CITIBANK INTERNATIONAL PLC
(Registered Number: 1088249)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2011

CITIBANK INTERNATIONAL PLC

DIRECTORS' REPORT
for the year ended 31 December 2011

The Directors present their Report and the audited financial statements of Citibank International plc ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2011.

The Financial Statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. Further information relevant to the assessment is provided in the following sections of the financial statements:

- principal activities, strategic direction and challenges and uncertainties are described in the business review;
- a financial summary, including the income statement and balance sheet, is provided in the financial results section on pages 22 to 31; and
- objectives, policies and processes for managing credit, liquidity and market risk, and its approach to capital management and allocation, are described on pages 82 to 99

Principal activities and business review

The Company is authorised by the Financial Services Authority under the Financial Services and Markets Act 2000. The Group provides corporate and investment banking, private banking, alternative investments and consumer banking products and services in the United Kingdom and Continental Europe. The Group's headquarters are in London and it currently has offices and subsidiaries in other European financial centres.

The Group's 2011 results have been significantly impacted by the ongoing challenging operating environment, particularly in the second half of the year, as macroeconomic concerns, including in the United States and the Eurozone, weighed heavily on investment and corporate confidence resulting in reduced market activity.

The Group believes that the European sovereign debt crisis and its potential impact on the global markets and growth will likely continue to create macro uncertainty and remain an issue until the market, investors and Citigroup's clients and customers believe that a comprehensive resolution to the crisis has been structured, and is achievable. Such uncertainty could have a continued negative impact on investor activity, and thus on the Group's activity levels and results in 2012 especially on the performance of the Group's Greek operations.

The Group has two reporting segments, Institutional Clients Group ("ICG") and Local Consumer Lending ("LCL"), consistent with the reporting segments of Citigroup Inc. Within Citigroup, ICG is part of Citicorp while LCL is part of Citi Holdings. The Group's strategy has been in line with that of Citigroup's – to reduce assets, tightly manage risks and optimize the value of assets in Citi Holdings, which it has been doing with its programme of disposals, while working to generate long-term profitability and growth from Citicorp, which comprises its core franchise.

The Group generated pre-tax income of £65 million in the year to 31 December 2011 (2010: loss of £367 million), profit after tax of £6 million (2010: loss of £302 million). ICG made a profit before tax of £247 million in 2011 (2010: profit of £92 million) primarily as a result of improved CVA/DVA and reduced net credit losses. LCL incurred pre-tax losses of £182 million in 2011 (2010: loss of £459 million), this improvement is primarily the result of the disposals and credit reserves taken in 2010.

Income
Total operating income of £674 million, was marginally down from the prior year, reduced LCL earnings were largely offset by improved ICG performance in a difficult market environment.

The Groups ICG income is driven by its three core businesses, providing a roughly equal share of the income:

- Fixed Income, despite challenging markets income increased driven by improvements in CVA/DVA (£33 million gain in 2011: £46 million loss in 2010), as Citigroup's spreads tightened, prior year losses were not repeated. Other businesses remained largely in line with prior year.
- Banking continues to provide both a steady annuity flow and origination opportunities.
- GTS revenues increased by 5%, despite spread compressions, reflecting increased customer inflows and higher volumes.

LCL income decline reflected the disposal of businesses across the region and associated net interest income from those portfolios.

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Principal activities and business review (continued)

Costs
Cost control remains a key focus of the Group, operating expenses decreased by 25% from £561 million to £422 million. The reduction was primarily driven by specific restructuring reserves taken in 2010 and the ongoing impact of disposals within the LCL business. This is not fully reflected in the Headcount, which on an average basis has only decreased from 4,018 to 3,993, the significant reductions in Greece and other specific disposals has been largely offset by increases in regional Centres of Excellence in Poland and Hungary, supporting the core ICG businesses. These hires reflect Citigroup's ongoing effort to leverage lower cost locations within the region.

Net credit losses have decreased from £353 million to £187 million. These movements are primarily driven by the situation in Greece and to a lesser extent improving credit quality across Europe. In Greece the total loan loss reserve remained similar to prior year despite an improvement in write offs, collection and delinquency rates. In recognition of the continuing uncertainty with the economic situation in Greece the management adjustments in the loan loss reserve have been increased. The ICG also benefited from limited credit losses and reduced loan loss reserves.

Balance sheet
Total assets of £17 billion at 31 December 2011 were 13% lower than at 31 December 2010 (£19 billion). This has primarily resulted from decreased intra-Citigroup funding disclosed in 'Loans and advances to banks'. This has been done as part of a wider initiative to minimise the intra-Citigroup funding within Western Europe.

The Group's UK LCL business has never sold Payment Protection Insurance ("PPI") as such it does not have a provision for future PPI claims at 31 December 2011.

The Group's UK LCL business in line with the rest of the industry has a liability to pay a proportion of the borrowing that The Financial Services Compensation Scheme ("FSCS") has borrowed from HM Treasury to compensate consumers following the collapse of a number of deposit takers. The total borrowing of the FSCS at 31 December 2011 was approximately £18.5 billion. The Group has accrued £1.7 million at 31 December 2011 for the current estimate of its share of the compensation provided by the FSCS.

In addition to the financial results of the Group, senior management consider the following key financial performance indicators:

- Net interest margin
- Actual revenues and expenses against budget
- Net credit losses
- Maintenance of required level of regulatory capital

The Group's strategy continues to be to take advantage of opportunities for the further development of its Citicorp businesses within the UK and Eurozone while continuing to manage its Citiholdings business to optimise the value of this business. However, during 2012 the Group's businesses may continue to be significantly affected by the levels of and volatility in the global capital markets and economic and political developments especially in the Eurozone region.

Other
The Group will prepare interim accounts at 30 June 2012 under the European Union Transparency Directive.

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

DIRECTORS' REPORT
for the year ended 31 December 2011

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements (continued)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Corporate Governance

The Company is a wholly owned subsidiary of Citibank Investments Limited ("CIL") and its ultimate parent is Citigroup Inc. At 31 December 2011 there are no special rights attaching to the shares held by CIL. As the Company is a wholly owned subsidiary, there are no special powers given to the Directors in relation to the appointment and replacement of Directors, amendments to the articles of association and the issuance and buying back of shares.

Internal control and financial reporting

With the Company's ultimate parent being Citigroup Inc, the governance framework that the Company primarily follows falls under the Sarbanes-Oxley Act of 2002. The Act is administered by the Securities and Exchange Commission (SEC), which sets deadlines for compliance and publishes rules on requirements. Section 404 of the act requires management to acknowledge its responsibility for establishing and maintaining adequate internal controls, including asserting their effectiveness in writing.

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorisation, assets are safeguarded, and financial records are reliable.

Procedures for the ongoing identification, evaluation and management of the significant risks faced by the Company and Group have been in place throughout the year and up to the date of approval of the financial statements.

The Directors and senior management of the Group have formally adopted Risk and Controls policies which set out the Company's and Citigroup's attitude to risk and internal control. Key risks, including business risks, are identified and reviewed by senior and operating management on an ongoing basis by means of Sarbanes-Oxley testing along with Risk, Governance and Audit Committee reviews.

The Directors also receive regular reports on any risk matters that need to be brought to their attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Directors.

There are well established management reporting procedures in place and reports are presented regularly to the Directors detailing business results and performance.

Statement of Corporate Governance (continued)

Internal control and financial reporting (continued)

The effectiveness of the internal control system is reviewed regularly by the Directors and the Audit Committee, which also receives reports of reviews undertaken by the internal audit function as well as reports from the external auditors which include details of internal control matters that they have identified. Certain aspects of the internal control system are also subject to regulatory supervision, the results of which are monitored closely by the Directors and senior management.

The Audit Committee and Directors are also responsible for monitoring the preparation of the financial statements and for reviewing and monitoring the independence of the statutory auditor, in particular the provision of additional services to the Group.

Risk factors

The continuing macroeconomic uncertainty is the ongoing uncertainty facing the Group, its business and related entities as a result of the numerous regulatory initiatives underway in the United Kingdom and globally. The forthcoming United Kingdom legislation arising from the report of the Independent Commission on Banking is likely to require the Group to make changes to its corporate structure and business activities conducted in the United Kingdom through the Company. These changes are expected to take an extended period to implement.

Exposures to the Eurozone have received increasing focus given the continued instability in the area and the potential for contagion spreading from the periphery to core Eurozone countries.

There is a potential for increase sovereign defaults placing further pressure on banks within the core European countries exposed to these. As the Group is Citigroup's principal bank vehicle in the Eurozone it has activities and exposure to the periphery countries. The Group's Eurozone exposure is disclosed in Note 34. Through the year the Group has actively managed through the reduction of exposure to mitigate the risks from sovereign default.

The risk of a Eurozone member departing from the currency union is a possible scenario. Should it materialise it would have a significant impact on the entire financial sector and wider economy. It would crystallise sovereign risks and those to the bank and corporate sectors and the disruption caused would affect consumer activity. Potential losses to the Group could include losses stemming from the exit from the euro and return to local currencies. Should any exit occur in a disorderly manner it could trigger defaults by the Group's counterparties. In seeking to manage and mitigate this risk detailed operational contingency plans have been prepared and tested. The Group are keeping these plans under close review as events develop.

While specific United Kingdom and European risks have been discussed above, the recent disruptions in global financial markets have increased the risks and uncertainties identified by Citigroup globally and other Financial Service companies. The below is an extract of the risk factors impacting Citigroup from its 2011 annual report on form 10-K. Please note that the reference to Citi in this section means Citigroup Inc.

Regulatory risk

Citi faces significant regulatory changes around the world which could negatively impact its businesses, especially given the unfavourable environment facing financial institutions and the lack of international coordination.
As discussed in more detail throughout this section, Citi continues to be subject to a significant number of new regulatory requirements and changes from numerous sources, both in the U.S. and internationally, which could negatively impact its businesses, revenues and earnings. These reforms and proposals are occurring largely simultaneously and generally not on a coordinated basis. In addition, as a result of the financial crisis in the U.S., as well as the continuing adverse economic climate globally, Citi, as well as other financial institutions, is subject to an increased level of distrust, scrutiny and scepticism from numerous constituencies, including the public, state, federal and foreign regulators, the media and within the political arena. This environment, in which the U.S. and international regulatory initiatives are being debated and implemented, engenders not only a bias towards more regulation, but towards the most prescriptive regulation for financial institutions.

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Risk factors (continued)

Regulatory risk (continued)

As a result of this ongoing negative environment, there could be additional regulatory requirements beyond those already proposed, adopted or even currently contemplated by U.S. or international regulators. It is not clear what the cumulative impact of all of this regulatory reform will be.

The ongoing implementation of the Dodd-Frank Act, as well as international regulatory reforms, continues to create much uncertainty for Citi, including with respect to the management of its businesses, the amount and timing of the resulting increased costs and its ability to compete.
Despite enactment in July 2010, the complete scope and ultimate form of a number of provisions of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), such as the heightened prudential standards applicable to large financial companies, the so-called "Volcker Rule" and the regulation of derivatives markets, are still in developmental stages and significant rulemaking and interpretation remains. Moreover, agencies and offices created by the Dodd-Frank Act, such as the Bureau of Consumer Financial Protection, are in their early stages and the extent and timing of regulatory efforts by these bodies remains to be seen.

This uncertainty is further compounded by the numerous regulatory efforts underway outside the U.S. Certain of these efforts overlap with the substantive provisions of the Dodd-Frank Act, while others, such as proposals for financial transaction and/or bank taxes in particular countries or regions, do not. In addition, even where these U.S. and international regulatory efforts overlap, these efforts generally have not been undertaken on a coordinated basis. Areas where divergence between U.S. regulators and their international counterparts exists or has begun to develop (whether with respect to scope, interpretation, timing, approach or otherwise) includes trading, clearing and reporting requirements for derivatives transactions, higher U.S. capital and margin requirements relating to uncleared derivatives transactions, and capital and liquidity requirements that may result in mandatory "ring-fencing" of capital or liquidity in certain jurisdictions, among others.

Regulatory uncertainty makes future planning with respect to the management of Citi's businesses more difficult. For example, the cumulative effect of the new derivative rules and sequencing of implementation requirements will have a significant impact on how Citi chooses to structure its derivatives business and its selection of legal entities in which to conduct this business. Until these rules are final and interpretive questions are answered, management's business planning and proposed pricing for this business necessarily include assumptions based on proposed rules. Incorrect assumptions could impede Citi's ability to effectively implement and comply with the final requirements in a timely manner. Management's planning is further complicated by the continual need to review and evaluate the impact to the business of an ongoing flow of rule proposals and interpretations from numerous regulatory bodies, all within compressed timeframes.

In addition, the operational and technological costs associated with implementation of, as well as the ongoing compliance costs associated with, all of these regulations will likely be substantial. Given the continued uncertainty, the ultimate amount and timing of such costs going forward are difficult to predict. In 2011, Citi invested approximately $1 billion in order to meet various regulatory requirements, and this amount did not include many of the costs likely to be incurred pursuant to the implementation of the Dodd-Frank Act or other regulatory initiatives. For example, the proposed Volcker Rule contemplates a comprehensive internal controls system as well as extensive data collection and reporting duties with respect to "proprietary trading," and rules for registered swap dealers impose extensive recordkeeping requirements and business conduct rules for dealing with customers. All of these costs negatively impact Citi's earnings. Given Citi's global footprint, its implementation and compliance risks and costs are more complex and could be more substantial than its competitors. Ongoing compliance with inconsistent, conflicting or duplicative regulations across U.S. and international jurisdictions, or failure to implement or comply with these new regulations on a timely basis, could further increase costs or harm Citi's reputation generally.

Citi could also be subject to more stringent regulation because of its global footprint. In accordance with the Dodd-Frank Act, in December 2011 the Federal Reserve Board proposed a set of heightened prudential standards that will be applicable to large financial companies such as Citi. The proposal dictates requirements for aggregate counterparty exposure limits and enhanced risk management processes and oversight, among other things. Compliance with these standards could result in restrictions on Citi's activities.

Risk factors (continued)

Regulatory risk (continued)

Moreover, other financial institutions, including so-called "shadow banking" financial intermediaries, providing many of the same or similar services or products that Citi makes available to its customers, may not be regulated on the same basis or to the same extent as Citi and consequently may also have certain competitive advantages.

Finally, uncertainty persists as to the extent to which Citi will be subject to more stringent regulations than its foreign competitors with respect to several of the regulatory initiatives, particularly in its non-U.S. operations, including certain aspects of the proposed restrictions under the Volcker Rule and derivatives clearing and margin requirements. Differences in substance or severity of regulations across jurisdictions could significantly reduce Citi's ability to compete with foreign competitors, in a variety of businesses and geographic areas, and thus further negatively impact Citi's earnings.

Citi's prospective regulatory capital requirements remain uncertain and will likely be higher than many of its competitors. There is a risk that Citi will be unable to meet these new standards in the timeframe expected by the market or regulators.
Citi's prospective regulatory capital requirements continue to be subject to extensive rulemaking and interpretation. Ongoing areas of rulemaking include, among others, (i) the final Basel III rules applicable to U.S. financial institutions, including Citi, (ii) capital surcharges for global systemically important banks (G-SIBs), including the extent of the surcharge to be initially imposed on Citi, and (iii) implementation of the Dodd-Frank Act, including imposition of enhanced prudential capital requirements on financial institutions that are deemed to pose a systemic risk to market-wide financial stability as well as provisions requiring the elimination of credit ratings from capital regulations and the Collins Amendment.

It is clear that final U.S. rules implementing Basel III, the G-SIB surcharge and the capital-related provisions of the Dodd-Frank Act will significantly increase Citi's regulatory capital requirements, including the amount of capital required to be in the form of common equity. However, the various regulatory capital levels Citi must maintain, the types of capital that will meet these requirements and the specific capital requirements associated with Citi's assets remain uncertain. For example, Citi may be required to replace certain of its existing regulatory capital in a compressed timeframe or in unfavourable markets in order to comply with final rules implementing Basel III and the Collins Amendment, which eliminated trust preferred securities from the definition of Tier 1 Capital. In addition, the alternative approaches proposed to replace the use of credit ratings in accordance with the Dodd-Frank Act and final rules implementing Basel II.5 could require Citi to hold more capital against certain of its assets than it must currently.

The lack of final regulatory capital requirements impedes long-term capital planning by Citi's management. Citi is not able to accurately forecast its capital requirements for particular exposures which complicates its ability to assess the future viability of, and appropriate pricing for, certain of its products. In addition, while management may desire to take certain actions to optimize Citi's regulatory capital profile, such as the reduction of certain investments in unconsolidated financial entities, without clarity as to the final standards, there is risk in management either taking actions based on assumed or proposed rules or waiting to take action until final rules that are implemented in compressed timeframes.

Citi's projected ability to comply with the new capital requirements as they are implemented, or earlier, is also based on certain assumptions specific to Citi's businesses, including its future earnings in Citicorp, the continued wind-down of Citi Holdings and the monetization of Citi's deferred tax assets. If management's assumptions with respect to certain aspects of Citi's businesses prove to be incorrect, it could negatively impact Citi's ability to comply with the future regulatory capital requirements in a timely manner or in a manner consistent with market or regulator expectations.

Citi's regulatory capital requirements will also likely be higher than many of its competitors. Citi's strategic focus on emerging markets, for example, will likely result in higher risk-weighted assets and thus potentially higher capital requirements than its less global or less emerging-markets-focused competitors.

Risk factors (continued)

Regulatory risk (continued)

In addition, within the U.S., Citi will likely face higher regulatory capital requirements than most of its U.S.-based competitors that are not subject to the G-SIB surcharge (or the same level of surcharge) or the heightened prudential capital requirements to be imposed on systemically important financial institutions. Internationally, there have already been instances of Basel III not being consistently adopted or applied across countries or regions. Any lack of a level playing field with respect to capital requirements for Citi as compared to peers or less regulated financial intermediaries, both in the U.S. and internationally, could put Citi at a competitive disadvantage.

As proposed, changes in regulation of derivatives required under the Dodd-Frank Act will require significant and costly restructuring of Citi's derivatives businesses in order to meet the new market structures and could affect the competitive position of these businesses.
Once fully implemented, the provisions of the Dodd-Frank Act relating to the regulation of derivatives will result in comprehensive reform of the derivatives markets. Reforms will include requiring a wide range of over-the-counter derivatives to be cleared through recognized clearing facilities and traded on exchanges or exchange-like facilities, the collection and segregation of collateral for most uncleared derivatives, extensive public transaction reporting and business conduct requirements, and significantly broadened restrictions on the size of positions that may be maintained in specified commodity derivatives. While some of the regulations have been finalized, the rulemaking process is still not complete, and the timing for the effectiveness of many of these requirements is not yet clear.

The proposed rules implementing the derivatives provisions of the Dodd-Frank Act will necessitate costly and resource-intensive changes to certain areas of Citi's derivatives business structures and practices. Those changes will include restructuring the legal entities through which those businesses are conducted and the successful and timely installation of extensive technological and operational systems and compliance infrastructure, among others. Effective legal entity restructuring will also be dependent on clients and regulators, and so may be subject to delays or disruptions not fully under Citi's control. Moreover, new derivatives-related systems and infrastructure will likely become the basis on which institutions such as Citi compete for clients and, to the extent that Citi's connectivity or services for clients in these businesses is deficient, Citi could be at a competitive disadvantage. More generally, the contemplated reforms will make trading in many derivatives products more costly and may significantly reduce the liquidity of certain derivatives markets and diminish customer demand for covered derivatives. These changes could negatively impact Citi's earnings from these businesses.

Reforms similar to the derivatives provisions and proposed regulations under the Dodd-Frank Act are also contemplated in the European Union and certain other jurisdictions. These reforms appear likely to take effect after the provisions of the Dodd-Frank Act and, as a result, it is uncertain whether they will be similar to those in the U.S. or will impose different or additional requirements on Citi's derivative activities. Complications due to the sequencing of the effectiveness of derivatives reform, both among different components of the Dodd-Frank Act and between the U.S. and other jurisdictions, could give rise to further disruptions and competitive dislocations.

The proposed regulations implementing the derivatives provisions of the Dodd-Frank Act, if adopted without modification, would also adversely affect the competitiveness of Citi's non-U.S. operations. For example, the proposed regulations would require some of Citi's non-U.S. operations to collect more margin from its non-U.S. derivatives customers than Citi's foreign bank competitors may be required to collect. The Dodd-Frank Act also contains a so-called "push-out" provision that will prevent FDIC-insured depository institutions from dealing in certain equity, commodity and credit-related derivatives. Citi conducts a substantial portion of its derivatives-dealing activities through its insured depository institution and, to the extent that certain of Citi's competitors already conduct such activities outside of FDIC-insured depository institutions, Citi would be disproportionately impacted by any restructuring of its business for push-out purposes. Moreover, the extent to which Citi's non-U.S. operations will be impacted by the push-out provision and other derivative provisions remains unclear, and it is possible that Citi could lose market share or profitability in its derivatives business or client relationships in jurisdictions where foreign bank competitors can operate without the same constraints.

Risk factors (continued)

Regulatory risk (continued)

The proposed restrictions imposed on proprietary trading and funds-related activities under the "Volcker Rule" provisions of the Dodd-Frank Act could adversely impact Citi's market-making activities and may cause Citi to dispose of certain of its investments at less than fair value.
The "Volcker Rule" provisions of the Dodd-Frank Act are intended to restrict the proprietary trading activities of institutions such as Citi, as well as such institutions' sponsorship and investment in hedge funds and private equity funds. In October 2011, the Federal Reserve Board, OCC, FDIC and SEC proposed regulations that would implement these restrictions and the CFTC followed with its proposed regulations in January 2012.

The proposed regulations contain narrow exceptions for market-making, underwriting, risk-mitigating hedging, certain transactions on behalf of customers and activities in certain asset classes, and require that certain of these activities be designed not to encourage or reward "proprietary risk taking." Because the regulations are not yet final, the degree to which Citi's activities in these areas will be permitted to continue in their current form remains uncertain. Moreover, if adopted as proposed, the rules would require an extensive compliance regime around these "permitted" activities, and Citi could incur significant ongoing compliance and monitoring costs, including with respect to the frequent reporting of extensive metrics and risk analytics, to the regulatory agencies. In addition, the proposed rules and any restrictions imposed by final regulations in this area will also likely affect Citi's trading activities globally, and thus will impact it disproportionately in comparison to foreign financial institutions that will not be subject to the Volcker Rule with respect to their activities outside of the U.S.

In addition, under the funds-related provisions of the Volcker Rule, bank regulators have the flexibility to provide firms with extensions allowing them to hold their otherwise restricted investments in private equity and hedge funds for some time beyond the statutory divestment period. If the regulators elect not to grant such extensions, Citi could be forced to divest certain of its investments in illiquid funds in the secondary market on an untimely basis. Based on the illiquid nature of the investments and the prospect that other industry participants subject to similar requirements would likely be divesting similar assets at the same time, such sales could be at substantial discounts to their fair value.

Regulatory requirements in the U.S. and other jurisdictions aimed at facilitating the future orderly resolution of large financial institutions could result in Citi having to change its business structures, activities and practices in ways that negatively impact its operations.
The Dodd-Frank Act requires Citi to prepare a plan for the rapid and orderly resolution of Citigroup, the bank holding company, under the Bankruptcy Code in the event of future material financial distress or failure. Citi is also required to prepare a resolution plan for its insured depository institution subsidiary, Citibank, N.A., and to demonstrate how it is adequately protected from the risks presented by non-bank affiliates. These plans must include information on resolution strategy, major counterparties and "interdependencies," among other things, and will require substantial effort, time and cost. These resolution plans will be subject to review by the Federal Reserve Board and the FDIC.

Based on regulator review of these plans, Citi may have to restructure or reorganize businesses, legal entities, or operational systems and intracompany transactions in ways that negatively impact its operations, or be subject to restrictions on growth. For example, Citi could be required to create new subsidiaries instead of branches in foreign jurisdictions, or create subsidiaries to conduct particular businesses or operations (so-called "subsidiarization"), which would, among other things, increase Citi's legal, regulatory and managerial costs, negatively impact Citi's global capital and liquidity management and potentially impede its global strategy. Citi could also eventually be subjected to more stringent capital, leverage or liquidity requirements, or be required to divest certain assets or operations, if both regulators determine that Citi's resolution plans do not meet statutory requirements and Citi does not remedy the deficiencies within required time periods.

In addition, other jurisdictions, such as the United Kingdom, have requested or are expected to request resolution plans from financial institutions, including Citi, and the requirements and timing relating to these plans are different from the U.S. requirements and each other. Responding to these additional requests will require additional effort, time and cost, and regulatory review and requirements in these jurisdictions could be in addition to, or conflict with, changes requested by Citi's regulators in the U.S.

Risk factors (continued)

Regulatory risk (continued)

Provisions of the Dodd-Frank Act and other regulations relating to securitizations will impose additional costs on securitization transactions, increase Citi's potential liability in respect of securitizations and may prohibit Citi from performing certain roles in securitizations, each of which could make it impractical to execute certain types of transactions and may have an overall negative effect on the recovery of the securitization markets.
Citi plays a variety of roles in asset securitization transactions, including acting as underwriter of asset-backed securities, depositor of the underlying assets into securitization vehicles, trustee to securitization vehicles and counterparty to securitization vehicles under derivative contracts. The Dodd-Frank Act contains a number of provisions that affect securitizations. Among other provisions, these include a requirement that securitizers retain un-hedged exposure to at least 5% of the economic risk of certain assets they securitize, a prohibition on securitization participants engaging in transactions that would involve a conflict with investors in the securitization, and extensive additional requirements for review and disclosure of the characteristics of the assets underlying the securitizations. The SEC has also proposed additional extensive regulation of both publicly and privately offered securitization transactions (so-called "Reg AB II").

The cumulative effect of these extensive regulatory changes, many of which have not been finalized, as well as other potential future regulatory changes, such as GSE reform, on securitization markets, the nature and profitability of securitization transactions, and Citi's participation therein, cannot currently be assessed. It is likely, however, that these various measures will increase the costs of executing securitization transactions, and could effectively limit Citi's overall volume of, and the role Citi may play in, securitizations, expose Citi to additional potential liability for securitization transactions and make it impractical for Citi to execute certain types of securitization transactions it previously executed. In addition, certain sectors of the securitization markets, particularly residential mortgage-backed securitizations, have been inactive or experienced dramatically diminished transaction volumes since the financial crisis. The impact of various regulatory reform measures could negatively delay or restrict any future recovery of these sectors of the securitization markets, and thus the opportunities for Citi to participate in securitization transactions in such sectors.

The Financial Accounting Standards Board (FASB) is currently reviewing or proposing changes to several key financial accounting and reporting standards utilized by Citi which, if adopted as proposed, could have a material impact on how Citi records and reports its financial condition and results of operations.
The FASB is currently reviewing or proposing changes to several of the financial accounting and reporting standards that govern key aspects of Citi's financial statements. While the outcome of these reviews and proposed changes is uncertain and difficult to predict, certain of these changes could have a material impact on how Citi records and reports its financial condition and results of operations, and could hinder understanding or cause confusion across comparative financial statement periods. For example, the FASB's financial instruments project could, among other things, significantly change how Citi determines the impairment on those assets and accounts for hedges. In addition, the FASB's leasing project could eliminate most operating leases and instead capitalize them, which would result in a gross-up of Citi's balance sheet and a change in the timing of income and expense recognition patterns for leases.

Moreover, the FASB continues its convergence project with the International Accounting Standards Board (IASB) pursuant to which U.S. GAAP and International Financial Reporting Standards (IFRS) are to be converged. The FASB and IASB continue to have significant disagreements on the convergence of certain key standards affecting financial reporting, including accounting for financial instruments and hedging. In addition, the SEC has not yet determined whether, when or how U.S. companies will be required to adopt IFRS. There can be no assurance that the transition to IFRS, if and when required to be adopted by Citi, will not have a material impact on how Citi reports its financial results, or that Citi will be able to meet any required transition timeline.

Risk factors (continued)

Market and economic risks

The ongoing Eurozone debt crisis could have significant adverse effects on Citi's business, results of operations, financial condition and liquidity, particularly if it leads to any sovereign debt defaults, significant bank failures or defaults and/or the exit of one or more countries from the European Monetary Union.
The ongoing Eurozone debt crisis has caused, and is likely to continue to cause, disruption in global financial markets, particularly if it leads to any future sovereign debt defaults and/or significant bank failures or defaults in the Eurozone. In spite of a number of stabilization measures taken since spring 2010, yields on government bonds of certain Eurozone countries, including Greece, Ireland, Italy, Portugal and Spain, have remained volatile. In addition, some European banks and insurers have experienced a widening of credit spreads (and the resulting decreased availability and increased costs of funding) as a result of uncertainty regarding the exposure of such European financial institutions to these countries. This widening of credit spreads and increased cost of funding has also affected Citi due to concerns about its Eurozone exposure.

The market disruptions in the Eurozone could intensify or spread further, particularly if ongoing stabilization efforts prove insufficient. Concerns have been raised as to the financial, political and legal ineffectiveness of measures taken to date. Continued economic turmoil in the Eurozone could have a significant negative impact on Citi, both directly through its own exposures and indirectly due to a decline in general global economic conditions, which could particularly impact Citi given its global footprint and strategy. There can be no assurance that the various steps Citi has taken to protect its businesses, results of operations and financial condition against the results of the Eurozone crisis will be sufficient.

The effects of the Eurozone debt crisis could be even more significant if they lead to a partial or complete break-up of the European Monetary Union (EMU). The partial or full break-up of the EMU would be unprecedented and its impact highly uncertain. The exit of one or more countries from the EMU or the dissolution of the EMU could lead to redenomination of obligations of obligors in exiting countries. Any such exit and redenomination would cause significant uncertainty with respect to outstanding obligations of counterparties and debtors in any exiting country, whether sovereign or otherwise, and lead to complex, lengthy litigation. The resulting uncertainty and market stress could also cause, among other things, severe disruption to equity markets, significant increases in bond yields generally, potential failure or default of financial institutions, including those of systemic importance, a significant decrease in global liquidity, a freeze-up of global credit markets and worldwide recession. Any combination of such events would negatively impact Citi's businesses, earnings and financial condition, particularly given Citi's global strategy. In addition, exit and redenomination could be accompanied by imposition of capital, exchange and similar controls, which could further negatively impact Citi's cross-border risk, other aspects of its businesses and its earnings.

The continued uncertainty relating to the sustainability and pace of economic recovery and market volatility has adversely affected, and may continue to adversely affect, certain of Citi's businesses, particularly S&B and the U.S. mortgage businesses within Citi Holdings – Local Consumer Lending.
The financial services industry and the capital markets have been and will likely continue to be adversely affected by the slow pace of economic recovery and continued disruptions in the global financial markets. This continued uncertainty and disruption have adversely affected, and may continue to adversely affect, certain of Citi's businesses, particularly its *S&B* business and its *Local Consumer Lending* business within *Citi Holdings*.

In particular, the corporate and sovereign bond markets, equity and derivatives markets, debt and equity underwriting and other elements of the financial markets have been and could continue to be subject to wide swings and volatility relating to issues emanating from Eurozone and U.S. economic issues. As a result of this uncertainty and volatility, clients have remained and may continue to remain on the sidelines or cut back on trading and other business activities and, accordingly, the results of operations of Citi's *S&B* businesses have been and could continue to be volatile and negatively impacted.

Risk factors (continued)

Market and economic risks (continued)

Moreover, the continued economic uncertainty in the U.S., accompanied by continued high levels of unemployment and depressed values of residential real estate, will continue to negatively impact Citi's U.S. Consumer mortgage businesses, particularly its residential real estate and home equity loans in *Citi Holdings – LCL*. Given the continued decline in Citi's ability to sell delinquent residential first mortgages, the decreased inventory of such loans for modification and re-defaults of previously modified mortgages, Citi began to experience increased delinquencies in this portfolio during the latter part of 2011. As a result, Citi could also experience increasing net credit losses in this portfolio going forward. Moreover, given the lack of markets in which to sell delinquent home equity loans, as well as the relatively fewer home equity loan modifications and modification programs, Citi's ability to offset increased delinquencies and net credit losses in its home equity loan portfolio in Citi Holdings has been, and will continue to be, more limited as compared to residential first mortgages.

Concerns about the level of U.S. government debt and downgrade, or concerns about a potential downgrade, of the U.S. government credit rating could have a material adverse effect on Citi's businesses, results of operations, capital, funding and liquidity.
In August 2011, Standard & Poor's lowered its long-term sovereign credit rating on the U.S. government from AAA to AA+ and in the second half of 2011, Moody's Investors Services and Fitch both placed the U.S. rating on negative outlook. According to the credit rating agencies, these actions resulted from the high level of U.S. government debt and the continued inability of Congress to reach an agreement to ensure payment of U.S. government debt and reduce the U.S. debt level. If the credit rating of the U.S. government is further downgraded, the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected. A future downgrade of U.S. debt obligations or U.S. government-related obligations by one or more credit rating agencies, or heightened concern that such a downgrade might occur, could negatively affect Citi's ability to obtain funding collateralized by such obligations as well as the pricing of such funding. Such a downgrade could also negatively impact the pricing or availability of Citi's funding as a U.S. financial institution. In addition, such a downgrade could affect financial markets and economic conditions generally and the market value of the U.S. debt obligations held by Citi. As a result, such a downgrade could lead to a downgrade of Citi debt obligations and could have a material adverse effect on Citi's business, results of operations, capital, funding and liquidity.

Citi's extensive global network, particularly its operations in the world's emerging markets, subject it to emerging market and sovereign volatility and further increases its compliance and regulatory risks and costs.
Citi believes its extensive and diverse global network—which includes a physical presence in approximately 100 countries and services offered in over 160 countries and jurisdictions—provides it with a unique competitive advantage in servicing the broad financial services needs of large multinational clients and customers around the world, including in many emerging markets. International revenues have recently been the largest and fastest-growing component of Citicorp, driven by emerging markets.

However, this global footprint also subjects Citi to a number of risks associated with international and emerging markets, including exchange controls, limitations on foreign investment, socio-political instability, nationalization, closure of branches or subsidiaries, confiscation of assets and sovereign volatility, among others. For example, there have been recent instances of political turmoil and violent revolutionary uprisings in some of the countries in which Citi operates, including in the Middle East, to which Citi has responded by transferring assets and relocating staff members to more stable jurisdictions. While these previous incidents have not been material to Citi, such disruptions could place Citi's staff and operations in danger and may result in financial losses, some significant, including nationalization of Citi's assets.

Risk factors (continued)

Market and economic risks (continued)

Further, Citi's extensive global operations increase its compliance and regulatory risks and costs. For example, Citi's operations in emerging markets subject it to higher compliance risks under U.S. regulations primarily focused on various aspects of global corporate activities, such as anti-money-laundering regulations and the Foreign Corrupt Practices Act, which can be more acute in less developed markets and thus require substantial investment in order to comply. Any failure by Citi to remain in compliance with applicable U.S. regulations, as well as the regulations in the countries and markets in which it operates as a result of its global footprint, could result in fines, penalties, injunctions or other similar restrictions, any of which could negatively impact Citi's earnings and its general reputation. In addition, complying with inconsistent, conflicting or duplicative regulations requires extensive time and effort and further increases Citi's compliance, regulatory and other costs.

It is uncertain how the ongoing Eurozone debt crisis will affect emerging markets. A recession in the Eurozone could cause a ripple effect in emerging markets, particularly if banks in developed economies decrease or cease lending to emerging markets, as is currently occurring in some cases. This impact could be disproportionate in the case of Citi in light of the emphasis on emerging markets in its global strategy. Decreased, low or negative growth in emerging market economies could make execution of Citi's global strategy more challenging and could adversely affect Citi's revenues, profits and operations.

The maintenance of adequate liquidity depends on numerous factors outside of Citi's control, including without limitation market disruptions and increases in Citi's credit spreads.
Adequate liquidity and sources of funding are essential to Citi's businesses. Citi's liquidity and sources of funding can be significantly and negatively impacted by factors it cannot control, such as general disruptions in the financial markets or negative perceptions about the financial services industry in general, or negative investor perceptions of Citi's liquidity, financial position or credit worthiness in particular. Market perception of sovereign default risks, such as issues in the Eurozone as well as other complexities regarding the current European debt crisis, can also lead to ineffective money markets and capital markets, which could further impact Citi's availability of funding.

In addition, Citi's cost and ability to obtain deposits, secured funding and long-term unsecured funding from the capital markets are directly related to its credit spreads. Changes in credit spreads constantly occur and are market-driven, including both external market factors as well as factors specific to Citi, and can be highly volatile. Citi's credit spreads may also be influenced by movements in the costs to purchasers of credit default swaps referenced to Citi's long-term debt, which are also impacted by these external and Citi-specific factors. Moreover, Citi's ability to obtain funding may be impaired if other market participants are seeking to access the markets at the same time, or if market appetite is reduced, as is likely to occur in a liquidity or other market crisis. In addition, clearing organizations, regulators, clients and financial institutions with which Citi interacts may exercise the right to require additional collateral based on these market perceptions or market conditions, which could further impair Citi's access to funding.

The credit rating agencies continuously review the ratings of Citi and its subsidiaries, and reductions in Citi's and its subsidiaries' credit ratings could have a significant and immediate impact on Citi's funding and liquidity through cash obligations, reduced funding capacity and additional margin requirements.
The rating agencies continuously evaluate Citi and its subsidiaries, and their ratings of Citi's and its more significant subsidiaries' long-term/senior debt and short-term /commercial paper, as applicable, are based on a number of factors, including financial strength, as well as factors not entirely within the control of Citi and its subsidiaries, such as the agencies' proprietary rating agency methodologies and conditions affecting the financial services industry generally.

Risk factors (continued)

Market and economic risks (continued)

Citi and its subsidiaries may not be able to maintain their current respective ratings. Ratings downgrades by Fitch, Moody's or S&P could have a significant and immediate impact on Citi's funding and liquidity through cash obligations, reduced funding capacity and additional margin requirements for derivatives or other transactions. Ratings downgrades could also have a negative impact on other funding sources, such as secured financing and other margined transactions, for which there are no explicit triggers. Some entities may also have ratings limitations as to their permissible counterparties, of which Citi may or may not be aware. A reduction in Citi's or its subsidiaries' credit ratings could also widen Citi's credit spreads or otherwise increase its borrowing costs and limit its access to the capital markets.

Business risk

Citi will not be able to wind down Citi Holdings at the same pace as it has in the past three years. As a result, the remaining assets in Citi Holdings will likely continue to have a negative impact on Citi's results of operations and its ability to utilize the capital supporting the remaining assets in Citi Holdings for more productive purposes.

Citi will not be able to dispose of or wind down the businesses or assets that are part of Citi Holdings at the same level or pace as in the past three years. As of December 31, 2011, assuming the transfer to Citicorp of the substantial majority of retail partner cards, effective in the first quarter of 2012, LCL constituted approximately 70% of Citi Holdings. As of such date, over half of the remaining assets in LCL consisted of legacy U.S. mortgages which will likely be subject to run-off over an extended period of time. Besides mortgages, the remaining assets in LCL include the OneMain Financial business, as well as student, commercial real estate and credit card loans in North America, and consumer lending businesses in Europe and Asia.

BAM primarily consists of the MSSB JV. Morgan Stanley has call rights on Citi's ownership interest in the venture over a three-year period beginning in 2012, which it is not required to exercise. Of the remaining assets in the Special Asset Pool ("SAP"), interest-earning assets have become a smaller portion of the assets, causing negative net interest revenues in the business as the remaining non-interest earning assets, which require funding, represent a larger portion of the total asset pool. In addition, as of December 31, 2011, approximately 25% of the remaining assets in SAP were held-to-maturity securities.

As a result, the remaining assets within Citi Holdings will likely continue to have a negative impact on Citi's overall results of operations for the foreseeable future, particularly after the transfer of retail partner cards to Citicorp. In addition, as of December 31, 2011 and as adjusted to reflect the transfer of retail partner cards, roughly 21% of Citi's risk-weighted assets were in Citi Holdings, and were supported by approximately $24 billion of Citi's regulatory capital. Accordingly, Citi's ability to release the capital supporting these businesses and thus use such capital for more productive purposes will depend on the ultimate pace and level of Citi Holdings divestitures, portfolio run-offs and asset sales.

Citi may be unable to maintain or reduce its level of expenses as it expects, and investments in its businesses may not be productive.

Citi continues to pursue a disciplined expense-management strategy, including re-engineering, restructuring operations and improving the efficiency of functions, such as call centres and collections, to achieve a targeted percentage expense savings annually. However, there is no guarantee that Citi will be able to maintain or reduce its level of expenses in the future, particularly as expenses incurred in Citi's foreign entities are subject to foreign exchange volatility, and regulatory compliance and legal and related costs are difficult to predict or control, particularly given the current regulatory and litigation environment. Moreover, Citi has incurred, and will likely continue to incur, costs of investing in its businesses. These investments may not be as productive as Citi expects or at all. Furthermore, as the wind down of Citi Holdings slows, Citi's ability to continue to reduce its expenses as a result of this wind down will also decline.

Risk factors (continued)

Business risk (continued)

Citi's operational systems and networks have been, and will continue to be, vulnerable to an increasing risk of continually evolving cybersecurity or other technological risks which could result in the disclosure of confidential client or customer information, damage to Citi's reputation, additional costs to Citi, regulatory penalties and financial losses.
A significant portion of Citi's operations relies heavily on the secure processing, storage and transmission of confidential and other information as well as the monitoring of a large number of complex transactions on a minute-by-minute basis. For example, through its global consumer banking, credit card and *Transaction Services* businesses, Citi obtains and stores an extensive amount of personal and client-specific information for its retail, corporate and governmental customers and clients and must accurately record and reflect their extensive account transactions. These activities have been, and will continue to be, subject to an increasing risk of cyber attacks, the nature of which is continually evolving.

Citi's computer systems, software and networks have been and will continue to be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber attacks and other events. These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to Citi's reputation with its clients and the market, additional costs to Citi (such as repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses, to both Citi and its clients and customers. Such events could also cause interruptions or malfunctions in the operations of Citi (such as the lack of availability of Citi's online banking system), as well as the operations of its clients, customers or other third parties. Given the high volume of transactions at Citi, certain errors or actions may be repeated or compounded before they are discovered and rectified, which would further increase these costs and consequences.

Citi has recently been subject to intentional cyber incidents from external sources, including (i) data breaches, which resulted in unauthorized access to customer account data and interruptions of services to customers; (ii) malicious software attacks on client systems, which in turn allowed unauthorized entrance to Citi's systems under the guise of a client and the extraction of client data; and (iii) denial of service attacks, which attempted to interrupt service to clients and customers. While Citi was able to detect these prior incidents before they became significant, they still resulted in losses as well as increases in expenditures to monitor against the threat of similar future cyber incidents. There can be no assurance that such incidents, or other cyber incidents, will not occur again, and they could occur more frequently and on a more significant scale.

In addition, third parties with which Citi does business may also be sources of cybersecurity or other technological risks. Citi outsources certain functions, such as processing of customer credit card transactions, which results in the storage and processing of customer information by third parties. While Citi engages in certain actions to reduce the exposure resulting from outsourcing, such as limiting third-party access to the least privileged level necessary to perform job functions and restricting third-party processing to systems stored within Citi's data centres, unauthorized access, loss or destruction of data or other cyber incidents could occur, resulting in similar costs and consequences to Citi as those discussed above. Furthermore, because financial institutions are becoming increasingly interconnected with central agents, exchanges and clearing houses, including through the derivatives provisions of the Dodd-Frank Act, Citi has increased exposure to operational failure or cyber attacks through third parties.

While Citi maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

Risk factors (continued)

Business risk (continued)

Citi's financial statements are based in part on assumptions and estimates, which, if wrong, could cause unexpected losses in the future, sometimes significant.
Pursuant to U.S. GAAP, Citi is required to use certain assumptions and estimates in preparing its financial statements, including in determining credit loss reserves, reserves related to litigation and regulatory exposures, mortgage representation and warranty claims and the fair value of certain assets and liabilities, among other items. If the assumptions or estimates underlying Citi's financial statements are incorrect, Citi may experience significant losses.

Citi is subject to a significant number of legal and regulatory proceedings that are often highly complex, slow to develop and are thus difficult to predict or estimate.
At any given time, Citi is defending a significant number of legal and regulatory proceedings. The volume of claims and the amount of damages and penalties claimed in litigation, arbitration and regulatory proceedings against financial institutions remain high, and could further increase in the future. Citi is subject to extensive litigation, investigations and inquiries pertaining to a myriad of mortgage-related activities that could take significant time to resolve and may subject Citi to extensive liability, including in the form of penalties and other equitable remedies, that could negatively impact Citi's future results of operations.

Proceedings brought against Citi may result in judgments, settlements, fines, penalties, disgorgement, injunctions, business improvement orders or other results adverse to it, which could materially and negatively affect Citi's businesses, financial condition or results of operations, require material changes in Citi's operations, or cause Citi reputational harm. Moreover, the many large claims asserted against Citi are highly complex and slow to develop, and they may involve novel or untested legal theories. The outcome of such proceedings may thus be difficult to predict or estimate until late in the proceedings, which may last several years. In addition, certain settlements are subject to court approval and may not be approved. Although Citi establishes accruals for its litigation and regulatory matters according to accounting requirements, the amount of loss ultimately incurred in relation to those matters may be substantially higher or lower than the amounts accrued.

In addition, while Citi takes numerous steps to prevent and detect employee misconduct, such as fraud, employee misconduct is not always possible to deter or prevent, and the extensive precautions Citi takes to prevent and detect this activity may not be effective in all cases, which could subject it to additional liability. Moreover, the "whistle-blower" provisions of the Dodd-Frank Act provide substantial financial incentives for persons to report alleged violations of law to the SEC and the CFTC. The final rules implementing these provisions for the SEC and CFTC became effective in August and October 2011, respectively. As such, there continues to be much uncertainty as to whether these new reporting provisions will incentivize and lead to an increase in the number of claims that Citi will have to investigate or against which Citi will have to defend itself, thus potentially further increasing Citi's legal liabilities.

Failure to maintain the value of the Citi brand could harm Citi's global competitive advantage, results of operations and strategy.
As Citi enters into its 200th year of operations in 2012, one of its most valuable assets is the Citi brand. Citi's ability to continue to leverage its extensive global footprint, and thus maintain one of its key competitive advantages, depends on the continued strength and recognition of the Citi brand, including in emerging markets as other financial institutions grow their operations in these markets and competition intensifies. As referenced above, as a result of the economic crisis in the U.S. as well as the continuing adverse economic climate globally, Citi, like other financial institutions, is subject to an increased level of distrust, scrutiny and scepticism from numerous constituencies, including the general public. The Citi brand could be further harmed if its public image or reputation were to be tarnished by negative publicity, whether or not true, about Citi or the financial services industry in general, or by a negative perception of Citi's short-term or long-term financial prospects. Maintaining, promoting and positioning the Citi brand will depend largely on Citi's ability to provide consistent, high-quality financial services and products to its clients and customers around the world. Failure to maintain its brand could hurt Citi's competitive advantage, results of operations and strategy.

Risk factors (continued)

Business risk (continued)

Citi may incur significant losses if its risk management processes and strategies are ineffective, and concentration of risk increases the potential for such losses.
Citi monitors and controls its risk exposure across businesses, regions and critical products through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. While Citi employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application may not be effective and may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes. Market conditions over the last several years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

Concentration of risk increases the potential for significant losses. Because of concentration of risk, Citi may suffer losses even when economic and market conditions are generally favourable for Citi's competitors. These concentrations can limit, and have limited, the effectiveness of Citi's hedging strategies and have caused Citi to incur significant losses, and they may do so again in the future. In addition, Citi extends large commitments as part of its credit origination activities. If Citi is unable to reduce its credit risk by selling, syndicating or securitizing these positions, including during periods of market dislocation, Citi's results of operations could be negatively affected due to a decrease in the fair value of the positions, as well as the loss of revenues associated with selling such securities or loans.

Although Citi's activities expose it to the credit risk of many different entities and counterparties, Citi routinely executes a high volume of transactions with counterparties in the financial services sector, including banks, other financial institutions, insurance companies, investment banks and government and central banks. This has resulted in significant credit concentration with respect to this sector. To the extent regulatory or market developments lead to an increased centralization of trading activity through particular clearing houses, central agents or exchanges, this could increase Citi's concentration of risk in this sector.

Together the Risk Factors section of this Directors' Report and Note 34 to the financial statements provide information on some of the key risks to which the Company is exposed.

Financial instruments

The financial risk management objectives and policies and the exposure to price risk, credit risk and liquidity risk of the Group have been disclosed in the risk management policies on pages 82 to 99.

In addition to the financial risk management note additional disclosures in relation to the forbearance policies of LCL are provided below.

Forbearance – Local Consumer Lending

The Group grants facility modifications to certain consumer borrowers that are in financial difficulty. A modification is where the Group grants an interest rate reduction, principal forgiveness and/or term extension.

Grants of forbearance as above are deemed to represent evidence of impairment in all cases.

For those consumer receivables where forbearance is deemed to represent evidence of impairment, an individually assessed impairment allowance is recorded, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Past repayment experience with the respective forbearance program is one of the variables considered in estimating future cash flows from each pool.

Financial instruments (continued)

Forbearance – Local Consumer Lending (continued)

The following table presents total corporate loans subject to modifications. The table excludes loans that have been granted temporary concession, restructured loans with new terms equal or more beneficial to Citigroup, renegotiated loans subject to conditions that have not been met at year end and loans renegotiated prior to the process for accounting for troubled debt restructuring was established.

£ millions except for number of loans under forbearance	**Charge and credit card**	**Consumer loans**
Program	Modifications	Modifications
Number of loans under forbearance	5,613	9,856
Number of loans in total	29,613	290,053
Loans and advances under forbearance		
Average interest rate reduction	8.49%	13.34%
Gross amount under forbearance	37	66
Individually assessed allowances for loans and advances	(18)	(43)
Collectively assessed allowance for loans and advances	-	-
Total carrying amount	19	23

Forbearance programs are tracked on an individual basis. Customers who have received both types of cures will be counted twice which will inflate the loans under forbearance total.

Dividends

There were no dividends paid in the year (2010: £nil). The Directors do not recommend the payment of a final dividend.

Directors

The Directors who held office during the year ended 31 December 2011 were:

A R Black	(resigned 7 July 2011)
D J Challen	
M L Corbat	(appointed 17 October 2011)
A M Duffell	(appointed 15 November 2011)
L B Kaden	(resigned 18 October 2011)
J Kornreich	(resigned 30 September 2011)
W J Mills	(resigned 31 December 2011)
L M Pigorini	(appointed 17 May 2011)
G J Ryan	(resigned 30 June 2011)
D Taylor	
C M Weir	(resigned 5 December 2011)

Directors' indemnity

The Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Suppliers

It is the Group's policy to ensure that suppliers are paid within 60 days of invoice date or as may otherwise be agreed between the respective supplier and the Group. Otherwise, the Group does not follow any code or standard on payment practice. The Group, as with certain other UK subsidiary undertakings, continues to retain the services of the London branch of Citibank, N.A. for the purposes of settling its suppliers' accounts. The number of creditor days at the year-end was 60 days.

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the Group's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

Employment of disabled persons

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within the Group. Opportunities for training, career development and promotion of disabled persons are, as far as possible, identical to those available to other employees who are not disabled.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed by written communications and meetings on matters affecting them as employees and on the various factors affecting the Group's business.

Charitable donations and political contributions

During the year the Group made charitable donations of £20,644 (2010: £58,563). No political contributions were made during the year (2010: £nil).

Disclosure of information to auditors

In accordance with section 418 of the Companies Act 2006 it is stated by the Directors who held office at the date of approval of this Directors' Report that, so far as each is aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This statement is made subject to all the provisions of section 418.

CITIBANK INTERNATIONAL PLC

DIRECTORS' REPORT
for the year ended 31 December 2011

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for its re-appointment of KPMG Audit Plc as auditors of the Group is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

J D Robson

J D Robson
Secretary

21 March 2012

Incorporated in England and Wales
Registered office: Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB
Registered Number: 1088249

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CITIBANK INTERNATIONAL PLC

We have audited the financial statements of Citibank International plc (the "Company") for the year ended 31 December 2011 set out on pages 22 to 102. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm].

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2011 and of the Group's and parent Company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

M Heath

M Heath (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

21 March 2012

CITIBANK INTERNATIONAL PLC

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2011

	Note	2011 £ Million	2010 £ Million
Interest and similar income		442	526
Interest expense and similar charges		(119)	(213)
Net interest income	**3**	323	313
Net fee and commission income	**5**	309	375
Net profit/(loss) on items at fair value through profit and loss	**6**	3	(20)
Net investment income	**7**	9	2
Other operating income		30	28
Total operating income		674	698
Personnel expenses	**8**	(225)	(277)
General and administrative expenses	**9**	(119)	(196)
Amortisation and write off of intangible assets	**21**	(27)	(30)
Depreciation of property and equipment	**22**	(51)	(58)
Operating profit before net credit losses		252	137
Net credit losses	**16**	(187)	(353)
Loss on disposal of operations	**10**	-	(151)
Profit/(loss) before income tax		65	(367)
Income tax	**11**	(59)	65
Profit/(loss) for the financial year		6	(302)

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	Note	2011 £ Million	2010 £ Million
Profit/(loss) for the year		6	(302)
Other comprehensive income			
Available for sale assets			
- change in fair values transferred to equity		74	18
- transfer to income statement on sale/redemption	**7**	(8)	1
		66	19
Foreign exchange translation differences		17	13
Actuarial losses on retirement benefits	**12**	(18)	(19)
		65	13
Net tax on items taken through other comprehensive	**11**	(13)	1
Other comprehensive income for the year, net of tax		52	14
Total comprehensive income/(loss) for the year		58	(288)

The total comprehensive income for the year is attributable to shareholders of the parent company.

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

CONSOLIDATED BALANCE SHEET
as at 31 December 2011

	Note	2011 £ Million	2010 £ Million
Assets			
Cash and balances at central banks	**30**	1,430	1,711
Trading assets	**18**	1,246	2,135
Derivative financial instruments	**17**	316	383
Loans and advances to banks		3,716	5,380
Loans and advances to customers	**15**	6,365	6,809
Investment securities	**19**	2,640	1,851
Prepayments and accrued income		117	120
Current tax assets		-	51
Other assets	**23**	438	258
Property, plant and equipment	**22**	115	124
Goodwill and intangible assets	**21**	120	86
Deferred tax assets	**24**	226	275
Total assets		16,729	19,183
Liabilities			
Deposits by banks		4,404	5,704
Customer accounts		7,750	8,130
Derivative financial instruments	**17**	565	677
Debt securities in issue	**25**	937	1,594
Accruals and deferred income		155	200
Current tax liabilities		1	-
Other liabilities	**26**	397	392
Provisions for liabilities	**27**	21	46
Deferred tax liabilities	**24**	2	13
Total liabilities		14,232	16,756
Equity shareholder funds			
Share capital	**29**	1,757	1,757
Share premium account		64	64
Other reserves		1,202	1,124
Retained earnings		(526)	(518)
Total equity shareholder funds attributable to equity holders of the parent company		2,497	2,427
Total liabilities and equity shareholder funds		16,729	19,183

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

The financial statements were approved by the Directors on 21 March 2012 and were signed on their behalf by:

A M Duffell – Director

Registered Number: 1088249

CITIBANK INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 December 2011

	Share Capital £ Million	Share Premium £ Million	Capital Reserve £ Million	Translation Reserve £ Million	Fair Value Reserve £ Million	Equity Reserve £ Million	Retained Earnings £ Million	Total £ Million
Balance at 1 January 2010	1,757	64	630	(21)	(40)	9	(202)	2,197
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	(302)	(302)
Other comprehensive income								
Foreign currency translation differences	-	-	-	13	-	-	-	13
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	15	-	-	15
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	-	(14)	(14)
Total other comprehensive income	-	-	-	13	15	-	(14)	14
Total comprehensive income for the period	-	-	-	13	15	-	(316)	(288)
Contributions by and distributions to owners								
Capital contribution	-	-	522	-	-	-	-	522
Share-based payment transactions	-	-	-	-	-	(4)	-	(4)
Total contributions by and distributions to owners	-	-	522	-	-	(4)	-	518
Balance at 31 December 2010 / 1 January 2011	1,757	64	1,152	(8)	(25)	5	(518)	2,427
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	6	6
Other comprehensive income								
Foreign currency translation differences	-	-	-	17	-	-	-	17
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	49	-	-	49
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	-	(14)	(14)
Total other comprehensive income	-	-	-	17	49	-	(14)	52
Total comprehensive income for the period	-	-	-	17	49	-	(8)	58
Contributions by and distributions to owners								
Share-based payment transactions	-	-	-	-	-	12	-	12
Total contributions by and distributions to owners	-	-	-	-	-	12	-	12
Balance at 31 December 2011	1,757	64	1,152	9	24	17	(526)	2,497

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2011

	Note	2011 £ Million	2010* £ Million
Cash flow from/(used in) operating activities			
Profit/(loss) before tax		65	(367)
Adjustments to reconcile profit/(loss) before tax to net cash flow from/(used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	**22**	51	58
Amortisation and write off of intangible assets	**21**	27	30
Net credit losses	**16**	187	353
Loss on sale of operations less expenses directly related to sale		-	126
Net (increase)/decrease in operating assets:			
Change in loans and advances to banks		299	95
Change in loans and advances to customers		257	1,012
Change in trading assets		889	443
Change in derivative assets		67	42
Change in prepayments and accrued income		3	(3)
Change in other assets		(170)	806
Net increase/(decrease) in operating liabilities:			
Change in deposits by banks		(1,300)	(12,513)
Change in customer accounts		(380)	(1,024)
Change in derivative liabilities		(112)	(239)
Change in accruals and deferred income		(45)	10
Change in other liabilities		(30)	(712)
Income taxes received/(paid)		12	(17)
Net cash flow used in operating activities		(180)	(11,900)
Cash flow from/(used in) investing activities			
Proceeds from sale of business units and subsidiary undertakings		-	1,237
Purchase of property, plant and equipment	**22**	(44)	(54)
Purchase of intangible assets	**21**	(86)	(32)
Proceeds on disposal of property, plant and equipment		2	36
Proceeds on disposal of intangible assets		25	10
Purchase of investment securities		(1,139)	(860)
Disposal of investment securities		383	452
Net cash flow (used in)/from investing activities		(859)	789
Cash flow from/(used in) financing activities			
Issuance of debt securities		-	55
Redemption of debt securities		(712)	(819)
Capital contribution received		-	522
Repayment of subordinated loan		-	(382)
Net cash flow used in financing activities		(712)	(624)
Effects of exchange rate differences		105	536
Net decrease in cash and cash equivalents		(1,646)	(11,199)
Cash and cash equivalents, beginning of the year	**30**	6,391	17,590
Cash and cash equivalents, end of the year	**30**	4,745	6,391

* restated to be consistent with current year presentation

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

COMPANY INCOME STATEMENT

for the year ended 31 December 2011

	Note	2011 £ Million	2010 £ Million
Interest and similar income		432	442
Interest expense and similar charges		(110)	(184)
Net interest income	**3**	322	258
Dividend income	**4**	-	2
Net fee and commission income	**5**	293	359
Net profit/(loss) on items at fair value through profit and loss	**6**	3	(21)
Net investment income	**7**	9	2
Other operating income		28	20
Total operating income		655	620
Personnel expenses	**8**	(225)	(272)
General and administrative expenses	**9**	(106)	(172)
Amortisation and write off of intangible assets	**21**	(27)	(30)
Depreciation of property and equipment	**22**	(51)	(58)
Operating profit before net credit losses		246	88
Net credit losses	**16**	(187)	(311)
Loss on disposal of operations	**10**	-	(81)
Impairment of subsidiary undertaking	**20**	-	(72)
Profit/(loss) before income tax		59	(376)
Income tax	**11**	(60)	76
Loss for the financial year		(1)	(300)

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

COMPANY STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	Note	2011 £ Million	2010 £ Million
Loss for the year		(1)	(300)
Other comprehensive income			
Available for sale assets			
- change in fair values transferred to equity		74	18
- transfer to income statement on sale/redemption	7	(8)	1
		66	19
Foreign exchange translation differences		5	5
Actuarial losses on retirement benefits	12	(18)	(19)
		53	5
Net tax on items taken through other comprehensive income	11	(13)	1
Other comprehensive income for the year, net of tax		40	6
Total comprehensive income/(loss) for the year		39	(294)

The total comprehensive income for the year is attributable to shareholders of the parent company.

The accompanying notes on 32 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

COMPANY BALANCE SHEET

as at 31 December 2011

	Note	2011 £ Million	2010 £ Million
Assets			
Cash and balances at central banks	**30**	1,430	1,711
Trading assets	**18**	1,246	2,135
Derivative financial instruments	**17**	316	383
Loans and advances to banks		3,686	5,735
Loans and advances to customers	**15**	6,117	6,414
Investment securities	**19**	2,641	1,852
Shares in subsidiary undertakings	**20**	67	144
Prepayments and accrued income		112	124
Current income tax assets		-	51
Other assets	**23**	427	241
Property, plant and equipment	**22**	115	124
Goodwill and intangible assets	**21**	120	86
Deferred tax assets	**24**	224	274
Total assets		16,501	19,274
Liabilities			
Deposits by banks		4,473	6,251
Customer accounts		7,750	8,130
Derivative financial instruments	**17**	565	677
Debt securities in issue	**25**	700	1,212
Accruals and deferred income		150	191
Current tax liabilities		1	-
Other liabilities	**26**	397	368
Provisions for liabilities	**27**	20	42
Deferred tax liabilities	**24**	-	9
Total liabilities		14,056	16,880
Equity shareholder funds			
Share capital	**29**	1,757	1,757
Share premium account		64	64
Other reserves		1,199	1,133
Retained earnings		(575)	(560)
Total shareholder funds		2,445	2,394
Total liabilities and equity shareholder funds		16,501	19,274

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

The financial statements were approved by the Directors on 21 March 2012 and were signed on their behalf by:

A M Duffell – Director

Registered Number: 1088249

CITIBANK INTERNATIONAL PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
as at 31 December 2011

	Share Capital £ Million	Share Premium £ Million	Capital Reserve £ Million	Translation Reserve £ Million	Fair Value Reserve £ Million	Equity Reserve £ Million	Retained Earnings £ Million	Total £ Million
Balance at 1 January 2010	1,757	64	646	(20)	(40)	9	(246)	2,170
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	(300)	(300)
Other comprehensive income								
Foreign currency translation differences	-	-	-	5	-	-	-	5
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	15	-	-	15
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	-	(14)	(14)
Total other comprehensive income	-	-	-	5	15	-	(14)	6
Total comprehensive income for the period	-	-	-	5	15	-	(314)	(294)
Transaction with owners, recorded directly in equity								
Contribution by and distribution to owners								
Capital contribution	-	-	522	-	-	-	-	522
Share-based payment transactions	-	-	-	-	-	(4)	-	(4)
Total contributions by and distributions to owners	-	-	522	-	-	(4)	-	518
Balance as 31 December 2010 / 1 January 2011	1,757	64	1,168	(15)	(25)	5	(560)	2,394
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	(1)	(1)
Other comprehensive income								
Foreign currency translation differences	-	-	-	5	-	-	-	5
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	49	-	-	49
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	-	(14)	(14)
Total other comprehensive income	-	-	-	5	49	-	(14)	40
Total comprehensive income for the period	-	-	-	5	49	-	(15)	39
Transaction with owners, recorded directly in equity								
Contribution by and distribution to owners								
Share-based payment transactions	-	-	-	-	-	12	-	12
Total contributions by and distributions to owners	-	-	-	-	-	12	-	12
Balance as 31 December 2011	1,757	64	1,168	(10)	24	17	(575)	2,445

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2011

	Note	2011 £ Million	2010* £ Million
Cash flow from/(used in) operating activities			
Profit/(loss) before tax		59	(376)
Adjustments to reconcile profit/(loss) before tax to net cash flow from/(used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	**22**	51	58
Amortisation and write off of intangible assets	**21**	27	30
Net credit losses	**16**	187	311
Loss on sale of operations less expenses directly related to sale		-	59
Impairment of subsidiary undertaking		-	72
Dividend received	**4**	-	(2)
Net (increase)/decrease in operating assets:			
Change in loans and advances to banks		(8)	399
Change in loans and advances to customers		110	704
Change in trading assets		889	443
Change in derivative assets		67	42
Change in prepayments and accrued income		12	53
Change in other assets		(176)	801
Net increase/(decrease) in operating liabilities:			
Change in deposits by banks		(1,778)	(13,248)
Change in customer accounts		(380)	(1,024)
Change in derivative liabilities		(112)	(239)
Change in accruals and deferred income		(41)	(40)
Change in other liabilities		(1)	(694)
Income taxes received/(paid)		12	(9)
Net cash flow used in operating activities		(1,082)	(12,660)
Cash flow from/(used in) investing activities			
Proceeds from sale of business units and subsidiary undertakings		-	893
Purchase of property, plant and equipment	**22**	(44)	(54)
Purchase of intangible assets	**21**	(86)	(32)
Proceeds on disposal of property, plant and equipment		2	35
Proceeds on disposal of intangible assets		25	10
Purchase of investment securities		(1,139)	(859)
Disposal of investment securities		383	452
Capital contribution paid to subsidiaries	**20**	-	(143)
Capital repayment from subsidiaries	**20**	63	-
Net cash flow (used in)/from investing activities		(796)	302
Cash flow from/(used in) financing activities			
Dividend received	**4**	-	2
Issuance of debt securities		-	55
Redemption of debt securities		(572)	(818)
Capital contribution received		-	522
Repayment of subordinated loan		-	(382)
Net cash flow used in financing activities		(572)	(621)
Effects of exchange rate differences		112	549
Net decrease in cash and cash equivalents		(2,338)	(12,430)
Cash and cash equivalents, beginning of the year	**30**	7,053	19,483
Cash and cash equivalents, end of the year	**30**	4,715	7,053

*restated to be consistent with current year presentation

The accompanying notes on pages 32 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

(a) Basis of preparation

The Company and Group financial statements have both been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the E.U.

These financial statements have been prepared under the historical cost convention as modified to include the fair value of certain financial instruments to the extent required or permitted under the accounting standards and as set out in the relevant accounting policies.

The financial statements are prepared on a going concern basis taking into account the continuing support from the Group's parent. The risks and uncertainties identified by the parent group, together with those factors which lead to the Group's reliance on parental support, are discussed further in the Directors' report on pages 2 to 20. Taking these factors into account the Directors acknowledge and accept the intent and ability of Citigroup to provide support to the Group if required and consequently present these financial statements on a going concern basis.

In preparing these accounts the Group has adopted the following amendments to standards for the first time:

- Revised IFRS 7 'Financial Instruments: Disclosures' amendments on credit risk are effective from 1 January 2011. These disclosures have been incorporated in Note 32 Pledged Assets.
- Revised IAS 24 'Related Party Disclosures' is effective from 1 January 2011. This revision amends the definition of a related party and revises certain disclosures. This has resulted in minimal changes to the financial statements.

There are a number of accounting standards and interpretations that have been issued by the International Accounting Standards Board (IASB), but which are not yet been adopted by the E.U. so are not effective for the Company and Group financial statements, these include:

- The first phase of IFRS 9 'Financial Instruments' covering the requirements for the classification and measurement of financial assets is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 does not require the restatement of comparative-period financial statements for the initial application, but instead require modified disclosures on the effect of transition. As the standard is subject to EU endorsement, the timing of which is uncertain the Group is unable to provide a date by which it plans to apply the standard. In addition, the IASB is in the process of considering limited improvements to the classification and measurement model in IFRS 9 in an attempt to align closer with the US GAAP model. An exposure draft is expected in the second half of 2012.

- The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting. The original expected completion date has been extended, with exposure drafts for the second and third phases expected by the end of 2012. In addition, the IASB is working with the US Financial Accounting Standards Board to reduce inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 at this time.

The Group is currently assessing the impact of the following standards due in 2013.

- IFRS 10 'Consolidated Financial Statements' is effective for periods beginning after 1 January 2013. Under IFRS 10 there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage, replacing the current approach which emphasis legal control or exposure to risks and rewards, depending on the nature of the entity.
- IFRS 11 'Joint Arrangements' is effective from 1 January 2013. In IFRS 11 more emphasis is placed on the investors' rights and obligations than on structure of the arrangement, introducing the concept of a joint operation.

1. Principal accounting policies (continued)

(a) Basis of preparation (continued)

- IFRS 12 'Disclosure of Interests in Other Entities' is effective for periods beginning after 1 January 2013. IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements and associates, introducing new requirements for unconsolidated structured entities.
- IFRS 13 'Fair Value Measurements' is effective for periods beginning after 1 January 2013. IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs.
- IAS 19 'Employee Benefits' revised. The revised standard is effective for periods beginning on or after 1 January 2013.

The IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' in December 2011. The revised standard clarifies the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS32 'Financial Instruments: Presentation' and is effective for periods beginning on or after 1 January 2014.

(b) Consolidation

Subsidiary undertakings (including some special purpose entities) that are directly or indirectly controlled by the Group are consolidated. Subsidiary undertakings are fully consolidated from the date on which control is obtained by the Group. Control is achieved where the bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are de-consolidated from the date that control ceases. The Group uses the purchase method of accounting to account for the acquisition of a subsidiary undertaking.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. The Group's accounting policies have been consistently applied for the purposes of preparing the consolidated accounts.

The Group sponsors the formation of special purpose entities (SPEs), primarily for the purpose of facilitation of investments by the Group's clients, asset securitisation transactions, structured debt issuance, and to accomplish certain narrow and well defined objectives. The Group consolidates those SPEs if the substance of its relationship with them indicates that it has control over them.

The Group's results are consolidated in the financial statements of its ultimate parent company, Citigroup Inc., which are made available to the public annually.

(c) Segmental reporting

An operating segment is a component of the Group, which earns revenues and incurs expenses, whose results are regularly reviewed by management and for which discrete financial information is available. The Group is organised into two operating segments; Institutional Clients Group and Local Consumer Lending. This organisational structure is the basis upon which the Group reports its primary segment information. There are two geographic segments which management review the operations of the Group - the United Kingdom and Western Europe. Segment income, segment expenses and segment performance include transfers between business segments, which are conducted at arm's length.

1. Principal accounting policies (continued)

(d) Foreign currencies

The Group and Company financial statements are presented in Pounds Sterling ("£"), which is the presentational currency of the Group and Company. Transactions in foreign currencies are measured in each of the Group's branches or entities using their functional currency, being the functional currency of the primary economic environment in which they operate. The principal functional currencies are Pounds Sterling and Euro.

At the balance sheet date monetary assets and liabilities are translated at the year end rates of exchange and translation differences are included in the income statement. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are classified as "held for trading "or "designated at fair value" are translated at the year end spot rate. Any exchange profits and losses on non-monetary items are taken directly to the statement of comprehensive income. Translation differences on debt securities classified as available-for-sale are included in the income statement.

On consolidation, the assets and liabilities of the Group's foreign entities are translated at year end rates of exchange to the presentational currency. Income and expense items are translated at the average exchange rates to presentational currency. Exchange differences arising on the retranslation of opening net investments in foreign entities at year end exchange rates and arising from the translation of the results of these overseas subsidiaries and branches at the average exchange rate are taken directly to equity.

(e) Net interest income

Interest income and expense on financial assets and liabilities are recognised in the income statement using the effective interest rate method. Fees and direct costs relating to loan origination, re-financing or restructuring and to loan commitments are deferred and amortised to interest earned on loans and advances using the effective interest method.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest basis, and
- interest on available-for-sale investment securities on an effective interest basis.

(f) Fees and commissions

Fees and commissions income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commissions income not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party, such as securities or cash clearing or the purchase or sale of businesses, are recognised on an accruals basis as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Non performance based asset management fees are recognised over the period in which the services are rendered. Performance based asset management fees, income from wealth management and custody services are recognised when the amount of revenue can be measured reliably and it is probable that such fees will flow to the Group.

Other fees and commission expenses are expensed as the services are received.

(g) Dividend income

Dividend income is recognised when the right to receive payment is established which is the ex-dividend date for equity securities.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

(h) Net income on items at fair value through profit and loss

Net income on items at fair value through profit and loss comprises all gains less losses related to trading assets and liabilities and financial instruments designated at fair value, and include all realised and unrealised fair value changes, together with related interest, dividends and foreign exchange differences.

(i) Derivative contracts

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in fair value are recognised in net income on items at fair value through profit and loss.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Group accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract.

(j) Other financial assets and liabilities

Trading assets
The Group's trading assets are acquired principally for the purpose of selling in the near term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking. Trading assets are initially and subsequently measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value are reported in net income on items at fair value through profit and loss. The Group uses trade date accounting when recording trading assets.

Investment securities
Investment securities are recognised on a trade date basis and are classified as either, Held-to-maturity, Available-for-sale or Designated at Fair Value.

Held-to-maturity investment securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investment securities are initially recognised at fair value, including directly attributable costs, and subsequently measured at amortised cost using the effective interest method less any impairment losses.

Available-for-sale investment securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investment securities are initially recognised at fair value including directly attributable costs and subsequently measured at fair value with the changes in the fair value reported in the statement of comprehensive income. The translation of gains and losses on foreign currency debt securities is taken directly through the income statement. When available-for-sale debt securities are sold the cumulative gain or loss previously recognised in the statement of comprehensive income is transferred to the income statement and disclosed within investment income. When available for sale debt securities are impaired the impairment is recognised in the income statement.

1. Principal accounting policies (continued)

(j) Other financial assets and liabilities (continued)

Loans and receivables
Loans and receivables consist of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not classified as available-for-sale and the Group does not intend to sell them immediately or in the near term. They are initially recognised at fair value, which is the cash given to originate the loan, including any directly attributable transaction costs less fees received and subsequently measured at amortised cost using the effective interest rate method, less any impairment charges. Loans are recognised when cash is advanced to borrowers and are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. Until the cash has been advanced to the borrower an off balance sheet undrawn commitment is recognised see Note 33 for further detail.

Financial instruments designated at fair value
The Group may designate financial instruments at fair value through profit and loss when:

i) this will eliminate or significantly reduce measurement or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases;
ii) groups of financial assets, financial liabilities or combinations thereof are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about groups of financial instruments is reported to management on that basis; or
iii) financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made, is irrevocable. Designated financial instruments are initially recognised at fair value on trade date and subsequently remeasured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value are reported in net income on items at fair value through profit and loss.

The Group has designated as at fair value through profit and loss certain investment securities, debt securities and customer loans and advances on the basis that these securities are managed and their performance evaluated on a fair value basis.

Financial liabilities
Deposits, customer accounts, debt securities in issue, subordinated loans and derivative financial liabilities are initially measured at fair value net of transactions costs at trade date. Subsequently, they are measured at amortised cost using the effective interest rate method, except for derivative financial liabilities and any liabilities designated on initial recognition as at fair value through profit and loss.

The Group has designated as at fair value through profit and loss a number of issued debt securities that contain embedded equity, interest rate and credit derivatives that would otherwise be required to be split and separately accounted for at fair value. The fair value of issued debt securities also takes into account an allowance for the Group's own credit risks.

Counterparty receivables and payables
Other assets and other liabilities include amounts due to and from customers and clearing institutions in relation to the purchase and sale of securities.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1. Principal accounting policies (continued)

(k) Impairment of financial assets

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

Financial assets not individually impaired are grouped together to assess impairment collectively and is shown in Allowance for loans and advances. The collective assessment includes an assessment of losses:

- that have been incurred but not yet identified taking into account historical loss experience and the estimated period between impairment occurring and loss being identified;
- based on statistical analysis of historical data and the Group's experience of delinquency and default; and
- from the impact of other risk factors including unemployment rates, bankruptcy trends, economic conditions and the current level of write offs.

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

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

1. Principal accounting policies (continued)

(k) Impairment of financial assets (continued)

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

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

In certain circumstances the Group will grant customers with concessionary modifications to the terms of their loans or advances. In such cases the loans or advances are no longer considered past due, but are considered to be current once the minimum number of payments is received or agreed criteria are met. Consequently the risk profile of such loans and advances mirror that of other unaltered loans and advances in the same delinquency state as long as they adhere to revised payment terms. For wholesale loans which are subject to renegotiation and constitute part of remedial management of underperforming assets, the Group remedial management policy permits the relevant business responsible for that debt to enter into the renegotiation of a facility to an obligor or relationship experiencing financial difficulty by modifying the underlying contract and/or granting certain types of concessions.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for assets held at amortised cost. Reversals of impairment of debt securities are recognised in the income statement. Reversals of impairment of equity shares are not recognised in the income statement. Increases in the fair value of equity shares after impairment are recognised directly in the statement of comprehensive income.

(l) Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from assets has expired or the Group has transferred its contractual right to receive the cashflows of the financial assets and either substantially all the risks and rewards of ownership have been transferred or substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

(m) Goodwill and intangible assets

Goodwill
Acquired goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill existing prior to 1 January 2005 has ceased to be amortised from 1 January 2005, but continues to be reviewed annually for impairment.

Other intangible assets
Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement using the methods that best reflect the economic benefits over their estimated useful economic lives. The estimated useful lives are as follows:

Acquired computer software licenses	3 - 5 years
Computer software development	1 - 3 years

1. Principal accounting policies (continued)

(m) Goodwill and intangible assets (continued)

Computer software development:
Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. The cost of developed software includes directly attributable internal and external costs.

Client intangibles:
Client intangibles are identifiable assets and are recognised at their present value based on cash flow forecasts on acquired contractual rights over customer relationships.

(n) Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses (see below). Depreciation is provided to write off the cost, less the estimated residual value of each asset, on a straight-line basis over their estimated useful lives. Land is not depreciated. Estimated useful lives are as follows:

Freehold buildings	50 years
Leasehold property	lease term
Leasehold improvements	shorter of lease term and 10 years
Vehicles, furniture and equipment	between 1 and 10 years
Leased assets	between 1 and 20 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period during which they are incurred.

(o) Impairment of goodwill, intangible assets and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its intangible assets or property, plant and equipment are impaired. Goodwill is tested for impairment annually or more frequently if events or changes in circumstance indicate that it might be impaired. Goodwill is allocated to cash generating units for the purpose of impairment testing. Impairment losses in respect of goodwill are not reversed.

(p) Finance and operating leases

Where the Group leases out equipment and there is a transfer of substantially all of the risks and rewards of ownership to the lessee, the lease is accounted for as a finance lease. Operating leases are leases other than finance leases.

Finance and operating leases – as lessee
Assets held under finance leases and hire purchase contracts are capitalised and depreciated as described in Note 1(n) above. Finance charges are allocated to accounting periods so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period. Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term and are included within "General and administrative expenses".

1. Principal accounting policies (continued)

(p) Finance and operating leases (continued)

Finance and operating leases – as lessor
The net investment in finance leases is included in "Loans and advances to customers". The gross earnings over the period of the lease are allocated to give a constant periodic rate of return on the net investment. Direct costs of initiating leases are added to the initial recognition amount of the asset. Rentals receivable are included within "Interest and similar income".

Assets held for the purpose of leasing to third parties under operating leases are included in "Property, plant and equipment" and depreciated on a straight-line basis over their estimated useful lives. Rentals receivable are accounted for on a straight-line basis over the period of the lease and are included within "Other operating income".

Residual values
Residual value exposure occurs due to the uncertain nature of the value of an asset at the end of an agreement. Throughout the life of an asset its residual value will fluctuate because of the uncertainty of the future market and technological changes or product enhancements as well as general economic conditions.

Residual values are set at the commencement of the lease based upon management's expectations of future values. During the course of the lease residual values are reviewed on an annual basis so as to identify any potential impairment. Any reduction in the residual value that leads to an impairment of an asset is identified within such reviews and recognised immediately.

(q) Shares in subsidiary undertakings

Shares in subsidiary undertakings, comprising unlisted securities, are shown at cost less allowance for impairment.

Amounts receivable from the liquidation of subsidiary undertakings are included within "Other assets".

(r) Income taxes

Income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise.

Deferred tax assets and liabilities are recognised for taxable and deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that there will be suitable profits available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on tax rates that are enacted or substantively enacted at the balance sheet date.

Current and deferred taxes are recognised as income tax benefit or expense in the income statement, except for deferred taxes on the following items which are recorded as a separate component of other comprehensive income:

- unrealised gains or losses on available-for-sale investments;
- changes in actuarial gains and losses on retirement benefit plans; and
- changes in share based incentives.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

(s) Retirement benefit obligations

The Group participates in and operates state and non-state run defined contribution pension schemes for its employees, both in the UK and locally overseas. The charge against profit is the contributions payable in respect of the service provided during the year.

The Group also participates in and continues to operate defined benefit pension schemes for employees in Spain, Norway, Italy, Netherlands, Austria, Belgium and Greece. Staff do not make contributions for basic pensions. For its overseas defined benefit schemes, the liability recognised in the balance sheet is the actuarially calculated present value of the defined benefit obligation at the balance sheet date, less the fair value of the scheme assets, together with adjustments for past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Current and prior service costs, interest costs and expected returns on assets are recognised in the income statement.

A surplus is recognised on the balance sheet where an economic benefit is available as a reduction in future contributions or as a refund of monies to the company.

(t) Share-based incentive plans

The Group participates in a number of Citigroup Inc. (“Citigroup”) share-based incentive plans under which Citigroup grants shares to the Company’s employees. Pursuant to a separate Stock Plans Affiliate Participation Agreement (“SPAPA”) the Company makes a cash settlement to Citigroup for the fair value of the share-based incentive awards delivered to the Company’s employees under these plans.

The Group uses equity-settled accounting for its share-based incentive plans, with separate accounting for its associated obligations to make payments to Citigroup Inc. The Group recognises the fair value of the awards at grant date as a compensation expense over the vesting period with a corresponding credit in the equity reserve as a capital contribution from Citigroup Inc. All amounts paid to Citigroup Inc and the associated obligation under the SPAPA are recognised in the equity reserve over the vesting period. Subsequent changes in the fair value of all unexercised awards and the SPAPA are reviewed annually and any changes in value are recognised in the equity reserve, again over the vesting period.

For Citigroup’s share-based incentive plans that have a graded vested period each “tranche” of the award is treated as a separate award, where a plan has a cliff vest the award only has a single “tranche”. The expense is recognised in the first year of deferral.

	% of expense recognised			
Vesting Period of Award	**Year 1**	**Year 2**	**Year 3**	**Year 4**
2 Years (2 Tranches)	75%	25%		
2 Years (1 Tranche)	50%	50%		
3 Years (3 Tranches)	61%	28%	11%	
3 years (1 Tranche)	33%	33%	33%	
4 Years (4 Tranches)	52%	27%	15%	6%
4 Years (1 Tranche)	25%	25%	25%	25%

However, employees who meet certain age plus years of service requirements (retirement eligible employees) may terminate active employment and continue vesting in their awards provided they comply with specified non-compete provisions. The cost of share based incentive plans are recognised over the requisite service period. For awards granted to retiree eligible employees, the services are provided prior to grant date, and subsequently the costs are accrued in the year prior to the grant date.

1. Principal accounting policies (continued)

(u) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation. This includes where the Group has undrawn loan commitments and a provision is made for expected losses.

(v) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with original maturity of less than three months, including: cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks and amounts due from other banks.

(w) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Such assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

The Group holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Services Authority. Such monies and the corresponding amounts due to clients are not shown on the balance sheet as the Group is not beneficially entitled thereto.

2. Use of assumptions estimates and judgements

The results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its consolidated financial statements. The accounting policies used in the preparation of the consolidated financial statements are described in detail above.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are:

Impairment of loans and timing of loss recognition
The Group’s accounting policy for losses in relation to the impairment of customer loans and advances is described in Note 1(k). In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience and experience of losses that have been incurred but not yet identified for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. Note 16 details the movement in the impairment provision for the year.

Valuation of financial instruments
The Group’s accounting policy for valuation of financial instruments is included in Note 1(i) and Note 1(j). The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, where this is not possible management may be required to make estimates. Note 14 further discusses the valuation of financial instruments.

2. Use of assumptions estimates and judgements (continued)

Valuation of financial instruments (continued)
During the year, in line with industry practice the Group 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 curves for the currency of the derivative (e.g., the benchmark curves for the currency of the London Interbank Offered Rate for US dollar derivatives) as the discount rate for these collateralized interest-rate related derivatives. The Company recognised a pre-tax gain of approximately £1.5 million as a result of changing this fair value measurement input.

Retirement benefit obligation
The Group participates in locally operated defined benefit schemes for its European branches. Defined benefit schemes are measured on an actuarial basis, with the key assumptions being inflation, discount rate, mortality, and investment returns. Return on assets is an average of expected returns weighted by asset class. Returns on investments in equity are based upon government bond yields with a premium to reflect an additional return expected on equity investments. Inflation rates are selected by reference to the European Central Bank target for inflation and the difference between conventional and index linked government bonds. Mortality assumptions are based upon the relevant standard industry and national mortality tables. Discount rates are based on specific corporate bond indices which reflect the underlying yield curve of each scheme. Management judgement is required in estimating the rate of future salary growth. All assumptions are unbiased, mutually compatible and based upon market expectations at the reporting date.

Deferred tax asset
The Group's accounting policy for the recognition of deferred tax assets is described in Note 1(r). A deferred tax asset is recognised to the extent that it is probable that suitable future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of suitable future taxable profits, future reversals of existing taxable temporary differences and planning strategies.

The amount of the deferred tax asset recognised is based on the evidence available about conditions at the balance sheet date, and requires significant judgements to be made by management, especially those based on management's projections of business growth, credit losses and the timing of a general economic recovery.

Management's judgement takes into account the impact of both negative and positive evidence, including historical financial results and projections of future taxable income, on which the recognition of the deferred tax asset is mainly dependent. Note 24 further discusses deferred tax.

Management's forecasts support the assumption that it is probable that the future results of the Group will generate sufficient suitable taxable income to utilise the deferred tax assets.

Share-based incentive plans
Awards granted through Citigroup's Stock Option Program are measured by applying an option pricing model, taking into account the terms and conditions of the program. Analysis of past exercise behaviour, Citigroup's dividend history and historical volatility are inputs to the valuation model.

Credit value adjustment and Debt valuation adjustment
Credit valuation adjustments (CVA) are applied to over-the-counter derivative instruments, in which the base valuation generally discounts expected cash flows using LIBOR interest rate curves. Given that not all counterparties have the same credit risk as that implied by the relevant LIBOR curve, a CVA is necessary to incorporate the market view of both counterparty credit risk and Citi's own credit risk in the valuation.

2. Use of assumptions estimates and judgements (continued)

Credit value adjustment and Debt valuation adjustment (continued)

Citigroup CVA methodology comprises two steps. First, the exposure profile for each counterparty is determined using the terms of all individual derivative positions and a Monte Carlo simulation or other quantitative analysis to generate a series of expected cash flows at future points in time. The calculation of this exposure profile considers the effect of credit risk mitigants, including pledged cash or other collateral and any legal right of offset that exists with counterparty through arrangements such as netting agreements. Individual derivative contracts that are subject to an enforceable master netting agreement with a counterparty are aggregated for this purpose, since it is those aggregate net cash flows that are subject to non-performance risk. This process identifies specific, point-in-time future cash flows that are subject to non-performance risk, rather than using the current recognised net asset or liability as a basis to measure the CVA. Second, market-based views of default probabilities derived from observed credit spreads in the credit default swap market are applied to the expected future cash flows determined in step one.

Own-credit CVA is determined using Citigroup-specific credit default swap (CDS) spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spread indices for each credit rating and tenor. For certain identified facilities where individual analysis is practicable (for example, exposures to monoline counterparties) counterparty-specific CDS spreads are used.

The CVA adjustment is designed to incorporate a market view of the credit risk inherent in the derivative portfolio. However, most derivative instruments are negotiated bilateral contracts and are not commonly transferred to third parties. Derivative instruments are normally settled contractually or, if terminated early, are terminated at a value negotiated bilaterally between the counterparties.

Own Debt valuation adjustments ("DVA") are recognised on debt securities in issue that are designated at fair value using Citigroup's credit spreads observed in the bond market. Accordingly, the fair value of debt securities in issue is impacted by the narrowing or widening of Citigroup's credit spreads.

CVA and DVA may not be realised upon a settlement or termination in the normal course of business. In addition, all or a portion of the credit valuation adjustments may be reversed or otherwise adjusted in future periods in the event of changes in the credit risk of Citigroup or its counterparties, or changes in the credit mitigants (collateral and netting agreements) associated with the derivative instruments.

The Group has designated various debt instruments with embedded credit, equity and other derivatives as at fair value through profit or loss. Under IAS 39, the Group is required to incorporate its own-credit risk in the fair value for these liabilities.

During 2011, the Group recorded CVA/DVA gains of approximately £33 million (2010: loss of £46 million).

NOTES TO THE FINANCIAL STATEMENTS

3. Net interest income

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Interest and similar income				
Cash and balances at central banks	8	6	8	6
Loans and advances to banks	54	67	53	67
Loans and advances to customers	352	424	343	340
Investment securities	12	26	12	26
Other interest income	16	3	16	3
	442	526	432	442
Interest expense and similar charges				
Deposits by banks	70	99	70	89
Customer accounts	31	94	31	93
Debt securities in issue	8	18	-	-
Other interest paid	10	2	9	2
	119	213	110	184
Net interest income	323	313	322	258

Interest income on items not at fair value through profit and loss is £367 million (2010: £513 million) for the Group and £376 million (2010: £429 million) for the Company.

4. Dividend income

	Company	
	2011	2010
	£ Million	£ Million
Dividends received from:		
CitiCapital Leasing Limited	-	2
	-	2

5. Net fee and commission income

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Fee and commission income	320	380	307	364
Fee and commission expense	(11)	(5)	(14)	(5)
	309	375	293	359

Included within fee and commission income is £78 million (2010: £92 million) of fee income arising from trust and fiduciary activities. Expenses of £nil million (2010: £nil million) relating to these activities are included within fee and commission expense.

Group net fee and commission income of £254 million (2010: £310 million) relates to financial assets and liabilities not carried at fair value. Company net fee and commission income of £241 million (2010: £293 million) relates to financial assets and liabilities not carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS

6. Net profit/(loss) on items at fair value through profit and loss

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Net profit/(loss) on financial instruments designated at fair value	41	(40)	(6)	(40)
Net trading income/(loss)	(38)	20	9	19
	3	(20)	3	(21)

7. Net investment income

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Available-for-sale:				
- Debt securities	8	(1)	8	(1)
Available-for-sale:				
- Equity securities	1	3	1	3
	9	2	9	2

8. Personnel expenses

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Wages and salaries	178	174	178	172
Social security costs	31	42	31	41
Share based incentive expenses (Note 13)	9	9	9	9
Pensions and post retirement benefits				
- defined contribution plans	6	3	6	3
- defined benefit plans (Note 12)	6	10	6	10
Restructuring costs	(5)	39	(5)	37
	225	277	225	272

The average number of persons employed by the Group during the year was 3,993 (2010: 4,018).

9. General and administrative expenses

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Administrative expenses	114	199	101	176
Provisions for liabilities (Note 27)	-	(4)	-	(4)
Software costs	5	1	5	-
	119	196	106	172

9. General and administrative expenses (continued)

Included within administrative expenses is auditors' remuneration as follows:

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
Fees payable to the Group's auditor for the audit of the Group's annual accounts	0.5	0.4	0.5	0.4
Fees payable to associates of the Group auditors for the audits of branches required for the audit of the Group's annual accounts	-	0.1	-	0.1
Fees payable to the Group auditor and its associates for other services:				
- Other services pursuant to legislation	0.1	0.2	0.1	0.2
	0.6	0.7	0.6	0.7

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury. The Group could be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury which at 31 December 2011 stood at approximately £18.5 billion. Currently, the Management Expenses Levy paid by the Group represents its share of the interest on these borrowings. The accrual as at 31 December 2011 was £1.7 million which represents £0.8 million for 2011 and £0.9 million for 2010. This amount is included within administrative expenses.

The ultimate FSCS levy to the industry as a result of the collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the interest rate and level of protected.

10. Loss on disposal of operations

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
Proceeds	-	1,237	-	893
Less:				
Carrying value of business/portfolio	-	(1,363)	-	(952)
Expenses directly related to disposal	-	(25)	-	(22)
Loss on sale	-	(151)	-	(81)

In 2010 the Group sold its consumer finance business in Denmark and Italy, its credit card businesses in Denmark, Sweden and Finland and the loans and leasing portfolio of Citicorp Finanziaria in Italy.

In concluding these disposals warranties and/or indemnities as are customary in such transactions have been provided.

CITIBANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

11. Income tax expense

(a) Analysis of tax charge in the year

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Current tax:				
Adjustments in respect of corporation tax for earlier years	-	(2)	-	1
Total UK corporation tax charge	-	(2)	-	1
Overseas current taxation	29	12	29	7
Adjustment in respect of overseas tax for earlier years	12	-	12	-
Total current tax charge	41	10	41	8
Deferred tax:				
Origination and reversal of temporary differences				
- UK	28	(113)	28	(113)
- Overseas	(16)	41	(15)	41
Adjustment in respect of previous periods	(12)	(12)	(12)	(21)
Adjustment due to change in tax rate	18	9	18	9
Total deferred tax (Note 24)	18	(75)	19	(84)
Tax charge/(credit) for the year	59	(65)	60	(76)

(b) Factors affecting tax charge for the period

The tax assessed for the Group and Company for the period differs from the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below:

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Profit before tax	65	(367)	59	(376)
Profit multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	17	(103)	16	(105)
Effects of:				
Amounts written off investments	-	-	-	20
Foreign tax deductions	(7)	(3)	(7)	(3)
Other expenses not deductible for tax purposes	4	37	4	14
Group relief surrendered for no consideration	(1)	-	-	-
Overseas tax in respect of foreign branches	29	9	29	9
Adjustment due to change in tax rate	18	9	18	9
Adjustment to tax charge in relation to previous periods	(1)	(14)	-	(20)
Tax charge/(credit) for the year	59	(65)	60	(76)

NOTES TO THE FINANCIAL STATEMENTS

11. Income tax expense (continued)

The aggregate tax credit for the Group and Company relating to items that are charged to equity at 31 December 2011 was £3 million (2010: £23 million).

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
Change in fair value on Available-for-sale assets	(17)	(5)	(17)	(5)
Actuarial losses on retirement benefits	4	5	4	5
	(13)	-	(13)	-
Items taken directly to equity - Share based compensation	(6)	1	(6)	1
	(19)	1	(19)	1

12. Retirement benefit obligation

The Group participates in locally operated defined benefit and defined contribution schemes for its European branches. The overseas branches in Belgium, the Netherlands, Norway, Spain, Austria and Greece operate defined benefit schemes locally. Additionally a defined benefit pension scheme is operated in the Group's Italian subsidiary. In some of the European countries employers pay contributions towards the state pension scheme. The Group fulfils its duties in this regard as required by local statute. Within the United Kingdom the Group participates in a defined contribution scheme.

Regular employer contributions to the defined benefit schemes in 2011 are estimated to be £10.8 million for Group and £10.7 million for Company (2010: Group £11.1 million and Company £11.0 million).

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
Present value of funded defined benefit obligations	(218)	(205)	(218)	(205)
Fair value of plan assets	204	199	204	199
Deficit	(14)	(6)	(14)	(6)
Present value of unfunded defined benefit obligations	(13)	(13)	(13)	(12)
Unrecognised prior service cost	1	1	1	1
Liability recognised on the balance sheet (Note 26)	(26)	(18)	(26)	(17)
Deferred tax asset	8	5	6	5
Net pension liability	(18)	(13)	(20)	(12)

NOTES TO THE FINANCIAL STATEMENTS

12. Retirement benefit obligation (continued)

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Current service cost	(4)	(5)	(4)	(5)
Interest cost	(11)	(10)	(11)	(10)
Expected return on plan assets	10	10	10	10
Past service cost	(1)	(6)	(1)	(6)
Curtailment and settlement cost	-	1	-	1
Expense recognised in the income statement (Note 8)	(6)	(10)	(6)	(10)

The changes to the present value of the defined benefit obligation during the year are as follows:

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Opening defined benefit obligation	(218)	(172)	(217)	(171)
Exchange rate adjustments	5	7	5	6
Current service cost	(4)	(5)	(4)	(5)
Interest cost	(11)	(10)	(11)	(10)
Actuarial losses on scheme liabilities	(14)	(17)	(14)	(17)
Net benefits paid out	13	10	13	10
Past service cost	(1)	(6)	(1)	(6)
Adjustment to branch obligation	-	(27)	-	(27)
Net increase in liabilities from acquisitions	-	-	(1)	-
Curtailments and settlements	-	2	-	3
Closing defined benefit obligation	(230)	(218)	(230)	(217)

The changes to the fair value of scheme assets during the year are as follows:

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Opening fair value of scheme assets	199	160	199	160
Exchange rate adjustments	(5)	(7)	(5)	(7)
Expected return on assets	10	10	10	10
Actuarial losses on scheme assets	(4)	(2)	(4)	(2)
Contributions by the employer	16	20	16	20
Adjustment to branch assets	-	29	-	29
Net benefits paid out	(13)	(10)	(13)	(10)
Net increase in assets from acquisitions	1	-	1	-
Settlements	-	(1)	-	(1)
Closing fair value of scheme assets	204	199	204	199

NOTES TO THE FINANCIAL STATEMENTS

12. Retirement benefit obligation (continued)

The actual return on plan assets is as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	£ Million	**£ Million**	**£ Million**	**£ Million**
Expected return on scheme assets	10	10	10	10
Actuarial losses on scheme assets	(4)	(2)	(4)	(2)
Actual return on scheme assets	6	8	6	8

The analysis of amounts recognised outside the income statement, and disclosed in the statement of comprehensive income are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	£ Million	**£ Million**	**£ Million**	**£ Million**
Total actuarial losses	(18)	(19)	(18)	(19)
Total losses in the statement of comprehensive income	(18)	(19)	(18)	(19)
Cumulative amount of losses recognised in the statement of comprehensive income	(63)	(45)	(60)	(42)

History of asset values, defined benefit obligation, deficit in scheme and experience gains and losses for the Group are as follows:

	2011	**2010**	**2009**	**2008**	**2007**
	£ Million	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Fair value of scheme assets	204	199	160	146	133
Defined benefits obligation	(230)	(218)	(172)	(173)	(132)
(Deficit)/surplus in scheme	(26)	(19)	(12)	(27)	1

	2011	**2010**	**2009**	**2008**	**2007**
	£ Million	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Experience (losses)/gains on scheme assets	(4)	(2)	10	(29)	(2)
Experience losses on scheme liabilities	(4)	(15)	(1)	(2)	(1)
Assumption (losses)/gains on scheme liabilities	(10)	(2)	(6)	4	16
Total actuarial (losses)/gains on scheme	(14)	(17)	(7)	2	15
Total actuarial (losses)/gains	(18)	(19)	3	(27)	13

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12. Retirement benefit obligation (continued)

History of asset values, defined benefit obligation, deficit in scheme and experience gains and losses for the Company are as follows:

	2011 £ Million	2010 £ Million	2009 £ Million	2008 £ Million	2007 £ Million
Fair value of scheme assets	204	199	160	146	133
Defined benefits obligation	(230)	(217)	(172)	(170)	(129)
(Deficit)/surplus in scheme	(26)	(18)	(12)	(24)	4

	2011 £ Million	2010 £ Million	2009 £ Million	2008 £ Million	2007 £ Million
Experience (losses)/gains on scheme assets	(4)	(2)	10	(29)	(2)
Experience losses on scheme liabilities	(4)	(15)	(1)	(2)	-
Assumption (losses)/gains on scheme liabilities	(10)	(2)	(5)	4	16
Total actuarial (losses)/gains on scheme	(14)	(17)	(6)	2	16
Total actuarial (losses)/gains	(18)	(19)	4	(27)	14

The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate on scheme liabilities and mortality assumptions. The future life expectancy of scheme members is a key assumption. However, mortality assumptions are expected to vary from country to country, due to variations in underlying population mortality as well as in variations of the profile of typical membership of the company pension scheme. The average life expectancy of an individual retiring at age 65 is 17 for males and 21 for females. The financial weighted average assumptions used in calculating the liabilities as at 31 December 2011 are as follows:

	Group and Company		
	2011	2010	2009
Discount rate for assessing scheme liabilities	4.90%	5.30%	5.30%
Future salary increases	3.20%	3.20%	3.50%
Rate of increase for pensions in payment	2.00%	2.00%	1.90%
Inflation rate assumption	2.20%	2.30%	2.20%

	Group and Company £ Million			Group and Company Long-term rate of return expected		
	2011	2010	2009	2011	2010	2009
Equities	33	33	29	8.00%	8.00%	8.00%
Property	4	4	3	7.00%	7.00%	7.00%
Government bonds	90	97	69	3.50%	3.70%	4.70%
Corporate bonds	63	34	27	4.00%	4.80%	4.90%
Other	14	31	32	3.10%	4.60%	5.30%
Total fair value of assets	204	199	160			

NOTES TO THE FINANCIAL STATEMENTS

12. Retirement benefit obligation (continued)

The expected rate of return on assets is an average of expected returns weighted by asset class. The expected rates of return on bonds reflect yields on longer term government and corporate bonds. The expected rates of return on equities are based on government bond yields together with a premium to reflect an additional return expected on equity investments.

The sensitivity of key assumptions used to value the obligation is as follows:

	Group and Company	
	2011	**2010**
	£ Million	**£ Million**
Effect of increasing the discount rate assumption by 1% on liabilities	32.9	29.0
Effect of decreasing the discount rate assumption by 1% on liabilities	(36.3)	(33.3)
Effect of participants living one extra year than expected on liabilities	(7.1)	(4.7)

13. Share-based incentive plans

As part of the Company's remuneration programme it participates in a number of Citigroup share-based incentive plans. These plans involve the granting of stock options, restricted or deferred share awards and share payments. Such awards are used to attract, retain and motivate officers and employees to provide incentives for their contributions to the long-term performance and growth of the Company, and to align their interests with those of the shareholders. The award programmes are administered by the Personnel and Compensation Committee of the Citigroup Inc Board of the Directors, which is composed entirely of non-employee directors.

In the share award program Citigroup issues common shares in the form of restricted share awards, deferred share awards and share payments. 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 be satisfied. Recipients of deferred share awards do not have any shareholder rights until shares are delivered to them, but they generally are entitled to receive dividend-equivalent payments during the vesting period. Recipients of restricted share awards are entitled to a limited voting right and to receive dividend or dividend-equivalent payments during the vesting period. Once a share award vests the shares become freely transferrable, but in the case of certain employees, may be subject to transfer restriction by their terms or share ownership commitment.

(a) Stock award programme

The Company participates in the Citigroup's Capital Accumulation Program ("CAP") programme, under which shares of Citigroup common stock are awarded in the form of restricted or deferred stock to participating employees.

Generally CAP awards of restricted or deferred stock constitute a percentage of annual incentive compensation and vest rateably over a three or four year period beginning on or about the first anniversary of the award date. Continuous employment within Citigroup is generally required to vest in CAO and other stock award programs.

The program provides that employees who meet certain age plus years-of-service requirements (retirement-eligible employees) may terminate active employment and continue vesting in their awards provided they comply with specified non-compete provisions. Awards granted to retirement-eligible employees are accrued in the year prior to the grant date in the same manner as cash incentive compensation is accrued as effectively there are no vesting conditions.

13. Share-based incentive plans (continued)

(a) Stock award programme (continued)

For all stock award programmes, during the applicable vesting period, the shares awarded cannot be sold or transferred by the participant, and the award is subject to cancellation if the participant's employment is terminated. After the award vests, the shares become freely transferable (subject to the stock ownership commitment of senior employees). From the date of award, the recipient of a restricted stock award can direct the vote of the shares and receive regular dividends to the extent dividends are paid on Citigroup common stock. Recipients of deferred stock awards receive dividend equivalents to the extent dividends are paid on Citigroup common stock, but cannot vote.

Stock awards generally vest 25% per year over four years. CAP participants were able to elect to receive all or part of their award in stock options. The figures presented in the stock option programme table include options granted under CAP.

In 2010 the Company awarded Deferred Cash Stock Unit's ("DCSU"), however none were issued in 2011. This award consists of a deferred cash award that is denominated in units of Citigroup common stock, with each stock unit having a value equal to one share of Citigroup common stock reported on the NYSE. The award vests over a two year period and earns a notional return that tracks the price of Citigroup common stock during the vesting period. The DCSU has been accounted for as a cash settled liability.

As part of the 2010 and 2011 remuneration the Company entered into an arrangement referred to as an "EU Short Term" award. The award will be delivered in the form of immediately vested restricted shares subject to a six month sale restriction.

Citigroup participated in a 1-for-10 reverse stock split of Citigroup common stock effective after the close of trading on May 6, 2011. Every ten shares of issued and outstanding Citigroup common stock was automatically combined into one issued and outstanding share of common stock without any change in the par value per share. No fractional shares were issued in connection with the reverse stock split.

Information with respect to current year stock awards is as follows:

	2011	**2010***	**2009***
Shares awarded	173,219	165,467	54,107
Weighted average fair market value per share	$50.26	$35.20	$46.70

* adjusted 2011 for reverse stock split

(b) Stock option programme

The Company also participates in a number of Citigroup stock option programmes for its employees. Generally, since January 2005, stock options have been granted only to CAP participants who elect to receive stock options in lieu of restricted or deferred stock awards and to non-employee directors who elect to receive their compensation in the form of a stock option grant.

All stock options are granted on Citigroup common stock with exercise prices equal to the fair market value at the time of grant.

Options granted since January 2005 typically vest 25% each year over four years and have six-year terms. Options granted in 2004 and 2003 typically also have six-year terms but vest in thirds each year over three years, with the first vesting date occurring 17 months after the grant date. The sale of underlying shares acquired through the exercise of employee stock options granted since 2003 is restricted for a two-year period (and the shares are subject to stock ownership commitment of senior employees thereafter).

Prior to 2003, Citigroup options, including options granted since the date of the merger of Citicorp and Travelers Group Inc., generally had a 10 year term and vested at a rate of 20% per year over five years, with the first vesting occurring 12 to 18 months following the grant date.

13. Share-based incentive plans (continued)

(b) Stock option programme (continued)

Certain options, mostly granted prior to 1 January 2003, permit an employee exercising an option under certain conditions to be granted new options (reload options) in an amount equal to the number of common shares used to satisfy the exercise price and the withholding taxes due upon exercise. The reload options are granted for the remaining term of the related original option and vest after six months. An option may not be exercised using the reload method unless the market price on the date of exercise is at least 20% greater than the option exercise price. Reload options have been treated as separate grants from the related original grants. Reload options are intended to encourage employees to exercise options at an earlier date and to retain the shares so acquired, in furtherance of the Company's long-standing policy of encouraging increased employee stock ownership.

Since 2009 the Company has made discretionary grants of options to eligible employees pursuant to the broad-based Citigroup Employee Option Grant (CEOG) Program under the Citigroup Stock Incentive Plan. Under CEOG, the options generally vest equally over three years, the option term is 6 years from the grant date and the shares acquired on exercise are not subject to a sale restriction. To the extent permitted, CEOG options granted to eligible UK employees were granted under an HMRC approved sub-plan with any excess over the applicable individual limit being granted under the global plan, which is not an HMRC approved plan.

The stock option activity with respect to 2011 and 2010 under Citigroup stock option plans is as follows:

	2011		**2010***	
	Options	**Weighted average exercise price $**	**Options**	**Weighted average exercise price $**
Outstanding, beginning of year	356,090	86.20	344,646	117.60
Granted	-	-	60,703	48.80
Forfeited	(25,020)	90.61	(20,283)	101.80
Exercised	(1,747)	40.80	-	-
Transfers	(59,047)	113.43	(6,174)	117.30
Expired	(12,378)	495.96	(22,802)	438.80
Outstanding, end of year	257,898	60.20	356,090	86.20
Exercisable, end of year	174,677	69.56	139,414	141.70

* adjusted 2011 for reverse stock split

13. Share-based incentive plans (continued)

(b) Stock option programme (continued)

The following table summarises the stock options outstanding under Citigroup stock option plans at 31 December 2011:

		Options outstanding		Options exercisable	
Range of exercise prices	**Number outstanding**	**Weighted average contractual life remaining**	**Weighted average exercise price $**	**Number exercisable**	**Weighted average exercise price $**
< $50.00	240,428	3.83	40.80	158,281	40.80
$50.00 - $399.99	9,827	2.06	244.50	7,399	244.50
$400.00 - $499.99	6,273	0.12	420.60	7,627	420.68
> $450.00	1,370	0.31	493.13	1,370	493.13
	257,898	3.65	60.20	174,677	69.56

The following table summarises the stock options outstanding under Citigroup stock option plans at 31 December 2010*:

		Options outstanding		Options exercisable	
Range of exercise prices	**Number outstanding**	**Weighted average contractual life remaining**	**Weighted average exercise price $**	**Number exercisable**	**Weighted average exercise price $**
< $50.00	310,005	4.92	42.40	101,794	42.40
$50.00 - $399.99	16,945	3.06	244.50	8,689	244.50
$400.00 - $499.99	13,149	0.53	421.10	13,149	421.10
> $450.00	15,991	0.33	493.20	15,782	492.50
	356,090	4.49	86.20	139,414	141.70

* adjusted 2011 for reverse stock split

Fair value assumptions

Reload options have been treated as separate grants from the related original grants. The result of this program is that employees generally will exercise options as soon as they are able and, therefore, these options have shorter expected lives. Shorter option lives result in lower valuations using a Binomial option model. However, such values are expensed more quickly due to the shorter vesting period of reload options. In addition, since reload options are treated as separate grants, the existence of the reload feature results in a greater number of options being valued.

Shares received through option exercises under the reload program, as well as certain other options granted, are subject to restrictions on sale. Discounts have been applied to the fair value of options granted to reflect these sale restrictions.

13. Share-based incentive plans (continued)

(b) Stock option programme (continued)

Additional valuation and related assumption information for Citigroup option plans is presented below. Citigroup used a binomial model to value stock options. Volatility has been estimated by taking the historical volatility in traded Citigroup options and adjusting where there are known factors that may affect future volatility.

	2011	2010
Weighted average fair value at year end for options granted during 2011		
Option	$0.00	$1.52
Weighted average expected life		
Original grants	4 years	4 years
Reload grants	0 years	1 years
Option life	4 years	4 years
Valuation assumptions		
Expected volatility	41.08%	37.05%
Risk-free interest rate	0.63%	1.73%
Expected dividend yield	0.11%	0.00%
Expected annual forfeitures	9.62%	9.62%

The table below details the financial statement impact of the share based incentive plans:

	2011 £ Million	2010 £ Million
Awards granted in 2011		
Stock Awards	3.5	-
Awards granted in 2010		
Stock Awards	1.5	2.3
Stock Options	-	0.2
Awards granted in 2009		
Stock Awards	0.4	0.4
Stock Options	1.5	1.3
Awards granted in 2008		
Stock Awards	0.9	0.7
Stock Options	0.1	-
Awards granted in 2007 or earlier		
Stock Awards	-	0.3
Cash accrued	1.1	-
Total Expense	9.0	5.2

	2011 £ Million	2010 £ Million
Compensation cost charged to earnings	9	5
Fair value adjustments recorded to equity	18	(4)
Total carrying amount of equity-settled transactior	12	7

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14. Financial assets and liabilities

The following tables summarise the carrying value and fair values of the financial assets and financial liabilities and the classification of each class of financial asset and liability:

Group 2011	Note	Trading	Available-for-sale	Held-to maturity	Loans and receivables	Amortised cost	Designated at fair value	Total carrying amount	Fair value
		£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Assets									
Cash and balances at central banks		-	-	-	1,430	-	-	1,430	1,430
Trading assets	**18**	1,246	-	-	-	-	-	1,246	1,246
Derivative financial instruments	**17**	316	-	-	-	-	-	316	316
Loans and advances to banks		-	-	-	3,716	-	-	3,716	3,706
Loans and advances to customers	**15**	-	-	-	6,163	-	202	6,365	6,281
Investment securities	**19**	-	2,128	437	-	-	75	2,640	2,666
Other assets	**23**	-	-	-	-	438	-	438	435
Total financial assets		1,562	2,128	437	11,309	438	277	16,151	16,080
Liabilities									
Deposits by banks		-	-	-	-	4,404	-	4,404	4,181
Customer accounts		-	-	-	-	7,750	-	7,750	7,683
Derivative financial instruments	**17**	565	-	-	-	-	-	565	565
Debt securities in issue	**25**	-	-	-	-	237	700	937	914
Other liabilities	**26**	-	-	-	-	371	-	371	319
Total financial liabilities		565	-	-	-	12,762	700	14,027	13,662

Group 2010	Note	Trading	Available-for-sale	Held-to maturity	Loans and receivables	Amortised cost	Designated at fair value	Total carrying amount	Fair value
		£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Assets									
Cash and balances at central banks		-	-	-	1,711	-	-	1,711	1,711
Trading assets	**18**	2,135	-	-	-	-	-	2,135	2,135
Derivative financial instruments	**17**	383	-	-	-	-	-	383	383
Loans and advances to banks		-	-	-	5,380	-	-	5,380	5,361
Loans and advances to customers	**15**	-	-	-	6,772	-	37	6,809	6,598
Investment securities	**19**	-	1,025	749	-	-	77	1,851	1,890
Other assets	**23**	-	-	-	-	258	-	258	249
Total financial assets		2,518	1,025	749	13,863	258	114	18,527	18,327
Liabilities									
Deposits by banks		-	-	-	-	5,704	-	5,704	5,605
Customer accounts		-	-	-	-	8,130	-	8,130	8,082
Derivative financial instruments	**17**	677	-	-	-	-	-	677	677
Debt securities in issue	**25**	-	-	-	-	382	1,212	1,594	1,557
Other liabilities	**26**	-	-	-	-	374	-	374	316
Total financial liabilities		677	-	-	-	14,590	1,212	16,479	16,237

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14. Financial assets and liabilities (continued)

Company 2011	Note	Trading	Available-for-sale	Held-to maturity	Loans and receivables	Other amortised cost	Designated at fair value	Total carrying amount	Fair value
		£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Assets									
Cash and balances at central banks		-	-	-	1,430	-	-	1,430	1,430
Trading assets	**18**	1,246	-	-	-	-	-	1,246	1,246
Derivative financial instruments	**17**	316	-	-	-	-	-	316	316
Loans and advances to banks		-	-	-	3,686	-	-	3,686	3,676
Loans and advances to customers	**15**	-	-	-	5,915	-	202	6,117	6,042
Investment securities	**19**	-	2,129	437	-	-	75	2,641	2,667
Other assets	**23**	-	-	-	-	427	-	427	425
Total financial assets		1,562	2,129	437	11,031	427	277	15,863	15,802
Liabilities									
Deposits by banks		-	-	-	-	4,473	-	4,473	4,249
Customer accounts		-	-	-	-	7,750	-	7,750	7,683
Derivative financial instruments	**17**	565	-	-	-	-	-	565	565
Debt securities in issue	**25**	-	-	-	-	-	700	700	700
Other liabilities	**26**	-	-	-	-	371	-	371	319
Total financial liabilities		565	-	-	-	12,594	700	13,859	13,516

Company 2010	Note	Trading	Available-for-sale	Held-to maturity	Loans and receivables	Other amortised cost	Designated at fair value	Total carrying amount	Fair value
		£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Assets									
Cash and balances at central banks		-	-	-	1,711	-	-	1,711	1,711
Trading assets	**18**	2,135	-	-	-	-	-	2,135	2,135
Derivative financial instruments	**17**	383	-	-	-	-	-	383	383
Loans and advances to banks		-	-	-	5,735	-	-	5,735	5,717
Loans and advances to customers	**15**	-	-	-	6,377	-	37	6,414	6,252
Investment securities	**19**	-	1,026	749	-	-	77	1,852	1,891
Other assets	**23**	-	-	-	-	241	-	241	234
Total financial assets		2,518	1,026	749	13,823	241	114	18,471	18,323
Liabilities									
Deposits by banks		-	-	-	-	6,251	-	6,251	6,153
Customer accounts		-	-	-	-	8,130	-	8,130	8,082
Derivative financial instruments	**17**	677	-	-	-	-	-	677	677
Debt securities in issue	**25**	-	-	-	-	-	1,212	1,212	1,212
Other liabilities	**26**	-	-	-	-	351	-	351	297
Total financial liabilities		677	-	-	-	14,732	1,212	16,621	16,421

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the group as a going concern.

14. Financial assets and liabilities (continued)

The group measures fair values using the following fair value hierarchy that reflects 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 Group's market assumptions. The 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 Group 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 Group's policy with respect to transfers between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the end of the reporting period.

As set out in Note 1(j), when available, the Group generally uses quoted market prices in an active market to calculate the fair value of a financial asset or liability and classifies such items as Level 1. In some cases where a market price is available, the Group 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 values are based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters such as interest rates, currency rates and option volatilities. 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 Group 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 Group uses the following procedures to determine the fair value of financial assets and financial liabilities irrespective of whether they are "held for trading" or have been "designated at fair value" including an indication of the level in the fair value hierarchy in which each financial instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models and any significant assumptions.

14. Financial assets and liabilities (continued)

Derivatives
The majority of derivatives entered into by the Group 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 Group 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.

During 2011, the Group 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 Group 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 Group 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 Group recognised a pre-tax gain of approximately £1 million upon the change in this fair value measurement.

Trading Assets
Where available, the Group uses quoted market prices to determine the fair value of trading assets; such items are classified as Level 1 of the fair value hierarchy. Examples include exchange traded equities.

For government bonds, corporate bonds, European commercial paper and loans the Group generally determines the fair value utilising 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 Group may also use quoted prices for recent trading activity of assets with similar characteristics to the bond or loan being valued. Government bones, corporate bonds, European commercial paper or loans priced using such methods are generally classified as Level 2. However, when less liquidity exists, a quoted price is stale or prices from independent sources vary, they are generally classified as Level 3.

Investment Securities
Investment securities classified as available-for-sale, held to maturity or designated at fair value, through profit and loss, are measured at fair value by reference to quoted market prices when available so are classified as Level 1.

If quoted market prices are not available, then fair values are estimated based on other recognised valuation techniques. The key inputs depend upon the type of investment security and the nature of inputs to the valuation technique. The item is placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model.

Loans and Advances and other Lending
The fair value for loans and advances and other lending are estimated using internal valuation techniques such as discounted cash flow analyses. Cash flows are discounted using Libor and Euribor rates and an approximation for Citigroup credit spreads. If available, the Group may also use quoted prices for recent trading activity of assets with similar characteristics to the loan being valued. The items are placed in Level 2 or Level 3 depending on the observability of the significant inputs to the model. In certain cases the fair value approximates carrying value because the instruments are short term in nature or reprice frequently.

14. Financial assets and liabilities (continued)

Debt Securities in Issue
The fair value of debt securities in issue is estimated using discounted cash flows applying Libor and Euribor rates. The items are placed in Level 2 or Level 3 depending on the observability of the significant inputs to the model.

Other financial assets and liabilities
Fair values of customer account deposit liabilities, subordinated loans, other assets and other liabilities are estimated using discounted cash flows, applying either market rates where practicable, or rates currently offered by the Group for deposits of similar remaining maturities. Where market rates are used an adjustment is made for the Citigroup credit spread.

The carrying amount of cash and balances at central banks is a reasonable approximation of fair value due to the short term nature of the balances.

The following table shows an analysis of financial assets and liabilities measured by fair value hierarchy:

Group and Company	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2011	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Financial assets held for trading				
Derivatives	-	307	9	316
Trading assets				
Government bonds	-	14	-	14
Corporate bonds	-	412	67	479
European commercial paper	-	488	-	488
Equity	8	-	-	8
Loans	-	100	157	257
	8	1,321	233	1,562
Financial assets designated at fair value				
Loans and advances to customers	-	-	202	202
Investment securities	-	-	75	75
	-	-	277	277
Financial assets available-for-sale				
Investment securities	1,841	287	-	2,128
	1,841	287	-	2,128
Total financial assets	1,849	1,608	510	3,967
Financial liabilities held for trading				
Derivatives	-	548	17	565
Financial liabilities designated at fair value				
Debt securities in issue	-	562	138	700
Total financial liabilities	-	1,110	155	1,265

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14. Financial assets and liabilities (continued)

Group and Company 31 December 2010	Level 1 £ Million	Level 2 £ Million	Level 3 £ Million	Total £ Million
Financial assets held for trading				
Derivatives	-	371	12	383
Trading assets				
Government bonds	-	89	-	89
Corporate bonds	-	844	130	974
European commercial paper	-	740	-	740
Equity	4	3	-	7
Loans	-	168	157	325
	4	2,215	299	2,518
Financial assets designated at fair value				
Loans and advances to customers	-	-	37	37
Investment securities	-	-	77	77
	-	-	114	114
Financial assets available-for-sale				
Investment securities	806	215	4	1,025
	806	215	4	1,025
Total financial assets	810	2,430	417	3,657
Financial liabilities held for trading				
Derivatives	-	599	78	677
Financial liabilities designated at fair value				
Debt securities in issue	-	1,036	176	1,212
Total financial liabilities	-	1,635	254	1,889

14. Financial assets and liabilities (continued)

The following tables show an analysis of the movement of Level 3 financial assets and liabilities:

Group and Company	At 1 January	Gain/(loss) recorded in the income statement	Net purchases, sales and settlements	Transfer from/(to) level 1 and level 2	At 31 December
2011	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Financial assets held for trading					
Derivatives	12	-	(2)	(1)	9
Trading assets					
Corporate bonds	130	(16)	(2)	(45)	67
Loans	157	(20)	63	(43)	157
	299	(36)	59	(89)	233
Financial assets designated at fair value					
Loans and advances to customers	37	6	159	-	202
Investment securities	77	(2)	-	-	75
	114	4	159	-	277
Financial assets available-for-sale					
Investment securities	4	-	-	(4)	-
	4	-	-	(4)	-
Total financial assets	417	(32)	218	(93)	510
Financial liabilities held for trading					
Derivatives	78	(41)	(4)	(16)	17
Financial liabilities designated at fair value					
Debt securities in issue	176	21	(75)	16	138
Total financial liabilities	254	(20)	(79)	-	155

14. Financial assets and liabilities (continued)

Group and Company	At 1 January	Gain/(loss) recorded in the income statement	Net purchases, sales and settlements	Transfer from/(to) level 1 and level 2	At 31 December
2010	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Financial assets held for trading					
Derivatives	16	91	(103)	8	12
Trading assets					
Corporate bonds	213	(1)	77	(159)	130
Loans	13	1	48	95	157
	242	91	22	(56)	299
Financial assets designated at fair value					
Loans and advances to customers	183	(20)	(126)	-	37
Investment securities	80	(3)	-	-	77
	263	(23)	(126)	-	114
Financial assets available-for-sale					
Investment securities	13	(9)	-	-	4
	13	(9)	-	-	4
Total financial assets	518	59	(104)	(56)	417
Financial liabilities held for trading					
Derivatives	112	34	(94)	26	78
Financial liabilities designated at fair value					
Debt securities in issue	239	(11)	(78)	26	176
Total financial liabilities	351	23	(172)	52	254

Financial instruments may move between levels in the fair value hierarchy when factors such as liquidity or the observability of input parameters decrease and no longer represent an active market. As conditions around these factors improve, financial instruments may transfer back to the original fair value level.

Level 3 positions
The key contributors to the Level 3 inventory during 2011 were loans and corporate trading securities. Over the year, the loan inventory increased; this was specifically due to the Equity Derivatives increase and Emerging Markets Credit Trading business.

Level 3 transfers for 2011
Transfers between Level 3 and Level 2 were driven by movements in securities inventory; there was increased visibility during the second half of the year across both corporate and asset backed securities positions. Some positions were sold; others experienced greater visibility which (in certain instances) resulted in a transfer from Level 3 to Level 2.

14. Financial assets and liabilities (continued)

During the year, total changes in fair value of £12 million loss (2010: £36 million gain) were recognised in the profit and loss account relating to items where fair value was estimated using a valuation technique that uses one or more significant inputs that were based on unobservable market data. As these valuation techniques are based upon assumptions, changing the assumptions will change the estimate of fair value. The potential impact of using reasonably possible alternative assumptions for the valuation techniques including unobservable market data has been quantified as approximately £12 million (2010: £12 million).

Sensitivity analysis is performed on a quarterly basis across all inventory in which one or more of the significant input parameters are unobservable. The methodology used to derive the impact across each product is determined by applying sensitivity adjustments to the price or significant model input parameters used in the valuation.

The sensitivity adjustments are typically computed with reference to historical or proxy analysis using third party data. Sensitivity factors are derived from a combination of consensus market data and proxy analysis using third party data providers.

15. Loans and advances to customers

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
Charge and credit card debtors	356	493	356	493
Commercial loans	5,125	5,208	5,125	5,209
Consumer loans	454	728	454	728
Other corporate loans	686	765	440	372
	6,621	7,194	6,375	6,802
Less: allowance for losses on loans (Note 16)	(256)	(385)	(258)	(388)
	6,365	6,809	6,117	6,414

Included within Commercial loans are loans that have been designated at fair value through profit or loss as the Group manages these loans and advances on a fair value basis in accordance with its investment strategy. At 31 December 2011 the maximum exposure to credit risk on loans and advances at fair value through profit or loss was £202 million (2010: £37 million). The changes in the fair value recognised on these commercial loans amounted to £6 million gain (2010: loss of £6 million) included within net income on items at fair value through profit and loss. The cumulative loss in the fair value recognised on these commercial loans amounted to £24 million (2010: £30 million). At 31 December 2011 the accumulated and current year change in fair value attributable to changes in credit risk on these loans was £6 million. Due to the nature of the loans designated at fair value through profit or loss, collateral is not used as a credit risk mitigant.

Other corporate loans include loans that are advanced by the Private Banking business within ICG which may include loans that have residential or commercial property as collateral or security.

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15. Loans and advances to customers (continued)

Loans and advances to customers include finance lease receivables.

	Group	
	2011	2010
	£ Million	£ Million
Gross investment in finance leases receivable:		
Later than 1 year and no later than 5 years	14	14
Later than 5 years	16	19
	30	33
Unearned future income on leases	(7)	(7)
Net investment in finance leases	23	26

The net investment in finance leases may be analysed as follows:

	Group	
	2011	2010
	£ Million	£ Million
Expiring:		
Later than 1 year and no later than 5 years	7	7
Later than 5 years	16	19
	23	26

Included in Other operating income are aggregate rental receivables with respect to finance leases in the Group in the year of £7 million (2010: £26 million).

16. Allowances for loans and advances

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
At 1 January	385	458	388	386
Write-offs	(316)	(405)	(316)	(290)
Increase in credit loss allowances and provisions recognised in the income statement	187	353	187	311
Disposals	-	(2)	-	(2)
Foreign currency translation adjustments	-	(19)	(1)	(17)
At 31 December	256	385	258	388
Individual assessment	81	86	81	86
Collective assessment	175	299	177	302
	256	385	258	388

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17. Derivative financial instruments

Group and Company

	2011		2010	
	Fair value		Fair value	
	Asset £ Million	Liability £ Million	Asset £ Million	Liability £ Million
Exchange rate related contracts				
Forwards and futures	126	121	73	57
Currency swaps	125	125	129	129
Options	-	1	6	6
	251	247	208	192
Interest rate related contracts				
Interest rate swaps	25	40	67	73
Options	39	1	43	12
	64	41	110	85
Equity related contracts				
Options	1	19	3	6
Swaps	-	258	62	394
	1	277	65	400
Total derivative contracts	316	565	383	677

18. Trading assets

Group and Company	2011 £ Million	2010 £ Million
Government bonds	14	89
Corporate bonds	479	974
European commercial paper	488	740
Equity	8	7
Loans	257	325
	1,246	2,135

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19. Investment securities

	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
	Group		Company	
	Available-for-sale		Available-for-sale	
Investment securities				
Debt securities - at fair value:				
- listed	2,120	1,016	2,120	1,016
- unlisted	-	-	1	1
Equity securities - at fair value:				
- unlisted	8	9	8	9
	2,128	1,025	2,129	1,026
	Held-to-maturity		Held-to-maturity	
Investment securities				
Debt securities - at amortised cost:				
- unlisted	437	749	437	749
	437	749	437	749
	Designated at fair value		Designated at fair value	
Investment securities				
Debt securities - at fair value:				
- unlisted	75	77	75	77
	75	77	75	77
Total investment securities	2,640	1,851	2,641	1,852

Investment securities include £75 million (2010: £77 million) of unlisted debt securities that are designated at fair value through profit and loss. The changes in the fair value recognised on these investment securities in the year amounted to £2 million (2010: £3 million).

During 2008 the Group and Company identified financial assets which were held as available-for-sale for which it had changed its intention, such that it then had the intention and ability to be transferred to held-to-maturity. For both Group and Company available-for-sale assets with a fair value at the date of transfer of £1,290 million were transferred to held-to-maturity. As at 31 December 2011 these assets had a fair value of £463 million (2010: £788 million). If the assets had remained as available-for-sale a profit of approximately £26 million (2010: profit of £39 million) would be recognised in the current year`s statement of other comprehensive income.

20. Shares in subsidiary undertakings

The movement in the Company's investments in the share capital of subsidiary undertakings was as follows:

	2011 £ Million	2010 £ Million
At 1 January	144	83
Capital contribution	-	143
Capital repayment	(63)	-
Losses from impairment	-	(72)
Exchange rate adjustments	(14)	(10)
At 31 December	67	144

During the year Citicorp Finanziaria SpA made two repayments of capital to the Company, €60 million (£50 million) on 20 September 2011 and €15 million (£13 million) on 13 December 2011.

On 15 August 2011 CitiCapital Leasing Limited was put in liquidation.

Details of principal Group subsidiary undertakings held at 31 December 2011 are as follows:

Name	Country of incorporation	Nature of business	% holding in ordinary share capital
CitiCapital Leasing Limited	England	In liquidation	100%
CitiCapital Leasing (March) Limited	England	Lease finance	100%
CitiCapital Leasing (June) Limited	England	Lease finance	100%
Citicorp Finanziaria SpA	Italy	Consumer finance	100%
D. Card Servicing AG	Switzerland	Charge cards	100%
Diners Club UK Limited	England	Charge cards	100%
EMSO Partners Limited	England	Alternative Investment Services	100%

CitiCapital Leasing (March) Limited has an accounting period ending on 31 March. CitiCapital Leasing (June) Limited has an accounting period ending on 30 June. For the purpose of preparing these consolidated financial statements, management accounts of these two companies for the year ended 31 December 2011 have been used.

The following companies are SPVs established in connection with the Group's securitisations and covered bond programme. The Group has no ownership interest in these entities but they are regarded as subsidiaries as they are, in substance, controlled by the Group. As the total equity holding of the non-controlling interests is nil due to rounding, it has not been disclosed separately within the financial statements.

Name	Country of incorporation	Nature of business
EuroProp (EMC) S.A.	Luxembourg	Debt issuance
Victoria Funding (EMC-III) Plc	England	Mortgage funding

21. Goodwill and intangible assets

	Group				Company			
	Goodwill £ Million	Client intangible £ Million	Computer software £ Million	Total £ Million	Goodwill £ Million	Client intangible £ Million	Computer software £ Million	Total £ Million
Cost								
1 January 2011	33	18	172	223	30	19	172	221
Additions	5	13	68	86	5	13	68	86
Disposals	-	-	(38)	(38)	-	-	(38)	(38)
Write offs	-	-	(1)	(1)	-	-	(1)	(1)
Exchange rate adjustments	-	(1)	(2)	(3)	-	(1)	(2)	(3)
31 December 2011	38	30	199	267	35	31	199	265
Amortisation and impairment losses								
January 2011	22	12	103	137	19	12	104	135
Disposals	-	-	(14)	(14)	-	-	(14)	(14)
Write offs	-	-	(1)	(1)	-	-	(1)	(1)
Amortisation	-	2	25	27	-	2	25	27
Exchange rate adjustments	-	-	(2)	(2)	-	-	(2)	(2)
31 December 2011	22	14	111	147	19	14	112	145
Net carrying value								
31 December 2011	16	16	88	120	16	17	87	120
31 December 2010	11	6	69	86	11	7	68	86
1 January 2010	11	8	75	94	11	9	74	94

On 31 December the Company acquired a UK Fund administration business from a third party for £20 million. This included client intangibles of £13 million with a useful life of 12 years and £5 million of goodwill.

For the purpose of testing goodwill for impairment, the Group determines the recoverable amount of its cash generating units on the basis of value in use and management's review of the recoverable amount. The recoverable amount is determined using a model based on the discounted cash flow method. The cash flow projections are based on business plans approved by management covering a five year period, or greater if deemed appropriate by management.

Goodwill was allocated to the Netherlands. The cash flow projections in respect of the Netherlands (Direct custody and clearing business) cover an eight year period as management believe this is a reasonable expectation of the length of the client relationships which have been acquired.

The cash flows used to estimate the operating profit projections reflects the current market assessment of the risk of the cash generating units. Operating profit represents the operating profit in the business plans, approved by management and as such reflects the best estimate of future profits based on both historical experience and expected growth rates. The discount rate is the EURIBOR rate. There was no evidence of impairment arising from the review of the goodwill for the Netherlands.

A summary of the allocation of goodwill with the units is presented below:

Cash generating unit	Goodwill at 31 December 2011 £Million	Growth rate	Discount rate 2011	Discount rate 2010
Institutional Clients Group				
- Netherlands (Direct custody and clearing business)	11	(5.99)%	1.95%	1.53%
- UK Fund administration business	5	-	-	-

21. Goodwill and intangible assets (continued)

The model is most sensitive to changes in the growth rate. The negative growth rate is a result of management's assessment of the Target2-Securities settlement platform implementation across Europe in 2015. In undertaking the impairment review the discount rate was stressed fourfold. This also indicated that no impairment of the goodwill was necessary. Management believes that reasonable changes in key assumptions used to determine the recoverable amounts would not result in a material impairment.

22. Property, plant and equipment

Group	Long leasehold property £ Million	Leasehold improvements £ Million	Vehicles, furniture and equipment £ Million	Total £ Million
Cost				
1 January 2010	20	44	495	559
Additions	-	2	52	54
Disposals	(19)	(8)	(37)	(64)
Write offs	-	(7)	(1)	(8)
Exchange rate adjustments	(1)	(2)	(2)	(5)
At 31 December 2010/ 1 January 2011	-	29	507	536
Additions	-	1	43	44
Disposals	-	-	(3)	(3)
Write offs	-	-	(10)	(10)
Exchange rate adjustments	-	(1)	(3)	(4)
31 December 2011	-	29	534	563
Depreciation				
1 January 2010	-	29	366	395
Charged in year	-	3	55	58
Disposals	-	(8)	(27)	(35)
Write offs	-	(3)	(1)	(4)
Exchange rate adjustments	-	(1)	(1)	(2)
At 31 December 2010/ 1 January 2011	-	20	392	412
Charged in year	-	2	49	51
Disposals	-	-	(2)	(2)
Write offs	-	-	(10)	(10)
Exchange rate adjustments	-	(1)	(2)	(3)
31 December 2011	-	21	427	448
Net book value				
At 31 December 2011	-	8	107	115
At 31 December 2010	-	9	115	124
At 1 January 2010	20	15	129	164

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22. Property, plant and equipment (continued)

Company	Long leasehold property £ Million	Leasehold improvements £ Million	Vehicles, furniture and equipment £ Million	Total £ Million
Cost				
1 January 2010	20	38	490	548
Additions	-	2	52	54
Disposals	(19)	(1)	(35)	(55)
Write offs	-	(7)	(1)	(8)
Exchange rate adjustments	(1)	(1)	(2)	(4)
At 31 December 2010/ 1 January 2011	-	31	504	535
Additions	-	1	43	44
Disposals	-	-	(3)	(3)
Write offs	-	-	(9)	(9)
Exchange rate adjustments	-	(1)	(3)	(4)
At 31 December 2011	-	31	532	563
Depreciation				
1 January 2010	-	22	363	385
Charged in year	-	3	55	58
Disposals	-	(1)	(25)	(26)
Write offs	-	(3)	(1)	(4)
Exchange rate adjustments	-	(1)	(1)	(2)
At 31 December 2010/ 1 January 2011	-	20	391	411
Charged in year	-	2	49	51
Disposals	-	-	(2)	(2)
Write offs	-	-	(9)	(9)
Exchange rate adjustments	-	(1)	(2)	(3)
At 31 December 2011	-	21	427	448
Net book value				
At 31 December 2011	-	10	105	115
At 31 December 2010	-	11	113	124
At 1 January 2010	20	16	127	163

At the year-end, the rental commitments as lessor under non-cancellable operating leases were £nil (2010: £nil) between one and five years.

23. Other assets

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
Other balances	438	258	427	241
	438	258	427	241

Other balances include trade receivables and unsettled trades.

24. Deferred income tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective rate of 25% for 2011 (2010: 28%).

The movement on the deferred income tax account is as follows:

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
At 1 January	262	186	265	180
Income statement charge	(18)	75	(19)	84
Tax reflected in equity (Note 11)	(19)	1	(19)	1
Exchange differences	(1)	-	(3)	-
At 31 December	224	262	224	265

Management expects, based on future profit forecasts and planning actions that the deferred tax asset will be recognised over the next 4-5 years.

IAS 12 states that the deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled based on tax rates that have been enacted or substantively enacted by the balance sheet date.

The UK Government has announced that the main rate of corporation tax for the year beginning 1 April 2011 will reduce from 28% to 26%, to be followed by further 1% reductions per annum to 23% for the year beginning 1 April 2014. While the reduction in the corporate tax rate to 25% has already been enacted, the further announced reductions are expected to be enacted through the 2012 and 2013 Finance Acts. This results in a weighted average rate of 26.5% for 2011 (2010: 28%).

As such the Group has reduced its deferred tax asset from £262 million to £224 million and in the Company from £265 million to £224 million.

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24. Deferred income tax (continued)

Deferred income tax assets and liabilities are attributable to the following items:

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Deferred income tax liabilities				
Pensions and other post retirement benefits	-	1	-	-
Other temporary differences	2	12	-	9
	2	13	-	9
Deferred income tax assets				
Accelerated tax depreciation	97	77	97	76
Pensions and other post retirement benefits	8	5	6	5
Provision for loan impairment	3	4	3	4
Other temporary differences	6	21	6	22
Tax losses carried forward	112	168	112	167
	226	275	224	274

The deferred tax charge in the income statement comprises the following temporary differences:

	Group		Company	
	2011	2010	2011	2010
	£ Million	£ Million	£ Million	£ Million
Accelerated tax depreciation	(21)	58	(20)	58
Pensions and other post retirement benefits	3	4	3	4
Allowances for loan losses	1	1	1	1
Provisions and other temporary differences	(21)	(63)	(21)	(72)
Tax losses carried forward	56	(75)	56	(75)
	18	(75)	19	(84)

25. Debt securities in issue

Group	2011	2010
	£ Million	£ Million
Credit linked medium term notes	14	90
Equity linked medium term notes	686	1,122
£263.0 million medium term notes	19	19
€648.5 million medium term notes	218	363
	937	1,594

Company	2011	2010
	£ Million	£ Million
Credit linked medium term notes	14	90
Equity linked medium term notes	686	1,122
	700	1,212

25. Debt securities in issue (continued)

The equity linked and credit linked medium term notes issued, have been designated at fair value through profit and loss. The current year change in fair value attributable to changes in credit risk on these financial liabilities was a gain of £36 million (2010: £3 million loss).

The Company has securitised commercial mortgage and other loans through consolidated special purpose entities. The Company retains the excess spread between the amounts collected on the loans and the amounts paid on the notes issued by the special purpose entities to third-party investors. These securities are held at amortised cost and the differences between that and the value shown in the table above recognises repayments. As of 31 December 2011, the carrying amount of the commercial mortgage and other loans was approximately £239 million (2010: £385 million) and was classified within Loans and advances to customers in the Group balance sheet. A similar corresponding amount of liabilities, which are non-recourse to the general credit of the Company, are classified within Debt securities in issue.

26. Other liabilities

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
Trade finance acceptances	2	1	2	1
Retirement benefit obligations (Note 12)	26	18	26	17
Other balances includes trade payables	369	373	369	350
	397	392	397	368

27. Provisions for liabilities

Group	Restructuring provision £ Million		Other provisions £ Million		Total £ Million	
	2011	2010	2011	2010	2011	2010
At 1 January	27	32	19	60	46	92
Transfer from 'Allowances for loans and advances'	-	-	(1)	-	(1)	-
Charge against profits	5	43	-	2	5	45
Provisions utilised	(13)	(43)	(1)	(35)	(14)	(78)
Release of provisions	(10)	(4)	-	(6)	(10)	(10)
Exchange adjustments	(1)	-	-	(1)	(1)	(1)
Other movements	(1)	(1)	(3)	(1)	(4)	(2)
At 31 December	7	27	14	19	21	46

27. Provisions for liabilities (continued)

Company	**Restructuring provision £ Million**		**Other provisions £ Million**		**Total £ Million**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
At 1 January	23	23	19	59	42	82
Transfer from 'Allowances for loans and advances'	-	-	(1)	-	(1)	-
Charge against profits	5	41	-	2	5	43
Provisions utilised	(10)	(36)	(1)	(34)	(11)	(70)
Release of provisions	(10)	(4)	-	(6)	(10)	(10)
Exchange adjustments	(1)	-	-	(1)	(1)	(1)
Other movements	(1)	(1)	(3)	(1)	(4)	(2)
At 31 December	6	23	14	19	20	42

The "restructuring provision" relates to the provision for the cost of staff redundancies and compensation. This balance is expected to be fully utilised in 2012. There are no reimbursements anticipated.

The "other provisions" relate to potential litigation provisions, which are assessed on a case by case basis, taking into account legal advice for each case and provisions for undrawn loan commitments.

28. Capital and reserves

Further details regarding capital and reserves movements are shown in the Consolidated and Company Statement of Changes in Equity on pages 25 and 30.

The capital reserve includes the capital contributions from the parent company which are distributable and £137 million of non-distributable reserves.

Interim dividends paid in the year were £nil (2010: £nil). The Directors do not recommend the payment of a final dividend (2010: £nil).

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

The equity reserve is the fair value movement of share based incentives issued.

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29. Share capital

Authorised	2011 £ Million	2010 £ Million
1,876,846,755 sterling ordinary shares of £1 each	1,877	1,877
	US$ Million	US$ Million
600,000,000 dollar ordinary shares of US$1 each	600	600

Allotted, called-up and fully paid	2011 £ Million	2010 £ Million
1,757,011,710 sterling ordinary shares of £1 each	1,757	1,757

Ordinary shares of £1 each	2011 Shares	2010 Shares
At 1 January and 31 December	1,757,011,710	1,757,011,710

All ordinary shares confer identical rights in respect of capital, dividends, voting and otherwise.

30. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances that mature within three months:

	Group		Company	
	2011 £ Million	2010 £ Million	2011 £ Million	2010 £ Million
Cash and balances at central banks	1,430	1,711	1,430	1,711
Loans and advances to banks	3,315	4,680	3,285	5,342
	4,745	6,391	4,715	7,053

31. Related party transactions

The Company is a wholly owned subsidiary undertaking of CIL, which is incorporated in England. The largest group in which the results of the Group are consolidated is that headed by Citigroup Inc. which is incorporated in the United States. The Group and Company define related parties as the Board of Directors, their close family members, parent and fellow subsidiaries and associated companies.

A number of arm’s length transactions are entered into with related parties. These include loans and deposits that provide funding to Group companies as well as derivative contracts used to hedge residual risks that are included in the other assets and other liabilities balances. Various services are provided between related parties and these are all also provided at arm’s length. No provisions have been recognised in respect of loans given to related parties (2010: £nil). The table below summarises balances with related parties where CIL is the parent undertaking. There were no related party transactions with the ultimate parent company, Citigroup Inc.

31. Related party transactions (continued)

Group	2011 Parent undertaking £ Million	2011 Other Citigroup undertakings £ Million	2011 Total £ Million
Assets			
Loans and advances to banks	-	3,175	3,175
Loans and advances to customers	-	7	7
Prepayments and accrued income	-	19	19
Other assets and derivatives	-	225	225
Liabilities			
Deposits by banks	132	3,959	4,091
Customer accounts	-	28	28
Accruals and deferred income	-	37	37
Other liabilities and derivatives	-	507	507
Off balance sheet			
Commitments and contingencies	-	63	63
Guarantees issued by the Group	-	22	22
Income statement			
Interest and similar income	-	25	25
Interest expense and similar charges	(1)	(62)	(63)
Net fee and commission income	-	71	71
Other operating income	-	4	4
Net income on items at fair value through profit and loss	-	14	14
General and administrative expenses	-	38	38

Group	2010* Parent undertaking £ Million	2010* Other Citigroup undertakings £ Million	2010* Total £ Million
Assets			
Loans and advances to banks	-	4,891	4,891
Loans and advances to customers	-	22	22
Prepayments and accrued income	-	15	15
Other assets and derivatives	-	164	164
Liabilities			
Deposits by banks	175	5,038	5,213
Customer accounts	-	42	42
Accruals and deferred income	-	40	40
Other liabilities and derivatives	-	585	585
Off balance sheet			
Commitments and contingencies	-	79	79
Guarantees issued by the Group	-	21	21
Income statement			
Interest and similar income	-	54	54
Interest expense and similar charges	(8)	(76)	(84)
Net fee and commission income	-	69	69
Other operating income	-	12	12
Net income on items at fair value through profit and loss	-	26	26
General and administrative expenses	-	(46)	(46)

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31. Related party transactions (continued)

Company	2011			
	Parent undertaking £ Million	Subsidiary undertakings £ Million	Other Citigroup undertakings £ Million	Total £ Million
Assets				
Loans and advances to banks	-	-	3,161	3,161
Loans and advances to customers	-	-	7	7
Prepayments and accrued income	-	-	16	16
Other assets and derivatives	-	1	222	223
Liabilities				
Deposits by banks	132	73	3,955	4,160
Customer accounts	-	-	28	28
Accruals and deferred income	-	3	37	40
Other liabilities and derivatives	-	1	508	509
Off balance sheet				
Commitments and contingencies	-	-	63	63
Guarantees issued by the Group	-	-	22	22
Income statement				
Interest and similar income	-	1	25	26
Interest expense and similar charges	(1)	-	(62)	(63)
Net fee and commission income	-	-	68	68
Net income on items at fair value through profit and loss	-	-	14	14
Other operating income	-	1	4	5
General and administrative expenses	-	6	40	46
Other operating charges	-	(2)	-	(2)

Company	2010*			
	Parent undertaking £ Million	Subsidiary undertakings £ Million	Other Citigroup undertakings £ Million	Total £ Million
Assets				
Loans and advances to banks	-	392	4,887	5,279
Loans and advances to customers	-	-	22	22
Prepayments and accrued income	-	6	15	21
Other assets and derivatives	-	6	163	169
Liabilities				
Deposits by banks	175	552	5,033	5,760
Customer accounts	-	-	42	42
Accruals and deferred income	-	-	40	40
Other liabilities and derivatives	-	6	585	591
Off balance sheet				
Commitments and contingencies	-	-	79	79
Guarantees issued by the Group	-	-	21	21
Income statement				
Interest and similar income	-	10	54	64
Interest expense and similar charges	(8)	-	(76)	(84)
Net fee and commission income	-	-	69	69
Net income on items at fair value through profit and loss	-	-	26	26
Other operating income	-	-	12	12
General and administrative expenses	-	8	(46)	(38)

*restated to be consistent with current year presentation

31. Related party transactions (continued)

Directors' remuneration

Directors' compensation for the year comprises:

	2011 £ 000's	2010 £ 000's
Salaries and other short- term benefits	286	856
Post-employment benefits	6	41
Share-based payments	267	446
	559	1,343

Contributions to defined benefit and money purchase schemes are accruing to nine of the Directors (2010: eight). Eleven of the Directors (2010: eight) of the Company participate in Citigroup share and share option plans and during the year, none of the Directors (2010: none) exercised options. The emoluments for the highest paid Director were £179,000 (2010: £400,000) with £117,000 (2010: £80,000) being share based compensation and accrued pension of £1,000 (2010: £25,000). During the year the highest paid Director did not exercise share options. The Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Directors' emoluments are allocated based on the apportionment of time incurred by the Directors for services to the Group. When Directors are employed by other Citigroup companies, the Group does not incur any charge for these costs.

32. Pledged assets

Group and Company

Financial assets pledged to secure liabilities
The total financial assets that have been pledged as collateral for liabilities at 31 December 2011 was £2,519 million (2010: £1,224 million). These transactions are conducted under terms that are usual and customary to standard lending activities.

33. Contingent liabilities and commitments

The table below gives the nominal principal amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the Financial Services Authority's (FSA) guidelines on capital adequacy.

Group and Company	2011		2010	
	Contract Amount £ Million	Risk weighted amount* £ Million	Contract amount £ Million	Risk weighted amount* £ Million
Contingent liabilities				
Guarantees and irrevocable letters of credit	1,620	1,222	1,619	1,117
Commitments				
Other commitments:				
- documentary credits, short term trade related transactions and other	8	4	39	19
- undrawn formal standby facilities, credit lines and other commitments to lend:				
- less than 1 year	3,350	926	2,608	771
- 1 year and over	8,728	2,969	9,900	3,040
	12,086	3,899	12,547	3,830

* Unaudited

The Group has granted to various banks and other entities a number of fixed and floating charges over certain holdings in securities, properties, collateral and monies held by or on behalf of such banks or other entities, including charges relating to the Group's participation in clearance/settlement systems. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

34. Financial instruments and risk management

Objectives, policies and strategies

Transacting in financial instruments is fundamental to the Group's business. The risks associated with financial instruments and the credit exposures from lending are significant components of the overall risks faced by the Group. Financial instruments create, modify or reduce the liquidity, credit and market risk of the Group's balance sheet and support the extension of credit to the Group's customers.

The past year has seen a continuation of the challenging operating environment as macroeconomic concerns in the Eurozone affected market confidence which continues to affect the Group's business and results of its operations. The performance of the UK and European economies influence counterparty delinquency or default, liquidity and pricing, all of which can negatively impact the Group's credit exposure. Although the Group regularly reviews its credit exposures, in these market circumstances default risk may arise from events or circumstances that are difficult to foresee.

In addition, the current market and economic conditions have affected and may continue to affect consumer confidence, consumer spending, personal bankruptcy and house prices amongst other factors. This provides greater likelihood that more of the Group's customers could become delinquent in their loans or other obligations. This, in turn, could result in a higher level of charge-offs and provisions for credit losses.

34. Financial instruments and risk management (continued)

Objectives, policies and strategies (continued)

Market uncertainty places additional importance on the risk management policies and procedures which are outlined below. The Group believes that effective risk management is of primary importance to its success. Accordingly, the Group seeks to have a comprehensive risk management process to monitor, evaluate and manage the principal risks it assumes in conducting its activities. These risks include credit, market, liquidity and operational risks. As part of Citigroup, the risk management framework is designed to balance corporate oversight with clearly-defined independent risk management functions. The risk management framework is based on guiding principles established by the Chief Risk Officer of Citigroup:

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

The market disruptions have also increased the risk associated with holding financial instruments. The purpose for which the Group holds or issues financial instruments can be classified into five main categories:

- **Customer loans and deposits**: Customer loans and deposits (both retail and institutional) form a large part of the Group's business. The Group has detailed policies and strategies in respect of its customer loans and deposits that seek to minimise the risks associated with these financial instruments.

- **Investment securities**: The Group holds securities, excluding strategic investments, for use on a continuing basis in the Group's activities. The objective of holding such financial instruments is primarily to support collateral requirements of cash and securities clearing and to support liquidity management.

- **Finance**: The Group issues financial instruments to fund that portion of the Group's assets not funded by customer deposits. The objective of using financial instruments for financing purposes is to manage the Group's balance sheet in terms of minimising market risk and to support liquidity management. Responsibility for overseeing and implementing balance sheet management lies with the Group's Treasury department.

- **Hedging**: Where financial instruments form part of the Group's interest rate management strategy, they are classified as economic hedges. The objective for holding financial instruments as hedges is to match or minimise the risk arising from adverse movements in interest rates, exchange rates or equity prices. Cash products are the main instruments used for economically hedging the balance sheet.

- **Trading**: The Group trades in financial instruments for its own account and to facilitate customer transactions. As a market maker in these products the Group facilitates a two-way flow. Trading activity is restricted to certain areas in the Group and is subject to approved policies and limits. Responsibility for setting trading policies and monitoring adherence thereto lies with Citigroup Risk Management.

34. Financial instruments and risk management (continued)

Objectives, policies and strategies (continued)

In the normal course of business, the Group enters into a variety of derivative transactions principally in the equity, interest rate and foreign exchange markets. They are used to provide financial services to customers and to take, hedge and modify positions, as part of trading activities. Derivatives may also be used to economically hedge or modify risk exposures arising on the balance sheet from a variety of activities, including lending and securities investment. Most of the counterparties in the Group's derivative transactions are banks and other financial institutions. The risks involved in derivatives include market, credit, liquidity and operational risk.

Risk management

The management of risk within Citigroup is across three dimensions: businesses, regions and critical products. Each of the major business groups has a Business Chief Risk Officer who is the focal point for risk decisions (such as setting risk limits or approving transactions) in the business.

There are also Regional Chief Risk Officers, accountable for the risks in their geographic area, and who are the primary risk contact for the regional business heads and local regulators. In addition, there are Product Risk Officers for those areas of critical importance to Citigroup such as real estate and fundamental credit. The Product Risk Officers are accountable for the risks within their specialty and they focus on specific areas across businesses and regions. The Product Risk Officers serve as a resource to the Chief Risk Officer, as well as to the Business and Regional Chief Risk Officers, to better enable the Business and Regional Chief Risk Officers to focus on the day-to-day management of risks and responsiveness to business flow. Risk management within the Group is overseen by the Regional Risk Managers along with the managers for the different risk types within the region, such as credit risk, market risk, liquidity risk and operational risk.

The Citigroup risk organisation also includes a Business Management team to seek to ensure that the risk organisation has the appropriate infrastructure, processes and management reporting. This team which supports risk management within the Group includes:

- the risk capital group, which continues to enhance the risk capital model so that it is consistent across all business activities;
- the risk architecture group, which seeks to ensure integrated systems and common metrics, and thereby allows for aggregate and stress exposures across the institution;
- the enterprise risk management group, which focuses on improving the effectiveness of existing controls while increasing accountability and eliminating redundancy; and
- the office of the Strategic Regulatory Relationships and Chief Administrative Officer, which focuses on our critical regulatory relationships as well risk communications.

Risk aggregation and stress testing
The Citigroup Chief Risk Officer, as noted above, is expected to monitor and control major risk exposures and concentrations across the organisation. This means aggregating risks, within and across businesses, as well as subjecting those risks to alternative stress scenarios in order to assess the potential economic impact they may have on the Group.

Stress tests are undertaken across Citigroup which includes mark-to-market, available-for-sale and amortised cost portfolios. These firm-wide stress reports measure the potential impact to the Group and its component businesses, including the risk within the Group of very large changes in various types of key risk factors (e.g. interest rates, credit spreads), as well as the potential impact of a number of historical and hypothetical forward-looking systemic stress scenarios.

34. Financial instruments and risk management (continued)

Risk management (continued)

Supplementing the stress testing described above, Risk Management working with input from the businesses and Finance, provides periodic updates to senior management and the Board of Directors on significant potential exposures across Citigroup arising from risk concentrations, financial market participants and other systemic issues. These risk assessments are forward-looking exercises, intended to inform senior management and the Board of Directors about the potential economic impacts to Citigroup that may occur directly or indirectly, as a result of hypothetical scenarios, based on judgmental analysis from independent risk managers.

The stress testing and risk assessment exercises are a supplement to the standard limit-setting and risk capital exercises described later in this section, as these processes incorporate events in the marketplace and within Citigroup that impact the outlook on the form, magnitude, correlation and timing of identified risks that may arise. In addition to enhancing awareness and understanding of potential exposures within the Group, the results of these processes then serve as the starting point for developing risk management and mitigation strategies.

Along with the processes described above, the following sections summarise the processes that were in place during 2011 for managing the Group's major risks.

Market risk

The Group and other Citigroup entities' business and corporate oversight groups, have defined market risk management responsibilities. Within each business a process is in place to control market risk exposure. The risk management process includes the establishment of appropriate market risk controls and limits, policies and procedures and appropriate senior management risk oversight, with a risk management function independent from the business. Management of this process begins with the professionals nearest to the Group's customers, products and markets and extends up to the senior executives who manage these businesses and up to the country level.

Market risk encompasses price risk and liquidity risk.

Price risk is the risk to earnings that arises from adverse changes in interest rates, foreign exchange rates, equity prices and in their implied volatilities. Price risk is measured using various tools including, Interest Rate Gap Analysis, Interest Rate Exposure ("IRE") limits, stress and scenario analysis which are applied to interest rate risk arising in the non-trading portfolios and factor sensitivity limits, Value-at-Risk ("VaR") and stress and scenario analysis which are applied to the trading portfolios. At the discretion of Market Risk Management, VaR can sometimes be applied to the non-trading portfolio as a complementary measure.

Liquidity risk associated with market risk has two elements:

- the risk that the Group may be unable to sell a specific position or hedge a specific risk factor due to there being a lack of readily available market for that product or risk factor; and
- the risk that the market is unable to absorb substantial positions without an impact on market price/valuation in relation to our trading portfolios.

Trading price risk

Overall objectives
The group uses a daily VaR measure, in conjunction with factor sensitivity and stress reporting, as a mechanism for monitoring and controlling market risk.

VaR Methodology
VaR estimates, at a 99% confidence level, the potential decline in the value of a position or a portfolio under normal market conditions. VaR statistics can be materially different across firms due to differences in portfolio composition, differences in VaR methodologies, and differences in model parameters. Citi believes VaR statistics can be used more effectively as indicators of trends in risk taking within a firm, rather than as a basis for inferring differences in risk taking across firms.

34. Financial instruments and risk management (continued)

Trading price risk (continued)

Citi uses Monte Carlo simulation, which it believes is conservatively calibrated to incorporate the greater of short-term (most recent month) and long-term (three years) market volatility. The Monte Carlo simulation involves approximately 300,000 market factors, making use of 180,000 time series, with market factors updated daily and model parameters updated weekly. The conservative features of the VaR calibration contribute approximately 20% add-on to what would be a VaR estimated under the assumption of stable and perfectly normally distributed markets. Under normal and stable market conditions, Citi would thus expect the number of days where trading losses exceed its VaR to be less than two or three exceptions per year. Periods of unstable market conditions could increase the number of these exceptions.

VaR Limitations
A VaR trigger is in place for the Company that seeks to ensure any excesses are discussed and resolved between Risk and the business and entity management. In addition, the European Commercial Paper ("ECP") desk is subject to formal limits on interest rate and issuer exposures that are closely monitored by Risk Management and senior business management.

Although a valuable guide to risk, VaR should always be viewed in context of its limitations:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those of an extreme nature;
- the use of a one day holding period assumes that all positions can be liquidated or the risks offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one day holding period may be insufficient to fully liquidate or hedge positions;
- the use of a 99% confidence level, by definition does not take into account losses that might occur beyond this confidence level;
- VaR is calculated on the basis of exposures outstanding at close of business therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

The following table summarises trading price risk by disclosing the Company's average exposure of its trading book to VaR during the reporting period, together with the exposure as at 31 December:

	At 31 Dec £ Million	Average £ Million
2011		
Equity risk	0.07	0.09
Interest rate risk	0.99	1.18
Foreign currency risk	0.01	-
Covariance adjustment	-	0.01
Overall	1.07	1.28
2010		
Equity risk	(0.06)	0.06
Interest rate risk	2.06	1.62
Overall	2.00	1.68

34. Financial instruments and risk management (continued)

Non-trading price risk

Price risk in the non-trading portfolios is measured using Interest Rate Gap Analysis, IRE limits and stress and scenario analysis. Interest Rate Gap Analysis utilises the maturity or re-pricing schedules of balance sheet items to determine interest rate exposures within given tenor buckets. IRE measures the potential earnings impact, over a specified reporting period, from a defined standard set of parallel shifts in the curve. IRE is calculated separately for each currency and reflects the re-pricing gaps in the position, as well as option positions, both explicit and embedded. Limits are set for the country and business activity, of which the Group is a part. Market Risk Management monitors these limits.

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

	2011			2010		
£ Million	**12 Months**	**5 Years**	**10 Years**	**12 Months**	**5 Years**	**10 Years**
USD	7	23	23	2	9	10
EUR	5	33	36	3	23	23
GBP	9	17	17	1	(11)	(11)

Currency exposures

The main operating or functional currencies of the Company's overseas branches and the Group's subsidiaries are sterling, Euros, US dollars. Since the Group prepares its consolidated financial statements in sterling, the Group's balance sheet is affected by movements between those currencies and sterling. These currency exposures are shown in the following table. The column on the left represents the functional currency of the Company's branches and the Group's subsidiaries while the top row represents the exposure of the branches and subsidiaries to currencies other than their functional currency.

Functional currency of the Group

	2011				
£ Million	**GBP**	**USD**	**EUR**	**Others**	**Total**
GBP	-	(370)	895	(2)	523
EUR	1	378	-	(1)	378
Others	-	(1)	(2)	-	(3)
Total	1	7	893	(3)	898

	2010				
£ Million	**GBP**	**USD**	**EUR**	**Others**	**Total**
GBP	-	(1)	456	(5)	450
EUR	1	(4)	-	-	(3)
Others	-	(1)	1	1	1
Total	1	(6)	457	(4)	448

Transactional currency exposures occur as a result of normal operations and/or cross-border inter-branch transactions.

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34. Financial instruments and risk management (continued)

Non-trading price risk (continued)

Liquidity risk

Management of liquidity at Citigroup is the responsibility of the Corporate Treasury function. A uniform liquidity risk management policy exists for Citigroup and its major operating subsidiaries. Under this policy, there is a single set of standards for the measurement of liquidity risk to seek consistency across businesses, stability in methodologies and transparency of risk. Management of liquidity at each UK operating subsidiary is performed on a daily basis and is monitored by Corporate Treasury.

The UK forum for liquidity issues is the UK Asset/Liability Management Committee ("ALCO"), which includes senior executives within the Group and is chaired by the UK Country Treasurer. This forum is composed of the UK CFO, Regional Treasurer, Risk Management and the businesses. The UK ALCO reviews the current and prospective funding requirements for the Group, as well as the capital position and balance sheet.

The Group prepares an annual liquidity plan and its liquidity profile is monitored on an on-going basis and reported daily. Liquidity risk is monitored using various ratios and limits in accordance with the Liquidity Risk Management Policy for Citigroup. The funding and liquidity plan includes analysis of the balance sheet as well as the economic and business conditions impacting the major operating subsidiaries in the UK. As part of the funding and liquidity plan, liquidity limits, liquidity ratios and assumptions for periodic stress tests are reviewed and approved.

Simulated liquidity stress testing is performed and reviewed by the UK ALCO. The scenarios include assumptions about significant changes in key funding sources, credit ratings and contingent uses of funding.

The following table analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

Group **2011**	**1 year or less** **£ Million**	**>1 year and <** **5 years** **£ Million**	**Greater than** **5 years** **£ Million**	**Total** **£ Million**
Assets				
Cash and balances at central banks	1,430	-	-	1,430
Loans and advances to banks	3,394	280	42	3,716
Loans and advances to customers	2,731	2,602	1,032	6,365
Derivative financial instruments	138	38	140	316
Trading assets	192	876	178	1,246
Investment securities	662	1,635	343	2,640
All other assets	845	29	142	1,016
Total assets	9,392	5,460	1,877	16,729
2010 total assets	14,869	1,666	2,648	19,183
Liabilities				
Deposits by banks	2,819	1,486	99	4,404
Customer accounts	7,723	24	3	7,750
Derivative financial instruments	320	107	138	565
Debt securities in issue	364	444	129	937
All other liabilities and equity	530	32	2,511	3,073
Total liabilities and equity	11,756	2,093	2,880	16,729
2010 total liabilities	14,272	1,955	2,956	19,183
2011 net liquidity gap	(2,364)	3,367	(1,003)	-
2010 net liquidity gap	597	(289)	(308)	-

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34. Financial instruments and risk management (continued)

Liquidity risk (continued)

The following table analyses the Company's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

Company **2011**	**1 year or less** **£ Million**	**>1 year and < 5 years** **£ Million**	**Greater than 5 years** **£ Million**	**Total** **£ Million**
Assets				
Cash and balances at central banks	1,430	-	-	1,430
Loans and advances to banks	3,364	280	42	3,686
Loans and advances to customers	2,707	2,595	815	6,117
Derivative financial instruments	138	38	140	316
Trading assets	192	876	178	1,246
Investment securities	662	1,636	343	2,641
All other assets	996	(4)	73	1,065
Total assets	9,489	5,421	1,591	16,501
2010 total assets	15,389	1,610	2,275	19,274
Liabilities				
Deposits by banks	2,888	1,486	99	4,473
Customer accounts	7,723	24	3	7,750
Derivative financial instruments	320	107	138	565
Debt securities in issue	365	205	130	700
All other liabilities and equity	533	33	2,447	3,013
Total liabilities and equity	11,829	1,855	2,817	16,501
2010 total liabilities	14,784	1,593	2,897	19,274
2011 net liquidity gap	(2,340)	3,566	(1,226)	-
2010 net liquidity gap	605	17	(622)	-

34. Financial instruments and risk management (continued)

Liquidity risk (continued)

The table below analyses the Group's liabilities into relevant maturity groupings based on the remaining contractual future undiscounted cash flows up to maturity. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on the contractual maturity as disclosed in the previous table. Derivatives have been excluded from the table because they are not held for settlement over the period of contractual maturity.

Group **2011**	**3 months or less** **£ Million**	**> 3 months and < 1 year** **£ Million**	**>1 year and < 5 years** **£ Million**	**Greater than 5 years** **£ Million**	**Gross nominal inflow/ (outflow)** **£ Million**
Liabilities					
Deposits by banks	1,238	1,630	1,685	117	4,670
Customer accounts	7,756	32	27	4	7,819
Debt securities in issue	127	494	522	178	1,321
	9,121	2,156	2,234	299	13,810
2010					
Liabilities					
Deposits by banks	4,539	710	446	122	5,817
Customer accounts	8,013	162	1	-	8,176
Debt securities in issue	445	702	706	232	2,085
	12,997	1,574	1,153	354	16,078

The following table analyses the Company's liabilities into relevant maturity groupings based on the remaining contractual undiscounted cash flows including interest:

Company **2011**	**3 months or less** **£ Million**	**> 3 months and < 1 year** **£ Million**	**>1 year and < 5 years** **£ Million**	**Greater than 5 years** **£ Million**	**Gross nominal inflow/ (outflow)** **£ Million**
Liabilities					
Deposits by banks	1,308	1,630	1,685	117	4,740
Customer accounts	7,756	32	27	4	7,819
Debt securities in issue	127	494	279	178	1,078
	9,191	2,156	1,991	299	13,637
2010					
Liabilities					
Deposits by banks	5,392	403	446	105	6,346
Customer accounts	8,013	162	1	-	8,176
Debt securities in issue	425	702	343	233	1,703
	13,830	1,267	790	338	16,225

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, loans and advances to banks and loans and advances to customers. The Group would also be able to meet unexpected net cash outflows by selling securities.

34. Financial instruments and risk management (continued)

Credit risk

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in many of Citigroup's business activities, including:
- lending;
- sales and trading;
- derivatives;
- securities transactions;
- settlement; and
- when Citigroup acts as an intermediary on behalf of its clients and other third parties.

For corporate clients and investment banking activities across the organisation, the credit process is grounded in a series of fundamental policies, including:
- joint business and independent risk management responsibility for managing credit risks;
- single centre of control for each credit relationship that coordinates credit activities with that client;
- portfolio limits seek to ensure diversification and maintain risk/capital alignment;
- a minimum of two authorised-credit-officer signatures are required on extensions of credit, one of which must be from a credit officer in credit risk management;
- risk rating standards, applicable to every obligor and facility; and
- consistent standards for credit origination documentation and remedial management.

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

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is lending where no such facilities can be obtained.

The Group's corporate loan counterparties are typically investment grade global customers who typically are not required to provide significant amounts of collateral for the facilities provided. Where collateral is provided this is typically, cash, marketable securities and charges over property, plant and equipment.

The Group's maximum credit exposure is represented by the financial assets presented on the balance sheet and, additionally, off-balance sheet items disclosed in Note 33.

Derivatives
The Group maintains strict control limits on net open derivative positions by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values, used to express the volume of instruments outstanding. This credit risk exposure together with potential exposures from market movements is managed as part of the overall lending limits with customers.

34. Financial instruments and risk management (continued)

Credit risk

Wrong-way risk arises when there is a strong correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. We use a range of procedures to monitor and control wrong-way risk, including requiring entities to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines. Wrong-way risk is mitigated through the use of enforceable netting agreements and margining.

Master netting arrangements
The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as individual transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Off balance sheet credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Management of credit risk

The Group's two reporting segments ICG and LCL use different approaches to manage credit risk. Each is discussed separately below.

Institutional Clients Group
Credit risk is measured by total facilities and an exposure measurement, which consists of outstanding and unused committed facility amounts. There are five exposure types: direct, contingent, counterparty, settlement and clearing.

Facilities must be approved by the appropriate independent risk and Business Credit Officers. Facilities are re-assessed annually and are as a result either re-approved or terminated. Extension of credit is governed by limits based on an obligor's risk rating. The requirement for collateral is also determined by the Business Credit Officer. The quality of the collateral received is one of the factors included in the determination of the internal risk ratings.

34. Financial instruments and risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

The credit quality of assets is monitored regularly and reported to senior management and the Board quarterly. In addition, high risk exposures are reported to senior management monthly. Any sudden credit events are promptly escalated to senior risk and business managers.

In 2011 85% (2010: 91%) of loans and advances to banks in the Group comprise of balances with fellow Citigroup entities.

In 2011 derivative financial assets comprise 73% (2010: 62%) graded within AA+ to A- and 0% (2010: 0%) graded within AAA.

Credit quality – Trading Portfolio
The table below presents an analysis of the Group's trading portfolio of European commercial paper, Corporate bonds and Government bonds by rating agency designation based on Standard & Poors rating or their internal equivalent:

		Trading Portfolio		
	Loans and advances to customers	European commercial paper	Corporate bonds	Government bonds
	%	%	%	%
	2011	**2011**	**2011**	**2011**
AAA	-	71	-	-
AA+ to A-	-	29	44	100
Lower than A-	10	-	52	-
Unrated	90	-	4	-
	100	100	100	100
	2010	**2010**	**2010**	**2010**
AAA	-	45	34	61
AA+ to A-	5	52	34	39
Lower than A-	35	-	32	-
Unrated	60	3	-	-
	100	100	100	100

Credit quality – Corporate Lending
Citigroup has established a risk management process to monitor, evaluate and manage the principal risks associated with its Corporate loan portfolio. As discussed above the Business Credit Officer as part of the approval and monitoring of a facility has responsibility for assessing the need for or the quality of the collateral provided.

As part of its risk management process, Citigroup 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.

34. Financial instruments and risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

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 US bank regulatory definitions as special mention, substandard and doubtful will have risk ratings within the non-investment grade categories.

For disclosure purposes the bank regulatory definitions have been used, these are formulated on the facility risk ratings described above. A description of the classifications is provided below.

Good A "Good" rating generally includes exposures that are adequately protected by the current worth and debt service capacity but will also include facilities that may exhibit a potential weakness but that weakness is currently mitigated

Special Mention A special mention asset has potential weaknesses that deserve management's close attention.

The Classification Substandard is made up of three sub categories, substandard, doubtful and loss.

Substandard

- *Substandard* A substandard asset is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any.

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

- *Loss* Assets classified "loss" are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

Forbearance – Corporate Lending

In certain circumstances, the Group modifies certain of its Corporate loans involving a non-troubled borrower. These modifications are subject to Citigroup's normal underwriting standards for new loans and are made in the normal course of business to match customers' needs with available Citigroup products or programs.

Citigroup also assists borrowers experiencing financial difficulties by granting forbearance facilities. In relation to Corporate Lending, forbearance is granted where a facility is restructured through the provision of a concession such as changes to the interest rate or principal and/or interest repayment schedules or both.

34. Financial instruments and risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

The following table analyses the credit quality of Restructured and Non-restructured loans:

	2011 £ Million	2010 £ Million
Total corporate loans and advances to customers	5,811	5,973
Total provision	(40)	(114)
Total net corporate loans and advances to customers	5,771	5,859
Restructured loans		
Gross corporate loans	**3**	**3**
Substandard or worse	3	3
Collective provision	**-**	**-**
Specific provision	**-**	**1**
Substandard or worse	-	1
Net corporate loans	**3**	**2**
Non-restructured loans		
Gross corporate loans	**5,808**	**5,970**
Good	4,897	4,420
Special mention	410	267
Substandard or worse	501	1,283
Collective provision	**33**	**67**
Good	9	7
Special mention	3	2
Substandard or worse	21	58
Specific provision	**7**	**46**
Substandard or worse	7	46
Net corporate loans	**5,768**	**5,857**

In providing these disclosures the Group has adopted the definition of troubled debt restructuring that Citigroup uses globally. Consequently this definition and the above table exclude loans that have been granted a temporary concession, restructured loans with new terms equal or more beneficial to Citigroup, renegotiated loans subject to conditions that have not been met at year end and loans renegotiated prior to the process for accounting for troubled debt restructuring was established.

Within the Corporate lending assets there are £nil million (2010: £nil million) of loans which are “past due” but have not been impaired.

Local Consumer Lending
Country Business Managers have ownership of portfolios and are accountable for managing the risk/return trade-offs in their businesses. In cooperation with Senior/Country Credit Officers they implement policies, procedures and risk management practices in their businesses that are compliant with global consumer credit risk policies.

Consumer Risk Officers regularly review the performance of the consumer businesses and seek to ensure that appropriate control is exercised. A risk differentiated approach is employed, such that critical activities, for example collection and fraud, are reviewed with greater frequency.

Credit authority levels, the delegation process, approval processes for portfolios, product approvals, and other types of required approvals and responsibilities are defined in Global Consumer Credit and Fraud Risk Policies. These policies establish a consistent set of standards for the appointment of Credit Officers and Senior Credit Officers, streamline the approval process, create auditable policies, and seek to ensure the accountability and responsibility of risk management staff. The Country Credit Officer prepares credit strategy in collaboration with the Country Business Manager, which is reviewed by the Regional Senior Credit Officer.

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34. Financial instruments and risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

There is an established set of measures, procedures and policies that aims at monitoring results of consumer portfolios. These include:

- comparison of indicators to past performance;
- country Credit Officer reviews;
- stress tests; and
- mandates and approval authorities.

In addition to these procedures, each business has credit benchmarks that set out its short and long-term expectations.

The credit quality of Local Consumer Lending assets is measured and reported on a days past due model. This model identifies the gross value of balances which are current (i.e. are not yet past due) and those balances which are past due depending on how many days past due the balance is.

	2011			2010		
Group and Company	**Charge and credit card debtors £ Million**	**Consumer loans £ Million**	**Total £ Million**	**Charge and credit card debtors £ Million**	**Consumer loans £ Million**	**Total £ Million**
Gross amount	356	454	810	493	728	1,221
Carrying amount	268	326	594	384	566	950
Individually Impaired						
1 - 119 days past due	11	133	144	-	52	52
120 - 179 days past due	1	-	1	-	32	32
180 days or more past due	-	-	-	-	-	-
Gross amount	12	133	145	-	84	84
Individually assessed allowance for loans and advances	(5)	(69)	(74)	-	(41)	(41)
Carrying amount	7	64	71	-	43	43
Collectively Impaired						
Current	265	205	470	353	415	768
1 - 119 days past due	66	112	178	94	221	315
120 - 180 days past due	13	4	17	46	7	53
Gross amount	344	321	665	493	643	1,136
Collectively assessed allowance for loans and advances	(83)	(59)	(142)	(109)	(121)	(230)
Carrying amount	261	262	523	384	522	906
Neither past due nor impaired						
Good	-	-	-	-	1	1
Carrying amount	-	-	-	-	1	1
Total carrying amount	268	326	594	384	566	950

The past due model shows that 58% (2010: 63%) of the gross balance is current, 40% (2010: 30%) is 1 – 119 days past due, and 2% (2010: 7%) is greater than 120 days past due.

34. Financial instruments and risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

Credit risk concentrations
A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

The Group and Company credit risk concentrations by industry are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	£ Million	**£ Million**	**£ Million**	**£ Million**
Chemicals	261	209	261	209
Communication	146	114	146	114
Consumer	1,996	1,850	1,756	1,456
Engineering	224	796	224	796
Transport	615	945	615	944
Financial	722	865	722	865
Manufacturing	674	111	674	111
Other	1,727	1,919	1,719	1,919
	6,365	6,809	6,117	6,414

The above table shows that the single largest sector exposure is to consumer industry. The Other sector includes loans provided to individuals and small businesses which do not fall into any of the other categories above. This includes the Greece consumer lending portfolio and other corporate loans. Consistent with the Citi Holdings strategy and in light of the uncertain local economic conditions, the Greece consumer portfolio is closely monitored and steps have been taken, such as the closure of branches, to improve the risk profile.

Country risk

Country risk is the risk that an event in a country (precipitated by developments within or external to a country) will impair the value of Citigroup's franchise or will adversely affect the ability of obligors within that country to honour their obligations to Citigroup. Country risk events may include sovereign defaults, banking defaults or crises, currency crises and/or political events.

The information below is based on Citigroup's internal risk management measures. The country designation in Citigroup's risk management systems is based on the country to which the client relationship, taken as a whole, is most directly exposed to economic, financial, socio-political or legal risks. This includes exposure to subsidiaries within the client relationship that are domiciled outside of the country.

Citigroup assesses the risk of loss associated with certain of the country exposures on a regular basis. These analyses take into consideration alternative scenarios that may unfold, as well as specific characteristics of the Group's portfolio, such as transaction structure and collateral. The Group currently believes that the risk of loss associated with the exposures set forth below is likely materially lower than the exposure amounts disclosed below and is sized appropriately relative to its operations in these countries.

34. Financial instruments and risk management (continued)

Country risk (continued)

The sovereign entities of all the countries disclosed below, as well as the financial institutions and corporations domiciled in these countries, are important clients to the Group and in the global Citigroup franchise. Citigroup fully expects to maintain its presence in these markets to service all of its global customers. As such, the Group's exposure in these countries may vary over time, based upon its franchise, client needs and transaction structures.

Several European countries including Greece, Ireland, Italy, Portugal and Spain have been the subject of credit deterioration due to weaknesses in their economic and fiscal situations. Given the interest in the area, the table below outlines the Group's exposures to these countries as of 31 December 2011.

£ Million	Greece	Ireland	Italy	Portugal	Spain	GIIPS Total
Net current funded credit exposure	514	2	151	114	772	1,553
Net trading and AFS exposure	-	-	75	42	21	138
Net current funded exposure	514	2	226	156	793	1,691
Net current funded credit exposure:						
Sovereigns	-	-	-	51	-	51
Financial institutions	-	-	37	-	21	58
Corporations	514	2	114	63	751	1,444
Total net current funded credit exposure	514	2	151	114	772	1,553
Unfunded commitments:						
Sovereigns	-	-	-	-	167	167
Financial institutions	-	1	3	-	3	7
Corporations	102	46	216	-	828	1,192
Total unfunded commitments	102	47	219	-	998	1,366

The exposure detailed above is typically the nominal exposure without the benefit of any collateral but it reflects the benefit of margin and credit protection. As such, the Group's net exposure is significantly less.

In addition, at 31 December 2011 the Group has approximately £1,420 million of exposure in the GIIPS countries. This relates generally to retail customers and small businesses as part of its LCL activities. The vast majority of this exposure is in Citi Holdings (Spain and Greece).

Operational risk management process (unaudited)

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

- Recognised ownership of the risk by the businesses;
- Oversight by independent risk management; and
- Independent review by Audit and Risk Review (ARR).

Framework
The Group follows the approach to operational risk defined in the Citigroup Risk and Control Self-Assessment (RCSA)/Operational Risk Policy. The objective of the Policy is to establish a consistent value-added framework for assessing and communicating operational risk and the overall effectiveness of the internal control environment across Citigroup. Information about operational risk, historical losses and the control environment, is reported and summarised for the Audit Committee, senior management and for the Directors.

34. Financial instruments and risk management (continued)

Capital management

The Group's approach to capital management is driven by strategic and organisational requirements, taking into account the regulatory, economic and commercial environment.

It is the Group's objective to continue to maintain a strong capital base to support the business and regulatory capital requirement at all times. It is the aim of the Group that composition and amount of capital will be commensurate with the regulations in force, including CRD4 in the future.

Capital forecasts are prepared taking into account strategic growth plans, the Internal Capital Adequacy Assessment Process ("ICAAP") and the capital plans for each entity. Capital forecasts are updated and reviewed at a minimum on a quarterly basis.

Regulatory capital
The Group's capital adequacy position is managed and monitored in accordance with the prudential requirements of the Financial Services Authority ("FSA"), the UK regulator. The Group must at all times meet the relevant minimum capital requirements of the FSA. The Group has established processes and controls in place to monitor and manage its capital adequacy position and remained in compliance with these requirements throughout the year.

Under the FSA's minimum capital standards, the Group is required to maintain a prescribed excess of total capital resources over its capital resources requirements. In meeting these requirements, the Group recognises a number of credit risk mitigation techniques in calculating the charges for credit risk.

The Group's regulatory capital resources comprise two distinct elements:

- Tier one capital, which includes ordinary share capital, share premium, retained earnings and capital reserves; and
- Tier two capital, which includes qualifying long-term subordinated liabilities.

Various limits are applied to elements of the capital base. For example, the amount of qualifying Tier 2 capital cannot exceed Tier 1 capital; and the qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

The Group's regulatory capital resources at 31 December were as follows:

	2011	**2010**
	£ Million	**£ Million**
Tier 1 capital	2,304	2,389
Tier 2 capital*	160	188
	2,464	2,577
Deductions from Tier 1 & Tier 2*	(43)	(41)
Total regulatory capital*	2,421	2,536

* Unaudited

35. Operating lease commitments

Group and Company	2011 £ Million	2010 £ Million
At the year-end, the rental commitments under non-cancellable operating leases were as follows:		
Expiring:		
- Within one year	3	3
	3	3

36. Segmental analysis

The Group's management reviews the performance of the Group based on the same reporting segments as Citigroup Inc. uses to report its performance.

The Group is organised into two main reporting segments, ICG and LCL and it conducts its business in the United Kingdom and Western Europe. There are several operational segments within each reporting segment which have been aggregated into reporting segments.

ICG provides corporations, governments, institutions and investors with a broad range of investment banking products and services, including investment banking, debt trading, advisory services, foreign exchange, structured products, derivatives and lending, and investment advice and asset management services to high net worth individuals, retail clients and institutions.

LCL delivers a wide array of retail banking, cards, lending, insurance and investment services through a network of local branches, offices and electronic delivery systems. The LCL business services both individual consumers as well as small businesses.

Transactions between reporting segments are undertaken on an arm's length basis.

Gross income includes dividend income, net fee and commission income, net income on items at fair value through profit and loss and net investment income. 'Impairment charge – loans' includes the impairment charge on loans and advances to customers plus recoveries.

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36. Segmental analysis (continued)

	2011								
	Institutional Clients Group			Local Consumer Lending			Total		
	United Kingdom £ Million	Western Europe £ Million	Total £ Million	United Kingdom £ Million	Western Europe £ Million	Total £ Million	United Kingdom £ Million	Western Europe £ Million	Total £ Million
Gross income	360	263	623	28	142	170	388	405	793
Interest income	252	89	341	6	95	101	258	184	442
Interest expense	(68)	(19)	(87)	(15)	(17)	(32)	(83)	(36)	(119)
Profit/(loss) before tax	240	7	247	(19)	(163)	(182)	221	(156)	65
Income tax expense	(41)	(23)	(64)	8	(3)	5	(33)	(26)	(59)
Profit/(loss) for the year	199	(16)	183	(11)	(166)	(177)	188	(182)	6
Segment assets	11,699	3,826	15,525	198	1,006	1,204	11,897	4,832	16,729
Total assets	11,699	3,826	15,525	198	1,006	1,204	11,897	4,832	16,729
Segment liabilities	5,614	5,481	11,095	2,152	985	3,137	7,766	6,466	14,232
Total liabilities	5,614	5,481	11,095	2,152	985	3,137	7,766	6,466	14,232
Other segment items:									
Gross income from third parties	312	182	494	18	141	159	330	323	653
Capital expenditure	(40)	(4)	(44)	-	-	-	(40)	(4)	(44)
Depreciation	45	2	47	-	4	4	45	6	51
Impairment charge - loans	(2)	37	35	-	152	152	(2)	189	187
Amortisation of intangibles	22	2	24	-	3	3	22	5	27

	2010								
	Institutional Clients Group			Local Consumer Lending			Total		
	United Kingdom £ Million	Western Europe £ Million	Total £ Million	United Kingdom £ Million	Western Europe £ Million	Total £ Million	United Kingdom £ Million	Western Europe £ Million	Total £ Million
Gross income	328	211	539	40	332	372	368	543	911
Interest income	185	61	246	19	261	280	204	322	526
Interest expense	(93)	(10)	(103)	(72)	(38)	(110)	(165)	(48)	(213)
(Loss)/profit before tax	43	49	92	(48)	(411)	(459)	(5)	(362)	(367)
Income tax expense	118	(67)	51	13	1	14	131	(66)	65
(Loss)/profit for the year	161	(18)	143	(35)	(410)	(445)	126	(428)	(302)
Segment assets	12,902	4,662	17,564	270	1,349	1,619	13,172	6,011	19,183
Total assets	12,902	4,662	17,564	270	1,349	1,619	13,172	6,011	19,183
Segment liabilities	7,202	5,573	12,775	2,379	1,602	3,981	9,581	7,175	16,756
Total liabilities	7,202	5,573	12,775	2,379	1,602	3,981	9,581	7,175	16,756
Other segment items:									
Gross income from third parties	42	153	195	17	309	326	59	462	521
Capital expenditure	(48)	(2)	(50)	-	(4)	(4)	(48)	(6)	(54)
Depreciation	48	4	52	-	6	6	48	10	58
Impairment charge - loans	65	(20)	45	1	307	308	66	287	353
Amortisation of intangibles	21	2	23	-	7	7	21	9	30

The total revenue generated by Greece was £133 million (2010: £168 million). The total loss before tax generated by Greece was £153 million (2010: loss of £260).

37. Parent companies

The Company is a subsidiary undertaking of Citibank Investments Limited, which is incorporated in England.

The largest group in which the results of the Group are consolidated is that headed by Citigroup Inc. The audited consolidated financial statements of Citigroup Inc. are made available to the public annually in accordance with Securities and Exchange Commission regulations and may be obtained from www.citigroup.com/citi/corporategovernance/ar.htm