R&I

NEWS RELEASE

Sep 28, 2021

R&I Upgrades to A+, Stable: CITIC Group Corp.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: **CITIC Group Corp.**

Issuer Rating: A+, Previously A-
Rating Outlook: Stable

RATIONALE:

CITIC Group Corp. (CITIC Group) is one of the major conglomerates in China. The Chinese government holds a 90% stake in it. CITIC Group runs a wide variety of businesses through its subsidiaries, ranging from comprehensive financial services including banking to real estate, resources and energy, food and manufacturing of automotive components. The commercial banking business, provided mainly through China CITIC Bank Corp. Ltd. (CNCB), is the largest source of earnings. The rating for CITIC Group is based on the evaluation of the entire group's earnings and financial bases, and reflects the creditworthiness of the Chinese government. In this review, R&I has upgraded the Issuer Rating for CITIC Group from A- to A+, one notch below that for the government, incorporating its policy importance to the government more strongly.

Based on the 14th Five-Year Plan set out by the Chinese government in 2021, CITIC Group reclassified its business into five operating segments: comprehensive financial services, advanced intelligent manufacturing, advanced materials, new consumption and new-type urbanisation. Of these, comprehensive financial services account for more than 90% of CITIC Group's total assets. The majority of the non-finance business was classified into new-type urbanisation and advanced materials, with new consumption and advanced intelligent manufacturing each representing around 1%.

In 2021, CITIC Group and other four companies agreed with China Huarong Asset Management Co., Ltd. (Huarong), a major asset management company, to subscribe to new shares to be issued by Huarong. In the fiscal year ended December 2020, Huarong posted a large loss. R&I will pay attention to whether Huarong makes steady progress in debt repayment.

By segment, comprehensive financial services make the largest contribution to total operating income. Net interest income accounts for around 80% of the earnings of CNCB, which generates most of the comprehensive financial services segment's profits. To prop up the domestic economy, the government is calling on financial institutions to lower lending rates and commissions, among other supports. A rigorous expense management is essential for CNCB to secure profits.

As of end-June 2021, CNCB's ratios of non-performing loans (NPLs) and special mention loans were 1.50% and 2.16%, respectively. Both ratios declined from a year earlier, with the balance of total loans growing more than that of NPLs. This was mainly attributable to stimulus packages by the government and an accelerated effort on NPL disposal. NPLs could increase for a while due, for example, to the risk associated with large borrowers in the real estate sector. R&I will keep track of the trends.

CNCB has a relatively stable financing base. Its loan-deposit ratio was at the 100% level (R&I's estimate) as of end-June 2021. The liquidity coverage ratio fell year on year to 117.31%, but still exceeds the regulatory requirement of 100%. The group as a whole has also been able to raise funds for investments and loans comparatively stably, in R&I's view.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings", "Shared Rating Approach for Financial Institutions, etc.", "Depository Financial Institutions" and "R&I's Analytical Approach to Government Agencies". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

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R&I RATINGS:

ISSUER:	**CITIC Group Corp.**
	Issuer Rating
RATING:	**A+, Previously A-**
RATING OUTLOOK:	**Stable**

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