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S&P Global
China Ratings

Credit Rating Report

Citibank (China) Company Limited

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

October 20, 2020

Analysts:

Longtai Chen: +86-10-6516-6065; longtai.chen@spgchinaratings.cn

Zheng Li: +86-10-6516-6067; zheng.li@spgchinaratings.cn

Xuefei Zou, CPA: +86-10-6516-6070; eric.zou@spgchinaratings.cn

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* This rating is an Issuer Credit Rating (ICR). An ICR reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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The rating presented in this report is effective from the rating date, until and unless we make any further updates.

This document is prepared in both English and Chinese. The English translation is for reference only, and the Chinese version will prevail in the event of any inconsistency between the English version and the Chinese version.

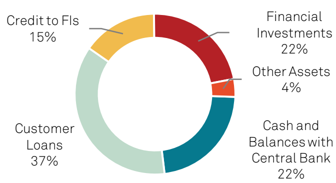
Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
Citibank (China) Company Limited	Issuer Credit Rating	AAA_{spc}	October 20, 2020	Stable

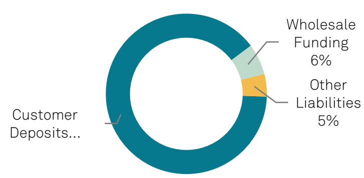
Industry Classification: Commercial Bank

Company Overview: Citibank (China) Company Limited ("Citibank (China)") is a fully owned subsidiary of Citibank N.A., the lead bank of Citigroup Inc. ("Citi" or "Citigroup"). Citi is one of the most diversified global financial institutions in the world. Citibank (China) is an integral part of its global banking network. As of the end of 2019, Citibank (China) reported total assets of 178 billion RMB. In 2019, it achieved an ROE of 10%.

Asset Breakdown as of End of 2019



Liability Breakdown as of End of 2019



Economy and Industry Trends: China is gradually recovering from the economic slowdown caused by COVID-19. For 2020 we forecast much slower GDP growth than previously anticipated before the outbreak. Having said that, economic growth in China turned positive in the second quarter, and we expect China to achieve a U-shaped economic recovery by 2021. Despite the pandemic, we believe that the overall credit outlook for commercial banks in China will remain stable because of strong government support and our expectations of a U-shaped economic recovery. Although China's commercial banking sector reported stable asset quality performance in the first half of 2020, we continue to expect higher pressure on credit cost and profitability going forward because of the pandemic. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure. Therefore, we believe the credit profiles of commercial banks are likely to show greater differentiation in the foreseeable future. Due to their strong capital buffer and prudent risk appetite, foreign bank subsidiaries, a small subsector in China's banking sector, have maintained stable stand-alone credit quality during the pandemic. In addition, the generally strong resilience of their parent banks outside China amid COVID-19 has also contributed to their stable issuer credit quality.

Credit Highlights: Citibank (China) has grown into one of the largest foreign bank subsidiaries in China. By taking advantage of its parent's global network, Citibank (China) targets a client base of multinationals and Chinese corporations with global transactions. It is also one of the few foreign bank subsidiaries to provide retail banking services. Thanks to its sound asset liability management and strong profitability, it has a very strong capitalization base, with capital adequacy ratios much higher than the industry average in China. Its profitability is good compared to its peers mainly due to its healthy net interest margin ("NIM"). It has prudent risk management and its asset quality remains good despite COVID-19. The bank has a very stable and sticky deposit base and limited use of wholesale funding. It has a superior liquidity profile thanks to its large treasury bond investment portfolio and stable deposit base. As a fully owned subsidiary of Citibank N.A., it is an integral part of Citi's global banking network. In our view, its issuer credit quality is closely aligned with its parent.

Key Metrics of Citibank (China)

	2016	2017	2018	2019
Total assets (bil)	173.05	159.54	174.20	177.85
Customer deposits (bil)	138.19	119.12	134.60	139.50
Net income (bil)	1.07	1.56	2.55	2.07
Reported regulatory capital adequacy ratio (%)	16.42	16.90	19.76	20.44
Return on average equity (%)	7.30	9.83	14.15	10.13
Non-performing loans ratio (%)	0.80	0.64	0.46	0.47
Reserve coverage ratio (%)	352.10	392.42	556.27	488.89
Customer deposits/total liabilities (%)	87.54	83.35	86.96	89.20

Sources: Citibank (China), collected and adjusted by S&P Global (China) Ratings.

Rating Snapshot

Anchor	bbb+
— Business Position	0
— Capital and Earnings	+2
— Risk Position	+1
— Funding and Liquidity	+1
Stand-alone Credit Profile	**aa_{spc}-**
Group Support	+3
Issuer Credit Rating	**AAA_{spc}**
Outlook	**Stable**

Business Position: It is one of the largest foreign bank subsidiaries in China and offers a full spectrum of corporate, commercial, and retail banking services. As an integral part of Citi's global banking network, cross-selling activities with its parent are a key part of its business strategy.

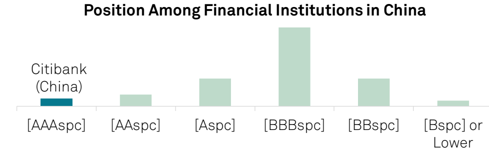
Capital and Earnings: It has a very strong capitalization base, with capital adequacy ratios much higher than the industry average in China. Its profitability is good mainly due to its low deposit cost, which has led to a healthy NIM.

Risk Position: It takes a prudent approach to risk management. It targets a client base of multinationals, large and mid-sized Chinese enterprises with international business and mid-to-high end retail customers. We believe this target client base has maintained good credit quality despite the pandemic.

Funding and Liquidity: Its funding stability is better than the industry average due to its sticky and stable deposit base, which is built on its strong treasury and trade finance business. It has limited use of wholesale funding because its lending business can be comfortably funded by its deposits. Its asset liquidity profile is better than the industry average due to its large holding of treasury bonds.

External Support: Citibank N. A. has extremely strong credit quality. Citibank (China) is extremely likely to receive extraordinary support from its parent in times of need, considering Citi's core competitive advantage is its global banking network and Citibank (China) is an integral part of Citi's global operations.

Citibank (China) 's Relative Issuer Credit Rating Position Among Financial Institutions in China



Note: This chart serves as a hypothetical example of S&P Global (China) Ratings' rating distribution of financial institutions. Rating below [AAA_{spc}]can be adjusted by "+" and "-".

Peer Group Comparison

(The peer group includes Citibank (China), HSBC (China), Standard Chartered Bank (China), BEA (China), Mizuho (China) and DBS (China).)

(2017-2019 three-year average)	Citibank (China)	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	**170.53**	489.69	121.56	223.55	293.64	190.18
Customer deposits (bil)	**131.07**	266.62	57.87	134.05	169.91	129.66
Net income (bil)	**2.06**	4.06	(0.23)	1.53	2.13	1.38
Reported regulatory capital adequacy ratio (%)	**19.04**	19.04	14.29	16.52	16.64	16.44
Return on average equity (%)	**11.37**	11.37	(1.00)	6.48	6.79	7.59
Non-performing loans ratio (%)	**0.52**	1.63	0.04	0.75	0.75	0.68
Reserve coverage ratio (%)	**479.20**	5,854.95	161.07	1,208.47	781.83	285.98
Customer deposits/total liabilities (%)	**86.51**	86.51	51.01	68.71	66.91	68.00

Sources: Public information of peer banks, collected and adjusted by S&P Global (China) Ratings.

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
Citibank (China) Company Limited	Issuer Credit Rating	AAA$_{spc}$	October 20, 2020	Stable

Stand-alone Credit Profile (SACP)	aa$_{spc}$-
Anchor	bbb+
Business Position	0
Capital & Earnings	+2
Risk Position	+1
Funding & Liquidity	+1
Holistic Adjustment	0

+

External Support	+3
Group Support	+3

Issuer Credit Rating (ICR)
AAA$_{spc}$/Stable

Credit Highlights

Strengths	Weaknesses
— We believe that it is extremely likely to receive parental support in times of need.	— Its retail banking franchise is small in China.
— It has very strong capitalization and healthy profitability.	— Its operating cost is higher than the industry average.
— It has prudent risk management, a sticky deposit base and superior liquidity profile.	

Rating Outlook

The stable outlook reflects our expectation that Citibank (China)'s business operations and financial strength will remain stable over the next two years or beyond. We also anticipate that its critical importance to its parent, Citibank N. A., will remain unchanged in the foreseeable future.

Downside Scenario: We may consider lowering its issuer credit rating ("ICR") if we believe that its importance to its parent has declined, or if its parent's issuer credit quality has deteriorated significantly. In our view, both scenarios are unlikely in the foreseeable future. We may consider lowering its stand-alone credit profile ("SACP") if the bank significantly raises its risk appetite, reduces its capitalization, or increases its dependence on wholesale funding.

Upside Scenario: We may consider raising its SACP if its market share in China increases significantly.

Related Methodologies, Models & Research

Methodology Applied:

— S&P Global (China) Ratings Financial Institutions Methodology.

— S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking.

Model Applied: None.

Anchor

Macro-Economic and Industry Trends

Considering the economic risk and industry risk faced by China's commercial banking industry, we typically apply an anchor of "bbb+" to commercial banks in China.

China is gradually recovering from the economic growth slowdown caused by COVID-19. For 2020, we now forecast much slower GDP growth than previously anticipated before the outbreak. Nevertheless, economic growth already turned positive in the second quarter of 2020, and we expect China to achieve a U-shaped economic recovery by 2021.

Despite the pandemic, we believe that the overall credit outlook for commercial banks in China will remain stable because of strong government support and our expectations of a U-shaped economic recovery.

Although China's commercial banking sector delivered stable asset quality performance in the first half of 2020, we continue to expect higher pressure on credit cost and profitability going forward because of the pandemic. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure. Therefore, we believe that the credit profiles of commercial banks are likely to show greater differentiation in the foreseeable future.

For the past decade, while domestic banks grew very fast, most foreign bank subsidiaries took a more conservative approach in expanding their loan books. There are 41 locally incorporated banks set up by foreign banks, and their asset market share in China's commercial banking industry is about 2%.

Although foreign bank subsidiaries typically have much smaller business franchise in China than their domestic peers, they offer a unique value proposition in providing sophisticated cross-border banking services.

Most foreign bank subsidiaries have displayed a lower risk appetite than their domestic peers in the past decade, and their asset quality performance has been less affected by the COVID-19 pandemic and the economic slowdown in China.

Foreign bank subsidiaries are typically fully owned and tightly controlled by parents, sharing parents' brands and receiving effective parental support in terms of cross-selling activities, capital injection and liquidity support. Therefore, we typically believe that they are highly likely to receive parental support in times of stress. In addition, the generally strong resilience of their parent banks outside China against COVID-19 has also contributed to their stable issuer credit quality.

Stand-alone Credit Profile

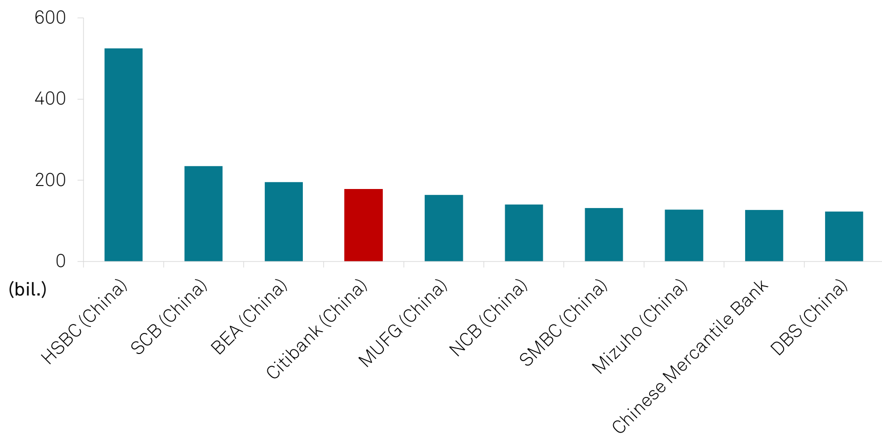
Citibank (China) is a fully owned subsidiary of Citibank N.A., which is the lead bank of Citigroup, the holding company. Citi is one of the most diversified global financial institutions in the world, with strengths in treasury and trade solutions. As the global bank's locally incorporated commercial bank in China, Citibank (China) is an integral part of its parent's global banking network.

Thanks to Citi's deep commitment to China, Citibank (China) has become one of the largest foreign bank subsidiaries in China, providing full-spectrum banking services in China, covering retail, commercial and corporate banking services. As of the end of

2019, it reported total assets of 178 billion RMB, gross loans of 67 billion RMB and customer deposits of 140 billion RMB. It has 25 branches in 12 Chinese cities.

Chart 1

10 Largest Foreign Bank Subsidiaries in China as of End of 2019



Note: SCB (China) - Standard Chartered Bank (China) Limited, BEA (China) - Bank of East Asia (China) Limited, NCB(China) - Nanyang Commercial Bank (China) Limited, SMBC (China) - Sumitomo Mitsui Banking Corporation (China) Limited.
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Business Position

Citibank (China)'s business strength can be attributed to the competitive advantages of its parent. Citi serves clients in more than 160 countries and distinguishes itself from most of its global peers by maintaining a physical presence in 98 countries (it has been present in many regions for more than 100 years). This superior global network makes it capable of offering clients global-level treasury and trade solutions which are also offered to Citibank (China) clients.

The bank is an integral part of Citi's global banking network, which is among the best in the world.

We make no adjustment to its business position to reflect its relatively small size but well diversified client base and strong product offering.

Compared to domestic banks where business growth is mainly driven by lending, Citibank (China) focuses more on promoting cross-selling activities through its group's global network. As a result, its loan book is relatively small compared to mainstream domestic banks.

Table 1

Citibank (China) -- Market Share

(%)	2016	2017	2018	2019
Total assets /total assets of China's commercial banking industry	0.10	0.08	0.08	0.07
Gross customer loans/total loans of China's commercial banking industry	0.07	0.07	0.06	0.05
Customer deposits/total deposits of China's commercial banking industry	0.09	0.07	0.07	0.07

Sources: Citibank (China), industry data published by CBIRC and PBOC, collected and adjusted by S&P Global (China) Ratings.

Citibank (China) is one of four foreign bank subsidiaries designated by the People's Bank of China as a primary dealer in the interbank market in 2020. This primary dealership gives it an extra edge in foreign exchange trading compared to its peers. In addition, since 2019, it has been one of two foreign bank subsidiaries to provide loan prime rate quotes to the central bank.

We believe its client base is very sticky because of its cross-border banking capabilities. Its corporate client base is mostly composed of leading multinational corporations and foreign companies which Citi serves at the global level, and large and mid-sized domestic enterprises with businesses engagement outside China. Its domestic corporate clients include both exporters in traditional manufacturing businesses and leading technology companies.

Citibank (China) is one of the few foreign bank subsidiaries to provide retail banking services in China. Due to its very limited physical network in China, its retail banking franchise is very small compared to mainstream domestic banks. As of the end of 2019, it had a retail lending book of 22.5 billion RMB and retail deposits of 13.6 billion RMB, accounting for 34% and 10% of its loan book and total deposits respectively. Its retail lending is mainly composed of credit card loans (30% of its retail loan book as of the end of 2019), mortgages (64%) and other consumer lending (6%).

Given its limited physical presence in China, Citibank (China) has looked to digitalize its retail banking services in recent years, which not only expands its reach to retail customers but also helps cut costs. The trend towards digitalization has been further accelerated by social distancing requirements during the COVID-19 outbreak.

Citibank (China)'s wealth management services are strategically important in its retail business. Its wealth management products provide affluent Chinese individuals access to international investment opportunities. As of the end of 2019, its overseas wealth management business scale reached 22.5 billion RMB.

Table 2

Citibank (China) -- Business Position

	2016	2017	2018	2019
Total assets (bil)	173.05	159.54	174.20	177.85
Year-over-year growth of total assets (%)	5.95	(7.80)	9.19	2.10
Gross customer loans (bil)	58.34	69.82	63.20	66.58
Year-over-year growth of gross customer loans (%)	(10.44)	19.68	(9.48)	5.34
Customer deposits (bil)	138.19	119.12	134.60	139.50
Year-over-year growth of customer deposits (%)	10.72	(13.80)	12.99	3.64
Operating income (bil)	5.07	5.27	6.46	5.95
Year-over-year growth of operating income (%)	(10.57)	3.92	22.55	(7.96)
Net income (bil)	1.07	1.56	2.55	2.07
Year-over-year growth of net income (%)	0.90	45.81	63.18	(18.80)
Net fees and commissions income/operating income (%)	16.23	18.94	16.68	18.10

Source: Citibank (China), collected and adjusted by S&P Global (China) Ratings.

Table 3

Peer Comparison -- Business Position

(2017-2019 three-year average)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	**170.53**	489.69	121.56	223.55	293.64	190.18
Year-over-year growth of total assets (%)	**1.16**	9.15	(2.63)	4.58	4.98	6.07
Gross customer loans (bil)	**66.53**	198.55	46.02	93.84	122.32	75.92
Year-over-year growth of customer loans (%)	**5.18**	12.73	(2.58)	6.46	6.96	7.32
Customer deposits (bil)	**131.07**	266.62	57.87	134.05	169.91	129.66
Year-over-year growth of customer deposits (%)	**0.94**	9.17	(8.51)	2.81	2.02	3.21
Operating income (bil)	**5.89**	12.10	2.56	5.69	7.43	5.28
Year-over-year growth of operating income (%)	**6.17**	14.38	6.17	9.20	8.71	8.11
Net income (bil)	**2.06**	4.06	(0.23)	1.53	2.13	1.38
Year-over-year growth of net income (%)	**30.06**	174.29	(82.36)	37.11	21.33	35.88
Net fees and commissions income/operating income (%)	**17.91**	17.97	2.91	12.61	13.78	13.75

Note: We have chosen five foreign bank subsidiaries in China, including HSBC (China), Standard Chartered Bank (China), Bank of East Asia (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2017 to 2019. Therefore, the weights of Citibank (China), HSBC (China), Standard Chartered (China), Bank of East Asia (China), Mizuho (China) and DBS (China) are 12.71%, 36.51%, 16.78%, 15.64%, 9.06% and 9.30% respectively.
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

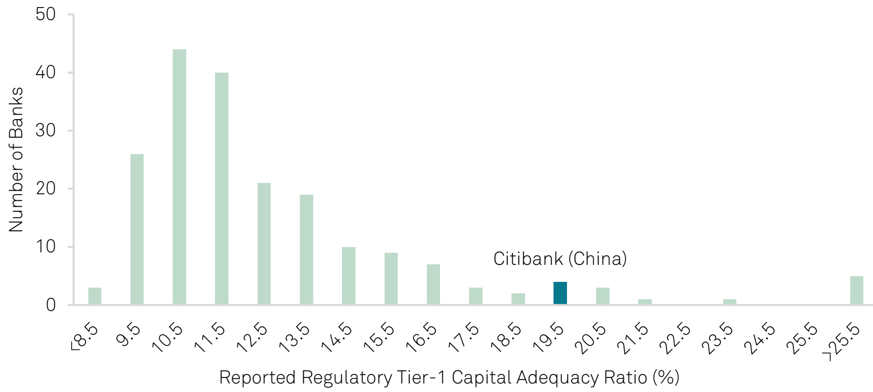
Capital and Earnings

Citibank (China)'s capitalization is much stronger than the industry average in China. Its strong capitalization is attributable to its large low-risk weight investment portfolio mainly composed of treasury bonds, its relatively small loan book, and healthy profitability. Its parent has never required it to pay any dividend. Its reported regulatory tier-1 capital adequacy ratio was 19.42% as of the end of 2019, much higher than the industry average of 11.95%. We expect the bank to maintain strong capitalization in the foreseeable future.

We apply a two-notch uplift to its capital and earnings to reflect its very strong capitalization and healthy profitability.

Chart 2

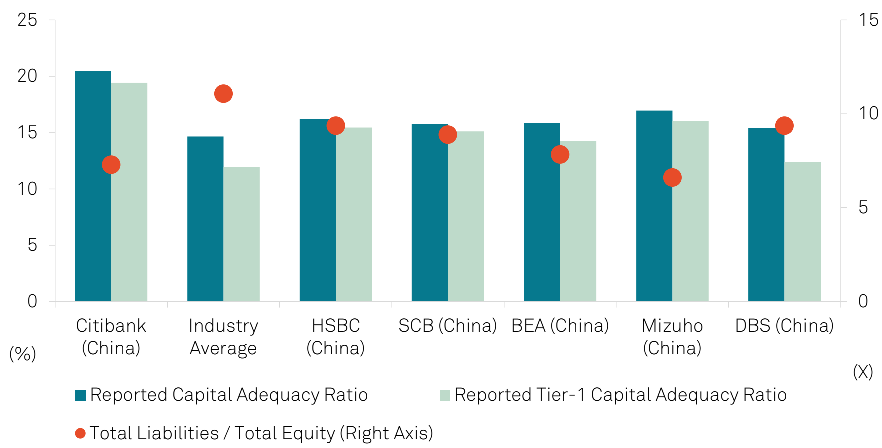
Ratio Distribution: Reported Regulatory Tier-1 Capital Adequacy Ratio of Major Banks in China as of End of 2019



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 3

Peer Comparison: Reported Regulatory Capital Adequacy Ratios and Leverage Levels as of End of 2019



Note: SCB (China)-Standard Charted Bank (China), BEA (China) -Bank of East Asia (China).
Sources: CBIRC, public information of banks, collected and adjusted by S&P Global (China) Ratings.

Table 4

Citibank (China) – Tier -1 Capital Adequacy Ratio Forecast by S&P Global (China) Ratings

	2018A	2019A	2020E	2021E
Total risk-weighted assets (bil)	103.44	110.48	117.79	123.91
- Credit risk (bil)	83.71	91.40	96.43	101.92
- Market risk (bil)	9.31	8.13	10.23	10.54
- Operational risk (bil)	10.42	10.94	11.13	11.45
Tier-1 capital (bil)	19.41	21.46	23.42	25.79
Tier-1 capital adequacy ratio forecast (%)			19.9	20.8

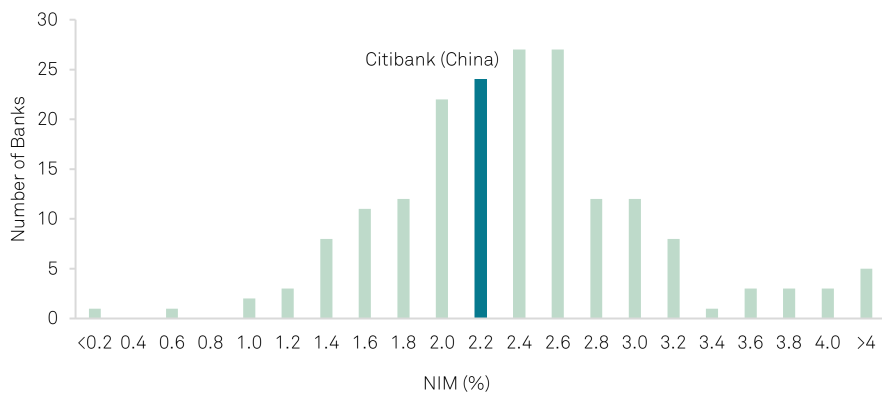
S&P Global (China) Ratings' base-case assumptions include: 1. total assets growing by 2.9% and 3.0% in 2020 and 2021 respectively; 2. by the end of 2021, its NPL ratio is about 0.6% and reserve coverage ratio is about 490%; 3. net interest margin stays around 2%; 4. cost-to-income ratio stays about 50%; 5. return on average equity is about 8.7% for 2020 and 9.6% for 2021; and 6. we assume no dividend payment for 2020 and 2021.

Note: A-actual; E-expected.
Sources: Regulatory filings of Citibank (China), S&P Global (China) Ratings.

The net interest margin ("NIM") of Citibank (China) is consistent with the industry average and better than most of its foreign bank subsidiary peers. In 2019, it had a NIM of 2.08%, similar to the industry average of 2.20% and 0.30 percentage points higher than the foreign bank subsidiary average. We believe its good NIM can largely be attributed to its low-cost deposit base. As of the end of 2019, 60% of its deposits were demand deposits which generally have a lower interest rate compared to time deposits. In our view, corporate clients who deposit with the bank typically see more value in Citi's global banking capabilities and are less sensitive to deposit interest yields. On the asset side, its interest yield is lower than the mega banks because of the high credit quality of its client base, which leads to a lower credit risk premium and its heavy investment in treasury bonds and policy bank bonds.

Chart 4

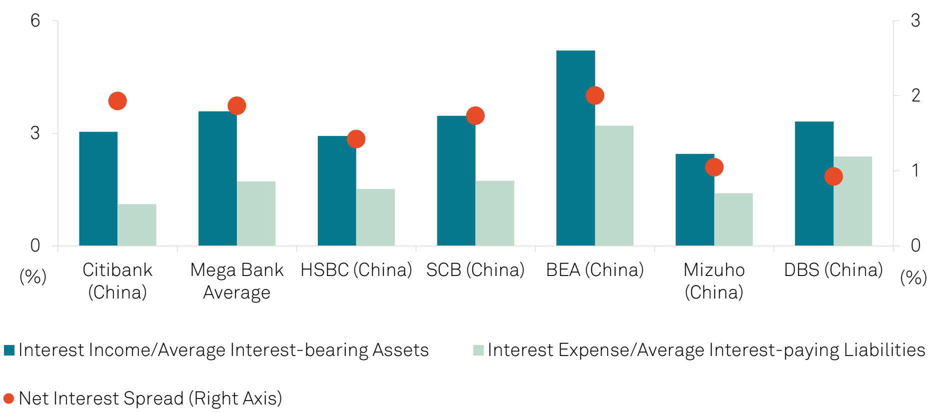
Ratio Distribution: Net Interest Margin of Major Banks in China in 2019



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 5

Peer Comparison: Net Interest Spread in 2019



Note 1: SCB (China)-Standard Charted Bank (China), BEA (China) -Bank of East Asia (China).

Note 2: The mega banks refer to the six state-owned mega banks in China, including ICBC, CCB, ABC, BOC, PSBC and BoCom.

Note 3: Net Interest Spread = (interest income/average interest-bearing assets) – (interest expense/average interest-paying liabilities)

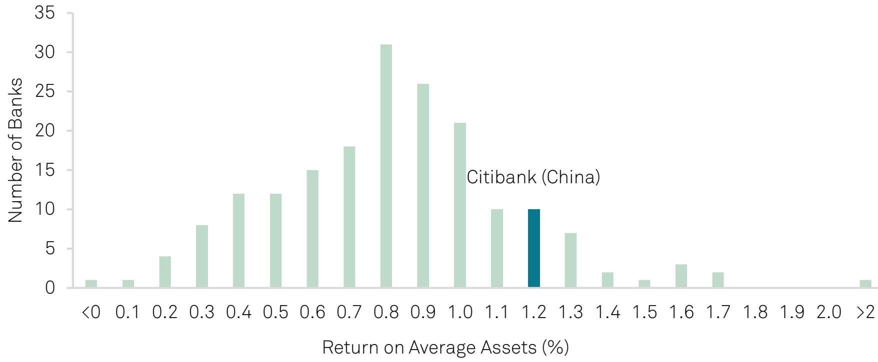
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Citibank (China)'s operating cost is higher than the industry average. Like most foreign bank subsidiaries operating in China, its business scale is smaller than mainstream domestic banks, leading to weaker economies of scale and higher cost-to-income ratio. In 2019, its cost-to-income ratio was 52.10%， higher than the industry average of 31.68%.

The return on average assets ("ROAA") of Citibank (China) is better than the industry average and its foreign bank subsidiary peers due to its good NIM. Its ROAA was 1.18% in 2019, higher than the industry average of 0.87% and the foreign bank subsidiary average of 0.63%. That being said, its return on equity ("ROE") is lower than the industry average by a small margin, due to its lower leverage. Its return on average equity was 10.13% in 2019, 83 basis points lower than the industry average. Compared to large domestic banks, its ROE is more volatile because of its small scale and high exposure to interest rate risk in its investment portfolio. Despite the earning volatility, we view its profitability as healthy and sustainable in terms of maintaining its very strong capital position given its low credit risk exposure.

Chart 6

Ratio Distribution: Return on Average Assets of Major Banks in China as of End of 2019



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

We expect COVID-19 to put moderate pressure on its earnings in 2020. Similar to other banks, its NIM may be compressed due to lower lending interest rates in China. Credit cost may also go up due to asset quality pressure, but we expect provisioning pressure to be manageable thanks to its strong reserve buffer and high-quality client base.

Table 5

Citibank (China) -- Capital and Earnings

(%)	2016	2017	2018	2019
Reported regulatory tier-1 capital adequacy ratio	15.51	15.91	18.76	19.42
Reported regulatory total capital adequacy ratio	16.42	16.90	19.76	20.44
NIM adjusted by S&P Global (China) Ratings	1.68	2.00	2.24	2.08
Cost-to-income ratio	60.91	57.78	47.67	52.10
Loan provisioning/average gross loans	0.81	0.34	0.03	0.08
Asset provisioning/pre-provision operating profits	28.99	9.96	2.55	11.10
Return on average assets	0.64	0.94	1.53	1.18
Return on average equity	7.30	9.83	14.15	10.13

Note 1: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year)/2].
Note 2: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2].
Note 3: Return on average equity =net income/ [(total equity at the beginning of the year +total equity at the end of the year)/2].
Source: Citibank (China), collected and adjusted by S&P Global (China) Ratings.

Table 6

Peer Comparison -- Capital and Earnings

(2017-2019 three-year average) (%)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported regulatory Tier-1 capital adequacy ratio	**18.03**	18.03	12.56	15.35	15.71	15.73
Reported regulatory total capital	**19.04**	19.04	14.29	16.52	16.64	16.44

adequacy ratio						
NIM adjusted by S&P Global (China) Ratings	**2.11**	2.15	1.15	1.82	1.86	1.88
Cost-to-income ratio	**52.52**	66.09	44.33	56.91	57.31	58.59
Loan provisioning/average gross loans	**0.15**	1.67	(0.03)	0.54	0.59	0.43
Asset provisioning/pre-provision operating profits	**7.87**	102.65	1.08	28.84	28.93	17.27
Return on average assets	**1.22**	1.22	(0.12)	0.68	0.70	0.80
Return on average equity	**11.37**	11.37	(1.00)	6.48	6.79	7.59

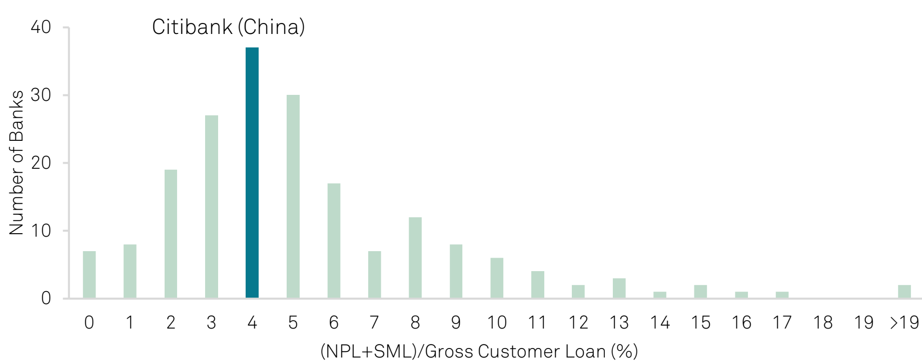
Note 1: We have chosen five foreign bank subsidiaries in China, including HSBC (China), Standard Chartered Bank (China), Bank of East Asia (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose.
Note 2: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year)/2].
Note 3: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2].
Note 4: Return on average equity =net income/ [(total equity at the beginning of the year +total equity at the end of the year)/2].
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Risk Position

Thanks to its high-quality client base and prudent lending standards, Citibank (China) has maintained good asset quality metrics. It had a non-performing loan ("NPL") ratio of 0.47% as of the end of 2019, much lower than the industry average of 1.86%. We believe its credit risk classification practices are more stringent than the industry average and the migration of its special mention loans ("SML") to NPLs is expected to be significantly lower than the industry average. The strictness of its loan classification practices is demonstrated by the significant difference between its overdue loan ratio (0.67% as of the end of 2019) and NPL+SML ratio (3.92%).

Chart 7

Ratio Distribution: NPL+SML Ratio of Major Banks in China as of End of 2019



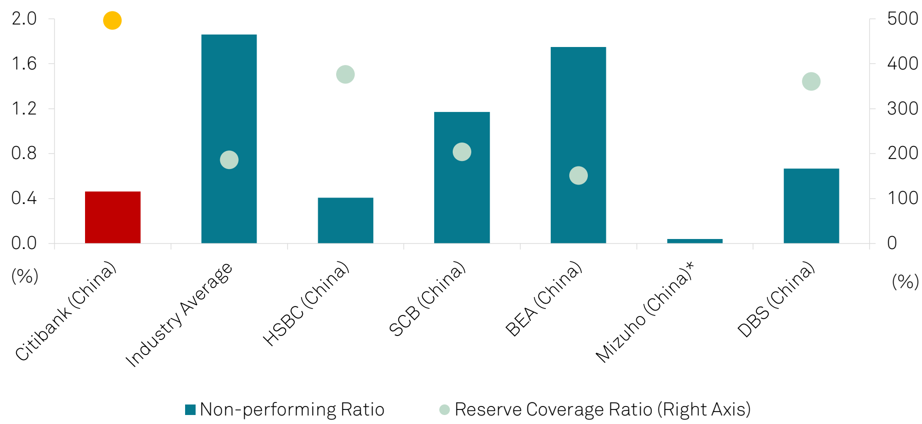
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

In our view, Citibank (China)'s asset quality pressure from COVID-19 has been much less intense compared with domestic banks. This is attributed to the strong credit profile of its client base and its good asset quality metrics before the pandemic.

Nevertheless, we expect a moderate increase to bad debts among its credit card loans and lending to small and mid-sized enterprises due to the pandemic in 2020. We believe any increase in bad debts would be well cushioned by its high reserve buffer. As of the end of 2019, it had a reserve coverage ratio of 489%, much higher than the industry average of 186%.

Chart 8

Peer Comparison: NPL Ratio and Reserve Coverage Ratio as of End of 2019



Note 1*: The reserve coverage ratio of Mizuho (China) as of the end of 2019 was 4,935%.
Note 2: SCB (China)-Standard Charted Bank (China), BEA (China) -Bank of East Asia (China).
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

We believe Citibank (China) has very low credit risk in its investment and interbank operations. As of the end of 2019, over 94% of its bond investments were rated "A" or above by major international rating agencies (S&P Global Ratings, Moody's or Fitch). More than 80% of its counterparties were rated "A" or above by major international rating agencies.

Citibank (China)'s risk management also benefits from its parent's global risk management framework, particularly in terms of risk modeling and risk limit management. We believe Citigroup has put in place sound risk governance in China.

Table 7

Citibank (China) -- Risk Position

(%)	2016	2017	2018	2019
Non-performing loan ratio	0.81	0.64	0.46	0.47
(Non-performing loans + special mention loans)/gross customer loans	3.55	2.38	2.59	3.92
Overdue loans/gross customer loans	1.01	0.77	0.69	0.67
Loan loss reserves/gross customer loans	2.82	2.51	2.58	2.28
Reserve coverage ratio	348.98	392.42	556.27	488.89
Loan loss reserves/(non-performing loans + special mention loans)	79.24	105.44	99.77	58.12
Net write-offs/average gross customer loans	0.17	0.13	0.24	0.26

Source: Citibank (China), collected and adjusted by S&P Global (China) Ratings.

Table 8

Peer Comparison -- Risk Position

(2017-2019 three-year average) (%)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio	**0.52**	1.63	0.04	0.75	0.75	0.68
Overdue loans/gross customer loans	**0.71**	2.52	0.04	1.22	1.13	1.19
Loan loss reserves/gross customer loans	**2.46**	2.58	1.36	2.12	1.92	2.28
Reserve coverage ratio	**479.20**	5,854.95	161.07	1,208.47	781.83	285.98
Net write-offs/average gross customer loans	**0.21**	1.70	0.15	0.53	0.49	0.31

Note: We have chosen five foreign bank subsidiaries in China, including HSBC (China), Standard Chartered Bank (China), Bank of East Asia (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose.
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Funding and Liquidity

Citibank (China) mainly funds its business with customer deposits, and its use of wholesale funding is limited. As of the end of 2019, 89% of its total liabilities were customer deposits, and only 6% were wholesale funding. Because a large portion of its deposits are associated with its treasury and trade finance services, which tend to be stable areas of business, we view its deposit base as sticky. Its deposits are more than enough to fund its lending business, and its loan-to-deposit ratio was 48% as of the end of 2019.

The bank has a very stable funding base dominated by sticky corporate deposits.

Its use of wholesale funding is limited.

It practices prudent liquidity management and its assets have superior liquidity profiles.

Therefore, there is a one-notch upward adjustment for its funding and liquidity.

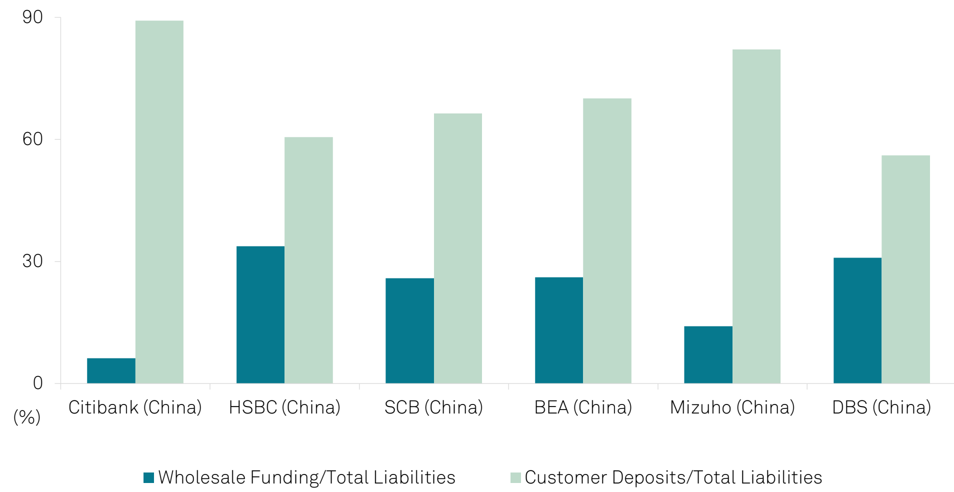
Chart 9

Ratio Distribution: Customer Deposits/Total Liabilities of Major Banks in China as of End of 2019

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 10

Peer Comparison: Funding Structure as of End of 2019



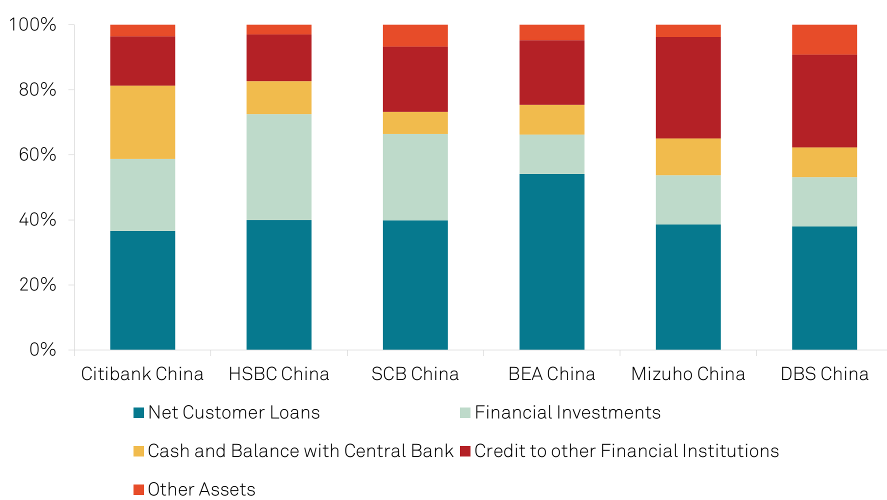
Note: SCB (China)-Standard Charted Bank (China), BEA (China) -Bank of East Asia (China).

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The liquidity profile of its assets is significantly better than the industry average. As of the end of 2019, its net loan book accounted for only 37% of its total assets, cash and deposits to the central bank accounted for 23%, credit to other financial institutions 15%, and its investment portfolio 22%. Its investment portfolio is mainly composed of treasury bonds and policy bank bonds which enjoy good liquidity.

Chart 11

Peer Comparison: Asset Breakdown as of End of 2019



Note 1: Other assets of Citibank (China) mainly include derivative assets, margin deposits, account receivables etc.

Note 2: SCB (China)-Standard Charted Bank (China), BEA (China) -Bank of East Asia (China).

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

We view the liquidity management of Citibank (China) as prudent. As of the end of 2019, its high-quality liquidity asset adequacy ratio was 189%, much higher than the minimum regulatory requirements of 100%.

Table 9

Citibank (China) – Funding and Liquidity

(%)	2016	2017	2018	2019
Customer loans/customer deposits	42.22	58.61	46.96	47.73
Customer deposits/total liabilities	87.54	83.35	86.96	89.20
Wholesale funding /total liabilities	6.75	9.58	7.05	6.24
Retail deposits/customer deposits	11.27	11.33	9.45	9.77
High-quality liquidity asset adequacy ratio	N.A.	N.A.	264.09	188.57

Note: Wholesale funding=borrowing from central government + borrowing and deposits from other financial institutions+ financial assets sold for repurchase + transactional monetary liabilities + bonds payable.
Source: Citibank (China), collected and adjusted by S&P Global (China) Ratings.

Table 10

Peer Comparison -- Funding and Liquidity

(2017-2019 three-year average) (%)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans/customer deposits	51.10	85.46	51.10	69.61	71.10	70.46
Customer deposits/total liabilities	86.51	86.51	51.01	68.71	66.91	68.00
Wholesale funding /total liabilities	7.62	33.96	7.62	23.89	26.24	25.76
Retail deposits/customer deposits	10.18	23.64	0.02	12.54	15.57	12.92

Note 1: We have chosen five foreign bank subsidiaries in China, including HSBC (China), Standard Chartered Bank (China), Bank of East Asia (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose.
Note 2: Wholesale funding=borrowing from central government + borrowing and deposits from other financial institutions+ financial assets sold for repurchase + transactional monetary liabilities + bonds payable.
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The bank is assigned an SACP of "aa$_{spc}$-", four notches higher than the bank anchor of "bbb+". This SACP reflects its very strong capital base, good asset quality and superior funding and liquidity profile.

Issuer Credit Rating

External Support

Citigroup is a diversified financial service holding company, providing various financial products and services to consumers, corporations, governments, and institutions in North America, Latin America, Asia, Europe, the Middle East, and Africa. As of the end of, 2019, it operated 2,348 branches primarily in the United States, Mexico, and Asia.

S&P Global Ratings has assigned an SACP of "a-" and an issuer credit rating of "A+" to Citibank N.A., the core bank within the holding company. Based on the broad relationship observed between the ratings of S&P Global Ratings and S&P Global (China) Ratings, S&P Global (China) Ratings views the issuer credit quality of Citibank N. A. as extremely strong, equivalent to the issuer credit rating of "AAA$_{spc}$" on our national scale.

In our view, Citibank N.A. has extremely high issuer credit quality. Citibank (China) is its fully owned subsidiary.

We believe that the ratings of Citibank (China) are closely aligned with the issuer credit quality of its parent.

S&P Global Ratings' ratings on Citi reflect its nearly unparalleled global reach, which facilitates its strength in providing treasury and trade solutions, capital markets services, and lending to multinational corporations across dozens of countries. Citi also has strength in multiple areas and geographies in consumer banking (such as in Mexico), a good balance of consumer and corporate exposures, and an affluent base of customers in certain regions and businesses.

S&P Global Ratings' ratings also reflect the gradual progress the company had been making prior to the pandemic toward its performance goals and the near completion of the wind-down of its legacy bad debt. S&P Global Ratings balances those strengths mostly against its complexity--relating to its global footprint, exposure to some riskier jurisdictions, and trading activities—and its dependence on credit card lending as well as sales and trading and investment banking.

According to S&P Global Ratings, Citi has good capital levels, in the upper half of the band S&P Global Ratings considers adequate, and, as a global systemically important bank, it must maintain higher regulatory capital ratios than most peers. The company has managed its risk well in recent years, performing well in regulatory stress tests, but tends to have higher charge-offs than peers. Citi has good funding and holds substantial liquidity, maintaining a regulatory liquidity coverage ratio well above 100%, to protect against sources of liquidity risk such as its wholesale funding, deposits in excess of Federal Deposit Insurance Corp. insurance limits, and lending commitments.

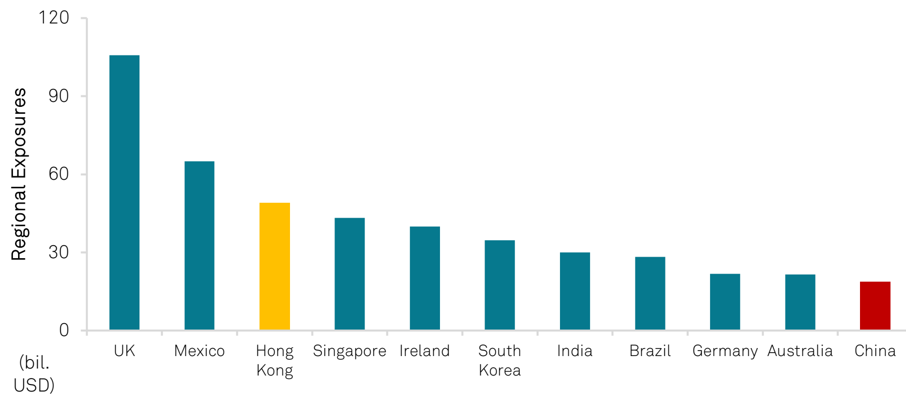
Citi's global banking coverage is among the best in the world and Citibank (China) is a critical part of its network, given China's status as the world's second largest economy. Citibank (China) is wholly owned by Citibank N. A., sharing its parent's name and brand. We believe there is strong synergy between Citibank (China) and its parent in both cross-selling and risk management.

Citi has a long-term commitment to China. It entered the Chinese market as early as 1902. In the modern era, it began to set up branches in China in 1983, and in 2007 it converted its branches in China into a locally incorporated bank.

Citi's exposure to China is reflected in the operations of not only Citibank (China) but also indirectly through other parts of its network, particularly Hong Kong SAR and Singapore. As of the end of 2019, its direct exposure to China was 19 billion USD, and its exposure to Hong Kong SAR was 49 billion USD. Citibank (China)'s operations are relatively small within Citigroup. As of the end of 2019, it accounted for only 1.8% of the total assets of Citibank N. A. and its net income was only 1.7% of that of its parent in 2019. However, we believe its contribution to its parent has been understated in its own financial statements, which don't fully reflect the value of its cross-selling activities.

Chart 12

Major Regional Exposures of Citigroup as of End of 2019 (Excluding the U.S.)



Source: 10-K of Citigroup, collected and adjusted by S&P Global (China) Ratings.

Citibank N.A. has made a commitment to the Chinese banking regulator that it would effectively manage Citibank (China) as it manages all of its global subsidiaries, including providing support in terms of capital, administration and technology.

In summary, we believe that Citibank (China) is of critical importance to its parent and its ratings are closely aligned with the issuer credit quality of Citibank N.A.. Because of the extremely strong issuer credit quality of its parent bank, we assign an Issuer Credit Rating of "AAA_{spc}" to Citibank (China), three notches higher than its SACP of "aa_{spc}-".

Appendix 1: Key Financial Data

Citibank (China) -- Key Financial Data	2016	2017	2018	2019
Business Position				
Total assets (bil)	173.05	159.54	174.20	177.85
Gross customer loans (bil)	58.34	69.82	63.20	66.58
Customer deposits (bil)	138.19	119.12	134.60	139.50
Total equity (bil)	15.19	16.63	19.43	21.47
Operating income (bil)	5.07	5.27	6.46	5.95
Net income (bil)	1.07	1.56	2.55	2.07
Total assets / total assets of China's commercial banking industry (%)	0.10	0.08	0.08	0.07
Customer loans/total loans of China's commercial banking industry (%)	0.07	0.07	0.06	0.05
Customer deposits/total deposits of China's commercial banking industry (%)	0.09	0.07	0.07	0.07
Capital and Earnings				
Reported regulatory capital adequacy ratio (%)	16.42	16.90	19.76	20.44
Reported regulatory tier-1 capital adequacy ratio (%)	15.51	15.91	18.76	19.42
NIM adjusted by S&P Global (China) Ratings (%)	1.68	2.00	2.24	2.08
Cost-to-income ratio (%)	60.91	57.78	47.67	52.10
Asset provisioning/pre-provision operating profits (%)	28.99	9.96	2.55	11.10
Loan provisioning/average gross customer loans (%)	0.81	0.34	0.03	0.08
Return on average assets (%)	0.64	0.94	1.53	1.18
Return on average equity (%)	7.30	9.83	14.15	10.13
Risk Position				
Non-performing loan ratio (%)	0.81	0.64	0.46	0.47
(Non-performing loans + special mention loans)/gross customer loans (%)	3.55	2.38	2.59	3.92
Overdue loans/gross customer loans (%)	1.01	0.77	0.69	0.67
Loan loss reserve/gross customer loans (%)	2.82	2.51	2.58	2.28
Reserve coverage ratio (%)	348.98	392.42	556.27	488.89
Loan loss reserve/ (non-performing loans + special mention loans) (%)	79.24	105.44	99.77	58.12
Net write-offs/average gross customer loans (%)	0.17	0.13	0.24	0.26
Funding and Liquidity				
Customer loans/customer deposits (%)	42.22	58.61	46.96	47.73
Customer deposits/total liabilities (%)	87.54	83.35	86.96	89.20
Wholesale funding /total liabilities (%)	6.75	9.58	7.05	6.24
Retail deposits/customer deposits (%)	11.27	11.33	9.45	9.77
High-quality liquidity asset adequacy ratio (%)	N.A.	N.A.	264.09	188.57

Note 1: In our view, Citibank (China) has a clear business model and sound financial management. Its annual financial reports have been audited by KPMG. Therefore, we haven't conducted any material adjustments to its financial data.
Note 2: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(total interest-bearing assets at the beginning of the year +total interest-bearing assets at the end of the year)/2]
Note 3: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2]
Note 4: Return on average equity =net income/ [(total equity at the beginning of the year +total equity at the end of the year)/2]
Source: Citibank (China), collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Peer Comparison Data

Peer Comparison Data

(2017-2019 three-year average)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	**170.53**	489.69	121.56	223.55	293.64	190.18
Gross customer loans (bil)	**66.53**	198.55	46.02	93.84	122.32	75.92
Customer deposits (bil)	**131.07**	266.62	57.87	134.05	169.91	129.66
Total equity (bil)	**19.18**	48.96	11.16	23.07	29.84	20.46
Operating income (bil)	**5.89**	12.10	2.56	5.69	7.43	5.28
Net income (bil)	**2.06**	4.06	(0.23)	1.53	2.13	1.38
Capital and Earnings						
Reported regulatory capital adequacy ratio (%)	**19.04**	19.04	14.29	16.52	16.64	16.44
Reported regulatory tier-1 capital adequacy ratio (%)	**18.03**	18.03	12.56	15.35	15.71	15.73
Net interest margin adjusted by S&P Global (China) Ratings (%)	**2.11**	2.15	1.15	1.75	1.82	1.84
Cost-to-income ratio (%)	**52.52**	66.09	44.33	56.91	57.31	58.59
Asset provisioning/pre-provision operating profits (%)	**7.87**	102.65	1.08	28.84	28.93	17.27
Loan provisioning/average gross customer loans (%)	**0.15**	1.67	(0.03)	0.54	0.59	0.43
Return on average assets (%)	**1.22**	1.22	(0.12)	0.68	0.70	0.80
Return on average equity (%)	**11.37**	11.37	(1.00)	6.48	6.79	7.59
Risk Position						
Non-performing loan ratio (%)	**0.52**	1.63	0.04	0.75	0.75	0.68
Overdue loans/gross customer loans (%)	**0.71**	2.52	0.04	1.22	1.13	1.19
Loan loss reserves/gross customer loans (%)	**2.46**	2.58	1.36	2.12	1.92	2.28
Reserve coverage ratio (%)	**479.20**	5,854.95	161.07	1,208.47	781.83	285.98
Net write-offs/average gross customer loans (%)	**0.21**	1.70	0.15	0.53	0.49	0.31
Funding and Liquidity						
Customer loans/customer deposits (%)	**51.10**	85.46	51.10	69.61	71.10	70.46
Customer deposits/total liabilities (%)	**86.51**	86.51	51.01	68.71	66.91	68.00
Wholesale funding/total liabilities (%)	**7.62**	33.96	7.62	23.89	26.24	25.76
Retail deposits/customer deposits (%)	**10.18**	23.64	0.02	12.54	15.57	12.92

Note 1: We have chosen five foreign bank subsidiaries in China, including HSBC (China), Standard Chartered Bank (China), Bank of East Asia (China), Mizuho Bank (China) and DBS Bank (China), for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2017 to 2019. Therefore, the weights of Citibank (China), HSBC (China), Standard Chartered (China), Bank of East Asia (China), Mizuho (China) and DBS (China) are 12.71%, 36.51%, 16.78%, 15.64%, 9.06% and 9.30% respectively.
Note 2: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(total interest-bearing assets at the beginning of the year +total interest-bearing assets at the end of the year)/2]
Note 3: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2]
Note 4: Return on average equity =net income/ [(total equity at the beginning of the year +total equity at the end of the year)/2]
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Appendix 3: Rating History of Citibank (China)

Issuer Credit Ratings

Rating Type	Ratings	Outlook	Rating Date	Analysts	Related Reports
Initial Rating	AAA_{spc}	Stable	2020-10-20	Longtai Chen, Zheng Li, Xuefei Zou	Current Report

Note: these ratings are conducted based on S&P Global (China) Ratings Financial Institutions Methodology, and no quantitative model is used.