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## ACRA assigns AAA(RU) to AO Citibank, outlook Stable

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### Key rating assessment factors

The credit rating assigned to [AO Citibank](#) (hereinafter, Citibank) is based on a very high likelihood of extraordinary support from its parent company with a high creditworthiness. In view of its strong capital adequacy, adequate risk profile and notable positions in target market segments, Citibank's standalone creditworthiness assessment is high.

Citibank is a large universal bank, one of the top 30 largest Russian banks in terms of assets and capital, and it ranks 20<sup>th</sup> among bank groups in terms of capital. Citibank is a 100% subsidiary, through a chain of intermediate structures, of Citigroup Inc. (hereinafter, Citigroup or the Supporting Organization).

**Very high likelihood of extraordinary support from the key shareholder.** ACRA is of the opinion that, in case of need, Citigroup will provide Citibank with short-term and long-term funding and capital injections, because:

- The Russian market is strategically important for Citigroup as part of its global presence;
- There is a pronounced operational integration: Citibank is integrated in the Citigroup's unified capital management, risk management, strategic planning and internal control systems;
- There is a substantial amount of guarantees issued by Citigroup companies for loans granted by Citibank (43% of its loan portfolio as at December 31, 2016);
- In case of Citibank's default, Citigroup will face substantial operational and financial risks.

ACRA assesses the country risk of the Supporting Organization's jurisdiction (USA) against the country risk of Russia and the Supporting Organization's creditworthiness as strong and the degree of association between Citibank and Citigroup as very strong.

**Strong business profile.** Citibank has a strong franchise in the premium retail banking and the large corporate and international business segments. A reasonable strategy coupled with a moderate risk appetite result in the Citibank's ability to generate a sustainably high operating income with a minimum susceptibility to economic cycle phases. Due to the universal nature of its business, Citibank's operating income is highly diversified, which is evidenced by the Herfindahl-Hirschman index of 0.14 in 2016. The management quality is assessed 'high,' as Citibank's top managers are well experienced, and Citigroup is involved in Citibank's operations.

**Strong capital adequacy** has a positive effect on the SCA. Due to a sustainably high level of its common capital, under both international standards (Tier-1 ratio was 10.4% at end-March 2017) and Russian standards (N1.2 ratio was 10.9% at June 1, 2017, and this ratio has remained at least 10.7% since end-2015), Citibank is able to withstand a substantial (much above 500 bps) increase in the cost of risk, without a breach of regulatory standards. In addition, Citibank shows stable returns, irrespective of the economic cycle phases, due to its high NIM of 5.9% in 2016 and a low cost of risk. Citibank has regularly paid dividend, which is negative for its average capital generation ratio (ACGR) (76 bps on average within the last five years).

**Adequate risk profile.** The risk management system is transparent and includes high underwriting standards and independent decision-making on intra-corporate matters. Risk methodologies are regularly updated; capital adequacy ratios, liquidity ratios and market risks are subject to regular stress tests in accordance with the Citigroup policies. The loan portfolio quality (30% of assets) is assessed as 'strong,' taking into account a low level of non-performing and potentially non-performing loans comprising 0.3% of

loan portfolio and a low concentration on the ten largest borrowers (20.6% of the portfolio). Citibank has a very low exposure to construction and real estate firms. The risk profile assessment is somewhat limited by a heightened market risk (about 100% of the core capital at end-2016) caused by a substantial portfolio of securities (18.6% of assets at June 1, 2017) and derivative positions.

**Strong liquidity combined with well-balanced funding profile.** Citibank firmly withstands the outflow of deposits under the base and stress scenarios applied by ACRA. The long-term liquidity is assessed as 'adequate,' as the long-term liquidity shortage indicator (LTLSI) is 69%. Citibank has a substantial liquidity cushion that includes a significant amount of unencumbered securities (primarily, federal bonds that cover about 20% of deposit outflow as at the beginning of June 2016). Funding structure is diversified by source (corporate funds, the largest funding source, comprise 63.8% of liabilities) and by lender (the share of ten largest lenders is 21%, and the share the largest lender is 6.1%). Funds borrowed from the parent company are insignificant.

## Key assumptions

- Citigroup retaining its shareholding and operating control over Citibank;
- Credit risk costs below 1%;
- 4.5–6% NIM;
- Capital adequacy (N1.2) above 10% within the 12 to 18-months horizon;
- Citibank retaining its current funding structure.

## Potential outlook or rating change factors

**The Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A negative rating action may be prompted by:

- A loss by Citigroup of its shareholding and operating control over Citibank, or declining propensity of the Supporting Organization to support Citibank;
- A declining strategic importance of Citibank for Citigroup;
- A substantial decline in the creditworthiness of the Supporting Organization.

## Rating components

**SCA:** aa+

**Adjustments:** none

**Support:** on par with the RF

## Issue ratings

No outstanding issues have been rated.

## Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation](#), the [Methodology for Analyzing Relationships Between Rated Entities and Supporting Organizations outside the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating has been assigned to AO Citibank for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action (July 5, 2017).

The credit rating was assigned based on the data provided by AO Citibank, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS statements of AO Citibank and the standalone financial statements of AO Citibank drawn up in compliance with Bank of Russia Ordinance No. 4212-U of November 24, 2016. The credit rating is solicited, and AO Citibank participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by AO Citibank in its financial statements have been discovered.

ACRA provided no additional services to AO Citibank. No conflicts of interest were discovered in the course of credit rating assignment.

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