



**Citibank Europe plc
Pillar 3 Disclosures**

31 December 2009

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1 Overview

Disclosures

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.

Citibank Europe Plc (“Citi Europe” or “the bank”) has been granted a banking licence by the Central Bank of Ireland under Section 9 of the Central Bank Act 1971 and is a “credit institution” as defined in Article 4(1) of Directive CI. Citibank Holdings Ireland Limited (“CHIL”) is the top-level EU parent vehicle of Citibank Europe plc (“Citi Europe”) and both it and its subsidiaries are therefore subject to consolidated supervision by the Financial Regulator.

Through its 100% ownership of Citi Europe, CHIL is a “parent financial holding company” as defined in Article 4(1) of Directive CI. Citi Europe is therefore responsible for ensuring that CHIL and its fully consolidated group are compliant with the capital adequacy requirements and large exposure limits set out in the directive.

The disclosures in this document have been made in accordance with the Pillar 3 requirements laid out in Articles 145 to 148 of the Capital Requirements Directive 2006/48 EC. Citibank Holdings Ireland Limited (“CHIL”) 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 2009.

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 2009 Annual Report.

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.

2 Capital resources

Under the Financial Regulator's minimum capital standards, CHIL is required to maintain a prescribed excess of total capital resources over its Pillar I capital requirements. Capital resources are measured and reported in accordance with the Capital Requirements Directive.

The following table shows the regulatory capital resources of CHIL as at 31 December 2009¹.

Figure 2-1 Capital resources

EUR thousands

31 December 2009

Tier 1 Capital Resources

Core Tier 1 Capital	
Permanent share capital	1,490,135
Profit and loss account and other reserves	2,883,493
Less: Intangible assets	(475,820)
Total Core Tier 1 Capital	3,897,808

Deductions from Capital

Holdings in other credit and financial institutions amounting to more than 10% of their capital	(1,228,195)
Total Tier 1 Capital Resources	2,669,613

¹ Totals may not add due to rounding

3 Capital adequacy

To assess the adequacy of capital to support current and expected future activities, the firm produces regular capital forecasts for CHIL, taking into account both normal business conditions and stress 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 on a regular basis.

Figure 3-1 Minimum capital requirements in respect of market risk, counterparty risk, concentration risk and operational risk²

EUR thousands

31 December 2009

<u>Trading book</u>	
Interest rate	97,572
Counterparty risk capital component	33,020
Concentration risk capital component	25,168
All businesses	
Foreign currency	4,432
Operational risk capital requirement	190,529
TOTAL	350,721

² CHIL applies the Standardised Approach for operational risk.

Figure 3-2 shows CHIL's Pillar 1 minimum capital requirements for credit risk under the standardised approach at 31 December 2009, 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.

Figure 3-2 Minimum capital requirements in respect of credit risk³

EUR thousands

31 December 2009	Total	Credit risk	Counterparty credit risk
Central government & central banks	30,609	30,609	-
Administrative bodies/non commercial undertakings	4,410	4,410	-
Multilateral development banks	42	42	-
Institutions	297,345	282,034	15,311
Corporates	362,096	344,494	17,602
Retail	41,709	41,603	106
Past due items	5,583	5,583	-
Short term institutions & corporates	-	-	-
Other items	21,789	21,788	1
TOTAL	763,583	730,563	33,020

³ CHIL applies the Standardised Approach for credit risk.

4 Risk management framework

Effective risk management is of primary importance to the success of CHIL. 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, operational, including legal and reputational and franchise risks.

The management of CHIL consider these risks in their day-to-day running of the business. It is the responsibility of the senior management of CHIL to implement Citi policies and practices, to oversee risk management, and to respond to the needs and issues of the bank.

In conjunction with Citigroup's overall risk management framework these risks are broadly managed as follows:

<u>Risk type</u>	<u>Oversight Committee</u>
Credit Risk & Concentration Risk	Credit Risk Committee
Market Risk	Market Risk Committee
Liquidity Risk	ALCO
Operational Risk	Operational Risk Committee
Franchise Risk	Citi Europe Management Committee Ireland Country Coordinating Committee

Citi's risk management framework is based on guiding principles established by the Citi Chief Risk Officer and includes:

- 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 Citi 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 group-wide basis;
- engaging with senior management and the Citi 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.

Management of risk focuses on 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 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.

Further information on risk management is available in Citibank Europe plc's 2009 Annual Report and Financial Statements, which is also available on Citi's investor services website, www.citigroup.com/citi/fin/index.htm.

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 CHIL's business activities, including:

- lending;
- sales and trading;
- treasury activities;
- overdraft facilities;
- 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 Retail 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, CHIL uses various risk mitigants to hedge portions of the credit risk in its portfolio, in addition to sub-participations and outright asset sales.

The utilisation of collateral is of critical importance in the mitigation of risk. Citigroup 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.

Citigroup 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.

5.2 Trading book

CHIL uses 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.

5.3 Non-trading book

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 2009 are set out below in Figure 5-1. These exposures include both banking book and trading book activity and have been calculated in accordance with the regulatory requirements applicable.

Figure 5-1 Gross credit exposures

EUR thousands			
31 December 2009	Total	Credit risk	Counterparty credit risk
Central government & central banks	1,657,126	1,657,115	11
Administrative bodies/non commercial undertakings	59,195	59,195	-
Multilateral development banks	1,039	1,039	-
International organisations	-	-	-
Institutions	9,854,120	9,464,166	389,954
Corporates	13,074,505	12,867,153	207,352
Retail	924,495	922,723	1,772
Past due items	74,637	74,637	-
Short term institutions & corporates	-	-	-
Other items	325,805	325,805	-
TOTAL	25,970,922	25,371,833	599,089

Figure 5-2 Credit exposures by geography and sector

EUR thousands

31 December 2009	EMEA	North America	Asia	Other	Total
Central government & central banks	1,444,490	200,182	12,525	7	1,657,204
Administrative bodies/non commercial undertakings	59,195	0	-	-	59,195
Multilateral development banks	1	-	-	1,038	1,040
International organisations	-	-	-	-	-
Institutions	8,686,480	299,416	504,197	13,665	9,503,759
Corporates	10,068,868	3,110,045	155,798	72,444	13,407,155
Retail	926,245	538	-	-	926,783
Past due items	74,638	-	-	-	74,638
Short term institutions & corporates	-	-	-	-	-
Other items	340,215	828	107	0	341,150
TOTAL	21,600,131	3,611,008	672,627	87,155	25,970,922

Credit risk breakdown by maturity

The following charts set out the residual maturity distribution of credit exposures for CHIL, broken down by sector.

Figure 5-3 Credit exposures by maturity

EUR thousands

31 December 2009	Up to 1 year	1 - 5 years	Over 5 years	Total
Central government & central banks	1,470,260	142,674	44,269	1,657,204
Administrative bodies/non commercial undertakings	6,775	52,384	35	59,195
Multilateral development banks	1,037	-	2	1,040
International organisations	-	-	-	-
Institutions	7,550,633	1,212,951	740,175	9,503,759
Corporates	5,407,255	7,675,273	324,627	13,407,155
Retail	702,105	168,284	56,394	926,783
Past due items	69,378	3,136	2,124	74,638
Short term institutions & corporates	-	-	-	-
Other items	220,735	-	120,415	341,150
TOTAL	15,428,178	9,254,702	1,288,042	25,970,922

5.4 Impairment of financial assets

The bank 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 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 any 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.

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.

Further information is available in Citibank Europe plc's 2009 Annual Report and Financial Statements, which is also available on Citi's investor services website, www.citigroup.com/citi/fin/index.htm.

5.5 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%

The following table sets out, for CHIL, the exposure values as at 31 December 2009 (before and after credit risk mitigation) associated with each credit quality step, as well as those exposures deducted from capital resources.

Figure 5-4 Credit quality step analysis of exposures before and after credit risk mitigation⁴

EUR thousands				
31 December 2009		Credit Quality Step	Gross	Net
Central government & central banks	1		12,033	12,033
	2		319,962	319,962
	3		20,168	20,168
	4		262,212	262,212
	Unrated		1,042,828	1,042,828
				<u>1,657,204</u>
Administrative bodies/non commercial undertakings	1		4,531	4,531
	4		54,663	54,663
			<u>59,195</u>	<u>59,195</u>
Multilateral development banks	5		1,040	1,040
			<u>1,040</u>	<u>1,040</u>
Institutions	1		3,893,509	3,893,509
	2		4,189,978	4,189,978
	3		192,725	192,725
	4		115,790	102,695
	5		231,247	170,204
	Unrated		880,510	859,171
			<u>9,503,759</u>	<u>9,408,282</u>
Corporates	1		2,144,286	857,996
	2		3,182,976	1,916,565
	3		419,471	419,471
	4		57,366	57,366
	5		38,156	38,156
	Unrated		7,564,904	4,777,265
			<u>13,407,159</u>	<u>8,066,819</u>
Retail	Unrated		926,783	926,783
			<u>926,783</u>	<u>926,783</u>
Past due items	Unrated		74,638	74,638
			<u>74,638</u>	<u>74,638</u>
Other items	2		177	177
	Unrated		340,970	340,970
			<u>341,146</u>	<u>341,146</u>
TOTAL			25,970,922	20,535,106

⁴ Pre-credit risk mitigation is shown as Gross. Post-credit risk mitigation is shown as Net.

5.6 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 haircuts may be applied in the form of Instrument Margins and Foreign Exchange Margins where appropriate. With regards to Instrument Margins, the level of haircut is driven by asset type and duration to maturity whereas a Foreign Exchange Margin arises when there is a currency mismatch between the credit exposure and the collateral. 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 firm wide risk reporting of counterparty exposures at an individual and an aggregated level.

6 Market risk

6.1 Trading book

The market risk capital requirements of CHIL are summarised in section 3 (Capital adequacy).

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.

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.

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

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

6.2 Non-trading book

Interest rate risk in the non-trading book

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.

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 CHIL'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 potential pre-tax earnings impact, over a specified reporting period from a defined change in the yield curve. 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 rate changes.

The IRE measures the potential change in expected net interest earnings over an accounting horizon of 12 months (i.e., the un-discounted impact on the next 12-months' accounting earnings from an instantaneous parallel shift across the yield curve) and 5 years and has been broken down into the main currencies on CHIL's balance sheet. The following table shows the IRE measures at 31 December 2009 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.

Figure 6-1 Sensitivity of net interest income

EUR thousands
31 December 2009

	12 Months	5 Years
EUR	166	2,753
USD	(1,977)	(986)
GBP	56	465
OTHER	(3,559)	(2,888)

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

CHIL follows 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 Citi Europe Audit Committee, senior management and the directors.

Measurement and Basel II

Using the Standardised Approach for Operational Risk, CHIL assesses its capital requirements using the prescribed regulatory calculation methodology.

Risk governance and management

Operational risk is locally managed through risk and control resources supported by a centralised team of operational risk specialists. Governance is achieved through Citi Europe's Operational Risk Committee with oversight from various governance bodies on both an EMEA and Global level.

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 Citi Europe Audit Committee and the EMEA Governance Committee.

Insurance

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

8 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 2009 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 2009 Annual Report and CHIL'S 2009 financial statements.