

### Research Update:

## Citigroup Inc. Outlook Revised To Negative From Stable; Ratings Affirmed, Hybrid Capital Issues Upgraded

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## Research Update:

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## Overview

- We believe there is increased uncertainty about the U.S. government's willingness to provide additional extraordinary support to highly systemically important financial institutions in a way that will benefit debt holders.
- We are revising our outlook on Citigroup to negative from stable and affirming the ratings.
- We are also raising our hybrid capital issue ratings (excluding preferred stock ratings) on Citigroup.
- We believe Citigroup's stand-alone position has improved.

## Rating Action

On Feb. 9, 2010, Standard & Poor's Ratings Services revised its outlook on Citigroup Inc. (Citi) to negative from stable. At the same time, we affirmed our counterparty credit and debt ratings on Citi (A/A-1; holding company). In light of what we view as improved stand-alone characteristics, we raised the ratings on its hybrid capital issues to 'BB-' from 'B+' (excluding its preferred stock, which we affirmed at 'C').

## Rationale

The outlook revision reflects our increased uncertainty about the U.S. government's willingness to provide additional extraordinary support to highly systemically important financial institutions in a way that will benefit debt holders. We previously stated our belief that the extraordinary support was temporary. We believe markets are beginning to stabilize and the U.S. government is seeking ways to reduce the potential for moral hazard and systemic risk associated with large financial institutions.

One such effort to reduce these risks is evident in the House bill (H.R. 4173) passed in mid-December that would specifically preclude the government from making company-specific bailouts, and would allow it to use public funds to assist in winding down an ailing financial institution only if that entity's debt holders incurred losses (see "Potential Legislation Could Constrain Government Support to Financial Institutions And Affect Ratings On Financial Institutions," published Dec. 16, 2009, on RatingsDirect). The subsequently proposed Financial Crisis Responsibility Fee, which would impose a significant cost burden on the largest banks, further underscores the extent to which the political climate may affect bond holders of these companies adversely. If such legislation were enacted in the form that has been

proposed, it could cause us to revise the analytical basis we currently use for imputing extraordinary government support in our ratings on Citi and other highly systemically important financial institutions.

At the same time, we recognize the improvement in Citi's stand-alone credit profile. Accordingly, we now enhance the rating by three notches to reflect the potential for additional support, compared to the four notches we had indicated previously. We continue to assume that the U.S. government will support highly systemically important financial institutions such as Citi at the 'A' holding company rating level. Given what we view as improvement in Citi's stand-alone credit profile, removal of extraordinary government support as a rating factor could result in a downgrade of Citi, but to a lesser extent than under prior scenarios.

The upgrade of Citi's hybrid capital issues reflects our view of the improvement in Citi's stand-alone credit profile. We believe that the risks to hybrid issue investors are diminished given Citi's improved capital position and significantly lower reliance on hybrid capital, compared to one year ago. We affirmed our 'C' rating on Citi's approximately \$320 million of preferred stock, on which dividends continue to be suspended.

During the past year, we believe Citi has made significant strides in improving its capital adequacy by completing a large-scale hybrid capital exchange offer (in third-quarter 2009), various asset sales, and common stock issuances. At the same time, Citi's financial flexibility has benefited not only from an improved funding environment, but from the company's downsized asset base, growth in deposits, and conservative liquidity management. Although Citi remained unprofitable in fourth-quarter 2009, we believe it should be able return to profitability within the next few quarters, as credit pressures abate. Longer-term, we expect Citi to be able to sustain much more solid financial performance than in 2007-2009, given a more conservative risk appetite in its trading operations, a more cautious approach to underwriting, and the extensive restructuring and cost cutting it has been pursuing.

## Outlook

The outlook is negative. Our rating on Citi continues to be enhanced, currently by three notches, to reflect the potential for additional extraordinary government support, should this be necessary. Ultimately, the counterparty credit rating and stand-alone creditworthiness may converge at the current stand-alone profile level (if it became necessary to remove enhancement for government support as a rating factor and we saw no apparent additional improvement in Citi's stand-alone credit profile); converge at the level of the current issuer credit rating (if there were very substantial improvement in Citi's stand-alone credit profile); or end up somewhere in between (with a combination of weaker government support and some improvement in the stand-alone credit profile).

We are uncertain whether Citi will be able to show sufficient additional improvement in its operating performance and profitability over the next two years to benefit its stand-alone credit profile and narrow the current gap between the counterparty credit rating--which incorporates our assessment of potential extraordinary government support--and its stand-alone creditworthiness.

Standard & Poor's Ratings Services will hold a telephone conference call on Feb. 9, 2010, at 11:00 a.m. Eastern Time that will include a discussion of this rating action. The live dial-in numbers for this call are: for the U.S., Canada, and all others, 1-210-795-1098; for the U.K., 44-20-7108-6248. The conference ID is 1837776, and the passcode is SANDP.

## Related Research

- "External Support Key In Rating Private Sector Banks Worldwide," Feb. 27, 2007
- "Credit FAQ: External Support In Bank Ratings," March 9, 2007
- "How Systemic Importance Plays A Significant Role In Bank Ratings," July 3, 2007

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Citigroup Inc.		
Citigroup Japan Holdings Corp.		
Citigroup Global Markets Inc		
Citigroup Global Markets Holdings Inc.		
Counterparty Credit Rating	A/Negative/A-1	A/Stable/A-1

Citibank (South Dakota) N.A., Sioux Falls

Citigroup Pty Ltd.

Citibank N.A. New York, NY

Citibank N.A. (Canadian Branch)

Citibank Japan Ltd.

Citibank International PLC

Citibank Europe PLC

Counterparty Credit Rating	A+/Negative/A-1	A+/Stable/A-1
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Upgraded

	To	From
Citigroup Inc.		
Preferred Stock	BB-	B+
Citigroup Cap XIV		
Preferred Stock*	BB-	B+
Citigroup Cap XV		
Preferred Stock*	BB-	B+
Citigroup Cap XVIII		
Preferred Stock*	BB-	B+
Citigroup Capital III		
Preferred Stock*	BB-	B+

Citigroup Capital IX Preferred Stock*	BB-	B+
Citigroup Capital VII Preferred Stock*	BB-	B+
Citigroup Capital VIII Preferred Stock*	BB-	B+
Citigroup Capital X Preferred Stock*	BB-	B+
Citigroup Capital XI Preferred Stock*	BB-	B+
Citigroup Capital XIX Preferred Stock*	BB-	B+
Citigroup Capital XVI Preferred Stock*	BB-	B+
Citigroup Capital XVII Preferred Stock*	BB-	B+
Citigroup Capital XX Preferred Stock*	BB-	B+
Citigroup Capital XXI Preferred Stock*	BB-	B+

Ratings Affirmed

Banco Citibank S.A.		
Counterparty Credit Rating		
Foreign Currency	BBB-/Stable/A-3	
Local Currency	brAAA/Stable/brA-1	

Banco Nacional de Mexico, S.A. (Banamex)		
Counterparty Credit Rating		
Foreign Currency	BBB/Stable/A-3	
Local Currency	mxAAA/Stable/ mxA-1+	
Certificate Of Deposit	BBB/A-3	

Bank Handlowy w Warszawie S.A. (Unsolicited Ratings)		
Counterparty Credit Rating		
Local Currency	BBBpi/--/--	

Citibank (South Dakota) N.A., Sioux Falls  
 Citibank N.A. New York, NY

Citibank N.A. (Canadian Branch)	
Certificate Of Deposit	
Local Currency	A+/A-1
Citibank Europe PLC	
Citibank Japan Ltd.	
Certificate Of Deposit	A+/A-1
Citibank Korea Inc.	
Counterparty Credit Rating	BBB+/Stable/A-2
Certificate Of Deposit	BBB+/Stable/A-2
Citibank N.A. (Uruguay Branch)	
Counterparty Credit Rating	
Foreign Currency	BB-/Stable/B
Local Currency	uyAAA/Stable/--
Certificate Of Deposit	BB-/B
Citigroup Pty Ltd.	
Certificate Of Deposit	
Foreign Currency	A+/A-1
Citigroup Inc.	
Senior Unsecured	A
Senior Unsecured**	AAA
Subordinated	A-
Preferred Stock	C
Commercial Paper	A-1
Associates Capital Corp PLC	
Senior Unsecured*	A
Commercial Paper*	A-1
Associates Finance Inc.	
Commercial Paper*	A-1
Associates First Capital Corp.	
Senior Unsecured*	A
Subordinated*	A-
Commercial Paper*	A-1
Banco Nacional de Mexico, S.A. (Banamex)	
Senior Unsecured	mxAAA/Stable
CitiFinacial Credit Corp	
Senior Unsecured*	A
Commercial Paper*	A-1
Citibank Canada	
Commercial Paper***	A-1

Commercial Paper***	A-1 (MID)
Citibank International PLC	
Senior Unsecured	A+
Citibank N.A. (Canadian Branch)	
Commercial Paper	A-1
Commercial Paper	A-1 (MID)
Citibank N.A. New York, NY	
Senior Unsecured**	AAA
Citigroup Finance Canada Inc.	
Senior Unsecured*	A
Commercial Paper*	A-1
Commercial Paper*	A-1 (MID)
Citigroup Funding Inc.	
Senior Unsecured*	A
Senior Unsecured**	AAA
Senior Unsecured*	Ap
Subordinated*	A-
Commercial Paper*	A-1
Citigroup Global Markets Holdings Inc.	
Senior Unsecured*	A
Subordinated*	A-
Commercial Paper*	A-1
Citigroup Global Markets Inc	
Commercial Paper	A-1
Citigroup Japan Holdings Corp.	
Senior Unsecured	A
Citigroup Netherlands B.V.	
Commercial Paper*	A-1
Citigroup Pty Ltd.	
Senior Unsecured	A+
Senior Unsecured****	AAA
Short-Term Debt****	A-1+
Safety First Trust Series 2006-1	
Senior Unsecured*****	A
Targets Trust XXV	
Senior Unsecured*	A
Targets Trust XXVI	

Senior Unsecured*	A
Washington Mutual Finance Corp.	
Senior Unsecured*	A
Commercial Paper*	A-1

\*Guaranteed by Citigroup Inc.

\*\*Guaranteed by Federal Deposit Insurance Corp.

\*\*\*Guaranteed by Citibank N.A. New York, NY

\*\*\*\*Guaranteed by the Commonwealth of Australia

\*\*\*\*\*Guaranteed by Citigroup Funding Inc.

NB: This list does not include all ratings affected.

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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