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S&P Global

China Ratings

## Issuer Credit Rating Report

# Citibank (China) Company Limited

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

**October 20, 2022**

**Analysts:**

Ying Li, CFA, FRM: +86-10-6516-6061; Ying.Li@spgchinaratings.cn

Xuefei Zou, CPA: +86-10-6516-6063; Eric.Zou@spgchinaratings.cn

Jiancheng Yang, FRM: +86-10-6516-6072; Allen.Yang@spgchinaratings.cn

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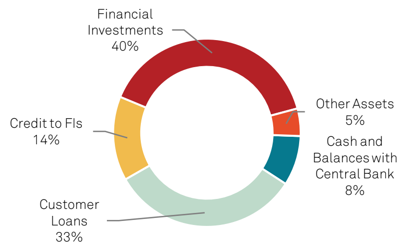
## Tear Sheet

| Company Name | Rating Type | Current Rating | Rating Date | Outlook/Credit Watch |
|---|---|---|---|---|
| Citibank (China) Company Limited | Issuer Credit Rating | $AAA_{spc}$ | October 20, 2022 | Stable |

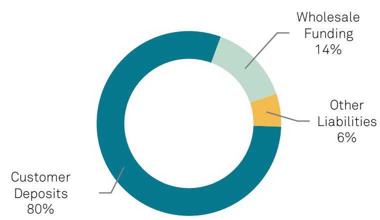
**Industry Classification:** Commercial Bank

**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 2021, Citibank (China) reported total assets of 188 billion RMB. In 2021, it achieved an ROE of 7.48%.

**Asset Breakdown as of the End of 2021**




**Liability Breakdown as of the End of 2021**




### Economy and Industry Trends:

In 2021, China's ongoing control measures over COVID remained effective, as the economy continued to recover at a healthy pace. However, 2022 has seen new waves of COVID impact on economic activity, leading to weaker growth. While industrial production has been hit less hard than service sector activity, supply disruptions have been substantial, and turbulent market conditions highlight refinancing risk. Looking beyond COVID, we believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality so our baseline includes some of these dynamics.

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. While domestic banks have seen rapid growth in the past decade, most foreign bank subsidiaries have been more prudent in expanding their loan books. The 41 foreign bank subsidiaries so far only have 1% market share in China's banking industry. While they are smaller than domestic banks in terms of business scale, foreign bank subsidiaries have unique advantages in cross-border and global banking services, playing an indispensable role in China's commercial banking industry. Compared to domestic banks, most foreign bank subsidiaries maintain lower risk appetite. COVID and slowing economic growth have not had a significant impact on their asset performance. Given their strong capital, we expect foreign bank subsidiaries to maintain stable credit quality. Foreign bank subsidiaries are typically fully owned and tightly controlled by their parents, sharing parents' brand, actively engaging in cross-selling activities, and enjoying on-going support in terms of capital injection and liquidity support. We expect strong support from the parent banks should the subsidiaries come under pressure. In addition, international banking groups have been highly resilient amid COVID, generally maintaining good credit quality. Strong and stable group support plays an important role in stabilizing foreign bank subsidiaries' issuer credit quality.

### Key Metrics of Citibank (China)

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Total assets (bil) | 174.2 | 177.9 | 196.9 | 188.1 |
| Customer loans (bil) | 63.2 | 66.6 | 63.5 | 62.4 |
| Customer deposits (bil) | 134.6 | 139.5 | 149.0 | 130.4 |
| Net income (bil) | 2.55 | 2.07 | 1.73 | 1.80 |
| Reported regulatory capital adequacy ratio (%) | 19.76 | 20.44 | 21.00 | 23.10 |
| Return on average equity (%) | 14.15 | 10.13 | 7.77 | 7.48 |
| Non-performing loans ratio (%) | 0.46 | 0.47 | 0.63 | 0.69 |
| Reserve coverage ratio (%) | 556.27 | 488.89 | 410.64 | 276.87 |
| Customer deposits/total liabilities (%) | 86.96 | 89.20 | 85.74 | 80.05 |

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. In recent years, the bank's loan book has declined slightly, but business should stay stable thanks to its cross-border advantages.

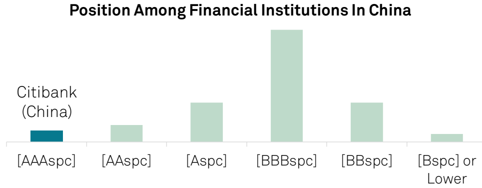
**Capital and Earnings:** It has a very strong capital base, with capital adequacy ratios much higher than the industry average in China. Its profitability remains healthy.

**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 growing macroeconomic pressure.

**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

| | 2020 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Citibank (China) | Commercial Bank Average | Foreign Bank Subsidiary Average | Citibank (China) | Commercial Bank Average | Foreign Bank Subsidiary Average |
| Total assets (bil) | 196.9 | 149.6 | 75.48 | 188.1 | 158.1 | 76.06 |
| Net income (bil) | 1.73 | 1.09 | 0.42 | 1.80 | 1.20 | 0.52 |
| Reported regulatory capital adequacy ratio (%) | 21.00 | 14.70 | 18.32 | 23.10 | 15.13 | 18.03 |
| Return on average assets (%) | 0.92 | 0.77 | 0.47 | 0.94 | 0.79 | 0.56 |
| Non-performing loans ratio (%) | 0.63 | 1.84 | 0.58 | 0.69 | 1.73 | 0.56 |
| Reserve coverage ratio (%) | 410.64 | 184.47 | 367.87 | 276.87 | 196.91 | 362.75 |

Sources: Citibank (China), CBIRC, Wind, 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, 2022 | 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 prudent risk appetite, very strong capitalization and robust profitability. | — Its operating cost is higher than the industry average. |
| — The bank has strong advantages in cross-border business, with a very stable deposit base. | |

## 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.
- S&P Global (China) Ratings Surveillance Methodology

**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.**

In 2021, China's ongoing control measures over COVID remained effective, as the economy continued to recover at a healthy pace. However, 2022 has seen new waves of COVID impact on economic activity, leading to weaker growth. While industrial production has been hit less hard than service sector activity, supply disruptions have been substantial, and turbulent market conditions highlight refinancing risk. Looking beyond COVID, we believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality so our baseline includes some of these dynamics.

We expect the overall credit outlook for commercial banks in China to remain stable because of strong government support and the robust economic recovery. While capital and asset quality performance indicators have remained stable, we expect pressure to continue on credit cost and profitability. State-owned mega banks are expected to maintain stable capitalization and resilient profitability. Regional banks on the other hand face more pressure on asset quality and capital. Foreign bank subsidiaries in the Chinese banking sector are small in terms of market share and scale. However, given their strong capital and low risk appetite, major foreign bank subsidiaries were able to maintain stable credit quality during the COVID pandemic.

While Chinese banks have seen rapid growth in the past decade, most foreign bank subsidiaries have seen more modest loan book growth, with an overall more prudent approach. The 41 foreign bank subsidiaries that have been established to date only have a market share of 1% in the Chinese commercial banking industry.

Competition between banks for high-quality corporate clients is intense. COVID saw a systemwide easing of liquidity, with high credit quality entities enjoying better access to low-cost bank credit. The largest Chinese banks have clear scale and pricing advantages in their loan business. Furthermore, China's mega banks are becoming increasingly adept at meeting the cross-border financing needs of domestic corporate clients. The fierce industry competition has led to growth challenges for foreign bank subsidiaries.

While they are smaller than domestic banks in terms of business scale, foreign bank subsidiaries have unique advantages in cross-border and global banking services and play an indispensable role in China's commercial banking industry.

Most foreign bank subsidiaries maintain lower risk appetite than their Chinese peers. COVID and the slowdown in Chinese economic growth have not had a significant impact on asset performance. Furthermore, compared with their Chinese peers, the foreign bank subsidiaries have no exposure to risky real estate assets or shadow banking.

Given their strong capital, we expect foreign bank subsidiaries to maintain stable credit quality. However, compressed net interest margins, higher operating cost and other drags on revenue growth should see foreign bank subsidiaries' profitability remain low.

Foreign bank subsidiaries are typically fully owned and tightly controlled by their parents, sharing parents' branding and receiving effective parental support in terms of cross-selling activities, capital injection and liquidity support.

Despite the typically limited asset and revenue contributions of China operations to most international banking groups, China remains a market too large to be missed by international banks. China subsidiaries also connect Chinese customers with their parents' operations in other regions, thus their contribution to parents is larger than that shown on their balance sheets. Therefore, we expect these parent groups to remain committed to China and their China subsidiaries. As a result, we typically believe that foreign bank subsidiaries are highly likely to receive parental support in times of stress.

In addition, international banking groups have maintained strong resilience against COVID, maintaining good credit quality. Stable and strong group support plays an important role in insuring very good issuer credit quality of these subsidiaries.

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

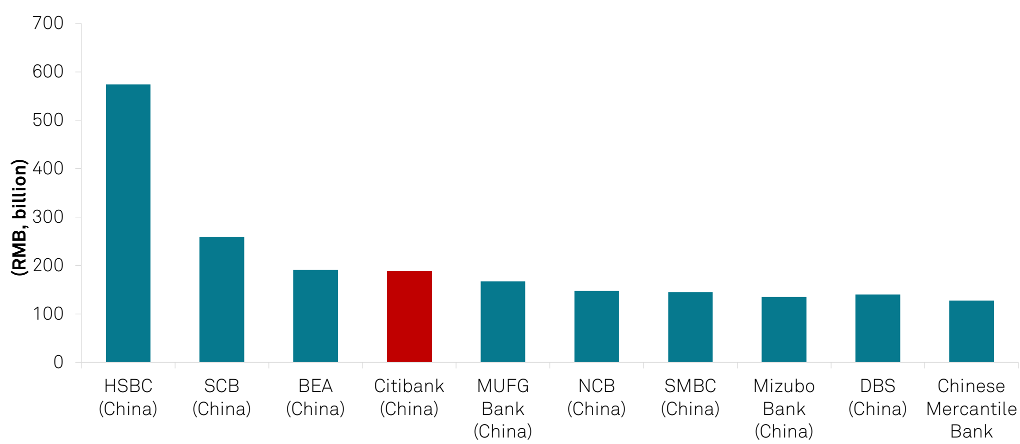
Citibank (China) is a fully owned subsidiary of Citibank N.A., which is the lead bank of Citigroup, the holding company. Citi is one of the most diversified global financial institutions in the world, with strengths in treasury and trade solutions. As the global bank's locally incorporated commercial 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 2021, it reported total assets of 188 billion RMB, gross loans of 62 billion RMB and customer deposits of 130 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 2021




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.

**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.**

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. As of the end of 2021, the bank's loan book was 62 billion RMB, down 1.7% YoY. Demand for loans has been tepid over 2022, with the bank's loan book as of June 2022 basically unchanged from the end of 2021.

Table 1

**Citibank (China) -- Market Share**

| (%) | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Total assets /total assets of China's commercial banking industry | 0.08 | 0.07 | 0.07 | 0.07 |
| Gross customer loans/total loans of China's commercial banking industry | 0.06 | 0.05 | 0.04 | 0.04 |
| Customer deposits/total deposits of China's commercial banking industry | 0.07 | 0.07 | 0.07 | 0.05 |

Sources: Citibank (China), CBIRC, 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.

The bank's deposit book has decreased in recent years. As of the end of 2021, its total deposits was 130 billion RMB, down 12.5% from the end of 2020. The bank has reduced its structured deposit and notice deposit products as part of a bid to control funding costs. While its deposit size has become smaller, the bank remains in a comfortable position to support the bank's lending business. As of the end of 2021, the bank's loan-to-deposit ratio was only 48%.

In our view, the bank's withdrawal from retail banking 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 date of this report, the bank had not yet fully withdrawn from its retail banking business. By the end of 2021, Citibank (China) had a retail lending book of 22.8 billion RMB and retail deposits of 12.7 billion RMB in China, accounting for 37% and 10% of its loan book and total deposits respectively.

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, particularly its services targeting high-quality small and medium enterprises. We believe in the long term, after the retail business withdrawal, its business strategy will become more focused and profitable.

## Capital and Earnings

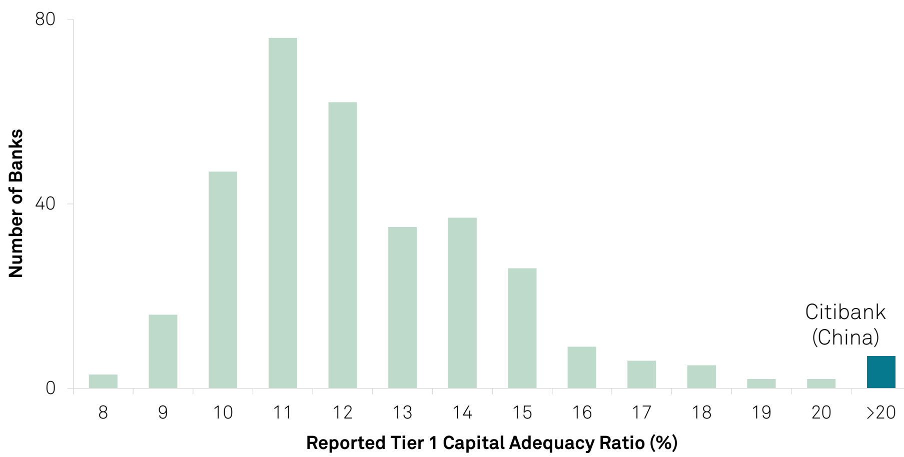
**We apply a two-notch uplift to its capital and earnings to reflect its very strong capitalization and healthy profitability.**

Citibank (China)'s capitalization is much stronger than the industry average in China. Its reported regulatory tier-1 capital adequacy ratio was 22.42% as of the end of 2021, much higher than the industry average of 12.35%. We expect the bank's tier-1 capital adequacy ratio to remain above 20% for the foreseeable future. Its strong capitalization is attributable to its large low-risk weight investment portfolio mainly composed of treasury bonds, its relatively small loan book, healthy profitability and strong ability to generate capital.

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 2021




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

Table 2

**Citibank (China) -- Capital Adequacy Forecast by S&P Global (China) Ratings**

| (Bill. RMB, %) | 2022E | | 2023F | | |
|---|---|---|---|---|---|
| | Amount | YoY Change | Amount | YoY Change | Base case assumptions |
| Risk-weighted assets | 113.4 | 1% | 104.8 | -8% | 1) Risk-weighted assets expected to stay stable in 2022.<br>2) Withdrawal from retail banking expected to be completed by end of 2023. |

**Citibank (China) -- Capital Adequacy Forecast by S&P Global (China) Ratings**

| | | | | | |
|---|---|---|---|---|---|
| Tier-1 capital | 26.6 | 6% | 24.4 | -8% | 1) NPL ratio remains at around 0.6%, reserve coverage ratio about 300%;<br>2) NIM to stay above 1.5%;<br>3) No dividend payout expected in 2022. One-time dividend payout expected in 2023 after retail banking withdrawal. |
| Tier-1 capital adequacy ratio forecast | Around 23% | | > 20% | | While the exact timing of withdrawal from retail banking remains unclear, we nevertheless expect tier-1 capital adequacy ratio to remain above 20% no matter what, indicating a very strong capitalization. |

Note: E-expected; F-forecast.

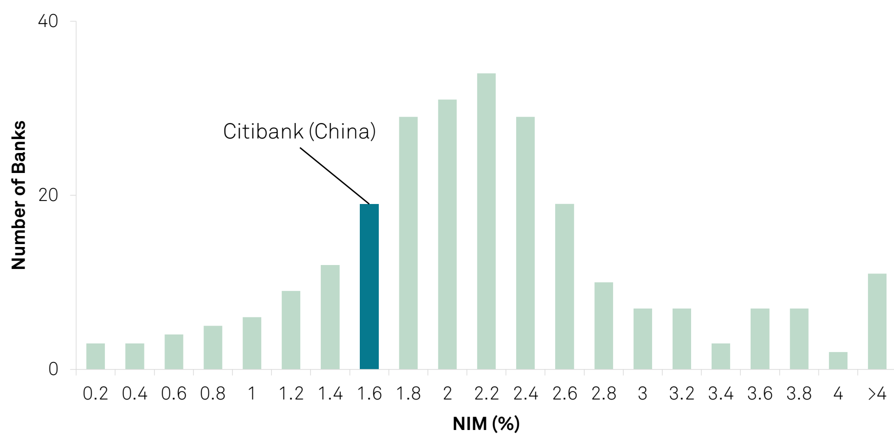
Sources: PSBC, S&P Global (China) Ratings.

Citibank (China)'s net interest margin ("NIM") has seen a decline since 2021, amid the wider lower interest rate environment in the market. Its NIM dropped by 32 bps in 2021 compared to 2020, falling to 1.51%, lower than the banking industry average of 2.08% and on par with the foreign bank subsidiary average of 1.55%. In the first 8 months of 2022, the 5-year loan prime rate ("LPR") was cut three times and is 35bps lower than the end of 2021. The 1-year LPR has been cut twice and is now 15bps lower than the end of 2021. As a result, we expect its NIM to face further downward pressure in 2022 and 2023. Such pressure can be somewhat mitigated by its stable, low-cost deposit base.

Chart 3

**Citibank (China)'s NIM is Lower than Average Due to Lower Credit Risk Premium Charged**

Industry Distribution: NIM of Major Banks in China in 2021




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

Like other foreign bank subsidiaries, Citibank (China) benefits from good asset quality, with credit cost lower than the domestic banking industry average. In 2021, it reversed 38 million RMB worth impairment charges on interbank loans and other assets. In addition, the bank implemented new financial instrument standards at the beginning of 2021, leading to an increase of 146 million RMB in owner's equity. With asset quality set to remain good, we expect its credit cost stay low in 2022.

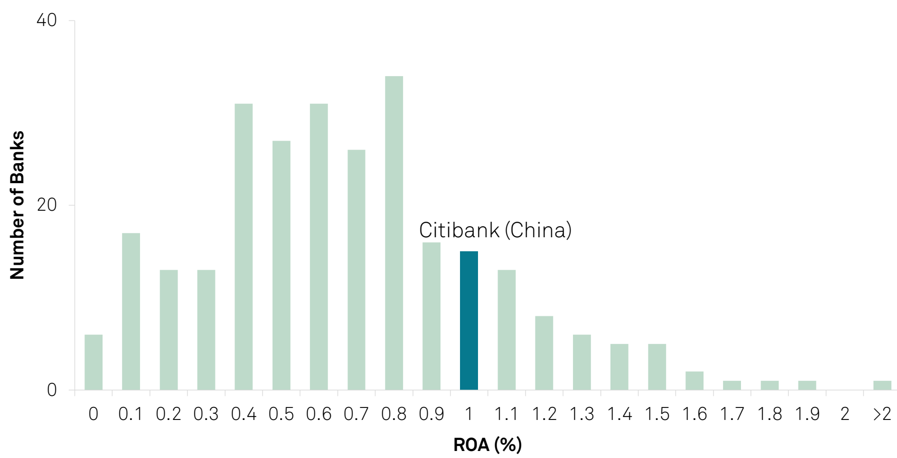
Citibank (China)'s operating cost is higher than the industry average. Like most foreign bank subsidiaries operating in China, its business scale is smaller than mainstream domestic banks, leading to weaker economies of scale and higher cost-to-income ratio. In 2021, its cost-to-income ratio was 63%, higher than the industry average of 32%. 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.

Amid falling interest rates and smaller loan business, Citibank (China)'s profitability has seen a drop, but still remains healthy. Its return on average assets ("ROAA") was 0.94% in 2021, higher than the industry average of 0.79% and the foreign bank subsidiary average of 0.56%. Its return on average equity ("ROAE") was 7.48%, down 0.29 percentage points from 2020. With market interest rates continuing to drop over 2022, we expect its earnings to remain under pressure.

Chart 4

**Citibank (China) has Healthy Profitability**

Industry Distribution: Return on Average Assets of Major Banks in China in 2021




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 0.69% as of the end of 2021, much lower than the industry average of 1.73%. The banks special-mention loan ("SML") ratio was 1.94%, and its overdue loan ratio was 0.75%.

Its bad debts are well cushioned by its high reserve buffer. As of the end of 2020, it had a reserve coverage ratio of 277%, much higher than the industry average of 197%. Furthermore, its withdrawal from retail banking business will remove its credit exposure to credit card loans and mortgage loans in China.

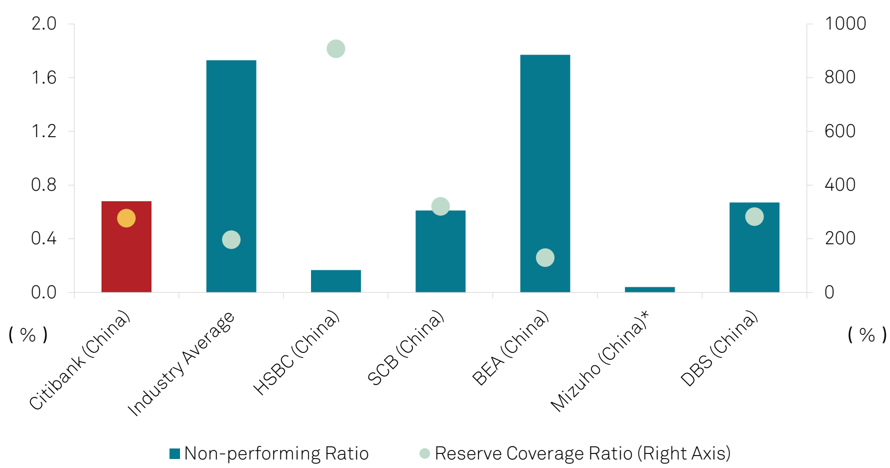
**We believe Citibank (China)'s risk appetite is lower than average Chinese banks and it enjoys a client base with a better-than-average credit profile.**

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

Chart 5

**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 2021




Note*: The reserve coverage ratio of Mizuho (China) as of the end of 2021 was 3,774%, and is not shown on this chart.

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 2021, over 98% of its bond investments were rated "A" or above by major international rating agencies (S&P Global Ratings, Moody's or Fitch). More than 72% 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.

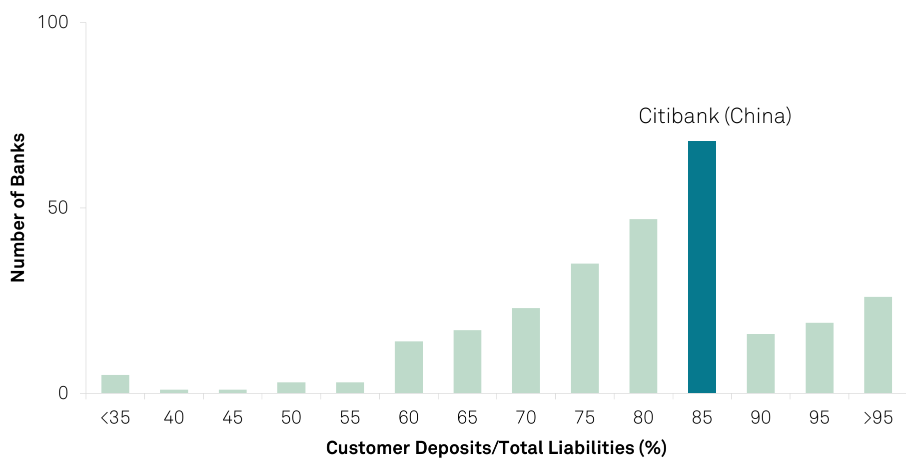
## Funding and Liquidity

Citibank (China) mainly funds its business with customer deposits, and its use of wholesale funding is limited. As of the end of 2021, 80% of its total liabilities were customer deposits, and only 14% 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.

Chart 6

**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 2021

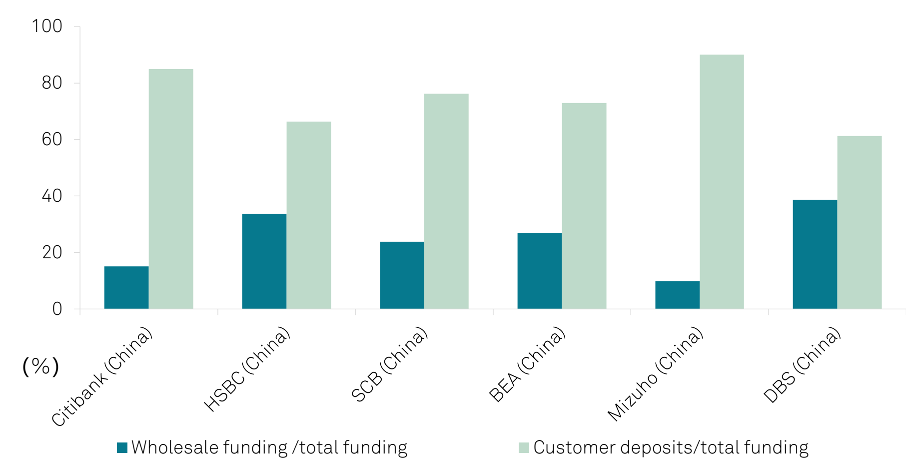



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 7

**Citibank (China) has Low Reliance on Wholesale Funding**

Peer Comparison: Funding Structure as of End of 2021




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 2021, its net loan book accounted for only 33% of its total assets. Cash and deposits to the central bank accounted for 9%, credit to other financial

**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.**

**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.**

institutions 14%, and its investment portfolio 40%. Its investment portfolio is mainly composed of treasury bonds and policy bank bonds which enjoy very good liquidity.

We view the liquidity management of Citibank (China) as prudent. As of the end of 2021, its liquidity coverage ratio was 229%, much higher than the minimum regulatory requirements of 100%.

In our view, the 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 2021, its retail deposits were 13 billion RMB, and its retail loan book was 23 billion RMB.

## 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 issuer credit rating of "A+" to Citibank N.A. 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.

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. 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.

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 2021, it accounted for only 2% of the total assets of Citibank N. A. and its net income was about 1.5% of that of its parent in 2021. 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 2021, its direct exposure to the Chinese Mainland was 23 billion USD, and its exposure to Hong Kong SAR was 50 billion USD.

**Citibank N.A. has extremely high issuer credit quality.**

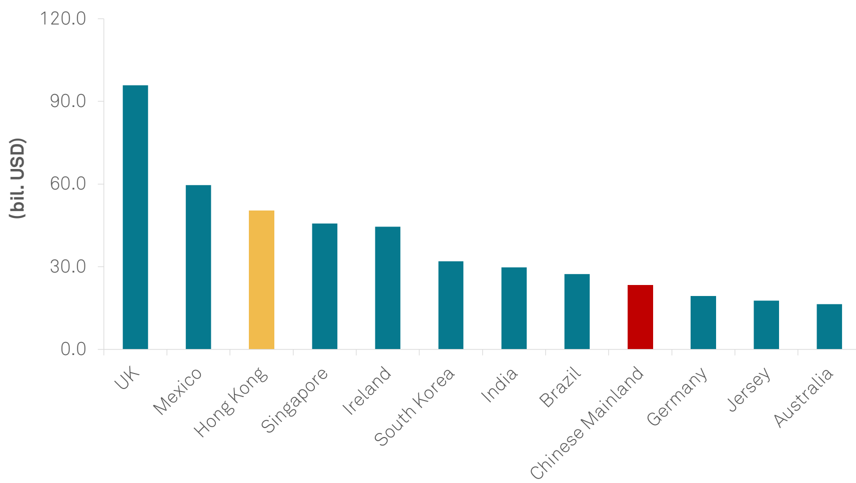
**We believe that the ratings of Citibank (China) are closely aligned with the issuer credit quality of its parent.**

**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 8

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

Major Regional Exposures of Citigroup as of End of 2021 (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 exit from 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. Despite the withdrawal from retail banking, Citi plans to expand its investment in the Chinese market. It is preparing to set up a securities firm and a futures firm in China.

We believe Citibank (China) is 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**

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **Business Position** | | | | |
| Total assets (bil) | 174.20 | 177.85 | 196.85 | 188.08 |
| Gross customer loans (bil) | 63.20 | 66.58 | 63.45 | 62.36 |
| Customer deposits (bil) | 134.60 | 139.50 | 149.04 | 130.43 |
| Total equity (bil) | 19.43 | 21.47 | 23.03 | 25.14 |
| Operating income (bil) | 6.46 | 5.95 | 5.58 | 5.45 |
| Net income (bil) | 2.55 | 2.07 | 1.73 | 1.80 |
| Total assets / total assets of China's commercial banking industry (%) | 0.08 | 0.07 | 0.07 | 0.07 |
| Customer loans/total loans of China's commercial banking industry (%) | 0.06 | 0.05 | 0.04 | 0.04 |
| Customer deposits/total deposits of China's commercial banking industry (%) | 0.07 | 0.07 | 0.07 | 0.05 |
| **Capital and Earnings** | | | | |
| Reported regulatory capital adequacy ratio (%) | 19.76 | 20.44 | 21.00 | 23.10 |
| Reported regulatory tier-1 capital adequacy ratio (%) | 18.76 | 19.42 | 20.00 | 22.42 |
| NIM adjusted by S&P Global (China) Ratings (%) | 2.24 | 2.08 | 1.81 | 1.62 |
| Cost-to-income ratio (%) | 47.67 | 52.10 | 54.23 | 62.54 |
| Asset provisioning/pre-provision operating profits (%) | 2.55 | 11.10 | 20.02 | (1.90) |
| Loan provisioning/average gross customer loans (%) | 0.03 | 0.08 | 0.71 | 0.40 |
| Return on average assets (%) | 1.53 | 1.18 | 0.92 | 0.94 |
| Return on average equity (%) | 14.15 | 10.13 | 7.77 | 7.48 |
| **Risk Position** | | | | |
| Non-performing loan ratio (%) | 0.46 | 0.47 | 0.63 | 0.69 |
| (Non-performing loans + special mention loans)/gross customer loans (%) | 2.59 | 3.92 | 4.76 | 2.63 |
| Overdue loans/gross customer loans (%) | 0.69 | 0.67 | 0.78 | 0.75 |
| Loan loss reserve/gross customer loans (%) | 2.58 | 2.28 | 2.60 | 1.91 |
| Reserve coverage ratio (%) | 556.27 | 488.89 | 410.64 | 276.87 |
| Loan loss reserve/ (non-performing loans + special mention loans) (%) | 99.77 | 58.12 | 54.54 | 72.60 |
| Net write-offs/average gross customer loans (%) | 0.24 | 0.26 | 0.50 | 0.46 |
| **Funding and Liquidity** | | | | |
| Customer loans/customer deposits (%) | 46.96 | 47.73 | 42.57 | 47.81 |
| Customer deposits/total liabilities (%) | 86.96 | 89.20 | 85.74 | 80.05 |
| Wholesale funding /total liabilities (%) | 7.05 | 6.24 | 5.51 | 14.18 |
| Retail deposits/customer deposits (%) | 9.45 | 9.77 | 10.39 | 9.70 |
| High-quality liquidity asset adequacy ratio (%) | 264.09 | 188.57 | N.A. | N.A. |
| Liquidity coverage ratio (%) | N.A. | N.A. | 182.65 | 229.16 |

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: 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 | Credit Rating Report: Citibank (China) Company Limited, October 20, 2021 |
| $AAA_{spc}$ | Stable | 2022-10-20 | Ying Li, Xuefei Zou, Jiancheng Yang | Current Report |

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