

**Analyst: Paul Sham**
**CHINA CITIC BANK CORPORATION LIMITED (中信銀行)**

Sector	: Banking	Chairman	: Mr. Kong Dan
HKSE Code	: 0998	President	: Mr. Chen Xiaoxian
Market Price	: HK\$4.52 (21/08/2008)	Vice Chairman	: Mr. Chang Zhenming
Shares Issued	: 12,401.8m (H shares)		
Mkt. Cap.	: HK\$56,056.1m (H shares)		
52 weeks Hi/ Lo	: HK\$6.69 / HK\$3.44		
HSI	: 20,392.06 / 10,916.50 (21/08/2008)		
Main Business	: Banking and related financial services		

**SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE 2008**
**Interim Results Highlights**

	RMB million	Vs 1H2007 (%)	Vs 31/12/2007 (%)
• Net interest income	18,228	+61.9%	
• Non-interest income	2,132	+226.5%	
• Total operating income	20,360	+71.0%	
• Operating expenses	(7,735)	+50.6%	
• Operating profit before impairment losses	12,625	+86.4%	
• Impairment losses on loans and advances	(1,413)	+23.5%	
• Profit before taxation	11,203	+99.7%	
• Taxation	(2,774)	+16.2%	
• <b>Attributable profit to equity holders</b>	<b>8,249</b>	<b>+155.9%</b>	
• Total loans	633,812	+18.4%	+10.2%
• Total deposits	849,464	+27.5%	+7.9%
• Total assets	1,117,170	+28.6%	+10.5%
• Basic EPS (RMB)	0.22	+131.6%	
• Interim DPS (RMB)	0.00	NA	
<b>Selected Ratios</b>	<b>1H2008</b>	<b>1H2007</b>	<b>FY2007</b>
• Net interest margin	3.42%	2.96%	3.12%
• Cost-income ratio	38.0%	43.2%	42.2%
• Return on average assets	1.58%	0.82%	0.97%
• Return on average equity	19.35%	11.66%	14.37%
• NPL ratio	1.45%	1.84%	1.47%
• NPL coverage ratio	115.4%	85.20%	110.0%
• Loan-deposit ratio	74.6%	80.40%	73.4%
• Capital adequacy ratio	14.3%	16.0%	15.3%

- **Positive momentum maintained in 1H08 results** China CITIC Bank ("CNCB") reported a 155.9% y-o-y surge in net profit to RMB 8,249 million, attributable to strong top-line result amid solid loan growth and widened net interest margin, coupled with the stellar fee-income growth. Despite this, CNCB disappointed the market by having larger-than-expected holdings of residential mortgage-backed securities (MBS) issued by Fannie Mae and Freddie Mac.
- **30 bps widening in NIM in 1H08** The NIM widened by 30bps in 1H08 compared to the 2007 level, thanks to the repeated interest rate rises. Amid the six rate hike in benchmark deposit rate by the central bank in 2007, the average cost for customer deposits was lifted by 42bps than that in 1H07 but the lower inter-bank rates helped keep the bank's funding costs under control, leading to the overall decline in NIM.

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- **Healthy loan growth** Total loans grew 10.2% h-o-h, with corporate loans up 10.7%, retail loans up 7.8% and discounted bills up 8.1%. Within the corporate book, lending to real estate development and utility businesses grew a relatively faster rate of 21.1% and 21.7% h-o-h, respectively. With a slower 7.9% total deposits growth, loan-to-deposit ratio increased to 74.6% as of 30/06/2008 from 73.4% as of 31/12/2007.
- **Surge in non-interest income** Non-interest income jumped 226.5% y-o-y in 1H08, thanks to the stronger net fee and a reversal in trading gains. Net fee and commission income shot up 128.3% y-o-y, with significant growth recorded in bankcard fees (RMB367m, +147.97%), consulting & advising fees (RMB313m, +311.8%) and wealth management fees (RMB183m, +226.8%). On the other hand, the bank reversed a net trading loss of RMB77m in 1H07 to a trading gain of RMB483m in 1H08, mainly due to the revaluation gains of market value for bonds and derivatives.
- **cost-to-income ratio improved** Operating expenses jumped by 50.6% y-o-y in 1H08, mainly attributable to a rise in staff costs (RMB3,865m, +142%) amid rapid development of business, expansion of institutions and branch network as well as the increase in human resources investment. With growth of total operating income (+71.0% y-o-y) outpaced that of operating expenses, cost-to-income ratio lowered to 38.0% in 1H08 from 43.2% a year earlier.
- **Fannie and Freddie exposure on the high side** As at Jun-08, CNCB held RMB8,462m PRIME rated and RMB132m ALT-A rated foreign currency MBS. Of the PRIME MBS, RMB5,465m and RMB2,632m are secured by Freddie and Fannie, respectively. Besides, CNCB also has RMB1,170m and RMB1,593m bonds issued by Freddie and Fannie, respectively. Regarding the provision, CNCB made minimal RMB15m MTM loss against an aggregate RMB188m worth of Alt-A, and other MBS and CMBS.
- **Non performing loans crept up** NPLs of CNCB edged up 7.7% or RMB710m during 1H08. The bank's NPL ratio remained low at 1.45%, down from 1.48% as at Dec 07. The increase appears to be mostly due to the Sichuan earthquake as RMB412m increase in NPLs was attributable to the earthquake. Loan loss provision ratio further increased to 115%.
- **Profitability improved and strong capital sustained** ROA of CNCB was 1.58% for 1H08 whereas ROE was 19.35%. Driven by faster growth of risk-weighted assets (+15.5% in risk weighted asset vs +8.1% in total capital base), the bank's CAR dropped from 15.3% as of 31/12/2007 to 14.3% as of 30/06/2008.

### Outlook & Prospects

- **Non-interest income catching up** CNCB's heavy reliance on net interest income (mainly from corporate loans) has always been the market's concern but improvement was seen in 1H08. Despite the weak capital market, non-interest income amounted RMB2,132m in 1H08, contributing 10.4% of total income, higher than the 6% in FY07. We think it is a good sign for CNCB's to transit into a more-diversified player.
- **Superior financial strength** CITIC bank has the highest capital adequacy ratio (CAR) among all mid-sized joint stock banks. In Jun-2008, its tier-1 CAR and total CAR stood at 12.3% and 14.3%, respectively. This strong capital base provides better support for the bank in developing its assets business, and helps improve its ROE as gearing rises.

- **Changes in shareholding structure** The CITIC Group has announced its privatisation plan for CIFH. The proposed privatisation would change the shareholders' structure of CNCB even if there is no impact on the number of shares. The CITIC Group and BBVA would hold stakes in CNCB of about 72% and 10%, respectively after the privatisation of CIFH.
- **Value emerging** Trading at 1.64x FY08E P/B and 11.1x FY08E P/E, CNCB's shares look attractive given its high-teen ROE and the bank's long-term growth potential given its established corporate franchise and unique CITIC group platform. We are also happy to see its improving revenue mix in 1H08, with larger portion of non-interest income as it was previously the most exposed to corporate loans and the most reliant on interest income among peers, leading to higher credit risk as a result. As such, we recommend a "Buy" rating for the counter.

**Recommendation: Buy**

**I. Comparison of China CITIC Bank's loan book (by sectors): 30/06/2008 vs 31/12/2007**

Loans-by industry	30 <sup>th</sup> Jun, 2008	Up/(down)	31 <sup>st</sup> Dec, 2007
	RMB million		RMB million
Corporate loans			
<i>Manufacturing</i>	159,237	+9.6%	145,272
<i>Transportation and logistics</i>	61,469	-2.2%	62,856
<i>Power generation &amp; supplies</i>	54,017	+21.7%	44,392
<i>Property development</i>	50,558	+21.1%	41,741
<i>Water, environment &amp; public utility mgt</i>	33,694	+19.0%	28,324
<i>Retail, wholesale and catering</i>	48,300	+14.3%	42,239
<i>Leasing and commercial services</i>	33,413	-4.0%	34,793
<i>Other corporate loans</i>	74,767	+13.5%	65,903
Personal loans	82,051	+7.8%	76,089
Discounted bills	36,306	+8.1%	33,599
	<b>633,812</b>	<b>+10.2%</b>	<b>575,208</b>

**II. Comparison of China CITIC Bank's loan book (by geographies): 30/06/2008 vs 31/12/2007**

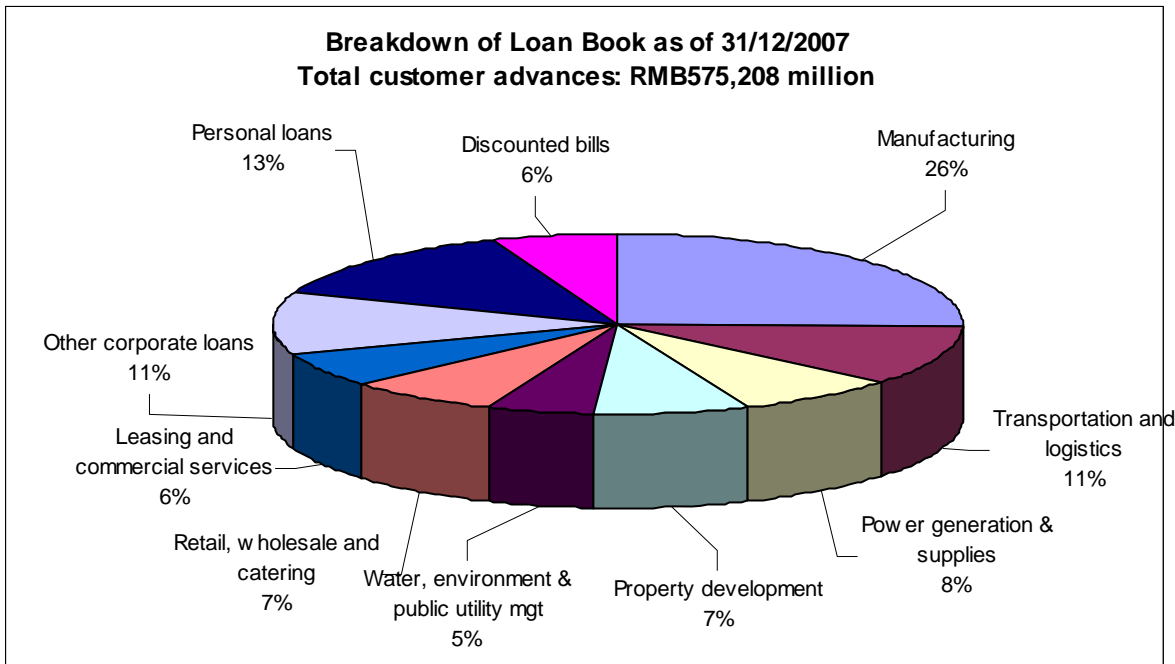
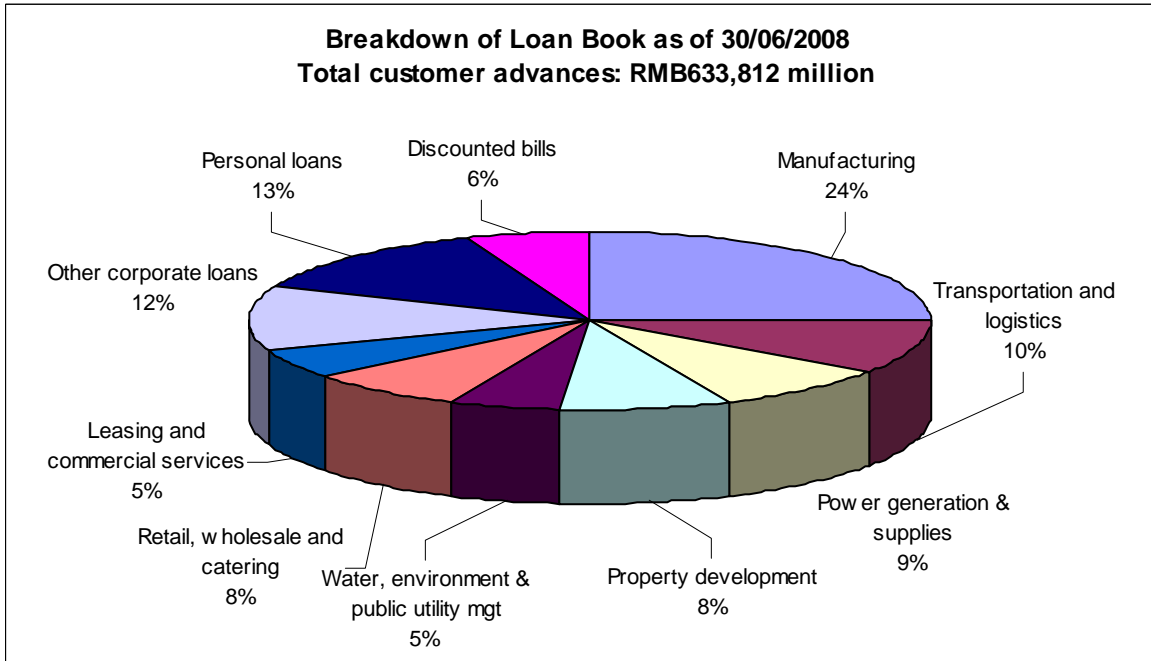
Loans-by geographies				Breakdown	
	30 <sup>th</sup> Jun, 2008	31 <sup>st</sup> Dec, 2007	y-o-y (%)	30 <sup>th</sup> Jun, 2008	31 <sup>st</sup> Dec, 2007
Yangtze River Delta	194,771	182,058	+7.0%	30.7%	31.7%
Bohai Rim	185,238	167,329	+10.7%	29.2%	29.1%
Pearl River Delta & West Strait	97,427	90,358	+7.8%	15.4%	15.7%
Central Region	69,309	60,410	+14.7%	10.9%	10.5%
Western region	64,443	55,780	+15.5%	10.2%	9.7%
Northeastern region	22,215	19,065	+16.5%	3.5%	3.3%
Hong Kong	409	208	+96.6%	0.1%	0.0%
Total	<b>633,812</b>	<b>575,208</b>	<b>+10.2%</b>	<b>100.00%</b>	<b>100.00%</b>

**III. China CITIC Bank's pre-tax profit breakdown by businesses**

Pre-tax profit by businesses (RMB million)				Breakdown	
	1H2008	1H2007	y-o-y (%)	1H2008	1H2007
Corporate banking	10,124	5,546	+82.5%	90.4%	98.9%
Retail banking	466	343	+35.9%	4.2%	6.1%
Treasury	1,607	823	+95.3%	14.3%	14.7%
Others	(994)	(1,102)	-9.8%	(8.9%)	(19.6%)
Total	<b>11,203</b>	<b>5,610</b>	<b>+99.7%</b>	<b>100.00%</b>	<b>100.00%</b>



**Breakdown of loan book of China CITIC Bank by sectors**





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