

Issuer Credit Rating Report:

Citibank (China) Company Limited

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

Rating Date: October 20, 2024
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Primary Credit Analyst:

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

Secondary Contacts:

Qiwei Chen, CFA, FRM: +86-10-6516-6019; Qiwei.Chen@spgchinaratings.cn
Jiancheng Yang, FRM: +86-10-6516-6072; Allen.Yang@spgchinaratings.cn

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* This rating is an Issuer Credit Rating (ICR). An ICR typically 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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Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
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Rating Snapshot:	
Industry Classification	Commercial Bank
Anchor	a+
— Business Position	0
— Capital and Earnings	+2
— Risk Position	+1
— Funding and Liquidity	+1
— Holistic Adjustment	0
Stand-alone Credit Profile	aaa_{spc}
Group Support	0
Issuer Credit Rating	AAA_{spc}
Outlook/CreditWatch	Stable

Anchor: We apply an anchor of “a+” for commercial banks.

Business Position: Citibank (China) is one of the largest foreign bank subsidiaries in China. In 2024, the bank has largely completed the process to exit consumer banking business. We believe this exit will not negatively affect the bank’s overall business franchise in China. After the consumer banking business exit, the bank will focus on developing its corporate and commercial banking business in China. As an integral part of Citigroup’s global banking network, cross-selling activities with its parent are a key part of its business strategy. We expect the bank to maintain steady business growth 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 customer base of multinationals and leading Chinese enterprises with international presence. This customer base has maintained solid credit quality regardless of growing macroeconomic challenges in recent years.

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 thanks to its large holding of treasury bonds.

External Support: We view the credit quality of Citibank N. A. as extremely strong. 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.



Declaration

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This credit rating report is used to support related decision making, and does not constitute a conclusion or recommendation that any particular decision(s) should be made.

Head of Analytics

May Zhong

Beijing

may.zhong@spgchinaratings.cn

Primary Credit Analyst

Xuefei Zou

Beijing

eric.zou@spgchinaratings.cn

Secondary Contacts

Qiwei Chen

Beijing

qiwei.chen@spgchinaratings.cn

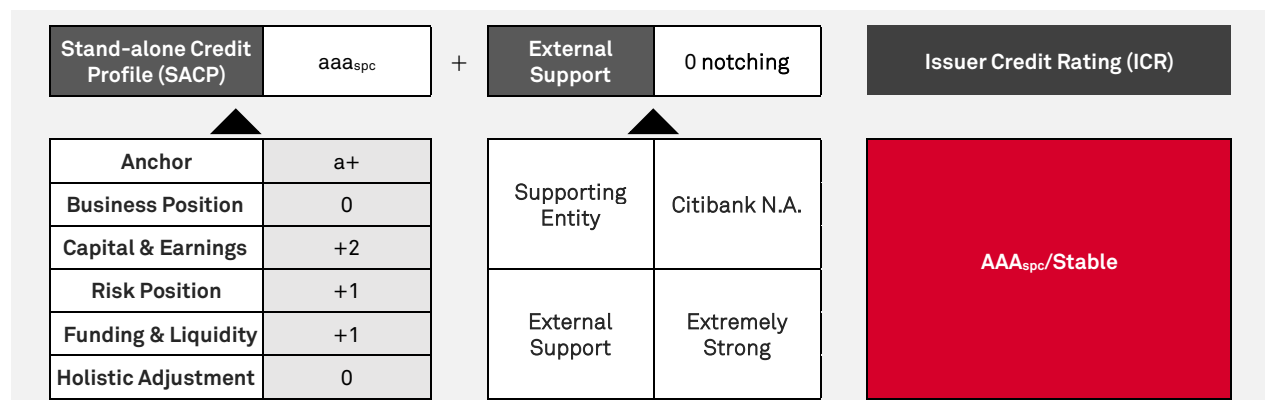
Jiancheng Yang

Beijing

allen.yang@spgchinaratings.cn

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
Citibank (China) Company Limited	Issuer Credit Rating	AAA _{spc}	October 20, 2024	Stable



Credit Highlights

Key Strengths	Key Risks
The bank has a prudent risk appetite, very strong capitalization and robust profitability.	Loan book contraction amid intense competition across the domestic lending market.
Thanks to its parent's competitive global network, it has strong advantages in cross-border operations, contributing to a very stable corporate deposit base.	
Its parent has extremely high credit quality and it is very likely to receive parental support in times of stress.	

Rating Overview

Since our last credit rating report on Citibank (China) published October 20, 2023, the bank has seen its corporate banking segment in steady expansion and completed the process to exit consumer banking business. In 2023, the bank distributed dividends to its parent for the first time, following which its capital still stayed at a very high level. It has a prudent risk appetite and very good asset quality. We think the bank is among commercial banks with the strongest stand-alone credit profiles in China. In addition, its parent maintains extremely strong issuer credit quality and its willingness and ability to provide support remain unchanged. Overall, the bank's issuer credit rating stays the same compared to the last rating period.

Rating Outlook

The outlook on Citibank (China) is stable, reflecting our expectation that its business operations and financial strength will remain stable over the next two years or beyond, and that its importance to its parent, Citibank N.A., will remain unchanged.

Downside Scenario: If the following circumstances occur, we may consider lowering its issuer credit rating ("ICR"): its importance to its parent declines, or if its parent's issuer credit quality deteriorates significantly. In our view, both scenarios are unlikely in the foreseeable future. If the following scenarios happen, we may consider lowering its stand-alone credit profile ("SACP") if the bank significantly raises its risk appetite, sharply reduces its capitalization, or considerably increases its dependence on wholesale funding.

Methodology Applied:

- S&P Global (China) Ratings Financial Institutions Methodology, March 26, 2024.
- S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking, May 21, 2019

Model Applied: None.

Peer Comparison

	2022			2023		
	Citibank (China)	Commercial Bank Average	Foreign Bank Subsidiary Average	Citibank (China)	Commercial Bank Average	Foreign Bank Subsidiary Average
Total assets (bil.)	188.47	176.79	85.99	178.64	196.05	87.47
Net income (bil.)	1.66	1.27	0.55	1.14	1.31	0.52
Reported regulatory capital adequacy ratio (%)	28.17	15.17	19.29	21.66	15.06	19.58
Return on average assets (%)	0.88	0.76	0.59	0.62	0.70	0.56
Non-performing loan ratio (%)	0.60	1.63	0.72	1.05	1.59	0.85
Reserve coverage ratio (%)	341.51	205.85	301.97	194.53	205.14	293.92

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

Anchor

Macro-Economic and Industry Trends

We expect Chinese government to formulate policies to meet its annual GDP growth target of 5%. China's exports and imports would continue to recover in 2024-2025. While consumer goods prices and enterprises' profit margins have declined due to weak consumption and strong manufacturing investments, a demand-induced deflation is unlikely to occur.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support. China's commercial banking sector continues to report stable capital and asset quality metrics, but we continue to expect pressure on credit cost, net interest margin ("NIM"), and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while small- and medium-sized banks face more pressure. Certain regional banks have weak capital positions, and their asset quality and profitability are susceptible to real estate risks. Meanwhile, China's banking sector maintains stable funding and sound liquidity, winning time for the risk-ridden small- and medium-sized banks to mitigate such risks. We believe strong regulatory oversight and ongoing government support would ensure the overall stable credit profile of Chinese banking sector.

Foreign bank subsidiaries in the Chinese banking sector are small in terms of market share and scale. They are typically fully owned and strictly controlled by their parents, sharing parents' brand, actively engaging in cross-selling activities and enjoying ongoing capital and liquidity support from their parents. Foreign bank subsidiaries are highly likely to receive parental support in times of stress.

International banking groups generally maintain good credit quality. Strong and stable group support continues to play an important role in ensuring foreign bank subsidiaries' overall credit quality.

While Chinese banks have enjoyed rapid growth over the past decade, most foreign bank subsidiaries have seen modest loan book growth compared to their domestic peers. There are 41 foreign bank subsidiaries in total and they only have a market share of 1% in the Chinese commercial banking industry. The mainstream Chinese banks have clear scale and pricing advantages in their loan business. The intense industry competition has posed challenges to foreign bank subsidiaries in expanding their loan business.

Over the past few years, many foreign bank subsidiaries' loan books have shrunk due to their low-risk growth strategies and fierce industry competition. While they are typically 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.

Foreign bank subsidiaries have the highest capital adequacy ratios in China. As of the end of 2023, their average capital adequacy ratio was 19.58%, up by 0.29 percentage point YoY and 4.53 percentage points above the industry average. Shrinking lending business and decreased capital consumption have increased capital adequacy ratio for many foreign bank subsidiaries in recent years. For 2024,

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

we expect their capital adequacy ratios to remain at a high level amid slow loan book growth.

Despite the remarkable decrease in NIM across Chinese domestic banking industry, many foreign bank subsidiaries saw milder NIM slippage compared to their Chinese peers because they maintained higher proportion of assets denominated in foreign currencies. In 2023, foreign bank subsidiaries' NIM dropped by 1 basis point YoY to 1.57%, compared to a decrease of 22 basis points to 1.69% for domestic banks. In 2024, foreign bank subsidiaries would continue to see milder NIM contraction than domestic banks.

Foreign bank subsidiaries have maintained solid asset quality and controllable credit cost. As of the end of 2023, their average non-performing loan ("NPL") ratio stood at 0.85%, versus domestic banks' average of 1.59%. They rarely have exposure to LGFVs, and some are exposed to real estate sector. In our view, the challenges facing China's real estate sector should pose only a temporary earnings strain on these foreign bank subsidiaries and have no materially negative impact on their capital adequacy and credit quality.

International banking groups have maintained very good credit quality in recent years. Stable and strong group support plays an important role in ensuring the very good issuer credit quality of these China subsidiaries. The first half of 2023 saw banking turmoil in the US and Europe. Except for SPD Silicon Valley Bank which suffered direct impact, most foreign bank subsidiaries operating in China are not negatively affected by the incidents of Silicon Valley Bank and Credit Suisse.

We see a high likelihood of foreign bank subsidiaries receiving parental support in times of stress. Foreign bank subsidiaries are typically fully owned by their parents, sharing parents' brands and receiving effective parental support in terms of cross-selling activities, capital, and liquidity. Although most of these subsidiaries' contribution to their parents' income and assets is limited, considering China's very important position in the world economy, we believe that the commitment of international banks in the Chinese market is long-term. In addition, the China subsidiaries also recommend overseas business of Chinese customers to their parent banks, and their actual contribution to their parents is higher than what is reflected on their balance sheets.

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

Stand-alone Credit Profile

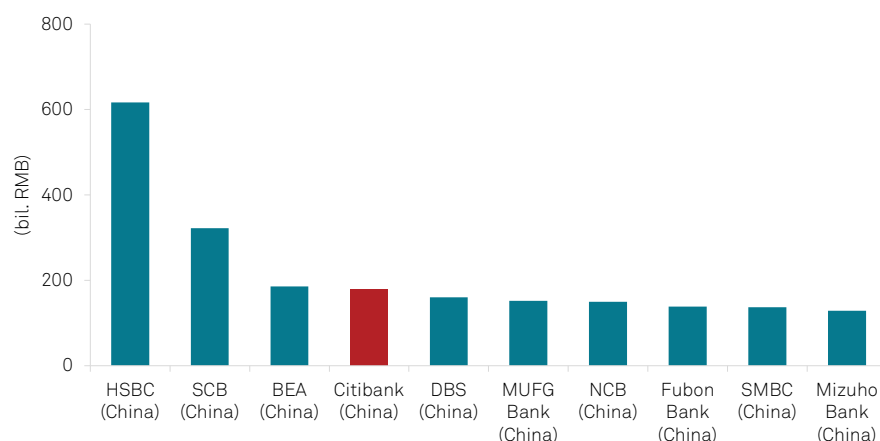
Citibank (China) is a fully owned subsidiary of Citibank N.A., which is the lead bank of Citigroup, the holding company. Citigroup is one of the most diversified global financial institutions in the world, with strengths in treasury and trade solutions. As the global bank's locally incorporated commercial 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 2023, it reported total assets of 178.65 billion RMB, gross loans of 34.32 billion RMB and customer deposits of 123.91 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 2023



Source: 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. Citigroup serves clients with a broad universe of financial products and services in more than 180 countries and jurisdictions, and has a physical presence in many countries and regions 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.

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 Citigroup 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 accelerated penetration into high-quality small and medium enterprise clients in recent years.

We expect the "go global" strategy of Chinese corporations to open up new growth opportunity for the bank. As one of the international banking groups with the most extensive network worldwide, Citigroup enjoys new growth potential amid the wave of Chinese corporations' moves in expanding overseas. Meanwhile, we expect the bank's business related to multinational corporations to remain stable.

Compared to domestic banks whose 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 2023, the bank's corporate loans totaled 29.81 billion RMB, down by 8.29% YoY. The shrinkage in corporate loans was caused by tepid demand among clients and intensifying price competition for lending business across the banking industry. Adhering to a strategy focusing on

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 banking capabilities.

It has almost exited consumer banking business in 2024. Such exit would not impact its business stability as its strengths predominantly lies in cross-border corporate segment.

earnings, the bank would not scale up its business through compromising profit. For 2024, we expect its corporate loan scale to remain generally stable.

Its derivatives business has seen rapid growth in recent years, with relevant products and services increasingly diversified. In July 2021, it obtained the license to conduct securities and futures business. As of the end of 2023, its derivatives amounted to 6.33 billion RMB, accounting for around 4% of its total assets. In 2023, it stepped up effort to reinforce its technology system. Its custody system is currently interfaced well with the Shanghai Futures Exchange and the Shanghai International Energy Exchange and meets the criteria to be officially launched.

The bank's reliance on lending to generate operating income is significantly lower than domestic banks' average. Its competitive edges lie in trade finance, treasury, securities custody and clearing, and US dollar settlement. In 2023, contributions from net interest income, profit/loss on foreign exchange, and net commissions and fees income accounted for 56%, 30%, and 13%, respectively.

The bank has virtually pulled out of the 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. It completed the disposal of the mortgage business in 2023, after which its total retail loans recorded 2.52 billion RMB as of the end of the year (consisting mainly of outstanding balance of credit cards, accounting for 99% of retail loans), down by 87.45% YoY and accounting for 7.80% of total loans. Retail loans totaled 6.41 billion RMB, accounting for 5.21% of its loan book. In June 2024, it completed the deal to transfer its wealth management business to HSBC China. In July 2024, it announced to have transferred claims on credit card receivables to FubonBank (China) Co., Ltd. We expect no retail deposits and loans to be reported on its financial statements as of the end 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 operations in China. We believe in the long term, after the retail banking exit, 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 March 2024, it had 20 branches in 12 cities across the nation. Along with the retail banking withdrawal and rising penetration of E-banking services, its demand for physical presence is decreasing and thus its branch network may be scaled down. This adjustment is expected to help improve its operating efficiency and profitability without causing harm to its corporate banking business.

The bank has increased investments in interest rate bonds as its loan book is shrinking. Its financial investments expanded 16.36% YoY to 92.88 billion RMB as of the end of 2023, mainly comprising bonds issued by the government, central bank, policy banks, commercial banks, and non-bank financial institutions. As such, the share of its financial investments in total assets rose from 42.35% to 51.99%. In 2023, the bank also diversified its portfolio by adding a 4-billion-RMB investment in trust plans, mainly going to ABS products backed by consumer and auto loans.

Table 1

Citibank (China) -- Market Share					
(%)	2019	2020	2021	2022	2023
Total assets /total assets of China's commercial banking industry	0.07	0.07	0.07	0.06	0.05
Gross customer loans/total loans of China's commercial banking industry	0.05	0.04	0.04	0.03	0.02
Customer deposits/total deposits of China's commercial banking industry	0.07	0.07	0.05	0.05	0.04

Sources: 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. As of the end of June 2024, its reported regulatory tier 1 capital adequacy ratio and capital adequacy ratio were 22.03% and 22.47%, respectively, significantly higher than commercial banks' average of 12.38% and 15.53%.

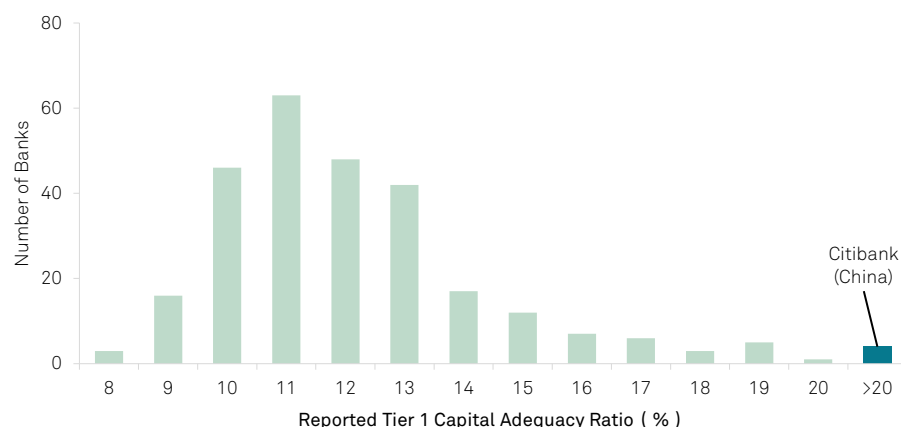
The bank paid massive dividends to its parent after its retail business disposal in 2023 and still maintained solid capital base after the distribution. By the end of 2023, its tier 1 capital adequacy ratio fell by 6.08 percentage points YoY to 21.32% due to the 6.9 billion RMB dividend payout to its parent, an amount equivalent to 25.83% of its equity at the beginning of 2023.

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 Strength is Stronger than the Industry Average

Industry Comparison: Reported Regulatory Tier 1 Capital Adequacy Ratio of Major Banks in China as of End of 2023



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

The bank can sustain high capital adequacy given its moderate capital consumption and robust capital-generating ability. Due to its very strong capitalization, its actual capital adequacy level generally depends on management's decision. The management has set a tier 1 capital adequacy target of around 20% for the bank and would return the capital in excess of business needs to its parent through dividend distribution.

Table 2

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

(bil. RMB)	2024 F		2025 F		Base case assumptions and conclusions
	Amount	YoY Change	Amount	YoY Change	
Risk-weighted assets	99	0.4%	104	5%	<ol style="list-style-type: none"> 1. Considering the likely sharp drop of retail assets following the sale of credit card business in 2024, we assume its RWA to grow 0.4% YoY in 2024 and 5% in 2025. 2. Excluding the one-off gain on retail business disposal, we anticipate its operating income to be around 5.5 billion RMB in 2024. Its operating income is estimated to be around 5 billion RMB in 2025, factoring in the likely NIM shrinkage in 2025. 3. We assume a reserve-to-loan ratio of about 2%. 4. Its NIM is expected to be around 1.7% in 2024 and about 1.5% in 2025. These assumptions take into account the NIM downtrend for RMB-related business and the NIM contraction for USD-related segment alongside the rate cut cycle in the U.S. since September 2024. 5. We assume a cost-to-income ratio of about 60% in 2024 and 2025. 6. Partially excluding the impact from retail business withdrawal, which noticeably affects non-recurring gains and losses, we estimate an ROAE of around 8% for 2024 and 2025. 7. Its tier 1 capital adequacy ratio is expected to remain at around 20% for the next 12 months, assuming the dividends will be distributed based on annual profit and capital management goals.
Tier 1 capital	21	1%	21	-1%	
Tier 1 capital adequacy ratio	22%		20%		

Source: S&P Global (China) Ratings.

The bank shows very strong capital resilience. Our stress test suggests that its capital adequacy is almost immune to the impacts from real estate downswing, LGFV risk mitigation, and NIM contraction among banks (see Appendix 2 for details). Its resilient capital is attributable to its solid asset quality and adequate reserves, minor exposure to real estate or LGFVs, and diversified revenue sources.

Due to its exit from retail banking, its operating income fluctuated in 2023, declining by 14.37% YoY to 4.81 billion RMB. This decrease was mostly caused by a total loss of 333 million RMB on changes in fair value and investments, versus a 393 million RMB gain in 2022. Specifically, loss on change in fair value due to transfer of claims on credit card receivables was estimated at 698 million RMB, and investment loss on transfer of mortgages was 232 million RMB. We view these losses in 2023 as one-off items that would not weaken the bank's ability to generate revenue in the medium and long run. Disregarding the temporary impact from the retail business withdrawal,

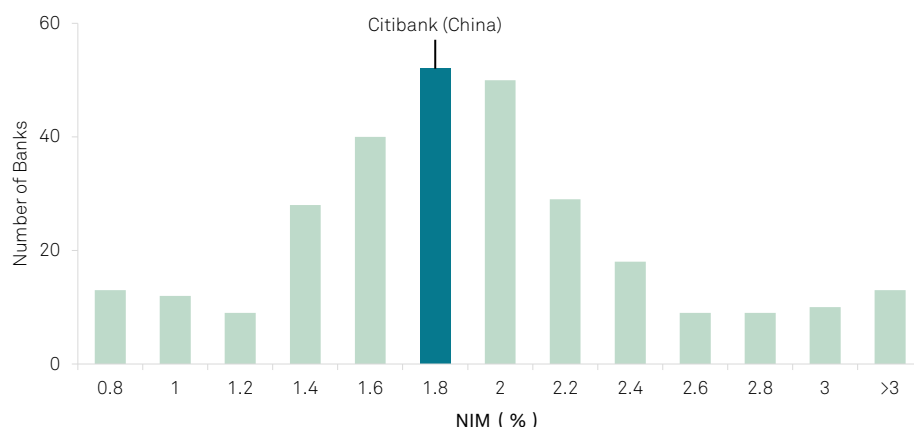
we project its operating income to be around 5.5 billion RMB in 2024 and about 5 billion RMB in 2025.

Albeit the NIM pressure for its RMB-related business, the bank saw its NIM improving in 2023 and thus faces less NIM pressure than the industry average, thanks to increased returns on its assets denominated in foreign currencies. As of the end of 2023, roughly 16% of its total assets were denominated in foreign currencies. In 2023, its NIM picked up by 11 basis points to 1.71%, similar to commercial banks' average of 1.6% and slightly higher than foreign bank subsidiaries' average of 1.57%. On the assets side, its interest income to average interest-bearing assets ratio increased by 36 basis points YoY to 2.77%, mainly because its interest income was similar as in 2022 but interest-bearing assets dropped by 12.61% YoY. In terms of liabilities, its interest expenses to average interest-bearing liabilities ratio was 1.11%, up by 22 basis points YoY. In September 2024, the U.S. Federal Reserve announced a 50-basis-point rate cut. We expect the bank's foreign-currency-related business to see a NIM downtrend accordingly as the US dollar takes on a rate cut trajectory. The bank's NIM is estimated to stay around 1.7% in 2024 and move down further to about 1.5% in 2025.

Chart 3

The Bank's NIM is Consistent with the Industry Average

Industry Comparison: Distribution of NIMs of Major Banks in China in 2023



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

The bank's credit cost is very low given its loan book decline and sound asset quality. In 2023, its credit cost (loan impairment losses to average gross customer loans) was 0.18%, far below domestic listed banks' average of 0.8%. Its asset impairment losses accounted for 6.67% of its pre-provisioning profit. In 2023, its loan book shrinkage led to a slump in its provisioning from 427 million RMB to 76 million RMB. Given its low NPL ratio, the actual provisioning is determined by its reserve-to-loan ratio, i.e. its loan scale. We expect the bank to maintain its reserve-to-loan ratio at about 2%.

Its cost-to-income ratio experienced a temporary jump due to the business management fee associated with the retail business withdrawal. In 2023, its operating income decreased by 14.37% YoY while labor cost increased by 11.10% YoY, uplifting its cost-to-income ratio by 15.97 percentage points YoY to 73.87%. We

expect its cost-to-income ratio to move down significantly going forward as the retail business disposal comes to an end in 2024, staying around 60% in 2024 and 2025.

Although the bank's profitability declined in 2023 due to the sale of retail business, its profitability should stay strong when excluding the impact from this one-off event. In 2023, its net income dropped by 31.23% YoY to 1.14 billion RMB and its ROAE decreased by 1.62 percentage points YoY to 4.78%. The retail banking disposal would continue to bring transient impact on the bank's financial metrics in 2024. Nonetheless, excluding such one-off impact, we expect the bank to maintain healthy profitability in 2024 and 2025, with an ROAE of about 8%.

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 2023, it had a NPL ratio of 1.05%, up by 45 basis points YoY. Its overdue loan ratio was 1.48%, up by 67 basis points YoY. While its NPL and overdue loan scales remained similar as in the previous year, the rise in these ratios was mainly led by the remarkable decrease in gross loans following the sale of mortgages.

Its bad debts are well cushioned by its high reserve buffer thanks to its good asset quality. As of the end of 2023, it had a reserve coverage ratio of 194.53%, and its reserve coverage of NPLs and SMLs was 80.73%. Its loan loss reserves decreased by 34.49% YoY to 701 million RMB, mainly owing to the reversal of reserves related to the sales of the retail business.

Its lending business is mainly exposed to the manufacturing sector, with a client base mostly composed of superior export-oriented manufacturers. As of the end of 2023, its three largest sector exposures were manufacturing, wholesale and retail sales, and lease and other commercial services, accounting for 49.26%, 13.73%, and 6.29% of its total corporate loans, respectively. It has no exposure to real estate developers and LGFVs. Its asset quality sees good stability amid the current macroeconomic conditions in China.

The bank has very low credit risk in its investments and interbank operations. As of the end of 2023, around 92% of its bond investments were rated "A" or above by major international rating agencies (S&P Global Ratings, Moody's and Fitch). About 58% of its counterparties were rated "A" or above by major international rating agencies.

The bank's market risk is controllable. It manages risks in foreign exchange and interest rates based on risk sensitivity. As of the end of 2023, the value at risk in its trading account was 5.6 million USD. A 100-basis-point yield decline would reduce its 12-month net interest income by 76 million USD and lead to a loss of 137 million USD in economic value. Its bond investments have relatively short maturities, typically within 3 years. As of the end of 2023, its bond portfolio has an average maturity of around 1.5 years.

Its 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)'s risk appetite is lower than average Chinese banks and it enjoys a client base with very good credit profile.

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

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 2023, customer deposits accounted for 84.46% of its total funding and wholesale funding made up only 15.54%. Its customer deposits reached 123.91 billion RMB, down by 9.23% compared to 2022. Specifically, retail deposits were 6.41 billion RMB, down by 44.80% YoY, and corporate deposits were 116.66 billion RMB, down by 5.69% YoY. By term structure, term deposits suffered a larger decline, decreasing by 22% YoY.

Most of its customer deposits are current deposits related to treasury and trade finance. The solid stability of these businesses ensures a very stable and sticky deposit base. As of the end of 2023, its corporate deposits were 116.66 billion RMB, accounting for 94% of its customer deposits. Current deposits made up 75% of corporate deposits.

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% by the end of 2021 to 27.70% by the end of 2023, far below the industry average of 78.69%. As of the end of 2023, its net loan book accounted for only 18.89% of its total assets. Cash and deposits to the central bank accounted for 15.62%, credit to other financial institutions 8.64%, and its investment portfolio 51.99%. Its investment portfolio is mainly composed of treasury bonds and policy bank bonds, which are highly liquid.

We view its liquidity management as prudent. As of the end of June 2024, its liquidity coverage ratio and net stable funding ratio were 189.87% and 203.77%, respectively, both of which were far above the minimum regulatory requirement of 100%.

Citibank (China)'s funding is 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.

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. with stable outlook. 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

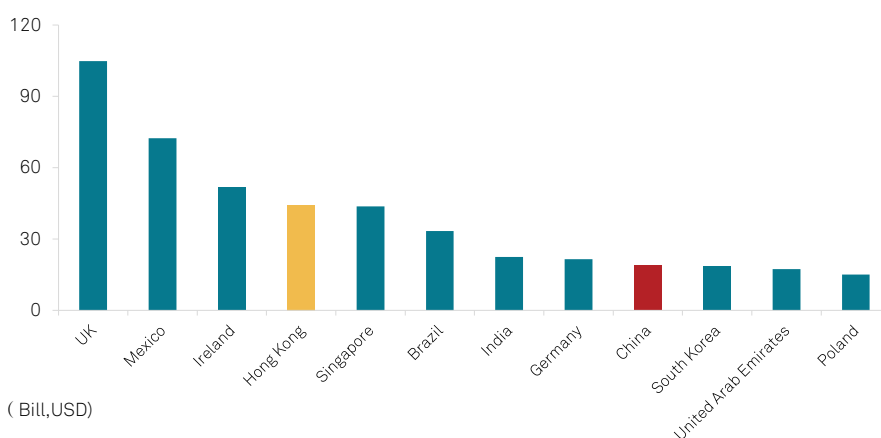
manage Citibank (China) as it manages all of its global subsidiaries, including providing support in terms of capital, administration and technology.

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 2023, it accounted for only 1.5% of the total assets of Citibank N. A. Its net income was about 1.4% of that of its parent in 2023. 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 2023, Citi's direct exposure to the Chinese Mainland was 18.9 billion USD, and its exposure to Hong Kong SAR was 44.2 billion USD.

Chart 4

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

Citigroup: Major Regional Exposures as of End of 2023 (Excluding the U.S.)



Source: Public information 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) has almost completed the process to withdraw from retail banking in the Chinese Mainland. It will continue to provide corporate banking services for customers in China. This strategic shift will not change our view on its importance to its parent.

In summary of the above, we believe Citibank (China) is critically important to its parent and Citi is extremely likely to provide capital and liquidity support to its China subsidiary when necessary. We assign an ICR of "AAA_{spc}" to Citibank (China), reflecting no upward notching adjustment for group support as it already has the highest SACP of "aaa_{spc}" on our national scale.

The bank is assigned an SACP of "aaa_{spc}", four notches higher than the bank anchor of "a+". This SACP reflects its very strong capital base, sound asset quality, and superior funding and liquidity profile.

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

The rating of Citibank (China) is closely aligned with the issuer credit quality of its parent.

We assign an ICR of "AAA_{spc}" to Citibank (China), reflecting no upward notching adjustment for group support as it already has the highest SACP of "aaa_{spc}" on our national scale.

Appendix

Appendix 1: Key Financial Data

Citibank (China) -- Key Financial Data

	2018	2019	2020	2021	2022	2023
Business Position						
Total assets (bil)	174.20	177.85	196.85	188.08	188.47	178.64
Gross customer loans (bil)	63.20	66.58	63.45	62.35	52.60	34.32
Customer deposits (bil)	134.60	139.50	149.04	131.16	136.52	123.91
Total equity (bil)	19.43	21.47	23.03	25.14	26.72	21.02
Operating income (bil)	6.46	5.95	5.58	5.44	5.62	4.81
Net income (bil)	2.55	2.07	1.73	1.80	1.66	1.14
Total assets / total assets of China's commercial banking industry (%)	0.08	0.07	0.07	0.07	0.06	0.05
Customer loans/total loans of China's commercial banking industry (%)	0.06	0.05	0.04	0.04	0.03	0.02
Customer deposits/total deposits of China's commercial banking industry (%)	0.07	0.07	0.07	0.05	0.05	0.04
Capital and Earnings						
Reported regulatory capital adequacy ratio (%)	19.76	20.44	21.00	23.10	28.17	21.66
Reported regulatory tier 1 capital adequacy ratio (%)	18.76	19.42	20.00	22.42	27.39	21.32
NIM adjusted by S&P Global (China) Ratings (%)	2.24	2.08	1.81	1.62	1.60	1.71
Cost-to-income ratio (%)	47.67	52.10	54.23	62.54	57.90	73.87
Asset provisioning/pre-provision operating profits (%)	2.55	11.10	20.02	(1.90)	18.97	6.67
Loan provisioning/average gross customer loans (%)	0.03	0.08	0.71	0.40	0.74	0.18
Return on average assets (%)	1.53	1.18	0.92	0.94	0.88	0.62
Return on average equity (%)	14.15	10.13	7.77	7.48	6.39	4.78
Risk Position						
Non-performing loan ratio (%)	0.46	0.47	0.63	0.69	0.60	1.05
(Non-performing loans + special mention loans)/gross customer loans (%)	2.59	3.92	4.76	2.63	2.23	2.53
Overdue loans/gross customer loans (%)	0.69	0.67	0.78	0.75	0.81	1.48
Loan loss reserve/gross customer loans (%)	2.58	2.28	2.60	1.91	2.03	2.04
Reserve coverage ratio (%)	556.27	488.89	410.64	276.87	341.51	194.53
Loan loss reserve/ (non-performing loans + special mention loans) (%)	99.77	58.12	54.54	72.60	91.23	80.73
Net write-offs/average gross customer loans (%)	0.24	0.26	0.50	0.46	0.95	1.03
Funding and Liquidity						
Customer loans/customer deposits (%)	46.96	47.73	42.57	47.54	38.53	27.70
Customer deposits/total funding (%)	92.50	93.46	93.96	85.02	90.63	84.46
Wholesale funding /total funding (%)	7.50	6.54	6.04	14.98	9.37	15.54
Retail deposits/customer deposits (%)	9.45	9.77	10.39	9.65	8.51	5.17
Liquidity coverage ratio (%)	N/A	N/A	182.65	229.16	212.08	205.23

Note 1: In our view, Citibank (China) has a clear business model and sound financial management. Therefore, we haven't made 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: Capital Stress Testing Results by S&P Global (China) Ratings

Capital Stress Testing on Citibank (China) by S&P Global (China) Ratings (Data as of End of June 2024)

Scenarios	Tier 1 Capital Adequacy Ratio (%)
Reported ratio as of the end of June 2024:	22.03
Key assumptions under mild stress scenario:	
1. Problem loan ratio for real estate loans and construction loans is 15%, with a loss rate of 50%.	
2. Problem loan ratio for mortgages is 1%, with a loss rate of 10%.	
3. Problem loan ratio for other loans is 7%, with a loss rate of 70%.	
4. Stage 2 and stage 3 investment assets are problem assets, with a loss rate of 70%.	
5. Interest rate for weak LGFVs decreases by 100-200 basis points (if applicable).	
6. Spreads between LPR and deposit rates remain flat as in 2023.	22.03
7. Average mortgage rate drops by 73 basis points in 2024 due to basis-point cuts to interest rates for outstanding mortgages in the second half of 2023.	
8. 30% of problem loans and investment assets cease interest payment.	
9. Cash recovery rate for foreclosed assets (excl. assets assigned with 1250% risk weight as per regulatory capital requirements) uncovered by loss reserves is 30% (if applicable).	
Key assumptions under moderate stress scenario:	
1. Problem loan ratio for real estate loans and construction loans is 30%, with a loss rate of 70%.	
2. Problem loan ratio for mortgages is 2%, with a loss rate of 20%.	
3. Interest rate for weak LGFVs decreases by 200-300 basis points (if applicable).	
4. Spreads between LPR and deposit rates narrow by 10 basis points from 2023.	22.03
5. Other assumptions are same as mild stress scenario.	
Key assumptions under severe stress scenario:	
1. Problem loan ratio for real estate loans and construction loans is 50%, with a loss rate of 70%.	
2. Problem loan ratio for mortgages is 3%, with a loss rate of 30%.	
3. Interest rate for weak LGFV borrowers decreases by 300-400 basis points (if applicable).	
4. Spreads between LPR and deposit rates narrow by 20 basis points from 2023.	22.03
5. Other assumptions are same as mild stress scenario.	
Main conclusion:	
The bank has a very resilient capital base and could maintain very high capital adequacy under severe stress.	
Thanks to prudent risk management, adequate reserves, and sound profitability, downward risks from the real estate market and macroeconomy would have a limited impact on the bank. Minor exposure to real estate and LGFVs also contributes to its capital resilience.	

Note: This stress testing didn't factor in growth in RWA led by business expansion or dividend distribution plan in the future.

Source: S&P Global (China) Ratings.

Appendix 3: Rating History of Citibank (China) by S&P Global (China) Ratings

Issuer Credit Ratings	Outlook/CreditWatch	Rating Date	Analysts	Related Reports
AAA _{spc}	Stable	October 20, 2020	Longtai Chen, Zheng Li, Xuefei Zou	Credit Rating Report: Citibank (China) Company Limited, October 20, 2020
AAA _{spc}	Stable	October 20, 2021	Longtai Chen, Zheng Li, Xuefei Zou	Credit Rating Report: Citibank (China) Company Limited, October 20, 2021
AAA _{spc}	Stable	October 20, 2022	Ying Li, Xuefei Zou, Jiancheng Yang	Credit Rating Report: Citibank (China) Company Limited, October 20, 2022
AAA _{spc}	Stable	October 20, 2023	Xiaochen Luan, Xuefei Zou, Jiancheng Yang	Credit Rating Report: Citibank (China) Company Limited, October 20, 2023
AAA _{spc}	Stable	October 20, 2024	Xuefei Zou, Qiwei Chen, 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. S&P Global (China) Ratings revised its financial institutions methodology in December 2023. While its ICR remains unchanged, an uplift for its SACP is applied due to the revised methodology rather than any material change in its stand-alone credit quality.

Appendix 4: Rating Definitions

Category	Definition
AAA _{spc}	The repayment ability is extremely strong, generally not impacted by any adverse economic environment, and the default risk is extremely low.
AA _{spc}	The repayment ability is very strong, not considerably impacted by any adverse economic environment, and the default risk is very low.
A _{spc}	The repayment ability is comparatively strong, comparatively vulnerable to the impact of adverse economic environment, and the default risk is comparatively low.
BBB _{spc}	The repayment ability is average, comparatively impacted by adverse economic environment, and the default risk is average.
BB _{spc}	The repayment ability is comparatively weak, materially impacted by adverse economic environment, and the default risk is comparatively high.
B _{spc}	The repayment ability relies comparatively on fair economic environment and the default risk is very high.
CCC _{spc}	The repayment ability relies extremely on fair economic environment and the default risk is extremely high.
CC _{spc}	Lower protection in situation of bankruptcy or reorganization and the repayment of debt may not be generally guaranteed.
C _{spc}	Unable to repay the debt.

Note: Except for AAA_{spc} and ratings below CCC_{spc}, each rating may be added a "+" or "-" sign for minor adjustment to indicate a slightly higher or lower rating.

Appendix 5: Surveillance Plan

S&P Ratings (China) Co., Ltd. shall monitor the credit quality of the rated issuer on a periodic (if applicable) and an ongoing basis. If any material credit events are likely to change the credit quality of the issuer, we will conduct ad-hoc surveillance and determine whether the outstanding ratings need to be adjusted.

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