

# HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

## REVIEW OF THE FOUR MAJOR BANKS

### Citi Australia

**CAB03QW: A copy of the valuation policies that the bank applies to:**

- (a) infrastructure investments.**
- (b) large commercial investments or like commercial investments, including definitions that lead to their classification as a large commercial or like commercial investments.**

**Answer:**

The policies referred below are Citi global policies. These policies are subject to strict confidentiality requirements, and the responses below cover that part of policies which address valuation.

**(a) Infrastructure investments**

Citi's business in Infrastructure involves advising clients on mergers, acquisition and financing. Financing involves the raising of equity and debt capital from third party investors and lending to infrastructure companies and projects. Citi does not own infrastructure assets in its own right except in the unlikely situation of a lending position that has been converted to equity. Lending commitments may range from short dated exposures to longer term (10 year +) project finance.

As a lender to business, Citi's principal focus is ensuring there is sufficient cash flow to repay the debt. Citi's policies determine whether a particular situation requires a valuation to be undertaken e.g. leverage lending, project finance. Where valuations are required, there are no fixed policies for how the valuation is to be undertaken but typically the cash flow model is used. The guidelines on valuations are contained in our "rules for governing the extension of credit" document which is part of our wider and extension risk policy.

**(b) Commercial Real Estate**

Citi's Real Estate business includes advising clients on mergers, acquisitions and corporate finance. Corporate Finance involves the raising of equity and debt capital from both public market and private investors and lending to both listed and unlisted owners and operators of commercial properties.

Citi's Real Estate Appraisal and Valuation Policy is commercially sensitive and commercial in confidence. The Policy establishes standards to ensure that Citi's real estate appraisal and evaluation program:

- provides timely market valuations of real estate consistent with the principles of safe and sound banking practices;
- Operates the appraisal functions in an environment independent of the business loan production process;
- Adheres to the laws, regulations and guidelines governing real estate appraisals and evaluations;
- Maintains the professional standards for individuals associated with the appraisal and evaluation function;
- Selects, evaluates and monitors the performance of individuals who perform real estate appraisals and review as part of a vendor management program; and
- Maintains confidentiality of appraisal reports or reviews.

Citi's Office of the Chief Appraiser (OCA) is the independent appraisal function within Risk Management with responsibility for the oversight of Citi's real estate appraisal and evaluation program and the monitoring of real estate market conditions and the regulatory environment. The OCA includes licensed or certified real estate appraisers or other OCA Delegates who are independent of the business loan production process. Upon completion of the final appraisal review process or conclusion of an OCA appraisal/valuation, the value estimate set forth by OCA shall be deemed the Appraised Value.

Real estate appraisals must be performed by qualified individuals for specific Citi real estate-related financial transactions:

- (1) the sale, lease, purchase, investment, in or exchange of real property, including interests in property, or the financing thereof; or
- (2) the refinancing of real property or interests in real property; or
- (3) the use of real property or interests in property as security for a loan or investment, including mortgage backed securities.