

Rating report

(version for publication)



Credit rating of the bank according to the Ukrainian national scale:	uaAAA
Rating interpretation according to the national scale:	Borrower (bank) with rating uaAAA is characterized by the highest solvency compared to other Ukrainian borrowers (banks)
Date of rating assignment:	December 15, 2017

PUBLIC JOINT-STOCK COMPANY

«CITIBANK»

(full name of the bank)

03150, Kyiv, Dilova str., build. 16-G

(location of the bank)

Registration date:	11.05.1998
USREOU code:	21685485
Chairman of the Board:	Steven Allan Fisher;
Phone:	+380444901000
Fax:	+380444901030
Web-site:	http://www.citigroup.com/citi/ukraine

*This report is the rating research, which expresses the opinion of RA "Expert-Rating" analysts.
The report is the justification of the assigned rating, which is also the opinion of RA "Expert-Rating" analysts.*

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In case of any differences in interpretation of the information in the rating report the Ukrainian text shall prevail*

1. General information

Citibank is the largest international bank founded in 1812 as City Bank of New York, and then – First National City Bank of New York. Now Citibank is a division of Citigroup, the giant international corporation in the financial services field.

In Europe, the Middle East and Africa (EMEA), Citi maintains a physical presence in 54 countries and does business in 62 more. Clients in the appropriate region choose Citi for its market position, in-country relationships and full range of solutions through its innovative products and services.

A well-established and highly regarded brand of the bank, which specializes in transaction services, facilitates commercial, financial and trade flows globally for the corporate, financial institutions and public sector clients. Through its presence in 54 markets across EMEA, Citi Transaction Services business supports 68 payment currencies, provides access to more than 5000 correspondent networks in Africa alone and offers a direct custody and clearing network in 34 markets.

In 1997 Citibank N.A. opened a representative office in Ukraine. In 1998 Ukraine became the 100th country of Citi's presence worldwide, in the form of a subsidiary wholly owned by U.S. shareholders. PJSC "CITIBANK" has a full package of banking licenses authorizing Citi to conduct commercial banking operations in both local and foreign currencies. In Ukraine PJSC "CITIBANK" continues to pursue a general mission of Citigroup, namely to provide clients with the best banking products, most competitive solutions and the highest level of service and reliability.

The bank has built its first-class reputation and client base by providing innovative products and services to leading companies operating in the region. PJSC "CITIBANK" has become a leading bank in Ukraine, serving over 400 multinationals and top tier Ukrainian corporations, through a branch in the capital of Ukraine – Kyiv. PJSC "CITIBANK" is the bank of choice for many multinational corporations in Ukraine and has opportunity to provide exclusive services to clients in Ukraine on a global platform. PJSC "CITIBANK" has been actively introducing new financial-sector technology and world-best practices in Ukraine.

Therefore, one may note that PJSC "CITIBANK" is a subsidiary bank of one of the largest international banks Citibank and has a full package of banking licenses to conduct its activity in Ukraine. A high quality of services is guaranteed by high standards of Citi service worldwide. Integration into the leading and largest international financial group Citigroup provides PJSC "CITIBANK" with the best opportunities to conduct business in Ukraine and to provide clients with services of such uniqueness and quality that is unavailable to most customers of other banks.

2. Market share and business activity

Assessing the market share of PJSC "CITIBANK" in the banking system of Ukraine, one should take into consideration that the Bank specializes in servicing the corporate clients and can't be classified as universal bank. PJSC "CITIBANK" occupies very specific niches in the Ukrainian banking services market that are guaranteed by the operational model of its parent company – the international group Citigroup. It is a certain level of the Bank's specialization, which doesn't allow assigning the scale of its work in Ukraine to significant factors that would affect the level of its loan risk. As well, it should be taken into consideration that a number of the bank's services due to its integration with the international financial group Citigroup are unique for the Ukrainian market, and some services may have analogues in 2-3 other banks in Ukraine with 100% foreign capital. Such a situation increases the competitiveness of PJSC "CITIBANK" and reduces the probability of realization of any negative scenarios for the Bank due to its specialization. However, according to its own methodology, the agency should formally calculate the market share of the bank.

The share of PJSC "CITIBANK" in the banking system of Ukraine throughout the last 3 years fluctuated at the level 0.75%–1.55% of the banking system assets. A small share of PJSC "CITIBANK" in the Ukrainian banking system doesn't have a significant impact on its credit rating due to the Bank's entry into the global Citibank network and the availability of a certain specialization in its operations, which provides its profitable and stable work. As well, it should be taken into consideration that for the period from 01.01.2015 to 01.10.2017 the nominal share of PJSC "CITIBANK" in terms of assets and liabilities has almost doubled. According to NBU data the bank's assets grew by 88.69%, and liabilities – by 109.5%.

**Data on assets and liabilities of PJSC "CITIBANK" compared to general data
on the Ukrainian banking system, mln. UAH, %, p.p.**

Indicators	01.10.2017	01.01.2017	01.01.2016	01.01.2015	Change	Growth rate, %
Assets of the banking system	1280717325	1258643603	1252570443	1316717870	-36000545	-2.73%
Assets of the Bank	19898018	19459670	16085165	10545173	9352845.1	88.69%
Share of the bank's assets in assets of the banking system	1.55%	1.55%	1.28%	0.80%	0.75 p.p.	-
Liabilities of the banking system	1111992878	1142209225	1157656583	1168655263	-56662386	-4.85%
Liabilities of the Bank	18320831	17360499	13624669	8745115	9575716	109.50%
Share of the bank's liabilities in liabilities of the banking system	1.65%	1.52%	1.18%	0.75%	0.90 p.p.	-

Source: NBU data, calculated by "RA "Expert-Rating", LLC.

Note: the data in table above incorporates the changes made by NBU with respect to methodology of forming public reports of the banks in 2015–2017

Therefore, PJSC «CITIBANK» occupies the specific business niche in Ukraine market that are guaranteed through the ownership by the international financial group Citigroup. A high level of the Bank's specialization doesn't allow assigning the scale of its work in Ukraine to significant factors that would affect the level of its loan risk. The nominal share of PJSC "CITIBANK" in the Ukrainian banking system in terms of assets throughout the last 3 years fluctuated at the level 0.75%–1.55% and almost doubled. According to NBU data the assets of PJSC "CITIBANK" grew by 88.69%, and liabilities – by 109.5%.

3. External support

Citigroup provides its subsidiary bank with an unprecedented high level of external support, which is based on the contributions into the authorized capital, liquidity provision and maintenance of business reputation. The availability of the shareholder Citigroup Inc. is a very considerable, determinative and positive factor, which affects a long-term credit rating and strengthens the competitive advantages of Citibank in Ukraine.

Additionally, the Agency draws attention to a large scale of Citigroup operations in the World. Thus, as of 01.10.2017 total assets of Citigroup amounted to USD 1.889 trillion, and the Bank's revenues, net of interest expenses for the 9 months of 2017 amounted to USD 54.194 bln. For the first three quarters of 2017 compared to the same period of 2016 Citigroup showed a trend towards the increase in net income, deposits, assets and increased the capital adequacy, indicating a ratio of main capital to risk-weighted assets, up to the level 14.61%.

Table 2

Key performance indicators of Citigroup for 2017 pik, bn. USD, %

Indicators	01.10.2017	01.10.2016	Change	Growth rate, %
Revenues, net of interest expense	54.194	52.863	1.331	2.52%
Net income	12.095	11.339	0.756	6.67%
Tier 1 Capital Ratio	14.61%	14.23%	0.38 p.p.	-
Total deposits	964.038	940.252	23.786	2.53%
Total assets	1889.133	1818.117	71.016	3.91%
Shareholders' equity	227.634	231.575	-3.941	-1.7%

Source: Quarterly statements of Citigroup Inc. according to the Form 10-Q to the United States Securities and Exchange Commission

At the moment of rating assignment Citigroup had the following long-term credit ratings from the rating agencies:

- Moody's: Baa1 (positive outlook)
- Standard & Poor's: BBB+ (stable outlook)
- Fitch: A (stable outlook)

The long-term credit ratings of Citigroup from the three international rating agencies were at the investment level and were significantly higher than the barrier value of the investment level (BBB-). Additionally, it should be noted that Citibank N.A., which is the owner of the 100% shares of Citibank Overseas Investment Corporation, which directly owns the 67% shares of PJSC "CITIBANK" and indirectly controls the 33% of its shares, had the following long-term credit ratings:

- Moody's: A1 (positive outlook)
- Standard & Poor's: A+ (stable outlook)
- Fitch: A+ (stable outlook)

Therefore, at the moment of assigning the long-term credit rating, PJSC "CITIBANK" had the guaranteed support from the international financial group Citigroup with assets of USD 1.889 trillion, and net income of USD 12.095 bln for the 9 months of 2017. Work scale, performance indicators and current long-term credit ratings of

Citigroup indicated that the Group can, if necessary, provide PJSC "CITIBANK" with any required volume of support. General level of external support at PJSC "CITIBANK" is identified as unprecedented high.

4. Capital adequacy

As of 01.10.2017 the authorized capital of PJSC "CITIBANK" exceeded UAH 200 mln. Shareholders' equity at the same date amounted to UAH 1.577 bn. For the 9 months of 2017 the shareholders' equity of the Bank decreased by 24.87%, the authorized capital, on the contrary, increased by 66.67%.

Table 3

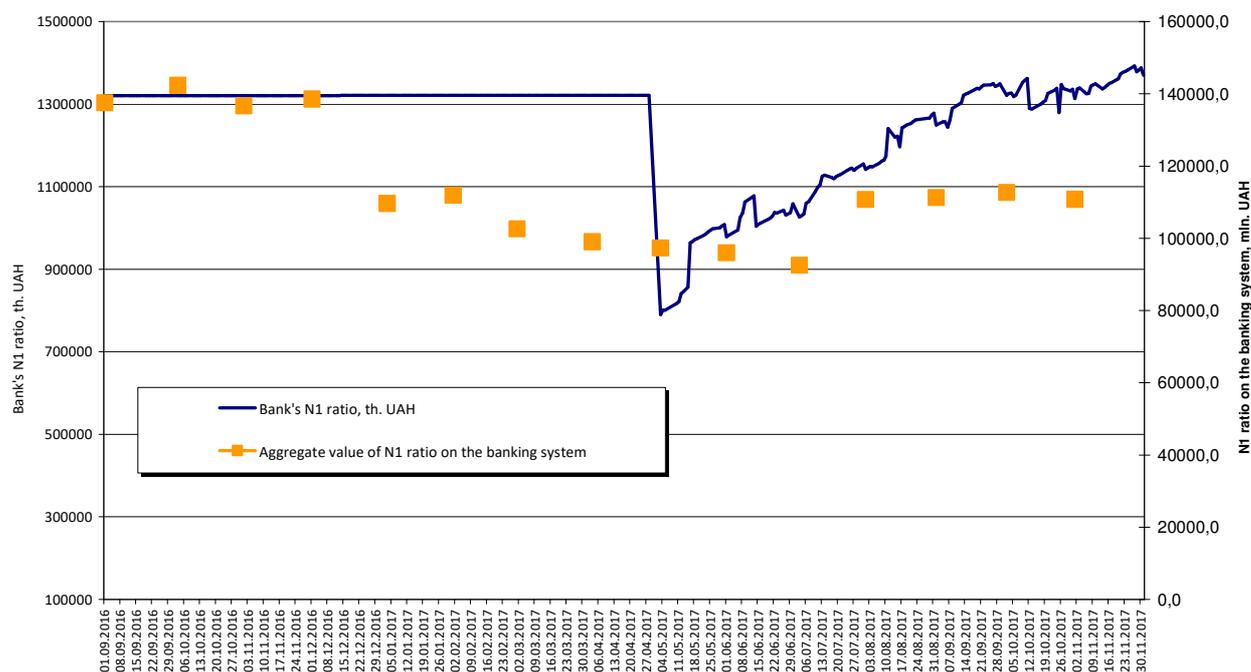
Shareholder' equity of PJSC "CITIBANK" for the 9 months of 2017, th. UAH, %

Indicators	01.10.2017	31.12.2016	Change	Growth rate, %
Authorized capital	200000.08	120000.048	80000.032	66.67%
Retained earnings	763712.54	1437499.3	-673786.76	-46.87%
Total shareholders' equity	1577186.63	2099170.85	-521984.22	-24.87%
Total liabilities and shareholders' equity	19898017.7	19459670.34	438347.36	2.25%
The ratio between authorized capital and shareholders' equity	12.68%	5.72%	6.96 p.p.	-

Source: NBU data

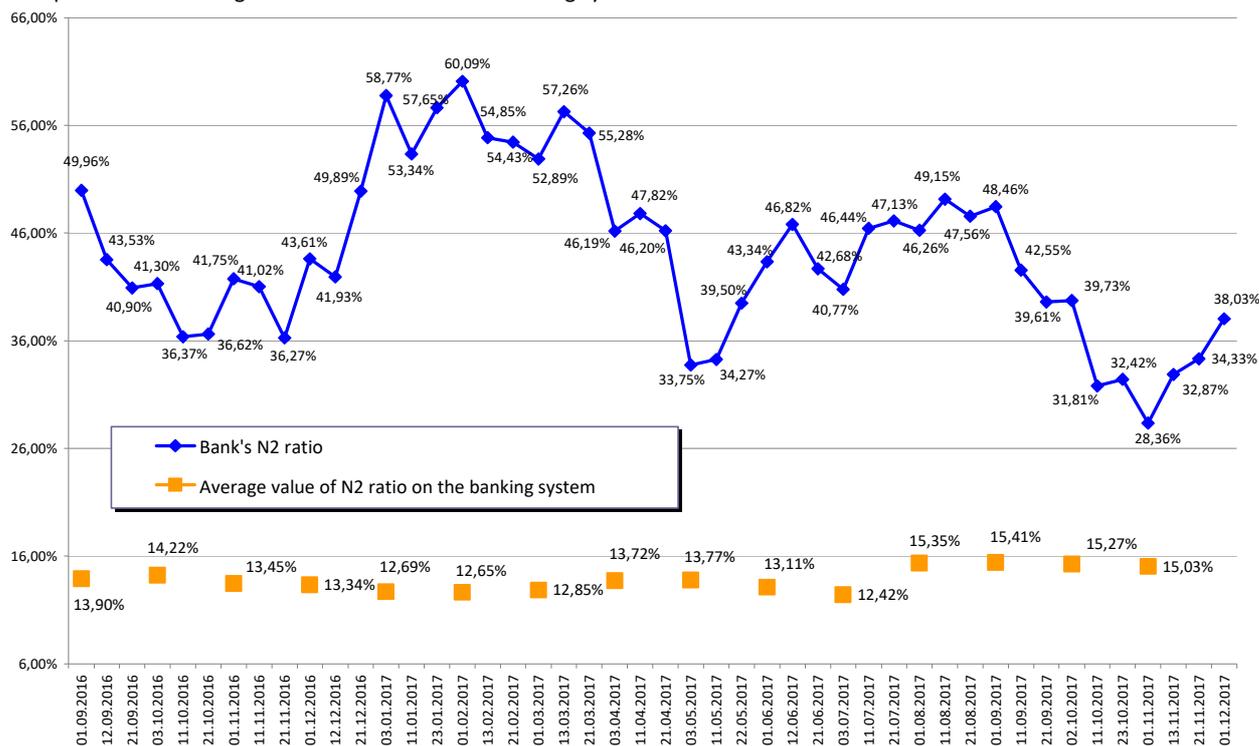
The study on dynamics of regulatory capital showed that during the last 15 months the Bank's regulatory capital fluctuated in the range UAH 790.223 – 1392.267 mln. As of December 1, 2017 the regulatory capital of PJSC "CITIBANK" amounted to UAH 1.370 bn. Throughout the entire analysis period the Bank maintained a significant reserve of N1 ratio to the minimum set by NBU. Moreover, the regulatory capital of PJSC "CITIBANK" at the beginning of the fourth quarter was higher than the minimal value of UAH 300 mln that will be set by NBU in July, 2018.

Fig. 1. Dynamics of the regulatory capital (N1) of PJSC «CITIBANK» compared to the aggregate value of N1 ratio on the banking system



The analysis of the Bank's N2 ratio dynamics showed that during the entire analysis period this normative fluctuated in the range 28.36% – 60.09%. Despite significant fluctuations of N2 ratio PJSC "CITIBANK" (with the normative value of N2 ratio not less 10% and the average value of N2 ratio on the banking system in the range 12–14%) had a high reserve of regulatory capital with respect to the limit value, set by NBU, as well as to the average value of N2 ratio on the banking system.

Fig. 2. Dynamics of the regulatory capital adequacy (N2) of PJSC «CITIBANK» compared to the average value of N2 ratio on the banking system

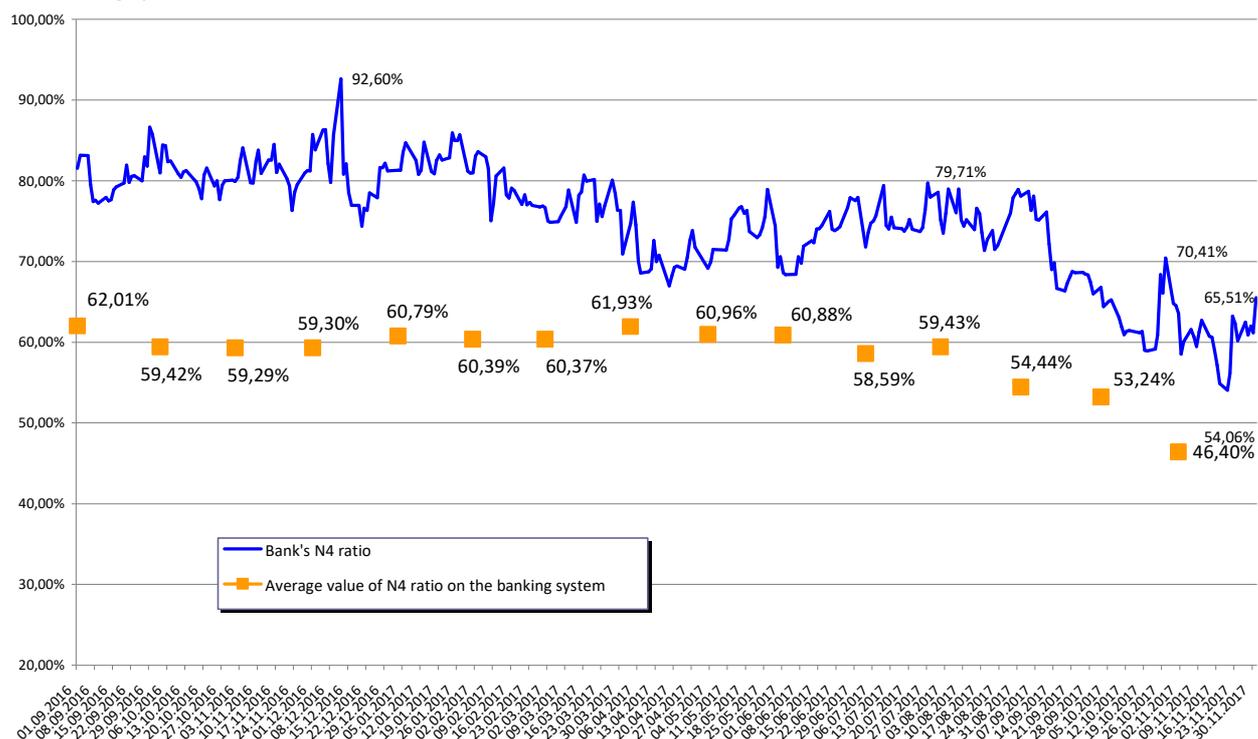


Therefore, as at the beginning of December, 2017 the authorized capital of PJSC "CITIBANK" amounted to UAH 200.0 mln, the regulatory capital – UAH 1.37 bln and the regulatory capital adequacy – 38.03%. Throughout the entire analysis period PJSC "CITIBANK" maintained a high reserve on the regulatory capital normative (N1) and the regulatory capital adequacy normative (N2). In the Agency's opinion, current values of N1 and N2 ratios and its stability during the entire analysis period shows that PJSC "CITIBANK" doesn't require additional capitalization in the near future. But the Agency reminds that according to NBU requirements in July, 2018 the minimal authorized and regulatory capital of the banks will be increased up to UAH 300 mln. Since the authorized capital of PJSC "CITIBANK" is less than UAH 300 mln, it will require additional capitalization by the specified period, if the Ukrainian Parliament doesn't accept changes in the current legislation.

5. Liquidity

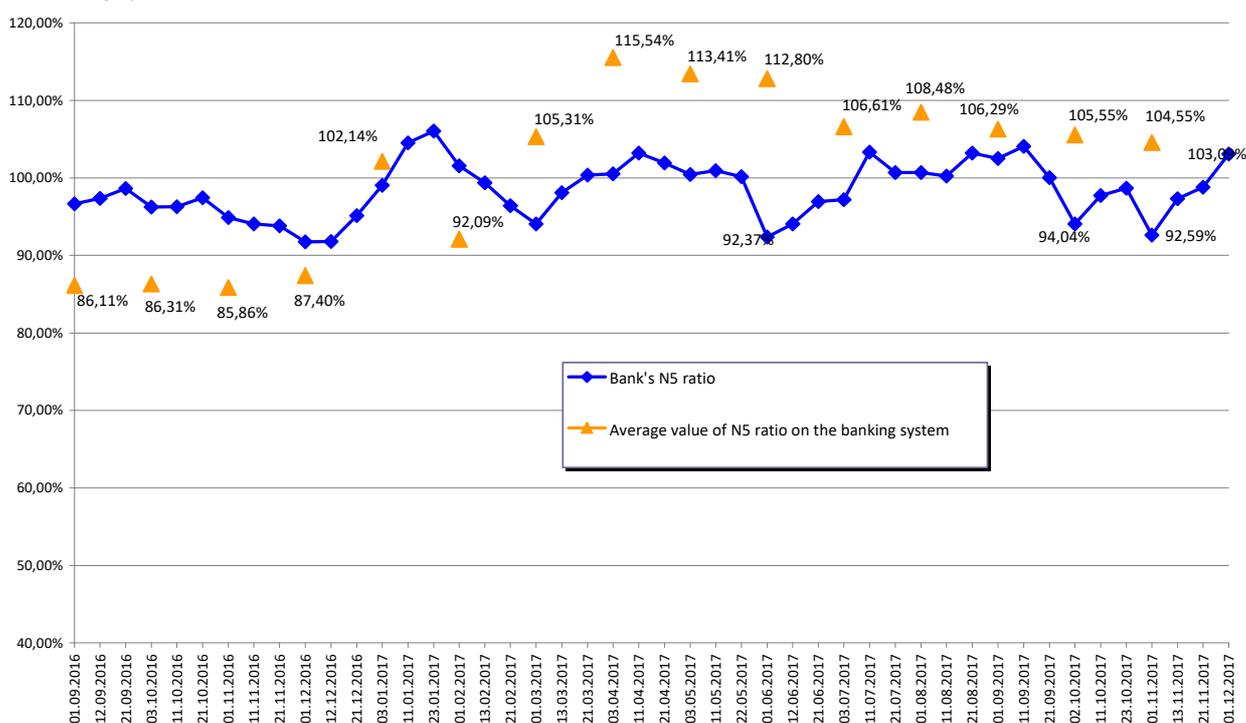
Throughout the entire analysis period PJSC "CITIBANK" had a large supply of instant liquidity ratio N4. Thus, the Bank's N4 ratio fluctuated in the range 54.06%–92.60%. As of December 1 2017, the N4 ratio of PJSC "CITIBANK" amounted to 65.51%, with the normative value not lower than 20%, and the average value of 46.40% on the banking system (fig. 3). The Agency draws attention that despite a significant level of volatility of the Bank's N4 ratio, for the last 15 months PJSC "CITIBANK" on a systematic basis maintained a significant reserve of instant liquidity ratio. Throughout the entire analysis period the Bank's N4 ratio didn't drop lower than the average value of instant liquidity ratio on the Ukrainian banking system that indicates a conservative management policy of instant liquidity at PJSC "CITIBANK".

Fig. 3. Dynamics of instant liquidity (N4) of PJSC «CITIBANK» compared to the average of N4 ratio on the banking system



Similar conclusions can be reached after the analysis of the dynamics of the Bank's current liquidity ratio N5. Throughout the entire analysis period the Bank's N5 ratio fluctuated in the range of 91.76%–106.04%. As of December 1, 2017 the N5 current liquidity ratio amounted to 103.09%, with the normative value of not less 40% and the average value on the banking system 104.55% (fig. 4). Throughout the entire analysis period current liquidity ratio of PJSC "CITIBANK" was close to or exceeded the market average of N5 ratio and always exceeded the normative value, set by NBU. Thus, PJSC "CITIBANK" maintained a margin of current liquidity ratio on a systematic basis that also indicates a rather conservative management of the Bank's current liquidity.

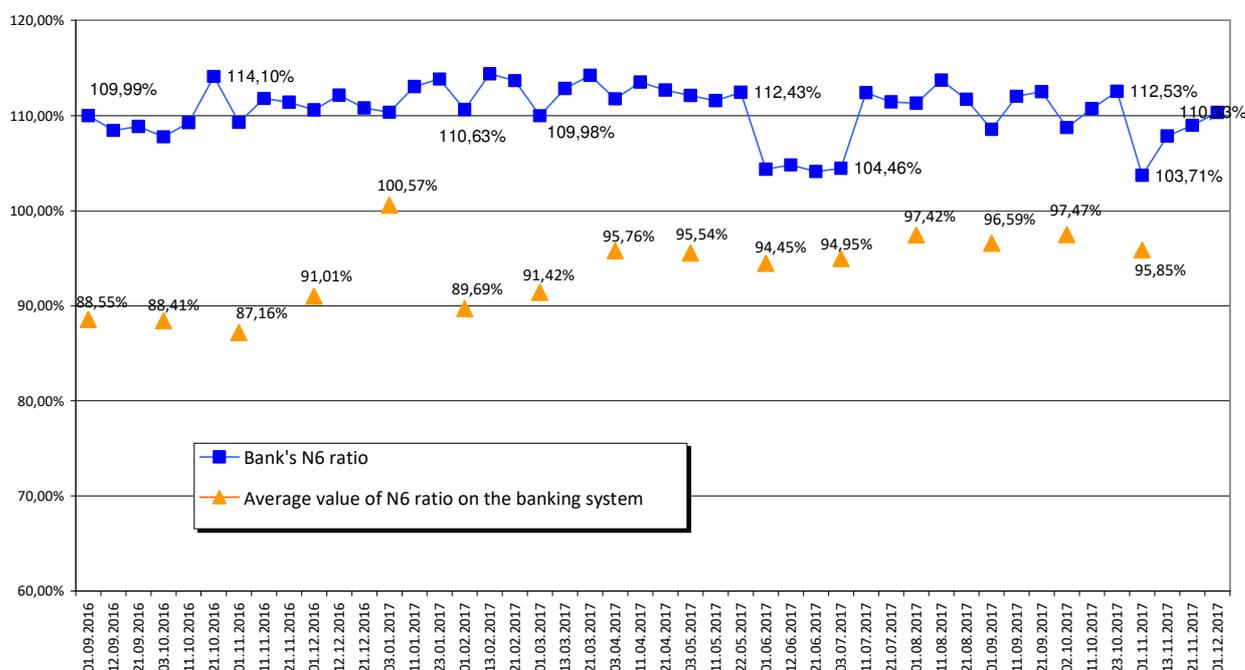
Fig. 4. Dynamics of current liquidity (N5) of PJSC «CITIBANK» compared to the average of N5 ratio on the banking system



The dynamic analysis of short-term liquidity (N6) of PJSC "CITIBANK" showed that for the entire period of analysis the Bank never allowed the decrease of the normative below the average value of the normative on the

banking system and below the limit value set by the NBU. As of December 1, 2017 the Bank's N6 ratio amounted to 110.33% with the normative value of not less 60% and the average value on the banking system 95.85% (fig. 5). A good level of the N6 ratio margin with respect to the limit value, set by NBU, was maintained on a systematic basis, which also indicates a conservative short-term liquidity management style of PJSC "CITIBANK".

Fig. 5. Dynamics of short-term liquidity (N6) of PJSC «CITIBANK» compared to the average of N6 ratio on the banking system



Therefore, PJSC "CITIBANK" followed a conservative strategy for managing instant, current and short-term liquidity. The Bank on a systematic basis for over the 12 months maintains a significant reserve of liquidity ratios N4, N5 and N6 both in relation to the limits, set by NBU, and in relation to the average values of these ratios on the banking system of Ukraine. So, for over a year PJSC "CITIBANK" was well provided with liquidity, which obviously positively influenced its long-term credit rating.

6. Asset structure and quality

The conservative liquidity management policy of PJSC "CITIBANK" was reflected in the structure of its assets. For the 9 months of 2017 the bank's assets grew by 2.28%, cash and its equivalents — by 3.31%, customer loans and debt — by 22.53%, and securities in the bank's portfolio for sale decreased 14.45%.

Table 4

Assets of PJSC "CITIBANK" for the 9 months of 2017, th. UAH, %

Indicators	01.10.2017		31.12.2016		Change	Growth rate, %
	th. UAH	%	th. UAH	%		
Total assets	19898018	100.00%	19455210	100.00%	442808	2.28%
Cash and its equivalents	5661796	28.45%	5480459	28.17%	181337	3.31%
Securities in the bank's portfolio for sale	6940031	34.88%	8112633	41.70%	-1172602	-14.45%
Customer loans and debt	5879905	29.55%	4798665	24.67%	1081240	22.53%
Other assets, not included into aggregate items of the table	1416286	7.12%	1063453	5.47%	352833	33.18%

Source: NBU data, and Interim financial statements of PJSC "CITIBANK" for the 9 months of 2017

The analysis of the asset structure of PJSC "CITIBANK" shows that as of 01.10.2017 the main items were such as:

- Cash and its equivalents 28.45%
- Securities in the bank's portfolio for sale 34.88%
- Customer loans and debt 29.55%

Other assets amounted to only 7.12% of the assets, i.e. the analysis of its quality are not of necessity to establish general tendencies of asset quality.

As of 01.10.2017 from the general amount of balance sheet item “cash and its equivalents” UAH 5.66 bln, UAH 4.84 bln were at the corresponding accounts in other banks, other part of this item was represented by cash and funds in NBU. According to the bank’s information all the funds in other banks were placed in banks with the investment level rating. Therefore, 28.45% of PJSC “CITIBANK” assets had the highest of the possible quality.

As of 01.10.2017 all the UAH 6.94 bln of securities in the bank’s portfolio for sale were represented by government bonds and deposit certificates of NBU, i.e. the quality of 34.88% of the bank’s assets can be assessed as the highest one.

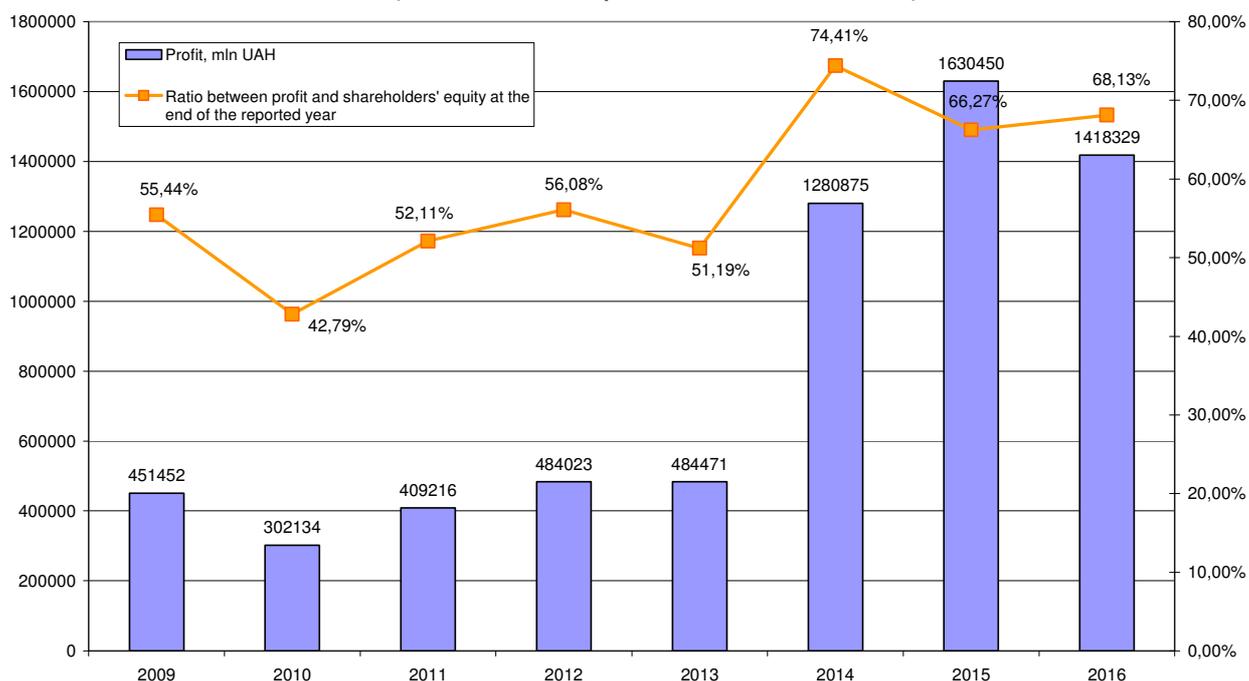
According to NBU data as of 01.10.2017 over 80% of loans provided by the bank to legal entities belonged to the 1–5 class of borrowers in terms of loan risk categories. The volumes of loans provided by the bank to individuals were insignificant. Thus, based on the regulator’s data, the quality of the Bank’s loan portfolio can be assessed as high.

Therefore, as of 01.10.2017 the 92.88% of assets of PJSC “CITIBANK” were represented by: cash and its equivalents, securities in the bank’s portfolio for sale, customer loans and debt. The quality of all the three main components of assets deserved the high or the highest level of assessment.

7. Income and profit

The important fact is that PJSC “CITIBANK” survived two banking crisis in Ukraine: 2008/2009 and 2014/2016, at the same time all the years PJSC “CITIBANK” was profitable. The Bank reached the best results in 2015–2016 (fig. 6). According to the Agency’s observations PJSC “CITIBANK” was always one of the best banks amongst the Ukrainian banks in terms of profit to shareholders’ equity ratio..

Fig. 6. Dynamics of profit and the ratio of profit to shareholders' equity of PJSC "CITIBANK", 2009-2016 (data of the annual reports of the bank for 2010-2016)



PJSC “CITIBANK” finished the first 9 months of 2017 with profit of UAH 763.713 mln that is by 31.27% less than for the same period of 2016. For the same period the Bank decreased net interest income by 29.84%, but increased net fee and commission income by 0.82% or UAH 0.448 mln. The decrease of particular items of the Bank’s income and profit for the first nine months of 2017 didn’t have a negative impact on its long-term credit rating, because the activity of PJSC “CITIBANK” remained profitable.

Key items of income and profit of PJSC "CITIBANK" for the 9 months of 2017, UAH, %

Indicators	9 months of 2017	9 months of 2016	Change	Growth rate, %
Interest income	1373496.52	1595837.17	-222340.65	-13.93%
Net interest income	875199.10	1247419.11	-372220.01	-29.84%
Net fee and commission income	55016.95	54569.13	447.82	0.82%
Profit	763712.54	1111107.82	-347395.28	-31.27%
Ratio of profit to shareholders' equity	48.42%	52.93%	-4.51 p.p.	-8.52%

Source: NBU data, and Interim financial reports of PJSC «CITIBANK» for the 9 months of 2017

Therefore, the profitable activity of PJSC "CITIBANK" was consistent, during the last 8 years and the 9 months of 2017 the Bank reported a net profit. This factor had a positive impact on the long-term credit rating of the Bank.

8. Other factors taken into account in the rating assessment

Verification under public databases of the State Fiscal Service showed that at the moment of the rating report preparation PJSC "CITIBANK" was properly registered with the SFS authorities and didn't have any tax debt.

The study of materials of the Unified State Register of court decisions showed the absence of any court proceedings during the year, which would bear significant risks of financial claims from third parties to PJSC "CITIBANK".

9. Summary of rating results

December 15, 2017 the rating committee of RA "Expert-Rating" made decision to assign a long-term credit rating of PJSC "CITIBANK" (USREOU code 21685485) at the level uaAAA according to the national scale. The borrower (bank) with rating uaAAA is characterized by the highest solvency compared to other Ukrainian borrowers (banks). When assigning the highest of the possible rating assessments according to the national scale the agency took into consideration the financial statistical reports of the bank including the reports for November of 2017. When assigning the credit ratings the rating committee relied on the following conclusions:

1. PJSC "CITIBANK" is a subsidiary of Citibank - one of the largest international banks and has a full package of NBU licenses to conduct its activity in Ukraine. A high quality of services is guaranteed by high standards of Citibank service worldwide. Integration into the leading and largest international financial group Citigroup provides PJSC "CITIBANK" with the best opportunities to conduct business in Ukraine and to provide clients with services of such uniqueness and quality that is unavailable to most customers of other banks.

2. PJSC "CITIBANK" occupies the specific business niches in Ukraine market that are guaranteed through the ownership by the international financial group Citigroup. A high level of the Bank's specialization doesn't allow assigning the scale of its work in Ukraine to significant factors that would affect the level of its loan risk. The nominal share of PJSC "CITIBANK" in the Ukrainian banking system in terms of assets throughout the last 3 years fluctuated at the level 0.75%–1.55% and grew almost in twice.

3. PJSC "CITIBANK" had the support from the international financial group Citigroup with assets of USD 1.889 trillion and net income of USD 12.095 bln for the 9 months of 2017. Work scale, performance indicators and current long-term credit ratings of Citigroup and Citibank N.A. indicated that the Group can, if necessary, provide PJSC "CITIBANK" with any required volume of support. General level of external support at PJSC "CITIBANK" is identified as unprecedented high.

4. PJSC "CITIBANK" entered December, 2017 with the authorized capital of over UAH 200.0 mln, the regulatory capital – UAH 1.37 bn and the regulatory capital adequacy – 38.03%. Throughout the entire analysis period PJSC "CITIBANK" maintained a high reserve of the regulatory capital normative (N1) and the regulatory capital adequacy normative (N2). In the Agency's opinion, current values of N1 and N2 ratios and its stability during the entire analysis period shows that PJSC "CITIBANK" doesn't require additional capitalization in the near future.

5. PJSC "CITIBANK" followed a conservative strategy for managing instant, current and short-term liquidity. The Bank, on a systematic basis for over the 12 months, maintains a significant reserve of liquidity ratios N4, N5 and N6 with respect to the limit values, set by NBU. As of 01.12.2017 the bank's instant liquidity amounted to 65.51%, current liquidity – 103.09%, short-term liquidity – 110.33%. So, PJSC "CITIBANK" had a very healthy levels of liquidity, which obviously positively influenced its long-term credit rating.

6. As of 01.10.2017 the 92.88% of assets of PJSC "CITIBANK" were represented by: cash and its equivalents, securities in the bank's portfolio for sale, customer loans and debt. The quality of all the three main components of assets deserved the high or the highest level of assessment. 100% of securities in the bank's portfolio for sale represented by the government securities.

7. The profitable activity of PJSC "CITIBANK" was consistent, the last 8 years and the 9 months of 2017 the Bank reported a net profit. The bank's profit for the 9 months of 2017 amounted to UAH 763.712 mln. The Agency draws attention that even in the crisis periods for the banking system PJSC "CITIBANK" reported a net profit that reconfirms a high-quality business model the Bank established and follows in Ukraine and that is capable to avoid the impact of specific risks. This factor also had a positive impact on a long-term credit rating of the Bank.

APPENDIX A

Use limitations on the rating report

The credit rating of the Rating agency "Expert-Rating" is an opinion of analysts, which reflects the ability of the issuer (securities) to comply with financial obligations. Credit ratings are of probabilistic nature and therefore, cannot be a recommendation to buy or sell securities or to use services of the issuer, bank, insurer. When assigning and maintaining ratings and rating outlooks RA "Expert Rating" relies on actual information which the Agency receives from issuers and underwriters and from other sources that the Agency considers reliable. The issuer, its auditor and underwriter, as well as other consultants are responsible for the accuracy of the information they provide to RA "Expert-Rating" or publish in accordance with requirements of current legislation.

RA "Expert-Rating" does not evaluate the risks associated with relations of issuers, banks, insurers with NBU NSSMC, Natskomfinposluh and tax authorities, if the Unified State Register of court decisions or other public sources that are credible, contain no facts that indicate the possible non-compliance of the issuers, banks, insurers with the regulator requirements that threaten the loss of their ability to pay. RA "Expert-Rating" does not assess the probable outcome of litigations between the issuer and its contractors, between the issuer and the state. RA "Expert-Rating" does not assess the political, military and natural risks, the impact development of which does not depend or weakly depends on the Agency, the client or the Government of Ukraine. This limitation is an integral part of any rating report.

Long-term credit rating is assigned according to the national scale, approved by the Cabinet of Ministers of Ukraine Resolution № 665 dated April 26, 2007.