

## China Citic Bank

998 HK

# Pioneering Internet finance

- Citic Bank has launched a few Internet-based financial products in collaboration with major Internet players since late-2013
- Such innovative Internet financial products, such as POS loans, Yu'eobao, and e-commerce loan, should drive margins and deposits
- Reiterate Outperform (2) rating

Target (HKD): **4.70 → 4.70**

Upside: **10.6%**

21 Feb price (HKD): **4.25**

- 1 Buy
- 2 Outperform (unchanged)
- 3 Hold
- 4 Underperform
- 5 Sell



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### ■ What's new

Since late 2013, Citic Bank has launched a series of Internet-based financial products in cooperation with major Internet players in China. We are encouraged by the rapid development of these Internet products and believe they will help the bank increase its lending margin and complement its weak physical deposit franchise.

### ■ What's the impact

We expect innovative Internet financial products, such as POS micro loans, Yu'eobao, online payments, and e-commerce merchants' loans, to drive the bank's NIM and help attract low-cost demand deposits. Moreover, some of them will help Citic Bank earn additional fee income.

For example, POS micro loans target micro merchants who use POS terminals and who need to get cash

quickly but are short of the collateral to secure a loan. POS micro loans can be approved online 24 hours a day, 7 days a week after checking the POS transaction history of the merchant. POS micro loans are high-margin and help bring in demand deposits.

### ■ What we recommend

We reiterate our Outperform (2) rating on Citic Bank. We think the stock's current valuation is undemanding given its encouraging innovation in micro lending products. Moreover, we believe the higher-than-expected earnings in 2013 should relieve its capital pressure. (See our recent note [Valuation looks to have troughed](#) published on 11 February 2014.)

Our Gordon Growth Model implies a 2014E PBR of 0.9x, or a fair value of HKD5.95/share. Factoring in a 30% haircut for exposure to local government financing vehicles (HKD1.25/share), we derive a 6-month target price of HKD4.70, implying a target 2014E PBR of 0.7x. The key downside risk would be further provision charges to be made with an aim to lift its currently low loan loss reserve (LLR) ratio.

### ■ How we differ

Unlike the market, we do not expect a significant decline in Citic Bank's NIM for 2013 and 2014, as it does not rely

heavily on interbank funding and its new Internet-based loan products have much higher margins than traditional offline loan products.

### Forecast revisions (%)

Year to 31 Dec	13E	14E	15E
PPOP change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

### Share price performance



12-month range	3.39-4.98
Market cap (USDbn)	25.64
3m avg daily turnover (USDm)	19.29
Shares outstanding (m)	46,787
Major shareholder	CITIC Limited (61.9%)

### Financial summary (CNY)

Year to 31 Dec	13E	14E	15E
Total operating income (m)	103,941	116,113	131,644
Pre-provision operating profit(m)	63,560	68,413	75,063
Net profit (m)	38,812	38,889	39,123
Core EPS (fully-diluted)	0.830	0.831	0.836
EPS change (%)	25.1	0.2	0.6
Daiwa vs Cons. EPS (%)	7.7	1.0	(6.6)
PER (x)	4.0	4.0	4.0
Dividend yield (%)	5.7	5.7	5.8
DPS	0.191	0.191	0.192
PBR (x)	0.7	0.6	0.5
ROE (%)	18.2	16.0	14.3

Source: FactSet, Daiwa forecasts

## Financial summary

### ■ Key assumptions

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Net interest margin (%)	3.16	2.51	2.63	3.00	2.81	2.76	2.77	2.82
NPL (%)	1.4	1.0	0.7	0.6	0.7	0.9	1.2	1.4
Credit cost (bps)	81.2	25.1	36.0	42.7	83.7	64.9	80.5	101.0
Provision coverage (%)	136	149	214	272	288	253	229	227
Loan loss reserve (%)	1.92	1.42	1.44	1.62	2.12	2.29	2.68	3.23
Loan growth (%)	27.0	45.9	18.6	13.4	16.0	17.0	12.0	11.0
Deposit growth (%)	30.5	30.6	29.0	13.7	14.6	16.7	14.0	12.0
Fee to income ratio (%)	8.9	10.3	10.1	11.5	12.5	17.3	17.0	15.7
Expense to income ratio (%)	41.5	46.7	40.2	36.8	39.0	38.8	41.1	43.0

### ■ Profit and loss (CNYm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Net-interest income	37,351	35,984	48,135	65,106	75,486	82,623	92,713	107,095
Net fees & commission	3,720	4,220	5,696	8,837	11,210	17,936	19,730	20,716
Trading and other income	892	779	2,525	3,149	3,015	3,382	3,670	3,833
Net insurance income	0	0	0	0	0	0	0	0
<b>Total operating income</b>	<b>41,963</b>	<b>40,983</b>	<b>56,356</b>	<b>77,092</b>	<b>89,711</b>	<b>103,941</b>	<b>116,113</b>	<b>131,644</b>
Personnel expenses	(8,113)	(8,921)	(10,053)	(12,294)	(15,434)	(18,521)	(22,595)	(28,244)
Other expenses	(9,322)	(10,210)	(12,585)	(16,087)	(19,545)	(21,860)	(25,104)	(28,337)
<b>Total expenses</b>	<b>(17,435)</b>	<b>(19,131)</b>	<b>(22,638)</b>	<b>(28,381)</b>	<b>(34,979)</b>	<b>(40,381)</b>	<b>(47,699)</b>	<b>(56,581)</b>
<b>Pre-provision operating profit</b>	<b>24,528</b>	<b>21,852</b>	<b>33,718</b>	<b>48,711</b>	<b>54,732</b>	<b>63,560</b>	<b>68,413</b>	<b>75,063</b>
Total provision	(6,793)	(2,619)	(5,249)	(7,207)	(13,104)	(11,455)	(16,198)	(22,527)
<b>Operating profit after prov.</b>	<b>17,735</b>	<b>19,233</b>	<b>28,469</b>	<b>41,504</b>	<b>41,628</b>	<b>52,105</b>	<b>52,216</b>	<b>52,536</b>
Non-operating income	(22)	32	226	86	(19)	(65)	(71)	(79)
<b>Profit before tax</b>	<b>17,713</b>	<b>19,265</b>	<b>28,695</b>	<b>41,590</b>	<b>41,609</b>	<b>52,040</b>	<b>52,145</b>	<b>52,457</b>
Tax	(4,459)	(4,705)	(6,916)	(10,746)	(10,224)	(12,787)	(12,813)	(12,890)
Min. int./pref. div./other items	42	(240)	(270)	(25)	(353)	(441)	(442)	(445)
<b>Net profit</b>	<b>13,296</b>	<b>14,320</b>	<b>21,509</b>	<b>30,819</b>	<b>31,032</b>	<b>38,812</b>	<b>38,889</b>	<b>39,123</b>
<b>Adjusted net profit</b>	<b>13,296</b>	<b>14,320</b>	<b>21,509</b>	<b>30,819</b>	<b>31,032</b>	<b>38,812</b>	<b>38,889</b>	<b>39,123</b>
<b>EPS (CNY)</b>	<b>0.339</b>	<b>0.365</b>	<b>0.551</b>	<b>0.711</b>	<b>0.663</b>	<b>0.830</b>	<b>0.831</b>	<b>0.836</b>
<b>EPS (adjusted) (CNY)</b>	<b>0.339</b>	<b>0.365</b>	<b>0.551</b>	<b>0.711</b>	<b>0.663</b>	<b>0.830</b>	<b>0.831</b>	<b>0.836</b>
<b>EPS (adjusted fully-diluted) (CNY)</b>	<b>0.339</b>	<b>0.365</b>	<b>0.551</b>	<b>0.711</b>	<b>0.663</b>	<b>0.830</b>	<b>0.831</b>	<b>0.836</b>
<b>DPS (CNY)</b>	<b>0.085</b>	<b>0.088</b>	<b>0.000</b>	<b>0.200</b>	<b>0.150</b>	<b>0.191</b>	<b>0.191</b>	<b>0.192</b>

### ■ Change (YoY %)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Net-interest income	42.7	(3.7)	33.8	35.3	15.9	9.5	12.2	15.5
Non-interest income	158.4	8.4	64.5	45.8	18.7	49.9	9.8	4.9
Total operating income	50.1	(2.3)	37.5	36.8	16.4	15.9	11.7	13.4
Total expenses	47.8	9.7	18.3	25.4	23.2	15.4	18.1	18.6
Pre-provision operating profit	51.8	(10.9)	54.3	44.5	12.4	16.1	7.6	9.7
Total provisions	248.7	(61.4)	100.4	37.3	81.8	(12.6)	41.4	39.1
Operating profit after provisions	24.8	8.4	48.0	45.8	0.3	25.2	0.2	0.6
Profit before tax	24.6	8.8	48.9	44.9	0.0	25.1	0.2	0.6
Net profit (adjusted)	42.0	7.7	50.2	43.3	0.7	25.1	0.2	0.6
EPS (adjusted, FD)	32.0	7.7	51.1	29.0	(6.7)	25.1	0.2	0.6
Gross loans	27.0	45.9	18.6	13.4	16.0	17.0	12.0	11.0
Deposits	30.5	30.6	29.0	13.7	14.6	16.7	14.0	12.0
Total assets	30.5	34.5	17.3	32.9	7.0	13.9	9.7	8.6
Total liabilities	28.4	40.1	17.3	32.2	6.6	13.8	9.4	8.3
Shareholders' equity	42.0	(13.9)	16.9	45.2	13.7	15.0	13.1	11.7
Avg interest-earning assets	41.3	21.1	27.6	18.5	23.9	11.6	11.6	13.6
Avg risk-weighted assets	19.8	48.2	25.2	22.9	14.5	18.4	12.2	8.5

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### ■ Balance sheet (CNYm)

As at 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash & equivalent	333,662	491,014	534,543	1,066,141	885,643	956,494	1,018,192	1,084,084
Investment securities	223,759	209,442	273,483	255,859	404,743	465,246	502,466	528,195
Net loans and advances	716,386	1,050,479	1,246,026	1,410,779	1,627,576	1,901,022	2,120,751	2,340,596
Fixed assets	10,034	10,482	10,222	10,388	11,853	14,224	16,357	17,993
Goodwill	0	0	0	0	0	0	0	0
Other assets	35,729	13,614	17,040	22,714	30,124	34,527	39,585	43,218
<b>Total assets</b>	<b>1,319,570</b>	<b>1,775,031</b>	<b>2,081,314</b>	<b>2,765,881</b>	<b>2,959,939</b>	<b>3,371,514</b>	<b>3,697,351</b>	<b>4,014,086</b>
Customers deposits	1,030,403	1,344,682	1,741,545	1,968,051	2,255,141	2,631,750	3,000,194	3,360,218
Borrowing	118,085	287,330	157,242	553,792	403,146	406,667	295,432	220,250
Debentures	20,375	18,422	34,915	33,730	56,402	56,402	93,402	93,402
Other liabilities	21,333	17,589	23,074	31,527	42,164	43,292	44,454	45,651
<b>Total liabilities</b>	<b>1,190,196</b>	<b>1,668,023</b>	<b>1,956,776</b>	<b>2,587,100</b>	<b>2,756,853</b>	<b>3,138,111</b>	<b>3,433,483</b>	<b>3,719,521</b>
Share capital	39,033	39,033	39,033	46,787	46,787	46,787	46,787	46,787
Reserves & others	80,333	63,765	81,142	127,709	151,569	181,413	211,358	241,482
<b>Shareholders' equity</b>	<b>119,366</b>	<b>102,798</b>	<b>120,175</b>	<b>174,496</b>	<b>198,356</b>	<b>228,200</b>	<b>258,145</b>	<b>288,269</b>
Minority interests	10,008	4,210	4,363	4,285	4,730	5,203	5,723	6,296
<b>Total equity &amp; liabilities</b>	<b>1,319,570</b>	<b>1,775,031</b>	<b>2,081,314</b>	<b>2,765,881</b>	<b>2,959,939</b>	<b>3,371,514</b>	<b>3,697,351</b>	<b>4,014,086</b>
Avg interest-earning assets	1,183,632	1,433,377	1,829,344	2,167,788	2,685,089	2,995,548	3,342,803	3,797,142
Avg risk-weighted assets	746,547	1,106,648	1,385,262	1,702,861	1,949,578	2,307,612	2,589,219	2,808,775
<b>BVPS (CNY)</b>	<b>3.058</b>	<b>2.634</b>	<b>3.079</b>	<b>3.730</b>	<b>4.240</b>	<b>4.877</b>	<b>5.517</b>	<b>6.161</b>

### ■ Key ratios (%)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Loan/deposit	70.9	79.2	72.6	72.9	73.7	73.9	72.6	72.0
Tier-1 CAR	12.3	9.2	8.5	9.9	9.9	9.7	9.8	10.1
Total CAR	14.3	10.7	11.3	12.3	13.4	12.7	13.9	12.6
NPLs/gross loans	1.4	1.0	0.7	0.6	0.7	0.9	1.2	1.4
Total loan-loss prov./NPLs	136.1	149.4	213.5	272.3	288.2	252.7	228.7	226.9
ROAA	1.1	0.9	1.1	1.3	1.1	1.2	1.1	1.0
ROAE	13.1	12.9	19.3	20.9	16.6	18.2	16.0	14.3
Net-interest margin	3.2	2.5	2.6	3.0	2.8	2.8	2.8	2.8
Gross yield	5.3	3.9	4.0	4.9	5.2	5.1	5.1	5.0
Cost of funds	2.3	1.5	1.4	2.1	2.6	2.4	2.4	2.4
Net-interest spread	2.9	2.4	2.5	2.8	2.6	2.7	2.7	2.7
Total cost/total income	41.5	46.7	40.2	36.8	39.0	38.8	41.1	43.0
Effective tax	25.2	24.4	24.1	25.8	24.6	24.6	24.6	24.6
Dividend-payout	25.2	24.1	0.0	28.1	22.6	23.0	23.0	23.0

Source: FactSet, Daiwa forecasts

### ■ Company profile

Founded in 1987, China Citic Bank is the banking arm of CITIC group, a leading conglomerate in China. Traditionally a wholesale bank, China Citic Bank uses its strength in cross-selling and corporate relations with other entities under the parent group. It is also focused on developing its business in the medium and high-end retail segments.

## Pioneering Internet finance

*We believe Citic Bank's various pioneering Internet banking products will help raise its margins and complement its weak deposit franchise*

### POS micro loans

#### POS micro loans: the interception of bank risk management and big data technology

POS loans are unsecured loans targeting micro enterprises. The whole application, approval and loan disbursement process can be completed through online platforms.

Credit approval is granted based on the merchants' POS transaction data. The bank filters the POS terminal transaction data provided by China Unionpay, identifies worthy merchants and promotes its micro loans to qualified borrowers. The maximum POS micro loan is CNY0.5m and the maximum loan tenor is 90 days at Citic Bank. Credit lines can be used revolvingly.

Citic Bank's POS loans provide 24/7 loan approvals (ie, can be approved 24 hours a day, 7 days a week) and loan disbursement usually takes less than an hour. This therefore greatly improves the convenience for small merchants.

#### ■ Key features of POS micro loans

No.	Item	Detail
1	Timing	24/7
2	Procedure	Simpler than general loans
3	Application method	Online
4	Speed	Usually less than an hour. Can be as fast as 2 minutes.
5	Criterion	2-year POS transaction history
6	Amount	No more than CNY0.5m
7	Tenor	No more than 90 days
8	Collateral	No collateral required

Source: Company, Daiwa

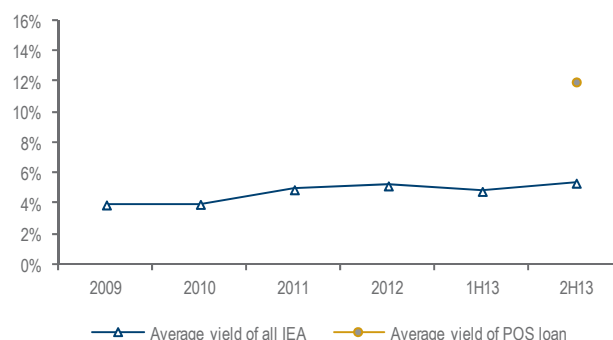
POS loans represent innovation in banks' risk management, as they feature a credit risk review prior to the loan application being processed, and precise marketing. By reviewing the credit situation of the borrower before a specific loan application is made, the timing of the loan approval is substantially shortened.

Citic Bank is a pioneer in China's financial sector in terms of its move to embrace this emerging O2O trend. Moreover, by focusing on a filtered list of applicants only, its marketing costs are minimised.

#### Various benefits for the bank

**High interest margin.** The interest rates Citic Bank charges for its POS micro loans are usually at a 60%+ premium to the prevailing benchmark rates. When deciding the lending rates, the bank takes into consideration the borrowers' overall contribution to the bank, such as settlement fees and deposit balance.

#### ■ Citic Bank: asset yield

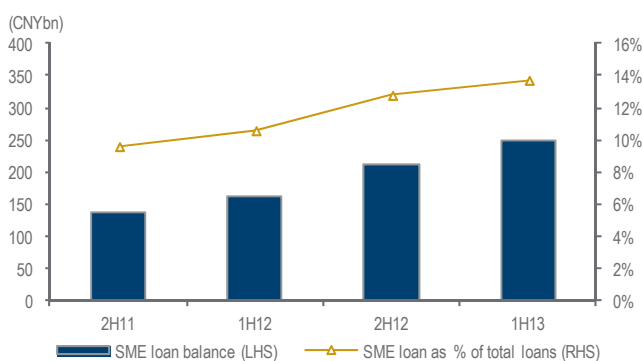


Source: Company, Daiwa

Note: IEA stands for interest-earning assets

**Rapid loan balance growth.** Since Citic Bank launched its POS loan product on 21 October 2013, the size of this type of loan had grown to CNY1.5bn by the end of 2013.

#### ■ Citic Bank: SME loans



Source: Company, Daiwa

**Cross-selling, cost efficiency, and time deposits.** For Citic Bank, POS micro loans are helping it attract incremental SME clients and cross-sell various other financial products. Further, as the loan approval process is conducted entirely through a pre-designed online platform, the operating cost is low, and hence improves the cost efficiency. And most importantly, such products help the bank attract additional time deposits.

### Big potential ahead

Currently, China Unionpay has presence in 337 cities in China, with over 2m merchants and around 3.5m POS terminals.

We understand that the average size of Citic Bank's POS micro loan is CNY0.3m, which implies that the CNY1.5bn loan balance at the end of 2013 corresponds to around 5,000 borrowers only, or 0.25% of Unionpay's POS terminal users.

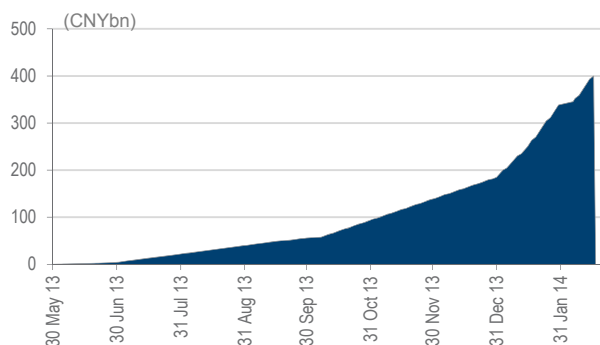
### Custodian bank for Yu'eobao

Citic Bank is the custodian bank for Yu'eobao, a money market fund distributed by Taobao. Yu'eobao's assets under management (AUM) had surged to CNY400bn as at 14 February 2014, just 8 months after its launch.

According to its fund contract, as the custodian bank, Citic Bank charges Yu'eobao custodian fees. We estimate that Citic Bank could earn CNY640m in additional fees in 2014, 6% of its 2012 fee income, assuming average AUM of CNY800bn for Yu'eobao in 2014.

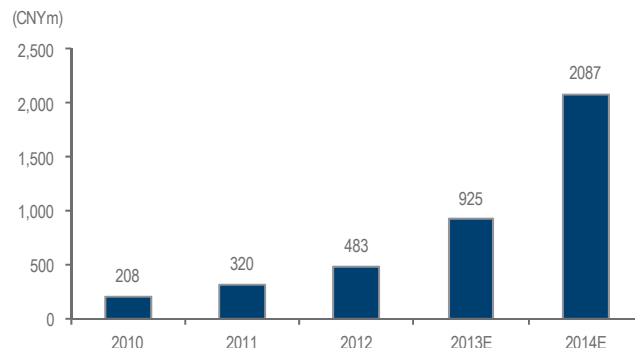
Moreover, Yu'eobao places a substantial amount of demand deposits with Citic Bank during the settlement period of the money market fund, which is indeed helpful for Citic Bank.

#### Yu'eobao: size of fund



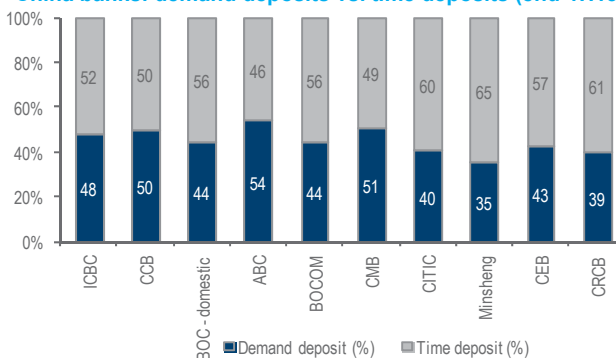
Source: WIND, Daiwa estimates

#### Citic Bank: custodian fees



Source: Company, Daiwa forecasts

#### China banks: demand deposits vs. time deposits (end-1H13)



Source: Companies

### Cooperation with Tenpay and Taobao

#### Collaboration with Tenpay in payment services

Citic Bank also has strategic tie-up with Tenpay, the leading 3rd-party payment provider in China and a subsidiary of Tencent.

Apart from traditional fund settlements, both parties are cooperating in e-commerce, online credit review, joint credit-card, wealth management business, technology R&D.

#### Potential cooperation with Taobao utilising payment data from Tenpay

By providing payment services in collaboration with Tenpay, Citic Bank accumulates a large amount of transaction and fund flow data on millions of e-commerce players. These data contain valuable and reliable credit information on these e-commerce retailers' credit positions, and provide the possibility of precise marketing for online sellers.

As far as we know, Citic Bank is piloting a tie-up with Tencent in offering micro loans to sellers on Taobao, although the details have yet to be disclosed.

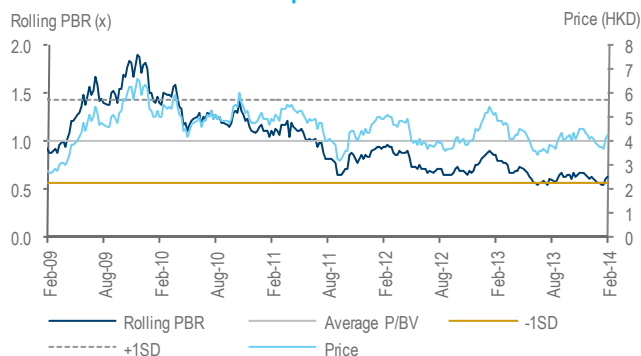
## Valuation and risks

### Valuation methodology: fair value = a 2014E PBR of 0.7x

We peg our fair value for Citic Bank at a 2014E PBR of 0.7x. Our 0.9x fundamental 2014E PBR is derived from our Gordon Growth Model (which assumes a sustainable ROE of 13.2%, a COE of 14.8%, and a terminal growth rate of 4%). We arrive at our 0.7x target PBR after factoring in a 30% haircut for Citic Bank's LGFV exposure, which we apply to all the H-share listed banks under our coverage.

Currently, Citic Bank is trading at a 0.6x 2014E PBR. We think the current valuation is undemanding given its better-than-expected 2013 earnings (see our recent note for details: [Preliminary earnings beat consensus - low provisions likely](#), published on 17 February 2014), and positive trend in developing Internet-based banking products.

#### ■ Citic Bank: PBR and share price



Source: Bloomberg, Daiwa forecasts

Note: Priced as at 21 February 2014

#### ■ China banks: valuation comparison

Stock	BBG code	Rating	Price (HKD)	Target price (HKD)	Upside (%)	Market Cap (USDbn)	PBR (x)		PER (x)		Div. Yield (%)		ROE (%)		P / PPoP (x)		ROA (%)		EPS growth (%)	
							2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
ICBC	1398 HK	Buy	4.68	7.45	59.1	201.8	1.0	0.9	5.1	4.6	7.0	7.7	21.3	20.3	3.5	3.1	1.4	1.4	7.7	9.2
CCB	939 HK	Buy	5.31	8.25	55.4	170.8	1.0	0.9	4.9	4.6	7.1	7.6	21.1	19.8	3.3	3.0	1.5	1.4	9.8	6.6
BoC	3988 HK	Buy	3.25	5.00	53.9	118.0	0.8	0.7	4.9	4.6	7.5	8.0	17.5	16.7	3.1	2.8	1.1	1.1	9.4	5.9
ABC	1288 HK	Hold	3.35	4.20	25.3	128.2	1.0	0.9	5.3	5.0	6.6	7.1	20.3	19.2	3.2	3.0	1.2	1.1	11.5	6.4
BoCom	3328 HK	Hold	5.04	5.25	4.1	48.3	0.7	0.6	4.8	4.9	6.3	6.3	15.2	13.5	3.1	2.9	1.1	1.0	(7.3)	(1.3)
CMB	3968 HK	Buy	14.12	21.00	48.7	43.3	1.0	0.9	5.4	5.3	5.6	5.6	20.2	18.2	3.5	3.3	1.3	1.3	(1.9)	0.8
<b>CITIC</b>	<b>998 HK</b>	<b>Outperform</b>	<b>4.25</b>	<b>4.70</b>	<b>10.6</b>	<b>35.2</b>	<b>0.7</b>	<b>0.6</b>	<b>4.0</b>	<b>4.0</b>	<b>5.7</b>	<b>5.7</b>	<b>18.2</b>	<b>16.0</b>	<b>2.5</b>	<b>2.3</b>	<b>1.2</b>	<b>1.1</b>	<b>25.1</b>	<b>0.2</b>
Minsheng	1988 HK	Hold	7.92	8.40	6.0	34.3	1.0	0.9	4.6	4.7	5.0	5.1	22.8	19.8	2.8	2.7	1.3	1.3	1.2	(2.7)
CEB	6818 HK	Buy	3.10	4.50	45.1	19.2	0.7	0.6	3.7	3.9	2.4	2.6	19.6	17.0	2.4	2.5	1.1	1.1	12.6	(4.7)
CRCB	3618 HK	Hold	3.33	4.30	29.1	4.0	0.6	0.6	4.3	3.9	7.0	7.7	16.4	15.6	2.9	2.5	1.2	1.2	6.1	9.7
<b>Weighted avg</b>						<b>802.5</b>	<b>0.9</b>	<b>0.8</b>	<b>4.9</b>	<b>4.7</b>	<b>6.7</b>	<b>7.1</b>	<b>19.9</b>	<b>18.7</b>	<b>3.2</b>	<b>3.0</b>	<b>1.3</b>	<b>1.3</b>	<b>8.0</b>	<b>5.7</b>

Source: Daiwa forecasts

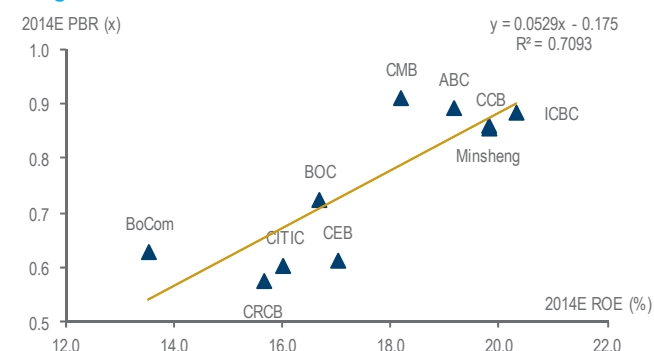
Note: prices as of close on 21 February 2013

## Relative value

To determine a relative value, we use the relationship between our 2014 ROE forecasts and PBRs for 10 H-share mainland commercial banks listed in Hong Kong: Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Agricultural Bank of China (ABC), Bank of China (BOC), Bank of Communications (BoCom), China Merchants Bank (CMB), Citic Bank, Minsheng Bank, China Everbright Bank (CEB) and Chongqing Rural Commercial Bank (CRCB). Our regression results indicate a positive correlation between ROEs and PBRs, as well as a high degree of statistical significance. The regression gives an r-squared of 0.71 for the H-share listed banks.

Our relative valuation shows that Citic Bank is undervalued.

#### ■ Regression: ROEs and PBRs of H-share banks



Source: Bloomberg, Daiwa estimates

Note: PBR and ROE are based on 2014E forecasts; pricing as at 21 February 2014

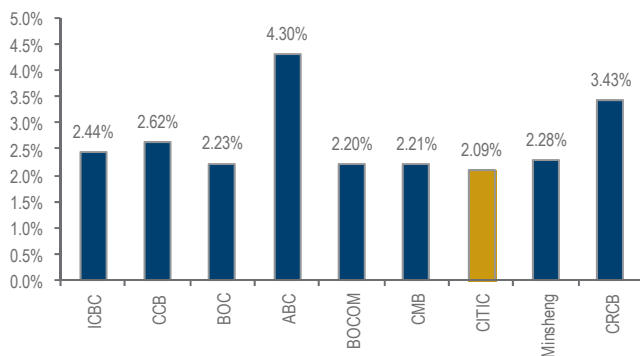
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## Risks

The key downside risk we see for Citic Bank would be further provision charges. Currently, Citic Bank has the lowest LLR ratio among all the China banks under our coverage. The China Banking Regulatory Commission requires all China banks to have no less than a 2.5% LLR ratio by end-2016. Hence, the downside risk for Citic Bank would be more provision charges made with the aim to lift its currently low LLR ratio.

### ■ China banks: LLR ratio (end-3Q13)



Source: Companies, Daiwa estimates

Note: per Daiwa calculation



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