



Citi UK FSA regulated legal vehicles

Pillar 3 Disclosures

31 December 2008

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1. Overview

The Capital Requirements Directive, which came into effect on 1 January 2007 and which implements the provisions of Basel II in the EU, established a framework of capital adequacy regulation for banks and investment firms incorporating three distinct pillars. Pillar 1 prescribes the minimum capital requirements for such firms, Pillar 2 addresses the associated supervisory review process and Pillar 3 specifies further public disclosure requirements in respect of their capital and risk profile.

The disclosures in this document have been made in accordance with the Pillar 3 requirements laid out in Chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU 11). Citi will update these disclosures annually as at its accounting year end of 31 December, and will assess the need for more frequent disclosures should market and business conditions so warrant. Unless otherwise stated, all figures are as at 31 December 2008.

The scope of these disclosures includes the UK regulated firms listed in the following table. In accordance with the FSA's requirements set out in BIPRU 11.2, the focus of the disclosures is on EEA parent institutions and firms which are significant subsidiaries of EEA parent institutions.

Legal vehicle	Consolidation basis	Principal activity
Citigroup Global Markets Europe Limited (CGMEL)	consolidated	Holding company
Citigroup Global Markets Limited (CGML)	unconsolidated	Investment firm
Citigroup Global Markets U.K. Equity Limited (CGMUKE)	unconsolidated	Investment firm
Citibank Investments Limited (CIL)	consolidated	Holding company
Citibank International plc (CIP)	solo consolidated	Wholesale & retail bank
CitiFinancial Europe plc (CFE)	unconsolidated	Retail bank
Egg Banking plc (Egg)	unconsolidated	Retail bank
Future Mortgages Limited (FML)	unconsolidated	Mortgage lender
CSO Partners Limited (CSO)	unconsolidated	Investment manager
Phibro Limited (Phibro)	unconsolidated	Investment firm

The disclosures have been published in the Investor Relations section of the company's website and complement the group level materials included in the Citigroup 2008 Annual Report.

The basis of consolidation of each legal entity for prudential reporting purposes is as described above. Reporting for CIP makes use of the provisions of BIPRU 2.1 (solo consolidation). We are aware of no material practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities among these entities, beyond the normal requirements imposed by company and other legislation.

All legal vehicles contain capital resources which are comfortably above the statutory minimum requirements.

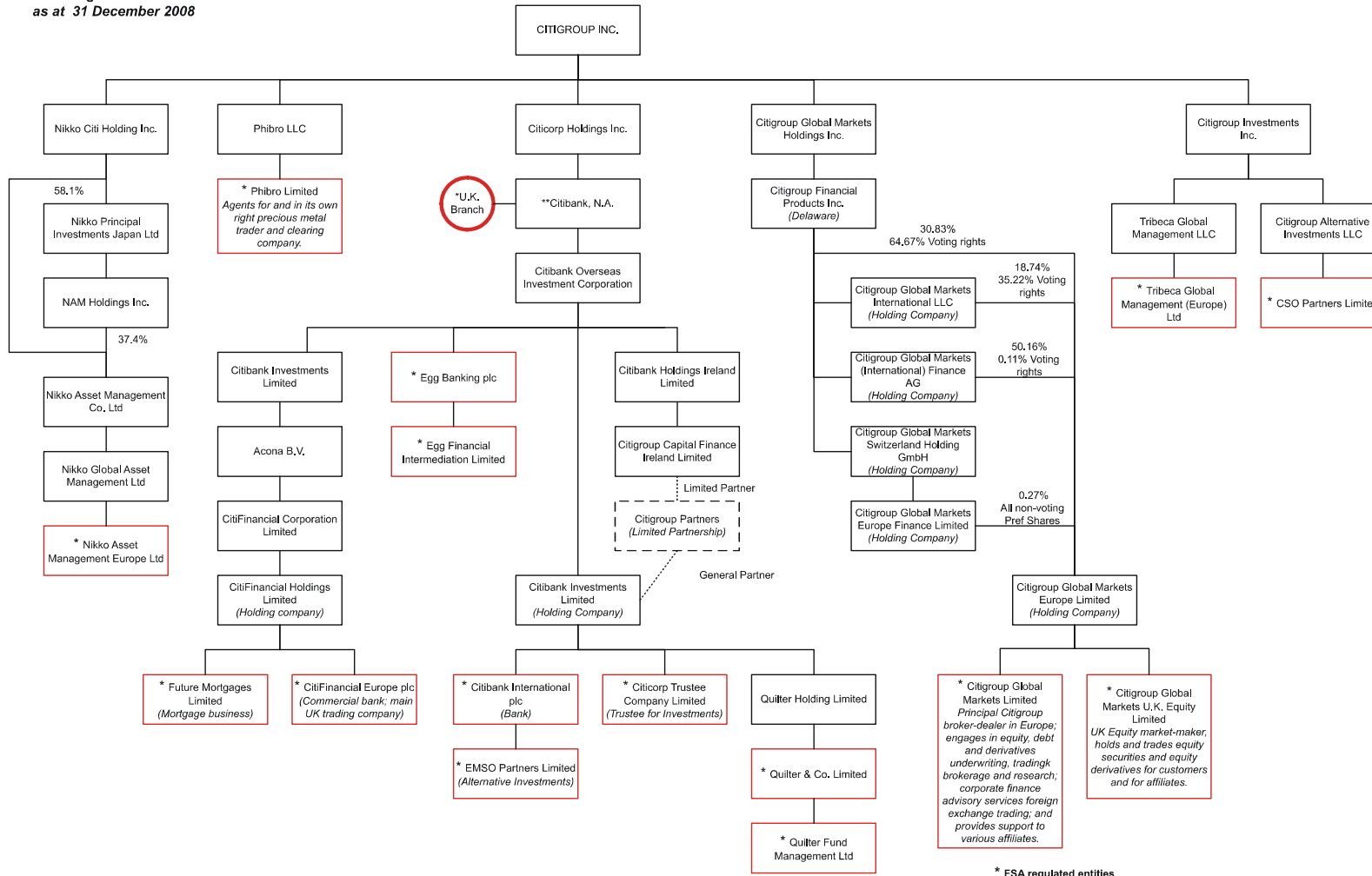
Please note that Pillar 3 disclosures for Nikko Asset Management Europe Limited may be obtained from the registered office of the company at 1 London Wall, London EC2Y 5AD.

The following disclosures have been prepared purely for explaining the basis on which Citi has prepared and disclosed information about capital requirements and the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any investment or judgement on the group.

The organisation chart below provides an abbreviated summary of the ownership structure of Citi's FSA regulated legal vehicles as at 31 December 2008.

EMEA STRUCTURE CHART
Extract from England chart

FSA Regulated entities
as at 31 December 2008



* FSA regulated entities
**Regulated by the FSA, the Office of the Comptroller of Currency, the Federal Reserve Bank of New York and the Federal Reserve Board

2. Risk Management Objectives and Policies

Effective risk management is of primary importance to the success of Citigroup. Accordingly, the firm has a comprehensive risk management process to monitor, evaluate and manage the principal risks it assumes in conducting its activities. These risks include credit, market, liquidity and operational, including legal and reputational, risks.

Citigroup's risk management framework is designed to balance corporate oversight with well-defined independent risk management functions.

Enhancements were made to the risk management framework throughout 2008 and continue to be made in 2009, based on guiding principles established by the Chief Risk Officer:

- A common risk capital model to evaluate risks;
- A defined risk appetite, aligned with business strategy;
- Accountability through a common framework to manage risks;
- Risk decisions based on transparent, accurate and rigorous analytics;
- Expertise, stature, authority and independence of risk managers; and
- Empowering risk managers to make decisions and escalate issues.

Significant focus has been placed on fostering a risk culture based on a policy of "Taking Intelligent Risk with Shared Responsibility, without forsaking Individual Accountability."

- Taking Intelligent Risk entails the careful identification, measurement and aggregation of risks, together with a full understanding of downside risks.
- Shared Responsibility relates to ownership of and influence on business outcomes, including risk controls.
- Individual Accountability requires being held accountable to actively manage risk.

The Chief Risk Officer, working closely with the Citi CEO, established management committees and our board of directors, is responsible for:

- establishing core standards for the management, measurement and reporting of risk;
- identifying, assessing, communicating and monitoring risks on a company-wide basis;
- engaging with senior management and the board of directors on a frequent basis on material matters with respect to risk-taking activities in the businesses and related risk management processes; and
- ensuring that the risk function has adequate independence, authority, expertise, staffing, technology and resources.

Changes were made to the risk management organisation in 2008 to facilitate the management of risk across three dimensions: businesses, regions and critical products.

- Each of the major business groups has a Business Chief Risk Officer who is the focal point for risk decisions (such as setting risk limits or approving transactions) in the business.
- There are also Regional Chief Risk Officers, accountable for the risks in their geographic area, and who are the primary risk contact for the regional business heads and local regulators.
- In addition, the position of Product Chief Risk Officer was created for a number of key areas such as real estate, structured credit products and fundamental credit. The Product Risk Officers are accountable for the risks within their speciality areas across businesses and regions. The Product Risk Officers serve as a resource to the Chief Risk Officer, as well as to the Business and Regional Chief Risk Officers, to better enable the Business and Regional Chief Risk Officers to focus on the day-to-day management of risks and responsiveness to business flow.

In addition to changing the organisation to facilitate the management of risk across these three dimensions, the risk function also includes a newly created Business Management team to ensure that it has the appropriate infrastructure, processes and management reporting. This team includes:

- the Risk Capital group, which continues to enhance the risk capital model and ensure that it is consistent across all business activities;
- the Risk Architecture group, which ensures integrated systems and common metrics, thereby allowing the aggregation and stress testing of exposures across the institution;
- the Infrastructure Risk group, which focuses on improving operational processes across businesses and regions; and
- the office of the Chief Administrative Officer, which focuses on re-engineering, risk communications and relationships, including critical regulatory relationships.

It is risk management's responsibility to ensure that there is full identification of risks including aggregation, synthesis and communication across business lines to aid the identification of key focus positions which give rise to significant risk. In addition, risk management identifies and reports major credit, market, liquidity and operational risk exposures to ensure that these positions are appropriately monitored and controlled. These metrics should also aid risk decision making and capital allocation. In order to achieve these reporting and monitoring aims, the group seeks to ensure that appropriate analytical tools and resources are in place commensurate with the complexity and volumes of the business.

Credit Risk Management

The group uses a global risk reporting system to capture all forms of credit exposure to its wholesale counterparties. Retail exposure is handled by local systems specific to the

requirements of local consumer credit regulations. Retail portfolio information is also aggregated centrally to provide consistency of such portfolio information. In respect of counterparty risk, the group uses a simulation engine to calculate the potential future exposure from OTC derivatives.

The hedging of credit risk is discussed below in section 5.1.

Market Risk Management

Market Risk Management covers the price risk in the firm's trading and accrual portfolios and the liquidity risk of the organisation. There are policies in place governing the relevant methodologies for both types of risk. The calculated risk is then aggregated and reported on centralised risk systems as detailed below.

- Price Risk

For traded product price risk, all traded risk exposures are aggregated in the Global Market Risk (GMR) system daily. GMR is then used as the engine to calculate the firm's Value at Risk (VaR). Risk reports are then prepared by extracting the necessary data from GMR.

For accrual price risk, the risk is aggregated in the Artemis system. Accrual risk exposures are fed into Artemis and risk reports are prepared by extracting the necessary data from Artemis.

- Liquidity risk

Liquidity risk is also aggregated in Artemis. The business as usual Market Access Reporting (MAR) reports and Contingency Funding Plans for each legal vehicle are loaded into Artemis and risk reports are prepared by extracting the necessary data from Artemis.

Responsibility for hedging or otherwise mitigating market risk lies in the first instance with the business originating the risk. Risks taken must be commensurate with the risk appetite of the firm as set by senior management. The risk management function independently monitors trading risks via a comprehensive system of limits and triggers.

3. Capital Resources

Under the FSA's minimum capital standards, the regulated UK legal vehicles are required to maintain a prescribed excess of total capital resources over their capital resources requirements. Capital resources are measured and reported in accordance with the provisions of Chapter 2.2 of the FSA's General Prudential Sourcebook (GENPRU 2.2).

The entities' regulatory capital resources comprise three distinct elements:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings and capital reserves.
- Tier 2 capital, which includes qualifying long-term subordinated liabilities and may not exceed 50 per cent of tier one capital; and
- Tier 3 capital, which includes qualifying short-term subordinated liabilities and may not exceed 250 per cent of tier one capital.

Other deductions from capital include illiquid assets, certain securitisation positions and other regulatory items. This includes adjustments in respect of intangible assets and pension obligations.

The following table shows the regulatory capital resources of the main UK legal vehicles as at 31 December 2008.

Capital Resources

USD millions

31 December 2008	CGMEL	CGML	CGMUKE	CIL	CIP	CFE	Egg	FML*	CSO	Phibro
Tier 1 Capital Resources (excluding Innovative Tier 1 Capital)										
Core Tier 1 Capital										
Permanent share capital	920	1,150	92	1,490	2,567	413	658		12	14
Profit and loss account and other reserves	7,292	8,062	183	2,163	1,586	(67)	(101)		(2)	11
Share premium account	365	0	0	0	93	0	2		0	0
Other Tier 1 Capital										
Perpetual non-cumulative preference shares	1,046	350	0	0	0	0	0		0	0
Less: Intangible assets	0	0	0	(453)	(176)	(15)	0		0	0
Total Tier 1 Capital Resources (excluding Innovative Tier 1 Capital)	9,823	9,561	275	3,199	4,071	331	560	174	10	25
Innovative Tier 1 Capital Resources	0	0	0	0	0	0	0		0	0
Tier 2 Capital Resources										
Upper Tier 2 Capital Resources										
Upper tier 2 capital instruments	0	0	0	511	0	0	0		0	0
General/collective provisions	0	0	0	434	434	30	87		0	0
Lower Tier 2 Capital Resources										
Lower tier 2 capital instruments	1,200	1,200	0	1,192	635	111	657		0	0
Less: Excess on limits for lower tier 2 capital	0	0	0	0	0	0	(377)		0	0
Total Innovative Tier 1 and Tier 2 Capital Resources	1,200	1,200	0	2,138	1,069	141	367		0	0
Less: Deductions from the total of Tier 1 Capital and Tier 2 Capital										
Material holdings	0	0	0	0	0	(0)	0		0	0
Expected loss amounts and other negative amounts	0	0	0	0	0	0	(14)		0	0
Securitisation positions	0	0	0	(7)	(7)	0	0		0	0
Investments that are not material holdings or qualifying holdings	0	0	0	0	(51)	0	(5)		0	0
Total Tier 1 and Tier 2 Capital Resources after Deductions	11,023	10,761	275	5,330	5,081	471	908		10	25
Tier 3 Capital Resources										
Short term subordinated debt	8,280	7,980	300	0	0	0	0		0	0
Net interim trading book profit and loss	0	0	20	0	0	0	0		0	0
Total Tier 3 Capital Resources	8,280	7,980	320	0	0	0	0		0	0
Less: Deductions from Total Capital										
Illiquid assets	(433)	(381)	(21)	0	0	0	0		0	0
Free deliveries	(38)	(36)	(2)	(0)	0	0	0		0	0
Total Capital Resources, net of Deductions	18,832	18,324	572	5,330	5,081	471	908	174	10	25

* FML is regulated under the provisions of the Prudential Sourcebook for Mortgage and Home Finance Firms & Insurance Intermediaries

4. Capital Adequacy

The firm's UK legal vehicles comply with the Basel II Pillar 1 minimum capital requirements to ensure that sufficient capital is maintained to cover all relevant risks and exposures. For this purpose, the firm calculates capital charges for market risk in its trading book based upon a number of internal models and recognises a number of credit risk mitigation techniques in calculating the charges for credit risk.

To assess the adequacy of capital to support current and expected future activities, the firm produces regular capital forecasts for all the main vehicles, taking into account both normal business conditions and a variety of stressed scenarios. As part of this ongoing process, the firm maintains an ICAAP (Internal Capital Adequacy Assessment Process) document which reviews the firm's risk appetite, capital requirements and associated policies and procedures. This document, together with the capital forecasts, is presented quarterly to the firm's Pillar 2 Committee, which in turn reports to the UK Legal Vehicles Audit Committee at least semi-annually.

The following table sets out each entity's minimum capital requirements in respect of market risk, counterparty risk, concentration risk and operational risk as at 31 December 2008.

Minimum capital requirements in respect of market risk, counterparty risk, concentration risk and operational risk

USD millions	CGMEL	CGML	CGMUKE	CIL	CIP	CFE	Egg	FML*	CSO	Phibro
31 December 2008										
<u>Trading book</u>										
Interest rate PRR**	2,267	2,186	81	162	162					
Equity PRR	675	602	73							
Option PRR	207	206	1	72	72					
Collective investment schemes PRR	272	270	2							
Counterparty risk capital component	4,987	5,003	77	61	61					
Concentration risk capital component	3,700	3,990	120							
Position, FX and commodity risk under internal models	598	598								
<u>All businesses</u>										
Commodity PRR	470	470		6	6					
Foreign currency PRR	188	183	5	3	3				1	
Operational risk capital requirement***	863	800	128	200	213	56	73			1
TOTAL	14,227	14,308	487	504	517	56	73		1	1

* *FML is regulated under the provisions of the Prudential Sourcebook for Mortgage and Home Finance Firms & Insurance Intermediaries*

** *PRR (Position Risk Requirement) is a measure of minimum capital requirements in respect of market risk.*

*** *All legal vehicles are subject to the Advanced Measurement Approach (AMA) for operational risk. However, as at 31 December 2008, Egg was subject to the Standardised Approach.*

The following table shows each entity's minimum capital requirements for credit risk under the standardised approach at 31 December 2008, at 8% of the risk weighted exposure amounts for each of the standardised credit risk exposure classes. Please note that capital requirements in respect of counterparty risk are included in the previous table.

Minimum capital requirements in respect of credit risk under the standardised approach

USD millions	CGMEL	CGML	CGMUKE	CIL	CIP	CFE	Egg	FML*	CSO	Phibro
31 December 2008										
Central governments & central banks				1	1					
Regional governments & local authorities										
Administrative bodies/non commercial undertakings				15	15					
Multilateral development banks										
International organisations										
Institutions	112	121	2	108	88	16	4		1	2
Corporates	4	3		1,958	1,890	3	4			
Retail				494	380	98	345			
Real estate property				83	7	1	57			
Past due items				37	20	7	6			
Regulatory high risk categories										
Covered bonds										
Securitisation positions				20	20					
Short term institutions & corporates				29	29		47			
Collective Investment Undertakings										
Other	5	4		60	39	12	22			
TOTAL	121	128	2	2,805	2,488	137	485		1	2

* FML is regulated under the provisions of the Prudential Sourcebook for Mortgage and Home Finance Firms & Insurance Intermediaries

5. Credit Risk

5.1 Credit Risk Management

Credit Risk Management Process

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in many of Citigroup's business activities, including:

- lending;
- sales and trading;
- derivatives;
- securities financing;
- settlement; and
- when Citigroup acts as an intermediary on behalf of its clients and other third parties.

Corporate Credit Risk

For corporate clients and investment banking activities across the organisation, the credit process is grounded in a series of fundamental policies, including:

- joint business and independent risk management responsibility for managing credit risks;
- a single centre of control for each credit relationship that coordinates credit activities with that client;
- portfolio limits to ensure diversification and maintain risk/capital alignment;
- a minimum of two authorised credit officer signatures are required on extensions of credit, one of which must be from a credit officer in credit risk management;
- risk rating standards, applicable to every obligor and facility;
- consistent standards for credit origination documentation and remedial management; and
- appropriate loan loss reserves.

Consumer Credit Risk

Within Global Cards and Consumer Banking, credit risk management is responsible for establishing the Global Cards and Consumer Banking Credit Policy, approving business-specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risk, ensuring the appropriate level of loan loss reserves and approving new products and new risks.

Counterparty Risk

The risk that a counterparty will not fulfill its financial obligations is fundamental to the bank's management of counterparty credit risk. The process for approving a counterparty's risk exposure limits is two-fold: guided by the core credit policies, procedures and standards and the experience and judgment of credit risk professionals. These credit policies are applied across the firm's Institutional Client Group (ICG) businesses.

Credit Risk Principles, Policies and Procedures typically require a comprehensive analysis of the proposed credit exposure or transaction, review of external agency ratings (where appropriate), financial and corporate due diligence including support, management profile and qualitative factors.

The responsible credit officer completes a review of the financial condition of the counterparty to determine the client's business needs and compare that to the risk that Citi might be asked to extend. During consideration of a credit extension, the credit officer will assess ways to mitigate the risk through legal documentation, support or collateral.

Once the analysis is completed and the product limits are determined, anti-tying and franchise risk is reviewed, then the approval process takes place. The total facility amount, including direct, contingent and pre-settlement exposure, is aggregated and the credit officer reviews the approved tables within policy that appoints the appropriate level of authority that needs to review and approve the facility. Every extension of credit must be approved by at least two credit officers.

Credit Risk Monitoring analysts conduct daily exception monitoring versus limits and any resulting issues are escalated to credit officers, and potentially to business management.

Credit Risk Mitigation

As part of its risk management activities, the firm uses various risk mitigants to hedge portions of the credit risk in its portfolio, in addition to outright asset sales.

The utilisation of collateral is of critical importance in the mitigation of risk. In house legal counsel, in consultation with approved external legal counsel, will determine whether collateral documentation is enforceable and gives the firm the right to liquidate or take possession of collateral in a timely manner in the event of the default, insolvency, bankruptcy or other defined credit event of the obligor.

In house legal counsel will also approve relevant jurisdictions and counterparty types for netting purposes. Off-balance sheet netting and netting of the collateral against the exposure is permitted if legal counsel determine that we have these rights.

Netting is generally permitted for the following types of transaction:

- Securities Finance Transactions (SFTs)
- Over The Counter (OTC) derivative transactions
- In some cases, certain margin loans and/or margin lending transactions subject to Margin Loan Agreements

Over 97.5% of the collateral taken by CGML against OTC derivative exposures is in cash. In respect of SFTs, the majority of the collateral is in the form of cash, long-term debt securities rated one category below investment grade or better, investment grade short-term debt securities and public equity securities, although occasionally, with appropriate agreement, other forms of collateral may be accepted.

Impairment

Corporate loans are identified as impaired and placed on a non-accrual basis (cash-basis) when it is determined that the payment of interest or principal is doubtful or when interest or principal is past due for 90 days or more; the exception is when the loan is well secured and in the process of collection. Impaired corporate loans are written down to the extent that principal is judged to be uncollectible. Impaired collateral-dependent loans are written down to the lower of cost or collateral value, less disposal costs.

Impairment is described in more detail in Section 5.3.

Internal Economic Capital

Counterparty risk exposure is included in our economic capital model by converting the current mark plus potential future exposure to a counterparty into a one year loan equivalent, aggregating this with other direct and indirect exposure and allocating economic capital based on the perceived credit quality of the obligor.

Credit Valuation Adjustments

Credit Valuation Adjustments (CVAs) are applied to OTC derivative instruments, in which the base valuation generally discounts expected cashflows using LIBOR interest rate curves. Because not all counterparties have the same credit risk as that implied by the relevant LIBOR curve, a CVA is necessary to incorporate the market view of both counterparty credit risk and the firm's own credit risk in the valuation.

The Company's CVA methodology comprises two steps. First, the exposure profile for each counterparty is determined using the terms of all individual derivative positions and a Monte-Carlo simulation or other quantitative analysis to generate a series of expected cash flows at future points in time. The calculation of this exposure profile considers the effect of credit risk mitigants, including pledged cash or other collateral and any legal right of offset that exists with a counterparty through netting agreements. Individual derivative contracts that are subject to an enforceable master netting agreement with a

counterparty are aggregated for this purpose, since it is those aggregate net cash flows that are subject to non-performance risk. This process identifies specific, point in time future cashflows that are subject to non-performance risk, rather than using the current recognised net asset or liability as a basis to measure the CVA. Second, market based views of default probabilities, derived from observed credit spreads in the credit default swap market, are applied to the expected future cash flows determined in step one. Own-credit CVA is determined using Citi-specific credit default swap (CDS) spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spread indices for each credit rating and tenor. For certain identified facilities where individual analysis is practicable (for example, exposures to monoline counterparties) counterparty specific CDS spreads are used.

The CVA adjustment is designed to incorporate a market view of the credit risk inherent in the derivative portfolio as required by relevant accounting standards. However, most derivative instruments are negotiated bilateral contracts and are not commonly transferred to third parties. Derivative instruments are normally settled contractually, or if terminated early, are terminated at a value negotiated bilaterally between the counterparties. Therefore, the CVA (both counterparty and own-credit) may not be realised upon a settlement or termination in the normal course of business. In addition, all or a portion of the CVAs may be reversed or otherwise adjusted in future periods in the event of changes in the credit risk of Citi or its counterparties, or changes in the credit mitigants (collateral and netting agreements) associated with the derivative instruments.

Citi has historically used its credit spreads observed in the CDS market to estimate the market value of its liabilities carried at fair value. Beginning in September 2008, Citi's CDS spread and credit spreads observed in the bond market (cash spreads) diverged from each other and from their historical relationship. Due to the persistence and significance of this divergence during the fourth quarter, management determined that such a pattern may not be temporary and that using cash spreads would be more relevant to the valuation of debt instruments (whether issued as liabilities or purchased as assets). As a result, Citi changed its method of estimating the market value of liabilities for which the fair-value option was elected to incorporate Citi's cash spreads.

Wrong way risk

A number of the UK legal vehicles incur both general and specific wrong way risk in their business. In circumstances where there is material positive correlation in the credit quality of the counterparty and the value of the collateral, or any significant degree of dependence between the risk to the counterparty and that of the collateral, then this aspect of wrong way risk is reflected through an increased haircut factor. Other aspects of wrong way risk are monitored by credit and other analysis, such as the use of stress tests.

Credit ratings downgrade

Citi's UK legal vehicles are party to collateralised OTC derivative contracts in which a downgrade of the firm will give rise to the obligation to post additional collateral with the counterparty. In the instances where such an obligation exists, these are likely to apply only to contracts held on the books of CGML.

As CGML does not, itself, have an external risk rating, those few agreements which require CGML to provide additional collateral in the event of a downgrade refer to the external risk rating of Citigroup Inc. Citigroup Inc's risk rating is currently 'A' and the point at which a material amount of additional collateral could be required would be if the risk rating of Citigroup Inc were reduced a further 3 sub notches to "BBB". The actual amount of collateral which CGML would be required to provide to third parties in such an event depends on the net exposure to those counterparties at that time and varies according to the current market value of the contracts outstanding. However, in the event of such a downgrade it is estimated that the additional collateral which CGML would have to lodge would be less than 10% of the existing collateral pledged. No other UK entities have to pledge material amounts of collateral in respect of counterparty risk in the event of a downgrade.

5.2 Counterparty Risk

The following table summarises the counterparty credit risk exposures arising from OTC derivatives held by CGML, CGMUKE and CIP as at 31 December 2008, indicating the benefits of legally enforceable netting agreements and collateral arrangements.

USD millions	CGML	CGMUKE	CIP
31 December 2008			
Gross positive fair value of contracts	288,176	720	1,229
Netting benefits	(136,270)	(320)	(692)
Netted credit exposure	151,906	400	537
Benefits of modelling collateral	(99,214)	(292)	0
Net derivatives credit exposure	52,692	108	537

CGML uses a constant-covariance Monte-Carlo simulation of potential future exposure to determine an Expected Positive Exposure (EPE) measure as input to the firm's Exposure At Default (EAD) calculation under Pillar 1. The model is calibrated with historical volatilities subject to a set of independent internal validation and statistical backtesting standards. This constitutes a CCR internal model method in compliance with a waiver granted by the FSA in 2007. The model utilises a standard alpha multiplication factor of 1.4.

CGMUKE and CIP use the CCR mark to market method, also known as the Current Exposure Method. This assigns to each transaction a regulatory stipulated exposure based on the mark to market value and a measure of potential future exposure. Netting and margin may be recognised as credit risk mitigants provided they meet certain eligibility criteria. Please note that add-ons for potential future exposure are not included in the above table for these vehicles.

The table below sets out the notional value of CGML's CDS transactions as at 31 December 2008. CDS activity carried out by the other UK legal vehicles is not material.

USD millions	Protection Bought	Protection Sold
31 December 2008		
Index CDS	218,049	218,940
Single name and other CDS	546,088	540,837
Total	764,137	759,777

The above UK legal entities do not hold credit derivatives on their own books to hedge any material credit exposures. However, as indicated in section 9, Egg holds credit protection against a portfolio of asset backed securities.

5.3 Credit Risk

Credit Exposures

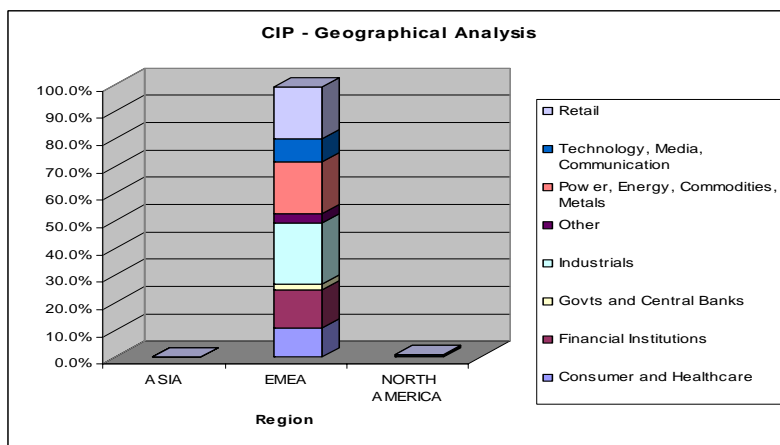
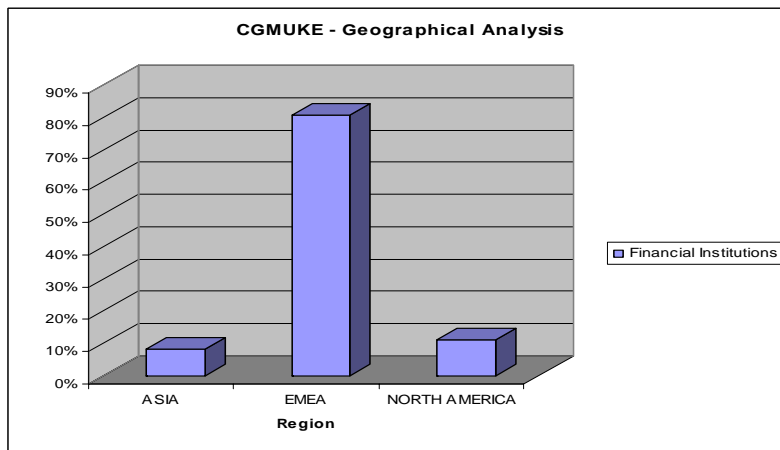
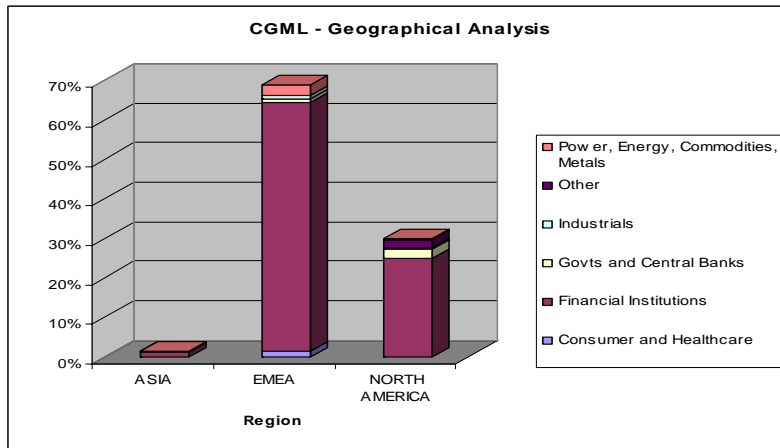
The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation as at 31 December 2008 are set out below for each major operating entity. These exposures include both banking book and trading book activity and have been calculated in accordance with the regulatory requirements applicable to the respective legal vehicles.

Please note that CGML's OTC derivative exposures covered by its internal model method are shown net of credit risk mitigation in the table below. Further information on the benefits of netting and collateral for these positions is shown in section 5.2.

Legal Vehicle	USD millions 31 December 2008	USD millions Average 2008
CGML	239,261	257,339
CGMUKE	4,738	8,039
CIP	68,208	65,798
Egg	11,961	12,193
CFE	2,308	2,353

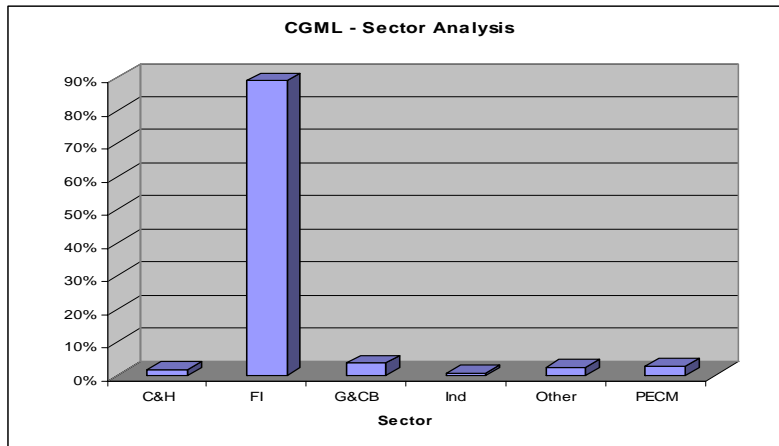
Credit risk breakdown by geography

The following charts set out the geographical distribution of credit exposures for CGML, CGMUKE and CIP as at 31 December 2008, broken down by sector. All credit exposures on Egg, CFE and FML are attributable to Europe, Middle East and Africa (EMEA).

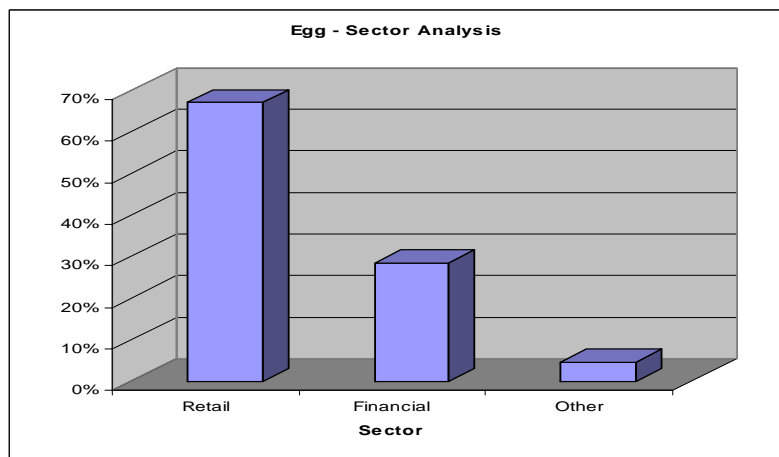
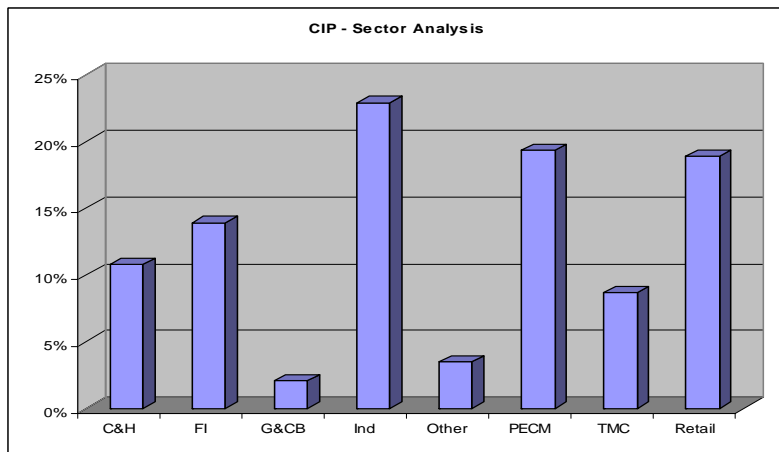


Credit risk breakdown by sector

The following charts set out the sector distribution of credit exposures for CGML, CIP and Egg as at 31 December 2008. All credit exposures on CGMUKE are within the Financial sector, all those on CFE within the Retail sector and all those on FML within the Real Estate sector.

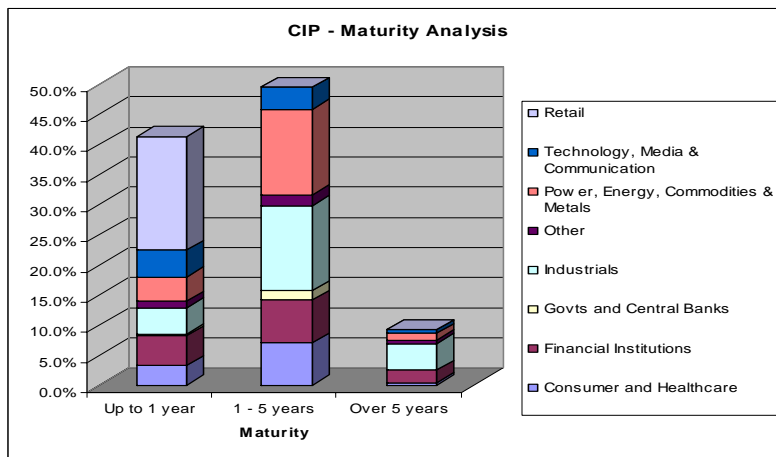
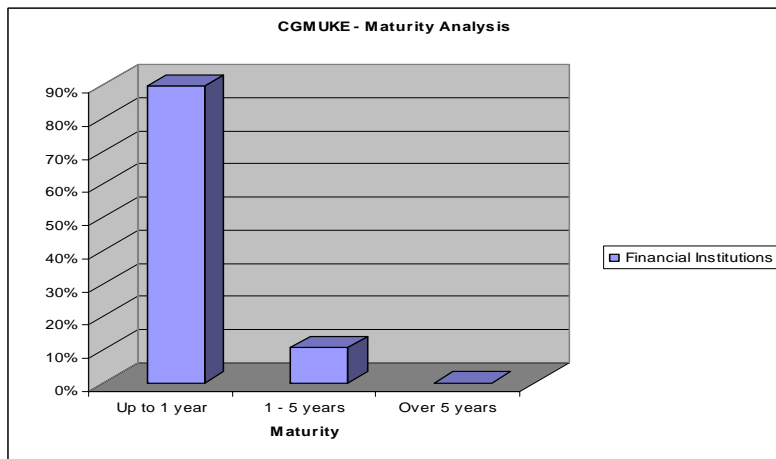
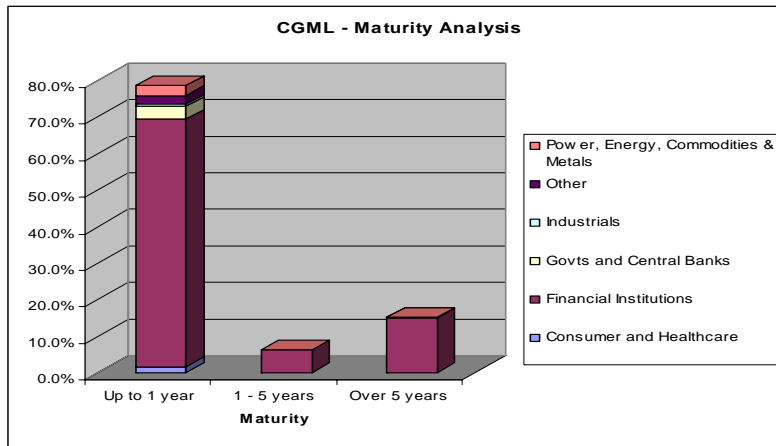


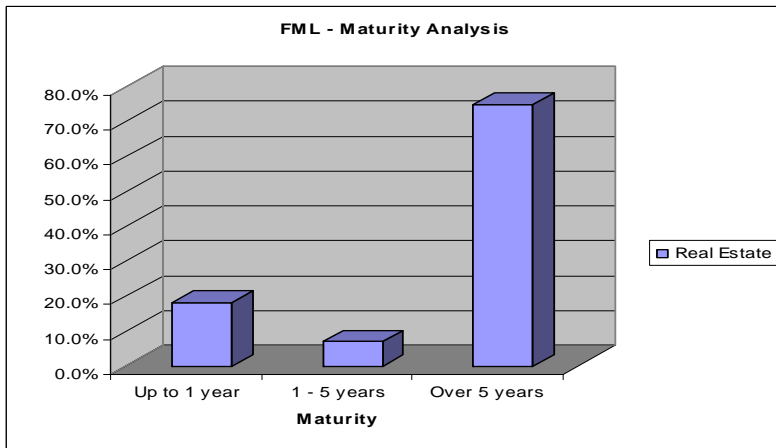
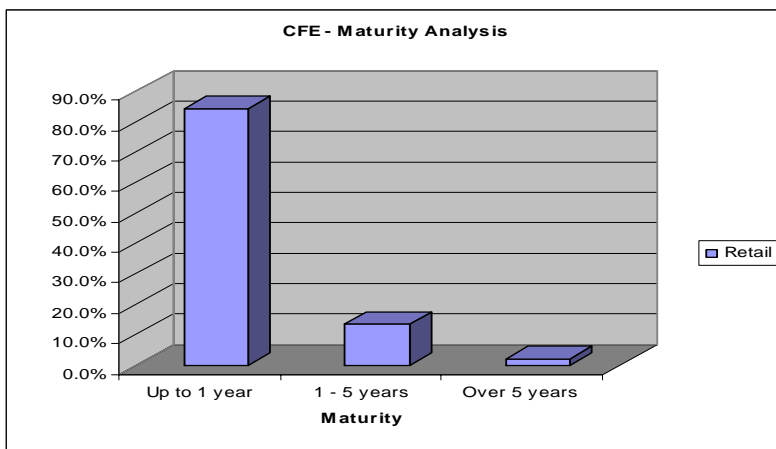
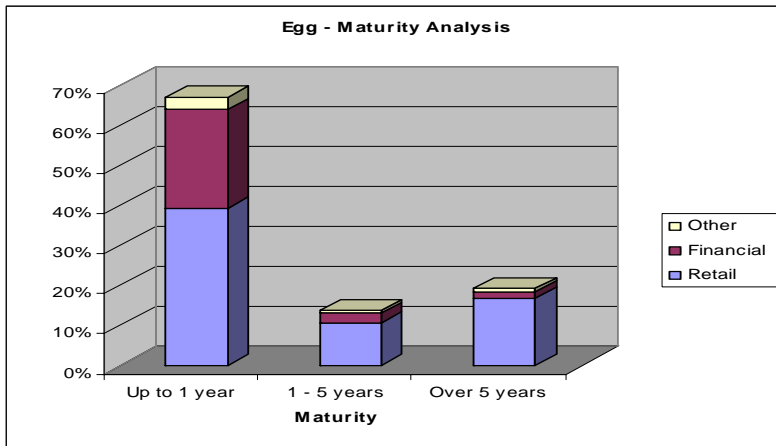
C&H	Consumer & Healthcare
FI	Financial Institutions
G&CB	Governments & Central Banks
Ind	Industrials
PECM	Power, Energy, Commodities & Metals
TMC	Technology Media & Communications



Credit risk breakdown by maturity

The following charts set out the residual maturity distribution of credit exposures for the main UK operating entities as at 31 December 2008, broken down by sector.





Please note that intercompany exposures are not included in the above charts for CGML, CGMUKE and CIP.

Impairment

Impairment of financial assets

The firm assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired on an ongoing basis (including at each balance sheet date). A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date (“a loss event”) and that loss event has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the firm about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - i) adverse changes in the payment status of borrowers in the portfolio; and
 - ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The firm first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the firm determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and advances and for assets held to maturity the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows considering collateral, discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

Following impairment, interest income is recognised using the original effective interest rate which is used to discount the future cash flows for the purpose of measuring the impairment loss.

For the purposes of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics by using a grading process that considers obligor type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the likelihood of receiving all amounts due under a facility according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those of the group.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for assets held at amortised cost; however, impairment charges are recorded as the entire cumulative net loss that has previously been recognised directly in equity. Reversals of impairment of debt securities are recognised in the income statement. Reversals of impairment of equity shares are not recognised in the income statement. Increases in the fair value of equity shares after impairment are recognised directly in equity.

Wholesale Impairment

Rather than measuring delinquency for a wholesale customer or for a facility to that customer by the number of days past due, impaired wholesale credit exposures are classified as either:

- Substandard

A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor. Assets so classified must have a well defined weakness, or weaknesses, that jeopardise the timely repayment of its obligations;

- Doubtful

An asset classified as doubtful has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The value of the wholesale exposures in these categories as at 31 December 2008 was:

USD millions	CGML	CGMUKE	CIP
31 December 2008			
Substandard	1,394	0	2,230
Doubtful	67	0	203

Given the relatively small numbers of obligors which are classified as doubtful no further geographical or product analysis of these amounts is provided for reasons of materiality.

Retail Impairment

The retail exposure impairments and past due exposures for Citi's UK legal vehicles are shown in the table below. All retail exposures on CIP, Egg, CFE and FML are within Europe.

USD millions	CIP	Egg	CFE	FML
31 December 2008				
Real Estate	1	1,686	134	3,028
Retail	6,217	1,300	1,909	0
Total	6,218	2,986	2,043	3,028

The retail value adjustments and provisions for Citi's UK legal vehicles are shown in the table below.

USD millions	CIP	Egg	CFE	FML
31 December 2008				
Real Estate	0	12	0	53
Retail	489	965	130	0
Total	489	977	130	53

Movements in Impaired Exposures

For those assets held at cost, typically in the banking book, the table below shows the movement in impairments over the past year.

USD millions	CIP	CIP	Egg	Egg	CFE	FML
31 December 2008	Wholesale	Retail	Retail	Real Estate	Retail	Real Estate
Impairments at 1 January 2008	28	195	775	1	72	7
Exchange adjustments	0	92	0	0	0	0
Charge against profits	355	352	495	(3)	216	76
Amounts written off	(159)	(98)	(304)	14	(116)	(31)
Disposals	0	6	0	0	0	0
Recoveries	(2)	(60)	0	0	(42)	0
Other	(12)	2	0	0	0	0
Impairments at 31 December 2008	210	489	966	12	130	53

Where assets are held at fair value, typically in the trading book, part of the fair value movement relates to credit exposure. It is not always practicable to determine what portion of the fair value movement relates to credit exposures, and hence no such disclosure is provided for these assets.

5.4 Credit Quality Analysis

Standardised credit risk exposures

The nominated External Credit Assessment Institutions (ECAIs) used by the firm are Standard & Poor's, Moody's and Fitch. These are used for all credit risk exposure classes.

Credit assessments applied to items in the trading book and banking book alike are assigned in accordance with the requirements laid out in the FSA's BIPRU handbook, including the use of the credit quality assessment scale.

The credit quality assessment scale assigns a credit quality step to each rating provided by the ECAIs, as set out in the table below.

Credit Quality Step	Standard & Poor's	Moody's	Fitch
Step 1	AAA to AA-	Aaa to Aa3	AAA to AA-
Step 2	A+ to A-	A1 to A3	A+ to A-
Step 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
Step 4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
Step 5	B+ to B-	B1 to B3	B+ to B-
Step 6	CCC+ and below	Caa1 and below	CCC+ and below

Risk weightings are assigned to each exposure depending on its credit quality step and other factors, including exposure class and maturity. Exposures for which no rating is available are treated in a similar way to those under credit quality step 3. The table below sets out a simplified summary of how credit quality is linked to risk weighting.

Credit Quality Step	Governments and central banks	Corporates	Institutions > 3 months maturity
Step 1	0%	20%	20%
Step 2	20%	50%	50%
Step 3	50%	100%	50%
Step 4	100%	100%	100%
Step 5	100%	150%	100%
Step 6	150%	150%	150%

UK Legal Vehicle Pillar 3 disclosures



The following table sets out, for each major operating UK legal vehicle, the exposure values as at 31 December 2008 (before and after credit risk mitigation) associated with each credit quality step prescribed in the FSA's BIPRU handbook, as well as those exposures deducted from capital resources.

Note: Pre-credit risk mitigation is shown as Gross. Post-credit risk mitigation is shown as Net.

Credit quality step analysis of exposure before and after credit risk mitigation

USD millions 31 December 2008	Credit Quality Step	CGML Gross	CGML Net	CGMUKE Gross	CGMUKE Net	CIP Gross	CIP Net	Egg Gross	Egg Net	CFE Gross	CFE Net
Administrative bodies and non-commercial undertakings	1					53	53				
	4					168	168				
		-	-	-	-	221	221	-	-	-	-
Central governments or central banks	1	11,671	3,256			472	468	34	34		
	2	981	2			17	17				
	3	684	19								
	4					15	15				
	5					55	55				
	Unrated					957	957				
		13,336	3,277	-	-	1,516	1,512	34	34	-	-
Collective investment undertakings	Unrated	3,470	736	4	1						
		3,470	736	4	1	-	-	-	-	-	-
Corporates	1	1,894	589	99	18	1,079	1,079				
	2	2,676	2,158	50	14	4,810	4,810				
	3	445	445			3,895	3,895				
	4	7	7			334	334				
	5					400	400				
	Unrated		54,078	19,266	618	114	17,964	17,725			
		59,100	22,465	767	146	28,482	28,243	-	-	-	-
Institutions	1	44,805	22,544	600	128	31	27	149	149		
	2	90,043	30,578	2,860	772	25,924	527	40	40		
	3	473	128			229	229	27	27		
	4	312				38	38				
	5	114	114			33	33				
	Unrated		26,970	8,548	507	462	1,353	1,353			
		162,717	61,912	3,967	1,362	27,608	2,207	216	216	-	-
Multilateral development banks	1					337	337				
		-	-	-	-	337	337	-	-	-	-
Other items	1									3	3
	2					574	574			386	386
	Unrated									192	192
		-	-	-	-	574	574	-	-	581	581
Past due items	2					167	167				
	Unrated									60	60
		-	-	-	-	167	167	-	-	60	60
Retail	Unrated					6,306	6,306	8,921	8,921	1,645	1,645
		-	-	-	-	6,306	6,306	8,921	8,921	1,645	1,645
Secured on real estate property	Unrated					257	257			22	22
		-	-	-	-	257	257	-	-	22	22
Securitisation positions	1					-	-	204	204		
	2							12	12		
	Unrated					1,215	1,215				
	Deduction					7	7	14	14		
		-	-	-	-	1,222	1,222	230	230	-	-
Short term claims on institutions and coporates	1					1,399	1,399	1,498	1,498		
	2					94	94	1,062	1,062		
	4					25	25				
		-	-	-	-	1,518	1,518	2,560	2,560	-	-
Regional governments or local authorities	2	578	578								
	Unrated	60	52								
		638	630	-	-	-	-	-	-	-	-
Total		239,261	89,020	4,738	1,509	68,208	42,564	11,961	11,961	2,308	2,308

5.5 Credit Risk Mitigation

Credit risk mitigation is of vital importance to Citigroup in the effective management of its counterparty and credit risk exposures. As indicated elsewhere in this disclosure, netting, collateral and other techniques have a material beneficial impact on the level of such risks borne by the organisation. The following paragraphs contain more information on our policies and procedures in this area.

Valuation

Collateral valuations and revaluations must be completed daily for SFTs, OTC derivatives and margin lending by the various operations units and collateral/margin departments. Collateral haircuts are applied in a number of circumstances, such as where there is a material positive correlation between the credit quality of the counterparty and the value of the collateral, or where there are currency or maturity mismatches. The firm has sound and well managed systems and procedures for requesting and promptly receiving additional collateral for transactions whose terms require maintenance of collateral values at specified thresholds as documented in the respective legal agreements.

Reporting

The firm has procedures in place to ensure that appropriate information is available to support the collateral process and that timely and accurate margin calls feed correctly into the margin applications from upstream systems. Key to the process is a daily credit exposure report as well as reports identifying counterparties that have not met their requirement for additional collateral to satisfy specified initial margin amount and variation margin thresholds. In addition, there is firmwide risk reporting of counterparty exposures at an individual and an aggregated level.

Collateral Concentrations

Apart from the concentration of cash as the predominant form of collateral accepted in respect of margined OTC derivative transactions and sovereign government bonds within SFTs, there were no other material concentrations of collateral as at 31 December 2008.

Other Forms of Credit Risk Mitigation

The firm has specific policies in place for determining the reliance on full Citigroup related entity support for obligor exposure as well as, under certain defined conditions, reliance on less than full support. The companies covered by this disclosure do not generally use credit derivatives to mitigate their own counterparty risk exposure, but Citi does use credit derivatives for this purpose when exposure is viewed at a global level, and such hedging is carried out by certain US affiliate companies. Further details are set out in Citigroup's 10K disclosure. However, certain credit exposures within the UK legal vehicles are mitigated by US affiliates, either in the form of guarantees or credit derivatives.

Exposures

The following table sets out the exposures covered by credit risk mitigation in the calculation of risk weighted assets under the standardised approach for each major operating legal vehicle. The table does not include the benefits of modelling collateral in respect of OTC derivatives exposures covered by CGML's internal model method, which are described elsewhere in this disclosure.

USD millions	CGML	CGMUKE	CIP	Egg	CFE
31 December 2008					
Covered by eligible financial collateral:					
Central governments or central banks	10,058				
Collective investment undertakings	2,734	3			
Corporates	36,643	621		7	
Institutions	100,797	3,076		48	
Regional Governments	8				
Covered by guarantees or credit derivatives:					
Institutions	5,399		317	218	380
Total	155,639	3,700	317	273	380

6. Market Risk

The market risk capital requirements of the UK legal vehicles are summarised in Section 4 (Capital Adequacy). For a number of the legal vehicles supporting Citi's wholesale business in the UK, market risk is responsible for a significant proportion of the entities' overall capital requirements.

Price risk in trading portfolios is monitored by the firm using a series of measures, including:

- Factor sensitivities;
 - VaR; and
 - Stress testing
-
- Factor sensitivities are expressed as the change in the value of a position for a defined change in a market risk factor, such as a change in the value of a Treasury bill for a one-basis-point change in interest rates. Citigroup's independent market risk management ensures that factor sensitivities are calculated, monitored and, in most cases, limited, for all relevant risks taken in a trading portfolio.
 - VaR estimates the potential decline in the value of a position or a portfolio under normal market conditions. The VaR method incorporates the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors and is expressed as the risk to the firm over a one-day holding period, at a 99% confidence level. Citigroup's VaR is based on the volatilities of and correlations between a multitude of market risk factors, as well as factors that track the specific issuer risk in debt and equity securities.
 - Stress testing is performed on trading portfolios on a regular basis to estimate the impact of extreme market movements. It is performed on both individual trading portfolios, as well as on aggregations of portfolios and businesses. Independent market risk management, in conjunction with the businesses, develops stress scenarios, reviews the output of periodic stress testing exercises and uses the information to make judgements as to the ongoing appropriateness of exposure levels and limits.
 - Each trading portfolio has its own market risk limit framework encompassing these measures as well as other controls, including permitted product lists and a new product approval process for complex products.

CGML uses a VaR model to calculate market risk capital requirements for part of its trading portfolio under a CAD 2 waiver granted by the FSA. The waiver covers general market risk and issuer specific risk for a number of Fixed Income businesses.

The VaR model, as described above, is designed to capture potential market losses at a 99% confidence level over a one day time period. The key components of the VaR model are the variance/covariance matrix of market variables and the sensitivity of Citi's trading portfolio to those variables. The variance/covariance matrix is calibrated using three years of market data, with some volatilities adjusted to capture fat tail effects at a 99% confidence level over a one day period. Market variables simulated from the matrix by a Monte Carlo methodology are applied to a set of factor sensitivities to generate a forecast distribution of one day profit and loss, from which the VaR can be computed. The factor sensitivities are designed to capture all material market risks on each trading asset, including the non-linear risks associated with derivative portfolios.

Backtesting, the comparison of VaR to actual profit and loss results, is conducted on a daily basis, at both legal vehicle and business levels. In addition, Citi also performs hypothetical backtesting by product, typically at the individual business level, on a rotating cycle, in order to ensure that the business VaR models meet supervisory standards for the measurement of regulatory capital.

Citi employs two complementary approaches to stress testing: top-down systemic stresses and bottom-up business specific stresses. Systemic stresses are designed to quantify the potential impact of extreme market movements on a firm-wide basis, and are constructed using both historical periods of market stress and projections of adverse economic scenarios. Business specific stresses are designed to probe the risks of particular portfolios and market segments, especially those risks that are not fully captured in VaR and systemic stresses.

Total revenues of the trading business consist of:

- customer revenue, which includes spreads from customer flow and positions taken to facilitate customer orders;
- proprietary trading activities; and
- net interest income

CGML maintains the necessary systems, controls and documentation to demonstrate appropriate standards in respect of valuation, reporting, reserving and valuation adjustments.

7. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes the reputation and franchise risk associated with business practices or market conduct that the firm undertakes. Operational risk is inherent in the firm's business activities and, as with other risk types, is managed through an overall framework with checks and balances that include:

- recognised ownership of the risk by the businesses;
- oversight by independent risk management; and
- independent review by Audit and Risk Review (ARR).

Framework

The UK legal vehicles follow Citi's operational risk framework, which is embedded in all businesses and support functions on a global basis. It is defined in the *Risk and Control Self-Assessment/Operational Risk Policy and Standards* and supporting guidelines and procedures. It builds on the overarching principles of managing risks and controls across the organisation, including a "three layers of control" structure:

- Business units - focus on fundamental risk identification and control efficacy
- Separate control functions (including Risk and Compliance) monitor performance
- ARR independently assess businesses and support functions on a regular basis

The objective of the policy is to establish a consistent, value-added framework for assessing and communicating operational risk and the overall effectiveness of the internal control environment across Citigroup. Information about operational risk, historical losses and the control environment is reported and summarised for the UK Legal Vehicle Audit Committee, senior management and the directors.

Measurement and Basel II

To support advanced capital modelling and management each business is required to capture relevant operational risk capital information. An enhanced version of the Citigroup risk capital model for operational risk has been developed and implemented across the major business segments. The FSA has approved this model, including a capital allocation methodology, for use within the firm as an Advanced Measurement Approach (AMA) under Basel II. It is based on a loss distribution approach and leverages Citi's experience in developing and implementing similar models for other risk disciplines. It uses a combination of internal and external loss data to support statistical modelling of capital requirement estimates, which are then adjusted to reflect qualitative factors regarding the operational risk and control environment. Citi's loss distribution approach takes into account a full history of all the largest applicable historical operational risk events over approximately 30 years.

Operational risk capital is calculated at a global sector level using a modelling approach based on regulatory lines of business (RLOB) within each sector, and subsequently allocated further to products and geographies within the sectors on the bases approved for each sector. The confidence level is set at 99.97% for internal risk capital calculations. The amounts of risk capital ultimately allocated to businesses and products include an inter-risk diversification benefit, based on a holistic view of the impact of other risk types, primarily credit and market risk.

Pillar 1

The global capital model has been modified to allow local UK Pillar 1 regulatory capital requirements to be calculated by including a mechanism for allocating Citi's global risk capital on the basis of the internal event frequency count by legal vehicle and recalibrated to a 99.90% confidence level. This is currently estimated by calculating the frequency count per unit of revenue for each legal vehicle. Revenue is therefore used as a major input into the local Pillar 1 regulatory capital calculations.

A local, entity-wide Qualitative Adjustment Factor (QAF) is applied to the capital figures in order to reflect the impact of changes in the internal control environment.

All legal vehicles have been approved by the FSA to use AMA for the calculation of operational risk capital requirements except Phibro, which uses the Standardised Approach. However, as at 31 December 2008, Egg was also subject to the Standardised Approach and adopted AMA effective 1 January 2009.

Pillar 2

The Pillar 2 risk capital for operational risk is based on the risk capital results calculated at the global sector level and allocated to UK legal vehicles on a pro-rata basis using revenues as the driver, calibrated to a 99.97% confidence level. To increase precision and allow for differences in the business mix between RLOBs included in the sectors versus RLOBs in the UK legal vehicles, the capital allocation is performed for each RLOB relevant to the legal vehicle.

A local, entity-wide QAF is applied to the resultant Pillar 2 capital figures in order to reflect the impact of changes in the internal control environment.

Risk governance and management

Operational risk is locally managed through in-business risk and control resources supported by a centralised team of operational risk specialists. Localised governance is achieved through the EMEA Governance Committee, the UK Legal Vehicles Audit Committee, the EMEA Operational Risk Committee and Regional Heads of Business Sectors and Functions.

Independent assessment and evaluation of the sectors' and functions' compliance with operational risk policy, including assessing the adequacy and effectiveness of the risk management and control processes for operational risk measurement, methodology and systems, is provided by ARR. In addition, ARR reports the results of its assessments to appropriate management and the UK Legal Vehicles Audit Committee and the EMEA Governance Committee.

Insurance

The firm does not use insurance for the purpose of mitigating operational risk.

8. Non-Trading Book Exposures

Non-trading book equity exposures

Citi's UK legal vehicles have a small number of equity investments which are held outside the trading book. This category includes investments in clearing houses, exchanges and other strategic investments which are required to be held for membership, access or relationship purposes, and which are otherwise not traded. They are carried on the balance sheet at fair value where this is readily determinable. Where this is not the case, the investment is carried at cost. The market price is deemed to be the fair value for exchange traded equities.

USD millions	
31 December 2008	
Investments held at fair value	23
Investments held at cost	29
TOTAL	52

There were no material realised gains or losses arising from sales or liquidations in the period. Unrealised gains and losses on these positions are not material.

Interest rate risk in the non-trading book

One of Citigroup's primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the customer's requirements with regard to tenor, index and rate type. Net Interest Revenue (NIR) is the difference between the yield earned on the non-trading book portfolio assets (including customer loans) and the rate paid on the liabilities (including customer deposits or company borrowings). The NIR is affected by changes in the level of interest rates. For example:

- At any given time, there may be an unequal amount of assets and liabilities which are subject to market rates due to maturation or repricing. Whenever the amount of liabilities subject to repricing exceeds the amount of assets subject to repricing, a company is considered "liability sensitive." In this case, a company's NIR will deteriorate in a rising rate environment.
- The assets and liabilities of a company may reprice at different speeds or mature at different times, subjecting both "liability sensitive" and "asset sensitive" companies to NIR sensitivity from changing interest rates. For example, a company may have a large amount of loans that are subject to repricing this period, but the majority of deposits are not scheduled for repricing until the following period. That company would suffer from NIR deterioration if interest rates were to fall.

NIR in the current period is the result of customer transactions and the related contractual rates originated in prior periods as well as new transactions in the current period; those prior period transactions will be impacted by changes in rates on floating rate assets and liabilities in the current period.

Due to the long-term nature of many of the firm's portfolios, NIR will vary from quarter to quarter even assuming no change in the shape or level of the yield curve as the assets and liabilities reprice. These repricings are a function of implied forward interest rates, which represent the overall market's unbiased estimate of future interest rates.

Interest Rate Risk Governance

The risks in Citigroup's non-traded portfolios are estimated using a common set of standards that define, measure, limit and report the market risk. Each business is required to establish, with approval from independent market risk management, a market risk limit framework that clearly defines approved risk profiles and is within the parameters of Citigroup's overall risk appetite. In all cases, the businesses are ultimately responsible for the market risks they take and for remaining within their defined limits. These limits are monitored by independent market risk management and country and business Asset and Liability Committees (ALCOs).

Interest Rate Risk Measurement

Citigroup's principal measure of risk to NIR is Interest Rate Exposure (IRE). IRE measures the change in expected NIR in each currency resulting solely from unanticipated changes in forward interest rates. Factors such as changes in volumes, spreads, margins and the impact of prior-period pricing decisions are not captured by IRE. IRE assumes that businesses make no additional changes in pricing or balances in response to the unanticipated rate changes.

For example, if the current 90-day LIBOR rate is 3% and the one-year forward rate (i.e. the estimated 90-day LIBOR rate in one year) is 5%, the +100 basis points (bps) IRE scenario measures the impact on the company's NIR of a 100 bps instantaneous change in the 90-day LIBOR rate, to 6% in one year.

The impact of changing prepayment rates on loan portfolios is incorporated into the results. For example, in the declining interest rate scenarios, it is assumed that mortgage portfolios prepay faster and income is reduced.

The IRE measures the potential change in expected net interest earnings over an accounting horizon of 12 months, 5 years and 10 years and has been broken down into the main currencies on each company's balance sheet. The following table shows the IRE measures at 31 December 2008 assuming a parallel upward shift of interest rates by 100 bps. A positive IRE indicates a potential increase in earnings while a negative IRE indicates a potential decline in earnings.

UK Legal Vehicle Pillar 3 disclosures



USD millions		CIP	Egg	CFE	FML
31 December 2008					
12 Months	USD	7	0	0	0
	EUR	9	0	0	0
	GBP	4	(13)	(1)	0
5 Years	USD	7	0	0	0
	EUR	10	0	0	0
	GBP	4	(26)	(14)	(1)
10 Years	USD	7	1	0	0
	EUR	10	0	0	0
	GBP	4	(20)	(35)	(1)

The above table shows the exposure in the banking book to an interest rate increase of 100 bps. Given that short term interest rates are well below 100 bps, the exposure to a 100 bps fall in interest rates is less likely to occur as short term rates would have to be assumed to become negative. Any impact would be significantly less material than the figures shown above if it is assumed that interest rates will not decline below zero.

Please note that CGML and CGMUKE's exposures are almost entirely trading book in nature and these entities therefore do not have any material interest rate risk exposure to non-trading book assets and liabilities.

9. Securitisation activity

Citi's UK legal vehicle securitisation activities encompass both the Institutional Clients Group (ICG) and the Global Consumer Group (GCG) business segments.

Institutional Clients Group

The European Securitised Products Group within ICG originates and distributes (both via bank loan syndication and capital markets) secured risk based mainly on tranching and rating of that risk. The business is split into three broad categories (listed below) and is governed by the Global Securitised Markets (GSM) European Multi-Product Credit Program, in terms of limit, approvals, controls and portfolio management.

- Corporate & Infrastructure Business

Structures and provides acquisition/bridge finance and long term secured finance of infrastructure and regulated assets, and whole business corporate assets, that operate within established, stable and mature industries and possess significant barriers to entry.

- Real Estate Finance & Mortgage Conduit

Structures and provides secured acquisition/bridge finance and long term secured finance of real estate assets, including commercial and residential real estate, hotels, pubs and retail.

- Principal, Flow & Emerging Markets

Structures and underwrites securitisations of financial assets, primarily for financial institutions, and structures and provides financing of financial assets across EMEA on a third party and principal basis. Manages a growing government advisory business in the current market.

While the basic business model (origination, execution, distribution) remains the same, the business is for the time being focussed primarily on asset management, advisory mandates and structuring asset backed securities for private placement and/or reporing for liquidity.

Most of the European Securitised Products Group's activity is conducted on the books of CGML and Citibank NA, with some positions booked in CIP and Citigroup Financial Products Inc.

The ECAs used for the ICG securitisation business are as follows:

- Standard and Poor's - ABS exchange service and Ratings Direct (general)
- Moody's - Real estate related break-ups

- Fitch - Real estate related break-ups and general surveillance

Global Consumer Group

There are two securitisation structures established by Egg within the GCG business. Pillar Funding was established as a credit card receivables securitisation and Cronos RMBS Funding as a residential mortgages securitisation.

The assets and liabilities within the securitisation structures are consolidated on a line by line basis as the respective special purpose entities are, in substance, controlled by Egg.

Pillar Funding notes have been assigned ratings by Standards & Poor's, Moody's and Fitch. The exposure type securitised is Egg customers' credit card loans. Pillar Funding Trust has cross-currency swaps on its non-sterling notes with various swap counterparties. The note holders only receive payments of interest during the revolving period and receive payments of principal at maturity. The funds to pay the note holders are sourced from receipts from credit card customers in the trust.

As of 31 December 2008, there were four series outstanding in the Pillar Funding Trust, Series 2004-1, 2004-2, 2005-1 and 2007-1.

Cronos RMBS Funding notes have been assigned ratings by Standard & Poor's and Moody's. The exposure type securitised is Egg customers' residential mortgage loans. Cronos trust has basis swaps on its senior notes with a swap counterparty. The note holders only receive payments of interest and principal to the extent that sufficient funds have been received from the mortgage loan customers in the trust.

Cronos RMBS Trust has an amortising structure where notes are paid down as mortgage payments are received.

Further details of the Egg securitisations outstanding as at 31 December 2008 are contained in the following table.

USD millions 31 December 2008	Date of Issuance	Placement	Issuance Amounts	Standard & Poor's	Moody's	Fitch
Pillar Funding Trust						
Series 2004-1 (Class A/B/C)	12 May 2004	Public	730	AAA/A/BBB	Aaa/A2/Baa2	AAA/A/BBB-
Series 2004-2 (Class A/B/C)	28 September 2004	Public	730	AAA/A/BBB	Aaa/A2/Baa2	AAA/A/BBB-
Series 2005-1 (Class A/B/C)	20 November 2005	Public	365	AAA/A/BBB	Aaa/A2/Baa2	AAA/A/BBB-
Series 2007-1 (Class D)	30 April 2007	Private	131	Unrated	Unrated	Unrated
			1,956			
				*		
Cronos RMBS Trust						
Cronos Notes Class A	9 March 2005	Public	1,570	AAA	Aaa	N/A
Cronos Notes Class B	9 March 2005	Public	256	Unrated	Unrated	N/A
			1,826			
				**		

* Pillar notes had \$1,898 million outstanding as at 31 December 2008

** Cronos notes had \$1,025 million outstanding as at 31 December 2008

Approaches to calculating risk weighted exposure amounts

Where applicable, the firm's capital requirements for securitisation activity are calculated in accordance with BIPRU 9.

The Cronos mortgage backed securities are held on the books of Egg but are not recognised in the Pillar 1 regulatory capital calculations. Instead, the underlying assets are risk weighted for capital purposes and treated as if they had not been securitised.

Accounting policies for securitisation activity in the banking book

As described above, CIP and Egg securitise a number of different asset classes including commercial mortgages, credit card receivables and residential mortgages as a means of strengthening the balance sheet and accessing competitive financing rates in the market. Under these securitisation programs, assets are sold into a trust and used as collateral by the trust to obtain financing. The cash flows from assets in the trust service the corresponding trust securities. If the structure of the trust meets certain accounting guidelines, trust assets are treated as sold and are no longer reflected as assets of the company. If these guidelines are not met, the assets continue to be recorded as the company's assets, with the financing activity recorded as liabilities on Citigroup's balance sheet. All Egg securitisations are held on balance sheet. Substantially all CIP securitisations are on balance sheet. There are two key accounting determinations that must be made relating to securitisations.

- First, for each securitisation entity with which it is involved, the company makes a determination of whether the entity should be considered a subsidiary of the company and be included in its consolidated financial statements or whether the entity is sufficiently independent that it does not need to be consolidated. Subsidiary undertakings including special purpose entities that are directly or indirectly controlled by the group are consolidated.
- Second, in the case where Citigroup originated or owned the financial assets transferred to the securitisation entity, a decision must be made as to whether that transfer is considered a sale under the appropriate accounting framework. Financial assets are derecognised when the right to receive cash flow from the assets has expired or the group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.
 - If it is a sale, the transferred assets are removed from the company's consolidated balance sheet with a gain or loss recognised.
 - Alternatively, when the transfer would be considered to be a financing rather than a sale, the assets will remain on the company's consolidated balance sheet with a corresponding liability recognised in the amount of proceeds received.

Interests in the securitised and sold assets may be retained in the form of subordinated interest-only strips, or other subordinated tranches, spread accounts, servicing rights and derivative instruments. Broadly, commercial mortgage and other loans related to securitisations are classified within loans and advances to customers, the corresponding liabilities are classified within debt securities in issue.

Gains or losses on securitisation and sale depend in part on the previous carrying amount of the loans involved in the transfer. Should the assets be derecognised (see above) gains are recognised at the time of securitisation and are reported in other revenue.

In the limited cases where we do not consolidate and achieve a sale, the company values its securitised retained interests at fair value using financial models that incorporate observable and unobservable inputs. More specifically, these models estimate the fair value of these retained interests by determining the present value of expected future cash flows, using modeling techniques that incorporate management's best estimates of key assumptions, including prepayment speeds, credit losses and discount rates, when observable inputs are not available. In addition, internally calculated fair values of retained interests are compared to recent sales of similar assets, if available.

The treatment of synthetic securitisations is consistent with the analysis outlined above.

Securitisation exposures in the banking book

The positions securitised by the firm and subject to the securitisation framework are all of the traditional type.

As at 31 December 2008 the amount outstanding was:

USD millions	
31 December 2008	
Marlin	64
EMC III	34
EMC IV	594
Pillar	1,898
Cronos	1,025
Total	3,615

None of the positions securitised by the firm and subject to the securitisation framework are past due or impaired.

The aggregate amount of securitisation positions retained or purchased as at 31 December 2008, broken down by exposure type, is as follows:

USD millions	CIP	Egg
31 December 2008		
CLO	0	105
RMBS	894	7
Other	328	118
Total	1,222	230

The majority of the Egg positions is hedged by credit default swap protection.

The capital treatment applied to the securitisation positions held at 31 December 2008 is set out below.

USD millions	CIP	Egg
31 December 2008		
At 20%	0	204
At 50%	0	12
At 100%	1,215	0
Deducted from capital	7	14
Total	1,222	230

In relation to revolving exposures, Pillar Funding Trust has a revolving structure. The Seller's Interest fluctuates as the total credit card receivables fluctuate.

USD millions	Exposure Type	
31 December 2008		
Pillar Funding		
Investors' Interest	Credit Card Loans	1,899
Retained in form of Seller's Interest	Credit Card Loans	1,132

There is no Seller's Interest for the Cronos RMBS Funding Trust as all notes are held by the originator.

There are no other revolving securitised exposures.

There were no securitisation deals transacted on the UK legal vehicles in 2008.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements. Citigroup cautions readers that no forward-looking statement is a guarantee of future performance. Citigroup's actual results may differ materially from those included in any forward-looking statements, which are indicated by words such as "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may fluctuate," and similar expressions, or future or conditional verbs such as "will," "should," "would," and "could." Any forward-looking statements are based on management's current expectations and involve external risks and uncertainties including, but not limited to: levels of activity and volatility in the capital markets, global economic and business conditions, including the level of interest rates and exchange rates, the credit environment, unemployment rates, and political and regulatory developments in the U.S. and around the world, as well as the outcome of legal, regulatory and other proceedings. For a more detailed discussion of potential risk factors the reader is directed to Citigroup's 2008 Annual Report. Except as required by any competent regulator or applicable law, Citigroup expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in Citigroup's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Citigroup has made or may make in documents it has filed or may file with the SEC, including Citigroup's 2008 Annual Report.