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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, 2021

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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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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.

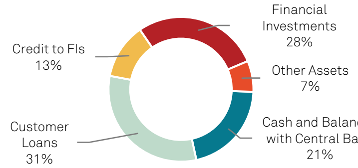
Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
Citibank (China) Company Limited	Issuer Credit Rating	AAA_{spc}	October 20, 2021	Stable

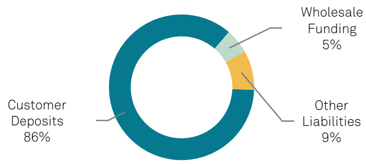
Industry Classification: Commercial Bank

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 2020, Citibank (China) reported total assets of 197 billion RMB. In 2020, it achieved an ROE of 7.8%.

Asset Breakdown as of the End of 2020



Liability Breakdown as of the End of 2020



Economy and Industry Trends:

China is recovering from the slowdown in economic growth caused by COVID-19. As consumption growth continues to pick up, there is no sign yet that investment and net exports are flaming out. However, the overall nature of the recovery has been unbalanced. Large parts of the manufacturing sector are operating at or above capacity while other industries such as personal services and tourism are still facing weak demand. Despite potential tailwinds such as a tightening policy environment, we expect full-year economic growth of 8% for 2021 as the economy continues to gradually rotate towards private consumption, a necessary step if growth is to maintain momentum.

We believe that the overall credit outlook for commercial banks in China will remain stable because of on-going government support and the strong economic recovery. China's commercial banking sector reported stable capital and asset quality metrics in 2020 and the first half of 2021, but we continue to expect pressure on credit cost and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while smaller banks are under more pressure. Therefore, we believe the stand-alone 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) is 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. 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 robust 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)

	2017	2018	2019	2020
Total assets (bil)	159.54	174.20	177.85	196.85
Customer deposits (bil)	119.12	134.60	139.50	149.04
Net income (bil)	1.56	2.55	2.07	1.73
Reported regulatory capital adequacy ratio (%)	16.90	19.76	20.44	21.00
Return on average equity (%)	9.83	14.15	10.13	7.77
Non-performing loans ratio (%)	0.64	0.46	0.47	0.63
Reserve coverage ratio (%)	392.42	556.27	488.89	412.09
Customer deposits/total liabilities (%)	83.35	86.96	89.20	85.74

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. In April 2021, Citigroup decided to withdraw from retail banking business in 13 markets, including the Chinese Mainland. We believe this withdrawal will not negatively affect the bank's overall business franchise in China. After the retail banking withdrawal, the bank will focus on developing its corporate and commercial banking business in China. As an integral part of Citi's global banking network, cross-selling activities with its parent are a key part of its business strategy.

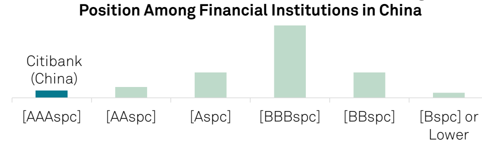
Capital and Earnings: It has a very strong capital base, with capital adequacy ratios much higher than the industry average in China. Its profitability is robust and healthy mainly due to its low deposit cost, which has led to a NIM better than peers.

Risk Position: It takes a prudent approach to risk management. It targets a client base of multinationals and leading Chinese enterprises with international business. 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).)

(2018-2020 three-year average)	Citibank (China)	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	**182.97**	522.31	128.17	235.25	312.37	190.73
Customer deposits (bil)	**141.05**	308.20	62.56	145.78	189.88	132.53
Net income (bil)	**2.12**	3.98	(0.71)	1.47	2.10	1.43
Reported regulatory capital adequacy ratio (%)	**20.40**	20.40	14.72	16.79	16.90	16.65
Return on average equity (%)	**10.68**	10.68	(3.25)	5.92	6.34	7.53
Non-performing loans ratio (%)	**0.52**	1.83	0.04	0.78	0.71	0.73
Reserve coverage ratio (%)	**485.75**	5,031.96	147.58	1,110.65	805.13	374.57
Customer deposits/total liabilities (%)	**87.30**	87.30	53.75	70.46	69.40	68.39

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, 2021	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.	— Lower interest rate environment puts pressure on NIM and earnings.
— It has very strong capitalization and robust 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

China is recovering from the slowdown in economic growth caused by COVID-19. As consumption growth continues to pick up, there is no sign yet that investment and net exports are flaming out. However, the overall nature of the recovery has been unbalanced. Large parts of the manufacturing sector are operating at or above capacity while other industries such as personal services and tourism are still facing weak demand. Despite potential tailwinds such as a tightening policy environment, we expect full-year economic growth of 8% for 2021 as the economy continues to gradually rotate towards private consumption, a necessary step if growth is to maintain momentum.

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.

We believe that the overall credit outlook for commercial banks in China will remain stable because of on-going government support and the strong economic recovery. China's commercial banking sector reported stable capital and asset quality metrics in 2020 and the first half of 2021, but we continue to expect pressure on credit cost and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while smaller banks are under more pressure. Therefore, we believe the stand-alone 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.

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 1%.

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 not been significantly affected by the COVID-19 pandemic and the economic slowdown in China.

Foreign bank subsidiaries are typically fully owned and tightly controlled by their 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.

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

Stand-alone Credit Profile

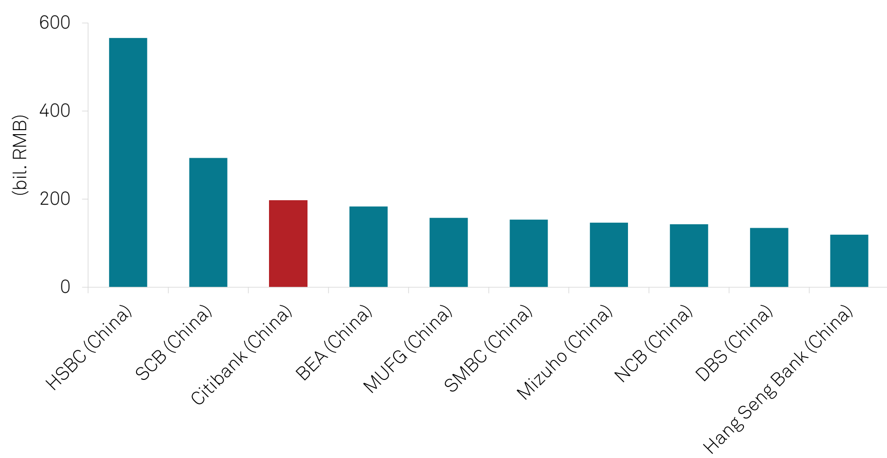
Citibank (China) is a fully owned subsidiary of Citibank N.A., which is the lead bank of Citigroup, the holding company. Citi is one of the most diversified global financial institutions in the world, with strengths in treasury and trade solutions. As the global bank's locally incorporated commercial 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. As of the end of 2020, it reported total assets of 197 billion RMB, gross loans of 63 billion RMB and customer deposits of 149 billion RMB. It has 25 branches in 12 Chinese cities.

Chart 1

Citibank (China) Is One of The Largest Foreign Bank Subsidiaries in China

Peer Comparison: 10 Largest Foreign Bank Subsidiaries in China as of End of 2020



Note: HSBC (China) - HSBC Bank(China) Company Limited, SCB (China) - Standard Chartered Bank (China) Limited, BEA (China) - Bank of East Asia (China) Limited, MUFG (China) - Bank of Tokyo-Mitsubishi UFJ (China), Ltd., SMBC (China) - Sumitomo Mitsui Banking Corporation (China) Limited. Mizuho (China) - Mizuho Bank (China), Ltd., NCB(China) - Nanyang Commercial Bank (China) Limited, DBS (China) - DBS Bank (China) Limited, Hang Seng Bank (China) - Hang Seng Bank (China) Co.,Ltd.
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 jurisdictions, and has a physical presence in more than 90 countries and regions (it has had a worldwide presence for more than 100 years). This superior global network allows it to offer clients global-level treasury and trade solutions which are also offered to Citibank (China) clients.

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.

Citi is one of the most diversified global financial institutions in the world, and Citibank (China) is an integral part of Citi's global banking network.

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

Table 1

Citibank (China) -- Market Share				
(%)	2017	2018	2019	2020
Total assets /total assets of China's commercial banking industry	0.08	0.08	0.07	0.07
Gross customer loans/total loans of China's commercial banking industry	0.07	0.06	0.05	0.04
Customer deposits/total deposits of China's commercial banking industry	0.07	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.

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, large and mid-sized domestic enterprises with business engagements outside China, and leading Chinese financial institutions. Its domestic corporate clients include both exporters in traditional manufacturing businesses and leading technology companies.

In 2021, Citibank (China) is one of five foreign bank subsidiaries to be designated by the People's Bank of China as a primary dealer in the interbank market. This primary dealership gives it an extra edge in foreign exchange trading compared to its foreign bank peers. In addition, since 2019, it has been one of two foreign bank subsidiaries to provide loan prime rate quotes to the central bank. In September 2020, Citibank (China) became the first American bank to be granted a domestic fund custody license in China.

In our view, the bank's withdrawal from retailing banking business will not negatively affect its overall business franchise in China. In April 2021, Citigroup announced its decision to withdraw from retail banking business in 13 markets, including the Chinese Mainland. As of the end of 2020, Citibank (China) had a retail lending book of 23.4 billion RMB and retail deposits of 15.5 billion RMB in China, accounting for 37% 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 2020), mortgages (61%) and other consumer lending (9%). Citibank (China) has a significant competitive edge in trade finance, cash management and cross-selling activities through Citi's global banking network. After the retail banking withdrawal, the bank will be able to focus on developing its corporate and commercial banking business in China. We believe in the long term, after the retail business withdrawal, the bank's business strategy will become more focused and profitable.

Table 2

Citibank (China) -- Business Position				
	2017	2018	2019	2020
Total assets (bil)	159.54	174.20	177.85	196.85
Year-over-year growth of total assets (%)	(7.80)	9.19	2.10	10.68
Gross customer loans (bil)	69.82	63.20	66.58	63.45
Year-over-year growth of gross customer loans (%)	19.68	(9.48)	5.34	(4.70)

Citibank (China) -- Business Position

	2017	2018	2019	2020
Customer deposits (bil)	119.12	134.60	139.50	149.04
Year-over-year growth of customer deposits (%)	(13.80)	12.99	3.64	6.84
Operating income (bil)	5.27	6.46	5.95	5.58
Year-over-year growth of operating income (%)	3.92	22.55	(7.96)	(6.09)
Net income (bil)	1.56	2.55	2.07	1.73
Year-over-year growth of net income (%)	45.81	63.18	(18.80)	(16.59)
Net fees and commissions income/operating income (%)	18.94	16.68	18.10	18.49

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

Table 3

Peer Comparison -- Business Position

(2018-2020 three-year average)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	**182.97**	522.31	128.17	235.25	312.37	190.73
Year-over-year growth of total assets (%)	**7.32**	9.93	(5.43)	4.90	5.39	6.96
Gross customer loans (bil)	**64.41**	208.13	44.86	94.89	125.69	78.48
Year-over-year growth of customer loans (%)	**(2.95)**	8.65	(7.41)	0.65	1.98	0.36
Customer deposits (bil)	**141.05**	308.20	62.56	145.78	189.88	132.53
Year-over-year growth of customer deposits (%)	**7.83**	9.72	(9.65)	4.56	4.29	6.67
Operating income (bil)	**6.00**	12.44	2.72	5.90	7.74	5.42
Year-over-year growth of operating income (%)	**2.83**	9.97	2.83	6.65	5.73	6.93
Net income (bil)	**2.12**	3.98	(0.71)	1.47	2.10	1.43
Year-over-year growth of net income (%)	**9.26**	144.73	(174.58)	3.75	(6.06)	7.20
Net fees and commissions income/operating income (%)	**17.76**	18.65	2.90	12.89	14.21	14.26

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 2018 to 2020. Therefore, the weights of Citibank (China), HSBC (China), Standard Chartered (China), Bank of East Asia (China), Mizuho (China) and DBS (China) are 12.96%, 37.00%, 17.56%, 14.06%, 9.32% and 9.08% respectively.
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Capital and Earnings

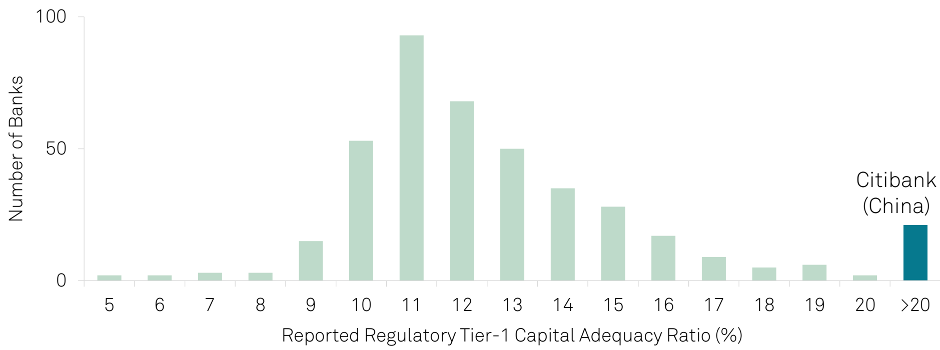
Citibank (China)'s capitalization is much stronger than the industry average in China. Its strong capitalization is attributable to its large low-risk weight investment portfolio mainly composed of treasury bonds, its relatively small loan book, and healthy profitability. Its parent has never required it to pay any dividends. Its reported regulatory tier-1 capital adequacy ratio was 20% as of the end of 2020, much higher than the industry average of 12.04%. We expect the bank to maintain strong capitalization in the foreseeable future. The withdrawal from retail banking business will eliminate capital consumption of its retail loan book, which may have a positive impact on its capitalization.

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

Chart 2

Citibank (China)'s Capital Adequacy is Much Stronger than the Industry Average

Industry Distribution: Reported Regulatory Tier-1 Capital Adequacy Ratio of Major Banks in China as of End of 2020

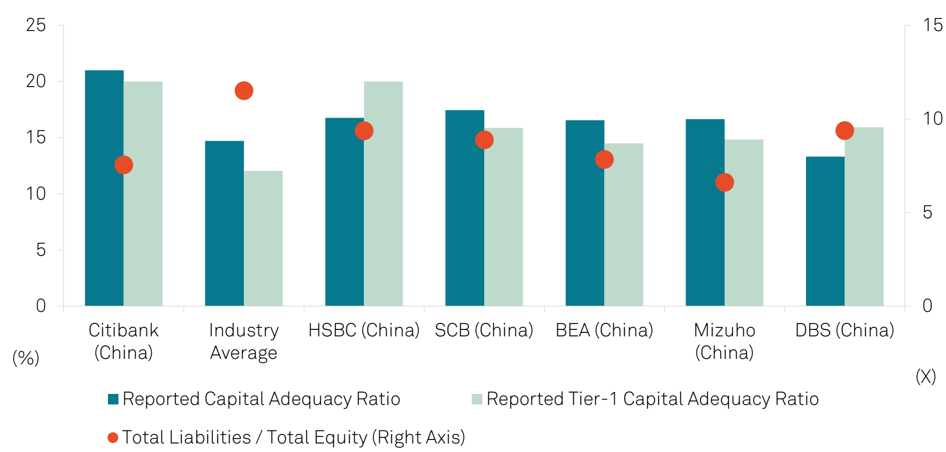


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 3

Citibank (China)'s Leverage is Lower than Its Major Peers

Peer Comparison: Reported Regulatory Capital Adequacy Ratios and Leverage Levels as of End of 2020



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

	2019A	2020A	2021E	2022F
Total risk-weighted assets (bil)	110.48	110.48	129.37	140.75
- Credit risk (bil)	91.40	91.40	105.86	116.44
- Market risk (bil)	8.13	8.13	12.22	12.73
- Operational risk (bil)	10.94	10.94	11.29	11.57
Tier-1 capital (bil)	21.46	21.46	25.03	26.88
Tier-1 capital adequacy ratio forecast (%)			19	19

S&P Global (China) Ratings' base-case assumptions include: 1. total risk-weighted assets increase by 22% as of the end of 2022 compare with the end of 2020; 2. As of the end of 2022, its NPL ratio is about 0.6% and reserve coverage ratio is about 450%; 3. Its NIM stays around 1.9%; 4. Its cost-to-income ratio stays about 50%; 5. Its return on average equity is about 8%; and 6. We assume no dividend payment for 2021 and 2022; 7. Our forecast doesn't consider the bank's potential sale of its retail business. The sale of its consumer business won't have negative impact on its capitalization.

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

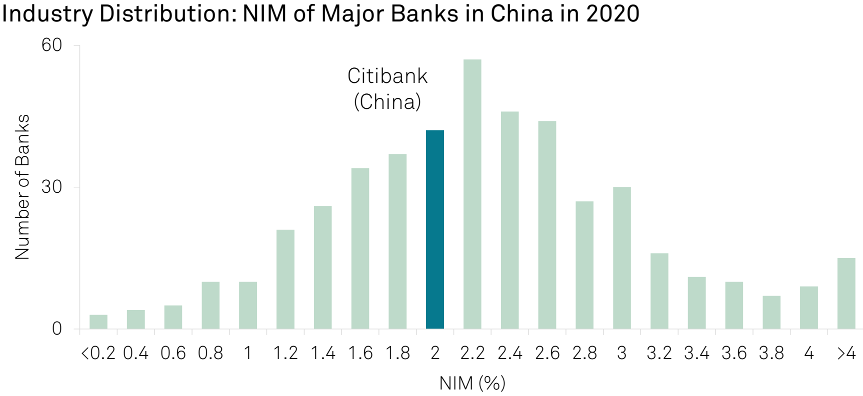
Citibank (China)'s net interest margin ("NIM") has faced pressure since 2020 because of the central banks' response to COVID, which has led to a lower interest rate environment. Its NIM dropped by 27 bps in 2020 compared to 2019. In 2020, its NIM of 1.81% was lower than the industry average of 2.10% but 0.20 percentage points higher than the foreign bank subsidiary average of 1.61%.

In our view, its NIM level will remain robust and healthy thanks to its low-cost deposit base. As of the end of 2020, 64% of its deposits were demand deposits which generally have a lower interest rate compared to time deposits. In our view, corporate clients depositing 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 that of mainstream domestic banks because of the high credit quality of its client base and its heavy investment in treasury bonds and policy bank bonds, which leads to a lower credit risk premium.

Chart 4

Citibank (China)'s NIM is Marginally Lower than the Industry Average

Industry Distribution: NIM of Major Banks in China in 2020

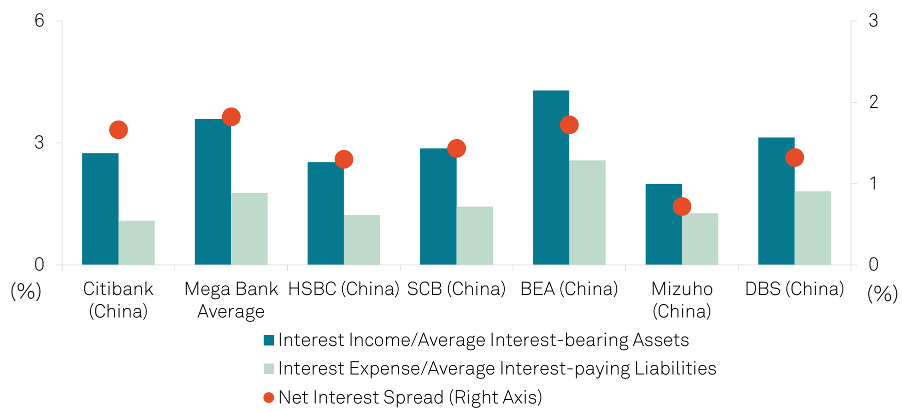


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 5

Citibank (China)'s Net Interest Spread is Higher than Major Peers Thanks to Lower Funding Cost

Peer Comparison: Net Interest Spread in 2020



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.

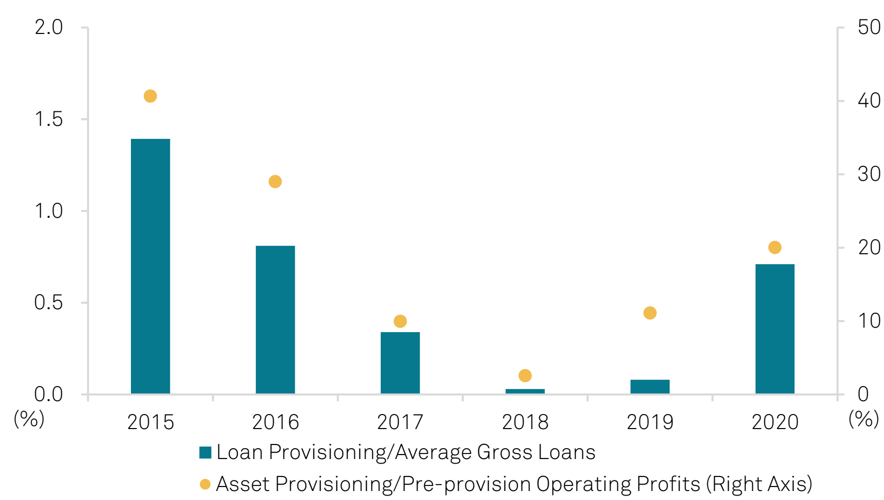
Note 3: Net Interest Spread = (interest income/average interest-bearing assets) – (interest expense/average interest-paying liabilities).
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Similar to its foreign bank peers, Citibank (China)'s credit cost is lower than the banking sector average in China. Nevertheless, it stepped up its provisioning in 2020 in the face of COVID. Its ratio of asset provisioning/pre-provision operating profits was 20% in 2020, representing an increase of 9 percentage points compared to 2019. Average credit cost (loan provisioning/average gross loans) saw an increase from 0.08% in 2019 to 0.71% in 2020. As China's economy recovers from the pandemic, we expect its credit cost to lower in 2021.

Chart 6

Citibank (China)'s Credit Cost Increased in 2020 Amid COVID Pressure

Citibank (China): Credit Cost



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

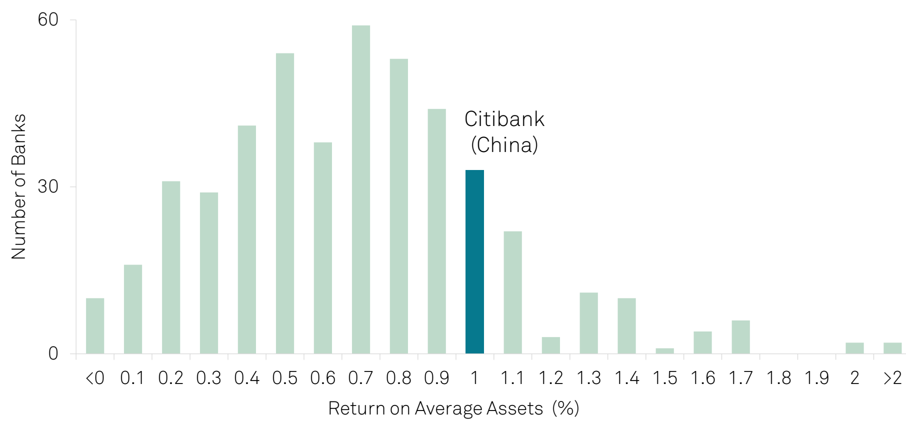
Citibank (China)'s operating cost is higher than the industry average. Like most foreign bank subsidiaries operating in China, its business scale is smaller than mainstream domestic banks, leading to weaker economies of scale and higher cost-to-income ratio. In 2020, its cost-to-income ratio was 54%, higher than the industry average of 31%. We expect better operating efficiency after the withdrawal from retail banking, given the high cost of maintaining small-scale retail operations in China due to the lack of economies of scale.

The return on average assets ("ROAA") of Citibank (China) is better than the industry average and its foreign bank subsidiary peers due to its robust NIM and low credit cost. Its ROAA was 0.92% in 2020, higher than the industry average of 0.77% and the foreign bank subsidiary average of 0.47%. That being said, its return on average equity ("ROAE") is lower than the industry average, due to its lower leverage. Its return on average equity was 7.77% in 2020, 2.36 percentage points lower than 2019 due to the NIM compression and temporary increase of credit cost. We expect better earnings in 2021 thanks to lowering provisioning pressure.

Chart 7

Citibank (China) has Healthy Profitability

Industry Distribution: Return on Average Assets of Major Banks in China in 2020



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

Table 5

Citibank (China) -- Capital and Earnings

(%)	2017	2018	2019	2020
Reported regulatory tier-1 capital adequacy ratio	15.91	18.76	19.42	20.00
Reported regulatory total capital adequacy ratio	16.90	19.76	20.44	21.00
NIM adjusted by S&P Global (China) Ratings	2.00	2.24	2.08	1.81
Cost-to-income ratio	57.78	47.67	52.10	54.23
Loan provisioning/average gross loans	0.34	0.03	0.08	0.71
Asset provisioning/pre-provision operating profits	9.96	2.55	11.10	20.02
Return on average assets	0.94	1.53	1.18	0.92
Return on average equity	9.83	14.15	10.13	7.77

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

(2018-2020 three-year average) (%)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported regulatory Tier-1 capital adequacy ratio	**19.40**	19.40	12.59	15.56	15.79	15.55
Reported regulatory total capital adequacy ratio	**20.40**	20.40	14.72	16.79	16.90	16.65
NIM adjusted by S&P Global (China) Ratings	**2.04**	2.04	1.14	1.71	1.76	1.85
Cost-to-income ratio	**51.34**	61.13	43.13	55.56	56.72	58.37
Loan provisioning/average gross loans	**0.28**	0.95	(0.22)	0.50	0.54	0.57
Asset provisioning/pre-provision operating profits	**11.22**	143.92	(7.61)	38.84	37.63	25.70
Return on average assets	**1.21**	1.21	(0.36)	0.63	0.65	0.75
Return on average equity	**10.68**	10.68	(3.25)	5.92	6.34	7.53

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. In our view, COVID-19 had much less of an impact on asset quality than domestic banks. This is attributed to the strong cash flow of its client base despite the pandemic. It had a non-performing loan ("NPL") ratio of 0.63% as of the end of 2020, much lower than the industry average of 1.84%. 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 (0.78% as of the end of 2020) and NPL+SML ratio (4.76%).

Its bad debts are well cushioned by its high reserve buffer. As of the end of 2020, it had a reserve coverage ratio of 412%, much higher than the industry average of 184%. Nevertheless, due to COVID's impact on credit card loans, its net charge-off/average loan book increased from 0.26% in 2019 to 0.50% in 2020. We believe the charge-off increase is temporary. The withdrawal from retail banking business would remove its credit exposure to credit card loans and mortgage loans.

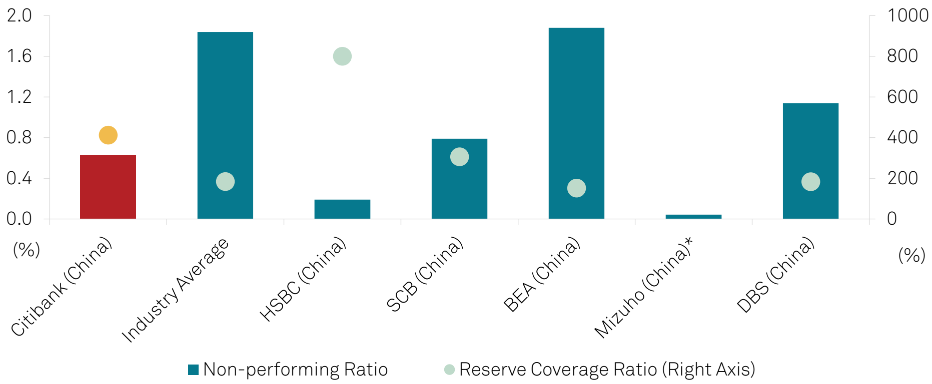
We believe Citibank (China)'s risk appetite is lower than average Chinese banks and it enjoys a client base with a better-than-average credit profile.

Therefore, we apply a one-notch uplift adjustment to its risk position.

Chart 8

Citibank (China)'s Bad Debt Ratio and Reserve Coverage Ratio are Better than the Industry Average

Peer Comparison: NPL Ratio and Reserve Coverage Ratio as of End of 2020



Note 1*: The reserve coverage ratio of Mizuho (China) as of the end of 2020 was 3,787%, and is not shown on this chart.

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 2020, over 96% of its bond investments were rated "A" or above by major international rating agencies (S&P Global Ratings, Moody's or Fitch). More than 76% 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 established sound risk governance in China.

Table 7

Citibank (China) -- Risk Position

(%)	2017	2018	2019	2020
Non-performing loan ratio	0.64	0.46	0.47	0.63
(Non-performing loans + special mention loans)/gross customer loans	2.38	2.59	3.92	4.76
Overdue loans/gross customer loans	0.77	0.69	0.67	0.78
Loan loss reserves/gross customer loans	2.51	2.58	2.28	2.60
Reserve coverage ratio	392.42	556.27	488.89	412.09
Loan loss reserves/(non-performing loans + special mention loans)	105.44	99.77	58.12	54.54
Net write-offs/average gross customer loans	0.13	0.24	0.26	0.50

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

Table 8

Peer Comparison -- Risk Position

(2018-2020 three-year average) (%)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio	**0.52**	1.83	0.04	0.78	0.71	0.73
Overdue loans/gross customer loans	**0.71**	2.60	0.04	1.19	1.04	1.13
Loan loss reserves/gross customer loans	**2.49**	2.69	1.52	2.20	2.04	2.24
Reserve coverage ratio	**485.75**	5,031.96	147.58	1,110.65	805.13	374.57
Net write-offs/average gross customer loans	**0.33**	2.52	0.01	0.81	0.71	0.43

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 2020, 86% 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 very stable business, we view its deposit base as sticky. In 2020, the bank's loan book dropped in size by 4.7% YoY, while deposits increased by 6.8%. This demonstrates the very strong resilience and momentum in its deposit funding base. As a result, its deposits are more than enough to fund its lending business, and its loan-to-deposit ratio was 43% as of the end of 2020.

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

Its use of wholesale funding is limited.

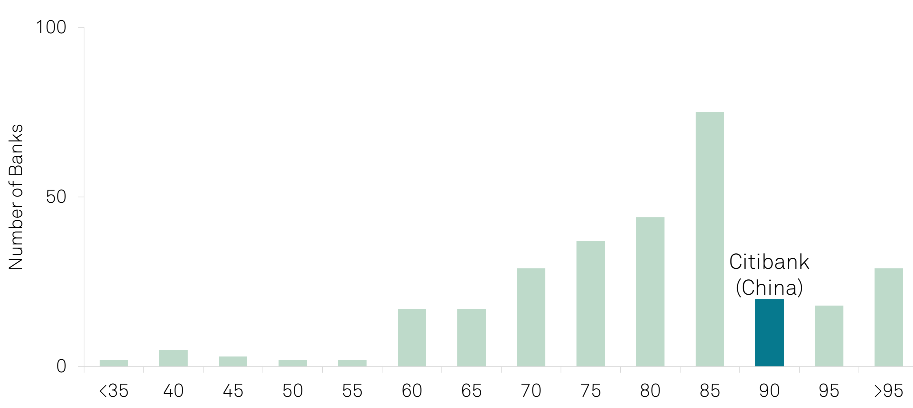
It practices prudent liquidity management, and its assets have superior liquidity profiles.

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

Chart 9

Citibank (China)'s Use of Wholesale Funding is Lower than the Industry Average

Industry Distribution: Customer Deposits/Total Liabilities of Major Banks in China as of End of 2020

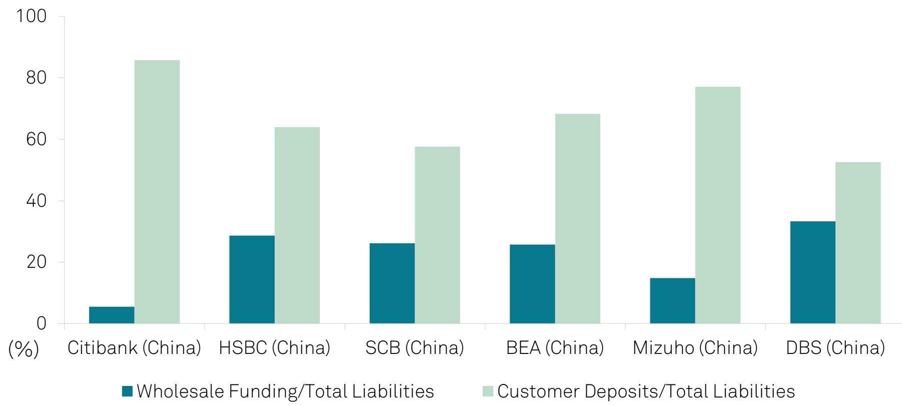


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 10

Citibank (China) has the Lowest Reliance on Wholesale Funding Among its Peers

Peer Comparison: Funding Structure as of End of 2020



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

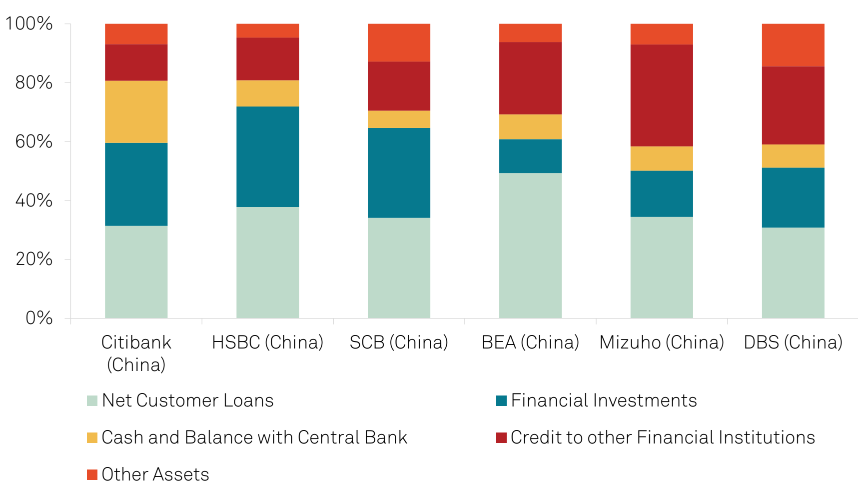
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The liquidity profile of its assets is significantly better than the industry average. As of the end of 2020, its net loan book accounted for only 31% of its total assets. Cash and deposits to the central bank accounted for 21%, credit to other financial institutions 12%, and its investment portfolio 28%. Its investment portfolio is mainly composed of treasury bonds and policy bank bonds which enjoy very good liquidity.

Chart 11

The Balance Sheet of Citibank (China) has Good Liquidity

Peer Comparison: Asset Breakdown as of End of 2020



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 2020, its liquidity coverage ratio was 183%, much higher than the minimum regulatory requirements of 100%.

In our view, the planned withdrawal from retail banking business won't have any negative impact on the bank's funding and liquidity profile because its retail deposit base is smaller than its retail loan book. As of the end of 2020, its retail deposits were 15.49 billion RMB, and its retail loan book was 23.4billion RMB.

Table 9

Citibank (China) – Funding and Liquidity

(%)	2017	2018	2019	2020
Customer loans/customer deposits	58.61	46.96	47.73	42.57
Customer deposits/total liabilities	83.35	86.96	89.20	85.74
Wholesale funding /total liabilities	9.58	7.05	6.24	5.51
Retail deposits/customer deposits	11.33	9.45	9.77	10.39
High-quality liquidity asset adequacy ratio	N.A.	264.09	188.57	N.A.
Liquidity coverage ratio	148.33	N.A.	N.A.	182.65

N.A. – Not available.
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

(2018-2020 three-year average) (%)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans/customer deposits	**45.75**	87.12	45.75	65.18	65.95	65.10
Customer deposits/total liabilities	**87.30**	87.30	53.75	70.46	69.40	68.39
Wholesale funding /total liabilities	**6.27**	31.21	6.27	21.37	22.89	23.90
Retail deposits/customer deposits	**9.87**	21.85	0.02	12.54	15.14	13.48

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 services 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.

S&P Global Ratings has assigned an SACP of "a-" and an issuer credit rating of "A+" to Citibank N.A., the core bank of Citigroup. 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.

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. It is also a leading consumer bank in multiple areas and geographies (such as Mexico), with a good balance of consumer and corporate exposures, and an affluent base of customers in certain regions and businesses.

S&P Global Ratings also balances those strengths against its complexity--from its global footprint, exposure to some riskier jurisdictions and trading activities--and its reliance on lending and capital markets activities. S&P Global Ratings thinks that complexity, along with insufficient systems, likely led to the deficiencies in risk management and controls that regulators have ordered Citi to fix.

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. Citibank (China)'s operations are relatively small within Citigroup. As of the end of 2020, it accounted for only 2% of the total assets of Citibank N. A. and its net income was about 3% of that of its parent in 2020. 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. As of the end of 2020, its direct exposure to the Chinese Mainland was 22 billion USD, and its exposure to Hong Kong SAR was 49 billion USD.

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

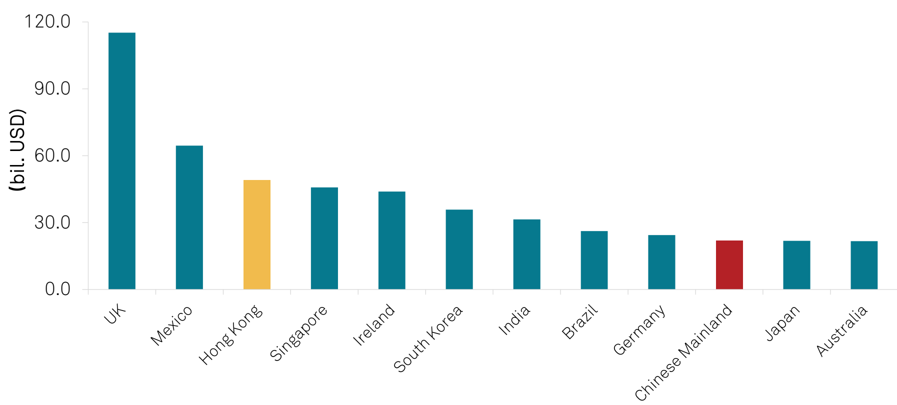
We believe that the ratings of Citibank (China) are closely aligned with the issuer credit quality of its parent.

The extremely high likelihood of group support leads to a three-notch uplift from its SACP of "aa_{spc}-" and we assign an ICR of "AAA_{spc}" to Citibank (China).

Chart 12

Hong Kong and Chinese Mainland are Important Parts of Citi’s Global Banking Network

Major Regional Exposures of Citigroup as of End of 2020 (Excluding the U.S.)



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

Due to Citi's strategic "refresh" and its plan to exit retail banking in 13 markets in Asia-Pacific and Europe, the Middle East, and Africa, Citibank (China) will withdraw from retail banking business in the Chinese Mainland. The announcement has no effect on our views on the importance of Citibank (China) to its parent given the subsidiary will continue to offer institutional services to Citi's clients in China. Citi's efforts to refresh its strategy, which Jane Fraser first announced after taking over as CEO in March 2021, aims to increase focus on businesses that have scale and competitive advantages and that generate growth and good returns. If the company successfully executes this effort, it could result in a more cohesive, less complex, and more profitable strategy at the global level, which we believe will eventually improve the group’s capability to support its franchise in China.

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 our view, Citigroup is committed to investing in China’s financial market. It is preparing to set up a securities firm and a futures firm in the Chinese Mainland. Although both will be entities separate from Citibank (China), we expect positive business synergy among the different Citi entities in China.

Even with the future withdrawal from retail banking in China, we expect Citibank (China) to remain critically important to Citi--a view that underpins our rating on the subsidiary. 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	2017	2018	2019	2020
Business Position				
Total assets (bil)	159.54	174.20	177.85	196.85
Gross customer loans (bil)	69.82	63.20	66.58	63.45
Customer deposits (bil)	119.12	134.60	139.50	149.04
Total equity (bil)	16.63	19.43	21.47	23.03
Operating income (bil)	5.27	6.46	5.95	5.58
Net income (bil)	1.56	2.55	2.07	1.73
Total assets / total assets of China's commercial banking industry (%)	0.08	0.08	0.07	0.07
Customer loans/total loans of China's commercial banking industry (%)	0.07	0.06	0.05	0.04
Customer deposits/total deposits of China's commercial banking industry (%)	0.07	0.07	0.07	0.07
Capital and Earnings				
Reported regulatory capital adequacy ratio (%)	16.90	19.76	20.44	21.00
Reported regulatory tier-1 capital adequacy ratio (%)	15.91	18.76	19.42	20.00
NIM adjusted by S&P Global (China) Ratings (%)	2.00	2.24	2.08	1.81
Cost-to-income ratio (%)	57.78	47.67	52.10	54.23
Asset provisioning/pre-provision operating profits (%)	9.96	2.55	11.10	20.02
Loan provisioning/average gross customer loans (%)	0.34	0.03	0.08	0.71
Return on average assets (%)	0.94	1.53	1.18	0.92
Return on average equity (%)	9.83	14.15	10.13	7.77
Risk Position				
Non-performing loan ratio (%)	0.64	0.46	0.47	0.63
(Non-performing loans + special mention loans)/gross customer loans (%)	2.38	2.59	3.92	4.76
Overdue loans/gross customer loans (%)	0.77	0.69	0.67	0.78
Loan loss reserve/gross customer loans (%)	2.51	2.58	2.28	2.60
Reserve coverage ratio (%)	392.42	556.27	488.89	412.09
Loan loss reserve/ (non-performing loans + special mention loans) (%)	105.44	99.77	58.12	54.54
Net write-offs/average gross customer loans (%)	0.13	0.24	0.26	0.50
Funding and Liquidity				
Customer loans/customer deposits (%)	58.61	46.96	47.73	42.57
Customer deposits/total liabilities (%)	83.35	86.96	89.20	85.74
Wholesale funding /total liabilities (%)	9.58	7.05	6.24	5.51
Retail deposits/customer deposits (%)	11.33	9.45	9.77	10.39
High-quality liquidity asset adequacy ratio (%)	N.A.	264.09	188.57	N.A.
Liquidity coverage ratio (%)	148.33	N.A.	N.A.	182.65

N.A. – Not available.
Note 1: In our view, Citibank (China) has a clear business model and sound financial management. Therefore, we haven't conducted any material adjustments to its financial data.
Note 2: Its annual financial reports have been audited by KPMG, and unqualified opinions have been issued on its financial statements.
Note 3: 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 4: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2].
Note 5: 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

(2018-2020 three-year average)	Citibank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	**182.97**	522.31	128.17	235.25	312.37	190.73
Gross customer loans (bil)	**64.41**	208.13	44.86	94.89	125.69	78.48
Customer deposits (bil)	**141.05**	308.20	62.56	145.78	189.88	132.53
Total equity (bil)	**21.31**	50.57	11.65	24.25	31.30	21.50
Operating income (bil)	**6.00**	12.44	2.72	5.90	7.74	5.42
Net income (bil)	**2.12**	3.98	(0.71)	1.47	2.10	1.43
Capital and Earnings						
Reported regulatory capital adequacy ratio (%)	**20.40**	20.40	14.72	16.79	16.90	16.65
Reported regulatory tier-1 capital adequacy ratio (%)	**19.40**	19.40	12.59	15.56	15.79	15.55
Net interest margin adjusted by S&P Global (China) Ratings (%)	**2.04**	2.04	1.14	1.71	1.76	1.85
Cost-to-income ratio (%)	**51.34**	61.13	43.13	55.56	56.72	58.37
Asset provisioning/pre-provision operating profits (%)	**11.22**	143.92	(7.61)	38.84	37.63	25.70
Loan provisioning/average gross customer loans (%)	**0.28**	0.95	(0.22)	0.50	0.54	0.57
Return on average assets (%)	**1.21**	1.21	(0.36)	0.63	0.65	0.75
Return on average equity (%)	**10.68**	10.68	(3.25)	5.92	6.34	7.53
Risk Position						
Non-performing loan ratio (%)	**0.52**	1.83	0.04	0.78	0.71	0.73
Overdue loans/gross customer loans (%)	**0.71**	2.60	0.04	1.19	1.04	1.13
Loan loss reserves/gross customer loans (%)	**2.49**	2.69	1.52	2.20	2.04	2.24
Reserve coverage ratio (%)	**485.75**	5,031.96	147.58	1,110.65	805.13	374.57
Net write-offs/average gross customer loans (%)	**0.33**	2.52	0.01	0.81	0.71	0.43
Funding and Liquidity						
Customer loans/customer deposits (%)	**45.75**	87.12	45.75	65.18	65.95	65.10
Customer deposits/total liabilities (%)	**87.30**	87.30	53.75	70.46	69.40	68.39
Wholesale funding/total liabilities (%)	**6.27**	31.21	6.27	21.37	22.89	23.90
Retail deposits/customer deposits (%)	**9.87**	21.85	0.02	12.54	15.14	13.48

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 2018 to 2020. Therefore, the weights of Citibank (China), HSBC (China), Standard Chartered (China), Bank of East Asia (China), Mizuho (China) and DBS (China) are 12.96%, 37.00%, 17.56%, 14.06%, 9.32% and 9.08% 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) by S&P Global (China) Ratings

Issuer Credit Ratings

Ratings	Outlook	Rating Date	Analysts	Related Reports
AAA_{spc}	Stable	2020-10-20	Longtai Chen, Zheng Li, Xuefei Zou	Credit Rating Report: Citibank (China) Company Limited, October 20, 2020
AAA_{spc}	Stable	2021-10-20	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.