

## Sector Report

**China Banks**  
August 2, 2013

### Sector rating: **OVERWEIGHT**

Previous rating: **OVERWEIGHT**  
Previous report: April 12, 2013

#### Key data

Average 13E P/E(x)	4.81
Average 13E P/B(x)	0.88
Average 13E Dividend Yield(%)	6.06
Sector 3 months avg vol (HK\$ mn)	6,283

Source(s): Companies & Bloomberg

#### Operating income composition in 1Q13 (%)

Net interest income	76.16
Non-interest income	23.84

Source(s): CBRC

#### Share performance (%)

	Absolute	Relative*
1-mth	2.03	(1.83)
3-mth	(15.19)	(9.22)
6-mth	(22.87)	(11.00)

\*Relative to MSCI China

Source(s): Bloomberg

#### 1-year price performance



Source(s): Bloomberg

#### Analyst Information

Johannes Au  
Tel: (852) 2147 8802  
Email: johannesau@abci.com.hk

### Risks overdone – banks enjoy a more stable 2H13

While 2Q13 results of China banks would be affected by loan re-pricing, the process should be completed after 2Q13. Going forward, impacts of interest rate liberalization should be partially offset by strong loan demand, and asset quality would stay benign. However, sector re-rating could be delayed under the shadow banks and liquidity concerns. China banks are trading at trough valuations with decent yields of 4% -7%. We upgrade BOC, BoCom and CMB to **BUY** as concerns over sector risks are overdone. ICBC, CCB, and ABC are our top picks as we favor their defensive leader positions.

**1H13 earnings preview.** In 2Q13 the China banks sector was hard hit by the loan re-pricing resulted from the two rate cuts in 2012. H-share banks' 2Q13 earnings should therefore see 4-17% QoQ decline. Over 90% of loan re-pricing would be completed after this quarter, however.

**NIM and provision may lead to surprises.** NIM and loan provision would be the variance factors for 2Q13 results. While interest rate liberalization is accelerating, we expect free competition of deposit rates will only occur gradually. Strong loan demand will partially offset the impact of higher funding costs. Overall asset quality in 2Q13 was better than expected. However, banks may make larger provisions in 2Q13 to prepare for the 2.5% regulatory requirement.

**Overhangs may cause short-term volatility.** Growing shadow banks and liquidity shortage concerns may cause short-term volatility in share prices. We estimate shadow banks in China have grown at a 38.9% CAGR in 2010-12 to RMB 33.75tn, equivalent to 65% of GDP and 25.3% of total China banks' assets in 2012. More regulations will be introduced to contain related risks and mid-cap banks could be affected. Meanwhile, we believe liquidity shortage would have a minor impact on net interest margin (NIM) and massive interbank defaults are unlikely to occur.

**BUY at trough valuations.** China banks currently are trading at 1.5-2 s.d. below historical average P/B, which are similar to the 2008 crisis level. We lower our target price by 4%-35% on slower assets growth, higher provisions and NIM adjustment, and roll over valuations to mid-FY14E BVPS. ICBC (1398 HK), CCB (939 HK) and ABC (1288 HK) are our top picks based on their strong fundamentals and low valuations. We also upgrade BOC (3988 HK), BoCom (3328 HK) and CMB (3968 HK) to **BUY** as we believe the market has priced in most negative factors.

**Risk factors:** Free deposit competition, collapse of shadow banking system and increasing competition from non-bank financial institutions.

#### Sector Valuation Summary

Company	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E P/E	13E P/B	13E yield
ICBC	1398 HK	Buy	5.11	6.91	35.2	5.45	1.10	6.36
CCB	939 HK	Buy	5.79	8.19	41.5	5.45	1.07	6.48
ABC	1288 HK	Buy	3.12	4.74	51.9	4.80	0.94	7.21
MSB	1988 HK	Buy	7.82	11.94	52.7	4.04	0.90	4.16
BOC	3988 HK	Buy	3.26	4.13	26.7	5.02	0.79	6.90
BoCom	3328 HK	Buy	5.07	6.60	30.2	4.83	0.71	5.18
CMB	3968 HK	Buy	12.98	17.80	37.1	4.74	0.94	6.36
CITICB	998 HK	Hold	3.63	4.05	11.6	4.15	0.60	5.85

Source(s): Companies, Bloomberg, ABCI Securities estimates



---

## Contents

1H13 results preview .....	3
2Q13 results focus - NIM and asset quality.....	5
NIM squeeze to stabilize .....	5
Re-pricing to complete soon.....	5
Interest rate liberalization is accelerating .....	5
Solid demand to support loan pricing .....	6
Excess loan demand in 2Q13 .....	6
Improving loan approval process.....	7
Possible surprise by higher loan provision .....	8
Assets quality remains benign.....	8
NPL trending down in Wenzhou.....	10
High provisions in 2Q13 .....	10
Overhangs may cause short-term volatility .....	11
Shadow banking system is growing rapidly .....	11
Defining the shadow banking system .....	11
China's shadow banking system: small but growing fast .....	11
High regulatory awareness.....	12
Measures to regulate WMPs.....	12
WMP size is not as big as expected.....	12
JSBs to face higher regulatory pressure.....	14
More regulatory controls to come.....	14
Liquidity concerns.....	15
Asset-liability mismatch as main culprit .....	15
Minimal impact on banks .....	16
Interbank reliance is small .....	16
Interbank businesses - not a profit driver .....	16
Low risk in interbank default .....	17
Asset and liability mixes become critical .....	17
Valuation .....	18
Share price stabilized last month .....	18
Trough valuations with decent yields .....	18
Investment themes.....	19
Financial statements.....	22
Disclosures .....	38



## 1H13 results preview

H-share banks will be reporting their 2Q13 results in late August. We believe the majority of loan re-pricing impacts resulted from the two rate cuts in June and July 2012 will be reflected in their upcoming results. We estimate 2Q13 earnings will account for ~ 24%-27% of the FY13E results among the H-share banks, meaning that 1H13 net profits will represent ~51%-55% of the banks' full-year figures.

We expect a 4%-17% net profit decline QoQ for 2Q13. On a YoY basis, most banks will see -14%-10% of net profit changes. To account for the slowing economic growth in China, we revise our financial models by factoring in the slower 2013E assets growth (1ppt-4ppt lower than our previous estimates) and higher country risk assumptions. As a result, TPs in our H-share bank universe fall by 4%-35%.

We prefer large-sized banks with strong deposit base and defensive business mixes, with ICBC (1398 HK), CCB (939 HK) and ABC (1288 HK) as our top picks. We also upgrade BOC (3988 HK), BoCom (3328 HK) and CMB (3968 HK) to BUY mainly on low valuations that imply limited downside risks, and we believe the sell-off has been overdone.

**Exhibit 1: ICBC's quarterly results (RMB mn)**

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	YoY (%)	QoQ (%)
<b>Net interest margin</b>	<b>na</b>	<b>na</b>	<b>2.69</b>	<b>2.63</b>	<b>2.66</b>	<b>2.59</b>	<b>na</b>	<b>(0.07)</b>
Net interest income	98,816	105,242	107,311	106,459	106,717	113,501	7.85	6.36
Non-interest income	31,249	27,521	23,601	29,521	38,026	32,425	17.82	(14.73)
<b>Top-line revenue</b>	<b>130,065</b>	<b>132,763</b>	<b>130,912</b>	<b>135,980</b>	<b>144,743</b>	<b>145,926</b>	<b>9.91</b>	<b>0.82</b>
Operating expenses	(40,703)	(43,828)	(45,697)	(59,712)	(44,829)	(49,226)	12.32	9.81
Pre-provision operating profit	89,362	88,935	85,215	76,268	99,914	96,700	8.73	(3.22)
Loan loss provision	(10,148)	(9,089)	(6,222)	(8,286)	(12,152)	(13,482)	48.34	10.95
<b>Profit before tax</b>	<b>79,828</b>	<b>80,384</b>	<b>79,628</b>	<b>68,847</b>	<b>88,338</b>	<b>84,116</b>	<b>4.64</b>	<b>(4.78)</b>
Tax expenses	(18,456)	(18,515)	(17,158)	(15,867)	(19,525)	(20,187)	9.03	3.39
Minority interest	(37)	(44)	(28)	(50)	(70)	(19)	(56.37)	(72.57)
<b>Net profit</b>	<b>61,335</b>	<b>61,825</b>	<b>62,442</b>	<b>52,930</b>	<b>68,743</b>	<b>63,910</b>	<b>3.37</b>	<b>(7.03)</b>

Source(s): Company, ABCI Securities estimates

**Exhibit 2: CCB's quarterly results (RMB mn)**

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	YoY (%)	QoQ (%)
<b>Net interest margin</b>	<b>2.65</b>	<b>2.77</b>	<b>2.80</b>	<b>2.78</b>	<b>2.71</b>	<b>2.69</b>	<b>(0.08)</b>	<b>(0.02)</b>
Net interest income	82,101	87,591	91,332	92,178	92,311	97,104	10.86	5.19
Non-interest income	27,739	30,381	23,294	27,917	33,614	34,082	12.18	1.39
<b>Top-line revenue</b>	<b>109,840</b>	<b>117,972</b>	<b>114,626</b>	<b>120,095</b>	<b>125,925</b>	<b>131,186</b>	<b>11.20</b>	<b>4.18</b>
Operating expenses	(36,356)	(38,214)	(39,258)	(57,253)	(40,028)	(47,348)	23.90	18.29
Pre-provision operating profit	73,484	79,758	75,368	62,842	85,897	83,837	5.11	(2.40)
Loan loss provision	(6,686)	(8,052)	(8,382)	(16,921)	(8,543)	(10,694)	32.82	25.18
<b>Profit before tax</b>	<b>66,809</b>	<b>71,703</b>	<b>66,994</b>	<b>45,933</b>	<b>77,360</b>	<b>73,153</b>	<b>2.02</b>	<b>(5.44)</b>
Tax expenses	(15,200)	(16,818)	(14,969)	(10,850)	(17,647)	(15,996)	(4.89)	(9.36)
Minority interest	(97)	(114)	(117)	(95)	(133)	(102)	(10.18)	(23.01)
<b>Net profit</b>	<b>51,512</b>	<b>54,771</b>	<b>51,908</b>	<b>34,988</b>	<b>59,580</b>	<b>57,054</b>	<b>4.17</b>	<b>(4.24)</b>

Source(s): Company, ABCI Securities estimates

**Exhibit 3: ABC's quarterly results (RMB mn)**

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	YoY (%)	QoQ (%)
<b>Net interest margin</b>	<b>2.97</b>	<b>2.73</b>	<b>2.76</b>	<b>2.78</b>	<b>2.78</b>	<b>2.75</b>	<b>0.02</b>	<b>(0.03)</b>
Net interest income	85,835	81,850	85,548	88,646	89,288	90,607	10.70	1.48
Non-interest income	21,634	21,461	21,425	18,565	30,553	24,964	16.32	(18.29)
<b>Top-line revenue</b>	<b>107,469</b>	<b>103,311</b>	<b>106,973</b>	<b>107,211</b>	<b>119,841</b>	<b>115,570</b>	<b>11.87</b>	<b>(3.56)</b>
Operating expenses	(40,601)	(43,405)	(45,152)	(53,644)	(46,675)	(50,806)	17.05	8.85
Pre-provision operating profit	66,868	59,906	61,821	53,567	73,166	64,764	8.11	(11.48)
Loan loss provision	(10,733)	(12,039)	(10,849)	(20,614)	(12,442)	(13,102)	8.83	5.30
<b>Profit before tax</b>	<b>56,135</b>	<b>47,867</b>	<b>50,972</b>	<b>32,953</b>	<b>60,724</b>	<b>51,662</b>	<b>7.93</b>	<b>(14.92)</b>
Tax expenses	(12,675)	(10,805)	(11,379)	(7,937)	(13,673)	(11,521)	6.63	(15.74)
Minority interest	(6)	(17)	(9)	(5)	(40)	(9)	(48.00)	(77.90)
<b>Net profit</b>	<b>43,454</b>	<b>37,045</b>	<b>39,584</b>	<b>25,011</b>	<b>47,011</b>	<b>40,132</b>	<b>8.33</b>	<b>(14.63)</b>

Source(s): Company, ABCI Securities estimates



Exhibit 4: MSB's quarterly results (RMB mn)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	YoY (%)	QoQ (%)
<b>Net interest margin</b>	<b>3.29</b>	<b>2.99</b>	<b>2.84</b>	<b>2.65</b>	<b>2.45</b>	<b>2.55</b>	<b>(0.44)</b>	<b>0.10</b>
Net interest income	18,970	18,901	19,447	19,835	20,114	20,844	10.28	3.63
Non-interest income	6,065	7,433	6,760	5,181	8,763	7,474	0.55	(14.71)
<b>Top-line revenue</b>	<b>25,035</b>	<b>26,334</b>	<b>26,207</b>	<b>25,016</b>	<b>28,877</b>	<b>28,318</b>	<b>7.53</b>	<b>(1.94)</b>
Operating expenses	(9,105)	(11,159)	(11,454)	(11,025)	(9,755)	(13,168)	18.01	34.99
Pre-provision operating profit	15,930	15,175	14,753	13,991	19,122	15,149	(0.17)	(20.78)
Loan loss provision	(3,335)	(2,071)	(1,545)	(2,246)	(4,017)	(2,249)	8.61	(44.00)
<b>Profit before tax</b>	<b>12,299</b>	<b>13,400</b>	<b>13,163</b>	<b>11,790</b>	<b>14,920</b>	<b>13,085</b>	<b>(2.35)</b>	<b>(12.30)</b>
Tax expenses	(2,963)	(3,328)	(3,202)	(2,851)	(3,635)	(2,805)	(15.71)	(22.83)
Minority interest	(164)	(191)	(204)	(186)	(270)	(205)	7.30	(24.10)
<b>Net profit</b>	<b>9,172</b>	<b>9,881</b>	<b>9,757</b>	<b>8,753</b>	<b>11,015</b>	<b>10,075</b>	<b>1.96</b>	<b>(8.54)</b>

Source(s): Company, ABCI Securities estimates

Exhibit 5: BOC's quarterly results (RMB mn)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	YoY (%)	QoQ (%)
<b>Net interest margin</b>	<b>2.11</b>	<b>2.09</b>	<b>2.16</b>	<b>2.15</b>	<b>2.22</b>	<b>2.18</b>	<b>0.09</b>	<b>(0.04)</b>
Net interest income	60,598	63,456	65,390	67,520	66,960	69,732	9.89	4.14
Non-interest income	34,330	21,281	24,284	29,317	38,492	24,118	13.33	(37.34)
<b>Top-line revenue</b>	<b>94,928</b>	<b>84,737</b>	<b>89,674</b>	<b>96,837</b>	<b>105,452</b>	<b>93,850</b>	<b>10.75</b>	<b>(11.00)</b>
Operating expenses	(39,474)	(34,044)	(39,628)	(46,876)	(42,983)	(42,742)	25.55	(0.56)
Pre-provision operating profit	55,454	50,693	50,046	49,961	62,469	51,108	0.82	(18.19)
Loan loss provision	(5,473)	(3,764)	(4,389)	(5,761)	(8,261)	(4,401)	16.92	(46.73)
<b>Profit before tax</b>	<b>50,076</b>	<b>47,059</b>	<b>45,924</b>	<b>44,321</b>	<b>54,423</b>	<b>46,847</b>	<b>(0.45)</b>	<b>(13.92)</b>
Tax expenses	(11,629)	(10,504)	(9,507)	(10,218)	(12,804)	(7,792)	(25.82)	(39.14)
Minority interest	(1,684)	(1,717)	(1,655)	(1,034)	(1,804)	(1,550)	(9.70)	(14.06)
<b>Net profit</b>	<b>36,763</b>	<b>34,838</b>	<b>34,762</b>	<b>33,069</b>	<b>39,815</b>	<b>37,505</b>	<b>7.65</b>	<b>(5.80)</b>

Source(s): Company, ABCI Securities estimates

Exhibit 6: BoCom's quarterly results (RMB mn)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	YoY (%)	QoQ (%)
<b>Net interest margin</b>	<b>2.60</b>	<b>2.62</b>	<b>2.58</b>	<b>2.33</b>	<b>2.57</b>	<b>2.50</b>	<b>(0.12)</b>	<b>(0.07)</b>
Net interest income	28,367	30,027	30,707	31,025	32,031	31,407	4.60	(1.95)
Non-interest income	8,207	7,378	5,475	6,998	10,223	8,482	14.96	(17.03)
<b>Top-line revenue</b>	<b>36,574</b>	<b>37,405</b>	<b>36,182</b>	<b>38,023</b>	<b>42,254</b>	<b>39,889</b>	<b>6.64</b>	<b>(5.60)</b>
Operating expenses	(12,271)	(14,404)	(15,474)	(16,282)	(14,260)	(15,654)	8.68	9.78
Pre-provision operating profit	24,303	23,001	20,708	21,741	27,994	24,235	5.36	(13.43)
Loan loss provision	(3,807)	(3,329)	(3,328)	(4,073)	(5,113)	(5,487)	64.83	7.32
<b>Profit before tax</b>	<b>20,498</b>	<b>19,670</b>	<b>17,381</b>	<b>17,667</b>	<b>22,883</b>	<b>18,745</b>	<b>(4.70)</b>	<b>(18.08)</b>
Tax expenses	(4,590)	(4,438)	(3,929)	(3,783)	(5,133)	(4,018)	(9.47)	(21.73)
Minority interest	(28)	(24)	(27)	(24)	(44)	(12)	(49.01)	(72.19)
<b>Net profit</b>	<b>15,880</b>	<b>15,208</b>	<b>13,425</b>	<b>13,860</b>	<b>17,706</b>	<b>14,715</b>	<b>(3.24)</b>	<b>(16.89)</b>

Source(s): Company, ABCI Securities estimates

Exhibit 7: CMB's quarterly results (RMB mn)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	YoY (%)	QoQ (%)
<b>Net interest margin</b>	<b>3.21</b>	<b>3.01</b>	<b>2.92</b>	<b>2.96</b>	<b>2.93</b>	<b>2.90</b>	<b>(0.11)</b>	<b>(0.03)</b>
Net interest income	21,548	21,913	22,149	22,764	23,044	23,365	6.62	1.39
Non-interest income	6,837	6,936	5,913	5,694	7,805	7,610	9.71	(2.50)
<b>Top-line revenue</b>	<b>28,385</b>	<b>28,849</b>	<b>28,062</b>	<b>28,458</b>	<b>30,849</b>	<b>30,974</b>	<b>7.37</b>	<b>0.41</b>
Operating expenses	(10,993)	(11,299)	(11,697)	(14,682)	(11,711)	(12,558)	11.14	7.23
Pre-provision operating profit	17,392	17,550	16,365	13,776	19,138	18,417	4.94	(3.77)
Loan loss provision	(1,982)	(2,162)	(1,334)	(105)	(2,062)	(2,657)	22.89	28.85
<b>Profit before tax</b>	<b>15,487</b>	<b>15,338</b>	<b>15,121</b>	<b>13,554</b>	<b>17,205</b>	<b>15,668</b>	<b>2.15</b>	<b>(8.93)</b>
Tax expenses	(3,845)	(3,604)	(3,708)	(3,130)	(4,187)	(4,132)	14.66	(1.30)
Minority interest	1	0	0	(5)	3	(5)	na	(270.67)
<b>Net profit</b>	<b>11,643</b>	<b>11,734</b>	<b>11,413</b>	<b>10,419</b>	<b>13,021</b>	<b>11,531</b>	<b>(1.73)</b>	<b>(11.45)</b>

Source(s): Company, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

**Exhibit 8: CITICB's quarterly results (RMB mn)**

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	YoY (%)	QoQ (%)
<b>Net interest margin</b>	<b>3.01</b>	<b>2.77</b>	<b>2.68</b>	<b>2.79</b>	<b>2.65</b>	<b>2.65</b>	<b>(0.12)</b>	<b>0.00</b>
Net interest income	18,310	18,619	18,789	19,768	19,912	21,083	13.23	5.88
Non-interest income	3,413	3,901	3,396	3,515	4,241	4,978	27.60	17.37
<b>Top-line revenue</b>	<b>21,723</b>	<b>22,520</b>	<b>22,185</b>	<b>23,283</b>	<b>24,153</b>	<b>26,061</b>	<b>15.72</b>	<b>7.90</b>
Operating expenses	(7,883)	(7,975)	(7,507)	(11,614)	(9,259)	(10,819)	35.66	16.85
Pre-provision operating profit	13,840	14,545	14,678	11,669	14,894	15,242	4.79	2.34
Loan loss provision	(2,226)	(298)	(4,098)	(6,482)	(2,517)	(3,289)	1,003.84	30.69
<b>Profit before tax</b>	<b>11,606</b>	<b>14,270</b>	<b>10,571</b>	<b>5,162</b>	<b>12,367</b>	<b>11,951</b>	<b>(16.25)</b>	<b>(3.36)</b>
Tax expenses	(2,933)	(3,358)	(2,612)	(1,321)	(3,035)	(3,012)	(10.31)	(0.76)
Minority interest	(110)	(102)	(106)	(35)	(114)	(79)	(22.81)	(30.93)
<b>Net profit</b>	<b>8,563</b>	<b>10,810</b>	<b>7,853</b>	<b>3,806</b>	<b>9,218</b>	<b>8,861</b>	<b>(18.03)</b>	<b>(3.88)</b>

Source(s): Company, ABCI Securities estimates

**2Q13 results focus - NIM and asset quality**

We believe investors would focus on two major issues - the net interest margin (NIM) and asset quality trends that constitute the major swing factors in the upcoming results.

**NIM squeeze to stabilize****Re-pricing to complete soon**

We expect NIM of H-share banks to stabilize in 2Q13 with minor QoQ narrowing of 3-7bps. Individual banks that experienced higher NIM squeezes in 1Q13, such as CITICB and MSB, may have experienced an earlier stabilization or a slight recovery in NIM in 2Q13 on completion of loan re-pricing. For most H-share banks, we expect over 90% of the loans have completed re-pricing in 2Q13, while the remainders should be completed by 3Q13. Therefore, NIM trend in 2H13 will stabilize.

**Interest rate liberalization is accelerating**

Although we believe liberalization of interest rate is accelerating via the lift of interest rate floating range (the PBOC abandoned the loan rate floor on July 20, 2013), we believe regulators are unlikely to fully liberalize the deposit rates all at once. The liberalization of deposit rates could take place in two ways considering its impact on liquidity: (1) By phase to gradually liberalize deposit rates (i.e. raise the cap progressively before triggering a full competition in the market), (2) removing caps for longer-term rates before the shorter ones. However, this would take time to complete and we do not expect a full deposit liberalization to complete before end-2014.

The interest rate liberalization would not cause material impact on banks' NIMs based on our experience in mid-2012. The PBOC increased the deposit rate floating range to 110% of benchmark rates in July 2012, and banks raised their deposit rate immediately to the upper limit in order to protect themselves from losing deposit base. This is especially true among the mid-to-small banks and banks with a high loan-to-deposit ratio (LDR). Yet, NIMs in 2H12 remained healthy. In our view, a rate cut is much more negative to a bank's NIM than the interest rate liberalization.

Nonetheless, it would be healthier in the long run if deposit rates are fully liberalized for market competition (i.e. removal of floating range cap instead of raising the cap). As demonstrated last year, when the interest cap was raised, banks tend to fight for deposit blindly by increasing interest rates to the upper limit, as market followers would suffer from the loss of deposit



customers. However, if deposit rates were to be liberalized free competition, banks may act more cautiously by evaluating their own business strategy and observing competitors' responses before taking any actions. This is because excessive increases in deposit rates could place banks in a disadvantaged position that is hard to rectify.

### Solid demand to support loan pricing

Despite our belief that a gentle rise in funding cost is inevitable under interest rate liberalization, we also see signals that loan pricing is improving to offset some of the impacts. According to the PBOC statistics, strong loan demand was evident in Mar 2013. During the period, 88.56% of loans were priced at or above the benchmark rates, although the proportion was even higher (95.38%) back in Mar 2012 before the loan rate floating range was lowered to 70% of benchmark rates.

Exhibit 9: New loan pricing (%) (x= times to benchmark rates)

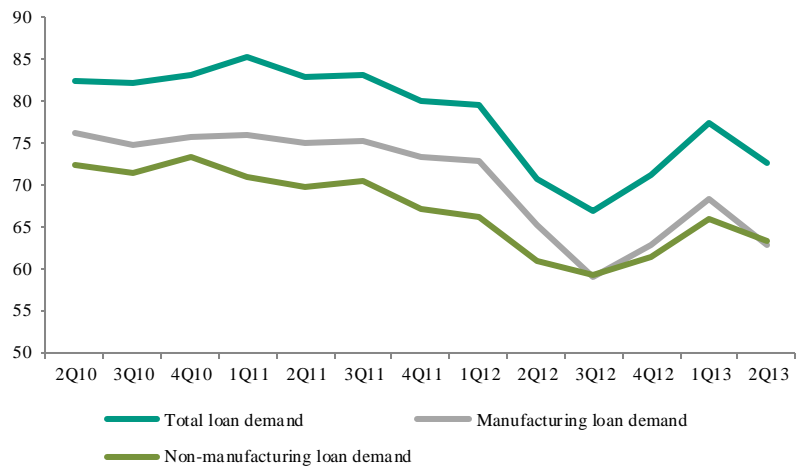
2013	0.7-1.0x	1.0x	Subtotal	1.0-1.1x	1.1-1.3x	1.3-1.5x	1.5-2.0x	>2.0x
Jan	10.62	25.08	64.30	19.84	25.23	7.87	8.29	3.07
Feb	11.69	25.05	63.26	19.57	23.96	7.88	8.83	3.02
Mar	11.44	23.79	64.77	19.55	24.71	8.15	9.27	3.09
<b>2012</b>								
Jan	4.79	26.22	68.99	22.33	25.51	8.76	9.22	3.17
Feb	5.53	27.59	66.88	23.12	23.76	7.98	8.61	3.40
Mar	4.62	24.95	70.43	21.12	26.99	9.48	9.41	3.43

Source(s): PBOC, ABCISecurities

### Excess loan demand in 2Q13

On the other hand, the PBOC bankers' survey showed a total loan demand index of 72.5% in 2Q13, implying that the market has been experiencing an excess loan demand (>50% means excess demand and vice versa). Manufacturing and non-manufacturing enterprises recorded loan demand indices of 62.9% and 63.3%, respectively. By enterprise size, large, medium and small enterprises' loan demand indices improved, reaching 56.9%, 67.2% and 74.7%, respectively, in 2Q13.

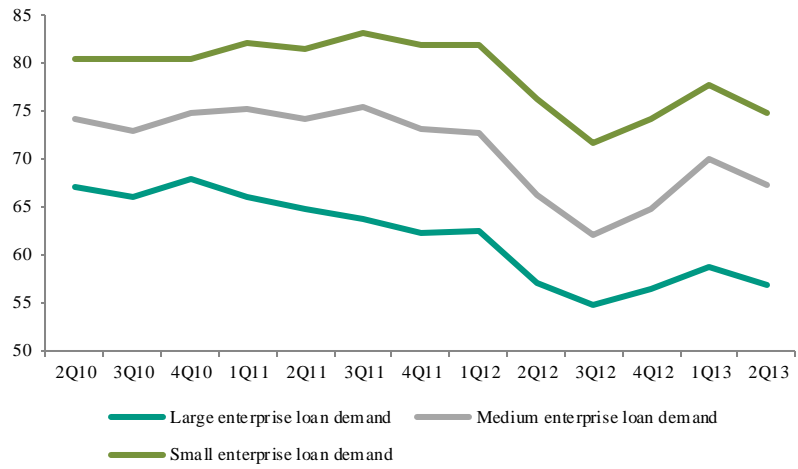
Exhibit 10: China's loan demand index (%)



Source(s): PBOC, ABCISecurities



Exhibit 11: China's loan demand index by enterprise size (%)



Source(s): PBOC, ABCISecurities

### Improving loan approval process

In fact loan approval process has also been improving since 1Q12, as demonstrated by the rise in bank loan approval index from 33% in 2Q11 to 50% in 1H13, despite the growth was slower than that of the loan demand. We firmly believe that the strong loan demand observed is sustainable in the upcoming quarters on the back of a steady economic growth and a drastic NIM squeeze is unlikely even if interest rates were to be fully liberalized.

Exhibit 12: Loan approval index of China banks (%)



Source(s): PBOC, ABCISecurities

Taking into account of the solid loan pricing and manageable funding cost, we adjust up our H-share banks (except MSB) NIM forecasts by 4bps-22bps for FY13E and 4bps-21bps for FY14E. We reduced MSB's NIM forecast by 34bps for both 2013E and 2014E after its 1Q13 NIM dipped to 2.45%. Together with a slower asset growth assumption of 1%-4% in FY13E, our net interest income (NII) forecasts were lowered by 1%-6% for the year. In contrast, we estimate a 2.3% increase in BOC's NII in FY13E on its improving overseas contribution.



Exhibit 13: H-share banks NIM and NII forecasts

(%)	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CIICB
<b>New NIM forecast</b>								
2013E	2.62	2.75	2.80	2.59	2.14	2.53	2.98	2.72
2014E	2.63	2.77	2.82	2.57	2.16	2.52	3.00	2.68
2015E	2.63	2.78	2.87	2.66	2.19	2.52	3.03	2.67
<b>Old NIM forecast</b>								
2013E	2.58	2.70	2.72	2.93	1.92	2.49	2.90	2.68
2014E	2.59	2.72	2.72	2.91	1.95	2.50	2.94	2.72
<b>New vs. Old (bps)</b>								
2013E	4	5	8	(34)	22	4	8	4
2014E	4	7	10	(34)	21	2	6	(4)
<b>(RMB mn)</b>								
<b>New NII forecast</b>								
2013E	468,549	403,010	391,075	85,629	273,384	134,975	94,711	80,382
2014E	528,755	452,812	431,105	94,293	298,777	153,552	108,368	93,620
2015E	590,091	500,253	489,928	109,708	327,905	173,255	122,844	106,748
<b>Old NII forecast</b>								
2013E	474,374	407,143	403,474	86,588	267,126	143,227	96,034	82,993
2014E	539,764	460,721	456,251	94,252	304,810	169,840	111,123	99,560
<b>New vs. Old (%)</b>								
2013E	(1.2)	(1.0)	(3.1)	(1.1)	2.3	(5.8)	(1.3)	(3.1)
2014E	(2.0)	(1.7)	(5.5)	0.0	(2.0)	(9.6)	(2.5)	(6.0)

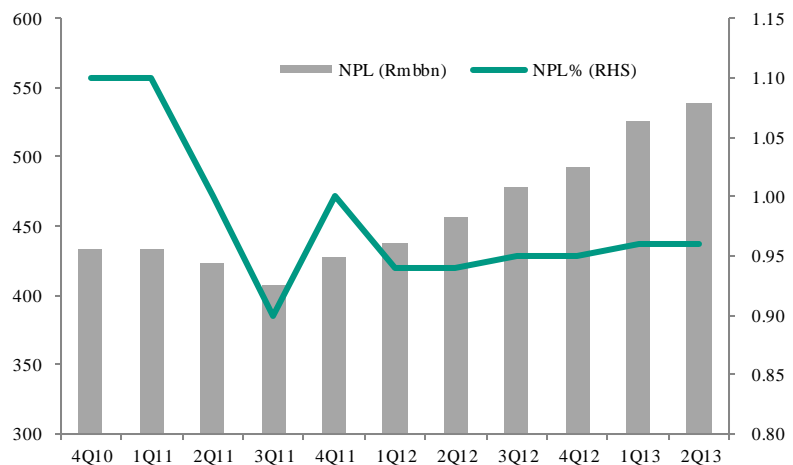
Source(s): Companies, ABCI Securities estimates

## Possible surprise by higher loan provision

### Assets quality remains benign

Non-performing loan (NPL) in China has been increasing moderately since 1Q12, with NPL ratio edging up from 0.94% to 0.96% by end-2Q13. In order to secure against potential hits from NPLs and to fulfill the 2.5% provision ratio (i.e. loan provision/total loan) by end-2016 as required by the regulators (2013 for the systematically important banks), we notice that China banks have increased their loan provisions in recent quarters. As of 2Q13, the system provision ratio improved to 2.88% while the system provision coverage ratio (i.e. loan provision/NPL) exceeded 291.3%.

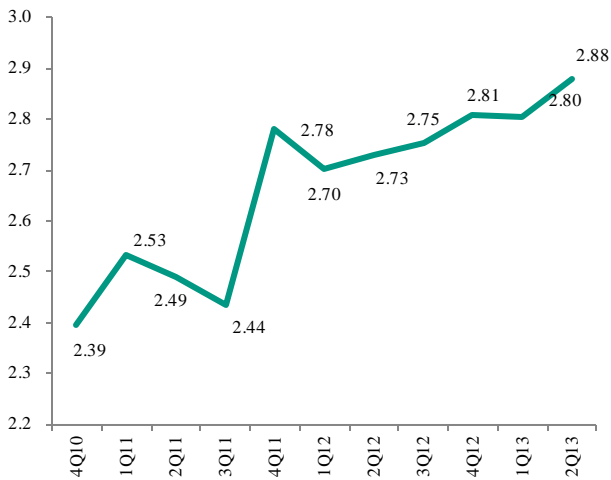
Exhibit 14: China's NPL trend



Source(s): CBRC, ABCI Securities

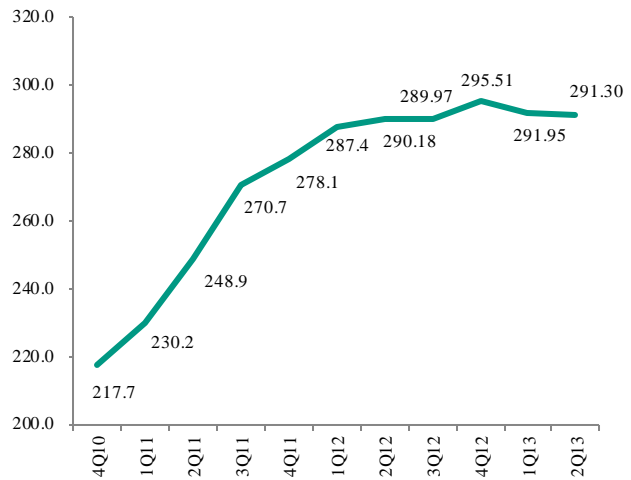


**Exhibit 15: System provision ratio of China banks (%)**



Source(s): CBRC, ABCI Securities

**Exhibit 16: System provision coverage ratio of China banks (%)**



Source(s): CBRC, ABCI Securities

Based on the 2012 CBRC statistics, manufacturing, wholesale and retail industries were the major contributors to the system's NPLs. Their NPL ratios were 1.6% and 1.61% and accounted for 36.1% and 21.8% of the system's NPL, respectively. Geographically, eastern China had the largest NPL share of 64.1%. Jiangsu, Zhejiang and Guangdong were the top three contributors with NPLs of RMB52.9bn (NPL%: 1.04%), RMB 79.1bn (NPL%: 1.68%) and RMB 52.1bn (NPL%: 0.93%), respectively, out of a total NPL of RMB 490.4bn.

In the coming quarters, over-capacity industries (steel, cement, flat glass, coal chemical, polycrystalline silicon, wind power equipment, shipbuilding, and aluminum electrolytic) will also exert additional stress on the system NPL, although we estimate these industries only account for less than 10% of the loan mixes in each H-share bank, according to our channel checks. We believe it will take time before these industries can absorb the excess capacity through organic growth and industry consolidation. Nonetheless, we are confident that the system NPL should remain below 1% in the near term based on our economist's GDP growth forecast of 7.6% in 2013 and the continuous effort by China banks to manage problem assets.

**Exhibit 17: Asset quality forecasts of H-share banks (%)**

	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
<b>NPL%</b>								
2013E	1.00	1.18	1.52	1.20	1.04	0.98	0.87	0.91
2014E	1.10	1.27	1.60	1.35	1.05	1.01	0.85	0.91
2015E	1.16	1.32	1.66	1.35	1.03	1.01	0.84	0.89
<b>Provision ratio</b>								
2013E	2.6	2.8	4.5	2.6	2.3	2.5	2.2	2.2
2014E	2.7	2.9	4.6	2.6	2.4	2.6	2.3	2.3
2015E	2.8	2.9	4.6	2.6	2.4	2.6	2.3	2.3
<b>Provision coverage</b>								
2013E	261.3	237.1	295.8	283.3	220.3	251.0	253.0	242.7
2014E	246.0	224.0	283.5	271.6	223.9	252.0	265.8	247.8
2015E	241.6	219.1	277.4	260.0	233.5	252.7	274.8	257.7

Source(s): Companies, ABCI Securities estimates



### NPL trending down in Wenzhou

Banks' effort to restructure NPL has been effective and improvement was seen in the most problematic area - Wenzhou. The CBRC data showed that Wenzhou's NPL ratio has declined for three consecutive months in 2Q13 from over 4% to 3.68% by end-June. Meanwhile the CBRC and PBOC have explicitly encouraged banks to write off or sell their NPL portfolios in early July this year.

### High provisions in 2Q13

H-share banks increased their loan provisions in 4Q12 and 1Q13 despite NPL data had remained stable. We expect high provision may have persisted throughout 2Q13 and this could present a downside surprise to banks' profits. Combining both the NIM pressure and higher provisions, we revise our 2013E net profit estimates for H-share banks by -0.3%-8.8% and 2014E earnings by -12.0%-3.4%.

Exhibit 18: Net profit forecasts for H-share banks

(RMB mn)	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
<b><u>New net profit</u></b>								
2013E	260,511	212,065	168,651	41,345	144,826	62,284	47,203	32,727
2014E	294,667	234,761	181,677	44,993	154,341	68,723	53,520	37,439
2015E	316,968	249,119	199,133	51,514	168,234	75,125	59,852	40,987
<b><u>Old net profit</u></b>								
2013E	260,149	219,453	168,007	39,346	133,167	62,218	45,854	34,483
2014E	302,866	249,383	197,428	43,524	154,805	73,541	53,446	42,569
<b><u>New vs. Old (%)</u></b>								
2013E	0.1	(3.4)	(0.3)	5.0	8.8	0.1	2.9	(5.1)
2014E	(2.7)	(5.9)	(8.0)	3.4	(0.2)	(6.6)	0.1	(12.0)
<b><u>Bloomberg consensus</u></b>								
2013E	253,756	208,330	159,709	40,136	144,836	60,925	46,830	32,839
2014E	269,482	224,011	172,773	43,230	153,132	65,152	51,125	35,946
2015E	298,603	247,176	196,495	47,901	171,489	73,954	58,559	41,559
<b><u>ABCI vs. consensus (%)</u></b>								
2013E	2.7	1.8	5.6	3.0	(0.0)	2.2	0.8	(0.3)
2014E	9.3	4.8	5.2	4.1	0.8	5.5	4.7	4.2
2015E	6.2	0.8	1.3	7.5	(1.9)	1.6	2.2	(1.4)

Source(s): Companies, Bloomberg, ABCI Securities estimates



## Overhangs may cause short-term volatility

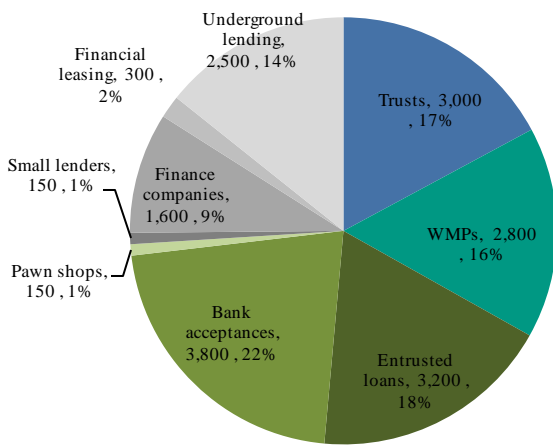
We are optimistic about the China banks sector on its sustainable organic growth, stable asset quality and an increasingly healthier competition under continuous regulatory monitoring and financial reforms. We believe the market is currently looking for re-rating signals, which could be driven by better-than-expected operating data in the next few quarters. However, two major overhangs - the rapid growth of shadow banking system and the banks' liquidity shortage concern may delay sector re-rating, and point to a more volatile share price in the near term.

## Shadow banking system is growing rapidly

### Defining the shadow banking system

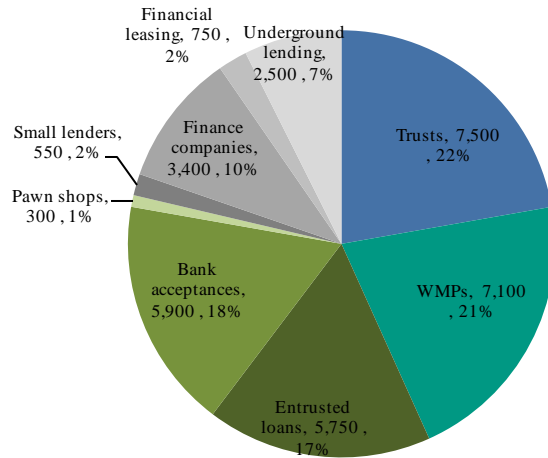
While there is no official definition for the shadow banking system, it is broadly recognized as all kinds of financial intermediaries involving in the creation of credit outside the traditional bank loans. In our estimation of the size of the shadow bank system, we identify several key components that include trusts, wealth management products (WMPs), entrusted loans, bank acceptances, pawnshops, small lenders, finance companies, financial leasing companies, and underground lenders.

Exhibit 19: Estimated key components of China's shadow banking system in 2010 (RMB bn)



Source(s): PBOC, CBRC, CSRC, Wind, Xinhua news, ABCI Securities estimates

Exhibit 20: Estimated key components of China's shadow banking system in 2012 (RMB bn)



Source(s): PBOC, CBRC, CSRC, Wind, Xinhua news, ABCI Securities estimates

### China's shadow banking system: small but growing fast

By consolidating various sources of information (regulator statistics, database providers and media news), we estimate the total sizes of China's shadow bank system in 2010 and 2012 were RMB 17.5tn and RMB 33.75tn, which implies a 38.9% CAGR in value between 2010 and 2012. The aggregate value in 2012 accounted for 65% of 2012 GDP and 25.3% of 2012 total banking assets, which is low compared to the ones in developed economies where the aggregate sizes of shadow banks could account for 100% -200% of the GDPs.



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

---

Instead, we are more concerned about the rapid growth in recent years. Shadow banks are an essential part of financial systems in most developed economies such as the U.S. and Europe. Their existences can reduce the over-concentration risk in the traditional banking system and enhance financial efficiency of the economy as a whole. The key regulatory mission for China therefore is to manage the potential risks and complications brought by the rapid expansion of the shadow banking system.

### **High regulatory awareness**

Regulators have already prioritized risk management of the financial market since 2H12 by proactively launching new measures to monitor risk exposure in the shadow banking system. Other than establishing a close monitoring mechanism for off-balance-sheet exposures such as trusted loan, entrusted loans and banker acceptances, comprehensive rules regulating the development of WMPs, a major component in the shadow banking system, are also in place.

### **Measures to regulate WMPs**

Effective in Sep 2012, the CBRC requires banks to abandon WMPs setup under an asset pool model, meaning that each WMP can only be used to support a single or multiple projects, while banks are prohibited to blend investment yields of different asset classes together for multiple WMPs. Moreover, each WMP established by banks must be able to account and settle its profit and loss on an individual basis.

On Mar 28, 2013, the CBRC released the Document No.8 that limited banks' WMP exposure in non-standard instruments. These non-standard instruments include investments in loans, trusts, entrusted assets, bank acceptances that are not being traded on the interbank market or exchange. In addition, banks should not provide any commitments or guarantees to buy back such investments. Total exposure to these non-standard instruments should not exceed 35% of a bank's total outstanding WMPs asset under management (AUM) and 4% of the banks' total assets in the previous financial year.

Nevertheless, we believe that impact of the Document No.8 would be mild, despite banks' current exposure to non-standard instruments in the WMP investment portfolios may exceed the newly established limit. WMPs of most China banks are designed with a short tenor less than a year, meaning that banks could easily fulfill the new regulation upon maturity of the existing products and by adjusting their new product designs to comply with the new regulatory requirement. According to local news, as of June 2013 the system non-standard instruments aggregated to RMB 2.78tn, reducing by 7% since the released of Document No. 8, and accounting for 30.62% of total WMPs AUM, lower than the 35% limit as stated by the regulator..

### **WMP size is not as big as expected**

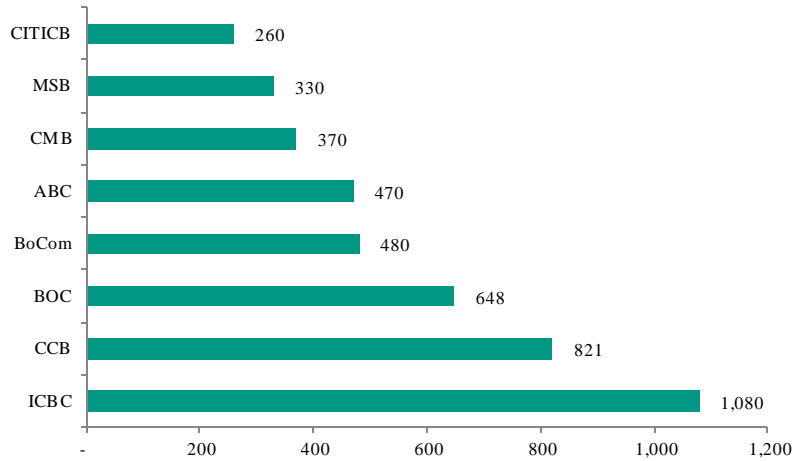
According to the CBRC statistics, total system WMPs by end-2012 was RMB 7.1tn, up 56% YoY or 13 times of Dec 2007. Market believes that total size to WMP may have reached RMB 10tn by end-1H13.

Meanwhile, H-share banks' WMPs should account for only 3%-11% of their total assets as of 1Q13, of which mid-cap banks such as CMB, MSB and CITICB have the highest exposure of 10.9%, 9.7%, and 8%, respectively. We



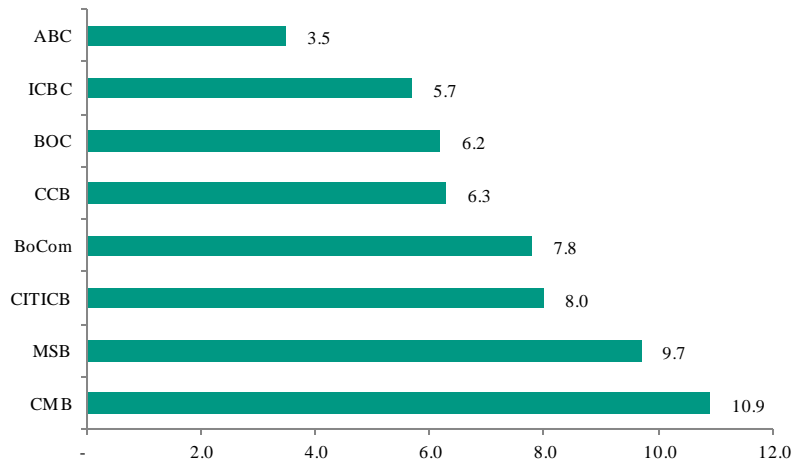
expect banks to turn more cautious on expanding their WMP business in light of a tightening regulatory environment.

**Exhibit 21: AUM of WMPs in H-share banks in 1Q13 (RMB mn)**



Source(s): Companies, ABCI Securities

**Exhibit 22: WMPs to total assets in H-share banks in 1Q13 (%)**



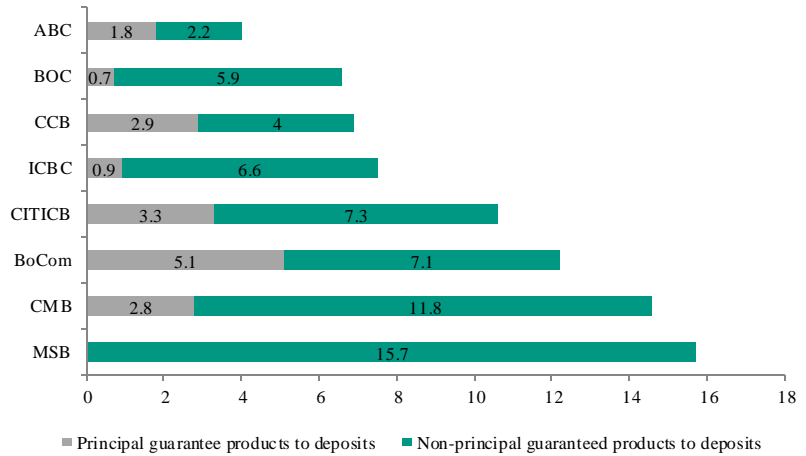
Source(s): Companies, ABCI Securities

Larger banks such as ICBC and CCB were the market leaders in WMPs with total AUMs of RMB 1,080bn and RMB 821bn, respectively, in 1Q13. Calculating WMPs as a percentage to the total deposits, we found that mid-cap banks such as MSB and CMB had the two highest WMPs-to-total-deposit ratios of 15.7% and 14.6% respectively in 1Q13, followed by BoCom (12.2%) and CITICB (10.6%).

In terms of the product mix of WMPs, we found that all MSB's WMPs are non-principal-guaranteed in nature. For others, principal guaranteed products accounted for 0.7%-5.1% of their total deposits; BoCom had the highest principal guaranteed products-to-total-deposits ratio of 5.1%. In our opinion, this level of WMPs size relative to banks' assets and the proportion of guaranteed return product will not cause major risk to the overall banking system.



Exhibit 23: WMPs-to-total-deposits ratios among H-share banks in 1Q13 (%)



Source(s): Companies, ABCI Securities

### JSBs to face higher regulatory pressure

With proper risk management, the shadow banking system in China would remain healthy. However, joint stock banks (JSBs) may face higher pressure in relation to both existing and potential new rules, given that they have been expanding their WMP business aggressively for the past few quarters.

Still, we are confident that those unqualified investments would recede naturally and should not cause any major disruptions to the banks' operations. We continue to favor reputable brands upon tightening regulatory supervision. JSBs will face additional pressure on LDR requirement and fee income control.

### More regulatory controls to come

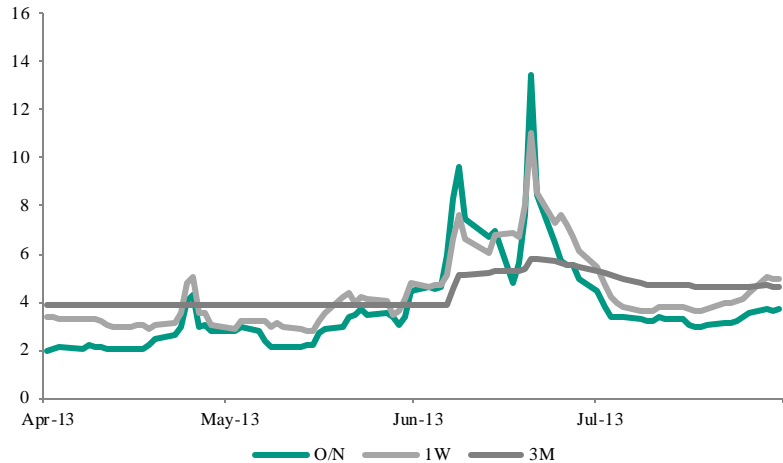
CBRC's measures to control banks' WMPs is only the prelude to more regulators' control on risk exposure in the shadow banking system. We believe the next regulatory moves would target on trusts, entrusted loans and bank acceptances, followed by measures to regulate the financing companies and financial leasing companies.



## Liquidity concerns

Liquidity shortage, as reflected by the spike of SHIBOR in the last two weeks of June 2013, gather concerns on two potential problems in banks: (1) Interbank cost surge hence NIM squeeze on the funding side; (2) possibility of chained default risk in the interbank market that may result in massive write-offs and collapse of interbank funding chain.

Exhibit 24: SHIBOR (%)



Source(s): Bloomberg, ABCI Securities

Short-term SHIBOR rocketed in the third week of June, with the overnight and 1-week SHIBORs peaking at 13.4% and 11% on June 20, respectively. We believe the sharp rise was mainly driven by the mismatch of banks' assets and liabilities on their WMPs portfolios. By early July, SHIBOR stabilized and returned to the normalized level.

## Asset-liability mismatch as main culprit

We notice that banks have deliberately designed their WMPs with maturity dates set at each quarter's end. In this way, settlement funds from WMPs would transfer back to the banks' balance sheets as customers' deposits. This will create a window dressing effect on deposit growth and strengthen their LDR positions.

Meanwhile, underlying investments on the WMPs portfolio usually have longer tenors than the WMP to generate a better yield to cover stakeholders' return. This asset-liability mismatch thus led to the liquidity shortfall in end-June and drove up the SHIBOR significantly as some banks needed additional funding to settle their WMPs. Following the same logic, such liquidity fight should repeat at each quarter-end, unless banks spread the maturity dates of their future WMPs evenly over the quarter, or pair investments with WMPs of similar durations together.



## Minimal impact on banks

In our opinion, market overreacted to this SHIBOR surge by massive sell-offs of China bank stocks in late June. We argue that the actual impact of such liquidity shortage is limited to the listed banks for two reasons:

(1) The impact is temporary, as the inflated SHIBOR only lasted during the last two weeks of June, and peaked at 13.4% only on June 20. Considering that such high rates and steep rise only occurred in SHIBOR of short durations, overall impact to banks' quarterly NIMs would be limited.

(2) The impact will only be reflected on the interbank assets and interbank liabilities within the banks' balance sheets. The surge of SHIBOR, in theory, should place additional pressure on banks' funding cost. Unlike Hong Kong or other countries where loan and deposit rates could be linked with interbank rates or other indicative rates, both rates in China are tied with the PBOC benchmark rate. Therefore, the actual impact to China banks should be much less than the market has expected.

**Exhibit 25: Balance sheet mix of H-share banks in 2012(%)**

	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
<b>Assets mix</b>								
Net loans	48.9	52.3	46.4	42.1	52.9	54.6	54.7	55.0
Repo	3.1	2.3	6.2	-	-	-	6.2	2.3
Cash	18.1	17.6	19.7	13.1	15.3	15.5	13.8	14.5
Investment	23.3	20.5	21.5	7.6	17.4	16.7	15.3	11.7
<b>Interbank placement</b>	<b>3.6</b>	<b>5.1</b>	<b>3.7</b>	<b>32.7</b>	<b>9.1</b>	<b>9.9</b>	<b>8.2</b>	<b>13.1</b>
Others	3.0	2.2	2.5	4.6	5.3	3.4	1.8	3.4
<b>Liability mix</b>								
Deposits	83.1	87.1	87.0	63.3	77.6	76.2	79.0	81.8
<b>Interbank placement</b>	<b>9.1</b>	<b>8.4</b>	<b>7.5</b>	<b>32.3</b>	<b>16.9</b>	<b>19.3</b>	<b>11.5</b>	<b>14.1</b>
Repo	1.4	0.0	-	-	-	-	-	0.4
Issued bonds	1.4	2.0	1.2	2.5	2.0	1.6	2.4	2.0
Others	5.0	2.4	4.3	2.0	3.5	2.9	7.2	1.7

Source(s): Companies, ABCI Securities

## Interbank reliance is small

As shown in Exhibit 25, except for MSB, interbank assets of the H-share banks' only accounted for 3.6%-13.1% of total assets, while interbank liabilities only accounted for 7.5%-19.3% of total liabilities. MSB's interbank assets and liabilities are relatively higher at 32.7% of total assets and 32.3% of total liabilities, yet as both interbank assets and liabilities are in similar proportion to their respective asset and liability sizes, we believe MSB's balance sheet mix would offset interest rate risk resulted from SHIBOR volatility. Therefore, we expect such mismatch in asset and liability will have a material impact on MSB's NIM.

With the 1.1x deposit floating rate cap and the LDR limit of 75%, mid-to-small banks would find it harder to expand and sustain their deposit bases simply through pricing, and therefore would rely more on interbank market funding.

## Interbank businesses - not a profit driver

By analyzing the interest yields of different asset and liability classes, we conclude that interbank businesses are more of a liquidity tool for banks than a profit generator. Interest spreads of banks' interbank balances were -70bps-139bps in 2012, MSB and BoCom were the two banks with the





highest negative spread, hinting to higher reliance on interbank funding source. According to our channel check, large banks' interbank businesses generally serve to stabilize system liquidity with a minimum target to breakeven.

**Exhibit 26: Yield rates of H-share banks in 2012 (%)**

	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
Loan	6.20	6.29	6.41	7.53	5.54	6.56	6.55	6.69
Investment	3.60	3.58	3.67	3.89	3.08	3.75	3.76	3.63
Cash	1.57	1.51	1.81	1.47	1.28	1.56	1.54	1.50
Interbank placement	2.54	3.62	3.48	5.08	4.13	3.46	3.80	4.18
Repo	-	4.26	-	9.35	-	-	-	4.29
Others	-	-	-	-	-	-	-	4.76
<b>Total IEA</b>	<b>4.59</b>	<b>4.70</b>	<b>4.66</b>	<b>5.79</b>	<b>4.23</b>	<b>5.10</b>	<b>5.14</b>	<b>5.17</b>
Deposit	1.99	1.98	1.84	2.37	2.05	2.19	1.91	2.25
Interbank placement	2.56	3.13	3.36	5.75	2.74	4.16	3.70	4.09
Repo	-	3.86	-	4.56	-	-	-	4.03
Issued bonds	4.06	3.48	-	4.71	3.73	3.88	4.87	-
Others	-	1.25	3.83	-	-	-	-	3.78
<b>Total IBL</b>	<b>2.10</b>	<b>2.12</b>	<b>1.99</b>	<b>3.04</b>	<b>2.21</b>	<b>2.67</b>	<b>2.27</b>	<b>2.56</b>

Source(s): Companies, ABCI Securities

### Low risk in interbank default

Concerns of a chain default scenario in the interbank market has been rising as certain small banks were said to have failed to fulfill their interbank liabilities in late June. However, such default is unlikely to have happened based on three reasons:

(1) Reputation in the interbank market is a bank's primary concern. A single default record could ruin its reputation and lead to future funding difficulties. Meanwhile, it is hard to clearly define the criteria of a default in the interbank market because banks could fulfill their interbank liabilities simply by rolling over their debts with partial payments or restructuring.

(2) Banks would usually evaluate the counterparty risk before lending in the interbank market. In particular, large banks mainly counterpart with JSB but not banks of the lower categories. In this way, risk exposure to smaller or poor-quality banks is minimized.

(3) The alleged banks in default have already denied the rumors publicly. As these are listed banks obliged to follow high standards of corporate governance practices, we believe their statements did reflect the truth, especially if one considers the high transparency of the interbank market.

### Asset and liability mixes become critical

Going forward, the asset-liability management would become increasingly important in the China banks sector. It would take some time before banks could improve their balance sheets by adjusting the mixes and pairing the assets and liabilities by duration, including that of the off-balance sheet products.



## Valuation

### Share price stabilized last month

Share prices of the China banks sector underperformed in 1H13 because of the slowing economic growth, possible negative impacts of interest rate liberalization and additional policy risk in relation to banks' operations. Share prices of H-share banks' dropped by 12.5%-31.4% in the past six months. However, we firmly believe that current valuation level has priced in most negative factors and notice that a stabilizing trend in July, with positive share gains for all banks except ABC, which recorded a 2.5% decline.

**Exhibit 27: Share price performance of H-share banks**

(HK\$)	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
2013-8-1	5.11	5.79	3.12	7.82	3.26	5.07	12.98	3.63
2013-6-28	4.89	5.49	3.20	7.59	3.19	5.00	12.96	3.58
2013-4-30	5.46	6.50	3.71	9.97	3.63	6.17	16.54	4.37
2013-1-31	5.84	6.69	4.22	11.14	3.82	6.58	18.58	5.29
<b>Changes (%)</b>								
1 month	4.5	5.5	(2.5)	3.0	2.2	1.4	0.2	1.4
3 months	(6.4)	(10.9)	(15.9)	(21.6)	(10.2)	(17.8)	(21.5)	(16.9)
6 months	(12.5)	(13.5)	(26.1)	(29.8)	(14.7)	(22.9)	(30.1)	(31.4)

Source(s): Bloomberg, ABCI Securities

### Trough valuations with decent yields

H-shares banks are currently trading at 1.5-2s.d. below historical P/B mean, which was at trough level similar to the 2008 financial crisis. Besides ICBC and CCB, all other H-share banks under our coverage are currently trading below their FY13E book value while the average 2013E dividend yield reaches 6.06%. Despite we still expect short-term volatility in share prices as driven by the continuous policy risk, as well as concerns over the shadow banking system and tightened liquidity, we believe the China banks sector has reached the fundamental buying point and should be able to experience some trading rebound.

**Exhibit 28: Summary of target price changes of H-share banks under coverage**

	Rating		Target price (HK\$)			Sustainable ROE (%)		COE (%)		Target P/B (x)	
	New	Old	New	Old	change %	New	Old	New	Old	New	Old
ICBC	BUY	BUY	6.91	7.64	(9.6)	19.1	19.6	15.4	14.0	1.39	1.71
CCB	BUY	BUY	8.19	9.05	(9.5)	20.2	20.7	15.4	14.5	1.42	1.74
ABC	BUY	BUY	4.74	5.55	(14.6)	19.2	20.5	15.9	14.5	1.34	1.71
MSB	BUY	BUY	11.94	15.49	(22.9)	19.7	20.5	16.9	13.5	1.25	1.93
BOC	BUY	HOLD	4.13	4.33	(4.6)	14.9	15.3	15.4	14.4	0.95	1.11
BoCom	BUY	HOLD	6.60	7.5	(12.0)	15.0	15.8	16.4	15.0	0.87	1.09
CMB	BUY	HOLD	17.80	20.6	(13.6)	19.6	20.7	17.4	15.4	1.19	1.56
CITICB	HOLD	HOLD	4.05	6.22	(34.9)	14.0	16.2	18.9	16.0	0.62	1.02

Source(s): Bloomberg, ABCI Securities estimates

We revise our financial model to take into account of the slower asset growth, higher provision, and narrowing NIMs. We also roll over our TP to mid-FY14 BVPS. We incorporate the assumptions of a reduced ROE and an increased cost of equity (COE) to account for the higher country risk. As a result, TPs in our H-shares banks universe fall by 4%-35%.



Meanwhile, we upgrade our ratings of BOC, BoCom and CMB from Hold to BUY on their low valuations, as we believe their current share prices have factored in all negative factors. We assign a HOLD rating for CITICB on the lack of improvement in its relatively weaker retail franchises that may in turn affect the stability of its deposit base, a factor that we believe is critical under the ongoing financial reforms.

Exhibit 29: Valuation summary of H-share banks (closing as of August 1, 2013)

	Ticker	Mkt cap (USD mn)	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PE	14E PE	13E PB	14E PB	13E Yield	
	ICBC	1398 HK	224,874	BUY	5.11	6.91	35.2	5.45	4.87	1.10	0.96	6.36
	CCB	939 HK	186,261	BUY	5.79	8.19	41.5	5.45	4.93	1.07	0.94	6.48
	ABC	1288 HK	131,348	BUY	3.12	4.74	51.9	4.80	4.46	0.94	0.83	7.21
	MSB	1988 HK	37,004	BUY	7.82	11.94	52.7	4.04	3.72	0.90	0.76	4.16
	BOC	3988 HK	120,965	BUY	3.26	4.13	26.7	5.02	4.74	0.79	0.71	6.90
	BoCom	3328 HK	47,417	BUY	5.07	6.60	30.2	4.83	4.36	0.71	0.63	5.18
	CMB	3968 HK	37,876	BUY	12.98	17.80	37.1	4.74	4.19	0.94	0.80	6.36
	CITICB	998 HK	25,289	HOLD	3.63	4.05	11.6	4.15	3.63	0.60	0.52	5.85
	<b>Average</b>							<b>4.81</b>	<b>4.36</b>	<b>0.88</b>	<b>0.77</b>	<b>6.06</b>

Source(s): Bloomberg, ABCI Securities estimates

### Investment themes

**ICBC (1398 HK)** – We continue to prefer large banks as we believe they will remain relatively stable under the interest rate liberalization. ICBC, which has a current valuation of 1.1x FY13E P/B is one of our top picks. With its mega branch networks and stable deposit franchises, we believe it has a higher asset quality that would render them more defensive against policy headwinds.

**CCB (939 HK)** – We favor CCB for its huge network, stable deposit base, and its vigilant risk management as reflected by its second highest provisioning ratio after ABC. Based on CCB's 1Q13 guidance, the bank's NIM should bottom out in 2Q13-3Q13, while the Group would aim to achieve a full-year NIM similar to 2011 at 2.7%. Trading at 1.07x FY13E P/B, CCB has the second highest dividend yield of 6.48% among the big-four banks.

**ABC (1288 HK)** – We continue to favor ABC for being the fastest-growing big-four bank. ABC will be the major beneficiary under the government's policy to support rural area growth. With the lowest LDR and being a net lender in the interbank market, we believe ABC will not suffer from any NIM pressure caused by liquidity shortage. Furthermore, given its late start in NPL clearance, we look forward to seeing ABC's continue improvement in asset quality in coming quarters.

**BOC (3988 HK)** – We upgrade BOC's rating from Hold to BUY for its increased overseas contribution from BOCHK (2388 HK). Despite BOC's domestic business is more vulnerable to uncertainties in China exports and domestic operation environment than other H-share banks, we believe BOC would be the least impacted by the ongoing interest rate liberalization as over 20% of its assets are located overseas. Driven by RMB internationalization, we also expect continuous improvement in BOCHK's NIM.



---

**BoCom (3328 HK)** – We upgrade our rating for BoCom from Hold to BUY on its low valuation at 0.71x 2013E P/B. Compared to the big-four banks, we prefer BoCom less because of its business is highly concentrated in eastern China (38% of total loans in 1Q13), which would lead to higher asset quality concerns in the coming quarters. We expect momentum of BoCom’s share price will be weaker than ICBC, CCB and ABC.

**MSB (1988 HK)** – MSB is our top pick among mid-cap banks. We are impressed by its cautious risk management in WMPs with no exposure to principal guaranteed product. Its leading strength in SMEs and MSEs clientele also allow the bank to benefit more than its peers on government’s policy to support SME lending. Although MSB’s share price is highly sensitive to market news (especially those related to WMP controls, shadow banks and asset quality), we see limited downside at the current valuation and expect MSB to experience larger trading rebound than other mid-cap banks.

**CMB (3968 HK)** – We upgraded our rating of CMB from Hold to BUY. CMB’s shares have been one of the worst performers among the H-share banks in the past six months and its current valuation is at 0.94x FY13E P/B. We value CMB’s strengths in retail banking and innovative products, as well as the bank’s decent risk management. Although we are still a big fan of large-sized banks under the current business environment, we believe high-quality mid-cap laggard like CMB could experience some meaningful rebound. Meanwhile, we believe the recent approval on CMB’s right issues could increase its total CAR (capital adequacy ratio) by ~ 2%, lifting the market concern on its future capital needs.

**CITICB (998 HK)** –CITICB has been another laggard for the past six months and is now trading at a valuation of 0.6x 2013E P/B, the lowest among the H-share banks. However a meaningful operational change is yet to be seen after the inauguration of its new president in Sep 2012. With the lowest NPL ratio and the lowest provision ratio among peers, we believe CITICB may be understated its asset quality risk, hence could hardest hit by higher provisions in the near future. Moreover, its weak retail franchise could be a major disadvantage for the Group, as competition for deposit base would intensify under the interest rate liberalization.

**Exhibit 30: Key drivers comparison (%)**

	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
<b><u>NIM</u></b>								
2013E	2.62	2.75	2.80	2.59	2.14	2.53	2.98	2.72
2014E	2.63	2.77	2.82	2.57	2.16	2.52	3.00	2.68
2015E	2.63	2.78	2.87	2.66	2.19	2.52	3.03	2.67
<b><u>CIR</u></b>								
2013E	33.3	38.8	40.8	43.8	45.6	41.6	45.0	44.0
2014E	33.1	40.9	43.7	47.5	48.0	43.9	46.0	45.7
2015E	34.0	43.8	45.7	49.5	49.4	47.2	38.8	47.9
<b><u>ROA</u></b>								
2013E	1.40	1.43	1.20	1.21	1.09	1.11	1.30	1.03
2014E	1.40	1.42	1.16	1.16	1.07	1.08	1.31	1.03
2015E	1.36	1.37	1.14	1.17	1.07	1.05	1.32	0.99
<b><u>ROE</u></b>								
2013E	21.5	21.0	20.9	22.9	16.6	15.4	21.5	15.3
2014E	21.2	20.3	19.8	20.8	15.9	15.2	20.7	15.2
2015E	21.1	19.0	19.3	20.1	15.6	14.8	19.9	14.6
<b><u>LDR</u></b>								
2013E	65.0	66.6	60.4	70.4	75.3	80.2	75.7	74.5
2014E	64.6	66.8	61.7	69.7	76.0	81.6	76.8	75.3
2015E	63.6	66.8	62.5	68.4	77.0	83.3	77.8	75.7
<b><u>Core CAR</u></b>								
2013E	9.9	11.2	9.4	8.0	10.3	10.9	8.6	10.4
2014E	10.0	11.5	9.8	8.5	10.3	10.7	8.8	10.1
2015E	9.0	11.8	9.8	8.9	11.1	10.5	9.1	10.0
<b><u>Total CAR</u></b>								
2013E	12.9	14.2	12.4	9.8	12.8	13.6	12.1	13.7
2014E	12.9	14.5	12.8	10.2	12.8	13.1	12.3	13.0
2015E	12.0	14.8	12.9	10.5	13.4	12.7	12.6	12.7
<b><u>NPL%</u></b>								
2013E	1.00	1.18	1.52	1.20	1.04	0.98	0.87	0.91
2014E	1.10	1.27	1.60	1.35	1.05	1.01	0.85	0.91
2015E	1.16	1.32	1.66	1.35	1.03	1.01	0.84	0.89
<b><u>Provision ratio</u></b>								
2013E	2.6	2.8	4.5	2.6	2.3	2.5	2.2	2.2
2014E	2.7	2.9	4.6	2.6	2.4	2.6	2.3	2.3
2015E	2.8	2.9	4.6	2.6	2.4	2.6	2.3	2.3
<b><u>Provision coverage</u></b>								
2013E	261.3	237.1	295.8	283.3	220.3	251.0	253.0	242.7
2014E	246.0	224.0	283.5	271.6	223.9	252.0	265.8	247.8
2015E	241.6	219.1	277.4	260.0	233.5	252.7	274.8	257.7
<b><u>IEA growth</u></b>								
2013E	13.0	11.6	11.7	13.0	8.4	13.0	12.6	15.1
2014E	12.1	11.0	11.8	13.1	8.3	12.8	12.0	14.6
2015E	10.9	9.7	11.1	12.4	8.4	12.7	11.3	14.3
<b><u>Total asset growth</u></b>								
2013E	12.9	11.7	11.8	13.4	8.9	12.9	12.7	14.3
2014E	12.0	11.1	11.8	13.5	8.7	12.8	12.1	14.0
2015E	10.8	9.9	11.2	12.7	8.6	12.6	11.4	13.9
<b><u>IBL growth</u></b>								
2013E	12.7	12.3	12.7	12.5	8.8	12.5	12.6	14.3
2014E	11.8	11.4	11.5	11.5	8.1	12.6	11.7	14.3
2015E	11.4	10.0	11.6	11.5	7.7	12.2	11.2	14.2
<b><u>Net profit growth</u></b>								
2013E	9.2	9.8	16.2	10.1	3.9	6.7	4.3	5.5
2014E	13.1	10.7	7.7	8.8	6.6	10.3	13.4	14.4
2015E	7.6	6.1	9.6	14.5	9.0	9.3	11.8	9.5

Source(s): Companies, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

## ICBC (1398 HK – Buy)

### Consolidated income statement (FY11A-15E)

(RMB mn)	2011A	2012A	2013E	2014E	2015E
Net interest income	362,764	417,828	468,549	528,755	590,091
Non-interest income	107,837	111,892	123,598	138,038	138,038
Of which: Fees and commissions	101,550	106,064	117,619	132,012	132,012
<b>Operating income</b>	<b>470,601</b>	<b>529,720</b>	<b>592,147</b>	<b>666,794</b>	<b>728,130</b>
Operating expenses	(156,160)	(174,944)	(197,052)	(220,884)	(247,531)
Amortization	(13,453)	(14,996)	(16,709)	(18,474)	(20,267)
<b>Pre-prov. operating profits</b>	<b>300,988</b>	<b>339,780</b>	<b>378,386</b>	<b>427,436</b>	<b>460,332</b>
Impairment loans losses	(31,121)	(33,745)	(42,724)	(47,653)	(51,586)
Operating profit	269,867	306,035	335,662	379,783	408,746
Non-operating income	2,444	2,652	2,891	3,151	3,151
<b>Profit before tax</b>	<b>272,311</b>	<b>308,687</b>	<b>338,553</b>	<b>382,934</b>	<b>411,897</b>
Tax	(63,866)	(69,996)	(77,867)	(88,075)	(94,736)
Minority interests	(180)	(159)	(175)	(192)	(192)
<b>Net profit</b>	<b>208,265</b>	<b>238,532</b>	<b>260,511</b>	<b>294,667</b>	<b>316,968</b>
<b>Growth (%)</b>					
Net interest income	19.4	15.2	12.1	12.8	11.6
Non-interest income	40.0	3.8	10.5	11.7	0.0
Of which: Fees and commissions	39.4	4.4	10.9	12.2	0.0
<b>Operating income</b>	<b>23.6</b>	<b>12.6</b>	<b>11.8</b>	<b>12.6</b>	<b>9.2</b>
Operating expenses	22.6	12.0	12.6	12.1	12.1
Amortization	10.7	11.5	11.4	10.6	9.7
<b>Pre-prov. operating profits</b>	<b>24.8</b>	<b>12.9</b>	<b>11.4</b>	<b>13.0</b>	<b>7.7</b>
Impairment loans losses	11.2	8.4	26.6	11.5	8.3
Operating profit	26.5	13.4	9.7	13.1	7.6
Non-operating income	13.9	8.5	9.0	9.0	0.0
<b>Profit before tax</b>	<b>26.4</b>	<b>13.4</b>	<b>9.7</b>	<b>13.1</b>	<b>7.6</b>
Tax	29.3	9.6	11.2	13.1	7.6
Minority interests	(79.3)	(11.7)	10.0	10.0	10.0
<b>Net profit</b>	<b>26.1</b>	<b>14.5</b>	<b>9.2</b>	<b>13.1</b>	<b>7.6</b>
<b>Per share data</b>					
EPS	0.60	0.68	0.75	0.84	0.91
BVPS	2.74	3.22	3.70	4.24	4.35
DPS	0.20	0.24	0.26	0.29	0.32
<b>Key ratio (%)</b>					
Net interest margin	2.61	2.66	2.62	2.63	2.63
Net interest spread	2.49	2.49	2.41	2.38	2.39
Cost to income ratio	33.2	33.0	33.3	33.1	34.0
Return on average assets	1.44	1.44	1.40	1.40	1.36
Return on average equity	23.4	22.9	21.5	21.2	21.1
Effective tax rate	23.5	22.7	23.0	23.0	23.0
Dividend payout	34.0	35.0	35.0	35.0	35.0

Source(s): Company, ABCI Securities estimates

### ICBC P/B band chart



Source(s): Bloomberg, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

## ICBC (1398 HK – Buy)

### Consolidated balance sheet (FY11-15E)

(RMB mn)	2011A	2012A	2013E	2014E	2015E
Cash & cash equivalent	2,762,156	3,174,943	3,750,524	4,350,933	4,884,507
Dues from banks	810,287	1,181,029	1,522,609	1,882,022	2,278,793
Investment securities	3,915,902	4,083,887	4,389,496	4,677,791	4,958,922
Net loans and advances	7,594,019	8,583,289	9,568,681	10,644,603	11,777,365
<b>Total interest earning assets</b>	<b>15,082,364</b>	<b>17,023,148</b>	<b>19,231,310</b>	<b>21,555,349</b>	<b>23,899,587</b>
Property and equipment	119,028	135,889	156,272	178,150	203,092
Other non-interest earning assets	275,476	383,180	413,151	437,700	459,586
<b>Total assets</b>	<b>15,476,868</b>	<b>17,542,217</b>	<b>19,800,733</b>	<b>22,171,200</b>	<b>24,562,265</b>
Customer deposits	12,261,219	13,642,910	15,109,110	16,934,259	19,054,235
Due to banks	1,341,290	1,486,805	1,635,486	1,799,034	1,978,937
Subordinated debt	204,161	232,186	260,048	291,254	326,205
<b>Total interest bearing liabilities.</b>	<b>13,848,096</b>	<b>15,399,910</b>	<b>17,043,793</b>	<b>19,065,654</b>	<b>21,402,539</b>
Current taxes	51,535	56,922	68,306	81,968	98,361
Deferred tax liabilities	103	552	635	730	840
Other liabilities	619,311	956,374	1,391,420	1,536,123	1,536,197
<b>Total liabilities</b>	<b>14,519,045</b>	<b>16,413,758</b>	<b>18,504,153</b>	<b>20,684,475</b>	<b>23,037,936</b>
Share capital	349,084	349,620	349,620	349,620	349,620
Reserves	607,658	775,377	943,324	1,133,289	1,170,701
Minorities	1,081	3,462	3,635	3,817	4,008
<b>Shareholder's equity</b>	<b>957,823</b>	<b>1,128,459</b>	<b>1,296,579</b>	<b>1,486,726</b>	<b>1,524,328</b>
<b>Growth (%)</b>					
Cash & cash equivalent	21.0	14.9	18.1	16.0	12.3
Dues from banks	58.5	45.8	28.9	23.6	21.1
Investment securities	4.9	4.3	7.5	6.6	6.0
Net loans and advances	14.7	13.0	11.5	11.2	10.6
Total interest earning assets	14.7	12.9	13.0	12.1	10.9
<b>Total assets</b>	<b>15.0</b>	<b>13.3</b>	<b>12.9</b>	<b>12.0</b>	<b>10.8</b>
Customer deposits	10.0	11.3	10.7	12.1	12.5
Due to banks	28.0	10.8	10.0	10.0	10.0
Subordinated debt	99.6	13.7	12.0	12.0	12.0
Total interest bearing liabilities.	12.5	11.2	10.7	11.9	12.3
<b>Total liabilities</b>	<b>14.9</b>	<b>13.0</b>	<b>12.7</b>	<b>11.8</b>	<b>11.4</b>
<b>Shareholder's equity</b>	<b>16.6</b>	<b>17.8</b>	<b>14.9</b>	<b>14.7</b>	<b>2.5</b>
<b>Key ratio (%)</b>					
Loan to deposits	63.5	64.5	65.0	64.6	63.6
Core CAR	10.1	10.6	9.9	10.0	9.0
Total CAR	13.2	13.7	12.9	12.9	12.0
NPL ratio	0.94	0.85	1.00	1.10	1.16
NPL growth	(0.3)	2.1	31.1	22.8	16.9
Net bad debt charge ratio	0.4	0.4	0.4	0.4	0.4
Provision to total loans	2.5	2.5	2.6	2.7	2.8
Provision coverage	266.9	295.5	261.3	246.0	241.6

Source(s): Company, ABCI Securities estimates

### Major changes in forecasts

	2013E	New		Old		New vs. old (%)			
		2014E	2015E	2013E	2014E	2013E	2014E	2015E	
NIM (%)	2.62	2.63	2.63	2.58	2.59	na	4bps	4bps	na
NII (RMB mn)	468,549	528,755	590,091	474,374	539,764	na	(1.2)	(2.0)	na
Net profits (RMB mn)	260,511	294,667	316,968	260,149	302,866	na	-	(2.7)	na

Source(s): ABCI Securities estimates



## CCB (939 HK – Buy)

### Consolidated income statement (FY11-15E)

(RMB mn)	2011A	2012A	2013E	2014E	2015E
Net interest income	304,572	353,202	403,010	452,812	500,253
Non-interest income	94,831	109,331	120,886	135,573	150,806
Of which: fees and commissions	86,994	93,507	104,330	118,250	132,679
<b>Operating income</b>	<b>399,403</b>	<b>462,533</b>	<b>523,896</b>	<b>588,385</b>	<b>651,059</b>
Operating expenses	(142,437)	(168,877)	(200,864)	(238,363)	(282,558)
Amortization	(2,100)	(2,204)	(2,336)	(2,476)	(2,625)
<b>Pre-prov. operating profits</b>	<b>254,866</b>	<b>291,452</b>	<b>320,695</b>	<b>347,545</b>	<b>365,876</b>
Impairment losses	(35,783)	(40,041)	(44,738)	(42,086)	(41,741)
Operating profit	219,083	251,411	275,957	305,459	324,135
Non-operating income	24	28	29	31	32
<b>Profit before tax</b>	<b>219,107</b>	<b>251,439</b>	<b>275,986</b>	<b>305,490</b>	<b>324,167</b>
Tax	(49,668)	(57,837)	(63,477)	(70,263)	(74,558)
Minority interests	(181)	(423)	(444)	(466)	(490)
<b>Net profit</b>	<b>169,258</b>	<b>193,179</b>	<b>212,065</b>	<b>234,761</b>	<b>249,119</b>
<b>Growth (%)</b>					
Net interest income	21.1	16.0	14.1	12.4	10.5
Non-interest income	27.7	15.3	10.6	12.1	11.2
Of which: fees and commissions	31.5	7.5	11.6	13.3	12.2
<b>Operating income</b>	<b>22.6</b>	<b>15.8</b>	<b>13.3</b>	<b>12.3</b>	<b>10.7</b>
Operating expenses	19.3	18.6	18.9	18.7	18.5
Amortization	6.5	5.0	6.0	6.0	6.0
<b>Pre-prov. operating profits</b>	<b>24.7</b>	<b>14.4</b>	<b>10.0</b>	<b>8.4</b>	<b>5.3</b>
Impairment losses	22.2	11.9	11.7	(5.9)	(0.8)
Operating profit	25.1	14.8	9.8	10.7	6.1
Non-operating income	(29.4)	16.7	5.0	5.0	5.0
<b>Profit before tax</b>	<b>25.1</b>	<b>14.8</b>	<b>9.8</b>	<b>10.7</b>	<b>6.1</b>
Tax	23.8	16.4	9.8	10.7	6.1
Minority interests	(3.2)	133.7	5.0	5.0	5.0
<b>Net profit</b>	<b>25.5</b>	<b>14.1</b>	<b>9.8</b>	<b>10.7</b>	<b>6.1</b>
<b>Per share data (RMB)</b>					
EPS	0.68	0.77	0.85	0.94	1.00
BVPS	3.24	3.77	4.32	4.93	5.58
DPS	0.24	0.27	0.30	0.33	0.35
<b>Key ratio (%)</b>					
Net interest margin	2.70	2.75	2.75	2.77	2.78
Net interest spread	2.57	2.58	2.57	2.59	2.60
Cost to income ratio	36.2	37.0	38.8	40.9	43.8
Return on average assets	1.47	1.47	1.43	1.42	1.37
Return on average equity	22.4	22.0	21.0	20.3	19.0
Effective tax rate	22.7	23.0	23.0	23.0	23.0
Dividend payout	34.9	35.0	35.0	35.0	35.0

Source(s): Company, ABCI Securities estimates

### CCB P/B band chart



Source(s): Bloomberg, ABCI Securities estimates





## CCB (939 HK – Buy)

### Consolidated balance sheet (FY11-15E)

(RMB mn)	2011A	2012A	2013E	2014E	2015E
Cash & cash equivalent	2,579,854	2,774,754	2,978,421	3,195,310	3,427,880
Dues from banks	385,792	715,551	908,146	1,124,396	1,321,333
Investment securities	2,718,654	2,839,076	3,058,476	3,302,856	3,566,803
Net loans and advances	6,325,194	7,309,879	8,281,827	9,273,822	10,218,882
<b>Total interest earning assets</b>	<b>12,009,494</b>	<b>13,639,260</b>	<b>15,226,869</b>	<b>16,896,384</b>	<b>18,534,898</b>
Property and equipment	94,222	113,946	125,341	137,875	151,662
Other non-interest earning assets	178,118	219,622	260,841	310,034	368,768
<b>Total assets</b>	<b>12,281,834</b>	<b>13,972,828</b>	<b>15,613,051</b>	<b>17,344,292</b>	<b>19,055,328</b>
Customer deposits	9,987,450	11,343,079	12,785,728	14,293,814	15,747,668
Due to banks	1,044,954	1,097,743	1,163,608	1,233,424	1,307,429
Subordinated debt	119,861	159,834	183,809	207,704	230,552
<b>Total interest bearing liabilities</b>	<b>11,211,177</b>	<b>12,706,173</b>	<b>14,265,041</b>	<b>15,895,856</b>	<b>17,478,745</b>
Current taxes liabilities	47,189	53,271	59,664	65,630	72,193
Deferred tax liabilities	358	332	448	583	757
Other liabilities	206,449	263,443	199,114	139,328	98,642
<b>Total liabilities</b>	<b>11,465,173</b>	<b>13,023,219</b>	<b>14,524,267</b>	<b>16,101,396</b>	<b>17,650,338</b>
Share capital	250,011	250,011	250,011	250,011	250,011
Reserves	561,130	691,721	829,715	982,468	1,144,562
Minorities	5,520	7,877	9,059	10,417	10,417
<b>Shareholder's equity</b>	<b>816,661</b>	<b>949,609</b>	<b>1,088,784</b>	<b>1,242,896</b>	<b>1,404,990</b>
<b>Growth (%)</b>					
Cash & cash equivalent	27.1	7.6	7.3	7.3	7.3
Dues from banks	171.1	85.5	26.9	23.8	17.5
Investment securities	(5.9)	4.4	7.7	8.0	8.0
Net loans and advances	14.5	15.6	13.3	12.0	10.2
Total interest earning assets	13.5	13.6	11.6	11.0	9.7
<b>Total assets</b>	<b>13.6</b>	<b>13.8</b>	<b>11.7</b>	<b>11.1</b>	<b>9.9</b>
Customer deposits	10.1	13.6	12.7	11.8	10.2
Due to other banks & FIs	39.4	5.1	6.0	6.0	6.0
Subordinated term debt	50.0	33.3	15.0	13.0	11.0
Total interest bearing liabilities.	13.0	13.3	12.3	11.4	10.0
<b>Total liabilities</b>	<b>13.4</b>	<b>13.6</b>	<b>11.5</b>	<b>10.9</b>	<b>9.6</b>
<b>Shareholder's equity</b>	<b>16.5</b>	<b>16.3</b>	<b>14.7</b>	<b>14.2</b>	<b>13.0</b>
<b>Key ratio (%)</b>					
Loan to deposits	65.0	66.2	66.6	66.8	66.8
Core CAR	11.0	11.3	11.2	11.5	11.8
Total CAR	13.7	14.3	14.2	14.5	14.8
NPL ratio	1.09	0.99	1.18	1.27	1.32
NPL growth	9.6	5.2	34.9	20.7	14.7
Net bad debt charge ratio	0.5	0.5	0.5	0.4	0.4
Provision to total loans	2.6	2.7	2.8	2.9	2.9
Provision coverage	241.4	271.3	237.1	224.0	219.1

Source(s): Company, ABCI Securities estimates

### Major changes in forecasts

	New			Old			New vs. old (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
NIM (%)	2.75	2.77	2.78	2.70	2.72	na	5bps	7bps	na
NII (RMB mn)	403,010	452,812	500,253	407,143	460,721	na	(1.0)	(1.7)	na
Net profits (RMB mn)	212,065	234,761	249,119	219,453	249,383	na	(3.4)	(5.9)	na

Source(s): ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

## ABC (1288 HK – Buy)

### Consolidated income statement (FY11-15E)

(RMB mn)	2011A	2012A	2013E	2014E	2015E
Net interest income	307,199	341,879	391,075	431,105	489,928
Non-interest income	72,557	83,085	95,718	109,234	122,623
Of which: fees and commissions	68,750	74,844	86,783	99,074	111,458
<b>Operating income</b>	<b>379,756</b>	<b>424,964</b>	<b>486,794</b>	<b>540,339</b>	<b>612,551</b>
Operating expenses	(144,200)	(167,306)	(198,805)	(235,951)	(280,083)
Amortization	(13,130)	(15,496)	(17,820)	(19,959)	(22,354)
<b>Pre-prov. operating profits</b>	<b>222,426</b>	<b>242,162</b>	<b>270,168</b>	<b>284,429</b>	<b>310,114</b>
Impairment loans losses	(64,225)	(54,235)	(51,088)	(48,427)	(51,437)
Operating profit	158,201	187,927	219,081	236,003	258,678
<b>Profit before tax</b>	<b>158,201</b>	<b>187,927</b>	<b>219,081</b>	<b>236,003</b>	<b>258,678</b>
Tax	(36,245)	(42,796)	(50,389)	(54,281)	(59,496)
Minority interests	(29)	(37)	(41)	(45)	(49)
<b>Net profit</b>	<b>121,927</b>	<b>145,094</b>	<b>168,651</b>	<b>181,677</b>	<b>199,133</b>
<b>Growth (%)</b>					
Net interest income	26.9	11.3	14.4	10.2	13.6
Non-interest income	44.8	14.5	15.2	14.1	12.3
Of which: fees and commissions	49.0	8.9	16.0	14.2	12.5
<b>Operating income</b>	<b>29.9</b>	<b>11.9</b>	<b>14.5</b>	<b>11.0</b>	<b>13.4</b>
Operating expenses	23.4	16.0	18.8	18.7	18.7
Amortization	16.2	18.0	15.0	12.0	12.0
<b>Pre-prov. operating profits</b>	<b>35.5</b>	<b>8.9</b>	<b>11.6</b>	<b>5.3</b>	<b>9.0</b>
Impairment loans losses	47.9	(15.6)	(5.8)	(5.2)	6.2
Operating profit	31.0	18.8	16.6	7.7	9.6
<b>Profit before tax</b>	<b>31.0</b>	<b>18.8</b>	<b>16.6</b>	<b>7.7</b>	<b>9.6</b>
Tax	40.3	18.1	17.7	7.7	9.6
Minority interests	(14.7)	27.6	10.0	10.0	10.0
<b>Net profit</b>	<b>28.5</b>	<b>19.0</b>	<b>16.2</b>	<b>7.7</b>	<b>9.6</b>
<b>Per share data (RMB)</b>					
EPS	0.38	0.45	0.52	0.56	0.61
BVPS	2.00	2.31	2.65	3.01	3.35
DPS	0.13	0.16	0.18	0.20	0.21
<b>Key ratio (%)</b>					
Net interest margin	2.85	2.81	2.80	2.82	2.87
Net interest spread	2.73	2.67	2.53	2.58	2.61
Cost to income ratio	38.0	39.4	40.8	43.7	45.7
Return on average assets	1.11	1.16	1.20	1.16	1.14
Return on average equity	20.5	20.7	20.9	19.8	19.3
Effective tax rate	22.9	23.0	23.0	23.0	23.0
Dividend payout	35.0	35.0	35.0	35.0	35.0

Source(s): Company, ABCI Securities estimates

### ABC P/B band chart



Source(s): Bloomberg, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

## ABC (1288 HK – Buy)

### Consolidated balance sheet (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Cash & cash equivalent	2,487,082	2,613,111	2,760,767	2,922,227	3,110,672
Dues from banks	873,997	1,300,233	1,597,406	1,970,087	2,352,118
Investment securities	2,628,052	2,851,448	3,094,142	3,365,717	3,647,778
Net loans and advances	5,410,086	6,153,411	6,981,597	7,873,099	8,806,640
<b>Total interest earning assets</b>	<b>11,399,217</b>	<b>12,918,203</b>	<b>14,433,911</b>	<b>16,131,129</b>	<b>17,917,209</b>
Property and equipment	131,815	141,490	152,809	163,506	174,951
Other non-interest earning assets	146,545	184,649	222,718	264,197	313,419
<b>Total assets</b>	<b>11,677,577</b>	<b>13,244,342</b>	<b>14,809,438</b>	<b>16,558,832</b>	<b>18,405,579</b>
Customer deposits	9,622,026	10,862,935	12,108,887	13,365,321	14,781,619
Due to banks	724,286	934,139	1,167,674	1,424,562	1,709,474
Subordinated debt	119,390	192,639	231,167	265,842	305,718
<b>Total interest bearing liabilities.</b>	<b>10,465,702</b>	<b>11,989,713</b>	<b>13,507,727</b>	<b>15,055,725</b>	<b>16,796,811</b>
Current taxes	37,868	40,419	44,461	48,907	53,798
Deferred tax liabilities	27	15	18	22	26
Other liabilities	524,192	462,841	395,323	473,246	463,561
<b>Total liabilities</b>	<b>11,027,789</b>	<b>12,492,988</b>	<b>13,947,529</b>	<b>15,577,900</b>	<b>17,314,196</b>
Share capital	324,794	324,794	324,794	324,794	324,794
Reserves	324,807	425,021	535,437	654,326	764,633
Minorities	187	1,539	1,678	1,812	1,957
<b>Shareholder's equity</b>	<b>649,788</b>	<b>751,354</b>	<b>861,908</b>	<b>980,932</b>	<b>1,091,384</b>
<b>Growth (%)</b>					
Cash & cash equivalent	19.4	5.1	5.7	5.8	6.4
Dues from banks	25.1	48.8	22.9	23.3	19.4
Investment securities	4.0	8.5	8.5	8.8	8.4
Net loans and advances	13.0	13.7	13.5	12.8	11.9
Total interest earning assets	12.9	13.3	11.7	11.8	11.1
<b>Total assets</b>	<b>13.0</b>	<b>13.4</b>	<b>11.8</b>	<b>11.8</b>	<b>11.2</b>
Customer deposits	8.3	12.9	11.5	10.4	10.6
Due to banks	24.2	29.0	25.0	22.0	20.0
Subordinated debt	91.5	61.4	20.0	15.0	15.0
Total interest bearing liabilities.	9.8	14.6	12.7	11.5	11.6
<b>Total liabilities</b>	<b>12.6</b>	<b>13.3</b>	<b>11.6</b>	<b>11.7</b>	<b>11.1</b>
<b>Shareholder's equity</b>	<b>19.8</b>	<b>15.4</b>	<b>14.7</b>	<b>13.8</b>	<b>11.3</b>
<b>Key ratio (%)</b>					
Loan to deposits	58.6	59.2	60.4	61.7	62.5
Core CAR	9.5	9.7	9.4	9.8	9.8
Total CAR	11.9	12.6	12.4	12.8	12.9
NPL ratio	1.55	1.33	1.52	1.60	1.66
NPL growth	(13.0)	(1.7)	29.6	19.0	15.7
Net bad debt charge ratio	1.2	0.9	0.7	0.6	0.6
Provision to total loans	4.1	4.4	4.5	4.6	4.6
Provision coverage	263.1	326.1	295.8	283.5	277.4

Source(s): Company, ABCI Securities estimates

### Major changes in forecasts

	New			Old			New vs. old (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
NIM (%)	2.80	2.82	2.87	2.72	2.72	na	8bps	10bps	na
NII (RMB mn)	391,075	431,105	489,928	403,474	456,251	na	(3.1)	(5.5)	na
Net profits (RMB mn)	168,651	181,677	199,133	168,007	197,428	na	(0.3)	(8.0)	na

Source(s): ABCI Securities estimates



## MSB (1988 HK – Buy)

### Consolidated income statement (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Net interest income	64,821	77,153	85,329	94,293	109,708
Non-interest income	17,375	25,439	31,836	39,186	47,228
Of which: fees and commissions	15,101	20,523	26,219	32,764	39,885
<b>Operating income</b>	<b>82,196</b>	<b>102,592</b>	<b>117,166</b>	<b>133,479</b>	<b>156,937</b>
Operating expenses	(35,352)	(41,155)	(51,373)	(63,462)	(77,633)
Amortization	(1,293)	(1,588)	(1,937)	(2,344)	(2,813)
<b>Pre-prov. operating profits</b>	<b>45,551</b>	<b>59,849</b>	<b>63,856</b>	<b>67,673</b>	<b>76,491</b>
Impairment loans losses	(8,376)	(9,197)	(8,952)	(7,728)	(7,700)
Operating profit	37,175	50,652	54,904	59,945	68,791
<b>Profit before tax</b>	<b>37,175</b>	<b>50,652</b>	<b>54,904</b>	<b>59,945</b>	<b>68,791</b>
Tax	(8,732)	(12,344)	(12,628)	(13,822)	(15,822)
Minority interests	(523)	(745)	(931)	(1,164)	(1,455)
<b>Net profit</b>	<b>27,920</b>	<b>37,563</b>	<b>41,345</b>	<b>44,993</b>	<b>51,514</b>
<b>Growth (%)</b>					
Net interest income	41.3	19.0	10.6	10.5	16.3
Non-interest income	97.6	46.4	25.1	23.1	20.5
Of which: fees and commissions	82.2	35.9	27.8	25.0	21.7
<b>Operating income</b>	<b>50.4</b>	<b>24.8</b>	<b>14.2</b>	<b>13.9</b>	<b>17.6</b>
Operating expenses	40.6	16.4	24.8	23.5	22.3
Amortization	24.2	22.8	22.0	21.0	20.0
<b>Pre-prov. operating profits</b>	<b>59.9</b>	<b>31.4</b>	<b>6.7</b>	<b>6.0</b>	<b>13.0</b>
Impairment loans losses	52.2	9.8	(2.7)	(13.7)	(0.4)
Operating profit	61.8	36.3	8.4	9.2	14.8
<b>Profit before tax</b>	<b>61.8</b>	<b>36.3</b>	<b>8.4</b>	<b>9.2</b>	<b>14.8</b>
Tax	65.1	41.4	2.3	9.2	14.8
Minority interests	388.8	42.4	25.0	25.0	25.0
<b>Net profit</b>	<b>58.8</b>	<b>34.5</b>	<b>10.1</b>	<b>8.8</b>	<b>14.5</b>
<b>Per share data (RMB)</b>					
EPS	1.05	1.41	1.55	1.68	1.93
BVPS	4.85	5.75	6.96	8.27	9.78
DPS	0.32	0.15	0.26	0.29	0.33
<b>Key ratio (%)</b>					
Net interest margin	3.14	2.94	2.59	2.57	2.66
Net interest spread	2.96	2.76	2.24	2.22	2.26
Cost to income ratio	43.0	40.1	43.8	47.5	49.5
Return on average assets	1.38	1.38	1.21	1.16	1.17
Return on average equity	23.9	25.7	22.9	20.8	20.1
Effective tax rate	23.5	24.4	23.0	23.0	23.0
Dividend payout	30.5	11.3	18.0	18.0	18.0

Source(s): Company, ABCI Securities estimates

### MSB P/B band chart



Source(s): Bloomberg, ABCI Securities estimates



## MSB (1988 HK – Buy)

### Consolidated balance sheet (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Cash & cash equivalent	332,805	420,418	502,598	594,991	692,355
Dues from banks	411,103	1,048,905	1,179,503	1,333,041	1,507,456
Investment securities	211,485	243,520	268,622	298,252	329,484
Net loans and advances	1,178,285	1,351,512	1,511,428	1,690,814	1,872,250
<b>Total interest earning assets</b>	<b>2,133,678</b>	<b>3,064,355</b>	<b>3,462,150</b>	<b>3,917,098</b>	<b>4,401,546</b>
Property and equipment	9,971	13,631	16,085	18,658	21,457
Other non-interest earning assets	85,415	134,015	163,322	197,302	236,263
<b>Total assets</b>	<b>2,229,064</b>	<b>3,212,001</b>	<b>3,641,557</b>	<b>4,133,059</b>	<b>4,659,266</b>
Customer deposits	1,644,738	1,926,194	2,203,998	2,489,412	2,810,228
Due to banks	320,326	849,397	917,349	990,737	1,069,996
Subordinated debt	31,030	7,969	9,164	10,539	12,120
<b>Total interest bearing liabilities</b>	<b>1,996,094</b>	<b>2,783,560</b>	<b>3,130,512</b>	<b>3,490,688</b>	<b>3,892,344</b>
Current taxes	5,770	32,363	40,454	49,354	59,224
Other liabilities	93,090	227,534	267,176	351,681	423,032
<b>Total liabilities</b>	<b>2,094,954</b>	<b>3,043,457</b>	<b>3,438,141</b>	<b>3,891,722</b>	<b>4,374,600</b>
Share capital	26,715	28,366	28,366	28,366	28,366
Reserves	102,882	134,711	169,036	206,356	249,024
Minorities	4,513	5,467	6,014	6,615	7,277
<b>Shareholder's equity</b>	<b>134,110</b>	<b>168,544</b>	<b>203,416</b>	<b>241,337</b>	<b>284,666</b>
<b>Growth (%)</b>					
Cash & cash equivalent	24.7	26.3	19.5	18.4	16.4
Dues from banks	49.6	155.1	12.5	13.0	13.1
Investment securities	16.9	15.1	10.3	11.0	10.5
Net loans and advances	13.5	14.7	11.8	11.9	10.7
Total interest earning assets	21.2	43.6	13.0	13.1	12.4
<b>Total assets</b>	<b>22.2</b>	<b>44.1</b>	<b>13.4</b>	<b>13.5</b>	<b>12.7</b>
Customer deposits	16.0	17.1	14.4	12.9	12.9
Due to other banks & FIs	41.4	165.2	8.0	8.0	8.0
Subordinated term debt and others	47.4	(74.3)	15.0	15.0	15.0
Total interest bearing liabilities.	19.9	39.5	12.5	11.5	11.5
<b>Total liabilities</b>	<b>21.9</b>	<b>45.3</b>	<b>13.0</b>	<b>13.2</b>	<b>12.4</b>
<b>Shareholder's equity</b>	<b>27.4</b>	<b>25.7</b>	<b>20.7</b>	<b>18.6</b>	<b>18.0</b>
<b>Key ratio (%)</b>					
Loan to deposits	73.3	71.9	70.4	69.7	68.4
Core CAR	7.9	8.1	8.0	8.5	8.9
Total CAR	10.9	10.8	9.8	10.2	10.5
NPL ratio	0.63	0.76	1.20	1.35	1.35
NPL growth	2.7	39.6	32.7	18.1	16.6
Net bad debt charge ratio	0.7	0.6	0.6	0.4	0.4
Provision to total loans	2.2	2.4	2.6	2.6	2.6
Provision coverage	357.3	314.5	283.3	271.6	260.0

Source(s): Company, ABCI Securities estimates

### Major changes in forecasts

	2013E	New 2014E	2015E	2013E	Old 2014E	2015E	New vs. old (%)		
							2013E	2014E	2015E
NIM (%)	2.59	2.57	2.66	2.93	2.91	na	(34bps)	(34bps)	na
NII (RMB mn)	85,629	94,293	109,708	86,588	94,252	na	(1.1)	-	na
Net profits (RMB mn)	41,345	44,993	51,514	39,346	43,524	na	5.0	3.4	na

Source(s): ABCI Securities estimates



**BOC (3988 HK – Hold)**

**Consolidated income statement (FY11-15E)**

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Net interest income	228,064	256,964	273,384	298,777	327,905
Non-interest income	100,234	109,212	118,132	136,038	157,206
Of which: fees and commissions	64,662	69,923	79,586	90,949	104,359
<b>Operating income</b>	<b>328,298</b>	<b>366,176</b>	<b>391,516</b>	<b>434,816</b>	<b>485,111</b>
Operating expenses	(140,815)	(160,022)	(178,594)	(208,560)	(239,450)
Amortization	(10,651)	(12,289)	(13,764)	(16,516)	(19,820)
<b>Pre-prov. operating profits</b>	<b>187,483</b>	<b>206,154</b>	<b>212,922</b>	<b>226,256</b>	<b>245,661</b>
Impairment losses on loans	(19,355)	(19,387)	(21,831)	(22,430)	(23,394)
Operating profit	168,128	186,767	191,091	203,826	222,266
Non-operating income	516	613	696	766	842
<b>Profit before tax</b>	<b>168,644</b>	<b>187,380</b>	<b>191,787</b>	<b>204,592</b>	<b>223,108</b>
Tax	(38,142)	(41,858)	(40,385)	(43,147)	(47,203)
Minority interest	(6,226)	(6,090)	(6,577)	(7,103)	(7,672)
<b>Net profit</b>	<b>124,276</b>	<b>139,432</b>	<b>144,826</b>	<b>154,341</b>	<b>168,234</b>
<b>Growth (%)</b>					
Net interest income	17.6	12.7	6.4	9.3	9.7
Non-interest income	21.4	9.0	8.2	15.2	15.6
Of which: fees and commissions	18.7	8.1	13.8	14.3	14.7
<b>Operating income</b>	<b>18.7</b>	<b>11.5</b>	<b>6.9</b>	<b>11.1</b>	<b>11.6</b>
Operating expenses	15.0	13.6	11.6	16.8	14.8
Amortization	3.2	15.4	12.0	20.0	20.0
<b>Pre-prov. operating profits</b>	<b>21.7</b>	<b>10.0</b>	<b>3.3</b>	<b>6.3</b>	<b>8.6</b>
Impairment losses on loans	49.0	0.2	12.6	2.7	4.3
Operating profit	19.1	11.1	2.3	6.7	9.0
Non-operating income	(49.9)	18.8	13.6	10.0	10.0
<b>Profit before tax</b>	<b>18.6</b>	<b>11.1</b>	<b>2.4</b>	<b>6.7</b>	<b>9.1</b>
Tax	17.5	9.7	(3.5)	6.8	9.4
Minority interest	18.1	(2.2)	8.0	8.0	8.0
<b>Net profit</b>	<b>19.0</b>	<b>12.2</b>	<b>3.9</b>	<b>6.6</b>	<b>9.0</b>
<b>Per share data</b>					
EPS	0.45	0.50	0.52	0.55	0.60
BVPS	2.59	2.95	3.29	3.66	4.05
DPS	0.16	0.18	0.18	0.19	0.21
<b>Key ratio (%)</b>					
Net interest margin	2.12	2.15	2.14	2.16	2.19
Net interest spread	2.01	2.03	1.99	2.00	2.02
Cost to income ratio	42.9	43.7	45.6	48.0	49.4
Return on average assets	1.12	1.14	1.09	1.07	1.07
Return on average equity	18.2	18.0	16.6	15.9	15.6
Effective tax rate	22.6	22.3	21.1	21.1	21.2
Dividend payout	34.8	34.8	35.0	35.0	35.0

Source(s): Company, ABCI Securities estimates

**BOC P/B band chart**



Source(s): Bloomberg, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

## BOC (3988 HK – Hold)

### Consolidated balance sheet (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Cash & equivalent	590,964	775,574	893,409	984,549	1,074,400
Dues from banks	2,538,017	2,381,596	2,451,652	2,595,646	2,796,093
Investment securities	2,000,759	2,210,524	2,466,953	2,716,426	2,968,055
Net loans and advances	6,203,138	6,710,040	7,284,799	7,888,879	8,544,506
<b>Total interest earning assets</b>	<b>11,332,878</b>	<b>12,077,734</b>	<b>13,096,813</b>	<b>14,185,500</b>	<b>15,383,053</b>
Property and equipment	152,850	167,466	180,863	191,715	203,218
Derivative assets	42,757	40,188	40,992	41,812	42,648
Other non-interest earning assets	301,304	395,227	490,840	586,666	673,120
<b>Total assets</b>	<b>11,829,789</b>	<b>12,680,615</b>	<b>13,809,508</b>	<b>15,005,692</b>	<b>16,302,039</b>
Customer deposits	8,817,961	9,173,995	9,904,388	10,626,399	11,375,903
Due to banks	1,718,237	1,996,218	2,235,764	2,481,698	2,729,868
Subordinated debt	196,626	233,178	268,155	308,378	345,383
<b>Total interest bearing liabilities.</b>	<b>10,732,824</b>	<b>11,403,391</b>	<b>12,408,307</b>	<b>13,416,475</b>	<b>14,451,154</b>
Trading liabilities	35,473	32,457	34,080	35,784	37,573
Current taxes	29,353	34,994	41,993	50,391	60,470
Deferred tax liabilities	2,966	3,838	4,798	5,997	7,496
Other liabilities	272,036	344,393	362,166	435,997	572,309
<b>Total liabilities</b>	<b>11,072,652</b>	<b>11,819,073</b>	<b>12,851,343</b>	<b>13,944,644</b>	<b>15,129,002</b>
Share capital	279,147	279,147	279,147	279,147	279,147
Reserves	444,767	545,530	640,310	741,257	851,215
Minority interest	33,223	36,865	38,708	40,644	42,676
<b>Shareholders' equity</b>	<b>757,137</b>	<b>861,542</b>	<b>958,165</b>	<b>1,061,048</b>	<b>1,173,037</b>
<b>Growth (%)</b>					
Cash & equivalent	(7.1)	31.2	15.2	10.2	9.1
Dues from banks	42.0	(6.2)	2.9	5.9	7.7
Investment securities	(2.7)	10.5	11.6	10.1	9.3
Net loans and advances	12.0	8.2	8.6	8.3	8.3
Total interest earning assets	13.1	6.6	8.4	8.3	8.4
<b>Total assets</b>	<b>13.1</b>	<b>7.2</b>	<b>8.9</b>	<b>8.7</b>	<b>8.6</b>
Customer deposits	14.0	4.0	8.0	7.3	7.1
Due to banks	8.7	16.2	12.0	11.0	10.0
Subordinated debt	29.9	18.6	15.0	15.0	12.0
Total interest bearing liabilities.	13.4	6.2	8.8	8.1	7.7
<b>Total liabilities</b>	<b>13.2</b>	<b>6.7</b>	<b>8.7</b>	<b>8.5</b>	<b>8.5</b>
<b>Shareholders' equity</b>	<b>12.0</b>	<b>13.8</b>	<b>11.2</b>	<b>10.7</b>	<b>10.6</b>
<b>Key ratio (%)</b>					
Loan to deposits	71.9	74.8	75.3	76.0	77.0
Core CAR	10.1	10.5	10.3	10.3	11.1
Total CAR	13.0	13.6	12.8	12.6	13.4
NPL ratio	1.00	0.95	1.04	1.05	1.03
NPL growth	1.3	3.4	19.0	8.9	6.1
Net bad debt charge ratio	0.3	0.3	0.3	0.3	0.3
Provision to total loans	2.2	2.3	2.3	2.4	2.4
Provision coverage	220.7	236.3	220.3	223.9	233.5

Source(s): Company, ABCI Securities estimates

### Major changes in forecasts

	New			Old			New vs. old (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
NIM (%)	2.14	2.16	2.19	1.92	1.95	na	22bps	21bps	na
NII (RMB mn)	273,384	298,777	327,905	267,126	304,810	na	2.3	(2.0)	na
Net profits (RMB mn)	144,826	154,341	168,234	133,167	154,805	na	8.8	(0.2)	na

Source(s): ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

## BoCom (3328 HK – Hold)

### Consolidated income statement (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Net interest income	103,493	120,126	134,975	153,552	173,255
Non-interest income	24,302	28,058	32,249	36,553	40,871
Of which: fees and commissions	18,657	20,882	23,566	26,358	29,075
<b>Operating income</b>	<b>127,795</b>	<b>148,184</b>	<b>167,224</b>	<b>190,105</b>	<b>214,126</b>
Operating expenses	(49,865)	(58,431)	(69,568)	(83,534)	(101,135)
Pre-prov. operating profits	77,930	89,753	97,657	106,570	112,991
Impairment losses on loans	(12,479)	(14,537)	(17,667)	(18,319)	(16,525)
Operating profit	65,451	75,216	79,989	88,252	96,467
<b>Profit before tax</b>	<b>65,451</b>	<b>75,216</b>	<b>79,989</b>	<b>88,252</b>	<b>96,467</b>
Tax	(14,634)	(16,740)	(17,598)	(19,415)	(21,223)
Minorities interests	82	103	108	114	119
<b>Net profit</b>	<b>50,735</b>	<b>58,373</b>	<b>62,284</b>	<b>68,723</b>	<b>75,125</b>
<b>Growth (%)</b>					
Net interest income	21.8	16.1	12.4	13.8	12.8
Non-interest income	23.1	15.5	14.9	13.3	11.8
Of which: fees and commissions	28.9	11.9	12.9	11.8	10.3
<b>Operating income</b>	<b>22.0</b>	<b>16.0</b>	<b>12.8</b>	<b>13.7</b>	<b>12.6</b>
Operating expenses	17.2	17.2	19.1	20.1	21.1
<b>Pre-prov. operating profits</b>	<b>25.3</b>	<b>15.2</b>	<b>8.8</b>	<b>9.1</b>	<b>6.0</b>
Impairment losses on loans	1.9	16.5	21.5	3.7	(9.8)
Operating profit	31.0	14.9	6.3	10.3	9.3
<b>Profit before tax</b>	<b>31.0</b>	<b>14.9</b>	<b>6.3</b>	<b>10.3</b>	<b>9.3</b>
Tax	35.7	14.4	5.1	10.3	9.3
Minorities interests	(36.9)	25.6	5.0	5.0	5.0
<b>Net profit</b>	<b>29.9</b>	<b>15.1</b>	<b>6.7</b>	<b>10.3</b>	<b>9.3</b>
<b>Per share data</b>					
EPS	0.86	0.86	0.84	0.93	1.01
BVPS	4.39	5.12	5.75	6.46	7.22
DPS	0.21	0.17	0.21	0.23	0.25
<b>Key ratio (%)</b>					
Net interest margin	2.57	2.53	2.53	2.52	2.52
Net interest spread	2.47	2.38	2.37	2.33	2.31
Cost to income ratio	39.0	39.4	41.6	43.9	47.2
Return on average assets	1.19	1.18	1.11	1.08	1.05
Return on average equity	20.5	17.9	15.4	15.2	14.8
Effective tax rate	22.4	22.0	22.0	22.0	22.0
Dividend payout	25.5	22.2	25.0	25.0	25.0

Source(s): Company, ABCI Securities estimates

### BoCom P/B band chart



Source(s): Bloomberg, ABCI Securities estimates





農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

## BoCom (3328 HK – Hold)

### Consolidated balance sheet (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Cash & equivalent	736,999	816,846	904,242	1,011,716	1,128,850
Dues from banks	443,240	520,963	598,708	670,860	744,070
Investment securities	805,531	885,779	972,706	1,068,193	1,173,695
Net loans and advances	2,505,385	2,879,628	3,290,344	3,754,944	4,283,259
<b>Total interest earning assets</b>	<b>4,491,155</b>	<b>5,103,216</b>	<b>5,765,999</b>	<b>6,505,712</b>	<b>7,329,874</b>
Property and equipment	37,017	45,536	47,813	50,203	52,714
Other non-interest earning assets	83,005	124,627	142,071	162,069	185,001
<b>Total assets</b>	<b>4,611,177</b>	<b>5,273,379</b>	<b>5,955,883</b>	<b>6,717,985</b>	<b>7,567,589</b>
Customer deposits	3,283,232	3,728,412	4,206,205	4,722,324	5,274,593
Due to banks	854,499	942,989	1,056,148	1,214,570	1,396,755
Subordinated debt	81,803	79,572	80,368	81,171	81,983
<b>Total interest bearing liabilities</b>	<b>4,219,534</b>	<b>4,750,973</b>	<b>5,342,720</b>	<b>6,018,066</b>	<b>6,753,332</b>
Trading liabilities	18,921	23,060	25,366	27,903	30,693
Current taxes	4,247	7,125	7,838	8,621	9,483
Deferred tax liabilities	21	5	5	6	6
Other liabilities	95,666	110,769	150,961	182,076	235,707
<b>Total liabilities</b>	<b>4,338,389</b>	<b>4,891,932</b>	<b>5,526,890</b>	<b>6,236,671</b>	<b>7,029,220</b>
Share capital	61,886	74,263	74,263	74,263	74,263
Capital surplus	209,916	305,655	353,048	405,201	462,070
Minorities	986	1,529	1,682	1,850	2,035
<b>Shareholder's equity</b>	<b>272,788</b>	<b>381,447</b>	<b>428,993</b>	<b>481,314</b>	<b>538,368</b>
<b>Growth (%)</b>					
Cash & equivalent	25.6	10.8	10.7	11.9	11.6
Dues from banks	68.5	17.5	14.9	12.1	10.9
Investment securities	(1.1)	10.0	9.8	9.8	9.9
Net loans and advances	14.4	14.9	14.3	14.1	14.1
Total interest earning assets	16.5	13.6	13.0	12.8	12.7
<b>Total assets</b>	<b>16.7</b>	<b>14.4</b>	<b>12.9</b>	<b>12.8</b>	<b>12.6</b>
Customer deposits	14.5	13.6	12.8	12.3	11.7
Due to banks	19.2	10.4	12.0	15.0	15.0
Subordinated debt	57.3	(2.7)	1.0	1.0	1.0
Total interest bearing liabilities	16.0	12.6	12.5	12.6	12.2
<b>Total liabilities</b>	<b>16.4</b>	<b>12.8</b>	<b>13.0</b>	<b>12.8</b>	<b>12.7</b>
<b>Shareholder's equity</b>	<b>22.0</b>	<b>39.8</b>	<b>12.5</b>	<b>12.2</b>	<b>11.9</b>
<b>Key ratio (%)</b>					
Loan to deposits	78.0	79.0	80.2	81.6	83.3
Core CAR	9.3	11.2	10.9	10.7	10.5
Total CAR	12.4	14.1	13.6	13.1	12.7
NPL ratio	0.86	0.92	0.98	1.01	1.01
NPL growth	(12.0)	22.8	21.9	18.4	13.7
Net bad debt charge ratio	0.5	0.5	0.6	0.5	0.4
Provision to total loans	2.2	2.3	2.5	2.6	2.6
Provision coverage	256.4	250.7	251.0	252.0	252.7

Source(s): Company, ABCI Securities estimates

### Major changes in forecasts

	New			Old			New vs. old (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
NIM (%)	2.53	2.52	2.52	2.49	2.50	na	4bps	2bps	na
NII (RMB mn)	134,975	153,552	173,255	143,227	169,840	na	(5.8)	(9.6)	na
Net profits (RMB mn)	62,284	68,723	75,125	62,218	73,541	na	0.1	(6.6)	na

Source(s): ABCI Securities estimates



## CMB (3968 HK – Hold)

### Consolidated income statement (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Net interest income	76,307	88,374	94,711	108,368	122,844
Non-interest income	20,296	25,380	30,830	36,671	42,929
Of which: fees and commissions	15,628	19,739	24,488	29,535	34,890
<b>Operating income</b>	<b>96,603</b>	<b>113,754</b>	<b>125,541</b>	<b>145,039</b>	<b>165,774</b>
Operating expenses	(41,194)	(48,671)	(56,439)	(66,663)	(78,461)
<b>Pre-prov. operating profits</b>	<b>55,409</b>	<b>65,083</b>	<b>69,102</b>	<b>78,376</b>	<b>87,312</b>
Impairment losses	(8,350)	(5,583)	(7,865)	(8,942)	(9,663)
Operating profit	47,059	59,500	61,237	69,434	77,649
Non-operating income	63	64	70	77	85
<b>Profit before tax</b>	<b>47,122</b>	<b>59,564</b>	<b>61,308</b>	<b>69,512</b>	<b>77,734</b>
Tax	(10,995)	(14,287)	(14,101)	(15,988)	(17,879)
Minority interests	2	(4)	(4)	(4)	(4)
<b>Net profit</b>	<b>36,129</b>	<b>45,273</b>	<b>47,203</b>	<b>53,520</b>	<b>59,852</b>
<b>Growth (%)</b>					
Net interest income	33.7	15.8	7.2	14.4	13.4
Of which: fees and commissions	37.9	26.3	24.1	20.6	18.1
<b>Operating income</b>	<b>34.7</b>	<b>17.8</b>	<b>10.4</b>	<b>15.5</b>	<b>14.3</b>
Operating expenses	25.2	18.2	16.0	18.1	17.7
<b>Pre-prov. operating profits</b>	<b>42.9</b>	<b>17.5</b>	<b>6.2</b>	<b>13.4</b>	<b>11.4</b>
Impairment losses on loans	51.8	(33.1)	40.9	13.7	8.1
Operating profit	41.4	26.4	2.9	13.4	11.8
Non-operating income	(1.6)	1.6	10.0	10.0	10.0
<b>Profit before tax</b>	<b>41.3</b>	<b>26.4</b>	<b>2.9</b>	<b>13.4</b>	<b>11.8</b>
Tax	45.2	29.9	(1.3)	13.4	11.8
Minority interests	na	(300.0)	0.0	0.0	0.0
<b>Net profit</b>	<b>40.2</b>	<b>25.3</b>	<b>4.3</b>	<b>13.4</b>	<b>11.8</b>
<b>Per share data</b>					
EPS	1.67	2.10	2.19	2.48	2.77
BVPS	7.65	9.29	11.07	12.92	14.98
DPS	0.42	0.63	0.66	0.74	0.83
<b>Key ratio (%)</b>					
Net interest margin	3.06	3.03	2.98	3.00	3.03
Net interest spread	2.94	2.87	3.10	3.08	3.09
Cost to income ratio	42.6	42.8	45.0	46.0	38.8
Return on average assets	1.39	1.46	1.30	1.31	1.32
Return on average equity	24.2	24.8	21.5	20.7	19.9
Effective tax rate	23.3	23.0	23.0	23.0	23.0
Dividend payout	25.1	30.0	30.0	30.0	30.0

Source(s): Company, ABCI Securities estimates

### CMB P/B band chart



Source(s): Bloomberg, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

## CMB (3968 HK – Hold)

### Consolidated balance sheet (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Cash & cash equivalent	471,350	752,285	826,203	904,252	985,962
Dues from banks	205,356	210,385	234,876	261,170	288,690
Investment securities	459,061	516,985	573,472	629,856	687,875
Net loans and advances	1,604,371	1,863,325	2,129,046	2,420,924	2,730,401
<b>Total interest earning assets</b>	<b>2,740,138</b>	<b>3,342,980</b>	<b>3,763,597</b>	<b>4,216,202</b>	<b>4,692,929</b>
Property and equipment	19,210	22,030	24,233	26,656	29,322
Other non-interest earning assets	35,623	43,209	51,601	60,718	70,367
<b>Total assets</b>	<b>2,794,971</b>	<b>3,408,219</b>	<b>3,839,432</b>	<b>4,303,576</b>	<b>4,792,617</b>
Customer deposits	2,235,040	2,545,457	2,877,229	3,222,955	3,592,154
Due to banks	315,247	526,460	579,106	637,017	700,718
Subordinated debt	31,187	64,098	73,713	81,084	89,192
<b>Total interest bearing liabilities</b>	<b>2,587,667</b>	<b>3,145,614</b>	<b>3,542,526</b>	<b>3,956,653</b>	<b>4,400,783</b>
Current taxes	7,112	6,679	7,013	7,364	7,732
Deferred tax liabilities	864	827	827	827	827
Other liabilities	34,318	54,592	50,219	59,883	59,983
<b>Total liabilities</b>	<b>2,629,961</b>	<b>3,207,712</b>	<b>3,600,585</b>	<b>4,024,727</b>	<b>4,469,325</b>
Share capital	21,577	21,577	21,577	21,577	21,577
Reserves	143,420	178,857	217,197	257,199	301,642
Minorities	13	73	73	73	73
<b>Shareholder's equity</b>	<b>165,010</b>	<b>200,507</b>	<b>238,847</b>	<b>278,849</b>	<b>323,292</b>
<b>Growth (%)</b>					
Cash & cash equivalent	45.5	59.6	9.8	9.4	9.0
Dues from banks	(12.8)	2.4	11.6	11.2	10.5
Investment securities	16.5	12.6	10.9	9.8	9.2
Net loans and advances	14.4	16.1	14.3	13.7	12.8
Total interest earning assets	16.3	22.0	12.6	12.0	11.3
<b>Total assets</b>	<b>16.3</b>	<b>21.9</b>	<b>12.7</b>	<b>12.1</b>	<b>11.4</b>
Customer deposits	17.5	13.9	13.0	12.0	11.5
Due to banks	11.8	67.0	10.0	10.0	10.0
Subordinated debt	(0.1)	105.5	15.0	10.0	10.0
Total interest bearing liabilities.	16.6	21.6	12.6	11.7	11.2
<b>Total liabilities</b>	<b>15.9</b>	<b>22.0</b>	<b>12.2</b>	<b>11.8</b>	<b>11.0</b>
<b>Shareholder's equity</b>	<b>23.1</b>	<b>21.5</b>	<b>19.1</b>	<b>16.7</b>	<b>15.9</b>
<b>Key ratio (%)</b>					
Loan to deposits	73.4	74.8	75.7	76.8	77.8
Core CAR	8.2	9.1	8.6	8.8	9.1
Total CAR	11.5	12.1	12.1	12.3	12.6
NPL ratio	0.56	0.61	0.87	0.85	0.84
NPL growth	(5.3)	27.5	61.9	10.8	11.5
Net bad debt charge ratio	0.5	0.3	0.4	0.4	0.2
Provision to total loans	2.2	2.2	2.2	2.3	2.3
Provision coverage	400.1	351.8	253.0	265.8	274.8

Source(s): Company, ABCI Securities estimates

### Major changes in forecasts

	2013E	New 2014E	2015E	2013E	Old 2014E	2015E	New vs. old (%)		
							2013E	2014E	2015E
NIM (%)	2.98	3.00	3.03	2.90	2.94	na	8bps	6bps	na
NII (RMB mn)	94,711	108,368	122,844	96,034	111,123	na	(1.3)	(2.5)	na
Net profits (RMB mn)	47,203	53,520	59,852	45,854	53,446	na	2.9	0.1	na

Source(s): ABCI Securities estimates



## CITICB (998 HK – Hold)

### Consolidated income statement (FY11-15E)

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Net interest income	65,106	75,486	80,382	93,620	106,748
Non-interest income	11,986	14,225	16,762	19,531	22,461
Of which: fees and commissions	8,837	11,210	13,570	16,152	18,882
<b>Operating income</b>	<b>77,092</b>	<b>89,711</b>	<b>97,144</b>	<b>113,151</b>	<b>129,209</b>
Operating expenses	(27,956)	(34,470)	(42,108)	(50,947)	(61,026)
Amortization	(425)	(509)	(611)	(727)	(858)
<b>Pre-prov. operating profits</b>	<b>48,711</b>	<b>54,732</b>	<b>54,425</b>	<b>61,477</b>	<b>67,325</b>
Impairment losses on loans	(7,207)	(13,104)	(9,677)	(10,333)	(11,357)
Operating profit	41,504	41,628	44,748	51,145	55,968
Non-operating income	86	(19)	(22)	(25)	(29)
<b>Profit before tax</b>	<b>41,590</b>	<b>41,609</b>	<b>44,726</b>	<b>51,119</b>	<b>55,940</b>
Tax	(10,746)	(10,224)	(11,629)	(13,291)	(14,544)
Minorities interests	25	353	371	389	409
<b>Net profit</b>	<b>30,819</b>	<b>31,032</b>	<b>32,727</b>	<b>37,439</b>	<b>40,987</b>
<b>Growth (%)</b>					
Net interest income	35.3	15.9	6.5	16.5	14.0
Non-interest income	45.8	18.7	17.8	16.5	15.0
Of which: fees and commissions	55.1	26.9	21.1	19.0	16.9
<b>Operating income</b>	<b>36.8</b>	<b>16.4</b>	<b>8.3</b>	<b>16.5</b>	<b>14.2</b>
Operating expenses	25.5	23.3	22.2	21.0	19.8
Amortization	20.1	19.8	20.0	19.0	18.0
<b>Pre-prov. operating profits</b>	<b>44.5</b>	<b>12.4</b>	<b>(0.6)</b>	<b>13.0</b>	<b>9.5</b>
Impairment losses on loans	37.3	81.8	(26.1)	6.8	9.9
Operating profit	45.8	0.3	7.5	14.3	9.4
Non-operating income	(61.9)	(122.1)	15.0	15.0	15.0
<b>Profit before tax</b>	<b>44.9</b>	<b>0.0</b>	<b>7.5</b>	<b>14.3</b>	<b>9.4</b>
Tax	55.4	(4.9)	13.7	14.3	9.4
Minorities interests	(90.7)	1,312.0	5.0	5.0	5.0
<b>Net profit</b>	<b>43.3</b>	<b>0.7</b>	<b>5.5</b>	<b>14.4</b>	<b>9.5</b>
<b>Per share data</b>					
EPS	0.72	0.66	0.70	0.80	0.88
BVPS	3.73	4.24	4.88	5.62	6.42
DPS	0.14	0.15	0.17	0.20	0.22
<b>Key ratio (%)</b>					
Net interest margin	3.00	2.81	2.72	2.68	2.67
Net interest spread	2.85	2.60	2.48	2.37	2.33
Cost to income ratio	36.8	39.0	44.0	45.7	47.9
Return on average assets	1.27	1.08	1.03	1.03	0.99
Return on average equity	20.9	16.6	15.3	15.2	14.6
Effective tax rate	25.8	26.0	26.0	26.0	26.0
Dividend payout	22.0	22.6	25.0	25.0	25.0

Source(s): Company, ABCI Securities estimates

### CITICB P/B band chart



Source(s): Bloomberg, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

**CITICB (998 HK – Hold)****Consolidated balance sheet (FY11-15E)**

(RMB mn)	2011A	2012E	2013E	2014E	2015E
Cash & cash equivalent	366,391	428,167	484,380	550,738	628,689
Dues from banks	699,750	457,476	480,350	509,171	544,813
Investment securities	251,176	344,148	433,060	529,342	633,798
Net loans and advances	1,410,779	1,627,576	1,889,870	2,178,523	2,497,806
<b>Total interest earning assets</b>	<b>2,728,096</b>	<b>2,857,367</b>	<b>3,287,659</b>	<b>3,767,774</b>	<b>4,305,106</b>
Property and equipment	10,388	11,853	12,446	13,068	13,068
Trading assets	4,683	4,160	4,368	4,586	4,816
Other non-interest earning assets	22,714	86,559	78,208	70,676	70,676
<b>Total assets</b>	<b>2,765,881</b>	<b>2,959,939</b>	<b>3,382,681</b>	<b>3,856,104</b>	<b>4,393,666</b>
Customer deposits	1,968,051	2,255,141	2,594,495	2,961,357	3,375,871
Due to banks	550,028	399,734	439,707	505,664	581,513
Subordinated debt	33,730	56,402	64,862	74,592	85,780
<b>Total interest bearing liabilities</b>	<b>2,551,809</b>	<b>2,711,277</b>	<b>3,099,065</b>	<b>3,541,612</b>	<b>4,043,165</b>
Trading liabilities	3,764	3,412	3,924	4,512	5,189
Current taxes	4,015	4,558	5,561	6,673	8,007
Other liabilities	27,512	37,606	40,753	35,631	31,943
<b>Total liabilities</b>	<b>2,587,100</b>	<b>2,756,853</b>	<b>3,149,302</b>	<b>3,588,428</b>	<b>4,088,305</b>
Share capital	46,787	46,787	46,787	46,787	46,787
Reserve	127,709	151,569	181,625	215,922	253,608
Minorities	4,285	4,730	4,967	4,967	4,967
<b>Shareholder's equity</b>	<b>178,781</b>	<b>203,086</b>	<b>233,378</b>	<b>267,676</b>	<b>305,361</b>
<b>Growth (%)</b>					
Cash & equivalent	42.9	16.9	13.1	13.7	14.2
Dues from banks	151.5	(34.6)	5.0	6.0	7.0
Investment securities	(6.6)	37.0	25.8	22.2	19.7
Net loans and advances	13.2	15.4	16.1	15.3	14.7
Total interest earning assets	33.1	4.7	15.1	14.6	14.3
<b>Total assets</b>	<b>32.9</b>	<b>7.0</b>	<b>14.3</b>	<b>14.0</b>	<b>13.9</b>
Customer deposits	13.7	14.6	15.0	14.1	14.0
Due to other banks & FIs	259.2	(27.3)	10.0	15.0	15.0
Subordinated term debt	(3.4)	67.2	15.0	15.0	15.0
Total interest bearing liabilities.	33.0	6.2	14.3	14.3	14.2
<b>Total liabilities</b>	<b>32.2</b>	<b>6.6</b>	<b>14.2</b>	<b>13.9</b>	<b>13.9</b>
<b>Shareholder's equity</b>	<b>43.6</b>	<b>13.6</b>	<b>14.9</b>	<b>14.7</b>	<b>14.1</b>
<b>Key ratio (%)</b>					
Loan to deposits	72.9	73.7	74.5	75.3	75.7
Core CAR	9.9	9.9	10.4	10.1	10.0
Total CAR	12.3	13.4	13.7	13.0	12.7
NPL ratio	0.60	0.74	0.91	0.91	0.89
NPL growth	0.1	43.5	42.9	15.6	12.7
Net bad debt charge ratio	0.4	0.8	0.4	0.4	0.4
Provision to total loans	1.6	2.1	2.2	2.3	2.3
Provision coverage	272.3	288.2	242.7	247.8	257.7

Source(s): Company, ABCI Securities estimates

**Major changes in forecasts**

	New			Old			New vs. old (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
NIM (%)	2.72	2.68	2.67	2.68	2.72	na	4bps	(4bps)	na
NII (RMB mn)	80,382	93,620	106,748	82,993	99,560	na	(3.1)	(6.0)	na
Net profits (RMB mn)	32,727	37,439	40,987	34,483	42,569	na	(5.1)	(12.0)	na

Source(s): ABCI Securities estimates



## Disclosures

I, Au Yu Hang, Johannes, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

### Disclosures of Interests

ABC International Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

### Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABC International Company Limited is under no obligation to update or keep current the information contained herein. ABC International Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABC International Company Limited, into other areas, units, groups or affiliates of ABC International Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABC International Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

---

jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2013 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183**