks to pool together 10 or more NPLs, haircut loan principal and sell to the AMCs. BoCom this year has disposed of about Rmb9bn of NPLs to the AMCs and CCB is currently in the process of selling Rmb6bn of NPLs. We believe more banks will use this approach going forward to lower their NPL ratios.

Figure 10. Chinese Banks – Valuation Table

14-Nov-13	ABC	ICBC	CCB	BoC	CMB	BoCom	CNCB	MSB	CRCB	Average
Stock code	1288.CN	1398.CN	0939.CN	3988.CN	3968.CN	3328.CN	0998.CN	1988.CN	3618.CN	
Market cap (US\$ bn)	152.90	234.67	188.32	125.29	48.14	51.15	24.92	30.77	4.53	
Recommendation	1	1	1	1	2	2	2	3	1	
Price (HK\$)	3.65	5.19	5.84	3.48	14.80	5.34	4.13	8.41	3.78	
Target (HK\$)	4.20	6.60	7.80	4.20	13.88	5.60	3.90	7.00	5.00	
Expected Return	15%	27%	34%	21%	-6%	5%	-6%	-17%	32%	
<b>EPS (Rmb)</b>										
12	0.45	0.67	0.77	0.50	2.05	0.88	0.66	1.34	0.58	
13F	0.51	0.71	0.83	0.53	1.81	0.82	0.70	1.43	0.67	
14F	0.55	0.76	0.92	0.56	1.98	0.86	0.75	1.57	0.74	
<b>EPS (Rmb) growth (%)</b>										
12	19.0	14.5	14.1	12.2	25.3	7.9	(6.7)	28.6	26.2	15.13
13F	13.6	5.5	7.9	6.9	(11.8)	(7.3)	4.8	6.1	16.6	6.04
14F	8.1	7.1	9.7	4.9	9.4	5.4	7.7	10.3	10.0	7.76
<b>EPS (HK\$)</b>										
12	0.54	0.82	0.94	0.61	2.50	1.08	0.81	1.64	0.70	0.91
13F	0.62	0.86	1.02	0.65	2.21	1.00	0.85	1.74	0.82	0.94
14F	0.67	0.92	1.12	0.68	2.41	1.05	0.91	1.92	0.90	1.02
<b>EPS (HK\$) growth (%)</b>										
12	19.0	14.5	14.1	12.2	25.3	7.9	(6.7)	28.6	26.2	15.13
13F	13.6	5.5	7.9	6.9	(11.8)	(7.3)	4.8	6.1	16.6	6.04
14F	8.1	7.1	9.7	4.9	9.4	5.4	7.7	10.3	10.0	7.76
<b>PER (x)</b>										
12	6.7	6.3	6.2	5.7	5.9	5.0	5.1	5.1	5.4	6.13
13F	5.9	6.0	5.7	5.3	6.7	5.3	4.9	4.8	4.6	5.78
14F	5.5	5.6	5.2	5.1	6.1	5.1	4.5	4.4	4.2	5.37
<b>Price/PPOP (x)</b>										
12	5.4	6.2	5.8	5.1	6.9	4.6	4.0	6.7	5.5	5.76
13F	4.4	5.0	4.7	4.2	4.8	3.5	3.0	4.0	4.5	4.55
14F	4.0	4.5	4.1	3.9	4.1	3.2	2.9	3.2	3.8	4.05
<b>BVPS (HK\$)</b>										
12	2.81	3.91	4.59	3.60	11.06	6.24	5.05	7.01	4.18	4.53
13F	3.24	4.50	5.28	4.04	12.63	6.94	5.70	8.56	4.82	5.19
14F	3.70	5.13	6.04	4.49	14.38	7.67	6.40	10.13	5.50	5.90
<b>Price/Book (x)</b>										
12	1.3	1.3	1.3	1.0	1.3	0.9	0.8	1.2	0.9	1.21
13F	1.1	1.2	1.1	0.9	1.2	0.8	0.7	1.0	0.8	1.06
14F	1.0	1.0	1.0	0.8	1.0	0.7	0.6	0.8	0.7	0.93
<b>DPS (HK\$)</b>										
12	0.19	0.29	0.33	0.21	0.75	0.08	0.18	0.18	0.21	0.28
13F	0.22	0.31	0.36	0.23	0.66	0.30	0.21	0.35	0.25	0.31
14F	0.23	0.33	0.39	0.24	0.72	0.32	0.23	0.38	0.28	0.33
<b>Dividend yield (%)</b>										
12	5.2	5.6	5.6	6.1	5.1	1.5	4.4	2.2	5.5	5.21
13F	5.9	5.9	6.1	6.5	4.5	5.6	5.1	4.1	6.7	5.90
14F	6.4	6.3	6.7	6.9	4.9	5.9	5.5	4.6	7.4	5.17

Note: \*Exchange Rate of HK\$1.219108 for FY13E and FY14E

Source: Company Reports and Citi Research Estimates

Figure 11. Chinese Banks – Performance Ratios

14-Nov-13	ABC	ICBC	CCB	BoC	CMB	BoCom	CNCB	MSB	CRCB	Average
<b>ROA (stated)</b>										
12	1.16	1.44	1.47	1.14	1.46	1.18	1.08	1.38	1.38	1.34
13F	1.17	1.36	1.40	1.11	1.27	1.07	1.01	1.23	1.38	1.27
14F	1.13	1.32	1.36	1.05	1.21	1.00	0.95	1.24	1.31	1.22
<b>ROE (stated)</b>										
12	20.74	22.98	22.04	18.01	24.79	17.91	17.06	25.67	17.94	21.46
13F	20.44	20.87	20.60	17.04	20.01	15.17	15.77	22.32	18.80	19.79
14F	19.29	19.52	19.71	16.01	17.87	14.41	15.09	20.51	18.04	18.61
<b>Net interest margin</b>										
12	2.77	2.58	2.75	2.15	3.03	2.59	2.65	2.88	3.50	2.64
13F	2.64	2.45	2.61	2.23	2.87	2.52	2.57	2.54	3.38	2.54
14F	2.57	2.39	2.53	2.14	2.78	2.38	2.48	2.55	3.28	2.47
<b>Cost/income</b>										
12	43.0	35.9	37.0	43.7	42.8	39.2	39.0	41.7	44.5	39.66
13F	43.9	35.8	37.0	43.0	43.3	38.9	39.7	42.9	42.9	39.78
14F	44.7	36.1	37.3	43.4	43.7	39.7	40.7	43.5	42.6	40.25
<b>Non-interest inc/total operating income</b>										
12	19.6	21.1	23.6	29.8	22.3	18.6	15.9	24.8	4.1	22.58
13F	21.9	24.1	24.0	31.2	23.7	19.9	18.3	28.8	4.4	24.46
14F	22.6	25.2	24.7	32.5	24.4	20.8	18.6	30.7	4.9	25.39
<b>Loans/deposits</b>										
12	59.2	64.5	66.2	74.8	75.2	79.0	73.7	71.9	58.9	67.77
13F	59.8	65.9	66.8	75.4	75.5	79.4	71.3	72.3	59.8	68.45
14F	60.3	67.2	67.2	75.7	75.6	79.5	71.3	72.6	60.5	69.04
<b>Loan growth</b>										
12	14.1	13.0	15.6	8.2	16.0	15.1	16.0	14.9	20.2	13.64
13F	13.2	12.5	14.4	12.5	14.4	13.6	14.1	13.7	17.9	13.39
14F	13.3	12.1	13.3	11.3	13.2	13.0	12.9	13.5	18.5	12.74
<b>Equity/assets</b>										
12	5.7	6.4	6.8	6.8	5.9	7.2	6.7	5.2	7.4	6.45
13F	5.8	6.7	6.9	6.8	6.8	7.0	6.5	6.1	7.4	6.63
14F	5.9	6.9	7.0	6.8	6.8	6.9	6.4	6.4	7.3	6.73
<b>Tier 1 CAR</b>										
12	9.7	10.6	11.3	10.5	8.5	11.3	9.9	8.1	12.0	10.47
13F	9.1	10.9	11.0	9.7	9.3	10.2	9.1	7.8	11.3	10.20
14F	9.3	11.3	11.3	9.9	9.2	10.1	9.0	8.1	10.3	10.42
<b>Total CAR</b>										
12	12.6	13.7	14.3	12.6	12.1	14.2	13.4	10.8	12.9	13.37
13F	11.6	13.8	12.9	12.6	12.4	12.6	11.3	9.4	11.8	12.71
14F	11.6	14.1	13.1	12.6	12.0	12.3	11.0	9.6	10.8	12.79
<b>Bad Debt Provisions/Average Loans</b>										
12	0.90	0.41	0.57	0.29	0.31	0.53	0.85	0.71	0.32	0.54
13F	0.75	0.56	0.62	0.49	0.55	0.70	0.95	0.78	0.53	0.63
14F	0.75	0.61	0.62	0.55	0.60	0.70	0.95	0.79	0.66	0.65
<b>Impaired loans ratio</b>										
12	1.33	0.85	0.99	0.95	0.61	0.92	0.74	0.76	0.98	0.97
13F	1.27	0.90	1.06	1.01	0.81	1.08	1.02	0.83	1.05	1.03
14F	1.43	0.92	1.15	1.06	0.94	1.26	1.12	0.86	1.10	1.11
<b>Provision coverage</b>										
12	326.4	296.0	271.3	236.3	355.1	250.7	288.2	315.1	350.6	290.2
13F	348.0	297.0	268.8	252.9	291.6	224.7	218.1	309.2	322.5	288.7
14F	315.0	309.1	261.6	262.1	274.4	207.5	210.3	316.8	316.3	283.9

Source: Company Reports and Citi Research Estimates

## Macro Statistics

Figure 12. China – Economic Indicators

	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
<b>Summary Data</b>									
Nominal GDP, US\$ bn	3,495	4,544	5,071	5,932	7,319	8,239	9,260	10,237	11,331
Nominal GDP, local currency bn	26,583	31,490	34,632	40,151	47,310	51,894	57,002	62,320	68,437
GDP per capita, US\$	2,645	3,422	3,800	4,424	5,432	6,084	6,811	7,501	8,272
<b>Economic Activity</b>									
Real GDP, % yoy	14.2	9.6	9.2	10.4	9.3	7.7	7.6	7.2	7.0
Real investment growth % yoy	14.4	11.0	19.2	11.9	9.4	8.1	8.5	6.9	6.7
Real consumption growth % yoy	11.0	8.5	9.4	9.2	10.9	8.3	7.1	7.3	7.6
private consumption growth % yoy	11.1	9.2	10.3	8.5	18.2	8.5	7.3	7.5	7.8
<b>Prices, Money &amp; Credit</b>									
CPI, % avg	4.8	5.9	-0.7	3.3	5.4	2.6	2.7	3.0	3.7
Credit extension to private sector, % yoy	19.3	14.0	33.2	20.3	15.1	14.8	14.8	13.7	13.7
Policy interest rate, % eop	4.14	2.25	2.25	2.75	3.50	3.00	3.00	3.25	3.75
1 month inter-bank rate, % eop	3.61	1.23	1.79	6.17	6.00	4.90	5.30	5.55	6.05
Long term yield, % eop	4.19	1.80	3.06	3.61	3.27	3.33	3.90	4.15	4.65
lc/US\$, eop	7.30	6.82	6.83	6.59	6.29	6.23	6.08	6.06	6.00
<b>Quarterly Economic Indicators</b>									
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3F	2013 Q4F	2014 Q1F	2014 Q2F
GDP, % yoy	7.5	7.3	7.8	7.7	7.5	7.8	7.4	7.2	7.0
CPI, % yoy	2.2	1.9	2.5	2.1	2.7	3.1	3.0	2.9	2.5
Policy interest rate, % eop	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
1 month inter-bank rate, % eop	4.48	3.99	4.90	3.40	7.35	5.30	5.30	5.30	5.30
Long term yield, % eop	2.92	3.24	3.33	3.36	3.32	3.90	3.90	3.90	3.90
lc vs USD, eop	6.35	6.28	6.23	6.21	6.14	6.12	6.08	6.09	6.10

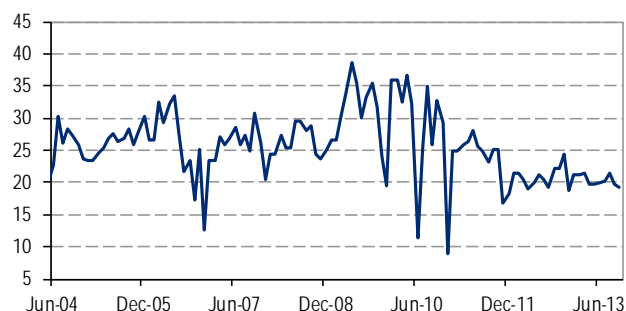
Source: CEIC Data Company Ltd, Fitch, IFS, Moody's and Citi Research Estimates

Figure 13. China - Power Consumption Growth YoY %



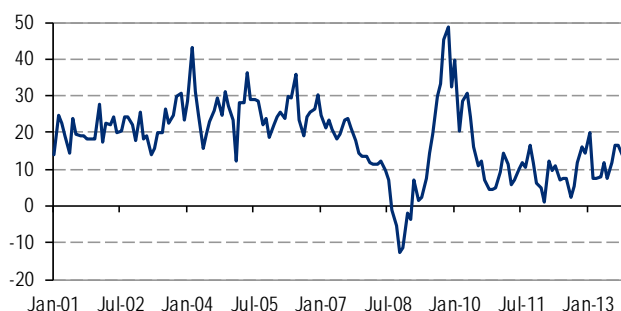
Source: CEIC Data Company Limited, Citi Research

Figure 14. China - Fixed Asset Investment Growth YoY %



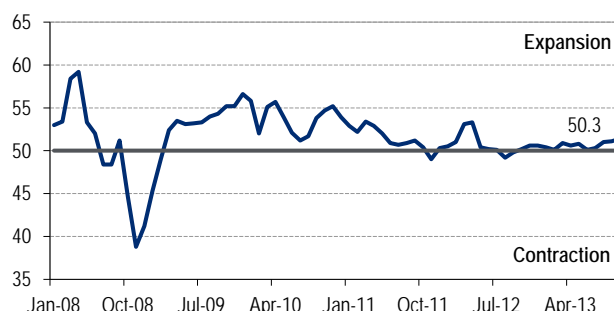
Source: CEIC Data Company Limited, Citi Research

Figure 15. China – Steel Production YoY %



Source: CEIC Data Company Limited, Citi Research

Figure 16. China - Manufacturing PMI (%)



Source: CEIC Data Company Limited, Citi Research



## Banking Sector Statistics

### Loans and Deposits

- Loan growth of 14.3% YoY, was at par with Deposit growth of 14.2% YoY in Oct. 2013.
- October RMB loan growth of Rmb506bn was at the lowest pace in 10 months, much lower than market expectations.

Figure 17. China – Monthly New Loans by Type

	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13
Total Loans (Rmb'bn)	66,068	66,687	67,287	68,548	69,281	70,488	71,328	72,002	72,877	73,461	74,132	74,991	75,500
YoY Growth Rate (%)	16.2	16.1	15.6	16.4	16.1	16.0	16.1	15.6	15.1	15.0	14.6	14.6	14.3
MoM Growth Rate (%)	0.9	0.9	0.9	1.9	1.1	1.7	1.2	0.9	1.2	0.8	0.9	1.2	0.7
YTD Growth Rate (%)	13.5	14.6	15.6	1.9	3.0	4.8	6.0	7.0	8.3	9.2	10.2	11.4	12.2
MoM growth (Rmb'bn)	609	619	601	1,260	734	1,207	840	673	875	584	671	859	509
YTD growth (Rmb'bn)	7,878	8,498	9,098	1,260	1,994	3,201	4,041	4,714	5,590	6,174	6,845	7,703	8,213
<b>RMB Loans (MoM Growth)</b>													
Growth Amount (Rmb'bn)	505.4	522.0	454.6	1,072.1	620.0	1,062.5	792.3	669.4	862.8	699.7	712.8	787.0	506.1
Consumer loans	145.6	240.8	203.6	471.4	121.3	382.4	371.7	382.3	340.9	306.7	338.7	354.6	204.9
Short Term consumer loan	30.5	89.3	109.4	203.1	-17.0	210.6	140.6	153.1	155.4	111.6	147.9	164.7	51.4
Medium/Long term consumer loan	115.1	151.5	97.2	268.3	138.3	171.8	231.1	229.2	191.3	195.1	190.8	184.1	153.5
Corporate loans	358.6	281.7	239.7	598.6	499.4	682.0	420.3	285.4	514.3	392.0	373.2	434.8	301.0
Short term corporate loan	246.7	304.7	448.6	293.5	181.4	290.7	53.6	37.8	383.0	228.4	146.4	335.2	214.8
Medium/long term corporate loan	168.5	-3.1	-15.4	309.8	282.6	253.0	175.0	145.5	194.1	243.1	231.2	245.7	144.0
Bills financing	-73.2	-36.9	-191.1	-33.5	18.1	118.3	168.7	84.4	-76.7	-103.8	-12.5	-152.7	-70.6
Other corporate loan	16.6	17.0	-2.4	28.8	17.3	20.0	23.0	17.7	13.9	24.3	8.1	6.6	12.8

Source: CEIC Data Company Limited, Citi Research

Figure 18. China – Monthly New Deposits by Type

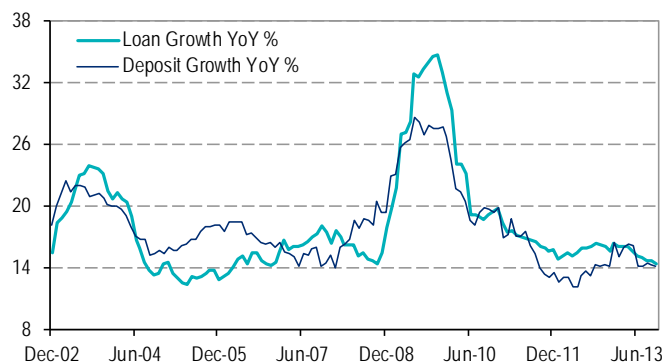
	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13
Total Deposits (Rmb'bn)	92,316	92,773	94,310	95,511	96,330	100,698	100,587	102,035	103,640	103,278	104,144	105,848	105,430
YoY Growth Rate (%)	14.2	14.2	14.1	16.5	15.0	16.0	16.3	16.2	14.1	14.2	14.5	14.3	14.2
MoM Growth Rate (%)	-0.3	0.5	1.7	1.3	0.9	4.5	-0.1	1.4	1.6	-0.3	0.8	1.6	-0.4
YTD Growth Rate (%)	11.7	12.2	14.1	1.3	2.1	6.8	6.7	8.2	9.9	9.5	10.4	12.2	11.8
MoM growth (Rmb'bn)	-273	457	1,537	1,201	819	4,368	-111	1,449	1,605	-362	866	1,704	-418
YTD growth (Rmb'bn)	9,646	10,103	11,640	1,201	2,020	6,388	6,276	7,725	9,330	8,968	9,833	11,538	11,120
<b>RMB Deposits (MoM Growth)</b>													
Growth Amount (Rmb'bn)	-280	474	1,597	1,179	772	4,224	-100	1,481	1,601	-257	808	1,627	-399
Household deposits	-664	252	1,224	777	1,770	1,175	-934	277	1,094	-394	88	1,163	na
Demand deposits	-355	259	840	432	460	637	-1,004	80	482	-408	132	538	na
Time deposits	-309	-8	385	345	1,310	538	70	196	612	15	-44	625	na
Enterprise deposits	-116	325	1,134	51	-941	2,411	315	383	16	-592	345	312	na
Demand deposits	523	205	776	-541	-801	967	-280	75	26	-208	40	-254	na
Time deposits	-639	120	358	592	-139	1,443	594	307	-9	-385	305	566	na
Fiscal deposits	481	-115	-1,173	330	24	-265	522	463	-122	655	140	-293	na
Other deposits	19	12	411	22	-82	903	-3	359	612	74	235	444	na

Source: CEIC Data Company Limited, Citi Research

## Interest Rates and Loan Pricing

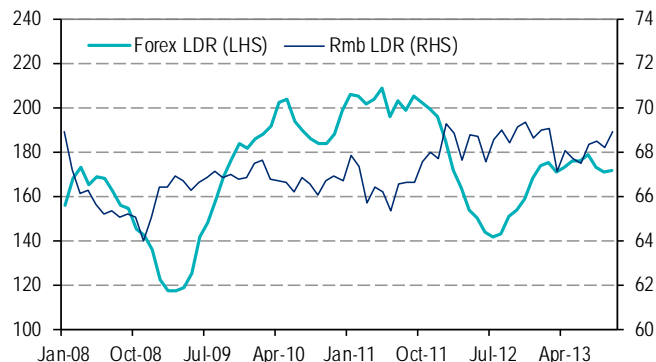
- RMB loan/deposit ratio rises to 68.9% in Oct. 2013 from 68.2% in Sept. 2013, but still lower than the high of 69.4% in Nov. 2012
- Proportion of new loans priced above the benchmark rate declined in Sept. 2013 to 66%, loans priced at benchmark increased to 23% and loans priced below benchmark increased to 11%.

Figure 19. China – Loan and Deposit Growth YoY %



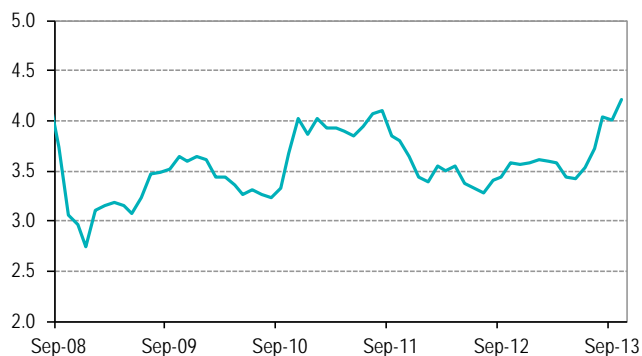
Source: CEIC Data Company Limited, Citi Research

Figure 20. China – Loan to Deposit Ratio (%)



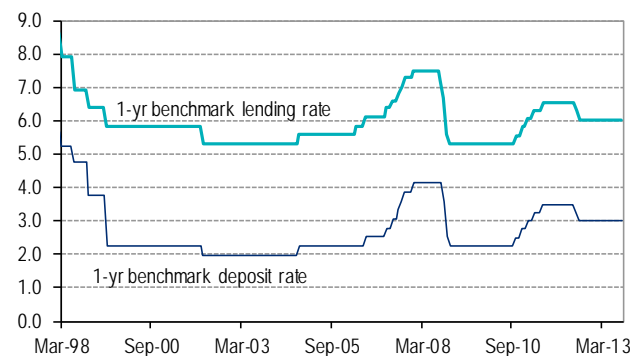
Source: CEIC Data Company Limited, Citi Research

Figure 21. China – 10 Year Government Bond Yields %



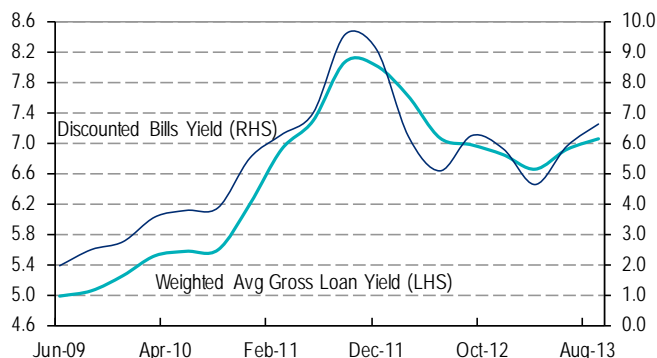
Source: CEIC Data Company Limited, Citi Research

Figure 22. China – 1 Year Benchmark Lending and Deposit Rate (%)



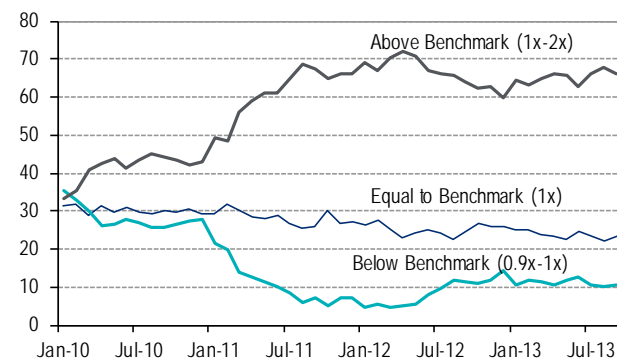
Source: Bloomberg, Citi Research

Figure 23. China – Loan, Discounted Bills Yields %



Source: CEIC Data Company Limited, Citi Research

Figure 24. China – Distribution of Loan Pricing



Source: CEIC Data Company Limited, Citi Research

## PBOC Benchmark Rates and NPLs

- System NPLs up 4.5% QoQ and 17.7% YoY in Sept. 2013.
- Big banks' NPLs relatively resilient; deterioration most rapid among joint stock banks and rural commercial banks.

Figure 25. China – Change in Benchmark Lending and Deposit Rates (%)

	24 Oct 2010	26 Dec 2010	13 Feb 2011	10 Apr 2011	10 Jul 2011	10 Jun 2012	8 Jul 2012	Change (bps)						
								24 Oct 2010	26 Dec 2010	13 Feb 2011	10 Apr 2011	10 Jul 2011	10 Jun 2012	8 Jul 2012
Lending rates (%)														
6 month	5.10	5.35	5.60	5.85	6.10	5.85	5.60	24	25	25	25	25	(25)	(25)
1 year	5.56	5.81	6.06	6.31	6.56	6.31	6.00	25	25	25	25	25	(25)	(31)
1-3 year	5.60	5.85	6.10	6.40	6.65	6.40	6.15	20	25	25	30	25	(25)	(25)
3-5 year	5.96	6.22	6.45	6.65	6.90	6.65	6.40	20	26	23	20	25	(25)	(25)
Over 5 year	6.14	6.40	6.60	6.80	7.05	6.80	6.55	20	26	20	20	25	(25)	(25)
Deposit rates (%)														
Savings	0.36	0.36	0.40	0.50	0.50	0.40	0.35	0	0	4	10	0	(10)	(5)
3 month	1.91	2.25	2.60	2.85	3.10	2.85	2.60	20	34	35	25	25	(25)	(25)
6 month	2.20	2.50	2.80	3.05	3.30	3.05	2.80	22	30	30	25	25	(25)	(25)
1 year	2.50	2.75	3.00	3.25	3.50	3.25	3.00	25	25	25	25	25	(25)	(25)
2 year	3.25	3.55	3.90	4.15	4.40	4.10	3.75	46	30	35	25	25	(30)	(35)
3 year	3.85	4.15	4.50	4.75	5.00	4.65	4.25	52	30	35	25	25	(35)	(40)
5 year	4.20	4.55	5.00	5.25	5.50	5.10	4.75	60	35	45	25	25	(40)	(35)

Source: Bloomberg, Citi Research

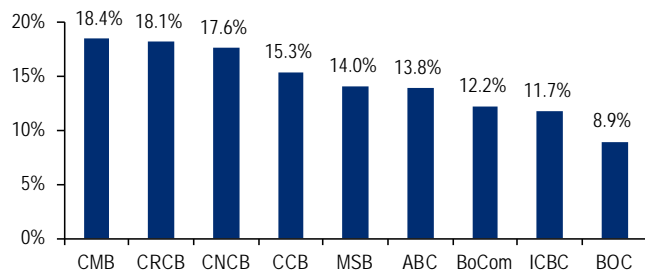
Figure 26. China – Quarterly Non-Performing Loans Breakdown

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	YoY %	QoQ %	YTD %
<b>Non-performing loans (Rmb bn)</b>												
Commercial Bank	407,800	427,900	438,200	456,400	478,800	492,900	526,500	539,500	563,600	17.7%	4.5%	14.3%
Major Commercial Bank: Large	287,900	299,600	299,400	302,000	307,000	309,500	324,100	325,400	336,500	9.6%	3.4%	8.7%
Major Commercial Bank: Share Hldg	53,100	56,300	60,800	65,700	74,300	79,700	89,600	95,600	102,600	38.1%	7.3%	28.7%
City Commercial Bank	33,000	33,900	35,900	40,300	42,400	41,900	45,400	49,600	52,600	24.1%	6.0%	25.5%
Rural Commercial Bank	29,700	34,100	37,400	42,600	48,700	56,400	61,200	62,500	65,600	34.7%	5.0%	16.3%
Foreign Bank	4,000	4,000	4,800	5,800	6,300	5,400	6,200	6,300	6,200	-1.6%	-1.6%	14.8%
<b>NPL Ratio (%)</b>												
										in bps		
Commercial Bank	0.90%	0.96%	0.94%	0.94%	0.95%	0.95%	0.96%	0.96%	0.97%	2	1	2
Major Commercial Bank: Large	1.10%	1.10%	1.04%	1.01%	1.00%	0.99%	0.98%	0.97%	0.98%	-2	1	-1
Major Commercial Bank: Share Hldg	0.60%	0.60%	0.63%	0.65%	0.70%	0.72%	0.77%	0.80%	0.83%	13	3	11
City Commercial Bank	0.80%	0.80%	0.78%	0.82%	0.85%	0.81%	0.83%	0.86%	0.87%	2	1	6
Rural Commercial Bank	1.60%	1.60%	1.52%	1.57%	1.65%	1.76%	1.73%	1.63%	1.62%	-3	-1	-14
Foreign Bank	0.40%	0.41%	0.49%	0.58%	0.62%	0.52%	0.59%	0.60%	0.57%	-5	-3	5

Source: CEIC Data Company Limited, Citi Research

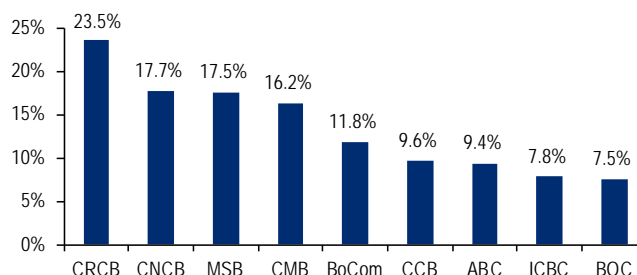
## China Banks – Quarterly Trends

Figure 27. China Banks – 3Q13 Loan Growth (YoY %)



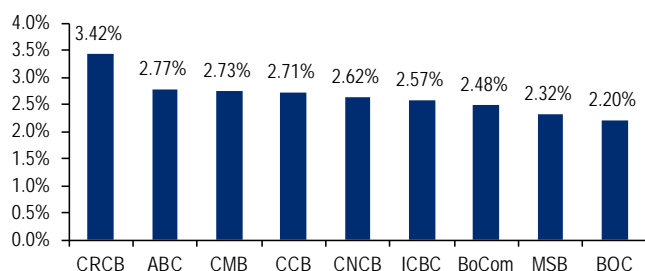
Source: Company Reports and Citi Research

Figure 28. China Banks – 3Q13 Deposit Growth (YoY %)



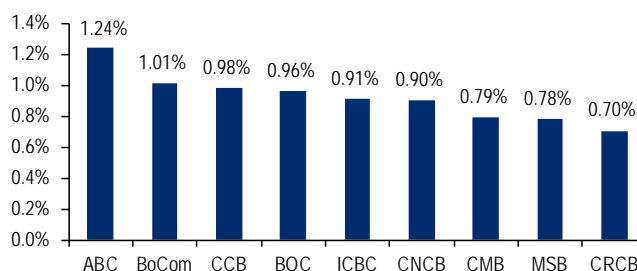
Source: Company Reports and Citi Research

Figure 29. China Banks – 3Q13 Net Interest Margin (%)



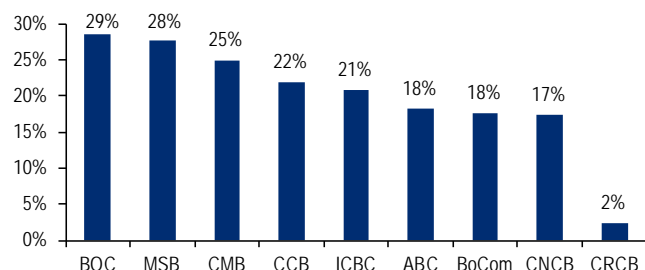
Source: Company Reports and Citi Research

Figure 30. China Banks – 3Q13 NPL Ratio (%)



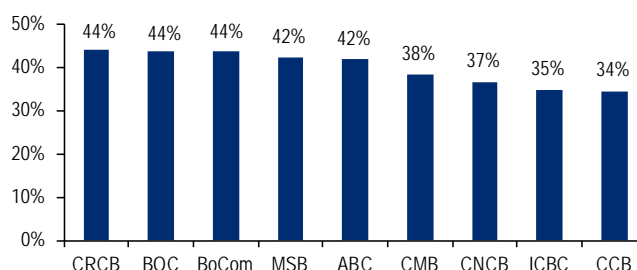
Source: Company Reports and Citi Research

Figure 31. China Banks – 3Q13 Non-interest Income / Total Income (%)



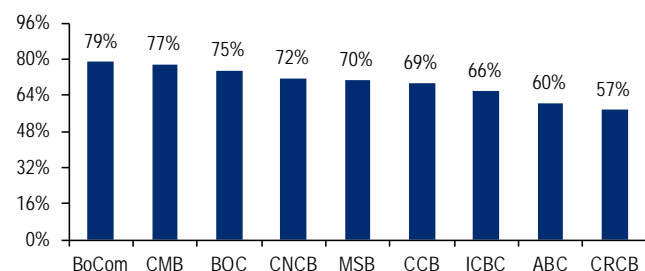
Source: Company Reports and Citi Research

Figure 32. China Banks – 3Q13 Cost-Income Ratio



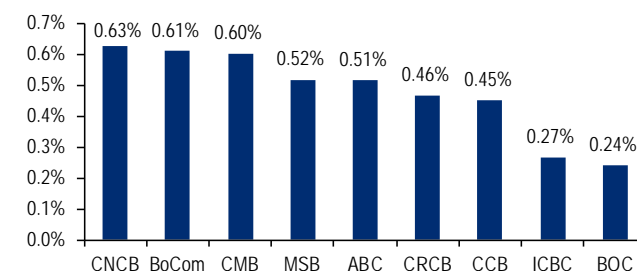
Source: Company Reports and Citi Research

Figure 33. China Banks – 3Q13 Loan-Deposit Ratio (%)



Source: Company Reports and Citi Research

Figure 34. China Banks – 3Q13 Provision charge / Average Loans (%)



Source: Company Reports and Citi Research

## Non-Bank Credit Statistics

### Total System Credit

- Total system credit grew 20.1% YoY in 3Q13; credit/GDP ratio increased to 208%.
- Trust assets growing fast at c37% YTD followed by Entrusted loans at 31.0% YTD.

Figure 35. China Total System Credit

Outstanding Balances (Rmb bn)									Growth Amount YoY (Rmb bn)								
	2007	2008	2009	2010	2011	2012	2Q13	3Q13		2008	2009	2010	2011	2012	2Q13	3Q13	
RMB & FX Loans	27,775	32,010	42,560	50,920	58,190	67,290	72,870	74,990	RMB & FX Loans	4,235	10,550	8,360	7,270	9,100	9,540	9,530	
Trust Assets - Credit related	1,692	1,946	2,238	2,765	4,390	6,664	8,524	9,099	Trust Assets - Credit related	254	292	527	1,625	2,274	3,517	3,453	
Corp Bonds	873	1,483	2,680	3,965	5,327	7,623	8,955	9,195	Corp Bonds	611	1,197	1,285	1,362	2,296	2,796	2,275	
Undiscounted BABs	1,211	1,211	1,965	4,115	4,955	5,922	6,438	6,558	Undiscounted BABs	0	754	2,150	840	967	1,005	930	
Entrusted Loans ***	1,491	1,922	2,505	3,395	4,553	5,833	6,943	7,653	Entrusted Loans ***	431	583	889	1,158	1,280	1,907	2,240	
Letter of credit **	2,779	3,217	3,798	4,750	6,222	6,877	7,296	7,514	Letter of credit **	438	581	952	1,472	655	771	838	
<b>Total System Credit</b>	<b>35,821</b>	<b>41,789</b>	<b>55,746</b>	<b>69,909</b>	<b>83,637</b>	<b>100,209</b>	<b>111,026</b>	<b>115,010</b>	<b>Total System Credit</b>	<b>5,969</b>	<b>13,957</b>	<b>14,163</b>	<b>13,728</b>	<b>16,572</b>	<b>19,536</b>	<b>19,266</b>	
Nominal GDP	26,581	31,405	34,090	39,798	47,156	51,932	53,929	55,224									
Bank credit / GDP	104%	102%	125%	128%	123%	130%	135%	136%									
Total system credit / GDP	135%	133%	164%	176%	177%	193%	206%	208%									

Mix of balance (%)									Growth Rates YoY %								
	2007	2008	2009	2010	2011	2012	2Q13	3Q13		2008	2009	2010	2011	2012	2Q13	3Q13	
RMB & FX Loans	78	77	76	73	70	67	66	65	RMB & FX Loans	15.2	33.0	19.6	14.3	15.6	15.1	14.6	
Trust Assets - Credit related	5	5	4	4	5	7	8	8	Trust Assets - Credit related	15.0	15.0	23.5	58.8	51.8	70.2	61.2	
Corp Bonds	2	4	5	6	6	8	8	8	Corp Bonds	70.0	80.7	47.9	34.4	43.1	45.4	32.9	
Undiscounted BABs	3	3	4	6	6	6	6	6	Undiscounted BABs	0.0	62.3	109.4	20.4	19.5	18.5	16.5	
Entrusted Loans ***	4	5	4	5	5	6	6	7	Entrusted Loans ***	28.9	30.3	35.5	34.1	28.1	37.9	41.4	
Letter of credit **	8	8	7	7	7	7	7	7	Letter of credit **	15.8	18.1	25.1	31.0	10.5	11.8	12.6	
<b>Total System Credit</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>Total System Credit</b>	<b>16.7</b>	<b>33.4</b>	<b>25.4</b>	<b>19.6</b>	<b>19.8</b>	<b>21.4</b>	<b>20.1</b>	

Source: PBOC, Wind, China Trust Association, Citi Research;

Note:

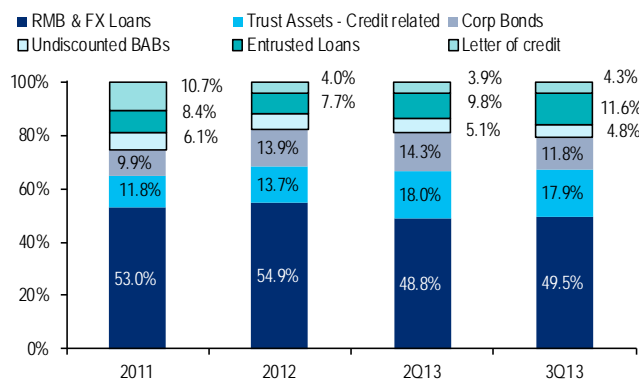
\* Trust assets for 2007-09 are based on our estimates, not officially disclosed;

\*\* Based on 14 A/H listed banks which we assumed accounting for 70% market share of total BAB market;

\*\*\* Based on 10 A/H listed banks which we assumed accounting for 50% market share of system entrusted loans;

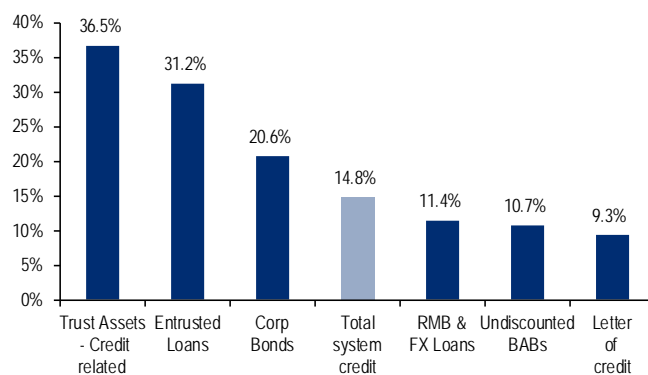
\*\*\*\* GDP is on a 12-month historical rolling basis.

Figure 36. Contribution to Growth in Total System Credit



Source: PBOC, Wind, China Trust Association, Citi Research

Figure 37. Total System Credit YTD Growth Breakdown (Sept. 2013)



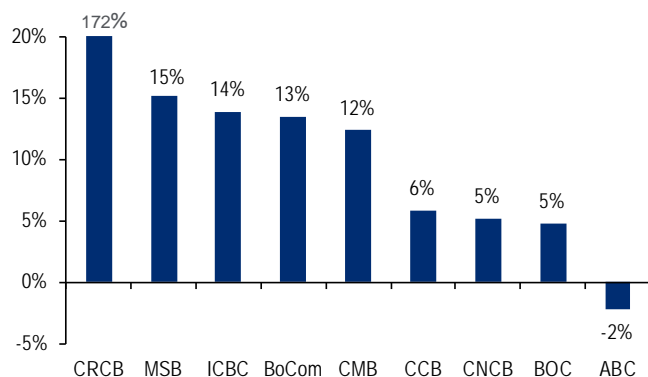
Source: PBOC, Wind, China Trust Association, Citi Research

Figure 38. China – Outstanding Bonds and Net Issuance (Rmb bn)

	Outstanding Balance (Rmb bn)												Ytd (%)	YoY growth (%)					Net Issuance (Rmb bn)				
	2004	2005	2006	2007	2008	2009	2010	2011	2012	1Q13	2Q13	3Q13	3Q13	2011	2012	2Q13	3Q13	2011	2012	1Q13	2Q13	3Q13	
Central Govt	3,396	3,705	3,937	5,642	5,766	6,446	7,159	7,568	7,810	7,808	8,157	8,470	8	6	3	6	11	409	242	-2	349	312	
Local Govt	0	0	0	0	0	200	400	600	650	650	664	805	24	50	8	46	24	200	50	0	14	142	
Financial Bond	1,784	2,174	2,566	3,246	4,115	5,016	5,751	7,261	9,017	9,305	9,697	10,053	11	26	24	17	17	1,510	1,756	288	392	355	
PBoC Bills	974	2,024	2,988	3,395	4,628	4,057	3,703	1,942	1,158	1,158	787	558	-52	-48	-40	-46	-61	-	-784	0	-371	-229	
																		1,761					
Corporate Bond	171	375	610	873	1,483	2,680	3,965	5,327	7,623	8,429	8,955	9,195	21	34	43	45	33	1,362	2,296	806	526	240	
STCP	0	138	258	320	420	452	668	835	1,265	1,470	1,499	1,469	16	25	51	49	26	167	430	205	29	-30	
Enterprise	126	180	240	346	500	823	1,099	1,332	1,934	2,137	2,233	2,272	17	21	45	37	31	233	602	203	96	39	
Company	0	0	0	11	40	113	165	293	548	646	713	675	23	78	87	80	49	128	255	98	67	-38	
MT Bills	0	0	0	0	167	865	1,361	2,066	2,908	3,197	3,526	3,727	28	52	41	53	41	705	842	289	329	201	
ABS	0	13	31	38	50	23	11	7	32	33	36	33	2	-36	357	420	49	-4	25	1	3	-4	
Convertible	33	25	12	10	14	12	79	116	126	145	142	137	8	47	9	16	12	37	10	19	-3	-6	
Others	12	19	70	148	292	392	582	678	810	801	805	883	9	16	19	17	15	96	132	-9	4	78	
Total	6,325	8,278	10,101	13,156	15,992	18,399	20,978	22,698	26,258	27,350	28,261	29,081	11	8	16	17	15	1,720	3,560	1,092	911	820	
Source: Wind Info, Citi Research																							

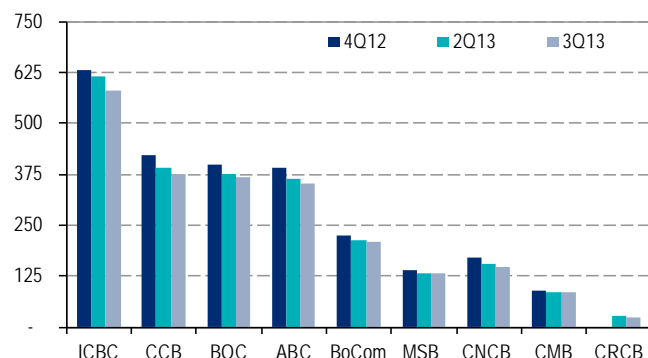
Source: Wind Info, Citi Research

Figure 39. Off-Balance Sheet Guarantee & Acceptance Growth YoY % (Jun. 2013)



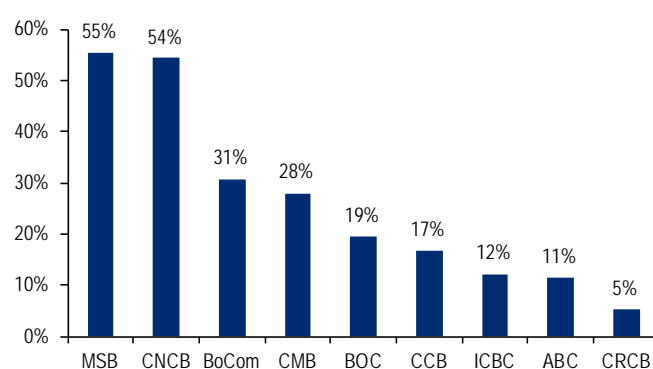
Source: Company Reports and Citi Research

Figure 41. UDIV Loans (RMB bn)



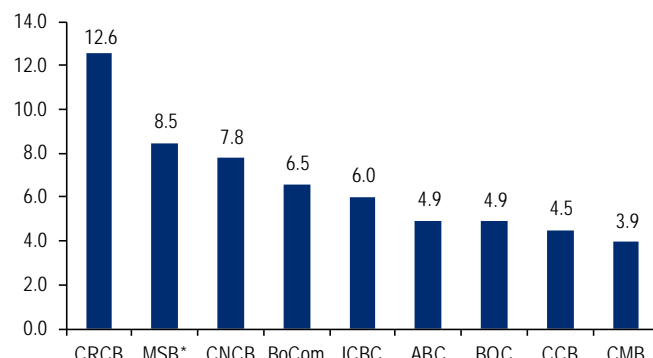
Note: \* MSB data for 3Q13 is unavailable, we have 2Q13 numbers for comparison  
Source: Company Reports and Citi Research

Figure 40. Off-Balance Sheet Guarantee & Acceptances as % of Loans (Jun. 2013)



Source: Company Reports and Citi Research

Figure 42. UDIV Loans as % of Total Loans (Sept. 2013)

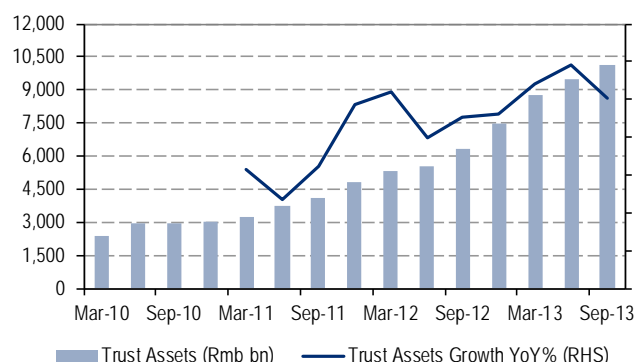


Note: \* MSB data for 3Q13 is unavailable, we have 2Q13 numbers for comparison  
Source: Company Reports and Citi Research

## Trust Industry

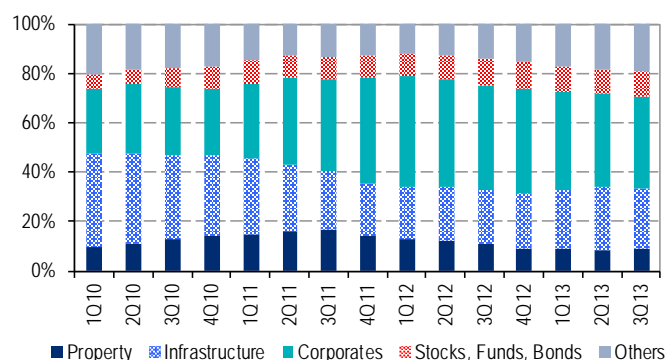
- Trust assets increased at a slower pace of 7% QoQ in 3Q13.
- Infrastructure trusts increased 79% YoY, property trusts 32% YoY

Figure 43. Trust Assets Growth YoY %



Source: CEIC Data Company Limited, Citi Research

Figure 44. Trust Assets Breakdown by Type



Source: China Trust Association, Citi Research

Figure 45. China – Trust Assets Breakdown

Rmb bn												QoQ Growth (%)					YoY Growth (%)				
	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	3Q12	4Q12	1Q13	2Q13	3Q13	3Q12	4Q12	1Q13	2Q13	3Q13
Credit Type	1,877	2,030	2,155	2,475	2,632	2,721	3,098	3,651	4,259	4,588	4,878	14	18	17	8	6	44	48	62	69	57
- Property	487	605	680	688	687	675	677	688	770	812	894	0	2	12	5	10	0	0	12	20	32
- Infrastructure	994	1,013	977	1,016	1,115	1,192	1,392	1,650	2,111	2,391	2,488	17	19	28	13	4	42	62	89	101	79
- Other Corporates	397	412	498	771	831	854	1,029	1,313	1,378	1,385	1,496	21	28	5	1	8	107	70	66	62	45
Investment Type	906	1,244	1,383	1,723	2,007	2,093	2,320	2,678	2,948	3,114	3,310	11	15	10	6	6	68	55	47	49	43
- Stocks	175	191	181	172	183	182	185	213	257	255	303	2	15	20	0	19	2	24	40	40	64
- Funds	18	16	19	23	25	36	41	60	77	59	67	13	48	27	-23	13	110	168	209	64	64
- Bonds	115	151	155	226	251	313	448	533	576	616	663	43	19	8	7	8	188	135	129	97	48
- Corporate	597	886	1,027	1,302	1,547	1,562	1,646	1,871	2,038	2,184	2,278	5	14	9	7	4	60	44	32	40	38
Others	485	469	560	614	663	724	903	1,141	1,525	1,753	1,943	25	26	34	15	11	61	86	130	142	115
Total Trust Assets	3,268	3,742	4,098	4,811	5,302	5,538	6,320	7,470	8,731	9,455	10,131	14	18	17	8	7	54	55	65	71	60

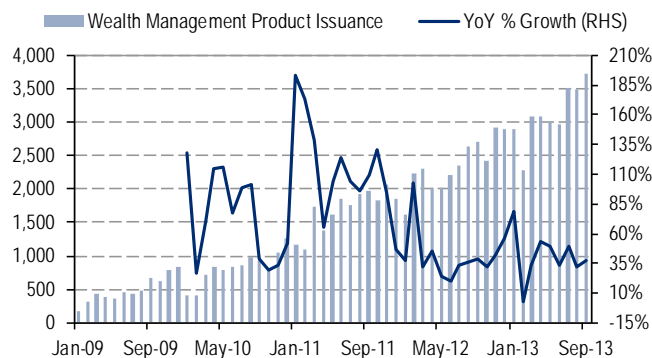
	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	3Q12	4Q12	1Q13	2Q13	3Q13	3Q12	4Q12	1Q13	2Q13	3Q13
Collective Capital	781	989	1,150	1,359	1,500	1,588	1,699	1,883	2,095	2,210	2,359	7	11	11	5	7	48	39	40	39	39
Single Capital	2,343	2,590	2,792	3,282	3,603	3,681	4,264	5,102	6,094	6,697	7,222	16	20	19	10	8	53	55	69	82	69
Fiduciary	143	163	156	171	200	269	356	486	542	548	551	32	36	12	1	1	129	185	171	104	55
Total Trust Assets	3,268	3,742	4,098	4,811	5,302	5,538	6,320	7,470	8,731	9,455	10,131	14	18	17	8	7	54	55	65	71	60

Source: China Trust Association, Citi Research

## Wealth Management Products

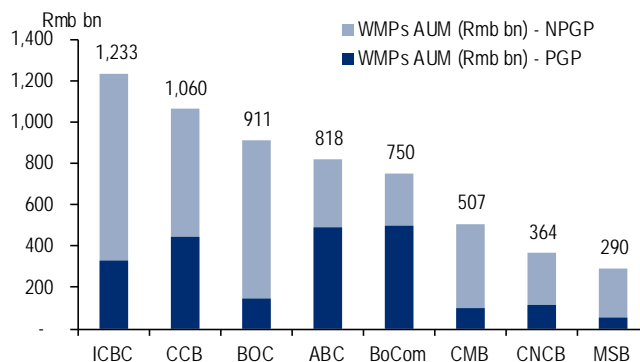
■ Total balance of WMPs among H-share banks grew 37% YoY in Sept.2013.

Figure 46. Monthly Issuance of Wealth Management Product (units)



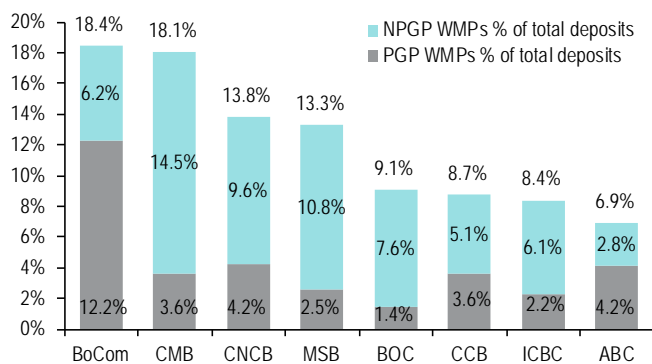
Source: CEIC Data Company Limited, Citi Research

Figure 47. Chinese Banks' WMPs AUM (3Q13)



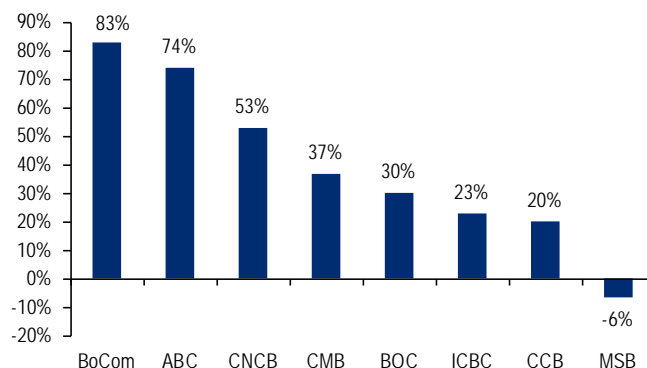
Note: \* MSB data for 3Q13 is unavailable, we have 2Q13 numbers for comparison  
Source: Company Reports and Citi Research Note: \*NPGP: Non-Principal Guaranteed Products; PGP: Principal Guaranteed Products

Figure 48. Chinese Banks WMPs' AUM as % of total deposits (3Q13)



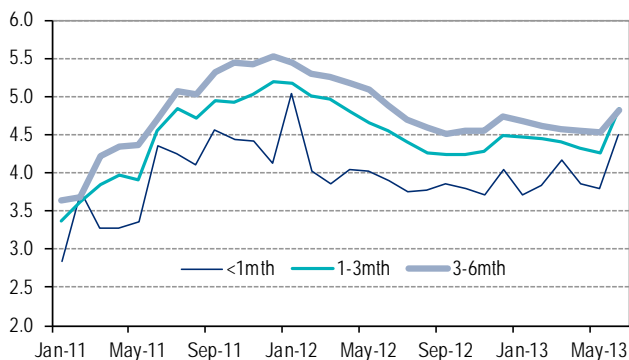
Note: \* MSB data for 3Q13 is unavailable, we have 2Q13 numbers for comparison  
Source: Company Reports and Citi Research Note: \*NPGP: Non-Principal Guaranteed Products; PGP: Principal Guaranteed Products

Figure 49. Chinese Banks WMPs' AUM YTD Growth (3Q13)



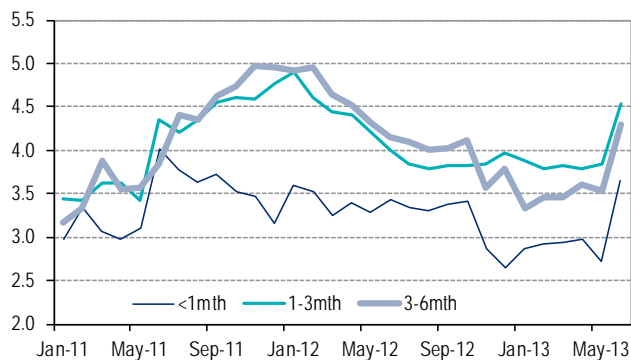
Note: \* MSB data for 3Q13 is unavailable, we have 2Q13 numbers for comparison  
Source: Citi Research

Figure 50. WMP Yields: Non-Principal Guaranteed Products



Source: Citi Research

Figure 51. WMP Yields: Principal Guaranteed Products



Source: Citi Research



## Brokerage Sector Statistics

### Market Trends

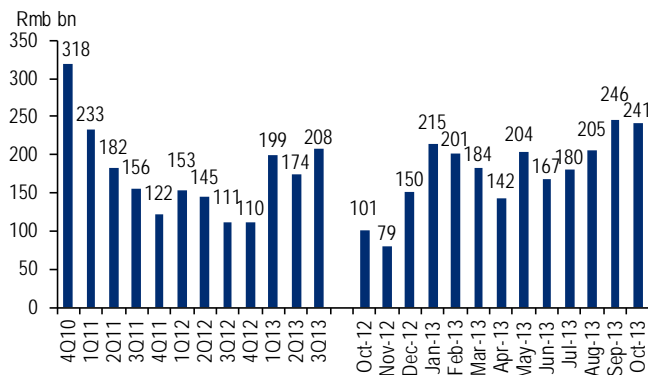
- Market turnover increased 20% QoQ in 3Q13
- Primary equity issuance remains weak, down massively vs 2011.
- Margin financing continues to grow rapidly at 29% QoQ.

Figure 52. SHCOMP Index Price Performance



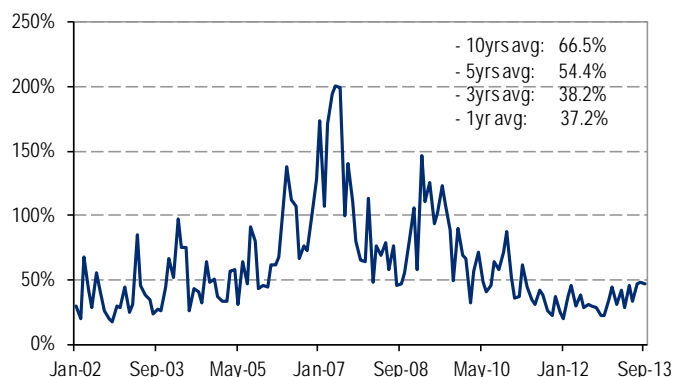
Source: CEIC Data Company Limited, Citi Research

Figure 53. China Equity Markets - Average Daily Turnover



Note: Data for Shanghai (SHCOMP Index) and Shenzhen (SZCOMP Index)  
Source: CEIC Data Company Limited, Citi Research

Figure 54. China Equity Markets - Monthly Velocity



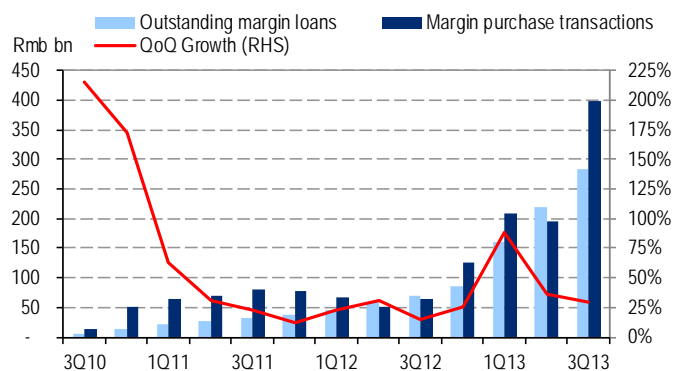
Note: Data for Shanghai (SHCOMP Index) and Shenzhen (SZCOMP Index)  
Source: Wind Info, Citi Research

Figure 55. China Equity Markets - Monthly Turnover



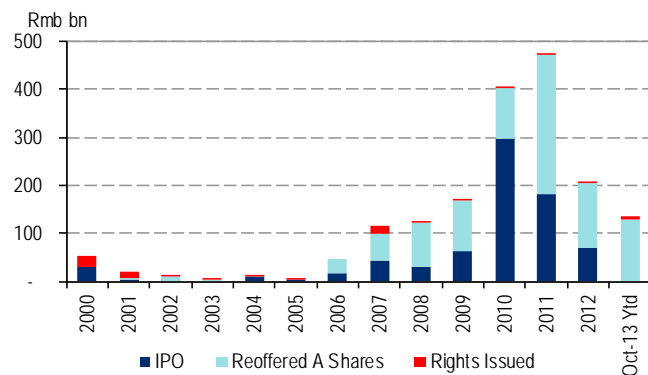
Note: Data for Shanghai (SHCOMP Index) and Shenzhen (SZCOMP Index)  
Source: Wind Info, Citi Research

Figure 56. Outstanding Margin Loan and Margin Purchase Transactions



Source: Wind Info, Citi Research, Citi Research

Figure 57. China Equity Markets - Capital Raised (Rmb bn)



Source: CEIC Data Company Limited, Citi Research

Figure 58. China – Bank Earnings Forecasts and Key Assumptions (RMB Billion)

	ICBC			CCB			BoC			ABC			BoCom		
	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E
<b>Loan Growth (%)</b>	13.0	12.5	12.1	15.6	14.4	13.3	8.2	12.5	11.3	14.1	13.2	13.3	15.1	13.6	13.0
Net Interest Margin (bps)	258	245	239	275	261	253	217	223	214	277	264	257	259	252	238
<b>Net Interest Income (RMB b)</b>	<b>417.8</b>	<b>443.1</b>	<b>478.6</b>	<b>353.2</b>	<b>385.5</b>	<b>422.7</b>	<b>257.0</b>	<b>282.1</b>	<b>301.3</b>	<b>341.9</b>	<b>367.5</b>	<b>402.8</b>	<b>120.1</b>	<b>132.7</b>	<b>142.2</b>
NII Growth (%)	15.2	6.0	8.0	16.0	9.1	9.7	12.7	9.8	6.8	11.3	7.5	9.6	16.1	10.5	7.2
<b>Non-Interest Income (RMB b)</b>	<b>111.9</b>	<b>140.5</b>	<b>160.9</b>	<b>109.3</b>	<b>121.8</b>	<b>138.3</b>	<b>109.2</b>	<b>127.9</b>	<b>144.8</b>	<b>83.1</b>	<b>102.9</b>	<b>117.5</b>	<b>27.4</b>	<b>33.0</b>	<b>37.4</b>
Non-II Growth (%)	3.8	25.5	14.6	15.3	11.4	13.6	9.0	17.1	13.2	14.5	23.8	14.2	15.2	20.2	13.3
-Fee Income (RMB b)	106.1	127.9	146.8	93.5	106.4	122.2	69.9	84.6	97.7	74.8	86.2	99.5	20.9	25.8	29.7
-Fee Growth (%)	4.4	20.6	14.8	7.5	13.7	14.8	8.1	21.1	15.4	8.9	15.2	15.4	11.9	23.5	15.0
-Other Income (RMB b)	5.8	12.6	14.1	15.8	15.5	16.2	39.3	43.3	47.1	8.2	16.6	18.0	6.5	7.2	7.7
-Other Income Growth (%)	(7.3)	115.8	12.4	101.9	(2.3)	4.6	10.4	10.1	8.9	116.5	102.0	8.1	27.1	9.8	7.0
<b>Total Income (RMB b)</b>	<b>529.7</b>	<b>583.5</b>	<b>639.5</b>	<b>462.5</b>	<b>507.3</b>	<b>561.0</b>	<b>366.2</b>	<b>410.0</b>	<b>446.1</b>	<b>425.0</b>	<b>470.3</b>	<b>520.3</b>	<b>147.6</b>	<b>165.7</b>	<b>179.6</b>
Total Income Growth (%)	12.6	10.2	9.6	15.8	9.7	10.6	11.5	12.0	8.8	11.9	10.7	10.6	15.9	12.3	8.4
Non-II % of Total Income	21.1	24.1	25.2	23.6	24.0	24.7	29.8	31.2	32.5	19.6	21.9	22.6	18.6	19.9	20.8
<b>Operating Costs (RMB b)</b>	<b>189.9</b>	<b>209.1</b>	<b>231.1</b>	<b>171.1</b>	<b>187.9</b>	<b>209.3</b>	<b>160.0</b>	<b>176.3</b>	<b>193.8</b>	<b>182.8</b>	<b>206.4</b>	<b>232.3</b>	<b>57.8</b>	<b>64.5</b>	<b>71.3</b>
Costs Growth (%)	12.0	10.1	10.5	18.4	9.8	11.4	13.6	10.2	9.9	16.2	12.9	12.6	17.1	11.5	10.6
Costs % of Total Income	35.9	35.8	36.1	37.0	37.0	37.3	43.7	43.0	43.4	43.0	43.9	44.7	39.2	38.9	39.7
<b>Pre-Provision Profit (RMB b)</b>	<b>339.8</b>	<b>374.5</b>	<b>408.4</b>	<b>291.5</b>	<b>319.4</b>	<b>351.7</b>	<b>206.2</b>	<b>233.7</b>	<b>252.4</b>	<b>242.2</b>	<b>263.9</b>	<b>288.0</b>	<b>89.8</b>	<b>101.2</b>	<b>108.3</b>
PPP Growth (%)	12.9	10.2	9.1	14.4	9.6	10.1	10.0	13.4	8.0	8.9	9.0	9.1	15.2	12.8	7.0
PPOP/Avg Loans (Bps)	409.6	400.4	389.0	416.1	396.6	383.7	312.2	320.4	309.4	401.2	384.8	370.7	325.8	321.6	303.8
<b>Provision Charges (RMB b)</b>	<b>33.7</b>	<b>52.1</b>	<b>63.7</b>	<b>40.0</b>	<b>50.1</b>	<b>56.8</b>	<b>19.4</b>	<b>35.7</b>	<b>44.6</b>	<b>54.2</b>	<b>51.4</b>	<b>58.3</b>	<b>14.5</b>	<b>22.0</b>	<b>25.0</b>
- NPL Ratio (%)	0.8	0.9	0.9	1.0	1.1	1.1	1.0	1.0	1.1	1.3	1.3	1.4	0.9	1.1	1.3
- Provision Coverage (%)	296.0	297.0	309.1	271.3	268.8	261.6	236.3	252.9	262.1	326.4	348.0	315.0	250.7	224.7	207.5
- Provisions bps of Loans	40.7	55.7	60.7	57.2	62.2	62.0	29.4	48.9	54.7	89.8	75.0	75.0	52.8	70.0	70.0
Others (RMB b)	2.7	2.9	3.2	0.0	0.0	0.0	0.6	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit (RMB b)</b>	<b>308.7</b>	<b>325.2</b>	<b>347.9</b>	<b>251.4</b>	<b>269.3</b>	<b>294.9</b>	<b>187.4</b>	<b>198.7</b>	<b>208.5</b>	<b>187.9</b>	<b>212.5</b>	<b>229.7</b>	<b>75.2</b>	<b>79.2</b>	<b>83.3</b>
Tax (RMB b)	70.0	73.3	78.1	57.8	60.7	66.0	41.9	43.2	45.1	42.8	47.5	51.4	16.7	18.2	19.1
Minorities (RMB b)	0.2	0.2	0.2	0.4	0.1	0.1	6.1	6.3	6.9	0.0	0.0	0.0	0.1	0.1	0.1
<b>Net Profit (RMB b)</b>	<b>238.5</b>	<b>251.7</b>	<b>269.6</b>	<b>193.2</b>	<b>208.5</b>	<b>228.8</b>	<b>139.4</b>	<b>149.1</b>	<b>156.4</b>	<b>145.1</b>	<b>164.9</b>	<b>178.3</b>	<b>58.4</b>	<b>60.9</b>	<b>64.1</b>
FD EPS (RMB)	0.67	0.71	0.76	0.77	0.83	0.92	0.50	0.53	0.56	0.45	0.51	0.55	0.88	0.82	0.86
FD EPS Growth (%)	14.5	5.5	7.1	14.1	7.9	9.7	12.2	6.9	4.9	19.0	13.6	8.1	7.9	(7.3)	5.4
BVPS (RMB)	3.21	3.69	4.21	3.77	4.33	4.96	2.95	3.31	3.69	2.31	2.66	3.03	5.12	5.69	6.29
BVPS Growth (%)	17.5	15.0	14.1	16.1	15.0	14.4	13.9	12.2	11.3	15.4	15.2	14.0	16.5	11.2	10.6
RoRWA (%)	2.66	2.48	2.37	2.68	2.48	2.35	2.00	1.86	1.69	2.13	2.04	1.88	1.96	1.72	1.54
<b>Tier 1 ratio (%)</b>	<b>10.6</b>	<b>10.9</b>	<b>11.3</b>	<b>11.3</b>	<b>11.0</b>	<b>11.3</b>	<b>10.5</b>	<b>9.7</b>	<b>9.9</b>	<b>9.7</b>	<b>9.1</b>	<b>9.3</b>	<b>11.3</b>	<b>10.2</b>	<b>10.1</b>
Core Tier 1 ratio (%)	10.6	10.9	11.3	11.3	11.0	11.3	10.4	9.7	9.9	9.7	9.1	9.3	11.3	10.2	10.1
CAR (%)	13.7	13.8	14.1	14.3	12.9	13.1	12.6	12.6	12.6	12.6	11.6	11.6	14.2	12.6	12.3
<b>Loan to Deposit ratio (%)</b>	<b>64.5</b>	<b>65.9</b>	<b>67.2</b>	<b>66.2</b>	<b>66.8</b>	<b>67.2</b>	<b>74.8</b>	<b>75.4</b>	<b>75.7</b>	<b>59.2</b>	<b>59.8</b>	<b>60.3</b>	<b>79.0</b>	<b>79.4</b>	<b>79.5</b>
<b>EPS SENSITIVITY STUDY</b>	<b>FY13E FY14E</b>			<b>FY13E FY14E</b>			<b>FY13E FY14E</b>			<b>FY13E FY14E</b>			<b>FY13E FY14E</b>		
EPS Base Case (RMB)	0.71 0.76			0.83 0.92			0.53 0.56			0.51 0.55			0.82 0.86		
% Impact from															
Loan Growth: +1% Chg	0.7 0.7			0.7 0.7			0.8 0.8			0.8 0.8			0.9 1.0		
NIM: +10bps Chg	5.6 5.8			5.5 5.7			6.6 7.1			6.6 6.8			6.7 7.2		
Cost Income %: +1% Chg	1.8 1.8			1.9 1.9			2.2 2.2			2.2 2.3			2.1 2.2		
Provisions / Loans: +10bps Chg	2.9 3.0			3.0 3.1			3.8 4.1			3.2 3.4			4.0 4.3		
<b>ROA/ROE DECOMP (%)</b>	<b>FY12A FY13E FY14E</b>			<b>FY12A FY13E FY14E</b>			<b>FY12A FY13E FY14E</b>			<b>FY12A FY13E FY14E</b>			<b>FY12A FY13E FY14E</b>		
Net interest income	2.53	2.40	2.34	2.69	2.59	2.51	2.10	2.11	2.03	2.74	2.61	2.55	2.43	2.34	2.21
Total operating income	3.21	3.16	3.13	3.52	3.40	3.33	2.99	3.06	3.00	3.41	3.34	3.29	2.99	2.93	2.79
Operating expenses	-1.15	-1.13	-1.13	-1.30	-1.26	-1.24	-1.31	-1.32	-1.30	-1.47	-1.47	-1.47	-1.17	-1.14	-1.11
Op profit before provisions	2.06	2.03	2.00	2.22	2.14	2.09	1.68	1.74	1.70	1.94	1.88	1.82	1.82	1.79	1.68
Provisions	-0.20	-0.28	-0.31	-0.31	-0.34	-0.34	-0.16	-0.27	-0.30	-0.44	-0.37	-0.37	-0.29	-0.39	-0.39
Non-recurring items	0.02	0.02	0.02	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax	-0.42	-0.40	-0.38	-0.44	-0.41	-0.39	-0.34	-0.32	-0.30	-0.34	-0.34	-0.32	-0.34	-0.32	-0.30
<b>Net profit (ROA)</b>	<b>1.44</b>	<b>1.36</b>	<b>1.32</b>	<b>1.47</b>	<b>1.40</b>	<b>1.36</b>	<b>1.14</b>	<b>1.11</b>	<b>1.05</b>	<b>1.16</b>	<b>1.17</b>	<b>1.13</b>	<b>1.18</b>	<b>1.07</b>	<b>1.00</b>
Leverage (x)	15.9	15.3	14.8	15.0	14.7	14.5	15.8	15.3	15.2	17.8	17.4	17.1	15.2	14.1	14.4
<b>ROE</b>	<b>22.98</b>	<b>20.87</b>	<b>19.52</b>	<b>22.04</b>	<b>20.60</b>	<b>19.71</b>	<b>18.01</b>	<b>17.04</b>	<b>16.01</b>	<b>20.74</b>	<b>20.44</b>	<b>19.29</b>	<b>17.91</b>	<b>15.17</b>	<b>14.41</b>

Source: Company Reports and Citi Research Estimates

Figure 59. China – Bank Earnings Forecasts and Key Assumptions (RMB Billion)

	CMB			CNCB			Minsheng			CRCB			Sector (9 Banks)		
	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E
Loan Growth (%)	16.0	14.4	13.2	16.0	14.1	12.9	14.9	13.7	13.5	20.2	17.9	18.5	13.3	13.3	12.6
Net Interest Margin (bps)	303	287	278	265	257	248	288	254	255	341	338	328	263	253	245
Net Interest Income (RMB b)	88.4	98.0	109.3	75.5	82.0	90.9	77.2	82.5	90.2	13.1	15.6	17.6	1,744.1	1,889.0	2,055.8
NII Growth (%)	15.8	10.9	11.5	15.9	8.7	10.8	19.0	6.9	9.4	24.6	19.3	12.9	14.5	8.3	8.8
Non-Interest Income (RMB b)	25.4	30.4	35.2	14.2	18.4	20.7	25.4	33.3	40.1	0.6	0.7	0.9	506.6	608.8	695.8
Non-II Growth (%)	25.0	19.8	15.9	18.7	29.2	12.8	46.4	30.9	20.4	(8.5)	28.1	27.1	12.7	20.2	14.3
-Fee Income (RMB b)	19.7	25.7	30.0	11.2	15.3	17.6	20.5	30.2	36.5	0.4	0.6	0.8	417.1	502.6	580.5
-Fee Growth (%)	26.3	30.1	16.9	26.9	36.1	15.0	35.9	47.3	20.6	(31.4)	27.8	35.0	9.5	20.5	15.5
-Other Income (RMB b)	5.6	4.7	5.2	3.0	3.1	3.2	4.9	3.1	3.6	0.1	0.2	0.2	89.4	106.2	115.3
-Other Income Growth (%)	20.8	(16.5)	10.4	(4.3)	3.3	2.1	116.2	(37.8)	18.2	(667.4)	29.5	(0.0)	30.1	18.7	8.6
Total Income (RMB b)	113.8	128.4	144.6	89.7	100.4	111.6	102.6	115.8	130.3	13.7	16.3	18.6	2,250.7	2,497.8	2,751.7
Total Income Growth (%)	17.8	12.9	12.6	16.4	11.9	11.2	24.8	12.8	12.6	22.8	19.7	13.5	14.1	11.0	10.2
Non-II % of Total Income	22.3	23.7	24.4	15.9	18.3	18.6	24.8	28.8	30.7	4.1	4.4	4.9	22.5	24.4	25.3
Operating Costs (RMB b)	48.7	55.6	63.2	35.0	39.9	45.4	42.7	49.6	56.7	6.1	7.0	7.9	894.1	996.3	1,111.1
Costs Growth (%)	18.2	14.2	13.7	23.2	14.0	13.9	16.6	16.1	14.3	27.2	15.5	12.7	15.7	11.4	11.5
Costs % of Total Income	42.8	43.3	43.7	39.0	39.7	40.7	41.7	42.9	43.5	44.5	42.9	42.6	39.7	39.9	40.4
Pre-Provision Profit (RMB b)	65.1	72.9	81.4	54.7	60.5	66.2	59.8	66.1	73.6	7.6	9.3	10.6	1,356.5	1,501.5	1,640.5
PPP Growth (%)	17.5	12.0	11.7	12.4	10.6	9.4	31.4	10.5	11.3	19.5	23.0	14.1	13.1	10.7	9.3
PPOP/Avg Loans (Bps)	367.1	356.9	350.3	353.5	339.9	327.5	462.2	447.0	438.0	476.8	493.1	476.0	382.4	373.5	361.3
Provision Charges (RMB b)	5.6	11.2	13.9	13.1	16.9	19.2	9.2	11.5	13.2	0.5	1.0	1.5	190.3	252.1	296.2
- NPL Ratio (%)	0.6	0.8	0.9	0.7	1.0	1.1	0.8	0.8	0.9	1.0	1.0	1.1	1.0	1.0	1.1
- Provision Coverage (%)	355.1	291.6	274.4	288.2	218.1	210.3	315.1	309.2	316.8	350.6	322.5	316.3	286.4	284.9	277.8
- Provisions bps of Loans	31.5	55.0	60.0	84.6	95.0	95.0	71.0	77.6	78.7	32.2	52.7	65.8	53.9	62.3	64.8
Others (RMB b)	0.1	0.1	0.1	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0	0.1	0.1	3.3	3.8	4.1
Pre-tax Profit (RMB b)	59.6	61.7	67.5	41.6	43.6	47.0	50.7	54.6	60.4	7.1	8.4	9.3	1,169.5	1,253.2	1,348.5
Tax (RMB b)	14.3	14.8	16.2	10.2	10.7	11.5	12.3	13.3	14.8	1.7	2.0	2.1	267.8	283.8	304.3
Minorities (RMB b)	0.0	0.0	0.0	0.4	0.4	0.4	0.7	0.9	1.0	0.0	0.0	0.0	7.9	8.0	8.9
Net Profit (RMB b)	45.3	46.9	51.3	31.0	32.5	35.0	37.6	40.4	44.6	5.4	6.5	7.1	893.8	961.4	1,035.4
FD EPS (RMB)	2.05	1.81	1.98	0.66	0.70	0.75	1.34	1.43	1.57	0.58	0.67	0.74	0.74	0.77	0.83
FD EPS Growth (%)	25.3	(11.8)	9.4	(6.7)	4.8	7.7	28.6	6.1	10.3	26.2	16.6	10.0	15.9	3.5	8.1
BVPS (RMB)	9.07	10.36	11.79	4.14	4.68	5.25	5.75	7.02	8.31	3.43	3.95	4.51	3.70	4.24	4.82
BVPS Growth (%)	21.4	14.2	13.9	13.8	13.0	12.2	18.5	22.2	18.3	14.5	15.3	14.0	16.9	14.6	13.7
RoRWA (%)	2.36	1.99	1.80	1.70	1.49	1.36	2.07	1.77	1.63	2.42	2.28	2.01	2.18	2.12	1.97
Tier 1 ratio (%)	8.5	9.3	9.2	9.9	9.1	9.0	8.1	7.8	8.1	12.0	11.3	10.3	10.4	10.2	10.4
Core Tier 1 ratio (%)	8.5	9.3	9.2	10.0	9.1	9.0	8.1	7.8	8.1	12.0	11.3	10.3	10.4	10.0	10.2
CAR (%)	12.1	12.4	12.0	13.4	11.3	11.0	10.8	9.4	9.6	12.9	11.8	10.8	13.3	12.6	12.7
Loan to Deposit ratio (%)	75.2	75.5	75.6	73.7	71.3	71.3	71.9	72.3	72.6	58.9	59.8	60.5	67.6	68.2	68.8
EPS SENSITIVITY STUDY		FY13E	FY14E		FY13E	FY14E		FY13E	FY14E		FY13E	FY14E		FY13E	FY14E
EPS Base Case (RMB)		1.81	1.98		0.70	0.75		1.43	1.57		0.67	0.74		0.77	0.83
% Impact from															
Loan Growth: +1% Chg		0.9	0.9		1.0	1.0		0.7	0.7		0.7	0.7		0.8	0.8
NIM: +10bps Chg		5.5	5.8		7.4	7.9		6.1	6.0		5.5	5.8		6.0	6.3
Cost Income %: +1% Chg		2.1	2.1		2.3	2.4		2.2	2.2		1.9	2.0		2.0	2.1
Provisions/Loan: +10bps Chg		3.3	3.4		4.1	4.4		2.8	2.8		2.3	2.4		3.2	3.4
ROA/ROE DECOMP (%)	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E	FY12A	FY13E	FY14E
Net interest income	2.85	2.67	2.59	2.64	2.56	2.47	2.84	2.51	2.52	3.36	3.34	3.25	2.55	2.45	2.38
Total operating income	3.67	3.49	3.42	3.13	3.13	3.03	3.77	3.52	3.63	3.51	3.49	3.42	3.29	3.24	3.18
Operating expenses	-1.57	-1.51	-1.50	-1.22	-1.24	-1.23	-1.57	-1.51	-1.58	-1.56	-1.50	-1.46	-1.31	-1.29	-1.29
Op profit before provisions	2.10	1.98	1.93	1.91	1.89	1.80	2.20	2.01	2.05	1.95	1.99	1.96	1.98	1.95	1.90
Provisions	-0.18	-0.31	-0.33	-0.46	-0.53	-0.52	-0.34	-0.35	-0.37	-0.13	-0.21	-0.27	-0.28	-0.33	-0.34
Non-recurring items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.00	0.00	0.00
Tax	-0.46	-0.40	-0.38	-0.36	-0.33	-0.31	-0.45	-0.41	-0.41	-0.43	-0.42	-0.40	-0.39	-0.37	-0.35
Net profit (ROA)	1.46	1.27	1.21	1.08	1.01	0.95	1.38	1.23	1.24	1.38	1.38	1.31	1.31	1.25	1.20
Leverage (x)	17.0	15.7	14.7	15.7	15.6	15.9	18.6	18.2	16.5	13.0	13.6	13.8	16.1	15.6	15.3
ROE	24.79	20.01	17.87	17.06	15.77	15.09	25.67	22.32	20.51	17.94	18.80	18.04	21.01	19.39	18.28

Source: Company Reports and Citi Research Estimates

## Appendix A-1

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