

OS AA01

Statement of details of parent law and other information for an overseas company



FC1835

☒ **What this form is for**
You may use this form to
accompany your accounts
disclosed under parent law

☒ **What this form is NOT for**
You cannot use this form to
an alteration of manner of
with accounting requirements

WEDNESDAY



A35 *AMM81ZAH* 180
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ①	Citibank, N A.
If the company has already been registered in the UK, please enter the establishment number below	
UK establishment number ②	B R 0 0 1 0 1 8

→ **Filling in this form**
Please complete in typescript or in bold black capitals
All fields are mandatory unless specified or indicated by *
① This is the name of the company in its home state
② This should only be completed if the company has already been registered in the UK

Part 2 Statement of details of parent law and other information for an overseas company

A1	Legislation
Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited	
Legislation ①	LAWS OF THE UNITED STATES

① This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts

A2	Accounting principles
Accounts	Have the accounts been prepared in accordance with a set of generally accepted accounting principles? Please tick the appropriate box <input type="checkbox"/> No. Go to Section A3 <input checked="" type="checkbox"/> Yes. Please enter the name of the organisation or other body which issued those principles below, and then go to Section A3
Name of organisation or body ①	GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

① Please insert the name of the appropriate accounting organisation or body

A3	Accounts
Accounts	Have the accounts been audited? Please tick the appropriate box <input type="checkbox"/> No Go to Section A5 <input checked="" type="checkbox"/> Yes Go to Section A4

OS AA01

Statement of details of parent law and other information for an overseas company

A4

Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box

☐ No. Go to Part 3 'Signature'☒ Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'

① Please insert the name of the appropriate accounting organisation or body

Name of organisation or body ①

AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS**A5**

Unaudited accounts

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box

☐ No☐ Yes

Part 3

Signature

I am signing this form on behalf of the overseas company

Signature

Signature

X

Jim Reuben

X

This form may be signed by
Director, Secretary, Permanent representative

OS AA01

Statement of details of parent law and other information for an overseas company



Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	JILL ROBSON
Company name	CITIGROUP
Address	CITIGROUP CENTRE CANADA SQUARE
Post town	LONDON
County/Region	
Postcode	E14 5LB
Country	
DX	
Telephone	



Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form



Important information

Please note that all this information will appear on the public record



Where to send

You may return this form to any Companies House address:

England and Wales

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland:

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1



Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

250600/40

FC 1835



CITIBANK, N.A.

(an indirect wholly owned subsidiary of Citigroup Inc.)

**Audited Financial Statements
and Footnotes**

For the Years Ended December 31, 2010 and 2009



AZ2X1YEL
15/10/2011
COMPANIES HOUSE

A29

17

CITIBANK, N.A.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report	1
Consolidated Statement of Income—	
For the Years Ended December 31, 2010 and 2009	2
Consolidated Balance Sheet—	
December 31, 2010 and 2009	3
Consolidated Statement of Changes in Stockholder's	
Equity—For the Years Ended December 31, 2010	
and 2009	5
Consolidated Statement of Cash Flows—	
For the Years Ended December 31, 2010 and 2009	6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization	7	Note 17 – Capital Resources	46
Note 2 – Summary of Significant Accounting Policies	8	Note 18 – Changes in Accumulated Other	
Note 3 – Discontinued Operations	20	Comprehensive Income (Loss)	48
Note 4 – Interest Revenue and Expense	21	Note 19 – Securitizations and Variable Interest Entities	49
Note 5 – Commissions and Fees	21	Note 20 – Derivatives Activities	60
Note 6 – Principal Transactions	22	Note 21 – Concentrations of Credit Risk	68
Note 7 – Incentive Plans	22	Note 22 – Fair Value Measurement	68
Note 8 – Retirement Benefits	23	Note 23 – Fair Value Elections	79
Note 9 – Income Taxes	24	Note 24 – Fair Value of Financial Instruments	84
Note 10 – Federal Funds/Securities Borrowed, Loaned,		Note 25 – Pledged Securities, Collateral, Commitments	
and Subject to Repurchase Agreements	26	and Guarantees	85
Note 11 – Trading Account Assets and Liabilities	26	Note 26 – Regional Details	91
Note 12 – Investments	27	Note 27 – Related Party Transactions	92
Note 13 – Loans	35	Note 28 – Contingencies	94
Note 14 – Allowance for Credit Losses	42	Note 29 – Subsequent Events	98
Note 15 – Goodwill and Intangible Assets	43		
Note 16 – Debt	45		

INDEPENDENT AUDITORS' REPORT



The Board of Directors
Citibank, N A

We have audited the accompanying consolidated balance sheets of Citibank, N A and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citibank, N A and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with U S generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2010 the Company changed its method of accounting for qualifying special purpose entities, variable interest entities and embedded credit derivatives.

We also have examined (or audited) in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 25, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

New York, New York
March 25, 2011

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

<i>In millions of dollars</i>	Year ended December 31	
	2010	2009
Revenues		
Interest revenue	\$40,630	\$45,788
Interest expense	11,163	13,988
Net interest revenue	\$29,467	\$31,800
Commissions and fees	\$11,229	\$10,462
Principal transactions	4,832	1,483
Realized gains (losses) on sales of investments	1,862	1,253
Other than temporary impairment losses on investments ⁽¹⁾		
Gross impairment losses	(1,282)	(6,085)
Less Impairments recognized in OCI	70	4,016
Net impairment losses recognized in earnings ⁽¹⁾	\$(1,212)	\$(2,069)
Other revenue	414	309
Total non-interest revenues	\$17,125	\$11,438
Total revenues, net of interest expense	\$46,592	\$43,238
Provisions for credit losses and for benefits and claims		
Provision for loan losses	\$ 9,161	\$ 24,097
Policyholder benefits and claims	19	78
Provision for unfunded lending commitments	(101)	243
Total provisions for credit losses and for benefits and claims	\$ 9,079	\$24,418
Operating expenses		
Compensation and benefits	\$13,333	\$12,467
Premises and equipment	2,118	2,270
Other operating	11,832	11,944
Total operating expenses	\$27,283	\$26,681
Income (loss) from continuing operations before income taxes	\$10,230	\$ (7,861)
Provision (benefit) for income taxes	1,955	(5,157)
Income (loss) from continuing operations	\$ 8,275	\$ (2,704)
Discontinued operations		
Income (loss) from discontinued operations	\$ 79	\$ (28)
Gain (loss) on sale	(810)	(27)
Provision (benefit) for income taxes	(395)	(39)
Income (loss) from discontinued operations, net of taxes	\$ (336)	\$ (16)
Net income (loss) before attribution of noncontrolling interests	\$ 7,939	\$ (2,720)
Net income attributable to noncontrolling interest	35	74
Net income (loss) attributable to Citibank	\$ 7,904	\$ (2,794)

(1) As of January 1, 2009, the Company adopted ASC 320-10-65, *Investments—Debt and Equity Securities*. See Notes to the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

<i>In millions of dollars, except shares</i>	December 31,	
	2010	2009
Assets		
Cash and due from banks	\$ 21,702	\$ 20,246
Deposits with banks	146,208	154,372
Federal funds sold and securities borrowed or purchased under agreements to resell	43,341	31,434
Trading account assets (including \$1,006 and \$914 pledged to creditors at December 31, 2010 and 2009, respectively)	149,560	156,380
Investments (including \$5,221 and \$3,849 pledged to creditors at December 31, 2010 and 2009, respectively, and \$220,788 and \$188,235 at December 31, 2010 and 2009, respectively, at fair value)	252,559	233,086
Loans, net of unearned income (including \$4,209 and \$1,434 at December 31, 2010 and 2009, respectively, at fair value)	446,052	477,974
Allowance for loan losses	(18,467)	(22,685)
Total loans, net	\$ 427,585	\$ 455,289
Goodwill	10,420	10,200
Intangible assets	5,850	8,243
Premises and equipment, net	4,392	4,832
Interest and fees receivable	5,273	6,840
Other assets (including \$10,525 and \$6,865 at December 31, 2010 and 2009, respectively, at fair value)	87,403	80,439
Total assets	\$1,154,293	\$1,161,361

The following table presents certain assets of consolidated variable interest entities (VIEs), which are included in the Consolidated Balance Sheet above. The assets in the table below include only those assets that can be used to settle obligations of consolidated VIEs on the following page and are in excess of those obligations.

<i>In millions of dollars</i>	December 31, 2010
Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs	
Cash and due from banks	\$ 586
Trading account assets	71
Investments	7,832
Loans, net of unearned income	
Consumer (including \$1,718 at fair value)	8,138
Corporate (including \$290 at fair value)	22,666
Loans, net of unearned income	\$30,804
Allowance for loan losses	(102)
Total loans, net	\$30,702
Other assets	342
Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs	\$39,533

[Statement continues on the next page]

CONSOLIDATED BALANCE SHEET
(Continued)

<i>In millions of dollars, except shares</i>	December 31,	
	2010	2009
Liabilities		
Non-interest-bearing deposits in U S offices	\$ 86,322	\$ 76,729
Interest-bearing deposits in U S offices	170,128	176,149
Non-interest-bearing deposits in offices outside the U S	48,873	39,414
Interest-bearing deposits in offices outside the U S	488,514	479,350
Total deposits (including \$1,264 and \$1,545 as of December 31, 2010 and 2009, respectively, at fair value)	\$ 793,837	\$ 771,642
Trading account liabilities	57,222	52,010
Purchased funds and other borrowings (including \$117 and \$138 at December 31, 2010 and 2009, respectively, at fair value)	66,581	89,503
Accrued taxes and other expenses	8,758	9,046
Subordinated notes and other long-term debt (including \$4,598 and \$4,732 as of December 31, 2010 and 2009, respectively, at fair value)	59,151	82,086
Other liabilities (including \$7,017 and \$7,427 as of December 31, 2010 and 2009, respectively, at fair value)	40,784	39,181
Total liabilities	\$1,026,333	\$1,043,468
Citibank stockholder's equity		
Capital stock (\$20 par value, issued and outstanding shares 37,534,553 in each period)	\$ 751	\$ 751
Surplus	109,419	107,923
Retained earnings	27,082	19,457
Accumulated other comprehensive income (loss)	(10,162)	(11,532)
Total Citibank stockholder's equity	\$ 127,090	\$ 116,599
Noncontrolling interest	870	1,294
Total equity	\$ 127,960	\$ 117,893
Total liabilities and equity	\$1,154,293	\$1,161,361

The following table presents certain liabilities of consolidated VIEs, which are included in the Consolidated Balance Sheet above. The liabilities in the table below include third-party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation.

<i>In millions of dollars</i>	December 31, 2010
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Citibank	
Short-term borrowings	\$19,853
Long-term debt (including \$1,870 at fair value)	4,822
Other liabilities	146
Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Citibank	\$24,821

See Notes to the Consolidated Financial Statements

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

<i>In millions of dollars, except shares</i>	Year ended December 31	
	2010	2009
Common stock (\$20 par value)		
Balance, beginning of year—shares 37,534,553 in 2010 and 2009	\$ 751	\$ 751
Balance, end of year—shares 37,534,553 in 2010 and 2009	\$ 751	\$ 751
Surplus		
Balance, beginning of year	\$107,923	\$ 74,767
Capital contribution from parent company	858	32,992
Employee benefit plans	648	163
Other ⁽¹⁾	(10)	1
Balance, end of year	\$109,419	\$107,923
Retained earnings		
Balance, beginning of year	\$ 19,457	\$ 21,735
Adjustment to opening balance, net of taxes ⁽²⁾⁽³⁾	(288)	402
Adjusted balance, beginning of year	\$ 19,169	\$ 22,137
Citibank's net income (loss)	7,904	(2,794)
Dividends paid ⁽⁴⁾	9	(3)
Other ⁽¹⁾	—	117
Balance, end of year	\$ 27,082	\$ 19,457
Accumulated other comprehensive income (loss)		
Balance, beginning of year	\$(11,532)	\$(15,895)
Adjustment to opening balance, net of taxes ⁽³⁾	—	(402)
Adjusted balance, beginning of year	\$(11,532)	\$(16,297)
Net change in unrealized gains (losses) on investment securities available-for-sale, net of taxes	1,162	3,675
Net change in foreign currency translation adjustment, net of taxes	29	709
Net change in cash flow hedges, net of taxes	473	880
Pension liability adjustment, net of taxes	(294)	(499)
Net change in Accumulated other comprehensive income (loss)	\$ 1,370	\$ 4,765
Balance, end of year	\$(10,162)	\$(11,532)
Total Citibank stockholder's equity	\$127,090	\$116,599
Noncontrolling interest		
Balance, beginning of year	\$ 1,294	\$ 1,082
Origination of a noncontrolling interest	(73)	284
Transactions between the noncontrolling interest and the related consolidating subsidiary	—	(130)
Transactions between Citibank and the noncontrolling interest shareholder	(1)	—
Net income attributable to noncontrolling interest shareholders	35	74
Dividends paid to noncontrolling interest shareholders	(40)	(17)
Accumulated other comprehensive income—Net change in unrealized gains and losses on investment securities, net of tax	1	5
Accumulated other comprehensive income—Net change in FX translation adjustment, net of tax	(27)	23
All other	(319)	(27)
Net change in noncontrolling interest	\$ (424)	\$212
Balance, end of year	\$ 870	\$ 1,294
Total equity	\$127,960	\$117,893
Comprehensive income (loss)		
Net income (loss) before attribution of noncontrolling interest	\$ 7,939	\$ (2,720)
Net change in Accumulated other comprehensive income (loss)	1,344	4,793
Total comprehensive income (loss)	\$ 9,283	\$ 2,073
Comprehensive income attributable to the noncontrolling interest	9	102
Comprehensive income attributable to Citibank	\$ 9,274	\$ 1,971

- (1) Represents the accounting for the transfers of assets and liabilities between Citibank, N A and other affiliates under the common control of Citigroup
- (2) The adjustment to the opening balance for *Retained earnings* in 2010 represents the cumulative effect of initially adopting ASC 810, *Consolidation* (SFAS 167) and ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives*. See Note 2 to the Consolidated Financial Statements
- (3) The adjustment to the opening balances for *Retained earnings* and *Accumulated other comprehensive income (loss)* in 2009 represents the cumulative effect of initially adopting ASC 320-10-35-34 (FSP FAS 115-2 and FAS 124-2). See Note 2 to the Consolidated Financial Statements
- (4) Dividends in 2010 represent a reversal of dividends accrued on forfeitures of previously issued but unvested employee awards of Citigroup common stock related to employees who have left Citibank

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In millions of dollars</i>	Year ended December 31,	
	2010	2009
Cash flows from operating activities of continuing operations		
Net income (loss) before attribution of noncontrolling interests	\$ 7,939	\$ (2,720)
Net income attributable to noncontrolling interests	35	74
Citibank's net income (loss)	\$ 7,904	\$ (2,794)
Income (loss) from discontinued operations, net of taxes	71	11
Loss on sale of business, net of taxes	(407)	(27)
Income (loss) from continuing operations – excluding noncontrolling interests	\$ 8,240	\$ (2,778)
Adjustments to reconcile net income (loss) to net cash provided by (used in)		
operating activities of continuing operations– excluding noncontrolling interests		
Depreciation and amortization	1,238	1,452
Deferred tax benefit	(478)	(6,778)
Provision for credit losses	9,060	24,340
Change in trading account assets	6,820	40,672
Change in trading account liabilities	5,212	(56,911)
Change in federal funds sold and securities borrowed or purchased under agreements to resell	(11,907)	10,179
Purchased funds and other borrowings	(22,922)	(26,830)
Net (gain) loss from sales of investments	(650)	816
Change in loans held-for-sale	3,265	(2,407)
Other, net	(11,411)	(1,940)
Total adjustments	\$ (21,773)	\$ (17,407)
Net cash used in operating activities of continuing operations– excluding noncontrolling interests	\$ (13,533)	\$ (20,185)
Cash flows from investing activities of continuing operations		
Change in deposits with banks	\$ 8,164	\$ 2,402
Change in loans	722	65,253
Proceeds from sales and securitizations of loans	9,135	5,164
Purchases of investments	(356,894)	(248,318)
Proceeds from sales of investments	154,507	65,577
Proceeds from maturities of investments	170,203	109,120
Capital expenditures on premises and equipment, and capitalized software	(1,425)	(1,199)
Proceeds from sales of premises and equipment, subsidiaries and affiliates, and repossessed assets	872	1,599
Net cash used in investing activities of continuing operations	\$ (14,716)	\$ (402)
Cash flows from financing activities of continuing operations		
Capital contributions from parent company	\$ 858	\$ 32,992
Net change in long-term debt	5,875	(31,295)
Change in deposits	22,195	16,344
Net cash provided by financing activities of continuing operations	\$ 28,928	\$ 18,041
Effect of exchange rate changes on cash and cash equivalents	614	685
Net cash provided by discontinued operations	163	—
Change in cash and due from banks	\$ 1,456	\$ (1,861)
Cash and due from banks at beginning of year	20,246	22,107
Cash and due from banks at end of year	\$ 21,702	\$ 20,246
Supplemental disclosure of cash flow information for continuing operations		
Cash paid during the period for income taxes	\$ 1,869	\$ 3,020
Cash paid during the period for interest	\$ 8,104	\$ 10,530
Non-cash investing activities		
Transfers to repossessed assets	\$ 954	\$ 965
Transfers to trading account assets from investments	6,964	—

See Notes to the Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

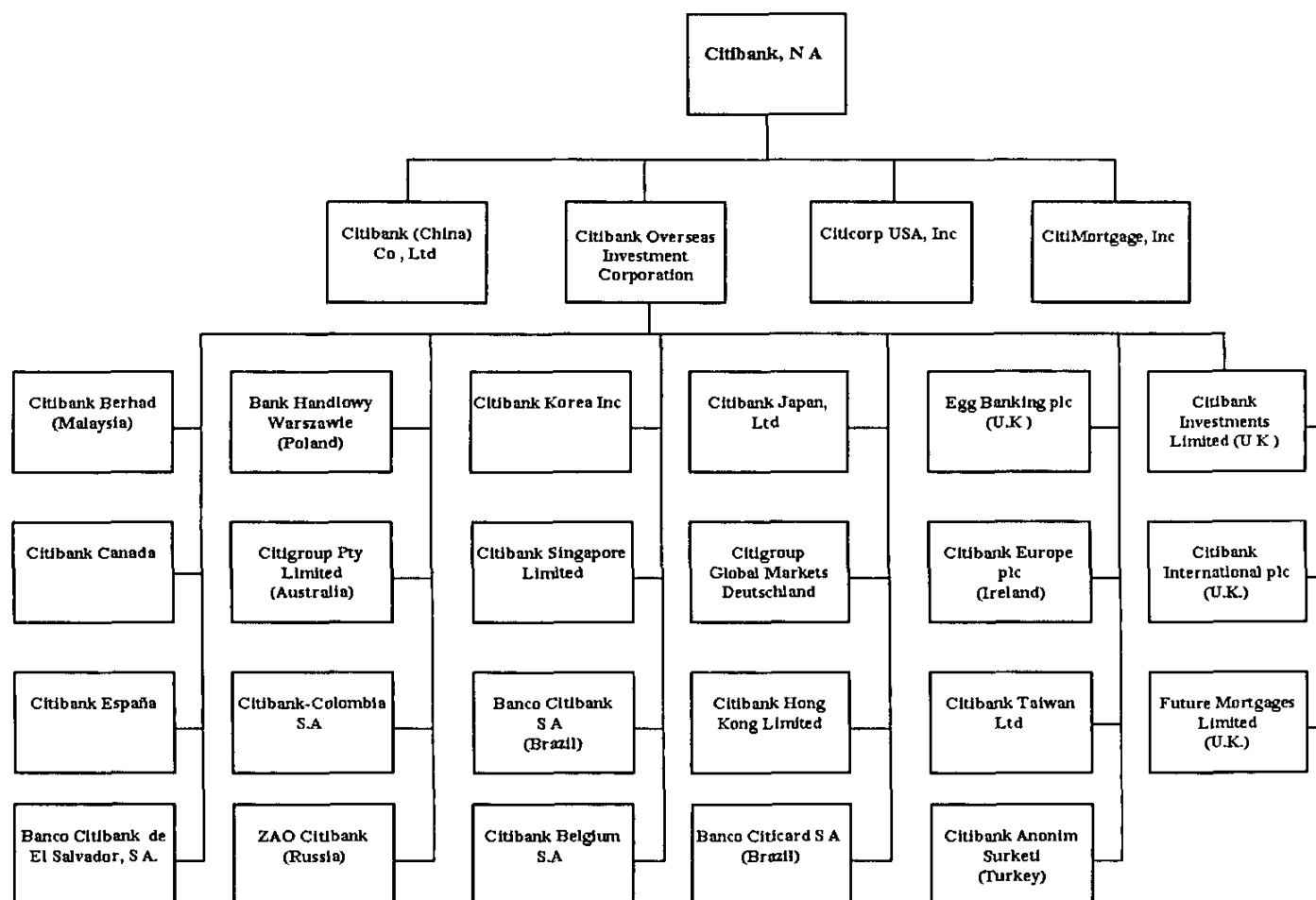
Citibank, N A (Citibank, N A and, together with its consolidated subsidiaries, Citibank or the Company) is a direct, wholly owned subsidiary of Citicorp, which is a direct, wholly owned subsidiary of Citigroup Inc, a Delaware corporation and a financial holding company under the Bank Holding Company Act (Citigroup). Citibank was originally organized on June 16, 1812, and is currently a national banking association organized under the National Bank Act of 1864. Citibank's principal offerings include consumer finance, mortgage lending, and retail banking products and services through its global branches, subsidiaries and affiliates, investment banking, commercial banking, cash management, trade finance and e-commerce products and services, and private banking products and services throughout the world.

The Company is subject to regulation and examination primarily by the Office of the Comptroller of the Currency (OCC) and also by the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board (FRB). The foreign branch representative offices and subsidiaries of Citibank are subject to regulation and examination by their respective foreign financial regulators as well as by the OCC and the FRB.

These financial statements and footnotes have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States.

Additional information about Citibank and Citigroup is available in Citigroup's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission on February 25, 2011.

SELECTED PRINCIPAL SUBSIDIARIES



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Citibank, N A and its subsidiaries. The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method, and the pro rata share of their income (loss) is included in *Other revenue*. Income from investments in less than 20%-owned companies is recognized when dividends are received. As discussed below, Citibank consolidates entities deemed to be variable interest entities when Citibank is determined to be the primary beneficiary. Gains and losses on the disposition of branches, subsidiaries, affiliates, buildings and other investments, and charges for management's estimate of impairment in their value that is other than temporary, such that recovery of the carrying amount is deemed unlikely, are included in *Other revenue*.

Certain reclassifications have been made to the prior-year's financial statements and notes to conform to the current year's presentation.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in ASC 810, *Consolidation* (formerly FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (revised December 2003) (FIN 46(R)) and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167)), which are (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

Prior to January 1, 2010, the Company consolidated a VIE if it had a majority of the expected losses or a majority of the expected residual returns or both. As of January 1, 2010, when the Company adopted SFAS 167, the Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the VIE's economic performance and an obligation to absorb losses or a right to receive benefits from the entity that could be potentially significant to the VIE.

Along with the VIEs that are consolidated in accordance with these guidelines, the Company has variable interests in other VIEs that are not consolidated because the Company is not the primary beneficiary. These include multi-seller finance companies, certain collateralized debt obligations (CDOs), and many structured finance transactions.

However, these VIEs as well as all other unconsolidated VIEs are continually monitored by the Company to determine if any events have occurred that could cause its primary beneficiary status to change. These events include:

- additional purchases or sales of variable interests by Citibank or an unrelated third party, which cause Citibank's overall variable interest ownership to change,
- changes in contractual arrangements in a manner that reallocates expected losses and residual returns among the variable interest holders,
- changes in the party that has power to direct activities of a VIE that most significantly impact the entity's economic performance, and
- providing support to an entity that results in an implicit variable interest.

All other entities not deemed to be VIEs with which the Company has involvement are evaluated for consolidation under other subtopics of ASC 810 (formerly Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*, and EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights").

Foreign Currency Translation

Assets and liabilities of foreign operations are translated from their respective functional currencies into U.S. dollars using period-end spot foreign currency exchange rates. Revenues and expenses of foreign operations are translated monthly from their respective functional currencies into U.S. dollars at amounts that approximate weighted average exchange rates. The effects of those translation adjustments are reported in a separate component of stockholder's equity, along with related hedge and tax effects, until realized upon sale or liquidation of the foreign operation.

For transactions whose terms are denominated in a currency other than the functional currency, including transactions denominated in the local currencies of foreign operations with the U.S. dollar as their functional currency, the effects of changes in exchange rates are included primarily in *Other revenue*, along with the related hedge effects. Instruments used to hedge foreign currency exposures include foreign currency forward, option and swap contracts and designated issues of non-U.S. dollar debt. Foreign operations in countries with highly inflationary economies designate the U.S. dollar as their functional currency, with the effects of changes in exchange rates primarily included in *Other revenue*.

Investment Securities

Investments include fixed income and equity securities. Fixed income instruments include bonds, notes and redeemable preferred stocks, as well as certain loan-backed and structured securities that are subject to prepayment risk. Equity securities include common and nonredeemable preferred stock. Investment securities are classified and accounted for as follows:

- Fixed income securities classified as “held-to-maturity” represent securities that the Company has both the ability and the intent to hold until maturity, and are carried at amortized cost less any unrealized losses recognized in *Accumulated other comprehensive income* (AOCI). Interest income on such securities is included in *Interest revenue*.
- Fixed income securities and marketable equity securities classified as “available-for-sale” are carried at fair value with changes in fair value reported in a separate component of *Stockholder's equity*, net of applicable income taxes. As described in more detail in Note 12 to the Consolidated Financial Statements, credit-related declines in fair value that are determined to be other-than-temporary are recorded in earnings immediately. Realized gains and losses on sales are included in income primarily on a specific identification cost basis, and interest and dividend income on such securities is included in *Interest revenue*.
- Certain non-marketable equity securities are carried at cost and periodically assessed for other-than-temporary impairment, as set out in Note 12 to the Consolidated Financial Statements.

For investments in fixed income securities classified as held-to-maturity or available-for-sale, accrual of interest income is suspended for investments that are in default or on which it is likely that future interest payments will not be made as scheduled.

The Company uses a number of valuation techniques for investments carried at fair value, which are described in Note 22 to the Consolidated Financial Statements.

Other-Than-Temporary Impairments (OTTI) on Investment Securities

The Company's Consolidated Statement of Income reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale (AFS) and held-to-maturity (HTM) debt securities that management has no intent to sell and believes that it more-likely-than-not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in AOCI. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected using the Company's cash flow projections and its base assumptions. See Note 12 to the Consolidated Financial Statements for disclosures related to the Company's investment securities and OTTI.

Trading Account Assets and Liabilities

Trading account assets include debt and marketable equity securities, derivatives in a net receivable position, residual interests in securitizations and physical commodities inventory. In addition (as set out in Note 23 to the Consolidated Financial Statements), certain assets that Citibank has elected to carry at fair value under the fair value option, such as loans and purchased guarantees, are also included in *Trading account assets*.

Trading account liabilities include securities sold, not yet purchased (short positions), and derivatives in a net payable position, as well as certain liabilities that Citibank has elected to carry at fair value, as set out in Note 23 to the Consolidated Financial Statements.

Other than physical commodities inventory, all trading account assets and liabilities are carried at fair value. Revenues generated from trading assets and trading liabilities are generally reported in *Principal transactions* and include realized gains and losses as well as unrealized gains and losses resulting from changes in the fair value of such instruments. Interest income on trading assets is recorded in *Interest revenue* reduced by interest expense on trading liabilities.

Physical commodities inventory is carried at the lower of cost or market (LOCOM) with related gains or losses reported in *Principal transactions*. Realized gains and losses on sales of commodities inventory are included in *Principal transactions*.

Derivatives used for trading purposes include interest rate, currency, equity, credit, and commodity swap agreements, options, caps and floors, warrants, and financial and commodity futures and forward contracts. Derivative asset and liability positions are presented net by counterparty on the Consolidated Balance Sheet when a valid master netting agreement exists and the other conditions set out in ASC 210-20, *Balance Sheet—Offsetting* are met.

The Company uses a number of techniques to determine the fair value of trading assets and liabilities, all of which are described in Note 22 to the Consolidated Financial Statements.

Measuring Liabilities at Fair Value

In circumstances in which a quoted price in an active market for the identical liability is not available to the Company, fair value is measured using one or more of the following techniques

- a valuation technique that uses quoted prices for similar liabilities (or an identical liability) when traded as assets, or
- another valuation technique that is consistent with the principles of ASC 820

Both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements

Securities Borrowed and Securities Loaned

Securities borrowing and lending transactions generally do not constitute a sale of the underlying securities for accounting purposes, and are thus treated as collateralized financing transactions when the transaction involves the exchange of cash. Such transactions are recorded at the amount of cash advanced or received plus accrued interest. Fees paid or received for all securities lending and borrowing transactions are recorded in *Interest expense* or *Interest revenue* at the contractually specified rate.

Where the conditions of ASC 210-20 are met, amounts recognized in respect of securities borrowed and securities loaned are presented net on the Consolidated Balance Sheet.

With respect to securities borrowed or loaned, the Company pays or receives cash collateral in an amount in excess of the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis with additional collateral received or paid as necessary.

Repurchase and Resale Agreements

Securities sold under agreements to repurchase (repos) and securities purchased under agreements to resell (reverse repos) generally do not constitute a sale for accounting purposes of the underlying securities, and are thus treated as collateralized financing transactions. These transactions are recorded at the amount of cash advanced or received plus accrued interest. Interest paid or received on all repo and reverse repo transactions is recorded in *Interest expense* or *Interest revenue* at the contractually specified rate.

Where the conditions of ASC 210-20-45-11, *Balance Sheet—Offsetting Repurchase and Reverse Repurchase Agreements*, are met, repos and reverse repos are presented net on the Consolidated Balance Sheet.

The Company's policy is to take possession of securities purchased under agreements to resell. The market value of securities to be repurchased and resold is monitored, and additional collateral is obtained where appropriate to protect against credit exposure.

Loans

Loans are reported at their outstanding principal balances net of any unearned income and unamortized deferred fees and costs except that credit card receivable balances also include accrued interest and fees. Loan origination fees and certain direct origination costs are generally deferred and recognized primarily as adjustments to *Interest revenue* over the lives of the related loans.

As described in Note 23 to the Consolidated Financial Statements, Citibank has elected fair value accounting for certain loans. Such loans are carried at fair value with changes in fair value reported in earnings. Interest income on such loans is recorded in *Interest revenue* at the contractually specified rate.

Loans for which the fair value option has not been elected are classified upon origination or acquisition as either held-for-investment or held-for-sale. This classification is based on management's initial intent and ability with regard to those loans.

Loans that are held-for-investment are classified as *Loans, net of unearned income* on the Consolidated Balance Sheet, and the related cash flows are included within the cash flows from investing activities category in the Consolidated Statement of Cash Flows on the line *Change in loans*. However, when the initial intent for holding a loan has changed from held-for-investment to held-for-sale, the loan is reclassified to held-for-sale, but the related cash flows continue to be reported in cash flows from investing activities in the Consolidated Statement of Cash Flows on the line *Proceeds from sales and securitizations of loans*.

Substantially all of the Consumer loans sold or securitized by Citibank are U.S. prime residential mortgage loans. The practice of the U.S. prime mortgage business has been to sell substantially all of its loans except for non-conforming adjustable rate loans. U.S. prime mortgage conforming loans are classified as held-for-sale at the time of origination. The related cash flows are classified in the Consolidated Statement of Cash Flows in the cash flows from operating activities category on the line *Change in loans held-for-sale*.

Consumer loans

Consumer loans represent loans and leases managed by Consumer businesses. As a general rule, interest accrual ceases for installment and real estate (both open- and closed-end) loans when payments are 90 days contractually past due. For credit cards and unsecured revolving loans, however, Citibank generally accrues interest until payments are 180 days past due. Loans that have been modified to grant a short-term or long-term concession to a borrower who is in financial difficulty may not be accruing interest at the time of the modification. The policy for returning such modified loans to accrual status varies by product and/or region. In most cases, a minimum number of payments (ranging from one to six) are required, while in other cases the loan is never returned to accrual status.

The policy for re-aging modified U.S. consumer loans to current status varies by product. Generally, one of the conditions to qualify for these modifications is that a minimum number of payments (typically ranging from one to three) be made. Upon modification, the loan is re-aged to current status. However, re-aging practices for certain open-ended Consumer loans, such as credit cards, are governed by Federal Financial Institutions Examination Council (FFIEC) guidelines. For open-ended Consumer loans subject to FFIEC guidelines, one of the conditions for the loan to be re-aged to current status is that at least three consecutive minimum monthly payments, or the equivalent amount, must be received. In addition, under FFIEC guidelines, the number of times that such a loan can be re-aged is subject to limitations (generally once in twelve months and twice in five years). Furthermore, Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) loans are modified under those respective agencies' guidelines and payments are not always required in order to re-age a modified loan to current.

Citibank's charge-off policies follow the general guidelines below:

- Unsecured installment loans are charged off at 120 days past due.
- Unsecured revolving loans and credit card loans are charged off at 180 days contractually past due.
- Loans secured with non-real estate collateral are written down to the estimated value of the collateral, less costs to sell, at 120 days past due.
- Real estate-secured loans are written down to the estimated value of the property, less costs to sell, at 180 days contractually past due.
- Unsecured loans in bankruptcy are charged off within 60 days of notification of filing by the bankruptcy court or within the contractual write-off periods, whichever occurs earlier.
- Real estate-secured loans in bankruptcy are written down to the estimated value of the property, less costs to sell, at the later of 60 days after notification or 60 days contractually past due.
- Commercial market loans are written down to the extent that principal is judged to be uncollectible.

Corporate loans

Corporate loans represent loans and leases managed by commercial businesses. Corporate loans are identified as impaired and placed on a cash (non-accrual) basis when it is determined, based on actual experience and a forward-looking assessment of the collectability of the loan in full, that the payment of interest or principal is doubtful or when interest or principal is 90 days past due, except when the loan is well-collateralized and in the process of collection. Any interest accrued on impaired corporate loans and leases is reversed at 90 days and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectability of principal, all cash receipts are thereafter applied to reduce the recorded investment in the loan.

Impaired corporate loans and leases are written down to the extent that principal is judged to be uncollectible. Impaired collateral-dependent loans and leases, where repayment is expected to be provided solely by the sale of the underlying collateral and there are no other available and reliable sources of repayment, are written down to the lower of cost or collateral value. Cash-basis loans are returned to an accrual status when all contractual principal and interest amounts are reasonably assured of repayment and there is a sustained period of repayment performance in accordance with the contractual terms.

Loans Held-for-Sale

Corporate and Consumer loans that have been identified for sale are classified as loans held-for-sale included in *Other assets*. With the exception of certain mortgage loans for which the fair value option has been elected, these loans are accounted for at the lower of cost or market value (LOCOM), with any write-downs or subsequent recoveries charged to *Other revenue*.

Allowance for Loan Losses

Allowance for loan losses represents management's best estimate of probable losses inherent in the portfolio, as well as probable losses related to large individually evaluated impaired loans and troubled debt restructurings. Attribution of the allowance is made for analytical purposes only, and the entire allowance is available to absorb probable loan losses inherent in the overall portfolio. Additions to the allowance are made through the provision for loan losses. Loan losses are deducted from the allowance, and subsequent recoveries are added. Securities received in exchange for loan claims in debt restructurings are initially recorded at fair value, with any gain or loss reflected as a recovery or charge-off to the allowance and are subsequently accounted for as securities available-for-sale.

Corporate loans

In the corporate portfolios, the allowance for loan losses includes an asset-specific component and a statistically based component. The asset-specific component is calculated under ASC 310-10-35, *Receivables—Subsequent Measurement* (formerly SFAS 114) on an individual basis for larger-balance, non-homogeneous loans, which are considered impaired. An asset-specific allowance is established when the discounted cash flows, collateral value (less disposal costs), or observable market price of the impaired loan is lower than its carrying

value. This allowance considers the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantors (discussed further below) and, if appropriate, the realizable value of any collateral. The asset-specific component of the allowance for smaller balance impaired loans is calculated on a pool basis considering historical loss experience. The allowance for the remainder of the loan portfolio is calculated under ASC 450, *Contingencies* (formerly SFAS 5) using a statistical methodology, supplemented by management judgment. The statistical analysis considers the portfolio's size, remaining tenor, and credit quality as measured by internal risk ratings assigned to individual credit facilities, which reflect probability of default and loss given default. The statistical analysis considers historical default rates and historical loss severity in the event of default, including historical average levels and historical variability. The result is an estimated range for inherent losses. The best estimate within the range is then determined by management's quantitative and qualitative assessment of current conditions, including general economic conditions, specific industry and geographic trends, and internal factors including portfolio concentrations, trends in internal credit quality indicators, and current and past underwriting standards.

For both the asset-specific and the statistically based components of the allowance for loan losses, management may incorporate guarantor support. The financial wherewithal of the guarantor is evaluated, as applicable, based on net worth, cash flow statements and personal or company financial statements which are updated and reviewed at least annually. Citibank seeks performance on guarantee arrangements in the normal course of business. Seeking performance entails obtaining satisfactory cooperation from the guarantor or borrower to achieve Citibank's strategy in the specific situation. This regular cooperation is indicative of pursuit and successful enforcement of the guarantee; the exposure is reduced without the expense and burden of pursuing a legal remedy. Enforcing a guarantee via legal action against the guarantor is not the primary means of resolving a troubled loan situation and rarely occurs. A guarantor's reputation and willingness to work with Citibank is evaluated based on the historical experience with the guarantor and the knowledge of the marketplace. In the rare event that the guarantor is unwilling or unable to perform or facilitate borrower cooperation, Citibank pursues a legal remedy. If Citibank does not pursue a legal remedy, it is because Citibank does not believe that the guarantor has the financial wherewithal to perform regardless of legal action, or because there are legal limitations on simultaneously pursuing guarantors and foreclosure. A guarantor's reputation does not impact our decision or ability to seek performance under guarantee.

In cases where a guarantee is a factor in the assessment of loan losses, it is included via adjustment to the loan's internal risk rating, which in turn is the basis for the adjustment to the statistically based component of the allowance for loan losses. To date, it is only in rare circumstances that an impaired commercial or commercial real estate loan is carried at a value in excess of the appraised value due to a guarantee.

When Citibank's monitoring of the loan indicates that the guarantor's wherewithal to pay is uncertain or has deteriorated, there is either no change in the risk rating, because the guarantor's credit support was never initially factored in, or the risk rating is adjusted to reflect that uncertainty or deterioration. Accordingly, a guarantor's ultimate failure to perform or a lack of legal enforcement of the guarantee does not materially impact the allowance for loan losses, as there is typically no further significant adjustment of the loan's risk rating at that time. Where Citibank does not seek performance under the guarantee contract, it provides for loan losses as if the loans were non-performing and not guaranteed.

Consumer loans

For *Consumer loans*, each portfolio of smaller-balance, homogeneous loans—including Consumer mortgage, installment, revolving credit, and most other Consumer loans—is independently evaluated for impairment. The allowance for loan losses attributed to these loans is established via a process that estimates the probable losses inherent in the specific portfolio based upon various analyses. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with analyses that reflect current trends and conditions.

Management also considers overall portfolio indicators, including historical credit losses, delinquent, non-performing, and classified loans, trends in volumes and terms of loans, an evaluation of overall credit quality, the credit process, including lending policies and procedures, and economic, geographical, product and other environmental factors.

In addition, valuation allowances are determined for impaired smaller-balance homogeneous loans whose terms have been modified due to the borrowers' financial difficulties and where it has been determined that a concession was granted to the borrower. Such modifications may include interest rate reductions, principal forgiveness and/or term extensions. Where long-term concessions have been granted, such modifications are accounted for as troubled debt restructurings (TDRs). The allowance for loan losses for TDRs is determined in accordance with ASC 310-10-35 by comparing expected cash flows of the loans discounted at the loans' original effective interest rates to the carrying value of the loans. Where short-term concessions have been granted, the allowance for loan losses is materially consistent with the requirements of ASC 310-10-35.

Loans included in the U.S. Treasury's Home Affordable Modification Program (HAMP) trial period are not classified as modified under short-term or long-term programs, and the allowance for loan losses for these loans is calculated under ASC 450-20. The allowance calculation for HAMP trial loans uses default rates that assume that the borrower will not successfully complete the trial period and receive a permanent modification.

Reserve Estimates and Policies

Management provides reserves for an estimate of probable losses inherent in the funded loan portfolio on the Consolidated Balance Sheet in the form of an allowance for loan losses. These reserves are established in accordance with Citibank's credit reserve policies, as approved by the Risk Management and Finance Committee of the Company's Board of Directors. Citibank's Chief Risk Officer and Chief Financial Officer review the adequacy of the credit loss reserves each quarter with representatives from the Risk Management and Finance staffs for each applicable business area.

The above-mentioned representatives covering the business areas having classifiably managed portfolios, where internal credit-risk ratings are assigned or modified Consumer loans where concessions were granted due to the borrowers' financial difficulties, present recommended reserve balances for their funded and unfunded lending portfolios along with supporting quantitative and qualitative data. The quantitative data include:

- *Estimated probable losses for non-performing, non-homogeneous exposures within a business line's classifiably managed portfolio and impaired smaller-balance homogeneous loans whose terms have been modified due to the borrowers' financial difficulties, and it was determined that a concession was granted to the borrower.* Consideration may be given to the following, as appropriate, when determining this estimate: (i) the present value of expected future cash flows discounted at the loan's original effective rate, (ii) the borrower's overall financial condition, resources and payment record, and (iii) the prospects for support from financially responsible guarantors or the realizable value of any collateral. In the determination of the allowance for loan losses for TDRs, management considers a combination of historical re-default rates, the current economic environment and the nature of the modification program when forecasting expected cash flows. When impairment is measured based on the present value of expected future cash flows, the entire change in present value is recorded in the *Provision for loan losses*.
- *Statistically calculated losses inherent in the classifiably managed portfolio for performing and de minimis non-performing exposures.* The calculation is based upon: (i) Citibank's internal system of credit-risk ratings, which are analogous to the risk ratings of the major rating agencies, and (ii) historical default and loss data, including rating agency information regarding default rates from 1983 to 2009 and internal data dating to the early 1970s on severity of losses in the event of default.
- *Additional adjustments include:* (i) statistically calculated estimates to cover the historical fluctuation of the default rates over the credit cycle, the historical variability of loss severity among defaulted loans, and the degree to which there are large obligor concentrations in the global portfolio, and (ii) adjustments made for specifically known items, such as current environmental factors and credit trends.

In addition, representatives from each of the Risk Management and Finance staffs that cover business areas that have delinquency-managed portfolios containing smaller-

balance homogeneous loans present their recommended reserve balances based upon leading credit indicators, including loan delinquencies and changes in portfolio size, as well as economic trends, including housing prices, unemployment and GDP. This methodology is applied separately for each individual product within each different geographic region in which these portfolios exist.

This evaluation process is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates, the size and diversity of individual large credits, and the ability of borrowers with foreign currency obligations to obtain the foreign currency necessary for orderly debt servicing, among other things, are all taken into account during this review. Changes in these estimates could have a direct impact on the credit costs in any period and could result in a change in the allowance. Changes to the *Allowance for loan losses* flow through the Consolidated Statement of Income on the line *Provision for loan losses*.

Allowance for Unfunded Lending Commitments

A similar approach to the allowance for loan losses is used for calculating a reserve for the expected losses related to unfunded loan commitments and standby letters of credit. This reserve is classified on the Consolidated Balance Sheet in *Other liabilities*. Changes to the allowance for unfunded lending commitments flow through the Consolidated Statement of Income on the line *Provision for unfunded lending commitments*.

Mortgage Servicing Rights (MSRs)

Mortgage servicing rights (MSRs) are recognized as intangible assets when purchased or when the Company sells or securitizes loans acquired through purchase or origination and retains the right to service the loans. Servicing rights in the U.S. mortgage classes of servicing rights are accounted for at fair value, with changes in value recorded in current earnings.

Additional information on the Company's MSRs can be found in Note 19 to the Consolidated Financial Statements.

Consumer Mortgage Representations and Warranties

The majority of Citibank's exposure to representation and warranty claims relates to its U.S. Consumer mortgage business.

When selling a loan, Citibank (through its CitiMortgage business) makes various representations and warranties relating to, among other things, the following:

- Citibank's ownership of the loan,
- the validity of the lien securing the loan,
- the absence of delinquent taxes or liens against the property securing the loan,
- the effectiveness of title insurance on the property securing the loan,
- the process used in selecting the loans for inclusion in a transaction,
- the loan's compliance with any applicable loan criteria established by the buyer, and
- the loan's compliance with applicable local, state and federal laws.

The specific representations and warranties made by Citibank depend on the nature of the transaction and the requirements of the buyer. Market conditions and credit rating agency

requirements may also affect representations and warranties and the other provisions to which Citibank may agree in loan sales

Repurchases or "Make-Whole" Payments

In the event of a breach of these representations and warranties, Citibank may be required to either repurchase the mortgage loans (generally at unpaid principal balance plus accrued interest) with the identified defects or indemnify ("make-whole") the investors for their losses. Citibank's representations and warranties are generally not subject to stated limits in amount or time of coverage. However, contractual liability arises only when the representations and warranties are breached and generally only when a loss results from the breach.

In the case of a repurchase, Citibank will bear any subsequent credit loss on the mortgage loan and the loan is typically considered a credit-impaired loan and accounted for under SOP 03-3, "Accounting for Certain Loans and Debt Securities Acquired in a Transfer" (now incorporated into ASC 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*) (SOP 03-3). These repurchases have not had a material impact on Citibank's non-performing loan statistics because credit-impaired purchased SOP 03-3 loans are not included in non-accrual loans, since they generally continue to accrue interest until write-off.

Citibank's repurchases have primarily been from the U.S. government sponsored entities (GSEs).

Citibank has recorded a reserve for its exposure to losses from the obligation to repurchase previously sold loans (referred to as the repurchase reserve) that is included in *Other liabilities* in the Consolidated Balance Sheet. In estimating the repurchase reserve, Citibank considers reimbursements estimated to be received from third-party correspondent lenders and indemnification agreements relating to previous acquisitions of MSR's. Citibank aggressively pursues collection from any correspondent lender that it believes has the financial ability to pay. The estimated reimbursements are based on Citibank's analysis of its most recent collection trends and the financial solvency of the correspondents.

In the case of a repurchase of a credit-impaired SOP 03-3 loan, the difference between the loan's fair value and the repurchase amount is recorded as a utilization of the repurchase reserve. Make-whole payments to the investor are also treated as utilizations and charged directly against the reserve. The repurchase reserve is estimated when Citibank sells loans (recorded as an adjustment to the gain on sale, which is included in *Other revenue* in the Consolidated Statement of Income) and is updated quarterly. Any change in estimate is recorded in *Other revenue*.

The repurchase reserve is calculated by individual sales vintage (i.e., the year the loans were sold) and is based on various assumptions. While substantially all of Citibank's current loan sales are with GSEs, with which Citibank has considerable historical experience, these assumptions contain a level of uncertainty and risk that, if different from actual results, could have a material impact on the reserve amounts. The most significant assumptions used to calculate the reserve levels are as follows:

- loan documentation requests,
- repurchase claims as a percentage of loan documentation requests,

- claims appeal success rate, and
- estimated loss given repurchase or make-whole.

The repurchase reserve estimation process is subject to numerous estimates and judgments. The assumptions used to calculate the repurchase reserve contain a level of uncertainty and risk that, if different from actual results, could have a material impact on the reserve amounts.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and intangible assets acquired. *Goodwill* is subject to annual impairment tests, whereby *Goodwill* is allocated to the Company's reporting units and an impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value. Furthermore, on any business dispositions, *Goodwill* is allocated to the business disposed of based on the ratio of the fair value of the business disposed of to the fair value of the reporting unit.

Intangible Assets

Intangible assets—including core deposit intangibles, purchased credit card relationships, other customer relationships, and other intangible assets, but excluding MSR's—are amortized over their estimated useful lives. *Intangible assets* deemed to have indefinite useful lives, primarily certain asset management contracts and trade names, are not amortized and are subject to annual impairment tests. An impairment exists if the carrying value of the indefinite-lived intangible asset exceeds its fair value. For other *Intangible assets* subject to amortization, an impairment is recognized if the carrying amount is not recoverable and exceeds the fair value of the *Intangible asset*.

Other Assets and Other Liabilities

Other assets include, among other items, loans held-for-sale, deferred tax assets, equity-method investments, interest and fees receivable, premises and equipment, end-user derivatives in a net receivable position, repossessed assets, and other receivables.

Other liabilities includes, among other items, accrued expenses and other payables, deferred tax liabilities, end-user derivatives in a net payable position, and reserves for legal claims, taxes, restructuring reserves, unfunded lending commitments and other matters.

Repossessed Assets

Upon repossession, loans are adjusted, if necessary, to the estimated fair value of the underlying collateral and transferred to repossessed assets. This is reported in *Other assets*, net of a valuation allowance for selling costs and net declines in value, as appropriate.

Securitizations

The Company primarily securitizes mortgages. Other types of securitized assets include corporate debt instruments (in cash and synthetic form) and student loans.

There are two key accounting determinations that must be made relating to securitizations. In cases where the Company originated or owned the financial assets transferred to the securitization entity, it determines whether that transfer is considered a sale under U.S. GAAP. If it is a sale, the transferred assets are removed from the Company's

Consolidated Balance Sheet with a gain or loss recognized. Alternatively, if the Company determines that the transfer is a financing rather than a sale, the assets remain on the Company's Consolidated Balance Sheet with an offsetting liability recognized in the amount of proceeds received.

In addition, the Company determines whether the securitization entity would be included in its Consolidated Financial Statements. If the securitization entity is a VIE, the Company consolidates the VIE if it is the primary beneficiary.

For all other securitization entities determined not to be VIEs in which Citibank participates, a consolidation decision is based on who has voting control of the entity, giving consideration to removal and liquidation rights in certain partnership structures. Only securitization entities controlled by Citibank are consolidated.

Effective January 1, 2010, upon adoption of SFAS 166/167, Citibank first makes a determination as to whether the securitization entity would be consolidated. Second, it determines whether the transfer of financial assets is considered a sale under GAAP. Furthermore, former qualifying special purpose entities (QSPEs) are now considered VIEs and are no longer exempt from consolidation. The Company consolidates VIEs when it has both (1) power to direct activities of the VIE that most significantly impact the entity's economic performance and (2) an obligation to absorb losses or right to receive benefits from the entity that could potentially be significant to the VIE.

Interests in the securitized and sold assets may be retained in the form of subordinated interest-only strips, subordinated tranches, spread accounts and servicing rights. Prior to January 1, 2010, when certain securitization trusts were not consolidated, retained interests in securitized mortgage loans and student loans were classified as Trading account assets.

Debt

Short-term borrowings and long-term debt are generally accounted for at amortized cost, except where the Company has elected to report certain structured notes at fair value.

Transfers of Financial Assets

For a transfer of financial assets to be considered a sale (i) the assets must have been isolated from the Company, even in bankruptcy or other receivership, (ii) the purchaser must have the right to sell the assets transferred or, if the purchaser is an entity whose sole purpose is to engage in securitization and asset-backed financing activities and that entity is constrained from pledging the assets it receives, each beneficial interest holder must have the right to sell the beneficial interests (prior to January 1, 2010, the entity had to be a QSPE), and (iii) the Company may not have an option or any obligation to reacquire the assets. If these sale requirements are met, the assets are removed from the Company's Consolidated Balance Sheet. If the conditions for sale are not met, the transfer is considered to be a secured borrowing, the assets remain on the Company's Consolidated Balance Sheet, and the proceeds received are recognized as the Company's liability. A legal opinion on a sale is generally obtained for complex transactions or where the Company has continuing involvement with assets transferred or with the securitization entity. For a transfer to be eligible for sale accounting, those opinions must state that the asset transfer is considered a sale and that the assets transferred would not be consolidated with

the Company's other assets in the event of the Company's insolvency.

For a transfer of a portion of a financial asset to be considered a sale, the portion transferred must meet the definition of a participating interest. A participating interest must represent a pro rata ownership in an entire financial asset, (i) all cash flows must be divided proportionally, with the same priority of payment, (ii) no participating interest in the transferred asset may be subordinated to the interest of another participating interest holder, and (iii) no party may have the right to pledge or exchange the entire financial asset unless all participating interest holders agree. Otherwise, the transfer is accounted for as a secured borrowing.

See Note 19 to the Consolidated Financial Statements for further discussion.

Risk Management Activities—Derivatives Used for Hedging Purposes

The Company manages its exposures to market rate movements outside its trading activities by modifying the asset and liability mix, either directly or through the use of derivative financial products, including interest-rate swaps, futures, forwards, and purchased-option positions, as well as foreign-exchange contracts. These end-user derivatives are carried at fair value in *Other assets*, *Other liabilities*, *Trading account assets* and *Trading account liabilities*.

To qualify as a hedge under the hedge accounting rules, a derivative must be highly effective in offsetting the risk designated as being hedged. The hedge relationship must be formally documented at inception, detailing the particular risk management objective and strategy for the hedge, which includes the item and risk that is being hedged and the derivative that is being used, as well as how effectiveness will be assessed and ineffectiveness measured. The effectiveness of these hedging relationships is evaluated on a retrospective and prospective basis, typically using quantitative measures of correlation with hedge ineffectiveness measured and recorded in current earnings. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge and hedge accounting would not be applied. Any gains or losses attributable to the derivatives, as well as subsequent changes in fair value, are recognized in *Other revenue* or *Principal transactions* with no offset on the hedged item, similar to trading derivatives.

The foregoing criteria are applied on a decentralized basis, consistent with the level at which market risk is managed, but are subject to various limits and controls. The underlying asset, liability or forecasted transaction may be an individual item or a portfolio of similar items.

For fair value hedges, in which derivatives hedge the fair value of assets or liabilities, changes in the fair value of derivatives are reflected in *Other revenue* or *Principal transactions*, together with changes in the fair value of the hedged item related to the hedged risk. These are expected to, and generally do, offset each other. Any net amount, representing hedge ineffectiveness, is reflected in current earnings. Citibank's fair value hedges are primarily hedges of fixed-rate long-term debt and available-for-sale securities.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating- and fixed-rate assets, liabilities or forecasted transactions, the accounting treatment depends on the effectiveness of the hedge. To the

extent these derivatives are effective in offsetting the variability of the hedged cash flows, the effective portion of the changes in the derivatives' fair values will not be included in current earnings, but is reported in AOCI. These changes in fair value will be included in earnings of future periods when the hedged cash flows impact earnings. To the extent these derivatives are not effective, changes in their fair values are immediately included in *Other revenue*. Citibank's cash flow hedges primarily include hedges of floating-rate debt, as well as rollovers of short-term fixed-rate liabilities and floating-rate liabilities and forecasted debt issuances.

For net investment hedges in which derivatives hedge the foreign currency exposure of a net investment in a foreign operation, the accounting treatment will similarly depend on the effectiveness of the hedge. The effective portion of the change in fair value of the derivative, including any forward premium or discount, is reflected in AOCI as part of the foreign currency translation adjustment.

End-user derivatives that are economic hedges, rather than qualifying for hedge accounting, are also carried at fair value, with changes in value included in *Principal transactions* or *Other revenue*. Citibank often uses economic hedges when qualifying for hedge accounting would be too complex or operationally burdensome, examples are hedges of the credit risk component of commercial loans and loan commitments. Citibank periodically evaluates its hedging strategies in other areas and may designate either a qualifying hedge or an economic hedge, after considering the relative cost and benefits. Economic hedges are also employed when the hedged item itself is marked to market through current earnings, such as hedges of commitments to originate one-to-four-family mortgage loans to be held-for-sale and MSRs.

For those hedge relationships that are terminated or when hedge designations are removed, the hedge accounting treatment described in the paragraphs above is no longer applied. Instead, the end-user derivative is terminated or transferred to the trading account. For fair value hedges, any changes in the fair value of the hedged item remain as part of the basis of the asset or liability and are ultimately reflected as an element of the yield. For cash flow hedges, any changes in fair value of the end-user derivative remain in AOCI and are included in earnings of future periods when the hedged cash flows impact earnings. However, if it becomes probable that the hedged forecasted transaction will not likely occur, any amounts that remain in AOCI are immediately reflected in *Other revenue*.

Incentive Plans

The Company participates in various Citigroup stock-based compensation programs under which Citigroup administers stock options, restricted or deferred stock awards, and stock payments for employees of Citigroup and its subsidiaries, including Citibank. The Company recognizes compensation expense related to Citigroup stock and option awards over the requisite service period based on the instruments' grant date fair value, reduced by expected forfeitures. Compensation cost related to Citigroup awards granted to Citibank employees who meet certain age plus years-of-service requirements (retirement eligible employees) is accrued in the year prior to the grant date, in the same manner as the accrual for cash incentive compensation.

Employee Benefits Expense

The Company's employee benefits expense includes current service costs of pension and other postretirement benefit plans, which are accrued on a current basis, as well as the cost of other employee benefits.

Income Taxes

The Company is subject to the income tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which the Company operates. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. The Company must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions, both domestic and foreign.

Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

The Company treats interest and penalties on income taxes as a component of *Income tax expense*.

Deferred taxes are recorded for the future consequences of events that have been recognized for financial statements or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. FASB Interpretation No. 48, "Accounting for Uncertainty in *Income Taxes*" (FIN 48) (now ASC 740, *Income Taxes*), sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized. FIN 48 also sets out disclosure requirements to enhance transparency of an entity's tax reserves.

See Note 9 to the Consolidated Financial Statements for a further description of the Company's provision and related income tax assets and liabilities.

Commissions, Underwriting and Principal Transactions

Commissions, underwriting and principal transactions revenues and related expenses are recognized in income on a trade-date basis.

Use of Estimates

Management must make estimates and assumptions that affect the Consolidated Financial Statements and the related footnote disclosures. Such estimates are used in connection with certain fair value measurements. See Note 22 to the Consolidated Financial Statements for further discussions on estimates used in the determination of fair value. The Company also uses estimates in determining consolidation decisions for special-purpose entities as discussed in Note 19. Moreover, estimates are significant in determining the amounts of other-than-temporary impairments, impairments of goodwill and other intangible assets, provisions for probable losses that may arise from credit-related exposures and probable and estimable losses related to litigation and regulatory proceedings, and tax

reserves While management makes its best judgment, actual amounts or results could differ from those estimates Current market conditions increase the risk and complexity of the judgments in these estimates

Cash Flows

Cash equivalents are defined as those amounts included in cash and due from banks Cash flows from risk management activities are classified in the same category as the related assets and liabilities

Related Party Transactions

The Company has related party transactions with certain of its subsidiaries and affiliates These transactions, which are primarily short-term in nature, include cash accounts, collateralized financing transactions, margin accounts, derivative trading, charges for operational support and the borrowing and lending of funds, and are entered into in the ordinary course of business See Note 27 to the Consolidated Financial Statements

ACCOUNTING CHANGES

Change in Accounting for Embedded Credit Derivatives

In March 2010, the FASB issued ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives* The ASU clarifies that certain embedded derivatives, such as those contained in certain securitizations, CDOs and structured notes, should be considered embedded credit derivatives subject to potential bifurcation and separate fair value accounting The ASU allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition on July 1, 2010

The Company has elected to account for certain beneficial interests issued by securitization vehicles under the fair value option that are included in the table below Beneficial interests previously classified as held-to-maturity (HTM) were reclassified to available-for-sale (AFS) on June 30, 2010, because as of that reporting date, the Company did not have the intent to hold the beneficial interests until maturity

The following table also shows the gross gains and gross losses that make up the pretax cumulative-effect adjustment to *Retained earnings* for reclassified beneficial interests, recorded on July 1, 2010

In millions of dollars at June 30, 2010	July 1, 2010			
	Pretax cumulative effect adjustment to Retained earnings			
	Amortized cost	Gross unrealized losses recognized in AOCI ⁽¹⁾	Gross unrealized gains recognized in AOCI	Fair value
Mortgage-backed securities				
Prime	\$ 97	\$—	\$ 1	\$ 98
Alt-A	250	—	24	274
Non-U S residential	2,249	—	38	2,287
Total mortgage-backed securities	\$2,596	\$—	\$ 63	\$2,659
Asset-backed securities	\$4,162	\$19	\$162	\$4,305
Total reclassified debt securities	\$6,758	\$19	\$225	\$6,964

- (1) All reclassified debt securities with gross unrealized losses were assessed for other-than-temporary-impairment as of June 30, 2010, including an assessment of whether the Company intends to sell the security For securities that the Company intends to sell, impairment charges of \$158 million were recorded in earnings in 2010

Beginning July 1, 2010, the Company elected to account for these beneficial interests under the fair value option for various reasons, including

- to reduce the operational burden of assessing beneficial interests for bifurcation under the guidance in the ASU,
- where bifurcation would otherwise be required under the ASU, to avoid the complicated operational requirements of bifurcating the embedded derivatives from the host contracts and accounting for each separately. The Company reclassified substantially all beneficial interests where bifurcation would otherwise be required under the ASU, and
- to permit more economic hedging strategies without generating volatility in reported earnings

Additional Disclosures Regarding Fair Value Measurements

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. The ASU requires disclosure of the amounts of significant transfers in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers. The disclosures are effective for reporting periods beginning after December 31, 2009. The Company adopted ASU 2010-06 as of January 1, 2010. The required disclosures are included in Note 22 to the Consolidated Financial Statements. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in Level 3 of the fair value measurement hierarchy will be required for fiscal years beginning after December 15, 2010.

Elimination of Qualifying Special Purpose Entities (QSPEs) and Changes in the Consolidation Model for VIEs

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (SFAS 166, now incorporated into ASC Topic 860) and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167, now incorporated into ASC Topic 810). Citibank adopted both standards on January 1, 2010. Citibank has elected to apply SFAS 166 and SFAS 167 prospectively. Accordingly, the prior period has not been restated.

SFAS 166 eliminates the concept of QSPEs from U.S. GAAP and amends the guidance on accounting for transfers of financial assets. SFAS 167 details three key changes to the consolidation model. First, former QSPEs are included in the scope of SFAS 167. Second, the FASB has changed the method of analyzing which party to a VIE should consolidate the VIE (known as the primary beneficiary) to a qualitative determination of which party to the VIE has "power" combined with potentially significant benefits or losses, instead of the previous quantitative risks and rewards model. The party that has "power" has the ability to direct the activities of the VIE that most significantly impact the VIE's economic performance. Third, the standard requires that the primary beneficiary analysis be re-evaluated whenever circumstances change. The previous rules required reconsideration of the primary beneficiary only when specified reconsideration events occurred.

As a result of implementing these accounting standards, Citibank consolidated certain of the VIEs and former QSPEs with which it currently has involvement. Further, certain asset transfers, including transfers of portions of assets, that would

have been considered sales under SFAS 140, are considered secured borrowings under the standards.

In accordance with SFAS 167, Citibank employed three approaches for newly consolidating certain VIEs and former QSPEs as of January 1, 2010. The first approach requires initially measuring the assets, liabilities, and noncontrolling interests of the VIEs and former QSPEs at their carrying values (the amounts at which the assets, liabilities, and noncontrolling interests would have been carried in the Consolidated Financial Statements, if Citibank had always consolidated these VIEs and former QSPEs). The second approach measures assets at their unpaid principal amount, and is applied when determining carrying values is not practicable. The third approach is to elect the fair value option, in which all of the financial assets and liabilities of certain designated VIEs and former QSPEs are recorded at fair value upon adoption of SFAS 167 and continue to be marked to market thereafter, with changes in fair value reported in earnings.

Citibank consolidated all required VIEs and former QSPEs, as of January 1, 2010, at carrying values or unpaid principal amounts, except for certain private label residential mortgage securitizations and mutual fund deferred sales commissions VIEs, for which the fair value option was elected.

The impact from those VIEs and former QSPEs that were consolidated or deconsolidated for accounting purposes as of January 1, 2010 was an incremental increase in GAAP assets and risk-weighted assets of approximately \$48 billion and approximately \$21 billion, respectively, which primarily related to the consolidation of commercial paper conduits and student loan securitization vehicles.

The cumulative effect of adopting these accounting standards as of January 1, 2010 resulted in an aggregate after-tax charge to *Retained earnings* of \$407 million.

The impact on certain of Citibank's regulatory capital ratios of adopting these accounting standards, reflecting immediate implementation of the final risk-based capital rules regarding SFAS 166/167, was as follows:

	As of January 1, 2010
	Impact
Tier 1 Capital	(46) bps
Total Capital	(48) bps

Multiple Foreign Exchange Rates

In May 2010, the FASB issued ASU 2010-19, *Foreign Currency Issues: Multiple Foreign Currency Exchange Rates*. The ASU requires certain disclosure in situations when an entity's reported balances in U.S. dollar monetary assets held by its foreign entities differ from the actual U.S. dollar-denominated balances due to different foreign exchange rates used in remeasurement and translation. The ASU also clarifies the reporting for the difference between the reported balances and the U.S. dollar-denominated balances upon the initial adoption of highly inflationary accounting. The ASU does not have a material impact on the Company's accounting.

Effect of a Loan Modification When the Loan Is Part of a Pool Accounted for as a Single Asset (ASU No 2010-18)

In April 2010, the FASB issued ASU No 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool Accounted for as a Single Asset*. As a result of the amendments in this ASU, modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool, even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The ASU was effective for reporting periods ending on or after July 15, 2010. The ASU had no material effect on the Company's financial statements.

FASB Launches Accounting Standards Codification

The FASB issued FASB Statement No 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* (now ASC 105, *Generally Accepted Accounting Principles*). The statement establishes the FASB Accounting Standards Codification™ (Codification or ASC) as the single source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become nonauthoritative.

Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASU), which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

GAAP is not intended to be changed as a result of the FASB's Codification project, but what does change is the way the guidance is organized and presented. As a result, these changes have a significant impact on how companies reference GAAP in their financial statements and in their accounting policies for financial statements issued for periods ending after September 15, 2009.

Citibank is providing references to the Codification topics alongside references to the predecessor standards.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

Loss-Contingency Disclosures

In July 2010, the FASB issued a second exposure draft proposing expanded disclosures regarding loss contingencies. This proposal increases the number of loss contingencies subject to disclosure and requires substantial quantitative and qualitative information to be provided about those loss contingencies. The proposal will have no impact on the Company's accounting for loss contingencies, but could have a significant impact on its disclosures relating to loss contingencies.

Credit Quality and Allowance for Credit Losses Disclosures

In July 2010, the FASB issued ASU No 2010-20, *Disclosures about Credit Quality of Financing Receivables and Allowance for Credit Losses*. The ASU requires a greater level of disaggregated information about the allowance for credit losses and the credit quality of financing receivables. The period-end balance disclosure requirements for loans and the allowance for loan losses are effective for reporting periods ending on or after December 15, 2010 and are included in these financial statements (see Notes 13 and 14 to the Consolidated Financial Statements), while disclosures for activity during a reporting period in the loan and allowance for loan losses accounts will be effective for reporting periods beginning on or after December 15, 2010. The TDR disclosure requirements that are part of this ASU are expected to be effective in 2011.

Potential Amendments to Current Accounting Standards

In January 2011, the FASB issued the Proposed Accounting Standards Update—*Balance Sheet (Topic 210) Offsetting*, to propose a framework for offsetting financial assets and liabilities. This proposal would prohibit netting most derivative contracts covered by ISDA master netting agreements and also prohibit netting most repurchase/resale agreements under standard industry agreements that are allowed to be netted today and would result in a significant gross-up of assets and liabilities on the balance sheet.

The FASB and IASB are currently working on several joint projects, including amendments to existing accounting standards governing financial instruments and lease accounting. Upon completion of the standards, the Company will need to re-evaluate its accounting and disclosures. The FASB is proposing sweeping changes to the classification and measurement of financial instruments, hedging and impairment guidance. The FASB is also working on a project that would require all leases to be capitalized on the balance sheet. These projects will have significant impacts for the Company. However, due to ongoing deliberations of the standard-setters, the Company is currently unable to determine the effect of future amendments or proposals.

3. DISCONTINUED OPERATIONS

Sale of The Student Loan Corporation

On September 17, 2010, Citigroup announced that The Student Loan Corporation (SLC), a direct subsidiary of the Company that was 80% owned by the Company and 20% owned by public shareholders, entered into definitive agreements that resulted in the divestiture of Citibank's private student loan business and approximately \$31 billion of its approximately \$40 billion in assets to Discover Financial Services (Discover) and SLM Corporation (Sallie Mae). The transaction closed on December 31, 2010. As part of the transaction, Citibank provided Sallie Mae with \$1.1 billion of seller-financing.

This sale was reported as discontinued operations commencing July 1, 2010. Prior periods were not reclassified due to the immateriality of the impact in those periods. The total 2010 impact from the sale of SLC resulted in an overall after-tax loss of \$427 million.

Additionally, as part of the transactions, the Company purchased approximately \$8.6 billion of assets from SLC prior to the sale of SLC.

The following is a summary as of December 31, 2010 of the assets and liabilities for the operations related to the SLC business sold.

<i>In millions of dollars</i>	2010
Assets	
Loans, net of unearned income	\$29,569
Allowance for loan losses	(39)
Total loans, net	\$29,530
Other assets	1,726
Total assets	\$31,256
Liabilities	
Long-term debt	\$28,797
Other liabilities	208
Total liabilities	\$29,005

Summarized financial information for discontinued operations, including cash flows, related to the sale of SLC follows.

<i>In millions of dollars</i>	2010 ⁽¹⁾
Total revenues, net of interest expense	\$(577)⁽²⁾
Income (loss) from discontinued operations	\$ 97
Loss on sale	(825)
Benefit for income taxes	(339)
Loss from discontinued operations, net of taxes	\$(389)

<i>In millions of dollars</i>	2010 ⁽¹⁾
Cash flows from operating activities	\$ 5,106
Cash flows from investing activities	1,532
Cash flows from financing activities	(6,483)
Net cash provided by discontinued operations	\$ 155

(1) Amounts reflect activity from July 1, 2010 through December 31, 2010.

(2) Total revenues include gain or loss on sale, if applicable.

Combined Results for Discontinued Operations

The following is summarized financial information for the SLC business, German retail banking operations and CitiCapital business. The German retail banking operation, which was sold on December 5, 2008, and the CitiCapital business, which was sold on July 31, 2008, continue to have minimal residual costs associated with the sales. However, during 2010, the Company completed an income tax audit in Germany related to the business sold in 2008. As a result of completing this audit, the Company released reserves of approximately \$68 million.

<i>In millions of dollars</i>	2010	2009
Total revenues, net of interest expense⁽¹⁾	\$ (517)	\$126
Income (loss) from discontinued operations	\$ 79	\$ (28)
Loss on sale	(810)	(27)
Benefit for income taxes	(395)	(39)
Income (loss) from discontinued operations, net of taxes	\$ (336)	\$(16)

<i>In millions of dollars</i>	2010	2009
Cash flows from operating activities	\$5,108	\$ 5
Cash flows from investing activities	1,541	1
Cash flows from financing activities	(6,486)	(6)
Net cash provided by (used in) discontinued operations	\$ 163	\$ —

(1) Total revenues include gain or loss on sale, if applicable.

4. INTEREST REVENUE AND EXPENSE

For the years ended December 31, 2010, and 2009, respectively, interest revenue and expense consisted of the following

<i>In millions of dollars</i>	2010	2009
Interest revenue		
Loan interest, including fees	\$26,928	\$31,682
Deposits with banks	1,007	1,313
Federal funds sold, securities borrowed or purchased under agreements to resell	862	388
Investments, including dividends	8,560	8,765
Trading account assets ⁽¹⁾	2,931	3,206
Other interest	342	434
Total interest revenue	\$40,630	\$45,788
Interest expense		
Deposits ⁽²⁾	\$ 7,339	\$ 9,383
Federal funds purchased and securities loaned or sold under agreements to repurchase	387	482
Trading account liabilities ⁽¹⁾	323	254
Short-term borrowings	440	608
Long-term debt	2,674	3,261
Total interest expense	\$11,163	\$13,988
Net interest revenue	\$29,467	\$31,800
Provision for loan losses	9,161	24,097
Net interest revenue after provision for loan losses	\$20,306	\$ 7,703

- (1) Certain interest expense on *Trading account liabilities* is reported as a reduction of interest revenue from *Trading account assets*
- (2) Includes deposit insurance fees and charges of \$796 million and \$1,229 million for the 12 months ended December 31, 2010 and 2009, respectively. The 12-month period ended December 31, 2009 also includes a one-time FDIC special assessment

5. COMMISSIONS AND FEES

Commissions and fees revenue includes charges to customers for credit and bank cards, including transaction-processing fees and annual fees, advisory and equity and debt underwriting services, lending and deposit-related transactions, such as loan commitments, standby letters of credit and other deposit and loan servicing activities, investment management-related fees, including brokerage services and custody and trust services, and insurance fees and commissions

The following table presents commissions and fees revenue for the years ended December 31

<i>In millions of dollars</i>	2010	2009
Credit cards and bank cards	\$ 1,518	\$ 1,259
Transaction services	1,232	1,183
Checking-related	803	842
Loan servicing ⁽¹⁾	504	449
Corporate finance	363	350
Insurance related commissions	745	718
Asset management and other fiduciary fees	3,233	3,092
Other	2,831	2,569
Total commissions and fees	\$11,229	\$10,462

- (1) For clarity purposes, Citibank has reclassified the MSR mark to market and MSR hedging activities from multiple income statement lines together into *Other revenue* for all periods presented

6. PRINCIPAL TRANSACTIONS

Principal transactions revenue consists of realized and unrealized gains and losses from trading activities. Trading activities include revenues from fixed income, equities, credit and commodities products, as well as foreign exchange transactions. Not included in the table below is the impact of net interest revenue related to trading activities, which is an integral part of trading activities' profitability. The following table presents principal transactions revenue for the years ended December 31.

<i>In millions of dollars</i>	2010	2009
Interest rate contracts ⁽¹⁾	\$2,991	\$ 3,890
Foreign exchange contracts ⁽²⁾	1,789	1,855
Equity contracts ⁽³⁾	153	(249)
Commodity and other contracts ⁽⁴⁾	(267)	167
Credit derivatives ⁽⁵⁾	166	(4,180)
Total	\$4,832	\$ 1,483

- (1) Includes revenues from government securities and corporate debt, municipal securities, preferred stock, mortgage securities, and other debt instruments. Also includes spot and forward trading of currencies and exchange-traded and over-the-counter (OTC) currency options, options on fixed income securities, interest rate swaps, currency swaps, swap options, caps and floors, financial futures, OTC options, and forward contracts on fixed income securities.
- (2) Includes revenues from foreign exchange spot, forward, option and swap contracts, as well as translation gains and losses.
- (3) Includes revenues from common, preferred and convertible preferred stock, convertible corporate debt, equity-linked notes, and exchange-traded and OTC equity options and warrants.
- (4) Includes revenues from commodity swaps, options, futures and forward contracts and various commodity trades.
- (5) Includes revenues from structured credit products.

7. INCENTIVE PLANS

Stock Award Programs

The Company participates in various Citigroup stock-based compensation programs under which Citigroup administers stock options, restricted or deferred stock awards, and stock payments for employees of Citigroup and its subsidiaries, including Citibank. The award programs are used to attract, retain and motivate officers, employees and non-employee directors of Citigroup, to provide incentives for their contributions to the long-term performance and growth of Citigroup and its subsidiaries, and to align their interests with those of Citigroup's stockholders. The plans are administered by the Personnel and Compensation Committee (the Committee) of the Citigroup Board of Directors, which is composed entirely of independent non-employee directors.

Citigroup's primary stock award program is the Capital Accumulation Program (CAP). Generally, CAP awards of restricted or deferred stock constitute a percentage of annual incentive compensation and vest ratably over four-year periods, beginning on the first anniversary of the award date.

In January 2009 and January 2010, a portion of total annual incentives awarded pursuant to CAP was instead awarded as deferred cash awards in the U.S. and the U.K. The deferred cash awards are subject to two-year and four-year vesting schedules, but the other terms and conditions are the same as CAP awards made in those years. The deferred cash awards earn a return during the vesting period based on LIBOR, in 2010 only, a portion of the award was denominated as a stock unit, the value of which will fluctuate based on the price of Citigroup common stock. Only cash is delivered at vesting for these awards.

Profit Sharing Plan

In October 2010, the Committee approved awards under the 2010 Key Employee Profit Sharing Plan (KEPSP) which may entitle participants to profit-sharing payments based on an initial performance measurement period of January 1, 2010 through December 31, 2012. Generally, if a participant remains employed and all other conditions to vesting and payment are satisfied, the participant will be entitled to an initial payment in 2013, as well as a holdback payment in 2014 that may be reduced based on performance during the subsequent holdback period (generally, January 1, 2013 through December 31, 2013). If the vesting and performance conditions are satisfied, a participant's initial payment will equal two-thirds of the product of the cumulative pretax income for the initial performance period and the participant's applicable percentage. The initial payment will be paid after January 20, 2013, but no later than March 15, 2013. The participant's holdback payment, if any, will equal the product of (i) the lesser of cumulative pretax income of Citicorp for the initial performance period and cumulative pretax income of Citicorp for the initial performance period and the holdback period combined (generally, January 1, 2010 through December 31, 2013), and (ii) the participant's applicable percentage, less the initial payment, provided that the holdback payment may not be less than zero. The holdback payment, if any, will be paid after January 20, 2014, but no later than March 15, 2014.

On February 14, 2011, the Committee approved grants of awards under the 2011 KEPSP to certain executive officers of

Citigroup (including Citibank) These awards have a performance period of January 1, 2011 to December 31, 2012 and other terms of the awards are similar to the 2010 KEPSP

Additionally, Citigroup may from time to time introduce incentive plans for certain employees that have an incentive-based award component

8. RETIREMENT BENEFITS

Pension and Postretirement Benefits

The Company participates in several non-contributory defined benefit pension plans sponsored by Citigroup covering certain U S employees and various defined benefit pension and termination indemnity plans covering employees outside the United States Citigroup's U S qualified defined benefit plan provides benefits under a cash balance formula However, employees satisfying certain age and service requirements remain covered by a prior final average pay formula under that plan Effective January 1, 2008, Citigroup's U S qualified pension plan was frozen for most employees Accordingly, no additional compensation-based contributions were credited to the cash balance formula for existing plan participants after 2007 However, certain employees covered under the prior final pay formula continue to accrue benefits The Company also participates in postretirement health care and life insurance benefits offered by Citigroup to certain eligible U S retired employees, as well as to certain eligible employees outside the United States

For the U S pension plans, the Company recognized a net benefit of \$51 million and \$59 million for the years ended December 31, 2010 and 2009, respectively For the non-U S pension plans, the Company recognized a net expense of \$132 million and \$155 million for the years ended December 31, 2010 and 2009, respectively For the U S postretirement plans, the Company recognized a net expense of \$41 million and \$32 million for the years ended December 31, 2010 and 2009, respectively

401(k) Benefits

The Company participates in the Citigroup 401(k) Plan, a defined contribution plan, under which eligible U S employees receive matching contributions of up to 4% and 6% of their pay in 2010 and 2009, respectively, subject to statutory limits Effective January 1, 2011, the maximum amount of matching contributions on employee deferral contributions made into this plan was increased from 4% to 6% of eligible pay, subject to statutory limits The matching contribution is invested according to participants' individual elections Additionally, for eligible employees whose compensation is \$100,000 or less, a fixed contribution of up to 2% of compensation is provided

The Company's pretax expense associated with the Citigroup 401(k) Plan amounted to approximately \$76 million and \$103 million for the years ended December 31, 2010 and 2009, respectively

The Company sponsors the Citibuilder 401(k) Plan for Puerto Rico, a defined contribution plan, under which eligible employees receive a two for one matching contribution up to the lesser of 2% and 3% of eligible pay or the first \$5,000 and \$8,000 in employee deferrals in 2010 and 2009, respectively, for all employees in

Puerto Rico at all compensation levels Effective January 1, 2011, the maximum amount of two for one matching contributions on employee deferral contributions made into this plan was increased from 2% to 3% of eligible pay The matching contribution is invested according to participants' individual elections Additionally, for eligible employees whose compensation is \$100,000 or less, a fixed contribution of up to 2% of compensation is provided

The Company's pretax expense associated with the Citibuilder 401(k) Plan for Puerto Rico amounted to approximately \$0.5 million and \$0.6 million for the years ended December 31, 2010 and 2009, respectively

9 INCOME TAXES

The Company is included in the Citigroup consolidated federal tax return and is party to a tax sharing agreement with Citigroup. Under such agreement, the Company is entitled to a tax benefit for its losses and credits that are recognized in Citigroup's Consolidated Financial Statements. Settlements between the Company and Citigroup of current taxes occur throughout the year. The Company also files in consolidated and combined state income tax returns with Citigroup and/or other of its subsidiaries, and files other separate state income tax returns.

<i>In millions of dollars</i>	2010	2009
Current		
Federal	\$ 49	\$ (684)
Foreign	2,268	2,358
State	116	(53)
Total current income taxes	\$2,433	\$ 1,621
Deferred		
Federal	\$ (823)	\$ (6,586)
Foreign	378	872
State	(33)	(1,064)
Total deferred income taxes	\$ (478)	\$ (6,778)
Provision (benefit) for income tax on continuing operations before noncontrolling interests ⁽¹⁾	\$1,955	\$ (5,157)
Provision (benefit) for income taxes on discontinued operations	(395)	(39)
Provision (benefit) for income taxes on cumulative effect of accounting changes	(202)	—
Income tax expense (benefit) reported in stockholder's equity related to:		
Foreign currency translation	(111)	(106)
Securities available-for-sale	906	2,359
Employee stock plans	(7)	11
Cash flow hedges	315	585
Citibank's portion of Citigroup's pension liability adjustments	(152)	(283)
Income taxes before noncontrolling interests	\$2,309	\$ (2,630)

(1) Includes the effect of securities transactions and OTTI losses resulting in a provision (benefit) of \$652 million and \$(424) million in 2010, and \$439 million and \$(724) million in 2009, respectively.

The reconciliation of the federal statutory income tax rate to the Company's effective income tax rate applicable to income from continuing operations (before minority interest and the cumulative effect of accounting changes) for the years ended December 31 was as follows:

	2010	2009
Federal statutory rate	35.0%	35.0%
State income taxes, net of federal benefit	0.2	9.2
Foreign income tax rate differential	(9.1)	8.9
Tax advantaged investments	(6.7)	9.1
Other, net	(0.3)	3.4
Effective income tax rate	19.1%	65.6%

Deferred income taxes for the years ended December 31 related to the following:

<i>In millions of dollars</i>	2010	2009
Deferred tax assets		
Credit loss deduction	\$ 7,164	\$ 7,823
Deferred compensation and employee benefits	1,092	1,106
Restructuring and settlement reserves	138	180
Unremitted foreign earnings	2,886	2,410
Cash flow hedges	968	1,283
Interest-related items	298	149
Investments and loan basis differences	4,688	3,360
Credit valuation adjustment on Company-issued debt	116	10
Tax credit and net operating loss carryforwards	10,718	10,597
Intangibles	197	38
Other	535	1,696
Gross deferred tax assets	\$28,800	\$28,652
Valuation allowance	—	—
Deferred tax assets after valuation allowance	\$28,800	\$28,652
Deferred tax liabilities		
Fixed assets and leases	\$ (528)	\$ (633)
Other deferred tax liabilities	(422)	(420)
Gross deferred tax liabilities	\$ (950)	\$ (1,053)
Net deferred tax asset	\$27,850	\$27,599

The following is a roll-forward of the Company's unrecognized tax benefits for the years ended December 31:

<i>In millions of dollars</i>	2010	2009
Total unrecognized tax benefits at January 1,	\$1,455	\$1,321
Net amount of increases for current year's tax positions	64	76
Gross amount of increases for prior years' tax positions	363	367
Gross amount of decreases for prior years' tax positions	(69)	(228)
Amounts of decreases relating to settlements	(11)	(76)
Reductions due to lapse of statutes of limitation	(11)	(12)
Foreign exchange, acquisitions and dispositions	4	7
Total unrecognized tax benefits at December 31	\$1,795	\$1,455

The total amount of unrecognized tax benefits at December 31, 2010 and 2009 that, if recognized, would affect the Company's effective tax rate was \$961 million and \$933 million, respectively. The remainder of the uncertain tax positions have offsetting amounts in other jurisdictions or are temporary differences.

Interest and penalties (not included in "total unrecognized tax benefits" in the table above) are a component of the *Provision for income taxes*

<i>In millions of dollars</i>	2010		2009	
	Pretax	Net of tax	Pretax	Net of tax
Total interest and penalties in the Consolidated Balance Sheet at January 1,	\$199	\$117	\$240	\$138
Total interest and penalties in the Consolidated Statement of Income	30	19	(24)	(15)
Total interest and penalties in the Consolidated Balance Sheet at December 31 ⁽¹⁾	218	145	199	117

(1) Includes \$7 million for foreign penalties

The Company is currently under audit by the Internal Revenue Service and other major taxing jurisdictions around the world. Thus, it is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months, however, the Company does not expect such audits to result in amounts that would cause a significant change to its effective tax rate.

The following are the major tax jurisdictions in which the Company and its affiliates operate and the earliest tax year subject to examination:

Jurisdiction	Tax year
United States	2006
New York State and City	2005
United Kingdom	2008
Ireland	2006
Japan	2005
Hong Kong	2004
Singapore	2003
Brazil	2006

Foreign pretax earnings approximated \$10.9 billion in 2010 and \$6.2 billion in 2009. As a U.S. corporation, Citibank and its U.S. subsidiaries are subject to U.S. taxation currently on all foreign pre-tax earnings earned by a foreign branch. Pretax earnings of a foreign subsidiary or affiliate are subject to U.S. taxation when effectively repatriated. The Company provides income taxes on the undistributed earnings of non-U.S. subsidiaries, except to the extent that such earnings are indefinitely invested outside the United States. At December 31, 2010 and 2009, respectively, \$25.6 billion and \$22.0 billion of accumulated undistributed earnings of non-U.S. subsidiaries were indefinitely invested. At the existing U.S. federal income tax rate, additional taxes (net of U.S. foreign tax credits) of \$6.5 billion and \$5.6 billion would have to be provided if such earnings were remitted currently. The current year's effect on the income tax expense from continuing operations is included in the "Foreign income tax rate differential" line in the reconciliation of the federal statutory rate to the Company's effective income tax rate.

Income taxes are not provided on the Company's "savings bank base year bad debt reserves" that arose before 1988, because, under current U.S. tax rules, such taxes will become payable only to the extent such amounts are distributed in excess of limits prescribed by federal law. At both December 31, 2010 and 2009, the amount of the base year reserves totaled approximately \$358 million (subject to a tax of \$125 million).

The federal net operating loss carryforwards expire between 2028 and 2029, the foreign tax credits expire between 2018 through 2020 and the state and local net operating loss carryforwards between 2012 and 2029.

The Company had no valuation allowance on deferred tax assets at December 31, 2010 and December 31, 2009.

Although it is not assured, the Company believes that the realization of the recognized net deferred tax asset of \$28 billion at December 31, 2010 is more likely than not based on the recognition of its federal and certain state deferred tax assets in Citigroup's financial statements and expectations as to future taxable income in jurisdictions in which the other deferred tax assets arise and available tax planning strategies, as defined in ASC 740, *Income Taxes* (formerly SFAS 109), that could be implemented if necessary to prevent a carryforward from expiring.

10. FEDERAL FUNDS/SECURITIES BORROWED, LOANED, AND SUBJECT TO REPURCHASE AGREEMENTS

Federal funds sold and securities borrowed or purchased under agreements to resell consisted of the following at December 31

<i>In millions of dollars</i>	2010	2009
Federal funds sold	\$ 262	\$ 6
Securities purchased under agreements to resell	38,874	30,489
Deposits paid for securities borrowed	4,205	939
Total	\$43,341	\$31,434

Federal funds purchased and securities loaned or sold under agreements to repurchase, at their respective fair values, consisted of the following at December 31

<i>In millions of dollars</i>	2010	2009
Federal funds purchased	\$ 337	\$ 2,534
Securities sold under agreements to repurchase	12,307	8,554
Total⁽¹⁾	\$12,644	\$11,088

- (1) The total federal funds purchased and securities loaned or sold under agreements to repurchase are combined with the short-term borrowings balance to total the Citibank Consolidated Balance Sheet balance for purchased funds and other borrowings. See Note 16 to the Consolidated Financial Statements for details on the Company's short-term borrowings.

It is the Company's policy to take possession of the underlying collateral, monitor its market value relative to the amounts due under the agreements and, when necessary, require prompt transfer of additional collateral or reduction in the balance in order to maintain contractual margin protection. In the event of counterparty default, the financing agreement provides the Company with the right to liquidate the collateral held.

Resale and repurchase agreements are carried at the amount of cash initially advanced or received, plus accrued interest, as specified in the respective agreements. Resale agreements and repurchase agreements are reported net by counterparty, when applicable. Excluding the impact of the allowable netting, resale agreements totaled \$38.9 billion and \$30.5 billion at December 31, 2010 and 2009, respectively.

11. TRADING ACCOUNT ASSETS AND LIABILITIES

Trading account assets and Trading account liabilities, at fair value, consisted of the following at December 31

<i>In millions of dollars</i>	2010	2009
Trading account assets		
Mortgage-backed securities ⁽¹⁾		
U.S. government-sponsored agency guaranteed	\$ 3,028	\$ 2,728
Prime	146	59
Alt-A	27	147
Subprime	17	7,107
Non-U.S. residential	42	19
Commercial	141	821
Total mortgage-backed securities	\$ 3,401	\$ 10,881
U.S. Treasury and federal agencies		
U.S. Treasuries	\$ 7,507	\$ 11,672
Agency obligations	132	20
Total U.S. Treasury and federal agencies	\$ 7,639	\$ 11,692
State and municipal securities	\$ 1,185	\$ 240
Foreign government securities	34,118	30,155
Corporate	20,245	18,942
Derivatives ⁽²⁾	57,652	59,302
Equity securities	10,346	8,625
Asset-Backed securities ⁽¹⁾	750	33
Other debt securities ⁽¹⁾	14,224	16,510
Total trading account assets	\$149,560	\$156,380
Trading account liabilities		
Securities sold, not yet purchased	\$ 8,225	\$ 4,624
Derivatives ⁽²⁾	48,997	47,386
Total trading account liabilities	\$ 57,222	\$ 52,010

- (1) The Company invests in mortgage-backed and asset-backed securities. These securitizations are generally considered VIEs. The Company's maximum exposure to loss from these VIEs is equal to the carrying amount of the securities, which is reflected in the table above. For mortgage-backed and asset-backed securitizations in which the Company has other involvement, information is provided in Note 19 to the Consolidated Financial Statements.
- (2) Presented net, pursuant to master netting agreements. See Note 20 to the Consolidated Financial Statements for a discussion regarding the accounting and reporting for derivatives.

12 INVESTMENTS

<i>In millions of dollars</i>	2010	2009
Securities available-for-sale	\$220,599	\$188,033
Debt securities held-to-maturity ⁽¹⁾	24,894	37,594
Non-marketable equity securities carried at fair value ⁽²⁾	189	202
Non-marketable equity securities carried at cost ⁽³⁾	6,877	7,257
Total investments	\$252,559	\$233,086

(1) Recorded at amortized cost less impairment on securities that have credit related impairment

(2) Unrealized gains and losses for non-marketable equity securities carried at fair value are recognized in earnings

(3) Non-marketable equity securities carried at cost primarily consist of shares issued by the Federal Reserve Bank, the Federal Home Loan Banks, foreign central banks and various clearing houses of which the Company is a member

Securities Available-for-Sale

The amortized cost and fair value of securities available-for-sale at December 31, 2010 and December 31, 2009 were as follows

	2010				2009			
<i>In millions of dollars</i>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities available-for-sale								
Mortgage-backed securities ⁽¹⁾								
U S government-agency guaranteed	\$ 22,748	\$ 377	\$ 235	\$ 22,890	\$ 19,337	\$ 271	\$ 49	\$ 19,559
Prime	1,660	—	172	1,488	7,007	118	906	6,219
Alt-A	1	—	—	1	488	93	—	581
Non-U S residential	315	1	—	316	258	—	3	255
Commercial	106	1	29	78	114	—	47	67
Total mortgage-backed securities	\$ 24,830	\$ 379	\$ 436	\$ 24,773	\$ 27,204	\$ 482	\$1,005	\$ 26,681
U S Treasury and federal agency securities								
U S Treasury	45,665	431	45	46,051	26,225	31	331	25,925
Agency obligations	35,394	360	40	35,714	17,571	32	110	17,493
Total U S Treasury and federal agency securities	\$ 81,059	\$ 791	\$ 85	\$ 81,765	\$ 43,796	\$ 63	\$ 441	\$ 43,418
State and municipal	14,814	38	2,383	12,469	14,829	2	1,105	13,726
Foreign government	80,924	568	363	81,129	80,595	403	254	80,744
Corporate	10,626	55	18	10,663	13,268	107	44	13,331
Asset-backed securities ⁽¹⁾	7,657	4	34	7,627	7,788	2	55	7,735
Other debt securities	1,304	25	60	1,269	1,437	23	76	1,384
Total debt securities available-for-sale	\$221,214	\$1,860	\$3,379	\$219,695	\$188,917	\$1,082	\$2,980	\$187,019
Marketable equity securities available-for-sale	\$ 220	\$ 684	\$ —	\$ 904	\$ 120	\$ 894	\$ —	\$ 1,014
Total securities available-for-sale	\$221,434	\$2,544	\$3,379	\$220,599	\$189,037	\$1,976	\$2,980	\$188,033

(1) The Company invests in mortgage-backed and asset-backed securities. These securitizations are generally considered VIEs. The Company's maximum exposure to loss from these VIEs is equal to the carrying amount of the securities, which is reflected in the table above. For mortgage-backed and asset-backed securitizations in which the Company has other involvement, information is provided in Note 19 to the Consolidated Financial Statements.

At December 31, 2010, the cost of approximately 2,000 investments in fixed-income securities exceeded their fair value by \$3.379 billion. Of this amount, \$614 million represents fixed-income investments that have been in a gross-unrealized-loss position for less than a year and, of these, 100% are rated investment grade, \$2.765 billion represents fixed-income investments that have been in a gross-unrealized-loss position for a year or more and, of these, 94% are rated investment grade.

The available-for-sale mortgage-backed securities portfolio fair value balance of \$24.773 billion consists of \$22.890 billion of government-sponsored agency securities and \$1.883 billion of privately sponsored securities, of which the majority is backed by mortgages that are not Alt-A or subprime.

The increase in gross unrealized losses on state and municipal debt securities was the result of general tax-exempt municipal yields increasing relatively faster than the yields on taxable fixed income instruments and the effects of hedge accounting.

As discussed in more detail below, the Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other-than-temporary. Any credit-related impairment related to debt securities the Company does not plan to sell and is not likely to be required to sell is recognized in the Consolidated Statement of Income, with the non-credit-related impairment recognized in AOCI. For other impaired debt securities, the entire impairment is recognized in the Consolidated Statement of Income.

The table below shows the fair value of investments in available-for-sale securities that have been in an unrealized loss position for less than 12 months, or for 12 months or longer, each as of December 31, 2010 and 2009

<i>In millions of dollars</i>	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
December 31, 2010						
Securities available-for-sale						
Mortgage-backed securities						
U S government-agency guaranteed	\$ 8,291	\$ 214	\$ 29	\$ 21	\$ 8,320	\$ 235
Prime	—	—	1,484	172	1,484	172
Alt-A	1	—	—	—	1	—
Non-U S residential	—	—	135	—	135	—
Commercial	—	—	49	29	49	29
Total mortgage-backed securities	\$ 8,292	\$ 214	\$ 1,697	\$ 222	\$ 9,989	\$ 436
U S Treasury and federal agency securities						
U S Treasury	4,446	10	725	35	5,171	45
Agency obligations	5,514	40	—	—	5,514	40
Total U S Treasury and federal agency securities	\$ 9,960	\$ 50	\$ 725	\$ 35	\$ 10,685	\$ 85
State and municipal	577	59	10,842	2,324	11,419	2,383
Foreign government	31,522	246	5,473	117	36,995	363
Corporate	277	12	690	6	967	18
Asset-backed securities	1,877	33	5	1	1,882	34
Other debt securities	—	—	505	60	505	60
Marketable equity securities available-for-sale	—	—	31	—	31	—
Total securities available-for-sale	\$52,505	\$ 614	\$19,968	\$2,765	\$ 72,473	\$3,379
December 31, 2009						
Securities available-for-sale						
Mortgage-backed securities						
U S government-agency guaranteed	\$ 6,757	\$ 47	\$ 183	\$ 2	\$ 6,940	\$ 49
Prime	5,075	905	22	1	5,097	906
Alt-A	97	—	—	—	97	—
Non-U S residential	250	3	—	—	250	3
Commercial	—	—	52	47	52	47
Total mortgage-backed securities	\$12,179	\$ 955	\$ 257	\$ 50	\$ 12,436	\$1,005
U S Treasury and federal agency securities						
U S Treasury	4,642	224	19,033	107	23,675	331
Agency obligations	12,586	110	—	—	12,586	110
Total U S Treasury and federal agency securities	\$17,228	\$ 334	\$19,033	\$ 107	\$ 36,261	\$ 441
State and municipal	224	22	10,186	1,083	10,410	1,105
Foreign government	35,749	147	9,881	107	45,630	254
Corporate	455	22	286	22	741	44
Asset-backed securities	120	—	605	55	725	55
Other debt securities	—	1	592	75	592	76
Total securities available-for-sale	\$65,955	\$1,481	\$40,840	\$1,499	\$106,795	\$2,980

The following table presents the amortized cost and fair value of debt securities available-for-sale by contractual maturity dates, each as of December 31, 2010 and 2009

<i>In millions of dollars</i>	2010		2009	
	Amortized cost	Fair value	Amortized cost	Fair value
Mortgage-backed securities⁽¹⁾				
Due within 1 year	\$ —	\$ —	\$ —	\$ —
After 1 but within 5 years	399	371	5	5
After 5 but within 10 years	303	318	483	451
After 10 years ⁽²⁾	24,128	24,084	26,716	26,225
Total	\$ 24,830	\$ 24,773	\$ 27,204	\$ 26,681
U S Treasury and federal agencies				
Due within 1 year	\$ 24,474	\$ 24,503	\$ 3,274	\$ 3,277
After 1 but within 5 years	45,150	45,735	31,887	31,583
After 5 but within 10 years	10,150	10,187	5,261	5,273
After 10 years ⁽²⁾	1,285	1,340	3,374	3,285
Total	\$ 81,059	\$ 81,765	\$ 43,796	\$ 43,418
State and municipal				
Due within 1 year	\$ 2	\$ 2	\$ 1	\$ 1
After 1 but within 5 years	87	89	49	50
After 5 but within 10 years	186	187	240	241
After 10 years ⁽²⁾	14,539	12,191	14,539	13,434
Total	\$ 14,814	\$ 12,469	\$ 14,829	\$ 13,726
Foreign government				
Due within 1 year	\$ 34,036	\$ 33,509	\$ 27,499	\$ 27,562
After 1 but within 5 years	41,661	42,326	46,919	47,011
After 5 but within 10 years	4,759	4,832	6,074	6,063
After 10 years ⁽²⁾	468	462	103	108
Total	\$ 80,924	\$ 81,129	\$ 80,595	\$ 80,744
All other⁽³⁾				
Due within 1 year	\$ 1,002	\$ 998	\$ 2,622	\$ 2,627
After 1 but within 5 years	14,833	14,843	11,230	11,307
After 5 but within 10 years	1,053	1,046	6,365	6,356
After 10 years ⁽²⁾	2,699	2,672	2,276	2,160
Total	\$ 19,587	\$ 19,559	\$ 22,493	\$ 22,450
Total debt securities available-for-sale	\$221,214	\$219,695	\$188,917	\$187,019

(1) Includes mortgage-backed securities of U S federal agencies

(2) Investments with no stated maturities are included as contractual maturities of greater than 10 years Actual maturities may differ due to call or prepayment rights

(3) Includes corporate securities and other debt securities

The following table presents interest and dividends on investments

<i>In millions of dollars</i>	2010	2009
Taxable interest	\$7,642	\$7,989
Interest exempt from U S federal income tax	657	580
Dividends	235	202
Total interest and dividends	\$8,534	\$8,771

The following table presents realized gains and losses on all investments The gross realized investment losses exclude losses from other-than-temporary-impairment

<i>In millions of dollars</i>	2010	2009
Gross realized investment gains	\$2,208	\$1,315
Gross realized investment losses	(346)	(62)
Net realized gains	\$1,862	\$1,253

Debt Securities Held-to-Maturity

The carrying value and fair value of securities held-to-maturity (HTM) at December 31, 2010 and December 31, 2009 were as follows

<i>In millions of dollars</i>	Amortized cost ⁽¹⁾	Net unrealized loss recognized in AOCI	Carrying value ⁽²⁾	Gross unrecognized gains	Gross unrecognized losses	Fair value
December 31, 2010						
Debt securities held-to-maturity						
Mortgage-backed securities ⁽³⁾						
Prime	\$ 4,541	\$ 775	\$ 3,766	\$ 377	\$ —	\$ 4,143
Alt-A	10,835	2,943	7,892	433	62	8,263
Subprime	261	51	210	4	—	214
Non-U S residential	5,012	794	4,218	260	72	4,406
Commercial	793	2	791	—	97	694
Total mortgage-backed securities	\$21,442	\$4,565	\$16,877	\$1,074	\$231	\$17,720
State and municipal	121	3	118	—	—	118
Corporate	6,283	80	6,203	249	268	6,184
Asset-backed securities ⁽³⁾	1,764	68	1,696	53	54	1,695
Total debt securities held-to-maturity	\$29,610	\$4,716	\$24,894	\$1,376	\$553	\$25,717
December 31, 2009						
Debt securities held-to-maturity						
Mortgage-backed securities ⁽³⁾						
Prime	\$ 5,538	\$1,111	\$ 4,427	\$ 259	\$ —	\$ 4,686
Alt-A	13,149	4,147	9,002	735	159	9,578
Subprime	318	86	232	—	10	222
Non-U S residential	9,003	1,120	7,883	469	134	8,218
Commercial	1,143	10	1,133	—	208	925
Total mortgage-backed securities	\$29,151	\$6,474	\$22,677	\$1,463	\$511	\$23,629
State and municipal	125	4	121	8	1	128
Corporate	7,172	192	6,980	335	182	7,133
Asset-backed securities ⁽³⁾	8,043	227	7,816	260	233	7,843
Total debt securities held-to-maturity	\$44,491	\$6,897	\$37,594	\$2,066	\$927	\$38,733

- (1) For securities transferred to HTM from *Trading account assets*, amortized cost is defined as the fair value amount of the securities at the date of transfer plus any accretion income and less any impairments recognized in earnings subsequent to transfer. For securities transferred to HTM from AFS, amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of a purchase discount or premium, less any impairment recognized in earnings.
- (2) HTM securities are carried on the Consolidated Balance Sheet at amortized cost less any unrealized gains and losses recognized in AOCI. The changes in the value of these securities are not reported on the financial statements, except for other-than-temporary impairments. For HTM securities, only the credit loss component of the impairment is recognized in earnings, while the remainder of the impairment is recognized in AOCI.
- (3) The Company invests in mortgage-backed and asset-backed securities. These securitizations are generally considered VIEs. The Company's maximum exposure to loss from these VIEs is equal to the carrying amount of the securities, which is reflected in the table above. For mortgage-backed and asset-backed securitizations in which the Company has other involvement, information is provided in Note 19 to the Consolidated Financial Statements.

The net unrealized losses classified in AOCI relate to debt securities reclassified from AFS investments to HTM investments. Additionally, for HTM securities that have suffered credit impairment, declines in fair value for reasons other than credit losses are recorded in AOCI. The AOCI balance was \$4.7 billion as of December 31, 2010, compared to \$6.9 billion as of December 31, 2009. The AOCI balance for HTM securities is amortized over the remaining life of the related securities as an adjustment of yield in a manner consistent with the accretion of discount on the same debt securities. This will have no impact on Citibank's net income because the amortization of the

unrealized holding loss reported in equity will offset the effect on interest income of the accretion of the discount on these securities.

The credit-related impairment on HTM securities is recognized in earnings.

The table below shows the fair value of investments in HTM that have been in an unrecognized loss position for less than 12 months, or for 12 months or longer, each as of December 31, 2010 and December 31, 2009

<i>In millions of dollars</i>	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrecognized losses	Fair value	Gross unrecognized losses	Fair value	Gross unrecognized losses
December 31, 2010						
Debt securities held-to-maturity						
Mortgage-backed securities	\$ 339	\$ 30	\$13,512	\$201	\$13,851	\$231
Corporate	1,584	144	1,579	124	3,163	268
Asset-backed securities	159	11	494	43	653	54
Total debt securities held-to-maturity	\$2,082	\$185	\$15,585	\$368	\$17,667	\$553
December 31, 2009						
Debt securities held-to-maturity						
Mortgage-backed securities	\$ —	\$ —	\$15,921	\$511	\$15,921	\$511
State and municipal	44	1	—	—	44	1
Corporate	—	—	1,519	182	1,519	182
Asset-backed securities	348	18	2,640	215	2,988	233
Total debt securities held-to-maturity	\$ 392	\$ 19	\$20,080	\$908	\$20,472	\$927

Excluded from the gross unrecognized losses presented in the above table are the \$4.7 billion and \$6.9 billion of gross unrealized losses recorded in AOCI mainly related to the HTM securities that were reclassified from AFS investments as of December 31, 2010 and December 31, 2009, respectively. Virtually all of these unrealized losses relate to securities that have been in a loss position for 12 months or longer at both December 31, 2010 and December 31, 2009.

The following table presents the carrying value and fair value of HTM debt securities by contractual maturity dates, each as of December 31, 2010 and December 31, 2009.

<i>In millions of dollars</i>	December 31, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Mortgage-backed securities				
Due within 1 year	\$ —	\$ —	\$ —	\$ —
After 1 but within 5 years	239	212	336	254
After 5 but within 10 years	489	430	691	598
After 10 years ⁽¹⁾	16,149	17,078	21,650	22,777
Total	\$16,877	\$17,720	\$22,677	\$23,629
State and municipal				
Due within 1 year	\$ —	\$ —	\$ —	\$ —
After 1 but within 5 years	—	—	2	2
After 5 but within 10 years	—	—	—	—
After 10 years ⁽¹⁾	118	118	119	126
Total	\$ 118	\$ 118	\$ 121	\$ 128
All other ⁽²⁾				
Due within 1 year	\$ 259	\$ 261	\$ 1,311	\$ 1,302
After 1 but within 5 years	1,122	1,201	3,048	3,114
After 5 but within 10 years	4,886	4,765	5,966	6,061
After 10 years ⁽¹⁾	1,632	1,652	4,471	4,499
Total	\$ 7,899	\$ 7,879	\$14,796	\$14,976
Total debt securities held-to-maturity	\$24,894	\$25,717	\$37,594	\$38,733

(1) Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment rights.

(2) Includes corporate and asset-backed securities.

Evaluating Investments for Other-Than-Temporary Impairments

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary. Prior to January 1, 2009, these reviews were conducted pursuant to FASB Staff Position No. FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* (now incorporated into ASC 320-10-35, *Investments—Debt and Equity Securities—Subsequent Measurement*). Any unrealized loss identified as other than temporary was recorded directly in the Consolidated Statement of Income. As of January 1, 2009, the Company adopted FSP FAS 115-2 and FAS 124-2 (now incorporated into ASC 320-10-35-34, *Investments—Debt and Equity Securities—Recognition of an Other-Than-Temporary Impairment*). This guidance amended the impairment model for debt securities; the impairment model for equity securities was not affected.

Under the guidance for debt securities, other-than-temporary impairment (OTTI) is recognized in earnings for debt securities that the Company has an intent to sell or that the Company believes it is more-likely-than-not that it will be required to sell prior to recovery of the amortized cost basis. For those securities that the Company does not intend to sell or expect to be required to sell, credit-related impairment is recognized in earnings, with the non-credit-related impairment recorded in AOCI.

An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in AOCI for AFS securities, while such losses related to HTM securities are not recorded, as these investments are carried at their amortized cost. For securities transferred to HTM from *Trading account assets*, amortized cost is defined as the fair value of the securities at the date of transfer, plus any accretion income and less any impairment recognized in earnings subsequent to transfer. For securities transferred to HTM from AFS, amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of a purchase discount or premium, less any impairment recognized in earnings subsequent to transfer.

Regardless of the classification of the securities as AFS or HTM, the Company has assessed each position for impairment.

Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost,
- the severity of the impairment,
- the cause of the impairment and the financial condition and near-term prospects of the issuer,
- activity in the market of the issuer that may indicate adverse credit conditions, and
- the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company's review for impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment,
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period,
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment, and
- documentation of the results of these analyses, as required under business policies.

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to cost. Where management lacks that intent or ability, the security's decline in fair value is deemed to be other-than-temporary and is recorded in earnings. AFS equity securities deemed other-than-temporarily impaired are written down to fair value, with the full difference between fair value and cost recognized in earnings.

For debt securities that are not deemed to be credit impaired, management assesses whether it intends to sell or whether it is more-likely-than-not that it would be required to sell the investment before the expected recovery of the amortized cost basis. In most cases, management has asserted that it has no intent to sell and that it believes it is not likely to be required to sell the investment before recovery of its amortized cost basis. Where such an assertion has not been made, the security's decline in fair value is deemed to be other than temporary and is recorded in earnings.

For debt securities, a critical component of the evaluation for OTTI is the identification of credit impaired securities, where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. For securities purchased and classified as AFS with the expectation of receiving full principal and interest cash flows as of the date of purchase, this analysis considers the likelihood of receiving all contractual principal and interest. The extent of the Company's analysis regarding credit quality and the stress on assumptions used in the analysis have been refined for securities where the current fair value or other characteristics of the security warrant. The paragraphs below describe the Company's process for identifying credit impairment in security types with the most significant unrealized losses as of December 31, 2010.

Mortgage-backed securities

For U S mortgage-backed securities (and in particular for Alt-A and other mortgage-backed securities that have significant unrealized losses as a percentage of amortized cost), credit impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, prepayment rates, and recovery rates (on foreclosed properties).

Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. Default rates are projected by considering current underlying mortgage loan performance, generally assuming the default of (1) 10% of current loans, (2) 25% of 30–59 day delinquent loans, (3) 70% of 60–90 day delinquent loans and (4) 100% of 91+ day delinquent loans. These estimates are extrapolated along a default timing curve to estimate the total lifetime pool default rate. Other assumptions used contemplate the actual collateral attributes, including geographic concentrations, rating agency loss projections, rating actions and current market prices.

The key assumptions for mortgage-backed securities as of December 31, 2010 are as set forth in the table below.

	December 31, 2010
Prepayment rate ⁽¹⁾	3%–8% CRR
Loss severity ⁽²⁾	45%–85%
Unemployment rate	9.8%

- (1) Conditional Repayment Rate (CRR) represents the annualized expected rate of voluntary prepayment of principal for mortgage-backed securities over a certain period of time.
- (2) Loss severity rates are estimated considering collateral characteristics and generally range from 45%–60% for prime bonds, 50%–85% for Alt-A bonds, and 65%–85% for subprime bonds.

Recognition and Measurement of OTTI

The following table presents the total OTTI recognized in earnings during the 12 months ended December 31, 2010.

OTTI on Investments	Year ended December 31, 2010		
	AFS	HTM	Total
<i>In millions of dollars</i>			
Impairment losses related to securities that the Company does not intend to sell nor will likely be required to sell			
Total OTTI losses recognized during the year ended December 31, 2010	\$245	\$802	\$1,047
Less portion of OTTI loss recognized in AOCI (before taxes)	30	40	70
Net impairment losses recognized in earnings for securities that the Company does not intend to sell nor will likely be required to sell	\$215	\$762	\$ 977
OTTI losses recognized in earnings for securities that the Company intends to sell or more-likely-than-not will be required to sell before recovery	235	—	235
Total impairment losses recognized in earnings	\$450	\$762	\$1,212

In addition, cash flow projections are developed using more stressful parameters. Management assesses the results of those stress tests (including the severity of any cash shortfall indicated and the likelihood of the stress scenarios actually occurring based on the underlying pool's characteristics and performance) to assess whether management expects to recover the amortized cost basis of the security. If cash flow projections indicate that the Company does not expect to recover its amortized cost basis, the Company recognizes the estimated credit loss in earnings.

State and municipal securities

Citibank's AFS state and municipal bonds consist mainly of bonds that are financed through Tender Option Bond programs. The process for identifying credit impairment for bonds in this program, as well as for bonds that were previously financed in this program, is largely based on third-party credit ratings. Individual bond positions must meet minimum ratings requirements, which vary based on the sector of the bond issuer.

Citibank monitors the bond issuer and insurer ratings on a daily basis. The average portfolio rating, ignoring any insurance, is Aa3/AA-. In the event of a downgrade of the bond below Aa3/AA-, the subject bond is specifically reviewed for potential shortfall in contractual principal and interest. Citibank has not recorded any credit impairments on bonds held as part of the Tender Option Bond program or on bonds that were previously held as part of the Tender Option Bond program.

The remainder of Citibank's AFS state and municipal bonds are specifically reviewed for credit impairment based on instrument-specific estimates of cash flows, probability of default and loss given default.

Because Citibank does not intend to sell the AFS state and municipal bond securities or expect to be required to sell them prior to recovery, the unrealized losses associated with the AFS state and municipal bond portfolio (other than credit-related losses) remain classified in AOCI and are not reclassified into earnings as OTTI.

The following table presents activity during the twelve months of 2010 of the credit-related impairments recognized in earnings for AFS and HTM debt securities held as of December 31, 2010 that the Company does not intend to sell nor likely will be required to sell

	OTTI Credit Losses Recognized in Earnings		
	Credit impairments recognized in earnings on securities not previously impaired	Credit impairments recognized in earnings on securities that have been previously impaired	Total
<i>In millions of dollars</i>			
AFS debt securities			
Mortgage-backed securities			
Prime	\$ —	\$ 36	\$ 36
Alt-A	—	—	—
Commercial real estate	—	—	—
Total mortgage-backed securities	\$ —	\$ 36	\$ 36
State and municipal	3	—	3
U S Treasury	37	—	37
Foreign government	138	—	138
Corporate	—	—	—
Asset-backed securities	1	—	1
Other debt securities	—	—	—
Total OTTI credit losses recognized for AFS debt securities	\$179	\$ 36	\$215
HTM debt securities			
Mortgage-backed securities			
Prime	\$123	\$ 2	\$125
Alt-A	365	195	560
Subprime	1	19	20
Non-U S residential	—	—	—
Commercial real estate	—	—	—
Total mortgage-backed securities	\$489	\$216	\$705
State and municipal	—	—	—
Corporate	—	—	—
Asset-backed securities	38	19	57
Other debt securities	—	—	—
Total OTTI credit losses recognized for HTM debt securities	\$527	\$235	\$762

13 LOANS

Citibank loans are reported in two categories—Consumer and Corporate. These categories are classified according to the business that manages the loans.

Consumer Loans

The following table provides information by Consumer loan type.

<i>In millions of dollars at year end</i>	2010	2009
Consumer loans		
In U.S. offices		
Mortgage and real estate ⁽¹⁾	\$120,451	\$147,851
Installment, revolving credit, and other	10,455	37,256
Commercial and industrial	5,018	51
Lease financing	2	7
	\$135,926	\$185,165
In offices outside the U.S.		
Mortgage and real estate ⁽¹⁾	\$ 43,338	\$ 39,070
Installment, revolving credit, and other	28,162	32,835
Cards	35,432	35,736
Commercial and industrial	14,109	10,350
Lease financing	557	225
	\$121,598	\$118,216
Total Consumer loans	\$257,524	\$303,381
Net unearned income	1,510	2,393
Consumer loans, net of unearned income	\$259,034	\$305,774

(1) Loans secured primarily by real estate.

Citibank has a comprehensive risk management process to monitor, evaluate and manage the principal risks associated with its Consumer loan portfolio. Included in the loan table above are lending products whose terms may give rise to additional credit issues. However, these products are not material to Citibank's financial position and are closely managed via credit controls that mitigate their additional inherent risk.

Credit quality indicators that are actively monitored include:

Delinquency Status

Delinquency status is carefully monitored and considered a key indicator of credit quality. Substantially all of the U.S. first mortgage loans use the Mortgage Brokers Association (MBA) method of reporting delinquencies, which considers a loan delinquent if a monthly payment has not been received by the end of the day immediately preceding the loan's next due date. All other loans use the Office of Thrift Supervision (OTS) method of reporting delinquencies, which considers a loan delinquent if a monthly payment has not been received by the close of business on the loan's next due date. As a general rule, first and second mortgages and installment loans are classified as non-accrual when loan payments are 90 days contractually past due. Credit cards and unsecured revolving loans generally accrue interest until payments are 180 days past due. Commercial market loans are placed on a cash (non-accrual) basis when it is determined, based on actual experience and a forward-looking assessment of the collectability of the loan in full, that the payment of interest or principal is doubtful or when interest or principal is 90 days past due.

The following table provides details on Citibank's Consumer loan delinquency and non-accrual loans as of December 31, 2010

Consumer Loan Delinquency and Non-Accrual Details at December 31, 2010

<i>In millions of dollars</i>	30–89 days past due ⁽¹⁾	≥ 90 days past due ⁽²⁾	90 days past due and accruing ⁽³⁾	Total non-accrual	Total current ⁽⁴⁾⁽⁵⁾	Total loans ⁽⁵⁾
<i>In North America offices</i>						
First mortgages	\$3,579	\$3,797	\$5,405	\$3,940	\$ 58,678	\$ 73,056
Home equity loans ⁽⁶⁾	639	1,010	-	972	41,830	43,479
Installment, credit cards, commercial market loans and other	352	241	401	535	21,233	21,826
Total	\$4,570	\$5,048	\$5,806	\$5,447	\$121,741	\$138,361
<i>In offices outside North America</i>						
First mortgages	\$ 498	\$ 376	\$ -	\$ 406	\$ 36,622	\$ 37,496
Home equity loans ⁽⁶⁾	-	1	-	1	8	9
Credit cards	949	780	409	265	35,383	37,112
Installment, commercial market loans and other	789	461	42	767	44,806	46,056
Total	\$2,236	\$1,618	\$ 451	\$1,439	\$116,819	\$120,673
Total Citibank	\$6,806	\$6,666	\$6,257	\$6,886	\$238,560	\$259,034

(1) Excludes \$1.6 billion of first mortgages that are guaranteed by U.S. government agencies

(2) Excludes \$5.4 billion of first mortgages that are guaranteed by U.S. government agencies

(3) Installment and other balances are primarily student loans which are insured by U.S. government agencies under the Federal Family Education Loan Program

(4) Loans less than 30 days past due are considered current

(5) Includes \$1.7 billion of first mortgage loans recorded at fair value

(6) Fixed rate home equity loans and loans extended under home equity lines of credit which are typically in junior lien positions

Consumer Credit Scores (FICOs)

In the U.S., independent credit agencies rate an individual's risk for assuming debt based on the individual's credit history and assign every consumer a credit score. These scores are often called 'FICO scores' because most credit bureau scores used in the U.S. are produced from software developed by Fair Isaac Corporation. Scores range from a high of 850 (which indicates high credit quality) to 300. These scores are continually updated by the agencies based upon an individual's credit actions (e.g., taking out a loan, missed or late payments, etc.). The following table provides details on the FICO scores attributable to Citibank's U.S. Consumer loan portfolio as of December 31, 2010 (note that commercial market loans are not included since they are business based and FICO scores are not a primary driver in their credit evaluation). FICO scores are updated monthly for substantially all of the portfolio, or, otherwise, on a quarterly basis.

**FICO Score Distribution in
U.S. Portfolio⁽¹⁾⁽²⁾**

<i>In millions of dollars</i>	December 31, 2010		
	FICO		
	Less than 620	≥ 620 but less than 660	Equal to or greater than 660
First mortgages	\$12,351	\$5,043	\$39,772
Home equity loans	5,892	2,964	32,523
Installment and other	1,558	719	6,398
Total	\$19,801	\$8,726	\$78,693

(1) Excludes loans guaranteed by U.S. government agencies, loans subject to long-term standby commitments (LTSCs), and loans recorded at fair value

(2) Excludes balances where FICO was not available. Such amounts are not material.

Residential Mortgage Loan to Value Ratios

Loan to value (LTV) ratios are important credit indicators for U S mortgage loans. These ratios (loan balance divided by appraised value) are calculated at origination and updated by applying market price data. The following table provides details on the LTV ratios attributable to Citibank's U S mortgage portfolios as of December 31, 2010. LTVs are updated monthly using the most recent Core Logic HPI data available for substantially all of the portfolio applied at the Metropolitan Statistical Area level, if available, otherwise, at the state level. The remainder of the portfolio is updated in a similar manner using the Office of Federal Housing Enterprise Oversight indices.

LTV Distribution in U S

Portfolio ⁽¹⁾⁽²⁾ <i>In millions of dollars</i>	LTV		
	Less than or equal to 80%	> 80% but less than or equal to 100%	Greater than 100%
First mortgages	\$19,280	\$17,587	\$20,412
Home equity loans	11,762	9,966	19,521
Total	\$31,042	\$27,553	\$39,933

(1) Excludes loans guaranteed by U S government agencies, loans subject to LTSCs, and loans recorded at fair value.

(2) Excludes balances where LTV was not available. Such amounts are not material.

Impaired Consumer Loans

Impaired loans are those where Citibank believes it is probable that it will not collect all amounts due according to the original contractual terms of the loan. Impaired Consumer loans include non-accrual commercial market loans as well as smaller-balance homogeneous loans whose terms have been modified due to the borrower's financial difficulties and Citibank has granted a concession to the borrower. These modifications may include interest rate reductions and/or principal forgiveness. Impaired Consumer loans exclude smaller-balance homogeneous loans that have not been modified and are carried on a non-accrual basis, as well as substantially all loans modified pursuant to Citibank's short-term loan modification programs (i.e., for periods of 12 months or less). At December 31, 2010, loans included in these short-term programs amounted to approximately \$220 million.

Valuation allowances for impaired Consumer loans are determined in accordance with ASC 310-10-35 considering all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the loan's original contractual effective rate, the secondary market value of the loan and the fair value of collateral less disposal costs.

The following table presents information about total impaired Consumer loans at and for the periods ending December 31, 2010 and 2009, respectively.

Impaired Consumer Loans

<i>In millions of dollars</i>	At and for the period ended Dec 31, 2010					Dec 31, 2009
	Recorded investment ⁽¹⁾⁽²⁾	Principal balance	Related specific allowance ⁽³⁾	Average carrying value ⁽⁴⁾	Interest income recognized	Recorded investment ⁽¹⁾
Mortgage and real estate						\$7,268
First mortgages	\$10,957	\$11,849	\$1,899	\$ 9,728	\$508	
Home equity loans	747	798	340	676	9	
Credit cards	974	974	328	824	84	562
Installment and other ⁽⁵⁾			801			1,421
Individual installment and other	1,109	1,170		1,358	170	
Commercial market loans	697	925		855	21	
Total⁽⁵⁾	\$14,484	\$15,716	\$3,368	\$13,441	\$792	\$9,251

At and for the period ended

<i>In millions of dollars</i>	Dec 31, 2009
Average carrying value ⁽⁴⁾	N/A
Interest income recognized	\$485

(1) Recorded investment in a loan includes accrued credit card interest, and excludes net deferred loan fees and costs, unamortized premium or discount and direct write-downs.

(2) \$901 million of first mortgages, \$6 million of home equity loans and \$317 million of commercial market loans do not have a specific allowance.

(3) Included in the *Allowance for loan losses*.

(4) Average carrying value does not include related specific allowance.

(5) Prior to 2008, the Company's financial accounting systems did not separately track impaired smaller-balance, homogeneous Consumer loans whose terms were modified due to the borrowers' financial difficulties and it was determined that a concession was granted to the borrower. Smaller-balance Consumer loans modified since January 1, 2008 amounted to \$13.8 billion and \$8.3 billion at December 31, 2010 and 2009, respectively.

Corporate Loans

The following table presents information by Corporate loan type

<i>In millions of dollars at year end</i>	2010	2009
Corporate		
In U.S. offices		
Commercial and industrial	\$ 11,182	\$ 10,517
Loans to financial institutions	38,055	29,942
Mortgage and real estate ⁽¹⁾	18,422	18,564
Installment, revolving credit and other ⁽²⁾	11,986	17,532
Lease financing	995	993
	\$ 80,640	\$ 77,548
In offices outside the U.S.		
Commercial and industrial	\$ 66,222	\$ 61,322
Installment, revolving credit and other ⁽²⁾	10,580	8,982
Mortgage and real estate ⁽¹⁾	5,222	9,225
Loans to financial institutions	22,586	14,646
Lease financing	454	1,227
Governments and official institutions	2,139	623
	\$107,203	\$ 96,025
Total Corporate loans	\$187,843	\$173,573
Net unearned income	(825)	(1,373)
Corporate loans, net of unearned income	\$187,018	\$172,200

(1) Loans secured primarily by real estate

(2) Includes loans not otherwise separately categorized

Corporate loans are identified as impaired and placed on a cash (non-accrual) basis when it is determined, based on actual experience and a forward-looking assessment of the collectability of the loan in full, that the payment of interest or principal is doubtful or when interest or principal is 90 days past due, except when the loan is well collateralized and in the process of collection. Any interest accrued on impaired Corporate loans and leases is reversed at 90 days and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectability of principal, all cash receipts are thereafter applied to reduce the recorded investment in the loan. While Corporate loans are generally managed based on their internally assigned risk rating (see further discussion below), the following table presents delinquency information by Corporate loan type as of December 31, 2010.

Corporate Loan Delinquency and Non-Accrual Details at December 31, 2010

<i>In millions of dollars</i>	30–89 days past due and accruing ⁽¹⁾	≥ 90 days past due and accruing ⁽¹⁾	Total past due and accruing	Total non-accrual ⁽²⁾	Total current ⁽³⁾	Total loans
Commercial and industrial	\$ 94	\$35	\$129	\$4,867	\$ 70,608	\$ 75,604
Financial institutions	2	—	2	1,258	58,861	60,121
Mortgage and real estate	298	—	298	1,236	21,753	23,287
Leases	9	—	9	28	1,412	1,449
Other	100	49	149	357	23,587	24,093
Loans at fair value						2,464
Total	\$503	\$84	\$587	\$7,746	\$176,221	\$187,018

(1) Corporate loans that are greater than 90 days past due are generally classified as non-accrual

(2) Citibank generally does not manage Corporate loans on a delinquency basis. Non-accrual loans generally include those loans that are ≥ 90 days past due or those loans for which Citibank believes, based on actual experience and a forward-looking assessment of the collectability of the loan in full, that the payment of interest or principal is doubtful.

(3) Loans less than 30 days past due are considered current

Citibank has a comprehensive risk management process to monitor, evaluate and manage the principal risks associated with its Corporate loan portfolio. As part of its risk management process, Citibank assigns risk ratings to its Corporate loans, which are reviewed at least annually. The ratings scale generally corresponds to the ratings as defined by S&P and Moody's, with investment grade facilities generally exhibiting no evident weakness in creditworthiness and non-investment grade facilities exhibiting a range of deterioration in the obligor's creditworthiness or vulnerability to adverse changes in business, financial or other economic conditions.

The following table presents Corporate credit quality information as of December 31, 2010.

Corporate loans and leases identified as impaired and placed on non-accrual status are written down to the extent that principal is judged to be uncollectible. Impaired collateral-dependent loans and leases, where repayment is expected to be provided solely by the sale of the underlying collateral and there are no other available and reliable sources of repayment, are written down to the lower of cost or collateral value. Cash-basis loans are returned to an accrual status when all contractual principal and interest amounts are reasonably assured of repayment, and there is a sustained period of repayment performance in accordance with the contractual terms.

**Corporate Loans Credit Quality Indicators
at December 31, 2010**

<i>In millions of dollars</i>	Recorded investment in loans⁽¹⁾
Investment grade⁽²⁾	
Commercial and industrial	\$ 47,269
Financial institutions	55,628
Mortgage and real estate	7,962
Leases	834
Other	19,018
Total investment grade	\$130,711
Non-investment grade⁽²⁾	
Accrual	
Commercial and industrial	\$ 23,464
Financial institutions	3,308
Mortgage and real estate	2,247
Leases	587
Other	3,829
Non-accrual	
Commercial and industrial	4,867
Financial institutions	1,258
Mortgage and real estate	1,236
Leases	28
Other	357
Total non-investment grade	\$ 41,181
Private Banking loans managed on a delinquency basis ⁽²⁾	\$ 12,662
Loans at fair value	2,464
Corporate loans, net of unearned income	\$187,018

(1) Recorded investment in a loan includes accrued interest, net of deferred loan fees and costs, unamortized premium or discount, and less any direct write-downs.

(2) Held-for-investment loans accounted for on an amortized cost basis.

The following table presents non-accrual loan information by Corporate loan type at and for the period ended December 31, 2010 and 2009, respectively

Non-Accrual Corporate Loans

<i>In millions of dollars</i>	At and for the period ended Dec 31, 2010					Dec 31, 2009
	Recorded investment ⁽¹⁾	Principal balance	Related specific allowance	Average carrying value ⁽²⁾	Interest income recognized	Recorded investment ⁽¹⁾
Non-accrual corporate loans						
Commercial and industrial	\$4,867	\$ 7,560	\$ 742	\$ 5,604	\$23	\$ 6,034
Loans to financial institutions	1,258	1,835	259	883	1	1,525
Mortgage and real estate	1,236	1,289	205	1,319	6	2,527
Lease financing	28	54	—	37	4	74
Other	357	899	217	976	24	1,134
Total non-accrual Corporate loans	\$7,746	\$11,637	\$1,423	\$8,819	\$58	\$11,294

At and for the period ended

<i>In millions of dollars</i>	Dec 31, 2009
Average carrying value ⁽²⁾	N/A
Interest income recognized	\$18

<i>In millions of dollars</i>	December 31, 2010		December 31, 2009	
	Recorded investment ⁽¹⁾	Related specific allowance	Recorded investment ⁽¹⁾	Related specific allowance
Non-accrual Corporate loans with valuation allowances				
Commercial and industrial	\$4,085	\$ 742		
Loans to financial institutions	818	259		
Mortgage and real estate	569	205		
Lease financing	—	—		
Other	228	217		
Total non-accrual Corporate loans with specific allowance	\$5,700	\$1,423	\$6,972	\$1,893
Non-accrual Corporate loans without specific allowance				
Commercial and industrial	\$ 782			
Loans to financial institutions	440			
Mortgage and real estate	667			
Lease financing	28			
Other	129			
Total non-accrual Corporate loans without specific allowance	\$2,046	N/A	\$4,322	N/A

(1) Recorded investment in a loan includes accrued interest, net deferred loan fees and costs, unamortized premium or discount, less any direct write-downs

(2) Average carrying value does not include related specific allowance

N/A Not Applicable

Included in the Corporate and Consumer loan tables above are purchased distressed loans, which are loans that have evidenced significant credit deterioration subsequent to origination but prior to acquisition by Citibank. In accordance with SOP 03-3, the difference between the total expected cash flows for these loans and the initial recorded investments is recognized in income over the life of the loans using a level yield. Accordingly, these loans have been excluded from the impaired loan information presented above. In addition, per SOP 03-3, subsequent decreases to the expected cash flows for a purchased distressed loan require a build of an allowance so the loan retains its level yield. However, increases in the expected cash flows are first recognized as a reduction of any previously established allowance and then recognized as income prospectively over the remaining life of the loan by increasing the loan's level yield. Where the expected cash flows cannot be reliably estimated, the purchased distressed loan is accounted for under the cost recovery method.

The carrying amount of the Company's purchased distressed loan portfolio at December 31, 2010 was \$212 million, net of an allowance of \$34 million as of December 31, 2010. The changes in the accretable yield, related allowance and carrying amount net of accretable yield for the Company's purchased distressed loans as of and during the period ended December 31, 2010 are as follows:

<i>In millions of dollars</i>	Accretable yield	Carrying amount of loan receivable	Allowance
Beginning balance	\$ 56	\$486	\$25
Purchases ⁽¹⁾	1	130	—
Disposals/payments received	(11)	(394)	—
Accretion	(36)	36	—
Builds (reductions) to the allowance	123	—	9
Increase to expected cash flows	—	17	—
FX/other	(5)	(29)	—
Balance at December 31, 2010⁽²⁾	\$128	\$246	\$34

(1) The balance reported in the column "Carrying amount of loan receivable" consists of \$130 million of purchased loans accounted for under the level-yield method and \$0 under the cost-recovery method. These balances represent the fair value of these loans at their acquisition date. The related total expected cash flows for the level-yield loans were \$131 million at their acquisition dates.

(2) The balance reported in the column "Carrying amount of loan receivable" consists of \$195 million of loans accounted for under the level-yield method and \$51 million accounted for under the cost-recovery method.

14 ALLOWANCE FOR CREDIT LOSSES

<i>In millions of dollars</i>	2010	2009
Allowance for loan losses at beginning of year	\$ 22,685	\$ 18,265
Gross credit losses	(12,860)	(20,124)
Gross recoveries	1,887	1,270
Net credit (losses) recoveries (NCLs)	\$ (10,973)	\$ (18,854)
NCLs	\$ 10,973	\$ 18,854
Net reserve builds (releases)	(2,729)	4,448
Net specific reserve builds (releases)	917	795
Total provision for credit losses	\$ 9,161	\$ 24,097
Other, net ⁽¹⁾	(2,406)	(823)
Allowance for loan losses at end of year	\$ 18,467	\$ 22,685
Allowance for credit losses on unfunded lending commitments at beginning of year ⁽²⁾	\$ 1,015	\$ 758
Provision for unfunded lending commitments	(101)	243
Allowance for credit losses on unfunded lending commitments at end of year ⁽²⁾	\$ 938	\$ 1,015
Total allowance for loans, leases, and unfunded lending commitments	\$ 19,405	\$ 23,700

(1) 2010 primarily includes an addition of \$197 million related to the impact of consolidating entities in connection with Citibank's adoption of SFAS 167 (see Note 2 to the Consolidated Financial Statements) partially offset by reductions related to the sale or transfer to held-for-sale of various loan portfolios and the impact of foreign exchange (FX translation) 2009 primarily includes reductions to the loan loss reserve related to securitizations, sales or transfers to held-for-sale of various loan portfolios and FX translation

(2) Represents additional credit loss reserves for unfunded lending commitments and letters of credit recorded in *Other Liabilities* on the Consolidated Balance Sheet

Allowance for Credit Losses and Investment in Loans at December 31, 2010

<i>In millions of dollars</i>	Corporate	Consumer	Total
Allowance for loan losses at beginning of year	\$ 6,168	\$ 16,517	\$ 22,685
Charge-offs	(2,174)	(10,686)	(12,860)
Recoveries	650	1,237	1,887
Replenishment of net charge-offs	1,524	9,449	10,973
Net reserve builds (releases)	(1,441)	(1,288)	(2,729)
Net specific reserve builds (releases)	(405)	1,322	917
Other	(49)	(2,357)	(2,406)
Ending balance	\$ 4,273	\$ 14,194	\$ 18,467
Allowance for loan losses			
Determined in accordance with ASC 450-20	\$ 2,843	\$ 10,799	\$ 13,642
Determined in accordance with ASC 310-10-35	1,423	3,368	4,791
Determined in accordance with ASC 310-30	7	27	34
Total allowance for loan losses	\$ 4,273	\$ 14,194	\$ 18,467
Loans, net of unearned income			
Loans collectively evaluated for impairment in accordance with ASC 450-20	\$168,356	\$242,580	\$410,936
Loans individually evaluated for impairment in accordance with ASC 310-10-35	7,515	14,484	21,999
Loans acquired with deteriorated credit quality in accordance with ASC 310-30	21	225	246
Loans held at fair value	2,464	1,745	4,209
Other Loans—primarily loans with Citigroup affiliates outside the Citibank chain	8,662	—	8,662
Total loans, net of unearned income	\$187,018	\$259,034	\$446,052

15. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in *Goodwill* during 2009 and 2010 were as follows

In millions of dollars

Balance at December 31, 2008	\$10,148
Sale of Quilter Holdings	\$ (202)
Foreign exchange translation	321
Smaller acquisitions/divestitures, purchase accounting adjustments and other	(67)
Balance at December 31, 2009	\$10,200
Foreign exchange translation	\$ 73
Smaller acquisitions/divestitures, purchase accounting adjustments and other	147
Balance at December 31, 2010	\$10,420

Goodwill impairment testing is performed at a level below the business segments (referred to as a reporting unit). Changes in the management structure in 2010 resulted in the creation of new business segments. As a result, commencing with the third quarter of 2010, the Company identified new reporting units as required under ASC 350, *Intangibles – Goodwill and Other*. Goodwill was reallocated from one reporting unit to six, using a relative fair-value approach. The new reporting units, which remain unchanged at December 31, 2010, are *North America Regional Consumer Banking*, *EMEA Regional Consumer Banking*, *Asia Regional Consumer Banking*, *Latin America Regional Consumer Banking*, *Institutional Clients Group* and *Holdings*. Subsequent to July 1, 2010, goodwill was allocated to disposals and tested for impairment under the new reporting units. The Company performed goodwill impairment testing for the new reporting units as of July 1, 2010, the annual impairment testing date. No goodwill was written off due to impairment in 2009 or 2010.

The following table shows the reporting units with goodwill balances as of December 31, 2010 and the fair value as a percentage of allocated book value as of the annual impairment test.

Reporting Unit⁽¹⁾	Fair Value as a % of Allocated Book Value	Goodwill
<i>Goodwill in millions of dollars</i>		
<i>North America Regional Consumer Banking</i>	289%	\$864
<i>EMEA Regional Consumer Banking</i>	134	117
<i>Asia Regional Consumer Banking</i>	318	2,080
<i>Latin America Regional Consumer Banking</i>	307	531
<i>Institutional Clients Group</i>	223	6,828

(1) The *Holdings* reporting unit is excluded from the table above as there is no goodwill allocated to it.

Intangible Assets

The components of intangible assets as of December 31, 2010 and 2009, respectively, were as follows

	December 31, 2010			December 31, 2009		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
<i>In millions of dollars</i>						
Purchased credit card relationships	\$ 520	\$261	\$ 259	\$ 903	\$538	\$ 365
Core deposit intangibles	777	449	328	743	340	403
Other customer relationships	92	62	30	92	52	40
Indefinite-lived intangible assets	253	—	253	242	—	242
Other ⁽¹⁾	468	42	426	712	49	663
Intangible assets (excluding MSRs)	\$2,110	\$814	\$1,296	\$2,692	\$979	\$1,713
Mortgage servicing rights (MSRs)	4,554	—	4,554	6,530	—	6,530
Total intangible assets	\$6,664	\$814	\$5,850	\$9,222	\$979	\$8,243

(1) Includes contract-related intangible assets

Intangible assets amortization expense was \$227 million and \$327 million for 2010 and 2009, respectively. Intangible assets amortization expense is estimated to be \$173 million in 2011, \$162 million in 2012, \$158 million in 2013, \$132 million in 2014, and \$109 million in 2015.

The changes in intangible assets during 2010 were as follows

	Net carrying amount at December 31, 2009	Acquisitions/ divestitures	Amortization	Impairments	FX and other ⁽¹⁾	Net carrying amount at December 31, 2010
<i>In millions of dollars</i>						
Purchased credit card relationships	\$ 365	\$—	\$ (67)	\$—	\$ (39)	\$ 259
Core deposit intangibles	403	—	(75)	—	—	328
Other customer relationships	40	—	(9)	—	(1)	30
Indefinite-lived intangible assets	242	—	—	—	11	253
Other	663	—	(76)	—	(161)	426
Intangible assets (excluding MSRs)	\$1,713	\$—	\$(227)	\$—	\$(190)	\$1,296
Mortgage servicing rights (MSRs) ⁽²⁾	6,530	—	—	—	—	4,554
Total intangible assets	\$8,243	—	—	—	—	\$5,850

(1) Includes foreign exchange translation and purchase accounting adjustments

(2) See Note 19 to the Consolidated Financial Statements for the roll-forward of MSRs

16. DEBT

Short-Term Borrowings

Short-term borrowings consist of commercial paper and other borrowings with weighted average interest rates as follows

	2010		2009	
<i>In millions of dollars at December 31,</i>	Balance	Weighted Average rates	Balance	Weighted average rates
Commercial paper	\$14,987	0.39%	\$ —	—%
Other borrowings	38,950	0.53%	78,415	0.57%
Total⁽¹⁾	\$53,937		\$78,415	

- (1) The total short-term borrowings are combined with the total federal funds purchased and securities loaned or sold under agreements to repurchase to total the Citibank Consolidated Balance Sheet balance for purchased funds and other borrowings. See Note 10 to the Consolidated Financial Statements for details on the Company's federal funds purchased and securities loaned or sold under agreements to repurchase.

Borrowings under bank lines of credit may be at interest rates based on LIBOR, CD rates, the prime rate, or bids submitted by banks. Citibank pays commitment fees for its lines of credit.

Some of Citigroup's non-bank subsidiaries have credit facilities with Citibank. Borrowings under these facilities must be secured in accordance with Section 23A of the Federal Reserve Act.

A majority of the deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash advanced or received and are collateralized principally by government and government-agency securities and corporate debt and equity securities. The remaining portion is recorded at fair value as the Company elected fair value options for certain securities borrowed and loaned portfolios. With respect to securities loaned, the Company receives cash collateral in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and securities loaned daily, and additional collateral is obtained as necessary. Securities borrowed and securities loaned are reported net by counterparty, when applicable.

Long-Term Debt

			December 31 Balances	
<i>In millions of dollars at December 31,</i>	Weighted average coupon	Maturities	2010	2009
Citibank head office				
Senior notes ⁽¹⁾⁽³⁾	0.76%	2011-2046	\$38,328	\$45,492
Subordinated notes ⁽²⁾⁽³⁾	1.27	2016	4,297	4,000
Domestic subsidiaries				
Senior notes	1.85	2011-2047	3,005	17,104
Subordinated notes ⁽²⁾	5.77	2011-2064	1,816	4
Citibank Overseas Investment Corp				
Senior notes	4.20	2011-2048	10,251	12,497
Subordinated notes ⁽²⁾	5.53	2011-2019	341	359
Other Citibank subsidiaries and branches				
Senior notes	3.40	2011-2028	1,062	2,550
Subordinated notes ⁽²⁾	0.34	2020	51	80
Total			\$59,151	\$82,086
Senior notes			\$52,646	\$77,643
Subordinated notes ⁽²⁾			6,505	4,443
Total			\$59,151	\$82,086

- (1) At December 31, 2010 and 2009, collateralized advances from the Federal Home Loan Banks are \$18.0 billion and \$23.5 billion, respectively.
(2) Includes notes that are subordinated within certain countries, regions or subsidiaries.
(3) Predominately includes floating rate debt priced at LIBOR.

The Company issues both fixed and variable rate debt in a range of currencies. It uses derivative contracts, primarily interest rate swaps, to effectively convert a portion of its fixed rate debt to variable rate debt and variable rate debt to fixed rate debt. The maturity structure of the derivatives generally corresponds to the maturity structure of the debt being hedged. In addition, the Company uses other derivative contracts to manage the foreign exchange impact of certain debt issuances. At December 31, 2010, the Company's overall weighted average interest rate for long-term debt was 1.76% on a contractual basis and 2.08% including the effects of derivative contracts.

Aggregate annual maturities of long-term debt obligations (based on final maturity dates) are as follows:

<i>In millions of dollars</i>	2011	2012	2013	2014	2015	Thereafter
Citibank head office	\$22,265	\$10,557	\$2,504	\$ 297	\$ —	\$ 7,002
Domestic subsidiaries	126	120	75	79	62	4,359
Citibank Overseas Investment Corp	1,338	3,565	2,480	734	1,064	1,411
Other Citibank subsidiaries and branches	311	223	458	16	8	97
Total	\$24,040	\$14,465	\$5,517	\$1,126	\$1,134	\$12,869

17. CAPITAL RESOURCES

Overview

Citibank generates capital through earnings from its operating businesses. Citibank may also augment its capital through capital contributions from its parent, Citicorp, a direct subsidiary of Citigroup and, in the case of regulatory capital, also through the issuance of qualifying subordinated debt. In addition, the impact of future events on Citibank's business results, such as corporate and asset dispositions, as well as changes in regulatory and accounting standards, also affect Citibank's capital levels.

Capital is used primarily to support assets in Citibank's businesses and to absorb market, credit, or operational losses. While capital may be used for other purposes, such as to pay dividends, Citibank's ability to utilize its capital for these purposes may be limited under federal banking regulations.

Citibank's capital management framework is designed to ensure that Citibank and its principal subsidiaries maintain sufficient capital consistent with Citibank's risk profile and all applicable regulatory standards and guidelines, as well as external rating agency considerations.

Senior management is responsible for the capital management process mainly through Citibank's Asset and Liability Management Committee (ALCO), with oversight from the Risk Management and Finance Committee of Citibank's Board of Directors. ALCO is composed of the senior-most management of Citibank for the purpose of engaging management in decision-making and related discussions on capital and liquidity matters. Among other things, ALCO's responsibilities include monitoring the Company's assets, liabilities and commitment trends and forecasts, recommending for approval by Citibank's Board of Directors revised liquidity risk limits and related requirements for the Company, establishing and maintaining the Company's contingency funding plan, identifying the Company's liquidity risks and ensuring those risks are adequately monitored and controlled, and ensuring prudent interest rate and foreign exchange risk positions for the Company's accrual portfolios.

Regulatory Capital and Related Ratios

Citibank is subject to the risk-based capital guidelines issued by the OCC. Historically, capital adequacy has been measured, in part, based on two risk-based capital ratios, the Tier 1 Capital and Total Capital (Tier 1 Capital + Tier 2 Capital) ratios. Tier 1 Capital consists of the sum of "core capital elements," such as qualifying common stockholder's equity, as adjusted, and qualifying noncontrolling interests, principally reduced by goodwill, other disallowed intangible assets, and disallowed deferred tax assets. Total Capital also includes "supplementary" Tier 2 Capital elements, such as qualifying subordinated debt and a limited portion of the allowance for credit losses. Both measures of capital adequacy are stated as a percentage of risk-weighted assets.

In 2009, the U.S. banking regulators developed a new measure of capital termed "Tier 1 Common," which is defined as Tier 1 Capital less non-common elements, including qualifying perpetual preferred stock, qualifying non-controlling interests, and qualifying mandatorily redeemable securities of subsidiary trusts. For more detail on all of these capital metrics, see "Components of Capital Under Regulatory Guidelines" below.

Citibank's risk-weighted assets are principally derived from application of the risk-based capital guidelines related to the measurement of credit risk. Pursuant to these guidelines, on-balance-sheet assets and the credit equivalent amount of certain off-balance-sheet exposures (such as financial guarantees, unfunded lending commitments, letters of credit, and derivatives) are assigned to one of several prescribed risk-weight categories based upon the perceived credit risk associated with the obligor, or if relevant, the guarantor, the nature of the collateral, or external credit ratings. Risk-weighted assets also incorporate a measure for market risk on covered trading account positions and all foreign exchange and commodity positions whether or not carried in the trading account. Excluded from risk-weighted assets are any assets, such as goodwill and deferred tax assets, to the extent required to be deducted from regulatory capital. See "Components of Capital Under Regulatory Guidelines" below.

Citibank is also subject to a Leverage ratio requirement, a non-risk-based measure of capital adequacy, which is defined as Tier 1 Capital as a percentage of quarterly adjusted average total assets.

The following table sets forth Citibank's regulatory capital ratios as of December 31, 2010 and December 31, 2009.

Citibank Components of Capital and Ratios Under Regulatory Guidelines

<i>In billions of dollars at year end except ratios</i>	2010	2009
Tier 1 Common	\$103.9	\$ 95.8
Tier 1 Capital	104.6	96.8
Total Capital (Tier 1 Capital and Tier 2 Capital)	117.7	110.6
Tier 1 Common ratio	15.07%	13.02%
Tier 1 Capital ratio	15.17	13.16
Total Capital ratio	17.06	15.03
Leverage ratio	8.88	8.31

Components of Capital Under Regulatory Guidelines

<i>In millions of dollars at year end</i>	2010	2009
Tier 1 Common		
Citibank common stockholder's equity	\$127,090	\$116,599
Less Net unrealized losses on securities available-for-sale, net of tax ⁽¹⁾	(3,573)	(4,735)
Less Accumulated net losses on cash flow hedges, net of tax	(1,894)	(2,367)
Less Pension liability adjustment, net of tax ⁽²⁾	(1,469)	(1,175)
Less Cumulative effect included in fair value of financial liabilities attributable to the change in own credit worthiness, net of tax ⁽³⁾	50	178
Less Disallowed deferred tax assets ⁽⁴⁾	18,110	16,824
Less Intangible assets		
Goodwill	10,420	10,200
Other disallowed intangible assets	1,515	1,843
Other	(5)	(8)
Total Tier 1 Common	\$103,926	\$ 95,823
Qualifying noncontrolling interests	\$ 679	\$ 1,010
Total Tier 1 Capital	\$104,605	\$ 96,833
Tier 2 Capital		
Allowance for credit losses ⁽⁵⁾	\$ 8,769	\$ 9,390
Qualifying subordinated debt ⁽⁶⁾	4,000	4,000
Net unrealized pretax gains on available-for-sale equity securities ⁽¹⁾	308	402
Total Tier 2 Capital	\$ 13,077	\$ 13,792
Total Capital (Tier 1 Capital and Tier 2 Capital)	\$117,682	\$110,625
Risk-weighted assets ⁽⁷⁾	\$689,655	\$735,956

- (1) Tier 1 Capital excludes net unrealized gains (losses) on available-for-sale debt securities and net unrealized gains on available-for-sale equity securities with readily determinable fair values, in accordance with risk-based capital guidelines. In arriving at Tier 1 Capital, banking organizations are required to deduct net unrealized losses on available-for-sale equity securities with readily determinable fair values, net of tax. Banking organizations are permitted to include in Tier 2 Capital up to 45% of net unrealized pretax gains on available-for-sale equity securities with readily determinable fair values.
- (2) The OCC granted interim capital relief for the impact of ASC 715-20, *Compensation—Retirement Benefits—Defined Benefits Plans* (formerly SFAS 158).
- (3) The impact of including Citibank's own credit rating in valuing financial liabilities for which the fair value option has been elected is excluded from Tier 1 Capital, in accordance with risk-based capital guidelines.
- (4) Of Citibank's approximately \$28 billion of net deferred tax assets at December 31, 2010, approximately \$7 billion of such assets were includable without limitation in regulatory capital pursuant to risk-based capital guidelines, while approximately \$18 billion of such assets exceeded the limitation imposed by these guidelines and, as "disallowed deferred tax assets," were deducted in arriving at Tier 1 Capital. Citibank's other approximately \$3 billion of net deferred tax assets primarily represented approximately \$2 billion of deferred tax effects of unrealized gains and losses on available-for-sale debt securities and approximately \$1 billion of deferred tax effects of the pension liability adjustment, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines.
- (5) Includable up to 1.25% of risk-weighted assets. Any excess allowance is deducted in arriving at risk-weighted assets.
- (6) Includes qualifying subordinated debt in an amount not exceeding 50% of Tier 1 Capital.
- (7) Includes risk-weighted credit equivalent amounts, net of applicable bilateral netting agreements, of \$71.3 billion for interest rate, commodity, and equity derivative contracts, foreign exchange contracts, and credit derivatives as of December 31, 2010, compared with \$66.1 billion as of December 31, 2009. Market risk equivalent assets included in risk-weighted assets amounted to \$36.7 billion at December 31, 2010 and \$54.8 billion at December 31, 2009. Risk-weighted assets also include the effect of certain other off-balance-sheet exposures, such as unused lending commitments and letters of credit, and reflect deductions such as certain intangible assets and any excess allowance for credit losses.

18 CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of *Accumulated other comprehensive income (loss)* for the years ended December 31, 2009 and 2010 are as follows

<i>In millions of dollars</i>	Net unrealized gains (losses) on investment securities	Foreign currency translation adjustment, net of hedges	Cash flow hedges	Pension liability adjustments	Accumulated other comprehensive income (loss)
Balance at December 31, 2008	\$(8,008)	\$(3,964)	\$(3,247)	\$ (676)	\$(15,895)
Cumulative effect of accounting change (ASC 320-10-35 / FSP FAS 115-2 and FAS 124-2)	(402)	—	—	—	(402)
Balance, January 1, 2009	\$(8,410)	\$(3,964)	\$(3,247)	\$ (676)	\$(16,297)
Change in net unrealized gains (losses) on investment securities, net of taxes ⁽¹⁾	3,675	—	—	—	3,675
Foreign currency translation adjustment, net of taxes ⁽²⁾	—	709	—	—	709
Cash flow hedges, net of taxes ⁽³⁾	—	—	880	—	880
Pension liability adjustment, net of taxes ⁽⁴⁾	—	—	—	(499)	(499)
Change	\$ 3,675	\$ 709	\$ 880	\$ (499)	\$ 4,765
Balance, December 31, 2009	\$(4,735)	\$(3,255)	\$(2,367)	\$(1,175)	\$(11,532)
Change in net unrealized gains (losses) on investment securities, net of taxes ⁽¹⁾	\$1,162	\$ —	\$ —	\$ —	\$ 1,162
Foreign currency translation adjustment, net of taxes ⁽²⁾	—	29	—	—	29
Cash flow hedges, net of taxes ⁽³⁾	—	—	473	—	473
Pension liability adjustment, net of taxes ⁽⁴⁾	—	—	—	(294)	(294)
Change	\$ 1,162	\$ 29	\$ 473	\$ (294)	\$ 1,370
Balance, December 31, 2010	\$(3,573)	\$(3,226)	\$(1,894)	\$(1,469)	\$(10,162)

- (1) Also reflects reclassification adjustments for a realized gain of \$422 million and a realized loss of \$505 million, net of taxes, on investments during 2010 and 2009, respectively
- (2) Reflects, among other items, the movements in the British pound, Euro, Korean won and Polish zloty against the U S dollar, and changes in related tax effects and hedges
- (3) Primarily driven by Citibank's pay fixed/receive floating interest rate swap programs that are hedging the floating rates on deposits and long-term debt
- (4) Reflects the Company's allocated share of adjustments to the funded status of Citigroup's pension and postretirement plans

19. SECURITIZATIONS AND VARIABLE INTEREST ENTITIES

Overview

Citibank and its subsidiaries are involved with several types of off-balance sheet arrangements, including special purpose entities (SPEs). See Note 2 to the Consolidated Financial Statements for a discussion of changes to the accounting for transfers and servicing of financial assets and consolidation of VIEs, including the elimination of qualifying SPEs (QSPEs).

Uses of SPEs

An SPE is an entity designed to fulfill a specific limited need of the company that organized it. The principal uses of SPEs are to obtain liquidity and favorable capital treatment by securitizing certain of Citibank's financial assets, to assist clients in securitizing their financial assets, and to create investment products for clients. SPEs may be organized in many legal forms including trusts, partnerships or corporations. In a securitization, the company transferring assets to an SPE converts all (or a portion) of those assets into cash before they would have been realized in the normal course of business, through the SPE's issuance of debt and equity instruments, certificates, commercial paper and other notes of indebtedness, which are recorded on the balance sheet of the SPE and not reflected in the transferring company's balance sheet, assuming applicable accounting requirements are satisfied. Investors usually have recourse to the assets in the SPE and often benefit from other credit enhancements, such as a collateral account or over-collateralization in the form of excess assets in the SPE, a line of credit, or from a liquidity facility, such as a liquidity put option or asset purchase agreement. The SPE can typically obtain a more favorable credit rating from rating agencies than the transferor could obtain for its own debt issuances, resulting in less expensive financing costs than unsecured debt. The SPE may also enter into derivative contracts in order to convert the yield or currency of the underlying assets to match the needs of the SPE investors or to limit or change the credit risk of the SPE. Citibank may be the provider of certain credit enhancements as well as the counterparty to any related derivative contracts. Since QSPEs were eliminated with the adoption of SFAS 166/167 effective January 1, 2010, most of Citibank's SPEs are now VIEs.

Variable Interest Entities

VIEs are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest (i.e., ability to make significant decisions through voting rights, and right to receive the expected residual returns of the entity or obligation to absorb the expected losses of the entity). Investors that finance the VIE through debt or equity interests, or other counterparties that provide other forms of support, such

as guarantees, subordinated fee arrangements, or certain types of derivative contracts, are variable interest holders in the entity. Since January 1, 2010, the variable interest holder, if any, that has a controlling financial interest in a VIE is deemed to be the primary beneficiary and must consolidate the VIE. Citibank would be deemed to have a controlling financial interest if it has both of the following characteristics:

- power to direct activities of a VIE that most significantly impact the entity's economic performance, and
- obligation to absorb losses of the entity that could potentially be significant to the VIE or right to receive benefits from the entity that could potentially be significant to the VIE.

The Company must evaluate its involvement in each VIE and understand the purpose and design of the entity, the role the Company had in the entity's design, and its involvement in its ongoing activities. The Company then must evaluate which activities most significantly impact the economic performance of the VIE and who has the power to direct such activities.

For those VIEs where the Company determines that it has the power to direct the activities that most significantly impact the VIE's economic performance, the Company then must evaluate its economic interests, if any, and determine whether it could absorb losses or receive benefits that could potentially be significant to the VIE. When evaluating whether the Company has an obligation to absorb losses that could potentially be significant, it considers the maximum exposure to such loss without consideration of probability. Such obligations could be in various forms, including but not limited to, debt and equity investments, guarantees, liquidity agreements, and certain derivative contracts.

Prior to January 1, 2010, the variable interest holder, if any, that would absorb a majority of the entity's expected losses, receive a majority of the entity's residual returns, or both, was deemed to be the primary beneficiary and consolidated the VIE. Consolidation of the VIE was determined based primarily on the variability generated in scenarios that are considered most likely to occur, rather than on scenarios that are considered more remote. In many cases, a detailed quantitative analysis was required to make this determination.

In various other transactions, the Company may (i) act as a derivative counterparty (for example, interest rate swap, cross-currency swap, or purchaser of credit protection under a credit default swap or total return swap where the Company pays the total return on certain assets to the SPE), (ii) act as underwriter or placement agent, or (iii) provide administrative, trustee, or other services. The Company generally considers such involvement, by itself, not to be variable interests and thus not an indicator of power or potentially significant benefits or losses.

Citibank's involvement with consolidated and unconsolidated VIEs with which the Company holds significant variable interests or has continuing involvement through servicing a majority of the assets in a VIE, each as of December 31, 2010 and December 31, 2009, is presented below

In millions of dollars

As of December 31, 2010

	Total involvement with SPE assets	Consolidated VIE / SPE assets ⁽³⁾⁽⁴⁾	Significant unconsolidated VIE assets ⁽³⁾⁽⁴⁾⁽⁵⁾	Maximum exposure to loss in significant unconsolidated VIEs ⁽¹⁾				Total
				Funded exposures ⁽²⁾		Unfunded exposures ⁽³⁾		
				Debt investments	Equity investments	Funding commitments	Guarantees and derivatives	
Credit card securitizations	\$ 2,294	\$ 2,294	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage securitizations								
U S agency-sponsored	382,958	—	382,958	5,104	—	—	135	5,239
Non-agency-sponsored	24,042	3,574	20,468	173	—	—	—	173
Student loan securitizations	2,893	2,893	—	—	—	—	—	—
Citibank-administered asset-backed commercial paper conduits (ABCP)	30,941	21,312	9,629	—	—	9,629	—	9,629
Third-party commercial paper conduits	8,210	308	7,902	415	—	550	—	965
Collateralized debt obligations (CDOs)	230	—	230	—	—	—	63	63
Collateralized loan obligations (CLOs)	4,468	—	4,468	550	—	29	—	579
Asset-based financing	35,090	971	34,119	12,312	—	5,687	11	18,010
Municipal securities tender option bond trusts (TOBs)	16,320	7,862	8,458	—	—	6,398	—	6,398
Municipal investments	16,483	9	16,474	743	3,129	1,614	—	5,486
Client intermediation	796	—	796	367	—	—	345	712
Other	3,134	310	2,824	666	43	174	1	884
Total Citibank	\$527,859	\$39,533	\$488,326	\$20,330	\$3,172	\$24,081	\$555	\$48,138

(1) The definition of maximum exposure to loss is included in the text that follows

(2) Included in Citibank's December 31, 2010 Consolidated Balance Sheet

(3) Not included in Citibank's December 31, 2010 Consolidated Balance Sheet

(4) Due to the adoption of ASC 810, *Consolidation* (SFAS 166/167) on January 1, 2010, the previously disclosed assets of former QSPEs are now included in either the "Consolidated VIE / SPE assets" or the "Significant unconsolidated VIE assets" columns for the December 31, 2010 period

(5) A significant unconsolidated VIE is an entity where the Company has any variable interest considered to be significant, regardless of the likelihood of loss or the notional amount of exposure

<i>In millions of dollars</i>	As of December 31, 2009				
	Total involvement with SPE assets	QSPE assets	Consolidated VIE assets	Significant unconsolidated VIE assets ⁽¹⁾	Maximum exposure to loss in significant unconsolidated VIEs ⁽²⁾
Credit card securitizations	\$ 5,343	\$ 2,176	\$ 3,167	\$ —	\$ —
Mortgage securitizations					
U S agency-sponsored	469,093	469,093	—	—	—
Non-agency-sponsored	23,583	23,583	—	—	—
Student loan securitizations	14,343	14,343	—	—	—
Citibank-administered asset-backed commercial paper conduits (ABCP)	36,425	—	98	36,327	36,327
Third-party commercial paper conduits	9,393	—	—	9,393	737
Collateralized debt obligations (CDOs)	10,774	—	7,111	3,663	254
Collateralized loan obligations (CLOs)	5,764	—	—	5,764	703
Asset-based financing	56,257	—	761	55,496	17,882
Municipal securities tender option bond trusts (TOBs)	17,749	130	9,148	8,471	6,197
Municipal investments	16,074	—	697	15,377	2,745
Client intermediation	536	—	536	—	—
Other	5,808	2,083	244	3,481	793
Total Citibank	\$671,142	\$511,408	\$21,762	\$137,972	\$65,638

(1) A significant unconsolidated VIE is an entity where the Company has any variable interest considered to be significant, regardless of the likelihood of loss or the notional amount of exposure

(2) The definition of maximum exposure to loss is included in the text that follows

The previous table does not include

- VIEs structured by third parties where the Company holds securities in inventory (these investments are made on arm's-length terms),
- certain positions in mortgage-backed and asset-backed securities held by the Company, which are classified as *Trading account assets* or *Investments*, where the Company has no other involvement with the related securitization entity (for more information on these positions, see Notes 11 and 12 to the Consolidated Financial Statements), and
- certain representations and warranties exposures in Consumer mortgage securitizations, where the original mortgage loan balances are no longer outstanding

Prior to January 1, 2010, the table also does not include assets transferred to a VIE where the transfer did not qualify as a sale and where the Company did not have any other involvement that was deemed to be a variable interest with the VIE (these transfers are accounted for as secured borrowings by the Company)

The asset balances for consolidated VIEs represent the carrying amounts of the assets consolidated by the Company. The carrying amount may represent the amortized cost or the current fair value of the assets depending on the legal form of the asset (e.g., security or loan) and the Company's standard accounting policies for the asset type and line of business.

The asset balances for unconsolidated VIEs where the Company has significant involvement represent the most current information available to the Company. In most cases, the asset balances represent an amortized cost basis without regard to impairments in fair value, unless fair value information is readily available to the Company. For VIEs that obtain asset exposures synthetically through derivative instruments (for example, synthetic CDOs), the table includes the full original notional amount of the derivative as an asset.

The maximum funded exposure represents the balance sheet carrying amount of the Company's investment in the VIE. It reflects the initial amount of cash invested in the VIE plus any accrued interest and is adjusted for any impairments in value recognized in earnings and any cash principal payments received. The maximum exposure of unfunded positions represents the remaining undrawn committed amount, including liquidity and credit facilities provided by the Company, or the notional amount of a derivative instrument considered to be a variable interest, adjusted for any declines in fair value recognized in earnings. In certain transactions, the Company has entered into derivative instruments or other arrangements that are not considered variable interests in the VIE (e.g., interest rate swaps, cross-currency swaps, or where the Company is the purchaser of credit protection under a credit default swap or total return swap where the Company pays the total return on certain assets to the SPE). Receivables under such arrangements are not included in the maximum exposure amounts.

Funding Commitments for Significant Unconsolidated VIEs—Liquidity Facilities and Loan Commitments

The following table presents the notional amount of liquidity facilities and loan commitments that are classified as funding commitments in the SPE table above as of December 31, 2010.

<i>In millions of dollars</i>	Liquidity Facilities	Loan Commitments
Citibank-administered ABCP	\$ 9,270	\$ 359
Third-party commercial paper conduits	550	—
CLOs	—	29
Asset-based financing	5	5,682
Municipal securities TOBs	6,398	—
Municipal investments	—	1,614
Other	—	174
Total Citibank funding commitments	\$16,223	\$7,858

Consolidated VIEs

The Company engages in on-balance-sheet securitizations which are securitizations that do not qualify for sales treatment, thus, the assets remain on the Company's balance sheet. The consolidated VIEs included in the tables below represent hundreds of separate entities with which the Company is involved. In general, the third-party investors in the obligations of consolidated VIEs have legal recourse only to the assets of the VIEs and do not have recourse to the Company, except where the Company has provided a guarantee to the investors or is the counterparty to certain derivative transactions involving the VIE. In addition, the assets are generally restricted only to pay such liabilities.

Thus, the Company's maximum legal exposure to loss related to consolidated VIEs is significantly less than the carrying value of the consolidated VIE assets due to outstanding third-party financing. Intercompany assets and liabilities are excluded from the table. All assets are restricted from being sold or pledged as collateral. The cash flows from these assets are the only source used to pay down the associated liabilities, which are non-recourse to the Company's general assets.

The following table presents the carrying amounts and classifications of consolidated assets that are collateral for consolidated VIE and SPE obligations.

<i>In billions of dollars</i>	December 31, 2010	December 31, 2009
Cash	\$ 0.6	\$ 0.7
Trading account assets	0.1	7.6
Investments	7.8	10.4
Total loans, net	30.7	2.7
Other	0.3	0.4
Total assets	\$39.5	\$21.8
Short-term borrowings	\$22.8	\$ 9.1
Long-term debt	4.8	0.8
Other liabilities	0.1	0.1
Total liabilities	\$27.7	\$10.0

Significant Interests in Unconsolidated VIEs—Balance Sheet Classification

The following tables present the carrying amounts and classification of significant interests in unconsolidated VIEs.

<i>In billions of dollars</i>	December 31, 2010	December 31, 2009
Trading account assets	\$ 2.8	\$ 3.2
Investments	8.7	8.3
Loans	7.3	9.0
Other	4.7	—
Total assets	\$23.5	\$20.5
Long-term debt	\$ 0.4	\$ —
Other liabilities	—	0.3
Total liabilities	\$ 0.4	\$ 0.3

Mortgage Securitizations

The Company provides a wide range of mortgage loan products to a diverse customer base.

Once originated, the Company often securitizes these loans through the use of SPEs, which prior to 2010 were QSPEs. These SPEs are funded through the issuance of trust certificates backed solely by the transferred assets. These certificates have the same average life as the transferred assets. In addition to providing a source of liquidity and less expensive funding, securitizing these assets also reduces the Company's credit exposure to the borrowers. These mortgage loan securitizations are primarily non-recourse, thereby effectively transferring the risk of future credit losses to the purchasers of the securities issued by the trust. However, the Company's Consumer business generally retains the servicing rights and in certain instances retains investment securities, interest-only strips and residual interests in future cash flows from the trusts and also provides servicing for a limited number of Citigroup businesses.

The Company securitizes mortgage loans generally through either a government-sponsored agency, such as Ginnie Mae, Fannie Mae or Freddie Mac (U.S. agency-sponsored mortgages), or private label (non-agency-sponsored mortgages) securitization. The Company is not the primary beneficiary of its U.S. agency-sponsored mortgage securitizations, because Citibank does not have the power to direct the activities of the SPE that most significantly impact the entity's economic performance. Therefore, Citibank does not consolidate these U.S. agency-sponsored mortgage securitizations. In certain instances, the Company has (1) the power to direct the activities that most significantly impact the entity's economic performance and (2) the obligation to either absorb losses or right to receive benefits that could be potentially significant to its non-agency-sponsored mortgage securitizations and, therefore, is the primary beneficiary and consolidates the SPE.

The following tables summarize selected cash flow information related to Citibank mortgage securitizations for the years ended December 31, 2010 and 2009

<i>In billions of dollars</i>	2010	2009
Proceeds from new securitizations	\$53.8	\$70.1
Contractual servicing fees received	1.3	1.4
Cash flows received on retained interests and other net cash flows	0.2	0.4

Gains (losses) recognized on the securitization of mortgages during 2010 were \$138 million. The Company did not recognize any gains (losses) on the securitization of mortgages in 2009.

Key assumptions used in measuring the fair value of retained interests at the date of sale or securitization of mortgage receivables for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Discount rate	13.7%	11.2%
Constant prepayment rate	8.9%	5.9%
Anticipated net credit losses	NM	NM

NM: Not meaningful. Anticipated net credit losses are not meaningful due to U.S. agency guarantees.

The interests retained by the Company range from highly rated and/or senior in the capital structure to unrated and/or residual interests.

The effect of adverse changes of 10% and 20% in each of the key assumptions used to determine the fair value of retained interests is disclosed below. The negative effect of each change is calculated independently, holding all other assumptions constant. Because the key assumptions may not in fact be independent, the net effect of simultaneous adverse changes in the key assumptions may be less than the sum of the individual effects shown below.

At December 31, 2010, the key assumptions used to value retained interests and the sensitivity of the fair value to adverse changes of 10% and 20% in each of the key assumptions were as follows:

	December 31, 2010
Discount rate	14.0%
Constant prepayment rate	12.5%
Anticipated net credit losses	0.1%
Weighted average life	6.4 years

NM: Not meaningful. Anticipated net credit losses are not meaningful due to U.S. agency guarantees.

<i>In millions of dollars</i>	
Carrying value of retained interests	\$5,023
Discount rates	
Adverse change of 10%	\$ (202)
Adverse change of 20%	(383)
Constant prepayment rate	
Adverse change of 10%	\$ (241)
Adverse change of 20%	(469)
Anticipated net credit losses	
Adverse change of 10%	\$ (58)
Adverse change of 20%	(110)

Mortgage Servicing Rights

In connection with the securitization of mortgage loans, the Company's U S Consumer mortgage business retains the servicing rights, which entitle the Company to a future stream of cash flows based on the outstanding principal balances of the loans and the contractual servicing fee. Failure to service the loans in accordance with contractual requirements may lead to a termination of the servicing rights and the loss of future servicing fees.

The fair value of the Company's capitalized MSR's was \$4.6 billion and \$6.5 billion at December 31, 2010 and 2009, respectively. The MSR's correspond to principal loan balances of \$455 billion and \$555 billion as of December 31, 2010 and 2009, respectively. The following table summarizes the changes in capitalized MSR's for the years ended December 31, 2010 and 2009.

<i>In millions of dollars</i>	2010	2009
Balance, as of the beginning of year	\$ 6,530	\$ 5,657
Originations	658	1,035
Changes in fair value of MSR's due to changes in inputs and assumptions	(1,067)	1,546
Other changes ⁽¹⁾	(1,567)	(1,708)
Balance, end of year	\$ 4,554	\$ 6,530

(1) Represents changes due to customer payments and passage of time.

The market for MSR's is not sufficiently liquid to provide participants with quoted market prices. Therefore, the Company uses an option-adjusted spread valuation approach to determine the fair value of MSR's. This approach consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates. The key assumptions used in the valuation of MSR's include mortgage prepayment speeds and discount rates. The model assumptions and the MSR's' fair value estimates are compared to observable trades of similar MSR portfolios and interest-only security portfolios, as available, as well as to MSR broker valuations and industry surveys. The cash flow model and underlying prepayment and interest rate models used to value these MSR's are subject to validation in accordance with the Company's model validation policies.

The fair value of the MSR's is primarily affected by changes in prepayments that result from shifts in mortgage interest rates. In managing this risk, the Company economically hedges a significant portion of the value of its MSR's through the use of interest rate derivative contracts, forward purchase commitments of mortgage-backed securities and purchased securities classified as trading.

The Company receives fees during the course of servicing previously securitized mortgages. The amounts of these fees for the years ended December 31, 2010 and 2009 were as follows:

<i>In millions of dollars</i>	2010	2009
Servicing fees	\$1,356	\$1,635
Late fees	87	93
Ancillary fees	214	77
Total MSR fees	\$1,657	\$1,805

These fees are classified in the Consolidated Statement of Income as *Other revenue*.

Citibank Administered Asset-Backed Commercial Paper Conduits

The Company is active in the asset-backed commercial paper conduit business as administrator of several multi-seller commercial paper conduits, and also as a service provider to single-seller and other commercial paper conduits sponsored by third parties.

The multi-seller commercial paper conduits are designed to provide the Company's clients access to low-cost funding in the commercial paper markets. The conduits purchase assets from or provide financing facilities to clients and are funded by issuing commercial paper to third-party investors. The conduits generally do not purchase assets originated by the Company. The funding of the conduit is facilitated by the liquidity support and credit enhancements provided by the Company.

As administrator to the conduits, the Company is generally responsible for selecting and structuring assets purchased or financed by the conduits, making decisions regarding the funding of the conduits, including determining the tenor and other features of the commercial paper issued, monitoring the quality and performance of the conduits' assets, and facilitating the operations and cash flows of the conduits. In return, the Company earns structuring fees from customers for individual transactions and earns an administration fee from the conduit, which is equal to the income from client program and liquidity fees of the conduit after payment of interest costs and other fees. This administration fee is fairly stable, since most risks and rewards of the underlying assets are passed back to the clients and, once the asset pricing is negotiated, most ongoing income, costs and fees are relatively stable as a percentage of the conduit's size.

The conduits administered by the Company do not generally invest in liquid securities that are formally rated by third parties. The assets are privately negotiated and structured transactions that are designed to be held by the conduit, rather than actively traded and sold. The yield earned by the conduit on each asset is generally tied to the rate on the commercial paper issued by the conduit, thus passing interest rate risk to the client. Each asset purchased by the conduit is structured with transaction-specific credit enhancement features provided by the third-party client seller, including over collateralization, cash and excess spread collateral accounts, direct recourse or third-party guarantees. These credit enhancements are sized with the objective of approximating a credit rating of A or above, based on the Company's internal risk ratings.

Substantially all of the funding of the conduits is in the form of short-term commercial paper, with a weighted average life generally ranging from 30 to 60 days. As of December 31, 2010 and December 31, 2009, the weighted average lives of the commercial paper issued by consolidated and unconsolidated conduits were approximately 41 days and 43 days, respectively.

The primary credit enhancement provided to the conduit investors is in the form of transaction-specific credit enhancement described above. In addition, there are generally two additional forms of credit enhancement that protect the commercial paper investors from defaulting assets. First, the subordinate loss notes issued by each conduit absorb any credit losses up to their full notional amount. Second, each

conduit has obtained a letter of credit from the Company, which is generally 8–10% of the conduit's assets. The letters of credit provided by the Company to the consolidated conduits total approximately \$2.6 billion. The net result across all multi-seller conduits administered by the Company is that, in the event defaulted assets exceed the transaction-specific credit enhancement described above, any losses in each conduit are allocated in the following order:

- subordinate loss note holders,
- the Company, and
- the commercial paper investors

The Company also provides the conduits with two forms of liquidity agreements that are used to provide funding to the conduits in the event of a market disruption, among other events. Each asset of the conduit is supported by a transaction-specific liquidity facility in the form of an asset purchase agreement (APA). Under the APA, the Company has agreed to purchase non-defaulted eligible receivables from the conduit at par. Any assets purchased under the APA are subject to increased pricing. The APA is not designed to provide credit support to the conduit, as it generally does not permit the purchase of defaulted or impaired assets and generally reprices the assets purchased to consider potential increased credit risk. The APA covers all assets in the conduits and is considered in the Company's maximum exposure to loss. In addition, the Company provides the conduits with program-wide liquidity in the form of short-term lending commitments. Under these commitments, the Company has agreed to lend to the conduits in the event of a short-term disruption in the commercial paper market, subject to specified conditions. The total notional exposure under the program-wide liquidity agreement for the Company's unconsolidated administered conduit as of December 31, 2010 was \$0.6 billion and is considered in the Company's maximum exposure to loss. The Company receives fees for providing both types of liquidity agreement and considers these fees to be on fair market terms.

Finally, an affiliate of the Company is one of several named dealers in the commercial paper issued by the conduits and earns a market-based fee for providing such services. As of December 31, 2010, the Company owned none of the commercial paper issued by its unconsolidated administered conduit.

Upon adoption of SFAS 167 on January 1, 2010, with the exception of the government-guaranteed loan conduit described below, the asset-backed commercial paper conduits were consolidated by the Company. The Company determined that, through its role as administrator, it had the power to direct the activities that most significantly impacted the entities' economic performance. These powers included its ability to structure and approve the assets purchased by the conduits, its ongoing surveillance and credit mitigation activities, and its liability management. In addition, as a result of all the Company's involvement described above, it was concluded that the Company had an economic interest that could potentially be significant. However, the assets and liabilities of the conduits are separate and apart from those of Citibank. No assets of any conduit are available to satisfy the creditors of Citibank or any of its other subsidiaries.

The Company administers one conduit that originates loans to third-party borrowers and those obligations are fully guaranteed primarily by AAA-rated government agencies that

support export and development financing programs. The economic performance of this government-guaranteed loan conduit is most significantly impacted by the performance of its underlying assets. The guarantors must approve each loan held by the entity and the guarantors have the ability (through establishment of the servicing terms to direct default mitigation and to purchase defaulted loans) to manage the conduit's loans that become delinquent to improve the economic performance of the conduit. Because the Company does not have the power to direct the activities of this government-guaranteed loan conduit that most significantly impact the economic performance of the entity, it was concluded that the Company should not consolidate the entity. As of December 31, 2010, this unconsolidated government-guaranteed loan conduit held assets of approximately \$9.6 billion.

Prior to January 1, 2010, the Company was required to analyze the expected variability of the conduit quantitatively to determine whether the Company is the primary beneficiary of the conduit. The Company performed this analysis on a quarterly basis. For conduits where the subordinate loss notes or third-party guarantees were sufficient to absorb a majority of the expected loss of the conduit, the Company did not consolidate. In circumstances where the subordinate loss notes or third-party guarantees were insufficient to absorb a majority of the expected loss, the Company consolidated the conduit as its primary beneficiary due to the additional credit enhancement provided by the Company. In conducting this analysis, the Company considers three primary sources of variability in the conduit: credit risk, interest rate risk and fee variability.

Third-Party Commercial Paper Conduits

The Company also provides liquidity facilities to single- and multi-seller conduits sponsored by third parties. These conduits are independently owned and managed and invest in a variety of asset classes, depending on the nature of the conduit. The facilities provided by the Company typically represent a small portion of the total liquidity facilities obtained by each conduit, and are collateralized by the assets of each conduit. As of December 31, 2010, the notional amount of these facilities was approximately \$965 million, of which \$415 million was funded under these facilities. The Company is not the party that has the power to direct the activities of these conduits that most significantly impact their economic performance and thus does not consolidate them.

Collateralized Debt and Loan Obligations

A securitized collateralized debt obligation (CDO) is an SPE that purchases a pool of assets consisting of asset-backed securities and synthetic exposures through derivatives on asset-backed securities and issues multiple tranches of equity and notes to investors. A third-party asset manager is typically retained by the CDO to select the pool of assets and manage those assets over the term of the CDO. The Company earns fees for warehousing assets prior to the creation of a CDO.

A cash CDO, or arbitrage CDO, is a CDO designed to take advantage of the difference between the yield on a portfolio of selected assets, typically residential mortgage-backed securities, and the cost of funding the CDO through the sale of notes to investors. "Cash flow" CDOs are vehicles in which the CDO passes on cash flows from a pool of assets, while "market value" CDOs pay to investors the market value of the pool of assets owned by the CDO at maturity. Both types of CDOs are typically managed by a third-party asset manager. In these transactions, all of the equity and notes issued by the CDO are funded, as the cash is needed to purchase the debt securities. In a typical cash CDO, a third-party investment manager selects a portfolio of assets, which the Company funds through a warehouse financing arrangement prior to the creation of the CDO. The Company then sells the debt securities to the CDO in exchange for cash raised through the issuance of notes. The continuing involvement of the Company and its affiliates in cash CDOs is typically limited to investing in a portion of the notes or loans issued by the CDO and acting as derivative counterparty for interest rate or foreign currency swaps used in the structuring of the CDO.

A synthetic CDO is similar to a cash CDO, except that the CDO obtains exposure to all or a portion of the referenced assets synthetically through derivative instruments, such as credit default swaps. Because the CDO does not need to raise cash sufficient to purchase the entire referenced portfolio, a substantial portion of the senior tranches of risk is typically passed on to CDO investors in the form of unfunded liabilities or derivative instruments. Thus, the CDO writes credit protection on select referenced debt securities to the Company, its affiliates or third parties and the risk is then passed on to the CDO investors in the form of funded notes or purchased credit protection through derivative instruments. Any cash raised from investors is invested in a portfolio of collateral securities or investment contracts. The collateral is then used to support the obligations of the CDO on the credit default swaps written to counterparties. The continuing involvement of the Company and its affiliates in synthetic CDOs generally includes purchasing credit protection through credit default swaps with the CDO, owning a portion of the capital structure of the CDO in the form of both unfunded derivative positions (primarily super-senior exposures discussed below) and funded notes, entering into interest-rate swap and total-return swap transactions with the CDO and lending to the CDO.

A securitized collateralized loan obligation (CLO) is substantially similar to the CDO transactions described above, except that the assets owned by the SPE (either cash instruments or synthetic exposures through derivative instruments) are corporate loans and to a lesser extent corporate bonds, rather than asset-backed debt securities.

Where a CDO vehicle issues preferred shares, the preferred shares generally represent an insufficient amount of equity (less than 10%) and create the presumption that the

preferred shares are insufficient to finance the entity's activities without subordinated financial support. In addition, although the preferred shareholders generally have full exposure to expected losses on the collateral and uncapped potential to receive expected residual rewards, it is not always clear whether they have the ability to make decisions about the entity that have a significant effect on the entity's financial results because of their limited role in making day-to-day decisions and their limited ability to remove the third-party asset manager. Because one or both of the above conditions will generally be met, we have assumed that, even where a CDO vehicle issued preferred shares, the vehicle should be classified as a VIE.

Asset-Based Financing

The Company provides loans and other forms of financing to VIEs that hold assets. Those loans are subject to the same credit approvals as all other loans originated or purchased by the Company. Financings in the form of debt securities or derivatives are, in most circumstances, reported in *Trading account assets* and accounted for at fair value through earnings. The Company does not have the power to direct the activities that most significantly impact these VIEs' economic performance and thus it does not consolidate them.

The primary types of Citibank's asset-based financing, total assets of the unconsolidated VIEs with significant involvement and the Company's maximum exposure to loss at December 31, 2010 are shown below. For the Company to realize the maximum loss, the VIE (borrower) would have to default with no recovery from the assets held by the VIE.

<i>In billions of dollars</i>	Total assets	Maximum exposure
Type		
Commercial and other real estate	\$10.3	\$1.2
Hedge funds and equities	7.6	3.1
Airplanes, ships and other assets	10.6	9.0
Corporate loans	5.6	4.7
Total	\$34.1	\$18.0

The following table summarizes selected cash flow information related to asset-based financing for the years ended December 31, 2010 and 2009.

<i>In billions of dollars</i>	2010	2009
Cash flows received on retained interests and other net cash flows	\$2.2	\$2.4

The effect of adverse changes of 10% and 20% in the discount rate used to determine the fair value of retained interests as of December 31, 2010 is disclosed below.

<i>In millions of dollars</i>	Asset-based financing
Carrying value of retained interests	\$4,694
Value of underlying portfolio	
Adverse change of 10%	\$ —
Adverse change of 20%	(55)

Municipal Securities Tender Option Bond (TOB) Trusts

The Company sponsors TOB trusts that hold fixed- and floating-rate, tax-exempt securities issued by state or local municipalities. The trusts are typically single-issuer trusts whose assets are purchased from the Company and from the market. The trusts are referred to as tender option bond trusts because the senior interest holders have the ability to tender their interests periodically back to the issuing trust, as described further below.

The TOB trusts fund the purchase of their assets by issuing long-term senior floating rate notes (floaters) and junior residual securities (residuals). Floaters and residuals have a tenor equal to the maturity of the trust, which is equal to or shorter than the tenor of the underlying municipal bond. Residuals are frequently less than 1% of a trust's total funding and entitle their holder to the residual cash flows from the issuing trust. Residuals are generally rated based on the long-term rating of the underlying municipal bond. Floaters bear interest rates that are typically reset weekly to a new market rate (based on the SIFMA index a seven day high grade market index of tax exempt, variable rate municipal bonds). Floater holders have an option to tender their floaters back to the trust periodically. Floaters have a long-term rating based on the long-term rating of the underlying municipal bond, including any credit enhancement provided by monoline insurance companies, and a short-term rating based on that of the liquidity provider to the trust.

The Company sponsors two kinds of TOB trusts: customer TOB trusts and proprietary TOB trusts. Customer TOB trusts are trusts through which customers finance investments in municipal securities. Residuals are held by customers, and floaters by third-party investors. Proprietary TOB trusts are trusts through which the Company finances its own investments in municipal securities. The Company holds the residuals in proprietary TOB trusts.

The Company serves as remarketing agent to the trusts, facilitating the sale of floaters to third parties at inception and facilitating the reset of the floater coupon and tenders of floaters. If floaters are tendered and the Company (in its role as remarketing agent) is unable to find a new investor within a specified period of time, it can declare a failed remarketing (in which case the trust is unwound) or it may choose to buy floaters into its own inventory and may continue to try to sell them to a third-party investor. While the level of the Company's inventory of floaters fluctuates, the Company held none of the floater inventory related to the customer or proprietary TOB programs as of December 31, 2010.

Approximately \$0.3 billion of the municipal bonds owned by TOB trusts have a credit guarantee provided by the Company. In all other cases, the assets are either unenhanced or are insured with a monoline insurance company. While the trusts have not encountered any adverse credit events (as defined in the underlying trust agreements), certain monoline insurance companies have experienced downgrades. In these cases, the Company has proactively managed the TOB programs by applying additional insurance on the assets or proceeding with orderly unwinds of the trusts.

If a trust is unwound early due to an event other than a credit event on the underlying municipal bond, the underlying municipal bond is sold in the market. If there is an accompanying shortfall in the trust's cash flows to fund the redemption of floaters after the sale of the underlying

municipal bond, the trust draws on a liquidity agreement in an amount equal to the shortfall. Liquidity agreements are generally provided to the trust directly by the Company. For customer TOBs where the residual is less than 25% of the trust's capital structure, the Company has a reimbursement agreement with the residual holder under which the residual holder reimburses the Company for any payment made under the liquidity arrangement. Through this reimbursement agreement, the residual holder remains economically exposed to fluctuations in value of the municipal bond. These reimbursement agreements are actively margined based on changes in value of the underlying municipal bond to mitigate the Company's counterparty credit risk. In cases where a third party provides liquidity to a proprietary TOB trust, a similar reimbursement arrangement is made whereby the Company (or a consolidated subsidiary of the Company) as residual holder absorbs any losses incurred by the liquidity provider. As of December 31, 2010, liquidity agreements provided with respect to customer TOB trusts and other non-consolidated, customer-sponsored municipal investment funds totaled \$10.1 billion, offset by reimbursement agreements in place with a notional amount of \$8.6 billion. The remaining exposure relates to TOB transactions where the residual owned by the customer is at least 25% of the bond value at the inception of the transaction and no reimbursement agreement is executed.

The Company considers the customer and proprietary TOB trusts to be VIEs. Customer TOB trusts were not consolidated by the Company in prior periods and remain unconsolidated upon the Company's adoption of SFAS 167. Because third-party investors hold residual and floater interests in the customer TOB trusts, the Company's involvement includes only its role as remarketing agent and liquidity provider. The Company has concluded that the power over customer TOB trusts is primarily held by the customer residual holder, who may unilaterally cause the sale of the trust's bonds. Because the Company does not hold the residual interest and thus does not have the power to direct the activities that most significantly impact the trust's economic performance, it does not consolidate the customer TOB trusts under SFAS 167.

Proprietary TOB trusts generally were consolidated in prior periods. They remain consolidated upon the Company's adoption of SFAS 167. The Company's involvement with the proprietary TOB trusts includes holding the residual interests as well as the remarketing and liquidity agreements with the trusts. Similar to customer TOB trusts, the Company has concluded that the power over the proprietary TOB trusts is primarily held by the residual holder, who may unilaterally cause the sale of the trust's bonds. Because the Company holds the residual interest, and thus has the power to direct the activities that most significantly impact the trust's economic performance, it continues to consolidate the proprietary TOB trusts under SFAS 167.

Prior to 2010, certain TOB trusts met the definition of a QSPE and were not consolidated in prior periods. Upon the Company's adoption of SFAS 167, former QSPE trusts have been consolidated by the Company as residual interest holders and are presented as proprietary TOB trusts.

Municipal Investments

Municipal investment transactions are primarily interests in partnerships that finance the construction and rehabilitation of low-income housing, facilitate lending in new or underserved markets, or finance the construction or operation of renewable municipal energy facilities. The Company generally invests in these partnerships as a limited partner and earns a return primarily through the receipt of tax credits and grants earned from the investments made by the partnership. These entities are generally considered VIEs. The power to direct the activities of these entities is typically held by the general partner. Accordingly, these entities have remained unconsolidated by the Company upon adoption of SFAS 167.

Client Intermediation

Client intermediation transactions represent a range of transactions designed to provide investors with specified returns based on the returns of an underlying security, referenced asset or index. These transactions include credit-linked notes and equity-linked notes. In these transactions, the VIE typically obtains exposure to the underlying security, referenced asset or index through a derivative instrument, such as a total-return swap or a credit-default swap. In turn the VIE issues notes to investors that pay a return based on the specified underlying security, referenced asset or index. The VIE invests the proceeds in a financial asset or a guaranteed insurance contract that serves as collateral for the derivative contract over the term of the transaction. The Company's involvement in these transactions includes being the counterparty to the VIE's derivative instruments and investing in a portion of the notes issued by the VIE. In certain transactions, the investor's maximum risk of loss is limited and the Company absorbs risk of loss above a specified level. The Company does not have the power to direct the activities of the VIEs which most significantly impact their economic performance and thus it does not consolidate them.

The Company's maximum risk of loss in these transactions is defined as the amount invested in notes issued by the VIE and the notional amount of any risk of loss absorbed by the Company through a separate instrument issued by the VIE. The derivative instrument held by the Company may generate a receivable from the VIE (for example, where the Company purchases credit protection from the VIE in connection with the VIE's issuance of a credit-linked note), which is collateralized by the assets owned by the VIE. These derivative instruments are not considered variable interests and any associated receivables are not included in the calculation of maximum exposure to the VIE.

20. DERIVATIVES ACTIVITIES

In the ordinary course of business, Citibank enters into various types of derivative transactions. These derivative transactions include:

- *Futures and forward contracts* which are commitments to buy or sell at a future date a financial instrument, commodity or currency at a contracted price and may be settled in cash or through physical delivery
- *Swap contracts* which are commitments to settle in cash at a future date or dates that may range from a few days to a number of years, based on differentials between specified financial indices, as applied to a notional principal amount
- *Option contracts* which give the purchaser, for a fee, the right, but not the obligation, to buy or sell within a limited time a financial instrument, commodity or currency at a contracted price that may also be settled in cash, based on differentials between specified indices or prices

Citibank enters into these derivative contracts relating to interest rate, foreign currency, commodity, and other market/credit risks for the following reasons:

- *Trading Purposes—Customer Needs* Citibank offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, Citibank considers the customers' suitability for the risk involved and the business purpose for the transaction. Citibank also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers
- *Trading Purposes* Citibank trades derivatives as principal and an active market maker. Trading limits and price verification controls are key aspects of this activity
- *Hedging* Citibank uses derivatives in connection with its risk-management activities to hedge certain risks or reposition the risk profile of the Company. For example, Citibank may issue fixed-rate long-term debt and then enter into a receive-fixed, pay-variable-rate interest rate swap with the same tenor and notional amount to convert the interest payments to a net variable-rate basis. This strategy is the most common form of an interest rate hedge, as it minimizes interest cost in certain yield curve environments. Derivatives are also used to manage risks inherent in specific groups of on-balance-sheet assets and liabilities, including investments, corporate and consumer loans, deposit liabilities, as well as other interest-sensitive assets and liabilities. In addition, foreign-exchange contracts are used to hedge non-U.S.-dollar-denominated debt, foreign-currency-denominated available-for-sale securities, net capital exposures and foreign-exchange transactions

Derivatives may expose Citibank to market, credit or liquidity risks in excess of the amounts recorded on the Consolidated Balance Sheet. Market risk on a derivative product is the exposure created by potential fluctuations in interest rates, foreign-exchange rates and other factors and is a function of the type of product, the volume of transactions, the tenor and terms of the agreement, and the underlying volatility. Credit risk is the exposure to loss in the event of nonperformance by the other party to the transaction where the value of any collateral held is not adequate to cover such losses. The recognition in earnings of unrealized gains on these transactions is subject to management's assessment as to collectability. Liquidity risk is the potential exposure that arises when the size of the derivative position may not be able to be rapidly adjusted in periods of high volatility and financial stress at a reasonable cost.

Information pertaining to the volume of derivative activity is provided in the tables below. The notional amounts, for both long and short derivative positions, of Citibank's derivative instruments as of December 31, 2010 and December 31, 2009 are presented in the table below.

Derivative Notionals

	Hedging instruments under ASC 815 (SFAS 133) ⁽¹⁾		Other derivative instruments			
			Trading derivatives		Management hedges ⁽²⁾	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
<i>In millions of dollars</i>						
Interest rate contracts						
Swaps	\$ 36,347	\$ 24,654	\$31,044,224	\$21,726,073	\$106,441	\$ 96,995
Futures and forwards	—	—	3,863,952	2,667,627	46,140	65,775
Written options	—	—	3,209,724	3,071,711	8,673	11,443
Purchased options	—	—	3,112,174	3,023,351	18,030	29,125
Total interest rate contract notionals	\$ 36,347	\$ 24,654	\$41,230,074	\$30,488,762	\$179,284	\$203,338
Foreign exchange contracts						
Swaps	\$ 951	\$ 7,979	\$ 1,240,525	\$ 966,322	\$ 378	\$ 892
Futures and forwards	65,666	46,504	2,915,410	2,069,885	2,016	82
Written options	569	—	632,100	402,987	50	—
Purchased options	13,530	17,718	554,479	380,250	174	882
Total foreign exchange contract notionals	\$ 80,716	\$ 72,201	\$ 5,342,514	\$ 3,819,444	\$ 2,618	\$ 1,856
Equity contracts						
Swaps	\$ —	\$ —	\$ 59,543	\$ 47,244	\$ —	\$ —
Futures and forwards	—	—	5,237	4,883	—	—
Written options	—	—	66,993	54,784	—	—
Purchased options	—	—	63,166	54,328	—	—
Total equity contract notionals	\$ —	\$ —	\$ 194,939	\$ 161,239	\$ —	\$ —
Commodity and other contracts						
Swaps	\$ —	\$ —	\$ 14,319	\$ 18,460	\$ —	\$ —
Futures and forwards	—	—	21,780	15,184	—	—
Written options	—	—	23,018	12,504	—	—
Purchased options	—	—	25,645	12,652	—	—
Total commodity and other contract notionals	\$ —	\$ —	\$ 84,762	\$ 58,800	\$ —	\$ —
Credit derivatives ⁽³⁾						
Protection sold	\$ —	\$ —	\$ 1,218,768	1,093,304	\$ —	\$ —
Protection purchased	4,928	6,981	1,277,618	1,180,910	28,526	—
Total credit derivatives	\$ 4,928	\$ 6,981	\$ 2,496,386	\$ 2,274,214	\$ 28,526	\$ —
Total derivative notionals	\$121,991	\$103,836	\$49,348,675	\$36,802,459	\$210,428	\$205,194

- (1) Derivatives used in hedge accounting relationships accounted for under ASC 815 (SFAS 133) are recorded in either *Other assets/liabilities* or *Trading account assets/liabilities* on the *Consolidated Balance Sheet*
- (2) Management hedges represent derivative instruments used in certain economic hedging relationships that are identified for management purposes, but for which hedge accounting is not applied. These derivatives are recorded in *Other assets/liabilities* on the *Consolidated Balance Sheet*
- (3) Credit derivatives are arrangements designed to allow one party (protection buyer) to transfer the credit risk of a "reference asset" to another party (protection seller). These arrangements allow a protection seller to assume the credit risk associated with the reference asset without directly purchasing that asset. The Company has entered into credit derivatives positions for purposes such as risk management, yield enhancement, reduction of credit concentrations and diversification of overall risk.

Derivative Mark-to-Market (MTM) Receivables/Payables

<i>In millions of dollars at December 31, 2010</i>	Derivatives classified in trading account assets/liabilities ⁽¹⁾		Derivatives classified in other assets/liabilities	
	Assets	Liabilities	Assets	Liabilities
Derivative instruments designated as ASC 815 (SFAS 133) hedges				
Interest rate contracts	\$ —	\$ —	\$ 118	\$2,048
Foreign exchange contracts	237	633	646	1,052
Total derivative instruments designated as ASC 815 (SFAS 133) hedges	\$ 237	\$ 633	\$ 764	\$3,100
Other derivative instruments				
Interest rate contracts	\$510,640	\$ 508,097	\$2,449	\$2,463
Foreign exchange contracts	94,506	92,387	3	518
Equity contracts	8,308	10,637	—	—
Commodity and other contracts	4,838	5,342	—	—
Credit derivatives ⁽²⁾	64,014	57,250	88	337
Total other derivative instruments	\$682,306	\$ 673,713	\$2,540	\$3,318
Total derivatives	\$682,543	\$ 674,346	\$3,304	\$6,418
Cash collateral paid/received	49,127	44,473	12	598
Netting agreements and market value adjustments	(674,018)	(669,822)	—	—
Net receivables/payables	\$ 57,652	\$ 48,997	\$3,316	\$7,016

(1) The trading derivatives fair values are presented in Note 11 to the Consolidated Financial Statements

(2) The credit derivatives trading assets are composed of \$41,493 million related to protection purchased and \$22,521 million related to protection sold as of December 31, 2010. The credit derivatives trading liabilities are composed of \$22,453 million related to protection purchased and \$34,797 million related to protection sold as of December 31, 2010.

<i>In millions of dollars at December 31, 2009</i>	Derivatives classified in trading account assets/liabilities ⁽¹⁾		Derivatives classified in other assets/liabilities	
	Assets	Liabilities	Assets	Liabilities
Derivative instruments designated as ASC 815 (SFAS 133) hedges				
Interest rate contracts	\$ 180	\$ 87	\$ 50	\$1,906
Foreign exchange contracts	753	1,580	495	800
Total derivative instruments designated as ASC 815 (SFAS 133) hedges	\$ 933	\$ 1,667	\$ 545	\$2,706
Other derivative instruments				
Interest rate contracts	\$ 485,380	\$ 482,019	\$2,723	\$2,771
Foreign exchange contracts	79,125	75,112	41	731
Equity contracts	7,752	10,399	—	—
Commodity and other contracts	4,851	4,506	—	—
Credit derivatives ⁽²⁾	84,838	74,723	—	—
Total other derivative instruments	\$ 661,946	\$ 646,759	\$2,764	\$3,502
Total derivatives	\$ 662,879	\$ 648,426	\$3,309	\$6,208
Cash collateral paid/received	43,208	41,361	42	947
Netting agreements and market value adjustments	(646,785)	(642,401)	—	—
Net receivables/payables	\$ 59,302	\$ 47,386	\$3,351	\$7,155

(1) The trading derivatives fair values are presented in Note 11 to the Consolidated Financial Statements

(2) The credit derivatives trading assets are composed of \$63,235 million related to protection purchased and \$21,603 million related to protection sold as of December 31, 2009. The credit derivatives trading liabilities are composed of \$21,176 million related to protection purchased and \$53,547 million related to protection sold as of December 31, 2009.

All derivatives are reported on the balance sheet at fair value. In addition, where applicable, all such contracts covered by master netting agreements are reported net. Gross positive fair values are netted with gross negative fair values by counterparty pursuant to a valid master netting agreement. In addition, payables and receivables in respect of cash collateral received from or paid to a given counterparty are included in this netting. However, non-cash collateral is not included.

The amount of payables in respect of cash collateral received that was netted with unrealized gains from derivatives was \$24 billion and \$21 billion as of December 31, 2010 and December 31, 2009, respectively. The amount of receivables in respect of cash collateral paid that was netted with unrealized losses from derivatives was \$37 billion as of December 31, 2010 and \$34 billion as of December 31, 2009, respectively.

The amounts recognized in *Principal transactions* in the Consolidated Statement of Income for the years ended December 31, 2010 and 2009 related to derivatives not designated in a qualifying hedging relationship as well as the underlying non-derivative instruments are included in the table below. Citibank has elected to present this disclosure by business classification, showing derivative gains and losses related to its trading activities together with gains and losses related to non-derivative instruments within the same trading portfolios, as it believes this better represents the way these portfolios are risk managed.

<i>In millions of dollars</i>	2010	2009
Interest rate contracts ⁽¹⁾	\$2,991	\$3,890
Foreign exchange contracts	1,789	1,855
Equity contracts	153	(249)
Commodity and other contracts	(267)	167
Credit derivatives	166	(4,180)
Total ⁽¹⁾	\$4,832	\$1,483

(1) Also see Note 6 to the Consolidated Financial Statements.

During 2010 and 2009, the Company recognized in *Other Revenue* on the Consolidated Statement of Income gains of \$444 million and \$140 million, respectively, related to interest rate derivatives not designated in a qualifying hedging relationship. The amounts related to foreign exchange derivative contracts not designated in a qualifying hedging relationship that were recorded in *Other Revenue* during 2010 and 2009 were gains of \$32 million and \$63 million, respectively. Additionally, Citibank recorded in *Other revenue* a loss of \$502 million on credit derivatives during 2010. These amounts do not include the gains/losses on the hedged items, which amounts are also recorded in *Other revenue*.

Accounting for Derivative Hedging

Citibank accounts for its hedging activities in accordance with ASC 815, *Derivatives and Hedging* (formerly SFAS 133). As a general rule, hedge accounting is permitted for those situations where the Company is exposed to a particular risk, such as interest-rate or foreign-exchange risk, that causes changes in the fair value of an asset or liability, or variability in the expected future cash flows of an existing asset, liability or a forecasted transaction that may affect earnings.

Derivative contracts hedging the risks associated with the changes in fair value are referred to as fair value hedges, while contracts hedging the risks affecting the expected future cash

flows are called cash flow hedges. Hedges that utilize derivatives or debt instruments to manage the foreign exchange risk associated with equity investments in non-U.S.-dollar functional currency foreign subsidiaries (net investment in a foreign operation) are called net investment hedges.

If certain hedging criteria specified in ASC 815 are met, including testing for hedge effectiveness, special hedge accounting may be applied. The hedge effectiveness assessment methodologies for similar hedges are performed in a similar manner and are used consistently throughout the hedging relationships. For fair value hedges, the changes in value of the hedging derivative, as well as the changes in value of the related hedged item due to the risk being hedged, are reflected in current earnings. For cash flow hedges and net investment hedges, the changes in value of the hedging derivative are reflected in AOCI in Citibank's stockholder's equity, to the extent the hedge is effective. Hedge ineffectiveness, in either case, is reflected in current earnings.

For asset/liability management hedging, the fixed-rate long-term debt may be recorded at amortized cost under current U.S. GAAP. However, by electing to use ASC 815 (SFAS 133) hedge accounting, the carrying value of the debt is adjusted for changes in the benchmark interest rate, with any such changes in value recorded in current earnings. The related interest-rate swap is also recorded on the balance sheet at fair value, with any changes in fair value reflected in earnings. Thus, any ineffectiveness resulting from the hedging relationship is recorded in current earnings. Alternatively, an economic hedge, which does not meet the ASC 815 hedging criteria, would involve only recording the derivative at fair value on the balance sheet, with its associated changes in fair value recorded in earnings. The debt would continue to be carried at amortized cost and, therefore, current earnings would be impacted only by the interest rate shifts and other factors that cause the change in the swap's value and the underlying yield of the debt. This type of hedge is undertaken when hedging requirements cannot be achieved or management decides not to apply ASC 815 hedge accounting. Another alternative for the Company would be to elect to carry the debt at fair value under the fair value option. Once the irrevocable election is made upon issuance of the debt, the full change in fair value of the debt would be reported in earnings. The related interest rate swap, with changes in fair value, would also be reflected in earnings, and provides a natural offset to the debt's fair value change. To the extent the two offsets would not be exactly equal, the difference would be reflected in current earnings. This type of economic hedge is undertaken when the Company prefers to follow this simpler method that achieves generally similar financial statement results to an ASC 815 fair value hedge.

Key aspects of achieving ASC 815 hedge accounting are documentation of hedging strategy and hedge effectiveness at the hedge inception and substantiating hedge effectiveness on an ongoing basis. A derivative must be highly effective in accomplishing the hedge objective of offsetting either changes in the fair value or cash flows of the hedged item for the risk being hedged. Any ineffectiveness in the hedge relationship is recognized in current earnings. The assessment of effectiveness excludes changes in the value of the hedged item that are unrelated to the risks being hedged. Similarly, the assessment of effectiveness may exclude changes in the fair

value of a derivative related to time value that, if excluded, are recognized in current earnings

Fair Value Hedges

Hedging of benchmark interest rate risk

Citibank hedges exposure to changes in the fair value of outstanding fixed-rate issued debt and term deposits. The fixed cash flows from those financing transactions are converted to benchmark variable-rate cash flows by entering into receive-fixed, pay-variable interest rate swaps. These fair value hedge relationships use dollar-offset ratio analysis to determine whether the hedging relationships are highly effective at inception and on an ongoing basis.

Citibank also hedges exposure to changes in the fair value of fixed-rate assets, including available-for-sale debt securities and loans. The hedging instruments used are receive-variable, pay-fixed interest rate swaps. Most of these fair value hedging relationships use dollar-offset ratio analysis to determine whether the hedging relationships are highly effective at inception and on an ongoing basis, while certain others use regression analysis.

Hedging of foreign exchange risk

Citibank hedges the change in fair value attributable to foreign-exchange rate movements in available-for-sale securities that are denominated in currencies other than the functional currency of the entity holding the securities, which may be within or outside the U.S. The hedging instrument employed is a forward foreign-exchange contract. In this type of hedge, the change in fair value of the hedged available-for-sale security attributable to the portion of foreign exchange risk hedged is reported in earnings and not AOCI—a process that serves to offset substantially the change in fair value of the forward contract that is also reflected in earnings. Citibank considers the premium associated with forward contracts (differential between spot and contractual forward rates) as the cost of hedging; this is excluded from the assessment of hedge effectiveness and reflected directly in earnings. The dollar-offset method is used to assess hedge effectiveness. Since that assessment is based on changes in fair value attributable to changes in spot rates on both the available-for-sale securities and the forward contracts for the portion of the relationship hedged, the amount of hedge ineffectiveness is not significant.

The following table summarizes the gains (losses) on Citibank's fair value hedges for the years ended December 31, 2010 and December 31, 2009.

<i>In millions of dollars</i>	Gains (losses) on fair value hedges ⁽¹⁾	
	2010	2009
Gain (loss) on the derivatives in designated and qualifying fair value hedges		
Interest rate contracts	\$ (1,090)	\$ 1,574
Foreign exchange contracts	921	995
Total gain (loss) on the derivatives in designated and qualifying fair value hedges	\$ (169)	\$ 2,569
Gain (loss) on the hedged item in designated and qualifying fair value hedges		
Interest rate hedges	\$ 1,062	\$ (1,797)
Foreign exchange hedges	(643)	(666)
Total gain (loss) on the hedged item in designated and qualifying fair value hedges	\$ 419	\$ (2,463)
Hedge ineffectiveness recognized in earnings on designated and qualifying fair value hedges		
Interest rate hedges	\$ (59)	\$ (119)
Foreign exchange hedges	36	(18)
Total hedge ineffectiveness recognized in earnings on designated and qualifying fair value hedges	\$ (23)	\$ (137)
Net gain (loss) excluded from assessment of the effectiveness of fair value hedges		
Interest rate contracts	\$ 31	\$ (104)
Foreign exchange contracts	242	347
Total net gain (loss) excluded from assessment of the effectiveness of fair value hedges	\$ 273	\$ 243

(1) Amounts are included in *Other revenue* on the Consolidated Statement of Income. The accrued interest income on fair value hedges is excluded from this table.

Cash Flow Hedges

Hedging of benchmark interest rate risk

Citibank hedges variable cash flows resulting from floating-rate liabilities and roll-over (re-issuance) of liabilities. Variable cash flows from those liabilities are converted to fixed-rate cash flows by entering into receive-variable, pay-fixed interest-rate swaps. These cash-flow hedging relationships use dollar-offset ratio analysis to assess whether the hedging relationships are highly effective at inception and on an ongoing basis. Since efforts are made to match the terms of the derivatives to those of the hedged forecasted cash flows as closely as possible, the amount of hedge ineffectiveness is not significant.

Hedging of foreign exchange risk

Citibank locks in the functional currency equivalent of cash flows of balance sheet liability exposures that are denominated in a currency other than the functional currency of the issuing entity. Depending on the risk-management objectives, these types of hedges are designated as either cash-flow hedges of only foreign exchange risk or cash-flow hedges of both foreign-exchange and interest rate risk. Any ineffectiveness is measured using the "dollar offset method" from FASB Derivative Implementation Group Issue G7 (now ASC 815-30-35-12 through 35-32). The amount of hedge ineffectiveness is not significant.

Hedging total return

Citibank generally manages the risk associated with highly leveraged financing it has entered into by seeking to sell a majority of its exposures to the market prior to or shortly after funding. The portion of the highly leveraged financing that is retained by Citibank is hedged with a total return swap.

The amount of hedge ineffectiveness on the cash flow hedges recognized in earnings for the years ended December 31, 2010 and December 31, 2009 is not significant.

The pretax change in AOCI from cash flow hedges for years ended December 31, 2010 and December 31, 2009 is presented below.

<i>In millions of dollars</i>	2010	2009
Effective portion of cash flow hedges included in AOCI		
Interest rate contracts	\$ (676)	\$ 267
Foreign exchange contracts	(39)	(324)
Total effective portion of cash flow hedges included in AOCI	\$ (715)	\$ (57)
Effective portion of cash flow hedges reclassified from AOCI to earnings		
Interest rate contracts	\$ (1,344)	\$ (1,641)
Foreign exchange contracts	(164)	183
Total effective portion of cash flow hedges reclassified from AOCI to earnings ⁽¹⁾	\$ (1,508)	\$ (1,458)

(1) Included primarily in *Other revenue* and *Net interest revenue* on the Consolidated Income Statement.

For cash flow hedges, any changes in the fair value of the end-user derivative remaining in AOCI on the Consolidated Balance Sheet will be included in earnings of future periods to offset the variability of the hedged cash flows when such cash flows affect earnings. The net loss associated with cash flow hedges expected to be reclassified from AOCI within 12 months of December 31, 2010 is approximately \$1.0 billion. The maximum length of time over which forecasted cash flows are hedged is 10 years.

The impact of cash flow hedges on AOCI is also shown in Note 18 to the Consolidated Financial Statements.

Net Investment Hedges

Consistent with ASC 830-20, *Foreign Currency Matters — Foreign Currency Transactions* (formerly SFAS 52, *Foreign Currency Translation*), ASC 815 allows hedging of the foreign-currency risk of a net investment in a foreign operation. Citibank uses foreign-currency forwards, options and swaps and foreign-currency-denominated debt instruments to manage the foreign-exchange risk associated with Citibank's equity investments in several non-U.S. dollar functional currency foreign subsidiaries. Citibank records the change in the carrying amount of these investments in the *Cumulative translation adjustment* account within AOCI. Simultaneously, the effective portion of the hedge of this exposure is also recorded in the *Cumulative translation adjustment account* and the ineffective portion, if any, is immediately recorded in earnings.

For derivatives used in net investment hedges, Citibank follows the forward-rate method from FASB Derivative Implementation Group Issue H8 (now ASC 815-35-35-16 through 35-26), "Foreign Currency Hedges: Measuring the Amount of Ineffectiveness in a Net Investment Hedge." According to that method, all changes in fair value, including changes related to the forward-rate component of the foreign-currency forward contracts and the time-value of foreign-currency options, are recorded in the foreign-currency *Cumulative translation adjustment* account within AOCI.

The pretax loss recorded in foreign-currency translation adjustment within AOCI, related to the effective portion of the net investment hedges, was \$1.1 billion and \$3.5 billion for the years ended December 31, 2010 and December 31, 2009, respectively.

Credit Derivatives

A credit derivative is a bilateral contract between a buyer and a seller under which the seller agrees to provide protection to the buyer against the credit risk of a particular entity ("reference entity" or "reference credit"). Credit derivatives generally require that the seller of credit protection make payments to the buyer upon the occurrence of predefined credit events (commonly referred to as "settlement triggers"). These settlement triggers are defined by the form of the derivative and the reference credit and are generally limited to the market standard of failure to pay on indebtedness and bankruptcy of the reference credit and, in a more limited range of transactions, debt restructuring. Credit derivative transactions referring to emerging market reference credits will also typically include additional settlement triggers to cover the acceleration of indebtedness and the risk of repudiation or a payment moratorium. In certain transactions, protection may be provided on a portfolio of referenced credits or asset-backed securities. The seller of such protection may not be required to make payment until a specified amount of losses has occurred with respect to the portfolio and/or may only be required to pay for losses up to a specified amount.

The Company makes markets in and trades a range of credit derivatives, both on behalf of clients as well as for its own account. Through these contracts, the Company either purchases or writes protection on either a single name or a portfolio of reference credits. The Company uses credit derivatives to help mitigate credit risk in its Corporate and Consumer loan portfolio and other cash positions, to take proprietary trading positions, and to facilitate client

transactions. The range of credit derivatives sold includes credit default swaps, total return swaps and credit options.

A credit default swap is a contract in which, for a fee, a protection seller agrees to reimburse a protection buyer for any losses that occur due to a credit event on a reference entity. If there is no credit default event or settlement trigger, as defined by the specific derivative contract, then the protection seller makes no payments to the protection buyer and receives only the contractually specified fee. However, if a credit event occurs as defined in the specific derivative contract sold, the protection seller will be required to make a payment to the protection buyer.

A total return swap transfers the total economic performance of a reference asset, which includes all associated cash flows, as well as capital appreciation or depreciation. The protection buyer receives a floating rate of interest and any depreciation on the reference asset from the protection seller and, in return, the protection seller receives the cash flows associated with the reference asset plus any appreciation. Thus, according to the total return swap agreement, the protection seller will be obligated to make a payment anytime the floating interest rate payment and any depreciation of the reference asset exceed the cash flows associated with the underlying asset. A total return swap may terminate upon a default of the reference asset subject to the provisions of the related total return swap agreement between the protection seller and the protection buyer.

A credit option is a credit derivative that allows investors to trade or hedge changes in the credit quality of the reference asset. For example, in a credit spread option, the option writer assumes the obligation to purchase or sell the reference asset at a specified "strike" spread level. The option purchaser buys the right to sell the reference asset to, or purchase it from, the option writer at the strike spread level. The payments on credit spread options depend either on a particular credit spread or the price of the underlying credit-sensitive asset. The options usually terminate if the underlying assets default.

A credit-linked note is a form of credit derivative structured as a debt security with an embedded credit default swap. The purchaser of the note writes credit protection to the issuer, and receives a return which will be negatively affected by credit events on the underlying reference credit. If the reference entity defaults, the purchaser of the credit-linked note may assume the long position in the debt security and any future cash flows from it, but will lose the amount paid to the issuer of the credit-linked note. Thus, the maximum amount of the exposure is the carrying amount of the credit-linked note. As of December 31, 2010 and December 31, 2009, the amount of credit-linked notes held by the Company in trading inventory was not material.

The following tables summarize the key characteristics of the Company's credit derivative portfolio as protection seller as of December 31, 2010 and 2009, respectively

<i>In millions of dollars as of December 31, 2010</i>	Maximum potential amount of future payments⁽¹⁾
By instrument	
Credit default swaps and options	\$1,214,763
Total return swaps and other	4,005
Total by instrument	\$1,218,768
By rating	
Investment grade	\$ 517,070
Non-investment grade ⁽²⁾	701,698
Total by rating	\$1,218,768
By maturity	
Within 1 year	\$ 145,030
From 1 to 5 years	863,341
After 5 years	210,397
Total by maturity	\$1,218,768

(1) At December 31, 2010, the fair value amounts payable under credit derivatives sold was \$34,797 million and were recorded in *Trading account liabilities*. In addition, fair value amounts receivable under credit derivatives sold were \$22,521 million, which amount was recorded in *Trading account assets*

(2) Also includes credit derivatives sold that are not rated

<i>In millions of dollars as of December 31, 2009</i>	Maximum potential amount of future payments⁽¹⁾
By instrument	
Credit default swaps and options	\$1,089,692
Total return swaps and other	3,612
Total by instrument	\$1,093,304
By rating	
Investment grade	\$ 516,961
Non-investment grade ⁽²⁾	576,343
Total by rating	\$1,093,304
By maturity	
Within 1 year	\$ 139,350
From 1 to 5 years	716,710
After 5 years	237,244
Total by maturity	\$1,093,304

(1) At December 31, 2009, the fair value amounts payable under credit derivatives sold were \$53,547 million and was recorded in *Trading account liabilities*. In addition, fair value amounts receivable under credit derivatives sold were \$21,603 million, which amount was recorded in *Trading account assets*

(2) Also includes credit derivatives sold that are not rated

Citibank evaluates the payment/performance risk of the credit derivatives to which it stands as a protection seller based on the credit rating which has been assigned to the underlying referenced credit. Where external ratings by nationally recognized statistical rating organizations (such as Moody's and S&P) are used, investment grade ratings are considered to be Baa/BBB or above, while anything below is considered non-investment grade. The Citibank internal ratings are in line with the related external credit rating system. On certain underlying referenced credit, mainly related to over-the-counter credit derivatives, ratings are not

available, and these are included in the not-rated category. Credit derivatives written on an underlying non-investment grade referenced credit represent greater payment risk to the Company. The non-investment grade category in the table above primarily includes credit derivatives where the underlying referenced entity has been downgraded subsequent to the inception of the derivative.

The maximum potential amount of future payments under credit derivative contracts presented in the tables above is based on the notional value of the derivatives. The Company believes, based on historical experience, that the maximum potential amount of future payments for credit protection sold is not representative of the potential actual loss exposure. This amount has not been reduced by the Company's rights to the underlying assets and the related cash flows. In accordance with most credit derivative contracts, should a credit event (or settlement trigger) occur, the Company is usually liable for the difference between the protection sold and the recourse it holds in the value of the underlying assets. Thus, if the reference entity defaults, Citibank will generally have a right to collect on the underlying reference credit and any related cash flows, while being liable for the full notional amount of credit protection sold to the buyer.

Furthermore, this maximum potential amount of future payments for credit protection sold has not been reduced for any cash collateral paid to a given counterparty, as such payments would be calculated after netting all derivative exposures, including any credit derivatives with that counterparty in accordance with a related master netting agreement. Due to such netting processes, determining the amount of collateral that corresponds to credit derivative exposures only is not possible. The Company actively monitors open credit risk exposures, and manages this exposure by using a variety of strategies including purchased credit derivatives, cash collateral or direct holdings of the referenced assets. This risk mitigation activity is not captured in the table above.

Credit-Risk-Related Contingent Features in Derivatives

Certain derivative instruments contain provisions that require the Company to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit-risk-related event. These events, which are defined by the existing derivative contracts, are primarily downgrades in the credit ratings of the Company and its affiliates. The fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position at December 31, 2010 and December 31, 2009 was \$19 billion and \$14 billion, respectively. The Company had posted \$16 billion and \$10 billion as collateral for this exposure in the normal course of business as of December 31, 2010 and December 31, 2009, respectively. Each downgrade would trigger additional collateral requirements for the Company and its affiliates. In the event that each bank legal entity was downgraded a single notch as of December 31, 2010, the Company would be required to post additional collateral of \$1.2 billion.

21. CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to Citibank's total credit exposure. Although Citibank's portfolio of financial instruments is broadly diversified along industry, product, and geographic lines, material transactions are completed with other financial institutions, particularly in the securities trading, derivatives, and foreign exchange businesses.

In connection with the Company's efforts to maintain a diversified portfolio, the Company limits its exposure to any one geographic region, country or individual creditor and monitors this exposure on a continuous basis. At December 31, 2010, Citibank's most significant concentration of credit risk was with the U.S. government and its agencies, as well as foreign governments. The Company's exposure, which primarily results from trading assets and investments issued by the U.S. government and its agencies, and foreign governments amounted to \$231 billion and \$111 billion at December 31, 2010 and 2009, respectively.

22. FAIR VALUE MEASUREMENT

SFAS 157 (now ASC 820-10) defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Among other things, the standard requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In addition, it precludes the use of block discounts when measuring the fair value of instruments traded in an active market, and requires recognition of trade-date gains related to certain derivative transactions whose fair value has been determined using unobservable market inputs.

This standard also requires that the impact of Citibank's own credit risk on derivatives and other liabilities measured at fair value be factored into the valuation.

Fair Value Hierarchy

ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

- Level 1: Quoted prices for *identical* instruments in active markets.
- Level 2: Quoted prices for *similar* instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observed prices in those markets.

Determination of Fair Value

For assets and liabilities carried at fair value, the Company measures such value using the procedures set forth below, irrespective of whether these assets and liabilities are carried at fair value as a result of an election or whether they were previously carried at fair value.

When available, the Company generally uses quoted market prices to determine fair value and classifies such items as Level 1. In some cases where a market price is available, the Company will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified as Level 2.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, option volatilities, etc. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

Where available, the Company may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified as Level 2. If prices are not available, other valuation techniques would be used and the item would be classified as Level 3.

Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors or brokers. Vendors and brokers' valuations may be based on a variety of inputs ranging from observed prices to proprietary valuation models.

The following section describes the valuation methodologies used by the Company to measure various financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

Trading account assets and liabilities—trading securities and trading loans

When available, the Company uses quoted market prices to determine the fair value of trading securities; such items are classified as Level 1 of the fair value hierarchy. Examples include some government securities and exchange-traded equity securities.

For bonds and secondary market loans traded over the counter, the Company generally determines fair value utilizing internal valuation techniques. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable. If

available, the Company may also use quoted prices for recent trading activity of assets with similar characteristics to the bond or loan being valued. Trading securities and loans priced using such methods are generally classified as Level 2. However, when less liquidity exists for a security or loan, a quoted price is stale or prices from independent sources vary, a loan or security is generally classified as Level 3.

Where the Company's principal market for a portfolio of loans is the securitization market, the Company uses the securitization price to determine the fair value of the portfolio. The securitization price is determined from the assumed proceeds of a hypothetical securitization in the current market, adjusted for transformation costs (i.e., direct costs other than transaction costs) and securitization uncertainties such as market conditions and liquidity. As a result of the severe reduction in the level of activity in certain securitization markets since the second half of 2007, observable securitization prices for certain directly comparable portfolios of loans have not been readily available. Therefore, such portfolios of loans are generally classified as Level 3 of the fair value hierarchy. However, for other loan securitization markets, such as those related to conforming prime fixed-rate and conforming adjustable-rate mortgage loans, pricing verification of the hypothetical securitizations has been possible, since these markets have remained active. Accordingly, these loan portfolios are classified as Level 2 in the fair value hierarchy.

Trading account assets and liabilities—derivatives

Exchange-traded derivatives are generally fair valued using quoted market (i.e., exchange) prices and so are classified as Level 1 of the fair value hierarchy.

The majority of derivatives entered into by the Company are executed over the counter and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. The principal techniques used to value these instruments are discounted cash flows, Black-Scholes and Monte Carlo simulation. The fair values of derivative contracts reflect cash the Company has paid or received (for example, option premiums paid and received).

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign-exchange rates, the spot price of the underlying volatility and correlation. The item is placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model. Correlation and items with longer tenors are generally less observable.

Subprime-related direct exposures in CDOs

The valuation of high-grade and mezzanine ABS CDO positions uses trader prices based on the underlying assets of each high-grade and mezzanine ABS CDO. The high-grade and mezzanine positions are now largely hedged through the ABX and bond short positions, which are trader priced. This results in closer symmetry in the way these long and short positions are valued by the Company. Citibank intends to use

trader marks to value this portion of the portfolio going forward so long as it remains largely hedged

For most of the lending and structuring direct subprime exposures, fair value is determined utilizing observable transactions where available, other market data for similar assets in markets that are not active and other internal valuation techniques

Investments

The investments category includes available-for-sale debt and marketable and non-marketable equity securities, whose fair value is determined using the same procedures described for trading securities above or, in some cases, using vendor prices as the primary source. Private equity securities are generally classified as Level 3 of the fair value hierarchy

Short-term borrowings and long-term debt

Where fair value accounting has been elected, the fair value of non-structured liabilities is determined by discounting expected cash flows using the appropriate discount rate for the applicable maturity. Such instruments are generally classified as Level 2 of the fair value hierarchy as all inputs are readily observable

The Company determines the fair value of structured liabilities (where performance is linked to structured interest rates, inflation or currency risks) and hybrid financial instruments (performance linked to risks other than interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above) given the nature of the embedded risk profile. Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model

Market valuation adjustments

Liquidity adjustments are applied to items in Level 2 and Level 3 of the fair value hierarchy to ensure that the fair value reflects the price at which the entire position could be liquidated. The liquidity reserve is based on the bid-offer spread for an instrument, adjusted to take into account the size of the position consistent with what Citibank believes a market participant would consider

Counterparty credit-risk adjustments are applied to derivatives, such as over-the-counter derivatives, where the base valuation uses market parameters based on the LIBOR interest rate curves. Not all counterparties have the same credit risk as that implied by the relevant LIBOR curve, so it is necessary to consider the market view of the credit risk of a counterparty in order to estimate the fair value of such an item

Bilateral or "own" credit-risk adjustments are applied to reflect the Company's own credit risk when valuing derivatives and liabilities measured at fair value. Counterparty and own credit adjustments consider the expected future cash flows between Citibank and its counterparties under the terms of the instrument and the effect of credit risk on the valuation of those cash flows, rather than a point-in-time assessment of the current recognized net asset or liability. Furthermore, the credit-risk adjustments take into account the effect of credit-risk mitigants, such as pledged collateral and any legal right of

offset (to the extent such offset exists) with a counterparty through arrangements such as netting agreements

Alt-A mortgage securities

The Company classifies its Alt-A mortgage securities as held-to-maturity, available-for-sale and trading investments. The securities classified as trading and available-for-sale are recorded at fair value with changes in fair value reported in current earnings and AOCI, respectively. For these purposes, Alt-A mortgage securities are non-agency residential mortgage-backed securities (RMBS) where (1) the underlying collateral has weighted average FICO scores between 680 and 720 or (2) for instances where FICO scores are greater than 720, RMBS have 30% or less of the underlying collateral composed of full documentation loans

Similar to the valuation methodologies used for other trading securities and trading loans, the Company generally determines the fair value of Alt-A mortgage securities utilizing internal valuation techniques. Fair-value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources. Where available, the Company may also make use of quoted prices for recent trading activity in securities with the same or similar characteristics to that being valued

The internal valuation techniques used for Alt-A mortgage securities, as with other mortgage exposures, consider estimated housing price changes, unemployment rates, interest rates and borrower attributes. They also consider prepayment rates as well as other market indicators

Alt-A mortgage securities that are valued using these methods are generally classified as Level 2. However, Alt-A mortgage securities backed by Alt-A mortgages of lower quality or more recent vintages are mostly classified as Level 3 due to the reduced liquidity that exists for such positions, which reduces the reliability of prices available from independent sources

Commercial real estate exposure

Citibank reports a number of different exposures linked to commercial real estate at fair value with changes in fair value reported in earnings, including securities, loans and investments in entities that hold commercial real estate loans or commercial real estate directly. The Company also reports securities backed by commercial real estate as available-for-sale investments, which are carried at fair value with changes in fair-value reported in AOCI

Similar to the valuation methodologies used for other trading securities and trading loans, the Company generally determines the fair value of securities and loans linked to commercial real estate utilizing internal valuation techniques. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources. Where available, the Company may also make use of quoted prices for recent trading activity in securities or loans with the same or similar characteristics to those being valued. Securities and loans linked to commercial real estate valued using these methodologies are generally classified as Level 3 as a result of

the reduced liquidity currently in the market for such exposures

The fair value of investments in entities that hold commercial real estate loans or commercial real estate directly is determined using an established process for determining the fair value of non-public securities, using commonly accepted valuation techniques, including the use of earnings multiples based on comparable public securities, industry-specific non-earnings-based multiples and discounted cash flow models. In determining the fair value of such investments, the Company also considers events, such as a proposed sale of the investee company, initial public offerings, equity issuances, or other observable transactions. Such investments are generally classified as Level 3 of the fair-value hierarchy.

Items Measured at Fair Value on a Recurring Basis

The following tables present for each of the fair value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2010 and 2009. The Company often hedges positions that have been classified in the Level 3 category with financial

instruments that have been classified as Level 1 or Level 2. In addition, the Company also hedges items classified in the Level 3 category with instruments classified in Level 3 of the fair value hierarchy. The effects of these hedges are presented gross in the following table.

<i>In millions of dollars at December 31, 2010</i>	Level 1	Level 2	Level 3	Gross inventory	Netting ⁽¹⁾	Net balance
Assets						
Trading securities						
Trading mortgage-backed securities						
U.S. government-sponsored agency guaranteed	\$ —	\$ 2,451	\$ 577	\$ 3,028	\$ —	\$ 3,028
Prime	—	82	64	146	—	146
Alt-A	—	—	27	27	—	27
Subprime	—	14	3	17	—	17
Non-U.S. residential	—	42	—	42	—	42
Commercial	—	84	57	141	—	141
Total trading mortgage-backed securities	\$ —	\$ 2,673	\$ 728	\$ 3,401	\$ —	\$ 3,401
U.S. Treasury and federal agencies securities						
U.S. Treasury	\$ 7,415	\$ 92	\$ —	\$ 7,507	\$ —	\$ 7,507
Agency obligations	—	60	72	132	—	132
Total U.S. Treasury and federal agencies securities	\$ 7,415	\$ 152	\$ 72	\$ 7,639	\$ —	\$ 7,639
State and municipal	\$ —	\$ 1,185	\$ —	\$ 1,185	\$ —	\$ 1,185
Foreign government	17,483	16,612	23	34,118	—	34,118
Corporate	—	19,416	829	20,245	—	20,245
Equity securities	8,994	1,350	2	10,346	—	10,346
Asset-backed securities	—	708	42	750	—	750
Other debt securities	—	12,923	1,301	14,224	—	14,224
Total trading securities	\$33,892	\$ 55,019	\$ 2,997	\$ 91,908	\$ —	\$ 91,908
Derivatives						
Interest rate contracts	\$ 157	\$508,473	\$ 2,010	\$ 510,640		
Foreign exchange contracts	—	93,990	753	94,743		
Equity contracts	—	6,894	1,414	8,308		
Commodity contracts	—	3,985	853	4,838		
Credit derivatives	—	50,291	13,723	64,014		
Total gross derivatives	\$ 157	\$663,633	\$18,753	\$ 682,543		
Cash collateral paid				49,127		
Netting agreements and market value adjustments					\$(674,018)	
Total derivatives	\$ 157	\$663,633	\$18,753	\$ 731,670	\$(674,018)	\$ 57,652
Investments						
Mortgage-backed securities						
U.S. government-sponsored agency guaranteed	\$ —	\$ 22,868	\$ 22	\$ 22,890	\$ —	\$ 22,890
Prime	—	1,472	16	1,488	—	1,488
Alt-A	—	—	1	1	—	1
Non-U.S. residential	—	316	—	316	—	316
Commercial	—	46	32	78	—	78
Total investment mortgage-backed securities	\$ —	\$ 24,702	\$ 71	\$ 24,773	\$ —	\$ 24,773
U.S. Treasury and federal agency securities						
U.S. Treasury	\$13,279	\$ 32,772	\$ —	\$ 46,051	\$ —	\$ 46,051
Agency obligations	—	35,697	17	35,714	—	35,714
Total U.S. Treasury and federal agency	\$13,279	\$ 68,469	\$ 17	\$ 81,765	\$ —	\$ 81,765
State and municipal	\$ —	\$ 12,429	\$ 40	\$ 12,469	\$ —	\$ 12,469
Foreign government	39,763	41,036	330	81,129	—	81,129
Corporate	—	10,305	358	10,663	—	10,663
Equity securities	781	117	6	904	—	904
Asset-backed securities	—	2,933	4,694	7,627	—	7,627
Other debt securities	—	542	727	1,269	—	1,269
Non-marketable equity securities	—	39	150	189	—	189
Total investments	\$53,823	\$160,572	\$ 6,393	\$ 220,788	\$ —	\$220,788
Loans ⁽²⁾	\$ —	\$1,159	\$ 3,050	\$ 4,209	\$ —	\$ 4,209
Mortgage servicing rights	—	—	4,554	4,554	—	4,554
Other financial assets measured on a recurring basis	—	10,495	30	10,525	—	10,525
Total assets	\$87,872	\$890,878	\$35,777	\$1,063,654	\$(674,018)	\$389,636

<i>In millions of dollars at December 31, 2010</i>	Level 1	Level 2	Level 3	Gross inventory	Netting ⁽¹⁾	Net balance
Total as a percentage of gross assets ⁽³⁾	8.7%	87.8%	3.5%	100%		

<i>In millions of dollars at December 31, 2010</i>	Level 1	Level 2	Level 3	Gross inventory	Netting ⁽¹⁾	Net balance
Liabilities						
Interest-bearing deposits	\$ —	\$ 987	\$ 277	\$ 1,264	\$ —	\$ 1,264
Trading account liabilities						
Securities sold, not yet purchased	7,988	230	7	8,225	—	8,225
Derivatives						
Interest rate contracts	167	506,288	1,642	508,097		
Foreign exchange contracts	1	92,384	635	93,020		
Equity contracts	82	8,518	2,037	10,637		
Commodity contracts	3	4,301	1,038	5,342		
Credit derivatives	—	47,103	10,147	57,250		
Total gross derivatives	\$ 253	\$658,594	\$15,499	\$674,346		
Cash collateral received				44,473		
Netting agreements and market value adjustments					\$(669,822)	
Total derivatives	\$ 253	\$658,594	\$15,499	\$718,819	\$(669,822)	\$48,997
Short-term borrowings	—	117	—	117	—	117
Long-term debt	—	2,255	2,343	4,598	—	4,598
Other financial liabilities measured on a recurring basis	1	6,997	19	7,017	—	7,017
Total liabilities	\$ 8,242	\$669,180	\$18,145	\$740,040	\$(669,822)	\$70,218
Total as a percentage of total liabilities ⁽³⁾	1.2%	96.2%	2.6%	100%		

- (1) Represents netting of (i) the amounts due under securities purchased under agreements to resell and the amounts owed under securities sold under agreements to repurchase, and (ii) derivative exposures covered by a qualifying master netting agreement, cash collateral, and the market value adjustment
- (2) There is no allowance for loan losses recorded for loans reported at fair value
- (3) Percentage is calculated based on total assets and liabilities at fair value excluding collateral paid/received on derivatives

<i>In millions of dollars at December 31, 2009</i>	Level 1	Level 2	Level 3	Gross inventory	Netting ⁽¹⁾	Net balance
Assets						
Trading securities						
Trading mortgage-backed securities						
U.S. government-sponsored agency guaranteed	\$ —	\$ 1,706	\$ 1,022	\$ 2,728	\$ —	\$ 2,728
Prime	—	13	46	59	—	59
Alt-A	—	78	69	147	—	147
Subprime	—	2	7,105	7,107	—	7,107
Non-U.S. residential	—	19	—	19	—	19
Commercial	—	277	544	821	—	821
Total trading mortgage-backed securities	\$ —	\$ 2,095	\$ 8,786	\$ 10,881	\$ —	\$ 10,881
U.S. Treasury and federal agencies securities						
U.S. Treasury	\$11,666	\$ 6	\$ —	\$ 11,672	\$ —	\$ 11,672
Agency obligations	—	20	—	20	—	20
Total U.S. Treasury and federal agencies securities	\$11,666	\$26	\$ —	\$ 11,692	\$ —	\$ 11,692
State and municipal	\$ —	\$ 240	\$ —	\$ 240	\$ —	\$ 240
Foreign government	19,523	10,580	52	30,155	—	30,155
Corporate	—	17,903	1,039	18,942	—	18,942
Equity securities	5,813	2,746	66	8,625	—	8,625
Asset-backed securities	—	—	33	33	—	33
Other debt securities	—	14,513	1,997	16,510	—	16,510
Total trading securities	\$37,002	\$ 48,103	\$11,973	\$ 97,078	\$ —	\$ 97,078
Derivatives	\$ 374	\$689,095	\$16,618	\$ 706,087	\$(646,785)	\$ 59,302
Investments						
Mortgage-backed securities						
U.S. government-sponsored agency guaranteed	\$ —	\$ 19,557	\$ 2	\$ 19,559	\$ —	\$ 19,559
Prime	—	5,739	480	6,219	—	6,219
Alt-A	—	571	10	581	—	581
Non-U.S. residential	—	255	—	255	—	255
Commercial	—	37	30	67	—	67
Total investment mortgage-backed securities	\$ —	\$ 26,159	\$ 522	\$ 26,681	\$ —	\$ 26,681
U.S. Treasury and federal agency securities						
U.S. Treasury	\$ 5,559	\$ 20,366	\$ —	\$ 25,925	\$ —	\$ 25,925
Agency obligations	—	17,472	21	17,493	—	17,493

<i>In millions of dollars at December 31, 2009</i>	Level 1	Level 2	Level 3	Gross inventory	Netting ⁽¹⁾	Net balance
Total U.S. Treasury and federal agency	\$ 5,559	\$ 37,838	\$ 21	\$ 43,418	\$ —	\$ 43,418
State and municipal	\$ —	\$ 13,510	\$ 216	\$ 13,726	\$ —	\$ 13,726
Foreign government	46,270	34,228	246	80,744	—	80,744
Corporate	—	12,844	487	13,331	—	13,331
Equity securities	996	17	1	1,014	—	1,014
Asset-backed securities	—	1,336	6,399	7,735	—	7,735
Other debt securities	—	824	560	1,384	—	1,384
Non-marketable equity securities	—	44	158	202	—	202
Total investments	\$52,825	\$126,800	\$ 8,610	\$ 188,235	\$ —	\$188,235
Loans ⁽²⁾	\$ —	\$ 1,228	\$ 206	\$ 1,434	\$ —	\$1,434
Mortgage servicing rights	—	—	6,530	6,530	—	6,530
Other financial assets measured on a recurring basis	—	6,669	196	6,865	—	6,865
Total assets	\$90,201	\$871,895	\$44,133	\$1,006,229	\$(646,785)	\$359,444
Total as a percentage of total assets	9.0%	86.6%	4.4%	100%		

<i>In millions of dollars at December 31, 2009</i>	Level 1	Level 2	Level 3	Gross inventory	Netting ⁽¹⁾	Net balance
Liabilities						
Interest-bearing deposits	\$ —	\$ 1,517	\$ 28	\$ 1,545	\$ —	\$ 1,545
Trading account liabilities						
Securities sold, not yet purchased	4,227	397	—	4,624	—	4,624
Derivatives	791	672,931	16,065	689,787	\$(642,401)	47,386
Short-term borrowings	—	138	—	138	—	138
Long-term debt	—	4,316	416	4,732	—	4,732
Other financial liabilities measured on a recurring basis	—	7,414	13	7,427	—	7,427
Total liabilities	\$5,018	\$686,713	\$16,522	\$708,253	\$(642,401)	\$65,852
Total as a percentage of total liabilities	0.7%	97.0%	2.3%	100%		

- (1) Represents netting of (i) the amounts due under securities purchased under agreements to resell and the amounts owed under securities sold under agreements to repurchase, and (ii) derivative exposures covered by a qualifying master netting agreement, cash collateral, and the market value adjustment.
- (2) There is no allowance for loan losses recorded for loans reported at fair value.

Changes in Level 3 Fair Value Category

The following tables present the changes in the Level 3 fair value category for the years ended December 31, 2010 and 2009, respectively. The Company classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The Company often hedges positions with offsetting positions that are classified in a different level. For example, the gains and losses for assets and liabilities in the Level 3 category presented in the tables below do not reflect the effect of offsetting losses and gains on hedging instruments that have been classified by the Company in the Level 1 and Level 2 categories. In addition, the Company hedges items classified in the Level 3 category with instruments also classified in Level 3 of the fair value hierarchy. The effects of these hedges are presented gross in the following tables.

<i>In millions of dollars</i>	December 31, 2009	Principal transactions	Other ⁽¹⁾⁽²⁾	Transfers in and/or out of Level 3	Purchases, issuances and settlements	December 31, 2010	Unrealized gains (losses) still held ⁽³⁾
Assets							
Trading securities							
Trading mortgage-backed securities							
U.S. government-sponsored agency guaranteed	\$ 1,022	\$ (107)	\$ —	\$ 25	\$ (363)	\$ 577	\$ (81)
Prime	46	10	—	134	(126)	64	(3)
Alt-A	69	44	—	—	(86)	27	1
Subprime	7,105	1,863	—	(24)	(8,941)	3	—
Non-U.S. residential	—	23	—	844	(867)	—	—
Commercial	544	9	—	58	(554)	57	1
Total trading mortgage-backed securities	\$ 8,786	\$1,842	\$ —	\$1,037	\$ (10,937)	\$ 728	\$ (82)
U.S. Treasury and federal agencies securities							
U.S. Treasury	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Agency obligations	—	2	—	52	18	72	(24)
Total U.S. Treasury and federal agencies securities	\$ —	\$ 2	\$ —	\$ 52	\$ 18	\$ 72	\$ (24)
State and municipal	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Foreign government	52	5	—	43	(77)	23	1
Corporate	1,039	(28)	—	(96)	(86)	829	48
Equity securities	66	1	—	—	(65)	2	—
Asset-backed securities	33	(34)	—	1,003	(960)	42	(288)
Other debt securities	1,997	44	—	302	(1,042)	1,301	8
Total trading securities	\$11,973	\$1,832	\$ —	\$2,341	\$ (13,149)	\$2,997	\$ (337)
Derivatives, net⁽⁴⁾							
Interest rate contracts	\$ (34)	\$ (460)	\$ —	\$ 734	\$ 128	\$ 368	\$ 467
Foreign exchange contracts	(192)	370	—	(14)	(46)	118	178
Equity contracts	20	(77)	—	(493)	(73)	(623)	(261)
Commodity contracts	(121)	49	—	69	(182)	(185)	262
Credit Derivatives	880	665	—	2,095	(64)	3,576	(335)
Total derivatives, net⁽⁴⁾	\$ 553	\$ 547	\$ —	\$2,391	\$ (237)	\$3,254	\$ 311
Investments							
Mortgage-backed securities							
U.S. government-sponsored agency guaranteed	\$ 2	\$ —	\$ 8	\$ —	\$ 12	\$ 22	\$ —
Prime	480	—	79	(522)	(21)	16	—
Alt-A	10	—	13	40	(62)	1	—
Commercial	30	—	—	2	—	32	—
Total investment mortgage-backed debt securities	\$ 522	\$ —	\$ 100	\$ (480)	\$ (71)	\$ 71	\$ —
U.S. Treasury and federal agencies securities	\$ 21	\$ —	\$ (21)	\$ —	\$ 17	\$ 17	\$ (1)
State and municipal	216	—	8	40	(224)	40	(1)
Foreign government	246	—	27	1	56	330	1
Corporate	487	—	41	(55)	(115)	358	(6)
Equity securities	1	—	—	5	—	6	—
Asset-backed securities	6,399	—	(334)	(74)	(1,297)	4,694	—
Other debt securities	560	—	(12)	(13)	192	727	25
Non-marketable equity securities	158	—	34	(10)	(32)	150	—
Total investments	\$ 8,610	\$ —	\$ (157)	\$ (586)	\$ (1,474)	\$6,393	\$ 18

<i>In millions of dollars</i>	December 31, 2009	Net realized/unrealized gains (losses) included in		Transfers in and/or out of Level 3	Purchases, issuances and settlements	December 31, 2010	Unrealized gains (losses) still held ⁽³⁾
		Principal transactions	Other ⁽¹⁾⁽²⁾				
Loans	\$ 206	\$ —	\$ (167)	\$ 693	\$ 2,318	\$3,050	\$ (332)
Mortgage servicing rights	6,530	—	(1,146)	—	(830)	4,554	(1,146)
Other financial assets measured on a recurring basis	196	—	77	(3)	(240)	30	77
Liabilities							
Interest-bearing deposits	\$ 28	\$ —	\$ 12	\$ (41)	\$ 302	\$ 277	\$ (61)
Trading account liabilities							
Securities sold, not yet purchased	—	—	—	7	—	7	—
Short-term borrowings	—	(4)	—	(117)	113	—	—
Long-term debt	416	(154)	459	430	1,802	2,343	450
Other financial liabilities measured on a recurring basis	13	—	(52)	—	(46)	19	(20)

<i>In millions of dollars</i>	December 31, 2008	Net realized/unrealized gains (losses) included in		Transfers in and/or out of Level 3	Purchases, issuances and settlements	December 31, 2009	Unrealized gains (losses) still held ⁽³⁾
		Principal transactions	Other ⁽¹⁾⁽²⁾				
Assets							
Trading securities							
Trading mortgage-backed securities							
U S government-sponsored agency guaranteed	\$ 1,387	\$ 290	\$ —	\$ 42	\$ (697)	\$ 1,022	\$ 348
Prime	18	—	—	10	18	46	—
Alt-A	43	—	—	(44)	70	69	1
Subprime	10,334	798	—	(426)	(3,601)	7,105	486
Non-U S residential	—	—	—	—	—	—	—
Commercial	771	44	—	—	(271)	544	43
Total trading mortgage-backed securities	\$12,553	\$ 1,132	\$ —	\$ (418)	\$ (4,481)	\$ 8,786	\$ 878
U S Treasury and federal agencies securities							
U S Treasury	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Agency obligations	—	—	—	—	—	—	—
Total U S Treasury and federal agencies securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
State and municipal	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Foreign government	15	—	—	69	(32)	52	(2)
Corporate	2,961	18	—	(1,673)	(267)	1,039	—
Equity securities	597	308	—	(689)	(150)	66	7
Other debt securities	1,739	164	—	899	(772)	2,030	148
Total trading securities	\$17,865	\$ 1,622	\$ —	\$ (1,812)	\$ (5,702)	\$11,973	\$1,031
Derivatives, net⁽⁴⁾	\$ 921	\$ (5,174)	\$ —	\$ 152	\$ 4,654	\$ 553	\$ 207
Investments							
Mortgage-backed securities							
U S government-sponsored agency guaranteed	\$ —	\$ —	\$ 1	\$ 1	\$ —	\$ 2	\$ —
Prime	787	—	276	(49)	(534)	480	416
Alt-A	124	—	49	(169)	6	10	(1)
Commercial	34	—	3	(7)	—	30	—
Total investment mortgage-backed debt securities	\$ 945	\$ —	\$329	\$ (224)	\$ (528)	\$ 522	\$ 415
U S Treasury and federal agencies securities							
Agency obligations	\$ —	\$ —	\$ —	\$ 26	\$ (5)	\$ 21	\$ —
Total U S Treasury and federal agencies securities	\$ —	\$ —	\$ —	\$ 26	\$ (5)	\$ 21	\$ —
State and municipal	\$ 132	\$ —	\$ 3	\$ 76	\$ 5	\$ 216	\$ —
Foreign government	289	—	(7)	(42)	6	246	(3)
Corporate	720	—	28	211	(472)	487	12
Equity securities	—	—	—	—	1	1	—
Other debt securities	8,332	—	195	238	(1,806)	6,959	(103)
Non-marketable equity securities	184	—	(14)	(16)	4	158	(1)
Total investments	\$10,602	\$ —	\$534	\$ 269	\$ (2,795)	\$ 8,610	\$320

<i>In millions of dollars</i>	December 31, 2008	Net realized/unrealized gains (losses) included in		Transfers in and/or out of Level 3	Purchases, issuances and settlements	December 31, 2009	Unrealized gains (losses) still held ⁽³⁾
		Principal transactions	Other ⁽¹⁾⁽²⁾				
Loans	\$ 152	\$ —	\$ 52	\$7	\$(5)	\$ 206	\$ 9
Mortgage servicing rights	5,657	—	1,543	—	(670)	6,530	1,543
Other financial assets measured on a recurring basis	222	—	97	44	(167)	196	10
Liabilities							
Interest-bearing deposits	\$ 53	\$ —	\$2	\$(6)	\$(17)	\$ 28	\$ (14)
Trading account liabilities							
Securities sold, not yet purchased	—	—	—	9	(9)	—	—
Short-term borrowings	65	(11)	—	(44)	(32)	—	—
Long-term debt	977	257	—	(253)	(51)	416	(29)
Other financial liabilities measured on a recurring basis	1	—	(75)	(1)	(62)	13	—

(1) Changes in fair value for available-for-sale investments (debt securities) are recorded in AOCI, while gains and losses from sales are recorded in *Realized gains (losses) from sales of investments* on the Consolidated Statement of Income

(2) Unrealized gains (losses) on MSRs are recorded in *Commissions and fees* on the Consolidated Statement of Income

(3) Represents the amount of total gains or losses for the period, included in earnings (and AOCI for changes in fair value for available-for-sale investments), attributable to the change in fair value relating to assets and liabilities classified as Level 3 that are still held at December 31, 2009 and 2008

(4) Total Level 3 derivative exposures have been netted in these tables for presentation purposes only

The significant changes from December 31, 2009 to December 31, 2010 in Level 3 assets and liabilities are due to

- A net decrease in *Trading securities* of \$9.0 billion which included
 - A net decrease of \$8.0 billion in trading mortgage-backed securities, which was driven mainly by a net decrease in subprime securities of \$7.1 billion, comprising \$1.9 billion of gains recognized in *Principal transactions* and liquidations of \$8.9 billion,
 - Transfers to Level 3 of non-U.S. residential trading mortgage-backed securities and Asset-backed securities of \$0.8 billion and \$1.0 billion, respectively, related primarily to the reclassification of certain securities to Trading under the fair value option upon adoption of ASU 2010-11 on July 1, 2010, as described in Note 2 to the Consolidated Financial Statements (for purposes of the Level 3 roll-forward table above, Level 3 investments that were reclassified to Trading upon adoption of ASU 2010-11 have been classified as transfers to Level 3 *Trading securities*), and
 - Net settlements of non-U.S. residential mortgage-backed securities and Asset-backed securities of \$0.9 billion and \$1.0 billion, respectively, related mainly to sales of securities transferred to Trading upon adoption of ASU 2010-11 as discussed above
- The net increase in *Loans* of \$2.8 billion is due largely to the Company's consolidation of certain VIEs upon the adoption of SFAS 167 on January 1, 2010, for which the fair value option was elected. The impact from consolidation of these VIEs on Level 3 loans has been reflected as purchases in the Level 3 roll-forward above
- The decrease in *Mortgage servicing rights* of \$2 billion is due primarily to losses of \$1.1 billion, due to a reduction in interest rates
- The increase in *Long-term debt* of \$1.9 billion is due largely to the Company's consolidation of certain VIEs upon the adoption of SFAS 167 on January 1, 2010, for which the fair value option was elected. The impact from consolidation of these VIEs on long-term debt classified as Level 3 loans has been reflected as net issuances in the Level 3 roll-forward above

The significant changes from December 31, 2008 to December 31, 2009 in Level 3 assets and liabilities are due to

- A net decrease in trading securities of \$5.9 billion that was driven by
 - Net settlements of \$5.7 billion, which included the liquidations of subprime securities of \$3.6 billion, and
 - Net transfers of \$1.8 billion, due mainly to the transfer of debt securities from Level 3 to Level 2 due to increased liquidity and pricing transparency
- The change in net trading derivatives driven by
 - A net loss of \$5.2 billion relating to complex derivative contracts, such as those linked to credit, equity and commodity exposures. These losses include both realized and unrealized losses during 2009 and are partially offset by gains recognized in instruments that have been classified in Levels 1 and 2, and
 - Net increase in derivative assets of \$4.7 billion, which includes cash settlements of derivative contracts in an unrealized loss position, notably those linked to subprime exposures
- The decrease in Level 3 Investments of \$2.0 billion relate mainly to sales and paydowns on debt securities

Transfers between Level 1 and Level 2 of the Fair Value Hierarchy

The Company did not have any significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2010.

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above.

These include assets measured at cost that have been written down to fair value during the periods as a result of an impairment. In addition, these assets include loans held-for-sale that are measured at the lower cost of market (LOCOM) that were recognized at fair value below cost at the end of the period.

The fair value of loans measured on a LOCOM basis is determined where possible using quoted secondary-market prices. Such loans are generally classified as Level 2 of the fair-value hierarchy given the level of activity in the market and the frequency of available quotes. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan.

The following table presents all loans held-for-sale that are carried at LOCOM as of December 31, 2010 and 2009, respectively.

<i>In billions of dollars</i>	Aggregate cost	Fair value	Level 2	Level 3
December 31, 2010	\$2.8	\$2.5	\$0.7	\$1.8
December 31, 2009	\$2.5	\$1.5	\$0.2	\$1.3

23. FAIR VALUE ELECTIONS

The Company may elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in earnings. The election is made upon the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made. The changes in fair value are recorded in current earnings. Additional discussion regarding the applicable areas in which fair value elections have been made is presented in Note 22 to the Consolidated Financial Statements.

All servicing rights are recognized initially at fair value. The Company has elected fair value accounting for its mortgage and student loan classes of servicing rights. See Note 19 to the Consolidated Financial Statements for further discussions regarding the accounting and reporting of MSRs.

The following table presents, as of December 31, 2010 and 2009, the fair value of those positions selected for fair value accounting, as well as the changes in fair value for the years ended December 31, 2010 and 2009, respectively, for Citibank.

<i>In millions of dollars</i>	Fair value at December 31,		Changes in fair value gains (losses) for the years ended December 31,	
	2010	2009	2010	2009
Assets				
Trading account assets	\$14,257	\$15,272	\$ 613	\$ 6,179
Investments	40	87	—	6
Loans				
Certain corporate loans ⁽¹⁾	2,464	1,400	(218)	60
Certain consumer loans ⁽¹⁾	1,745	34	193	3
Total loans	\$ 4,209	\$ 1,434	\$ (25)	\$ 63
Other assets				
MSRs	\$ 4,554	\$ 6,530	\$(1,146)	\$ 1,543
Certain mortgage loans (HFS)	7,223	3,338	9	35
Total other assets	\$11,777	\$ 9,868	\$(1,137)	\$ 1,578
Total assets	\$30,283	\$26,661	\$ (549)	\$ 7,826
Liabilities				
Interest-bearing deposits	\$ 1,264	\$ 1,545	\$ 23	\$ (727)
Trading account liabilities	43	397	(35)	(153)
Short-term borrowings	117	138	7	(164)
Long-term debt	4,598	4,732	144	(962)
Total liabilities	\$ 6,022	\$ 6,812	\$ 139	\$(2,006)

(1) Includes mortgage loans held by mortgage loan securitization VIEs consolidated upon the adoption of SFAS 167 on January 1, 2010.

Own Credit Valuation Adjustment

The fair value of debt liabilities for which the fair value option is elected (other than non-recourse and similar liabilities) is impacted by the narrowing or widening of the Company's credit spreads. The estimated change in the fair value of these debt liabilities due to such changes in the Company's own credit risk (or instrument-specific credit risk) was a \$199 million loss and a \$1.211 billion loss for the years ended December 31, 2010 and 2009, respectively. Changes in fair value resulting from changes in instrument-specific credit risk were estimated by incorporating the Company's current observable credit spreads into the relevant valuation technique used to value each liability as described above.

The Fair Value Option for Financial Assets and Financial Liabilities

Selected letters of credit and revolving loans hedged by credit default swaps or participation notes

The Company has elected the fair value option for certain letters of credit that are hedged with derivative instruments or participation notes. Citibank elected the fair value option for these transactions because the risk is managed on a fair value basis and mitigates accounting mismatches.

The notional amount of these unfunded letters of credit was \$1.1 billion and \$1.8 billion as of December 31, 2010 and 2009, respectively. The amount funded was insignificant with no amounts 90 days or more past due or on non-accrual status at December 31, 2010 and 2009, respectively.

These items have been classified in *Trading account assets* or *Trading account liabilities* on the Consolidated Balance Sheet. Changes in fair value of these items are classified in *Principal transactions* in the Company's Consolidated Statement of Income.

Certain loans and other credit products

Citibank has elected the fair value option for certain originated and purchased loans, including certain unfunded loan products, such as guarantees and letters of credit, executed by Citibank's trading businesses. None of these credit products is a highly leveraged financing commitment. Significant groups of transactions include loans and unfunded loan products that are expected to be either sold or securitized in the near term, or transactions where the economic risks are hedged with derivative instruments, such as purchased credit default swaps or total return swaps where the Company pays the total return on the underlying loans to a third party. Citibank has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplifications. Fair value was not elected for most lending transactions across the Company, including where management objectives would not be met.

The following table provides information about certain credit products carried at fair value at December 31, 2010 and 2009, respectively

<i>In millions of dollars</i>	December 31, 2010		December 31, 2009	
	Trading assets	Loans	Trading assets	Loans
Carrying amount reported on the Consolidated Balance Sheet	\$14,209	\$1,720	\$14,338	\$940
Aggregate unpaid principal balance in excess of fair value	166	(86)	388	(46)
Balance of non-accrual loans or loans more than 90 days past due	221	—	312	—
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due	57	—	267	—

In addition to the amounts reported above, \$621 million and \$200 million of unfunded loan commitments related to certain credit products selected for fair value accounting was outstanding as of December 31, 2010 and 2009, respectively

Changes in fair value of funded and unfunded credit products are classified in *Principal transactions* in the Company's Consolidated Statement of Income. Related interest revenue is measured based on the contractual interest rates and reported as *Interest revenue on Trading account assets* or loan interest depending on the balance sheet classifications of the credit products. The changes in fair value for the years ended December 31, 2010 and 2009 due to instrument-specific credit risk totaled to a loss of \$5 million and a loss of \$32 million, respectively

Certain mortgage loans (HFS)

Citibank has elected the fair value option for certain purchased and originated prime fixed-rate and conforming adjustable-rate first mortgage loans HFS. These loans are intended for sale or securitization and are hedged with derivative instruments. The Company has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplifications.

The following table provides information about certain mortgage loans HFS carried at fair value at December 31, 2010 and 2009, respectively

<i>In millions of dollars</i>	December 31, 2010	December 31, 2009
Carrying amount reported on the Consolidated Balance Sheet	\$7,223	\$3,338
Aggregate fair value in excess of unpaid principal balance	81	55
Balance of non-accrual loans or loans more than 90 days past due	1	4
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due	1	3

The changes in fair values of these mortgage loans are reported in *Other revenue* in the Company's Consolidated Statement of Income. The changes in fair value for the years ended December 31, 2010 and 2009 due to instrument-specific credit risk resulted in a \$1 million loss and a \$4 million loss, respectively. Related interest income continues to be measured based on the contractual interest rates and reported as such in the Consolidated Statement of Income.

Certain Consolidated VIEs

The Company has elected the fair value option for all qualified assets and liabilities of certain VIEs that were consolidated upon the adoption of SFAS 166/167 on January 1, 2010, including certain private-label mortgage securitizations and mutual fund deferred sales commissions VIEs. The Company elected the fair value option for these VIEs as the Company believes this method better reflects the economic risks, since substantially all of the Company's retained interests in these entities are carried at fair value.

With respect to the consolidated mortgage VIEs, the Company determined the fair value for the mortgage loans and long-term debt utilizing internal valuation techniques. The fair value of the long-term debt measured using internal valuation techniques is verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources and may apply matrix pricing for similar securities when no price is observable. Security pricing associated with long-term debt that is verified is classified as Level 2 and non-verified debt is classified as Level 3. The fair value of mortgage loans of each VIE is derived from the security pricing. When substantially all of the long-term debt of a VIE is valued using Level 2 inputs, the corresponding mortgage loans are classified as Level 2. Otherwise, the mortgage loans of a VIE are classified as Level 3.

With respect to the consolidated mortgage VIEs for which the fair value option was elected, the mortgage loans are classified as *Loans* on Citibank's Consolidated Balance Sheet. The changes in fair value of the loans are reported as *Other revenue* in the Company's Consolidated Statement of Income. Related interest revenue is measured based on the contractual interest rates and reported as *Interest revenue* in the Company's Consolidated Statement of Income. Information about these mortgage loans is included in the table below. The change in fair value of these loans due to instrument-specific credit risk was a gain of \$189 million for the year ended December 31, 2010.

The debt issued by these consolidated VIEs is classified as long-term debt on Citibank's Consolidated Balance Sheet. The changes in fair value for the majority of these liabilities are reported in *Other revenue* in the Company's Consolidated Statement of Income. Related interest expense is measured based on the contractual interest rates and reported as such in

the Consolidated Statement of Income. The aggregate unpaid principal balance of long-term debt of these consolidated VIEs exceeded the aggregate fair value by \$787 million as of December 31, 2010.

The following table provides information about corporate and consumer loans of consolidated VIEs carried at fair value.

<i>In millions of dollars</i>	December 31, 2010	
	Corporate Loans	Consumer Loans
Carrying amount reported on the Consolidated Balance Sheet	\$290	\$1,718
Aggregate unpaid principal balance in excess of fair value	227	527
Balance of non-accrual loans or loans more than 90 days past due	—	133
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due	—	139

Mortgage servicing rights

The Company accounts for MSR's at fair value. Fair value for MSR's is determined using an option-adjusted spread valuation approach. This approach consists of projecting servicing cash flows under multiple interest-rate scenarios and discounting these cash flows using risk-adjusted rates. The model assumptions used in the valuation of MSR's include mortgage prepayment speeds and discount rates. The fair value of MSR's is primarily affected by changes in prepayments that result from shifts in mortgage interest rates. In managing this risk, the Company hedges a significant portion of the values of its MSR's through the use of interest-rate derivative contracts, forward-purchase commitments of mortgage-backed securities, and purchased securities classified as trading. See Note 19 to the Consolidated Financial Statements for further discussions regarding the accounting and reporting of MSR's.

These MSR's, which totaled \$4.554 billion and \$6.530 billion as of December 31, 2010 and 2009, respectively, are classified as *Mortgage servicing rights* on Citibank's Consolidated Balance Sheet. Changes in fair value of MSR's are recorded in *Other revenue* in the Company's Consolidated Statement of Income.

Certain structured liabilities

The Company has elected the fair value option for certain structured liabilities whose performance is linked to interest rates, inflation, currency, equity, referenced credit or commodity risks (structured liabilities). The Company elected the fair value option because these exposures are considered to be trading-related positions and, therefore, are managed on a fair value basis. These positions will continue to be classified as debt, deposits or derivatives (*Trading account liabilities*) on the Company's Consolidated Balance Sheet according to their legal form.

The change in fair value for these structured liabilities is reported in *Principal transactions* in the Company's Consolidated Statement of Income. Changes in fair value for structured debt with embedded equity, referenced credit or commodity underlyings includes an economic component for accrued interest. For structured debt that contains embedded interest rate, inflation or currency risks, related interest expense is measured based on the contracted interest rates and reported as such in the Consolidated Statement of Income.

Certain non-structured liabilities

The Company has elected the fair value option for certain non-structured liabilities with fixed and floating interest rates (non-structured liabilities). The Company has elected the fair value option where the interest-rate risk of such liabilities is economically hedged with derivative contracts or the proceeds are used to purchase financial assets that will also be accounted for at fair value through earnings. The election has been made to mitigate accounting mismatches and to achieve operational simplifications. These positions are reported in *Short-term borrowings* and *Long-term debt* on the Company's Consolidated Balance Sheet. The change in fair value for these non-structured liabilities is reported in *Principal transactions* in the Company's Consolidated Statement of Income.

Related interest expense continues to be measured based on the contractual interest rates and reported as such in the Consolidated Statement of Income.

The following table provides information about long-term debt, excluding the debt issued by the consolidated VIEs, carried at fair value at December 31, 2010 and 2009.

<i>In millions of dollars</i>	December 31, 2010	December 31, 2009
Carrying amount reported on the Consolidated Balance Sheet	\$2,728	\$4,732
Aggregate unpaid principal balance in excess of fair value	20	908

The following table provides information about short-term borrowings carried at fair value.

<i>In millions of dollars</i>	December 31, 2010	December 31, 2009
Carrying amount reported on the Consolidated Balance Sheet	\$ 117	\$138
Aggregate unpaid principal balance in excess of fair value	(20)	10

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated Fair Value of Financial Instruments

The table below presents the carrying value and fair value of Citibank's financial instruments. The disclosure excludes leases, affiliate investments, pension and benefit obligations and insurance policy claim reserves. In addition, contract-holder fund amounts exclude certain insurance contracts. Also as required, the disclosure excludes the effect of taxes, any premium or discount that could result from offering for sale at one time the entire holdings of a particular instrument, excess fair value associated with deposits with no fixed maturity and other expenses that would be incurred in a market transaction. In addition, the table excludes the values of non-financial assets and liabilities, as well as a wide range of franchise, relationship and intangible values (but includes MSRs), which are integral to a full assessment of Citibank's financial position and the value of its net assets.

The fair value represents management's best estimates based on a range of methodologies and assumptions. The carrying value of short-term financial instruments not accounted for at fair value, as well as receivables and payables arising in the ordinary course of business, approximates fair value because of the relatively short period of time between their origination and expected realization. Quoted market prices are used when available for investments and for both trading and end-user derivatives, as well as for liabilities, such as long-term debt, with quoted prices. For loans not accounted for at fair value, cash flows are discounted at quoted secondary market rates or estimated market rates if available. Otherwise, sales of comparable loan portfolios or current market origination rates for loans with similar terms and risk characteristics are used. Expected credit losses are either embedded in the estimated future cash flows or incorporated as an adjustment to the discount rate used. The value of collateral is also considered. For liabilities such as long-term debt not accounted for at fair value and without quoted market prices, market borrowing rates of interest are used to discount contractual cash flows.

<i>In billions of dollars at year end</i>	2010		2009	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Investments	\$252.6	\$253.4	\$233.1	\$234.2
Federal funds sold and securities borrowed or purchased under agreements to resell	43.3	43.3	31.4	31.4
Trading account assets	149.6	149.6	156.4	156.4
Loans ⁽¹⁾	425.6	412.1	452.8	446.3
Other financial assets ⁽²⁾	217.2	216.8	220.3	220.3

<i>In billions of dollars at year end</i>	2010		2009	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Liabilities				
Deposits	\$793.8	\$792.1	\$771.6	\$770.3
Purchased funds and other borrowings	66.6	66.6	89.5	89.5
Trading account liabilities	57.2	57.2	52.0	52.0
Long-term debt	59.2	59.0	82.1	82.3
Other financial liabilities ⁽³⁾	20.0	20.0	20.1	20.1

- (1) The carrying value of loans is net of the *Allowance for loan losses* of \$18.5 billion for 2010 and \$22.7 billion for 2009. In addition, the carrying values exclude \$2.0 billion and \$2.5 billion of lease finance receivables in 2010 and 2009, respectively.
- (2) Includes cash and due from banks, deposits with banks, MSRs, and other financial instruments included in *Other assets* on the Consolidated Balance Sheet, for all of which the carrying value is a reasonable estimate of fair value.
- (3) Includes acceptance outstanding and other financial instruments included in *Other liabilities* on the Consolidated Balance Sheet, for all of which the carrying value is a reasonable estimate of fair value.

Fair values vary from period to period based on changes in a wide range of factors, including interest rates, credit quality, and market perceptions of value and as existing assets and liabilities run off and new transactions are entered into.

The estimated fair values of loans reflect changes in credit status since the loans were made, changes in interest rates in the case of fixed-rate loans, and premium values at origination of certain loans. The carrying values (reduced by the *Allowance for loan losses*) exceeded the estimated fair values of Citibank's loans, in aggregate, by \$13.5 billion and \$6.6 billion in 2010 and 2009, respectively. At December 31, 2010, the carrying values, net of allowances, exceeded the estimated values by \$12.0 billion and \$1.5 billion for Consumer loans and Corporate loans, respectively.

The estimated fair values of the Company's Corporate unfunded lending commitments at December 31, 2010 and 2009 were liabilities of \$5.1 billion and \$4.6 billion, respectively. The Company does not estimate the fair values of Consumer unfunded lending commitments, which are generally cancellable by providing notice to the borrower.

25 PLEDGED SECURITIES, COLLATERAL, COMMITMENTS AND GUARANTEES

Pledged Securities

At December 31, 2010 and 2009, the approximate fair values of securities sold under agreements to repurchase and other securities pledged, excluding the impact of allowable netting, were as follows

<i>In millions of dollars</i>	2010	2009
For securities sold under agreements to repurchase	\$ 18,373	\$ 8,912
As collateral for securities borrowed for approximately equivalent value	929	375
As collateral on bank loans	187,090	188,050
To clearing organizations or segregated under securities laws and regulations	9,539	7,946
Other	13,730	27,134
Total	\$229,661	\$232,417

Collateral

At December 31, 2010 and 2009, the approximate market value of collateral received by the Company that may be sold or repledged by the Company, excluding the impact of allowable netting, was \$643 million and \$121 million, respectively. This collateral was received in connection with resale agreements, securities borrowings and loans.

At December 31, 2010 and 2009, a substantial portion of the collateral received by the Company had been sold or repledged in connection with repurchase agreements, securities sold, not yet purchased, securities borrowings and loans, pledges to clearing organizations, segregation requirements under securities laws and regulations and bank loans.

In addition, at December 31, 2010 and 2009, the Company had pledged \$223 billion and \$228 billion, respectively, of collateral that may not be sold or repledged by the secured parties.

Lease Commitments

Rental expense (principally for offices and computer equipment) was \$1.1 billion and \$1.2 billion for the years ended December 31, 2010 and 2009, respectively.

Future minimum annual rentals under noncancelable leases, net of sublease income, are as follows:

<i>In millions of dollars</i>	
2011	\$ 676
2012	604
2013	543
2014	482
2015	421
Thereafter	1,127
Total	\$3,853

Guarantees

The Company provides a variety of guarantees and indemnifications to Citibank customers to enhance their credit standing and enable them to complete a wide variety of business transactions. For certain contracts meeting the definition of a guarantee, the guarantor must recognize, at inception, a liability for the fair value of the obligation undertaken in issuing the guarantee.

In addition, the guarantor must disclose the maximum potential amount of future payments the guarantor could be required to make under the guarantee, if there were a total default by the guaranteed parties. The determination of the maximum potential future payments is based on the notional amount of the guarantees without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses, if any, on these guarantees.

The following tables present information about the Company's guarantees at December 31, 2010 and December 31, 2009, respectively.

<i>In billions of dollars at December 31, except carrying value in millions</i>	Maximum potential amount of future payments			Carrying value (in millions)
	Expire within 1 year	Expire after 1 year	Total amount outstanding	
2010				
Financial standby letters of credit	\$19.2	\$ 71.8	\$ 91.0	\$225.9
Performance guarantees	8.5	4.5	13.0	35.8
Derivative instruments considered to be guarantees	1.9	3.3	5.2	452.4
Loans sold with recourse	—	0.2	0.2	86.4
Securities lending indemnifications ⁽¹⁾	62.9	—	62.9	—
Credit card merchant processing ⁽¹⁾	3.0	—	3.0	—
Custody indemnifications and other	—	40.2	40.2	—
Total	\$95.5	\$120.0	\$215.5	\$800.5

(1) The carrying values of guarantees of securities lending indemnifications and credit card merchant processing are not material, as the Company has determined that the amount and probability of potential liabilities arising from these guarantees are not significant.

In billions of dollars at December 31,
except carrying value in millions

	Maximum potential amount of future payments			Carrying value (in millions)
	Expire within 1 year	Expire after 1 year	Total amount outstanding	
2009				
Financial standby letters of credit	\$ 40.6	\$44.6	\$ 85.2	\$438.8
Performance guarantees	8.8	4.2	13.0	32.4
Derivative instruments considered to be guarantees	3.0	1.7	4.7	291.8
Loans sold with recourse	—	0.1	0.1	30.3
Securities lending indemnifications ⁽¹⁾	53.5	—	53.5	—
Credit card merchant processing ⁽¹⁾	2.5	—	2.5	—
Custody indemnifications and other	—	23.4	23.4	—
Total	\$108.4	\$74.0	\$182.4	\$793.3

(1) The carrying values of guarantees of securities lending indemnifications and credit card merchant processing are not material, as the Company has determined that the amount and probability of potential liabilities arising from these guarantees are not significant

Financial standby letters of credit

Citibank issues standby letters of credit which substitute its own credit for that of the borrower. If a letter of credit is drawn down, the borrower is obligated to repay Citibank. Standby letters of credit protect a third party from defaults on contractual obligations. Financial standby letters of credit include guarantees of payment of insurance premiums and reinsurance risks that support industrial revenue bond underwriting and settlement of payment obligations to clearing houses, and also support options and purchases of securities or are in lieu of escrow deposit accounts. Financial standbys also backstop loans, credit facilities, promissory notes and trade acceptances.

Performance guarantees

Performance guarantees and letters of credit are issued to guarantee a customer's tender bid on a construction or systems-installation project or to guarantee completion of such projects in accordance with contract terms. They are also issued to support a customer's obligation to supply specified products, commodities, or maintenance or warranty services to a third party.

Derivative instruments considered to be guarantees

Derivatives are financial instruments whose cash flows are based on a notional amount and an underlying instrument, where there is little or no initial investment, and whose terms require or permit net settlement. Derivatives may be used for a variety of reasons, including risk management, or to enhance returns. Financial institutions often act as intermediaries for their clients, helping clients reduce their risks. However, derivatives may also be used to take a risk position.

The derivative instruments considered to be guarantees, which are presented in the tables above, include only those instruments that require Citibank to make payments to the counterparty based on changes in an underlying instrument that is related to an asset, a liability, or an equity security held by the guaranteed party. More specifically, derivative instruments considered to

be guarantees include certain over-the-counter written put options where the counterparty is not a bank, hedge fund or broker-dealer (such counterparties are considered to be dealers in these markets, and may therefore not hold the underlying instruments). However, credit derivatives sold by the Company are excluded from this presentation, as they are disclosed separately in Note 20. In addition, non-credit

derivative contracts that are cash settled and for which the Company is unable to assert that it is probable the counterparty held the underlying instrument at the inception of the contract also are excluded from the disclosure above.

In instances where the Company's maximum potential future payment is unlimited, the notional amount of the contract is disclosed.

Loans sold with recourse

Loans sold with recourse represent the Company's obligations to reimburse the buyers for loan losses under certain circumstances. Recourse refers to the clause in a sales agreement under which a lender will fully reimburse the buyer/investor for any losses resulting from the purchased loans. This may be accomplished by the seller's taking back any loans that become delinquent.

In addition to the amounts shown in the table above, the repurchase reserve for Consumer mortgages representations and warranties was \$969 million and \$482 million at December 31, 2010 and 2009, respectively. These amounts are included in *Other liabilities* on the Consolidated Balance Sheet.

The repurchase reserve estimation process is subject to numerous estimates and judgments. The assumptions used to calculate the repurchase reserve contain a level of uncertainty and risk that, if different from actual results, could have a material impact on the reserve amounts. The key assumptions are:

- loan documentation requests,
- repurchase claims as a percentage of loan documentation requests,
- claims appeal success rate, and
- estimated loss given repurchase or make-whole.

For example, Citibank estimates that if there were a simultaneous 10% adverse change in each of the key assumptions above, the repurchase reserve would increase by approximately \$342 million as of December 31, 2010. This potential change is hypothetical and intended to indicate the sensitivity of the repurchase reserve to changes in the key assumptions. Actual changes in the key assumptions may not occur at the same time or to the same degree (i.e., an adverse change in one assumption may be offset by an improvement in another). Citibank does not believe it has sufficient information to estimate a range of reasonably possible loss (as

defined under ASC 450) relating to its Consumer representations and warranties

Securities lending indemnifications

Owners of securities frequently lend those securities for a fee to other parties who may sell them short or deliver them to another party to satisfy some other obligation. Banks may administer such securities lending programs for their clients. Securities lending indemnifications are issued by the bank to guarantee that a securities lending customer will be made whole in the event that the security borrower does not return the security subject to the lending agreement and collateral held is insufficient to cover the market value of the security.

Credit card merchant processing

Credit card merchant processing guarantees represent the Company's obligations in connection with the processing of private label cards.

Citibank provides transaction processing services to various merchants with respect to its private-label cards. The nature of the liability arises as a result of a billing dispute between a merchant and a cardholder that is ultimately resolved in the cardholder's favor. The merchant is liable to refund the amount to the cardholder. In general, if the credit card processing company is unable to collect this amount from the merchant, the credit card processing company bears the loss for the amount of the credit or refund paid to the cardholder.

The Company continues to have contingent liability with respect to its portfolio of private-label merchants. The risk of loss is mitigated as the cash flows between the Company and the merchant are settled on a net basis and the Company has the right to offset any payments with cash flows otherwise due to the merchant. To further mitigate this risk, the Company may delay settlement, require a merchant to make an escrow deposit, include event triggers to provide the Company with more financial and operational control in the event of the financial deterioration of the merchant, or require various credit enhancements (including letters of credit and bank guarantees). In the unlikely event that a private-label merchant is unable to deliver products, services or a refund to its private-label cardholders, the Company is contingently liable to credit or refund cardholders.

The Company's maximum potential contingent liability merchant processing services is estimated to be the total volume of credit card transactions that meet the requirements to be valid chargeback transactions at any given time. At December 31, 2010 and December 31, 2009, this maximum potential exposure was estimated to be \$3.0 billion and \$2.5 billion, respectively.

However, the Company believes that the maximum exposure is not representative of the actual potential loss exposure based on the Company's historical experience. This contingent liability is unlikely to arise, as most products and services are delivered when purchased and amounts are refunded when items are returned to merchants. At December 31, 2010 and December 31, 2009, the estimated losses incurred and the carrying amounts of the Company's contingent obligations related to merchant processing activities were immaterial.

Custody indemnifications

Custody indemnifications are issued to guarantee that custody clients will be made whole in the event that a third-party subcustodian or depository institution fails to safeguard clients' assets.

Other guarantees and indemnifications

In the normal course of business, the Company provides standard representations and warranties to counterparties in contracts in connection with numerous transactions and also provides indemnifications, including indemnifications that protect the counterparties to the contracts in the event that additional taxes are owed due either to a change in the tax law or an adverse interpretation of the tax law. Counterparties to these transactions provide the Company with comparable indemnifications. While such representations, warranties and indemnifications are essential components of many contractual relationships, they do not represent the underlying business purpose for the transactions. The indemnification clauses are often standard contractual terms related to the Company's own performance under the terms of a contract and are entered into in the normal course of business based on an assessment that the risk of loss is remote. Often these clauses are intended to ensure that terms of a contract are met at inception (for example, that loans transferred to a counterparty in a sales transaction did in fact meet the conditions specified in the contract at the transfer date). No compensation is received for these standard representations and warranties, and it is not possible to determine their fair value because they rarely, if ever, result in a payment. In many cases, there are no stated or notional amounts included in the indemnification clauses and the contingencies potentially triggering the obligation to indemnify have not occurred and are not expected to occur. These indemnifications are not included in the table above.

In addition, the Company is a member of or shareholder in hundreds of value-transfer networks (VTNs) (payment clearing and settlement systems as well as securities exchanges) around the world. As a condition of membership, many of these VTNs require that members stand ready to backstop the net effect on the VTNs of a member's default on its obligations. The Company's potential obligations as a shareholder or member of VTN associations are excluded from the scope of FIN 45, since the shareholders and members represent subordinated classes of investors in the VTNs. Accordingly, the Company's participation in VTNs is not reported in the table and there are no amounts reflected on the Consolidated Balance Sheet as of December 31, 2010 or December 31, 2009 for potential obligations that could arise from the Company's involvement with VTN associations.

Carrying Value—Guarantees and Indemnifications

At December 31, 2010 and December 31, 2009, the total carrying amounts of the liabilities related to the guarantees and indemnifications included in the guarantees table above amounted to approximately \$801 million and \$793 million, respectively. The carrying value of derivative instruments is included in either *Trading liabilities* or *Other liabilities*, depending upon whether the derivative was entered into for trading or non-trading purposes. The carrying value of financial and performance guarantees is included in *Other liabilities*. For loans sold with recourse, the carrying value of

the liability is included in *Other liabilities*. In addition, at December 31, 2010 and December 31, 2009, *Other liabilities* on the Consolidated Balance Sheet include an allowance for credit losses of \$938 million and \$1.015 billion, respectively, relating to letters of credit and unfunded lending commitments.

Collateral

Cash collateral available to the Company to reimburse losses realized under these guarantees and indemnifications amounted to \$34 billion and \$30 billion at December 31, 2010 and December 31, 2009, respectively. Securities and other marketable assets available as collateral amounted to \$34 billion and \$32 billion, respectively, the majority of which collateral is for reimbursing losses realized under securities lending indemnifications. Additionally, letters of credit in favor of the Company held as collateral amounted to \$1.9 billion and \$1.4 billion at December 31, 2010 and December 31, 2009, respectively. Other property may also be available to the Company to cover losses under certain guarantees and indemnifications, however, the value of such property has not been determined.

Performance risk

Citibank evaluates the performance risk of its guarantees based on the assigned referenced counterparty internal or external ratings. Where external ratings are used, investment-grade ratings are considered to be Baa/BBB and above, while anything below is considered non-investment grade. The Citibank internal ratings are in line with the related external rating system. On certain underlying referenced credits or entities, ratings are not available. Such referenced credits are included in the *not rated* category. The maximum potential amount of the future payments related to guarantees and credit

derivatives sold is determined to be the notional amount of these contracts, which is the par amount of the assets guaranteed.

Presented in the tables below are the maximum potential amounts of future payments classified based upon internal and external credit ratings as of December 31, 2010 and 2009, respectively. As previously mentioned, the determination of the maximum potential future payments is based on the notional amount of the guarantees without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses, if any, on these guarantees.

	Maximum potential amount of future payments			
	Investment grade	Non-investment grade	Not rated	Total
<i>In billions of dollars as of December 31 2010</i>				
Financial standby letters of credit	\$ 56.6	\$11.3	\$23.1	\$ 91.0
Performance guarantees	6.7	3.3	3.0	13.0
Derivative instruments deemed to be guarantees	—	—	5.2	5.2
Loans sold with recourse	—	—	0.2	0.2
Securities lending indemnifications	—	—	62.9	62.9
Credit card merchant processing	—	—	3.0	3.0
Custody indemnifications and other	\$ 40.2	—	—	40.2
Total	\$103.5	\$14.6	\$97.4	\$215.5

	Maximum potential amount of future payments			
	Investment grade	Non-investment grade	Not rated	Total
<i>In billions of dollars as of December 31 2009</i>				
Financial standby letters of credit	\$47.1	\$11.5	\$26.6	\$ 85.2
Performance guarantees	6.5	3.5	3.0	13.0
Derivative instruments deemed to be guarantees	—	—	4.7	4.7
Loans sold with recourse	—	—	0.1	0.1
Securities lending indemnifications	—	—	53.5	53.5
Credit card merchant processing	—	—	2.5	2.5
Custody indemnifications and other	23.4	—	—	23.4
Total	\$77.0	\$15.0	\$90.4	\$182.4

Credit Commitments and Lines of Credit

The table below summarizes Citibank's credit commitments and lines of credit as of December 31, 2010 and 2009, respectively

<i>In millions of dollars</i>	December 31, 2010	December 31, 2009
Commercial and similar letters of credit	\$ 8,826	\$ 7,060
One- to four-family residential mortgages	2,980	1,070
Revolving open-end loans secured by one- to four-family residential properties	20,711	23,535
Commercial real estate, construction and land development	2,076	1,350
Credit card lines	105,442	114,096
Commercial and other consumer loan commitments	194,093	241,047
Total	\$334,128	\$388,158

The majority of unused commitments are contingent upon customers' maintaining specific credit standards. Commercial commitments generally have floating interest rates and fixed expiration dates and may require payment of fees. Such fees (net of certain direct costs) are deferred and, upon exercise of the commitment, amortized over the life of the loan or, if exercise is deemed remote, amortized over the commitment period.

Commercial and similar letters of credit

A commercial letter of credit is an instrument by which Citibank substitutes its credit for that of a customer to enable the customer to finance the purchase of goods or to incur other commitments. Citibank issues a letter on behalf of its client to a supplier and agrees to pay the supplier upon presentation of documentary evidence that the supplier has performed in accordance with the terms of the letter of credit. When a letter of credit is drawn, the customer is then required to reimburse Citibank.

One- to four-family residential mortgages

A one- to four-family residential mortgage commitment is a written confirmation from Citibank to a seller of a property that the bank will advance the specified sums enabling the buyer to complete the purchase.

Revolving open-end loans secured by one- to four-family residential properties

Revolving open-end loans secured by one- to four-family residential properties are essentially home equity lines of credit. A home equity line of credit is a loan secured by a primary residence or second home to the extent of the excess of fair market value over the debt outstanding for the first mortgage.

Commercial real estate, construction and land development

Commercial real estate, construction and land development include unused portions of commitments to extend credit for the purpose of financing commercial and multifamily residential properties as well as land development projects. Both secured-by-real-estate and unsecured commitments are included in this line, as well as undistributed loan proceeds, where there is an obligation to advance for construction progress payments. However, this line only includes those extensions of credit that, once funded, will be classified as *Total loans, net* on the Consolidated Balance Sheet.

Credit card lines

Citibank provides credit to customers by issuing credit cards. The credit card lines are unconditionally cancellable by the issuer.

Commercial and other consumer loan commitments

Commercial and other consumer loan commitments include overdraft and liquidity facilities, as well as commercial commitments to make or purchase loans, to purchase third-party receivables, to provide note issuance or revolving underwriting facilities and to invest in the form of equity. Amounts include \$70 billion and \$130 billion with an original maturity of less than one year at December 31, 2010 and December 31, 2009, respectively.

In addition, included in this line item are highly leveraged financing commitments, which are agreements that provide funding to a borrower with higher levels of debt (measured by the ratio of debt capital to equity capital of the borrower) than is generally considered normal for other companies. This type of financing is commonly employed in corporate acquisitions, management buy-outs and similar transactions.

26 REGIONAL DETAILS

The following is a geographic distribution of Citibank's operations on a legal vehicle basis. The accounting policies of these regions are the same as those disclosed in Note 2 to the Consolidated Financial Statements.

	Revenues, net of interest expense		Operating expenses		Provision for credit losses and for benefits and claims		Net income (loss)		Assets at year end	
<i>In millions of dollars, except assets in billions</i>	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
North America ⁽¹⁾	\$16,951	\$11,749	\$10,676	\$10,150	\$5,959	\$15,181	\$ 625	\$(5,431)	\$ 218	\$ 184
EMEA ⁽²⁾	11,528	13,349	6,719	7,821	1,803	5,905	2,041	(1,449)	387	462
Asia	13,019	11,815	6,888	5,960	736	2,183	3,951	2,639	407	377
Latin America	5,094	6,325	3,000	2,750	581	1,149	1,287	1,447	142	138
Total	\$46,592	\$43,238	\$27,283	\$26,681	\$9,079	\$24,418	\$7,904	\$(2,794)	\$1,154	\$1,161

(1) North America includes the United States, Canada and Puerto Rico

(2) Europe, Middle East and Africa

27 RELATED PARTY TRANSACTIONS

Citicorp, a direct, wholly owned subsidiary of Citigroup, owns 100% of the outstanding common stock of the Company

Pursuant to various intercompany agreements, a number of significant transactions are carried out between the Company and Citigroup and/or their affiliates. Management believes that the terms under which these transactions and services are provided are no less favorable to the Company than those that could be obtained from unaffiliated third parties.

Detailed below is a summary of the Company's transactions with other Citigroup affiliates which are included in the accompanying Consolidated Statement of Income and Balance Sheet at December 31, 2010 and 2009. These amounts exclude intercompany balances that eliminate in consolidation.

INCOME STATEMENT ITEMS

<i>In millions of dollars</i>	Year ended December 31	
	2010	2009
Revenues		
Interest revenue	\$ 366	\$ 1,029
Interest expense	605	1,796
Net interest revenue (expense)	\$ (239)	\$ (767)
Commissions and fees	\$2,171	\$ 2,369
Principal transactions	(807)	2,313
Other revenue (expense)	(854)	(2,283)
Total non-interest revenue	\$ 510	\$ 2,399
Total revenues, net of interest expense	\$ 271	\$ 1,632
Operating expenses		
Compensation and benefits	\$ 3	\$ 3
Premises and equipment	49	(50)
Other operating ⁽¹⁾	2,592	3,362
Total operating expenses	\$2,644	\$ 3,315

(1) Includes charges from parent company for shared services.

BALANCE SHEET ITEMS

<i>In millions of dollars</i>	December 31,	
	2010	2009
Assets		
Cash and due from banks	\$ 56	\$ 57
Deposits with banks	1,097	2,138
Federal funds sold and securities purchased under agreements to resell	7,237	17,724
Trading account assets	13,484	9,183
Loans, net of unearned income	8,662	24,791
Interest and fees receivable	80	457
Other assets	10,351	7,570
Total assets	\$40,967	\$ 61,920
Liabilities		
Non-interest-bearing deposits in U S offices	\$ 8,897	\$ 6,434
Interest-bearing deposits in U S offices	660	500
Non-interest-bearing deposits in offices outside the U S	2,147	1,399
Interest-bearing deposits in offices outside the U S	33,628	21,430
Total deposits	\$45,332	\$ 29,763
Trading account liabilities	11,653	4,293
Purchased funds and other borrowings	21,086	48,651
Accrued taxes and other expenses	190	—
Subordinated notes and other long-term debt	4,855	4,101
Other liabilities	11,180	13,466
Total liabilities	\$94,296	\$100,274

Stock-based Compensation

As discussed in Note 7, the Company participates in various Citigroup stock-based compensation programs under which Citigroup stock or stock options are granted to certain of the Company's employees. The Company has no stock-based compensation programs in which its own stock is granted. The Company pays Citigroup directly for participation in certain of its stock-based compensation programs, but receives a capital contribution for those awards related to participation in the employee incentive stock option program.

Retirement Benefits

As discussed in Note 8 to the Consolidated Financial Statements, the Company participates in several non-contributory defined benefit pension plans and a defined contribution plan sponsored by Citigroup covering certain eligible employees.

Citibank Tax-sharing Agreement

As discussed in Note 9, the Company is included in the Citigroup consolidated federal tax return and is a party to a tax-sharing agreement with Citigroup. Under such agreement, the Company is entitled to a tax benefit for its losses and credits that are recognized in Citigroup's Consolidated Financial Statements. Settlements between the Company and Citigroup of current taxes occur throughout the year. The Company also files its consolidated and combined state income tax returns with Citigroup and/or other of its subsidiaries.

Other Intercompany Agreements

Citigroup and its subsidiaries engage in other transactions and servicing activities with the Company, including cash management, data processing, telecommunications, payroll processing, and administration, facilities procurement, underwriting and others.

Section 23A of the Federal Reserve Act

Citibank can lend to Citigroup and Citigroup's nonbank subsidiaries in accordance with Section 23A of the Federal Reserve Act. As of December 31, 2010, the amount available for lending was approximately \$23.4 billion, provided the funds are appropriately collateralized.

28 CONTINGENCIES

Overview

In addition to the matters described below, in the ordinary course of business, Citibank, its parent entity Citigroup, and their affiliates and subsidiaries, as well as their respective current and former officers, directors and employees (for purposes of this section, sometimes collectively referred to as Citigroup and Related Parties), routinely are named as defendants in, or as parties to, various legal actions and proceedings. Certain of these actions and proceedings assert claims or seek relief in connection with alleged violations of consumer protection, securities, banking, antifraud, antitrust, anti-money laundering, employment and other statutory and common laws. Certain of these actual or threatened legal actions and proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief.

In the ordinary course of business, Citigroup and Related Parties also are subject to governmental and regulatory examinations, information-gathering requests, investigations and proceedings (both formal and informal), certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. In addition, Citigroup is a bank holding company, Citibank is a bank, and certain affiliates and subsidiaries of Citibank are banks, registered broker-dealers, futures commission merchants, investment advisers or other regulated entities and, in those capacities, are subject to regulation by various U.S., state and foreign securities, banking, commodity futures and other regulators. In connection with formal and informal inquiries by these regulators, Citigroup and Related Parties receive numerous requests, subpoenas and orders seeking documents, testimony and other information in connection with various aspects of their regulated activities.

Because of the global scope of Citigroup's operations, and its presence in countries around the world, Citigroup and Related Parties are subject to litigation, and governmental and regulatory examinations, information-gathering requests, investigations and proceedings (both formal and informal), in multiple jurisdictions with legal and regulatory regimes that may differ substantially, and present substantially different risks, from those Citigroup and Related Parties are subject to in the United States.

Citigroup and Citibank seek to resolve all litigation and regulatory matters in the manner management believes is in the best interests of Citigroup and its shareholders, and contest liability, allegations of wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.

In accordance with ASC 450 (formerly SFAS 5), Citigroup establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Once established, accruals are adjusted from time to time, as appropriate, in light of additional information. In view of the inherent unpredictability of litigation and regulatory matters, particularly where the damages sought are substantial or indeterminate, the investigations or proceedings are in the early stages, or the matters involve novel legal theories or a large number of parties, Citigroup cannot predict the timing or ultimate resolution of litigation and regulatory matters, and the

actual costs of resolving litigation and regulatory matters may be substantially higher or lower than the amounts accrued for those matters.

Subject to the foregoing, it is the opinion of Citigroup's management, based on current knowledge and after taking into account its current legal accruals, that the eventual outcome of all matters described in this Note would not be likely to have a material adverse effect on the consolidated financial condition of Citibank. Nonetheless, given the substantial or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of such matters, an adverse outcome in certain of these matters could, from time to time, have a material adverse effect on Citibank's consolidated results of operations or cash flows in particular quarterly or annual periods.

Citibank or its subsidiaries are named as defendants or otherwise directly involved in certain, but not all, of the matters disclosed below. In addition, certain of the matters below relate principally to banking activity, while other matters relate principally to broker-dealer or other Citigroup activities in which Citibank or its subsidiaries had no direct involvement. For a discussion of Citigroup's material legal and regulatory proceedings, of which the below matters are a part, see Citigroup's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission on February 25, 2011.

Credit-Crisis-Related Litigation and Other Matters

Citigroup and Related Parties have been named as defendants in numerous legal actions and other proceedings asserting claims for damages and related relief for losses arising from the global financial credit and subprime-mortgage crisis that began in 2007. Such matters include, among other types of proceedings, claims asserted by (i) individual investors and purported classes of investors in Citigroup's common and preferred stock and debt, alleging violations of the federal securities laws, (ii) participants and purported classes of participants in Citigroup's retirement plans, alleging violations of the Employee Retirement Income Security Act (ERISA), (iii) counterparties to significant transactions adversely affected by developments in the credit and subprime markets, (iv) individual investors and purported classes of investors in securities and other investments underwritten, issued or marketed by Citigroup, including collateralized debt obligations (CDOs), mortgage-backed securities (MBS), auction-rate securities (ARS), investment funds, and other structured or leveraged instruments, that have suffered losses as a result of the credit crisis, and (v) individual borrowers asserting claims related to their loans. These matters have been filed in state and federal courts across the country, as well as in arbitrations before the Financial Industry Regulatory Authority (FINRA) and other arbitration associations.

In addition to these litigations and arbitrations, Citigroup continues to cooperate fully in response to subpoenas and requests for information from the Securities and Exchange Commission (SEC), FINRA, the Federal Housing Finance Agency, state attorneys general, the Department of Justice and subdivisions thereof, bank regulators, and other government agencies and authorities, in connection with various formal and informal inquiries concerning Citigroup's subprime and other mortgage-related conduct and business activities, as well as other business activities affected by the credit crisis. These

business activities include, but are not limited to, Citigroup's sponsorship, packaging, issuance, marketing, servicing and underwriting of MBS and CDOs and its origination, sale or other transfer, servicing, and foreclosure of residential mortgages

Subprime Mortgage-Related Litigation and Other Matters

Beginning in November 2007, Citigroup and Related Parties have been named as defendants in numerous legal actions and other proceedings brought by Citigroup shareholders, investors, counterparties and others concerning Citigroup's activities relating to subprime mortgages, including Citigroup's involvement with CDOs, MBS and structured investment vehicles, Citigroup's underwriting activity for subprime mortgage lenders, and Citigroup's more general subprime- and credit-related activities

Regulatory Actions The SEC, among other regulators is investigating Citigroup's subprime and other mortgage-related conduct and business activities, as well as other business activities affected by the credit crisis, including an ongoing inquiry into Citigroup's structuring and sale of CDOs. Citigroup is cooperating fully with the SEC's inquiries

The Federal Reserve Bank, the OCC and the FDIC, among other federal and state authorities, are investigating issues related to the conduct of certain mortgage servicing companies, including Citigroup affiliates, in connection with mortgage foreclosures. Citigroup is cooperating fully with these inquiries

ERISA Actions Numerous class actions were filed in the Southern District of New York asserting claims under ERISA against Citigroup and certain Citigroup employees alleged to have served as ERISA plan fiduciaries. On August 31, 2009, the court granted defendants' motion to dismiss the consolidated class action complaint, captioned IN RE CITIGROUP ERISA LITIGATION. Plaintiffs have appealed the dismissal, and the appeal is fully briefed and argued. Additional information relating to this action is publicly available in court filings under the consolidated lead docket number 07 Civ 9790 (S D N Y) (Stein, J) and under GRAY v CITIGROUP INC., 09-3804 (2d Cir)

Subprime Counterparty and Investor Actions Citigroup and Related Parties have been named as defendants in actions brought in various state and federal courts, as well as in arbitrations, by counterparties and investors that have suffered losses as a result of the credit crisis. In addition, beginning in July 2010, several investors, including Cambridge Place Investment Management, The Charles Schwab Corporation, the Federal Home Loan Bank of Chicago, the Federal Home Loan Bank of Indianapolis, and Allstate Insurance Company and affiliated entities, have filed lawsuits against Citigroup and certain of its affiliates alleging actionable misstatements or omissions in connection with the issuance and underwriting of residential MBS. As a general matter, plaintiffs in these actions are seeking rescission of their investments or other damages. Additional information relating to these actions is publicly available in court filings under the docket numbers 10 Civ 11376 (D Mass) (Gorton, J), 10 Civ 04030 (N D Cal) (Illston, J), 10-CH-45033 (Ill Cir Ct), 10 Civ 09105 (C D Cal) (Pfaelzer, J), 10 Civ 01463 (S D Ind) (Lawrence, J), 11-0555 (Mass Super Ct) and 650432/2011 (N Y Sup Ct)

Separately, at various times, parties to RMBS securitizations, among others, have asserted that certain

Citigroup affiliates breached representations and warranties made in connection with mortgage loans placed into securitization trusts and have sought repurchase of the affected mortgage loans or indemnification from resulting losses, among other remedies. The frequency of such demands may increase in the future, and some such demands may result in litigation

Lehman Structured Notes Matters

Like many other financial institutions, Citigroup, through certain of its affiliates and subsidiaries, distributed structured notes (Notes) issued and guaranteed by Lehman entities to retail customers in various countries outside the United States, principally in Europe and Asia. After the relevant Lehman entities filed for bankruptcy protection in September 2008, certain regulators in Europe and Asia commenced investigations into the conduct of financial institutions involved in such distribution, including Citigroup entities. Some of those regulatory investigations have resulted in adverse findings against Citigroup entities. Some purchasers of the Notes have filed civil actions or otherwise complained about the sales process. Citigroup has dealt with a number of such complaints and claims on an individual basis based on the particular circumstances

In Belgium, Greece, Hungary, Spain, Poland and Turkey, Citigroup made a settlement offer to all eligible purchasers of Notes distributed by Citigroup in those countries. A significant majority of the eligible purchasers accepted Citigroup's settlement offer, made without admission of liability, in full and final settlement of all potential claims. A limited number of eligible purchasers declined to settle and are pursuing civil lawsuits. The approximate aggregate par value of Notes that are the subject of these suits is less than \$10 million

Criminal investigations are open in Greece. In Belgium, criminal charges were brought against a Citigroup subsidiary (CBB) and three current or former employees. The Public Prosecutor had asked the criminal court to impose on CBB a fine of 660,000 Euro and a confiscation order of up to 131,476,097.90 Euro, and to sanction the three individual employees. On December 1, 2010, all defendants were cleared of fraud and anti-money laundering charges and the related confiscation requests. The court also rejected certain other charges but convicted all defendants under the Prospectus Act, and convicted CBB under Fair Trade Practices legislation. CBB was fined 165,000 Euro, and each individual defendant was fined 427.50 Euro. Sixty-three non-settling civil claimants had made civil claims in the criminal proceedings with respect to Notes with an aggregate par value of approximately 2.4 million Euro. Citigroup was ordered to compensate all 63 claimants for the full par value of their Notes, less the value ultimately received for their Notes in the Lehman bankruptcies. CBB has appealed the judgment

In Hong Kong, regulators have conducted investigations of banks that distributed Notes, including a Citigroup subsidiary (CHKL). With respect to certain other banks, the regulators have completed their investigation and required these banks to compensate some purchasers of Notes for all or a portion of their losses. The regulators have not yet concluded their investigation of CHKL. The total subscription amount of the Notes CHKL distributed in Hong Kong is approximately \$200 million

Lehman Brothers Bankruptcy Proceedings

Lehman Brothers Inc On March 18, 2011, Citigroup and Related Parties were named as defendants in an adversary proceeding captioned LEHMAN BROTHERS INC v CITIBANK, N A, ET AL, Adv Proc No 11-01681 (Bankr S D N Y). The complaint was filed in the liquidation proceeding of Lehman Brothers Inc (LBI), the broker-dealer subsidiary of Lehman Brothers Holdings Inc (LBHI), pending before the United States Bankruptcy Court for the Southern District of New York under the Securities Investor Protection Act (SIPA). In the complaint, which asserts claims under federal bankruptcy and state law, the SIPA Trustee alleges that a \$1 billion cash deposit which LBI placed with Citibank prior to the commencement of liquidation proceedings must be returned to the bankruptcy estate, and that Citibank's setoff against the \$1 billion deposit to satisfy its claims against LBI with respect to certain foreign exchange clearing transactions should be set aside. LBI also seeks the return of approximately \$342 million in additional deposits by LBI that are currently held by Citibank and its affiliates. Additional information relating to the liquidation proceeding of LBI, captioned IN RE LEHMAN BROTHERS INC, is publicly available in court filings under docket number 08-01420 (Bankr S D N Y) (Peck, J).

Lehman Brothers Holdings Inc LBHI or its subsidiaries may assert bankruptcy avoidance and other claims against Citigroup and Related Parties in their Chapter 11 bankruptcy proceedings, including, among others, claims seeking the return of a \$2 billion deposit LBHI made with Citibank in June 2008, prior to LBHI's collapse. Citibank believes that it has the right to set off against this deposit claims it has against LBHI arising under derivatives contracts and loan documents. Additional information relating to the Chapter 11 bankruptcy proceedings of LBHI and its subsidiaries, captioned IN RE LEHMAN BROTHERS HOLDINGS INC, is publicly available in court filings under docket number 08-13555 (Bankr S D N Y) (Peck, J).

Lehman Brothers International (Europe) Citigroup and Related Parties also hold as custodians approximately \$2 billion of proprietary assets and cash of LBHI subsidiary Lehman Brothers International (Europe) (LBIE), currently in insolvency administration in the United Kingdom. Citigroup and Related Parties have asserted a contractual right to retain the proprietary assets and cash as security for amounts owed to Citigroup and Related Parties by LBIE and its affiliates (including LBHI and LBI), which the administrators for LBIE have disputed. Additional information relating to the U K administration of LBIE is available at www.pwc.co.uk/eng/issues/lehman_updates.html

Terra Firma Litigation

Plaintiffs, general partners of two related private equity funds, filed a complaint in New York state court (later removed to the Southern District of New York) against certain Citigroup entities in December 2009, alleging that during the May 2007 auction of the music company EMI, Citigroup, as advisor to EMI and as a potential lender to plaintiffs' acquisition vehicle Maltby, fraudulently or negligently orally misrepresented the intentions of another potential bidder regarding the auction. Plaintiffs alleged that, but for the oral misrepresentations, Maltby would not have acquired EMI for approximately 4.2

billion British pounds. Plaintiffs further alleged that, following the acquisition of EMI, certain Citigroup entities tortiously interfered with plaintiffs' business relationship with EMI. Plaintiffs sought billions of dollars in damages. On September 15, 2010, the district court issued an order granting in part and denying in part Citigroup's motion for summary judgment. Plaintiffs' claims for negligent misrepresentation and tortious interference were dismissed. On October 18, 2010, a jury trial commenced on plaintiffs' remaining claims for fraudulent misrepresentation and fraudulent concealment. The court dismissed the fraudulent concealment claim before sending the case to the jury. On November 4, 2010, the jury returned a verdict on the fraudulent misrepresentation claim in favor of Citigroup. Judgment dismissing the complaint was entered on December 9, 2010. Plaintiffs have appealed the judgment. Additional information regarding the action is publicly available in court filings under docket number 09 Civ 10459 (S D N Y) (Rakoff, J).

KIKOs

Several local banks in Korea, including a Citibank subsidiary (CKI), entered into foreign exchange derivative transactions with small and medium-size export businesses (SMEs) to enable the SMEs to hedge their currency risk. The derivatives had "knock-in, knock-out" features. Following the devaluation of the Korean won in 2008, many of these SMEs incurred significant losses on the derivative transactions and filed civil lawsuits against the banks, including CKI. The claims generally allege that the products were not suitable and the risk disclosure was inadequate. As of December 31, 2010, 80 civil claims had been made by SMEs against CKI. To date, 55 decisions have been rendered at the district court level, and CKI has prevailed in 47 of those decisions. In the other eight decisions, the plaintiff was awarded only a portion of the damages it sought. Damage awards to date total in the aggregate approximately \$6 million. CKI intends to appeal the eight adverse decisions. CKI also expects a significant number of plaintiffs to appeal decisions rendered against them, including plaintiffs that were awarded less than all of the damages they sought.

The Korean prosecutors have also undertaken a criminal investigation of the local banks, including CKI, based on allegations of fraud in the sale of these products. This investigation is ongoing. The local banking regulator also undertook an investigation of the local banks regarding the sale of these products. This investigation resulted in disciplinary recommendations by the local banking regulator with respect to certain CKI employees, but CKI itself was not sanctioned.

Tribune Company Bankruptcy

Certain Citigroup entities have been named as defendants in adversary proceedings related to the Chapter 11 cases of Tribune Company (Tribune) pending in the U S Bankruptcy Court for the District of Delaware. The complaints set forth allegations arising out of the approximate \$11 billion leveraged buyout (LBO) of Tribune in 2007. With respect to Citigroup, the complaints allege claims relating to Citigroup's role as lender and advisor to Tribune in connection with the LBO and seek to avoid, recover, subordinate or disallow payments on LBO debt, as well as approximately \$57 million in lender and advisory fees received by Citigroup and Related

Parties in connection with the LBO. The complaints also assert claims of aiding and abetting breaches of fiduciary duty by Tribune management as well as professional malpractice. The complaints have been stayed by court order pending a confirmation hearing on competing plans of reorganization. If confirmed, the plan proposed by the debtors and others, and supported by Citigroup, would settle all claims relating to Citigroup's role as lender. On February 11, 2011, Tribune and its debtor subsidiaries announced that most classes of voting creditors overwhelmingly approved the debtors' plan. A confirmation hearing began March 7, 2011. Additional information relating to these actions is publicly available in court filings under the docket number 08-13141 (Bankr. D. Del.) (Carey, J.).

Interchange Fees Litigation

Beginning in 2005, several putative class actions were filed against Citigroup and Related Parties, together with Visa, MasterCard and other banks and their affiliates, in various federal district courts. These actions were consolidated with other related cases in the Eastern District of New York and captioned *IN RE PAYMENT CARD INTERCHANGE FEE AND MERCHANT DISCOUNT ANTITRUST LITIGATION*.

The plaintiffs in the consolidated class action are merchants that accept Visa- and MasterCard-branded payment cards, as well as membership associations that claim to represent certain groups of merchants. The pending complaint alleges, among other things, that defendants have engaged in conspiracies to set the price of interchange and merchant discount fees on credit and debit card transactions in violation of Section 1 of the Sherman Act. The complaint also alleges additional Sherman Act and California law violations, including alleged unlawful maintenance of monopoly power and alleged unlawful contracts in restraint of trade pertaining to various Visa and MasterCard rules governing merchant conduct (including rules allegedly affecting merchants' ability, at the point of sale, to surcharge payment card transactions or steer customers to particular payment cards). In addition, supplemental complaints filed against defendants in the class action allege that Visa's and MasterCard's respective initial public offerings were anticompetitive and violated Section 7 of the Clayton Act, and that MasterCard's initial public offering constituted a fraudulent conveyance.

Plaintiffs seek injunctive relief as well as joint and several liability for treble their damages, including all interchange fees paid to all Visa and MasterCard members with respect to Visa and MasterCard transactions in the U.S. since at least January 1, 2004. Certain publicly available documents estimate that Visa- and MasterCard-branded cards generated approximately \$40 billion in interchange fees industry-wide in 2009. Defendants dispute that the manner in which interchange and merchant discount fees are set, or the rules governing merchant conduct, are anticompetitive. Fact and expert discovery has closed. Defendants' motions to dismiss the pending class action complaint and the supplemental complaints are pending. Also pending are plaintiffs' motion to certify nationwide classes consisting of all U.S. merchants that accept Visa- and MasterCard-branded payment cards and motions by both plaintiffs and defendants for summary judgment. Additional information relating to these

consolidated actions is publicly available in court filings under the docket number MDL 05-1720 (E.D.N.Y.) (Gleeson, J.).

Parmalat Litigation and Other Matters

On July 29, 2004, Dr. Enrico Bondi, the Extraordinary Commissioner appointed under Italian law to oversee the administration of various Parmalat companies, filed a complaint in New Jersey state court against Citigroup and Related Parties alleging that the defendants "facilitated" a number of frauds by Parmalat insiders. On October 20, 2008, following trial, a jury rendered a verdict in Citigroup's favor and in favor of Citibank on three counterclaims. The court entered judgment for Citibank in the amount of \$431 million on the counterclaims, which is accruing interest. Plaintiff's appeal from the court's final judgment is pending.

In addition, prosecutors in Parma and Milan, Italy, have commenced criminal proceedings against certain current and former Citigroup employees (along with numerous other investment banks and certain of their current and former employees, as well as former Parmalat officers and accountants). In the event of an adverse judgment against the individuals in question, it is possible that the authorities could seek administrative remedies against Citigroup. Milan prosecutors have requested disgorgement of 70 million Euro and a fine of 900,000 Euro. Additionally, Dr. Bondi has purported to file a civil complaint against Citigroup in the context of the Parma criminal proceedings, seeking 14 billion Euro in damages. In January 2011, a civil complaint was filed by certain institutional investors in Parmalat securities seeking damages of approximately 130 million Euro against Citigroup and certain other financial institutions.

Companhia Industrial de Instrumentos de Precisão Litigation

A commercial customer, Companhia Industrial de Instrumentos de Precisão (CIIP), filed a lawsuit against Citibank, N.A., Brazil branch (Citi Brazil) in 1992, alleging damages arising from an unsuccessful attempt by Citi Brazil in 1975 to declare CIIP bankrupt after CIIP defaulted on a loan owed to Citi Brazil. The trial court ruled in favor of CIIP and awarded damages that Citigroup currently estimates as approximately \$330 million after taking into account interest, currency adjustments, and current exchange rates. Citi Brazil lost its appeal but filed a special appeal to the Superior Tribunal de Justiça (STJ), the highest appellate court for federal law in Brazil. The 4th Section of the STJ ruled 3-2 in favor of Citi in November 2008. CIIP appealed the decision to the Special Court of the STJ on procedural grounds. In December 2009, the Special Court of the STJ decided 9-0 in favor of CIIP on the procedural issue, overturning the 3-2 merits decision in favor of Citi. Citi Brazil filed a motion for clarification with the Special Court of the STJ. A decision on that motion is expected in the first or second quarter of 2011. If the Special Court of the STJ were to decide in Citi Brazil's favor on the pending motion for clarification, the effect would be to reinstate the favorable 3-2 decision of the STJ on the merits of the dispute. If the Special Court were to decide in CIIP's favor, Citi Brazil expects to file a constitutional action with the Supreme Court of Brazil seeking to overturn the decision.

Allied Irish Bank Litigation

In 2003, Allied Irish Bank (AIB) filed a complaint in the Southern District of New York seeking to hold Citibank and Bank of America, former prime brokers for AIB's subsidiary Allfirst Bank (Allfirst), liable for losses incurred by Allfirst as a result of fraudulent and fictitious foreign currency trades entered into by one of Allfirst's traders. AIB seeks compensatory damages of approximately \$500 million, plus punitive damages, from Citibank and Bank of America collectively. In 2006, the Court granted in part and denied in part defendants' motion to dismiss. In 2009, AIB filed an amended complaint, and the parties currently are engaged in discovery.

Settlement Payments

Payments required in settlement agreements described above have been made or are covered by existing litigation reserves

* * *

Additional matters asserting claims similar to those described above may be filed in the future.

29. SUBSEQUENT EVENTS**Maltby Acquisition**

On February 1, 2011, Citibank acquired 100% of the share capital of Maltby Acquisitions Limited ("Maltby"), the holding company that controls EMI Group Ltd., after Maltby's parent defaulted on its loan from Citibank. Citibank subsequently transferred its investment in Maltby at fair value to a consolidated subsidiary of Citigroup. The acquisition and transfer will result in a significant decrease in Citibank's corporate non-accrual loans for 2011, but will not result in a significant income statement impact for Citibank in 2011.

Japan Earthquake

On March 11, 2011, Japan experienced one of the largest earthquakes ever recorded, followed by a devastating tsunami. These events and their aftermath caused disruptions to Citibank's customers and their businesses in the affected areas. As a result, Citibank expects some deterioration in revenue and credit quality in its Cards, Retail Banking and Corporate loan businesses. While Citibank continues to refine its estimates of potential losses, management does not currently believe that the impact to Citibank will be material.

The Company has evaluated subsequent events through March 25, 2011, which is the date its Consolidated Financial Statements were issued.