标普信评
S&P Global
China Ratings

Issuer Credit Rating Report

Citibank (China) Company Limited

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

Rating Date: October 20, 2023

Date of Expiry: October 19, 2024

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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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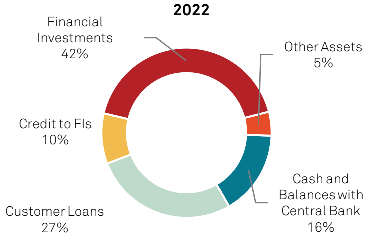
Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Date of Expiry	Outlook/Credit Watch
Citibank (China) Company Limited	Issuer Credit Rating	AAA_{spc}	October 20, 2023	October 19, 2024	Stable

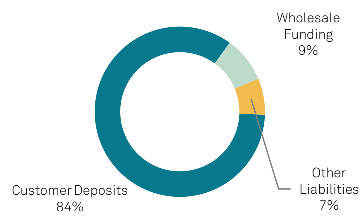
Industry Classification: Commercial Bank

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 2022, Citibank (China) reported total assets of 188 billion RMB. In 2022, it achieved an ROE of 6.39%.

Asset Breakdown as of the End of 2022



Liability Breakdown as of the End of 2022



Economy and Industry Trends: We expect China's 2023 GDP growth to recover significantly from 2022. 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 economic recovery. However, banks' stand-alone credit quality is showing further differentiation. China's mega banks, joint-stock banks and foreign bank subsidiaries have maintained sufficient capitalization and stable asset quality, while some regional banks face growing capital and asset quality pressure. Compared to domestic banks, most foreign bank subsidiaries maintain lower risk appetite and good asset quality 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 generally maintained 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)

	2019	2020	2021	2022
Total assets (bil)	177.85	196.85	188.08	188.47
Customer loans (bil)	66.58	63.45	62.35	52.60
Customer deposits (bil)	139.50	149.04	131.16	136.52
Net income (bil)	2.07	1.73	1.80	1.66
Reported regulatory capital adequacy ratio (%)	20.44	21.00	23.10	28.17
Return on average equity (%)	10.13	7.77	7.48	6.39
Non-performing loans ratio (%)	0.47	0.63	0.69	0.60
Reserve coverage ratio (%)	488.89	410.64	276.87	341.51
Customer deposits/total liabilities (%)	93.46	93.96	85.02	90.63

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/Credit Watch	Stable

Business Position: Citibank (China) is one of the largest foreign bank subsidiaries in China. In 2023, Citigroup continues to carry out its plan to withdraw from retail banking. 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. We expect its business to remain stable thanks to its cross-border advantages.

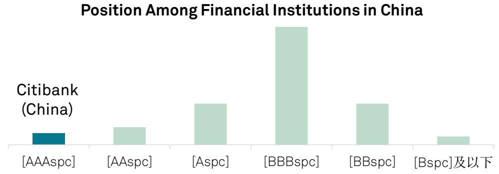
Capital and Earnings: It has a very strong capital base, with capital adequacy ratios much higher than the industry average in China. Its profitability remains healthy.

Risk Position: It maintains prudent risk appetite. 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

	2021			2022		
	Citibank (China)	Commercial Bank Average	Foreign Bank Subsidiary Average	Citibank (China)	Commercial Bank Average	Foreign Bank Subsidiary Average
Total assets (bil)	188.08	158.13	76.06	188.47	174.48	76.48
Net income (bil)	1.80	1.20	0.52	1.66	1.26	0.54
Reported regulatory capital adequacy ratio (%)	23.10	15.13	18.03	28.17	15.17	19.29
Return on average assets (%)	0.94	0.79	0.56	0.88	0.76	0.59
Non-performing loans ratio (%)	0.69	1.73	0.56	0.60	1.63	0.72
Reserve coverage ratio (%)	276.87	196.91	362.75	341.51	205.85	301.97

Source: Citibank (China), NAFR, 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, 2023	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

Key Strengths	Key Risks
— We believe that it is extremely likely to receive parental support in times of need.	— Intense competition in domestic lending market puts pressure on its loan size.
— It has prudent risk appetite, very strong capitalization and robust profitability.	
— The bank has strong advantages in cross-border business, with a very stable corporate 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.

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.

We expect China's 2023 GDP growth to recover significantly from 2022. 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.

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

In recent years, many foreign bank subsidiaries' loan books shrank as they adhered to their low-risk growth strategies and the industry competition was intensifying. 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. Import and export trends will also affect how fast their cross-border financial services expand. In the first half of 2023, China's cumulative imports and exports registered 2.92 trillion USD, down by 5% YoY.

Foreign bank subsidiaries have the highest capital adequacy ratios in China. As of the end of June 2023, their average capital adequacy ratio was 20.03%, 5.4 percentage points higher than the industry average. Shrinking lending business and decreased capital consumption have elevated capital adequacy for many foreign bank subsidiaries. For 2023, we expect their capital adequacy ratio to remain at a high level.

Foreign bank subsidiaries face lower net interest margin ("NIM") pressure than their Chinese peers in 2023. In the first half of 2023, annualized NIM for foreign bank subsidiaries stood at 1.63%, 10 basis points higher than that in the same period of 2022, while NIM for domestic banks dropped by 20 basis points YoY. The improved NIM for foreign bank subsidiaries was mainly due to higher interest rates on their US dollar-denominated assets. Considering further decline in LPR, we expect foreign bank subsidiaries' NIM in 2023 to maintain at a similar level as in 2022, staying around 1.6%. The stable NIM for foreign bank subsidiaries is also attributable to the fact that they set strict profit margin requirements for their lending business and seldom compete with their Chinese peers in the race to cut lending rates. However, this has put some strains on their loan scales.

Because some foreign bank subsidiaries have relatively small and concentrated businesses, any occurrence of new non-performing loans or recovery of legacy bad debts in great amount would significantly impact their credit cost in the year. Therefore, small and medium-sized foreign bank subsidiaries see less stable credit cost than their Chinese peers in the short term. Nevertheless, we believe foreign bank subsidiaries will maintain their medium and long-term credit cost below the average of the commercial banking industry thanks to their consistent adherence to prudent risk management.

Despite the complicated macroeconomic environment, foreign bank subsidiaries have delivered overall healthy profitability in recent years. In the first half of 2023, foreign bank subsidiaries gained an annualized return on total assets of 0.62%, down by 1 basis point from the same period last year, while return on average total assets for the commercial banking industry edged down by 6 basis points. We attribute the more resilient profitability of foreign bank subsidiaries to three aspects: 1) foreign bank subsidiaries typically hold a higher proportion of US dollar-denominated assets and thus face milder NIM pressure compared to their Chinese peers amid the current momentum in interest rates of US dollar; 2) they enjoy better asset quality and lower provisioning pressure; 3) they seize opportunities arising from market fluctuations to enhance revenue generated from capital market business as their clients see growing demand for risk hedging in the context of escalated market risks.

Although foreign bank subsidiaries' profitability remains moderate, they see very low likelihood of suffering material loss due to their solid asset quality and prudent approach to risk management. Their profitability will not negatively impact their capital adequacy in any significant way.

In addition, international banking groups have maintained good credit quality in recent years. Stable and strong group support plays an important role in ensuring very good issuer credit quality of these subsidiaries. In our view, foreign bank subsidiaries are extremely likely to receive extraordinary support from their parents in times of need. Foreign bank subsidiaries are typically fully owned and tightly controlled by their parents, sharing parents' branding, actively engaging in cross-selling activities, and receiving effective parental support in terms of capital injection and liquidity support. Although most of the foreign banks' contribution to the parent banks' income and assets is limited, considering China's very important position in the world economy, we believe that the investment of international banks in the Chinese market is long-term. 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.

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

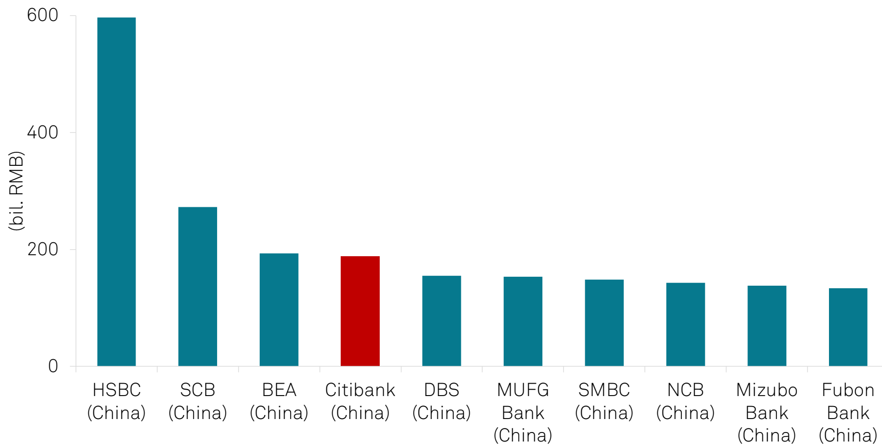
Citibank (China) is a fully owned subsidiary of Citibank N.A., which is the lead bank of Citigroup, the holding company. Citi is one of the most diversified global financial institutions in the world, with strengths in treasury and trade solutions. As the global bank's locally incorporated commercial 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 2022, it reported total assets of 188 billion RMB, gross loans of 53 billion RMB and customer deposits of 137 billion RMB.

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 2022



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

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 unique cross-border financial service capabilities.

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.

We believe its client base is very sticky because of its cross-border banking capabilities. It follows a very clear strategy regarding target client groups, with a corporate client base 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. It has stepped up efforts to attract more high-quality small and medium enterprise clients in recent years.

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 2022, the bank's corporate loans totaled 32.5 billion RMB, down by 17.83% YoY. The shrinkage in corporate loans was caused by tepid demand from clients and intensified competition for lending business across the banking industry. For 2023, we expect the bank's corporate loan scale to remain generally stable given no material changes in the broad market conditions.

The bank's reliance on lending to generate operating income is significantly lower than the average of the commercial banking industry. Its competitive edges lie in its cross-selling activities through Citi's global network and diversified corporate finance services associated with trade finance, cash management, securities custody and clearing, and US dollar settlement. While its loan size contracted by 16% in 2022, the bank's operating income increased by 3% YoY, hitting 5.62 billion RMB. Contributions from net interest income, profit/loss on foreign exchange, net commissions and fees income, and investment income accounted for 48%, 24%, 13% and 6%, respectively.

Citibank (China) is gradually pulling out from its retail banking business. In April 2021, Citigroup announced its decision to withdraw from retail banking business in 14 markets, including the Chinese Mainland. Citibank (China) has also announced a plan to close its retail banking business in a progressive way, including withdrawal from bank cards, mortgage loans, personal loans, deposits, investment, insurance, and foreign exchange services. As of the end of 2022, its total retail loans recorded 20.1 billion RMB and total retail deposits 11.6 billion RMB, accounting for 38.21% and 8.51% of its loan book and total deposits, respectively. Once exiting from retail banking, the bank may see further substantial declines in its loan and deposit sizes. The bank has already made material progress in winding down its retail banking business. In May 2023, it completed the first-phase deal to sell its mortgage business. In October 2023, it announced that it had reached an agreement with HSBC China on transferring its wealth management business in the Chinese Mainland. This deal includes deposits and investment assets under management from retail customers in 11 major cities, with a total value of about 3.6 billion USD as of the end of August 2023. The deal is expected to be closed in the first half of 2024.

In our view, the bank's withdrawal from retail banking will not negatively affect its overall business franchise in China. Instead, 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 favorable for enhancing operating efficiency and profitability.

The bank has an extended branch network in China. As of the end of the first quarter of 2023, it had 24 branches in 12 Chinese cities. Along with the withdrawal from retail banking and rising penetration of E-banking services, the bank may see decreasing demand for physical branches nationwide. We expect the bank to slightly scale down its branch network, which could help improve its operating efficiency and profitability without causing negative impact on its corporate banking business.

Table 1

Citibank (China) -- Market Share

(%)	2019	2020	2021	2022
Total assets /total assets of China's commercial banking industry	0.07	0.07	0.07	0.06
Gross customer loans/total loans of China's commercial banking industry	0.05	0.04	0.04	0.03

Citibank (China) -- Market Share

(%)	2019	2020	2021	2022
Customer deposits/total deposits of China's commercial banking industry	0.07	0.07	0.05	0.05

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

Capital and Earnings

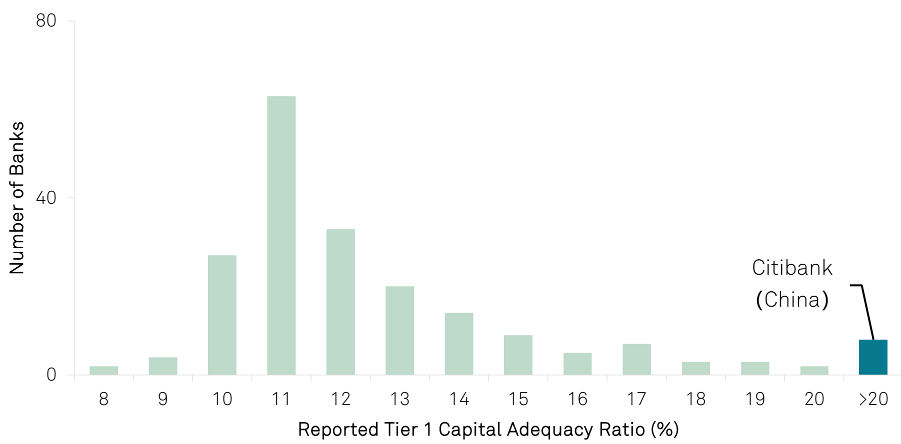
Citibank (China)'s capitalization is much stronger than the industry average in China. Its strong capital base is underpinned by its low-risk weight investment portfolio mainly composed of treasury bonds (zero risk weight as indicated by regulator), its small and shrinking loan business, and the sizable volume of cross-border financial services which consume less capital. Its reported regulatory tier 1 capital adequacy ratio was 27.39% as of the end of 2022, up 4.97 percentage points YoY and much higher than the industry average of 12.30%. As of the end of June 2023, its reported regulatory tier 1 capital adequacy ratio reached 27.57%, 0.18 percentage point higher compared to the beginning of 2023. The boost to its capital adequacy was driven by less capital consumption following a decrease in loan assets. We expect the bank's tier 1 capital adequacy ratio to remain above 20% going forward.

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 Comparison: Reported Regulatory Tier 1 Capital Adequacy Ratio of 200 Major Banks in China as of End of 2022



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

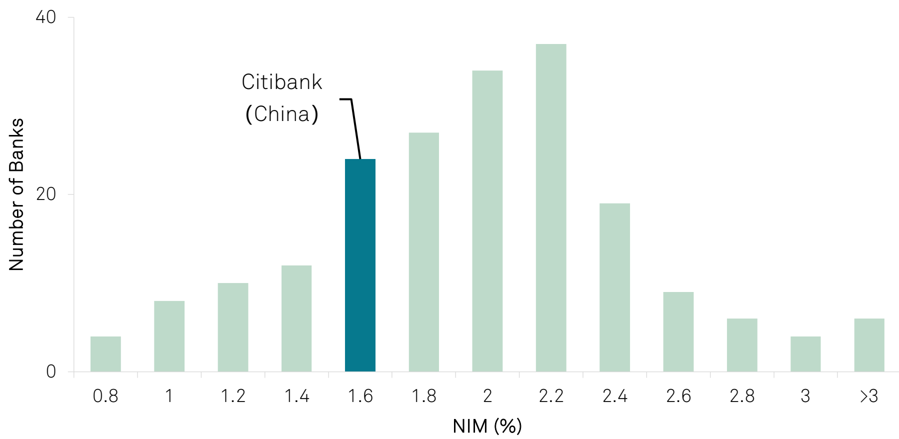
Citibank (China) has a relatively low NIM because of its good asset quality and low credit risk premium. In 2022, its NIM came at 1.60%, lower than the banking industry average of 1.91% and on par with the foreign bank subsidiary average of 1.58%.

Citibank (China)'s NIM has come under pressure since 2021 amid declining loan prime rates in the domestic market. For 2023, we expect the NIM on its RMB loans to face further downward pressure as Chinese domestic banks see increasingly intense competition in cutting their lending rates. Nevertheless, such strain could be substantially alleviated by its stable and low-cost deposit base and US dollar-denominated assets which bear higher rates. In 2022, its NIM dropped by 2 basis points, compared to a decline of 17 basis points for the average of the commercial banking industry.

Chart 3

Citibank (China)'s NIM is Relatively Low Due to its High-quality Interest-bearing Assets and Low Credit Risk Premium

Industry Distribution: NIM of 200 Major Banks in China in 2022



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

We view Citibank (China)'s credit cost as controllable given its solid asset quality. It booked an impairment loss of 436 million RMB in 2022, mainly as a result of loan provisioning. In 2022, its loan provisioning to average gross customer loans was 0.74%, demonstrating a lower credit cost than the average of Chinese domestic banks. In 2022, asset impairment losses accounted for 19% of its pre-tax profit, which means provisioning had limited impact on its earnings. We expect its credit cost to stay low in 2023 with its good asset quality to be sustained.

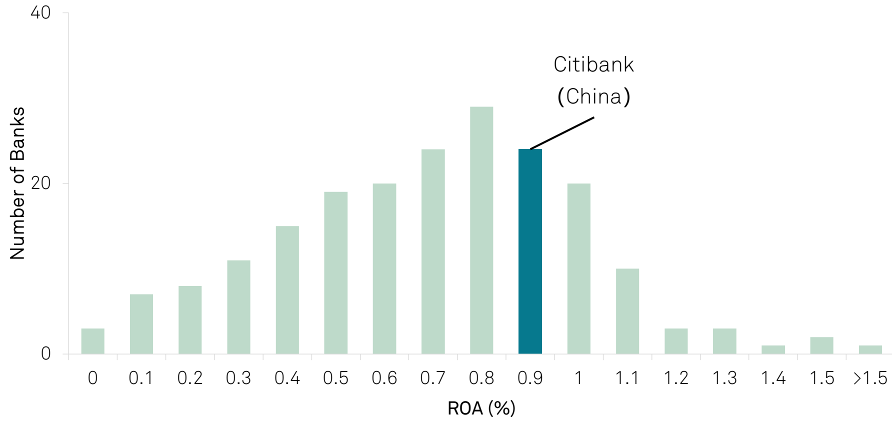
Citibank (China)'s operating cost is higher than the industry average. Like most foreign bank subsidiaries operating in China, its business scale is smaller than mainstream domestic banks, leading to weaker economies of scale and higher cost-to-income ratio. In 2022, its cost-to-income ratio was 57.90%, higher than the industry average of 33.97%. 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.

Citibank (China)'s profitability remains healthy. In 2022, its return on average assets ("ROAA") was 0.88%, higher than the industry average of 0.76% and the foreign bank subsidiary average of 0.59%; due to lower leverage, its return on average equity ("ROAE") was 6.39%, 2.94 percentage points lower than the industry average.

Chart 4

Citibank (China) has Healthy Profitability

Industry Comparison: Distribution of Return on Average Assets of 200 Major Banks in China in 2022



Source: 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. As of the end of 2022, it had a non-performing loan ("NPL") ratio of 0.60%, much lower than the industry average of 1.63%; its special-mention loan ("SML") ratio was 1.63%, standing below the industry average of 2.25%, and its overdue loan ratio was 0.81%. As of the end of June 2023, the scales of non-performing loans and overdue loans decreased by 5.65% and 11.90%, respectively.

Its bad debts are well cushioned by its high reserve buffer. As of the end of 2022, it had a reserve coverage ratio of 341.51%, much higher than the industry average of 205.85%; its reserve coverage of NPL and SML loans also stood above 90%. Furthermore, its withdrawal from retail banking business will remove its credit exposure to credit card loans and mortgage loans in China.

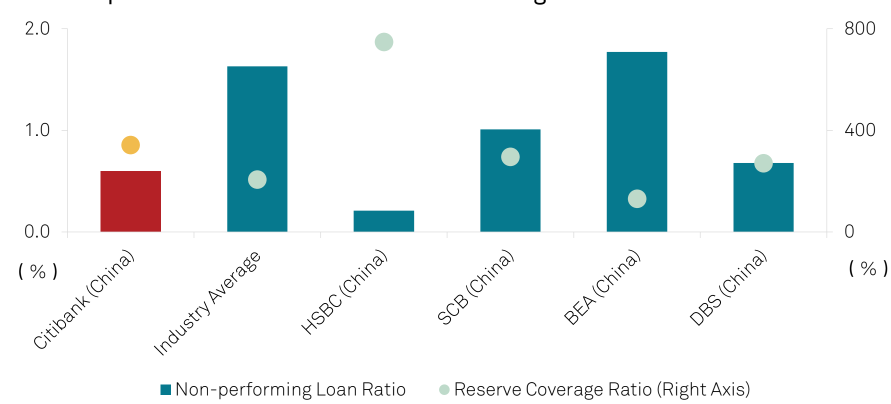
Citibank (China)'s risk appetite is lower than average Chinese banks and it enjoys a client base with a better-than-average credit profile.

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

Chart 5

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

Peer Comparison: NPL Ratio and Reserve Coverage Ratio as of End of 2022



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

Citibank (China)'s lending business is concentrated in the manufacturing sector, with its client base containing many superior export-focused manufacturers. In terms of sector exposure, loans to manufacturing, wholesale and retail trade, and leasing and commercial services had the largest weights in its corporate lending business, accounting for 40%, 7% and 3% of total corporate loans, respectively, as of the end of 2022. In addition, the bank has no exposure to real estate developers and LGFVs. Amid the current macroeconomic environment in China's domestic market, it would maintain stable asset quality and face a much lower level of uncertainties compared to the average of the banking industry.

Citibank (China) has very low credit risk in its investment and interbank operations. As of the end of 2022, over 99% of its bond investments were rated "A" or above by major international rating agencies (S&P Global Ratings, Moody's and Fitch). More than 79% 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 and reinforced holistic approach to operational and compliance risk management in China.

Citibank (China) has a very stable funding base dominated by sticky customer deposits, with limited use of wholesale funding.

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.

Funding and Liquidity

Citibank (China)'s businesses are comfortably funded by its customer deposits, and its use of wholesale funding is limited. As of the end of 2022, its customer deposits reached 136.52 billion RMB, up by 4.08% compared to 2021. Customer deposits accounted for 90.63% of its total funding and wholesale funding made up only 9.37%. Because a large portion of its deposits are associated with its cash management and trade finance services, which tend to be very stable business, we view its deposit base as solid and sticky. It is typically in a net lending position in its interbank business considering its strengths in deposit taking and adequate liquidity.

The liquidity profile of its assets is significantly better than the industry average. The shrinkage in its loan book led to its deposit-to-loan ratio dwindling from 47.54% as of the end of 2021 to 38.53% as of the end of 2022, far below the industry average of 78.76%. As of the end of 2022, its net loan book accounted for only 27.43% of its total assets. Cash and deposits to the central bank accounted for 16.10%, credit to other financial institutions 9.59%, and its investment portfolio 42.35%. 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 2022, its liquidity coverage ratio was 212.08%, much higher than the minimum regulatory requirement 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.

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 profitability and 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 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.

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).

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.

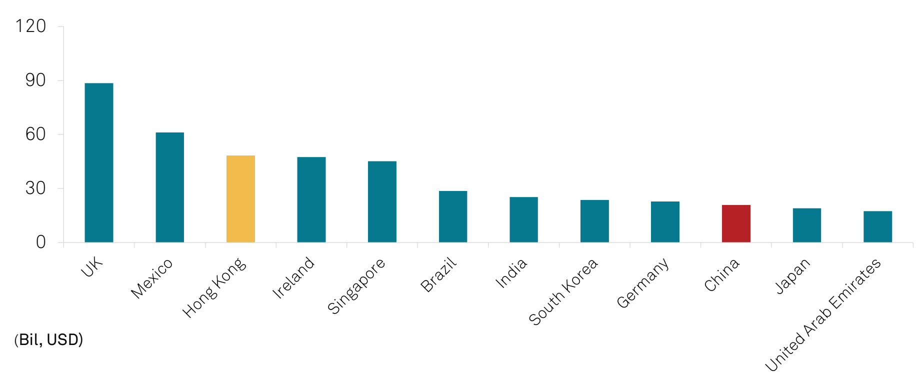
Citi has a long-term commitment to China. It entered the Chinese market as early as 1902. In the modern era, it began to set up branches in China in 1983, and in 2007 it converted its branches in China into a locally incorporated bank. Citibank N.A. has made a commitment to the Chinese banking regulator 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 2022, it accounted for only 1.5% of the total assets of Citibank N. A. In 2021, its net income was about 1.5% of that of its parent in 2022. 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 2022, Citi's direct exposure to the Chinese Mainland was 20.7 billion USD, and its exposure to Hong Kong SAR was 48.3 billion USD.

Chart 6

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

Major Regional Exposures of Citigroup as of End of 2022 (Excluding the U.S.)



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

Due to Citi's strategic "refresh" and exit from retail banking in 14 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.

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	2022
Business Position					
Total assets (bil)	174.20	177.85	196.85	188.08	188.47
Gross customer loans (bil)	63.20	66.58	63.45	62.35	52.60
Customer deposits (bil)	134.60	139.50	149.04	131.16	136.52
Total equity (bil)	19.43	21.47	23.03	25.14	26.72
Operating income (bil)	6.46	5.95	5.58	5.44	5.62
Net income (bil)	2.55	2.07	1.73	1.80	1.66
Total assets / total assets of China's commercial banking industry (%)	0.08	0.07	0.07	0.07	0.06
Customer loans/total loans of China's commercial banking industry (%)	0.06	0.05	0.04	0.04	0.03
Customer deposits/total deposits of China's commercial banking industry (%)	0.07	0.07	0.07	0.05	0.05
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	19.76	20.44	21.00	23.10	28.17
Reported regulatory tier 1 capital adequacy ratio (%)	18.76	19.42	20.00	22.42	27.39
NIM adjusted by S&P Global (China) Ratings (%)	2.24	2.08	1.81	1.62	1.60
Cost-to-income ratio (%)	47.67	52.10	54.23	62.54	57.90
Asset provisioning/pre-provision operating profits (%)	2.55	11.10	20.02	(1.90)	18.97
Loan provisioning/average gross customer loans (%)	0.03	0.08	0.71	0.40	0.74
Return on average assets (%)	1.53	1.18	0.92	0.94	0.88
Return on average equity (%)	14.15	10.13	7.77	7.48	6.39
Risk Position					
Non-performing loan ratio (%)	0.46	0.47	0.63	0.69	0.60
(Non-performing loans + special mention loans)/gross customer loans (%)	2.59	3.92	4.76	2.63	2.23
Overdue loans/gross customer loans (%)	0.69	0.67	0.78	0.75	0.81
Loan loss reserve/gross customer loans (%)	2.58	2.28	2.60	1.91	2.03
Reserve coverage ratio (%)	556.27	488.89	410.64	276.87	341.51
Loan loss reserve/ (non-performing loans + special mention loans) (%)	99.77	58.12	54.54	72.60	91.23
Net write-offs/average gross customer loans (%)	0.24	0.26	0.50	0.46	0.95
Funding and Liquidity					
Customer loans/customer deposits (%)	46.96	47.73	42.57	47.54	38.53
Customer deposits/total funding (%)	92.50	93.46	93.96	85.02	90.63
Wholesale funding /total funding (%)	7.50	6.54	6.04	14.98	9.37
Retail deposits/customer deposits (%)	9.45	9.77	10.39	9.65	8.51
Liquidity coverage ratio (%)	N.A.	N.A.	182.65	229.16	212.08

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 Rating	Outlook/Credit Watch	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	Credit Rating Report: Citibank (China) Company Limited, October 20, 2022
AAA_{spc}	Stable	2023-10-20	Xiaochen Luan, 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.

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