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CITIBANK, N.A.

(an indirect wholly owned subsidiary of Citigroup Inc.)

**Audited Financial Statements
and Footnotes**

For the Years Ended December 31, 2011 and 2010

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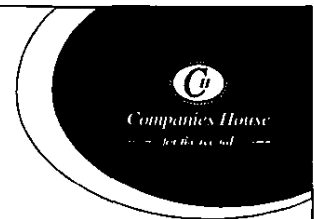
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COMPANIES HOUSE

OS AA01

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



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

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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

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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

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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

☐ No Go to Section A3

☒ Yes Please enter the name of the organisation or other
body which issued those principles below, and then go to Section A3

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

Name of organisation
or body ①

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
IN THE UNITED STATES

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

☐ No Go to Section A5

☒ Yes Go to Section A4

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


Audited accounts

<p>Audited accounts</p>	<p>Have the accounts been audited in accordance with a set of generally accepted auditing standards?</p> <p>Please tick the appropriate box</p> <p><input type="checkbox"/> No Go to Part 3 'Signature'</p> <p><input checked="" type="checkbox"/> Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'</p>	<p>① Please insert the name of the appropriate accounting organisation or body</p>
<p>Name of organisation or body ①</p>	<p>AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS</p>	

Unaudited accounts

Unaudited accounts	<p>Is the company required to have its accounts audited?</p> <p>Please tick the appropriate box</p> <p><input type="checkbox"/> No.</p> <p><input type="checkbox"/> Yes</p>
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Signature

	I am signing this form on behalf of the overseas company
Signature	<div style="text-align: center;"> <p>Signature</p>  </div>
	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



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Contact name	Jill Robson
Company name	Citigroup
Address	Citigroup Centre Canada Square
Post town	London
County/Region	
Postcode	E14 5LB
Country	
DX	
Telephone	



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- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form



Important information

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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, 2011 and 2010, 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, 2011 and 2010, 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 in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that the Company maintained effective internal control over financial reporting as of December 31, 2011, 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 23, 2012 expressed an unqualified opinion on management's assertion that the Company maintained effective internal control over financial reporting.

KPMG LLP

New York, New York
March 23, 2012

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

<i>In millions of dollars</i>	Year ended December 31	
	2011	2010
Revenues		
Interest revenue	\$54,294	\$58,135
Interest expense	12,529	13,212
Net interest revenue	\$41,765	\$44,923
Commissions and fees	\$11,341	\$11,564
Principal transactions	5,777	4,815
Realized gains (losses) on sales of investments	(500)	1,862
Other than temporary impairment losses on investments		
Gross impairment losses	(1,913)	(1,282)
Less Impairments recognized in AOCI	154	70
Net impairment losses recognized in earnings	\$ (1,759)	\$ (1,212)
Other revenue	229	810
Total non-interest revenues	\$15,088	\$17,839
Total revenues, net of interest expense	\$56,853	\$62,762
Provisions for credit losses and for benefits and claims		
Provision for loan losses	\$ 9,623	\$21,225
Policyholder benefits and claims	95	77
Provision (release) for unfunded lending commitments	93	(101)
Total provisions for credit losses and for benefits and claims	\$ 9,811	\$21,201
Operating expenses		
Compensation and benefits	\$15,065	\$13,612
Premises and equipment	2,304	2,226
Other operating	16,368	14,643
Total operating expenses	\$33,737	\$30,481
Income from continuing operations before income taxes	\$13,305	\$11,080
Provision for income taxes	2,914	2,285
Income from continuing operations	\$10,391	\$ 8,795
Discontinued operations		
Income from discontinued operations	\$ 23	\$ 79
Gain (loss) on sale	294	(810)
Provision (benefit) for income taxes	115	(395)
Income (loss) from discontinued operations, net of taxes	\$ 202	\$ (336)
Net income before attribution of noncontrolling interests	\$10,593	\$ 8,459
Net income attributable to noncontrolling interests	84	35
Net income attributable to Citibank	\$10,509	\$ 8,424

See Notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

<i>In millions of dollars, except shares and per share amounts</i>	December 31,	
	2011	2010
Assets		
Cash and due from banks	\$ 24,498	\$ 22,872
Deposits with banks	143,524	145,287
Federal funds sold and securities borrowed or purchased under agreements to resell	74,737	43,306
Trading account assets (including \$861 and \$1,006 pledged to creditors at December 31, 2011 and 2010, respectively)	157,962	149,359
Investments (including \$5,475 and \$5,275 pledged to creditors at December 31, 2011 and 2010, respectively, and \$201,254 and \$220,998 at December 31, 2011 and 2010, respectively, at fair value)	215,289	253,477
Loans, net of unearned income (including \$5,156 and \$4,209 at December 31, 2011 and 2010, respectively, at fair value)	581,676	567,200
Allowance for loan losses	(24,695)	(33,036)
Total loans, net	\$ 556,981	\$ 534,164
Goodwill	11,485	11,642
Intangible assets	7,909	10,663
Interest and fees receivable	4,877	5,263
Other assets (including \$7,483 and \$10,537 at December 31, 2011 and 2010, respectively, at fair value)	91,396	99,086
Total assets	\$1,288,658	\$1,275,119

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. Additionally, the assets in the table below include third-party assets of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation.

<i>In millions of dollars</i>	December 31,	
	2011	2010
Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs		
Cash and due from banks	\$ 185	\$ 557
Trading account assets	298	926
Investments	10,498	7,984
Loans, net of unearned income		
Consumer (including \$1,292 and \$1,718 at December 31, 2011 and 2010, respectively, at fair value)	96,847	111,997
Corporate (including \$118 and \$290 at December 31, 2011 and 2010, respectively, at fair value)	23,131	22,666
Loans, net of unearned income	\$119,978	\$134,663
Allowance for loan losses	(7,732)	(12,102)
Total loans, net	\$112,246	\$122,561
Other assets	364	468
Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs	\$123,591	\$132,496

Statement continues on the next page

CONSOLIDATED BALANCE SHEET
(Continued)

<i>In millions of dollars, except shares and per share amounts</i>	December 31,	
	2011	2010
Liabilities		
Non-interest-bearing deposits in U S offices	\$ 129,106	\$ 86,686
Interest-bearing deposits in U S offices	223,948	219,793
Non-interest-bearing deposits in offices outside the U S	51,346	48,873
Interest-bearing deposits in offices outside the U S	475,264	488,510
Total deposits (including \$1,327 and \$1,264 as of December 31, 2011 and 2010, respectively, at fair value)	\$ 879,664	\$ 843,862
Trading account liabilities	64,941	55,593
Federal funds purchased and securities loaned or sold under agreements to repurchase	28,017	12,785
Short-term borrowings (including \$92 and \$117 at December 31, 2011 and 2010, respectively, at fair value)	34,119	40,239
Long-term debt (including \$3,145 and \$4,598 as of December 31, 2011 and 2010, respectively, at fair value)	78,581	117,179
Accrued taxes and other expenses	8,362	10,018
Other liabilities (including \$2,530 and \$7,016 as of December 31, 2011 and 2010, respectively, at fair value)	42,625	43,794
Total liabilities	\$1,136,309	\$1,123,470
Citibank stockholder's equity		
Capital stock (\$20 par value, issued and outstanding shares 37,534,553 in each period)	\$ 751	\$ 751
Surplus	137,579	137,287
Retained earnings	22,635	22,929
Accumulated other comprehensive income (loss)	(9,210)	(10,188)
Total Citibank stockholder's equity	\$ 151,755	\$ 150,779
Noncontrolling interest	594	870
Total equity	\$ 152,349	\$ 151,649
Total liabilities and equity	\$1,288,658	\$1,275,119

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. The liabilities also exclude amounts where creditors or beneficial interest holders have recourse to the general credit of Citibank.

<i>In millions of dollars</i>	December 31,	
	2011	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	\$20,273	\$21,153
Long-term debt (including \$1,342 and \$1,870 at December 31, 2011 and 2010, respectively, at fair value)	46,511	62,902
Other liabilities	345	229
Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Citibank	\$67,129	\$84,284

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

<i>In millions of dollars except shares</i>	Year ended December 31	
	2011	2010
Common stock (\$20 par value)		
Balance, beginning of year—shares 37,534,553 in 2011 and 2010	\$ 751	\$ 751
Balance, end of year—shares 37,534,553 in 2011 and 2010	\$ 751	\$ 751
Surplus		
Balance, beginning of year	\$137,287	\$127,959
Capital contribution from parent company	—	8,658
Employee benefit plans	316	679
Other ⁽¹⁾	(24)	(9)
Balance, end of year	\$137,579	\$137,287
Retained earnings		
Balance, beginning of year	\$ 22,929	\$ 22,820
Adjustment to opening balance, net of taxes ⁽²⁾	—	(8,322)
Adjusted balance, beginning of year	\$ 22,929	\$ 14,498
Citibank's net income	10,509	8,424
Dividends paid	(10,900)	—
Other ⁽³⁾	97	7
Balance, end of year	\$ 22,635	\$ 22,929
Accumulated other comprehensive income (loss)		
Balance, beginning of year	\$(10,188)	\$(11,603)
Net change in unrealized gains on investment securities, net of taxes	3,560	1,162
Net change in foreign currency translation adjustment, net of taxes	(2,175)	29
Net change in cash flow hedges, net of taxes	(266)	518
Pension liability adjustment, net of taxes	(141)	(294)
Net change in Accumulated other comprehensive income	\$ 978	\$ 1,415
Balance, end of year	\$ (9,210)	\$ (10,188)
Total Citibank stockholder's equity	\$151,755	\$150,779
Noncontrolling interests		
Balance, beginning of year	\$ 870	\$ 1,294
Origination of a noncontrolling interest	1	(73)
Transactions between Citibank and the noncontrolling interest shareholder	—	(1)
Net income attributable to noncontrolling interest shareholders	84	35
Dividends paid to noncontrolling interest shareholders	(67)	(40)
Accumulated other comprehensive income (loss)—Net change in unrealized gains and losses on investment securities, net of tax	(5)	1
Accumulated other comprehensive income (loss)—Net change in FX translation adjustment, net of tax	(87)	(27)
All other	(202)	(319)
Net change in noncontrolling interest	\$ (276)	\$ (424)
Balance, end of year	\$ 594	\$ 870
Total equity	\$152,349	\$151,649
Comprehensive income		
Net income before attribution of noncontrolling interest	\$ 10,593	\$ 8,459
Net change in Accumulated other comprehensive income before attribution of noncontrolling interest	886	1,389
Total comprehensive income	\$ 11,479	\$ 9,848
Comprehensive income (loss) attributable to the noncontrolling interest	(8)	9
Comprehensive income attributable to Citibank	\$ 11,487	\$ 9,839

- (1) Primarily 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) Balance in 2010 primarily represents 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,	
	2011	2010
Cash flows from operating activities of continuing operations		
Net income before attribution of noncontrolling interests	\$ 10,593	\$ 8,459
Net income attributable to noncontrolling interests	84	35
Citibank's net income	\$ 10,509	\$ 8,424
Income from discontinued operations, net of taxes	18	71
Gain (loss) on sale, net of taxes	184	(407)
Income from continuing operations – excluding noncontrolling interests	\$ 10,307	\$ 8,760
Adjustments to reconcile net income to net cash used in operating activities of continuing operations— excluding noncontrolling interests		
Depreciation and amortization	\$ 1,606	\$ 1,959
Deferred tax benefit	416	(57)
Provision for credit losses	9,716	21,124
Change in trading account assets	(8,603)	6,649
Change in trading account liabilities	9,348	6,000
Change in federal funds sold and securities borrowed or purchased under agreements to resell	(31,431)	(1,184)
Purchased funds and other borrowings	9,112	(44,004)
Realized (gains) losses from sales of investments	500	(1,862)
Change in loans held-for-sale	595	3,265
Other, net	(15,599)	(9,872)
Total adjustments	\$ (24,340)	\$ (17,982)
Net cash used in operating activities of continuing operations— excluding noncontrolling interests	\$ (14,033)	\$ (9,222)
Cash flows from investing activities of continuing operations		
Change in deposits with banks	\$ 1,763	\$ 8,823
Change in loans	(22,371)	15,819
Proceeds from sales and securitizations of loans	9,452	9,135
Purchases of investments	(229,912)	(356,894)
Proceeds from sales of investments	136,674	154,507
Proceeds from maturities of investments	114,937	170,203
Capital expenditures on premises and equipment and capitalized software	(2,286)	(1,493)
Proceeds from sales of premises and equipment, subsidiaries and affiliates, and repossessed assets	574	872
Net cash provided by investing activities of continuing operations	\$ 8,831	\$ 972
Cash flows from financing activities of continuing operations		
Capital contributions from parent company	\$ —	\$ 8,658
Net change in long-term debt	(33,323)	(21,675)
Change in deposits	38,692	21,922
Net cash provided financing activities of continuing operations	\$ 5,369	\$ 8,905
Effect of exchange rate changes on cash and cash equivalents	\$ (1,210)	\$ 614
Net cash provided by discontinued operations	\$2,669	\$163
Change in cash and due from banks	\$1,626	\$ 1,432
Cash and due from banks at beginning of year	22,872	21,440
Cash and due from banks at end of year	\$ 24,498	\$ 22,872
Supplemental disclosure of cash flow information for continuing operations		
Cash paid during the period for income taxes	\$ 2,256	\$ 1,427
Cash paid during the period for interest	\$ 8,480	\$ 10,250
Non-cash investing activities		
Transfers to repossessed assets	\$ 510	\$ 954
Transfers to trading account assets from investments	\$ 8,200	\$ 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, retail banking products and services, credit cards, 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

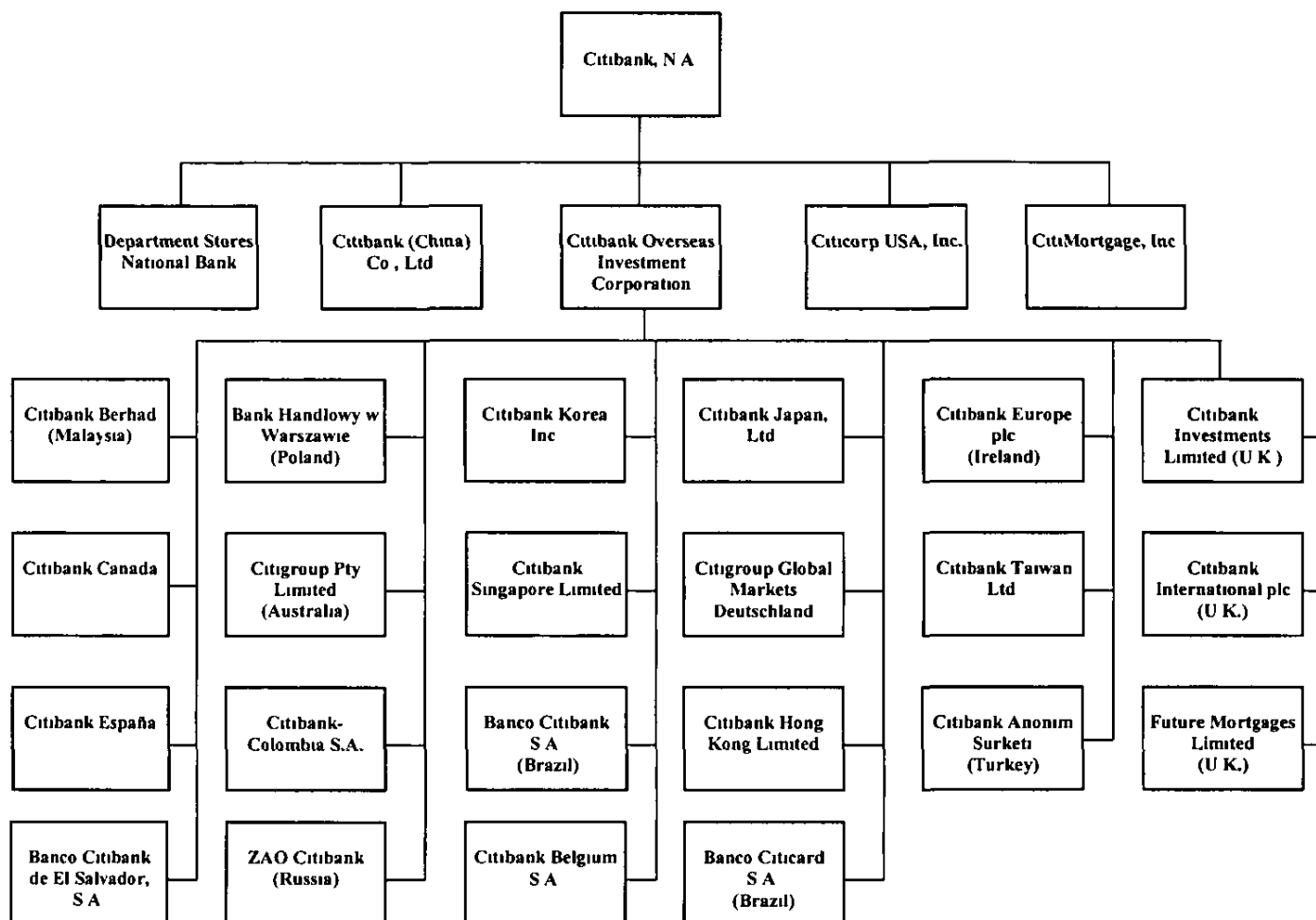
Additional information about Citibank and Citigroup is available in Citigroup's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the U S Securities and Exchange Commission on February 24, 2012

Merger of Citibank, N A. and Citibank (South Dakota), N A.

On July 1, 2011, Citibank, N A completed its merger with Citibank (South Dakota) N A , with Citibank N A as the surviving entity The primary reasons for the merger include streamlining management and governance of legal entities, more efficiently managing liquidity and capital, streamlining of costs and simplifying operations and technology Citibank, N A accounted for the merger in a manner similar to the "pooling of interests" method As such, all periods have been restated to include Citibank (South Dakota) N A in all disclosures

Citibank (South Dakota) constituted approximately \$2.0 billion of Total Citibank consolidated net income for the year ended December 31, 2010 and approximately \$126 billion of Total Citibank consolidated assets at December 31, 2010

SELECTED PRINCIPAL SUBSIDIARIES



Some intermediate holding companies are not shown above

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 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 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 entity's expected losses or expected returns.

As of January 1, 2010, when the Company adopted SFAS 167's amendments to the VIE consolidation guidance, the Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the VIE's economic success and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE (that is, it is the primary beneficiary).

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-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. 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.

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 primarily included in *Principal transactions*, 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. 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. 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. Realized gains and losses on sales of investments are included in income.

Trading Account Assets and Liabilities

Trading account assets include debt and marketable equity securities, derivatives in a receivable position, residual interests in securitizations and physical commodities inventory. In addition (as described 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 described 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 with related 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, which are described in Note 22 to the Consolidated Financial Statements.

Securities Borrowed and Securities Loaned

Securities borrowing and lending transactions generally do not constitute a sale of the underlying securities for accounting purposes, and so are 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.

With respect to securities borrowed or loaned, the Company monitors the market value of securities borrowed or loaned on a daily basis and obtains or posts additional collateral in order to maintain contractual margin protection.

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 so are 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 reverse repurchase agreements. The Company monitors the market value of securities subject to repurchase or resale on a daily basis and obtains or posts additional collateral in order to maintain contractual margin protection.

See related discussion of the assessment of effective control for repurchase agreements in "Future Application of Accounting Standards" below.

Repurchase and Resale Agreements, and Securities Lending and Borrowing Agreements, Accounted for as Sales

Where certain conditions are met under ASC 860-10, *Transfers and Servicing* (formerly FASB Statement No. 166, *Accounting for Transfers of Financial Assets*), the Company accounts for certain repurchase agreements and securities lending agreements as sales. The key distinction resulting in these agreements being accounted for as sales is a reduction in initial margin or restriction in daily maintenance margin. At December 31, 2011 and December 31, 2010, a nominal amount of these transactions was accounted for as sales that reduced *Trading account assets*.

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 as adjustments to income 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*.

Consumer loans

Consumer loans represent loans and leases managed primarily by the Company's *Consumer* businesses.

Non-accrual and re-aging policies

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.

For U.S. Consumer loans, one of the conditions to qualify for modification is that a minimum number of payments (typically ranging from one to three) must 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.

Charge-off policies

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 in accordance with Citibank's charge-off policy, 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 uncollectable

Corporate loans

Corporate loans represent loans and leases primarily managed by Institutional Client 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 past due 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 uncollectable. 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*. The practice of the U.S. prime mortgage business has been to sell substantially all of its conforming loans. As such, U.S. prime mortgage conforming loans are classified as held-for-sale and the fair value option is elected at the time of origination. With the exception of these loans for which the fair value option has been elected, held-for-sale loans are accounted for at the lower of cost or market value, with any write-downs or subsequent recoveries charged to *Other revenue*. 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*.

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. Assets received in exchange for loan claims in a restructuring are initially recorded at fair value, with any gain or loss reflected as a recovery or charge-off to the allowance.

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 the 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 (CRE) 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 is not seeking 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 non-modified smaller-balance, homogeneous loans is independently evaluated by product type (e.g., residential mortgage, credit card, etc.) for impairment in accordance with ASC 450-20. The allowance for loan losses attributed to these loans is established via a process that estimates the probable losses inherent in the specific portfolio. This process includes 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 and anticipated economic conditions, including changes in housing prices and unemployment trends. Citibank's allowance for loan losses under ASC 450-20 only considers contractual principal amounts due, except for credit card loans where estimated loss amounts related to accrued interest receivable are also included.

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.

Separate valuation allowances are determined for impaired smaller-balance homogeneous loans whose terms have been modified in a troubled debt restructuring (TDR). Long-term modification programs as well as short-term (less than 12 months) modifications originated from January 1, 2011 that provide concessions (such as interest rate reductions) to borrowers in financial difficulty are reported as TDRs. In addition, loans included in the U.S. Treasury's Home Affordable Modification Program (HAMP) trial period at December 31, 2011 are reported as TDRs. The allowance for loan losses for TDRs is 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. These expected cash flows incorporate modification program default rate assumptions. The original contractual effective rate for credit card loans is the pre-modification rate, which may include interest rate increases under the original contractual agreement with the borrower.

Where short-term concessions have been granted prior to January 1, 2011, the allowance for loan losses is materially consistent with the requirements of ASC 310-10-35.

Valuation allowances for commercial market loans, which are classifiably managed Consumer loans, are determined in the same manner as for Corporate loans and are described in more detail in the following section. Generally, an asset-specific component is calculated under ASC 310-10-35 on an individual basis for larger-balance, non-homogeneous loans that are considered impaired and the allowance for the remainder of the classifiably managed Consumer loan portfolio is calculated under ASC 450 using a statistical methodology, supplemented by management adjustment.

Reserve Estimates and Policies

Management provides reserves for an estimate of probable losses inherent in the funded loan portfolio on the 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 Citibank's Audit Committee of the 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. Applicable business areas include those having classifiably managed

portfolios, where internal credit-risk ratings are assigned (primarily *Institutional Clients Group* and *Global Consumer Banking*) or modified Consumer loans, where concessions were granted due to the borrowers' financial difficulties

The above-mentioned representatives covering these respective business areas 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 2010 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 specific 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 with 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 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* are recorded in the *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 balance sheet in *Other liabilities*. Changes to the allowance for unfunded lending commitments are recorded in the *Provision for unfunded lending commitments*.

Mortgage Servicing Rights

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. Mortgage servicing rights are accounted for at fair value, with changes in value recorded in *Other revenue* in the Company's Consolidated Statement of Income.

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 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.

In the event of a breach of these representations and warranties, Citibank may be required to either repurchase the mortgage loans with the identified defects (generally at unpaid principal balance plus accrued interest) 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.

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 mortgage servicing rights. 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 unpaid principal balance at the time of the repurchase 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. These assumptions contain a level of uncertainty and risk that, if different from actual results, could have a material impact on the reserve amount. 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 per repurchase or make-whole.

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, present value of future profits, purchased credit card relationships, other customer relationships, and other intangible assets, but excluding MSRs—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, repossessed assets, and other receivables. *Other liabilities* include, among other items, accrued expenses and other payables, deferred tax liabilities, and reserves for legal claims, taxes, unfunded lending commitments, repositioning reserves, and other matters.

Other Real Estate Owned and Repossessed Assets

Real estate or other assets received through foreclosure or repossession are generally reported in *Other assets*, net of a valuation allowance for selling costs and for subsequent declines in fair value.

Debt

Short-term borrowings and long-term debt are accounted for at amortized cost, except where the Company has elected to report the debt instruments, including certain structured notes, at fair value or the debt is in a fair value hedging relationship.

Securitizations

The Company primarily securitizes credit card receivables and 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. Citibank first makes a determination as to whether the securitization entity would be consolidated. Second, it determines whether the transfer of financial assets to the entity is considered a sale under GAAP. If the securitization entity is a VIE, the Company consolidates the VIE if it is the primary beneficiary.

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.

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.

Interests in the securitized and sold assets may be retained in the form of subordinated or senior interest-only strips, subordinated tranches, spread accounts, and servicing rights. In credit card securitizations, the Company retains a seller's interest in the credit card receivables transferred to the trusts, which is not in securitized form. In the case of consolidated securitization entities, including the credit card trusts, these retained interests are not reported on Citibank's Consolidated Balance Sheet, rather, the securitized loans remain on the balance sheet. Substantially all of the Consumer loans sold or securitized through non-consolidated trusts by Citibank are U.S. prime residential mortgage loans. Retained interests in non-consolidated mortgage securitization trusts are classified as *Trading account assets*, except for MSRs which are included in *Intangible assets* on Citibank's Consolidated Balance Sheet.

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

Transfers of Financial Assets

For a transfer of financial assets to be considered a sale, the assets must have been isolated from the Company, even in bankruptcy or other receivership, the purchaser must have the right to pledge or 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, and the Company may not have an option or 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 Consolidated Balance Sheet, and the sale proceeds 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, all cash flows must be divided proportionally, with the same priority of payment, no participating interest in the transferred asset may be subordinated to the interest of another participating interest holder, and 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 options, 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 an accounting hedge under the hedge accounting rules (versus a management hedge where hedge accounting is not sought), 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 an accounting 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 *Accumulated other comprehensive income (loss)*. 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 *Accumulated other comprehensive income (loss)* as part of the foreign currency translation adjustment.

End-user derivatives that are management 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 management 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 a management hedge, after considering the relative cost and benefits. Management 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 accounting 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 *Accumulated other comprehensive income (loss)* 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 occur, any amounts that remain in *Accumulated other comprehensive income (loss)* are immediately reflected in *Other revenue*.

Employee Benefits Expense

Employee benefits expense includes current service costs of pension and other postretirement benefit plans, which are accrued on a current basis, contributions and unrestricted awards under other employee plans, the amortization of restricted stock awards and costs of other employee benefits.

Stock-Based Compensation

The Company recognizes compensation expense related to stock and option awards over the requisite service period, generally based on the instrument's grant date fair value, reduced by expected forfeitures. Compensation cost related to awards granted to 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. Certain stock awards with performance conditions or certain clawback provisions are subject to variable accounting, pursuant to which the associated charges fluctuate with changes in Citigroup's stock price.

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.

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.

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 incorporated into 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 revenues are generally recognized in income when earned. Underwriting revenues are typically recognized in income at the closing of the transaction. Principal transactions revenues are recognized in income on a trade-date basis. See Note 5 to the Consolidated Financial Statements for a description of the Company's revenue recognition policies for commissions and fees.

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

Credit Quality and Allowance for Credit Losses Disclosures

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310) Disclosures about Credit Quality of Financing Receivables and Allowance for Credit Losses*. The ASU required 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 were effective for reporting periods ending on or after December 15, 2010 and were included in the Company's 2010 Consolidated Financial Statements, while disclosures for activity during a reporting period in the loan and allowance for loan losses accounts were effective for reporting periods beginning on or after December 15, 2010 (see Notes 13 and 14 to the Consolidated Financial Statements). The troubled debt restructuring disclosure requirements that were part of this ASU became effective in the third quarter of 2011 (see below).

Troubled Debt Restructurings (TDRs)

In April 2011, the FASB issued ASU No. 2011-02, *Receivables (Topic 310) A Creditor's Determination of whether a Restructuring is a Troubled Debt Restructuring*, to clarify the guidance for accounting for troubled debt restructurings. The ASU clarified the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties, such as

- Any shortfall in contractual loan payments is considered a concession
- Creditors cannot assume that debt extensions at or above a borrower's original contractual rate do not constitute troubled debt restructurings because the new contractual rate could still be below the market rate

- If a borrower doesn't have access to funds at a market rate for debt with characteristics similar to the restructured debt, that may indicate that the creditor has granted a concession
- A borrower that is not currently in default may still be considered to be experiencing financial difficulty when payment default is considered "probable in the foreseeable future"

Effective in the third quarter of 2011, as a result of adopting ASU 2011-02, certain loans modified under short-term programs since January 1, 2011 that were previously measured for impairment under ASC 450 are now measured for impairment under ASC 310-10-35. At September 30, 2011, the recorded investment in receivables previously measured under ASC 450 was \$490 million and the allowance for credit losses associated with those loans was \$270 million. The effect of adopting the ASU was approximately \$60 million.

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

- (1) to reduce the operational burden of assessing beneficial interests for bifurcation under the guidance in the ASU,
- (2) 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
- (3) 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 15, 2009. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in Level 3 of the fair value measurement hierarchy are required for fiscal years beginning after December 15, 2010. The Company adopted ASU 2010-06 as of January 1, 2010. The required disclosures are included in Note 22 to the Consolidated Financial Statements.

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.

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 now 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 new 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 new accounting standards, Citibank consolidated certain of the VIEs and former QSPEs with which it had involvement on January 1, 2010. 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 new 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 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 of approximately \$133 billion and a net increase (after reflecting a partial offset for additional loan loss reserves) in risk-weighted assets of approximately \$9 billion, which primarily related to the consolidation of credit card trusts, commercial paper conduits and student loan securitization entities.

The cumulative effect of adopting these accounting standards as of January 1, 2010 resulted in an aggregate after-tax charge to *Retained earnings* of \$8.4 billion.

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.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

Repurchase Agreements – Assessment of Effective Control

In April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements*. The amendments in the ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in the ASU.

The ASU became effective for Citibank on January 1, 2012. The guidance is to be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The ASU did not have a material effect on the Company's financial statements. A nominal amount of the Company's repurchase transactions are currently accounted for as sales, because of a reduction in initial margin or restriction in daily maintenance margin. Such transactions will be accounted for as financing transactions if executed on or after January 1, 2012.

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The amendment creates a common definition of fair value for U.S. GAAP and International Financial Reporting Standards (IFRS) and aligns the measurement and disclosure requirements. It requires significant additional disclosures both of a qualitative and quantitative nature, particularly on those instruments measured at fair value that are classified in Level 3 of the fair value hierarchy. Additionally, the amendment provides guidance on when it is appropriate to measure fair value on a portfolio basis and expands the prohibition on valuation adjustments from Level 1 to all levels of the fair value hierarchy where the size of the Company's position is a characteristic of the adjustment. The amendment became effective for Citibank on January 1, 2012. As a result of implementing the prohibition on valuation adjustments where the size of the Company's position is a characteristic, the Company will release reserves of approximately \$4 million, increasing pretax income in the first quarter of 2012.

Offsetting

In December 2011, the FASB issued Accounting Standards Update No. 2011-11—*Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities*. The standard requires new disclosures about certain financial instruments and derivative instruments that are either offset in the balance sheet (presented on a net basis) or subject to an enforceable

master netting arrangement or similar arrangement. The standard requires disclosures that provide both gross and net information in the notes to the financial statements for relevant assets and liabilities. This ASU does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. The new disclosure requirements should enhance comparability between those companies that prepare their financial statements on the basis of U.S. GAAP and those that prepare their financial statements in accordance with IFRS. For many financial institutions, the differences in the offsetting requirements between U.S. GAAP and IFRS result in a significant difference in the amounts presented in the balance sheets prepared in accordance with U.S. GAAP and IFRS. The disclosure standard will become effective for annual periods beginning January 1, 2013. The disclosures are required retrospectively for all comparative periods presented.

Potential Amendments to Current Accounting Standards

The FASB and International Accounting Standards Board (IASB), either jointly or separately, are currently working on several major projects, including amendments to existing accounting standards governing financial instruments, lease accounting, consolidation and investment companies. As part of the joint financial instruments project, 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 joint project that would require all leases to be capitalized on the balance sheet. Additionally, the FASB has issued a proposal on principal-agent considerations that would change the way the Company needs to evaluate whether to consolidate VIEs and non-VIE partnerships. Furthermore, the FASB has issued a proposed Accounting Standards Update that would change the criteria used to determine whether an entity is subject to the accounting and reporting requirements of an investment company. The principal-agent consolidation proposal would require all VIEs, including those that are investment companies, to be evaluated for consolidation under the same requirements.

In addition to the major projects, the FASB has also proposed changes regarding the Company's release of any cumulative translation adjustment into earnings when it ceases to have a controlling financial interest in certain groups of assets that constitute a business within a consolidated foreign subsidiary. All these projects may have significant impacts for the Company. Upon completion of the standards, the Company will need to re-evaluate its accounting and disclosures. 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 Egg Banking PLC Credit Card Business

On March 1, 2011, the Company announced that Egg Banking plc (Egg), an indirect subsidiary, entered into a definitive agreement to sell its credit card business to Barclays PLC. The sale closed on April 28, 2011.

This sale is reported as discontinued operations for the full year of 2011 only. Prior periods were not reclassified due to the immateriality of the impact in those periods. An after-tax gain on sale of \$219 million was recognized upon closing. Egg operations had total assets and total liabilities of approximately \$2.7 billion and \$39 million, respectively, at the time of sale.

Summarized financial information for *Discontinued operations*, including cash flows, for the credit card operations related to Egg follows:

<i>In millions of dollars</i>	2011
Total revenues, net of interest expense ⁽¹⁾	\$483
Income from discontinued operations	24
Gain on sale	286
Provision for income taxes	108
Income from discontinued operations, net of taxes	\$202

<i>In millions of dollars</i>	
Cash flows from operating activities	\$ (146)
Cash flows from investing activities	2,827
Cash flows from financing activities	(12)
Net cash provided by discontinued operations	\$2,669

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

Sale of The Student Loan Corporation

On September 17, 2010, the Company announced that The Student Loan Corporation (SLC), a direct subsidiary that was 80% owned by Citibank and 20% owned by public shareholders, entered into definitive agreements that resulted in the divestiture of Citi's private student loan business and approximately \$31 billion of its approximate \$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, Citi provided Sallie Mae with \$1.1 billion of seller-financing. Additionally, as part of the transactions, Citibank, N.A. purchased approximately \$8.6 billion of assets from SLC prior to the sale of SLC.

This sale was reported as discontinued operations for the second half of 2010 only. 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 after-tax loss of \$427 million. SLC operations had total assets and total liabilities of approximately \$31 billion and \$29 billion, respectively, at the time of sale.

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

<i>In millions of dollars</i>	2011	2010 ⁽¹⁾
Total revenues, net of interest expense ⁽²⁾	\$—	\$ (577)
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>	2011	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 only.

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

Combined Results for Discontinued Operations

The following is summarized financial information for the Egg credit card, SLC, German retail banking and CitiCapital businesses. 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. Additionally, 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>	2011	2010
Total revenues, net of interest expense ⁽¹⁾	\$ 491	\$ (517)
Income from discontinued operations	23	\$ 79
Gain (loss) on sale	294	(810)
Provision (benefit) for income taxes	115	(395)
Income (loss) from discontinued operations, net of taxes	\$ 202	\$ (336)

<i>In millions of dollars</i>	2011	2010
Cash flows from operating activities	\$ (146)	\$5,108
Cash flows from investing activities	2,827	1,541
Cash flows from financing activities	(12)	(6,486)
Net cash provided by discontinued operations	\$2,669	\$ 163

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

4 INTEREST REVENUE AND EXPENSE

For the years ended December 31, 2011, and 2010, respectively, interest revenue and expense consisted of the following

<i>In millions of dollars</i>	2011	2010
Interest revenue		
Loan interest, including fees	\$41,353	\$44,646
Deposits with banks	1,428	986
Federal funds sold, securities borrowed or purchased under agreements to resell	1,355	862
Investments, including dividends	6,531	8,346
Trading account assets ⁽¹⁾	3,299	2,934
Other interest	328	361
Total interest revenue	\$54,294	\$58,135
Interest expense		
Deposits ⁽²⁾	\$ 7,950	\$ 7,830
Federal funds purchased and securities loaned or sold under agreements to repurchase	409	387
Trading account liabilities ⁽¹⁾	302	322
Short-term borrowings	433	465
Long-term debt	3,435	4,208
Total interest expense	\$12,529	\$13,212
Net interest revenue	\$41,765	\$44,923
Provision for loan losses	9,623	21,225
Net interest revenue after provision for loan losses	\$32,142	\$23,698

(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 \$1.2 billion and \$851 million for the years ended December 31, 2011 and 2010, respectively

5 COMMISSIONS AND FEES

The table below sets forth Citibank's *Commissions and fees* revenue for the twelve months ended December 31, 2011 and 2010, respectively. The primary components of *Commissions and fees* revenue for the year ended December 31, 2011 were credit card and bank card fees, and asset management and other fiduciary fees.

Credit card and bank card fees are primarily composed of interchange revenue and certain card fees, including annual fees, reduced by reward program costs. Interchange revenue and fees are recognized when earned, except for annual card fees which are deferred and amortized on a straight-line basis over a 12-month period. Reward costs are recognized when points are earned by the customers.

Asset management and other fiduciary fees include fees earned for securities safekeeping and processing services, performing transfer, paying agent, or dividend reinvestment services, fees from clean or documentary letters of credit, and endorsements or other guarantee arrangements that facilitate customer financing or performance.

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

<i>In millions of dollars</i>	2011	2010
Asset management and other fiduciary fees	\$ 3,279	\$ 3,236
Credit cards and bank cards	3,112	3,373
Transaction services	1,289	1,215
Insurance related commissions	816	747
Checking-related	748	833
Corporate finance	479	363
Loan servicing	266	519
Other	1,352	1,278
Total commissions and fees	\$11,341	\$11,564

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. See Note 4 to the Consolidated Financial Statements for information about net interest revenue related to trading activity. The following table presents principal transactions revenue for the years ended December 31.

<i>In millions of dollars</i>	2011	2010
Interest rate contracts ⁽¹⁾	\$3,603	\$3,096
Foreign exchange contracts ⁽²⁾	1,871	1,667
Equity contracts ⁽³⁾	118	153
Commodity and other contracts ⁽⁴⁾	(20)	(267)
Credit derivatives ⁽⁵⁾	205	166
Total	\$5,777	\$4,815

- (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 award programs involving grants of stock options, restricted or deferred stock awards, and stock payments for employees of Citigroup and its subsidiaries, including Citibank. The awards are denominated in (and, in most cases, are payable in) shares of Citigroup common stock. The award programs are used to attract, retain and motivate officers, employees and non-employee directors of Citigroup and its subsidiaries, 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. Executives and employees of the Company participate in the Citigroup programs described below to the extent they meet the eligibility criteria established by Citigroup. The Company makes cash payments to reimburse Citigroup for the cost of the awards when shares are delivered to participants (the payments are based on the market value of the vested stock awards at such time, or the spread realized by the employee on an option exercise), but the Company recognizes compensation expense for the awards as described below.

For all stock award programs, during the applicable vesting period, the shares awarded are not issued to participants (in the case of a deferred stock award) or cannot be sold or transferred by the participants (in the case of a restricted stock award), until after the vesting conditions have been satisfied. Recipients of deferred stock awards do not have any stockholder rights until shares are delivered to them, but they generally are entitled to receive dividend-equivalent payments during the vesting period. Recipients of restricted stock awards are entitled to a limited voting right and to receive dividend-equivalent payments during the vesting period. (Dividend equivalents are paid through payroll and recorded as an offset to retained earnings on those shares expected to vest.) Once a stock award vests, the shares may become freely transferable, but in the case of certain executives, may be subject to transfer restrictions by their terms or a stock ownership commitment. Dividend equivalents and any other cash payments to participants who are employed by the Company are paid directly by the Company.

The total expense to be recognized for the stock awards represents the fair value of Citigroup common stock at the date of grant. The expense is recognized as a charge ratably over the vesting period, except for those awards granted to retirement-eligible employees, and salary stock and other immediately vested awards. For awards of deferred stock expected to be made to retirement-eligible employees, the charge to income is accelerated based on the dates the retirement rules are or will be met. If the retirement rules will have been met on or prior to the expected award date, the entire estimated expense is recognized in the year prior to grant in the same manner as cash incentive compensation is.

accrued, rather than amortized over the applicable vesting period of the award. Salary stock and other immediately vested awards generally were granted in lieu of cash compensation and are also recognized in the year prior to the grant in the same manner as cash compensation is accrued. Certain stock awards with performance conditions or certain clawback provisions may be subject to variable accounting, pursuant to which the associated charges fluctuate with changes in Citigroup's stock price over the applicable vesting periods. The total amount that will be recognized as expense cannot be determined in full until the awards vest.

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 discretionary incentive compensation and vest ratably over three- or four-year periods, beginning on the first anniversary of the award date.

In January 2010, the percentages of total annual incentives awarded pursuant to CAP were reduced and instead awarded as deferred cash awards primarily 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. In both cases, only cash is delivered at vesting.

Stock Option Programs

While Citigroup no longer grants options as part of its annual incentive award programs, Citigroup may grant stock options to employees on a one-time basis, as sign-on awards or as retention awards. All stock options are granted on Citigroup common stock with exercise prices that are no less than the fair market value at the time of grant (which is defined under Citigroup's 2009 Stock Incentive Plan to be the NYSE closing price on the trading day immediately preceding the grant date or on the grant date for grants to executive officers).

On April 20, 2010, Citigroup made an option grant to a group of employees (including employees of the Company) who were not eligible for the October 29, 2009, broad-based grant described below. The options were awarded with an exercise price equal to the NYSE closing price on the trading day immediately preceding the date of grant (\$48.80). The options vest in three annual installments beginning on October 29, 2010. The options have a six-year term.

On October 29, 2009, Citigroup made a one-time broad-based option grant to employees worldwide, including employees of the Company. The options have a six-year term, generally vest in three equal installments over three years, beginning on the first anniversary of the grant date, and have an exercise price of \$40.80.

Profit Sharing Plan

In October 2010, the Committee approved awards under the 2010 Key Employee Profit Sharing Plan (KEPSP) to certain executives (including executives of the Company), 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 of Citicorp (as defined in the KEPSP) 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 (a) 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 (b) 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 other executive officers of Citigroup (including the Company). 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, the Company operates and may from time to time introduce other incentive plans for certain employees that have an incentive-based award component. Individually, these plans are not deemed material.

Compensation Expense

The Company recognized compensation expense of \$218 million in 2011, relating to its stock-based compensation programs.

8 RETIREMENT BENEFITS

Pension and Postretirement Benefits

The Company's employees participate in several non-contributory defined benefit pension plans sponsored by Citigroup covering certain U S employees. The Company also participates in various defined benefit pension and termination indemnity plans covering employees outside the United States. 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.

The Company's allocated share of the related net funded status of the plans is recognized in the Company's Balance Sheet. For the U S pension plans, the Company recognized a funded status of \$(660) million and \$(494) million for the years ended December 31, 2011 and 2010, respectively. For the non-U S pension plans, the Company recognized a funded status of \$(262) million and \$(226) million for the years ended December 31, 2011 and 2010, respectively. For the U S postretirement plans, the Company recognized a funded status of \$(469) million and \$(502) million for the years ended December 31, 2011 and 2010, respectively. For the non-U S postretirement plans, the Company recognized a funded status of \$(264) million and \$(269) million for the years ended December 31, 2011 and 2010, respectively.

The Company's allocated share of the related net amount recognized in equity in the Company's Consolidated Balance Sheet. For the U S pension plans, the Company recognized a net amount in equity of \$2,118 million and \$1,860 million for the years ended December 31, 2011 and 2010, respectively. For the non-U S pension plans, the Company recognized a net amount in equity of \$(1,162) million and \$(1,219) million for the years ended December 31, 2011 and 2010, respectively. For the U S postretirement plans, the Company recognized a net amount in equity of \$71 million and \$124 million for the years ended December 31, 2011 and 2010, respectively. For the non-U S postretirement plans, the Company recognized a net amount in equity of \$70 million and \$92 million for the years ended December 31, 2011 and 2010, respectively.

The Company's allocated share of the related (benefit) expense for the plans is recognized in the Company's Statement of Income. For the U S pension plans, the Company recognized a net benefit of \$60 million and \$51 million for the years ended December 31, 2011 and 2010, respectively. For the non-U S pension plans, the Company recognized a net expense of \$186 million and \$132 million for the years ended December 31, 2011 and 2010, respectively. For the U S postretirement plans, the Company recognized a net expense of \$19 million and \$31 million for the years ended December 31, 2011 and 2010, respectively. For the non-U S postretirement plans, the Company recognized a net expense

of \$31 million and \$34 million for the years ended December 31, 2011 and 2010, respectively.

Plan Assumptions

Citigroup utilizes a number of assumptions, which are set by the plans' management, to determine plan obligations and expense. Changes in one or a combination of these assumptions will have an impact on the Company's pension and postretirement PBO, funded status and benefit expense. Changes in the plans' funded status resulting from changes in the PBO and fair value of plan assets will have a corresponding impact on *Accumulated other comprehensive income (loss)*. A discussion of certain assumptions follows.

Discount Rate

The discount rates for the U S pension and postretirement plans were selected by reference to a Citigroup-specific analysis using each plan's specific cash flows and compared with high quality corporate bond indices for reasonableness. Citigroup's policy is to round to the nearest five hundredths of a percent. Accordingly, at December 31, 2011, the discount rate was set at 4.70% for the pension plans and 4.30% for the postretirement plans. At December 31, 2010, the discount rate was set at 5.45% for the pension plans and 5.10% for the postretirement plans.

The discount rates for the non-U S pension and postretirement plans are selected by reference to high quality corporate bond rates in countries that have developed corporate bond markets. However, where developed corporate bond markets do not exist, the discount rates are selected by reference to local government bond rates with a premium added to reflect the additional risk for corporate bonds.

Expected Rate of Return

Citigroup determines its assumptions for the expected rate of return on plan assets for its U S pension and postretirement plans using a "building block" approach, which focuses on ranges of anticipated rates of return for each asset class. A weighted range of nominal rates is then determined based on target allocations to each asset class. Market performance over a number of earlier years is evaluated covering a wide range of economic conditions to determine whether there are sound reasons for projecting any past trends.

Citigroup considers the expected rate of return to be a long-term assessment of return expectations and does not anticipate changing this assumption annually unless there are significant changes in investment strategy or economic conditions. This contrasts with the selection of the discount rate, future compensation increase rate, and certain other assumptions, which are reconsidered annually in accordance with generally accepted accounting principles.

The expected rate of return for the U S pension and postretirement plans was 7.50% at December 31, 2011 and 2010. Actual returns in 2011 and 2010 were greater than the expected returns. This expected amount reflects the expected annual appreciation of the plan assets and reduces the annual pension expense of Citigroup. It is deducted from the sum of service cost, interest and other components of pension expense to arrive at the net pension (benefit) expense.

Third-party investment managers and advisors provide their services to Citigroup's U S pension plans. Assets are rebalanced as the Pension Plan Investment Committee deems appropriate. Citigroup's investment strategy, with respect to its pension assets, is to maintain a globally diversified investment portfolio across several asset classes that, when combined with Citigroup's contributions to the plans, will maintain the plans' ability to meet all required benefit obligations.

Investment Strategy

Citigroup's global pension and postretirement funds' investment strategies are to invest in a prudent manner for the exclusive purpose of providing benefits to participants. The investment strategies are targeted to produce a total return that, when combined with Citigroup's contributions to the funds, will maintain the funds' ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in domestic and international equities, fixed-income securities and cash and short-term investments. The target asset allocation in most locations outside the U S is to have the majority of the assets in equity and debt securities. These allocations may vary by geographic region and country depending on the nature of applicable obligations and various other regional considerations. The wide variation in the actual range of plan asset allocations for the funded non-U S plans is a result of differing local statutory requirements and economic conditions. For example, in certain countries local law requires that all pension plan assets must be invested in fixed-income investments, government funds, or local-country securities.

Significant Concentrations of Risk in Plan Assets

The assets of Citigroup's pension plans are diversified to limit the impact of any individual investment. The U S pension plan is diversified across multiple asset classes, with publicly traded fixed income, hedge funds and private equity representing the most significant asset allocations. Investments in these three asset classes are further diversified across funds, managers, strategies, vintages, sectors and geographies, depending on the specific characteristics of each asset class. The pension assets for Citigroup's largest non-U S plans are primarily invested in publicly traded fixed income and publicly traded equity securities.

Oversight and Risk Management Practices

The framework for Citigroup's pensions oversight process includes monitoring of retirement plans by plan fiduciaries and/or management at the global, regional or country level, as appropriate. Independent risk management contributes to the risk oversight and monitoring for Citigroup's U S pension plans and largest non-U S pension plans. Although the specific components of the oversight process are tailored to the requirements of each region, country and Plan, the following elements are common to Citigroup's monitoring and risk management process:

- Periodic asset/liability management studies and strategic asset allocation reviews

- Periodic monitoring of funding levels and funding ratios
- Periodic monitoring of compliance with asset allocation guidelines
- Periodic monitoring of asset class and/or investment manager performance against benchmarks
- Periodic risk capital analysis and stress testing

Defined Contribution Plans

Citigroup administers defined contribution plans in the U S and in certain non-U S locations, all of which are administered in accordance with local laws. The Company participates in many of these plans. The most significant of these plans is the Citigroup 401(k) Plan in the U S.

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 6% and 4% of their pay in 2011 and 2010, 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 \$206 million and \$158 million for the years ended December 31, 2011 and 2010, 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 3% and 2% of eligible pay or the first \$8,000 and \$5,000 in employee deferrals in 2011 and 2010, respectively, for all employees in Puerto Rico at all compensation levels. 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 \$2 million for the years ended December 31, 2011 and 2010.

Postemployment Plans

Citigroup sponsors U S postemployment plans that provide income continuation and health and welfare benefits to certain eligible U S employees on long term disability. For the years ended December 31, 2011 and 2010, the Company's allocated share of the plans' funded status recognized in the Company's Balance Sheet was \$(321) million and \$(278) million, respectively. The Company's allocated share of the related net amount recognized in equity in the Company's Consolidated Balance Sheet as of December 31, 2011 and 2010 was \$157 million and \$125 million, respectively. The Company's allocated share of the net expense recognized in the Statement of Income during 2011 and 2010 were \$55 million and \$48 million, 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>	2011	2010
Current		
Federal	\$ 16	\$ (303)
Foreign	2,473	2,268
State	9	377
Total current income taxes	\$2,498	\$2,342
Deferred		
Federal	\$ (133)	\$ (204)
Foreign	465	378
State	84	(231)
Total deferred income taxes	\$ 416	\$ (57)
Provision for income tax on continuing operations before noncontrolling interests⁽¹⁾	\$2,914	\$2,285
Provision (benefit) for income taxes on discontinued operations	115	(395)
Provision (benefit) for income taxes on cumulative effect of accounting changes	—	(4,788)
Income tax expense (benefit) reported in stockholder's equity related to:		
Foreign currency translation	(360)	(111)
Securities available-for-sale	2,291	907
Employee stock plans	—	(7)
Cash flow hedges	(148)	341
Citibank's portion of Citigroup's pension liability adjustments	(115)	(152)
Income taxes before noncontrolling interests	\$4,697	\$ (1,920)

(1) Includes the effect of securities transactions and OTTI losses resulting in a provision (benefit) of \$(175) million and \$(616) million in 2011, and \$652 million and \$(424) million in 2010, 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 noncontrolling interests) for the years ended December 31 was as follows:

	2011	2010
Federal statutory rate	35.0%	35.0%
State income taxes, net of federal benefit	0.3	0.6
Foreign income tax rate differential	(7.4)	(8.4)
Tax advantaged investments	(5.5)	(6.3)
Other, net	(0.5)	(0.3)
Effective income tax rate	21.9%	20.6%

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

<i>In millions of dollars</i>	2011	2010
Deferred tax assets		
Credit loss deduction	\$ 9,839	\$12,317
Deferred compensation and employee benefits	2,155	1,080
Restructuring and settlement reserves	682	262
Unremitted foreign earnings	3,752	2,886
Cash flow hedges	1,339	963
Investments and loan basis differences	1,887	4,792
Credit valuation adjustment on Company-issued debt	(21)	116
Tax credit and net operating loss carryforwards	10,784	10,950
Intangibles	256	(162)
Other	772	592
Gross deferred tax assets	\$31,445	\$33,796
Valuation allowance	—	—
Deferred tax assets after valuation allowance	\$31,445	\$33,796
Deferred tax liabilities		
Fixed assets and leases-	\$ (736)	\$ (634)
Other deferred tax liabilities	(1,089)	(421)
Interest-related items	(159)	(370)
Gross deferred tax liabilities	\$ (1,984)	\$ (1,425)
Net deferred tax asset	\$ 29,461	\$32,371

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>	2011	2010
Total unrecognized tax benefits at January 1,	\$1,813	\$1,661
Net amount of increases for current year's tax positions	41	60
Gross amount of increases for prior years' tax positions	121	363
Gross amount of decreases for prior years' tax positions	(344)	(253)
Amounts of decreases relating to settlements	(11)	(11)
Reductions due to lapse of statutes of limitation	(18)	(11)
Foreign exchange, acquisitions and dispositions	(7)	4
Total unrecognized tax benefits at December 31	\$1,595	\$1,813

The total amount of unrecognized tax benefits at December 31, 2011 and 2010 that, if recognized, would affect the Company's effective tax rate was \$1,042 million and \$973 million, respectively. The remainder of the uncertain tax positions has offsetting amounts in other jurisdictions or these positions 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>	2011		2010	
	Pretax	Net of tax	Pretax	Net of tax
Total interest and penalties in the Consolidated Balance Sheet at January 1,	\$226	\$150	\$277	\$165
Total interest and penalties in the Consolidated Statement of Income	28	17	(40)	(24)
Total interest and penalties in the Consolidated Balance Sheet at December 31	262	171	226	150

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.

Citigroup expects to conclude the IRS audit of its U.S. federal consolidated income tax returns for the years 2006-2008 and may resolve certain issues with the IRS Appeals for the years 2003-2005 within the next 12 months. The gross uncertain tax positions of the Company at December 31, 2011 for the items that may be resolved for 2003-2008 are as much as \$775 million plus gross interest of \$70 million. Because of the number of issues remaining to be resolved, the potential tax benefit to continuing operations could be anywhere in a range between \$0 and \$430 million.

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	2010
Ireland	2007
Japan	2009
Hong Kong	2006
Singapore	2005
Brazil	2007

Foreign pretax earnings approximated \$11.8 billion in 2011 and \$10.9 billion in 2010. As a U.S. corporation, Citibank and its U.S. subsidiaries are subject to U.S. taxation currently on all foreign pretax 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, 2011 and 2010, respectively, \$28.9 billion and \$25.6 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 \$7.3 billion and \$6.5 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, 2011 and 2010, the amount of the base year reserves totaled approximately \$358 million (subject to a tax of \$125 million).

Foreign tax credit carryforwards expire between 2016 through 2021 and the state and local net operating loss carryforwards between 2012 and 2031.

The Company had no valuation allowance on deferred tax assets at December 31, 2011 and December 31, 2010. Although it is not assured, the Company believes that the realization of the recognized net deferred tax asset of \$2.9 billion at December 31, 2011 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/RESALE AGREEMENTS

Federal funds sold and securities borrowed or purchased under agreements to resell, at their respective carrying values, consisted of the following at December 31

<i>In millions of dollars</i>	2011	2010
Federal funds sold	\$ 37	\$ 227
Securities purchased under agreements to resell	63,278	38,874
Deposits paid for securities borrowed	11,422	4,205
Total	\$ 74,737	\$43,306

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

<i>In millions of dollars</i>	2011	2010
Federal funds purchased	\$ 688	\$ 478
Securities sold under agreements to repurchase	26,206	12,307
Deposits received for securities loaned	1,123	—
Total	\$ 28,017	\$12,785

The resale and repurchase agreements represent collateralized financing transactions. The Company executes these transactions primarily to facilitate customer financing activity.

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 in order to maintain contractual margin protection. Collateral typically consists of government and government-agency securities, corporate and municipal bonds, and mortgage-backed and other asset-backed securities. 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.

Securities borrowing and lending agreements 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. With respect to securities loaned, the Company receives cash collateral in an amount generally in excess of the market value of the securities loaned. The Company monitors the market value of securities borrowed and securities loaned on a daily basis and obtains or posts additional collateral in order to maintain contractual margin protection.

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>	2011	2010
Trading account assets		
Mortgage-backed securities ⁽¹⁾		
U S government-sponsored		
agency guaranteed	\$ 3,822	\$ 3,028
Prime	12	146
Alt-A	—	27
Subprime	—	17
Non-U S residential	16	42
Commercial	—	141
Total mortgage-backed securities	\$ 3,850	\$ 3,401
U S Treasury and federal agencies		
U S Treasuries	\$ 1,853	\$ 7,507
Agency obligations	—	132
Total U S Treasury and federal agencies	\$ 1,853	\$ 7,639
State and municipal securities	\$ 1,292	\$ 1,185
Foreign government securities	36,142	34,118
Corporate	18,471	20,245
Derivatives ⁽²⁾	71,684	57,451
Equity securities	10,144	10,346
Asset-backed securities ⁽¹⁾	47	750
Other debt securities	14,479	14,224
Total trading account assets	\$157,962	\$149,359
Trading account liabilities		
Securities sold, not yet purchased	\$8,553	\$ 8,225
Derivatives ⁽²⁾	56,388	47,368
Total trading account liabilities	\$ 64,941	\$ 55,593

- (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

Overview

<i>In millions of dollars</i>	2011	2010
Securities available-for-sale	\$201,204	\$220,809
Debt securities held-to-maturity ⁽¹⁾	6,497	24,903
Non-marketable equity securities carried at fair value ⁽²⁾	50	189
Non-marketable equity securities carried at cost ⁽³⁾	7,538	7,576
Total investments	\$215,289	\$253,477

(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 Citigroup is a member

Securities Available-for-Sale

The amortized cost and fair value of securities available-for-sale at December 31, 2011 and December 31, 2010 were as follows

<i>In millions of dollars</i>	2011				2010			
	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	\$ 42,401	\$1,370	\$ 36	\$ 43,735	\$ 22,723	\$ 402	\$ 235	\$ 22,890
Prime	6	—	—	6	1,660	—	172	1,488
Alt-A	—	—	—	—	1	—	—	1
Non-U S residential	4,670	11	22	4,659	315	1	—	316
Commercial	—	—	—	—	106	1	29	78
Total mortgage-backed securities	\$ 47,077	\$1,381	\$ 58	\$ 48,400	\$ 24,805	\$ 404	\$ 436	\$ 24,773
U S Treasury and federal agency securities								
U S Treasury	\$ 27,290	\$1,342	\$ —	\$ 28,632	\$ 45,667	\$ 431	\$ 45	\$ 46,053
Agency obligations	21,436	553	2	21,987	35,394	360	40	35,714
Total U S Treasury and federal agency securities	\$ 48,726	\$1,895	\$ 2	\$ 50,619	\$ 81,061	\$ 791	\$ 85	\$ 81,767
State and municipal ⁽²⁾	16,185	122	2,432	13,875	14,836	16	2,383	12,469
Foreign government	69,054	327	336	69,045	80,926	566	363	81,129
Corporate	5,333	28	9	5,352	10,626	55	18	10,663
Asset-backed securities ⁽¹⁾	9,801	2	68	9,735	7,657	4	34	7,627
Other debt securities	647	12	—	659	1,358	25	60	1,323
Total debt securities available-for-sale	\$196,823	\$3,767	\$2,905	\$197,685	\$221,269	\$1,861	\$3,379	\$219,751
Marketable equity securities available-for-sale	2,919	602	2	3,519	\$ 373	\$ 685	\$ —	\$ 1,058
Total securities available-for-sale	\$199,742	\$4,369	\$2,907	\$201,204	\$221,642	\$2,546	\$3,379	\$220,809

(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, see Note 19 to the Consolidated Financial Statements.

(2) The gross unrealized losses on state and municipal debt securities are primarily attributable to the result of yields on taxable fixed income instruments decreasing relatively faster than the general tax-exempt municipal yields and the effects of fair value hedge accounting.

At December 31, 2011, the amortized cost of approximately 2,000 investments in equity and fixed-income securities exceeded their fair value by \$2.907 billion. Of the \$2.907 billion, the gross unrealized loss on equity securities was \$2 million. Of the remainder, \$289 million represents fixed-income investments that have been in a gross-unrealized-loss position for less than a year and, of these, 99% are rated investment grade, \$2.616 billion represents fixed-income investments that have been in a gross-unrealized-loss position for a year or more and, of these, 98% are rated investment grade.

The AFS mortgage-backed securities portfolio fair value balance of \$48.400 billion consists of \$43.735 billion of government-sponsored agency securities, and \$4.665 billion of privately sponsored securities, of which the majority is backed by mortgages that are not Alt-A or subprime.

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, 2011 and December 31, 2010.

	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
<i>In millions of dollars</i>						
December 31, 2011						
Securities available-for-sale						
Mortgage-backed securities						
U S government-agency guaranteed	\$ 5,392	\$ 33	\$ 36	\$ 3	\$ 5,428	\$ 36
Prime	—	—	—	—	—	—
Alt-A	—	—	—	—	—	—
Non-U S residential	3,418	22	57	—	3,475	22
Commercial	—	—	—	—	—	—
Total mortgage-backed securities	\$ 8,810	\$ 55	\$ 93	\$ 3	\$ 8,903	\$ 58
U S Treasury and federal agency securities						
U S Treasury	51	—	—	—	51	—
Agency obligations	1,516	2	—	—	1,516	2
Total U S Treasury and federal agency securities	\$ 1,567	\$ 2	\$ —	\$ —	\$ 1,567	\$ 2
State and municipal	56	2	11,226	2,430	11,282	2,432
Foreign government	23,947	156	10,937	180	34,884	336
Corporate	1,459	9	3	—	1,462	9
Asset-backed securities	4,176	65	347	3	4,523	68
Other debt securities	164	—	—	—	164	—
Marketable equity securities available-for-sale	3	2	—	—	3	2
Total securities available-for-sale	\$40,182	\$291	\$22,606	\$2,616	\$62,788	\$2,907
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	506	14	461	4	967	18
Asset-backed securities	1,877	33	5	1	1,882	34
Other debt securities	—	—	559	60	559	60
Marketable equity securities available-for-sale	—	—	31	—	31	—
Total securities available-for-sale	\$52,734	\$616	\$19,793	\$2,763	\$72,527	\$3,379

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, 2011 and December 31, 2010

<i>In millions of dollars</i>	2011		2010	
	Amortized cost	Fair value	Amortized cost	Fair value
Mortgage-backed securities ⁽¹⁾				
Due within 1 year	\$ —	\$ —	\$ —	\$ —
After 1 but within 5 years	412	412	399	372
After 5 but within 10 years	1,957	2,025	303	318
After 10 years ⁽²⁾	44,708	45,963	24,103	24,083
Total	\$ 47,077	\$ 48,400	\$ 24,805	\$ 24,773
U.S. Treasury and federal agencies				
Due within 1 year	\$ 4,788	\$ 4,808	\$ 24,476	\$ 24,505
After 1 but within 5 years	38,053	39,504	45,150	45,735
After 5 but within 10 years	5,508	5,874	10,150	10,187
After 10 years ⁽²⁾	377	433	1,285	1,340
Total	\$ 48,726	\$ 50,619	\$ 81,061	\$ 81,767
State and municipal				
Due within 1 year	\$ 134	\$ 135	\$ 2	\$ 2
After 1 but within 5 years	431	432	87	89
After 5 but within 10 years	131	133	186	187
After 10 years ⁽²⁾	15,489	13,175	14,561	12,191
Total	\$ 16,185	\$ 13,875	\$ 14,836	\$ 12,469
Foreign government				
Due within 1 year	\$ 32,046	\$ 31,990	\$ 34,036	\$ 33,509
After 1 but within 5 years	31,090	31,162	41,661	42,326
After 5 but within 10 years	5,668	5,647	4,759	4,832
After 10 years ⁽²⁾	250	246	470	462
Total	\$ 69,054	\$ 69,045	\$ 80,926	\$ 81,129
All other ⁽³⁾				
Due within 1 year	\$ 3,145	\$ 3,156	\$ 1,002	\$ 998
After 1 but within 5 years	7,431	7,453	14,886	14,897
After 5 but within 10 years	1,444	1,439	1,053	1,046
After 10 years ⁽²⁾	3,761	3,698	2,700	2,672
Total	\$ 15,781	\$ 15,746	\$ 19,641	\$ 19,613
Total debt securities available-for-sale	\$196,823	\$197,685	\$221,269	\$219,751

(1) Includes mortgage-backed securities of U.S. government-sponsored 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, asset-backed and other debt securities

The following table presents interest and dividends on investments

<i>In millions of dollars</i>	2011	2010
Taxable interest	\$5,773	\$7,648
Interest exempt from U.S. federal income tax	507	423
Dividends	251	275
Total interest and dividends	\$6,531	\$8,346

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>	2011	2010
Gross realized investment gains	\$1,799	\$2,208
Gross realized investment losses	(2,299)	(346)
Net realized gains (losses)	\$ (500)	\$1,862

During 2010 and 2011, Citibank sold several corporate debt securities and various mortgage-backed and asset-backed securities that were classified as held-to-maturity. These sales were in response to a significant deterioration in the creditworthiness of the issuers or securities. The corporate debt securities sold during 2010 had a carrying value of \$413 million and Citibank recorded a realized loss of \$49 million. The mortgage-backed and asset-backed securities sold during 2011 had a carrying value of \$623 million and Citibank recorded a realized loss of \$64 million.

Debt Securities Held-to-Maturity

The carrying value and fair value of debt securities held-to-maturity (HTM) at December 31, 2011 and December 31, 2010 were as follows

<i>In millions of dollars</i>	Amortized cost ⁽¹⁾	Net unrealized loss recognized in AOCI	Carrying value ⁽²⁾	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2011						
Debt securities held-to-maturity						
Mortgage-backed securities ⁽³⁾						
Prime	\$ 109	\$ 25	\$ 84	\$ 10	\$ —	\$ 94
Alt-A	139	13	126	5	12	119
Subprime	3	1	2	—	—	2
Non-U S residential	3,487	518	2,969	59	292	2,736
Commercial	513	1	512	4	52	464
Total mortgage-backed securities	\$ 4,251	\$558	\$ 3,693	\$ 78	\$356	\$ 3,415
State and municipal	\$ 112	\$ 15	\$ 97	\$ 11	\$ —	\$ 108
Corporate	1,862	113	1,749	—	254	1,495
Asset-backed securities ⁽³⁾	981	23	958	9	87	880
Total debt securities held-to-maturity	\$ 7,206	\$709	\$ 6,497	\$ 98	\$697	\$ 5,898
December 31, 2010						
Debt securities held-to-maturity						
Mortgage-backed securities ⁽³⁾						
Prime	\$ 4,550	\$ 775	\$ 3,775	\$ 377	\$ —	\$ 4,152
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	\$21,451	\$4,565	\$16,886	\$1,074	\$231	\$17,729
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	\$29,619	\$4,716	\$24,903	\$1,376	\$553	\$25,726

- (1) For securities transferred to HTM from *Trading account assets* in 2008, amortized cost is defined as the fair value 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 in 2008, 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 values of these securities are not reported in 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, see Note 19 to the Consolidated Financial Statements.

Citibank has the positive intent and ability to hold these securities to maturity absent any unforeseen significant changes in circumstances, including deterioration in credit or changes in regulatory capital requirements.

The net unrealized losses classified in AOCI relate to debt securities reclassified from AFS investments to HTM investments in a prior year. 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 \$0.7 billion as of December 31, 2011,

compared to \$4.7 billion as of December 31, 2010. 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.

For any credit-related impairment on HTM securities, the credit loss component is recognized in earnings.

During the first half of 2011, Citibank determined that it no longer had the intent to hold \$15.1 billion carrying value of HTM securities to maturity. As a result, Citibank reclassified \$8.2 billion carrying value of mortgage-backed, other asset-backed, state and municipal, and corporate debt securities from *Investments held-to-maturity* to *Trading account assets*. Through December 31, 2011, Citibank has sold to unrelated third parties substantially all of those HTM securities that were reclassified to *Trading account assets* earlier in 2011. Citibank also sold an additional \$7.0 billion carrying value of HTM securities (composed of sales of \$2.4 billion to unrelated third parties and \$4.6 billion to a related party, Citicorp Funding Inc.). As a result of these actions, a net pretax loss of \$2,963 million was recognized in the Consolidated Statement of Income for the year ended December 31, 2011, composed of gross unrealized gains of \$185 million included in *Other revenue*, gross unrealized losses of \$1,277 million included in *Other-than-temporary impairment losses on investments*, and net realized losses of \$1,871 million included in *Realized gains (losses) on sales of investments*.

Citibank reclassified and sold the securities as part of its overall efforts to mitigate its risk-weighted assets (RWA) in order to comply with significant new regulatory capital requirements which, although not yet implemented or formally adopted, are nonetheless currently being used to assess the forecasted capital adequacy of Citibank and other large U.S. banking organizations. These regulatory capital changes, which were largely unforeseen when Citibank initially reclassified the debt securities from *Trading account assets* and *Investments available-for-sale* to *Investments held-to-maturity* in the fourth quarter of 2008, include (i) the U.S. Basel II credit and operational risk capital standards, (ii) the Basel Committee's agreed-upon, and the U.S.-proposed, revisions to the market risk capital rules, which significantly increased the risk weightings for certain trading book positions, (iii) the Basel Committee's substantial issuance of Basel III, which raised the quantity and quality of required regulatory capital and materially increased RWA for securitization exposures, and (iv) certain regulatory capital-related provisions in The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

The table below shows the fair value of debt securities in HTM that have been in an unrecognized loss position for less than 12 months or for 12 months or longer as of December 31, 2011 and December 31, 2010.

	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrecognized losses	Fair value	Gross unrecognized losses	Fair value	Gross unrecognized losses
<i>In millions of dollars</i>						
December 31, 2011						
Debt securities held-to-maturity						
Mortgage-backed securities	\$ 735	\$ 63	\$1,571	\$293	\$2,306	\$356
Corporate	—	—	1,427	254	1,427	254
Asset-backed securities	480	71	300	16	780	87
Total debt securities held-to-maturity	\$1,215	\$134	\$3,298	\$563	\$4,513	\$697
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

Excluded from the gross unrecognized losses presented in the above table are the \$0.7 billion and \$4.7 billion of gross unrealized losses recorded in AOCI as of December 31, 2011 and December 31, 2010, respectively, mainly related to the HTM securities that were reclassified from AFS investments. 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, 2011 and December 31, 2010.

The following table presents the carrying value and fair value of HTM debt securities by contractual maturity dates as of December 31, 2011 and December 31, 2010

<i>In millions of dollars</i>	December 31, 2011		December 31, 2010	
	Carrying value	Fair value	Carrying value	Fair value
Mortgage-backed securities				
Due within 1 year	\$ —	\$ —	\$ —	\$ —
After 1 but within 5 years	275	239	245	218
After 5 but within 10 years	238	224	492	433
After 10 years ⁽¹⁾	3,180	2,952	16,149	17,078
Total	\$3,693	\$3,415	\$16,886	\$17,729
State and municipal				
Due within 1 year	\$ 1	\$ 1	\$ —	\$ —
After 1 but within 5 years	7	7	—	—
After 5 but within 10 years	3	3	—	—
After 10 years ⁽¹⁾	86	97	118	118
Total	\$ 97	\$ 108	\$ 118	\$ 118
All other ⁽²⁾				
Due within 1 year	\$ 8	\$ 8	\$ 259	\$ 261
After 1 but within 5 years	470	438	1,122	1,201
After 5 but within 10 years	1,404	1,183	4,886	4,765
After 10 years ⁽¹⁾	825	746	1,632	1,652
Total	\$ 2,707	\$ 2,375	\$ 7,899	\$ 7,879
Total debt securities held-to-maturity	\$ 6,497	\$ 5,898	\$24,903	\$25,726

(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

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.

Regardless of the classification of the securities as AFS or HTM, the Company has assessed each position with an unrealized loss for OTTI. 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 or whether it is more-likely-than-not that the Company will be required to sell the security prior to recovery of its cost basis. 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.

Management assesses equity method investments with fair value less than carrying value for OTTI. Fair value is measured as price multiplied by quantity if the investee has publicly listed securities. If the investee is not publicly listed, other methods are used (see Note 22 to the Consolidated Financial Statements).

For impaired equity method investments that the Company plans to sell prior to recovery of value, or would likely be required to sell and there is no expectation that the fair value will recover prior to the expected sale date, the full impairment is recognized in the Consolidated Statement of Income as OTTI regardless of severity and duration. The measurement of the OTTI does not include partial projected recoveries subsequent to the balance sheet date.

For impaired equity method investments that management does not plan to sell prior to recovery of value and is not likely to be required to sell, the evaluation of whether an impairment is other than temporary is based on (i) whether and when an equity method investment will recover in value and (ii) whether the investor has the intent and ability to hold that investment for a period of time sufficient to recover the value. The determination of whether the impairment is considered other-than-temporary is based on all of the following indicators, regardless of the time and extent of impairment:

- Cause of the impairment and the financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer
- Intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value
- Length of time and extent to which fair value has been less than the carrying value

At December 31, 2011, Citibank had an equity method investment in Akbank T A S (a Turkish financial institution) as discussed further below.

Excluding the impact of foreign currency translation and related hedges, the fair value of Citibank's equity method investment in Akbank had exceeded its carrying value. During the fourth quarter of 2011, however, the fair value of Citibank's equity method investment in Akbank declined, resulting in a temporary impairment. During 2012 to date, Akbank's share price has recovered significantly and, as of March 23, 2012, the temporary impairment was approximately \$0.2 billion. As of

December 31, 2011, foreign currency translation and related hedges on this equity method investment totaled an additional cumulative pretax loss of approximately \$0.9 billion.

On March 23, 2012, Citigroup announced that as part of Citi's ongoing capital planning efforts and in light of general improvement in equity capital markets globally, Citibank plans to reduce its ownership interest in Akbank T A S (Akbank) to below 10%, subject to appropriate market conditions and required approvals. Citibank currently holds a 20% equity interest in Akbank, which it purchased in January 2007. The current carrying value of the equity method investment is \$3.4 billion, in addition, hedging costs and translation losses reflected in other comprehensive income (OCI), a component of equity, total approximately \$1.0 billion.

As a result of this decision, in the first quarter of 2012 Citibank expects to record an impairment charge related to its total investment in Akbank amounting to approximately \$1.1 billion pre-tax (\$0.7 billion after-tax). This impairment charge is primarily driven by the recognition of all respective net investment foreign currency hedging and translation losses previously reflected in OCI as well as a reduction in carrying value of the total investment to reflect closing market price as of March 23, 2012.

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 cannot be 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. For securities reclassified out of the trading category in the fourth quarter of 2008, the analysis considers the likelihood of receiving the expected principal and interest cash flows anticipated as of the date of reclassification in the fourth quarter of 2008. 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-related impairments in security types with the most significant unrealized losses as of December 31, 2011.

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, 2011 are in the table below.

	December 31, 2011
Prepayment rate ⁽¹⁾	1%–8% CRR
Loss severity ⁽²⁾	45%–95%

- (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%–95% for Alt-A bonds and 65%–90% for subprime bonds.

The valuation as of December 31, 2011 assumes that U.S. housing prices will decrease 4% in 2012, decrease 1% in 2013, remain flat in 2014 and increase 3% per year from 2015 onwards, while unemployment is 8.9% for 2012.

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 or were previously financed in this program. The process for identifying credit impairments for these bonds is largely based on third-party credit ratings. Individual bond positions are required to 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. The remainder of Citibank's AFS and HTM 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

For impaired AFS state and municipal bonds that Citibank plans to sell, or would likely be required to sell and there is no expectation that the fair value will recover prior to the expected sale date, the full impairment is recognized in earnings

Recognition and Measurement of OTTI

The following table presents the total OTTI recognized in earnings for the year ended December 31, 2011

OTTI on Investments <i>In millions of dollars</i>	Year ended December 31, 2011		
	AFS	HTM	Total
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, 2011	\$ 53	\$ 336	\$ 389
Less portion of OTTI loss recognized in AOCI (before taxes)	44	110	154
Net impairment losses recognized in earnings for securities that the Company does not intend to sell nor will likely be required to sell	\$ 9	\$ 226	\$ 235
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	247	1,277	1,524
Total impairment losses recognized in earnings	\$256	\$1,503	\$1,759

The following table presents activity during the 12 months of 2011 of the credit-related impairments recognized in earnings for AFS and HTM debt securities held as of December 31, 2011 that the Company does not intend to sell nor will likely be required to sell

<i>In millions of dollars</i>	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
AFS debt securities			
Mortgage-backed securities			
Prime	\$ —	\$ —	\$ —
Alt-A	—	—	—
Commercial real estate	—	—	—
Total mortgage-backed securities	\$ —	\$ —	\$ —
State and municipal	—	—	—
U S Treasury	—	—	—
Foreign government	6	3	9
Corporate	—	—	—
Asset-backed securities	—	—	—
Other debt securities	—	—	—
Total OTTI credit losses recognized for AFS debt securities	\$ 6	\$ 3	\$ 9
HTM debt securities			
Mortgage-backed securities			
Prime	\$ —	\$ 2	\$ 2
Alt-A	2	161	163
Subprime	—	21	21
Non-U S residential	—	—	—
Commercial real estate	—	—	—
Total mortgage-backed securities	\$ 2	\$184	\$186
State and municipal	—	—	—
Corporate	40	—	40
Asset-backed securities	—	—	—
Other debt securities	—	—	—
Total OTTI credit losses recognized for HTM debt securities	\$ 42	\$184	\$226

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>	2011	2010
Consumer loans		
In U.S. offices		
Mortgage and real estate ⁽¹⁾	\$112,163	\$120,451
Installment, revolving credit, and other	4,550	10,913
Cards	117,796	122,335
Commercial and industrial	4,765	5,018
Lease financing	1	2
	\$239,275	\$258,719
In offices outside the U.S.		
Mortgage and real estate ⁽¹⁾	\$ 44,018	\$ 43,338
Installment, revolving credit, and other	24,440	28,162
Cards	33,476	35,432
Commercial and industrial	15,346	12,213
Lease financing	611	557
	\$117,891	\$119,702
Total Consumer loans	\$357,166	\$378,421
Net unearned income	1,094	1,510
Consumer loans, net of unearned income	\$358,260	\$379,931

(1) Loans secured primarily by real estate.

During the year ended December 31, 2011, Citibank sold and/or reclassified (to held for sale) \$17 billion of Consumer loans. Citibank did not have significant purchases of Consumer loans during the 12 months ended December 31, 2011.

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. Credit cards with below-market introductory interest rates and interest only loans are examples of such products. However, these products 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 tables provide details on Citibank's Consumer loan delinquency and non-accrual loans as of December 31, 2011 and December 31, 2010

Consumer Loan Delinquency and Non-Accrual Details at December 31, 2011

<i>In millions of dollars</i>	Total current ⁽¹⁾⁽²⁾	30–89 days past due ⁽³⁾	≥ 90 days past due ⁽³⁾	Past due Government guaranteed ⁽⁴⁾	Total loans ⁽²⁾	Total non-accrual	90 days past due and accruing
<i>In North America offices</i>							
Residential first mortgages	\$ 59,494	\$ 2,597	\$ 2,540	\$ 6,686	\$ 71,317	\$ 2,587	\$ 5,054
Home equity loans ⁽⁵⁾	37,691	714	834	—	39,239	842	—
Credit cards	114,097	2,250	2,056	—	118,403	—	2,056
Installment, commercial market loans and other	12,199	315	108	—	12,622	341	14
Total	\$223,481	\$5,876	\$5,538	\$ 6,686	\$241,581	\$ 3,770	\$ 7,124
<i>In offices outside North America</i>							
Residential first mortgages	\$ 38,903	\$ 451	\$ 379	\$ —	\$ 39,733	\$ 492	\$ —
Home equity loans ⁽⁵⁾	6	—	2	—	8	2	—
Credit cards	32,902	801	636	—	34,339	283	487
Installment, commercial market loans and other	41,847	487	265	—	42,599	408	—
Total	\$113,658	\$ 1,739	\$ 1,282	\$ —	\$116,679	\$1,185	\$ 487
Total Citibank	\$337,139	\$ 7,615	\$ 6,820	\$ 6,686	\$358,260	\$4,955	\$7,611

(1) Loans less than 30 days past due are presented as current

(2) Includes \$1.3 billion of residential first mortgages recorded at fair value

(3) Excludes loans guaranteed by U.S. government agencies

(4) Consists of residential first mortgages that are guaranteed by U.S. government agencies that are 30–89 days past due of \$1.6 billion and ≥ 90 days past due of \$5.1 billion

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

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

<i>In millions of dollars</i>	Total current ⁽¹⁾⁽²⁾	30–89 days past due ⁽³⁾	≥ 90 days past due ⁽³⁾	Past due Government guaranteed ⁽⁴⁾	Total loans ⁽²⁾	Total non-accrual	90 days past due and accruing
<i>In North America offices</i>							
Residential first mortgages	\$ 58,677	\$ 3,579	\$ 3,797	\$ 7,003	\$ 73,056	\$ 3,940	\$ 5,405
Home equity loans ⁽⁵⁾	41,830	639	1,010	—	43,479	972	—
Credit cards	116,069	3,158	3,107	—	122,334	—	3,107
Installment, commercial market loans and other	21,633	386	270	—	22,289	535	430
Total	\$238,209	\$7,762	\$8,184	\$7,003	\$261,158	\$5,447	\$8,942
<i>In offices outside North America</i>							
Residential first mortgages	\$ 36,622	\$ 498	\$ 376	\$ —	\$ 37,496	\$ 406	\$ —
Home equity loans ⁽⁵⁾	8	—	1	—	9	1	—
Credit cards	35,383	949	780	—	37,112	265	409
Installment, commercial market loans and other	42,906	789	461	—	44,156	767	42
Total	\$114,919	\$2,236	\$1,618	\$ —	\$118,773	\$1,439	\$ 451
Total Citibank	\$353,128	\$9,998	\$9,802	\$7,003	\$379,931	\$6,886	\$9,393

(1) Loans less than 30 days past due are presented as current

(2) Includes \$1.7 billion of residential first mortgages recorded at fair value

(3) Excludes loans guaranteed by U.S. government agencies

(4) Consists of residential first mortgages that are guaranteed by U.S. government agencies that are 30–89 days past due of \$1.6 billion and ≥ 90 days past due of \$5.4 billion

(5) 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 900 (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 tables provide details on the FICO scores attributable to Citibank's U.S. Consumer loan portfolio as of December 31, 2011 and 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.

During the first quarter of 2011, the cards businesses in the U.S. began using a more updated FICO model version to score customer accounts for substantially all of their loans. The change was made to incorporate a more recent version of FICO in order to improve the predictive strength of the score and to enhance Citi's ability to manage risk. In the first quarter, this change resulted in an increase in the percentage of balances with FICO scores equal to or greater than 660 and conversely lowered the percentage of balances with FICO scores lower than 620.

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

In millions of dollars	December 31, 2011		
	FICO		
	Less than 620	≥ 620 but less than 660	Equal to or greater than 660
Residential first mortgages	\$ 9,457	\$ 4,885	\$ 44,126
Home equity loans	5,048	3,092	30,045
Credit Cards	9,614	10,901	93,219
Installment and other	438	343	3,275
Total	\$24,557	\$19,221	\$170,665

- (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.

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

In millions of dollars	December 31, 2010		
	FICO		
	Less than 620	≥ 620 but less than 660	Equal to or greater than 660
Residential first mortgages	\$12,351	\$ 5,043	\$ 39,772
Home equity loans	5,892	2,964	32,523
Credit Cards	18,339	12,590	88,318
Installment and other	1,558	719	6,398
Total	\$38,140	\$21,316	\$167,011

- (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, 2011 and 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⁾

In millions of dollars	December 31, 2011		
	LTV		
	Less than or equal to 80%	> 80% but less than or equal to 100%	Greater than 100%
Residential first mortgages	\$25,450	\$14,707	\$18,424
Home equity loans	11,887	8,823	17,391
Total	\$37,337	\$23,530	\$35,815

- (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.

LTV Distribution in U.S. Portfolio⁽¹⁾⁽²⁾

In millions of dollars	December 31, 2010		
	LTV		
	Less than or equal to 80%	> 80% but less than or equal to 100%	Greater than 100%
Residential 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. In addition, Impaired Consumer loans exclude substantially all loans modified pursuant to Citibank's short-term loan modification programs (i.e., for periods of 12 months or less) that were modified prior to January 1, 2011. At December 31, 2011,

loans included in these short-term programs amounted to approximately \$600 million.

Effective in the third quarter of 2011, as a result of adopting ASU 2011-02, certain loans modified under short-term programs since January 1, 2011 that were previously measured for impairment under ASC 450 are now measured for impairment under ASC 310-10-35. At the end of September 30, 2011, the recorded investment in receivables previously measured under ASC 450 was \$490 million and the allowance for credit losses associated with those loans was \$270 million. See Note 2 to the Consolidated Financial Statements for a discussion of this change.

The following table presents information about total impaired Consumer loans at and for the periods ending December 31, 2011 and 2010, respectively.

Impaired Consumer Loans

<i>In millions of dollars</i>	At and for the period ended Dec 31, 2011				
	Recorded investment ⁽¹⁾⁽²⁾	Unpaid Principal balance	Related specific allowance ⁽³⁾	Average carrying value ⁽⁴⁾	Interest income recognized ⁽⁵⁾⁽⁶⁾
Mortgage and real estate					
First mortgages	\$13,602	\$14,589	\$2,829	\$13,093	\$ 507
Home equity loans	1,253	1,304	562	1,129	21
Credit cards	6,631	6,679	3,122	6,438	364
Installment and other ⁽⁵⁾					
Individual installment and other	740	743	502	869	88
Commercial market loans	397	662	21	528	20
Total	\$22,623	\$23,977	\$7,036	\$22,057	\$1,000

- (1) Recorded investment in a loan includes net deferred loan fees and costs, unamortized premium or discount and direct write-downs and includes accrued interest only on credit card loans.
- (2) \$759 million of first mortgages, \$16 million of home equity loans and \$175 million of commercial market loans do not have a specific allowance.
- (3) Included in the *Allowance for loan losses*.
- (4) Average carrying value represents the average recorded investment ending balance for last four quarters and does not include related specific allowance.
- (5) Includes amounts recognized on both an accrual and cash basis.
- (6) Cash interest receipts on smaller-balance homogeneous loans are generally recorded as revenue. The interest recognition policy for commercial market loans is identical to that for Corporate loans, as described below.

<i>In millions of dollars</i>	At and for the period ended Dec 31, 2010				
	Recorded investment ⁽¹⁾⁽²⁾	Unpaid Principal balance	Related specific allowance ⁽³⁾	Average carrying value ⁽⁴⁾	Interest income recognized ⁽⁵⁾⁽⁶⁾
Mortgage and real estate					
First mortgages	\$10,957	\$11,849	\$1,899	\$ 9,728	\$508
Home equity loans	747	798	340	663	9
Credit cards	5,716	5,716	2,840	5,075	84
Installment and other ⁽⁵⁾			801		
Individual installment and other	1,109	1,170		1,358	170
Commercial market loans	687	925		855	21
Total	\$19,216	\$20,458	5,880	\$17,679	\$792

- (1) Recorded investment in a loan includes net deferred loan fees and costs, unamortized premium or discount and direct write-downs and includes accrued interest only on credit card loans.
- (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 represents the average recorded investment ending balance for last four quarters and does not include related specific allowance.
- (5) Includes amounts recognized on both an accrual and cash basis.
- (6) Cash interest receipts on smaller-balance homogeneous loans are generally recorded as revenue. The interest recognition policy for commercial market loans is identical to that for Corporate loans, as described below.

Consumer Troubled Debt Restructurings

The following tables provide details on TDR activity and default information as of and for the year ended December 31, 2011

<i>In millions of dollars except number of loans modified</i>	Number of loans modified	Pre-modification recorded investment	Post-modification recorded investment ⁽¹⁾	Deferred principal ⁽²⁾	Contingent principal forgiveness ⁽³⁾	Principal forgiveness	Average interest rate reduction
North America							
Residential first mortgages	22,644	\$4,004	\$4,252	\$ 94	\$40	\$—	2%
Home equity loans	9,235	631	663	22	1	—	4
Credit cards	611,715	3,560	3,555	—	—	—	19
Installment and other revolving	12,870	83	83	—	—	—	4
Commercial markets ⁽⁴⁾	579	55	—	—	—	1	—
Total	657,043	\$8,333	\$8,553	\$116	\$41	\$ 1	
International							
Residential first mortgages	2,888	\$ 153	\$ 153	\$—	\$—	\$—	1%
Home equity loans	61	4	4	—	—	—	—
Credit cards	211,157	575	566	—	—	2	24
Installment and other revolving	66,998	342	331	—	—	—	13
Commercial markets ⁽⁴⁾	55	167	—	—	—	1	—
Total	281,159	\$1,241	\$1,054	\$—	\$—	\$ 3	

(1) Post-modification balances include past due amounts that are capitalized at modification date

(2) Represents portion of loan principal that is non-interest bearing but still due from borrower

(3) Represents portion of loan principal that is non-interest bearing and, depending upon borrower performance, eligible for forgiveness

(4) Commercial markets loans are generally borrower-specific modifications and incorporate changes in the amount and/or timing of principal and/or interest

The following table presents TDR loans that defaulted during 2011 and for which the payment default occurred within one year of the modification

<i>In millions of dollars</i>	Year ended December 31, 2011 ⁽¹⁾
North America	
Residential first mortgages	\$1,754
Home equity loans	80
Credit cards	1,307
Installment and other revolving	15
Commercial markets ⁽¹⁾	3
Total	\$3,159
International	
Residential first mortgages	\$ 61
Home equity loans	2
Credit cards	256
Installment and other revolving	202
Commercial markets ⁽¹⁾	14
Total	\$ 535

(1) Default is defined as 60 days past due, except for classifiably managed commercial markets loans, where default is defined as 90 days past due

Corporate Loans

Corporate loans represent loans and leases managed by Corporate businesses. The following table presents information by Corporate loan type as of December 31, 2011 and December 31, 2010.

<i>In millions of dollars</i>	Dec 31, 2011	Dec 31, 2010
Corporate		
In U.S. offices		
Commercial and industrial	\$ 20,136	\$ 12,633
Loans to financial institutions	43,157	34,955
Mortgage and real estate ⁽¹⁾	19,809	18,422
Installment, revolving credit and other	14,504	11,986
Lease financing	880	995
	\$ 98,486	\$ 78,991
In offices outside the U.S.		
Commercial and industrial	\$ 74,958	\$ 68,122
Installment, revolving credit and other	12,921	10,580
Mortgage and real estate ⁽¹⁾	6,225	5,222
Loans to financial institutions	29,505	22,586
Lease financing	450	454
Governments and official institutions	1,541	2,139
	\$125,600	\$109,103
Total Corporate loans	\$224,086	\$188,094
Net unearned income	(670)	(825)
Corporate loans, net of unearned income	\$223,416	\$187,269

(1) Loans secured primarily by real estate.

For the year ended December 31, 2011, the Company sold and/or reclassified (to held-for-sale) \$5.8 billion of held-for-investment Corporate loans. The Company did not have significant purchases of loans classified as held-for-investment for the year ended December 31, 2011.

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 tables present delinquency information by Corporate loan type as of December 31, 2011 and December 31, 2010.

Corporate Loan Delinquency and Non-Accrual Details at December 31, 2011

<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 ⁽⁴⁾
Commercial and industrial	\$ 93	\$30	\$123	\$1,038	\$ 92,768	\$ 93,929
Financial institutions	—	2	2	779	70,363	71,144
Mortgage and real estate	223	—	223	1,006	24,788	26,017
Leases	3	11	14	13	1,303	1,330
Other	225	15	240	207	26,719	27,166
Loans at fair value						3,830
Total	\$544	\$58	\$602	\$3,043	\$215,941	\$223,416

(1) Corporate loans that are greater than 90 days past due are generally classified as non-accrual. Corporate loans are considered past due when principal or interest is contractually due but unpaid.

(2) Citi 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 Citi 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) Corporate loans are past due when principal or interest is contractually due but unpaid. Loans less than 30 days past due are presented as current.

(4) Includes \$3,830 million of loans at fair value.

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 ⁽⁴⁾
Commercial and industrial	\$ 94	\$35	\$129	\$4,877	\$ 73,949	\$ 78,955
Financial institutions	2	—	2	1,258	55,761	57,021
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	\$7,756	\$176,462	\$187,269

- (1) Corporate loans that are greater than 90 days past due are generally classified as non-accrual. Corporate loans are considered past due when principal or interest is contractually due but unpaid.
- (2) Citi 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 Citi 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) Corporate loans are past due when principal or interest is contractually due but unpaid. Loans less than 30 days past due are presented as current.
- (4) Includes \$2,464 million of loans at fair value.

Citibank has established a risk management process to monitor, evaluate and manage the principal risks associated with its Corporate loan portfolio. As part of its risk management process, Citi assigns numeric risk ratings to its Corporate loan facilities based on quantitative and qualitative assessments of the obligor and facility. These risk ratings are reviewed at least annually or more often if material events related to the obligor or facility warrant. Factors considered in assigning the risk ratings include financial condition of the obligor, qualitative assessment of management and strategy, amount and sources of repayment, amount and type of collateral and guarantee arrangements, amount and type of any contingencies associated with the obligor, and the obligor's industry and geography.

The obligor risk ratings are defined by ranges of default probabilities. The facility risk ratings are defined by ranges of loss norms, which are the product of the probability of default and the loss given default. The investment grade rating categories are similar to the category BBB-/Baa3 and above as defined by S&P and Moody's. Loans classified according to the bank regulatory definitions as special mention, substandard and doubtful will have risk ratings within the non-investment grade categories.

Corporate Loans Credit Quality Indicators at December 31, 2011 and December 31, 2010

<i>In millions of dollars</i>	Recorded investment in loans ⁽¹⁾ December 31,	
	2011	2010
Investment grade⁽²⁾		
Commercial and industrial	\$ 63,320	\$ 50,610
Financial institutions	63,215	52,528
Mortgage and real estate	9,460	7,962
Leases	719	834
Other	22,790	19,018
Total investment grade	\$159,504	\$130,952
Non-investment grade⁽²⁾		
Accrual		
Commercial and industrial	\$ 29,571	\$ 23,464
Financial institutions	7,150	3,308
Mortgage and real estate	2,835	2,247
Leases	598	587
Other	4,169	3,829
Non-accrual		
Commercial and industrial	1,038	4,877
Financial institutions	779	1,258
Mortgage and real estate	1,006	1,236
Leases	13	28
Other	207	357
Total non-investment grade	\$ 47,366	\$ 41,191
Private Banking loans managed on a delinquency basis⁽²⁾	\$ 12,716	\$ 12,662
Loans at fair value	3,830	2,464
Corporate loans, net of unearned income	\$223,416	\$187,269

- (1) Recorded investment in a loan includes net deferred loan fees and costs, unamortized premium or discount, less any direct write-downs.
- (2) Held-for-investment loans accounted for on an amortized cost basis.

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, less cost to sell. 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, generally six months, in accordance with the contractual terms of the loan.

The following tables present non-accrual loan information by Corporate loan type at and for the period ended December 31, 2011, and 2010, respectively.

Non-Accrual Corporate Loans

<i>In millions of dollars</i>	December 31, 2011				
	Recorded investment ⁽¹⁾	Unpaid principal balance	Related specific allowance	Average carrying value ⁽²⁾	Interest income recognized
Non-accrual Corporate loans					
Commercial and industrial	\$1,038	\$1,342	\$122	\$1,302	\$64
Loans to financial institutions	779	1,213	20	1,060	—
Mortgage and real estate	1,006	1,212	151	1,281	14
Lease financing	13	21	—	21	2
Other	207	403	63	344	16
Total non-accrual Corporate loans	\$3,043	\$4,191	\$356	\$4,008	\$96

<i>In millions of dollars</i>	December 31, 2010				
	Recorded investment ⁽¹⁾	Unpaid principal balance	Related specific allowance	Average carrying value ⁽³⁾	Interest income recognized
Non-accrual Corporate loans					
Commercial and industrial	\$4,877	\$ 7,570	\$ 742	\$5,615	\$23
Loans to financial institutions	1,258	1,835	259	883	1
Mortgage and real estate	1,236	1,289	205	1,319	6
Lease financing	28	54	—	37	4
Other	357	899	217	976	24
Total non-accrual Corporate loans	\$7,756	\$11,647	\$1,423	\$8,830	\$58

<i>In millions of dollars</i>	December 31, 2011		December 31, 2010	
	Recorded investment ⁽¹⁾	Related specific allowance	Recorded investment ⁽¹⁾	Related specific allowance
Non-accrual Corporate loans with valuation allowances				
Commercial and industrial	\$ 403	\$122	\$4,085	\$ 742
Loans to financial institutions	68	20	818	259
Mortgage and real estate	540	151	569	205
Other	130	63	228	217
Total non-accrual Corporate loans with specific allowance	\$1,141	\$356	\$5,700	\$1,423
Non-accrual Corporate loans without specific allowance				
Commercial and industrial	\$ 635		\$ 792	
Loans to financial institutions	711		440	
Mortgage and real estate	466		667	
Lease financing	13		28	
Other	77		129	
Total non-accrual Corporate loans without specific allowance	\$1,902	N/A	\$2,056	N/A

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

(2) Average carrying value represents the average recorded investment balance and does not include related specific allowance.

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

N/A Not Applicable

Corporate Troubled Debt Restructurings (TDR)

The following table presents TDRs occurring during the 12-month period ended December 31, 2011

<i>In millions of dollars</i>	Carrying Value	TDRs involving changes in the amount and/or timing of principal payments ⁽¹⁾	TDRs involving changes in the amount and/or timing of interest payments ⁽²⁾	TDRs involving changes in the amount and/or timing of both principal and interest payments	Balance of principal forgiven or deferred	Net P&L impact ⁽³⁾
Commercial and industrial	\$126	\$—	\$16	\$110	\$—	\$16
Loans to financial institutions	—	—	—	—	—	—
Mortgage and real estate	15	1	7	7	—	—
Other	7	—	—	7	—	—
Total	\$148	\$ 1	\$23	\$124	\$—	\$16

(1) TDRs involving changes in the amount or timing of principal payments may involve principal forgiveness or deferral of periodic and/or final principal payments

(2) TDRs involving changes in the amount or timing of interest payments may involve a reduction in interest rate or a below-market interest rate

(3) Balances reflect charge-offs and reserves recorded during the 12 months ended December 31, 2011 on loans subject to a TDR during the period then ended

The following table presents TDR corporate loans that defaulted during 2011 and for which the payment default occurred within one year of the modification

<i>In millions of dollars</i>	TDR Balances at December 31, 2011	TDR Loans in payment default ⁽¹⁾ Twelve Months Ended December 31, 2011
Commercial and industrial	\$166	\$7
Loans to financial institutions	563	—
Mortgage and real estate	48	—
Other	21	—
Total Corporate Loans modified in TDRs	\$798	\$7

(1) Payment default constitutes failure to pay principal or interest when due per the contractual terms of the loan

Purchased Distressed Loans

Included in the Corporate and Consumer loan outstanding 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 (codified as ASC 310-30), the difference between the total expected cash flows for these loans and the initial recorded investment is recognized in income over the life of the loans using a level yield. Accordingly, these loans have been excluded from the impaired loan table information presented above. In addition, per SOP 03-3, subsequent decreases in 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, 2011 was \$310 million, net of an allowance of \$21 million as of December 31, 2011

The changes in the accretable yield, related allowance and carrying amount net of accretable yield for 2011 are as follows

<i>In millions of dollars</i>	Accretable yield	Carrying amount of loan receivable	Allowance
Beginning balance at December 31, 2010	\$128	\$246	\$34
Purchases ⁽¹⁾	—	274	—
Disposals/payments received	(123)	(167)	(21)
Accretion	(3)	3	—
Builds (reductions) to the allowance	3	—	8
Increase to expected cash flows	22	1	—
FX/other	1	(26)	—
Balance at December 31, 2011 ⁽²⁾	\$ 28	\$331	\$21

(1) The balance reported in the column "Carrying amount of loan receivable" consists of \$274 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 \$274 million at their acquisition dates.

(2) The balance reported in the column "Carrying amount of loan receivable" consists of \$307 million of loans accounted for under the level-yield method and \$24 million accounted for under the cost-recovery method.

14 ALLOWANCE FOR CREDIT LOSSES

<i>In millions of dollars</i>	2011	2010
Allowance for loan losses at beginning of year	\$ 33,036	\$ 26,033
Gross credit losses	(18,674)	(27,709)
Gross recoveries	2,541	3,009
Net credit (losses) recoveries (NCLs)	\$ (16,133)	\$ (24,700)
NCLs	\$ 16,133	\$ 24,700
Net reserve builds (releases)	(6,859)	(5,059)
Net specific reserve builds (releases)	349	1,584
Total provision for credit losses	\$ 9,623	\$ 21,225
Other, net ⁽¹⁾	(1,831)	10,478
Allowance for loan losses at end of year	\$ 24,695	\$ 33,036
Allowance for credit losses on unfunded lending commitments at beginning of year ⁽²⁾	\$ 943	\$ 1,020
Provision for unfunded lending commitments	93	(101)
Allowance for credit losses on unfunded lending commitments at end of year ⁽²⁾	\$ 1,052	\$ 943
Total allowance for loans, leases, and unfunded lending commitments	\$ 25,747	\$ 33,979

- (1) 2011 primarily includes reductions related to the sale or transfer to held-for-sale of various loan portfolios and the impact of foreign exchange (FX translation). 2010 primarily includes an addition of \$13.4 billion 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).
- (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, 2011

<i>In millions of dollars</i>	Corporate	Consumer	Total
Allowance for loan losses at beginning of year	\$ 4,312	\$ 28,724	\$ 33,036
Charge-offs	(1,777)	(16,897)	(18,674)
Recoveries	266	2,275	2,541
Replenishment of net charge-offs	1,511	14,622	16,133
Net reserve build (releases)	(682)	(6,177)	(6,859)
Net specific reserve builds (releases)	(1,084)	1,433	349
Other	6	(1,837)	(1,831)
Ending balance	\$ 2,552	\$ 22,143	\$ 24,695
Allowance for loan losses			
Determined in accordance with ASC 450-20	\$ 2,192	\$ 15,090	\$ 17,282
Determined in accordance with ASC 310-10-35	356	7,036	7,392
Determined in accordance with ASC 310-30	4	17	21
Total allowance for loan losses	\$ 2,552	\$ 22,143	\$ 24,695
Loans, net of unearned income			
Loans collectively evaluated for impairment in accordance with ASC 450-20	\$206,031	\$333,991	\$540,022
Loans individually evaluated for impairment in accordance with ASC 310-10-35	3,440	22,623	26,063
Loans acquired with deteriorated credit quality in accordance with ASC 310-30	11	320	331
Loans held at fair value	3,830	1,326	5,156
Other Loans—primarily loans with Citigroup affiliates outside the Citibank chain	10,104	—	10,104
Total loans, net of unearned income	\$223,416	\$358,260	\$581,676

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	\$ 6,218	\$ 19,815	\$ 26,033
Charge-offs	(2,176)	(25,533)	(27,709)
Recoveries	650	2,359	3,009
Replenishment of net charge-offs	1,526	23,174	24,700
Net reserve builds (releases)	(1,443)	(3,616)	(5,059)
Net specific reserve builds (releases)	(405)	1,989	1,584
Other	(58)	10,536	10,478
Ending balance	\$ 4,312	\$ 28,724	\$ 33,036
Allowance for loan losses			
Determined in accordance with ASC 450-20	\$ 2,882	\$ 22,817	\$ 25,699
Determined in accordance with ASC 310-10-35	1,423	5,880	7,303
Determined in accordance with ASC 310-30	7	27	34
Total allowance for loan losses	\$ 4,312	\$ 28,724	\$ 33,036
Loans, net of unearned income			
Loans collectively evaluated for impairment in accordance with ASC 450-20	\$168,029	\$358,745	\$526,774
Loans individually evaluated for impairment in accordance with ASC 310-10-35	8,093	19,216	27,309
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	\$187,269	\$379,931	\$567,200

15 GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in *Goodwill* during 2010 and 2011 were as follows

In millions of dollars

Balance at December 31, 2009	\$11,422
Foreign exchange translation	\$ 73
Smaller acquisitions/divestitures, purchase accounting adjustments and other	147
Balance at December 31, 2010	\$11,642
Foreign exchange translation	\$ (207)
Smaller acquisitions/divestitures, purchase accounting adjustments and other	50
Balance at December 31, 2011	\$11,485

Goodwill impairment testing is performed at a level below the business segments (referred to as a reporting unit). As noted in Note 1, on July 1, 2011, Citibank, N A completed its merger with Citibank (South Dakota) N A, with Citibank N A as the surviving entity. The merger resulted in an additional reporting unit, *Local Consumer Lending – Cards*, where 100% of Citibank (South Dakota) N A's goodwill has been historically reported. The reporting unit structure in 2011 is otherwise consistent with the prior year. During 2011, goodwill was allocated to disposals and tested for impairment for each of the reporting units. The Company performed goodwill impairment testing for the reporting units as of July 1, 2011, the annual impairment testing date. No goodwill was written off due to impairment in 2010 or 2011.

The following table shows the reporting units with goodwill balances as of December 31, 2011 and the fair value as a percentage of allocated book value as of the annual impairment test.

Reporting Unit	Fair Value as a % of Allocated Book Value	Goodwill
<i>Goodwill in millions of dollars</i>		
<i>North America Regional Consumer Banking</i>	191%	\$ 852
<i>EMEA Regional Consumer Banking</i>	455	115
<i>Asia Regional Consumer Banking</i>	285	2,048
<i>Latin America Regional Consumer Banking</i>	138	522
<i>Institutional Clients Group</i>	221	6,742
<i>Local Consumer Lending—Cards</i>	150	1,206

Intangible Assets

The components of intangible assets as of December 31, 2011 and 2010, respectively, were as follows

	December 31, 2011			December 31, 2010		
<i>In millions of dollars</i>	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Purchased credit card relationships	\$ 7,519	\$5,240	\$ 2,279	\$ 7,789	\$5,068	\$ 2,721
Core deposit intangibles	747	487	260	777	449	328
Other customer relationships	112	88	24	92	62	30
Indefinite-lived intangible assets	229	—	229	253	—	253
Other ⁽¹⁾	3,882	1,334	2,548	3,745	968	2,777
Intangible assets (excluding MSRs)	\$12,489	\$7,149	\$5,340	\$12,656	\$6,547	\$ 6,109
Mortgage servicing rights (MSRs)	2,569	—	2,569	4,554	—	4,554
Total intangible assets	\$15,058	\$7,149	\$7,909	\$17,210	\$6,547	\$10,663

(1) Includes contract-related intangible assets

Intangible assets amortization expense was \$768 million and \$825 million for 2011 and 2010, respectively. Intangible assets amortization expense is estimated to be \$705 million in 2012, \$709 million in 2013, \$633 million in 2014, \$604 million in 2015 and \$720 million in 2016.

The changes in intangible assets during 2011 were as follows

<i>In millions of dollars</i>	Net carrying amount at December 31, 2010	Acquisitions/ divestitures	Amortization	Impairments	FX and other ⁽¹⁾	Discontinued Operations	Net carrying amount at December 31, 2011
Purchased credit card relationships	\$ 2,721	\$(8)	\$(432)	\$—	\$(2)	\$—	\$2,279
Core deposit intangibles	328	—	(67)	—	(1)	—	260
Other customer relationships	30	3	(9)	—	—	—	24
Indefinite-lived intangible assets	253	—	—	—	(24)	—	229
Other	2,777	61	(259)	(14)	1	(18)	2,548
Intangible assets (excluding MSRs)	\$ 6,109	\$56	\$(767)	\$(14)	\$(26)	\$(18)	\$5,340
Mortgage servicing rights (MSRs) ⁽²⁾	4,554	—	—	—	—	—	2,569
Total intangible assets	\$10,663						\$7,909

(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

	2011		2010	
<i>In millions of dollars at December 31,</i>	Balance	Weighted Average rates	Balance	Weighted average rates
Commercial paper	\$14,872	0.32%	\$14,987	0.39%
Other borrowings	19,247	1.41	25,252	0.75
Total	\$34,119		\$40,239	

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	2011	2010
Citibank head office				
Senior notes ⁽¹⁾⁽²⁾	0.81%	2012-2046	\$21,516	\$38,328
Subordinated notes ⁽²⁾⁽³⁾	0.85	2012-2018	2,371	4,297
Domestic subsidiaries				
Senior notes	2.54	2012-2037	45,515	62,571
Subordinated notes ⁽³⁾	6.27	2037	72	278
Citibank Overseas Investment Corp				
Senior notes	3.83	2012-2039	8,185	10,251
Subordinated notes ⁽³⁾	6.24	2012-2039	318	341
Other Citibank subsidiaries and branches				
Senior notes	7.43	2012-2029	506	1,062
Subordinated notes ⁽³⁾	0.76	2012-2020	98	51
Total			\$78,581	\$117,179
Senior notes			\$75,722	\$112,212
Subordinated notes ⁽³⁾			2,859	4,967
Total			\$78,581	\$117,179

(1) At December 31, 2011 and 2010, collateralized advances from the Federal Home Loan Banks are \$11.0 billion and \$18.0 billion, respectively.

(2) Predominately includes floating rate debt priced at LIBOR.

(3) Includes notes that are subordinated within certain countries, regions or subsidiaries.

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, 2011, the Company's overall weighted average interest rate for long-term debt was 2.20% on a contractual basis and 2.68% 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>	2012	2013	2014	2015	2016	Thereafter	Total
Citibank head office	\$13,239	\$ 5,397	\$ 166	\$ 58	\$5,011	\$ 16	\$23,887
Domestic subsidiaries	17,269	4,403	7,490	5,222	2,743	8,461	45,588
Citibank Overseas Investment Corp	1,307	3,034	1,491	1,277	668	726	8,503
Other Citibank subsidiaries and branches	288	211	11	8	—	85	603
Total	\$32,103	\$13,045	\$9,158	\$6,565	\$8,422	\$9,288	\$78,581

17 CAPITAL RESOURCES

Overview

Citibank generates capital through earnings from its operating businesses. Citibank may 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. 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 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, 2011 and December 31, 2010.

Citibank, N.A. Capital Tiers and Capital Ratios Under Regulatory Guidelines⁽¹⁾

<i>In billions of dollars at year end, except ratios</i>	Required minimum	Well- capitalized minimum	2011	2010
Tier 1 Common			\$121.3	\$123.6
Tier 1 Capital			121.9	124.2
Total Capital ⁽²⁾			134.3	138.4
Tier 1 Common ratio	N/A	N/A	14.63%	15.33%
Tier 1 Capital ratio	4.0%	6.0%	14.70	15.42
Total Capital ratio	8.0	10.0	16.20	17.18
Leverage ratio	3.0	5.0	9.66	9.32

(1) Effective July 1, 2011, Citibank (South Dakota) N.A. merged into Citibank, N.A. The amount of Tier 1 Common Capital, Tier 1 Capital and Total Capital, and the resultant capital ratios, at December 31, 2010 have been restated to reflect this merger. The 2011 Capital Ratios above also reflect the impact of dividends paid by Citibank, N.A. to Citigroup during 2011.

(2) Total Capital includes Tier 1 Capital and Tier 2 Capital.

Components of Capital Under Regulatory Guidelines

<i>In millions of dollars at year end</i>	2011	2010
Tier 1 Common		
Citibank common stockholder's equity	\$151,755	\$150,779
Less Net unrealized losses on securities available-for-sale, net of tax ⁽¹⁾	1	(3,559)
Less Accumulated net losses on cash flow hedges, net of tax	(2,200)	(1,934)
Less Pension liability adjustment, net of tax ⁽²⁾	(1,610)	(1,469)
Less Cumulative effect included in fair value of financial liabilities attributable to the change in own credit worthiness, net of tax ⁽³⁾	99	50
Less Disallowed deferred tax assets ⁽⁴⁾	19,388	18,614
Less Intangible assets		
Goodwill	11,485	11,642
Other disallowed intangible assets	3,319	3,866
Other	(4)	(5)
Total Tier 1 Common	\$121,269	\$123,564
Qualifying noncontrolling interests	\$ 593	\$ 679
Total Tier 1 Capital	\$121,862	\$124,243
Tier 2 Capital		
Allowance for credit losses ⁽⁵⁾	\$ 10,551	\$ 9,868
Qualifying subordinated debt ⁽⁶⁾	1,600	4,000
Net unrealized pretax gains on available-for-sale equity securities ⁽⁷⁾	271	308
Total Tier 2 Capital	\$ 12,422	\$ 14,176
Total Capital (Tier 1 Capital and Tier 2 Capital)	\$134,284	\$138,419
Risk-weighted assets ⁽⁷⁾	\$828,747	\$805,825

- (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 Federal Reserve Board granted interim capital relief for the impact of ASC 715-20, *Compensation—Retirement Benefits—Defined Benefits Plans* (formerly SFAS 158).
- (3) The impact of changes in Citibank's own creditworthiness 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 N.A.'s approximately \$30 billion of net deferred tax assets at December 31, 2011, approximately \$10 billion of such assets were includable without limitation in regulatory capital pursuant to risk-based capital guidelines, while approximately \$19 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 approximately \$1 billion of other net deferred tax assets primarily represented 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 for credit losses 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 \$79.5 billion for interest rate, commodity and equity derivative contracts, foreign exchange contracts, and credit derivatives as of December 31, 2011, compared with \$71.7 billion as of December 31, 2010. Market risk equivalent assets included in risk-weighted assets amounted to \$36.5 billion at December 31, 2011 and \$37.1 billion at December 31, 2010. 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, 2011 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, January 1, 2010	\$(4,721)	\$(3,255)	\$(2,452)	\$(1,175)	\$(11,603)
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⁾	—	—	518	—	518
Pension liability adjustment, net of taxes ⁽⁴⁾	—	—	—	(294)	(294)
Change	\$ 1,162	\$ 29	\$ 518	\$ (294)	\$ 1,415
Balance, December 31, 2010	\$(3,559)	\$(3,226)	\$(1,934)	\$(1,469)	\$(10,188)
Change in net unrealized gains (losses) on investment securities, net of taxes ⁽¹⁾	\$ 3,560	\$ —	\$ —	\$ —	\$ 3,560
Foreign currency translation adjustment, net of taxes ⁽²⁾	—	(2,175)	—	—	(2,175)
Cash flow hedges, net of taxes ⁽³⁾	—	—	(266)	—	(266)
Pension liability adjustment, net of taxes ⁽⁴⁾	—	—	—	(141)	(141)
Change	\$ 3,560	\$(2,175)	\$ (266)	\$ (141)	\$ 978
Balance, December 31, 2011	\$ 1	\$(5,401)	\$(2,200)	\$(1,610)	\$(9,210)

- (1) Also reflects reclassification adjustments for a realized loss of \$1,383 million and a realized gain of \$422 million, net of taxes, on investments during 2011 and 2010, respectively
- (2) For 2011 primarily reflects the movements in (by order of impact) the Brazilian real, Indian rupee, Polish zloty, and Chilean peso against the U.S. dollar. For 2010 primarily reflects the movements in (by order of impact) the Japanese yen, Australian dollar, British pound, Singapore dollar and Brazilian real against the U.S. dollar
- (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

Uses of SPEs

A special purpose entity (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.

Most of Citibank's SPEs are now VIEs, as described below.

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.

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 and be the primary beneficiary 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 the VIE's 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.

In various other transactions, the Company may 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), may act as underwriter or placement agent, or may 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, 2011 and December 31, 2010, is presented below

In millions of dollars

As of December 31, 2011

	Total involvement with SPE assets	Consolidated VIE / SPE assets	Significant unconsolidated VIE assets ⁽⁴⁾	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	\$ 87,863	\$ 87,664	\$ 199	\$ —	\$ —	\$ —	\$ —	\$ —	
Mortgage securitizations									
U.S. agency-sponsored	333,881	—	333,881	2,651	—	—	146	2,797	
Non-agency-sponsored	19,199	2,914	16,285	63	—	—	2	65	
Student loan securitizations	1,822	1,822	—	—	—	—	—	—	
Citibank-administered asset-backed commercial paper conduits (ABCP)	34,987	21,971	13,016	—	—	13,016	—	13,016	
Third-party commercial paper conduits	7,955	—	7,955	448	—	298	—	746	
Collateralized debt obligations (CDOs)	792	—	792	—	—	—	81	81	
Collateralized loan obligations (CLOs)	3,091	—	3,091	334	—	6	—	340	
Asset-based financing	26,949	878	26,071	11,346	—	3,134	8	14,488	
Municipal securities tender option bond trusts (TOBs)	16,665	8,063	8,602	708	—	5,393	—	6,101	
Municipal investments	21,415	144	21,271	2,299	3,522	1,485	—	7,306	
Client intermediation	218	—	218	218	—	—	—	218	
Other	2,676	135	2,541	323	—	279	—	602	
Total Citibank	\$557,513	\$123,591	\$433,922	\$18,390	\$3,522	\$23,611	\$237	\$45,760	

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

(2) Included in Citibank's December 31, 2011 Consolidated Balance Sheet

(3) Not included in Citibank's December 31, 2011 Consolidated Balance Sheet

(4) 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

In millions of dollars

As of December 31, 2010

	Total involvement with SPE assets	Consolidated VIE / SPE assets	Significant unconsolidated VIE assets ⁽⁴⁾	Maximum exposure to loss in significant unconsolidated VIEs ⁽¹⁾					
				Funded exposures ⁽²⁾		Unfunded exposures ⁽³⁾			Total
				Debt investments	Equity investments	Funding commitments	Guarantees and derivatives		
Credit card securitizations	\$ 95,667	\$ 95,257	\$ 410	\$ —	\$ —	\$ —	\$ —	\$ —	
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	18,661	9	18,652	2,506	3,129	2,032	—	7,667	
Client intermediation	796	—	796	367	—	—	345	712	
Other	3,134	310	2,824	666	43	174	1	884	
Total Citibank	\$623,410	\$132,496	\$490,914	\$22,093	\$3,172	\$24,499	\$555	\$50,319	

(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) 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

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 deemed to be significant. For more information on these positions, see Notes 11 and 12 to the Consolidated Financial Statements,
- certain representations and warranties exposures in Consumer mortgage securitizations, where the original mortgage loan balances are no longer outstanding

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 tables generally include 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, 2011.

<i>In millions of dollars</i>	Liquidity Facilities	Loan Commitments
Citibank-administered ABCP	\$ 13,016	\$ —
Third-party commercial paper conduits	298	—
CLOs	—	6
Asset-based financing	84	3,050
Municipal securities TOBs	5,393	—
Municipal investments	390	1,095
Other	—	279
Total Citibank funding commitments	\$19,181	\$4,430

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 such 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, 2011	December 31, 2010
Cash	\$ 0.2	\$ 0.7
Trading account assets	0.3	0.9
Investments	10.5	7.8
Total loans, net	112.2	122.6
Other	0.4	0.5
Total assets	\$123.6	\$132.5
Short-term borrowings	\$22.3	\$24.1
Long-term debt	46.5	62.9
Other liabilities	0.3	0.2
Total liabilities	\$69.1	\$87.2

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, 2011	December 31, 2010
Trading account assets	\$ 2.6	\$ 3.1
Investments	7.5	8.7
Loans	9.3	9.1
Other	2.5	4.7
Total assets	\$21.9	\$25.6
Long-term debt	\$ 0.2	\$ 0.4
Other liabilities	—	—
Total liabilities	\$ 0.2	\$ 0.4

Credit Card Securitizations

The Company securitizes credit card receivables through trusts that are established to purchase the receivables. Citibank transfers receivables into the trusts on a non-recourse basis. Credit card securitizations are revolving securitizations, that is, as customers pay their credit card balances, the cash proceeds are used to purchase new receivables and replenish the receivables in the trust. Since the adoption of SFAS 167 on January 1, 2010, the trusts are treated as consolidated entities, because, as servicer, Citibank has the power to direct the activities that most significantly impact the economic performance of the trusts and also holds a seller's interest and

certain securities issued by the trusts, and provides liquidity facilities to the trusts, which could result in potentially significant losses or benefits from the trusts. Accordingly, the transferred credit card receivables are required to remain on the Consolidated Balance Sheet with no gain or loss recognized. The debt issued by the trusts to third parties is included in the Consolidated Balance Sheet.

The Company relies on securitizations to fund a significant portion of its credit card businesses in North America. The following table reflects amounts related to the Company's securitized credit card receivables.

<i>In billions of dollars</i>	December 31,	
	2011	2010
Principal amount of credit card receivables in trusts	\$ 90.4	\$101.6
Ownership interests in principal amount of trust credit card receivables		
Sold to investors via trust-issued securities	\$ 43.0	\$ 58.4
Retained by Citibank as trust-issued securities	14.8	10.5
Retained by Citibank via non-certificated interests	32.6	32.7
Total ownership interests in principal amount of trust credit card receivables	\$ 90.4	\$101.6

The following table summarizes selected cash flow information related to Citibank's credit card securitizations for the years ended December 31, 2011 and 2010.

<i>In billions of dollars</i>	2011	2010
Proceeds from new securitizations	\$ 3.9	\$ 5.5
Pay down of maturing notes	(20.5)	(40.3)
Proceeds from collections reinvested in new receivables	N/A	N/A
Contractual servicing fees received	N/A	N/A
Cash flows received on retained interests and other net cash flows	N/A	N/A

Managed Loans

After securitization of credit card receivables, the Company continues to maintain credit card customer account relationships and provides servicing for receivables transferred to the trusts. As a result, the Company considers the securitized credit card receivables to be part of the business it manages. As Citibank consolidates the credit card trusts, all managed securitized card receivables are on-balance sheet.

Funding, Liquidity Facilities and Subordinated Interests

Citibank securitizes credit card receivables through two securitization trusts—Citibank Credit Card Master Trust (Master Trust), and the Citibank OMNI Master Trust (Omni Trust), as of December 31, 2011. The liabilities of the trusts are included in the Consolidated Balance Sheet, excluding those retained by Citibank.

Master Trust issues fixed- and floating-rate term notes. Some of the term notes are issued to multi-seller commercial paper conduits. The weighted average maturity of the term notes issued by the Master Trust was 3.1 years as of December 31, 2011 and 3.4 years as of December 31, 2010.

Master Trust Liabilities (at par value)

<i>In billions of dollars</i>	December 31, December 31,	
	2011	2010
Term notes issued to multi-seller commercial paper conduits	\$ —	\$ 0.3
Term notes issued to third parties	30.4	41.8
Term notes retained by Citibank affiliates	7.7	3.4
Total Master Trust liabilities	\$38.1	\$45.5

The Omni Trust issues fixed- and floating-rate term notes, some of which are purchased by multi-seller commercial paper conduits.

The weighted average maturity of the third-party term notes issued by the Omni Trust was 1.5 years as of December 31, 2011 and 1.8 years as of December 31, 2010.

Omni Trust Liabilities (at par value)

<i>In billions of dollars</i>	December 31, December 31,	
	2011	2010
Term notes issued to multi-seller commercial paper conduits	\$ 3.4	\$ 7.2
Term notes issued to third parties	9.2	9.2
Term notes retained by Citibank affiliates	7.1	7.1
Total Omni Trust liabilities	\$19.7	\$23.5

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. 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, FNMA 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.

The Company does not consolidate certain non-agency-sponsored mortgage securitizations because Citibank is either not the servicer with the power to direct the significant activities of the entity or Citibank is the servicer but the servicing relationship is deemed to be a fiduciary relationship and, therefore, Citibank is not deemed to be the primary beneficiary of the entity.

In certain instances, the Company has (1) the power to direct the activities 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, 2011 and 2010.

<i>In billions of dollars</i>	2011	2010
Proceeds from new securitizations	\$50.7	\$53.8
Contractual servicing fees received	1.1	1.3
Cash flows received on retained interests and other net cash flows	0.2	0.2

Gains recognized on the securitization of mortgages in 2011 were \$78 million. Gains recognized on the securitization of mortgages during 2010 were \$138 million.

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, 2011 and 2010 are as follows:

	2011	2010
Discount rate	14.6%	13.7%
Constant prepayment rate	6.4%	8.9%
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, 2011, 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:

<i>In millions of dollars</i>	December 31, 2011
Discount rate	8.3%
Constant prepayment rate	31.0%
Anticipated net credit losses	NM
Weighted average life	4.0 years
Carrying value of retained interests	\$2,806
Discount rates	
Adverse change of 10%	\$ (78)
Adverse change of 20%	(149)
Constant prepayment rate	
Adverse change of 10%	\$ (249)
Adverse change of 20%	(483)
Anticipated net credit losses	
Adverse change of 10%	\$ (43)
Adverse change of 20%	(82)

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 capitalized mortgage servicing rights (MSRs) was \$2.6 billion and \$4.6 billion at December 31, 2011 and 2010, respectively. The MSRs correspond to principal loan balances of \$401 billion and \$455 billion as of December 31, 2011 and 2010, respectively. The following table summarizes the changes in capitalized MSRs for the years ended December 31, 2011 and 2010.

<i>In millions of dollars</i>	2011	2010
Balance, as of the beginning of year	\$4,554	\$ 6,530
Originations	611	658
Changes in fair value of MSRs due to changes in inputs and assumptions	(1,210)	(1,067)
Other changes ⁽¹⁾	(1,174)	(1,567)
Sale of MSRs	(212)	—
Balance, end of year	\$2,569	\$ 4,554

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

The market for MSRs 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 MSRs. 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 MSRs include mortgage prepayment speeds and discount rates. The model assumptions and the MSRs' 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 MSRs are subject to validation in accordance with the Company's model validation policies.

The fair value of the MSRs 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 MSRs 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, 2011 and 2010 were as follows:

<i>In millions of dollars</i>	2011	2010
Servicing fees	\$1,170	\$1,356
Late fees	76	87
Ancillary fees	130	214
Total MSR fees	\$1,376	\$1,657

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.

Citibank's 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 conduits is facilitated by the liquidity support and credit enhancements provided by the Company.

As administrator to Citibank's 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 the client program and liquidity fees of the conduit after payment of conduit expenses. 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 25 to 60 days. As of December 31, 2011 and December 31, 2010, the weighted average lives of the commercial paper issued by consolidated and unconsolidated conduits were approximately 37 and 41 days, respectively, at each period end.

The primary credit enhancement provided to the conduit investors is in the form of transaction-specific credit enhancement described above. In addition, each consolidated conduit has obtained a letter of credit from the Company, which needs to be sized to be at least 8–10% of the conduit's assets with a floor of \$200 million. The letters of credit provided by the Company to the consolidated conduits total approximately \$2.0 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 enhancements described above, any losses in each conduit are allocated first to the Company and then 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 conduits is supported by a transaction-specific liquidity facility in the form of an asset purchase agreement (APA). Under the APA, the Company has generally agreed to purchase non-defaulted eligible receivables from the conduit at par. The APA is not generally designed to provide credit support to the conduit, as it generally does not permit the purchase of defaulted or impaired assets. Any funding under the APA will likely subject the underlying borrower to the conduits to increased interest costs. 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 Company receives fees for providing both types of liquidity agreements and considers these fees to be on fair market terms.

With the exception of the government-guaranteed loan conduit described below, the asset-backed commercial paper conduits are 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 Citigroup 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. The total notional exposure under the program-wide liquidity agreement for the Company's unconsolidated administered conduit as of December 31, 2011 is \$0.6 billion. The program-wide liquidity agreement, along with each asset APA, is considered in the Company's maximum exposure to loss to the unconsolidated administered conduit.

As of December 31, 2011, this unconsolidated government-guaranteed loan conduit held assets of approximately \$13.0 billion.

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, 2011, the Company owned \$144 million of the commercial paper issued by its unconsolidated administered conduit.

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, 2011, the notional amount of these facilities was approximately \$746 million, of which \$448 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 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 entities 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. 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.

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.

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.

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.

A third-party asset manager is typically retained by the CDO/CLO to select the pool of assets and manage those assets over the term of the SPE.

The Company earns fees for warehousing assets prior to the creation of a "cash flow" or "market value" CDO/CLO. In addition, the Company has retained interests in many of the CDOs/CLOs it has structured.

The continuing involvement of the Company and its affiliates in synthetic CDOs/CLOs generally includes purchasing credit protection through credit default swaps with the CDO/CLO, owning a portion of the capital structure of the CDO/CLO 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/CLO, and lending to the CDO/CLO.

Where a CDO/CLO entity issues preferred shares (or subordinated notes that are the equivalent form), the preferred shares generally represent an insufficient amount of equity (less than 10%) and create the presumption that 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 returns, they generally do not 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 asset manager. Because one or both of the above conditions will generally be met, the Company has concluded that, even where a CDO/CLO entity issued preferred shares, the entity should be classified as a VIE.

In general, the asset manager, through its ability to purchase and sell assets or—where the reinvestment period of a CDO/CLO has expired—the ability to sell assets, will have the power to direct the activities of the entity that most significantly impact the economic performance of the CDO/CLO. However, where a CDO/CLO has experienced an event of default or an optional redemption period has gone into effect, the activities of the asset manager may be curtailed and/or certain additional rights will generally be provided to the investors in a CDO/CLO entity, including the right to direct the liquidation of the CDO/CLO entity.

The Company has retained significant portions of the "super-senior" positions issued by certain CDOs. These positions are referred to as "super-senior" because they represent the most senior positions in the CDO and, at the time of structuring, were senior to tranches rated AAA by independent rating agencies. The positions have included facilities structured in the form of short-term commercial paper,

where the Company wrote put options ("liquidity puts") to certain CDOs. Under the terms of the liquidity puts, if the CDO was unable to issue commercial paper at a rate below a specified maximum (generally LIBOR + 35 bps to LIBOR + 40 bps), the Company was obligated to fund the senior tranche of the CDO at a specified interest rate. As of December 31, 2011, the Company no longer had exposure to this commercial paper as all of the underlying CDOs had been liquidated.

The Company does not generally have the power to direct the activities of the entity that most significantly impacts the economic performance of the CDOs/CLOs as this power is generally held by a third-party asset manager of the CDO/CLO. As such, those CDOs/CLOs are not consolidated. The Company may consolidate the CDO/CLO when (i) the Company is the asset manager and no other single investor has the unilateral ability to remove the Company or unilaterally cause the liquidation of the CDO/CLO, or the Company is not the asset manager but has a unilateral right to remove the third-party asset manager or unilaterally liquidate the CDO/CLO and receive the underlying assets, and (ii) the Company has economic exposure to the entity that could be potentially significant to the entity.

The Company continues to monitor its involvement in unconsolidated CDOs/CLOs to assess future consolidation risk. For example, if the Company were to acquire additional interests in these entities and obtain the right, due to an event of default trigger being met, to unilaterally liquidate or direct the activities of a CDO/CLO, the Company may be required to consolidate the asset entity. For cash CDOs/CLOs, the net result of such consolidation would be to gross up the Company's balance sheet by the current fair value of the securities held by third parties and assets held by the CDO/CLO, which amounts are not considered material. For synthetic CDOs/CLOs, the net result of such consolidation may reduce the Company's balance sheet, because intercompany derivative receivables and payables would be eliminated in consolidation, and other assets held by the CDO/CLO and the securities held by third parties would be recognized at their current fair values.

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 generally 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 financings, total assets of the unconsolidated VIEs with significant involvement and the Company's maximum exposure to loss at December 31, 2011 are shown below. For the Company to realize that 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	\$ 4.2	\$ 1.0
Hedge funds and equities	6.0	2.3
Airplanes, ships and other assets	11.2	7.3
Corporate loans	4.7	3.9
Total	\$26.1	\$14.5

The following table summarizes selected cash flow information related to asset-based financing for the years ended December 31, 2011 and 2010.

<i>In billions of dollars</i>	2011	2010
Cash flows received on retained interests and other net cash flows	\$0.9	\$2.2

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, 2011 is disclosed below.

<i>In millions of dollars</i>	Asset-based financing
Carrying value of retained interests	\$3,864
Value of underlying portfolio	
Adverse change of 10%	—
Adverse change of 20%	—

Municipal Securities Tender Option Bond (TOB) Trusts

TOB trusts hold fixed- and floating-rate, taxable and tax-exempt securities issued by state and local governments and municipalities. The trusts are typically single-issuer trusts whose assets are purchased from the Company or from other investors in the municipal securities market. The TOB trusts fund the purchase of their assets by issuing long-term, putable floating rate certificates (Floaters) and residual certificates (Residuals). The trusts are referred to as Tender Option Bond trusts because the Floater holders have the ability to tender their interests periodically back to the issuing trust, as described further below. The Floaters and Residuals evidence beneficial ownership interests in, and are collateralized by, the underlying assets of the trust. The Floaters are held by third-party investors, typically tax-exempt money market funds. The Residuals are typically held by the original owner of the municipal securities being financed.

The Floaters and the Residuals have a tenor that is equal to or shorter than the tenor of the underlying municipal bonds. The Residuals entitle their holders to the residual cash flows from the issuing trust, the interest income generated by the underlying municipal securities net of interest paid on the Floaters and trust expenses. The Residuals are rated based on the long-term rating of the underlying municipal bond. The Floaters bear variable interest rates that are reset periodically to a new market rate based on a spread to a high grade, short-term, tax-exempt index. The Floaters have a long-term rating based on the long-term rating of the underlying municipal bond and a short-term rating based on that of the liquidity provider to the trust.

There are two kinds of TOB trusts: customer TOB trusts and non-customer TOB trusts. Customer TOB trusts are trusts through which customers finance their investments in municipal securities. The Residuals are held by customers and the Floaters by third-party investors, typically tax-exempt money market funds. Non-customer TOB trusts are trusts through which the Company finances its own investments in municipal securities. In such trusts, the Company holds the Residuals and third-party investors, typically tax-exempt money market funds, hold the Floaters.

An affiliate of the Company serves as remarketing agent to the trusts, placing the Floaters with third-party investors at inception, facilitating the periodic reset of the variable rate of interest on the Floaters and remarketing any tendered Floaters.

For certain non-customer trusts, the Company also provides credit enhancement. Approximately \$67 million of the municipal bonds owned by TOB trusts have a credit guarantee provided by the Company.

The Company provides liquidity to many of the outstanding trusts. If a trust is unwound early due to an event other than a credit event on the underlying municipal bond, the underlying municipal bonds are sold in the market. If there is a shortfall in the trust's cash flows between the redemption price of the tendered Floaters and the proceeds from the sale of the underlying municipal bonds, the trust draws on a liquidity agreement in an amount equal to the shortfall. 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 underlying municipal bonds. These reimbursement agreements are generally subject to daily margining based on changes in value of the underlying municipal bond. In cases where a third party provides liquidity to a non-customer 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, 2011, liquidity agreements provided with respect to customer TOB trusts totaled \$5.4 billion of which \$4.0 billion was offset by reimbursement agreements. The remaining exposure related to TOB transactions where the Residual owned by the customer was at least 25% of the bond value at the inception of the transaction and no reimbursement agreement was executed. The Company also provides other liquidity agreements or letters of credit to customer-sponsored municipal investment funds, that are not variable interest entities, and municipality-related issuers that totaled \$11.7

billion as of December 31, 2011. These liquidity agreements and letters of credit are offset by reimbursement agreements with various term-out provisions.

The Company considers the customer and non-customer TOB trusts to be VIEs. Customer TOB trusts are not consolidated by the Company. The Company has concluded that the power to direct the activities that most significantly impact the economic performance of the customer TOB trusts is primarily held by the customer Residual holder, who may unilaterally cause the sale of the trust's bonds.

Non-customer TOB trusts generally are consolidated. Similar to customer TOB trusts, the Company has concluded that the power over the non-customer TOB trusts is primarily held by the Residual holder, which 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 consolidates the non-customer TOB trusts.

Municipal Investments

Municipal investment transactions include debt and equity 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. The Company may also provide construction loans or permanent loans to the development or continuation of real estate properties held by partnerships. 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 are not consolidated by the Company.

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 (GIC) 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 that 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 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 amount
- *Option contracts*, which give the purchaser, for a premium, the right, but not the obligation, to buy or sell within a specified 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—Own Account* Citibank trades derivatives for its own account and as 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 issues fixed-rate long-term debt and then enters 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 AFS securities and 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 and net investment exposures

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, 2011 and December 31, 2010 are presented in the table below.

Derivative Notionals

<i>In millions of dollars</i>	Hedging instruments under ASC 815 (SFAS 133) ⁽¹⁾		Other derivative instruments			
			Trading derivatives		Management hedges ⁽²⁾	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Interest rate contracts						
Swaps	\$ 42,745	\$ 36,347	\$31,370,523	\$31,032,762	\$111,941	\$106,441
Futures and forwards	—	—	3,235,225	3,863,952	43,964	46,140
Written options	—	—	3,631,118	3,209,724	16,733	8,673
Purchased options	—	—	3,719,357	3,112,174	7,070	18,030
Total interest rate contract notionals	\$ 42,745	\$ 36,347	\$41,956,223	\$41,218,612	\$179,708	\$179,284
Foreign exchange contracts						
Swaps	\$ 1,214	\$ 951	\$ 1,348,177	\$ 1,239,563	\$ 518	\$ 378
Futures and forwards	49,323	65,666	3,340,122	2,915,410	2,718	2,016
Written options	141	569	601,342	632,100	190	50
Purchased options	31,597	13,530	593,948	554,479	53	174
Total foreign exchange contract notionals	\$ 82,275	\$ 80,716	\$ 5,883,589	\$ 5,341,552	\$ 3,479	\$ 2,618
Equity contracts						
Swaps	\$ —	\$ —	\$ 88,065	\$ 59,543	\$ —	\$ —
Futures and forwards	—	—	4,691	5,237	—	—
Written options	—	—	109,411	66,993	—	—
Purchased options	—	—	90,580	63,166	—	—
Total equity contract notionals	\$ —	\$ —	\$ 292,747	\$ 194,939	\$ —	\$ —
Commodity and other contracts						
Swaps	\$ —	\$ —	\$ 28,059	\$ 14,319	\$ —	\$ —
Futures and forwards	—	—	31,489	21,780	—	—
Written options	—	—	105,794	23,018	—	—
Purchased options	—	—	131,116	25,645	—	—
Total commodity and other contract notionals	\$ —	\$ —	\$ 296,458	\$ 84,762	\$ —	\$ —
Credit derivatives ⁽³⁾						
Protection sold	\$ —	\$ —	\$ 1,439,748	\$ 1,218,768	\$ —	\$ —
Protection purchased	4,253	4,928	1,509,181	1,277,618	21,914	28,526
Total credit derivatives	\$ 4,253	\$ 4,928	\$ 2,948,929	\$ 2,496,386	\$ 21,914	\$ 28,526
Total derivative notionals	\$129,273	\$121,991	\$51,377,946	\$49,336,251	\$205,101	\$210,428

- (1) Derivatives in hedge accounting relationships accounted for under ASC 815 (SFAS 133) are recorded in either *Other assets/Other liabilities* or *Trading account assets/Trading account 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 either *Other assets/Other liabilities* or *Trading account assets/Trading account 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 derivative 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, 2011</i>	Derivatives classified in Trading account assets/liabilities ^{(1) (2)}		Derivatives classified in Other assets/liabilities ⁽²⁾	
	Assets	Liabilities	Assets	Liabilities
Derivative instruments designated as ASC 815 (SFAS 133) hedges				
Interest rate contracts	\$ 41	\$ 3,135	\$ 2	\$1,509
Foreign exchange contracts	2,139	261	342	186
Total derivative instruments designated as ASC 815 (SFAS 133) hedges	\$ 2,180	\$ 3,396	\$ 344	\$1,695
Other derivative instruments				
Interest rate contracts	\$ 823,448	\$ 811,710	\$ 188	\$ 152
Foreign exchange contracts	103,802	101,451	2	1
Equity contracts	13,167	15,005	—	—
Commodity and other contracts	5,809	6,063	—	—
Credit derivatives ⁽³⁾	89,443	84,318	430	126
Total other derivative instruments	\$1,035,669	\$1,018,547	\$ 620	\$ 279
Total derivatives	\$1,037,849	\$1,021,943	\$964	\$1,974
Cash collateral paid/received	59,288	55,344	307	556
Less: Netting agreements and market value adjustments ⁽⁴⁾	(1,025,453)	(1,020,899)	—	—
Net receivables/payables	\$ 71,684	\$ 56,388	\$1,271	\$2,530

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

(2) Derivative mark-to-market receivables/payables related to management hedges are recorded in either *Other assets/Other liabilities* or *Trading account assets/Trading account liabilities*

(3) The credit derivatives trading assets are composed of \$78,071 million related to protection purchased and \$11,372 million related to protection sold as of December 31, 2011. The credit derivatives trading liabilities are composed of \$11,938 million related to protection purchased and \$72,380 million related to protection sold as of December 31, 2011

(4) Represents the netting of derivative receivable and payable balances for the same counterparty under enforceable netting agreements

<i>In millions of dollars at December 31, 2010</i>	Derivatives classified in Trading account assets/liabilities ^{(1) (2)}		Derivatives classified in Other assets/liabilities ⁽²⁾	
	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	\$509,792	\$507,377	\$2,449	\$2,463
Foreign exchange contracts	95,153	91,919	3	518
Equity contracts	8,308	10,637	—	—
Commodity and other contracts	4,838	5,342	—	—
Credit derivatives ⁽³⁾	64,014	57,250	88	337
Total other derivative instruments	\$682,105	\$672,525	\$2,540	\$3,318
Total derivatives	\$682,342	\$673,158	\$3,304	\$6,418
Cash collateral paid/received	49,127	44,032	12	598
Less: Netting agreements and market value adjustments ⁽⁴⁾	(674,018)	(669,822)	—	—
Net receivables/payables	\$ 57,451	\$ 47,368	\$3,316	\$7,016

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

(2) Derivative mark-to-market receivables/payables related to management hedges are recorded in either *Other assets/Other liabilities* or *Trading account assets/Trading account liabilities*

(3) 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

(4) Represents the netting of derivative receivable and payable balances for the same counterparty under enforceable netting agreements

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 \$36 billion and \$24 billion as of December 31, 2011 and December 31, 2010, respectively. The amount of receivables in respect of cash collateral paid that was netted with unrealized losses from derivatives was \$43 billion as of December 31, 2011 and \$37 billion as of December 31, 2010.

The amounts recognized in *Principal transactions* in the Consolidated Statement of Income for the years ended December 31, 2011 and 2010 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 presents 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 this represents the way these portfolios are risk managed.

<i>In millions of dollars</i>	Year ended December 31,	
	2011	2010
Interest rate contracts	\$3,603	\$3,096
Foreign exchange	1,871	1,667
Equity contracts	118	153
Commodity and other	(20)	(267)
Credit derivatives	205	166
Total Citibank ⁽¹⁾	\$5,777	\$4,815

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

The amounts recognized in *Other revenue* in the Consolidated Statement of Income related to derivatives not designated in a qualifying hedging relationship for the years ended December 31, 2011 and 2010 are shown below. The table below does not include the offsetting gains/losses on the hedged items, which amounts are also recorded in *Other revenue*.

<i>In millions of dollars</i>	Gains (losses) included in Other revenue	
	Year ended December 31,	
	2011	2010
Interest rate contracts	\$739	\$ 444
Foreign exchange	51	32
Credit derivatives	115	(502)
Total Citibank	\$905	\$ (26)

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 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 *Accumulated other comprehensive income (loss)* 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 would be recorded at amortized cost under current U.S. GAAP. However, by electing to use ASC 815 (SFAS 133) fair value 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, a management hedge, which does not meet the ASC 815 hedging criteria, would involve recording only 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 may change 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 are not exactly equal, the difference would be reflected in current earnings.

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 certificates of deposit. 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. Some of 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, while others use regression.

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. Some 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 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 *Accumulated other comprehensive income*—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 the Company's fair value hedges for the years ended December 31, 2011 and 2010

<i>In millions of dollars</i>	Gains (losses) on fair value hedges ⁽¹⁾	
	Year ended December 31,	
	2011	2010
Gain (loss) on derivatives in designated and qualifying fair value hedges		
Interest rate contracts	\$ (1,625)	\$ (1,090)
Foreign exchange contracts	(354)	921
Total gain (loss) on derivatives in designated and qualifying fair value hedges	\$ (1,979)	\$ (169)
Gain (loss) on the hedged item in designated and qualifying fair value hedges		
Interest rate hedges	\$ 1,434	\$ 1,062
Foreign exchange hedges	339	(643)
Total gain (loss) on the hedged item in designated and qualifying fair value hedges	\$ 1,773	\$ 419
Hedge ineffectiveness recognized in earnings on designated and qualifying fair value hedges		
Interest rate hedges	\$ (200)	\$ (59)
Foreign exchange hedges	4	36
Total hedge ineffectiveness recognized in earnings on designated and qualifying fair value hedges	\$ (196)	\$ (23)
Net gain (loss) excluded from assessment of the effectiveness of fair value hedges		
Interest rate contracts	\$ 9	\$ 31
Foreign exchange contracts	(19)	242
Total net gain (loss) excluded from assessment of the effectiveness of fair value hedges	\$ (10)	\$ 273

(1) Amounts are included in *Other revenue* on the Consolidated Statement of Income. The accrued interest income on fair value hedges is recorded in *Net interest revenue* and 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 rollover (re-issuance) of short-term liabilities. Variable cash flows from those liabilities are converted to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps and receive-variable, pay-fixed forward-starting interest rate swaps. These cash-flow hedging relationships use either regression analysis or dollar-offset ratio analysis to assess whether the hedging relationships are highly effective at inception and on an ongoing basis. When certain interest rates do not qualify as a benchmark interest rate, Citibank designates the risk being hedged as the risk of overall changes in the hedged cash flows. 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 cash flows of long-term debt and short-term borrowings 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, and the hedging instruments used are foreign exchange cross-currency swaps and forward contracts. These cash flow hedge relationships use dollar-offset ratio analysis to determine whether the hedging relationships are highly effective at inception and on an ongoing basis.

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 generally 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, 2011 and 2010 is not significant.

The pretax change in *Accumulated other comprehensive income (loss)* from cash flow hedges is presented below for the years ended December 31, 2011 and 2010

<i>In millions of dollars</i>	Year ended December 31,	
	2011	2010
Effective portion of cash flow hedges included in AOCI		
Interest rate contracts	\$ (1,652)	\$ (676)
Foreign exchange contracts	(24)	(39)
Total effective portion of cash flow hedges included in AOCI	\$ (1,676)	\$ (715)
Effective portion of cash flow hedges reclassified from AOCI to earnings		
Interest rate contracts	\$ (1,164)	\$ (1,415)
Foreign exchange contracts	(104)	(164)
Total effective portion of cash flow hedges reclassified from AOCI to earnings ⁽¹⁾	\$ (1,268)	\$ (1,579)

(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 *Accumulated other comprehensive income (loss)* 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 *Accumulated other comprehensive income (loss)* within 12 months of December 31, 2011 is approximately \$816 million. The maximum length of time over which forecasted cash flows are hedged is 10 years.

The after-tax impact of cash flow hedges on AOCI is shown in Note 18 to the Consolidated Financial Statement.

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, 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 *Foreign currency translation adjustment* account within *Accumulated other comprehensive income (loss)*. Simultaneously, the effective portion of the hedge of this exposure is also recorded in the *Foreign currency 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 translation adjustment* account within *Accumulated other comprehensive income (loss)*.

For foreign-currency-denominated debt instruments that are designated as hedges of net investments, the translation gain or loss that is recorded in the *Foreign currency translation adjustment* account is based on the spot exchange rate between the functional currency of the respective subsidiary and the U.S. dollar, which is the functional currency of Citibank. To the extent the notional amount of the hedging instrument exactly matches the hedged net investment and the underlying exchange rate of the derivative hedging instrument relates to the exchange rate between the functional currency of the net investment and Citibank's functional currency (or, in the case of a non-derivative debt instrument, such instrument is denominated in the functional currency of the net investment), no ineffectiveness is recorded in earnings.

The pretax gain (loss) recorded in the *Foreign currency translation adjustment* account within *Accumulated other comprehensive income (loss)*, related to the effective portion of the net investment hedges, is \$587 million and \$(1,068) million for the years ended December 31, 2011 and 2010, 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 portfolios 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, credit options and credit-linked notes.

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 any time 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, 2011 and December 31, 2010, the amount of credit-linked notes held by the Company in trading inventory was immaterial.

The following tables summarize the key characteristics of the Company's credit derivative portfolio as protection seller as of December 31, 2011 and December 31, 2010.

<i>In millions of dollars as of December 31, 2011</i>	Maximum potential amount of future payments ⁽¹⁾
By instrument	
Credit default swaps and options	\$1,435,371
Total return swaps and other	4,377
Total by instrument	\$1,439,748
By rating	
Investment grade	\$ 601,723
Non-investment grade ⁽²⁾	838,025
Total by rating	\$1,439,748
By maturity	
Within 1 year	\$ 263,139
From 1 to 5 years	989,514
After 5 years	187,095
Total by maturity	\$1,439,748

- (1) At December 31, 2011, the fair value amounts payable under credit derivatives sold was \$72,380 million and were recorded in *Trading account liabilities*. In addition, fair value amounts receivable under credit derivatives sold was \$11,372 million and were recorded in *Trading account assets*.
- (2) Also includes credit derivatives sold that are not rated.

<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 and were recorded in *Trading account assets*.
- (2) Also included credit derivatives sold that are not rated.

Citibank evaluates the payment/performance risk of the credit derivatives for which it stands as a protection seller based on the credit rating 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 reference credits, 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 reference 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 table above is based on the notional value of the derivatives. The Company believes that the maximum potential amount of future payments for credit protection sold is not representative of the actual loss exposure based on historical experience. 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, Citi 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 alone 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 (excluding CVA) of all derivative instruments with credit-risk-related contingent features that are in a liability position at December 31, 2011 and December 31, 2010 is \$21 billion and \$19 billion, respectively. The Company has posted \$18 billion and \$16 billion as collateral for this exposure in the normal course of business as of December 31, 2011 and December 31, 2010, respectively. Each downgrade would trigger additional collateral requirements for the Company and its affiliates. In the event that each legal entity was downgraded a single notch as of December 31, 2011, the Company would be required to post additional collateral of \$2.4 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, 2011, 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 \$205 billion and \$231 billion at December 31, 2011 and 2010, respectively.

22 FAIR VALUE MEASUREMENT

ASC 820-10 (formerly SFAS 157) 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 values have been determined using unobservable market inputs.

Under ASC 820-10, the probability of default of a counterparty is factored into the valuation of derivative positions and includes the impact of Citibank's own credit risk on derivatives and other liabilities measured at fair value.

Fair Value Hierarchy

ASC 820-10, *Fair Value Measurement*, 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.

The Company's policy with respect to transfers between levels of the fair value hierarchy is to recognize transfers into and out of each level as of the end of the reporting period.

Determination of Fair Value

For assets and liabilities carried at fair value, the Company measures such value using the procedures set out 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 and any significant assumptions.

Securities purchased under agreements to resell and securities sold under agreements to repurchase

No quoted prices exist for such instruments and so fair value is determined using a discounted cash-flow technique. Cash flows are estimated based on the terms of the contract, taking into account any embedded derivative or other features. Expected cash flows are discounted using market rates appropriate to the maturity of the instrument as well as the nature and amount of collateral taken or received. Generally, when such instruments are held at fair value, they are classified within Level 2 of the fair value hierarchy as the inputs used in the valuation are readily observable.

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 commercial real estate 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.

In the fourth quarter of 2011, the Company began incorporating overnight indexed swap ("OIS") curves as fair value measurement inputs for the valuation of certain collateralized interest-rate related derivatives. The OIS curves reflect the interest rates paid on cash collateral provided against the fair value of these derivatives. The Company believes using relevant OIS curves as inputs to determine fair value measurements provides a more representative reflection of the fair value of these collateralized interest-rate related derivatives. Previously, the Company used the relevant benchmark curve for the currency of the derivative (e.g., the London Interbank Offered Rate for U.S. dollar derivatives) as the discount rate for these collateralized interest-rate related derivatives. The Company recognized a pretax gain of approximately \$193 million upon the change in this fair value measurement input. For further information on derivative instruments and hedging activities, see Note 20 to the Consolidated Financial Statements.

Subprime-related direct exposures in CDOs

The valuation of high-grade and mezzanine asset-backed security (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 uses trader marks to value this portion of the portfolio and will do so as 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 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.

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 in an orderly manner. 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.

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 and loans.

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.

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, 2011 and 2010. The Company's hedging of positions that have

been classified in the Level 3 category is not limited to other financial instruments that have been classified as Level 3, but also instruments that have been classified as Level 1 or Level 2 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, 2011</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	\$ —	\$ 3,456	\$ 366	\$ 3,822	\$ —	\$ 3,822
Prime	—	—	12	12	—	12
Alt-A	—	—	—	—	—	—
Subprime	—	—	—	—	—	—
Non-U.S. residential	—	—	16	16	—	16
Commercial	—	—	—	—	—	—
Total trading mortgage-backed securities	\$ —	\$ 3,456	\$ 394	\$ 3,850	\$ —	\$ 3,850
U.S. Treasury and federal agency securities						
U.S. Treasury	\$1,691	\$162	—	\$ 1,853	—	\$ 1,853
Agency obligations	—	—	—	—	—	—
Total U.S. Treasury and federal agency securities	\$1,691	\$ 162	\$ —	\$ 1,853	\$ —	\$ 1,853
State and municipal	—	\$ 1,249	\$ 43	\$ 1,292	\$ —	\$ 1,292
Foreign government	17,556	18,433	153	36,142	—	36,142
Corporate	—	16,531	1,940	18,471	—	18,471
Equity securities	9,962	180	2	10,144	—	10,144
Asset-backed securities	—	43	4	47	—	47
Other debt securities	—	12,271	2,208	14,479	—	14,479
Total trading securities	\$29,209	\$ 52,325	\$ 4,744	\$ 86,278	\$ —	\$ 86,278
Trading account derivatives						
Interest rate contracts	\$ 67	\$ 822,063	\$ 1,359	\$ 823,489	—	—
Foreign exchange contracts	—	105,439	502	105,941	—	—
Equity contracts	8	12,142	1,017	13,167	—	—
Commodity contracts	—	4,825	984	5,809	—	—
Credit derivatives	—	80,717	8,726	89,443	—	—
Total gross trading account derivatives	\$ 75	\$1,025,186	\$12,588	\$1,037,849	—	—
Gross cash collateral paid	—	—	—	\$59,288	—	—
Netting agreements and market value adjustments	—	—	—	—	\$(1,025,453)	—
Total trading account derivatives	\$ 75	\$1,025,186	\$12,588	\$1,097,137	\$(1,025,453)	\$ 71,684
Investments						
Mortgage-backed securities						
U.S. government-sponsored agency guaranteed	\$ —	\$ 43,069	\$ 666	\$43,735	\$ —	\$ 43,735
Prime	—	4	2	6	—	6
Alt-A	—	—	—	—	—	—
Subprime	—	—	—	—	—	—
Non-U.S. residential	—	4,659	—	4,659	—	4,659
Commercial	—	—	—	—	—	—
Total investment mortgage-backed securities	\$ —	\$ 47,732	\$ 668	\$48,400	\$ —	\$ 48,400
U.S. Treasury and federal agency securities						
U.S. Treasury	\$11,620	\$ 17,012	\$ —	\$28,632	\$ —	\$ 28,632
Agency obligations	—	21,912	75	21,987	—	21,987
Total U.S. Treasury and federal agency securities	\$11,620	\$ 38,924	\$ 75	\$50,619	\$ —	\$ 50,619
State and municipal	\$ —	\$ 13,539	\$ 336	\$13,875	\$ —	\$ 13,875
Foreign government	26,211	42,438	396	69,045	—	69,045
Corporate	—	4,547	805	5,352	—	5,352
Equity securities	3,515	4	—	3,519	—	3,519
Asset-backed securities	—	5,867	3,868	9,735	—	9,735
Other debt securities	—	539	120	659	—	659
Non-marketable equity securities	—	—	50	50	—	50
Total investments	\$41,346	\$ 153,590	\$ 6,318	\$201,254	\$ —	\$201,254
Loans ⁽²⁾	\$ —	\$ 588	\$ 4,568	\$ 5,156	\$ —	\$ 5,156
Mortgage servicing rights	—	—	2,569	2,569	—	2,569

<i>In millions of dollars at December 31, 2011</i>	Level 1	Level 2	Level 3	Gross inventory	Netting ⁽¹⁾	Net balance
Nontrading derivatives and other financial assets measured on a recurring basis, gross	\$ —	\$ 6,989	\$ 187	\$ 7,176		
Gross cash collateral paid				307		
Netting agreements and market value adjustments					\$ —	
Nontrading derivatives and other financial assets measured on a recurring basis	\$ —	\$ 6,989	\$ 187	\$ 7,483	\$ —	\$ 7,483
Total assets	\$70,630	\$1,238,678	\$30,974	\$1,399,877	\$(1,025,453)	\$374,424
Total as a percentage of gross assets ⁽³⁾	5.3%	92.4%	2.3%	100.0%		
Liabilities						
Interest-bearing deposits	\$ —	\$ 896	\$ 431	\$ 1,327	\$ —	\$ 1,327
Trading account liabilities						
Securities sold, not yet purchased	8,370	149	34	8,553	—	8,553
Trading account derivatives						
Interest rate contracts	36	813,515	1,294	814,845		
Foreign exchange contracts	—	101,200	512	101,712		
Equity contracts	118	12,744	2,143	15,005		
Commodity contracts	—	5,105	958	6,063		
Credit derivatives	—	77,064	7,254	84,318		
Total trading account derivatives	\$ 154	\$1,009,628	\$12,161	\$1,021,943		
Gross cash collateral received				55,344		
Netting agreements and market value adjustments					\$(1,020,899)	
Total trading account derivatives	\$ 154	\$1,009,628	\$12,161	\$1,077,287	\$(1,020,899)	\$56,388
Short-term borrowings	—	89	3	92	—	92
Long-term debt	—	1,439	1,706	3,145	—	3,145
Nontrading derivatives and other financial liabilities measured on a recurring basis, gross	—	\$ 1,971	\$3	\$1,974		
Gross cash collateral received				556		
Netting agreements and market value adjustments					\$ —	
Nontrading derivatives and other financial liabilities measured on a recurring basis	\$ —	\$ 1,971	\$ 3	\$ 2,530	\$ —	\$ 2,530
Total liabilities	\$ 8,524	\$1,014,172	\$14,338	\$1,092,934	\$(1,020,899)	\$72,035
Total as a percentage of gross liabilities ⁽³⁾	0.8%	97.8%	1.4%	100.0%		

<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 agency securities						
U S Treasury	\$ 7,415	\$ 92	\$ —	\$ 7,507	\$ —	\$ 7,507
Agency obligations	—	60	72	132	—	132
Total U S Treasury and federal agency 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
Trading account derivatives						
Interest rate contracts	\$ 157	\$507,625	\$ 2,010	\$ 509,792		
Foreign exchange contracts	—	94,637	753	95,390		
Equity contracts	—	6,894	1,414	8,308		
Commodity contracts	—	3,985	853	4,838		
Credit derivatives	—	49,840	14,174	64,014		
Total gross trading account derivatives	\$ 157	\$662,981	\$19,204	\$ 682,342		
Gross cash collateral paid				49,127		
Netting agreements and market value adjustments					\$(674,018)	
Total trading account derivatives	\$ 157	\$662,981	\$19,204	\$ 731,469	\$(674,018)	\$ 57,451
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	\$ 32,774	\$ —	\$ 46,053	\$ —	\$ 46,053
Agency obligations	—	35,697	17	35,714	—	35,714
Total U S Treasury and federal agency securities	\$13,279	\$ 68,471	\$ 17	\$ 81,767	\$ —	\$ 81,767
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	935	117	6	1,058	—	1,058
Asset-backed securities	—	2,933	4,694	7,627	—	7,627
Other debt securities	—	596	727	1,323	—	1,323
Non-marketable equity securities	—	39	150	189	—	189
Total investments	\$53,977	\$160,628	\$ 6,393	\$ 220,998	\$ —	\$220,998
Loans ⁽²⁾	\$ —	\$1,159	\$ 3,050	\$ 4,209	\$ —	\$ 4,209
Mortgage servicing rights	—	—	4,554	4,554	—	4,554
Nontrading derivatives and other financial assets measured on a recurring basis, gross	\$ —	\$ 10,495	\$ 30	\$ 10,525		
Gross cash collateral paid				12		
Netting agreements and market value adjustments					\$ —	
Nontrading derivatives and other financial assets measured on a recurring basis	\$ —	\$ 10,495	\$ 30	\$ 10,537	\$ —	\$ 10,537
Total assets	\$88,026	\$890,282	\$36,228	\$1,063,675	\$(674,018)	\$389,657
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
Trading account derivatives						
Interest rate contracts	167	505,568	1,642	507,377		
Foreign exchange contracts	1	91,916	635	92,552		
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 trading account derivatives	\$ 253	\$657,406	\$15,499	\$673,158		
Gross cash collateral received				44,032		
Netting agreements and market value adjustments					\$(669,822)	
Total trading account derivatives	\$ 253	\$657,406	\$15,499	\$717,190	\$(669,822)	\$47,368
Short-term borrowings	—	117	—	117	—	117
Long-term debt	—	2,255	2,343	4,598	—	4,598
Nontrading derivatives and other financial liabilities measured on a recurring basis, gross	\$ 1	\$ 6,398	\$ 19	\$ 6,418		
Gross cash collateral received				598		
Netting agreements and market value adjustments					\$ —	
Nontrading derivatives and other financial liabilities measured on a recurring basis	\$ 1	\$ 6,398	\$ 19	\$ 7,016	\$ —	\$ 7,016
Total liabilities	\$ 8,242	\$667,393	\$18,145	\$738,410	\$(669,822)	\$68,588
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 measured at fair value on a recurring basis excluding collateral paid/received on derivatives

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, 2011 and 2010. 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>	Dec 31, 2010	Principal transactions	Net realized/unrealized gains (losses) included in Other ⁽¹⁾⁽²⁾	Transfers in and/or out of Level 3	Purchases	Issuances	Sales	Settlements	Dec 31, 2011	Unrealized gains (losses) still held ⁽³⁾
Assets										
Trading securities										
Trading mortgage-backed securities										
U.S. government-sponsored agency guaranteed	\$577	\$(39)	\$—	\$—	\$—	\$107	\$(81)	\$(198)	\$366	\$(48)
Prime	64	—	—	(33)	937	—	(956)	—	12	12
Alt-A	27	(41)	—	—	1,392	—	(1,378)	—	—	—
Subprime	3	1	—	(1)	3	—	(6)	—	—	—
Non-U.S. residential	—	(1)	—	17	—	—	—	—	16	(5)
Commercial	57	1	—	(45)	3	—	(16)	—	—	—
Total trading mortgage-backed securities	\$728	\$(79)	\$—	\$(62)	\$2,335	\$107	\$(2,437)	\$(198)	\$394	\$(41)
U.S. Treasury and federal agency securities										
U.S. Treasury	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Agency obligations	72	9	—	(45)	—	—	(36)	—	—	—
Total U.S. Treasury and federal agency securities	\$72	\$9	\$—	\$(45)	\$—	\$—	\$(36)	\$—	\$—	\$—
State and municipal	\$—	\$—	\$—	\$14	\$30	\$—	\$(1)	\$—	\$43	\$—
Foreign government	23	—	—	(21)	349	—	(90)	(108)	153	—
Corporate	829	(29)	—	1,846	519	—	(481)	(744)	1,940	(14)
Equity securities	2	(4)	—	4	—	—	—	—	2	—
Asset-backed securities	42	18	—	(1)	248	—	(303)	—	4	(2)
Other debt securities	1,301	(90)	—	506	1,555	—	(658)	(406)	2,208	14
Total trading securities	\$2,997	\$(175)	\$—	\$2,241	\$5,036	\$107	\$(4,006)	\$(1,456)	\$4,744	\$(43)
Derivatives, net ⁽⁴⁾										
Interest rate contracts	368	(76)	—	(384)	20	—	—	137	65	(108)
Foreign exchange contracts	118	21	—	(128)	11	—	(3)	(29)	(10)	(39)
Equity contracts	(623)	(179)	—	(140)	2	—	(6)	(180)	(1,126)	(624)
Commodity contracts	(185)	258	—	123	—	—	(103)	(67)	26	(29)
Credit derivatives	4,027	1,042	—	(5)	7	—	—	(3,599)	1,472	581
Total derivatives, net ⁽⁴⁾	\$3,705	\$1,066	\$—	\$(534)	\$40	\$—	\$(112)	\$(3,738)	\$427	\$(219)
Investments										
Mortgage-backed securities										
U.S. government-sponsored agency guaranteed	\$22	\$—	\$(1)	\$382	\$270	\$—	\$(7)	\$—	\$666	\$1
Prime	16	—	—	(5)	—	—	(7)	(2)	2	—
Alt-A	1	—	(1)	—	—	—	—	—	—	—
Commercial	32	—	—	(32)	—	—	—	—	—	—
Total investment mortgage-backed debt securities	\$71	\$—	\$(2)	\$345	\$270	\$—	\$(14)	\$(2)	\$668	\$1
U.S. Treasury and federal agency securities										
State and municipal	\$17	\$—	\$—	\$60	\$—	\$—	\$(2)	\$—	\$75	\$—
Foreign government	40	—	(3)	4	296	—	(1)	—	336	(2)
Corporate	330	—	14	(43)	349	—	(16)	(238)	396	6
Equity securities	358	—	(130)	200	715	—	(32)	(306)	805	(80)
Asset-backed securities	6	—	(3)	(3)	—	—	—	—	—	—
Total investments	4,694	—	—	4	79	—	(8)	(901)	3,868	—

<i>In millions of dollars</i>	Net realized/unrealized gains (losses) included in								Dec 31, 2011	Unrealized gains (losses) still held ⁽³⁾
	Dec 31, 2010	Principal transactions	Other ⁽¹⁾⁽²⁾	Transfers in and/or out of Level 3	Purchases	Issuances	Sales	Settlements		
Other debt securities	727	—	26	122	35	—	(289)	(501)	120	(2)
Non-marketable equity securities	150	—	1	(151)	50	—	—	—	50	—
Total investments	\$6,393	\$—	\$(97)	\$538	\$1,794	\$—	\$(362)	\$(1,948)	\$6,318	\$(77)
Loans	\$3,050	\$—	\$(308)	\$391	\$591	\$1,661	\$(102)	\$(715)	\$4,568	\$(265)
Mortgage servicing rights	4,554	—	(1,465)	—	—	408	\$(212)	(716)	2,569	(1,465)
Other financial assets measured on a recurring basis	30	—	142	14	57	554	(58)	(552)	187	111
Liabilities										
Interest-bearing deposits	\$277	\$—	\$45	\$(112)	\$—	\$324	\$—	\$(13)	\$431	\$(35)
Trading account liabilities										
Securities sold, not yet purchased	7	(7)	—	18	—	—	23	(21)	34	(1)
Short-term borrowings	—	—	—	2	—	3	—	(2)	3	—
Long-term debt	2,343	(24)	266	25	—	95	—	(515)	1,706	215
Other financial liabilities measured on a recurring basis	19	—	(19)	7	1	13	(1)	(55)	3	(3)

<i>In millions of dollars</i>	Dec 31, 2009	Net realized/unrealized gains (losses) included in Principal transactions	Other ⁽¹⁾⁽²⁾	Transfers in and/or out of Level 3	Purchases, issuances and settlements	Dec 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	13,160	44	—	302	(12,205)	1,301	8
Total trading securities	23,136	\$1,832	\$ —	\$2,341	\$ (24,312)	\$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	387	4,027	(335)
Total derivatives, net ⁽⁴⁾	\$ 553	\$ 547	\$ —	\$2,391	\$ 214	\$3,705	\$ 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>	Dec 31, 2009	Net realized/unrealized gains (losses) included in		Transfers in and/or out of Level 3	Purchases, issuances and settlements	Dec 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)

(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 *Other revenue* 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, 2011 and 2010

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

The significant changes from December 31, 2010 to December 31, 2011 in Level 3 assets and liabilities are due to

- A net increase in *Trading securities* of \$1.7 billion that included
 - The reclassification of \$2.8 billion of securities from *Investments held-to-maturity* to *Trading account assets*. These reclassifications have been included in purchases in the Level 3 roll-forward table above. The Level 3 assets reclassified, and subsequently sold, included \$2.3 billion of trading mortgage-backed securities (of which \$1.4 billion were Alt-A and \$0.9 billion were prime), \$0.3 billion of corporate debt securities and \$0.2 billion of asset-backed securities.
 - Transfers of \$2.2 billion from Level 2 to Level 3, the majority of which related to transfers of corporate debt securities of \$1.8 billion due primarily to less price transparency for these securities.
 - Purchases and sales of \$1.6 billion and \$0.7 billion, respectively, of Other debt securities which consist primarily of loans for which the fair value option has been elected.
- A net decrease in credit derivatives of \$2.6 billion. The net decrease comprised gains of \$1.0 billion recorded in *Principal transactions*, which included gains of \$0.6 billion on total return swaps referencing returns on corporate loans, offset by losses on certain of the referenced loans which are classified as Level 2. Settlements of \$3.6 billion included \$1.7 billion related to the settlement of certain contracts under which the Company had purchased credit protection on commercial mortgage-backed securities from a single counterparty. Settlements also included \$1.4 billion relating to the unwinding of contracts under which the Company had purchased credit protection from an affiliated company referencing interest rate derivative exposures.
- A net increase in *Loans* of \$1.5 billion, including transfers from Level 2 to Level 3 of \$0.4 billion, due to a lack of observable prices. Issuances of \$1.7 billion included new margin loans advanced by the Company.
- A net decrease in *Mortgage servicing rights* of \$2.0 billion included losses of \$1.5 billion, due primarily to a reduction in interest rates.

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 \$20.1 billion which included
 - A net decrease of \$8.1 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.
- A decrease of \$11.9 billion in Other debt trading securities, due primarily to the impact of the consolidation of the credit card securitization trusts by the Company upon adoption of SFAS 166/167 on January 1, 2010. Upon consolidation of the trusts, the Company recorded the underlying credit card receivables on its Consolidated Balance Sheet as *Loans* accounted for at amortized cost. At January 1, 2010, the Company's investments in the trusts and other inter-company balances were eliminated. At January 1, 2010, the Company's investment in these newly consolidated VIEs, which is eliminated for accounting purposes, included certificates issued by these trusts of \$11.1 billion that were classified as Level 3 at December 31, 2009. The impact of the elimination of these certificates has been reflected as net settlements in the Level 3 roll-forward table 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 \$2.0 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.

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 2011.

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 and other real estate owned that are measured at the lower of cost or market (LOCOM).

The following tables present the carrying amounts of all assets that were still held as of December 31, 2011 and December 31, 2010, and for which a nonrecurring fair value measurement was recorded during the twelve months then ended

<i>In millions of dollars</i>	Fair value	Level 2	Level 3
December 31, 2011			
Loans held-for-sale	\$2,462	\$1,587	\$ 875
Other real estate owned	159	81	78
Loans ⁽¹⁾	3,145	2,657	488
Total assets at fair value on a nonrecurring basis	\$5,766	\$4,325	\$1,441

(1) Represents loans held for investment whose carrying amount is based on the fair value of the underlying collateral, including primarily real-estate secured loans

<i>In millions of dollars</i>	Fair value	Level 2	Level 3
December 31, 2010 ⁽¹⁾	\$2,813	\$788	\$2,025

(1) Excludes loans held for investment whose carrying amount is based on the fair value of underlying collateral

The fair value of loans-held-for-sale is determined where possible using quoted secondary-market prices. 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. Fair value for the other real estate owned is based on appraisals. For loans whose carrying amount is based on the fair value of the underlying collateral, the fair values depend on the type of collateral. Fair value of the collateral is typically estimated based on quoted market prices if available, appraisals or other internal valuation techniques.

Nonrecurring Fair Value Changes

The following table presents total nonrecurring fair value measurements for the period, included in earnings, attributable to the change in fair value relating to assets that are still held at December 31, 2011 and 2010

<i>In millions of dollars</i>	December 31, 2011
Loans held-for-sale	\$ (135)
Other real estate owned	(70)
Loans ⁽¹⁾	(750)
Total nonrecurring fair value gains/losses	\$ (955)

- (1) Represents loans held for investment whose carrying amount is based on the fair value of the underlying collateral, including primarily real-estate loans

<i>In millions of dollars</i>	December 31, 2010
Total nonrecurring fair value gains/losses ⁽¹⁾	\$ (51)

- (1) Excludes loans held for investment whose carrying amount is based on the fair value of underlying collateral

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 servicing rights. See Note 2 and 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, 2011 and 2010, the fair value of those positions selected for fair value accounting, as well as the changes in fair value gains and losses for the years ended December 31, 2011 and 2010, 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,	
	2011	2010	2011	2010
Assets				
Trading account assets	\$14,174	\$14,257	\$(1,777)	\$ 613
Investments	—	40	—	—
Loans				
Certain corporate loans ⁽¹⁾	3,830	2,464	100	(218)
Certain consumer loans ⁽¹⁾	1,326	1,745	(281)	193
Total loans	\$ 5,156	\$ 4,209	\$ (181)	\$ (25)
Other assets				
MSRs	\$ 2,569	\$ 4,554	\$(1,465)	\$(1,146)
Certain mortgage loans (HFS)	6,212	7,223	172	9
Total other assets	\$ 8,781	\$11,777	\$(1,293)	\$(1,137)
Total assets	\$28,111	\$30,283	\$(3,251)	\$ (549)
Liabilities				
Interest-bearing deposits	\$ 1,327	\$ 1,264	\$ 116	\$ 23
Trading account liabilities	22	43	11	(35)
Short-term borrowings	92	117	(2)	7
Long-term debt	3,145	4,598	524	666
Total liabilities	\$ 4,586	\$ 6,022	\$ 649	\$ 661

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

Own Debt Valuation Adjustment

Own debt valuation adjustments are recognized on the Company's debt liabilities for which the fair value option has been elected using the Company's credit spreads observed in the bond market. 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 gain of \$78 million and a loss of \$199 million for the years ended December 31, 2011 and 2010, respectively. Changes in fair value resulting from changes in instrument-specific credit risk were estimated by incorporating the Company's current credit spreads observable in the bond market 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 following table provides information about certain credit products carried at fair value at December 31, 2011 and 2010, respectively.

	December 31, 2011		December 31, 2010	
	Trading assets	Loans	Trading assets	Loans
<i>In millions of dollars</i>				
Carrying amount reported on the Consolidated Balance Sheet	\$14,145	\$3,706	\$14,209	\$1,720
Aggregate unpaid principal balance in excess of fair value	540	(21)	166	(86)
Balance of non-accrual loans or loans more than 90 days past due	134	—	221	—
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due	43	—	57	—

In addition to the amounts reported above, \$648 million and \$621 million of unfunded loan commitments related to certain credit products selected for fair value accounting were outstanding as of December 31, 2011 and 2010, 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, 2011 and 2010 due to instrument-specific credit risk totaled to a gain of \$54 million and a loss of \$5 million, respectively.

The notional amount of these unfunded letters of credit was \$0.6 billion and \$1.1 billion as of December 31, 2011 and 2010, respectively. The amount funded was insignificant with no amounts 90 days or more past due or on non-accrual status at December 31, 2011 and 2010, 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.

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, 2011 and 2010, respectively.

<i>In millions of dollars</i>	December 31, 2011	December 31, 2010
Carrying amount reported on the Consolidated Balance Sheet	\$6,212	\$7,223
Aggregate fair value in excess of unpaid principal balance	274	81
Balance of non-accrual loans or loans more than 90 days past due	—	1
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due	—	1

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, 2011 and 2010 due to instrument-specific credit risk resulted in a \$0.1 million loss and a \$1 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 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 valued using observable inputs is classified as Level 2 and non-verified debt that is valued using one or more significant observable inputs 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 loss of \$274 million and a gain of \$189 million for the years ended December 31, 2011 and 2010, respectively.

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 \$838 million and \$787 million as of December 31, 2011 and 2010, respectively.

The following table provides information about Corporate and Consumer loans of consolidated VIEs carried at fair value at December 31, 2011 and December 31, 2010

<i>In millions of dollars</i>	December 31, 2011		December 31, 2010	
	Corporate loans	Consumer loans	Corporate loans	Consumer loans
Carrying amount reported on the Consolidated Balance Sheet	\$118	\$1,292	\$290	\$1,718
Aggregate unpaid principal balance in excess of fair value	247	436	227	527
Balance of non-accrual loans or loans more than 90 days past due	—	86	—	133
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due	—	120	—	139

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, 2011 and 2010

<i>In millions of dollars</i>	December 31, 2011	December 31, 2010
Carrying amount reported on the Consolidated Balance Sheet	\$1,803	\$2,728
Aggregate unpaid principal balance in excess of fair value	91	20

The following table provides information about short-term borrowings carried at fair value at December 31, 2011 and 2010

<i>In millions of dollars</i>	December 31, 2011	December 31, 2010
Carrying amount reported on the Consolidated Balance Sheet	\$92	\$ 117
Aggregate unpaid principal balance in excess of fair value	(18)	(20)

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>	2011		2010	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Investments	\$215.3	\$214.7	\$253.5	\$254.3
Federal funds sold and securities borrowed or purchased under agreements to resell	74.7	74.7	43.3	43.3
Trading account assets	158.0	158.0	149.4	149.4
Loans ⁽¹⁾	555.0	546.9	532.2	516.1
Other financial assets ⁽²⁾	212.8	212.5	218.0	217.7

<i>In billions of dollars at year end</i>	2011		2010	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Liabilities				
Deposits	\$879.7	\$878.7	\$843.9	\$842.1
Federal funds purchased and securities loaned or sold under agreements to repurchase and short-term borrowings	62.1	62.1	53.0	53.0
Trading account liabilities	64.9	64.9	55.6	55.6
Long-term debt	78.6	79.8	117.2	117.0
Other financial liabilities ⁽³⁾	22.1	22.1	20.9	20.9

- (1) The carrying value of loans is net of the *Allowance for loan losses* of \$24.7 billion for 2011 and \$33.0 billion for 2010. In addition, the carrying values exclude \$2.0 billion and \$2.0 billion of lease finance receivables in 2011 and 2010, 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 \$8.1 billion and \$16.1 billion in 2011 and 2010, respectively. At December 31, 2011, the carrying values, net of allowances, exceeded the estimated values by \$6.1 billion and \$2.0 billion for Consumer loans and Corporate loans, respectively.

The estimated fair values of the Company's Corporate unfunded lending commitments at December 31, 2011 and 2010 were liabilities of \$4.7 billion and \$5.1 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 ASSETS, COLLATERAL, COMMITMENTS AND GUARANTEES

Pledged Assets

In connection with the Company's financing and trading activities, the Company has pledged assets to collateralize its obligations under repurchase agreements, securities financing agreements, secured liabilities of consolidated VIEs and other borrowings. At December 31, 2011 and 2010, the approximate carrying values of the significant components of pledged assets recognized on the Company's balance sheet include

<i>In millions of dollars</i>	2011	2010
Investment securities	\$125,764	\$146,722
Loans	218,563	251,052
Trading account assets	2,496	7,645
Total	\$346,823	\$405,419

Collateral

At December 31, 2011 and 2010, 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 \$923 million and \$643 million, respectively. This collateral was received in connection with resale agreements, securities borrowings and loans.

At December 31, 2011 and 2010, 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, 2011 and 2010, the Company had pledged \$340 billion and \$399 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 \$1.0 billion and \$1.1 billion for the years ended December 31, 2011 and 2010, respectively.

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

<i>In millions of dollars</i>	
2012	\$ 758
2013	689
2014	617
2015	547
2016	443
Thereafter	1,143
Total	\$4,197

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, 2011 and December 31, 2010, 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	
2011				
Financial standby letters of credit	\$ 24.5	\$ 78.0	\$102.5	\$ 417.5
Performance guarantees	7.5	4.3	11.8	43.9
Derivative instruments considered to be guarantees	9.8	9.2	19.0	1,846.2
Loans sold with recourse	—	0.3	0.3	40.0
Securities lending indemnifications ⁽¹⁾	82.1	—	82.1	—
Credit card merchant processing ⁽¹⁾	64.0	—	64.0	—
Custody indemnifications and other	—	28.0	28.0	30.7
Total	\$187.9	\$119.8	\$307.7	\$2,378.3

(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.

<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	\$25.4	\$ 65.6	\$ 91.0	\$ 225.9
Performance guarantees	8.5	4.5	13.0	35.8
Derivative instruments considered to be guarantees	6.3	5.8	12.1	1,047.2
Loans sold with recourse	—	0.1	0.1	69.4
Securities lending indemnifications ⁽¹⁾	62.9	—	62.9	—
Credit card merchant processing ⁽¹⁾	59.5	—	59.5	—
Custody indemnifications and other	—	28.2	28.2	253.8
Total	\$162.6	\$104.2	\$266.8	\$1,632.1

(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, for example, 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 \$1,188 million and \$969 million at December 31, 2011 and 2010, respectively, and 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 per repurchase or make-whole.

For example, Citibank estimates that if there were a simultaneous 10% adverse change in each of the significant assumptions, the repurchase reserve would increase by approximately \$620 million as of December 31, 2011. 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 indirect obligations in connection with the processing of private label and bank card transactions on behalf of merchants.

Citibank's primary credit card business is the issuance of credit cards to individuals. In addition, the Company (a) provides transaction processing services to various merchants with respect to its private-label cards and (b) has potential liability for bank card transaction processing services. The nature of the liability in either case 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.

With regard to (a) above, the Company continues to have the primary 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.

With regard to (b) above, the Company has a potential liability for bank card transactions where Citi provides the transaction processing services as well as those where a third party provides the services and Citibank acts as a secondary guarantor, should that processor fail to perform.

The Company's maximum potential contingent liability related to both bank card and private-label merchant processing services is estimated to be the total volume of

credit card transactions that meet the requirements to be valid charge back transactions at any given time. At December 31, 2011 and December 31, 2010, this maximum potential exposure was estimated to be \$64 billion and \$60 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. The Company assesses the probability and amount of its contingent liability related to merchant processing based on the financial strength of the primary guarantor, the extent and nature of unresolved charge-backs and its historical loss experience. At December 31, 2011 and December 31, 2010, the estimated losses incurred and the carrying amounts of the Company's contingent obligations related to merchant processing activities were immaterial.

Other guarantees and indemnifications

Credit Card Protection Programs

The Company, through its credit card business, provides various cardholder protection programs on several of its card products, including programs that provide insurance coverage for rental cars, coverage for certain losses associated with purchased products, price protection for certain purchases and protection for lost luggage. These guarantees are not included in the table, since the total outstanding amount of the guarantees and the Company's maximum exposure to loss cannot be quantified. The protection is limited to certain types of purchases and certain types of losses and it is not possible to quantify the purchases that would qualify for these benefits at any given time. The Company assesses the probability and amount of its potential liability related to these programs based on the extent and nature of its historical loss experience. At December 31, 2011 and 2010, the actual and estimated losses incurred and the carrying value of the Company's obligations related to these programs were immaterial.

Other Representation and Warranty Indemnification

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. 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 tables above.

Value-Transfer Networks

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 pay a pro rata share of the losses incurred by the organization due to another member's default on its obligations. The Company's potential obligations may be limited to its purchased subordinated classes in the VTNs, contributions to the VTN's funds, or, in limited cases, the obligation may be unlimited. The maximum exposure cannot be estimated as this would require an assessment of future claims that have not yet occurred. We believe the risk of loss is remote given historical experience with the VTNs. Accordingly, the Company's participation in VTNs is not reported in the Company's guarantees tables above and there are no amounts reflected on the Consolidated Balance Sheet as of December 31, 2011 or December 31, 2010 for potential obligations that could arise from the Company's involvement with VTN associations.

Carrying Value—Guarantees and Indemnifications

At December 31, 2011 and December 31, 2010, the total carrying amounts of the liabilities related to the guarantees and indemnifications included in the guarantees table above amounted to approximately \$2,378 million and \$1,632 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, 2011 and December 31, 2010, *Other liabilities* on the Consolidated Balance Sheet include an allowance for credit losses of \$1,052 million and \$943 million, 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 \$34 billion at December 31, 2011 and December 31, 2010, respectively. Securities and other marketable assets available as collateral amounted to \$56 billion and \$34 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 \$1.5 billion and \$1.9 billion at December 31, 2011 and December 31, 2010, 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, 2011 and 2010, 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.

<i>In billions of dollars as of December 31, 2011</i>	Maximum potential amount of future payments			
	Investment grade	Non-investment grade	Not rated	Total
Financial standby letters of credit	\$ 78.5	\$ 16.0	\$ 8.0	\$102.5
Performance guarantees	6.9	3.2	1.7	11.8
Derivative instruments deemed to be guarantees	—	—	19.0	19.0
Loans sold with recourse	—	—	0.3	0.3
Securities lending indemnifications	—	—	82.1	82.1
Credit card merchant processing	—	—	64.0	64.0
Custody indemnifications and other	28.0	—	—	28.0
Total	\$113.4	\$ 19.2	\$175.1	\$307.7

<i>In billions of dollars as of December 31, 2010</i>	Maximum potential amount of future payments			
	Investment grade	Non-investment grade	Not rated	Total
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	—	—	12.1	12.1
Loans sold with recourse	—	—	0.1	0.1
Securities lending indemnifications	—	—	62.9	62.9
Credit card merchant processing	—	—	59.5	59.5
Custody indemnifications and other	28.2	—	—	28.2
Total	\$91.5	\$14.6	\$160.7	\$266.8

Credit Commitments and Lines of Credit

The table below summarizes Citibank's credit commitments as of December 31, 2011 and December 31, 2010

<i>In millions of dollars</i>	December 31, 2011	December 31, 2010
Commercial and similar letters of credit	\$8,670	\$8,826
One- to four-family residential mortgages	3,504	2,980
Revolving open-end loans secured by one- to four-family residential properties	19,147	20,711
Commercial real estate, construction and land development	1,821	2,076
Credit card lines	621,904	105,442
Commercial and other consumer loan commitments	214,465	194,093
Total	\$869,511	\$334,128

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 \$59 billion and \$70 billion with an original maturity of less than one year at December 31, 2011 and December 31, 2010, 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		Citibank Net income		Assets at year end	
<i>In millions of dollars except assets in billions</i>	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
North America ⁽¹⁾	\$26,214	\$33,119	\$15,612	\$13,873	\$7,182	\$18,082	\$ 3,276	\$1,146	\$ 361	\$ 337
EMEA ⁽²⁾	10,675	11,530	7,276	6,723	960	1,802	1,626	2,039	358	388
Latin America	6,284	5,096	3,543	3,000	918	581	1,300	1,287	156	143
Asia	13,680	13,017	7,306	6,885	751	736	4,307	3,952	414	407
Total	\$56,853	\$62,762	\$33,737	\$30,481	\$9,811	\$21,201	\$10,509	\$8,424	\$1,289	\$1,275

(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, 2011 and 2010. These amounts exclude intercompany balances that eliminate in consolidation.

INCOME STATEMENT ITEMS

<i>In millions of dollars</i>	Year ended December 31	
	2011	2010
Revenues		
Net interest revenue (expense)	\$ (1,021)	\$ (631)
Commissions and fees	\$ 236	\$ 330
Principal transactions	(1,029)	(848)
Other revenue (expense)	621	(951)
Total non-interest revenue	(172)	\$(1,469)
Total revenues, net of interest expense	\$ (1,193)	\$(2,100)
Operating expenses		
Compensation and benefits	\$ (354)	\$ (710)
Premises and equipment	130	63
Other operating ⁽¹⁾	2,386	2,810
Total operating expenses	\$ 2,162	\$ 2,163

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

BALANCE SHEET ITEMS

<i>In millions of dollars</i>	December 31,	
	2011	2010
Assets		
Cash and due from banks	\$ 212	\$ 56
Deposits with banks	492	345
Federal funds sold and securities purchased under agreements to resell	24,483	7,202
Trading account assets	19,899	12,428
Loans, net of unearned income	10,105	5,562
Interest and fees receivable	67	69
Other assets	8,526	10,281
Total assets	\$63,784	\$35,943
Liabilities		
Non-interest-bearing deposits in U S offices	\$ 9,987	\$ 8,734
Interest-bearing deposits in U S offices	954	965
Non-interest-bearing deposits in offices outside the U S	1,941	2,147
Interest-bearing deposits in offices outside the U S	39,721	33,624
Total deposits	\$52,603	\$45,470
Trading account liabilities	20,385	10,024
Purchased funds and other borrowings	6,334	6,086
Accrued taxes and other expenses	—	206
Subordinated notes and other long-term debt	2,037	4,145
Other liabilities	7,037	11,912
Total liabilities	\$88,396	\$77,843

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, 2011, the amount available for lending was approximately \$20.4 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, and in some instances seek recovery on a class-wide basis.

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. In some instances Citigroup and Related Parties may be involved in proceedings involving the same subject matter in multiple jurisdictions, which may result in overlapping, cumulative or inconsistent outcomes.

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 Citibank and its depositors, 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, 2011, filed with the U.S. Securities and Exchange Commission on February 24, 2012.

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 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 and state securities and fraud 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 transactions adversely affected by developments in the credit and mortgage 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, 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 (and, in many instances, industry-wide) inquiries concerning Citigroup's 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, including its compliance with the Servicemembers Civil Relief Act (SCRA).

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, regulators and others concerning Citigroup's activities relating to mortgages, including Citigroup's involvement with CDOs, MBS and structured investment vehicles, Citigroup's underwriting activity for mortgage lenders, and Citigroup's more general mortgage- and credit-related activities.

Regulatory Actions On February 9, 2012, Citigroup announced that CitiMortgage, along with other major mortgage servicers, had reached an agreement in principle with the United States and with the Attorneys General for 49 states (Oklahoma did not participate) and the District of Columbia to settle a number of related investigations into residential loan servicing and origination practices (the National Mortgage Settlement). The agreement is subject to the satisfaction of certain conditions, including final court approval.

Under the National Mortgage Settlement, Citigroup and Related Parties commits to make payments and provide financial relief to homeowners in three categories: (1) cash payments payable to the states and federal agencies in the aggregate amount of \$415 million, a portion of which will be used by the states for payments to homeowners affected by foreclosure practices; (2) customer relief in the form of loan modifications for delinquent borrowers, including principal reductions, to be completed over three years, with a total value of \$1,411 million; and (3) refinancing concessions to enable current borrowers whose properties are worth less than the value of their loans to reduce their interest rates, to be completed over three years, with a total value of \$378 million. The total amount of the financial consideration to be paid by Citigroup and Related Parties is \$2.2 billion. As of December 31, 2011, Citigroup had fully provided for the cash payments called for under the National Mortgage Settlement (see Note 29 to the Consolidated Financial Statements). Citigroup expects that its loan loss reserves as of December 31, 2011 will be sufficient to cover the customer relief payments to delinquent borrowers. The impact of the refinancing concessions will be recognized over a period of years in the form of lower interest income. What impact, if any, the National Mortgage Settlement will have on the behavior of borrowers in general, however, whether or not their loans are within the scope of the settlement, is uncertain and difficult to predict.

The National Mortgage Settlement also provides for mortgage servicing standards in addition to those previously agreed in Consent Orders dated April 13, 2011 with the

Federal Reserve Board and the Office of Comptroller of the Currency. While Citigroup expects to incur additional operating expenses in implementing these standards, it does not currently expect that the impact of these expenses will be material.

Citigroup is receiving legal releases in connection with the National Mortgage Settlement. These releases will address a broad range of, but not all, potential claims related to mortgage servicing and origination. Citigroup will not receive releases related to securitizations or whole loan sales, nor will it receive releases from criminal, tax, environmental, and certain other categories of liability.

In conjunction with the National Mortgage Settlement, Citigroup and Related Parties also entered into a settlement with the United States Attorney's Office for the Southern District of New York of a "qui tam" action. This action alleged that, as a participant in the Direct Endorsement Lender program, CitiMortgage had certified to the United States Department of Housing and Urban Development (HUD) and the Federal Housing Administration (FHA) that certain loans were eligible for FHA insurance when in fact they were not. The settlement releases Citigroup from claims arising out of its acts or omissions relating to the origination, underwriting, or endorsement of all FHA-insured loans prior to the effective date of the settlement. Under the settlement, Citigroup will pay the United States \$158.3 million, for which Citigroup had fully provided as of December 31, 2011 (see Note 29 to the Consolidated Financial Statements). CitiMortgage will continue to participate in the Direct Endorsement Lender program. Additional information relating to this action is publicly available in court filings under the docket number 11 Civ. 5423 (S.D.N.Y.) (Marrero, J.).

Federal and state regulators have served subpoenas or otherwise requested information concerning a variety of aspects of Citigroup's mortgage origination and mortgage servicing practices, including with respect to ancillary insurance products or practices. The subjects of such inquiries have included, among other things, Citigroup's compliance with the SCRA and analogous state statutes. Many, but not all, of these inquiries are within the scope of the claims released in the National Mortgage Settlement. In some instances, Citigroup is also a defendant in purported class actions, "qui tam" actions, or other actions addressing the same or similar subject matters, including the SCRA. Such actions by private litigants or counties and municipalities are not released in the National Mortgage Settlement.

Federal and state regulators, including the SEC, also have served subpoenas or otherwise requested information related to Citigroup's issuing, sponsoring, or underwriting of MBS. These inquiries include a subpoena from the Civil Division of the Department of Justice that Citigroup received on January 27, 2012.

ERISA Actions Beginning in November 2007, numerous putative class actions were filed in the United States District Court for the Southern District of New York by current or former Citigroup employees asserting claims under ERISA against Citigroup and Related Parties alleged to have served as ERISA plan fiduciaries. On August 31, 2009, the district court granted defendants' motion to dismiss the consolidated class action complaint, captioned *IN RE CITIGROUP ERISA LITIGATION*. Plaintiffs appealed the dismissal and, on October 19, 2011, the United States Court of Appeals for the

Second Circuit affirmed the district court's order dismissing the case. Additional information relating to this action is publicly available in court filings under the docket number 07 Civ 9790 (S D N Y) (Stein, J) and 09-3804 (2d Cir.)

Beginning on October 28, 2011, several putative class actions were filed in the United States District Court for the Southern District of New York by current or former Citigroup employees asserting claims under ERISA against Citigroup and Related Parties alleged to have served as ERISA plan fiduciaries from 2008 to 2009. Additional information relating to these actions is publicly available in court filings under the docket numbers 11 Civ 7672, 7943, 8982, 8990 and 8999 (S D N Y) (Koeltl, J)

Mortgage-Backed Securities and CDO Investor Actions and Repurchase Claims 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 Boston, Allstate Insurance Company and affiliated entities, Union Central Life Insurance Co. and affiliated entities, the Federal Housing Finance Agency, the Western & Southern Life Insurance Company and affiliated entities, Moneygram Payment Systems, Inc., and Loreley Financing (Jersey) No. 3 Ltd. and affiliated entities, have filed lawsuits against Citigroup and Related Parties alleging actionable misstatements or omissions in connection with the issuance and underwriting of MBS and CDOs. These actions are in early stages. 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 10-2741-BLSI (Mass Super Ct) (Lauriat, J), 11-0555-BLSI (Mass Super Ct) (Lauriat, J), CGC-10-501610 (Cal Super Ct) (Kramer, J), 10 CH 45033 (Ill Super Ct) (Allen, J), LC091499 (Cal Super Ct) (Mohr, J), 11 Civ 10952 (D Mass) (O'Toole, J), 11 Civ 1927 (S D N Y) (Sullivan, J), 11 Civ 2890 (S D N Y) (Daniels, J), 11 Civ 6188 (S D N Y) (Cote, J), 11 Civ 6196 (S D N Y) (Cote, J), 11 Civ 6916 (S D N Y) (Cote, J), 11 Civ 7010 (S D N Y) (Cote, J), A 1105042 (Ohio Ct. Common Pleas) (Myers, J), No. 27-CB-11-21348 (Minn. Dist. Ct.) (Howard, J) and 650212/12 (N Y Sup Ct). Other purchasers of MBS or CDOs sold or underwritten by Citigroup affiliates have threatened to file lawsuits asserting similar claims, some of which Citigroup has agreed to toll pending further discussions with these investors.

In addition, various parties to MBS securitizations, among others, have asserted that certain Citigroup affiliates breached representations and warranties made in connection with mortgage loans placed into securitization trusts. Citigroup also has experienced an increase in the level of inquiries relating to these securitizations, particularly requests for loan files from trustees of securitization trusts and others. Beginning in December 2011, Citigroup received letters from the law firm Gibbs & Bruns LLP, which purports to represent a group of investment advisers and others which allegedly hold 25% or more of the voting rights in 70 MBS trusts issued and/or underwritten by Citigroup affiliates with an aggregate outstanding balance in excess of \$24 billion. The letters allege that certain mortgages in these trusts were sold or deposited into the trusts based on misrepresentations by the mortgage originators, sellers and/or depositors, that Citigroup

improperly serviced mortgage loans in those trusts, and that Citigroup affiliates have repurchase obligations. The letter further threatens to instruct trustees of the trusts to assert claims against Citigroup based on these allegations. Citigroup is also a trustee of securitization trusts for MBS issued by unaffiliated issuers that have received similar letters from Gibbs & Bruns, LLP.

Given the continued and increased focus on mortgage-related matters, as well as the increasing level of litigation and regulatory activity relating to mortgage loans and mortgage-backed securities, the level of inquiries and assertions respecting securitizations may further increase. These inquiries and assertions could lead to actual claims for breaches of representations and warranties, or to litigation relating to such breaches or other matters.

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 claim to have suffered losses as a result of the credit crisis.

In August 2011, two Saudi nationals and related entities commenced a FINRA arbitration against Citigroup Global Markets, Inc. (CGMI) alleging \$380 million in losses resulting from certain options trades referencing a portfolio of hedge funds and certain credit facilities collateralized by a private equity portfolio. CGMI did not serve as the counterparty or credit facility provider in these transactions. In September 2011, CGMI commenced an action in the United States District Court for the Southern District of New York seeking to enjoin the arbitration. Simultaneously with that filing, the Citigroup entities that served as the counterparty or credit facility provider to the transactions commenced actions in London and Switzerland for declaratory judgments of no liability.

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 resolved the vast majority of such actions or complaints either on an individual basis or through settlement offers, made without admission of liability, to all eligible purchasers of Notes distributed by Citigroup in certain countries.

In Belgium, criminal charges were brought against a Citigroup subsidiary (CBB) and three current or former employees. On December 1, 2010, the court acquitted all defendants of fraud and anti-money laundering charges but convicted all defendants under the Prospectus Act, and convicted CBB under Fair Trade Practices legislation. CBB was fined 165,000 Euro and was ordered to compensate 63 non-settling claimants for the par value of their Notes (2.4

million Euro in the aggregate), net of any recovery they receive in the Lehman bankruptcies. Both CBB and the Public Prosecutor have appealed the judgment. The appellate court has indicated that it will render its decision on April 2, 2012.

Lehman Brothers Bankruptcy Proceedings

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*. In the complaint, which asserts claims under federal bankruptcy and state law, the Securities Investor Protection Act Trustee alleges that a \$1 billion cash deposit Lehman Brothers Inc (LBI) placed with Citibank prior to the commencement of liquidation proceedings should be returned to the bankruptcy estate, that Citibank's setoff against the \$1 billion deposit to satisfy its claims against LBI should be set aside, and that approximately \$342 million in additional deposits by LBI currently held by Citibank and its affiliates should be returned to the estate. Citigroup has moved to dismiss the adversary complaint. Additional information relating to this adversary proceeding is publicly available in court filings under the docket number 11-01681 (Bankr S D N Y) (Peck, J). Additional information relating to the LBI liquidation proceeding, captioned *IN RE LEHMAN BROTHERS INC*, is publicly available in court filings under the docket number 08-01420 (Bankr S D N Y) (Peck, J).

On February 8, 2012, Citigroup and Related Parties were named as defendants in an adversary proceeding captioned *LEHMAN BROTHERS HOLDINGS INC v CITIBANK, N A, ET AL*. The proceeding principally concerns proofs of claim. Citigroup entities have filed against Lehman Brothers Holdings Inc (LBHI) and its affiliates, in which Citigroup entities have claimed they are owed more than \$2.6 billion under derivatives contracts, loan documents, and clearing agreements, among other arrangements. Citigroup has further asserted a right to offset approximately \$2.3 billion of these claims against \$2 billion deposited by LBHI with Citibank, N A, in June 2008, as well as certain other LBHI deposits and other payables owed by the Citigroup entities.

The complaint asserts claims under state and federal law to recover the \$2 billion deposit and obtain a declaration that it may not be used to offset any Citigroup entities' claims, to avoid a \$500 million transfer and an amendment to a guarantee in favor of Citigroup, and for other relief. The complaint also raises objections to proofs of claim filed by Citigroup entities against LBHI and its affiliates. The claim objections seek to reduce or avoid approximately \$2 billion in claims relating to terminated derivatives contracts and to disallow all claims against LBHI to the extent they seek to recover against the disputed deposit or guarantee. Additional information relating to this adversary proceeding is publicly available in court filings under the docket number 12-01044 (Bankr S D N Y) (Peck, J).

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 the docket number 08-13555 (Bankr S D N Y) (Peck, J).

On September 15, 2008, LBHI subsidiary Lehman Brothers International (Europe) (LBIE) entered administration under English law. Since that time, Citigroup and Related Parties have held as custodians approximately \$2 billion of

proprietary assets and cash of LBIE. During the course of LBIE's administration, Citigroup and Related Parties 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), a right that the administrators for LBIE disputed. On June 28, 2011, Citigroup and Related Parties entered into a settlement agreement with LBIE resolving the parties' disputes with respect to the LBIE proprietary assets and cash held by Citigroup and Related Parties as custodians. Under the terms of the settlement, Citigroup and Related Parties have undertaken the return of LBIE's proprietary assets and cash and released all claims in respect of those assets and cash in exchange for releases, the payment of fees and preservation of certain claims asserted by Citigroup and Related Parties in LBIE's insolvency proceeding in England. The settlement does not affect the deposits, claims or setoff rights at issue in the disputes with LBI and LBHI described above. Additional information relating to the administration of LBIE is available at www.pwc.co.uk/eng/issues/lehman_updates.html.

Terra Firma Litigation

In December 2009, plaintiffs, general partners of two related private equity funds, filed a complaint in New York state court, subsequently removed to the Southern District of New York, against certain Citigroup affiliates. Plaintiffs allege 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 as to the negligent misrepresentation claim, the fraudulent concealment claim and the fraudulent misrepresentation claim. Additional information relating to this action is publicly available in court filings under the docket numbers 09 Civ 10459 (S D N Y) (Rakoff, J) and 11-0126 (2d Cir).

Interbank Offered Rates-Related Litigation and Other Matters

Government agencies in the U.S., including the Department of Justice, the Commodity Futures Trading Commission and the Securities and Exchange Commission, as well as agencies in other jurisdictions, including the European Commission, the U.K. Financial Services Authority, the Japanese Financial Services Agency (JFSA), the Canadian Competition Bureau

and the Swiss Competition Commission, are conducting investigations or making inquiries regarding submissions made by panel banks to bodies that publish various interbank offered rates. As members of a number of such panels, Citigroup subsidiaries have received requests for information and documents. Citigroup is cooperating with the investigations and inquiries and is responding to the requests.

On December 16, 2011, the JFSA took administrative action against Citigroup Global Markets Japan Inc. (CGMJ) for, among other things, certain communications made by two CGMJ traders about the Euroyen Tokyo interbank offered rate (TIBOR) and the yen London interbank offered rate (LIBOR). The JFSA issued a business improvement order and suspended CGMJ's trading in derivatives related to yen LIBOR and Euroyen and yen TIBOR from January 10 to January 23, 2012. On the same day, the JFSA also took administrative action against Citibank Japan Ltd. (CJL) for conduct arising out of CJL's retail business and also noted that the communications made by the CGMJ traders to employees of CJL about Euroyen TIBOR had not been properly reported to CJL's management team. The inquiries by government agencies into various interbank offered rates are ongoing.

Additionally, beginning in April 2011, a number of purported class actions and other private civil suits were filed in various courts against banks that served on the LIBOR panel and their affiliates, including certain Citigroup subsidiaries. The actions, which assert various federal and state law claims relating to the setting of LIBOR, have been consolidated into a multidistrict litigation proceeding before Judge Buchwald in the Southern District of New York. Additional information relating to these actions is publicly available in court filings under docket number 1:11-md-2262 (S.D.N.Y.) (Buchwald, J.).

KIKOs

Several local banks in Korea, including a Citigroup 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 that the risk disclosure was inadequate. As of December 31, 2011, there were 83 civil lawsuits filed by SMEs against CKI. To date, 79 decisions have been rendered at the district court level, and CKI has prevailed in 63 of those decisions. In the other 16 decisions, plaintiffs were awarded only a portion of the damages sought. The damage awards total in the aggregate approximately \$19.5 million. CKI is appealing the 16 adverse decisions. A significant number of plaintiffs that had decisions rendered against them are also filing appeals, including plaintiffs that were awarded less than all of the damages they sought. In the single plaintiff's appeal that has been decided, the decision was in CKI's favor.

Korean prosecutors undertook a criminal investigation of local banks, including CKI, based on allegations of fraud in the sale of these products. In July 2011 prosecutors decided not to proceed with indictments. That decision has been affirmed on appeal.

Tribune Company Bankruptcy

Certain Citigroup affiliates have been named as defendants in adversary proceedings related to the Chapter 11 cases of Tribune Company (Tribune) pending in the United States Bankruptcy Court for the District of Delaware. The complaints, which arise out of the approximate \$11 billion leveraged buyout (LBO) of Tribune in 2007, were stayed by court order pending a confirmation hearing on competing plans of reorganization. On October 31, 2011, the bankruptcy court denied confirmation of both the competing plans. A third amended plan of reorganization was then proposed, and confirmation proceedings are expected to take place in 2012. Additional information relating to these actions is publicly available in court filings under the lead docket number 08-13141 (Bankr. D. Del.) (Carey, J.). Certain Citigroup affiliates also have been named as defendants in actions brought by Tribune creditors alleging state law constructive fraudulent conveyance claims relating to the Tribune LBO. These actions have been stayed pending confirmation of a plan of reorganization. Additional information relating to these actions is publicly available in court filings under the docket number 1:11 MD 02296 (S.D.N.Y.) (Holwell, 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. The parties have been engaged in mediation for several years, including recent settlement conferences held at the direction of the court. 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 Related 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, among other things, 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 on Parmalat's claims and in favor of Citibank on three counterclaims. The court entered judgment for Citibank on the counterclaims in the amount of \$431 million, which is accruing interest. On December 22, 2011, the intermediate appellate court unanimously affirmed the judgment. On January 23, 2012, Bondi petitioned the New Jersey Supreme Court to review the decisions of the lower courts. Additional information concerning this matter is publicly available in court filings under docket number A-2654-08T2 (N.J. Sup. Ct.).

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. On April 18, 2011, the Milan criminal court acquitted the sole Citigroup defendant of market-rigging charges. The Milan prosecutors have appealed part of that judgment and seek administrative remedies against Citigroup, which may include disgorgement of 70 million Euro and a fine of 900,000 Euro. Additionally, 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, certain Parmalat institutional investors filed a civil complaint seeking damages of approximately 130 million Euro against Citigroup and 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 had estimated at more than \$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 of

Justice (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, and on May 4, 2011, the Special Court ruled 5-3 in favor of Citi Brazil. This ruling has the effect of reinstating the 3-2 decision of the 4th Section of the STJ in favor of Citi Brazil rendered in November 2008, which had reversed the adverse judgment of the trial court. The only procedural recourse remaining to CIIP would be to file a constitutional claim with the Supreme Court of Brazil.

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. In 2011, the parties completed fact discovery. Additional information concerning this matter is publicly available in court filings under docket number 03 Civ. 3748 (S.D.N.Y.) (Batts, J.).

Settlement Payments

Payments required in settlement agreements described above have been made or are covered by existing litigation accruals

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Additional matters asserting claims similar to those described above may be filed in the future.

29 SUBSEQUENT EVENTS

Investment in Akbank Impairment Charge

On March 23, 2012, Citigroup announced that as part of Citi's ongoing capital planning efforts and in light of general improvement in equity capital markets globally, Citibank plans to reduce its ownership interest in Akbank T A S (Akbank) to below 10%, subject to appropriate market conditions and required approvals. Citibank currently holds a 20% equity interest in Akbank, which it purchased in January 2007. The current carrying value of the equity method investment is \$3.4 billion, in addition, hedging costs and translation losses reflected in other comprehensive income (OCI), a component of equity, total approximately \$1.0 billion.

As a result of this decision, in the first quarter of 2012 Citibank expects to record an impairment charge related to its total investment in Akbank amounting to approximately \$1.1 billion pre-tax (\$0.7 billion after-tax). This impairment charge is primarily driven by the recognition of all respective net investment foreign currency hedging and translation losses previously reflected in OCI as well as a reduction in carrying value of the total investment to reflect closing market price as of March 23, 2012.

Sale of Shanghai Pudong Development Bank

On March 18, 2012, Citi announced that it has sold its 2.71% equity stake in Shanghai Pudong Development Bank via block trade to institutional investors. Total proceeds from the transaction are expected to be \$668 million at the current exchange rate, resulting in an after-tax gain of approximately \$349 million in the first quarter of 2012.

Agreement in Principle with Certain U.S. Federal Government Agencies and State Attorneys General

On February 9, 2012, Citigroup announced that it had reached an agreement in principle with the United States and state attorneys general regarding the settlement of a number of related investigations into residential loan servicing and origination practices, as well as the resolution of related mortgage litigation. See Note 28 to the Consolidated Financial Statements.