CITIBANK INTERNATIONAL PLC
(Registered Number: 1088249)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2012

CITIBANK INTERNATIONAL PLC

DIRECTORS' REPORT
for the year ended 31 December 2012

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 2012.

The Financial Statements are prepared on a going concern basis taking into account the ultimate reliance on support from the Group's parent. 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 23 to 32; and
- objectives, policies and processes for managing credit, liquidity and market risk, and its approach to capital management and allocation, as described in Note 33 - Financial instruments and risk management.

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 through its branches. The Group's headquarters are in London and it currently has offices and subsidiaries in other European financial centres. The Group has seventeen branches including two non banking centres of excellence in Hungary and Poland. These centres of excellence have increased significantly over the past few years and now employee 52% of total headcount on the Group. They provide primarily operational and global functions support.

The Group's 2012 results have been significantly impacted by the ongoing challenging operating environment, as economic concerns, both locally and across the region have continued to impact corporate confidence and market activity. The Group believes this will remain an issue until the market, investors and Citigroup's clients and customers believe that a comprehensive resolution has been structured, and is achievable. Such uncertainty could have a continued negative impact on investor and consumer activity, and thus on the Group's activity levels and results in 2013, especially on the performance of the Group's Greek and Spanish operations. The key focus of management is to ensure the stability and profitability of the Company.

The Group has two reporting segments, Citicorp and Citi Holdings, consistent with the reporting segments of Citigroup Inc. 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 losses of £86 million in the year to 31 December 2012 (2011: profit of £65 million), and a profit after tax of £9 million (2011: profit of £6 million). Citicorp made a profit before tax of £69 million in 2012 (2011: profit of £211 million), this reduction is primarily as a result of CVA/DVA charges in 2012 compared to large gains in 2011. Citi Holdings incurred pre-tax losses of £155 million in 2012 (2011: loss of £146 million), primarily due to the Group's Greek business.

Income
Total operating income of £563 million was down from £674 million in the prior year. Citi Holdings revenues continued to fall in line with the Group's strategy and Citicorp's performance was negatively affected by CVA/DVA charges.

The Group's Citicorp income is driven by its three core businesses, providing a roughly equal share of the income:

- Fixed Income decreased driven by CVA/DVA charges (£38 million loss in 2012: £33 million gain in 2011), as Citigroup's spreads tightened. Excluding CVA/DVA, most businesses saw improvements year-on-year.
- Banking continues to provide both a steady annuity flow and origination opportunities.
- Citi Transaction Services ("CTS") revenues increased by 5%, reflecting increased customer inflows and higher volumes.

Principal activities and business review (continued)

Costs
Although cost control remains a key focus of the Group, operating expenses have increased from £422 million to £516 million. The increase was driven by one-off factors that are not expected to reoccur in 2013. Specific restructuring expenses were £19 million higher in 2012 compared to 2011. Loan loss reserves on undrawn loan commitments were built in 2012, resulting in an additional £16 million of expenses to the Group. There were also additional Transfer Pricing expenses driven by higher revenues in the Fixed Income businesses. The Group does not directly employ traders and is liable to compensate other Citi entities for the performance of the traders employed on their books.

Headcount, on an average basis, has increased from 4,233 to 4,392. Despite the increase, overall compensation expenses have remained stable, the increases have been in regional Centres of Excellence in Poland and Hungary, supporting the core Citicorp businesses. These hires reflect Citigroup's ongoing effort to leverage lower cost locations within the region. This has been offset by reductions across the branches, most notably in Greece.

Net credit losses have decreased from £187 million to £133 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 decreased from prior year coupled with an improvement in write offs, collection and delinquency rates. The Citicorp businesses have also benefited from limited credit losses while the loan loss reserves remained stable.

Balance sheet
Total assets of £20 billion at 31 December 2012 were 18% higher than at 31 December 2011 (£17 billion). The Group has seen a decrease in loans to customers in the UK, Spain and Greece and an increase in customer deposits across the CTS and Private Banking businesses. The additional funds generated have largely been placed with central banks and in other short term accounts. The majority of our wholesale lending exposure is in the United Kingdom, France and Spain.

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 2012.

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 2012 was approximately £18 billion. The Group has accrued £1.6 million at 31 December 2012 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:

- amount of capital compared to local regulatory requirements
- liquidity requirements in respect of the Company's highly stressed (stress 2) and severely stressed (stress 4) liquidity scenarios
- level of expenses
- net credit losses

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 Citi Holdings business to optimise the value of this business. However, during 2013 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 2013 under the European Union Transparency Directive.

DIRECTORS' REPORT
for the year ended 31 December 2012

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.

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 2012 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.

Statement of Corporate Governance (continued)

Internal control and financial reporting (continued)

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

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 continued disruptions in global financial markets have increased the risks and uncertainties identified by Citigroup globally and other Financial Service companies. Given the Group's ultimate reliance on the support of our parent, the below is an extract of the risk factors impacting Citigroup Inc. from its 2012 annual report on form 10-K. Please note that the reference to Citi in this section means Citigroup Inc.

Regulatory risk

Citi Faces Ongoing Significant Regulatory Changes and Uncertainties in the U.S. and Non-U.S. Jurisdictions in Which It Operates That Negatively Impact the Management of Its Businesses, Results of Operations and Ability to Compete.
Citi continues to be subject to significant regulatory changes and uncertainties both in the U.S. and the non-U.S. jurisdictions in which it operates. As discussed throughout this section, 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) and other regulatory initiatives in the U.S. are still being finalized and, even when finalized, will likely require significant interpretation and guidance. These regulatory changes and uncertainties are compounded by numerous regulatory initiatives underway in non-U.S. jurisdictions in which Citi operates. Certain of these initiatives, such as prohibitions or restrictions on proprietary trading or the requirement to establish "living wills," overlap with changes in the U.S., while others, such as proposals for financial transaction and/or bank taxes in particular countries or regions, currently do not.

Even when U.S. and international initiatives overlap, in many instances they have not been undertaken on a coordinated basis and areas of divergence have developed with respect to scope, interpretation, timing, structure or approach. Citi could be subject to additional regulatory requirements or changes beyond those currently proposed, adopted or contemplated, particularly given the ongoing heightened regulatory environment in which financial institutions operate. For example, in connection with their orderly liquidation authority under Title II of the Dodd-Frank Act, U.S. regulators may require that bank holding companies maintain a prescribed level of debt at the holding company level. In addition, under the Dodd-Frank Act, U.S. regulators may require additional collateral for inter-affiliate derivative and other credit transactions which, depending upon rulemaking and regulatory guidance could be significant.

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Risk factors (continued)

Regulatory risk (continued)

There also continues to be discussion of potential GSE reform which would likely affect markets for mortgages and mortgage securities in ways that cannot currently be predicted. The heightened regulatory environment has resulted not only in a tendency toward more regulation, but toward the most prescriptive regulation as regulatory agencies have generally taken a conservative approach to rulemaking, interpretive guidance and their general ongoing supervisory authority.

Regulatory changes and uncertainties make Citi's business planning more difficult and could require Citi to change its business models or even its organizational structure, all of which could ultimately negatively impact Citi's results of operations as well as realization of its deferred tax assets (DTAs). For example, regulators have proposed applying limits to certain concentrations of risk, such as through single counterparty credit limits or legal lending limits, and implementation of such limits currently or in the future could require Citi to restructure client or counterparty relationships and could result in the potential loss of clients.

Further, certain regulatory requirements could require Citi to create new subsidiaries instead of branches in foreign jurisdictions, or create subsidiaries to conduct particular businesses or operations (so-called "subsidiarization"). This could, among other things, negatively impact Citi's global capital and liquidity management and overall cost structure. Unless and until there is sufficient regulatory certainty, Citi's business planning and proposed pricing for affected businesses necessarily include assumptions based on possible or proposed rules or requirements, and incorrect assumptions could impede Citi's ability to effectively implement and comply with final requirements in a timely manner. Business planning is further complicated by the continual need to review and evaluate the impact on Citi's businesses of ongoing rule proposals and final rules and interpretations from numerous regulatory bodies, all within compressed timeframes.

Citi's costs associated with implementation of, as well as the ongoing, extensive compliance costs associated with, new regulations or regulatory changes will likely be substantial and will negatively impact Citi's results of operations. Given the continued regulatory uncertainty, however, the ultimate amount and timing of such impact going forward cannot be predicted. Also, compliance with inconsistent, conflicting or duplicative regulations, either within the U.S. or between the U.S. and non-U.S. jurisdictions, could further increase the impact on Citi. For example, the Dodd-Frank Act provided for the elimination of "federal preemption" with respect to the operating subsidiaries of federally chartered institutions such as Citibank, N.A., which allows for a broader application of state consumer finance laws to such subsidiaries. As a result, Citi is now required to conform the consumer businesses conducted by operating subsidiaries of Citibank, N.A. to a variety of potentially conflicting or inconsistent state laws not previously applicable, such as laws imposing customer fee restrictions or requiring additional consumer disclosures. Failure to comply with these or other regulatory changes could further increase Citi's costs or otherwise harm Citi's reputation.

Uncertainty persists regarding the competitive impact of these new regulations. Citi could be subject to more stringent regulations, or could incur additional compliance costs, compared to its U.S. competitors because of its global footprint. In addition, certain other financial intermediaries may not be regulated on the same basis or to the same extent as Citi and consequently may have certain competitive advantages. Moreover, Citi could be subject to more, or more stringent, regulations than its foreign competitors because of several U.S. regulatory initiatives, particularly with respect to Citi's non-U.S. operations. Differences in substance and severity of regulations across jurisdictions could significantly reduce Citi's ability to compete with its U.S. and non-U.S. competitors and further negatively impact Citi's results of operations. For example, Citi conducts a substantial portion of its derivatives activities through Citibank, N.A.

Risk factors (continued)

Regulatory risk (continued)

Pursuant to the CFTC's current and proposed rules on cross-border implications of the new derivatives registration and trading requirements under the Dodd-Frank Act, clients who transact their derivatives business with overseas branches of Citibank, N.A. could be subject to U.S. registration and other derivatives requirements. Clients of Citi and other large U.S. financial institutions have expressed an unwillingness to continue to deal with overseas branches of U.S. banks if the rules would subject them to these requirements. As a result, Citi could lose clients to non-U.S. financial institutions that are not subject to the same compliance regime.

Continued Uncertainty Regarding the Timing and Implementation of Future Regulatory Capital Requirements Makes It Difficult to Determine the Ultimate Impact of These Requirements on Citi's Businesses and Results of Operations and Impedes Long-Term Capital Planning.
During 2012, U.S. regulators proposed the U.S. Basel III rules that would be applicable to Citigroup and its depository institution subsidiaries, including Citibank, N.A. U.S. regulators also adopted final rules relating to Basel II.5 market risk that were effective on January 1, 2013. This new regulatory capital regime will increase the level of capital required to be held by Citi, not only with respect to the quantity and quality of capital (such as capital required to be held in the form of common equity), but also as a result of increasing Citi's overall risk-weighted assets.

There continues to be significant uncertainty regarding the overall timing and implementation of the final U.S. regulatory capital rules. For example, while the U.S. Basel III rules have been proposed, additional rulemaking and interpretation is necessary to adopt and implement the final rules. Overall implementation phase-in will also need to be finalized by U.S. regulators, and it remains to be seen how U.S. regulators will address the interaction between the new capital adequacy rules, Basel I, Basel II, Basel II.5 and the proposed "standardized" approach serving as a "floor" to the capital requirements of "advanced approaches" institutions, such as Citigroup. As a result, the ultimate impact of this new regime on Citi's businesses and results of operations cannot currently be estimated.

Based on the proposed regulatory capital regime, the level of capital required to be held by Citi will likely be higher than most of its U.S. and non-U.S. competitors, including as a result of the level of DTAs recorded on Citi's balance sheet and its strategic focus on emerging markets (which could result in Citi having higher risk-weighted assets under Basel III than those of its global competitors that either lack presence in, or are less focused on, such markets). In addition, while the Federal Reserve Board has yet to finalize any capital surcharge framework for U.S. "global systemically important banks" (G-SIBs), Citi is currently expected to be subject to a surcharge of 2.5%, which will likely be higher than the surcharge applicable to most of Citi's U.S. and non-U.S. competitors. Competitive impacts of the proposed regulatory capital regime could further negatively impact Citi's businesses and results of operations.

Citi's estimated Basel III capital ratios necessarily reflect management's understanding, expectations and interpretation of the proposed U.S. Basel III requirements as well as existing implementation guidance. Furthermore, Citi must incorporate certain enhancements and refinements to its Basel II.5 market risk models, as required by both the Federal Reserve Board and the OCC, in order to retain the risk-weighted asset benefits associated with the conditional approvals received for such models. Citi must also separately obtain final approval from these agencies for the use of certain credit risk models that would also yield reduced risk-weighted assets, in part, under Basel III.

All of these uncertainties make long-term capital planning by Citi's management challenging. If management's estimates and assumptions with respect to these or other aspects of U.S. Basel III implementation are not accurate, or if Citi fails to incorporate the required enhancement and refinements to its models as required by the Federal Reserve Board and the OCC, then Citi's ability to meet its future regulatory capital requirements as it projects or as required could be negatively impacted, or the business and financial consequences of doing so could be more adverse than expected.

Risk factors (continued)

Regulatory risk (continued)

The Ongoing Implementation of Derivatives Regulation Under the Dodd-Frank Act Could Adversely Affect Citi's Derivatives Businesses, Increase Its Compliance Costs and Negatively Impact Its Results of Operations.
Derivatives regulations under the Dodd-Frank Act have impacted and will continue to substantially impact the derivatives markets by, among other things: (i) requiring extensive regulatory and public reporting of derivatives transactions; (ii) requiring a wide range of over-the-counter derivatives to be cleared through recognized clearing facilities and traded on exchanges or exchange-like facilities; (iii) requiring the collection and segregation of collateral for most uncleared derivatives; and (iv) significantly broadening limits on the size of positions that may be maintained in specified derivatives. These market structure reforms will make trading in many derivatives products more costly, may significantly reduce the liquidity of certain derivatives markets and could diminish customer demand for covered derivatives. These changes could negatively impact Citi's results of operations in its derivatives businesses.

Numerous aspects of the new derivatives regime require costly and extensive compliance systems to be put in place and maintained. For example, under the new derivatives regime, certain of Citi's subsidiaries have registered as "swap dealers," thus subjecting them to extensive ongoing compliance requirements, such as electronic recordkeeping (including recording telephone communications), real-time public transaction reporting and external business conduct requirements (e.g., required swap counterparty disclosures), among others. These requirements require the successful and timely installation of extensive technological and operational systems and compliance infrastructure, and Citi's failure to effectively install such systems subject it to increased compliance risks and costs which could negatively impact its earnings and result in regulatory or reputational risk. Further, new derivatives-related systems and infrastructure will likely become the basis on which institutions such as Citi compete for clients. To the extent that Citi's connectivity, product offerings or services for clients in these businesses is deficient, this could further negatively impact Citi's results of operations

Additionally, while certain of the derivatives regulations under the Dodd-Frank Act have been finalized, the rulemaking process is not complete, significant interpretive issues remain to be resolved and the timing for the effectiveness of many of these requirements is not yet clear. Depending on how the uncertainty is resolved, certain outcomes could negatively impact Citi's competitive position in these businesses, both with respect to the crossborder aspects of the U.S. rules as well as with respect to the international coordination and timing of various non-U.S. derivatives regulatory reform efforts. For example, in mid-2012, the European Union (EU) adopted the European Market Infrastructure Regulation which requires, among other things, information on all European derivative transactions be reported to trade repositories and certain counterparties to clear "standardized" derivatives contracts through central counterparties. Many of these non- U.S. reforms are likely to take effect after the corresponding 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, additional or even inconsistent requirements on Citi's derivatives 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 result in disruptions to Citi's operations and make it more difficult for Citi to compete in these businesses.

The Dodd-Frank Act also contains a so-called "push-out" provision that, to date, has generally been interpreted to prevent FDIC-insured depository institutions from dealing in certain equity, commodity and credit-related derivatives, although the ultimate scope of the provision is not certain. Citi currently conducts a substantial portion of its derivatives-dealing activities within and outside the U.S. through Citibank, N.A., its primary insured depository institution. The costs of revising customer relationships and modifying the organizational structure of Citi's businesses or the subsidiaries engaged in these businesses remain unknown and are subject to final regulations or regulatory interpretations, as well as client expectations. While this push-out provision is to be effective in July 2013, U.S. regulators may grant up to an initial two-year transition period to each depository institution. In January 2013, Citi applied for an initial two-year transition period for Citibank, N.A.

The timing of any approval of a transition period request, or any parameters imposed on a transition period, remains uncertain. In addition, to the extent that certain of Citi's competitors already conduct these derivatives activities outside of FDIC-insured depository institutions, Citi would be disproportionately impacted by any restructuring of its business for push-out purposes.

Risk factors (continued)

Regulatory risk (continued)

Moreover, the extent to which Citi's non-U.S. operations will be impacted by the push-out provision 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.

It Is Uncertain What Impact the Proposed Restrictions on Proprietary Trading Activities Under the Volcker Rule Will Have on Citi's Market-Making Activities and Preparing for Compliance with the Proposed Rules Necessarily Subjects Citi to Additional Compliance Risks and Costs.
The "Volcker Rule" provisions of the Dodd-Frank Act are intended in part to restrict the proprietary trading activities of institutions such as Citi. While the five regulatory agencies required to adopt rules to implement the Volcker Rule have each proposed their rules, none of the agencies has adopted final rules. Instead, in July 2012, the regulatory agencies instructed applicable institutions, including Citi, to engage in "good faith efforts" to be in compliance with the Volcker Rule by July 2014. Because the regulations are not yet final, the degree to which Citi's market-making activities will be permitted to continue in their current form remains uncertain. In addition, the proposed rules and any restrictions imposed by final regulations 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 all of their activities outside of the U.S.

As a result of this continued uncertainty, preparing for compliance based only on proposed rules necessarily requires Citi to make certain assumptions about the applicability of the Volcker Rule to its businesses and operations. For example, as proposed, the regulations contain exceptions for marketmaking, 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, Citi is required to make certain assumptions as to the degree to which Citi's activities in these areas will be permitted to continue. If these assumptions are not accurate, Citi could be subject to additional compliance risks and costs and could be required to undertake such compliance on a more compressed time frame when regulators issue final rules. In addition, the proposed regulations would require an extensive compliance regime for the "permitted" activities under the Volcker Rule. Citi's implementation of this compliance regime will be based on its "good faith" interpretation and understanding of the proposed regulations, and to the extent its interpretation or understanding is not correct, Citi could be subject to additional compliance risks and costs. Like the other areas of ongoing regulatory reform, alternative proposals for the regulation of proprietary trading are developing in non-U.S. jurisdictions, leading to overlapping or potentially conflicting regimes. For example, in the U.K., the so-called "Vickers" proposal would separate investment and commercial banking activity from retail banking and would require ring-fencing of U.K. domestic retail banking operations coupled with higher capital requirements for the ring-fenced assets. In the EU, the so-called "Liikanen" proposal would require the mandatory separation of proprietary trading and other significant trading activities into a trading entity legally separate from the legal entity holding the banking activities of a firm. It is likely that, given Citi's worldwide operations, some form of the Vickers and/or Liikanen proposals will eventually be applicable to a portion of Citi's operations. While the Volcker Rule and these non-U.S. proposals are intended to address similar concerns—separating the perceived risks of proprietary trading and certain other investment banking activities in order not to affect more traditional banking and retail activities—they would do so under different structures, resulting in inconsistent regulatory regimes and increased compliance and other costs for a global institution such as Citi.

Regulatory Requirements in the U.S. and in Non-U.S. Jurisdictions to Facilitate the Future Orderly Resolution of Large Financial Institutions Could Negatively Impact Citi's Business Structures, Activities and Practices.
The Dodd-Frank Act requires Citi to prepare and submit annually a plan for the orderly resolution of Citigroup (the bank holding company) under the U.S. Bankruptcy Code in the event of future material financial distress or failure. Citi is also required to prepare and submit a resolution plan for its insured depository institution subsidiary, Citibank, N.A., and to demonstrate how Citibank 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 require substantial effort, time and cost across all of Citi's businesses and geographies. These resolution plans are subject to review by the Federal Reserve Board and the FDIC.

Risk factors (continued)

Regulatory risk (continued)

If the Federal Reserve Board and the FDIC both determine that Citi's resolution plans are not "credible" (which, although not defined, is generally believed to mean the regulators do not believe the plans are feasible or would otherwise allow the regulators to resolve Citi in a way that protects systemically important functions without severe systemic disruption and without exposing taxpayers to loss), and Citi does not remedy the deficiencies within the required time period, Citi could be required to restructure or reorganize businesses, legal entities, or operational systems and intracompany transactions in ways that could negatively impact its operations, or be subject to restrictions on growth. Citi could also eventually be subjected to more stringent capital, leverage or liquidity requirements, or be required to divest certain assets or operations.

In addition, other jurisdictions, such as the U.K., 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 from 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 required by Citi's regulators in the U.S.

Additional Regulations with Respect to Securitizations Will Impose Additional Costs, Increase Citi's Potential Liability and May Prevent Citi from Performing Certain Roles in Securitizations.
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. These provisions include, among others, a requirement that securitizers in certain transactions retain un-hedged exposure to at least 5% of the economic risk of certain assets they securitize and a prohibition on securitization participants engaging in transactions that would involve a conflict with investors in the securitization. Many of these requirements have yet to be finalized. The SEC has also proposed additional extensive regulation of both publicly and privately offered securitization transactions through revisions to the registration, disclosure, and reporting requirements for asset-backed securities and other structured finance products. Moreover, the proposed capital adequacy regulations are likely to increase the capital required to be held against various exposures to securitizations. The cumulative effect of these extensive regulatory changes as well as other potential future regulatory changes 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. As a result, these effects could impair Citi's ability to continue to earn income from these transactions or could hinder Citi's ability to use such transactions to hedge risks, reduce exposures or reduce assets with adverse risk-weighting in its businesses, and those consequences could affect the conduct of these businesses. 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.

Market and economic risks

There Continues to Be Significant Uncertainty Arising from the Ongoing Eurozone Debt and Economic Crisis, Including the Potential Outcomes That Could Occur and the Impact Those Outcomes Could Have on Citi's Businesses, Results of Operations or Financial Condition, as well as the Global Financial Markets and Financial Conditions Generally.
Several European countries, including Greece, Ireland, Italy, Portugal and Spain (GIIPS), continue to experience credit deterioration due to weaknesses in their economic and fiscal situations. Concerns have been raised, both within the European Monetary Union (EMU) as well as internationally, as to the financial, political and legal effectiveness of measures taken to date, and the ability of these countries to adhere to any required austerity, reform or similar measures. These ongoing conditions have caused, and are likely to continue to cause, disruptions in the global financial markets, particularly if they lead to any future sovereign debt defaults and/or significant bank failures or defaults in the Eurozone.

Risk factors (continued)

Market and economic risks (continued)

The impact of the ongoing Eurozone debt and economic crisis and other developments in the EMU could be even more significant if they lead to a partial or complete break-up of the EMU. The exit of one or more member countries from the EMU could result in certain obligations relating to the exiting country being redenominated from the Euro to a new country currency. Redenomination could be accompanied by immediate revaluation of the new currency as compared to the Euro and the U.S. dollar, the extent of which would depend on the particular facts and circumstances. Any such redenomination/revaluation would cause significant legal and other uncertainty with respect to outstanding obligations of counterparties and debtors in any exiting country, whether sovereign or otherwise, and would likely lead to complex, lengthy litigation. Redenomination/revaluation could also be accompanied by the imposition of exchange and/or capital controls, required functional currency changes and "deposit flight."

The ongoing Eurozone debt and economic crisis has created, and will continue to create, significant uncertainty for Citi and the global economy. Any occurrence or combination of the events described above could negatively impact Citi's businesses, results of operations and financial condition, both directly through its own exposures as well as indirectly. For example, at times, Citi has experienced widening of its credit spreads and thus increased costs of funding due to concerns about its Eurozone exposure. In addition, U.S. regulators could impose mandatory loan loss and other reserve requirements on U.S. financial institutions, including Citi, if a particular country's economic situation deteriorates below a certain level, which could negatively impact Citi's earnings, perhaps significantly. Citi's businesses, results of operations and financial condition could also be negatively impacted due to a decline in general global economic conditions as a result of the ongoing Eurozone crises, particularly given its global footprint and strategy. In addition to the uncertainties and potential impacts described above, the ongoing Eurozone crisis and/or partial or complete break-up of the EMU could cause, among other things, severe disruption to global 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.

While Citi endeavors to mitigate its credit and other exposures related to the Eurozone, the potential outcomes and impact of those outcomes resulting from the Eurozone crisis are highly uncertain and will ultimately be based on the specific facts and circumstances. As a result, there can be no assurance that the various steps Citi has taken to protect its businesses, results of operations and financial condition against these events will be sufficient. In addition, there could be negative impacts to Citi's businesses, results of operations or financial condition that are currently unknown to Citi and thus cannot be mitigated as part of its ongoing contingency planning.

The Continued Uncertainty Relating to the Sustainability and Pace of Economic Recovery in the U.S. and Globally Could Have a Negative Impact on Citi's Businesses and Results of Operations. Moreover, Any Significant Global Economic Downturn or Disruption, Including a Significant Decline in Global Trade Volumes, Could Materially and Adversely Impact Citi's Businesses, Results of Operations and Financial Condition.
Like other financial institutions, Citi's businesses have been, and could continue to be, negatively impacted by the uncertainty surrounding the sustainability and pace of economic recovery in the U.S. as well as globally. This continued uncertainty has impacted, and could continue to impact, the results of operations in, and growth of, Citi's businesses. Among other impacts, continued economic concerns can negatively affect Citi's ICG businesses, as clients cut back on trading and other business activities, as well as its Consumer businesses, including its credit card and mortgage businesses, as continued high levels of unemployment can impact payment and thus delinquency and loss rates. Fiscal and monetary actions taken by U.S. and non-U.S. government and regulatory authorities to spur economic growth or otherwise, such as by maintaining a low interest rate environment, can also have an impact on Citi's businesses and results of operations. For example, actions by the Federal Reserve Board can impact Citi's cost of funds for lending, investing and capital raising activities and the returns it earns on those loans and investments, both of which affect Citi's net interest margin. Moreover, if a severe global economic downturn or other major economic disruption were to occur, including a significant decline in global trade volumes, Citi would likely experience substantial loan and other losses and be required to significantly increase its loan loss reserves, among other impacts. A global trade disruption that results in a permanently reduced level of trade volumes and increased costs of global trade, whether as a result of a prolonged "trade war" or some other reason, could significantly impact trade financing activities, certain trade dependent economies (such as the emerging markets in Asia) as well as certain industries heavily dependent on trade, among other things.

Risk factors (continued)

Market and economic risks (continued)

Given Citi's global strategy and focus on the emerging markets, such a downturn and decrease in global trade volumes could materially and adversely impact Citi's businesses, results of operation and financial condition, particularly as compared to its competitors. This could include, among other things, a potential that any such losses would not be tax benefitted, given the current environment.

Concerns About the Level of U.S. Government Debt and a Downgrade (or a Further Downgrade) of the U.S. Government Credit Rating Could Negatively Impact Citi's Businesses, Results of Operations, Capital, Funding and Liquidity.
Concerns about the level of U.S. government debt and uncertainty relating to fiscal actions that may be taken to address these and related issues have, and could continue to, adversely affect Citi. In 2011, Standard & Poor's loweredits long-term sovereign credit rating on the U.S. government from AAA to AA+, and Moody's and Fitch both placed such 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. Among other things, a future downgrade (or further downgrade) of U.S. debt obligations or U.S. government-related obligations, or concerns that such a downgrade might occur, could negatively affect Citi's ability to obtain funding collateralized by such obligations and the pricing of such funding as well as the pricing or availability of Citi's funding as a U.S. financial institution. Any further downgrade could also have a negative impact on financial markets and economic conditions generally and, as a result, could have a negative impact on Citi's businesses, results of operations, capital, funding and liquidity.

Citi's Extensive Global Network Subjects It to Various International and Emerging Markets Risks as well as Increased Compliance and Regulatory Risks and Costs.
During 2012, international revenues accounted for approximately 57% of Citi's total revenues. In addition, revenues from the emerging markets (which Citi generally defines as the markets in Asia (other than Japan, Australia and New Zealand), the Middle East, Africa and central and eastern European countries in EMEA and the markets in Latin America) accounted for approximately 44% of Citi's total revenues in 2012. Citi's extensive global network subjects it to a number of risks associated with international and emerging markets, including, among others, sovereign volatility, political events, foreign exchange controls, limitations on foreign investment, socio-political instability, nationalization, closure of branches or subsidiaries and confiscation of assets. For example, Citi operates in several countries, such as Argentina and Venezuela, with strict foreign exchange controls that limit its ability to convert local currency into U.S. dollars and/or transfer funds outside the country. In such cases, Citi could be exposed to a risk of loss in the event that the local currency devalues as compared to the U.S. dollar. There have also been instances of political turmoil and other instability in some of the countries in which Citi operates, including in certain countries in the Middle East and Africa, to which Citi has responded by transferring assets and relocating staff members to more stable jurisdictions. Similar incidents in the future could place Citi's staff and operations in danger and may result in financial losses, some significant, including nationalization of Citi's assets.

Additionally, given its global focus, Citi could be disproportionately impacted as compared to its competitors by an economic downturn in the international and/or emerging markets, whether resulting from economic conditions within these markets, the ripple effect of the ongoing Eurozone crisis, the global economy generally or otherwise. If a particular country's economic situation were to deteriorate below a certain level, U.S. regulators could impose mandatory loan loss and other reserve requirements on Citi, which could negatively impact its earnings, perhaps significantly. In addition, countries such as China, Brazil and India, each of which are part of Citi's emerging markets strategy, have recently experienced uncertainty over the pace and extent of future economic growth. Lower or negative growth in these or other emerging market economies could make execution of Citi's global strategy more challenging and could adversely affect Citi's results of operations.

Risk factors (continued)

Market and economic risks (continued)

Citi's extensive global operations also 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 compliance infrastructure. Any failure by Citi to comply 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. Further, Citi provides a wide range of financial products and services to the U.S. and other governments, to multi-national corporations and other businesses, and to prominent individuals and families around the world. The actions of these clients involving the use of Citi products or services could result in an adverse impact on Citi, including adverse regulatory and reputational impact.

Liquidity risks

The Maintenance of Adequate Liquidity Depends on Numerous Factors, Including Those Outside of Citi's Control such as Market Disruptions and Increases in Citi's Credit Spreads.
As a global financial institution, 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 creditworthiness in particular. Market perception of sovereign default risks, including those arising from the ongoing Eurozone debt crisis, can also lead to inefficient money markets and capital markets, which could further impact Citi's availability and cost of funding.

In addition, Citi's cost and ability to obtain deposits, secured funding and long-term unsecured funding from the credit and capital markets are directly related to its credit spreads. Changes in credit spreads constantly occur and are market-driven, including both external market factors and 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 and cost of funding. As a holding company, Citigroup relies on dividends, distributions and other payments from its subsidiaries to fund dividends as well as to satisfy its debt and other obligations. Several of Citigroup's subsidiaries are subject to capital adequacy or other regulatory or contractual restrictions on their ability to provide such payments. Limitations on the payments that Citigroup receives from its subsidiaries could also impact its liquidity.

The Credit Rating Agencies Continuously Review the Ratings of Citi and Certain of Its Subsidiaries, and Reductions in Citi's or Its More Significant Subsidiaries' Credit Ratings Could Have a Negative Impact on Citi's Funding and Liquidity Due to Reduced Funding Capacity, Including Derivatives Triggers That Could Require Cash Obligations or Collateral Requirements.
The credit rating agencies, such as Fitch, Moody's and S&P, continuously evaluate Citi and certain of 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 assumptions and conditions affecting the financial services industry and markets generally.

Citi and its subsidiaries may not be able to maintain their current respective ratings. A ratings downgrade by Fitch, Moody's or S&P could negatively impact Citi's ability to access the capital markets and other sources of funds as well as the costs of those funds, and its ability to maintain certain deposits. A ratings downgrade could also have a negative impact on Citi's funding and liquidity due to reduced funding capacity, including derivative triggers, which could take the form of cash obligations and collateral requirements.

Risk factors (continued)

Liquidity risks (continued)

In addition, a ratings downgrade 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, as well as on contractual provisions which contain minimum ratings thresholds in order for Citi to hold third-party funds.

Moreover, credit ratings downgrades can have impacts which may not be currently known to Citi or which are not possible to quantify. For example, some entities may have ratings limitations as to their permissible counterparties, of which Citi may or may not be aware. In addition, certain of Citi's corporate customers and trading counterparties, among other clients, could re-evaluate their business relationships with Citi and limit the trading of certain contracts or market instruments with Citi in response to ratings downgrades. Changes in customer and counterparty behavior could impact not only Citi's funding and liquidity but also the results of operations of certain Citi businesses.

Legal risks

Citi Is Subject to Extensive Legal and Regulatory Proceedings, Investigations, and Inquiries That Could Result in Substantial Losses. These Matters Are Often Highly Complex and Slow to Develop, and Results Are Difficult to Predict or Estimate.

At any given time, Citi is defending a significant number of legal and regulatory proceedings and is subject to numerous governmental and regulatory examinations, investigations and other inquiries. These proceedings, examinations, investigations and inquiries could result, individually or collectively, in substantial losses. In the wake of the financial crisis of 2007–2009, the frequency with which such proceedings, investigations and inquiries are initiated, and the severity of the remedies sought, have increased substantially, and the global judicial, regulatory and political environment has generally become more hostile to large financial institutions such as Citi. Many of the proceedings, investigations and inquiries involving Citi relating to events before or during the financial crisis have not yet been resolved, and additional proceedings, investigations and inquiries relating to such events may still be commenced. In addition, heightened expectations by regulators and other enforcement authorities for strict compliance could also lead to more regulatory and other enforcement proceedings seeking greater sanctions for financial institutions such as Citi.

For example, Citi is currently subject to extensive legal and regulatory inquiries, actions and investigations relating to its historical mortgagerelated activities, including claims regarding the accuracy of offering documents for residential mortgage-backed securities and alleged breaches of representation and warranties relating to the sale of mortgage loans or the placement of mortgage loans into securitization trusts. Citi is also subject to extensive legal and regulatory inquiries, actions and investigations relating to, among other things, submissions made by Citi and other panel banks to bodies that publish various interbank offered rates, such as the London Inter-Bank Offered Rate (LIBOR), or other rates or benchmarks. Like other banks with operations in the U.S., Citi is also subject to continuing oversight by the OCC and other bank regulators, and inquiries and investigations by other governmental and regulatory authorities, with respect to its anti-money laundering program. Other banks subject to similar or the same inquiries, actions or investigations have incurred substantial liability in relation to their activities in these areas, including in a few cases criminal convictions or deferred prosecution agreements respecting corporate entities as well as substantial fines and penalties.

Moreover, regulatory changes resulting from the Dodd-Frank Act and other recent regulatory changes—such as the limitations on federal preemption in the consumer arena, the creation of the Consumer Financial Protection Bureau with its own examination and enforcement authority and the "whistle-blower" provisions of the Dodd-Frank Act—could further increase the number of legal and regulatory proceedings against Citi. In addition, while Citi takes numerous steps to prevent and detect employee misconduct, such as fraud, employee misconduct cannot always be deterred or prevented and could subject Citi to additional liability.

All of these inquiries, actions and investigations have resulted in, and will continue to result in, significant time, expense and diversion of management's attention. In addition, proceedings brought against Citi may result in adverse judgments, settlements, fines, penalties, restitution, 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.

Risk factors (continued)

Legal risks (continued)

Moreover, 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 is 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 legal and regulatory matters according to accounting requirements, the amount of loss ultimately incurred in relation to those matters may be substantially higher than the amounts accrued.

Business and operational risks

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.
As of December 31, 2012, the remaining assets within Citi Holdings constituted approximately 8% of Citigroup's GAAP assets and 15% of its risk-weighted assets (as defined under current regulatory guidelines). Also as of December 31, 2012, LCL constituted approximately 81% of Citi Holdings assets, of which approximately 73% consisted of legacy U.S. mortgages which had an estimated weighted average life of six years.

The pace of the wind-down of the remaining assets within Citi Holdings has slowed as Citi has disposed of certain of the larger businesses within this segment. While Citi's strategy continues to be to reduce the remaining assets in Citi Holdings as quickly as practicable in an economically rational manner, sales of the remaining assets could largely depend on factors outside of Citi's control, such as market appetite and buyer funding. Assets that are not sold will continue to be subject to ongoing run-off and paydowns. As a result, Citi Holdings' remaining assets will likely continue to have a negative impact on Citi's overall results of operations. Moreover, Citi's ability to utilize the capital supporting the remaining assets within Citi Holdings and thus use such capital for more productive purposes, including return of capital to shareholders, will also depend on the ultimate pace and level of the winddown of Citi Holdings.

Citi May Be Unable to 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. In December 2012, Citi announced a series of repositioning actions designed to further reduce its expenses and improve its efficiency. However, there is no guarantee that Citi will be able to reduce its level of expenses, whether as a result of the recently-announced repositioning actions or otherwise, in the future. Citi's ultimate expense levels also depend, in part, on factors outside of its control. For example, as a result of the extensive legal and regulatory proceedings and inquiries to which Citi is subject, Citi's legal and related costs remain elevated, have been, and are likely to continue to be, subject to volatility and are difficult to predict. In addition, expenses incurred in Citi's foreign entities are subject to foreign exchange volatility. Further, Citi's ability to continue to reduce its expenses as a result of the wind-down of Citi Holdings will also decline as Citi Holdings represents a smaller overall portion of Citigroup. Moreover, investments Citi has made in its businesses, or may make in the future, may not be as productive as Citi expects or at all.

Citi's Operational Systems and Networks Have Been, and Will Continue to Be, Subject 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. With the evolving proliferation of new technologies and the increasing use of the Internet and mobile devices to conduct financial transactions, large, global financial institutions such as Citi have been, and will continue to be, subject to an increasing risk of cyber incidents from these activities.

Risk factors (continued)

Business and operational risks (continued)

Although Citi devotes significant resources to maintain and regularly upgrade its systems and networks with measures such as intrusion and detection prevention systems and monitoring firewalls to safeguard critical business applications, there is no guarantee that these measures or any other measures can provide absolute security. Citi's computer systems, software and networks are subject to ongoing cyber incidents such as 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. Additional challenges are posed by external extremist parties, including foreign state actors, in some circumstances as a means to promote political ends.

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, customer dissatisfaction, additional costs to Citi (such as repairing systems or adding new personnel or protection technologies), regulatory penalties, exposure to litigation and other 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 Citi's global footprint and high volume of transactions processed by 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 been subject to intentional cyber incidents from external sources, including (i) denial of service attacks, which attempted to interrupt service to clients and customers; (ii) data breaches, which aimed to obtain unauthorized access to customer account data; and (iii) malicious software attacks on client systems, which attempted to allow unauthorized entrance to Citi's systems under the guise of a client and the extraction of client data. For example, in 2012 Citi and other U.S. financial institutions experienced distributed denial of service attacks which were intended to disrupt consumer online banking services. While Citi's monitoring and protection services were able to detect and respond to these incidents before they became significant, they still resulted in certain limited losses in some instances as well as increases in expenditures to monitor against the threat of similar future cyber incidents. There can be no assurance that such cyber incidents will not occur again, and they could occur more frequently and on a more significant scale. In addition, because the methods used to cause cyber attacks change frequently or, in some cases, are not recognized until launched, Citi may be unable to implement effective preventive measures or proactively address these methods.

Third parties with which Citi does business may also be sources of cybersecurity or other technological risks. Citi outsources certain functions, such as processing customer credit card transactions, uploading content on customer-facing websites, and developing software for new products and services. These relationships allow for the storage and processing of customer information, by third party hosting of or access to Citi websites, which could result in service disruptions or website defacements, and the potential to introduce vulnerable code, resulting in security breaches impacting Citi customers. While Citi engages in certain actions to reduce the exposure resulting from outsourcing, such as performing onsite security control assessments, 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 centers, ongoing threats may result in unauthorized access, loss or destruction of data or other cyber incidents with increased costs and consequences to Citi such 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 and operational risks (continued)

Citi's Performance and the Performance of Its Individual Businesses Could Be Negatively Impacted If Citi Is Not Able to Hire and Retain Qualified Employees for Any Reason.
Citi's performance and the performance of its individual businesses is largely dependent on the talents and efforts of highly skilled employees. Specifically, Citi's continued ability to compete in its businesses, to manage its businesses effectively and to continue to execute its overall global strategy depends on its ability to attract new employees and to retain and motivate its existing employees. Citi's ability to attract and retain employees depends on numerous factors, including without limitation, its culture, compensation, the management and leadership of the company as well as its individual businesses, Citi's presence in the particular market or region at issue and the professional opportunities it offers. The banking industry has and may continue to experience more stringent regulation of employee compensation, including limitations relating to incentive-based compensation, clawback requirements and special taxation. Moreover, given its continued focus on the emerging markets, Citi is often competing for qualified employees in these markets with entities that have a significantly greater presence in the region or are not subject to significant regulatory restrictions on the structure of incentive compensation. If Citi is unable to continue to attract and retain qualified employees for any reason, Citi's performance, including its competitive position, the successful execution of its overall strategy and its results of operations could be negatively impacted.

Incorrect Assumptions or Estimates in Citi's Financial Statements Could Cause Significant Unexpected Losses in the Future, and Changes to Financial Accounting and Reporting Standards Could Have a Material Impact on How Citi Records and Reports Its Financial Condition and Results of Operations.
Citi is required to use certain assumptions and estimates in preparing its financial statements under U.S. GAAP, including determining credit loss reserves, reserves related to litigation and regulatory exposures and mortgage representation and warranty claims, DTAs and the fair value of certain assets and liabilities, among other items. If Citi's assumptions or estimates underlying its financial statements are incorrect, Citi could experience unexpected losses, some of which could be significant.

Moreover, the Financial Accounting Standards Board (FASB) is currently reviewing or proposing changes to several financial accounting and reporting standards that govern key aspects of Citi's financial statements, including those areas where Citi is required to make assumptions or estimates.

For example, the FASB's financial instruments project could, among other things, significantly change how Citi determines the impairment on financial instruments and accounts for hedges. The FASB has also proposed a new accounting model intended to require earlier recognition of credit losses. The accounting model would require a single "expected credit loss" measurement objective for the recognition of credit losses for all financial instruments, replacing the multiple existing impairment models in U.S. GAAP, which generally require that a loss be "incurred" before it is recognized.

As a result of changes to financial accounting or reporting standards, whether promulgated or required by the FASB or other regulators, Citi could be required to change certain of the assumptions or estimates it previously used in preparing its financial statements, which could negatively impact how it records and reports its financial condition and results of operations generally. In addition, 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) may be converged. Any transition to IFRS could further have a material impact on how Citi records and reports its financial results.

Changes Could Occur in the Method for Determining LIBOR and It Is Unclear How Any Such Changes Could Affect the Value of Debt Securities and Other Financial Obligations Held or Issued by Citi That Are Linked to LIBOR, or How Such Changes Could Affect Citi's Results of Operations or Financial Condition.
As a result of concerns about the accuracy of the calculation of the daily LIBOR, which is currently overseen by the British Bankers' Association (BBA), the BBA has taken steps to change the process for determining LIBOR by increasing the number of banks surveyed to set LIBOR and to strengthen the oversight of the process. In addition, recommendations relating to the setting and administration of LIBOR were put forth in September 2012, and the U.K. government has announced that it intends to incorporate these recommendations in new legislation.

Risk factors (continued)

Business and operational risks (continued)

It is uncertain what changes, if any, may be required or made by the U.K. government or other governmental or regulatory authorities in the method for determining LIBOR. Accordingly, it is not certain whether or to what extent any such changes could have an adverse impact on the value of any LIBOR-linked debt securities issued by Citi, or any loans, derivatives and other financial obligations or extensions of credit for which Citi is an obligor. It is also not certain whether or to what extent any such changes would have an adverse impact on the value of any LIBOR-linked securities, loans, derivatives and other financial obligations or extensions of credit held by or due to Citi or on Citi's overall financial condition or results of operations.

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's independent risk management organization is structured so as to facilitate the management of the principal risks Citi assumes in conducting its activities—credit risk, market risk and operational risk—across three dimensions: businesses, regions and critical products. Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. Market risk encompasses both liquidity risk and price risk. Price risk losses arise from fluctuations in the market value of trading and non-trading positions resulting from changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices and in their implied volatilities.

Operational risk is the risk for loss resulting from inadequate or failed internal processes, systems or human factors, or from external events, and includes reputation and franchise risk associated with business practices or market conduct in which Citi is involved. Managing these risks is made especially challenging within a global and complex financial institution such as Citi, particularly given the complex and diverse financial markets and rapidly evolving market conditions in which Citi operates.

Citi employs a broad and diversified set of risk management and mitigation processes and strategies, including the use of various risk models, in analyzing and monitoring these and other risk categories. However, these models, processes and strategies are inherently limited because they involve techniques, including the use of historical data in some circumstances, and judgments that cannot anticipate every economic and financial outcome in the markets in which it operates nor can it anticipate the specifics and timing of such outcomes. Citi could incur significant losses if its risk management processes, strategies or models are ineffective in properly anticipating or managing these risks.
In addition, concentrations of risk, particularly credit and market risk, can further increase the risk of significant losses. At December 31, 2012, Citi's most significant concentration of credit risk was with the U.S. government and its agencies, which primarily results from trading assets and investments issued by the U.S. government and its agencies. Citi also routinely executes a high volume of securities, trading, derivative and foreign exchange transactions with counterparties in the financial services sector, including banks, other financial institutions, insurance companies, investment banks and government and central banks. 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. Concentrations of risk 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.

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 Note 33 - Financial instruments and risk management.

Additional disclosures in relation to the Group's forbearance policies are also included in Note 33 - Financial instruments and risk management.

Redenomination and devaluation risk

As referenced above in the 10K Risk factors, the ongoing Eurozone debt crisis and other developments in the European Monetary Union (EMU) could lead to the withdrawal of one or more countries from the EMU or a partial or complete break-up of the EMU. See also "Risk Factors—Market and Economic Risks. (Page 10)" If one or more countries were to leave the EMU, certain obligations relating to the exiting country could be redenominated from the Euro to a new country currency. While alternative scenarios could develop, redenomination could be accompanied by immediate devaluation of the new currency as compared to the Euro and the U.S. dollar or Great British Pound.

The Group, like other financial institutions with substantial operations in the EMU, is exposed to potential redenomination and devaluation risks arising from (i) Euro-denominated assets and/or liabilities located or held within the exiting country that are governed by local country law ("local exposures"), as well as (ii) other Euro-denominated assets and liabilities, such as loans, securitized products or derivatives, between entities outside of the exiting country and a client within the country that are governed by local country law ("offshore exposures"). However, the actual assets and liabilities that could be subject to redenomination and devaluation risk are subject to substantial legal and other uncertainty.

The Group has been, and will continue to be, engaged in contingency planning for such events, particularly with respect to Greece, Ireland, Italy, Portugal and Spain (GIIPS). Generally, to the extent that the Group's local and offshore assets are approximately equal to its liabilities within the exiting country, and assuming both assets and liabilities are symmetrically redenominated and devalued, the Group believes that its risk of loss as a result of a redenomination and devaluation event would not be material. However, to the extent its local and offshore assets and liabilities are not equal, or there is asymmetrical redenomination of assets versus liabilities, the Group could be exposed to losses in the event of a redenomination and devaluation. Moreover, a number of events that could accompany a redenomination and devaluation, including a drawdown of unfunded commitments or "deposit flight," could exacerbate any mismatch of assets and liabilities within the exiting country.

The Group's redenomination and devaluation exposures to the GIIPS as of 31 December 2012 are not additive to its credit risk exposures to such countries as described under "Credit Risk" above. Rather, the Group's credit risk exposures in the affected country would generally be reduced to the extent of any redenomination and devaluation of assets. As of 31 December 2012, the Group estimates that it had net asset exposure subject to redenomination and devaluation in Ireland and Italy that was not significant. The Group had a net liability position in Greece, Portugal and Spain.

Any estimates of redenomination/devaluation exposure are subject to ongoing review and necessarily involve numerous assumptions, including which assets and liabilities would be subject to redenomination in any given case, the availability of purchased credit protection and the extent of any utilization of unfunded commitments. In addition, other events outside of the Group's control— such as the extent of any deposit flight and devaluation, the imposition of exchange and/or capital controls, or any required timing of functional currency changes and the accounting impact thereof —could further negatively impact The Group in such an event. Accordingly, in an actual redenomination and devaluation scenario, the Group's exposures could vary considerably based on the specific facts and circumstances.

Dividends

There were no dividends paid in the year (2011: £nil). The Directors do not recommend the payment of a final dividend.

CITIBANK INTERNATIONAL PLC

DIRECTORS' REPORT
for the year ended 31 December 2012

Directors

The Directors who held office during the year ended 31 December 2012 were:

J P Asquith	(appointed 31 October 2012)
D J Challen	
M L Corbat	(resigned 11 November 2012)
J C Cowles	(appointed 31 October 2012)
S H Dean	(appointed 26 April 2012)
A M Duffell	
P McCarthy	(appointed 16 May 2012)
L M Pigorini	(resigned 7 September 2012)
D Taylor	
M N B Thompson	(appointed 7 June 2012)
G J Von Lehmden	(appointed 30 August 2012)

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.

CITIBANK INTERNATIONAL PLC

DIRECTORS' REPORT
for the year ended 31 December 2012

Charitable donations and political contributions

During the year the Group made charitable donations of £47,720 (2011: £20,644). No political contributions were made during the year (2011: £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.

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

M N B Thompson
Director

28 March 2013

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 2012 set out on pages 23 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 and of the group's profit and parent company's loss 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.

R. Faulkner

Richard Faulkner (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

28 March 2013

CITIBANK INTERNATIONAL PLC

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2012

	Note	2012 £ Million	2011 £ Million
Interest and similar income		315	442
Interest expense and similar charges		(84)	(119)
Net interest income	**3**	231	323
Dividend income		1	-
Net fee and commission income	**4**	288	309
Net profit on items at fair value through profit and loss	**5**	20	3
Net investment income	**6**	-	9
Other operating income		23	30
Total operating income		563	674
Personnel expenses	**7**	(246)	(225)
General and administrative expenses	**8**	(182)	(119)
Amortisation and write off of intangible assets	**19**	(39)	(27)
Depreciation of property and equipment	**20**	(49)	(51)
Operating profit before net credit losses		47	252
Net credit losses	**14**	(133)	(187)
(Loss)/profit before income tax		(86)	65
Income tax credit/(charge)	**9**	95	(59)
Profit for the financial year		9	6

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Note	2012 £ Million	2011 £ Million
Profit for the year		9	6
Other comprehensive income			
Available for sale assets			
- change in fair values transferred to equity		-	74
- transfer to income statement on sale/redemption	**6**	-	(8)
		-	66
Foreign exchange translation differences		16	17
Actuarial losses on retirement benefits	**10**	(53)	(18)
		(37)	65
Net tax on items taken through other comprehensive income	**9**	9	(13)
Other comprehensive (loss)/income for the year, net of tax		(28)	52
Total comprehensive (loss)/income for the year		(19)	58

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

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

CONSOLIDATED BALANCE SHEET

as at 31 December 2012

	Note	2012 £ Million	2011 £ Million
Assets			
Cash and balances at central banks	**28**	2,922	1,430
Trading assets	**16**	1,439	1,246
Derivative financial instruments	**15**	196	316
Loans and advances to banks		6,196	3,716
Loans and advances to customers	**13**	4,876	6,365
Investment securities	**17**	2,580	2,640
Prepayments and accrued income		122	117
Other assets	**21**	1,620	438
Property, plant and equipment	**20**	95	115
Goodwill and intangible assets	**19**	136	120
Deferred tax assets	**22**	211	226
Total assets		20,393	16,729
Liabilities			
Deposits by banks		6,317	4,404
Customer accounts		8,771	7,750
Derivative financial instruments	**15**	262	565
Debt securities in issue	**23**	922	937
Accruals and deferred income		129	155
Current tax liabilities		1	1
Other liabilities	**24**	1,469	397
Provisions for liabilities	**25**	40	21
Deferred tax liabilities	**22**	1	2
Total liabilities		17,912	14,232
Equity shareholder funds			
Share capital	**27**	1,757	1,757
Share premium account		64	64
Other reserves		1,218	1,202
Retained earnings		(558)	(526)
Total equity shareholder funds attributable to equity holders of the parent company		2,481	2,497
Total liabilities and equity shareholder funds		20,393	16,729

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

The financial statements were approved by the Directors on 28 March 2013 and were signed on their behalf by:

M N B Thompson – Director

Registered Number: 1088249

CITIBANK INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
as at 31 December 2012

	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 2011	1,757	64	1,152	(8)	(25)	5	(518)	2,427
Total comprehensive income for the year								
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/(loss)	-	-	-	17	49	-	(14)	52
Total comprehensive income/(loss) for the year	-	-	-	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 January 2012	1,757	64	1,152	9	24	17	(526)	2,497
Total comprehensive income for the year								
Profit or (loss)	-	-	-	-	-	-	9	9
Other comprehensive income								
Foreign currency translation differences	-	-	-	11	-	-	-	11
Net profit on hedge of net investment in foreign operation	-	-	-	5	-	-	-	5
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(3)	-	-	(3)
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	-	(41)	(41)
Total other comprehensive income/(loss)	-	-	-	16	(3)	-	(41)	(28)
Total comprehensive income/(loss) for the year	-	-	-	16	(3)	-	(32)	(19)
Contributions by and distributions to owners								
Share-based payment transactions	-	-	-	-	-	3	-	3
Total contributions by and distributions to owners	-	-	-	-	-	3	-	3
Balance at 31 December 2012	1,757	64	1,152	25	21	20	(558)	2,481

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012

	Note	2012 £ Million	2011 £ Million
Cash flow from/(used in) operating activities:			
(Loss)/profit before income tax		(86)	65
Adjustments to reconcile net (loss)/profit to cash flow from/(used in) operating activities:			
Non-cash items included in net (loss)/profit and other adjustments:			
Depreciation of property and equipment	**20**	49	51
Amortisation and write off of intangible assets	**19**	39	27
Net credit losses	**14**	152	316
Dividend received		(1)	-
Changes in fair value of debt securities		38	-
Net (increase)/decrease in operating assets:			
Change in loans and advances to banks		329	299
Change in loans and advances to customers		1,337	128
Change in trading assets		(193)	889
Change in derivative assets		120	67
Change in prepayments and accrued income		(5)	3
Change in other assets		(1,167)	(170)
Net increase/(decrease) in operating liabilities:			
Change in deposits by banks		1,913	(1,300)
Change in customer accounts		1,021	(380)
Change in derivative liabilities		(303)	(112)
Change in accruals and deferred income		(26)	(45)
Change in other liabilities		1,147	(5)
Change in provisions for liabilities		19	(25)
Income taxes (paid)/received		(22)	12
Net cash flow from/(used) in operating activities		4,361	(180)
Cash flow from/(used in) investing activities:			
Purchase of property, plant and equipment	**20**	(38)	(44)
Purchase of intangible assets	**19**	(65)	(86)
Proceeds on disposal of property, plant and equipment		9	2
Proceeds on disposal of intangible assets		11	25
Purchase of investment securities		(423)	(1,139)
Disposal of investment securities		488	383
Net cash flow used in investing activities		(18)	(859)
Cash flow from/(used in) financing activities:			
Dividend received		1	-
Issuance of debt securities		490	-
Redemption of debt securities		(509)	(712)
Net cash flow used in financing activities		(18)	(712)
Effects of exchange rate differences		(24)	105
Net increase/(decrease) in cash and cash equivalents		4,301	(1,646)
Cash and cash equivalents, beginning of the year	**28**	4,745	6,391
Cash and cash equivalents, end of the year	**28**	9,046	4,745

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

COMPANY INCOME STATEMENT
for the year ended 31 December 2012

	Note	2012 £ Million	2011 £ Million
Interest and similar income		311	432
Interest expense and similar charges		(80)	(110)
Net interest income	**3**	231	322
Dividend income		1	-
Net fee and commission income	**4**	248	293
Net profit on items at fair value through profit and loss	**5**	20	3
Net investment income	**6**	-	9
Other operating income		23	28
Total operating income		523	655
Personnel expenses	**7**	(247)	(225)
General and administrative expenses	**8**	(159)	(106)
Amortisation and write off of intangible assets	**19**	(39)	(27)
Depreciation of property and equipment	**20**	(49)	(51)
Operating profit before net credit losses		29	246
Net credit losses	**14**	(133)	(187)
Reversal of impairment of subsidiary undertaking	**18**	120	-
Profit before income tax		16	59
Income tax	**9**	(18)	(60)
Loss for the financial year		(2)	(1)

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Note	2012 £ Million	2011 £ Million
Loss for the year		(2)	(1)
Other comprehensive income			
Available for sale assets			
- change in fair values transferred to equity		-	74
- transfer to income statement on sale/redemption	**6**	-	(8)
		-	66
Foreign exchange translation differences		21	5
Actuarial losses on retirement benefits	**10**	(53)	(18)
		(32)	53
Net tax on items taken through other comprehensive income	**9**	9	(13)
Other comprehensive (loss)/income for the year, net of tax		(23)	40
Total comprehensive (loss)/income for the year		(25)	39

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

The accompanying notes on 33 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

COMPANY BALANCE SHEET
as at 31 December 2012

	Note	2012 £ Million	2011 £ Million
Assets			
Cash and balances at central banks	**28**	2,922	1,430
Trading assets	**16**	1,439	1,246
Derivative financial instruments	**15**	196	316
Loans and advances to banks		6,173	3,686
Loans and advances to customers	**13**	4,723	6,117
Investment securities	**17**	2,580	2,641
Shares in subsidiary undertakings	**18**	39	67
Prepayments and accrued income		94	112
Other assets	**21**	1,564	427
Property, plant and equipment	**20**	95	115
Goodwill and intangible assets	**19**	136	120
Deferred tax assets	**22**	209	224
Total assets		20,170	16,501
Liabilities			
Deposits by banks		6,349	4,473
Customer accounts		8,771	7,750
Derivative financial instruments	**15**	262	565
Debt securities in issue	**23**	728	700
Accruals and deferred income		132	150
Current tax liabilities		1	1
Other liabilities	**24**	1,464	397
Provisions for liabilities	**25**	40	20
Total liabilities		17,747	14,056
Equity shareholder funds			
Share capital	**27**	1,757	1,757
Share premium account		64	64
Other reserves		1,220	1,199
Retained earnings		(618)	(575)
Total shareholder funds		2,423	2,445
Total liabilities and equity shareholder funds		20,170	16,501

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

The financial statements were approved by the Directors on 28 March 2013 and were signed on their behalf by:

M N B Thompson – Director

Registered Number: 1088249

CITIBANK INTERNATIONAL PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

as at 31 December 2012

	Share Capital £ Million	Share Premium £ Million	Capital Reserve £ Million	Translation Reserve £ Million	Fair Value Reserve £ Million	Equity Reserve £ Million	Retained Earnings £ Million	Total £ Million
At 1 January 2011	1,757	64	1,168	(15)	(25)	5	(560)	2,394
Total comprehensive income for the year								
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/(loss)	-	-	-	5	49	-	(14)	40
Total comprehensive income/(loss) for the year	-	-	-	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 January 2012	1,757	64	1,168	(10)	24	17	(575)	2,445
Total comprehensive income for the year								
Profit or (loss)	-	-	-	-	-	-	(2)	(2)
Other comprehensive income								
Foreign currency translation differences	-	-	-	16	-	-	-	16
Net profit/ (loss) on hedge of net investment in foreign operation	-	-	-	5	-	-	-	5
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(3)		-	(3)
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	-	(41)	(41)
Total other comprehensive income/(loss)	-	-	-	21	(3)	-	(41)	(23)
Total comprehensive income/(loss) for the year	-	-	-	21	(3)	-	(43)	(25)
Contribution by and distribution to owners								
Share-based payment transactions	-	-	-	-	-	3	-	3
Total contributions by and distributions to owners	-	-	-	-	-	3	-	3
Balance as 31 December 2012	1,757	64	1,168	11	21	20	(618)	2,423

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

CITIBANK INTERNATIONAL PLC

COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2012

	Note	2012 £ Million	2011 £ Million
Cash flow from/(used in) operating activities:			
Profit before income tax		16	59
Adjustments to reconcile net profit to cash flow from/(used in) operating activities:			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	**20**	49	51
Amortisation and write off of intangible assets	**19**	39	27
Net credit losses	**14**	152	316
Reversal of impairment of subsidiary undertaking	**18**	(120)	-
Dividend received		(1)	-
Changes in fair value of debt securities		38	-
Net (increase)/decrease in operating assets:			
Change in loans and advances to banks		332	(8)
Change in loans and advances to customers		1,242	(19)
Change in trading assets		(193)	889
Change in derivative assets		120	67
Change in prepayments and accrued income		18	12
Change in other assets		(1,122)	(176)
Net increase/(decrease) in operating liabilities:			
Change in deposits by banks		1,876	(1,778)
Change in customer accounts		1,021	(380)
Change in derivative liabilities		(303)	(112)
Change in accruals and deferred income		(18)	(41)
Change in other liabilities		1,030	21
Change in provisions for liabilities		20	(22)
Income taxes (paid)/received		(22)	12
Net cash flow from/(used in) operating activities		4,174	(1,082)
Cash flow from/(used in) investing activities:			
Proceeds from sale of business units and subsidiary undertakings	**18**	127	-
Purchase of property, plant and equipment	**20**	(38)	(44)
Purchase of intangible assets	**19**	(65)	(86)
Proceeds on disposal of property, plant and equipment		9	2
Proceeds on disposal of intangible assets		11	25
Purchase of investment securities		(423)	(1,139)
Disposal of investment securities		488	383
Capital repayment from subsidiaries	**18**	21	63
Net cash flow from/(used in) investing activities		130	(796)
Cash flow from/(used in) financing activities:			
Dividends received		1	-
Issuance of debt securities		490	-
Redemption of debt securities		(470)	(572)
Net cash flow used in financing activities		21	(572)
Effects of exchange rate differences		(14)	112
Net increase/(decrease) in cash and cash equivalents		4,311	(2,338)
Cash and cash equivalents, beginning of the year	**28**	4,715	7,053
Cash and cash equivalents, end of the year	**28**	9,026	4,715

The accompanying notes on pages 33 to 102 form an integral part of these financial statements.

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 endorsed 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 consolidated financial statements are presented in Pound Sterling ("£") and all values are rounded to the nearest million pounds, except where otherwise indicated.

The financial statements have been prepared on a going concern basis taking into account the ultimate reliance on support from the Group's parent. The risks and uncertainties identified by the parent group, which lead to the Group's reliance on parental support, are discussed further in the Directors' Report on pages 5 to 19. Taking these risk 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.

(b) Changes in accounting policy and disclosures

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

- Amended IFRS 7 Financial Instruments: Disclosures. The amendment provides enhanced disclosures for transferred financial assets that are derecognised in their entirety and Transferred assets that are not derecognised in their entirety. The effective date is for annual periods beginning on or after 1 July 2011.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

Standards issued but not yet effective
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 effective for the Company and Group financial statements, the Group does not plan on early adoption of these standards, they 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. Limited improvements have been made to the classification and measurement model in IFRS 9 in an attempt to align closer with the US GAAP model. An exposure draft has been published during December 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 first quarter of 2013. As the final IFRS 9 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. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive view.

- IFRS 7 Disclosures – *Offsetting Financial Assets and Financial Liabilities* – Amendments to IFRS 7. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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1. Principal accounting policies (continued)

(b) Changes in accounting policy and disclosures (continued)

- IFRS 10 – *Consolidated Financial Statements*, IAS 27 *Consolidated and Separate Financial Statements*. The E.U. endorsed standard becomes effective for annual periods beginning on or after 1 January 2014. It replaces the requirements of IAS 27 that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group is currently assessing the impact of adopting IFRS 10.

- IFRS 11 – *Joint Arrangements.* The E.U. endorsed standard becomes effective for annual periods beginning on or after 1 January 2014. It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group.

- IFRS 12 – *Disclosure of Interest in Other Entities.* The E.U. endorsed standard becomes effective for annual periods beginning on or after 1 January 2014. It covers disclosure requirements that were previously in IAS 27 related to consolidated financial statements, in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosures including judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Group concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Group to reach a different conclusion regarding consolidation. The Group will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. The standard will not have any impact on the financial position or performance of the Group.

- IFRS 13 – *Fair Value measurement.* The E.U. endorsed standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to apply fair value measurement, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities. IFRS 13 also sets additional disclosure requirements. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group.

- IAS 1 *Presentation of Items of Other Comprehensive Income* - Amendments to IAS 1. The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

- IAS 19 *Employee Benefits* – Amendments. The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group. The amendments to IAS 19 endorsed by the .E.U. on 5 June 2012 have not been adopted by the Bank for the period ended 31 December 2012. As a consequence of the revision to the standard, the basis of the calculation of the income statement expense will change, the effect of this would be to increase the net pension expense of £1.1 million. All changes will be made retrospectively in line with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), with prior year expense restated to £15.3 million from £14.2 million."

1. Principal accounting policies (continued)

(b) Changes in accounting policy and disclosures (continued)

- IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011). As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2014.

- IAS *32 Offsetting Financial Assets and Financial Liabilities* - Amendments to IAS 32. These amendments clarify the meaning of "legally enforceable right to set-off". It will be necessary to assess the impact to the Group by reviewing settlement procedures and legal documentation. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Group as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Group's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects. These amendments become effective for annual periods beginning on or after 1 January 2014.

- Annual Improvements May 2012. The improvements below are effective for annual periods beginning on or after 1 January 2013. These improvements will not have an impact on the Group, but include:
  - IAS 16 *Property Plant and Equipment* - this improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
  - IAS 32 *Financial Instruments, Presentation*- this improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

(c) 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 Group 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 following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the group obtains benefits from the SPE's operation.
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- The Group retains the majority of the residual or ownership risk related to the SPE or its assets in order to obtain benefits from its activities.

1. Principal accounting policies (continued)

(c) Consolidation (continued)

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transaction between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines wether the change warrents reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

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.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group. Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, but separate from parent shareholders' equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in a deficit balance.

(d) 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; Citicorp and Citi Holdings. 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.

(e) 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.

1. Principal accounting policies (continued)

(f) 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. The effective interest rate ("EIR") is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(g) 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 recognised as the services to which relate are received.

(h) Dividend income

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

(i) 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 includes all realised and unrealised fair value changes, together with related interest, dividends and foreign exchange differences.

(j) 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.

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.

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

1. Principal accounting policies (continued)

(k) 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. A sale or reclassification of any held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. Sales or reclassification is allowed in any of the following circumstances:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset`s fair value
- sales or reclassifications after the entity has collected substantially all of the asset`s original principal; or
- sales or reclassifications attributable to non-recurring isolated events beyond the entity`s control that could not have been reasonably anticipated.

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. The Group uses trade date accounting when recording investment securities.

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.

The Group may enter into certain lending commitments for which an off balance sheet undrawn commitment is recognised. Where the loan, on drawdown, is expected to be retained by the Group, the commitment is only recognised on balance sheet when it is an onerous contract that is likely to give rise to a loss. See Note 32 for further detail.

1. Principal accounting policies (continued)

(k) Other financial assets and liabilities (continued)

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 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. See Note 12 for further details.

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. See Note 12 for further details.

Reverse repurchase agreements
When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset or a substantially similar asset at a fixed price on a future date, the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Group`s financial statements.

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.

(l) 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.

1. Principal accounting policies (continued)

(l) Impairment of financial assets (continued)

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 in a separate account Allowances for loans and advances 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 are shown in Allowances 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.

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 the event of default, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management regularly reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. 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 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. An impairment is recognised by reclassifying the accumulated loss in other comprehensive income to profit and loss.

1. Principal accounting policies (continued)

(l) Impairment of financial assets (continued)

Subsequent increases in the fair value of available for sale debt securities are recognised in other comprehensive income, unless the increase can be objectively related to an event occurring after the impairment loss was recognised in which case the impairment is reversed through the income statement. Reversals of impairment of available for sale equity securities are not recognised in the income statement. Increases in the fair value of equity shares after impairment are recognised directly in other comprehensive income.

(m) 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 cash flows 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 expired.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

(n) 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

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.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

(o) 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.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in Other operating income in the income statement in the year the asset is derecognised.

(p) 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.

(q) 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(o) 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".

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.

1. Principal accounting policies (continued)

(q) Finance and operating leases (continued)

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.

(r) Shares in subsidiary undertakings

The Company's 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".

(s) 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.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value re-measurements of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

(t) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

(t) Retirement benefit obligations (continued)

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. Yields on AA (or better) corporate bonds have decreased during 2012, which resulted in a lower discount rate of 1.5%. 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.

(u) 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. 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. All amounts paid to Citigroup 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.

(v) 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.

1. Principal accounting policies (continued)

(w) 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.

(x) 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.

(y) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arsing from financial guarantees or commitments to provide a loan at below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contracts has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

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:

2. Use of assumptions estimates and judgements (continued)

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of loans and timing of loss recognition
The Group's accounting policy for losses in relation to the impairment of loans and advances to customers and banks is described in Note 1(l). 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 14 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(j) and Note 1(k). 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 12 further discusses the valuation of financial instruments.

During 2011, 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. Until 2011, 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.

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(s). 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.

2. Use of assumptions estimates and judgements (continued)

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 22 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.

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 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 2012, the Group recorded CVA/DVA loss of approximately £38 million (2011: gain of £33 million).

3. Net interest income

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Interest and similar income				
Cash and balances at central banks	6	8	6	8
Loans and advances to banks	37	54	37	53
Loans and advances to customers	191	352	187	343
Investment securities	51	12	51	12
Other interest income	30	16	30	16
	315	442	311	432
Interest expense and similar charges				
Deposits by banks	36	70	36	70
Customer accounts	34	31	33	31
Debt securities in issue	8	8	5	-
Other interest paid	6	10	6	9
	84	119	80	110
Net interest income	231	323	231	322

Interest income on items not at fair value is £244 million (2011: £367 million) for the Group and £239 million (2011: £376 million) for the Company.

4. Net fee and commission income

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Fee and commission income	303	320	262	307
Fee and commission expense	(15)	(11)	(14)	(14)
	288	309	248	293

Included within fee and commission income for the Group is £100 million (2011: £78 million) of fee income arising from trust and fiduciary activities. Expenses of £75 million (2011: £nil) relating to these activities are included within the Group fee and commission expense and the Group general and administrative expenses. Fee and commission income for the Group includes £237 million (2011: £254 million) relating to financial assets and liabilities not carried at fair value. Net fee and commission income of the Company includes £192 million (2011: £241 million) relating to financial assets and liabilities not carried at fair value.

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

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Net (loss)/profit on financial instruments designated at fair value	(13)	41	(13)	41
Net trading income/(loss)	33	(38)	33	(38)
	20	3	20	3

NOTES TO THE FINANCIAL STATEMENTS

6. Net investment income

	Group		Company	
	2012	2011	2012	2011
Available-for-sale	£ Million	£ Million	£ Million	£ Million
- Debt securities	-	8	-	8
- Equity securities	-	1	-	1
	-	9	-	9

7. Personnel expenses

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Wages and salaries	170	178	171	178
Social security costs	35	31	35	31
Share based incentive expenses (Note 11)	6	9	6	9
Pensions and post retirement benefits:				
- defined contribution plans	7	6	7	6
- defined benefit plans (Note 10)	14	6	14	6
Restructuring costs	14	(5)	14	(5)
	246	225	247	225

The average number of persons employed by the Group during the year was 4,392 (2011: 4,233).

8. General and administrative expenses

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Administrative expenses	164	114	141	101
Provisions for liabilities (Note 25)	14	-	14	-
Software costs	4	5	4	5
	182	119	159	106

Included within administrative expenses is auditors' remuneration as follows:

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Audit of these financial statements	0.7	1.0	0.7	1.0
Amounts receivable by the Group's auditor and its associates in respect of:				
Audit of the financial statements of subsidiaries of the Company	0.1	0.1	-	-
All other services	0.1	0.1	0.1	0.1
	0.9	1.2	0.8	1.1

The prior year auditors' remuneration numbers have been adjusted to bring them in line with current year presentation.

NOTES TO THE FINANCIAL STATEMENTS

8. General and administrative expenses (continued)

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 which at 31 December 2012 stood at approximately £18 billion. The FSCS confirmed in February 2013 that the first of three annual instalments of approximately £363 million will be levied in total on participating financial institutions in Scheme Year 2013/2014 to repay the balance of the loan principle that is not expected to be recovered. Currently, the Management Expenses Levy paid by the Group represents its share of the interest on these borrowings. The Group could be liable to pay a further proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury.

The accrual as at 31 December 2012 was £1.6 million (2011: £1.7 million) which represents £0.8 million for 2012 and £0.8 million for 2011. 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 deposits and the population of FSCS members at the time.

9. Income tax expense

(a) Analysis of tax charge in the year

	Group		Company	
	2012 £ Million	**2011 £ Million**	**2012 £ Million**	**2011 £ Million**
Current tax:				
Overseas current taxation	13	29	13	29
Tax losses surrendered for consideration	(30)	-	(30)	-
Adjustment in respect of overseas tax for prior years	(104)	12	9	12
Total current tax	(121)	41	(8)	41
Deferred tax:				
Origination and reversal of temporary differences:				
- UK	21	28	21	28
- Overseas	(27)	(16)	(27)	(15)
Adjustment in respect of prior years	17	(12)	17	(12)
Adjustment due to change in tax rate	15	18	15	18
Total deferred tax (Note 22)	26	18	26	19
Tax (credit)/charge for the year	(95)	59	18	60

9. Income tax expense (continued)

(b) Factors affecting tax charge for the year

The tax assessed for the Group and Company for the period differs from the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Profit before tax	(86)	65	16	59
Profit multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(21)	17	4	16
Effects of:				
Amounts written off investments	1	-	(28)	-
Foreign tax deductions	(3)	(7)	(3)	(7)
Other (income)/expenses not deductible for tax purposes	(9)	4	(9)	4
Group relief surrendered for no consideration	(4)	(1)	-	-
Overseas tax in respect of European branch operations	13	29	13	29
Adjustment due to change in tax rate	15	18	15	18
Adjustment to tax charge in relation to prior years	(87)	(1)	26	-
Tax (credit)/charge for the year	(95)	59	18	60

The aggregate tax credit for the Group and Company relating to items that are charged to equity at 31 December 2012 was £14 million (2011: £3 million).

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Change in fair value on Available-for-sale assets	3	17	3	17
Actuarial losses on retirement benefits	(12)	(4)	(12)	(4)
	(9)	13	(9)	13
Items taken directly to equity - Share based compensation	(5)	6	(5)	6
	(14)	19	(14)	19

10. 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 and Greece operate defined benefit schemes locally. Additionally a defined benefit pension scheme is in place 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 2012 were £9 million for Group and £9 million for Company (2011: Group £11 million and Company £11 million).

10. Retirement benefit obligation (continued)

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

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Present value of funded defined benefit obligations	(298)	(218)	(299)	(218)
Fair value of plan assets	226	204	226	204
Deficit	(72)	(14)	(73)	(14)
Present value of unfunded defined benefit obligations	(14)	(13)	(14)	(13)
Unrecognised prior service cost	2	1	2	1
Liability recognised on the balance sheet (Note 24)	(84)	(26)	(85)	(26)
Deferred tax asset	26	8	26	6
Net pension liability	(58)	(18)	(59)	(20)

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Current service cost	(5)	(4)	(5)	(4)
Interest cost	(11)	(11)	(11)	(11)
Expected return on plan assets	9	10	9	10
Past service cost	(10)	(1)	(10)	(1)
Curtailment and settlement benefit	3	-	3	-
Expense recognised in the income statement (Note 7)	(14)	(6)	(14)	(6)

Changes to local Social Security Pension provisions resulted in an increase in benefits due from the plan. These changes resulted in an expense of £10 million in 2012 with £3 million in curtailment and settlement gains arising from reductions in workforce.

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

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Opening defined benefit obligation	(230)	(218)	(230)	(217)
Exchange rate adjustments	4	5	4	5
Current service cost	(5)	(4)	(5)	(4)
Interest cost	(11)	(11)	(11)	(11)
Actuarial losses on scheme liabilities	(67)	(14)	(67)	(14)
Net benefits paid out	11	13	11	13
Past service cost	(10)	(1)	(10)	(1)
Adjustment to branch obligation	(2)	-	-	-
Net increase in liabilities from acquisitions	(6)	-	(6)	(1)
Curtailment and settlement benefit	3	-	3	-
Closing defined benefit obligation	(313)	(230)	(311)	(230)

10. Retirement benefit obligation (continued)

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

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Opening fair value of scheme assets	204	199	204	199
Exchange rate adjustments	(4)	(5)	(4)	(5)
Expected return on assets	9	10	9	10
Actuarial gains/(losses) on scheme assets	14	(4)	14	(4)
Contributions by the employer	9	16	9	16
Net benefits paid out	(11)	(13)	(11)	(13)
Net increase in assets from acquisitions	5	1	5	1
Closing fair value of scheme assets	226	204	226	204

The actual return on plan assets is as follows:

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Expected return on scheme assets	9	10	9	10
Actuarial gains/(losses) on scheme assets	14	(4)	14	(4)
Actual return on scheme assets	23	6	23	6

During 2012 employees transferred into Citibank International Plc from other Citi businesses. This resulted in an increase in plan assets and liabilities of £5 million and £6 million respectively.

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

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Total actuarial losses	(53)	(18)	(53)	(18)
Total losses in the statement of comprehensive income	(53)	(18)	(53)	(18)
Cumulative amount of losses recognised in the statement of comprehensive income	(116)	(63)	(113)	(60)

NOTES TO THE FINANCIAL STATEMENTS

10. Retirement benefit obligation (continued)

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

	2012 £ Million	2011 £ Million	2010 £ Million	2009 £ Million	2008 £ Million
Fair value of scheme assets	226	204	199	160	146
Defined benefits obligation	(313)	(230)	(218)	(172)	(173)
Deficit surplus in scheme	(87)	(26)	(19)	(12)	(27)

	2012 £ Million	2011 £ Million	2010 £ Million	2009 £ Million	2008 £ Million
Experience gains/(losses) on scheme assets	14	(4)	(2)	10	(29)
Experience gains/(losses) on scheme liabilities	1	(4)	(15)	(1)	(2)
Assumption (losses)/gains on scheme liabilities	(68)	(10)	(2)	(6)	4
Total actuarial (losses)/gains on scheme liabilities	(67)	(14)	(17)	(7)	2
Total actuarial (losses)/gains	(53)	(18)	(19)	3	(27)

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

	2012 £ Million	2011 £ Million	2010 £ Million	2009 £ Million	2008 £ Million
Fair value of scheme assets	226	204	199	160	146
Defined benefits obligation	(311)	(230)	(217)	(172)	(170)
Deficit in scheme	(85)	(26)	(18)	(12)	(24)

	2012 £ Million	2011 £ Million	2010 £ Million	2009 £ Million	2008 £ Million
Experience gains/(losses) on scheme assets	14	(4)	(2)	10	(29)
Experience losses on scheme liabilities	1	(4)	(15)	(1)	(2)
Assumption (losses)/gains on scheme liabilities	(68)	(10)	(2)	(5)	4
Total actuarial (losses)/gains on scheme liabilities	(67)	(14)	(17)	(6)	2
Total actuarial (losses)/gains	(53)	(18)	(19)	4	(27)

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.

10. Retirement benefit obligation (continued)

The financial weighted average assumptions used in calculating the liabilities as at 31 December 2012 are as follows:

	Group and Company		
	2012	2011	2010
Discount rate for assessing scheme	3.40%	4.90%	5.30%
Future salary increases	3.20%	3.20%	3.20%
Rate of increase for pensions in payment	2.00%	2.00%	2.00%
Inflation rate assumption	2.20%	2.20%	2.30%

	Group and Company £ Million			Group and Company Long-term rate of return expected		
	2012	2011	2010	2012	2011	2010
Equities	39	33	33	7.30%	8.00%	8.00%
Property	4	4	4	6.20%	7.00%	7.00%
Government bonds	129	90	97	2.40%	3.50%	3.70%
Corporate bonds	42	63	34	2.80%	4.00%	4.80%
Other	12	14	31	3.20%	3.10%	4.60%
Total fair value of assets	226	204	199			

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	
	2012 £ Million	2011 £ Million
Effect of increasing the discount rate assumption by 1% on liabilities	51.3	32.9
Effect of decreasing the discount rate assumption by 1% on liabilities	(58.7)	(36.3)
Effect of participants living one extra year than expected on liabilities	(9.6)	(7.1)

11. 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.

11. Share-based incentive plans (continued)

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 been 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 transferable, 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 CAP 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.

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.

In 2010, the Company awarded Deferred Cash Stock Unit's ("DCSU"). None have been awarded subsequently. The DCSU awards have been accounted for as cash settled liabilities which fully amortized and vested in 2012.

As part of the 2011 and 2012 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.

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

	2012	2011	2010*	2009*
Shares awarded	274,950	173,219	165,467	54,107
Weighted average fair market value per share	$30.62	$50.26	$35.20	$46.70

* adjusted 2011 for reverse stock split

The Company has historically offered a number of Citigroup stock option programmes to its employees. However, 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-executive directors who elect to receive their compensation in the form of a stock option grant.

NOTES TO THE FINANCIAL STATEMENTS

11. Share-based incentive plans (continued)

(b) Stock option programme

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

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 2012 and 2011 under Citigroup stock option plans is as follows:

	2012		2011	
	Options	Weighted average exercise price $	Options	Weighted average exercise price $
Outstanding, beginning of year	257,898	60.20	356,090	86.20
Forfeited	(212)	40.80	(25,020)	90.61
Exercised	-	-	(1,747)	40.80
Transfers	461	341.01	(59,047)	113.43
Expired	(7,448)	430.72	(12,378)	495.96
Outstanding, end of year	250,699	49.78	257,898	60.20
Exercisable, end of year	250,699	49.78	174,677	69.56

* adjusted 2011 for reverse stock split

The following table summarises the stock options outstanding under Citigroup stock option plans at 31 December 2012:

	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	241,012	2.83	40.80	241,012	40.80
$50.00 - $399.99	8,755	1.06	244.50	8,755	244.50
$400.00 - $449.99	-	-	-	-	-
> $450.00	932	0.04	543.80	932	543.80
	250,699	2.76	49.78	250,699	49.78

11. 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 - $449.99	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

* 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.

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.

	2012	2011
Weighted average fair value at year end for options granted during the year		
Option	$0.00	$0.00
Weighted average expected life		
Original grants	3 years	4 years
Reload grants	0 years	0 years
Option life	3 years	4 years
Valuation assumptions		
Expected volatility	42.56%	41.08%
Risk-free interest rate	0.38%	0.63%
Expected dividend yield	0.13%	0.11%
Expected annual forfeitures	9.62%	9.62%

NOTES TO THE FINANCIAL STATEMENTS

11. Share-based incentive plans (continued)

(b) Stock option programme (continued)

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

	2012 £ Million	2011 £ Million
Awards granted in 2012		
Stock awards	3.4	-
Awards granted in 2011		
Stock awards	1.5	3.5
Awards granted in 2010		
Stock awards	0.5	1.5
Awards granted in 2009 or earlier		
Stock awards	0.3	1.3
Stock options	0.2	1.6
Cash accrued	0.3	1.1
Total expense	6.2	9.0

	2012 £ Million	2011 £ Million
Compensation cost charged to earnings	6	9
Fair value adjustments recorded to equity	2	(18)
Total carrying amount of equity-settled transaction liability	11	12

12. 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 2012	Note	Trading £ Million	Available-for-sale £ Million	Held-to maturity £ Million	Loans and receivables £ Million	Amortised cost £ Million	Designated at fair value £ Million	Total carrying amount £ Million	Fair value £ Million
Assets									
Cash and balances at central banks		-	-	-	2,922	-	-	2,922	2,922
Trading assets	**16**	1,065	-	-	-	-	374	1,439	1,439
Derivative financial instruments	**15**	196	-	-	-	-	-	196	196
Loans and advances to banks		-	-	-	6,196	-	-	6,196	6,196
Loans and advances to customers	**13**	-	-	-	4,870	-	6	4,876	4,804
Investment securities	**17**	-	2,386	194	-	-	-	2,580	2,593
Other assets	**21**	-	-	-	-	1,620	-	1,620	1,620
Total financial assets		1,261	2,386	194	13,988	1,620	380	19,829	19,770
Liabilities									
Deposits by banks		-	-	-	-	6,317	-	6,317	6,317
Customer accounts		-	-	-	-	8,771	-	8,771	8,771
Derivative financial instruments	**15**	262	-	-	-	-	-	262	262
Debt securities in issue	**23**	-	-	-	-	684	238	922	922
Other liabilities	**24**	-	-	-	-	1,385	-	1,385	1,385
Total financial liabilities		262	-	-	-	17,157	238	17,657	17,657

Group 2011	Note	Trading £ Million	Available-for-sale £ Million	Held-to maturity £ Million	Loans and receivables £ Million	Amortised cost £ Million	Designated at fair value £ Million	Total carrying amount £ Million	Fair value £ Million
Assets									
Cash and balances at central banks		-	-	-	1,430	-	-	1,430	1,430
Trading assets	**16**	1,246	-	-	-	-	-	1,246	1,246
Derivative financial instruments	**15**	316	-	-	-	-	-	316	316
Loans and advances to banks		-	-	-	3,716	-	-	3,716	3,706
Loans and advances to customers	**13**	-	-	-	6,163	-	202	6,365	6,281
Investment securities	**17**	-	2,128	437	-	-	75	2,640	2,666
Other assets	**21**	-	-	-	-	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	**15**	565	-	-	-	-	-	565	565
Debt securities in issue	**23**	-	-	-	-	237	700	937	914
Other liabilities	**24**	-	-	-	-	371	-	371	319
Total financial liabilities		565	-	-	-	12,762	700	14,027	13,662

12. Financial assets and liabilities (continued)

Company 2012	Note	Trading £ Million	Available-for-sale £ Million	Held-to maturity £ Million	Loans and receivables £ Million	Other amortised cost £ Million	Designated at fair value £ Million	Total carrying amount £ Million	Fair value £ Million
Assets									
Cash and balances at central banks		-	-	-	2,922	-	-	2,922	2,922
Trading assets	**16**	1,065	-	-	-	-	374	1,439	1,439
Derivative financial instruments	**15**	196	-	-	-	-	-	196	196
Loans and advances to banks		-	-	-	6,173	-	-	6,173	6,173
Loans and advances to customers	**13**	-	-	-	4,717	-	6	4,723	4,651
Investment securities	**17**	-	2,386	194	-	-	-	2,580	2,593
Other assets	**21**	-	-	-	-	1,564	-	1,564	1,564
Total financial assets		1,261	2,386	194	13,812	1,564	380	19,597	19,538
Liabilities									
Deposits by banks		-	-	-	-	6,349	-	6,349	6,349
Customer accounts		-	-	-	-	8,771	-	8,771	8,771
Derivative financial instruments	**15**	262	-	-	-	-	-	262	262
Debt securities in issue	**23**	-	-	-	-	490	238	728	728
Other liabilities	**24**	-	-	-	-	1,379	-	1,379	1,379
Total financial liabilities		262	-	-	-	16,989	238	17,489	17,489

Company 2011	Note	Trading £ Million	Available-for-sale £ Million	Held-to maturity £ Million	Loans and receivables £ Million	Other amortised cost £ Million	Designated at fair value £ Million	Total carrying amount £ Million	Fair value £ Million
Assets									
Cash and balances at central banks		-	-	-	1,430	-	-	1,430	1,430
Trading assets	**16**	1,246	-	-	-	-	-	1,246	1,246
Derivative financial instruments	**15**	316	-	-	-	-	-	316	316
Loans and advances to banks		-	-	-	3,686	-	-	3,686	3,676
Loans and advances to customers	**13**	-	-	-	5,915	-	202	6,117	6,042
Investment securities	**17**	-	2,129	437	-	-	75	2,641	2,667
Other assets	**21**	-	-	-	-	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	**15**	565	-	-	-	-	-	565	565
Debt securities in issue	**23**	-	-	-	-	-	700	700	700
Other liabilities	**24**	-	-	-	-	371	-	371	319
Total financial liabilities		565	-	-	-	12,594	700	13,859	13,516

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.

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.

12. Financial assets and liabilities (continued)

The types of inputs used to create the fair value hierarchy are described below:

- 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.*

The Company considers relevant and observable market prices in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are factors that are driven by 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(k), 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.

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.

Derivatives
The majority of derivatives entered into by the Group are executed over the counter and are valued using a combination of external prices and internal valuation techniques, including benchmarking to pricing vendor services. 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 industry wide approaches including discounted cash flows, modelling and numerical approaches.

The type of inputs may include interest rate yield curves, credit spreads, foreign exchange rates, volatilities and correlations.

12. Financial assets and liabilities (continued)

The Group discounts future cashflows using appropriate interest rate curves. In the case of collateralized interest rate derivatives, the Group follows the terms in the collateral agreement between it and the counterparty. The agreements generally provide that an Overnight Indexed Swap (OIS) curve is used. The OIS curves reflect the interest rate paid on the collateral against the fair value of these derivatives. Previously, the Group used the relevant benchmark curve for the currency of the derivative (e.g. the U.S. dollar London Interbank Offered Rate for U.S. dollar derivatives) as the discount rate for these collateralized interest-rate related derivatives.

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 government bond.

For 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 bonds, 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.

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 market rates where practicable. 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.

12. Financial assets and liabilities (continued)

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

Group and Company **31 December 2012**	**Level 1** **£ Million**	**Level 2** **£ Million**	**Level 3** **£ Million**	**Total** **£ Million**
Financial assets held for trading				
Derivatives	-	186	10	196
Trading assets				
Government bonds	20	-	-	20
Corporate bonds	-	151	22	173
European commercial paper	-	848	-	848
Equity	7	17	-	24
Loans	-	271	103	374
	27	1,473	135	1,635
Financial assets designated at fair value				
Loans and advances to customers	-	-	6	6
	-	-	6	6
Financial assets available-for-sale				
Investment securities	2,337	8	41	2,386
Total financial assets	2,364	1,481	182	4,027
Financial liabilities held for trading				
Derivatives	-	229	33	262
Financial liabilities designated at fair value				
Debt securities in issue	-	199	39	238
Total financial liabilities	-	428	72	500

Group and Company **31 December 2011**	**Level 1** **£ Million**	**Level 2** **£ Million**	**Level 3** **£ Million**	**Total** **£ 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
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

12. 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	Purchases	Sales	Settlements	Transfer from/(to) level 1 and level 2	At 31 December
2012	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Financial assets held for trading							
Derivatives	9	(7)	-	-	(1)	9	10
Trading assets							
Corporate bonds	67	(64)	88	(70)	-	1	22
Loans	157	(32)	284	(125)	-	(181)	103
	233	(103)	372	(195)	(1)	(171)	135
Financial assets designated at fair value							
Loans and advances to customers	202	2	-	-	(198)	-	6
Investment securities	75	-	-	-	(75)	-	-
	277	2	-	-	(273)	-	6
Financial assets available-for-sale							
Investment securities	-	-	41	-	-	-	41
Total financial assets	510	(101)	413	(195)	(274)	(171)	182
Financial liabilities held for trading							
Derivatives	17	11	-	-	(5)	10	33
Financial liabilities designated at fair value							
Debt securities in issue	138	7	-	-	(100)	(6)	39
Total financial liabilities	155	18	-	-	(105)	4	72

Group and Company	At 1 January	Gain/(loss) recorded in the income statement	Purchases	Sales	Settlements	Transfer from/(to) level 1 and level 2	At 31 December
2011	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Financial assets held for trading							
Derivatives	12	-	-	-	(2)	(1)	9
Trading assets							
Corporate bonds	130	(16)	10	(20)	8	(45)	67
Loans	157	(20)	92	(28)	(1)	(43)	157
	299	(36)	102	(48)	5	(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)	-
Total financial assets	417	(32)	261	(48)	5	(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	4	(79)	-	16	138
Total financial liabilities	254	(20)	4	(79)	(4)	-	155

NOTES TO THE FINANCIAL STATEMENTS

12. Financial assets and liabilities (continued)

Financial instruments may move to lower levels in the fair value hierarchy when factors, such as, liquidity or the observability of input parameters change. As conditions around these factors improve, financial instruments may transfer higher up the fair value hierarchy.

Level 3 positions
The key contributors to the Level 3 inventory movements during 2012 were loans. Over the year, the loan inventory decreased; however there were some offsetting movements due to purchases and sales across the Emerging Markets Credit Trading business in the first half of 2012.

Level 3 transfers for 2012
Transfers between Level 3 and Level 2 were driven by movements in loans within the Emerging Markets Credit Trading business. Some positions experienced greater visibility which (in certain instances) resulted in a transfer from Level 3 to Level 2.

During the year, total changes in fair value representing a loss of £120 million (2011: £12 million loss) 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 £5 million (2011: £12 million).

Valuation uncertainty is computed on a quarterly basis across all financial instruments 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 adjustments to the price or significant model input parameters used in the valuation.

The adjustments are typically computed with reference to historical or proxy analysis using third party data. Examples of the approach used to derive sensitivity adjustments are outlined below:

- Equity Derivatives: Valuation uncertainty is gauged from a combination of consensus market data and proxy analysis using third party data providers.

- Credit and Securitized Markets: Valuation uncertainty is gauged from a combination of consensus market data and proxy analysis using third party data providers.

13. Loans and advances to customers

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Charge and credit card debtors	258	356	258	356
Corporate loans	3,960	5,125	3,959	5,125
Consumer loans	243	454	243	454
Other corporate loans	647	686	497	440
	5,108	6,621	4,957	6,375
Less: allowance for losses on loans (Note 14)	(232)	(256)	(234)	(258)
	4,876	6,365	4,723	6,117

13. Loans and advances to customers (continued)

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 2012 the maximum exposure to credit risk on loans and advances at fair value through profit or loss was £6 million (2011: £202 million). The changes in the fair value recognised on these commercial loans amounted to £1 million loss (2011: gain 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 £25 million (2011: £24 million). At 31 December 2012 the accumulated and current year change in fair value attributable to changes in credit risk on these loans was £1 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 Citicorp which may include loans that have residential or commercial property as collateral or security.

Other corporate loans include finance lease receivables:

	Group	
	2012	2011
Gross investment in finance leases receivable:	£ Million	£ Million
No later than 1 year	14	-
Later than 1 year and no later than 5 years	16	14
Later than 5 years	-	16
	30	30
Unearned future income on leases	(9)	(7)
Net investment in finance leases	21	23

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

	2012	2011
Expiring:	£ Million	£ Million
No later than 1 year	5	-
Later than 1 year and no later than 5 years	16	7
Later than 5 years	-	16
	21	23

At 31 December 2012 aggregate rental receivables with respect to finance leases in the Group were £21 million (2011: £23 million).

14. Allowances for loans and advances

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
At 1 January	256	385	258	388
Write-offs	(152)	(316)	(152)	(316)
Net Credit losses	133	187	133	187
Foreign currency translation adjustments	(5)	-	(5)	(1)
At 31 December	232	256	234	258
Individual assessment	55	81	55	81
Collective assessment	177	175	179	177
	232	256	234	258

Net credit losses in the table above represent the increase in credit loss allowances and provisions recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

15. Derivative financial instruments

Group and Company

	2012		2011	
	Fair value		Fair value	
	Asset £ Million	Liability £ Million	Asset £ Million	Liability £ Million
Exchange rate related contracts				
Forwards and futures	53	57	126	121
Currency swaps	119	119	125	125
Options	-	-	-	1
	172	176	251	247
Interest rate related contracts				
Interest rate swaps	15	20	25	40
Options	1	1	39	1
	16	21	64	41
Equity related contracts				
Options	2	22	1	19
Swaps	6	43	-	258
	8	65	1	277
Total derivative contracts	196	262	316	565

Net investment hedges

The Group uses forward exchange contracts to hedge the foreign currency translation risk on its net investment in the Greece branch.

The fair value of derivatives designated as net investment hedges is as follows:

	2012		2011	
	Fair value		Fair value	
	Asset £ Million	Liability £ Million	Asset £ Million	Liability £ Million
Instrument type				
Foreign exchange	5	-	-	-
	5	-	-	-

The ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations was £nil in the year.

16. Trading assets

Group and Company	2012 £ Million	2011 £ Million
Government bonds	20	14
Corporate bonds	173	479
European commercial paper	848	488
Equity	24	8
Loans	374	257
	1,439	1,246

17. Investment securities

	2012 £ Million	2011 £ Million	2012 £ Million	2011 £ Million
	Group		Company	
	Available-for-sale		Available-for-sale	
Investment securities				
Debt securities - at fair value:				
- listed	2,337	2,120	2,337	2,120
- unlisted	40	-	40	1
Equity securities - at fair value:				
- listed	1	-	1	-
- unlisted	8	8	8	8
	2,386	2,128	2,386	2,129
	Held-to-maturity		Held-to-maturity	
Investment securities				
Debt securities - at amortised cost:				
- unlisted	194	437	194	437
	194	437	194	437
	Designated at fair value		Designated at fair value	
Investment securities				
Debt securities - at fair value:				
- unlisted	-	75	-	75
	-	75	-	75
Total investment securities	2,580	2,640	2,580	2,641

Investment securities include £nil million (2011: £75 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 £nil million (2011: £2 million).

During 2008 the Group and Company transferred financial assets previously classified as available-for-sale to held-to-maturity due to the Group and Company's future intentions in respect of these identified financial assets. 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 2012 these assets had a fair value of £207 million (2011: £463 million). If the assets had remained as available-for-sale a profit of approximately £13 million (2011: profit of £26 million) would be recognised in the current year`s statement of other comprehensive income.

18. Shares in subsidiary undertakings

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

	2012 £ Million	2011 £ Million
At 1 January	67	144
Capital repayment	(21)	(63)
Reversal of impairment	120	-
Disposals/transfers	(127)	-
Exchange rate adjustments	-	(14)
At 31 December	39	67

NOTES TO THE FINANCIAL STATEMENTS

18. Shares in subsidiary undertakings (continued)

The Company cash flow statement discloses the consideration of £127 million received for sale of shares in subsidiary undertakings.

Details of principal Group subsidiary undertakings held at 31 December 2012 are as follows:

Name	Country of incorporation	Nature of business	% holding in ordinary share capital
CitiCapital Leasing (March) Limited	England	Lease finance	100%
CitiCapital Leasing (June) Limited	England	Lease finance	100%
Diners Club UK Limited	England	Dormant	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 2012 have been used.

On 21 June 2012 the Company sold its investment in Citicorp Finanziaria SpA to its parent company, Citibank Investments Limited ("CIL") for a cash consideration of €155 million (£125 million). Prior to the sale the impairment review resulted in a write back £120 million of prior years` impairments. There was no realised profit or loss on disposal.

On 26 July 2012 the Company sold its investment in D. Card Servicing AG to its parent company, CIL for a cash consideration of CHF 3 million (£2 million). There was no realised profit or loss on disposal.

On 11 May 2012 Citicorp Finanziaria SpA made a repayment of capital to the Company of €25 million (£21 million).

On 20 April 2012 CitiCapital Leasing Limited was liquidated.

The following companies are SPEs 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

19. 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 2012	38	30	198	266	35	30	198	263
Additions	-	-	65	65	-	-	65	65
Disposals	-	-	(36)	(36)	-	-	(36)	(36)
Write offs	-	-	(1)	(1)	-	-	(1)	(1)
31 December 2012	38	30	226	294	35	30	226	291
Amortisation and impairment losses								
1 January 2012	22	14	110	146	19	14	110	143
Disposals	-	-	(27)	(27)	-	-	(27)	(27)
Write offs	-	-	10	10	-	-	10	10
Amortisation	-	2	27	29	-	2	27	29
31 December 2012	22	16	120	158	19	16	120	155
Net carrying value								
31 December 2012	16	14	106	136	16	14	106	136
31 December 2011	16	16	88	120	16	16	88	120
1 January 2011	11	6	69	86	11	7	68	86

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 and the UK. The cash flow projections in respect of the Netherlands (Direct custody and clearing business) cover a ten year period and the cash flow projections in respect of the UK (Fund administration business) cover an eleven 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 used to estimate the Netherlands cash flows is the EURIBOR rate. The discount rate used to estimate the UK Fund administration business cash flows is based on a review of comparable companies and relevant market data. The 10 year average of 10 year UK Gilt rate acts as the risk free rate and the stock price volatility of comparable companies acts as market risk rate.

There was no evidence of impairment arising from the review of the goodwill for the Netherlands and the UK.

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

Cash generating unit	**Goodwill at 31 December 2012 £Million**	**Growth rate**	**Discount rate 2012**	**Discount rate 2011**
Institutional Clients Group				
- Netherlands (Direct custody and clearing business)	11	(5.14)%	0.54%	1.95%
- UK Fund administration business	5	3.22%	17.00%	-

19. 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.

20. Property, plant and equipment

Group	Leasehold improvements £ Million	Vehicles, furniture and equipment £ Million	Total £ Million
Cost			
1 January 2011	29	507	536
Additions	1	43	44
Disposals	-	(3)	(3)
Write offs	-	(10)	(10)
Exchange rate adjustments	(1)	(3)	(4)
At 31 December 2011/ 1 January 2012	29	534	563
Additions	3	35	38
Disposals	-	(19)	(19)
Write offs	(1)	(3)	(4)
Exchange rate adjustments	(1)	(1)	(2)
31 December 2012	30	546	576
Depreciation			
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)
At 31 December 2011/ 1 January 2012	21	427	448
Charged in year	6	43	49
Disposals	-	(13)	(13)
Write offs	(1)	(3)	(4)
Exchange rate adjustments	-	1	1
31 December 2012	26	455	481
Net book value			
At 31 December 2012	4	91	95
At 31 December 2011	8	107	115
At 1 January 2011	9	115	124

NOTES TO THE FINANCIAL STATEMENTS

20. Property, plant and equipment (continued)

Company

	Leasehold improvements £ Million	Vehicles, furniture and equipment £ Million	Total £ Million
Cost			
1 January 2011	29	507	536
Additions	1	43	44
Disposals	-	(3)	(3)
Write offs	-	(10)	(10)
Exchange rate adjustments	(1)	(3)	(4)
At 31 December 2011/ 1 January 2012	29	534	563
Additions	3	35	38
Disposals	-	(19)	(19)
Write offs	(1)	(3)	(4)
Exchange rate adjustments	(1)	(1)	(2)
At 31 December 2012	30	546	576
Depreciation			
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)
At 31 December 2011/ 1 January 2012	21	427	448
Charged in year	6	43	49
Disposals	-	(13)	(13)
Write offs	(1)	(3)	(4)
Exchange rate adjustments	-	1	1
At 31 December 2012	26	455	481
Net book value			
At 31 December 2012	4	91	95
At 31 December 2011	8	107	115
At 1 January 2011	9	115	124

At the year-end, the rental commitments as lessor under non-cancellable operating leases were £nil (2011: £nil) between one and five years.

21. Other assets

	Group		Company	
	2012 £ Million	2011 £ Million	2012 £ Million	2011 £ Million
Other balances	1,620	438	1,564	427
	1,620	438	1,564	427

Other balances include trade receivables and unsettled trades related to European commercial papers and secondary loan trading.

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22. Deferred income tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective rate of 23% for 2012 (2011: 25%).

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

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
At 1 January	224	262	224	265
Additions/transfers	(1)	-	(1)	-
Income statement charge	(26)	(18)	(26)	(19)
Tax reflected in equity (Note 9)	14	(19)	14	(19)
Exchange differences	(1)	(1)	(2)	(3)
At 31 December	210	224	209	224

Management expects, based on future profit forecasts and planning actions that the deferred tax asset will be utilised 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 2012 will reduce from 26% to 24%, to be followed by further 1% reductions per annum to 22% for the year beginning 1 April 2014. While the reduction in the corporate tax rate to 23% has already been enacted, the further announced reduction is expected to be enacted through the 2013 Finance Bill. This results in a weighted average rate of 24.5% for 2012 (2011: 26.5%).

As such the Group has reduced its deferred tax asset from £224 million to £210 million and in the Company from £224 million to £209 million.

Based on an Italian Decree (Article 9 of Decree 201 dated December 6 2011), any losses on loans will no longer have an expiry date and can be carried forward indefinitely to offset future income. As such the deferred tax valuation allowance against such losses in Citicorp Finanziaria SpA has been reversed under IAS 12. In the event of liquidation of an entity the unused deferred tax asset can be converted into a tax credit and reimbursed.

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

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Deferred income tax liabilities				
Other temporary differences	1	2	-	-
	1	2	-	-
Deferred income tax assets				
Accelerated tax depreciation	80	97	80	97
Pensions and other post retirement benefits	21	8	20	6
Provision for loan impairment	2	3	2	3
Other temporary differences	13	6	12	6
Tax losses carried forward	95	112	95	112
	211	226	209	224

22. Deferred income tax (continued)

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

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Accelerated tax depreciation	17	(21)	17	(20)
Pensions and other post retirement benefits	(1)	3	(1)	3
Allowances for loan losses	1	1	1	1
Provisions and other temporary differences	(8)	(21)	(8)	(21)
Tax losses carried forward	17	56	17	56
	26	18	26	19

23. Debt securities in issue

Group	2012	2011
	£ Million	£ Million
Credit linked medium term notes	-	14
Equity linked medium term notes	238	686
Fixed rate long term notes	490	-
£263.0 million medium term notes	-	19
€648.5 million medium term notes	194	218
	922	937

Company	2012	2011
	£ Million	£ Million
Credit linked medium term notes	-	14
Equity linked medium term notes	238	686
Fixed rate long term notes	490	-
	728	700

The equity linked medium term notes 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 loss of £38 million (2011: £36 million gain).

The Company has securitised commercial mortgage and other loans through consolidated Special Purpose Entities (‘SPE’). 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 2012, the carrying amount of the commercial mortgage and other loans was approximately £146 million (2011: £239 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.

24. Other liabilities

	Group		Company	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Trade finance acceptances	1	2	1	2
Retirement benefit obligations (Note 10)	84	26	85	26
Other balances	1,384	369	1,378	369
	1,469	397	1,464	397

Other balances include trade payables and unsettled trades related to European commercial papers and secondary loan trading.

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NOTES TO THE FINANCIAL STATEMENTS

25. Provisions for liabilities

Group

	Restructuring provision £ Million		Other provisions £ Million		Total £ Million	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
At 1 January	7	27	14	19	21	46
Transfer from 'Allowances for loans and advances'	-	-	-	(1)	-	(1)
Charge against profits	1	5	14	-	15	5
Provisions utilised	(3)	(13)	-	(1)	(3)	(14)
Release of provisions	-	(10)	-	-	-	(10)
Exchange adjustments	-	(1)	-	-	-	(1)
Other movements	-	(1)	7	(3)	7	(4)
At 31 December	5	7	35	14	40	21

Company

	Restructuring provision £ Million		Other provisions £ Million		Total £ Million	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
At 1 January	6	23	14	19	20	42
Transfer from 'Allowances for loans and advances'	-	-	-	(1)	-	(1)
Charge against profits	1	5	14	-	15	5
Provisions utilised	(3)	(10)	-	(1)	(3)	(11)
Release of provisions	-	(10)	(1)	-	(1)	(10)
Exchange adjustments	-	(1)	-	-	-	(1)
Other movements	1	(1)	8	(3)	9	(4)
At 31 December	5	6	35	14	40	20

The “restructuring provision” relates to the provision for the cost of staff redundancies and compensation. This balance is expected to be fully utilised in 2013. 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.

26. Capital and reserves

Further details regarding capital and reserves movements are shown in the Consolidated and Company Statement of Changes in Equity on pages 26 and 31.

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 (2011: £nil). The Directors do not recommend the payment of a final dividend (2011: £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.

27. Share capital

Authorised	**2012 £ Million**	**2011 £ 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	**2012 £ Million**	**2011 £ Million**
1,757,011,710 sterling ordinary shares of £1 each	1,757	1,757

Ordinary shares of £1 each	**2012 Shares**	**2011 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.

28. 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**	
	2012 £ Million	**2011 £ Million**	**2012 £ Million**	**2011 £ Million**
Cash and balances at central banks	2,922	1,430	2,922	1,430
Loans and advances to banks mature within 3 months	6,124	3,315	6,104	3,285
	9,046	4,745	9,026	4,715

29. Transferred financial assets that are not derecognised in their entirety

The Company transferred mortgage securities into a Special Purpose Entity (“SPE”) in exchange for cash. The SPE is controlled by the Group and consolidated within the accounts, while the notes issued from the SPE have been subscribed by external noteholders. The obligation to the external noteholders has been recorded as a financial liability. The carrying amount of the transferred assets and the associated liability as at 31 December 2012 was £146 million and £199 million respectively.

The company has entered in to financing transactions where it has sold debt securities with a concurrent agreement to repurchase them. As significantly all of the risks and rewards of the underlying securities are retained, a liability is recognised and the securities remain on the balance sheet.

As at 31 December 2012 the Company recognised £560 million of assets with an associated £498 million in liabilities.

30. 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.

30. Related party transactions (continued)

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 (2011: £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.

	2012		
Group	**Parent undertaking £ Million**	**Other Citigroup undertakings £ Million**	**Total £ Million**
Assets			
Loans and advances to banks	32	5,552	5,584
Loans and advances to customers	-	6	6
Prepayments and accrued income	-	5	5
Other assets and derivatives	-	216	216
Liabilities			
Deposits by banks	-	4,801	4,801
Customer accounts	-	126	126
Accruals and deferred income	-	26	26
Other liabilities and derivatives	-	206	206
Off balance sheet			
Commitments and contingencies	-	10	10
Guarantees issued by the Group	-	3	3
Income statement			
Interest and similar income	-	2	2
Interest expense and similar charges	-	(32)	(32)
Net fee and commission income	-	24	24
Other operating income	-	20	20
Net income on items at fair value through profit and loss	-	24	24
General and administrative expenses	-	(8)	(8)

	2011		
Group	**Parent undertaking £ Million**	**Other Citigroup undertakings £ Million**	**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

30. Related party transactions (continued)

Company	2012			
	Parent undertaking £ Million	Subsidiary undertakings £ Million	Other Citigroup undertakings £ Million	Total £ Million
Assets				
Loans and advances to banks	32	-	5,541	5,573
Loans and advances to customers	-	-	6	6
Prepayments and accrued income	-	-	5	5
Other assets and derivatives	-	-	216	216
Liabilities				
Deposits by banks	-	36	4,797	4,833
Customer accounts	-	-	126	126
Accruals and deferred income	-	-	26	26
Other liabilities and derivatives	-	1	202	203
Off balance sheet				
Commitments and contingencies	-	-	10	10
Guarantees issued by the Group	-	-	3	3
Income statement				
Interest and similar income	-	-	2	2
Interest expense and similar charges	-	-	(32)	(32)
Net fee and commission income	-	-	24	24
Net income on items at fair value through profit and loss	-	-	24	24
Other operating income	-	-	20	20
General and administrative expenses	-	16	(3)	13
Other operating charges	-	-	1	1

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)

30. Related party transactions (continued)

Directors' remuneration

Directors' compensation for the year comprises:

	2012 £ 000's	2011 £ 000's
Salaries and other short-term benefits	471	286
Post-employment benefits	17	6
Share-based payments	482	267
	970	559

Contributions to defined benefit and money purchase schemes are accruing to six of the Directors (2011: nine). Seven of the Directors (2011: eleven) of the Company participate in Citigroup share and share option plans and during the year, none of the Directors (2011: none) exercised options. The emoluments for the highest paid Director were £402,000 (2011: £179,000) with £289,000 (2011: £117,000) being share based compensation and accrued pension of £nil (2011: £1,000). 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.

31. Pledged assets

Group and Company

Financial assets pledged to secure liabilities
The total carrying value of financial assets that have been pledged as collateral for liabilities at 31 December 2012 was £1,251 million (2011: £94 million). These transactions are conducted under terms that are usual and customary to standard lending activities and include assets pledged to ECB as part of the Long Term Repo Operations (LTRO).

Collateral accepted as security for assets
The fair value of assets accepted as security for lending activities at 31 December 2012 was £4,351 million (2011: £1,866 million). The fair value of the collateral that has been repledged at 31 December 2012 was £1,023 million (2011: £620 million). These transactions are conducted under terms that are usual and customary to standard lending activities.

32. 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	2012		2011	
	Contract Amount £ Million	Risk weighted amount* £ Million	Contract amount £ Million	Risk weighted amount* £ Million
Contingent liabilities				
Guarantees and irrevocable letters of credit	1,413	1,188	1,620	1,222
Commitments				
Other commitments:				
- documentary credits, short term trade related transactions and other	4	2	8	4
- undrawn formal standby facilities, credit lines and other commitments to lend:				
- less than 1 year	2,518	859	3,350	926
- 1 year and over	8,096	3,019	8,728	2,969
	10,618	3,880	12,086	3,899

* 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.

The Group has recognised a provision for undrawn commitments which is disclosed in note 25 – Provisions for liabilities, other provisions.

33. Financial instruments and risk management

Objectives, policies and strategies

The provision of credit and 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.

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 demand for credit, the risk of delinquency or default, liquidity and pricing, 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.

33. 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. The Citigroup risk management framework as established by the Chief Risk Officer is used as the basis for managing risk in the Group. 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 four 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 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. In prior years the Group has also issued financial instruments to fund that portion of the Group's assets not funded by customer deposits.

- **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.

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 principally to provide financial services to customers. Derivatives are also 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.

33. Financial instruments and risk management (continued)

Risk management

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 Citigroup 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.

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 other risk monitoring processes and 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 2012 for managing the Group's major risks.

33. Financial instruments and risk management (continued)

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 the risk that there may a liquid market in that financial product.

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.

Product 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.

Measurement of market 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.

Trading price risk

Citigroup 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, Citigroup 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.

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33. Financial instruments and risk management (continued)

Trading price risk (continued)

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 market risk by disclosing the Company's average VaR during the reporting period, together with the VaR as at 31 December:

	At 31 December £ Million	Average £ Million
2012		
Equity risk	0.20	0.05
Interest rate risk	0.04	0.43
Overall	0.24	0.48
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

Interest rate risk in the banking book

Interest rate 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.

33. Financial instruments and risk management (continued)

Interest rate risk in the banking book (continued)

	2012			2011		
£ Million	**12 Months**	**5 Years**	**10 Years**	**12 Months**	**5 Years**	**10 Years**
USD	7	28	27	7	23	23
EUR	6	29	31	5	33	36
GBP	12	39	40	9	17	17

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

	2012				
£ Million	**GBP**	**USD**	**EUR**	**Others**	**Total**
GBP	-	(363)	414	(3)	48
EUR	-	291	-	3	294
Others	-	4	-	-	4
Total	-	(68)	414	-	346

	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

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

Liquidity risk

Citi defines Liquidity Risk as the risk that the firm will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without adversely affecting either daily operations or the financial condition of the firm.

Citi's funding and liquidity objectives are to maintain liquidity to fund its existing asset base as well as grow its core business, while at the same time maintain sufficient excess liquidity, structured appropriately, so that it can operate under a wide variety of market conditions, including market disruptions for both short and long-term periods.

The UK forum for liquidity management is the UK Asset/Liability Management Committee ("ALCO"), which includes senior executives from within the Group and is chaired by the Citi Country Officer. This forum is composed of the UK CFO, EMEA CFO, UK legal entity Risk Manager, UK Treasurer, EMEA Regional Treasurer, the Financing Desk Heads and key business representatives. The UK ALCO reviews the current and prospective funding requirements for the Company, as well as the capital position and balance sheet.

A liquidity plan is prepared annually for the Western Europe banking entities, of which the Group is a part. The Western Europe Bank Chain and the Group's liquidity profiles are monitored on an on-going basis and reported daily.

33. Financial instruments and risk management (continued)

Liquidity risk (continued)

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.

In order to meet its liquidity stress testing requirements and liquidity ratio hurdles, the Group holds a liquidity pool which includes highly liquid government bonds.

Stress testing and scenario analyses are intended to quantify the potential impact of a liquidity event on the balance sheet and liquidity position, and to identify viable funding alternatives that can be utilized. These scenarios include assumptions about significant changes in key funding sources, market triggers (such as credit rating downgrades), potential uses of funding and political and economic conditions. These conditions include standard and stressed market conditions as well as firm-specific events.

A wide range of liquidity stress tests are important for monitoring liquidity risk across Citi. Some span liquidity events over a full year, some may cover an intense period of one month. These potential liquidity events are useful to ascertain potential mismatches between liquidity sources and uses over a variety of horizons and liquidity limits are set accordingly. To monitor the liquidity of a unit, those stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily.

Given the range of potential stresses, Citi maintains a series of contingency funding plans on a consolidated basis as well as for individual entities, including the Group. The plans specify a wide range of readily available actions that are in a variety of adverse market conditions, or idiosyncratic disruptions.

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. Note that in managing liquidity risk, management use certain assumptions based on behavioural characteristics which differ from the contractual maturity dates shown below.

Group **2012**	**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	2,922	-	-	2,922
Loans and advances to banks	6,176	20	-	6,196
Loans and advances to customers	1,885	1,906	1,085	4,876
Derivative financial instruments	14	182	-	196
Trading assets	1,279	107	53	1,439
Investment securities	330	2,197	53	2,580
All other assets	1,635	174	375	2,184
Total assets	14,241	4,586	1,566	20,393
2011 total assets	9,392	5,460	1,877	16,729
Liabilities				
Deposits by banks	5,974	217	126	6,317
Customer accounts	8,771	-	-	8,771
Derivative financial instruments	17	233	12	262
Debt securities in issue	281	546	95	922
All other liabilities and equity	1,603	29	2,489	4,121
Total liabilities and equity	16,646	1,025	2,722	20,393
2011 total liabilities	11,756	2,093	2,880	16,729
2012 net liquidity gap	(2,405)	3,561	(1,156)	-
2011 net liquidity gap	(2,364)	3,367	(1,003)	-

CITIBANK INTERNATIONAL PLC

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33. 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 2012	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	2,922	-	-	2,922
Loans and advances to banks	6,156	17	-	6,173
Loans and advances to customers	1,737	1,901	1,085	4,723
Derivative financial instruments	14	182	-	196
Trading assets	1,279	107	53	1,439
Investment securities	330	2,197	53	2,580
All other assets	1,588	174	375	2,137
Total assets	14,026	4,578	1,566	20,170
2011 total assets	9,489	5,421	1,591	16,501
Liabilities				
Deposits by banks	6,006	217	126	6,349
Customer accounts	8,771	-	-	8,771
Derivative financial instruments	17	233	12	262
Debt securities in issue	82	550	96	728
All other liabilities and equity	1,579	29	2,452	4,060
Total liabilities and equity	16,455	1,029	2,686	20,170
2011 total liabilities	11,829	1,855	2,817	16,501
2012 net liquidity gap	(2,429)	3,549	(1,120)	-
2011 net liquidity gap	(2,340)	3,566	(1,226)	-

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 2012	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	3,360	2,679	237	140	6,416
Customer accounts	8,604	221	-	-	8,825
Debt securities in issue	60	259	537	146	1,002
Other liabilities	1,385	-	-	-	1,385
	13,409	3,159	774	286	17,628
2011					
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
Other liabilities	371	-	-	-	371
	9,492	2,156	2,234	299	14,181

33. Financial instruments and risk management (continued)

Liquidity risk (continued)

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

Company	3 months or less	> 3 months and < 1 year	>1 year and < 5 years	Greater than 5 years	Gross nominal inflow/ (outflow)
2012	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Liabilities					
Deposits by banks	3,393	2,679	237	140	6,449
Customer accounts	8,604	224	-	-	8,828
Debt securities in issue	60	65	537	146	808
Other liabilities	1,377	-	-	-	1,377
	13,434	2,968	774	286	17,462
2011					
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
Other liabilities	371	-	-	-	371
	9,562	2,156	1,991	299	14,008

The Company issued fixed rate long term notes, during last quarter of 2012 with a maturity date of June 2014.

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.

33. Financial instruments and risk management (continued)

Credit risk (continued)

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 independent 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 are not required to provide significant amounts of collateral for the facilities provided. Where collateral is provided this is often 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 32.

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. In addition to this current fair value the credit risk includes the potential exposures from future market movements and the combination of these is managed as part of the overall lending limits with customers.

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. The Group 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.

33. Financial instruments and risk management (continued)

Credit risk (continued)

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. Some of these arrangements also provide for the calling and posting of variation margin or collateral, further reducing the Company's exposures. The internal measurement of exposure on each credit facility takes into account legally enforceable netting and margining arrangements – both in terms of current exposure and in terms of the simulated calculation of potential future exposure.

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 Citicorp and Citi Holdings 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.

Collateral
The table below indicates the estimated financial effect that collateral has on the group's maximum exposure to credit risk:

Group and Company	**Total**	**Allowances for loans**	**Net total**	**Unsecured exposures**	**Secured exposures**	**Collateral coverage of secured exposures 1%-25%**	**26%-50%**	**51%-100%**	**>100%**
2012	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Corporate lending									
	4,607	**(60)**	**4,547**	**1,801**	**2,746**	**79**	**72**	**1,395**	**1,200**
Commercial loans	3,960	(21)	3,939	1,712	2,227	77	65	1,349	736
Other corporate loans	647	(39)	608	89	519	2	7	46	464

						Loan to value 1%-25%	**26%-50%**	**51%-75%**	**76%-100%**	**>100%**
2012	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**	**£ Million**
Local consumer lending										
	501	**(172)**	**329**	**241**	**88**	**11**	**23**	**21**	**19**	**14**
Charge and credit card debtors	258	(94)	164	164	-	-	-	-	-	-
Consumer loans	243	(78)	165	77	88	11	23	21	19	14
Total loans and advances to customers	**5,108**	**(232)**	**4,876**	**2,042**	**2,834**					

33. Financial instruments and risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

Collateral held by the Group for securing loan transaction includes:
- Financial collateral such as marketable securities;
- Physical collateral such as Property, Plant and Equipment, Furniture and Fixtures, vessels;
- Other types of lending collateral such as trading receivables.

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.

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.

At 2012 year-end 90% (2011: 85%) of loans and advances to banks in the Group comprise of balances with fellow Citigroup entities.

In 2012 derivative financial assets comprise 91% (2011: 73%) graded within AA+ to A-.

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 & Poor's or Moody's ratings:

		Trading Portfolio		
	Loans and advances to customers	**European commercial paper**	**Corporate bonds**	**Government bonds**
	%	**%**	**%**	**%**
	2012	**2012**	**2012**	**2012**
AAA	-	73	-	-
AA+ to A-	-	27	53	100
Lower than A-	4	-	47	-
Unrated	96	-	-	-
	100	100	100	100
	2011	**2011**	**2011**	**2011**
AAA	-	71	-	-
AA+ to A-	-	29	44	100
Lower than A-	10	-	52	-
Unrated	90	-	4	-
	100	100	100	100

33. Financial instruments and risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

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.

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.

33. 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 corporate loans:

	2012 £ Million	2011 £ Million
Total corporate loans and advances to customers	4,607	5,811
Total provision on corporate loans and advances to customers	(60)	(40)
Total net corporate loans and advances to customers	4,547	5,771
Restructured loans		
Gross corporate loans	**74**	**3**
Substandard or worse	74	3
Collective provision	**-**	**-**
Specific provision	**12**	**-**
Substandard or worse	12	-
Net corporate loans	**62**	**3**
Non-restructured loans		
Gross corporate loans	**4,533**	**5,808**
Good	3,768	4,897
Special mention	205	410
Substandard or worse	560	501
Collective provision	**43**	**33**
Good	3	9
Special mention	2	3
Substandard or worse	38	21
Specific provision	**5**	**7**
Substandard or worse	5	7
Net corporate loans	**4,485**	**5,768**

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 (2011: £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.

33. 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.

	2012			2011		
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	258	243	501	356	454	810
Carrying amount	164	165	329	268	326	594
Individually assessed						
1 - 119 days past due	7	82	89	11	133	144
120 - 179 days past due	1	-	1	1	-	1
Gross amount	8	82	90	12	133	145
Individually assessed allowance for loans and advances	(3)	(35)	(38)	(5)	(69)	(74)
Carrying amount	5	47	52	7	64	71
Collectively assessed						
Current	190	118	308	265	205	470
1 - 119 days past due	49	37	86	66	112	178
120 - 180 days past due	11	6	17	13	4	17
Gross amount	250	161	411	344	321	665
Collectively assessed allowance for loans and advances	(91)	(43)	(134)	(83)	(59)	(142)
Carrying amount	159	118	277	261	262	523
Total carrying amount	164	165	329	268	326	594

The past due model shows that 62% (2011: 58%) of the gross balance is current, 35% (2011: 40%) is 1 – 119 days past due, and 3% (2011: 2%) is greater than 120 days past due.

Current loans in the table above are considered neither passed due nor impaired.

Included within the collectively assessed allowance for loans and advances is a management overlay of £115 million for loans in Greece where there continues to be significant uncertainty and an ongoing challenging operating environment.

33. Financial instruments and risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

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.

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	**Residential mortgages**	**Charge and credit card**	**Consumer loans**
	2012	**2012**	**2012**
Program	Modifications	Modifications	Modifications
Number of loans under forbearance	46	3,641	7,775
Number of loans in total	2,100	17,355	248,074
Loans and advances under forbearance			
Average interest rate reduction	3.41%	2.63%	9.31%
Gross amount under forbearance	2	23	49
Individually assessed allowances for loans and advances	(1)	(12)	(29)
Collectively assessed allowance for loans and advances	-	-	-
Total carrying amount	1	11	20
	2011	**2011**	**2011**
Program	Modifications	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.

33. 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	
	2012	2011	2012	2011
	£ Million	£ Million	£ Million	£ Million
Chemicals	130	261	130	261
Communication	40	146	40	146
Utilities	1,187	1,996	1,039	1,756
Engineering	165	224	165	224
Transport	497	615	497	615
Financial	828	722	828	722
Manufacturing	529	674	529	674
Other	1,500	1,727	1,495	1,719
	4,876	6,365	4,723	6,117

The above table shows that the single largest sector exposure is to utilities. 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.

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.

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33. Financial instruments and risk management (continued)

Country risk (continued)

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 tables below outlines the Group's exposures to these countries as of 31 December 2012 and as of 31 December 2011:

2012 **£ Million**	**Greece**	**Ireland**	**Italy**	**Portugal**	**Spain**	**GIIPS** **Total**
Net current funded credit exposure	311	2	231	47	659	1,250
Net trading and AFS exposure	(1)	-	54	-	1	54
Net current funded exposure	310	2	285	47	660	1,304
Net current funded credit exposure:						
Sovereigns	5	-	-	6	-	11
Financial institutions	1	-	11	-	-	12
Corporations	305	2	220	41	659	1,227
Total net current funded credit exposure	311	2	231	47	659	1,250
Unfunded commitments:						
Financial institutions	-	1	5	-	23	29
Corporations	183	8	143	5	1,027	1,366
Total unfunded commitments	183	9	148	5	1,050	1,395

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 2012 the Group has approximately £1,035 million (2011: £1,420 million) of exposure in the GIIPS countries. This relates generally to retail customers and small businesses as part of its Citi Holdings activities.

The vast majority of this exposure is in Citi Holdings (Spain and Greece).

33. Financial instruments and risk management (continued)

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 Internal Audit.

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 the Group's three core business of Fixed Income, Banking and CTS. In addition the growth in the centre of excellence locations should be considered. Information about operational risk, historical losses and the control environment, is reported and summarised for the Audit Committee, senior management and for the Directors.

Capital management (unaudited)

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 Capital Requirements Directive 4 (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 monthly through the UK Asset and Liability Committee (ALCO) and quarterly at the Pillar 2 committee meeting.

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 collective impairment allowances.

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

33. Financial instruments and risk management (continued)

Capital management (continued)

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

	2012 £ Million	2011 £ Million
Tier 1 capital	2,286	2,304
Tier 2 capital	166	160
	2,452	2,464
Deductions from Tier 1 & Tier 2	(40)	(43)
Total regulatory capital	2,412	2,421

34. Operating lease commitments

Group and Company	2012 £ Million	2011 £ Million
At the year-end, the rental commitments under non-cancellable operating leases were as follows:		
Expiring:		
- Within one year	2	3
	2	3

35. 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, Citicorp and Citi Holdings 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.

Citicorp 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.

Citi Holdings 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 Citi Holdings 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.

35. Segmental analysis (continued)

2012

	Citicorp			Citi Holdings			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	339	207	546	15	86	101	354	293	647
Interest income	197	51	248	11	56	67	208	107	315
Interest expense	(58)	(9)	(67)	(1)	(16)	(17)	(59)	(25)	(84)
Profit/(loss) before tax	69	-	69	5	(160)	(155)	74	(160)	(86)
Income tax expense	(20)	(24)	(44)	-	139	139	(20)	115	95
Profit/(loss) for the year	49	(24)	25	5	(21)	(16)	54	(45)	9
Segment assets	12,577	6,682	19,259	291	843	1,134	12,868	7,525	20,393
Total assets	12,577	6,682	19,259	291	843	1,134	12,868	7,525	20,393
Segment liabilities	9,415	7,359	16,774	42	1,096	1,138	9,457	8,455	17,912
Total liabilities	9,415	7,359	16,774	42	1,096	1,138	9,457	8,455	17,912
Other segment items:									
Gross income from third parties	315	128	443	12	89	101	327	217	544
Capital expenditure	(36)	(1)	(37)	-	(1)	(1)	(36)	(2)	(38)
Depreciation	39	3	42	-	7	7	39	10	49
Impairment charge - loans	10	18	28	5	100	105	15	118	133
Amortisation of intangibles	25	2	27	-	2	2	25	4	29

2011

	Citicorp			Citi Holdings			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	332	254	586	44	163	207	376	417	793
Interest income	233	90	323	25	94	119	258	184	442
Interest expense	(81)	(18)	(99)	(2)	(18)	(20)	(83)	(36)	(119)
(Loss)/profit before tax	214	(3)	211	(5)	(141)	(146)	209	(144)	65
Income tax expense	(33)	(23)	(56)	-	(3)	(3)	(33)	(26)	(59)
(Loss)/profit for the year	181	(26)	155	(5)	(144)	(149)	176	(170)	6
Segment assets	10,396	5,183	15,579	606	544	1,150	11,002	5,727	16,729
Total assets	10,396	5,183	15,579	606	544	1,150	11,002	5,727	16,729
Segment liabilities	7,716	5,460	13,176	50	1,006	1,056	7,766	6,466	14,232
Total liabilities	7,716	5,460	13,176	50	1,006	1,056	7,766	6,466	14,232
Other segment items:									
Gross income from third parties	294	158	452	36	165	201	330	323	653
Capital expenditure	(40)	(4)	(44)	-	-	-	(40)	(4)	(44)
Depreciation	45	2	47	-	4	4	45	6	51
Impairment charge - loans	30	38	68	(32)	151	119	(2)	189	187
Amortisation of intangibles	22	2	24	-	3	3	22	5	27

36. 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