

# Citi UK FSA Regulated Legal Vehicles Pillar 3 Disclosures

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31 December 2010

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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 updates 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 2010, with comparatives as at 31 December 2009.

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.

**Table 1 Principal UK Regulated Firms**

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	Insurance mediator
Egg Banking plc (Egg)	Consolidated	Retail bank
Future Mortgages Limited (FML)	Unconsolidated	Mortgage lender
CCA Credit Europe Limited (CCACEL) – formerly CSO	Unconsolidated	Investment manager

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 2010 and 2009 Annual Reports.

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.

The following disclosures have been made 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.

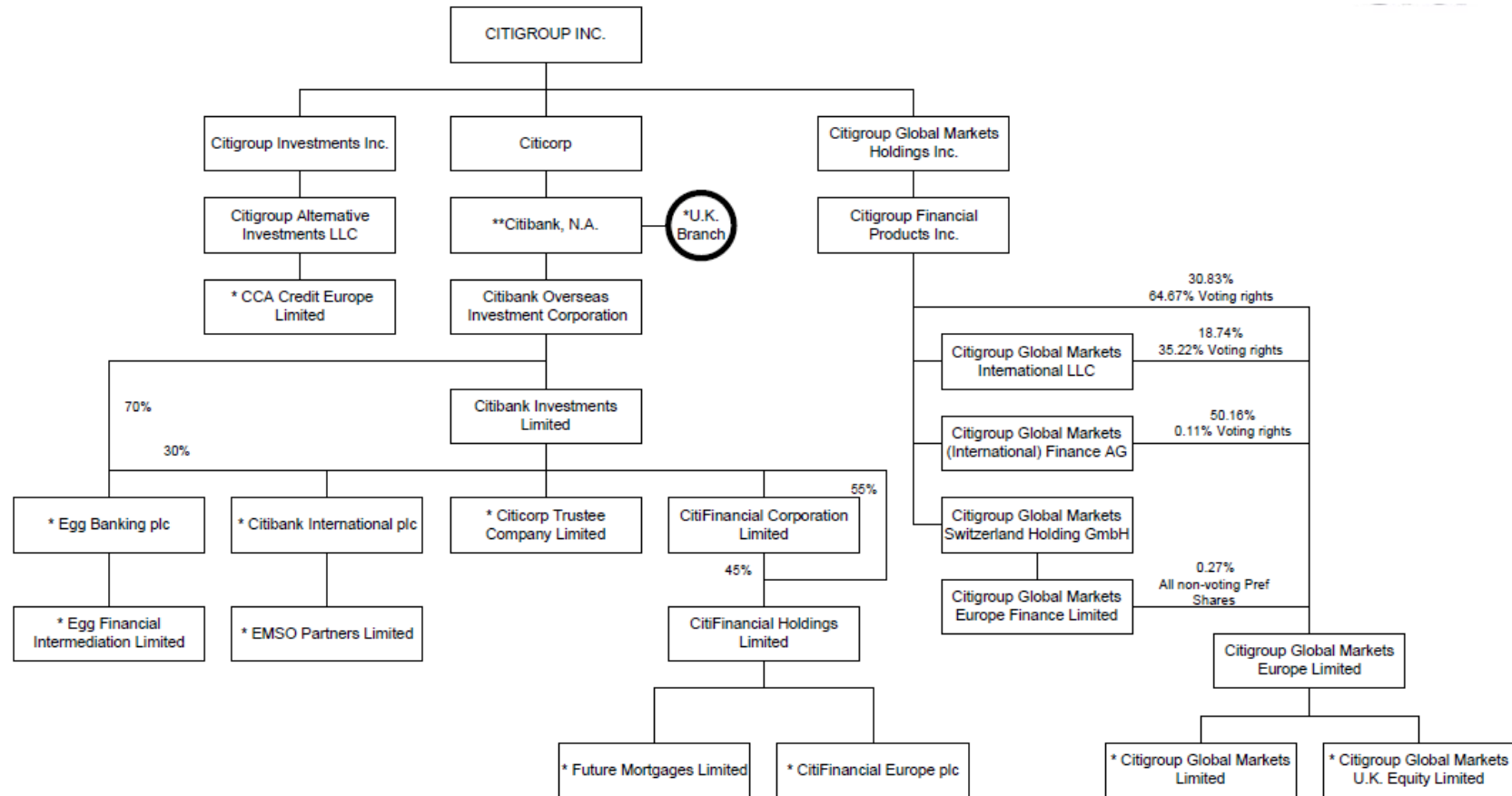
At the beginning of 2009, Citi announced a realignment of its activities into two businesses, Citicorp and Citi Holdings, in order to optimise the company's global businesses for future profitable growth and opportunities:

- Citicorp – the company’s global bank for consumers and businesses, representing Citi’s core franchise. Citicorp is focused on providing best-in-class products and services to customers and leveraging Citigroup’s unparalleled global network
- Citi Holdings – those businesses and portfolios of assets that Citigroup has determined are not central to its core Citicorp businesses. Management will focus on tightly managing risks and losses, and maximising the value of these assets

During 2010 a number of Citi Holdings portfolios held on the books of the UK legal vehicles were sold, including non performing UK mortgages, part of the UK credit card portfolio and consumer portfolios in Scandinavia and Italy. These impacted the capital resources and capital requirements of CIP, Egg, CFE and FML. Where appropriate, capital injections were made in connection with the dispositions. In addition, CIL acquired a 30% interest in Egg during the year.

The organisation charts below provide an abbreviated summary of the ownership structure of Citi’s FSA regulated legal vehicles as at 31 December 2010 and 31 December 2009.

Figure 1 EMEA Structure Chart – Extract from England Chart as at 31 December 2010



\* 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

Citibank International plc

(i) Banking branches in: Austria, Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Spain & Sweden

(ii) Non-banking branches in Germany, Poland and Hungary

(iii) Subsidiaries in Italy (Citifin S.r.l) and Switzerland (D. Card Servicing AG)



## 2 Risk Management Objectives and Policies

Effective risk management is of primary importance to 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 risks.

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

Enhancements have been made to the risk management framework since 2008, 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
- 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
- Ensuring that the risk function has adequate independence, authority, expertise, staffing, technology and resources

Citi's risk management organisation is structured 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 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 fundamental credit, real estate and market risk. 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 them to focus on the day-to-day management of risks and responsiveness to business flow

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
- 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.

## 2.1 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.

## 2.2 Market Risk Management

Market Risk Management covers the price risk in the firm's trading and accrual portfolios. 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.

### Trading Portfolios

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.

## **Accrual Portfolios**

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.

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 market risks via a comprehensive system of limits and triggers.

## **2.3 Liquidity Risk Management**

Liquidity risk for the UK legal vehicles is primarily monitored using the Citi Asset and Liability Management (CALM) system. Liquidity exposure is monitored using a variety of internal measures such as Market Access Reporting (MAR), the Cash Capital ratio and the Contingency Funding Plan (CFP). In addition, regular stress testing analysis is conducted to ensure that liquidity risk remains within the risk appetite approved by senior management.

### 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
- 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. These include adjustments in respect of intangible assets and pension obligations.

The following tables show the regulatory capital resources of the main UK legal vehicles as at 31 December 2010 and 31 December 2009.

**Table 2 Capital Resources as at 31 December 2010**

USD millions	CGMEL	CGML	CGMUKE	CIL	CIP	Egg	CCACEL	FML <sup>(1)</sup>	CFE <sup>(1)</sup>
<b>Tier 1 Capital Resources (excluding Innovative Tier 1 Capital)</b>									
<b>Core Tier 1 Capital</b>									
Permanent share capital	920	1,150	92	1,583	2,728	824	12		
Profit and loss account and other reserves	7,605	8,536	264	2,983	941	(349)	87		
Share premium account	565	0	0	0	99	3	0		
<b>Other Tier 1 Capital</b>									
Perpetual non-cumulative preference shares	1,046	350	0	39	0	0	0		
Less: Intangible assets	(166)	(166)	0	(148)	(134)	0	0		
<b>Total Tier 1 Capital Resources (excluding Innovative Tier 1 Capital)</b>	<b>9,970</b>	<b>9,870</b>	<b>356</b>	<b>4,457</b>	<b>3,634</b>	<b>478</b>	<b>99</b>	<b>256</b>	<b>197</b>
<b>Innovative Tier 1 Capital Resources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Tier 2 Capital Resources</b>									
<b>Upper Tier 2 Capital Resources</b>									
Upper tier 2 capital instruments	0	0	0	0	0	0	0		
General/collective provisions	0	0	0	331	292	61	0		
<b>Lower Tier 2 Capital Resources</b>									
Lower tier 2 capital instruments	3,700	3,700	0	401	0	699	0		
Less: Excess on limits for lower tier 2 capital	0	0	0	0	0	(460)	0		
<b>Total Innovative Tier 1 and Tier 2 Capital Resources</b>	<b>3,700</b>	<b>3,700</b>	<b>0</b>	<b>732</b>	<b>292</b>	<b>300</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Less: Deductions from the total of Tier 1 Capital and Tier 2 Capital</b>									
Material holdings	0	0	0	0	0	0	0		
Expected loss amounts and other negative amounts	0	0	0	0	0	0	0		
Securitisation positions	0	0	0	(4)	(3)	(5)	0		
Investments that are not material holdings or qualifying holdings	0	0	0	0	(65)	0	0		
<b>Total Tier 1 and Tier 2 Capital Resources after Deductions</b>	<b>13,670</b>	<b>13,570</b>	<b>356</b>	<b>5,185</b>	<b>3,858</b>	<b>773</b>	<b>99</b>	<b>256</b>	<b>197</b>
<b>Tier 3 Capital Resources</b>									
Short term subordinated debt	7,780	7,480	300	0	0	0	0		
Net interim trading book profit and loss	0	0	0	0	0	0	0		
<b>Total Tier 3 Capital Resources</b>	<b>7,780</b>	<b>7,480</b>	<b>300</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Less: Deductions from Total Capital</b>									
Illiquid assets	(137)	(106)	(17)	0	0	0	0		
Free deliveries	(5)	(5)	0	0	0	0	0		
<b>Total Capital Resources, net of Deductions</b>	<b>21,308</b>	<b>20,939</b>	<b>639</b>	<b>5,185</b>	<b>3,858</b>	<b>773</b>	<b>99</b>	<b>256</b>	<b>197</b>

(1) FML and CFE are regulated under the provisions of the Prudential Sourcebook for Mortgage and Home Finance Firms & Insurance Intermediaries.

**Table 3 Capital Resources as at 31 December 2009**

USD millions	CGMEL	CGML	CGMUKE	CIL	CIP	Egg	CCACEL	FML <sup>(1)</sup>	CFE <sup>(1)(2)</sup>
<b>Tier 1 Capital Resources (excluding Innovative Tier 1 Capital)</b>									
<b>Core Tier 1 Capital</b>									
Permanent share capital	920	1,150	92	1,655	2,850	731	13		
Profit and loss account and other reserves	9,893	10,731	240	664	549	(335)	91		
Share premium account	565	0	0	0	104	3	0		
<b>Other Tier 1 Capital</b>									
Perpetual non-cumulative preference shares	1,046	350	0	0	0	0	0		
Less: Intangible assets	(132)	(150)	0	(188)	(188)	0	0		
<b>Total Tier 1 Capital Resources (excluding Innovative Tier 1 Capital)</b>	<b>12,292</b>	<b>12,081</b>	<b>332</b>	<b>2,130</b>	<b>3,315</b>	<b>399</b>	<b>104</b>	<b>105</b>	<b>(52)</b>
<b>Innovative Tier 1 Capital Resources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Tier 2 Capital Resources</b>									
<b>Upper Tier 2 Capital Resources</b>									
Upper tier 2 capital instruments	0	0	0	0	0	0	0		
General/collective provisions	0	0	0	354	363	81	0		
<b>Lower Tier 2 Capital Resources</b>									
Lower tier 2 capital instruments	1,200	1,200	0	1,966	657	730	0		
Less: Excess on limits for lower tier 2 capital	0	0	0	(902)	0	(532)	0		
<b>Total Innovative Tier 1 and Tier 2 Capital Resources</b>	<b>1,200</b>	<b>1,200</b>	<b>0</b>	<b>1,418</b>	<b>1,020</b>	<b>279</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Less: Deductions from the total of Tier 1 Capital and Tier 2 Capital</b>									
Material holdings	0	0	0	0	0	0	0		
Expected loss amounts and other negative amounts	0	0	0	0	0	0	0		
Securitisation positions	0	0	0	(5)	(5)	0	0		
Investments that are not material holdings or qualifying holdings	0	0	0	0	(73)	0	0		
<b>Total Tier 1 and Tier 2 Capital Resources after Deductions</b>	<b>13,492</b>	<b>13,281</b>	<b>332</b>	<b>3,543</b>	<b>4,257</b>	<b>678</b>	<b>104</b>	<b>105</b>	<b>(52)</b>
<b>Tier 3 Capital Resources</b>									
Short term subordinated debt	7,780	7,480	300	0	0	0	0		
Net interim trading book profit and loss	0	0	0	0	0	0	0		
<b>Total Tier 3 Capital Resources</b>	<b>7,780</b>	<b>7,480</b>	<b>300</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Less: Deductions from Total Capital</b>									
Illiquid assets	(374)	(301)	(15)	0	0	0	0		
Free deliveries	(31)	(31)	0	(0)	0	0	0		
<b>Total Capital Resources, net of Deductions</b>	<b>20,867</b>	<b>20,429</b>	<b>617</b>	<b>3,543</b>	<b>4,257</b>	<b>678</b>	<b>104</b>	<b>105</b>	<b>(52)</b>

(1) FML and CFE are regulated under the provisions of the Prudential Sourcebook for Mortgage and Home Finance Firms & Insurance Intermediaries

(2) On 28 January 2010 a capital contribution of £92 million, and on 18 March 2010 a further capital contribution of £208 million, were made by CFE's parent undertaking, CitiFinancial Holdings Ltd.

## 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 and counterparty 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 tables set out each entity's minimum capital requirements in respect of market risk, counterparty risk, concentration risk and operational risk as at 31 December 2010 and 31 December 2009.

**Table 4 Minimum Capital Requirements in Respect of Market Risk, Counterparty Risk, Concentration Risk and Operational Risk as at 31 December 2010**

(USD Millions)	CGMEL	CGML	CGMUKE	CIL	CIP	CFE <sup>(1)</sup>	Egg	FML <sup>(1)</sup>	CCACEL
<b>Trading book</b>									
Interest rate PRR <sup>(2)</sup>	1,451	1,448	3	153	153				
Equity PRR	204	200	4						
Option PRR	587	587		71	71				
Collective investment schemes PRR	138	138							
Counterparty risk capital component	3,995	3,976	61	39	39				
Concentration risk capital component	1,391	1,513	72		12				
Position, FX and commodity risk under internal models	1,274	1,274							
<b>All businesses</b>									
Commodity PRR	3,015	3,015							
Foreign currency PRR	247	244	3	14	14				
Operational risk capital requirement <sup>(3)</sup>	1,044	992	92	330	274		103		
<b>Total</b>	<b>13,346</b>	<b>13,387</b>	<b>235</b>	<b>607</b>	<b>563</b>	<b>0</b>	<b>103</b>	<b>0</b>	<b>0</b>

(1) FML and CFE are regulated under the provisions of the Prudential Sourcebook for Mortgage and Home Finance Firms & Insurance Intermediaries.

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

(3) All legal vehicles are subject to the Advanced Measurement Approach (AMA) for operational risk.

**Table 5 Minimum Capital Requirements in Respect of Market Risk, Counterparty Risk, Concentration Risk and Operational Risk as at 31 December 2009**

(USD Millions)	CGMEL	CGML	CGMUKE	CIL	CIP	CFE <sup>(1)</sup>	Egg	FML <sup>(1)</sup>	CCACEL
<b>Trading book</b>									
Interest rate PRR <sup>(2)</sup>	2,287	2,236	51	255	255				
Equity PRR	849	794	55						
Option PRR	230	230		92	92				
Collective investment schemes PRR	376	353	23						
Counterparty risk capital component	4,918	4,916	62	36	36				
Concentration risk capital component	2,274	2,324	62	41	24				
Position, FX and commodity risk under internal models	907	907							
<b>All businesses</b>									
Commodity PRR	1,174	1,174		2	2				
Foreign currency PRR	190	183	7	10	10				
Operational risk capital requirement <sup>(3)</sup>	956	950	133	329	274		137		
<b>Total</b>	<b>14,161</b>	<b>14,067</b>	<b>393</b>	<b>764</b>	<b>693</b>	<b>0</b>	<b>137</b>	<b>0</b>	<b>0</b>

(1) FLM and CFE are regulated under the provisions of the Prudential Sourcebook for Mortgage and Home Finance Firms & Insurance Intermediaries.

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

(3) All legal vehicles are subject to the Advanced Measurement Approach (AMA) for operational risk.

The following tables show each entity's minimum capital requirements for credit risk under the standardised approach at 31 December 2010 and 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 tables.

**Table 6 Minimum Capital Requirements in Respect of Credit Risk under the Standardised Approach as at 31 December 2010**

(USD Millions)	CGMEL	CGML	CGMUKE	CIL	CIP	CFE <sup>(1)</sup>	Egg	FML <sup>(1)</sup>	CCACEL
Central governments & central banks				2	2				
Regional governments & local authorities									
Administrative bodies/non commercial undertakings				2	2				
Multilateral development banks									
International organisations									
Institutions	93	96	3	287	256		60		3
Corporates	3	3		911	907		5		
Retail				137	92		130		
Real estate property				88	3		39		
Past due items				12	8		2		
Regulatory high risk categories									
Covered bonds									
Securitisation positions				26	26				
Short-term institutions & corporates				39	39		38		
Collective Investment Undertakings									
Other	9	9		33	20		16		
<b>Total</b>	<b>105</b>	<b>108</b>	<b>3</b>	<b>1,537</b>	<b>1,355</b>		<b>290</b>		<b>3</b>

(1) FLM and CFE are regulated under the provisions of the Prudential Sourcebook for Mortgage and Home Finance Firms & Insurance Intermediaries.

**Table 7 Minimum Capital Requirements in Respect of Credit Risk under the Standardised Approach as at 31 December 2009**

(USD Millions)	CGMEL	CGML	CGMUKE	CIL	CIP	CFE <sup>(1)</sup>	Egg	FML <sup>(1)</sup>	CCACEL
Central governments & central banks									
Regional governments & local authorities				11	11				
Administrative bodies/non commercial undertakings				8	8				
Multilateral development banks									
International organisations									
Institutions	55	61	1	310	308		75		
Corporates	2	2		1,026	1,013		4		
Retail		2		334	235		200		
Real estate property				96	5		50		
Past due items				60	23		8		
Regulatory high risk categories									
Covered bonds									
Securitisation positions				21	21				
Short term institutions & corporates				40	40		34		
Collective Investment Undertakings									
Other	2	0		39	28		15		
<b>Total</b>	<b>59</b>	<b>65</b>	<b>1</b>	<b>1,945</b>	<b>1,692</b>		<b>386</b>		

(1) FLM and CFE are 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 the Global Consumer Group, credit risk management is responsible for establishing the Global Consumer Credit and Fraud Risk Policies, 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 fulfil 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 Clients Group (ICG) businesses.

## Credit Risk Procedures

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

99% of the collateral taken by CGML against OTC derivative exposures is in the form of 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 classified if there are doubts about their recoverability. For accounting purposes corporate loans are placed on a non-accrual basis (cash-basis) 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 uncollectable, taking into account the value of any collateral obtained.

Impairment is described in more detail in Section 5.3.

## Internal Economic Capital

Corporate and retail credit exposure is included in our economic capital model by 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 cash flows 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 cash flows 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 (CDS) market, are applied to the expected future cash flows determined in step one. Own-credit CVA is determined using Citi-specific 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 derivatives 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.

CVAs are also applied to debt accounted for at fair value, by incorporating 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 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 to 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 three 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 15% 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 2010 and 31 December 2009, indicating the benefits of legally enforceable netting agreements and collateral arrangements.

**Table 8 OTC Derivatives Exposures as at 31 December 2010**

(USD Millions)	CGML	CGMUKE	CIP
Gross positive fair value of contracts	154,819	295	697
Netting benefits	(117,123)	(161)	(161)
<b>Netted credit exposure</b>	<b>37,696</b>	<b>134</b>	<b>536</b>
Benefits of modelling collateral	(8,995)	(84)	0
<b>Net derivatives credit exposure</b>	<b>28,701</b>	<b>50</b>	<b>536</b>

**Table 9 OTC Derivatives Exposures as at 31 December 2009**

(USD Millions)	CGML	CGMUKE	CIP
Gross positive fair value of contracts	210,946	528	604
Netting benefits	(133,915)	(211)	(250)
<b>Netted credit exposure</b>	<b>77,031</b>	<b>317</b>	<b>354</b>
Benefits of modelling collateral	(45,086)	(24)	0
<b>Net derivatives credit exposure</b>	<b>31,945</b>	<b>293</b>	<b>354</b>

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. 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 2010 and 31 December 2009. CDS activity carried out by the other UK legal vehicles is not material.

**Table 10 Notional Value of CGML's CDS Transactions as at 31 December 2010**

(USD Millions)	Protection Bought	Protection Sold
Index CDS	305,763	306,462
Single name and other CDS	509,917	515,002
<b>Total</b>	<b>815,680</b>	<b>821,464</b>

**Table 11 Notional Value of CGML's CDS Transactions as at 31 December 2009**

(USD Millions)	Protection Bought	Protection Sold
Index CDS	232,361	229,778
Single name and other CDS	516,310	489,167
<b>Total</b>	<b>748,671</b>	<b>718,945</b>

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 has held 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 are set out below as at 31 December 2010 and 31 December 2009 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. SFT exposures are shown gross, without any benefits of credit risk mitigation.

**Table 12 Credit Exposures as at 31 December 2010**

Legal Vehicle	(USD Millions) 31 December 2010	(USD Millions) Average 2010
CGML	231,611	261,310
CGMUKE	7,549	5,927
CIP	42,416	49,874
Egg	7,483	8,385

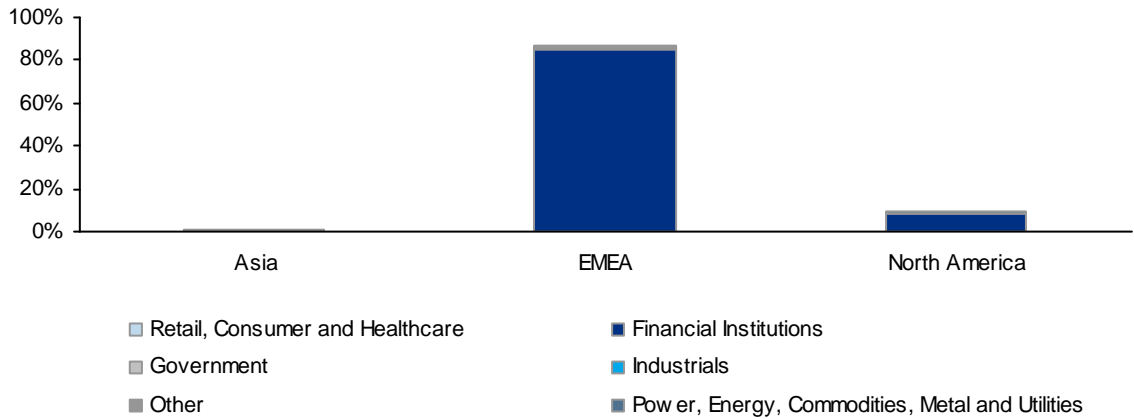
**Table 13 Credit Exposures as at 31 December 2009**

Legal Vehicle	(USD Millions) 31 December 2009	(USD Millions) Average 2009
CGML	232,691	234,553
CGMUKE	3,834	3,818
CIP	74,178	71,194
Egg	9,660	11,071

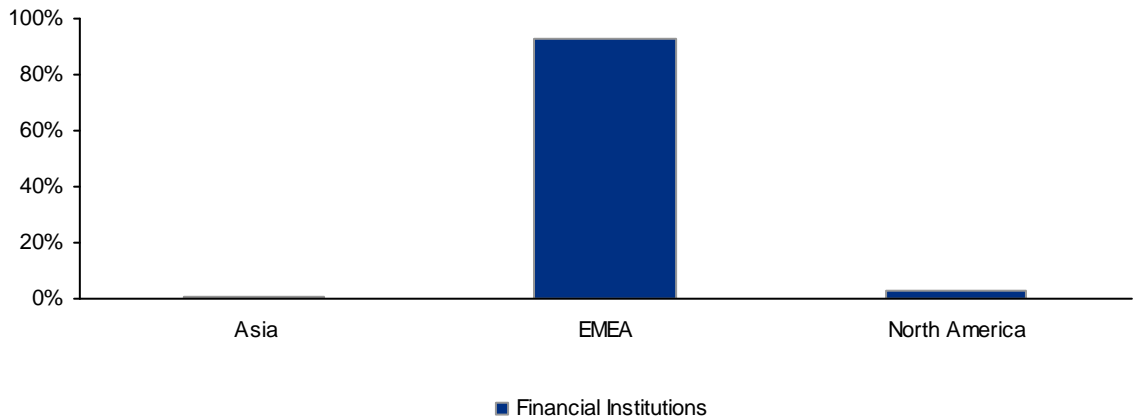
## Credit Risk Breakdown by Geography

The following charts set out the geographical distribution of credit exposures for CGML, CGMUKE and CIP as at 31 December 2010, broken down by sector. All credit exposures on Egg, CFE and FML are attributable to Europe, Middle East and Africa (EMEA).

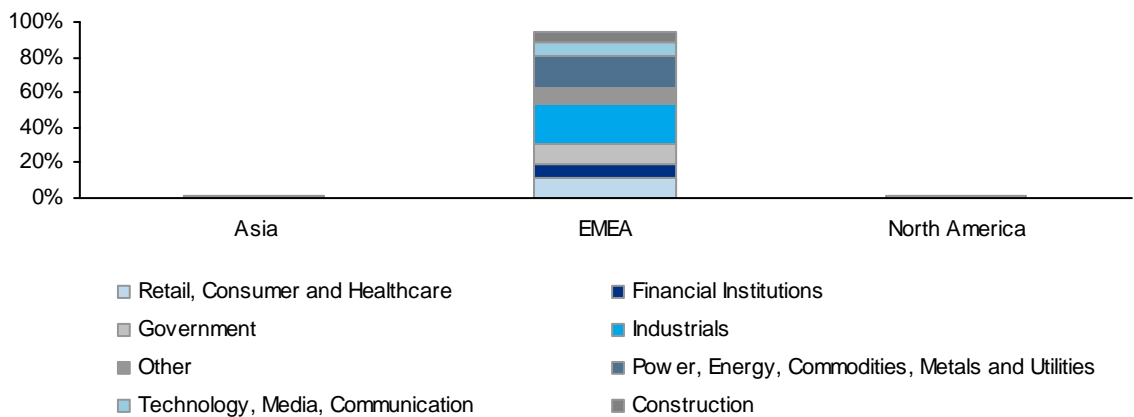
**Figure 3 CGML – Geographical Analysis as at 31 December 2010**



**Figure 4 CGMUKE – Geographical Analysis as at 31 December 2010**

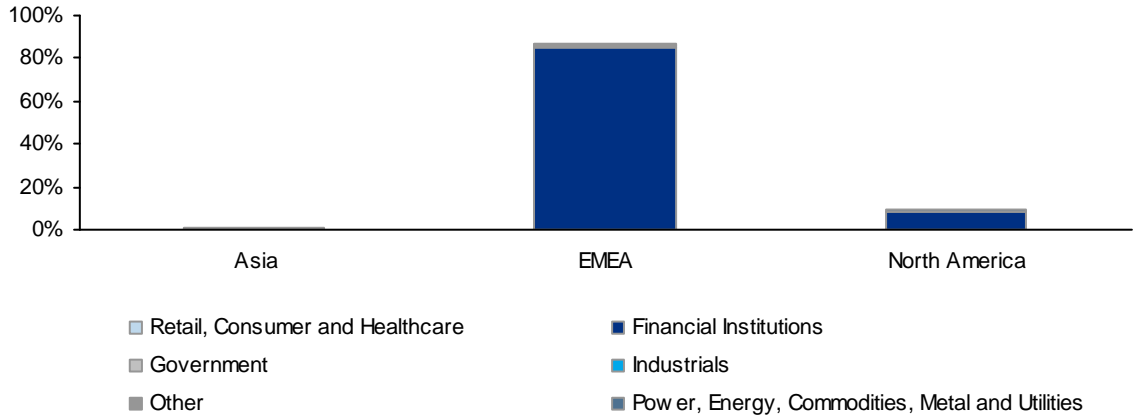


**Figure 5 CIP – Geographical Analysis as at 31 December 2010**

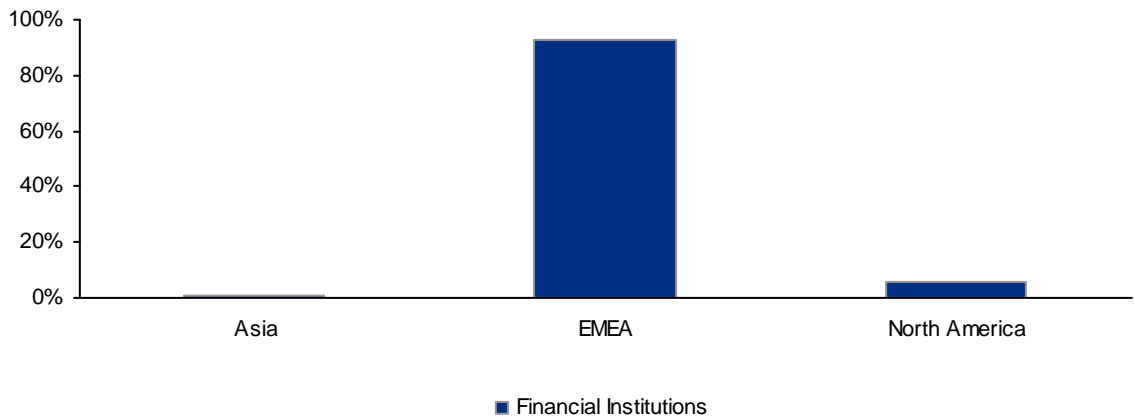


The following charts set out the geographical distribution of credit exposures for CGML, CGMUKE and CIP as at 31 December 2009, broken down by sector. All credit exposures on Egg, CFE and FML are attributable to Europe, Middle East and Africa (EMEA).

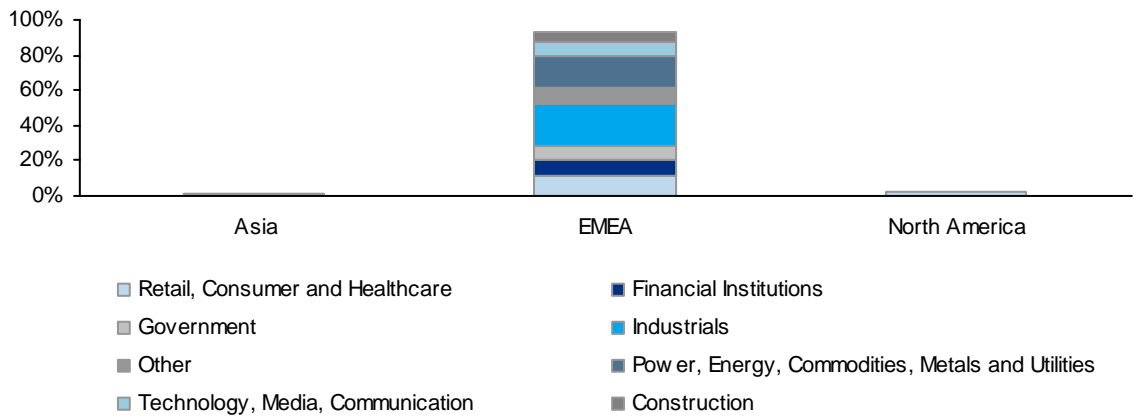
**Figure 6 CGML – Geographical Analysis as at 31 December 2009**



**Figure 7 CGMUKE – Geographical Analysis as at 31 December 2009**



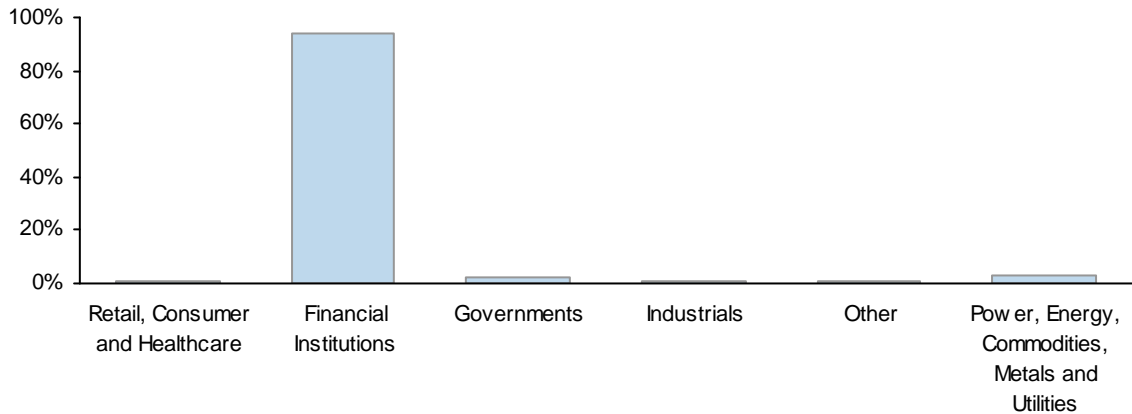
**Figure 8 CIP – Geographical Analysis as at 31 December 2009**



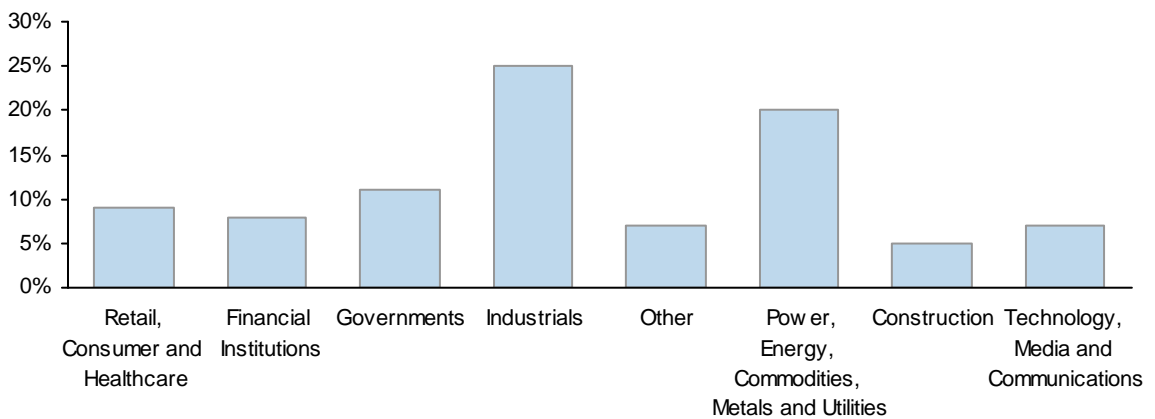
## Credit Risk Breakdown by Sector

The following charts set out the sector distribution of credit exposures for CGML, CIP and Egg as at 31 December 2010. 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 residential Real Estate sector.

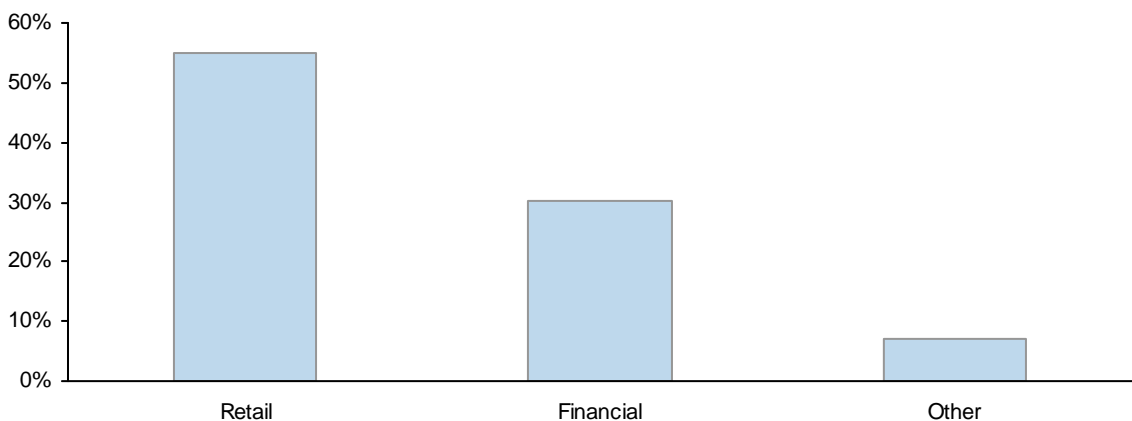
**Figure 9 CGML – Sector Analysis as at 31 December 2010**



**Figure 10 CIP – Sector Analysis as at 31 December 2010**

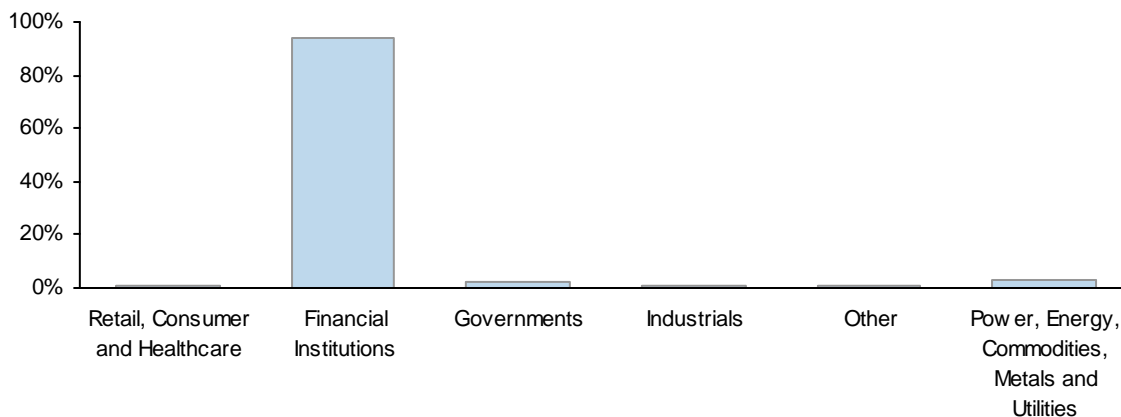


**Figure 11 Egg – Sector Analysis as at 31 December 2010**

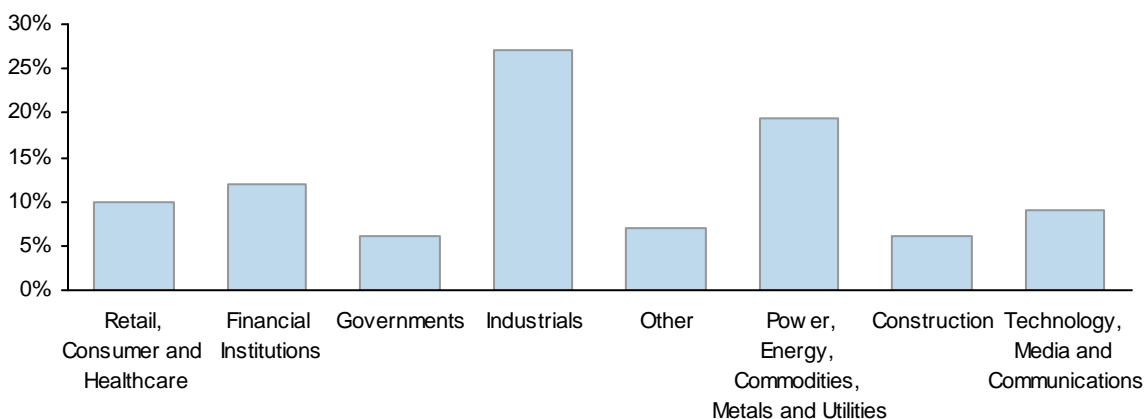


The following charts set out the sector distribution of credit exposures for CGML, CIP and Egg as at 31 December 2009. All credit exposures on CGMUKE are within the Financial sector, all those on CFE within the Retail sector and all those on FML within the residential Real Estate sector.

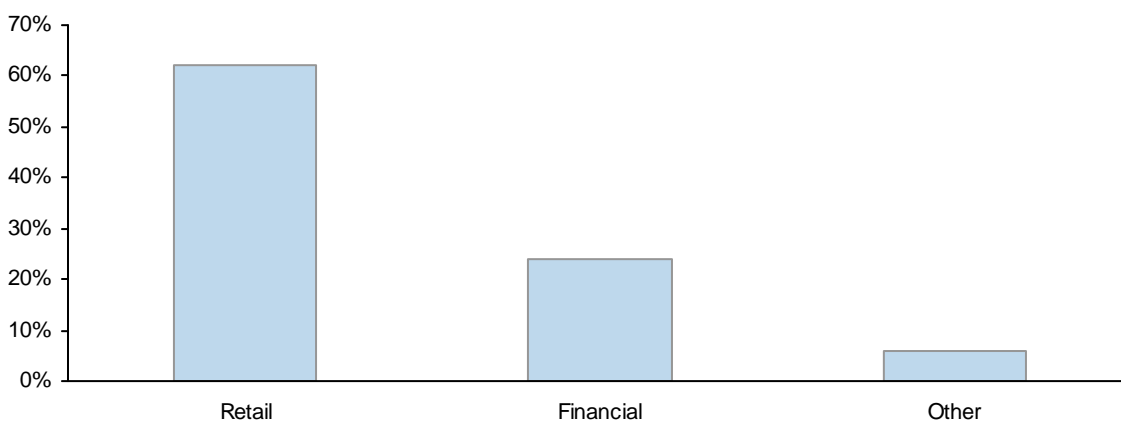
**Figure 12 CGML – Sector Analysis as at 31 December 2009**



**Figure 13 CIP – Sector Analysis as at 31 December 2009**



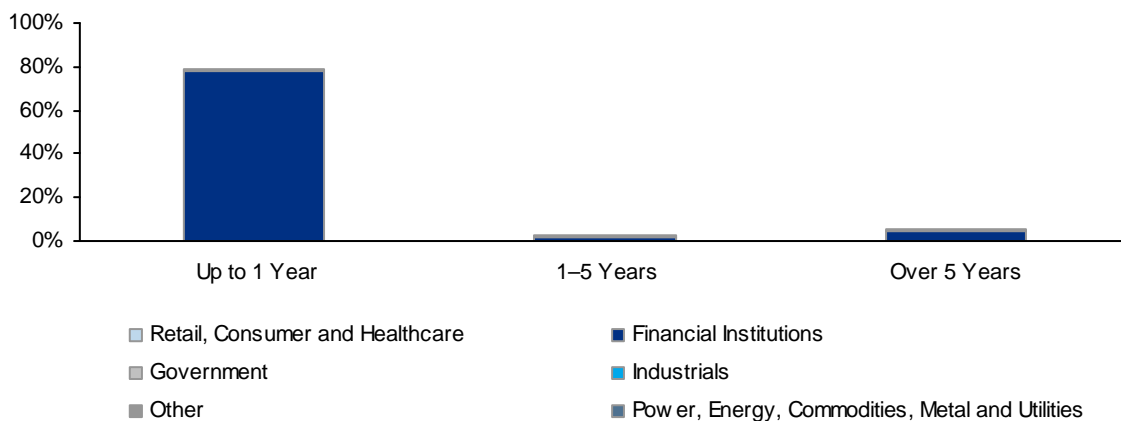
**Figure 14 Egg – Sector Analysis as at 31 December 2009**



## 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 2010, broken down by sector.

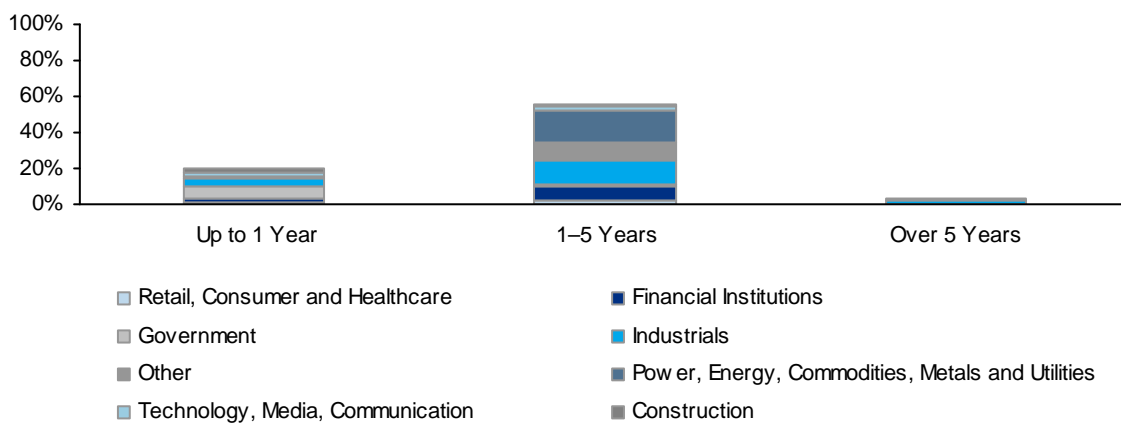
**Figure 15 CGML – Maturity Analysis as at 31 December 2010**



**Figure 16 CGMUKE – Maturity Analysis as at 31 December 2010**



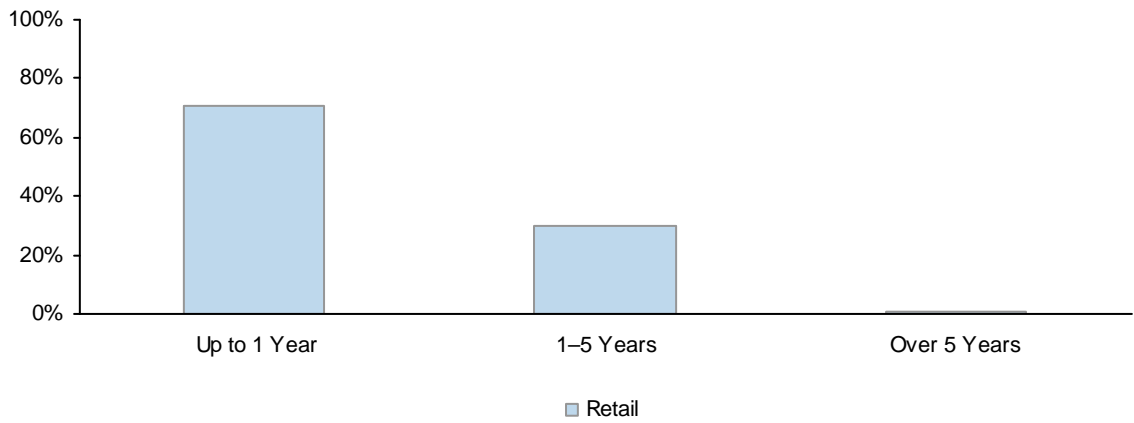
**Figure 17 CIP – Maturity Analysis as at 31 December 2010**



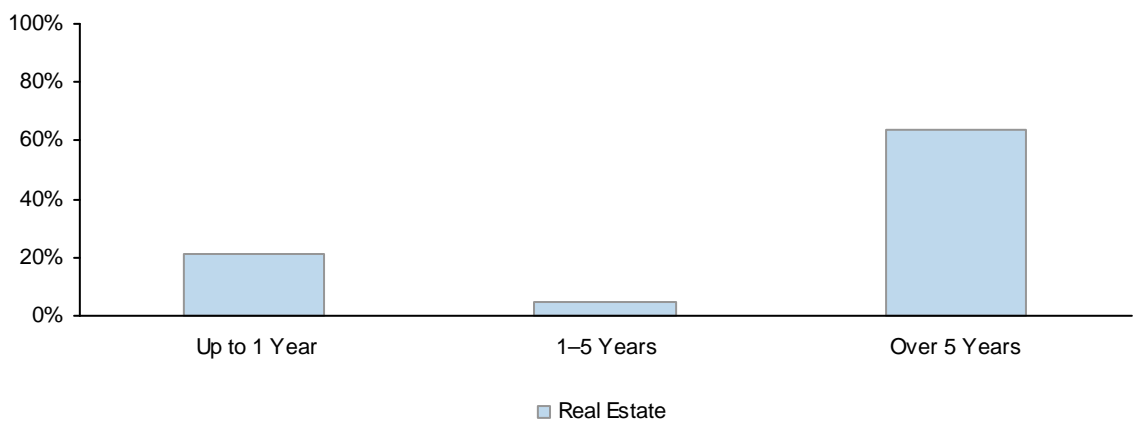
**Figure 18 Egg – Maturity Analysis as at 31 December 2010**



**Figure 19 CFE – Maturity Analysis as at 31 December 2010**



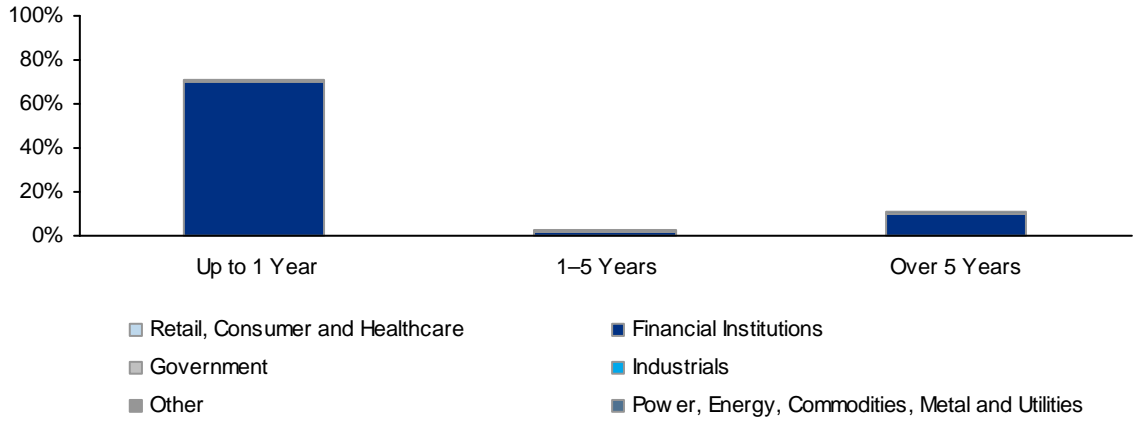
**Figure 20 FML – Maturity Analysis as at 31 December 2010**



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

The following charts set out the residual maturity distribution of credit exposures for the main UK operating entities as at 31 December 2009, broken down by sector.

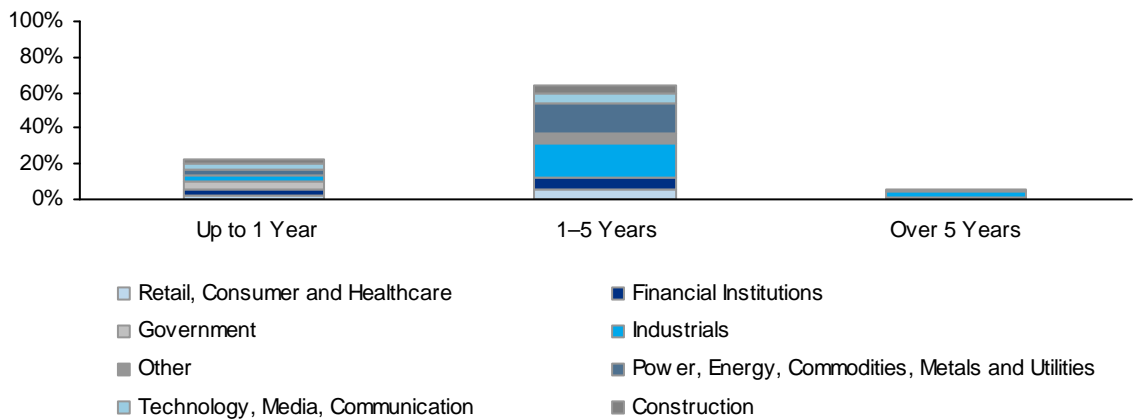
**Figure 21 CGML – Maturity Analysis as at 31 December 2009**



**Figure 22 CGMUKE – Maturity Analysis as at 31 December 2009**



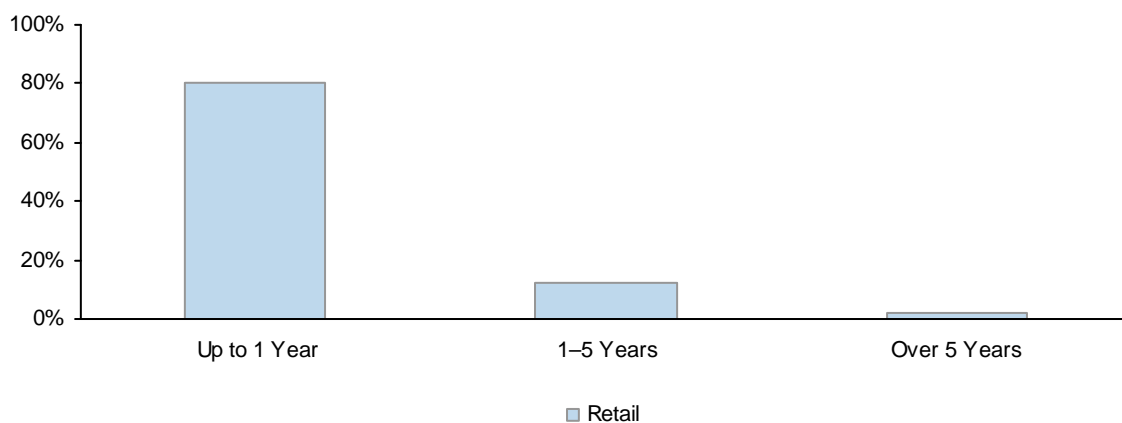
**Figure 23 CIP – Maturity Analysis as at 31 December 2009**



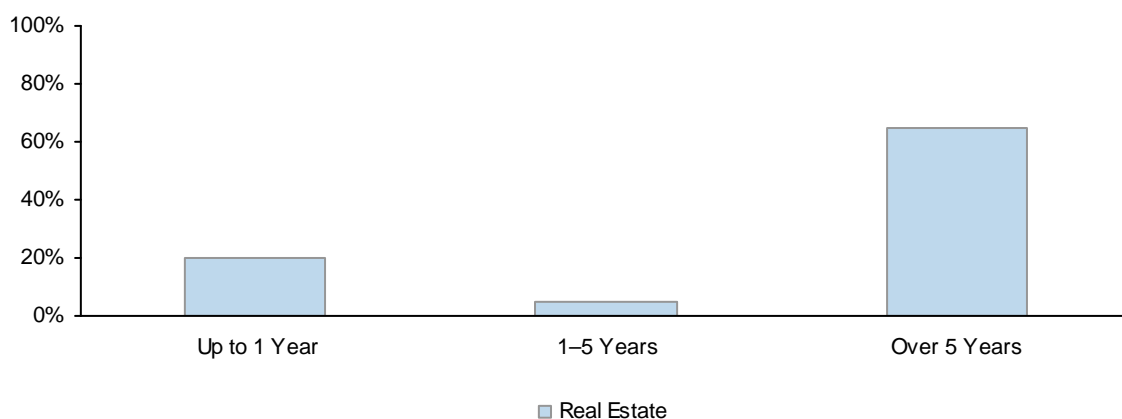
**Figure 24 Egg – Maturity Analysis as at 31 December 2009**



**Figure 25 CFE – Maturity Analysis as at 31 December 2009**



**Figure 26 FML – Maturity Analysis as at 31 December 2009**



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

# Impairment

## Impairment of Financial Assets

Under IFRS, 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
- The firm as lender, for economic or legal reasons relating to the borrower’s financial difficulty, grants to the borrower a concession that the firm would not otherwise consider
- 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
- 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
  - Adverse changes in the payment status of borrowers in the portfolio
  - 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 2010 was:

**Table 14 Impaired Wholesale Exposures as at 31 December 2010**

USD Millions	CGML	CGMUKE	CIP
Substandard	46	0	1,855
Doubtful	24	0	768

**Table 15 Impaired Wholesale Exposures as at 31 December 2009**

USD Millions	CGML	CGMUKE	CIP
Substandard	366	0	3,261
Doubtful	50	0	594

The level of total impaired exposures declined in 2010 reflecting a general improvement in credit quality.

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 as defined above including collective impairment of retail portfolios and past due exposures for Citi's UK legal vehicles as at 31 December 2010 and 31 December 2009 are shown in the tables below. All retail exposures on CIP, Egg, CFE and FML are within Europe.

**Table 16 Impaired Retail Exposures as at 31 December 2010**

USD Millions	CIP	Egg	CFE	FML
Real Estate	0	1,088	19	2,125
Retail	2,144	4,253	0	0
<b>Total</b>	<b>2,144</b>	<b>5,341</b>	<b>19</b>	<b>2,125</b>

**Table 17 Impaired Retail Exposures as at 31 December 2009**

USD Millions	CIP	Egg	CFE	FML
Real Estate	0	1,505	23	3,066
Retail	4,128	5,613	1,345	0
<b>Total</b>	<b>4,128</b>	<b>7,118</b>	<b>1,368</b>	<b>3,066</b>

The decline in CIP's impaired exposures reflects decreasing exposure to credit cards and consumer loans, in line with the Citi Holdings strategy to dispose of non core assets. CIP disposals during 2010 included the credit card and consumer finance portfolios in Sweden, Denmark, Finland and Norway and the credit card business in Italy.

Egg's impaired exposures continued to decrease as new business is no longer being written and existing balances mature or are repaid.

CFE's impaired retail exposure is now zero following the sale of its credit card portfolio during 2010.

FML sold its non performing first charge mortgage portfolio in 2010, which has resulted in a decline in its impaired real estate exposures. No new mortgage lending is being conducted on this vehicle and the remaining portfolio is in run-off.

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

**Table 18 Retail Value Adjustments and Provisions as at 31 December 2010**

USD Millions	CIP	Egg	CFE	FML
Real Estate	0	9	0	85
Retail	499	902	0	0
<b>Total</b>	<b>499</b>	<b>911</b>	<b>0</b>	<b>85</b>

**Table 19 Retail Value Adjustments and Provisions as at 31 December 2009**

USD Millions	CIP	Egg	CFE	FML
Real Estate	0	36	0	187
Retail	361	1,272	221	0
<b>Total</b>	<b>361</b>	<b>1,308</b>	<b>221</b>	<b>187</b>

## Movements in Impaired Exposures

For those assets held at cost, typically in the banking book, the tables below show the movements in impairments over the past and prior years.

**Table 20 Movements in Impairments during 2010**

USD Millions	CIP Wholesale	CIP Retail	Egg Retail	Egg Real Estate	CFE Retail	FML Real Estate
Impairments at 1 January 2010	270	361	1,272	36	221	187
Exchange adjustments	(15)	(41)	(55)	(3)	(10)	(8)
Charge against profits	41	272	241	(8)	0	40
Amounts written off	(149)	(45)	(527)	(16)	0	(129)
Disposals	0	(3)	0	0	(211)	0
Recoveries	(43)	(69)	(29)	0	0	(5)
Other	0	24	0	0	0	0
Impairments at 31 December 2010	104	499	902	9	0	85

**Table 21 Movements in Impairments during 2009**

USD Millions	CIP Wholesale	CIP Retail	Egg Retail	Egg Real Estate	CFE Retail	FML Real Estate
Impairments at 1 January 2009	210	489	966	12	130	53
Exchange adjustments	23	16	106	1	14	4
Charge against profits	337	793	578	52	302	248
Amounts written off	(226)	(815)	(354)	(29)	(211)	(118)
Disposals	0	(2)	0	0	0	0
Recoveries	(59)	(35)	(24)	0	(15)	0
Other	(15)	(85)	0	0	0	0
Impairments at 31 December 2009	270	361	1,272	36	221	187

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.

**Table 22 Credit Quality Assessment Scale**

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.

**Table 23 Simplified Summary of Risk Weightings by Credit Quality Step**

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 tables set out, for each major operating UK legal vehicle, the exposure values as at 31 December 2010 and 31 December 2009 (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. These exposures are calculated according to regulatory requirements.

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

**Table 24 Credit Quality Step Analysis of Exposure before and after Credit Risk Mitigation as at 31 December 2010**

USD millions	Credit Quality Step	CGML Gross	CGML Net	CGMUKE Gross	CGMUKE Net	CIP Gross	CIP Net	Egg Gross	Egg Net
Central governments or central banks	1	11,229	2,097	4		2,840	2,840		
	2	7,455	591			164	164		
	3	3,179	408						
	4	1,857	326						
	5	459	53			37	37		
	Unrated	455	62			155	155		
		24,634	3,537	4	-	3,196	3,196	-	-
Regional governments or local authorities	1	26	2						
	Unrated	601	196	1					
		627	198	1	-	-	-	-	-
Administrative bodies or non-commercial undertakings	1					33	33		
	3					72	72		
	Unrated					66	66		
		-	-	-	-	171	171	-	-
Multilateral development banks	1	448	45						
		448	45						
Institutions	1	25,585	9,805	182	182	32	32	2,117	2,117
	2	52,812	20,667	783	400	9,989	8,932	1,730	1,730
	3	3,403	819			448	448		
	4	9	9			43	43		
	5	-	0			182	182		
	Unrated	21,351	6,218	6,106	502	265	265		
		103,160	37,518	7,071	1,084	10,959	9,902	3,847	3,847
Corporates <sup>(1)</sup>	1	1,377	318	4	1	1,217	1,217		
	2	2,112	1,686			2,847	2,847		
	3	226	188			2,582	2,582		
	4	2	2			550	550		
	5	0	0			309	309		
	6	17	17			101	101		
	Unrated	99,008	26,014	469	256	14,905	8,695		
		102,742	28,225	473	257	22,511	16,301		
Retail	Unrated					1,486	1,486	2,176	2,176
		-	-	-	-	1,486	1,486	2,176	2,176
Secured on real estate property	Unrated					62	62	1,065	1,065
		-	-	-	-	62	62	1,065	1,065
Past due items	2					59	59		
	Unrated							14	14
		-	-	-	-	59	59	14	14
Securitisation positions	1					1,217	1,217	131	131
	2							18	18
	3							6	6
	4							6	6
	Deduction					2	2	20	20
		-	-	-	-	1,219	1,219	181	181
Short term claims on institutions and corporates	1					2,447	1,112		
	2					2	2		
		-	-	-	-	2,449	1,114	-	-
Other items	2					304	304	200	200
		-	-	-	-	304	304	200	200
<b>Total</b>		<b>231,611</b>	<b>69,523</b>	<b>7,549</b>	<b>1,341</b>	<b>42,416</b>	<b>33,814</b>	<b>7,483</b>	<b>7,483</b>

(1) Corporates includes Collective Investment Undertaking.

**Table 25 Credit Quality Step Analysis of Exposure before and after Credit Risk Mitigation as at 31 December 2009**

USD millions	Credit Quality Step	CGML Gross	CGML Net	CGMUKE Gross	CGMUKE Net	CIP Gross	CIP Net	Egg Gross	Egg Net
Central governments or central banks	1	9,261	1,628			451	451	34	34
	2	903	14			26	26		
	3	462	30			47	47		
	5					39	39		
	6					6	6		
	Unrated					248	248		
		10,626	1,672	-	-	817	817	34	34
Regional governments or local authorities	2	843	843						
	Unrated	56	56			144	144		
		899	899	-	-	144	144	-	-
Administrative bodies or non-commercial undertakings	1					55	55		
	2					102	102		
	Unrated					76	76		
		-	-	-	-	233	233	-	-
Multilateral development banks	1					6	6		
		-	-	-	-	6	6	-	-
Institutions	1	41,197	23,922	41	18	195	195	2,965	2,965
	2	57,416	22,733	773	384	19,754	5,770	1,404	1,404
	3	1,203	141			341	341		
	4	457	1			34	34		
	5	41	27			28	28		
	Unrated	18,345	6,300	1,760	504	410	410		
		118,659	53,124	2,574	906	20,762	6,778	4,369	4,369
Corporates <sup>(1)</sup>	1	1,804	456			719	719		
	2	3,242	1,769			3,313	3,313		
	3	465	461			3,560	3,560		
	4	7	7			511	511		
	5					321	321		
	6					242	242		
	Unrated	96,989	33,844	1,249	514	18,754	11,779		
		102,507	36,537	1,249	514	27,420	20,445	-	-
Retail	Unrated					3,901	3,901	3,323	3,323
		-	-	-	-	3,901	3,901	3,323	3,323
Secured on real estate property	Unrated					76	76	1,423	1,423
		-	-	-	-	76	76	1,423	1,423
Past due items	1					190	190		
	Unrated							92	92
		-	-	-	-	190	190	92	92
Securitisation positions	1					1,346	1,346	185	185
	2							12	12
	3							6	6
	Deduction					4	4	14	14
		-	-	-	-	1,350	1,350	217	217
Short term claims on institutions and corporates	1					18,822	2,255		
	2					21	21		
	3					32	32		
		-	-	-	-	18,875	2,308	-	-
Other items	1								
	2			11	11	404	404		
	Unrated							202	202
		-	-	11	11	404	404	202	202
<b>Total</b>		<b>232,691</b>	<b>92,232</b>	<b>3,834</b>	<b>1,431</b>	<b>74,178</b>	<b>36,652</b>	<b>9,660</b>	<b>9,660</b>

(1) Corporates includes Collective Investment Undertakings.

## 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 amounts and variation margin thresholds. In addition, there is firm wide 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 2010.

### 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 in the form of guarantees.

### Exposures

The following tables set 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 as at 31 December 2010 and 31 December 2009. The tables do not include the benefits of modelling collateral in respect of OTC derivative exposures covered by CGML's internal model method, which are described elsewhere in this disclosure.

**Table 26 Exposures Covered by Credit Risk Mitigation as at 31 December 2010**

USD Millions	CGML	CGMUKE	CIP	Egg
<b>Covered by eligible financial collateral:</b>				
Central governments or central banks	21,097	4		
Regional governments	429	1		
Multilateral development banks	403			
Institutions	65,642	5,833	197	15
Corporates <sup>(1)</sup>	68,244	343		85
<b>Covered by guarantees or credit derivatives:</b>				
Institutions	493	525	81	
Corporates	5,421	6	6,210	
Retail				1,405
<b>Total</b>	<b>161,729</b>	<b>6,712</b>	<b>6,488</b>	<b>1,505</b>

(1) Corporates includes Collective Investment Undertakings.

**Table 27 Exposures Covered by Credit Risk Mitigation as at 31 December 2009**

USD Millions	CGML	CGMUKE	CIP	Egg
<b>Covered by eligible financial collateral:</b>				
Central governments or central banks	8,955			
Regional governments				
Multilateral development banks				
Institutions	108,111	1,995		11
Corporates <sup>(1)</sup>	65,969	964	295	113
<b>Covered by guarantees or credit derivatives:</b>				
Institutions	648	227	164	
Corporates	7,153	81	6,975	
Retail				1,610
<b>Total</b>	<b>190,836</b>	<b>3,267</b>	<b>7,434</b>	<b>1,734</b>

(1) Corporates includes Collective Investment Undertakings.

## 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
- 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 firm's VaR methodology 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 and Equity 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 up to capture fat tail effects at a 99% confidence level over a one day period, and others adjusted up to capture short term spikes in volatility. Market variations 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, both linear and non-linear in nature.

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 performs hypothetical backtesting at both levels 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.

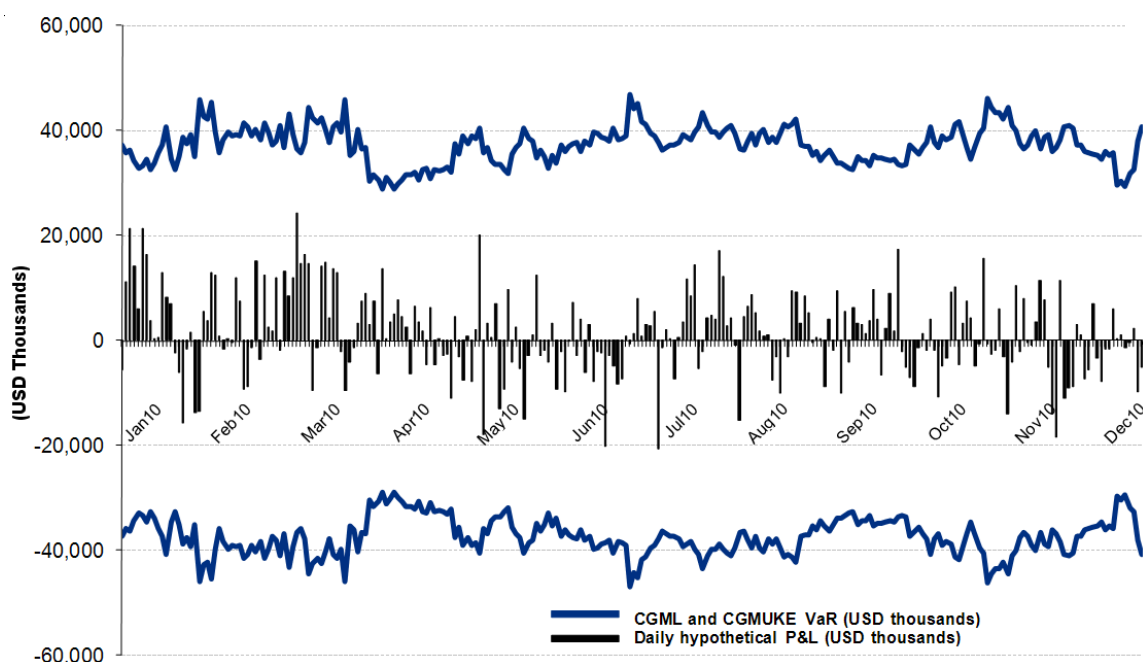
The highest, lowest and mean of the daily VaR measures during 2010, together with the VaR measure as at 31 December 2010, were as follows:

**Table 28 CGML and CGMUKE Key VaR Metrics in 2010**

VaR	USD Thousands
Minimum	28,948
Maximum	46,856
Mean	37,322
<b>31 December 2010</b>	<b>40,823</b>

The graph below illustrates a comparison of the daily end-of-day VaR measure to the one-day changes in the portfolio's value by the end of the subsequent business day (known as hypothetical P&L) for each day in 2010.

**Figure 27 CGML and CGMUKE Combined VaR for Businesses within the CAD2 Scope**



Total revenues of the trading business consist of:

- Customer revenue, which includes spreads from customer flow and gains on positions taken to facilitate customer orders
- Proprietary trading activities and
- Net interest income

Citi's UK legal vehicles maintain 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, systems, human factors 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
- 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 [Citi Operational Risk Policy](#) and supporting standards, 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

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). 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 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 basis 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 Requirements

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 re-calibrated 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 proposal is under evaluation with the FSA to enhance the local AMA capital model to make it more risk sensitive to the actual loss experience of the UK legal vehicles, rather than relying on revenues to drive the frequency parameter.

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; the QAF satisfies the regulatory requirement to incorporate a Business Environment and Internal Control Factor (BEICF) into the calculation of Pillar 1 capital requirements.

All legal vehicles have been approved by the FSA to use AMA for the calculation of operational risk capital requirements.

## Pillar 2 Requirements

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 take a capital (Pillar 1) benefit for the use of insurance as a mechanism to mitigate operational risk.

## 8 Non-Trading Book Exposures

### 8.1 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.

**Table 29 Non-Trading Book Equity Exposures as at 31 December 2010**

USD Millions

Investments Held at Fair Value	42
Investments Held at Cost	28
<b>Total</b>	<b>70</b>

**Table 30 Non-Trading Book Equity Exposures as at 31 December 2009**

USD Millions

Investments Held at Fair Value	16
Investments Held at Cost	35
<b>Total</b>	<b>51</b>

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.

### 8.2 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 tables show the IRE measures as at 31 December 2010 and 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.

**Table 31 Interest Rate Exposure as at 31 December 2010**

USD Millions		CIP	Egg	CFE	FML
12 Months	USD	3	(0)	0	0
	EUR	5	0	0	0
	GBP	2	(1)	1	0
5 Years	USD	14	(0)	(0)	0
	EUR	36	0	0	0
	GBP	(17)	(21)	4	1
10 Years	USD	15	(0)	(0)	0
	EUR	36	0	0	0
	GBP	(17)	(23)	4	2

**Table 32 Interest Rate Exposure as at 31 December 2009**

USD Millions		CIP	Egg	CFE	FML
12 Months	USD	8	0	0	0
	EUR	3	0	0	0
	GBP	5	(12)	0	0
5 Years	USD	8	0	0	0
	EUR	5	0	0	0
	GBP	5	(38)	(4)	1
10 Years	USD	8	0	0	0
	EUR	5	0	0	0
	GBP	5	(41)	(12)	2

The above tables show the exposure in the banking book to an interest rate increase of 100bps. Given that short term interest rates remain well below 100bps, a fall in interest rates would be less in magnitude assuming rates would not fall below zero. As a result, any impact would be significantly less material than the figures shown above in a falling interest rate environment.

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 Local Consumer Lending (LCL) business segments. ICG forms part of Citicorp and LCL part of Citi Holdings.

### 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 the following principal groups:

### Capital Markets Origination Securitised Products

The CMO Securitised Products business is split into the following three broad categories:

- 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
- 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 and debt advisory business in the current market
- Commercial Paper Conduit – Financing of a variety of financial assets using bankruptcy-remote programs funded via a Commercial Paper Conduit. The assets are sourced primarily from key relationships of Citigroup, and include trade receivables, credit cards, residential mortgages and personal loans

### Global Securitised Markets Real Estate Finance

The Real Estate Finance group is focussed on structuring and advising on commercial real estate financings. Real estate assets include commercial and residential real estate, hotels, pubs and retail.

Market events over the last two to three years have had a marked effect on the business, with the ability to distribute risk in the capital markets curtailed. While the basic business model (origination, execution, distribution) remains the same, the business has been focussed primarily on asset management, advisory mandates and structuring asset backed securities for private placement and/or reporing for liquidity. However, as public market ABS issuance continues to grow, building off the recovery that began in 2010, there will be an increasing focus on origination, execution and distribution.

Most of the European Securitised Products Group's activity is conducted on the books of CGML and Citibank NA, with some positions booked on 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); rating of Conduit Programmes; preliminary ratings assessments (at loan stage) and final determinations or assessments at the time of a capital markets issuance
- Moody's – Real estate related break-ups; rating of Conduit Programmes; preliminary ratings assessments (at loan stage) and final determinations or assessments at the time of a capital markets issuance

- Fitch – Real estate related break-ups and general surveillance; rating of Conduit Programmes; preliminary ratings assessments (at loan stage) and final determinations or assessments at the time of a capital markets issuance

## Local Consumer Lending

There were previously two securitisation structures established by Egg within the LCL business. Pillar Funding was established as a credit card receivables securitisation and Cronos RMBS Funding as a residential mortgages securitisation. Both structures are currently being wound down with the Pillar notes repurchased in November 2010 and the Cronos notes in July 2011.

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

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

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

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

As of 31 December 2010 there were no series outstanding in the Pillar funding trust. As of 31 December 2009, there were two series outstanding, series 2005-1 and 2007-1.

Further details of the Egg securitisations outstanding as at 31 December 2010 and 31 December 2009 are contained in the following tables:

**Table 33 Egg Securitisations outstanding as at 31 December 2010**

USD Millions		Date of Issuance	Placement	Issuance Amounts	Standard & Poor's	Moody's	Fitch
<b>Pillar Funding Trust</b>							
No Series Outstanding							
<b>Cronos RMBS Trust</b>							
Cronos Notes Class A		9 March 2005	Public	1,669	AAA	Aaa	N/A
Cronos Notes Class B		9 March 2005	Public	272	Unrated	Unrated	N/A
				1,941 <sup>(1)</sup>			

(1) Cronos notes had \$567 million outstanding as at 31 December 2010.

**Table 34 Egg Securitisations outstanding as at 31 December 2009**

USD Millions	Date of Issuance	Placement	Issuance Amounts	Standard & Poor's	Moody's	Fitch
<b>Pillar Funding Trust</b>						
Series 2005-1 (Class A/B/C)	20 November 2005	Public	405	AAA / A / BBB	Aaa / A2 / Baa2	AAA / A / BBB-
Series 2007-1 (Class D)	30 April 2007	Private	145	Unrated	Unrated	Unrated
			550 <sup>(1)</sup>			
<b>Cronos RMBS Trust</b>						
Cronos Notes Class A	9 March 2005	Public	1,744	AAA	Aaa	N/A
Cronos Notes Class B	9 March 2005	Public	284	Unrated	Unrated	N/A
			2,028 <sup>(2)</sup>			

(1) Pillar notes had \$422 million outstanding as at 31 December 2009.

(2) Cronos notes had \$768 million outstanding as at 31 December 2009.

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

## Accounting Policies for Securitisation Activity in the Banking Book (IFRS)

As described above, CIP and Egg have historically securitised 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, and as of December 2010 none of the notes issued by Egg securitisation vehicles were held by third parties. 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
  - 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 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 modelling 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 2010 the amount outstanding was:

**Table 35 Banking Book Securitisations outstanding as at 31 December 2010**

USD Millions	
Marlin	61
EMC III	34
EMC IV	609
Pillar	0
Cronos	567
<b>Total</b>	<b>1,271</b>

As at 31 December 2009 the amount outstanding was:

**Table 36 Banking Book Securitisations outstanding as at 31 December 2009**

USD Millions	
Marlin	66
EMC III	36
EMC IV	609
Pillar	422
Cronos	768
<b>Total</b>	<b>1,901</b>

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 2010 and 31 December 2009, broken down by exposure type, is as follows:

**Table 37 Aggregate Amount of Securitisation Positions retained or purchased as at 31 December 2010**

USD Millions	CIP	Egg
CLO	0	74
RMBS	1,056	1
Other	163	105
<b>Total</b>	<b>1,219</b>	<b>180</b>

**Table 38 Aggregate Amount of Securitisation Positions retained or purchased as at 31 December 2009**

USD Millions	CIP	Egg
CLO	0	95
RMBS	1,139	6
Other	211	116
<b>Total</b>	<b>1,350</b>	<b>217</b>

As at 31 December 2010, the majority of the Egg positions was hedged by a financial credit guarantee contract. Subsequently, Egg has sold down all but \$5 million of this portfolio (as of September 2011) and exited the financial credit guarantee in June 2011.

The capital treatment applied to the securitisation positions held at 31 December 2010 and 31 December 2009 is set out below.

**Table 39 Capital Treatment applied to the Securitisation positions held at 31 December 2010**

USD Millions	CIP	Egg
At 20%	1,217	131
At 50%	0	17
At 100%	0	6
At 350%	0	6
Deducted from Capital	2	20
<b>Total</b>	<b>1,219</b>	<b>180</b>

**Table 40 Capital Treatment applied to the Securitisation positions held at 31 December 2009**

USD Millions	CIP	Egg
At 20%	1,346	185
At 50%	0	12
At 100%	0	6
Deducted from Capital	4	14
<b>Total</b>	<b>1,350</b>	<b>217</b>

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

**Table 41 Pillar Funding Trust Investors' and Seller's Interest as at 31 December 2010**

USD Millions	Exposure Type	
<b>Pillar Funding</b>		
Investors' Interest	Credit Card Loans	0
Retained in form of Seller's Interest	Credit Card Loans	2,033

**Table 42 Pillar Funding Trust Investors' and Seller's Interest as at 31 December 2009**

USD Millions	Exposure Type	
<b>Pillar Funding</b>		
Investors' Interest	Credit Card Loans	421
Retained in form of Seller's Interest	Credit Card Loans	2,143

There is no Seller's Interest for the Cronos RMBS Trust.

There are no other revolving securitised exposures.

There were no securitisation deals transacted on the UK legal vehicles in 2010 or 2009.

# 10 Remuneration

## Citi's Compensation Philosophy

Citigroup Inc., its subsidiaries and affiliates (Citi) aims to implement a broadly consistent global philosophy and framework in relation to its remuneration policies and practices.

Citi's global compensation principles are developed and approved by the Personnel and Compensation Committee (P&C Committee) of the Board of Directors of Citigroup Inc., in consultation with management, independent consultants and Citi's senior risk officers. The P&C Committee is comprised of independent directors who have experience evaluating compensation structures, especially for senior executives. Citi's compensation principles are designed to advance Citi's business strategy by attracting, retaining and motivating the best talent available to execute the strategy, while ensuring, among other things, unnecessary or excessive risk-taking is not encouraged.

Citi established the EMEA Remuneration Committee (EMEA RemCo) in 2010 to review remuneration policies and structures within the European, Middle Eastern and African regions (EMEA). The EMEA RemCo provides regional remuneration oversight and is a sub-committee of the EMEA Governance Committee. The P&C Committee have ultimate oversight of Citi's remuneration matters.

In 2010, Citi's compensation programmes were designed to effect the following principles:

### Encourage Long-term Profitability Through the Principles of Responsible Finance

- Compensation programs should be designed to avoid unnecessary or excessive risks that can harm the franchise, while encouraging appropriate entrepreneurial activity, as a cornerstone of Citi's culture of responsible finance.
- The structure of compensation should reduce risks to the franchise, meet regulatory requirements, and be aligned with company wide goals and the furtherance of risk-adjusted stockholder returns.
- The structure of compensation should also reward long-term profitability and long-term sustainable increases in Citi's stock price.
- Citi should use a wide range of tools to implement this principle, including equity awards that are deferred over an appropriate period and a range of clawbacks, especially for senior executive.

### Enhance Citi Franchise Value

- Compensation should align the long-term interests of management with stockholders by having management share both upside opportunities and downside risk.
- Citi's compensation structure must support and promote company integrity and stability by encouraging sustainable and responsible business performance and long-term retention of key employees.
- Strong partnership across internal businesses and regions is critical.

## Facilitate Competitiveness

- Compensation structure and amounts, including fixed compensation, should be competitive within the global financial services market.
- Compensation programs must support the attraction and retention of talented employees.
- Compensation should be used as a tool to reduce employee turnover, as a means of minimising replacement costs and maintaining a pipeline of talent.

## Reward Performance Over an Appropriate Period

- Incentives should reward sustainable individual, business unit, and company performance, as well as behaviour that is consistent with Citi's culture and effective risk management practices.
- Incentive compensation should also be based on financial measures that best reflect the state of ongoing operations, including risk-related metrics.
- Performance rewards must balance financial and non-financial measures.

## Promote Meritocracy by Recognising Employee Contributions

- Individual compensation decisions should be differentiated considerably based on financial and non-financial performance and reflect current or prospective contributions to the value of Citi.
- Business unit and corporate goals should be balanced with individual contributions depending on an individual's role within the organisation.

Citi has recently updated its compensation philosophy statement for 2011 which is available online at:

<http://www.citigroup.com/citi/corporategovernance/docs.htm> .

## Remuneration Governance

### Global Remuneration Committee

The P&C Committee oversees Citi's global remuneration policies and practices. It annually reviews and approves base salary, incentive compensation and long-term incentive compensation for senior management. Independent consultants retained by Citi were asked to review and advise regarding the P&C Committee's process, its decisions regarding the compensation of members of senior management, and the reasons for reaching those decisions. The P&C Committee, with the assistance of the Chief Risk Officer, also reviews the design and structure of compensation programs relevant to all employees in the context of risk management.

The P&C Committee's terms of reference are documented in the P&C Committee Charter, which is available at:

<http://www.citigroup.com/citi/corporategovernance/charter.htm>

This document establishes the scope and mandate of the P&C Committee's responsibilities and the general principles governing the remuneration policy of the firm globally.

The P&C Committee members are all independent non-executive directors, selected and appointed on account of their background and experience in business and their capability to fulfil their responsibilities as P&C Committee members.

As at 10 March 2011, the P&C Committee members were: Alain JP Belda (Chair), Andrew N Liveris, Richard D Parsons, Anthony M Santomero, Diana L Taylor and William S Thompson, Jr.

Compensation paid to P&C Committee members in respect of 2010 is detailed in the 2011 Proxy Statement at pages 41–44 and biographies of Committee members are set out on pages 22–27. The P&C Committee met 15 times during 2010, and each Director attended at least 75% of all meetings.

The P&C Committee are supported by Citi's Control Functions, including Human Resources, Independent Risk and Legal.

The P&C Committee also draws on considerable experience of the other non-executive directors of the Board of Citigroup Inc. It is also empowered to draw upon internal and external expertise and advice as it determines appropriate and in its sole discretion and Citi pays the fees of any such external advisors. The committee has retained Independent Compensation Committee Adviser, L.L.C. (ICCA) since 2006, to provide the committee with independent advice on Citi's compensation programs for senior management. ICCA reports solely to the committee and the committee has sole authority to retain, terminate, and approve the fees of ICCA. ICCA does no other work for Citi. For 2010, no other compensation consultants have been engaged by the P&C Committee.

## **EMEA Remuneration Committee**

As noted above, in 2010, Citi established the EMEA RemCo, in order to provide regional oversight on remuneration matters for the European, Middle Eastern and African regions. The EMEA RemCo is a sub-committee of the EMEA Governance Committee. The P&C Committee retains ultimate oversight of Citi's remuneration matters.

The EMEA RemCo comprises the EMEA Senior Management team, including members of Risk, Compliance, Human Resources, Legal, Finance and the Co-CEOs.

## **FSA Remuneration Code Staff (FSA Code Staff)**

In accordance with the FSA Remuneration Code, Citi maintains a record of its Remuneration Code Staff, which comprises the categories of staff whose professional activities are determined as having a material impact on the firm's risk profile.

For US regulatory purposes, Citi developed for 2010 a systematic framework for identifying employees who are material risk takers (MRTs) across its businesses, based on a structural identification of the roles (by Independent Risk) which manage key financial and non-financial risks. Primarily, the framework identifies individuals based on roles, responsibilities and risk capital thresholds.

For the 2010 performance year, FSA Code Staff consisted of MRTs and those employees performing a "Significant Influence Function".

## **Design and Structure of Remuneration**

### **Fixed Remuneration – Salary and Benefits**

Citi's base salaries are set to appropriately attract, retain and motivate employees, in line with market practices, and are benchmarked against market data by role.

Pension and other non-cash benefits are offered to Citi employees as part of an overall reward package which is designed to be sufficiently competitive to attract, retain and motivate employees. Citi aims to provide common pension and other benefits across all units/business groups, which are competitive against the external market.

## **Variable Compensation**

### **Discretionary Incentive and Retention Award Plan**

Citi's Discretionary Incentive and Retention Award Plan (DIRA Plan) is Citi's main variable discretionary variable compensation plan, and applies globally. It is designed to incentivise, reward and retain employees based on their performance and contribution. Awards made under the DIRA Plan are typically awarded in the form of cash and/or Citi stock. Cash awarded for the 2010 performance year to Senior Management and FSA Code Staff under the DIRA Plan is included under "2010 Cash" in Table 43.

### **Long-term Restricted Stock Program**

For 2010, awards were made under the Long-term Restricted Stock Program (LTRSP), which was designed to comply with the requirements of the US Emergency Economic Stabilisation Act 2008, as amended. To the extent applicable the maximum value of the award granted to each participant did not exceed one-third of the total compensation awarded to the individual for 2010.

Participants consisted of senior executives of Citi. Awards cannot vest less than three years after they are awarded and are subject to sales restrictions and clawback provisions. Amounts awarded for the 2010 performance year to Senior Management and FSA Code Staff are included in "2010 Equity" in Table 43.

### **2010 Key Employee Profit Sharing Plan**

The Key Employee Profit Sharing Plan (KEPSP) provides incentive awards based on a multi-year period to encourage a focus on the long term performance of Citi in a manner that appropriately balances incentives and risk, thereby aligning these employees' interests with those of Citi Stockholders and other stakeholders. The structure of the program is also intended to encourage partnership behaviour across a specified group of key executives, whom the Board of Directors and/or management seek to incentivise and retain. Table 43 includes the value of KEPSP awards made in 2010 to FSA Code Staff. Prior years unvested KEPSP awards are included in the "Outstanding Deferred – Unvested" amounts.

## **Ratio of Fixed to Variable Remuneration**

Citi seeks to balance the components of reward between fixed and variable, and between short term and long-term components. Annual base salaries for senior employees are regularly reviewed by the P&C Committee. Citi operates a fully flexible remuneration policy, including the possibility to pay zero variable remuneration. An annual review of the balance between fixed and variable compensation takes place and where required, adjustments are made to the fixed element of pay to ensure that an appropriate balance of fixed versus variable continues to be maintained on an ongoing basis. The aggregate of base salaries paid to Senior Management and FSA Code Staff for 2010 is set out in Table 43.

## **Use of Stock as Deferred Compensation**

Citi operates a mandatory deferral policy, where total annual variable compensation of an individual exceeds globally set thresholds. For 2010, variable compensation subject to deferral was typically awarded in the form of Citi stock. However, a portion of deferred remuneration may be in the form of deferred cash and/or phantom units related to Citi's share price, at Citi's discretion and subject to regulatory requirements.

Citi believes that awarding deferred stock is an effective means of aligning employee interests with those of stockholders and other stakeholders. Certain senior executives are subject to stock ownership commitments.

The Capital Accumulation Program (CAP) and Citigroup Stock Award Program (CSAP) are the main programmes under which Citi may make awards of stock to selected employees. Deferrals are typically made through awards of Citi stock under CAP and are subject to the terms of the relevant CAP plan. Equity awarded under CAP and CSAP for the 2010 performance year to Senior Management and FSA Code Staff are included in “2010 Equity” in Table 43. Prior years unvested CAP and CSAP awards are included in the “Outstanding Deferred – Unvested” amounts.

## Deferrals

Citi operates a standard or “default” deferral policy period of three or four years, which it considers captures the duration of most risks in a proportionate manner.

In accordance with the FSA Remuneration Code, FSA Code Staff were subject to deferral rates of 40% to 60% depending on their level of total variable compensation. Deferred variable compensation awarded to FSA Code Staff is deferred into stock under CAP, vesting over three years, subject to a further minimum six-month sale restriction once vested. In regards to the remaining portion of variable compensation, 50% is paid as immediately vesting stock subject to a minimum six-month sales restriction. FSA Code Staff who fall within the FSA’s de minimise thresholds are subject to the general deferral rate thresholds under Citi’s mandatory deferral programme.

## Clawback

Citi may reduce unvested deferred variable remuneration granted to FSA Code Staff when, as a minimum

- There is reasonable evidence of employee misbehaviour or material error
- The firm or the relevant business unit suffers a material downturn in its financial performance
- The firm or the relevant business unit suffers a material failure of risk management

For MRTs, the unvested portions of 2010 awards will be subject to clawback based on the following terms

- Award is based on materially inaccurate financial statements (which includes, but is not limited to, statements of earnings, revenues, or gains) or materially inaccurate performance metric criteria, or
- The participant knowingly engaged in providing inaccurate information (including knowingly failing to timely correct inaccurate information) relating to financial statements or performance metrics, or
- The participant materially violated any risk limits established or revised by senior management, a business head and/or risk management, or any balance sheet or working or regulatory capital guidance provided by a business head, or
- The employment of the participant is terminated due to misconduct that occurred during the period the award is earned

## Severance

Citi generally does not provide guaranteed levels of severance upon early termination of employment. Severance pay is discretionary unless otherwise required by local law or workplace agreements. Payments related to the termination of employment must be designed to reflect performance achieved over time and are designed in a way that does not reward failure.

## Guarantees, Buyouts and Retention Payments

Guaranteed incentive awards for all employees can only generally be made in exceptional circumstances and by reference to the first year of service only.

Guaranteed awards which buy out equity or similar instruments which are forfeited as a result of resigning employment with another employer and joining Citi are generally permitted but must not be more generous in either amount or terms than that provided by the former employer. Table 43 includes 2010 guaranteed and buy out awards made to FSA Code Staff hires.

Guaranteed awards made for the purposes of retaining employees can only generally be made in exceptional circumstances, for example, during major restructuring, during a merger process; or where a business is winding down, such that particular staff need to be retained on business grounds. Retention awards made to FSA Code Staff require prior notification to and approval from the FSA, prior to award. No guaranteed retention awards were made to FSA Code Staff or Senior Management for 2010.

## Personal Hedging

Employees subject to the FSA Remuneration Code are prohibited from engaging in personal hedging strategies or taking out remuneration or liability related contracts of insurance that undermine or may undermine any risk alignment effects of their remuneration arrangements.

In addition, Citi's Corporate Personal Trading Policy and Standards prohibits "Covered Employees" and related persons from hedging in any manner (other than currency hedges) unvested restricted stock or deferred stock awarded under CAP or restricted shares or otherwise having a financial interest in having Citi securities decline in value.

Certain "Covered Employees" are subject to restrictions on specific types of trading in Citi shares. The following transactions in Citi securities are prohibited:

- Short sales
- Sales of naked calls
- Purchases of puts for speculative purposes
- Speculative option strategies (i.e. straddles, combinations and spreads) when the Covered Employee does not have an underlying position in Citigroup securities that would permit the Covered Employee to make delivery if the options were to be exercised; and
- Any transactions related to the hedging of unvested CAP or Restricted shares

## Link Between Pay and Performance

Citi is committed to responsible compensation practices and structures. Citi seeks to balance the need to compensate its employees fairly and competitively based on their performance, while assuring that their compensation reflects principles of risk management and performance metrics that reward long-term contributions to sustained profitability.

Citi's compensation programmes aim to discourage unnecessary or excessive risk-taking, facilitate competitiveness, reward performance over an appropriate period, promote meritocracy by recognising individual employee contributions, and enhance Citi's franchise value. Exceptional employees, and exceptional efforts by those employees, have been required to move Citi towards sustained and responsible profitability when there continues to be worldwide competition for proven talent in the financial services industry.

## Firm and Business Unit Performance

For 2010, Citi utilised a company performance dashboard which shows the businesses' financial performance, including risk-adjusted metrics such as return on assets, return on risk capital, risk-

adjusted assets, Value at Risk (VaR), and stress tests. This dashboard is used as a template for reports to the P&C Committee, which uses the dashboard in consultation with the businesses and the Finance department to make determinations about compensation accruals on a quarterly basis.

For 2010, the framework for evaluating year-end incentive compensation pools included a methodology to calculate initial incentive compensation pools utilising a return on risk-adjusted assets metric; initial pools were then adjusted to reflect other business results.

Citi's incentive compensation system is not formulaic. Incentive compensation pools are ultimately determined by the application of the informed business judgment of experienced professional managers overseen by a solid independent governance process. Management discretion is applied to adjust for market realities, to appropriately balance the short term performance and the long term success of the franchise, to incentivise an appropriate balance of risk and reward, to retain talent through pay differentiation (meritocracy), to support specific business and talent investments, and to provide for the achievement of specific financial and non-financial strategic goals.

Citi's capital position is considered in priority to incentive compensation and the final incentive pools are determined after prudent consideration of Citi's capital position and expected future requirements. Citi generally manages its capital position both locally and with a high degree of central oversight.

Citi's compensation practices are important components of our approach to risk management. Business managers bear primary responsibility for managing risk. Citi's Independent Risk Management function (Independent Risk), when combined with the in-business risk managers, controls risks, mitigates behaviour that might otherwise expose Citi to unnecessary and excessive risks, and improves Citi's understanding and management of potential "fat tail" events. Citi has continued to refine its methodologies to assure full identification and transparency of risks, including market, credit, liquidity and operational risk exposures; to monitor and control such exposures, including risk assessment processes and policies; and to develop enhanced metrics for risk decision making. Citi has also enhanced its methodologies to evaluate risk/returns relative to capital at risk, considering, among other things, fat-tail risk, stress scenarios and risk capital evaluation.

## Individual Performance

As noted above, one of Citi's key compensation principles is to "promote meritocracy by recognising employee contributions". For 2010, individual performance assessment was based on five value statements

- Serve clients with distinction (internal and external clients)
- Build a great team and/or be a great team member
- Produce results with integrity
- Lead through innovation
- Manage risk and compliance

The Value Statements include a range of financial, non-financial and risk based measures. Individuals are rated against the Value Statements, along with their tailored business and individual goals, which results in an overall performance rating for the year.

A number of non-financial metrics in the Value Statement are intended to measure how an individual contributes to the longer term performance of Citi. For example

- Establishes an inclusive and positive team-oriented work environment and treats others with dignity and respect

- Does business in a way that enhances and protects the Citi franchise and adheres to the highest standards of personal and professional behaviour
- Seeks and identifies opportunities to improve the client experience and ensures the delivery of exceptional service to clients
- Appropriately assess risk/reward relationships when making business decisions
- Identifies risk inherent in particular situations or transactions and its impact on other areas of Citi/Citi as a whole

In exercising discretion over the amount of incentive compensation, managers consider risk metrics and risk behaviours as appropriate. Poor risk management practices will be taken into account as part of the year end process.

In addition, whilst the appraisal system reflects performance in the current year, any compliance or risk related breach in the previous performance period that is discovered in the current performance period will be taken into account when determining the individual's rating. For FSA Code Staff and MRTs material errors which occur in a previous performance period but are discovered in the current performance period may result in an adjustment (i.e. clawback) of unvested deferred compensation and/or current year end variable compensation.

## **Remuneration of Control Function Employees**

In terms of remuneration for employees in control functions, whilst remuneration levels are influenced by Citi's overall performance, individual compensation is determined within the function and pay decisions are based on assessments against measurable goals and targets which are set by each function. Compensation of Control Function employees is regularly benchmarked against external market data.

Citi segregates key control functions (e.g. Compliance and Risk) as control functions to minimise any scope for potential conflicts of interests. Accordingly, there should be no conflict of interest on account of any business' potential to influence individual awards in the control function. Citi ensures performance management and compensation decisions for function personnel are directed by function management, and not the business unit.

**Table 43 Fixed and Variable Compensation of Citi FSA Code Staff for the 2010 Performance Year**

	2010 Fixed		2010 Variable Compensation Paid In 2011 <sup>(i)</sup>				Other Variable Compensation <sup>(i)</sup>				Buy-Out of Forfeited Deferrals from Prior Employer (MM GBP)	Severance (MM GBP)
	Employees	Base Salary <sup>(v)</sup> (MM GBP)	2010 Cash (MM GBP)	2010 Vested Outstanding (MM GBP)	2010 Equity (MM GBP)	Guarantees - Recruitment <sup>(iii)</sup> (MM GBP)	2010 KEPSP (MM GBP)	Outstanding Deferred - Unvested <sup>(ii)</sup> (MM GBP)	Outstanding Deferred - Vested <sup>(ii)</sup> (MM GBP)			
CGML	54	29.50	21.97	21.70	70.47	1.70	6.27	149.16	-	2.21	-	
Other Code Staff	42	19.06	17.45	17.18	54.04	1.70	3.09	115.04	-	2.21	-	
Senior Management <sup>(vi)</sup>	12	10.43	4.52	4.52	16.43	-	3.18	34.12	-	-	-	
Other <sup>(iv)</sup>	41	16.17	9.47	6.19	19.98	1.29	2.59	40.39	-	-	-	
Other Code Staff	36	14.71	8.37	5.10	16.89	-	2.59	33.61	-	-	-	
Senior Management <sup>(vi)</sup>	5	1.46	1.10	1.10	3.09	1.29	-	6.78	-	-	-	
<b>Grand Total</b>	<b>95</b>	<b>45.67</b>	<b>31.44</b>	<b>27.89</b>	<b>90.45</b>	<b>2.99</b>	<b>8.86</b>	<b>189.55</b>	<b>-</b>	<b>2.21</b>	<b>-</b>	

Notes:

- i) All non-GBP payments converted to GBP at 1.5505 USD / GBP and 1.3357 EUR/ USD (2010 year-end FX rate)
- ii) Outstanding Deferred –consists of
  - a) **Options** – valued at strike price less closing price January 31st (\$4.82)
  - b) **Shares** - valued using closing price January 31st (\$4.82).
  - c) **2010 Key Employee Profit Share Plan (KEPSP) & Key Risk Employee Plan (KREP)**  
 "The value of the KEPSP award has been estimated using the threshold performance goals under the plan. Final payouts in 2013 and 2014 will be based on cumulative pre-tax income of Citi during the pre-determined performance period. Risk employees are under a separate plan (KREP) as they are required to evaluate the KEPSP but figures for risk plan are included in this total. Information for both Citigroup and Citi Holdings can be found in Citigroup's Financial Data Supplement as filed with the Quarterly Earnings Releases. Each supplement is published on Citi's website at <http://www.citigroup.com/citi/fin/qer.htm>."
- iii) Guaranteed Amounts are included within Variable Compensation.
- iv) As less than 10 employees are designated Code Staff within the CIP legal entity, due to the need to maintain individual confidentiality, the employees have been included under 'Other'. The following entities and employee counts are reported under Other; 4 in Citibank International plc (CIP); 35 in Citibank NA London Branch; 1 in CitiFinancial Corporation Limited and 1 in Citigroup Global Markets Deutschland AG, London Branch..
- v) Includes stock salary payments to FSA Code staff falling within the Global 2010 Top 25 population.
- vi) Senior Management defined as members of EMEA Operating Committee.

## 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 US 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 2010 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 2010 Annual Report.