FIRST NATIONAL CORP /VA/
Form 10-Q
August 10, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 0-23976

(Exact name of registrant as specified in its charter)

Virginia	54-1232965
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
112 West King Street, Strasburg, Virginia	22657
(Address of principal executive offices)	(Zip Code)

(540) 465-9121
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 10, 2018, 4,956,206 shares of common stock, par value $1.25 per share, of the registrant were outstanding.

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Item 1. Financial Statements
FIRST NATIONAL CORPORATION
Consolidated Balance Sheets
(in thousands, except share and per share data)

	(unaudited) June 30, 2018	December 31, 2017*
Assets		
Cash and due from banks	$ 13,501	$ 11,358
Interest-bearing deposits in banks	27,762	28,628
Securities available for sale, at fair value	106,707	89,255
Securities held to maturity, at amortized cost (fair value, 2018, $44,416; 2017, $47,702)	45,701	48,208
Restricted securities, at cost	1,590	1,570
Loans held for sale	1,195	438
Loans, net of allowance for loan losses, 2018, $5,039; 2017, $5,326	525,894	516,875
Other real estate owned, net of valuation allowance, 2018, $0; 2017, $0	68	326
Premises and equipment, net	19,633	19,891
Accrued interest receivable	2,073	1,916
Bank owned life insurance	13,787	13,967
Core deposit intangibles, net	679	930
Other assets	4,774	5,748
Total assets	$ 763,364	$ 739,110
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	$ 196,839	$ 180,912
Savings and interest-bearing demand deposits	367,399	361,417
Time deposits	122,291	122,651
Total deposits	$ 686,529	$ 664,980
Subordinated debt	4,956	4,948
Junior subordinated debt	9,279	9,279
Accrued interest payable and other liabilities	952	1,749
Total liabilities	$ 701,716	$ 680,956
Shareholders' Equity		
Preferred stock, par value $1.25 per share; authorized 1,000,000 shares; none issued and outstanding	$—	$ —
Common stock, par value $1.25 per share; authorized 8,000,000 shares; issued and outstanding, 2018, 4,953,356 shares; 2017, 4,945,702 shares	6,192	6,182
Surplus	7,346	7,260
Retained earnings	50,313	45,670
Accumulated other comprehensive loss, net	(2,203)	(958)
Total shareholders' equity	$ 61,648	$ 58,154
Total liabilities and shareholders' equity	$ 763,364	$ 739,110

*Derived from audited consolidated financial statements.
See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION
Consolidated Statements of Income (Unaudited)
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest and Dividend Income				
Interest and fees on loans	$6,546	$ 5,933	$12,851	$11,579
Interest on deposits in banks	186	86	346	147
Interest and dividends on securities:				
Taxable interest	776	634	1,456	1,296
Tax-exempt interest	156	145	301	288
Dividends	22	21	44	41
Total interest and dividend income	$7,686	$ 6,819	$14,998	$13,351
Interest Expense				
Interest on deposits	$665	$ 405	$1,255	$788
Interest on subordinated debt	89	89	178	178
Interest on junior subordinated debt	101	76	187	144
Total interest expense	$855	$ 570	$1,620	$1,110
Net interest income	$6,831	$ 6,249	$13,378	$12,241
Provision for loan losses	—	—	100	—
Net interest income after provision for loan losses	$6,831	$ 6,249	$13,278	$12,241
Noninterest Income				
Service charges on deposit accounts	$784	$ 735	$1,546	$1,490
ATM and check card fees	555	527	1,074	1,028
Wealth management fees	409	355	816	702
Fees for other customer services	151	137	304	277
Income from bank owned life insurance	77	102	636	195
Net gains on securities available for sale	—	13	—	13
Net gains on sale of loans	15	34	24	67
Other operating income	76	75	300	147
Total noninterest income	$2,067	$ 1,978	$4,700	$3,919
Noninterest Expense				
Salaries and employee benefits	$3,227	$ 3,122	$6,610	$6,364
Occupancy	387	348	787	715
Equipment	420	400	843	808
Marketing	161	136	270	272
Supplies	88	105	168	196
Legal and professional fees	223	245	414	442
ATM and check card expense	211	229	414	391
FDIC assessment	66	77	148	156
Bank franchise tax	118	110	233	214
Telecommunications expense	98	108	134	218
Data processing expense	170	152	332	302
Postage expense	42	74	103	135
Amortization expense	120	160	251	329
Other real estate owned expense (income), net	1	4	(22)	6

Other operating expense	532	435	1,045	908
Total noninterest expense	$5,864	$5,705	$11,730	$11,456

See Notes to Consolidated Financial Statements

FIRST NATIONAL CORPORATION
Consolidated Statements of Income (Unaudited)
(Continued)
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Income before income taxes	$3,034	$2,522	$6,248	$4,704
Income tax expense	583	766	1,110	1,405
Net income	$2,451	$1,756	$5,138	$3,299
Earnings per common share				
Basic	$0.49	$0.36	$1.04	$0.67
Diluted	$0.49	$0.36	$1.04	$0.67

See Notes to Consolidated Financial Statements

FIRST NATIONAL CORPORATION
Consolidated Statements of Comprehensive Income (Unaudited)
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	$2,451	$1,756	$5,138	$3,299
Other comprehensive (loss) income, net of tax,				
Unrealized holding (losses) gains on available for sale securities, net of tax ($75) and $201 for the three months and ($304) and $397 for the six months ended June 30, 2018 and 2017, respectively	(284)	392	(1,146)	773
Reclassification adjustment for gains included in net income, net of tax $0 and ($4) for the three months and $0 and ($4) for the six months ended June 30, 2018 and 2017, respectively	—	(9)	—	(9)
Pension liability adjustment, net of tax $0 and $0 for the three months and ($27) and $0 for the six months ended June 30, 2018 and 2017, respectively	—	—	(99)	—
Total other comprehensive (loss) income	(284)	383	(1,245)	764
Total comprehensive income	$2,167	$2,139	$3,893	$4,063

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Six Months Ended June 30, 2018		June 30, 2017	
Cash Flows from Operating Activities				
Net income	$ 5,138		$ 3,299	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of premises and equipment	681		697	
Amortization of core deposit intangibles	251		329	
Amortization of debt issuance costs	8		9	
Origination of loans held for sale	(2,057	)	(4,582	)
Proceeds from sale of loans held for sale	1,324		3,987	
Net gains on sales of loans held for sale	(24	)	(67	)
Provision for loan losses	100		—	
Net gains on securities available for sale	—		(13	)
Net gains on sale of other real estate owned	(24	)	—	
Increase in cash value of bank owned life insurance	(167	)	(187	)
Accretion of discounts and amortization of premiums on securities, net	274		313	
Accretion of premium on time deposits	(43	)	(56	)
Stock-based compensation	89		76	
Excess tax benefits on stock-based compensation	(7	)	(14	)
	51		(157	)

Deferred income tax expense (benefit)						
Changes in assets and liabilities:						
(Increase) decrease in interest receivable	(157		)	18		
Decrease in other assets	1,234			1		
Decrease in accrued expenses and other liabilities	(896		)	(412		)
Net cash provided by operating activities	$	5,775		$	3,241	
Cash Flows from Investing Activities						
Proceeds from maturities, calls, and principal payments of securities available for sale	$	8,064		$	7,103	
Proceeds from maturities, calls, and principal payments of securities held to maturity	2,413			2,468		
Purchases of securities available for sale	(27,146		)	(1,079		)
Net purchase of restricted securities	(20		)	(22		)
Purchase of premises and equipment	(423		)	(413		)
Proceeds from sale of other real estate owned	350			—		
Proceeds from cash value of bank owned life insurance	347			—		
Net increase in loans	(9,187		)	(17,643		)
Net cash used in investing activities	$	(25,602	)	$	(9,586	)

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION
Consolidated Statements of Cash Flows (Unaudited)
(Continued)
(in thousands)

	Six Months Ended	
	June 30, 2018	June 30, 2017
Cash Flows from Financing Activities		
Net increase in demand deposits and savings accounts	$21,909	$21,765
Net decrease in time deposits	(317)	(5,451)
Cash dividends paid on common stock, net of reinvestment	(464)	(323)
Repurchase of common stock	(24)	—
Net cash provided by financing activities	$21,104	$15,991
Increase in cash and cash equivalents	$1,277	$9,646
Cash and Cash Equivalents		
Beginning	$39,986	$41,092
Ending	$41,263	$50,738
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$1,656	$1,174
Income Taxes	$96	$1,736
Supplemental Disclosures of Noncash Investing and Financing Activities		
Unrealized (losses) gains on securities available for sale	$(1,450)	$1,157
Change in pension liability	$(126)	$—
Transfer from loans to other real estate owned	$68	$—
Issuance of common stock, dividend reinvestment plan	$31	$23

See Notes to Consolidated Financial Statements

FIRST NATIONAL CORPORATION
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(in thousands, except share and per share data)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2016	$ —	$6,162	$7,093	$39,756	$(860)	$52,151
Net income	—	—	—	3,299	—	3,299
Other comprehensive income	—	—	—	—	764	764
Cash dividends on common stock ($0.07 per share)	—	—	—	(346)	—	(346)
Stock-based compensation	—	—	76	—	—	76
Issuance of 1,665 shares common stock, dividend reinvestment plan	—	2	21	—	—	23
Issuance of 10,536 shares common stock, stock incentive plan	—	13	(13)	—	—	—
Balance, June 30, 2017	$ —	$6,177	$7,177	$42,709	$(96)	$55,967

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2017	$ —	$6,182	$7,260	$45,670	$(958)	$58,154
Net income	—	—	—	5,138	—	5,138
Other comprehensive loss	—	—	—	—	(1,245)	(1,245)
Cash dividends on common stock ($0.10 per share)	—	—	—	(495)	—	(495)
Stock-based compensation	—	—	89	—	—	89
Issuance of 1,632 shares common stock, dividend reinvestment plan	—	2	29	—	—	31
Issuance of 7,339 shares common stock, stock incentive plan	—	9	(9)	—	—	—
Repurchase of 1,317 shares of common stock, stock incentive plan	—	(1)	(23)	—	—	(24)
Balance, June 30, 2018	$ —	$6,192	$7,346	$50,313	$(2,203)	$61,648

See Notes to Consolidated Financial Statements

FIRST NATIONAL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements of First National Corporation (the Company) and its subsidiary, First Bank (the Bank), have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications of a normal and recurring nature considered necessary to present fairly the financial positions at June 30, 2018 and December 31, 2017, the statements of income and comprehensive income for the three and six months ended June 30, 2018 and 2017 and the cash flows and changes in shareholders' equity for the six months ended June 30, 2018 and 2017. The statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Adoption of ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606."

On January 1, 2018, the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606." This ASU revised guidance for the recognition, measurement, and disclosure of revenue from contracts with customers. The original guidance was amended through subsequent accounting standard updates that resulted in technical corrections, improvements, and a one-year deferral of the effective date to January 1, 2018. The guidance, as amended, is applicable to all entities and replaces significant portions of existing industry and transaction-specific revenue recognition rules with a more principles-based recognition model. Most revenue associated with financial instruments, including interest income, loan origination fees, and credit card fees, is outside the scope of the guidance. Gains and losses on investment securities, derivatives, financial guarantees, and sales of financial instruments are similarly excluded from the scope. The guidance is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, and merchant income. The Company adopted this guidance via the modified retrospective approach, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application.

Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including trust and asset management fees, deposit related fees, interchange fees, and merchant income. The Company also completed an evaluation of certain costs related to these revenue streams to determine whether such costs should be presented gross versus net. Based on these assessments, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company does not expect the adoption of ASU 2016-02 to have a material impact on its consolidated

Notes to Consolidated Financial Statements (Unaudited)

financial statements. The Company has analyzed its current lease commitments, along with reasonable assumptions to project lease activity in future periods, to measure the potential impact on net income and relevant capital and financial ratios.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Company has formed a committee to address the compliance requirements of this ASU and is currently in the process of analyzing gathered data, defining loan pools and segments, and selecting methods for applying the concepts included in this ASU. During 2018, the Company plans to test selected models, build policy and process documentation, and model the impact of the ASU on the capital and strategic plans. This guidance may result in material changes in the Company's accounting for credit losses of financial instruments.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are U.S. Securities and Exchange Commission (SEC) filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.” The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” The amendments in this ASU modify the designation and measurement guidance for hedge accounting as well as provide for increased transparency regarding the presentation of economic results on both the financial statements and related footnotes. Certain aspects of hedge effectiveness assessments will also be simplified upon implementation of this update. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. The Company is currently assessing the impact that ASU 2017-12 will have on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments provide targeted improvements to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically, the amendments include clarifications related to: measurement elections, transition requirements, and adjustments associated with equity securities without readily determinable fair values; fair value measurement requirements for forward contracts and purchased options on equity securities; presentation requirements for hybrid financial liabilities for which the fair value option has been elected; and measurement requirements for liabilities denominated in a foreign currency for which the fair value option has been elected. The amendments are effective for fiscal years beginning after December 15, 2017,

Notes to Consolidated Financial Statements (Unaudited)

and interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-03 to have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation- Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." The amendments expand the scope of Topic 718 to include share-based payments issued to non-employees for goods or services, which were previously excluded. The amendments will align the accounting for share-based payments to nonemployees and employees more similarly. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-07 to have a material impact on its consolidated financial statements.

Note 2. Securities

The Company invests in U.S. agency and mortgage-backed securities, obligations of state and political subdivisions, and corporate debt securities. Amortized costs and fair values of securities at June 30, 2018 and December 31, 2017 were as follows (in thousands):

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. agency and mortgage-backed securities	$94,387	$ 21	$ (2,580)	$91,828
Obligations of states and political subdivisions	15,109	46	(276)	14,879
Total securities available for sale	$109,496	$ 67	$ (2,856)	$106,707
Securities held to maturity:				
U.S. agency and mortgage-backed securities	$29,678	$ —	$ (1,111)	$28,567
Obligations of states and political subdivisions	14,523	17	(189)	14,351
Corporate debt securities	1,500	—	(2)	1,498
Total securities held to maturity	$45,701	$ 17	$ (1,302)	$44,416
Total securities	$155,197	$ 84	$ (4,158)	$151,123

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. agency and mortgage-backed securities	$76,074	$ 67	$ (1,337)	$74,804
Obligations of states and political subdivisions	14,520	86	(155)	14,451
Total securities available for sale	$90,594	$ 153	$ (1,492)	$89,255
Securities held to maturity:				
U.S. agency and mortgage-backed securities	$32,149	$ —	$ (551)	$31,598
Obligations of states and political subdivisions	14,559	74	(45)	14,588
Corporate debt securities	1,500	16	—	1,516
Total securities held to maturity	$48,208	$ 90	$ (596)	$47,702
Total securities	$138,802	$ 243	$ (2,088)	$136,957

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Notes to Consolidated Financial Statements (Unaudited)

At June 30, 2018 and December 31, 2017, investments in an unrealized loss position that were temporarily impaired were as follows (in thousands):

	June 30, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
Securities available for sale:						
U.S. agency and mortgage-backed securities	$61,734	$ (1,200)	$28,279	$ (1,380)	$90,013	$ (2,580)
Obligations of states and political subdivisions	8,055	(129)	2,462	(147)	10,517	(276)
Total securities available for sale	$69,789	$ (1,329)	$30,741	$ (1,527)	$100,530	$ (2,856)
Securities held to maturity:						
U.S. agency and mortgage-backed securities	$14,964	$ (499)	$13,603	$ (612)	$28,567	$ (1,111)
Obligations of states and political subdivisions	11,155	(189)	—	—	11,155	(189)
Corporate debt securities	1,498	(2)	—	—	1,498	(2)
Total securities held to maturity	$27,617	$ (690)	$13,603	$ (612)	$41,220	$ (1,302)
Total securities	$97,406	$ (2,019)	$44,344	$ (2,139)	$141,750	$ (4,158)

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
Securities available for sale:						
U.S. agency and mortgage-backed securities	$29,963	$ (286)	$30,362	$ (1,051)	$60,325	$ (1,337)
Obligations of states and political subdivisions	4,469	(53)	1,961	(102)	6,430	(155)
Total securities available for sale	$34,432	$ (339)	$32,323	$ (1,153)	$66,755	$ (1,492)
Securities held to maturity:						
U.S. agency and mortgage-backed securities	$18,301	$ (205)	$13,297	$ (346)	$31,598	$ (551)
Obligations of states and political subdivisions	6,889	(45)	—	—	6,889	(45)
Total securities held to maturity	$25,190	$ (250)	$13,297	$ (346)	$38,487	$ (596)
Total securities	$59,622	$ (589)	$45,620	$ (1,499)	$105,242	$ (2,088)

The tables above provide information about securities that have been in an unrealized loss position for less than twelve consecutive months and securities that have been in an unrealized loss position for twelve consecutive months or more. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Impairment is considered to be other-than-temporary if the Company (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security's entire amortized cost basis. Presently, the Company does not intend to sell any of these securities, does not expect to be required to sell these securities, and expects to recover the entire amortized cost of all the securities.

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At June 30, 2018, there were eighty-six out of ninety-one U.S. agency and mortgage-backed securities, fifty-eight out of eighty-one obligations of states and political subdivisions, and one corporate debt security in an unrealized loss position. One hundred percent of the Company's investment portfolio is considered investment grade. The weighted-average re-pricing term of the portfolio was 4.8 years at June 30, 2018. At December 31, 2017, there were sixty-eight out of eighty-two U.S. agency and mortgage-backed securities and thirty-nine out of eighty obligations of states and political subdivisions in an unrealized loss position. One hundred percent of the Company's investment portfolio was considered investment grade at December 31, 2017. The weighted-average re-pricing term of the portfolio was 4.7 years at December 31, 2017. The unrealized losses at June 30, 2018 in the U.S. agency and mortgage-backed securities portfolio, the obligations of states and political subdivisions portfolio, and the corporate debt securities portfolio were related to changes in market interest rates and not credit concerns of the issuers.

The amortized cost and fair value of securities at June 30, 2018 by contractual maturity are shown below (in thousands). Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$505	$511	$186	$186
Due after one year through five years	8,982	8,919	6,918	6,790
Due after five years through ten years	14,164	13,723	14,282	14,034
Due after ten years	85,845	83,554	24,315	23,406
	$109,496	$106,707	$45,701	$44,416

Federal Home Loan Bank, Federal Reserve Bank, and Community Bankers' Bank stock are generally viewed as long-term investments and as restricted securities, which are carried at cost, because there is a minimal market for the stock. Therefore, when evaluating restricted securities for impairment, their value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company does not consider these investments to be other-than-temporarily impaired at June 30, 2018, and no impairment has been recognized.

The composition of restricted securities at June 30, 2018 and December 31, 2017 was as follows (in thousands):

	June 30, 2018	December 31, 2017
Federal Home Loan Bank stock	$ 665	$ 645
Federal Reserve Bank stock	875	875
Community Bankers' Bank stock	50	50
	$ 1,590	$ 1,570

Notes to Consolidated Financial Statements (Unaudited)

Note 3. Loans

Loans at June 30, 2018 and December 31, 2017 are summarized as follows (in thousands):

	June 30, 2018	December 31, 2017
Real estate loans:		
Construction and land development	$37,350	$ 35,927
Secured by 1-4 family residential	211,101	208,177
Other real estate loans	224,362	222,256
Commercial and industrial loans	40,943	38,763
Consumer and other loans	17,177	17,078
Total loans	$530,933	$ 522,201
Allowance for loan losses	(5,039)	(5,326)
Loans, net	$525,894	$ 516,875

Net deferred loan fees included in the above loan categories were $266 thousand and $301 thousand at June 30, 2018 and December 31, 2017, respectively. Consumer and other loans included $231 thousand and $232 thousand of demand deposit overdrafts at June 30, 2018 and December 31, 2017, respectively.
Risk characteristics of each loan portfolio class that are considered by the Company include:

- 1-4 family residential mortgage loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

- Real estate construction and land development loans carry risks that the project may not be finished according to schedule, the project may not be finished according to budget, and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure or other factors unrelated to the project.

- Other real estate loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because repayment of these loans may be dependent upon the profitability and cash flows of the business or project.

- Commercial and industrial loans carry risks associated with the successful operation of a business because repayment of these loans may be dependent upon the profitability and cash flows of the business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much reliability.

- Consumer and other loans carry risk associated with the continued creditworthiness of the borrower and the value of the collateral, if any. These loans are typically either unsecured or secured by rapidly depreciating assets such as automobiles. They are also likely to be immediately and adversely affected by job loss, divorce, illness, personal bankruptcy, or other changes in circumstances. Consumer and other loans also include purchased consumer loans which could have been originated outside of the Company's market area.

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The following tables provide a summary of loan classes and an aging of past due loans as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018							
	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual Loans	90 Days or More Past Due and Accruing
Real estate loans:								
Construction and land development	$170	$ —	$ 355	$ 525	$36,825	$37,350	$ —	$ 355
Secured by 1-4 family residential	1,218	292	359	1,869	209,232	211,101	375	76
Other real estate loans	1,426	319	1,587	3,332	221,030	224,362	1,755	—
Commercial and industrial	—	210	75	285	40,658	40,943	200	75
Consumer and other loans	88	53	43	184	16,993	17,177	—	43
Total	$2,902	$ 874	$ 2,419	$ 6,195	$524,738	$530,933	$ 2,330	$ 549

	December 31, 2017							
	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual Loans	90 Days or More Past Due and Accruing
Real estate loans:								
Construction and land development	$986	$ 30	$ 40	$ 1,056	$34,871	$35,927	$ 269	$ 40
Secured by 1-4 family residential	606	203	148	957	207,220	208,177	267	106
Other real estate loans	2,042	170	10	2,222	220,034	222,256	401	10
Commercial and industrial	184	25	—	209	38,554	38,763	—	—
Consumer and other loans	51	49	27	127	16,951	17,078	—	27
Total	$3,869	$ 477	$ 225	$ 4,571	$517,630	$522,201	$ 937	$ 183

Credit Quality Indicators

As part of the ongoing monitoring of the credit quality of the Company’s loan portfolio, management tracks certain credit quality indicators including trends related to the risk grading of specified classes of loans. The Company utilizes a risk grading matrix to assign a rating to each of its loans. The loan ratings are summarized into the following categories: pass, special mention, substandard, doubtful and loss. Pass rated loans include all risk rated credits other than those included in special mention, substandard or doubtful. Loans classified as loss are charged-off. Loan officers assign risk grades to loans at origination and as renewals arise. The Bank’s Credit Administration department reviews risk grades for accuracy on a quarterly basis and as credit issues arise. In addition, a certain amount of loans are reviewed each year through the Company’s internal and external loan review process. A description of the general characteristics of the loan grading categories is as follows:

Pass – Loans classified as pass exhibit acceptable operating trends, balance sheet trends, and liquidity. Sufficient cash flow exists to service the loan. All obligations have been paid by the borrower as agreed.

Special Mention – Loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the Bank’s credit position at some future date.

Notes to Consolidated Financial Statements (Unaudited)

Substandard – Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The Company considers all doubtful loans to be impaired and places the loan on non-accrual status.
Loss – Loans classified as loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted.

The following tables provide an analysis of the credit risk profile of each loan class as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Construction and land development	$34,862	$751	$ 1,737	$ —	$37,350
Secured by 1-4 family residential	207,451	1,896	1,754	—	211,101
Other real estate loans	220,695	1,314	2,353	—	224,362
Commercial and industrial	40,632	27	284	—	40,943
Consumer and other loans	17,177	—	—	—	17,177
Total	$520,817	$3,988	$ 6,128	$ —	$530,933

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Construction and land development	$31,553	$2,268	$ 2,106	$ —	$35,927
Secured by 1-4 family residential	204,166	1,933	2,078	—	208,177
Other real estate loans	215,773	971	5,512	—	222,256
Commercial and industrial	38,606	53	104	—	38,763
Consumer and other loans	17,078	—	—	—	17,078
Total	$507,176	$5,225	$ 9,800	$ —	$522,201

Notes to Consolidated Financial Statements (Unaudited)

Note 4. Allowance for Loan Losses

The following tables present, as of June 30, 2018, December 31, 2017 and June 30, 2017, the total allowance for loan losses, the allowance by impairment methodology, and loans by impairment methodology (in thousands):

	June 30, 2018					
	Construction and Land Development	Secured by 1-4 Family Residential	Other Real Estate	Commercial and Industrial	Consumer and Other Loans	Total
Allowance for loan losses:						
Beginning Balance, December 31, 2017	$414	$775	$2,948	$ 418	$771	$5,326
Charge-offs	—	(24)	—	(8)	(468)	(500)
Recoveries	—	8	1	5	99	113
Provision for (recovery of) loan losses	(8)	32	(285)	10	351	100
Ending Balance, June 30, 2018	$406	$791	$2,664	$ 425	$753	$5,039
Ending Balance:						
Individually evaluated for impairment	—	—	—	—	—	—
Collectively evaluated for impairment	406	791	2,664	425	753	5,039
Loans:						
Ending Balance	$37,350	$211,101	$224,362	$ 40,943	$17,177	$530,933
Individually evaluated for impairment	865	1,330	2,029	257	—	4,481
Collectively evaluated for impairment	36,485	209,771	222,333	40,686	17,177	526,452

	December 31, 2017					
	Construction and Land Development	Secured by 1-4 Family Residential	Other Real Estate	Commercial and Industrial	Consumer and Other Loans	Total
Allowance for loan losses:						
Beginning Balance, December 31, 2016	$441	$1,019	$3,142	$ 380	$339	$5,321
Charge-offs	—	(126)	—	—	(607)	(733)
Recoveries	11	302	50	10	265	638
Provision for (recovery of) loan losses	(38)	(420)	(244)	28	774	100
Ending Balance, December 31, 2017	$414	$775	$2,948	$ 418	$771	$5,326
Ending Balance:						
Individually evaluated for impairment	—	—	—	—	—	—
Collectively evaluated for impairment	414	775	2,948	418	771	5,326
Loans:						
Ending Balance	$35,927	$208,177	$222,256	$ 38,763	$17,078	$522,201
Individually evaluated for impairment	1,150	1,307	1,289	65	—	3,811
Collectively evaluated for impairment	34,777	206,870	220,967	38,698	17,078	518,390

Notes to Consolidated Financial Statements (Unaudited)

	June 30, 2017					
	Construction and Land Development	Secured by 1-4 Family Residential	Other Real Estate	Commercial and Industrial	Consumer and Other Loans	Total
Allowance for loan losses:						
Beginning Balance, December 31, 2016	$441	$1,019	$3,142	$380	$339	$5,321
Charge-offs	—	(25)	—	—	(242)	(267)
Recoveries	2	238	47	7	96	390
Provision for (recovery of) loan losses	39	(360)	(115)	(12)	448	—
Ending Balance, June 30, 2017	$482	$872	$3,074	$375	$641	$5,444
Ending Balance:						
Individually evaluated for impairment	—	57	—	—	—	57
Collectively evaluated for impairment	482	815	3,074	375	641	5,387
Loans:						
Ending Balance	$36,783	$205,114	$215,742	$31,201	$14,993	$503,833
Individually evaluated for impairment	1,613	1,772	1,355	67	—	4,807
Collectively evaluated for impairment	35,170	203,342	214,387	31,134	14,993	499,026

Notes to Consolidated Financial Statements (Unaudited)

Impaired loans and the related allowance at June 30, 2018, December 31, 2017 and June 30, 2017, were as follows (in thousands):

	June 30, 2018						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real estate loans:							
Construction and land development	$984	$ 865	$ —	$ 865	$ —	$ 1,063	$ 27
Secured by 1-4 family	1,415	1,330	—	1,330	—	1,300	28
Other real estate loans	2,029	2,029	—	2,029	—	1,140	30
Commercial and industrial	270	257	—	257	—	65	2
Total	$4,698	$ 4,481	$ —	$ 4,481	$ —	$ 3,568	$ 87

	December 31, 2017						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real estate loans:							
Construction and land development	$1,627	$ 1,150	$ —	$ 1,150	$ —	$ 1,814	$ 63
Secured by 1-4 family	1,387	1,307	—	1,307	—	1,637	64
Other real estate loans	1,483	1,289	—	1,289	—	1,137	95
Commercial and industrial	78	65	—	65	—	68	10
Total	$4,575	$ 3,811	$ —	$ 3,811	$ —	$ 4,656	$ 232

	June 30, 2017						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real estate loans:							
Construction and land development	$2,066	$ 1,613	$ —	$ 1,613	$ —	$ 1,955	$ 26
Secured by 1-4 family	1,820	1,348	424	1,772	57	1,667	31
Other real estate loans	1,540	1,355	—	1,355	—	958	49
Commercial and industrial	86	67	—	67	—	71	2
Total	$5,512	$ 4,383	$ 424	$ 4,807	$ 57	$ 4,651	$ 108

The “Recorded Investment” amounts in the table above represent the outstanding principal balance on each loan represented in the table. The “Unpaid Principal Balance” represents the outstanding principal balance on each loan represented in the table plus any amounts that have been charged off on each loan and/or payments that have been applied towards principal on non-accrual loans. Only loan classes with balances are included in the tables above.

As of June 30, 2018, loans classified as troubled debt restructurings (TDRs) and included in impaired loans in the disclosure above totaled $321 thousand. At June 30, 2018, $273 thousand of the loans classified as TDRs were performing under the restructured terms and were not considered non-performing assets. There were $333 thousand in TDRs at December 31, 2017, $282 thousand of which were performing under the restructured terms. Modified terms under TDRs may include rate reductions, extension of terms that are considered to be below market, conversion to interest only, and other actions intended to

Notes to Consolidated Financial Statements (Unaudited)

minimize the economic loss and to avoid foreclosure or repossession of the collateral. There were no loans modified under TDRs during the three and six month periods ended June 30, 2018 and 2017.
For the three and six months ended June 30, 2018 and 2017, there were no troubled debt restructurings that subsequently defaulted within twelve months of the loan modification. Management defines default as over ninety days past due or the foreclosure and repossession of the collateral or charge-off of the loan during the twelve month period subsequent to the modification.
Note 5. Other Real Estate Owned (OREO)

Changes in the balance for OREO are as follows (in thousands):

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Balance at the beginning of year, gross	$ 326	$ 250
Transfers in	68	326
Charge-offs	—	—
Sales proceeds	(350)	(441)
Gain on disposition	24	191
Balance at the end of period, gross	$ 68	$ 326
Less: valuation allowance	—	—
Balance at the end of period, net	$ 68	$ 326

The carrying amounts of residential real estate properties included in the ending OREO balances above totaled $68 thousand at June 30, 2018. There were no residential real estate properties included in the ending OREO balances above at December 31, 2017. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $86 thousand as of June 30, 2018.

Net expenses applicable to OREO, other than the provision for losses, were $2 thousand and $6 thousand for the six months ended June 30, 2018 and 2017, respectively, and $5 thousand for the year ended December 31, 2017.

Note 6. Other Borrowings

The Bank had unused lines of credit totaling $130.0 million and $134.1 million available with non-affiliated banks at June 30, 2018 and December 31, 2017, respectively. These amounts primarily consist of a blanket floating lien agreement with the Federal Home Loan Bank of Atlanta (FHLB) in which the Bank can borrow up to 19% of its total assets. The unused line of credit with FHLB totaled $77.2 million at June 30, 2018. The Bank had collateral pledged on the borrowing line at June 30, 2018 and December 31, 2017 including real estate loans totaling $112.2 million and $117.7 million, respectively, and Federal Home Loan Bank stock with a book value of $665 thousand and $645 thousand, respectively. The Bank did not have borrowings from the FHLB at June 30, 2018 and December 31, 2017.
Note 7. Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Notes to Consolidated Financial Statements (Unaudited)

The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective January 1, 2015, with full compliance of all the requirements being phased in over a multi-year schedule, and becoming fully phased in by January 1, 2019. As part of the new requirements, the common equity Tier 1 capital ratio is calculated and utilized in the assessment of capital for all institutions. The final rules also established a "capital conservation buffer" above the new regulatory minimum capital requirements. The capital conservation buffer is being phased-in over four years, which began on January 1, 2016.
Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total (as defined in the regulations), Tier 1 (as defined), and common equity Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital to average assets. Management believes, as of June 30, 2018 and December 31, 2017, that the Bank met all capital adequacy requirements to which it is subject.
As of June 30, 2018, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum risk-based capital and leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.
A comparison of the capital of the Bank at June 30, 2018 and December 31, 2017 with the minimum regulatory guidelines were as follows (dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2018						
Total Capital (to Risk-Weighted Assets)	$71,026	13.47%	$42,169	8.00%	$52,711	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	$65,987	12.52%	$31,627	6.00%	$42,169	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$65,987	12.52%	$23,720	4.50%	$34,262	6.50%
Tier 1 Capital (to Average Assets)	$65,987	8.66%	$30,469	4.00%	$38,086	5.00%
December 31, 2017						
Total Capital (to Risk-Weighted Assets)	$67,624	13.12%	$41,239	8.00%	$51,548	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	$62,298	12.09%	$30,929	6.00%	$41,239	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$62,298	12.09%	$23,197	4.50%	$33,506	6.50%
Tier 1 Capital (to Average Assets)	$62,298	8.46%	$29,457	4.00%	$36,821	5.00%

In addition to the regulatory minimum risk-based capital amounts presented above, the Bank must maintain a capital conservation buffer as required by the Basel III final rules. The buffer began applying to the Bank on January 1, 2016, and is subject to phase-in from 2016 to 2019 in equal annual installments of 0.625%. Accordingly, the Bank was required to maintain a capital conservation buffer of 1.875% and 1.25% at June 30, 2018 and December 31, 2017, respectively. Under the final rules, an institution is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. As of June 30, 2018 and December 31, 2017, the capital conservation buffer of the Bank was 5.47% and 5.12%, respectively.
Note 8. Subordinated Debt

On October 30, 2015, the Company entered into a Subordinated Loan Agreement (the Agreement) pursuant to which the Company issued an interest only subordinated term note due 2025 in the aggregate principal amount of $5.0

million (the Note). The Note bears interest at a fixed rate of 6.75% per annum. The Note qualifies as Tier 2 capital for regulatory capital purposes and at June 30, 2018, the total amount of subordinated debt issued was included in the Company’s Tier 2 capital. Unamortized debt issuance costs related to the Note were $44 thousand and $52 thousand at June 30, 2018 and December 31, 2017, respectively.

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The Note has a maturity date of October 1, 2025. Subject to regulatory approval, the Company may prepay the Note, in part or in full, beginning on October 30, 2020. The Note is an unsecured, subordinated obligation of the Company and ranks junior in right of payment to the Company's senior indebtedness and to the Company's obligations to its general creditors. The Note ranks equally with all other unsecured subordinated debt, except any which by its terms is expressly stated to be subordinated to the Note. The Note ranks senior to all current and future junior subordinated debt obligations, preferred stock, and common stock of the Company.

The Note is not convertible into common stock or preferred stock. The Agreement contains customary events of default such as the bankruptcy of the Company and the non-payment of principal or interest when due. The holder of the Note may accelerate the repayment of the Note only in the event of bankruptcy or similar proceedings and not for any other event of default.

Note 9. Junior Subordinated Debt

On June 8, 2004, First National (VA) Statutory Trust II (Trust II), a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable capital securities, commonly known as trust preferred securities. On June 17, 2004, $5.0 million of trust preferred securities were issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate of interest. The interest rate at June 30, 2018 and December 31, 2017 was 4.93% and 4.20%, respectively. The securities have a mandatory redemption date of June 17, 2034, and were subject to varying call provisions that began September 17, 2009. The principal asset of Trust II is $5.2 million of the Company's junior subordinated debt with maturities and interest rates comparable to the trust preferred securities. The Trust's obligations under the trust preferred securities are fully and unconditionally guaranteed by the Company. The Company is current on its interest payments on the junior subordinated debt.

On July 24, 2006, First National (VA) Statutory Trust III (Trust III), a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable capital securities. On July 31, 2006, $4.0 million of trust preferred securities were issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate of interest. The interest rate at June 30, 2018 and December 31, 2017 was 3.91% and 2.94%, respectively. The securities have a mandatory redemption date of October 1, 2036, and were subject to varying call provisions that began October 1, 2011. The principal asset of Trust III is $4.1 million of the Company's junior subordinated debt with maturities and interest rates comparable to the trust preferred securities. The Trust's obligations under the trust preferred securities are fully and unconditionally guaranteed by the Company. The Company is current on its interest payments on the junior subordinated debt.

While these securities are debt obligations of the Company, they are included in capital for regulatory capital ratio calculations. Under present regulations, the junior subordinated debt may be included in Tier 1 capital for regulatory capital adequacy purposes as long as their amount does not exceed 25% of Tier 1 capital, including total junior subordinated debt. The portion of the junior subordinated debt not considered as Tier 1 capital, if any, may be included in Tier 2 capital. At June 30, 2018 and December 31, 2017, the total amount of junior subordinated debt issued by the Trusts was included in the Company's Tier 1 capital.

Note 10. Benefit Plans

The Bank had a noncontributory, defined benefit pension plan for all full-time employees over 21 years of age with at least one year of credited service and hired prior to May 1, 2011. Effective May 1, 2011, the plan was frozen to new participants. Only individuals employed on or before April 30, 2011 were eligible to become participants in the plan upon satisfaction of the eligibility requirements. Benefits were generally based upon years of service and average compensation for the five highest-paid consecutive years of service. The Bank's funding practice was to make at least the minimum required annual contribution permitted by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended.

On September 14, 2016, the defined benefit pension plan was amended to be terminated. Under the amendment, benefit accruals ceased as of November 30, 2016. The Internal Revenue Service approved the termination on October 16, 2017 and the Company distributed all plan assets on March 8, 2018. The funding status of the plan on March 8, 2018 was not significantly different from the funded status disclosed in Note 13 of the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The benefit obligation and the fair value of assets did not change significantly prior to the distribution of plan assets. Pension plan assets remained in cash and equivalents through the distribution date.

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Components of the net periodic benefit cost of the plan for the three and six months ended June 30, 2018 and 2017 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest cost	$ —	$ 20	—	41
Expected return on plan assets	—	(9)	—	(18)
Net periodic benefit cost	$ —	$ 11	$ —	$ 23

The Company previously disclosed in its consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2017, that it made a contribution of $205 thousand upon the final distribution of plan assets on March 8, 2018.

The Company maintains a 401(k) plan and an employee stock ownership plan (ESOP) for eligible employees. On September 14, 2016, the ESOP was amended to freeze the plan to new participants and to cease all contributions, effective December 31, 2016. The amendment also directed matching contributions and certain other retirement contributions made by the Company to the 401(k) plan. On December 31, 2017, the ESOP was amended to be terminated and the Internal Revenue Service approved the termination on May 3, 2018. The Company plans to distribute all assets of the ESOP to participants or beneficiaries and terminate the plan prior to December 31, 2018. The ESOP continued to be invested in Company stock and such other assets as permitted under the ESOP and Trust Agreement for the benefit of participants and their beneficiaries at June 30, 2018.

See Note 13 of the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information about the Company's benefit plans.

Note 11. Earnings per Common Share

Basic earnings per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

The following table presents the computation of basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 (dollars in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
(Numerator):				
Net income	$2,451	$ 1,756	$5,138	$ 3,299
(Denominator):				
Weighted average shares outstanding – basic	4,952,712	4,940,904	4,950,922	4,938,178
Potentially dilutive common shares – restricted stock units	1,553	1,822	2,406	2,013
Weighted average shares outstanding – diluted	4,954,265	4,942,726	4,953,328	4,940,191
Income per common share				

Basic	$0.49	$ 0.36	$1.04	$ 0.67
Diluted	$0.49	$ 0.36	$1.04	$ 0.67

Notes to Consolidated Financial Statements (Unaudited)

Note 12. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the “Fair Value Measurement and Disclosures” topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its assets and liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 -	Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2 -	Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
Level 3 -	Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires a significant management judgment or estimation.

An instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a recurring basis in the financial statements:

Securities available for sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or

Notes to Consolidated Financial Statements (Unaudited)

corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).
The following tables present the balances of assets measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 (in thousands).

Description	Balance as of June 30, 2018	Fair Value Measurements at June 30, 2018 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale				
U.S. agency and mortgage-backed securities	$ 91,828	$ —	$ 91,828	$ —
Obligations of states and political subdivisions	14,879	—	14,879	—
	$ 106,707	$ —	$ 106,707	$ —

Description	Balance as of December 31, 2017	Fair Value Measurements at December 31, 2017 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale				
U.S. agency and mortgage-backed securities	$ 74,804	$ —	$ 74,804	$ —
Obligations of states and political subdivisions	14,451	—	14,451	—
	$ 89,255	$ —	$ 89,255	$ —

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Loans held for sale

Loans held for sale are carried at the lower of cost or market value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the six months ended June 30, 2018 and the year ended December 31, 2017.

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the observable market price of the loan, or the fair value of the collateral less estimated costs to sell. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company’s collateral is real estate. The value of real estate collateral is determined utilizing a market valuation

Notes to Consolidated Financial Statements (Unaudited)

approach based on an appraisal conducted by an independent, licensed appraiser using observable market data (Level 2) within the last twelve months. However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Other real estate owned

Loans are transferred to other real estate owned when the collateral securing them is foreclosed on or acquired through a deed in lieu of foreclosure. The measurement of loss associated with other real estate owned is based on the appraisal documents and assessed the same way as impaired loans described above. Any fair value adjustments are recorded in the period incurred as other real estate owned (income) expense on the Consolidated Statements of Income.

The following tables summarize the Company's assets that were measured at fair value on a nonrecurring basis during the periods (dollars in thousands):

		Fair Value Measurements at June 30, 2018		
Description	Balance as of June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 68	$ —	$ —	$ 68

		Fair Value Measurements at December 31, 2017		
Description	Balance as of December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 326	$ —	$ —	$ 326

	Quantitative information about Level 3 Fair Value Measurements for June 30, 2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Other real estate owned	$ 68	Property appraisals	Selling cost	7 %

	Quantitative information about Level 3 Fair Value Measurements for December 31, 2017			
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Other real estate owned	$ 326	Contract Price	Selling cost	7 %

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Notes to Consolidated Financial Statements (Unaudited)

Accounting guidance requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. For short-term financial assets such as cash and short-term investments, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank, Federal Reserve Bank and Community Bankers' Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. Bank owned life insurance policies are carried at their cash surrender value, which approximates the fair value. The fair value of accrued interest receivable and payable are estimated to equal the carrying amount due to the short-term nature of these financial instruments. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

The carrying values and estimated fair values of the Company's financial instruments at June 30, 2018 and December 31, 2017 are as follows (in thousands):

		Fair Value Measurements at June 30, 2018 Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
Financial Assets					
Cash and short-term investments	$41,263	$41,263	$ —	$ —	$41,263
Securities available for sale	106,707	—	106,707	—	106,707
Securities held to maturity	45,701	—	42,918	1,498	44,416
Restricted securities	1,590	—	1,590	—	1,590
Loans held for sale	1,195	—	1,195	—	1,195
Loans, net [(1)]	525,894	—	—	523,078	523,078
Bank owned life insurance	13,787	—	13,787	—	13,787
Accrued interest receivable	2,073	—	2,073	—	2,073
Financial Liabilities					
Deposits	$686,529	$—	$ 564,238	$ 119,605	$683,843
Subordinated debt	4,956	—	—	4,890	4,890
Junior subordinated debt	9,279	—	—	9,702	9,702
Accrued interest payable	105	—	105	—	105

Notes to Consolidated Financial Statements (Unaudited)

	Carrying Amount	Fair Value Measurements at December 31, 2017 Using Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
Financial Assets					
Cash and short-term investments	$39,986	$39,986	$—	$ —	$39,986
Securities available for sale	89,255	—	89,255	—	89,255
Securities held to maturity	48,208	—	46,186	1,516	47,702
Restricted securities	1,570	—	1,570	—	1,570
Loans held for sale	438	—	438	—	438
Loans, net [(1)]	516,875	—	—	514,013	514,013
Bank owned life insurance	13,967	—	13,967	—	13,967
Accrued interest receivable	1,916	—	1,916	—	1,916
Financial Liabilities					
Deposits	$664,980	$—	$ 542,329	$ 120,834	$663,163
Subordinated debt	4,948	—	—	5,004	5,004
Junior subordinated debt	9,279	—	—	9,653	9,653
Accrued interest payable	98	—	98	—	98

(1) In accordance with the prospective adoption of ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," the fair value of loans as of June 30, 2018 was measured using an exit price notion. The fair value of loans as of December 31, 2017 was measured using an entry price notion.

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 13. Stock Compensation Plans

On May 13, 2014, the Company's shareholders approved the First National Corporation 2014 Stock Incentive Plan, which makes available up to 240,000 shares of common stock for the granting of stock options, restricted stock awards, stock appreciation rights, and other stock-based awards. Awards are made at the discretion of the Board of Directors and compensation cost equal to the fair value of the award is recognized over the vesting period.

Stock Awards

Whenever the Company deems it appropriate to grant a stock award, the recipient receives a specified number of unrestricted shares of employer stock. Stock awards may be made by the Company at its discretion without cash consideration and may be granted as settlement of a performance-based compensation award.

The Company did not have compensation expense related to stock awards for the six months ended June 30, 2018. Compensation expense related to stock awards totaled $30 thousand for the six months ended June 30, 2017.

Notes to Consolidated Financial Statements (Unaudited)

Restricted Stock Units

Restricted stock units are an award of units that correspond in number and value to a specified number of shares of employer stock which the recipient receives according to a vesting plan and distribution schedule after achieving required performance milestones or upon remaining with the employer for a particular length of time. Each restricted stock unit that vests entitles the recipient to receive one share of common stock on a specified issuance date.

In the first quarter of 2018, 8,989 restricted stock units were granted to employees, with 2,999 units vesting immediately and 5,990 units subject to a two year vesting schedule with one half of the units vesting each year on the grant date anniversary. The recipient does not have any stockholder rights, including voting, dividend, or liquidation rights, with respect to the shares underlying awarded restricted stock units until vesting has occurred and the recipient becomes the record holder of those shares. The unvested restricted stock units will vest on the established schedule if the employees remain employed by the Company on future vesting dates.

A summary of the activity for the Company's restricted stock units for the period indicated is presented in the following table:

	Six Months Ended June 30, 2018	
	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of year	5,662	$ 11.76
Granted	8,989	18.50
Vested	(7,339)	13.90
Forfeited	(24)	15.20
Unvested, end of period	7,288	$ 17.91

At June 30, 2018, based on restricted stock unit awards outstanding at that time, the total unrecognized pre-tax compensation expense related to unvested restricted stock unit awards was $102 thousand. This expense is expected to be recognized through 2020. Compensation expense related to restricted stock unit awards recognized for the six months ended June 30, 2018 and 2017 totaled $89 thousand and $46 thousand, respectively.

Note 14. Accumulated Other Comprehensive Loss

Changes in each component of accumulated other comprehensive loss were as follows (in thousands):

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension Benefits	Accumulated Other Comprehensive Loss
Balance at December 31, 2016	$ (860)	$ —	$ (860)
Unrealized holding gains (net of tax, $397)	773	—	773
Reclassification adjustment (net of tax, ($4))	(9)	—	(9)
Change during period	764	—	764
Balance at June 30, 2017	$ (96)	$ —	$ (96)

Balance at December 31, 2017	$ (1,057)	$ 99	$ (958)
Unrealized holding losses (net of tax, ($304))	(1,146)	—	(1,146)
Pension liability adjustment (net of tax, ($27))	—	(99)	(99)
Change during period	(1,146)	(99)	(1,245)
Balance at June 30, 2018	$ (2,203)	$ —	$ (2,203)

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Notes to Consolidated Financial Statements (Unaudited)

The following tables present information related to reclassifications from accumulated other comprehensive loss for the three and six month periods ended June 30, 2018 and 2017 (in thousands).

Details About Accumulated Other Comprehensive Loss	Amount Reclassified from Accumulated Other Comprehensive Loss Three Months Ended June 30, 2018	June 30, 2017	Affected Line Item in the Consolidated Statements of Income
Securities available for sale:			
Net securities gains reclassified into earnings	$ —	$ (13)	Net gains on securities available for sale
Related income tax expense	—	4	Income tax expense
Total reclassifications	$ —	$ (9)	Net of tax

Details About Accumulated Other Comprehensive Loss	Amount Reclassified from Accumulated Other Comprehensive Loss Six Months Ended June 30, 2018	June 30, 2017	Affected Line Item in the Consolidated Statements of Income
Securities available for sale:			
Net securities gains reclassified into earnings	$ —	$ (13)	Net gains on securities available for sale
Related income tax expense	—	4	Income tax expense
Total reclassifications	$ —	$ (9)	Net of tax

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

The Company makes forward-looking statements in this Form 10-Q that are subject to risks and uncertainties. These forward-looking statements include statements regarding profitability, liquidity, adequacy of capital, allowance for loan losses, interest rate sensitivity, market risk, growth strategy, and financial and other goals. The words "believes," "expects," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends," or other similar words or intended to identify forward-looking statements. These forward-looking statements are subject to significant uncertainties because they are based upon or are affected by factors including:

- conditions in the financial markets and economic conditions may adversely affect the Company's business;
- the inability of the Company to successfully manage its growth or implement its growth strategy;
- difficulties in combining the operations of new or acquired bank branches or entities with the Company's own operations;
- the Company's inability to successfully obtain the expected benefits of new or acquired bank branches or entities;
- intense competition from other businesses both in making loans and attracting deposits;
- the composition of the loan and deposit portfolio, including the types of accounts and customers, may change, which could impact the amount of net interest income and noninterest income in future periods, including revenue from service charges on deposits;
- consumers may increasingly decide not to use the Company to complete their financial transactions;
- limited availability of financing or inability to raise capital;
- exposure to operational, technological, and organizational risk;
- reliance on other companies to provide key components of their business infrastructure;
- the Company's credit standards and its on-going credit assessment processes might not protect it from significant credit losses;
- operational functions of business counterparties over which the Company may have limited or no control may experience disruptions;
- nonperforming assets take significant time to resolve and adversely affect the Company's results of operations and financial condition;
- allowance for loan losses may prove to be insufficient to absorb losses in the loan portfolio;
- the concentration in loans secured by real estate may adversely affect earnings due to changes in the real estate markets;
- legislative or regulatory changes or actions, or significant litigation;
- the limited trading market for the Company's common stock; it may be difficult to sell shares;
- unexpected loss of management personnel;
- losses that could arise from breaches in cyber-security and theft of customer account information;
- increases in FDIC insurance premiums could adversely affect the Company's profitability;
- the ability to retain customers and secondary funding sources if the Company's reputation would become damaged;
- the effects of changes in tax laws, including the Tax Cuts and Jobs Act, on our business, some of which is uncertain and subject to interpretation, guidance, and regulations that may be promulgated;
- changes in interest rates could have a negative impact on the Company's net interest income and an unfavorable impact on the Company's customers' ability to repay loans; and
- other factors identified in Item 1A. Risk Factors of the Company's Form 10-K for the year ending December 31, 2017.

Because of these and other uncertainties, actual future results may be materially different from the results indicated by these forward-looking statements. In addition, past results of operations do not necessarily indicate future results. The following discussion and analysis of the financial condition at June 30, 2018 and statements of income of the Company for the three and six month periods ended June 30, 2018 and 2017 should be read in conjunction with the consolidated financial statements and related notes included in Part I, Item 1, of this Form 10-Q and in Part II, Item 8, of the Form 10-K for the period ending December 31, 2017. The statements of income for the three and six month periods ended June 30, 2018 may not be indicative of the results to be achieved for the year.

Executive Overview

The Company

First National Corporation (the Company) is the bank holding company of:

- First Bank (the Bank). The Bank owns:
- First Bank Financial Services, Inc.
- Shen-Valley Land Holdings, LLC
- First National (VA) Statutory Trust II (Trust II)
- First National (VA) Statutory Trust III (Trust III and, together with Trust II, the Trusts)

First Bank Financial Services, Inc. invests in entities that provide title insurance and investment services. Shen-Valley Land Holdings, LLC was formed to hold other real estate owned and future office sites. The Trusts were formed for the purpose of issuing redeemable capital securities, commonly known as trust preferred securities and are not included in the Company's consolidated financial statements in accordance with authoritative accounting guidance because management has determined that the Trusts qualify as variable interest entities.

Products, Services, Customers and Locations

The Bank offers loan, deposit, and wealth management products and services. Loan products and services include consumer loans, residential mortgages, home equity loans, and commercial loans. Deposit products and services include checking accounts, treasury management solutions, savings accounts, money market accounts, certificates of deposit, and individual retirement accounts. Wealth management services include estate planning, investment management of assets, trustee under an agreement, trustee under a will, individual retirement accounts, and estate settlement. Customers include small and medium-sized businesses, individuals, estates, local governmental entities, and non-profit organizations. The Bank's office locations are well-positioned in attractive markets along the Interstate 81, Interstate 66, and Interstate 64 corridors in the Shenandoah Valley and central regions of Virginia. Within this market area, there are various types of industry including medical and professional services, manufacturing, retail, warehousing, Federal government, hospitality, and higher education.

The Bank's products and services are delivered through 15 bank branch offices located throughout the Shenandoah Valley and central regions of Virginia, a loan production office, and a customer service center in a retirement village. The branch offices are comprised of 14 full service retail banking offices and one drive-thru express banking office. The location and general character of these properties is further described in Part I, Item 2 of Form 10-K for the year ended December 31, 2017. The Bank recently entered a new market in the central region of Virginia by opening a branch office in the city of Richmond during the fourth quarter of 2017. Many of the Bank's services are also delivered through the Bank's mobile banking platform, its website, www.fbvirginia.com, and a network of ATMs located throughout its market area.

Revenue Sources and Expense Factors

The primary source of revenue is from net interest income earned by the Bank. Net interest income is the difference between interest income and interest expense and typically represents between 70% and 80% of the Company's total revenue. Interest income is determined by the amount of interest-earning assets outstanding during the period and the interest rates earned on those assets. The Bank's interest expense is a function of the amount of interest-bearing liabilities outstanding during the period and the interest rates paid. In addition to net interest income, noninterest income is the other source of revenue for the Company. Noninterest income is derived primarily from service charges on deposits, fee income from wealth management services, and ATM and check card fees.

Primary expense categories are salaries and employee benefits, which comprised 56% of noninterest expenses for the six month period ended June 30, 2018, followed by occupancy and equipment expense, which comprised 14% of noninterest expenses. Historically, the provision for loan losses has also been a primary expense of the Bank. The provision is determined by factors that include net charge-offs, asset quality, economic conditions and loan growth. Changing economic conditions caused by inflation, recession, unemployment or other factors beyond the Company’s control have a direct correlation with asset quality, net charge-offs, and ultimately the required provision for loan losses.

Overview of Quarterly Financial Performance

Net income increased by $695 thousand to $2.5 million, or $0.49 per basic and diluted share, for the three months ended June 30, 2018, compared to $1.8 million, or $0.36 per basic and diluted share, for the same period in 2017. Return on average assets was 1.29% and return on average equity was 16.23% for the second quarter of 2018, compared to 0.96% and 12.79%, respectively, for the same period in 2017.

The $695 thousand increase in net income for the three month period ended June 30, 2018 resulted primarily from a $582 thousand, or 9%, increase in net interest income, an $89 thousand, or 4%, increase in noninterest income, and a $183 thousand, or 24%, decrease in income tax expense, compared to the same period of 2017. These favorable variances were partially offset by a $159 thousand, or 3%, increase in noninterest expenses.

Net interest income increased from a higher net interest margin and from higher average earning asset balances. Average earning asset balances increased 5%, and the net interest margin increased 13 basis points to 3.86% for the second quarter of 2018, compared to 3.73% for the same period in 2017. Noninterest income increased primarily from higher service charges on deposit accounts and higher wealth management revenue. Noninterest expense increased primarily from higher salaries and employee benefits expense, higher occupancy expense, and higher other operating expense. For a more detailed discussion of the increases in other operating expense, see "Noninterest Expense" below.

Based on management's analysis and the supporting allowance for loan loss calculation, a provision for loan losses was not required during the second quarter of 2018 or 2017. For a more detailed discussion of the provision for loan losses, see “Provision for Loan Losses” below.

Overview of Year-to-Date Financial Performance

Net income increased by $1.8 million to $5.1 million, or $1.04 per basic and diluted share, for the six months ended June 30, 2018, compared to $3.3 million, or $0.67 per basic and diluted share, for the same period in 2017. Return on average assets was 1.37% and return on average equity was 17.33% for the six months ended June 30, 2018, compared to 0.92% and 12.29%, respectively, for the same period in 2017.

The $1.8 million increase in net income for the six month period ended June 30, 2018 resulted primarily from a $1.1 million, or 9%, increase in net interest income, a $781 thousand, or 20%, increase in noninterest income, and a $295 thousand, or 21%, decrease in income tax expense, compared to the same period of 2017. These favorable variances were partially offset by a $274 thousand, or 2%, increase in noninterest expenses.

Net interest income increased from a higher net interest margin and from higher average earning asset balances. Average earning asset balances increased 5%, and the net interest margin increased 12 basis points to 3.83% for the six months ended June 30, 2018, compared to 3.71% for the same period in 2017. Noninterest income increased primarily from higher service charges on deposit accounts, higher income from bank owned life insurance, higher wealth management revenue, and higher other operating income. Noninterest expense increased primarily from higher salaries and employee benefits expense, higher occupancy expense, and higher other operating expense. For a more detailed discussion of the increases in other operating income and other operating expense, see "Noninterest Income" and "Noninterest Expense" below.

Based on management's analysis and the supporting allowance for loan loss calculation, a provision for loan losses of $100 thousand was recorded during the six month period ended June 30, 2018. A provision for loan losses was not required during the six month period ended June 30, 2017. For a more detailed discussion of the provision for loan losses, see “Provision for Loan Losses” below.

Non-GAAP Financial Measures

This report refers to the efficiency ratio, which is computed by dividing noninterest expense, excluding OREO (expense)/income and amortization of intangibles, by the sum of net interest income on a tax-equivalent basis and noninterest income, excluding securities gains. This is a non-GAAP financial measure that the Company believes provides investors with important information regarding operational efficiency. Such information is not prepared in accordance with U.S. generally accepted accounting principles (GAAP) and should not be construed as such. Management believes, however, such financial information is meaningful to the reader in understanding operating performance, but cautions that such information not be viewed as a substitute for GAAP. The Company, in referring to its net income, is referring to income under GAAP. The components of the efficiency ratio calculation are summarized in the following table (dollars in thousands).

	Efficiency Ratio Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Noninterest expense	$5,864	$5,705	$11,730	$11,456
Add/(Subtract): other real estate owned (expense)/income, net	(1)	(4)	22	(6)
Subtract: amortization of intangibles	(120)	(160)	(251)	(329)
	$5,743	$5,541	$11,501	$11,121
Tax-equivalent net interest income	$6,883	$6,341	$13,479	$12,426
Noninterest income	2,067	1,978	4,700	3,919
Subtract: securities gains, net	—	(13)	—	(13)
	$8,950	$8,306	$18,179	$16,332
Efficiency ratio	64.17 %	66.71 %	63.27 %	68.09 %

This report also refers to net interest margin, which is calculated by dividing tax equivalent net interest income by total average earning assets. Because a portion of interest income earned by the Company is nontaxable, the tax equivalent net interest income is considered in the calculation of this ratio. Tax equivalent net interest income is calculated by adding the tax benefit realized from interest income that is nontaxable to total interest income then subtracting total interest expense. The tax rate utilized in calculating the tax benefit is 21% for 2018 and 34% for 2017. The reconciliation of tax equivalent net interest income, which is not a measurement under GAAP, to net interest income, is reflected in the table below (in thousands).

	Reconciliation of Net Interest Income to Tax-Equivalent Net Interest Income Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
GAAP measures:				
Interest income – loans	$6,546	$5,933	$12,851	$11,579
Interest income – investments and other	1,140	886	2,147	1,772
Interest expense – deposits	(665)	(405)	(1,255)	(788)
Interest expense – subordinated debt	(89)	(89)	(178)	(178)
Interest expense – junior subordinated debt	(101)	(76)	(187)	(144)
Total net interest income	$6,831	$6,249	$13,378	$12,241
Non-GAAP measures:				
Tax benefit realized on non-taxable interest income – loans	$11	$18	$21	$37
Tax benefit realized on non-taxable interest income – municipal securities	41	74	80	148
Total tax benefit realized on non-taxable interest income	$52	$92	$101	$185
Total tax-equivalent net interest income	$6,883	$6,341	$13,479	$12,426

Critical Accounting Policies

General

The Company's consolidated financial statements and related notes are prepared in accordance with GAAP. The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, or relieving a liability. The Bank uses historical losses as one factor in determining the inherent loss that may be present in the loan portfolio. Actual losses could differ significantly from the historical factors used. In addition, GAAP itself may change from one previously acceptable method to another. Although the economics of transactions would be the same, the timing of events that would impact transactions could change.

Presented below is a discussion of those accounting policies that management believes are the most important ("Critical Accounting Policies") to the portrayal and understanding of the Company's financial condition and results of operations. The Critical Accounting Policies require management's most difficult, subjective, and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management determines that the loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance. For further information about the Company's loans and the allowance for loan losses, see Notes 3 and 4 to the Consolidated Financial Statements included in this Form 10-Q.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company performs regular credit reviews of the loan portfolio to review credit quality and adherence to underwriting standards. The credit reviews consist of reviews by its internal credit administration department and reviews performed by an independent third party. Upon origination, each loan is assigned a risk rating ranging from one to nine, with loans closer to one having less risk. This risk rating scale is our primary credit quality indicator. The Company has various committees that review and ensure that the allowance for loans losses methodology is in accordance with GAAP and loss factors used appropriately reflect the risk characteristics of the loan portfolio.

The allowance represents an amount that, in management's judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. Management's judgment in determining the level of the allowance is based on evaluations of the collectability of loans while taking into consideration such factors as trends in delinquencies and charge-offs, changes in the nature and volume of the loan portfolio, current economic conditions that may affect a borrower's ability to repay and the value of the collateral, overall portfolio quality, and review of specific potential losses. The evaluation also considers the following risk characteristics of each loan portfolio class:

- 1-4 family residential mortgage loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

- Real estate construction and land development loans carry risks that the project may not be finished according to schedule, the project may not be finished according to budget, and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure or other factors unrelated to the project.

- Other real estate loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because repayment of these loans may be dependent upon the profitability and cash flows of the business or project.

- Commercial and industrial loans carry risks associated with the successful operation of a business because repayment of these loans may be dependent upon the profitability and cash flows of the business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much reliability.

- Consumer and other loans carry risk associated with the continued creditworthiness of the borrower and the value of the collateral, if any. These loans are typically either unsecured or secured by rapidly depreciating assets such as automobiles. They are also likely to be immediately and adversely affected by job loss, divorce, illness, personal bankruptcy, or other changes in circumstances.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are classified as impaired, and is established when the discounted cash flows, fair value of collateral less estimated costs to sell, or observable market price of the impaired loan is lower than the carrying value of that loan. For collateral dependent loans, an updated appraisal is ordered if a current one is not on file. Appraisals are performed by independent third-party appraisers with relevant industry experience. Adjustments to the appraised value may be made based on recent sales of like properties or general market conditions among other considerations.

The general component covers loans that are not considered impaired and is based on historical loss experience adjusted for qualitative factors. The historical loss experience is calculated by loan type and uses an average loss rate during the preceding twelve quarters. The qualitative factors are assigned by management based on delinquencies and asset quality, national and local economic trends, effects of the changes in the value of underlying collateral, trends in volume and nature of loans, effects of changes in the lending policy, the experience and depth of management, concentrations of credit, quality of the loan review system, and the effect of external factors such as competition and regulatory requirements. The factors assigned differ by loan type. The general allowance estimates losses whose impact on the portfolio has yet to be recognized by a specific allowance. Allowance factors and the overall size of the allowance may change from period to period based on management’s assessment of the above described factors and the relative weights given to each factor. For further information regarding the allowance for loan losses, see Note 4 to the Consolidated Financial Statements included in this Form 10-Q.

Other-Than-Temporary Impairment of Securities

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either the Company (1) intends to sell the security or (2) it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more-than-likely that it will be required to sell the security before recovery, the Company must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income (loss). For equity securities carried at cost, such as restricted securities, impairment is considered to be other-than-temporary based on the Company’s ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in income. The Company regularly reviews each security for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the best estimate of the present value of cash flows expected to be collected from debt securities, the Company’s intention with regard to holding the security to maturity, and the likelihood that the Company would be required to sell the security before recovery.

Lending Policies

General

In an effort to manage risk, the Bank's loan policy gives loan amount approval limits to individual loan officers based on their position within the Bank and level of experience. The Management Loan Committee can approve new loans up to their authority. The Board Loan Committee approves all loans which exceed the authority of the Management Loan Committee. The full Board of Directors must approve loans which exceed the authority of the Board Loan Committee, up to the Bank's legal lending limit. The Board Loan Committee currently consists of four directors, three of which are non-management directors. The Board Loan Committee approves the Bank's Loan Policy and reviews risk management reports, including watch list reports and concentrations of credit. The Board Loan Committee meets on a monthly basis and the Chairman of the Committee then reports to the Board of Directors.

Residential loan originations are primarily generated by mortgage loan officer solicitations and referrals by employees, real estate professionals, and customers. Commercial real estate loan originations and commercial and industrial loan originations are primarily obtained through direct solicitation and additional business from existing customers. All completed loan applications are reviewed by the Bank's loan officers. As part of the application process, information is obtained concerning the income, financial condition, employment, and credit history of the applicant. The Bank also participates in commercial real estate loans and commercial and industrial loans originated by other financial institutions that are typically outside its market area. Loan quality is analyzed based on the Bank's experience and credit underwriting guidelines depending on the type of loan involved. Except for loan participations with other financial institutions, real estate collateral is valued by independent appraisers who have been pre-approved by the Board Loan Committee.

As part of the ongoing monitoring of the credit quality of the Company's loan portfolio, certain appraisals are analyzed by management or by an outsourced appraisal review specialist throughout the year in order to ensure standards of quality are met. The Company also obtains an independent review of loans within the portfolio on an annual basis to analyze loan risk ratings and validate specific reserves on impaired loans.

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities which are disclosed but not reflected in its financial statements, including commitments to extend credit. At June 30, 2018, commitments to extend credit, stand-by letters of credit, and rate lock commitments totaled $99.2 million.

Construction and Land Development Lending

The Bank makes local construction loans, including residential and land acquisition and development loans. These loans are secured by the property under construction and the underlying land for which the loan was obtained. The majority of these loans have an average life of approximately one year and re-price as key rates change. Construction lending entails significant additional risks, compared with residential mortgage lending. Construction and land development loans sometimes involve larger loan balances concentrated with single borrowers or groups of related borrowers. Another risk involved in construction and land development lending is the fact that loan funds are advanced upon the security of the land or property under construction, which value is estimated based on the completion of construction. Thus, there is risk associated with failure to complete construction and potential cost overruns. To mitigate the risks associated with this type of lending, the Bank generally limits loan amounts relative to the appraised value and/or cost of the collateral, in addition to analyzing the cost of the project and the creditworthiness of its borrowers. The Bank typically obtains a first lien on the property as security for its construction loans, typically requires personal guarantees from the borrower's principal owners, and typically monitors the progress of the construction project during the draw period.

1-4 Family Residential Real Estate Lending

1-4 family residential lending activity may be generated by Bank loan officer solicitations and referrals by real estate professionals and existing or new bank customers. Loan applications are taken by a Bank loan officer. As part of the application process, information is gathered concerning income, employment, and credit history of the applicant. Residential mortgage loans generally are made on the basis of the borrower's ability to make payments from employment and other income and are secured by real estate whose value tends to be readily ascertainable. In addition to the Bank's underwriting standards, loan quality may be analyzed based on guidelines issued by a secondary market investor. The valuation of residential collateral is generally provided by independent fee appraisers who have been approved by the Board Loan Committee. In addition to originating fixed rate mortgage loans with the intent to sell to correspondent lenders or broker to wholesale lenders, the Bank originates balloon and other mortgage loans for the portfolio. Depending on the financial goals of the Company, the Bank occasionally originates and retains these loans.

Commercial Real Estate Lending

Commercial real estate loans are secured by various types of commercial real estate typically in the Bank's market area, including multi-family residential buildings, office and retail buildings, hotels, industrial buildings, and religious facilities. Commercial real estate loan originations are primarily obtained through direct solicitation of customers and potential customers. The valuation of commercial real estate collateral is provided by independent appraisers who have been approved by the Board Loan Committee. Commercial real estate lending entails significant additional risk, compared with residential mortgage lending. Commercial real estate loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Additionally, the payment experience on loans secured by income producing properties is typically dependent on the successful operation of a business or a real estate project and thus may be subject, to a greater extent, to adverse conditions in the real estate market or in the economy in general. The Bank's commercial real estate loan underwriting criteria require an examination of debt service coverage ratios, the borrower’s creditworthiness, prior credit history, and reputation. The Bank typically requires personal guarantees of the borrowers’ principal owners and considers the valuation of the real estate collateral.

Commercial and Industrial Lending

Commercial and industrial loans generally have a higher degree of risk than loans secured by real estate, but typically have higher yields. Commercial business loans typically are made on the basis of the borrower’s ability to make repayment from cash flow from its business. The loans may be unsecured or secured by business assets, such as accounts receivable, equipment, and inventory. As a result, the availability of funds for the repayment of commercial business loans is substantially dependent on the success of the business itself. Furthermore, any collateral for commercial business loans may depreciate over time and generally cannot be appraised with as much reliability as real estate.

Consumer Lending

Loans to individual borrowers may be secured or unsecured, and include unsecured consumer loans and lines of credit, automobile loans, deposit account loans, and installment and demand loans. These consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciating assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss, or depreciation. Consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

The underwriting standards employed by the Bank for consumer loans include a determination of the applicant’s payment history on other debts and an assessment of ability to meet existing obligations and payments on a proposed loan. The stability of the applicant’s monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income.

Also included in this category are loans purchased through a third-party lending program. These portfolios include consumer loans and carry risks associated with the borrower, changes in the economic environment, and the vendor itself. The Company manages these risks through policies that require minimum credit scores and other underwriting requirements, robust analysis of actual performance versus expected performance, as well as ensuring compliance with the Company's vendor management program.

Results of Operations

General

Net interest income represents the primary source of earnings for the Company. Net interest income equals the amount by which interest income on interest-earning assets, predominantly loans and securities, exceeds interest expense on interest-bearing liabilities, including deposits, other borrowings, subordinated debt, and junior subordinated debt. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as their respective yields and rates, are the components that impact the level of net interest income. The net interest margin is calculated by dividing tax-equivalent net interest income by average earning assets. The provision for loan losses, noninterest income, and noninterest expense are the other components that determine net income. Noninterest income and expense primarily consists of income from service charges on deposit accounts, revenue from wealth management services, ATM and check card income, revenue from other customer services, income from bank owned life insurance, general and administrative expenses, amortization expense, and other real estate owned expense or income.

Net Interest Income

For the three months ended June 30, 2018, net interest income increased $582 thousand, or 9%, to $6.8 million for the quarter ended June 30, 2018, compared to $6.2 million for the second quarter of 2017. The increase resulted from a higher net interest margin and higher average earning asset balances. Average earning asset balances increased 5%, and the net interest margin increased 13 basis points to 3.86% for the quarter ended June 30, 2018, compared to 3.73% for the same period in 2017. The increase in the net interest margin resulted from a 28 basis point increase in the yield on total earning assets, which was partially offset by a 15 basis point increase in interest expense as a percent of average earning assets.

The higher yield on earning assets was attributable to an increase in yields on loans, securities, and interest-bearing deposits in banks, which all benefited from increases in market rates. The 28 basis point increase in the yield on loans had the largest impact on the increase in the yield on earning assets, when comparing the periods.

The increase in interest expense as a percent of average earning assets was primarily attributable to higher interest rates paid on interest-bearing deposits. The cost of interest-bearing checking accounts and money market accounts had the largest impact as their costs increased by 25 basis points and 53 basis points, respectively, when comparing the periods.

For the six months ended June 30, 2018, net interest income increased $1.1 million, or 9%, to $13.4 million, compared to $12.2 million for the same period in 2017. The increase resulted from a higher net interest margin and higher average earning asset balances. Average earning asset balances increased 5%, and the net interest margin increased 12 basis points to 3.83% for the six months ended June 30, 2018, compared to 3.71% for the same period in 2017. The increase in the net interest margin resulted from a 24 basis point increase in the yield on total earning assets, which was partially offset by a 13 basis point increase in interest expense as a percent of average earning assets.

The higher yield on earning assets was attributable to an increase in yields on loans, securities, and interest-bearing deposits in banks, which all benefited from increases in market rates. The 26 basis point increase in the yield on loans had the largest impact on the increase in the yield on earning assets, when comparing the periods.

The increase in interest expense as a percent of average earning assets was primarily attributable to higher interest rates paid on interest-bearing deposits. The cost of interest-bearing checking accounts and money market accounts had the largest impact as their costs increased by 20 basis points and 51 basis points, respectively, when comparing the periods.

The following tables show interest income on earning assets and related average yields as well as interest expense on interest-bearing liabilities and related average rates paid for the periods indicated (dollars in thousands):
Average Balances, Income and Expenses, Yields and Rates (Taxable Equivalent Basis)

	Three Months Ended					
	June 30, 2018			June 30, 2017		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets						
Securities:						
Taxable	$121,004	$ 776	2.57%	$117,218	$ 634	2.17%
Tax-exempt (1)	26,237	197	3.00%	24,745	219	3.55%
Restricted	1,590	22	5.63%	1,570	21	5.23%
Total securities	$148,831	$ 995	2.68%	$143,533	$ 874	2.44%
Loans: (2)						
Taxable	$517,508	$ 6,504	5.04%	$496,013	$ 5,899	4.77%
Tax-exempt (1)	4,785	53	4.49%	4,945	52	4.23%
Total loans	$522,293	$ 6,557	5.04%	$500,958	$ 5,951	4.76%
Interest-bearing deposits with other institutions	44,039	186	1.69%	37,641	86	0.92%
Total earning assets	$715,163	$ 7,738	4.34%	$682,132	$ 6,911	4.06%
Less: allowance for loan losses	(5,225)			(5,408)		
Total non-earning assets	52,688			54,114		
Total assets	$762,626			$730,838		
Liabilities and Shareholders' Equity						
Interest bearing deposits:						
Checking	$161,741	$ 260	0.64%	$169,108	$ 167	0.39%
Regular savings	124,851	24	0.08%	129,137	25	0.08%
Money market accounts	87,837	165	0.75%	59,570	32	0.22%
Time deposits:						
$100,000 and over	49,060	120	0.98%	43,011	82	0.76%
Under $100,000	73,912	96	0.52%	81,424	98	0.48%
Brokered	550	—	0.11%	550	1	0.10%
Total interest-bearing deposits	$497,951	$ 665	0.54%	$482,800	$ 405	0.34%
Federal funds purchased	3	—	2.20%	3	—	1.30%
Subordinated debt	4,954	89	7.26%	4,937	89	7.28%
Junior subordinated debt	9,279	101	4.33%	9,279	76	3.26%
Total interest-bearing liabilities	$512,187	$ 855	0.67%	$497,019	$ 570	0.46%
Non-interest bearing liabilities						
Demand deposits	188,666			174,906		
Other liabilities	1,181			3,845		
Total liabilities	$702,034			$675,770		
Shareholders' equity	60,592			55,068		
Total liabilities and Shareholders' equity	$762,626			$730,838		
Net interest income		$ 6,883			$ 6,341	
Interest rate spread			3.67%			3.60%
Cost of funds			0.49%			0.34%
Interest expense as a percent of average earning assets			0.48%			0.33%
Net interest margin			3.86%			3.73%

(1) Income and yields are reported on a taxable-equivalent basis assuming a federal tax rate of 21% for 2018 and 34% for 2017. The tax-equivalent adjustment was $52 thousand and $92 thousand for the three months ended June 30, 2018 and 2017, respectively.

(2) Loans placed on a non-accrual status are reflected in the balances.

Average Balances, Income and Expenses, Yields and Rates (Taxable Equivalent Basis)

	Six Months Ended					
	June 30, 2018			June 30, 2017		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets						
Securities:						
Taxable	$116,816	$ 1,456	2.51%	$119,375	$ 1,296	2.19%
Tax-exempt (1)	25,812	381	2.97%	24,677	436	3.56%
Restricted	1,581	44	5.59%	1,560	41	5.31%
Total securities	$144,209	$ 1,881	2.63%	$145,612	$ 1,773	2.46%
Loans: (2)						
Taxable	$516,796	$ 12,770	4.98%	$490,797	$ 11,508	4.73%
Tax-exempt (1)	4,808	102	4.29%	5,138	108	4.24%
Total loans	$521,604	$ 12,872	4.98%	$495,935	$ 11,616	4.72%
Interest-bearing deposits with other institutions	44,270	346	1.58%	33,152	147	0.89%
Total earning assets	$710,083	$ 15,099	4.29%	$674,699	$ 13,536	4.05%
Less: allowance for loan losses	(5,246)			(5,389)		
Total non-earning assets	52,122			53,510		
Total assets	$756,959			$722,820		
Liabilities and Shareholders' Equity						
Interest bearing deposits:						
Checking	$160,179	$ 472	0.59%	$163,442	$ 316	0.39%
Regular savings	124,847	47	0.08%	128,967	51	0.08%
Money market accounts	87,063	312	0.72%	60,666	62	0.21%
Time deposits:						
$100,000 and over	48,644	230	0.95%	43,892	166	0.76%
Under $100,000	75,076	193	0.52%	81,941	191	0.47%
Brokered	556	1	0.40%	583	2	0.50%
Total interest-bearing deposits	$496,365	$ 1,255	0.51%	$479,491	$ 788	0.33%
Federal funds purchased	3	—	2.14%	2	—	1.22%
Subordinated debt	4,952	178	7.26%	4,934	178	7.29%
Junior subordinated debt	9,279	187	4.05%	9,279	144	3.12%
Total interest-bearing liabilities	$510,599	$ 1,620	0.64%	$493,706	$ 1,110	0.45%
Non-interest bearing liabilities						
Demand deposits	185,160			171,029		
Other liabilities	1,401			3,967		
Total liabilities	$697,160			$668,702		
Shareholders' equity	59,799			54,118		
Total liabilities and Shareholders' equity	$756,959			$722,820		
Net interest income		$ 13,479			$ 12,426	
Interest rate spread			3.65%			3.60%
Cost of funds			0.47%			0.34%
Interest expense as a percent of average earning assets			0.46%			0.33%
Net interest margin			3.83%			3.71%

(1)

Income and yields are reported on a taxable-equivalent basis assuming a federal tax rate of 21% for 2018 and 34% for 2017. The tax-equivalent adjustment was $101 thousand and $185 thousand for the six months ended June 30, 2018 and 2017, respectively.

(2) Loans placed on a non-accrual status are reflected in the balances.

Provision for Loan Losses

The Bank did not record a provision for loan losses during the second quarter of 2018 or 2017, which resulted in a total allowance for loan losses of $5.0 million, or 0.95% of total loans, at June 30, 2018. This compared to an allowance for loan losses of $5.4 million, or 1.08% of total loans, at June 30, 2017. The allowance for loan losses was $5.3 million, or 1.02% of total loans, at December 31, 2017.

For the quarter ended June 30, 2018, the Bank did not record a provision for loan losses as net charge-offs on loans were offset by a decrease in the general reserve component of the allowance for loan losses. Net charge-offs totaled $233 thousand for the second quarter of 2018, compared to $7 thousand of net charge-offs for the same period of 2017. The general reserve decreased primarily from improvements in both the historical loss rate of the loan portfolio and the qualitative adjustment factors. Improvements in qualitative adjustment factors resulted from improved asset quality in the construction and land development loan class, as evidenced by lower substandard and past due loan amounts in this respective class, and improved economic conditions. Although impaired loans increased during the second quarter, there was no required increase to the specific reserve component of the allowance for loan losses.

A provision for loan losses was not recorded during the second quarter of 2017 as a decrease in the general reserve component of the allowance for loan losses was offset by an increase in the specific reserve component. The decrease in the general reserve resulted primarily from an improvement in the qualitative adjustment factors for improved economic conditions. The specific reserve increased during the quarter primarily from the addition of a newly identified impaired loan for which a specific reserve was calculated.

For the six months ended June 30, 2018, the Bank recorded a provision for loan losses of $100 thousand as net charge-offs on loans were only partially offset by a decrease in the general reserve component of the allowance for loan losses. Net charge-offs totaled $387 thousand for the first six months of 2018, compared to $123 thousand of net recoveries for the same period of 2017. The general reserve decreased primarily from improvements in both the historical loss rate of the loan portfolio and the qualitative adjustment factors. Improvements in qualitative adjustment factors resulted from improved asset quality in the construction and land development loan class, as evidenced by lower substandard and past due loan amounts in this respective class, and improved economic conditions. There was no change to the specific reserve component of the allowance for loan losses during the six months ended June 30, 2018.

The Bank did not record a provision for loan losses for the six month period ended June 30, 2017 as increases in the general and specific reserve components of the allowance for loan losses were offset by the net recoveries on loans charged off in prior periods. The increase in the general reserve resulted primarily from the impact of loan growth during the first six months of 2017. The impact of loan growth on the general reserve was partially offset by improvements in the historical loss rate of the loan portfolio and qualitative adjustment factors. Improvements in qualitative adjustment factors resulted from improved asset quality in the 1-4 family residential, other real estate, and commercial and industrial loan classes and improved economic conditions. The specific reserve component increased primarily from the addition of a newly identified impaired loan for which a specific reserve was calculated.

Noninterest Income

Noninterest income increased $89 thousand, or 4%, to $2.1 million for the three months ended June 30, 2018, compared to $2.0 million for the same period in 2017. The increase in noninterest income was primarily attributable to a $49 thousand, or 7%, increase in service charges on deposit accounts, a $28 thousand, or 5%, increase in ATM and check card fees, and a $54 thousand, or 15%, increase in wealth management fees, when comparing the periods. The increase in service charges on deposit accounts was a result of higher overdraft revenue. The increase in ATM and check card fees was primarily attributable to the volume of customer check card usage. The increase in wealth management fees resulted primarily from higher balances of assets under management during the second quarter of 2018 compared to the same period one year ago. These increases were partially offset by a $25 thousand, or 25%, decrease in income from bank owned life insurance and a $19 thousand, or 56%, decrease in net gains on sale of loans. The decrease in income from bank owned life insurance resulted primarily from the timing of annual dividend payments received.

For the six months ended June 30, 2018, noninterest income increased $781 thousand, or 20%, to $4.7 million, compared to $3.9 million for the same period in 2017. The increase in noninterest income was primarily attributable to a $56 thousand, or 4%, increase in service charges on deposit accounts, a $46 thousand, or 4%, increase in ATM and check card fees, a $114 thousand, or 16%, increase in wealth management fees, a $441 thousand increase in income from bank owned life insurance, and a $153 thousand increase in other operating income, when comparing the periods. The decrease in service charges on deposit accounts was a result of higher overdraft revenue. The increase in ATM and check card fees was primarily attributable to the volume of customer check card usage. The increase in wealth management fees resulted primarily from higher balances of assets under management during the first six months of 2018 compared to the same period one year ago. The increase in income from bank owned life insurance resulted from life insurance benefits recorded during the first quarter of 2018 due to the death of an employee. The increase in other operating income was primarily attributable to the termination of the pension plan and the subsequent distribution of plan assets, which resulted in a one-time increase in other operating income of $126 thousand. These increases were partially offset by a $43 thousand, or 64%, decrease in net gains on sale of loans.

Noninterest Expense

Noninterest expense increased $159 thousand, or 3%, to $5.9 million for the quarter ended June 30, 2018, compared to $5.7 million for the same period in 2017. The increase in noninterest expense was primarily attributable to a $105 thousand, or 3%, increase in salaries and employee benefits, a $39 thousand, or 11%, increase in occupancy expense, and a $97 thousand, or 22%, increase in other operating expense, when comparing the periods. These increases were partially offset by a $32 thousand, or 43%, decrease in postage expense and a $40 thousand, or 25%, decrease in amortization expense.

The increases in salaries and employee benefits and occupancy expense resulted primarily from the Company's expansion into the Richmond, Virginia market during the fourth quarter of 2017. Expense categories most likely impacted in future periods as a result of the new branch office include salaries and employee benefits, occupancy, and equipment. The increase in other operating expense was primarily attributable to a combination of higher check fraud and debit card losses experienced during the quarter, higher loan servicing fees on purchased consumer loans, and higher fees required by the Virginia State Corporation Commission for examination, supervision, and regulation.

The decrease in postage expense resulted primarily from efforts to lower operating costs. Amortization expense continued to decrease as a result of the accelerated amortization method of core deposit intangibles.

For the six months ended June 30, 2018, noninterest expense increased $274 thousand, or 2%, to $11.7 million, compared to $11.5 million for the same period in 2017. The increase in noninterest expense was primarily attributable to a $246 thousand, or 4%, increase in salaries and employee benefits, a $72 thousand, or 10%, increase in occupancy expense, and a $137 thousand, or 15%, increase in other operating expense, when comparing the periods. These increases were partially offset by an $84 thousand, or 39%, decrease in telecommunications expense and a $78 thousand, or 24%, decrease in amortization expense.

The increases in salaries and employee benefits and occupancy expense resulted primarily from the Company's expansion into the Richmond, Virginia market. The increase in other operating expense was primarily attributable to a combination of higher check fraud losses, higher loan servicing fees on purchased consumer loans, and higher fees required by the Virginia State Corporation Commission for examination, supervision, and regulation. The increase in other operating expense also includes a $50 thousand death benefit payment to the beneficiary in relation to the life insurance benefits discussed in "Noninterest Income" above.

Telecommunications expense decreased as a result of a refund of over-billed services in prior periods. The decrease in amortization expense was due to the accelerated amortization method of core deposit intangibles.

Income Taxes

Income tax expense decreased by $183 thousand, or 24%, for the second quarter of 2018 and decreased by $295 thousand, or 21%, for the six months ended June 30, 2018, compared to the same periods one year ago. The decreases in income tax expense resulted from the new 21% federal corporate tax rate established by the Tax Cuts and Jobs Act enacted in December 2017.

The Company’s income tax expense differed from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the three and six month periods ended June 30, 2018 and 2017. The difference was a result of net permanent tax deductions, primarily comprised of tax-exempt interest income and income from bank owned life insurance. A more detailed discussion of the Company’s tax calculation is contained in Note 11 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Financial Condition

General

Total assets increased by $24.3 million to $763.4 million at June 30, 2018 compared to $739.1 million at December 31, 2017. The increase was primarily attributable to a $15.0 million increase in securities and a $9.0 million increase in net loans, when comparing the periods.

At June 30, 2018, total liabilities increased by $20.8 million to $701.7 million compared to $681.0 million at December 31, 2017. The increase was primarily attributable to a $21.5 million increase in total deposits, since December 31, 2017. Noninterest-bearing demand deposits and savings and interest-bearing deposits increased $15.9 million and $6.0 million, respectively, when comparing the periods. These increases were partially offset by a $360 thousand decrease in time deposits since December 31, 2017.

Total shareholders' equity increased by $3.5 million to $61.6 million at June 30, 2018 compared to $58.2 million at December 31, 2017. The Company's capital ratios continue to exceed the minimum capital requirements for regulatory purposes.

Loans

Loans, net of the allowance for loan losses, increased $9.0 million to $525.9 million at June 30, 2018, compared to $516.9 million at December 31, 2017. Growth of the loan portfolio was led by residential real estate loans with balances that increased by $2.9 million during the first six months of 2018, followed by commercial and industrial loans and other real estate loans with balances that increased by $2.2 million and $2.1 million, respectively.

The Company, through its banking subsidiary, grants mortgage, commercial and consumer loans to customers. The Bank segments its loan portfolio into real estate loans, commercial and industrial loans, and consumer and other loans. Real estate loans are further divided into the following classes: Construction and Land Development; 1-4 Family Residential; and Other Real Estate Loans. Descriptions of the Company's loan classes are as follows:

Real Estate Loans – Construction and Land Development: The Company originates construction loans for the acquisition and development of land and construction of commercial buildings, condominiums, townhomes, and one-to-four family residences.

Real Estate Loans – 1-4 Family: This class of loans includes loans secured by one-to-four family homes. In addition to traditional residential mortgage loans secured by a first or junior lien on the property, the Bank offers home equity lines of credit.

Real Estate Loans – Other: This loan class consists primarily of loans secured by various types of commercial real estate typically in the Bank's market area, including multi-family residential buildings, office and retail buildings, industrial and warehouse buildings, hotels, and religious facilities.

Commercial and Industrial Loans: Commercial loans may be unsecured or secured with non-real estate commercial property. The Company's banking subsidiary makes commercial loans to businesses located within its market area and also to businesses outside of its market area through loan participations with other financial institutions.

Consumer and Other Loans: Consumer loans include all loans made to individuals for consumer or personal purposes. They include new and used automobile loans, unsecured loans, and lines of credit. The Company's banking subsidiary makes consumer loans to individuals located within its market area and also to individuals outside it market through the purchase of loans from another financial institution.

A substantial portion of the loan portfolio is represented by residential and commercial loans secured by real estate throughout the Bank's market area. The ability of the Bank's debtors to honor their contracts may be impacted by the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances less the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is accrued and credited to income based on the unpaid principal balance. Loan origination

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fees, net of certain origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

A loan's past due status is based on the contractual due date of the most delinquent payment due. Loans are generally placed on non-accrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Loans greater than 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. Loans greater than 90 days past due and still accruing totaled $549 thousand at June 30, 2018, compared to $183 thousand at December 31, 2017. For those loans that are carried on non-accrual status, payments are first applied to principal outstanding. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms of the loan and there is reasonable assurance the borrower will continue to make payments as agreed. These policies are applied consistently across the loan portfolio.
All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. When a loan is returned to accrual status, interest income is recognized based on the new effective yield to maturity of the loan.
Any unsecured loan that is deemed uncollectible is charged-off in full. Any secured loan that is considered by management to be uncollectible is partially charged-off and carried at the fair value of the collateral less estimated selling costs. This charge-off policy applies to all loan segments.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value (net of selling costs), and the probability of collecting scheduled principal and interest payments when due. Additionally, management generally evaluates substandard and doubtful loans greater than $250 thousand for impairment. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair market value of the collateral, net of selling costs, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company typically does not separately identify individual consumer, residential and certain small commercial loans that are less than $250 thousand for impairment disclosures, except for troubled debt restructurings (TDRs) as noted below. The recorded investment in impaired loans totaled $4.5 million and $3.8 million at June 30, 2018 and December 31, 2017, respectively.

Troubled Debt Restructurings (TDR)

In situations where, for economic or legal reasons related to a borrower's financial condition, management grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a TDR. TDRs are considered impaired loans. Upon designation as a TDR, the Company evaluates the borrower's payment history, past due status and ability to make payments based on the revised terms of the loan. If a loan was accruing prior to being modified as a TDR and if the Company concludes that the borrower is able to make such payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the loan will remain on an accruing status. If a loan was on non-accrual status at the time of the TDR, the loan will remain on non-accrual status following the modification and may be returned to accrual status based on the policy for returning loans to accrual status as noted above. There were $321 thousand and $333 thousand in loans classified as TDRs as of June 30, 2018 and December 31, 2017, respectively.

Asset Quality

Management classifies non-performing assets as non-accrual loans and other real estate owned (OREO). OREO represents real property taken by the Bank when its customers do not meet the contractual obligation of their loans, either through foreclosure or through a deed in lieu thereof from the borrower and properties originally acquired for branch operations or expansion but no longer intended to be used for that purpose. OREO is recorded at the lower of cost or fair value, less estimated selling costs, and is marketed by the Bank through brokerage channels. The Bank's OREO totaled $68 thousand at June 30, 2018 and $326 thousand at December 31, 2017. There was not a valuation allowance for other real estate owned at June 30, 2018 or December 31, 2017.

Non-performing assets totaled $2.4 million at June 30, 2018 and $1.3 million at December 31, 2017, representing 0.31% and 0.17% of total assets, respectively. Non-performing assets included $2.3 million in non-accrual loans and $68 thousand in OREO at June 30, 2018 . This compares to $937 thousand in non-accrual loans and $326 thousand in OREO at December 31, 2017.

At June 30, 2018, 73% of non-performing assets related to commercial real estate loans, 19% related to residential real estate loans, and 8% related to commercial and industrial loans. Non-performing assets could increase due to other loans identified by management as potential problem loans. Other potential problem loans are defined as performing loans that possess certain risks, including the borrower's ability to pay and the collateral value securing the loan, that management has identified that may result in the loans not being repaid in accordance with their terms. Other potential problem loans totaled $3.8 million and $8.9 million at June 30, 2018 and December 31, 2017, respectively. The amount of other potential problem loans in future periods may be dependent on economic conditions and other factors influencing our customers' ability to meet their debt requirements.

Loans greater than 90 days past due and still accruing totaled $549 thousand at June 30, 2018, which was comprised of four loans expected to pay all principal and interest amounts contractually due to the Bank and two purchased consumer loans. Consumer loans purchased at origination are charged-off when they are greater than 120 days past due. There were $183 thousand of loans greater than 90 days past due and still accruing at December 31, 2017.

The allowance for loan losses represents management's analysis of the existing loan portfolio and related credit risks. The provision for loan losses is based upon management's current estimate of the amount required to maintain an adequate allowance for loan losses reflective of the risks in the loan portfolio. The allowance for loan losses totaled $5.0 million at June 30, 2018 and $5.3 million at December 31, 2017, representing 0.95% and 1.02% of total loans, respectively. For further discussion regarding the allowance for loan losses, see "Provision for Loan Losses" above.

Recoveries of loan losses of $8 thousand and $285 thousand were recorded in the construction and land development and other real estate loan classes, respectively, during the six month period ended June 30, 2018. The recovery of loan losses in the construction and land development loan class resulted from improvements in qualitative adjustment factors. The recovery of loan losses in the other real estate loan class resulted primarily from improvements in the historical loss rate and qualitative adjustment factors. These recoveries were offset by provision for loan losses totaling $393 thousand in the 1-4 family residential, commercial and industrial, and consumer and other loan classes. For more detailed information regarding the provision for loan losses, see Note 4 to the Consolidated Financial Statements.

Impaired loans totaled $4.5 million and $3.8 million at June 30, 2018 and December 31, 2017, respectively. There was not a related allowance for loan losses provided for these loans at June 30, 2018 or December 31, 2017. The average recorded investment in impaired loans during the six months ended June 30, 2018 and the year ended December 31, 2017 was $3.6 million and $4.7 million, respectively. Included in the impaired loans total are loans classified as TDRs totaling $321 thousand and $333 thousand at June 30, 2018 and December 31, 2017, respectively. Loans classified as TDRs represent situations in which a modification to the contractual interest rate or repayment structure has been granted to address a financial hardship. As of June 30, 2018, $273 thousand of these TDRs were performing under the restructured terms and were not considered non-performing assets.

Management believes, based upon its review and analysis, that the Bank has sufficient reserves to cover losses inherent within the loan portfolio. For each period presented, the provision for loan losses charged to expense was based on management's judgment after taking into consideration all factors connected with the collectability of the existing portfolio. Management considers economic conditions, historical loss factors, past due percentages, internally generated loan quality reports, and other relevant factors when evaluating the loan portfolio. There can be no assurance, however, that an additional provision for loan losses will not be required in the future, including as a result of changes in the qualitative factors underlying management's estimates and judgments, adverse developments in the economy, on a national basis or in the Company's market area, loan growth, or changes in the circumstances of particular borrowers. For further discussion regarding the allowance for loan losses, see "Critical Accounting Policies" above.

Securities

The securities portfolio plays a primary role in the management of the Company's interest rate sensitivity and serves as a source of liquidity. The portfolio is used as needed to meet collateral requirements, such as those related to secure public deposits and balances with the Reserve Bank. The investment portfolio consists of held to maturity, available for sale, and restricted securities. Securities are classified as available for sale or held to maturity based on the Company's investment strategy and management's assessment of the intent and ability to hold the securities until maturity. Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold the investment securities to maturity, they are classified as investment securities held to maturity and are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts using the interest method. Investment securities which the Company may not hold to maturity are classified as investment securities available for sale, as management has the intent and ability to hold such investment securities for an indefinite period of time, but not necessarily to maturity. Securities available for sale may be sold in response to changes in market interest rates, changes in prepayment risk, increases in loan demand, general liquidity needs and other similar factors and are carried at estimated fair value. Restricted securities, including Federal Home Loan Bank, Federal Reserve Bank, and Community Bankers' Bank stock, are generally viewed as long-term investments because there is minimal market for the stock and are carried at cost.

Securities at June 30, 2018 totaled $154.0 million, an increase of $15.0 million, or 11%, from $139.0 million at December 31, 2017. Investment securities are comprised of U.S. agency and mortgage-backed securities, obligations of state and political subdivisions, corporate debt securities, and restricted securities. As of June 30, 2018, neither the Company nor the Bank held any derivative financial instruments in their respective investment security portfolios. Gross unrealized gains in the available for sale portfolio totaled $67 thousand and $153 thousand at June 30, 2018 and December 31, 2017, respectively. Gross unrealized losses in the available for sale portfolio totaled $2.9 million and $1.5 million at June 30, 2018 and December 31, 2017, respectively. Gross unrealized gains in the held to maturity portfolio totaled $17 thousand and $90 thousand at June 30, 2018 and December 31, 2017, respectively. Gross unrealized losses in the held to maturity portfolio totaled $1.3 million and $596 thousand at June 30, 2018 and December 31, 2017, respectively. Investments in an unrealized loss position were considered temporarily impaired at June 30, 2018 and December 31, 2017. The change in the unrealized gains and losses of investment securities from December 31, 2017 to June 30, 2018 was related to changes in market interest rates and was not related to credit concerns of the issuers.

Deposits

At June 30, 2018, deposits totaled $686.5 million, an increase of $21.5 million, from $665.0 million at December 31, 2017. There was a slight change in the deposit mix when comparing the periods. At June 30, 2018, noninterest-bearing demand deposits, savings and interest-bearing demand deposits, and time deposits composed 29%, 53%, and 18% of total deposits, respectively, compared to 27%, 54%, and 19% at December 31, 2017.

Liquidity

Liquidity represents the ability to meet present and future financial obligations through either the sale or maturity of existing assets or with borrowings from correspondent banks or other deposit markets. The Company classifies cash, interest-bearing and noninterest-bearing deposits with banks, federal funds sold, investment securities, and loans maturing within one year as liquid assets. As part of the Bank's liquidity risk management, stress tests and cash flow modeling are performed quarterly.

As a result of the Bank's management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Bank maintains overall liquidity sufficient to satisfy its depositors' requirements and to meet its customers' borrowing needs.

At June 30, 2018, cash, interest-bearing and noninterest-bearing deposits with banks, securities and loans maturing within one year totaled $97.9 million. At June 30, 2018, 11% or $55.9 million of the loan portfolio matures within one year. Non-deposit sources of available funds totaled $130.0 million at June 30, 2018, which included $77.2 million available from Federal Home Loan Bank of Atlanta (FHLB), $42.0 million of unsecured federal funds lines of credit with other correspondent banks, and $10.8 million available through the Federal Reserve Discount Window.

Capital Resources

The adequacy of the Company's capital is reviewed by management on an ongoing basis with reference to the size, composition, and quality of the Company's asset and liability levels and consistent with regulatory requirements and industry standards. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and absorb potential losses. The Company meets eligibility criteria of a small bank holding company in accordance with the Federal Reserve Board's Small Bank Holding Company Policy Statement issued in February 2015, and is no longer obligated to report consolidated regulatory capital.

In July 2013, the U.S. banking regulators adopted a final rule which implements the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision, and certain changes required by the Dodd-Frank Act. The final rule established an integrated regulatory capital framework and introduces the "Standardized Approach" for risk-weighted assets, which replaced the Basel I risk-based guidance for determining risk-weighted assets as of January 1, 2015, the date the Bank became subject to the new rules. Based on the Bank's current capital composition and levels, the Bank believes it is in compliance with the requirements as set forth in the final rules.

The rules included new risk-based capital and leverage ratios, which are being phased in from 2015 to 2019, and refined the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Bank under the final rules were as follows: a new common equity Tier 1 capital ratio of 4.5%; a Tier 1 capital ratio of 6% (increased from 4%); a total capital ratio of 8% (unchanged from previous rules); and a Tier 1 leverage ratio of 4% for all institutions. The final rules also established a "capital conservation buffer" above the new regulatory minimum capital requirements. The capital conservation buffer is being phased-in over four years, which began on January 1, 2016, as follows: the maximum buffer was 0.625% of risk-weighted assets for 2016 and 1.25% for 2017, is 1.875% for 2018, and will be 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: a common equity Tier 1 capital ratio of 7.0%, a Tier 1 capital ratio of 8.5%, and a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions. Management believes, as of June 30, 2018 and December 31, 2017, that the Bank met all capital adequacy requirements to which it is subject, including the capital conservation buffer.

The following table shows the Bank's regulatory capital ratios at June 30, 2018:

	First Bank	
Total capital to risk-weighted assets	13.47	%
Tier 1 capital to risk-weighted assets	12.52	%
Common equity Tier 1 capital to risk-weighted assets	12.52	%
Tier 1 capital to average assets	8.66	%
Capital conservation buffer ratio(1)	5.47	%

(1) Calculated by subtracting the regulatory minimum capital ratio requirements from the Company's actual ratio for Common equity Tier 1, Tier 1, and Total risk based capital. The lowest of the three measures represents the Bank's capital conservation buffer ratio.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are now required to meet the following increased capital level requirements in order to qualify as "well capitalized:" a new common equity Tier 1 capital ratio of 6.5%; a Tier 1 capital ratio of 8% (increased from 6%); a total capital ratio of 10% (unchanged from previous rules); and a Tier 1 leverage ratio of 5% (unchanged from previous rules).

Contractual Obligations

There have been no material changes outside the ordinary course of business to the contractual obligations disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

The Company, through the Bank, is a party to credit related financial instruments with risk not reflected in the consolidated financial statements in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance sheet instruments.
Commitments to extend credit, which amounted to $85.4 million at June 30, 2018, and $78.0 million at December 31, 2017, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.
Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized as deemed necessary and usually do not contain a specified maturity date and may or may not be drawn upon to the total extent to which the Bank is committed.
Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary. At June 30, 2018 and December 31, 2017, the Bank had $10.3 million and $10.4 million in outstanding standby letters of credit, respectively.
At June 30, 2018, the Bank had $3.5 million in locked-rate commitments to originate mortgage loans. Risks arise from the possible inability of counterparties to meet the terms of their contracts. The Bank does not expect any counterparty to fail to meet its obligations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to provide assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods required by the SEC and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2018 was carried out under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer. Based on and as of the date of such evaluation, the aforementioned officers concluded that the Company's disclosure controls and procedures were effective.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting. There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of it that occurred during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the Company's business, to which the Company is a party or to which the property of the Company is subject.

Item 1A. Risk Factors

There were no material changes to the Company's risk factors as disclosed in its Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

The following documents are attached hereto as Exhibits:

31.1	Certification of Chief Executive Officer, Section 302 Certification
31.2	Certification of Chief Financial Officer, Section 302 Certification
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101	The following materials from First National Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Shareholders' Equity, and (vi) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST NATIONAL CORPORATION
(Registrant)

/s/ Scott C. Harvard	August 10, 2018
Scott C. Harvard	Date
President and Chief Executive Officer	
/s/ M. Shane Bell	August 10, 2018
M. Shane Bell	Date
Executive Vice President and Chief Financial Officer	

EXHIBIT INDEX

Number	Document
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ate the reserve levels are the: (i) correlation between loan characteristics and repurchase claims; (ii) claims appeal success rates; and (iii) estimated loss per repurchase or make-whole payment. In addition, as previously disclosed, Citi considers reimbursements estimated to be received from third-party sellers, which are generally based on Citi's analysis of its most recent collection trends and the financial solvency or viability of the third-party sellers, in estimating its repurchase reserve.

During the third quarter of 2012, Citi recorded an additional reserve of $200 million relating to its whole loan sales repurchase exposure. The change in estimate for the third quarter of 2012 primarily resulted from a deterioration in loan performance and increased repurchase activity associated with servicing sold to a third party in the fourth quarter of 2010, where Citi retained the repurchase liability, an increase in Freddie Mac loan documentation requests during the quarter, and a deteriorating repurchase estimate associated with mortgage insurance rescission behavior. Despite the increase in the repurchase reserve during the third quarter relating to the deterioration of mortgage insurance recession behavior, Citi continues to believe that the inability to collect reimbursement from mortgage insurers is not likely to have a material impact on the repurchase reserve. Citi's claims appeal success rate continued to remain stable in the third quarter of 2012, with approximately half of repurchase claims successfully appealed and thus resulting in no loss to Citi. Citi continues to believe the activity in and change in estimate relating to its repurchase reserve will remain volatile in the near term.

As referenced above, the repurchase reserve estimation process for potential whole loan representation and warranty claims relies on various assumptions that involve numerous estimates and judgments, including with respect to certain future events, and thus entails inherent uncertainty. As of September 30, 2012, Citi estimates that the range of reasonably possible loss for whole loan sale representation and warranty claims in excess of amounts accrued could be up to $0.6 billion. This estimate was derived by modifying the key assumptions discussed above to reflect management's judgement regarding reasonably possible adverse changes to those assumptions. Citi's estimate of reasonably possible loss is based on currently available information, significant judgment and numerous assumptions that are subject to change.

Repurchase Reserve Private-Label Securitizations

Investors in private-label securitizations may seek recovery for losses caused by non-performing loans through repurchase claims or through litigation premised on a variety of legal theories. To date, Citi has received actual repurchase claims for breaches of representations and warranties related to private-label securitizations at a sporadic and unpredictable rate, and most of the claims received are not yet resolved. Thus, Citi cannot estimate probable future repurchases from such private-label securitizations. Rather, at the present time, Citi views repurchase claims related to private-label securitizations as episodic, such that repurchase reserves are currently expected to be recorded principally on the basis of estimated losses arising from actual claims received, rather than predictions regarding claims estimated to be received or paid in the future.

While actual repurchase claims related to private-label securitizations have been episodic to date, Citi has continued to receive significant levels of inquiries and demands for loan files, among other things, relating to private-label securitizations, from trustees of securitization trusts and others. Given the continued intense focus on mortgage-related matters, as well as the increasing level of litigation and regulatory activity relating to mortgage loans and mortgage-backed securities, the level of inquiries and demands regarding these securitizations could further increase. As noted above, these inquiries and demands could lead to additional claims for breaches of representations and warranties, or to litigation relating to such breaches or other matters. Citi considers these matters as part of its contingencies analysis. For additional information, see Note 22 to the Consolidated Financial Statements.

The table below sets forth the activity in the repurchase reserve for each of the quarterly periods below:

In millions of dollars	**Three Months Ended** September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Balance, beginning of period	**$ 1,476**	$ 1,376	$ 1,188	$ 1,076	$ 1,001
Additions for new sales(1)	**7**	4	6	7	5
Change in estimate(2)	**200**	242	335	306	296
Utilizations	**(167)**	(146)	(153)	(201)	(226)
Balance, end of period	**$ 1,516**	$ 1,476	$ 1,376	$ 1,188	$ 1,076

(1) Reflects new whole loan sales, primarily to the GSEs.

(2) Change in estimate for the third quarter of 2012 related entirely to whole loan sales to the GSEs and private investors.

The following table sets forth the unpaid principal balance of loans repurchased due to representation and warranty claims during each of the quarterly periods below:

In millions of dollars	**Three Months Ended** September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
GSEs and others(1)	**$ 105**	$ 202	$ 101	$ 110	$ 162

(1) Predominantly related to claims from the GSEs. Also includes repurchases pursuant to private investor and private-label securitization claims.

In addition to the amounts set forth in the table above, Citi recorded make-whole payments of $118 million, $91 million, $107 million, $148 million and $171 million for the quarterly periods ended September 30, 2012, June 30, 2012, March 31, 2012, December 31, 2011 and September 30, 2011, respectively. Predominantly all of these make-whole payments were to the GSEs.

Representation and Warranty Claims By Claimant

For the GSEs, Citi's response (i.e., agree or disagree to repurchase or make-whole) to any repurchase claim is required within 90 days of receipt of the claim. If Citi does not respond within 90 days, the claim is subject to discussions between Citi and the particular GSE. For other investors, the time period for responding to a repurchase claim is generally governed by the relevant agreement.

The following table sets forth the original principal balance of representation and warranty claims by claimant, as well as the original principal balance of unresolved claims by claimant, for each of the quarterly periods below:

	Claims during the three months ended				
In millions of dollars	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**
GSEs and others(1)	**$ 866**	$ 1,486	$ 1,291	$ 712	$ 806
Mortgage insurers(2)	**21**	90	23	35	54
Total	**$ 887**	$ 1,576	$ 1,314	$ 747	$ 860

	Unresolved claims at				
In millions of dollars	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**
GSEs and others(1)	**$ 2,794**	$ 2,685	$ 2,019	$ 1,536	$ 1,593
Mortgage insurers(2)	**4**	15	8	15	24
Total	**$ 2,798**	$ 2,700	$ 2,027	$ 1,551	$ 1,617

(1) Primarily includes claims from the GSEs. Also includes private investor and private-label securitization claims.

(2) Represents the insurer's rejection of a claim for loss reimbursement that has yet to be resolved and includes only GSE whole loan activity. To the extent that mortgage insurance will not cover the claim on a loan, Citi may have to make the GSE whole. Failure to collect from mortgage insurers is considered in determining the repurchase reserve. Citi does not believe the inability to collect reimbursement from mortgage insurers is likely to have a material impact on its repurchase reserve.

For additional information regarding Citi's potential mortgage repurchase liability, see Note 21 to the Consolidated Financial Statements below.

***North America* Cards**

Overview

Citi's *North America* cards portfolio primarily consists of its Citi-branded cards and Citi retail services portfolios in Citicorp. As of September 30, 2012, the Citicorp Citi-branded cards portfolio totaled approximately $72 billion while the Citi retail services portfolio was approximately $37 billion.

See Note 12 to the Consolidated Financial Statements below for a discussion of Citi's significant cards modification programs.

North America Cards Quarterly Credit Trends Delinquencies and Net Credit Losses

The following charts detail the quarterly trends in delinquencies and net credit losses for Citigroup's *North America* Citi-branded cards and Citi retail services portfolios in Citicorp. Citi continued to experience improvement in these metrics during the third quarter of 2012.

North America Cards Loan Loss Reserve Coverage

At September 30, 2012, approximately $7.6 billion of Citi's total loan loss reserves of $25.9 billion was allocated to Citi's *North America* cards portfolios, representing approximately 18 months of coincident net credit loss coverage as of such date.

CONSUMER LOAN DETAILS

Consumer Loan Delinquency Amounts and Ratios

In millions of dollars, except EOP loan amounts in billions	**Total loans(1) September 2012**	**90+ days past due(2) September 2012**	**June 2012**	**September 2011**	**30-89 days past due(2) September 2012**	**June 2012**	**September 2011**
Citicorp(3)(4)							
Total	**$ 289.1**	**$ 3,024**	$ 3,090	$ 3,416	**$ 3,539**	$ 3,449	$ 4,049
Ratio		**1.05%**	1.09%	1.25%	**1.23%**	1.22%	1.48%
Retail banking							
Total	**$ 143.2**	**$ 882**	$ 869	$ 794	**$ 1,154**	$ 1,049	$ 977
Ratio		**0.62%**	0.63%	0.63%	**0.81%**	0.76%	0.77%
North America	**41.5**	**291**	294	232	**230**	215	218
Ratio		**0.72%**	0.74%	0.66%	**0.57%**	0.54%	0.62%
EMEA	**4.9**	**50**	49	65	**79**	78	107
Ratio		**1.02%**	1.07%	1.51%	**1.61%**	1.70%	2.49%
Latin America	**27.5**	**322**	285	273	**412**	316	267
Ratio		**1.17%**	1.10%	1.26%	**1.50%**	1.22%	1.24%
Asia	**69.3**	**219**	241	224	**433**	440	385
Ratio		**0.32%**	0.36%	0.34%	**0.62%**	0.65%	0.59%
Cards							
Total	**$ 145.9**	**$ 2,142**	$ 2,221	$ 2,622	**$ 2,385**	$ 2,400	$ 3,072
Ratio		**1.47%**	1.53%	1.78%	**1.63%**	1.65%	2.08%
North America Citi-branded	**72.2**	**760**	830	1,063	**744**	744	1,106
Ratio		**1.05%**	1.14%	1.42%	**1.03%**	1.02%	1.47%
North America Citi retail services	**36.6**	**716**	721	902	**823**	852	1,205
Ratio		**1.96%**	1.97%	2.38%	**2.25%**	2.33%	3.18%
EMEA	**2.9**	**45**	43	47	**68**	61	63
Ratio		**1.55%**	1.54%	1.74%	**2.34%**	2.18%	2.33%
Latin America	**14.2**	**401**	405	396	**416**	428	398
Ratio		**2.82%**	2.96%	3.07%	**2.93%**	3.12%	3.09%
Asia	**20.0**	**220**	222	214	**334**	315	300
Ratio		**1.10%**	1.13%	1.13%	**1.67%**	1.61%	1.59%
Citi Holdings *Local Consumer Lending*(5)(6)							
Total	**$ 117.9**	**$ 4,974**	$ 5,354	$ 5,791	**$ 4,753**	$ 4,614	$ 5,999
Ratio		**4.54%**	4.66%	4.20%	**4.34%**	4.02%	4.35%
International	**8.8**	**366**	363	480	**436**	453	677
Ratio		**4.16%**	3.90%	3.24%	**4.95%**	4.87%	4.57%
North America	**109.1**	**4,608**	4,991	5,311	**4,317**	4,161	5,322
Ratio		**4.58%**	4.71%	4.31%	**4.29%**	3.93%	4.32%
Total Citigroup (excluding *Special Asset Pool*)	**$ 407.0**	**$ 7,998**	$ 8,444	$ 9,207	**$ 8,292**	$ 8,063	$ 10,048
Ratio		**2.01%**	2.12%	2.23%	**2.09%**	2.03%	2.44%

(1) Total loans include interest and fees on credit cards.

(2) The ratios of 90+ days past due and 30-89 days past due are calculated based on end-of-period (EOP) loans.

(3)

The 90+ days past due balances for *North America Citi-branded cards* and *North America Citi retail services* cards are generally still accruing interest. Citigroup's policy is generally to accrue interest on credit card loans until 180 days past due, unless notification of bankruptcy filing has been received earlier.

(4)

The 90+ days and 30-89 days past due and related ratios for *North America Regional Consumer Banking* exclude U.S. mortgage loans that are guaranteed by U.S. government entities since the potential loss predominantly resides within the U.S. government entities. The amounts excluded for loans 90+ days past due and (EOP loans) were $738 million ($1.2 billion), $748 million ($1.2 billion) and $512 million ($1.3 billion) at September 30, 2012, June 30, 2012 and September 30, 2011, respectively. The amounts excluded for loans 30-89 days past due (end-of-period loans have the same adjustment as above) were $122 million, $124 million and $102 million, at September 30, 2012, June 30, 2012 and September 30, 2011, respectively.

(5)

The 90+ days and 30-89 days past due and related ratios for *North America Local Consumer Lending* exclude U.S. mortgage loans that are guaranteed by U.S. government entities since the potential loss predominantly resides within the U.S. entities. The amounts excluded for loans 90+ days past due and (EOP loans) for each period were $4.1 billion ($7.2 billion), $4.3 billion ($7.4 billion), and $4.5 billion ($8.1 billion) at September 30, 2012, June 30, 2012 and September 30, 2011, respectively. The amounts excluded for loans 30-89 days past due (end-of-period loans have the same adjustment as above) for each period were $1.3 billion, $1.3 billion, and $1.6 billion, at September 30, 2012, June 30, 2012 and September 30, 2011, respectively.

(6)

The September 30, 2012, June 30, 2012 and September 30, 2011 loans 90+ days past due and 30-89 days past due and related ratios for *North America* exclude $1.2 billion, $1.2 billion and $1.3 billion, respectively, of loans that are carried at fair value.

Consumer Loan Net Credit Losses and Ratios

In millions of dollars, except average loan amounts in billions	**Average loans(1) 3Q12**	**Net credit losses(2) 3Q12**	**2Q12**	**3Q11**
Citicorp				
Total	**$ 285.6**	**$ 2,030**	$ 2,124	$ 2,545
Ratio		**2.83%**	3.02%	3.64%
Retail banking				
Total	**$ 141.1**	**$ 325**	$ 276	$ 298
Ratio		**0.92%**	0.80%	0.92%
North America	**41.3**	**72**	62	65
Ratio		**0.69%**	0.61%	0.73%
EMEA	**4.7**	**12**	7	29
Ratio		**1.02%**	0.60%	2.61%
Latin America	**26.6**	**160**	135	113
Ratio		**2.39%**	2.15%	1.98%
Asia	**68.5**	**81**	72	91
Ratio		**0.47%**	0.43%	0.54%
Cards				
Total	**$ 144.5**	**$ 1,705**	$ 1,848	$ 2,247
Ratio		**4.69%**	5.16%	6.00%
North America Citi-branded	**71.5**	**745**	840	1,099
Ratio		**4.15%**	4.71%	5.89%
North America retail services	**36.5**	**534**	609	690
Ratio		**5.82%**	6.71%	7.19%
EMEA	**2.8**	**17**	7	20
Ratio		**2.42%**	1.01%	2.83%
Latin America	**13.9**	**273**	265	293
Ratio		**7.81%**	7.84%	8.42%
Asia	**19.8**	**136**	127	145
Ratio		**2.73%**	2.62%	2.91%
Citi Holdings *Local Consumer Lending*				
Total**(3)**	**$ 121.7**	**$ 1,825**	$ 1,289	$ 1,676
Ratio		**5.97%**	4.09%	4.29%
International	**9.0**	**121**	154	237
Ratio		**5.35%**	6.45%	5.91%
*North America***(3)**	**112.7**	**1,704**	1,135	1,439
Ratio		**6.02%**	3.90%	4.11%
Total Citigroup (excluding *Special Asset Pool*)(3)	**$ 407.3**	**$ 3,855**	$ 3,413	$ 4,221
Ratio		**3.77%**	3.35%	3.87%

(1) Average loans include interest and fees on credit cards.

(2) The ratios of net credit losses are calculated based on average loans, net of unearned income.

(3) The third quarter of 2012 includes approximately $635 million of incremental charge-offs related to new OCC guidance with respect to the treatment of mortgage loans where the borrower has gone through Chapter 7 bankruptcy. There was a corresponding approximately $600 million reserve release in the third quarter of 2012 specific to these mortgage loans.

CORPORATE LOAN DETAILS

For corporate clients and investment banking activities across Citigroup, the credit process is grounded in a series of fundamental policies, in addition to those described under "Managing Global Risk Risk Management Overview" in Citi's 2011 Annual Report on Form 10-K. These include:

- joint business and independent risk management responsibility for managing credit risks;
- a single center of control for each credit relationship that coordinates credit activities with that client;
- portfolio limits to ensure diversification and maintain risk/capital alignment;
- a minimum of two authorized credit officer signatures required on extensions of credit, one of which must be from a credit officer in credit risk management;
- risk rating standards, applicable to every obligor and facility; and
- consistent standards for credit origination documentation and remedial management.

Corporate Credit Portfolio

The following table represents the Corporate credit portfolio (excluding Private Bank in *Securities and Banking*), before consideration of collateral, by maturity at September 30, 2012 and December 31, 2011. The Corporate credit portfolio is broken out by direct outstandings, which include drawn loans, overdrafts, interbank placements, bankers' acceptances and leases, and unfunded commitments, which include unused commitments to lend, letters of credit and financial guarantees.

	At September 30, 2012				**At December 31, 2011**			
In billions of dollars	**Due within 1 year**	**Greater than 1 year but within 5 years**	**Greater than 5 years**	**Total Exposure**	**Due within 1 year**	**Greater than 1 year but within 5 years**	**Greater than 5 years**	**Total exposure**
Direct outstandings	**$ 203**	**$ 67**	**$ 15**	**$ 285**	$ 177	$ 62	$ 13	$ 252
Unfunded lending commitments	**127**	**169**	**20**	**316**	144	151	21	316
Total	**$ 330**	**$ 236**	**$ 35**	**$ 601**	$ 321	$ 213	$ 34	$ 568

Portfolio Mix

Citi's Corporate credit portfolio is diverse across geography and counterparty. The following table shows the percentage of direct outstandings and unfunded commitments by region:

	September 30, 2012	**December 31, 2011**
North America	**45%**	47%
EMEA	**29**	27
Asia	**18**	18
Latin America	**8**	8

Total	**100%**	100%

The maintenance of accurate and consistent risk ratings across the Corporate credit portfolio facilitates the comparison of credit exposure across all lines of business, geographic regions and products.

Obligor risk ratings reflect an estimated probability of default for an obligor and are derived primarily through the use of validated statistical models, scorecard models and external agency ratings (under defined circumstances), in combination with consideration of factors specific to the obligor or market, such as management experience, competitive position, and regulatory environment. Facility risk ratings are assigned that reflect the probability of default of the obligor and factors that affect the loss-given default of the facility, such as support or collateral. Internal obligor ratings that generally correspond to BBB and above are considered investment grade, while those below are considered non-investment grade.

Citigroup also has incorporated climate risk assessment criteria for certain obligors, as necessary. Factors evaluated include consideration of climate risk to an obligor's business and physical assets.

The following table presents the Corporate credit portfolio by facility risk rating at September 30, 2012 and December 31, 2011, as a percentage of the total portfolio:

	Direct outstandings and unfunded commitments	
	September 30, 2012	**December 31, 2011**
AAA/AA/A	**56%**	55%
BBB	**29**	29
BB/B	**13**	13
CCC or below	**2**	2
Unrated		1
Total	**100%**	100%

Citi's Corporate credit portfolio is also diversified by industry, with a concentration in the financial sector, broadly defined, including banks, other financial institutions, insurance companies, investment banks and government and central banks. The following table shows the allocation of direct outstandings and unfunded commitments to industries as a percentage of the total Corporate portfolio:

	Direct outstandings and unfunded commitments	
	September 30, 2012	**December 31, 2011**
Public sector	**18%**	19%
Transportation and industrial	**18**	16
Petroleum, energy, chemical and metal	**17**	17
Banks/broker-dealers	**13**	13
Consumer retail and health	**12**	13
Technology, media and telecom	**8**	8
Insurance and special purpose vehicles	**5**	5
Hedge funds	**4**	4
Real estate	**3**	3
Other industries(1)	**2**	2
Total	**100%**	100%

(1) Includes all other industries, none of which exceeds 2% of total outstandings.

Credit Risk Mitigation

As part of its overall risk management activities, Citigroup uses credit derivatives and other risk mitigants to hedge portions of the credit risk in its Corporate credit portfolio, in addition to outright asset sales. The purpose of these transactions is to transfer credit risk to third parties. The results of the mark to market and any realized gains or losses on credit derivatives are reflected in the *Principal transactions* line on the Consolidated Statement of Income.

At September 30, 2012 and December 31, 2011, $41.4 billion and $41.5 billion, respectively, of credit risk exposures were economically hedged. Citigroup's expected loss model used in the calculation of its loan loss reserve does not include the favorable impact of credit derivatives and other mitigants that are marked to market. In addition, the reported amounts of direct outstandings and unfunded commitments above do not reflect the impact of these hedging transactions. At September 30, 2012 and December 31, 2011, the credit protection was economically hedging underlying credit exposure with the following risk rating distribution:

Rating of Hedged Exposure

	September 30, 2012	**December 31, 2011**
AAA/AA/A	**35%**	41%
BBB	**46**	45
BB/B	**16**	13
CCC or below	**3**	1
Total	**100%**	100%

At September 30, 2012 and December 31, 2011, the credit protection was economically hedging underlying credit exposures with the following industry distribution:

Industry of Hedged Exposure

	September 30, 2012	December 31, 2011
Transportation and industrial	**21%**	22%
Petroleum, energy, chemical and metal	**21**	22
Public sector	**20**	12
Consumer retail and health	**12**	15
Technology, media and telecom	**10**	12
Banks/broker-dealers	**10**	10
Insurance and special purpose vehicles	**4**	5
Other industries(1)	**2**	2
Total	**100%**	100%

(1) Includes all other industries, none of which is greater than 2% of the total hedged amount.

MARKET RISK

Market risk encompasses liquidity risk and price risk, both of which arise in the normal course of business of a global financial intermediary. Liquidity risk is the risk that an entity may be unable to meet a financial commitment to a customer, creditor, or investor when due. Liquidity risk is discussed in "Capital Resources and Liquidity Funding and Liquidity" above and in Citi's 2011 Annual Report on Form 10-K. Price risk is the earnings risk from changes in interest rates, foreign exchange rates, equity and commodity prices, and in their implied volatilities. Price risk arises in Citi's non-trading portfolios, as well as its trading portfolios.

Non-Trading Portfolios Interest Rate Exposure (IRE)

The exposures in the following table represent the approximate annualized risk to Citi's net interest revenue assuming an unanticipated parallel instantaneous 100 bps change in interest rates compared with the market forward interest rates in selected currencies.

	September 30, 2012		June 30, 2012		September 30, 2011	
In millions of dollars	Increase	Decrease	Increase	Decrease	Increase	Decrease
U.S. dollar(1)	$ 786	NM	$ 691	NM	$ 168	NM
Mexican peso	$ 57	$ (57)	$ 42	$ (42)	$ 131	$ (131)
Euro	$ (24)	NM	$ 32	NM	$ 125	$ (122)
Japanese yen	$ 83	NM	$ 79	NM	$ 95	NM
Pound sterling	$ 40	NM	$ 46	NM	$ 51	NM

(1) Certain trading-oriented businesses within Citi have accrual-accounted positions that are excluded from the table. The U.S. dollar IRE associated with these businesses was $(127) million for a 100 basis point instantaneous increase in interest rates as of September 30, 2012.

NM Not meaningful. A 100 basis point decrease in interest rates would imply negative rates for the yield curve.

The changes in the U.S. dollar IRE from the prior quarter reflected changes in balance sheet composition, the impact of continued lower rates, and regular updates of behavioral assumptions for mortgages. The changes from the prior-year period also reflected the impact of lower rates, debt issuance and swapping activities and regular updates of behavioral assumptions for customer-related assets and liabilities.

The following table shows the approximate annualized risk to net interest revenue from six different changes in the implied-forward rates for the U.S. dollar. Each scenario assumes that the rate change will occur simultaneously.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Overnight rate change (bps)		100	200	(200)	(100)	
10-year rate change (bps)	(100)		100	(100)		100
Impact to net interest revenue *(in millions of dollars)*	(132)	777	1,497	NM	NM	136

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Value at Risk for Trading Portfolios

Value at risk (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, which are based on historical data, can be materially different across firms due to differences in portfolio composition, differences in VAR methodologies, and differences in model parameters. Due to these inconsistencies, 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. In addition to VAR, Citi monitors the price risk of its trading portfolios using other measures such as, but not limited to, risk factor sensitivities and stress testing. For additional information on risk factor sensitivities and stress testing, see "Market Risk Price Risk Trading Portfolios Value at Risk" in Citi's 2011 Annual Report on Form 10-K.

Citi uses a single Monte Carlo simulation VAR model which has been designed to capture material risk sensitivities (such as first and second order sensitivities of positions to changes in market prices) of various asset classes/risk types (such as interest rate, foreign exchange, equity and commodity risks). Citi's VAR includes all positions which are measured at fair value; it does not include investment securities classified as available-for-sale or held-to-maturity. For information on these securities, see Note 11 to the Consolidated Financial Statements.

Citi believes its VAR model 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 risk sensitivities updated daily and model parameters updated weekly.

The conservative features of the VAR calibration contribute approximately 12% add-on to what would be a VAR estimated under the assumption of stable and perfectly normally distributed markets. Under normal and stable market conditions, Citi would thus expect the number of days where trading losses exceed its VAR to be less than two or three exceptions per year. Periods of unstable market conditions could increase the number of these exceptions. During the last four quarters, there was one back-testing exception where trading losses exceeded the VAR estimate at the Citigroup level (back-testing is the process in which the daily VAR of a portfolio is compared to the actual daily change in the market value of transactions).

As set forth in the table below, Citi's total trading and credit portfolios VAR was $118 million, $143 million and $223 million at September 30, 2012, June 30, 2012 and September 30, 2011, respectively. Daily total trading and credit portfolio VAR averaged $129 million in the third quarter of 2012 and ranged between $117 million to $149 million. The decrease in Citi's average total trading and credit portfolio VAR from the prior quarter was primarily driven by position changes within global equity derivatives, reduced volatilities in the three-year time series used for VAR, and reduced market volatilities associated with the credit portfolio that lead to a reduction in risk.

In millions of dollars	**September 30, 2012**	**Third Quarter 2012 Average**	**June 30, 2012**	**Second Quarter 2012 Average**	**September 30, 2011**	**Third Quarter 2011 Average**
Interest rate	**108**	**114**	$ 122	$ 119	187	197
Foreign exchange	**44**	**33**	42	40	49	41
Equity	**18**	**22**	21	31	51	52
Commodity	**19**	**15**	17	18	22	21
Diversification benefit(1)	**(82)**	**(75)**	(86)	(86)	(114)	(124)
Total Trading VAR all market risk factors, including general and specific risk (excluding credit portfolios)(2)	**107**	**109**	$ 116	$ 122	195	187
Specific risk-only component(3)	**24**	**29**	$ 23	$ 17	56	29
Total general market factors only	**83**	**80**	$ 93	$ 105	139	158
Incremental Impact of Credit Portfolios(4)	**11**	**20**	$ 27	$ 27	28	20
Total Trading and Credit Portfolios VAR	**118**	**129**	$ 143	$ 149	223	207

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(1) Covariance adjustment (also known as diversification benefit) equals the difference between the total VAR and the sum of the VARs tied to each individual risk type. The benefit reflects the fact that the risks within each and across risk types are not perfectly correlated

and, consequently, the total VAR on a given day will be lower than the sum of the VARs relating to each individual risk type. The determination of the primary drivers of changes to the covariance adjustment is made by an examination of the impact of both model parameter and position changes.

(2) The total trading VAR includes trading positions from *S&B*, Citi Holdings and Corporate Treasury.

(3) The specific risk-only component represents the level of equity and fixed income issuer-specific risk embedded in VAR.

(4) The credit portfolio is composed of the asset side of the CVA derivative exposures and all associated CVA hedges. DVA is not included. It also includes hedges to the loan portfolio, fair value option loans, and tail hedges that are not explicitly hedging the trading book.

The table below provides the range of market factor VARs for total trading VAR, inclusive of specific risk, across the following quarters:

	Third quarter 2012		Second quarter 2012		Third quarter 2011	
In millions of dollars	**Low**	**High**	**Low**	**High**	**Low**	**High**
Interest rate	**$ 101**	**$ 126**	$ 109	$ 149	$ 179	$ 232
Foreign exchange	**25**	**46**	32	53	29	59
Equity	**18**	**31**	21	43	25	85
Commodity	**11**	**20**	13	21	17	29

VAR Model Review and Validation

Generally, Citi's VAR review and model validation process entails reviewing the model framework, major assumptions, and implementation of the mathematical algorithm. In addition, as part of the model validation process, product specific back-testing on hypothetical portfolios are periodically completed and reviewed with Citi's U.S. banking regulators. Furthermore, back-testing is performed against the actual change in market value of transactions on a quarterly basis at multiple levels of the organization (trading desk level, *ICG* business segment and Citigroup) and the results are also shared with the U.S. banking regulators.

Significant VAR model and assumption changes must be independently validated within Citi's risk management organization. This validation process includes a review by Citi's model validation group and further approval from its model validation review committee which is composed of senior quantitative risk management officers. In the event of significant model changes, parallel model runs are undertaken prior to implementation. In addition, significant model and assumption changes are subject to the periodic reviews and approval by Citi's U.S. banking regulators.

Citi uses the same independently validated VAR model for both regulatory capital and external market risk disclosure purposes and, as such, the model review and oversight process for both purposes is as described above. While the scope of positions included in the VAR model calculations for regulatory capital purposes differs from the scope of positions for external market risk disclosure purposes, these differences are due to the fact that certain positions included for external market risk purposes are not eligible for market risk treatment under the U.S. regulatory capital rules, either as currently in effect under Basel I or under the final market risk capital rules under Basel II.5 (e.g., the interest rate sensitivity of repos and reverse repos and the credit and market sensitivities of the derivatives CVA are included for external market risk disclosure purposes, but are not included for regulatory capital purposes). The applicability of the VAR model for positions eligible for market risk treatment under U.S. regulatory capital rules is periodically reviewed and approved by Citi's U.S. banking regulators.

INTEREST REVENUE/EXPENSE AND YIELDS

In millions of dollars, except as otherwise noted	**3rd Qtr. 2012**	**2nd Qtr. 2012**	**3rd Qtr. 2011**	**Change 3Q12 vs. 3Q11**
Interest revenue(1)	**$ 17,070**	$ 17,028	$ 18,282	**(7)%**
Interest expense(2)	**5,016**	5,291	6,030	**(17)**
Net interest revenue(3)	**$ 12,054**	$ 11,737	$ 12,252	**(2)%**
Interest revenue average rate	**4.05%**	4.07%	4.23%	**(18) bps**
Interest expense average rate	**1.43**	1.51	1.62	**(19) bps**
Net interest margin	**2.86**	2.81	2.83	**3 bps**
Interest-rate benchmarks				
Federal Funds rate end of period	**0.00-0.25%**	0.00-0.25%	0.00-0.25%	
Federal Funds rate average rate	**0.00-0.25**	0.00-0.25	0.00-0.25	
Two-year U.S. Treasury note average rate	**0.26%**	0.29%	0.28%	**(2) bps**
10-year U.S. Treasury note average rate	**1.64**	1.83	2.41	**(77) bps**
10-year vs. two-year spread	**138 bps**	154 bps	213 bps	

(1) *Interest revenue* includes the taxable equivalent adjustments (based on the U.S. federal statutory tax rate of 35%) of $136 million, $139 million, and $137 million for the three months ended September 30, 2012, June 30, 2012 and September 30, 2011, respectively.

(2) *Interest expense* includes the taxable equivalent adjustments (based on the U.S. federal statutory tax rate of 35%) of $5 million, $5 million and $1 million for the three months ended September 30, 2012, June 30, 2012 and September 30, 2011, respectively.

(3) Excludes expenses associated with certain hybrid financial instruments. These obligations are classified as *Long-term debt* and accounted for at fair value with changes recorded in *Principal transactions*.

A significant portion of Citi's business activities are based upon gathering deposits and borrowing money and then lending or investing those funds, or participating in market-making activities in tradable securities. Citi's net interest margin (NIM) is calculated by dividing gross interest revenue less gross interest expense by average interest earning assets.

During the third quarter of 2012, Citi's NIM increased by 5 basis points from the second quarter of 2012. While Citi continued to experience a negative impact on loan and investment portfolio yields given the low interest rate environment, during the third quarter of 2012, it was able to offset this yield pressure by paying down higher cost long-term debt and redeeming three outstanding series of trust preferred securities (see "Capital Resources and Liquidity Funding and Liquidity" above). Moreover, Citi has continued to reduce its cost of funding for deposits which also served to offset the yield pressure during the quarter. While Citi expects to continue to benefit from lower funding costs into the fourth quarter of 2012, it also believes the overall low interest rate environment will continue to negatively impact yields. Thus, absent any significant items, Citi would expect that its NIM could decrease slightly from the 2.86% in the third quarter.

AVERAGE BALANCES AND INTEREST RATES ASSETS(1)(2)(3)(4)

Taxable Equivalent Basis

In millions of dollars, except rates	Average volume 3rd Qtr. 2012	Average volume 2nd Qtr. 2012	Average volume 3rd Qtr. 2011	Interest revenue 3rd Qtr. 2012	Interest revenue 2nd Qtr. 2012	Interest revenue 3rd Qtr. 2011	% Average rate 3rd Qtr. 2012	% Average rate 2nd Qtr. 2012	% Average rate 3rd Qtr. 2011
Assets									
Deposits with banks(5)	**$ 160,735**	$ 160,820	$ 167,808	**$ 296**	$ 331	$ 423	**0.73%**	0.83%	1.00%
Federal funds sold and securities borrowed or purchased under agreements to resell(6)									
In U.S. offices	**$ 159,230**	$ 158,267	$ 154,573	**$ 362**	$ 380	$ 362	**0.90%**	0.97%	0.93%
In offices outside the U.S.(5)	**113,758**	127,781	126,460	**463**	522	586	**1.62**	1.64	1.84
Total	**$ 272,988**	$ 286,048	$ 281,033	**$ 825**	$ 902	$ 948	**1.20%**	1.27%	1.34%
Trading account assets(7)(8)									
In U.S. offices	**$ 124,953**	$ 124,160	121,915	**$ 933**	$ 988	$ 1,013	**2.97%**	3.20%	3.30%
In offices outside the U.S.(5)	**123,086**	127,239	153,835	**730**	753	1,081	**2.36**	2.38	2.79
Total	**$ 248,039**	$ 251,399	$ 275,750	**$ 1,663**	$ 1,741	$ 2,094	**2.67%**	2.79%	3.01%
Investments									
In U.S. offices									
Taxable	**$ 170,813**	$ 164,847	$ 164,497	**$ 699**	$ 706	$ 775	**1.63%**	1.72%	1.87%
Exempt from U.S. income tax	**17,527**	15,039	13,705	**193**	194	237	**4.38**	5.19	6.86
In offices outside the U.S.(5)	**116,348**	113,924	118,652	**1,066**	1,034	1,025	**3.64**	3.65	3.43
Total	**$ 304,688**	$ 293,810	$ 296,854	**$ 1,958**	$ 1,934	$ 2,037	**2.56%**	2.65%	2.72%
Loans (net of unearned income)(9)									
In U.S. offices	**$ 361,988**	$ 359,902	$ 366,248	**$ 6,836**	$ 6,714	$ 7,272	**7.51%**	7.50%	7.88%
In offices outside the U.S.(5)	**291,851**	286,334	278,214	**5,348**	5,274	5,402	**7.29**	7.41	7.70
Total	**$ 653,839**	$ 646,236	$ 644,462	**$ 12,184**	$ 11,988	$ 12,674	**7.41%**	7.46%	7.80%
Other interest-earning assets	**$ 37,290**	$ 43,420	$ 50,755	**$ 144**	$ 132	$ 106	**1.54%**	1.22%	0.83%
Total interest-earning assets	**$ 1,677,579**	$ 1,681,733	$ 1,716,662	**$ 17,070**	$ 17,028	$ 18,282	**4.05%**	4.07%	4.23%
Non-interest-earning assets(7)	**231,866**	234,352	247,003						
Total assets from discontinued operations									
Total assets	**$ 1,909,445**	$ 1,916,085	$ 1,963,665						

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(1)

Interest revenue includes the taxable equivalent adjustments (based on the U.S. federal statutory tax rate of 35%) of $136 million, $139 million, and $137 million for the three months ended September 30, 2012, June 30, 2012 and September 30, 2011, respectively.

(2)

Interest rates and amounts include the effects of risk management activities associated with the respective asset and liability categories.

(3) Monthly or quarterly averages have been used by certain subsidiaries where daily averages are unavailable.

(4) Detailed average volume, *Interest revenue* and *Interest expense* exclude *Discontinued operations*. See Note 2 to the Consolidated Financial Statements.

(5) Average rates reflect prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.

(6) Average volumes of securities borrowed or purchased under agreements to resell are reported net pursuant to FIN 41 (ASC 210-20-45). However, *Interest revenue* excludes the impact of FIN 41 (ASC 210-20-45).

(7) The fair value carrying amounts of derivative contracts are reported in *Non-interest-earning assets* and *Other non-interest-bearing liabilities*.

(8) Interest expense on *Trading account liabilities* of *ICG* is reported as a reduction of *Interest revenue*. Interest revenue and interest expense on cash collateral positions are reported in interest on *Trading account assets* and *Trading account liabilities*, respectively.

(9) Includes cash-basis loans.

AVERAGE BALANCES AND INTEREST RATES LIABILITIES AND EQUITY, AND NET INTEREST REVENUE(1)(2)(3)(4)

Taxable Equivalent Basis

	Average volume			Interest expense			% Average rate		
In millions of dollars, except rates	**3rd Qtr. 2012**	**2nd Qtr. 2012**	**3rd Qtr. 2011**	**3rd Qtr. 2012**	**2nd Qtr. 2012**	**3rd Qtr. 2011**	**3rd Qtr. 2012**	**2nd Qtr. 2012**	**3rd Qtr. 2011**
Liabilities									
Deposits									
In U.S. offices(5)	**$ 237,337**	$ 228,957	$ 221,148	**$ 486**	$ 443	$ 561	**0.81%**	0.78%	1.01%
In offices outside the U.S.(6)	**502,730**	487,546	484,081	**1,426**	1,443	1,667	**1.13**	1.19	1.37
Total	**$ 740,067**	$ 716,503	$ 705,229	**$ 1,912**	$ 1,886	$ 2,228	**1.03%**	1.06%	1.25%
Federal funds purchased and securities loaned or sold under agreements to repurchase(7)									
In U.S. offices	**$ 122,218**	$ 121,713	$ 116,944	**$ 206**	$ 270	$ 175	**0.67%**	0.89%	0.59%
In offices outside the U.S.(6)	**99,138**	103,074	101,472	**507**	483	621	**2.03**	1.88	2.43
Total	**$ 221,356**	$ 224,787	$ 218,416	**$ 713**	$ 753	$ 796	**1.28%**	1.35%	1.45%
Trading account liabilities(8)(9)									
In U.S. offices	**29,653**	$ 30,896	$ 43,032	**$ 27**	$ 37	$ 54	**0.36%**	0.48%	0.50%
In offices outside the U.S.(6)	**40,281**	51,517	53,676	**19**	15	37	**0.19**	0.12	0.27
Total	**$ 69,934**	$ 82,413	$ 96,708	**$ 46**	$ 52	$ 91	**0.26%**	0.25%	0.37%
Short-term borrowings									
In U.S. offices	**$ 78,837**	$ 81,760	$ 80,189	**$ 49**	$ 69	$ 14	**0.25%**	0.34%	0.07%
In offices outside the U.S.(6)	**30,988**	30,253	45,605	**124**	114	141	**1.59**	1.52	1.23
Total	**$ 109,825**	$ 112,013	$ 125,794	**$ 173**	$ 183	$ 155	**0.63%**	0.66%	0.49%
Long-term debt(10)									
In U.S. offices	**$ 242,079**	$ 260,276	$ 313,762	**$ 2,108**	$ 2,353	$ 2,594	**3.46%**	3.64%	3.28%
In offices outside the U.S.(6)	**15,238**	15,025	15,968	**64**	64	166	**1.67**	1.71	4.12
Total	**$ 257,317**	$ 275,301	$ 329,730	**$ 2,172**	$ 2,417	$ 2,760	**3.36%**	3.53%	3.32%
Total interest-bearing liabilities	**$ 1,398,499**	$ 1,411,017	$ 1,475,877	**$ 5,016**	$ 5,291	$ 6,030	**1.43%**	1.51%	1.62%
Demand deposits in U.S. offices	**$ 13,372**	$ 11,166	14,797						
Other non-interest-bearing liabilities(8)	**309,415**	309,169	293,548						
Total liabilities from discontinued operations									
Total liabilities	**$ 1,721,286**	$ 1,731,352	$ 1,784,222						
Citigroup stockholders' equity(11)	**$ 186,195**	$ 182,807	$ 177,465						
Noncontrolling interest	**1,964**	1,926	$ 1,978						
Total equity(11)	**$ 188,159**	$ 184,733	$ 179,443						
	$ 1,909,445	$ 1,916,085	$ 1,963,665						

Total liabilities and stockholders' equity									
Net interest revenue as a percentage of average interest-earning assets(12)									
In U.S. offices	**$ 943,899**	$ 938,962	$ 954,004	**$ 6,308**	$ 5,959	$ 6,410	**2.66%**	2.55%	2.67%
In offices outside the U.S.(6)	**733,680**	742,771	762,658	**5,746**	5,778	5,842	**3.12**	3.13	3.04
Total	**$ 1,677,579**	$ 1,681,733	$ 1,716,662	**$ 12,054**	$ 11,737	$ 12,252	**2.86%**	2.81%	2.83%

(1) *Interest expense* includes the taxable equivalent adjustments (based on the U.S. federal statutory tax rate of 35%) of $5 million, $5 million and $1 million for the three months ended September 30, 2012, June 30, 2012 and September 30, 2011, respectively.

(2) Interest rates and amounts include the effects of risk management activities associated with the respective asset and liability categories.

(3) Monthly or quarterly averages have been used by certain subsidiaries where daily averages are unavailable.

(4) Detailed average volume, *Interest revenue* and *Interest expense* exclude *Discontinued operations*. See Note 2 to the Consolidated Financial Statements.

(5) Consists of Other time deposits and Savings deposits. Saving deposits are made up of insured money market accounts, NOW accounts, and other savings deposits. The interest expense on Savings deposits includes FDIC deposit insurance fees and charges.

(6) Average rates reflect prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.

(7) Average volumes of securities loaned or sold under agreements to repurchase are reported net pursuant to FIN 41 (ASC 210-20-45). However, *Interest expense* excludes the impact of FIN 41 (ASC 210-20-45).

(8) The fair value carrying amounts of derivative contracts are reported in *Non-interest-earning assets* and *Other non-interest-bearing liabilities.*

(9) Interest expense on *Trading account liabilities* of *ICG* is reported as a reduction of *Interest revenue*. Interest revenue and interest expense on cash collateral positions are reported in interest on *Trading account assets* and *Trading account liabilities*, respectively.

(10) Excludes hybrid financial instruments and beneficial interests in consolidated VIEs that are classified as *Long-term debt*, as these obligations are accounted for at fair value with changes recorded in *Principal transactions*.

(11) Includes stockholders' equity from discontinued operations.

(12) Includes allocations for capital and funding costs based on the location of the asset.

AVERAGE BALANCES AND INTEREST RATES ASSETS(1)(2)(3)(4)

Taxable Equivalent Basis

In millions of dollars, except rates	Average volume Nine Months 2012	Average volume Nine Months 2011	Interest revenue Nine Months 2012	Interest revenue Nine Months 2011	% Average rate Nine Months 2012	% Average rate Nine Months 2011
Assets						
Deposits with banks(5)	**$ 160,769**	$ 173,682	**$ 994**	$ 1,342	**0.83%**	1.03%
Federal funds sold and securities borrowed or purchased under agreements to resell(6)						
In U.S. offices	**$ 157,051**	$ 157,469	**$ 1,118**	$ 1,114	**0.95%**	0.95%
In offices outside the U.S.(5)	**123,257**	114,662	**1,552**	1,575	**1.68**	1.84
Total	**$ 280,308**	$ 272,131	**$ 2,670**	$ 2,689	**1.27%**	1.32%
Trading account assets(7)(8)						
In U.S. offices	**$ 122,682**	$ 126,099	**$ 2,880**	$ 3,253	**3.14%**	3.45%
In offices outside the U.S.(5)	**126,130**	150,804	**2,262**	3,109	**2.40**	2.76
Total	**$ 248,812**	$ 276,903	**$ 5,142**	$ 6,362	**2.76%**	3.07%
Investments						
In U.S. offices						
Taxable	**$ 169,191**	$ 171,824	**$ 2,167**	$ 2,543	**1.71%**	1.98%
Exempt from U.S. income tax	**15,723**	13,340	**598**	729	**5.08**	7.31
In offices outside the U.S.(5)	**114,504**	126,717	**3,127**	3,491	**3.65**	3.68
Total	**$ 299,418**	$ 311,881	**$ 5,892**	$ 6,763	**2.63%**	2.90%
Loans (net of unearned income)(9)						
In U.S. offices	**$ 360,679**	$ 371,157	**$ 20,455**	$ 22,019	**7.58%**	7.93%
In offices outside the U.S.(5)	**288,350**	272,072	**16,202**	15,717	**7.51**	7.72
Total	**$ 649,029**	$ 643,229	**$ 36,657**	$ 37,736	**7.54%**	7.84%
Other interest-earning assets	**$ 41,313**	$ 50,227	**$ 414**	$ 373	**1.34%**	0.99%
Total interest-earning assets	**$ 1,679,649**	$ 1,728,053	**$ 51,769**	$ 55,265	**4.12%**	4.28%
Non-interest-earning assets(7)	**232,801**	237,656				
Total assets from discontinued operations		891				
Total assets	**$ 1,912,450**	$ 1,966,600				

(1) *Interest revenue* includes the taxable equivalent adjustments (based on the U.S. federal statutory tax rate of 35%) of $410 million and $380 million for the nine months ended September 30, 2012 and 2011, respectively.

(2) Interest rates and amounts include the effects of risk management activities associated with the respective asset and liability categories.

(3)

Monthly or quarterly averages have been used by certain subsidiaries where daily averages are unavailable.

(4) Detailed average volume, *Interest revenue* and *Interest expense* exclude *Discontinued operations*. See Note 2 to the Consolidated Financial Statements.

(5) Average rates reflect prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.

(6) Average volumes of securities borrowed or purchased under agreements to resell are reported net pursuant to FIN 41 (ASC 210-20-45). However, *Interest revenue* excludes the impact of FIN 41 (ASC 210-20-45).

(7) The fair value carrying amounts of derivative contracts are reported in *Non-interest-earning assets* and *Other non-interest-bearing liabilities*.

(8) Interest expense on *Trading account liabilities* of *ICG* is reported as a reduction of *Interest revenue*. Interest revenue and interest expense on cash collateral positions are reported in interest on *Trading account assets* and *Trading account liabilities*, respectively.

(9) Includes cash-basis loans.

AVERAGE BALANCES AND INTEREST RATES LIABILITIES AND EQUITY, AND NET INTEREST REVENUE(1)(2)(3)(4)

Taxable Equivalent Basis

In millions of dollars, except rates	Average volume Nine Months 2012	Average volume Nine Months 2011	Interest expense Nine Months 2012	Interest expense Nine Months 2011	% Average rate Nine Months 2012	% Average rate Nine Months 2011
Liabilities						
Deposits						
In U.S. offices(5)	**230,692**	$ 223,422	**$ 1,479**	$ 1,656	**0.86%**	0.99%
In offices outside the U.S.(6)	**486,720**	491,469	**4,341**	4,816	**1.19**	1.31
Total	**717,412**	$ 714,891	**$ 5,820**	$ 6,472	**1.08%**	1.21%
Federal funds purchased and securities loaned or sold under agreements to repurchase(7)						
In U.S. offices	**$ 120,671**	$ 117,878	**$ 662**	$ 591	**0.73%**	0.67%
In offices outside the U.S.(6)	**101,154**	100,699	**1,499**	1,875	**1.98**	2.49
Total	**$ 221,825**	$ 218,577	**$ 2,161**	$ 2,466	**1.30%**	1.51%
Trading account liabilities(8)(9)						
In U.S. offices	**$ 30,724**	$ 38,541	**$ 96**	$ 219	**0.42%**	0.76%
In offices outside the U.S.(6)	**45,567**	51,235	**55**	124	**0.16**	0.32
Total	**$ 76,291**	$ 89,776	**$ 151**	$ 343	**0.26%**	0.51%
Short-term borrowings						
In U.S. offices	**$ 81,722**	$ 88,519	**$ 156**	$ 110	**0.25%**	0.17%
In offices outside the U.S.(6)	**30,812**	41,296	**408**	383	**1.77**	1.24
Total	**$ 112,534**	$ 129,815	**$ 564**	$ 493	**0.67%**	0.51%
Long-term debt(10)						
In U.S. offices	**$ 265,965**	$ 333,451	**$ 6,916**	$ 8,178	**3.47%**	3.28%
In offices outside the U.S.(6)	**15,287**	18,535	**248**	565	**2.17**	4.08
Total	**$ 281,252**	$ 351,986	**$ 7,164**	$ 8,743	**3.40%**	3.32%
Total interest-bearing liabilities	**$ 1,409,314**	$ 1,505,045	**$ 15,860**	$ 18,517	**1.50%**	1.64%
Demand deposits in U.S. offices	**12,523**	17,752				
Other non-interest-bearing liabilities(8)	**305,507**	268,695				
Total liabilities from discontinued operations		13				
Total liabilities	**$ 1,727,344**	$ 1,791,505				
Citigroup stockholders' equity(11)	**$ 183,235**	$ 172,957				
Noncontrolling interest	**$ 1,871**	$ 2,138				
Total equity(11)	**$ 185,106**	$ 175,095				
Total liabilities and stockholders' equity	**$ 1,912,450**	$ 1,966,600				
Net interest revenue as a percentage of average interest-earning assets(12)						

In U.S. offices	**$**	**945,764**	$	977,643	**$**	**18,401**	$	19,383	**2.60%**	2.65%
In offices outside the U.S.(6)		**733,885**		750,410		**17,508**		17,365	**3.19%**	3.09
Total	**$**	**1,679,649**	$	1,728,053	**$**	**35,909**	$	36,748	**2.86%**	2.84%

(1) *Interest expense* includes the taxable equivalent adjustments (based on the U.S. federal statutory tax rate of 35%) of $46 million and $4 million for the nine months ended September 30, 2012 and 2011, respectively.

(2) Interest rates and amounts include the effects of risk management activities associated with the respective asset and liability categories.

(3) Monthly or quarterly averages have been used by certain subsidiaries where daily averages are unavailable.

(4) Detailed average volume, *Interest revenue* and *Interest expense* exclude *Discontinued operations*. See Note 2 to the Consolidated Financial Statements.

(5) Consists of Other time deposits and Savings deposits. Saving deposits are made up of insured money market accounts, NOW accounts, and other savings deposits. The interest expense on Savings deposits includes FDIC deposit insurance fees and charges.

(6) Average rates reflect prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.

(7) Average volumes of securities loaned or sold under agreements to repurchase are reported net pursuant to FIN 41 (ASC 210-20-45). However, *Interest expense* excludes the impact of FIN 41 (ASC 210-20-45).

(8) The fair value carrying amounts of derivative contracts are reported in *Non-interest-earning assets* and *Other non-interest-bearing liabilities.*

(9) Interest expense on *Trading account liabilities* of *ICG* is reported as a reduction of *Interest revenue*. Interest revenue and interest expense on cash collateral positions are reported in interest on *Trading account assets* and *Trading account liabilities*, respectively.

(10) Excludes hybrid financial instruments and beneficial interests in consolidated VIEs that are classified as *Long-term debt*, as these obligations are accounted for at fair value with changes recorded in *Principal transactions*.

(11) Includes stockholders' equity from discontinued operations.

(12) Includes allocations for capital and funding costs based on the location of the asset.

ANALYSIS OF CHANGES IN INTEREST REVENUE(1)(2)(3)

In millions of dollars	3rd Qtr. 2012 vs. 2nd Qtr. 2012 Increase (decrease) due to change in: Average volume	Average rate	Net change	3rd Qtr. 2012 vs. 3rd Qtr. 2011 Increase (decrease) due to change in: Average volume	Average rate	Net change
Deposits with banks(4)	**$**	**$ (35)**	**$ (35)**	$ (17)	$ (110)	$ (127)
Federal funds sold and securities borrowed or purchased under agreements to resell						
In U.S. offices	**$ 2**	**$ (20)**	**$ (18)**	$ 11	$ (11)	$
In offices outside the U.S.(4)	**(57)**	**(2)**	**(59)**	(56)	(67)	(123)
Total	**$ (55)**	**$ (22)**	**$ (77)**	$ (45)	$ (78)	$ (123)
Trading account assets(5)						
In U.S. offices	**$ 6**	**$ (61)**	**$ (55)**	$ 25	$ (105)	$ (80)
In offices outside the U.S.(4)	**(25)**	**2**	**(23)**	(197)	(154)	(351)
Total	**$ (19)**	**$ (59)**	**$ (78)**	$ (172)	$ (259)	$ (431)
Investments(1)						
In U.S. offices	**$ 41**	**$ (49)**	**$ (8)**	$ 55	$ (175)	$ (120)
In offices outside the U.S.(4)	**22**	**10**	**32**	(20)	61	41
Total	**$ 63**	**$ (39)**	**$ 24**	$ 35	$ (114)	$ (79)
Loans (net of unearned income)(6)						
In U.S. offices	**$ 39**	**$ 83**	**$ 122**	$ (84)	$ (352)	$ (436)
In offices outside the U.S.(4)	**101**	**(27)**	**74**	258	(312)	(54)
Total	**$ 140**	**$ 56**	**$ 196**	$ 174	$ (664)	$ (490)
Other interest-earning assets	**$ (20)**	**$ 32**	**$ 12**	$ (34)	$ 72	$ 38
Total interest revenue	**$ 109**	**$ (67)**	**$ 42**	$ (59)	$ (1,153)	$ (1,212)

(1) The taxable equivalent adjustment is based on the U.S. federal statutory tax rate of 35% and is included in this presentation.

(2) Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

(3) Detailed average volume, interest revenue and interest expense exclude discontinued operations. See Note 2 to the Consolidated Financial Statements.

(4) Changes in average rates reflect changes in prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.

(5) Interest expense on *Trading account liabilities* of *ICG* is reported as a reduction of interest revenue. Interest revenue and interest

expense on cash collateral positions are reported in interest on *Trading account assets* and *Trading account liabilities*, respectively.

(6) Includes cash-basis loans.

ANALYSIS OF CHANGES IN INTEREST EXPENSE AND NET INTEREST REVENUE(1)(2)(3)

In millions of dollars	3rd Qtr. 2012 vs. 2nd Qtr. 2012 Increase (decrease) due to change in: Average volume	Average rate	Net change	3rd Qtr. 2012 vs. 3rd Qtr. 2011 Increase (decrease) due to change in: Average volume	Average rate	Net change
Deposits						
In U.S. offices	**$ 17**	**$ 26**	**$ 43**	$ 39	$ (114)	$ (75)
In offices outside the U.S.(4)	**44**	**(61)**	**(17)**	62	(303)	(241)
Total	**$ 61**	**$ (35)**	**$ 26**	$ 101	$ (417)	$ (316)
Federal funds purchased and securities loaned or sold under agreements to repurchase						
In U.S. offices	**$ 1**	**$ (65)**	**$ (64)**	$ 8	$ 23	$ 31
In offices outside the U.S.(4)	**(19)**	**43**	**24**	(14)	(100)	(114)
Total	**$ (18)**	**$ (22)**	**$ (40)**	$ (6)	$ (77)	$ (83)
Trading account liabilities(5)						
In U.S. offices	**$ (1)**	**$ (9)**	**$ (10)**	$ (14)	$ (13)	$ (27)
In offices outside the U.S.(4)	**(4)**	**8**	**4**	(8)	(10)	(18)
Total	**$ (5)**	**$ (1)**	**$ (6)**	$ (22)	$ (23)	$ (45)
Short-term borrowings						
In U.S. offices	**$ (2)**	**$ (18)**	**$ (20)**	$	$ 35	$ 35
In offices outside the U.S.(4)	**3**	**7**	**10**	(52)	35	(17)
Total	**$ 1**	**$ (11)**	**$ (10)**	$ (52)	$ 70	$ 18
Long-term debt						
In U.S. offices	**$ (161)**	**$ (84)**	**$ (245)**	$ (618)	$ 132	$ (486)
In offices outside the U.S.(4)	**1**	**(1)**		(7)	(95)	(102)
Total	**$ (160)**	**$ (85)**	**$ (245)**	$ (625)	$ 37	$ (588)
Total interest expense	**$ (121)**	**$ (154)**	**$ (275)**	$ (604)	$ (410)	$ (1,014)
Net interest revenue	**$ 230**	**$ 87**	**$ 317**	$ 545	$ (743)	$ (198)

(1) The taxable equivalent adjustment is based on the U.S. federal statutory tax rate of 35% and is included in this presentation.

(2) Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

(3) Detailed average volume, interest revenue and interest expense exclude discontinued operations. See Note 2 to the Consolidated Financial Statements.

(4) Changes in average rates reflect changes in prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.

(5) Interest expense on *Trading account liabilities* of *ICG* is reported as a reduction of *Interest revenue*. Interest revenue and interest expense on cash collateral positions are reported in interest on *Trading account assets* and *Trading account liabilities*, respectively.

ANALYSIS OF CHANGES IN INTEREST REVENUE, INTEREST EXPENSE, AND NET INTEREST REVENUE(1)(2)(3)

In millions of dollars	Nine Months 2012 vs. Nine Months 2011 Increase (Decrease) Due to Change in: Average Volume	Average Rate	Net Change(2)
Deposits at interest with banks(4)	$ (94)	$ (254)	$ (348)
Federal funds sold and securities borrowed or purchased under agreements to resell			
In U.S. offices	$ (3)	$ 7	$ 4
In offices outside the U.S.**(4)**	113	(136)	(23)
Total	$ 110	$ (129)	$ (19)
Trading account assets(5)			
In U.S. offices	$ (86)	$ (287)	$ (373)
In offices outside the U.S.**(4)**	(472)	(375)	(847)
Total	$ (558)	$ (662)	$ (1,220)
Investments(1)			
In U.S. offices	$ (4)	$ (503)	$ (507)
In offices outside the U.S.**(4)**	(334)	(30)	(364)
Total	$ (338)	$ (533)	$ (871)
Loans (net of unearned income)(6)			
In U.S. offices	$ (611)	$ (953)	$ (1,564)
In offices outside the U.S.**(4)**	923	(438)	485
Total	$ 312	$ (1,391)	$ (1,079)
Other interest-earning assets	$ (74)	$ 115	$ 41
Total interest revenue	$ (642)	$ (2,854)	$ (3,496)
Deposits(7)			
In U.S. offices	$ 52	$ (229)	$ (177)
In offices outside the U.S.**(4)**	(46)	(429)	(475)
Total	$ 6	$ (658)	$ (652)
Federal funds purchased and securities loaned or sold under agreements to repurchase			
In U.S. offices	$ 14	$ 57	$ 71
In offices outside the U.S.**(4)**	8	(384)	(376)
Total	$ 22	$ (327)	$ (305)
Trading account liabilities(5)			
In U.S. offices	$ (38)	$ (85)	$ (123)
In offices outside the U.S.**(4)**	(12)	(57)	(69)
Total	$ (50)	$ (142)	$ (192)
Short-term borrowings			
In U.S. offices	$ (9)	$ 55	$ 46

In offices outside the U.S.**(4)**		**(113)**		**138**		**25**
Total	**$**	**(122)**	**$**	**193**	**$**	**71**
Long-term debt						
In U.S. offices	**$**	**(1,732)**	**$**	**470**	**$**	**(1,262)**
In offices outside the U.S.**(4)**		**(86)**		**(231)**		**(317)**
Total	**$**	**(1,818)**	**$**	**239**	**$**	**(1,579)**
Total interest expense	**$**	**(1,962)**	**$**	**(695)**	**$**	**(2,657)**
Net interest revenue	**$**	**1,320**	**$**	**(2,159)**	**$**	**(839)**

(1) The taxable equivalent adjustment is based on the U.S. Federal statutory tax rate of 35% and is included in this presentation.

(2) Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

(3) Detailed average volume, interest revenue and interest expense exclude discontinued operations.

(4) Changes in average rates reflect changes in prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.

(5) Interest expense on *Trading account liabilities* of *ICG* is reported as a reduction of *Interest revenue*. Interest revenue and Interest expense on cash collateral positions are reported in *Trading account assets* and *Trading account liabilities*, respectively.

(6) Includes cash-basis loans.

(7) The interest expense on deposits includes the FDIC assessment and deposit insurance fees and charges of $959 million and $974 million for the nine months ended September 30, 2012 and 2011, respectively.

COUNTRY RISK

Overview

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 Citi's franchise or will adversely affect the ability of obligors within that country to honor their obligations to Citi, any of which could negatively impact Citi's results of operations or financial condition. Country risk events may include sovereign defaults, banking defaults or crises, redenomination events (which could be accompanied by a revaluation (either devaluation or appreciation) of the affected currency), currency crises, foreign exchange controls and/or political events. See also "Risk Factors Market and Economic Risks" in Citigroup's 2011 Annual Report on Form 10-K.

As noted in the "Managing Global Risk Risk Management Overview" section of Citigroup's 2011 Annual Report on Form 10-K, Citi has instituted a risk management process to monitor, evaluate and manage the principal risks it assumes in conducting its activities, which include the credit, market and operations risks associated with Citi's country risk exposures. The risk management organization is structured to facilitate the management of risk across three dimensions: businesses, regions and critical products. The Chief Risk Officer monitors and controls major risk exposures and concentrations across the organization, and subjects those risks to alternative stress scenarios in order to assess the potential economic impact they may have on Citi. Citi's independent risk management, working with input from the businesses and finance, provides periodic updates to senior management on significant potential areas of concern across Citi that can arise from risk concentrations, financial market participants and other systemic issues including, for example, Eurozone debt issues and other developments in the European Monetary Union (EMU). These areas of focus are intended to be forward-looking assessments of the potential economic impacts to Citi that may arise from these exposures.

While Citi continues to work to mitigate its exposures to any potential country or credit or other risk event, the impact of any such event is highly uncertain and will 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.

Several European countries, including Greece, Ireland, Italy, Portugal, Spain (GIIPS) and France, have been the subject of credit deterioration due to weaknesses in their economic and fiscal situations. Moreover, the ongoing Eurozone debt crisis and other developments in the EMU could lead to the withdrawal of one or more countries from the EMU or a partial, or ultimately a complete, break-up of the EMU. Given investor interest in this area, the narrative and tables below set forth certain information regarding Citi's country risk exposures on these topics as well as certain other country risk matters as of September 30, 2012.

Credit Risk

Generally, credit risk measures Citi's net exposure to a credit or market risk event. Citi's credit risk reporting is based on Citi's internal risk management measures and systems. The country designation in Citi's internal risk management systems is based on the country to which the client relationship, taken as a whole, is most directly exposed to economic, financial, sociopolitical or legal risks. As a result, Citi's reported credit risk exposures in a particular country may include exposures to subsidiaries within the client relationship that are actually domiciled outside of the country (e.g., Citi's Greece credit risk exposures may include loans, derivatives and other exposures to a U.K. subsidiary of a Greece-based corporation).

Citi believes that the risk of loss associated with the exposures set forth below, which are based on Citi's internal risk management measures, is likely materially lower than the exposure amounts disclosed below and is sized appropriately relative to its franchise in these countries. In addition, the sovereign entities of the countries disclosed below, as well as the financial institutions and corporations domiciled in these countries, are important clients in the global Citi franchise. Citi fully expects to maintain its presence in these markets to service all of its global customers. As such, Citi's credit risk exposure in these countries may vary over time based on its franchise, client needs and transaction structures.

Sovereign, Financial Institution and Corporate Exposures

In billions of U.S. dollars	GIIPS(1)	Greece	Ireland	Italy	Portugal	Spain	France
Funded loans, before reserves(2)	$ 8.4	$ 1.1	$ 0.3	$ 2.1	$ 0.3	$ 4.6	$ 6.4
Derivative counterparty mark-to- market, inclusive of CVA(3)	13.0	0.6	0.5	9.3	0.2	2.4	6.9
Gross funded credit exposure	**$ 21.3**	**$ 1.7**	**$ 0.8**	**$ 11.4**	**$ 0.6**	**$ 7.0**	**$ 13.3**
Less: margin and collateral(4)	(3.8)	(0.3)	(0.3)	(1.2)	(0.1)	(1.9)	$ (5.5)
Less: purchased credit protection(5)	(10.1)	(0.1)	(0.0)	(7.4)	(0.3)	(2.3)	(3.7)
Net current funded credit exposure	**$ 7.4**	**$ 1.3**	**$ 0.5**	**$ 2.7**	**$ 0.2**	**$ 2.8**	**$ 4.1**
Net trading exposure	$ 1.8	$ (0.0)	$ (0.1)	$ 1.4	$ 0.1	$ 0.3	$ (0.8)
AFS exposure	0.2	0.0	0.0	0.2	0.0	0.0	0.3
Net trading and AFS exposure	**$ 2.0**	**$ (0.0)**	**$ (0.1)**	**$ 1.7**	**$ 0.1**	**$ 0.3**	**$ (0.5)**
Net current funded exposure	**$ 9.5**	**$ 1.3**	**$ 0.4**	**$ 4.4**	**$ 0.3**	**$ 3.1**	**$ 3.6**
Additional collateral received, not reducing amounts above	**$ (3.6)**	**$ (0.8)**	**$ (0.2)**	**$ (0.7)**	**$ (0.0)**	**$ (1.9)**	**$ (3.5)**
Net current funded credit exposure detail:							
Sovereigns	$ 1.1	$ 0.1	$ 0.1	$ 1.2	$ 0.1	$ (0.3)	$ 0.8
Financial institutions	2.0	0.0	0.0	0.1	(0.0)	1.9	2.1
Corporations	4.4	1.1	0.4	1.5	0.1	1.2	1.1
Net current funded credit exposure	**$ 7.4**	**$ 1.3**	**$ 0.5**	**$ 2.7**	**$ 0.2**	**$ 2.8**	**$ 4.1**
Net unfunded commitments(6):							
Sovereigns	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.1
Financial institutions	0.3	0.0	0.0	0.1	0.0	0.2	3.1
Corporations, net	6.3	0.3	0.6	2.8	0.2	2.4	10.6
Total net unfunded commitments	**$ 6.6**	**$ 0.4**	**$ 0.6**	**$ 3.0**	**$ 0.2**	**$ 2.5**	**$ 13.7**

Note: As discussed above, the information in the table above is based on Citi's internal risk management measures and systems. The exposures in the table above do not include retail, small business and Citi Private Bank exposures in the GIIPS. See "GIIPS Retail, Small Business and Citi Private Bank" below. Retail, small business and Citi Private Bank exposure in France was not material as of September 30, 2012. Citi has exposures to obligors located within the GIIPS and France that are not included in the table above because Citi's internal risk management systems determine that the client relationship, taken as a whole, is not in GIIPS or France (e.g., a funded loan to a Greece subsidiary of a Switzerland-based corporation). However, the total amount of such exposures was less than $1.5 billion of funded loans and $1.9 billion of unfunded commitments across the GIIPS and in France as of September 30, 2012. Totals may not sum due to rounding.

(1) Greece, Ireland, Italy, Portugal and Spain.

(2) As of September 30, 2012, Citi held $0.2 billion and $0.1 billion in reserves against these loans in the GIIPS and France, respectively.

(3) Includes the net credit exposure arising from secured financing transactions, such as repurchase agreements and reverse repurchase agreements. See "Secured Financing Transactions" below.

(4)

Margin and collateral posted under legally enforceable margin agreements. Does not include collateral received on secured financing transactions.

(5) Credit protection purchased primarily from investment grade, global financial institutions predominantly outside of the GIIPS and France. See "Credit Default Swaps" below.

(6) Unfunded commitments net of approximately $0.7 billion and $1.6 billion of purchased credit protection as of September 30, 2012 on unfunded commitments in the GIIPS and France, respectively. Previously, this purchased credit protection was included in the "purchased credit protection" line in the table above. See "Unfunded Commitments" under GIIPS and France below.

GIIPS

Sovereign, Financial Institution and Corporate Exposures

As noted in the table above, Citi's gross funded credit exposure to sovereign entities, financial institutions and multinational and local corporations designated in the GIIPS under Citi's risk management systems was $21.3 billion at September 30, 2012, compared to $20.1 billion at June 30, 2012. This $21.3 billion of gross funded credit exposure at September 30, 2012 was made up of $8.4 billion in gross funded loans, before reserves, and $13.0 billion in derivative counterparty mark-to-market exposure, inclusive of credit valuation adjustments (CVA). Further, as of September 30, 2012, Citi's net current funded exposure to sovereigns, financial institutions and corporations designated in the GIIPS under Citi's risk management systems was $9.5 billion, compared to $8.4 billion at June 30, 2012. The primary driver of the increases quarter-over-quarter related to changes in Citi's net current funded credit exposure as described in more detail below.

Net Trading and AFS Exposure $2.0 billion

Included in the net current funded exposure at September 30, 2012 was a net position of $2.0 billion in securities and derivatives with GIIPS sovereigns, financial institutions and corporations as the issuer or reference entity. This compared to $2.4 billion of net trading and AFS exposures as of June 30, 2012. Included within the net position of $2.0 billion as of September 30, 2012 was a net position of negative $0.05 billion of indexed and tranched credit derivatives.

These securities and derivatives are marked to market daily. As previously disclosed, Citi's trading exposure levels vary as it maintains inventory consistent with customer needs.

Net Current Funded Credit Exposure $7.4 billion

As of September 30, 2012, Citi's net current funded credit exposure to GIIPS sovereigns, financial institutions and corporations was $7.4 billion, compared to $6.0 billion as of June 30, 2012. As of the end of the third quarter of 2012, the majority of Citi's net current funded credit exposure continued to be to corporations designated in the GIIPS. The increase quarter-over-quarter was primarily due to an approximately $0.8 billion drawn commitment in Spain collateralized with non-GIIPS government bonds and an approximately $0.6 billion increase in derivative counterparty mark-to-market exposure due to market movements, inclusive of CVA, in Italy.

Consistent with its internal risk management measures and as set forth in the table above, Citi's gross funded credit exposure as of September 30, 2012 has been reduced by $3.8 billion of margin and collateral posted under legally enforceable margin agreements (unchanged from June 30, 2012). Similar to prior periods, the majority of this margin and collateral as of September 30, 2012 was in the form of cash, with the remainder in predominantly non-GIIPS securities, which are included at fair value.

Gross funded credit exposure as of September 30, 2012 has also been reduced by $10.1 billion in purchased credit protection, compared to $10.3 billion at June 30, 2012, predominantly from financial institutions outside the GIIPS (see "Credit Default Swaps" below). Included within the $10.1 billion of purchased credit protection as of September 30, 2012 was $0.9 billion of indexed and tranched credit derivatives executed to hedge Citi's exposure on funded loans and CVA on derivatives, a significant portion of which are reflected in Italy and Spain.

Purchased credit protection generally pays out only upon the occurrence of certain credit events with respect to the country or borrower covered by the protection, as determined by a committee composed of dealers and other market participants. In addition to counterparty credit risks (see "Credit Default Swaps" below), the credit protection may not fully cover all situations that may adversely affect the value of Citi's exposure and, accordingly, Citi could still experience losses despite the existence of the credit protection.

As of September 30, 2012, Citi also held $3.6 billion of collateral which has not been netted against its gross funded credit exposure to the GIIPS, a decrease from $4.2 billion at June 30, 2012. This collateral may take a variety of forms, including securities, receivables and physical assets, and is held under a variety of collateral arrangements.

Unfunded Commitments $6.6 billion

As of September 30, 2012, Citi also had $6.6 billion of unfunded commitments to GIIPS sovereigns, financial institutions and corporations, with $6.3 billion of this amount to corporations. This compared to $9.1 billion of unfunded commitments as of June 30, 2012, with $7.7 billion of such amount to corporations. The decrease in unfunded commitments quarter-over-quarter was primarily driven by the funding of the $0.8 billion commitment in Spain described above, as well as a reallocation of purchased credit protection from funded exposure to unfunded commitments, which was approximately $0.7 billion. This $0.7 billion was previously included in the table above under "purchased credit protection."

As of September 30, 2012, unfunded commitments in the GIIPS included approximately $4.4 billion of unfunded loan commitments that generally have standard conditions that must be met before they can be drawn, and $2.2 billion of letters of credit.

Other Activities

In addition to the exposures described above, like other banks, Citi also provides settlement and clearing facilities for a variety of clients in these countries and actively monitors and manages these intra-day exposures.

Retail, Small Business and Citi Private Bank

As of September 30, 2012, Citi had approximately $6.3 billion of mostly locally funded accrual loans to retail, small business and Citi Private Bank customers in the GIIPS, the vast majority of which is in Citi Holdings. This compared to $6.9 billion at the end of the second quarter of 2012. Of the $6.3 billion, approximately $4.0 billion consisted of retail and small business exposures in Spain ($2.8 billion) and Greece ($1.2 billion), approximately $1.5 billion related to held-to-maturity securitized retail assets (primarily mortgage-backed securities in Spain), and approximately $0.8 billion related to

Private Bank customers, substantially all in Spain. This compared to approximately $4.3 billion of retail and small business exposures in Spain ($3.0 billion) and Greece ($1.2 billion), approximately $1.7 billion related to held-to-maturity securitized retail assets and approximately $1.0 billion related to Private Bank customers as of June 30, 2012.

In addition, Citi had approximately $4.1 billion of unfunded commitments to GIIPS retail, small business and Private Bank customers as of September 30, 2012, compared to approximately $5.0 billion as of June 30, 2012. Citi's unfunded commitments to GIIPS retail customers, in the form of unused credit card lines, are generally cancellable upon the occurrence of significant credit events, including redenomination events.

France

Sovereign, Financial Institution and Corporate Exposures

Citi's gross funded credit exposure to the sovereign entity of France, as well as financial institutions and multinational and local corporations designated in France under Citi's risk management systems, was $13.3 billion at September 30, 2012, compared to $13.0 billion at June 30, 2012. This $13.3 billion of gross funded credit exposure at September 30, 2012 was made up of $6.4 billion in gross funded loans, before reserves, and $6.9 billion in derivative counterparty mark-to-market exposure, inclusive of CVA. Further, as of September 30, 2012, Citi's net current funded exposure to the French sovereign and financial institutions and corporations designated in France under Citi's risk management systems was $3.6 billion, compared to $3.7 billion at June 30, 2012.

Net Trading and AFS Exposure $(0.5) billion

Included in the net current funded exposure at September 30, 2012 was a net position of $(0.5) billion in securities and derivatives with the French sovereign, financial institutions and corporations as the issuer or reference entity. This compared to $2.1 billion of net trading and AFS exposures as of June 30, 2012. Included within the net position of $(0.5) billion as of September 30, 2012 was a net position of $0.03 billion of indexed and tranched credit derivatives.

These securities and derivatives are marked to market daily. As previously disclosed, Citi's trading exposure levels vary as it maintains inventory consistent with customer needs.

Net Current Funded Credit Exposure $4.1 billion

As of September 30, 2012, the net current funded credit exposure to the French sovereign, financial institutions and corporations was $4.1 billion. Of this amount, as of September 30, 2012, approximately $0.8 billion was to the sovereign entity (compared to $0.1 billion at June 30, 2012), $2.1 billion was to financial institutions (compared to $2.0 billion at June 30, 2012) and $1.1 billion to corporations (compared to $(0.4) billion at June 30, 2012).

Consistent with its internal risk management measures and as set forth in the table above, Citi's gross funded credit exposure has been reduced by $5.5 billion of margin and collateral posted under legally enforceable margin agreements (compared to $5.9 billion at June 30, 2012). Similar to prior periods, the majority of this margin and collateral as of September 30, 2012 was in the form of cash, with the remainder in predominantly non-French securities, which are included at fair value.

Gross funded credit exposure as of September 30, 2012 has also been reduced by $3.7 billion in purchased credit protection, compared to $5.4 billion at June 30, 2012, predominantly from financial institutions outside France (see "Credit Default Swaps" below). The decrease in purchased credit protection is primarily driven by the reallocation of purchased credit protection from funded exposure to unfunded commitments (as described under "GIIPS" above), which was approximately $1.6 billion. Included within the $3.7 billion of purchased credit protection as of September 30, 2012 was $1.4 billion of indexed and tranched credit derivatives executed to hedge Citi's exposure on funded loans and CVA on derivatives.

Purchased credit protection generally pays out only upon the occurrence of certain credit events with respect to the country or borrower covered by the protection, as determined by a committee composed of dealers and other market participants. In addition to counterparty credit risks (see "Credit Default Swaps" below), the credit protection may not fully cover all situations that may adversely affect the value of Citi's exposure and, accordingly, Citi could still experience losses despite the existence of the credit protection.

As of September 30, 2012, Citi also held $3.5 billion of collateral which has not been netted against its gross funded credit exposure to France. This amount is a decrease from $4.5 billion as of June 30, 2012 and, as described above, this collateral can take a variety of forms and is held under a variety of collateral arrangements.

Unfunded Commitments $13.7 billion

As of September 30, 2012, Citi also had $13.7 billion of unfunded commitments to the French sovereign, financial institutions and corporations, with $10.6 billion of this amount to corporations. This compared to $17.9 billion of unfunded commitments as of June 30, 2012, with $13.8 billion of such amount to corporations. The decrease in unfunded commitments quarter-over-quarter was primarily driven by the reallocation of purchased credit protection from funded exposure to unfunded commitments (as described under "GIIPS" above), which was approximately $1.6 billion. This $1.6 billion was previously included in the table above under "purchased credit protection."

As of September 30, 2012, unfunded commitments in France included $10.6 billion of unfunded loan commitments that generally have standard conditions that must be met before they can be drawn, and $3.1 billion of letters of credit.

Other Activities

In addition to the exposures described above, like other banks, Citi also provides settlement and clearing facilities for a variety of clients in France and actively monitors and manages these intra-day exposures.

Credit Default Swaps GIIPS and France

Citi buys and sells credit protection, through credit default swaps (CDS), on underlying GIIPS and French entities as part of its market-making activities for clients in its trading portfolios. Citi also purchases credit protection, through CDS, to hedge its own credit exposure to these underlying entities that arises from loans to these entities or derivative transactions with these entities.

Citi buys and sells CDS as part of its market-making activity, and purchases CDS for credit protection, primarily with investment grade, global financial institutions predominantly outside the GIIPS and France. The counterparty credit exposure that can arise from the purchase or sale of CDS, including any GIIPS or French counterparties, is managed and mitigated through legally enforceable netting and margining agreements with a given counterparty. Thus, the credit exposure to that counterparty is measured and managed in aggregate across all products covered by a given netting or margining agreement.

The notional amount of credit protection purchased or sold on GIIPS and French underlying single reference entities as of September 30, 2012 is set forth in the table below. The net notional contract amounts, less mark-to-market adjustments, are included in "net current funded exposure" in the table under "Sovereign, Financial Institution and Corporate Exposures" above, and appear in either "net trading exposure" when part of a trading strategy or in "purchased credit protection" when purchased as a hedge against a credit exposure.

	CDS purchased or sold on underlying single reference entities in these countries						
In billions of U.S. dollars	**GIIPS**	**Greece**	**Ireland**	**Italy**	**Portugal**	**Spain**	**France**
Notional CDS contracts on underlying reference entities							
Net purchased(1)	**$ (17.2)**	**$ (0.4)**	**$ (1.0)**	**$ (10.4)**	**$ (2.5)**	**$ (6.5)**	**$ (10.3)**
Net sold(1)	**6.5**	**0.3**	**0.7**	**2.8**	**2.4**	**3.9**	**6.1**
Sovereign underlying reference entity							
Net purchased(1)	(12.1)		(0.7)	(8.4)	(1.8)	(3.9)	(4.3)
Net sold(1)	5.1		0.7	2.1	1.8	3.3	4.5
Financial institution underlying reference entity							
Net purchased(1)	(2.9)	(0.0)	(0.3)	(1.5)	(0.3)	(1.3)	(1.8)
Net sold(1)	2.1	0.0	0.0	1.3	0.3	0.9	1.4
Corporate underlying reference entity							
Net purchased(1)	(4.7)	(0.4)	(0.2)	(2.0)	(0.7)	(2.3)	(6.5)
Net sold(1)	1.8	0.3	0.1	0.9	0.6	0.9	2.4

(1) The summation of notional amounts for each GIIPS country does not equal the notional amount presented in the GIIPS total column in the table above as additional netting is achieved at the agreement level with a specific counterparty across various GIIPS countries.

When Citi purchases CDS as a hedge against a credit exposure, it generally seeks to purchase products from counterparties that would not be correlated with the underlying credit exposure it is hedging. In addition, Citi generally seeks to purchase products with a maturity date similar to the exposure against which the protection is purchased. While certain exposures may have longer maturities that extend beyond the CDS tenors readily available in the market, Citi generally will purchase credit protection with a maximum tenor that is readily available in the market.

The above table contains all net CDS purchased or sold on GIIPS and French underlying single reference entities, whether part of a trading strategy or as purchased credit protection. With respect to the $17.2 billion net purchased CDS contracts on underlying GIIPS reference entities, approximately 91% was purchased from non-GIIPS counterparties and 80% was purchased from investment grade counterparties as of September 30, 2012. With respect to the $10.3 billion net purchased CDS contracts on underlying French reference entities, approximately 97% was purchased from non-French counterparties and 87% was purchased from investment grade counterparties as of September 30, 2012.

Secured Financing Transactions GIIPS and France

As part of its banking activities with its clients, Citi enters into secured financing transactions, such as repurchase agreements and reverse repurchase agreements. These transactions typically involve the lending of cash, against which securities are taken as collateral. The amount of cash loaned against the securities collateral is a function of the liquidity and quality of the collateral as well as the credit quality of the counterparty. The collateral is typically marked to market daily, and Citi has the ability to call for additional collateral (usually in the form of cash) if the value of the securities falls below a pre-defined threshold.

As shown in the table below, at September 30, 2012, Citi had loaned $12.6 billion in cash through secured financing transactions with GIIPS and French counterparties, usually through reverse repurchase agreements. Against those loans, it held approximately $15.7 billion fair value of securities collateral. In addition, Citi held $1.3 billion in variation margin, most of which was in cash, against all secured financing transactions.

Consistent with Citi's risk management systems, secured financing transactions are included in the counterparty derivative mark-to-market exposure at their net credit exposure value, which is typically small or zero given the over-collateralized structure of these transactions.

In billions of dollars	Cash financing out	Securities collateral in(1)
Lending to GIIPS and French counterparties through secured financing transactions	$ 12.6	$ 15.7

(1) Citi has also received approximately $1.3 billion in variation margin, predominantly cash, associated with secured financing transactions with these counterparties.

Collateral taken in against secured financing transactions is generally high quality, marketable securities, consisting of government debt, corporate debt, or asset-backed securities. The table below sets forth the fair value of the securities collateral taken in by Citi against secured financing transactions as of September 30, 2012.

In billions of dollars	Total	Government bonds	Municipal or Corporate bonds	Asset-backed bonds
Securities pledged by GIIPS and French counterparties in secured financing transaction lending(1)	$ 15.7	$ 2.8	$ 2.6	$ 10.3
Investment grade	$ 15.2	$ 2.7	$ 2.5	$ 10.0
Non-investment grade	0.2	0.1	0.0	
Not rated	0.3	0.0	0.0	0.2

(1) Total includes approximately $2.8 billion in correlated risk collateral, predominantly French and Spanish sovereign debt pledged by French counterparties.

Secured financing transactions can be short term or can extend beyond one year. In most cases, Citi has the right to call for additional margin daily, and can terminate the transaction and liquidate the collateral if the counterparty fails to post the additional margin. The table below sets forth the remaining transaction tenor for these transactions as of September 30, 2012.

		Remaining transaction tenor		
In billions of dollars	Total	<1 year	1-3 years	>3 years
Cash extended to GIIPS and French counterparties in secured financing transactions lending(1)	$ 12.6	$ 8.5	$ 3.8	$ 0.3

(1) The longest remaining tenor trades mature November 2018.

Redenomination and Devaluation Risk

As previously disclosed and as referenced above, 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 ultimately a complete, break-up of the EMU. See "Risk Factors Market and Economic Risks" in Citi's 2011 Annual Report on Form 10-K. 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.

Citi, 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.

Citi has been, and will continue to be, engaged in contingency planning for such events, particularly with respect to Greece, Ireland, Italy, Portugal and Spain. Generally, to the extent that Citi's local and offshore assets are relatively equal to its liabilities within the exiting country, and assuming both assets and liabilities are symmetrically redenominated and devalued, Citi 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, Citi 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.

Citi's redenomination and devaluation exposures to the GIIPS as of September 30, 2012 are not additive to its credit risk exposures to such countries as described under "Credit Risk" above. Rather, Citi's credit risk exposures in the affected country would generally be reduced to the extent of any redenomination and devaluation of assets.

As of September 30, 2012, Citi estimates that it had net asset exposure subject to redenomination and devaluation in Italy, principally relating to derivatives contracts. Citi also estimates that it had net asset exposure subject to redenomination and devaluation in Spain as of September 30, 2012, principally related to local exposures and offshore exposures related to held-to-maturity securitized retail assets (primarily mortgage-backed securities) and exposures to Private Bank customers (see "GIIPS Retail, Small Business and Citi Private Bank" above). However, as of September 30, 2012, Citi's estimated redenomination and devaluation exposure to Italy was less than Citi's net current funded credit exposure to Italy (before purchased credit protection) as reflected under "Credit Risk" above. Further, as of September 30, 2012, Citi's estimated redenomination and devaluation exposure to Spain was less than Citi's net current funded credit exposure to Spain (before purchased credit protection) plus its retail, small business and Private Bank credit risk exposure to Spain, as reflected under "Credit Risk" above. In Greece, Ireland and Portugal, as of September 30, 2012, Citi had a net liability position.

As referenced above, Citi's estimated redenomination and devaluation exposure does not include purchased credit protection. As described under "Credit Risk" above, Citi has purchased credit protection primarily from investment grade, global financial institutions predominantly outside of the GIIPS. To the extent the purchased credit protection is available in a redenomination/devaluation event, any redenomination/devaluation exposure could be reduced.

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, each as referenced above. In addition, other events outside of Citi's control such as the extent of any deposit flight and devaluation, the imposition of exchange and/or capital controls, the requirement by U.S. regulators of mandatory loan reserve requirements or any required timing of functional currency changes and the accounting impact thereof could further negatively impact Citi in such an event. Accordingly, in an actual redenomination and devaluation scenario, Citi's exposures could vary considerably based on the specific facts and circumstances.

Argentina and Venezuela Developments

Citi operates in several countries 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.

Argentine Operations

Since 2011, the Argentine government has been tightening foreign exchange controls. Citi's access to U.S. dollars and other foreign currencies, which apply to capital repatriation efforts and discretionary investments offshore, has become limited. In addition, the Central Bank of Argentina has increased minimum capital requirements, which affect Citi's ability to remit profits.

Citi's net investment in its Argentine operations at September 30, 2012 was approximately $800 million (unchanged from the second quarter of 2012). Citi uses the Argentine peso as the functional currency for its operations in Argentina and translates its operations into U.S. dollars using the official exchange rate as published by the Central Bank of Argentina, which was 4.70 Argentine pesos to one U.S. dollar at September 30, 2012.

Citi hedges currency risk in its net investment to the extent possible and prudent, although suitable hedging alternatives are becoming less available and more expensive, a trend Citi expects to continue going forward. At September 30, 2012, Citi hedged approximately $300 million of its net investment using foreign currency forwards that are recorded as net investment hedges under ASC 815 *Derivatives and Hedging*. As of September 30, 2012, Citi hedged foreign currency risk by holding in its Argentine operations both U.S. dollar denominated monetary assets of approximately $200 million and foreign currency futures with a notional value of approximately $100 million that do not qualify as net investment hedges.

The impact of any devaluation of the Argentine peso on Citi's net investment in Argentina would be reported as a translation loss in stockholders' equity, offset by gains recorded in stockholders' equity on its hedges that have been designated and qualify for hedge accounting or recorded in earnings for its U.S dollar denominated monetary assets or currency futures that do not qualify as net investment hedges.

Venezuelan Operations

In 2003, the Venezuelan government enacted currency restrictions that have limited Citi's ability to obtain U.S. dollars in Venezuela at the official foreign currency rate. Citi uses the official exchange rate, as fixed by the Central Bank of Venezuela, to re-measure the foreign currency transactions in the financial statements of its Venezuelan operations, which use the U.S. dollar as the functional currency, into U.S. dollars. Citi uses the official exchange rate, which was 4.3 bolivars to one U.S. dollar at September 30, 2012, because it is the only exchange rate legally available in Venezuela.

At September 30, 2012, Citi's net investment in Venezuela was approximately $300 million, which included net monetary assets denominated in Venezuelan bolivars of approximately $270 million (compared to $290 million at June 30, 2012). Citi is exposed to foreign exchange losses in earnings if the official exchange rate is devalued or in the event that it must settle bolivars at a rate that is less favorable than the official rate.

FAIR VALUE ADJUSTMENTS FOR DERIVATIVES AND STRUCTURED DEBT

The following discussion relates to the derivative obligor information and the fair valuation for derivatives and structured debt. See Note 18 to the Consolidated Financial Statements for additional information on Citi's derivative activities.

Fair Valuation Adjustments for Derivatives

The fair value adjustments applied by Citigroup to its derivative carrying values consist of the following items:

Liquidity adjustments are applied to items in Level 2 or Level 3 of the fair-value hierarchy (see Note 19 to the Consolidated Financial Statements for more details) to ensure that the fair value reflects the price at which the net open risk position could be liquidated. The liquidity reserve is based on the bid/offer spread for an instrument. When Citi has elected to measure certain portfolios of financial investments, such as derivatives, on the basis of the net open risk position, the liquidity reserve is adjusted to take into account the size of the position.

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

Citi's CVA methodology is composed of two steps. First, the exposure profile for each counterparty is determined using the terms of all individual derivative positions and a Monte Carlo simulation or other quantitative analysis to generate a series of expected cash flows at future points in time. The calculation of this exposure profile considers the effect of credit risk mitigants, including pledged cash or other collateral and any legal right of offset that exists with a counterparty through 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 nonperformance risk. This process identifies specific, point-in-time future cash flows that are subject to nonperformance risk, rather than using the current recognized net asset or liability as a basis to measure the CVA.

Second, market-based views of default probabilities derived from observed credit spreads in the credit default swap (CDS) market are applied to the expected future cash flows determined in step one. Citi's own-credit CVA is determined using Citi-specific CDS spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spread indices for each credit rating and tenor. For certain identified netting sets where individual analysis is practicable (e.g., exposures to counterparties with liquid CDS), 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. Therefore, the CVA (both counterparty and own-credit) may not be realized upon a settlement or termination in the normal course of business. In addition, all or a portion of the CVA may be reversed or otherwise adjusted in future periods in the event of changes in the credit risk of Citi or its counterparties, or changes in the credit mitigants (collateral and netting agreements) associated with the derivative instruments.

The table below summarizes the CVA applied to the fair value of derivative instruments for the periods indicated:

In millions of dollars	**Credit valuation adjustment contra-liability (contra-asset)** **September 30, 2012**	**December 31, 2011**
Non-monoline counterparties	**$ (3,372)**	$ (5,392)
Citigroup (own)	**1,134**	2,176
Total CVA derivative instruments	**$ (2,238)**	$ (3,216)

Own Debt Valuation Adjustments for Structured Debt

Own debt valuation adjustments (DVA) are recognized on Citi's debt liabilities for which the fair value option (FVO) has been elected using Citi's credit spreads observed in the bond market. Accordingly, the fair value of debt liabilities for which the fair value option has been elected (other than non-recourse and similar liabilities) is impacted by the narrowing or widening of Citi's credit spreads. Changes in fair value resulting from changes in Citi's instrument-specific credit risk are estimated by incorporating Citi's current credit spreads observable in the bond market into the relevant valuation technique used to value each liability.

The table below summarizes pretax gains (losses) related to changes in CVA on derivative instruments, net of hedges, and DVA on own FVO debt for the periods indicated:

	Credit/debt valuation adjustment gain (loss)			
	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
In millions of dollars	**2012**	**2011**	**2012**	**2011**
CVA on derivatives, excluding monolines, net of hedges	**$ (215)**	$ 333	**$ (292)**	$ 113
CVA related to monoline counterparties, net of hedges			**1**	180
Total CVA derivative instruments	**$ (215)**	$ 333	**$ (291)**	$ 293
DVA related to own FVO debt	**$ (560)**	$ 1,606	**$ (1,552)**	$ 1,734
Total CVA and DVA	**$ (776)**	$ 1,939	**$ (1,843)**	$ 2,027

The CVA and DVA amounts shown in the table above do not include the effect of counterparty credit risk embedded in non-derivative instruments. Losses on non-derivative instruments, such as bonds and loans, related to counterparty credit risk are also not included in the table above.

CREDIT DERIVATIVES

Citigroup makes markets in and trades a range of credit derivatives on behalf of clients and in connection with its risk management activities. Through these contracts, Citi either purchases or writes protection on either a single-name or portfolio basis. Citi primarily uses credit derivatives to help mitigate credit risk in its corporate loan portfolio and other cash positions, and to facilitate client transactions.

Credit derivatives generally require that the seller of credit protection make payments to the buyer upon the occurrence of predefined events (settlement triggers). These settlement triggers, which are defined by the form of the derivative and the referenced credit, are generally limited to the market standard of failure to pay indebtedness and bankruptcy (or comparable events) of the reference credit and, in a more limited range of transactions, debt restructuring.

Credit derivative transactions referring to emerging market reference credits will also typically include additional settlement triggers to cover the acceleration of indebtedness and the risk of repudiation or a payment moratorium. In certain transactions on a portfolio of referenced credits or asset-backed securities, the seller of protection may not be required to make payment until a specified amount of losses has occurred with respect to the portfolio and/or may only be required to pay for losses up to a specified amount.

The fair values shown below are prior to the application of any netting agreements, cash collateral, and market or credit valuation adjustments.

Citi actively participates in trading a variety of credit derivatives products as both an active two-way market-maker for clients and to manage credit risk. The majority of this activity was transacted with other financial intermediaries, including both banks and broker-dealers. Citi generally has a mismatch between the total notional amounts of protection purchased and sold and it may hold the reference assets directly, rather than entering into offsetting credit derivative contracts as and when desired. The open risk exposures from credit derivative contracts are largely matched after certain cash positions in reference assets are considered and after notional amounts are adjusted, either to a duration-based equivalent basis or to reflect the level of subordination in tranched structures.

Citi actively monitors its counterparty credit risk in credit derivative contracts. As of September 30, 2012 and December 31, 2011, approximately 96% of the gross receivables are from counterparties with which Citi maintains collateral agreements. A majority of Citi's top 15 counterparties (by receivable balance owed to Citi) are banks, financial institutions or other dealers. Contracts with these counterparties do not include ratings-based termination events. However, counterparty ratings downgrades may have an incremental effect by lowering the threshold at which Citi may call for additional collateral.

The following tables summarize the key characteristics of Citi's credit derivatives portfolio by counterparty and derivative form as of September 30, 2012 and December 31, 2011:

September 30, 2012

	Fair values		Notionals	
In millions of dollars	**Receivable**	**Payable**	**Beneficiary**	**Guarantor**
By industry/counterparty				
Bank	**$ 36,979**	**$ 34,422**	**$ 972,491**	**$ 930,387**
Broker-dealer	**14,407**	**15,018**	**353,472**	**320,560**
Monoline	**6**		**141**	
Non-financial	**254**	**193**	**4,872**	**3,395**
Insurance and other financial institutions	**7,246**	**7,096**	**208,515**	**184,211**
Total by industry/counterparty	**$ 58,892**	**$ 56,729**	**$ 1,539,491**	**$ 1,438,553**
By instrument				
Credit default swaps and options	**$ 58,769**	**$ 55,247**	**$ 1,523,330**	**$ 1,437,397**
Total return swaps and other	**123**	**1,482**	**16,161**	**1,156**
Total by instrument	**$ 58,892**	**$ 56,729**	**$ 1,539,491**	**$ 1,438,553**
By rating				
Investment grade	**$ 20,300**	**$ 19,258**	**$ 768,417**	**$ 703,826**
Non-investment grade(1)	**38,592**	**37,471**	**771,074**	**734,727**
Total by rating	**$ 58,892**	**$ 56,729**	**$ 1,539,491**	**$ 1,438,553**
By maturity				
Within 1 year	**$ 3,955**	**$ 4,238**	**$ 350,707**	**$ 333,769**
From 1 to 5 years	**37,592**	**37,399**	**996,011**	**933,192**
After 5 years	**17,345**	**15,092**	**192,773**	**171,592**
Total by maturity	**$ 58,892**	**$ 56,729**	**$ 1,539,491**	**$ 1,438,553**

December 31, 2011

	Fair values		Notionals	
In millions of dollars	**Receivable**	**Payable**	**Beneficiary**	**Guarantor**
By industry/counterparty				
Bank	$ 57,175	$ 53,638	$ 981,085	$ 929,608
Broker-dealer	21,963	21,952	343,909	321,293
Monoline	10		238	
Non-financial	95	130	1,797	1,048
Insurance and other financial institutions	11,611	9,132	185,861	142,579
Total by industry/counterparty	$ 90,854	$ 84,852	$ 1,512,890	$ 1,394,528
By instrument				
Credit default swaps and options	$ 89,998	$ 83,419	$ 1,491,053	$ 1,393,082
Total return swaps and other	856	1,433	21,837	1,446
Total by instrument	$ 90,854	$ 84,852	$ 1,512,890	$ 1,394,528

By rating								
Investment grade	$	26,457	$	23,846	$	681,406	$	611,447
Non-investment grade(1)		64,397		61,006		831,484		783,081
Total by rating	$	90,854	$	84,852	$	1,512,890	$	1,394,528
By maturity								
Within 1 year	$	5,707	$	5,244	$	281,373	$	266,723
From 1 to 5 years		56,740		54,553		1,031,575		947,211
After 5 years		28,407		25,055		199,942		180,594
Total by maturity	$	90,854	$	84,852	$	1,512,890	$	1,394,528

(1) Also includes not-rated credit derivative instruments.

INCOME TAXES

Deferred Tax Assets

Deferred tax assets (DTAs) are recorded for the future consequences of events that have been recognized in the financial statements or tax returns, based upon enacted tax laws and rates. DTAs are recognized subject to management's judgment that realization is more likely than not. For additional information, see "Risk Factors" and "Significant Accounting Policies and Significant Estimates Income Taxes" in Citi's 2011 Annual Report on Form 10-K.

At September 30, 2012, Citigroup had recorded net total DTAs of approximately $53.3 billion, an increase of $2.3 billion from June 30, 2012 and $1.8 billion from December 31, 2011. The sequential increase in total DTAs was primarily driven by the $1.8 billion tax benefit recorded on the MSSB loss and other-than-temporary impairment in the third quarter and the $0.6 billion reduction to tax expense described below under "Other." The increase in Citi's total DTAs since the end of 2011 is due, in large part, to the continued negative impact of Citi Holdings on Citi's U.S. taxable income, including the previously mentioned loss on MSSB. The decrease in the total foreign DTAs from the end of 2011 is primarily driven by reduced net operating loss carry-forward benefits in certain foreign subsidiaries in the second quarter of 2012 (approximately $0.7 billion) and the third quarter of 2012 (approximately $0.7 billion).

Although realization is not assured, Citi believes that the realization of its recognized net DTAs at September 30, 2012 is more likely than not based on expectations as to future taxable income in the jurisdictions in which the DTAs arise and available tax planning strategies as defined in ASC 740, *Income Taxes,* that would be implemented if necessary to prevent a carry-forward from expiring. Realization of the DTAs will continue to be driven by Citi's ability to generate U.S. taxable earnings and intended tax-related actions in the relevant tax carry-forward period. Citi does not expect significant utilization of its DTAs as a result of normal business operations during the remainder of 2012. As noted above, Citi's net total DTAs have increased by approximately $1.8 billion since December 31, 2011, while the time remaining for utilization has shortened, given the passage of time.

The following table summarizes Citi's net DTAs balance at September 30, 2012 and December 31, 2011:

Jurisdiction/Component

	DTAs balance	
In billions of dollars	**Sept. 30, 2012**	**Dec. 31, 2011**
Total U.S.	**$ 50.1**	$ 46.5
Total Foreign	**3.2**	5.0
Total	**$ 53.3**	$ 51.5

Approximately $41 billion of the net DTAs was deducted in calculating Citi's Tier 1 Capital and Tier 1 Common Capital as of September 30, 2012.

Other

In the third quarter of 2012, Citi recorded a $582 million net reduction to income tax expense due to the resolution of certain items related to the 2006-2008 IRS audit.

DISCLOSURE CONTROLS AND PROCEDURES

Citi's disclosure controls and procedures are designed to ensure that information required to be disclosed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including without limitation that information required to be disclosed by Citi in its SEC filings is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate to allow for timely decisions regarding required disclosure.

Citi's Disclosure Committee assists the CEO and CFO in their responsibilities to design, establish, maintain and evaluate the effectiveness of Citi's disclosure controls and procedures. The Disclosure Committee is responsible for, among other things, the oversight, maintenance and implementation of the disclosure controls and procedures, subject to the supervision and oversight of the CEO and CFO.

Citi's management, with the participation of its CEO and CFO, has evaluated the effectiveness of Citigroup's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2012 and, based on that evaluation, the CEO and CFO have concluded that at that date Citigroup's disclosure controls and procedures were effective.

FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q, including but not limited to statements included within the Management's Discussion and Analysis of Financial Condition and Results of Operations, are "forward-looking statements" within the meaning of the rules and regulations of the SEC. In addition, Citigroup also may make forward-looking statements in its other documents filed or furnished with the SEC, and its management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

Generally, forward-looking statements are not based on historical facts but instead represent only Citigroup's and its management's beliefs regarding future events. Such statements may be identified by words such as *believe, expect, anticipate, intend, estimate, may increase, may fluctuate*, and similar expressions, or future or conditional verbs such as *will, should, would* and *could*.

Such statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition may differ materially from those included in these statements due to a variety of factors, including without limitation the precautionary statements included in this Form 10-Q, the factors listed and described under "Risk Factors" in Citi's 2011 Annual Report on Form 10-K and the additional factors described below:

- the ongoing potential impact of significant regulatory changes around the world on Citi's businesses, revenues and earnings, and the possibility of additional regulatory requirements beyond those already proposed, adopted or currently contemplated by U.S. or international regulators;

- the uncertainty around the ongoing implementation of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), as well as international efforts, on Citi's ability to manage its businesses, the amount and timing of increased costs, and Citi's ability to compete with U.S. and foreign competitors;

- Citi's ability to meet prospective new regulatory capital requirements in the timeframe expected by the market or its regulators, the impact the continued lack of certainty surrounding Citi's capital requirements has on Citi's long-term capital planning, and the extent to which Citi will be disadvantaged by capital requirements compared to U.S. and non-U.S. competitors;

- the impact of the proposed rules relating to the regulation of derivatives under the Dodd-Frank Act, as well as similar proposed international derivatives regulations, on Citi's competitiveness in, and earnings from, these businesses;

- the impact of the proposed restrictions under the "Volcker Rule" provisions of the Dodd-Frank Act on Citi's market-making activities, the significant compliance costs associated with those proposals, and the potential that Citi could be forced to dispose of certain investments at less than fair value;

the potential impact of the newly formed Consumer Financial Protection Bureau on Citi's practices and operations with respect to a number of its U.S. Consumer businesses and the potential significant costs associated with implementing and complying with any new regulatory requirements or review findings;

the potential negative impact to Citi of regulatory requirements in the U.S. and other jurisdictions aimed at facilitating the orderly resolution of large financial institutions;

Citi's ability to hire and retain highly qualified employees as a result of regulatory requirements regarding compensation practices or otherwise;

the impact of existing and potential future regulations on Citi's ability and costs to participate in securitization transactions, as well as the nature and profitability of securitization transactions generally;

potential future changes to key accounting standards utilized by Citi and their impact on how Citi records and reports its financial condition and results of operations, including whether Citi would be able to meet any required transition timelines;

the potential negative impact the ongoing Eurozone debt crisis could have on Citi's businesses, results of operations, financial condition and liquidity, particularly if sovereign debt defaults, significant bank failures or defaults and/or the exit of one or more countries from the European Monetary Union occur;

the continued uncertainty relating to the sustainability and pace of economic recovery and their continued effect on Citi's businesses, including without limitation *S&B* and the U.S. mortgage businesses within Citi Holdings *Local Consumer Lending*;

the potential impact of any further downgrade of the U.S. government credit rating, or concerns regarding a potential downgrade, on Citi's businesses, results of operations, capital and funding and liquidity;

risks arising from Citi's extensive operations outside the U.S., particularly in emerging markets, including, without limitation, exchange or currency controls, limitations on foreign investments, sociopolitical instability, nationalization, closure of branches or subsidiaries, confiscation of assets, and sovereign volatility, as well as increased compliance and regulatory risks and costs;

the impact of external factors, such as market disruptions or negative market perceptions of Citi or the financial services industry generally, on Citi's liquidity and/or costs of funding;

the potential negative impact on Citi's funding and liquidity, as well as the results of operations for certain of its businesses, resulting from a reduction in Citi's or its subsidiaries' credit ratings;

the potential outcome of the extensive litigation, investigations and inquiries pertaining to Citi's U.S. mortgage-related activities and the impact of any such outcomes on Citi's businesses, business practices, reputation, financial condition or results of operations;

the negative impact of the remaining assets in Citi Holdings on Citi's results of operations and other assets, including Citi's deferred tax assets (DTAs), and its ability to more productively redeploy the capital supporting the remaining assets of Citi Holdings;

the potential negative impact to Citi's common stock price and market perception if Citi is unable to increase its common stock dividend or initiate a share repurchase program;

- Citi's ability to achieve its targeted expense reduction levels as well as ensuring the highest level of productivity of Citi's previous or future investment spending;

- the potential negative impact on the value of Citi's DTAs if U.S., state or foreign tax rates are reduced, or if other changes are made to the U.S. tax system, such as changes to the tax treatment of foreign business income;

- the expiration of the active financing income exception on Citi's tax expense;

- the potential impact to Citi from evolving cybersecurity and other technological risks and attacks, which could result in additional costs, reputational damage, regulatory penalties and financial losses;

- the accuracy of Citi's assumptions and estimates used to prepare its financial statements, including its litigation and mortgage repurchase reserves, and the potential for Citi to experience significant losses if these assumptions or estimates are incorrect;

- the inability to predict the potential outcome of the extensive legal and regulatory proceedings that Citi is subject to at any given time, and the impact of any such outcomes on Citi's businesses, business practices, reputation, financial condition or results of operations;

- Citi's inability to maintain the value of the Citi brand;

- Citi's concentration of risk and the potential ineffectiveness of Citi's risk management processes, including its risk monitoring and risk mitigation techniques;

- Citi's ability to maintain its various contractual relationships with its partners, including without limitation agreements within its credit card businesses; and

- what impact, if any, the national mortgage settlement will have on the behavior of residential mortgage borrowers in general, whether or not their loans are within the scope of the settlement.

Any forward-looking statements made by or on behalf of Citigroup speak only as to the date they are made, and Citi does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made.

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FINANCIAL STATEMENTS AND NOTES

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

Citigroup Inc. and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars, except per share amounts	2012	2011	2012	2011
Revenues				
Interest revenue	**$ 16,934**	$ 18,145	**$ 51,360**	$ 54,886
Interest expense	**5,021**	6,031	**15,907**	18,522
Net interest revenue	**$ 11,913**	$ 12,114	**$ 35,453**	$ 36,364
Commissions and fees	**$ 3,304**	$ 3,043	**$ 9,521**	$ 9,968
Principal transactions	**976**	2,103	**4,547**	7,886
Administration and other fiduciary fees	**974**	945	**2,992**	3,110
Realized gains (losses) on sales of investments, net	**615**	765	**2,813**	1,928
Other-than-temporary impairment losses on investments				
Gross impairment losses(1)	**(3,470)**	(148)	**(4,969)**	(2,071)
Less: Impairments recognized in AOCI		2	**66**	47
Net impairment losses recognized in earnings	**$ (3,470)**	$ (146)	**$ (4,903)**	$ (2,024)
Insurance premiums	**$ 616**	$ 658	**$ 1,872**	$ 2,014
Other revenue(2)	**(977)**	1,349	**(296)**	1,933
Total non-interest revenues	**$ 2,038**	$ 8,717	**$ 16,546**	$ 24,815
Total revenues, net of interest expense	**$ 13,951**	$ 20,831	**$ 51,999**	$ 61,179
Provisions for credit losses and for benefits and claims				
Provision for loan losses	**$ 2,511**	$ 3,049	**$ 7,924**	$ 9,129
Policyholder benefits and claims	**225**	259	**668**	738
Provision (release) for unfunded lending commitments	**(41)**	43	**(72)**	55
Total provisions for credit losses and for benefits and claims	**$ 2,695**	$ 3,351	**$ 8,520**	$ 9,922
Operating expenses				
Compensation and benefits	**$ 6,132**	$ 6,223	**$ 18,644**	$ 19,301
Premises and equipment	**846**	860	**2,451**	2,517
Technology/communication	**1,465**	1,306	**4,328**	3,795
Advertising and marketing	**605**	635	**1,699**	1,659
Other operating	**3,172**	3,436	**9,551**	10,450
Total operating expenses	**$ 12,220**	$ 12,460	**$ 36,673**	$ 37,722
Income (loss) from continuing operations before income taxes	**(964)**	$ 5,020	**$ 6,806**	$ 13,535
Provision for income taxes (benefit)	**$ (1,488)**	1,278	**233**	3,430
Income from continuing operations	**$ 524**	$ 3,742	**$ 6,573**	$ 10,105
Discontinued operations				
Income (loss) from discontinued operations	**$ (46)**	$ (5)	**$ (49)**	$ 38
Gain (loss) on sale		16	**(1)**	146
Provision (benefit) for income taxes	**(15)**	10	**(13)**	72

Income (loss) from discontinued operations, net of taxes	**$**	**(31)**	$	1	**$**	**(37)**	$	112
Net income before attribution of noncontrolling interests	**$**	**493**	$	3,743	**$**	**6,536**	$	10,217
Net income attributable to noncontrolling interests		**25**		(28)		**191**		106
Citigroup's net income	**$**	**468**	$	3,771	**$**	**6,345**	$	10,111
Basic earnings per share(3)(4)								
Income from continuing operations	**$**	**0.17**	$	1.27	**$**	**2.13**	$	3.38
Income from discontinued operations, net of taxes		**(0.01)**				**(0.01)**		0.04
Net income	**$**	**0.15**	$	1.27	**$**	**2.12**	$	3.41
Weighted average common shares outstanding		**2,926.8**		2,910.8		**2,926.5**		2,907.9
Diluted earnings per share(3)(4)								
Income from continuing operations	**$**	**0.16**	$	1.23	**$**	**2.07**	$	3.28
Income from discontinued operations, net of taxes		**(0.01)**				**(0.01)**		0.04
Net income	**$**	**0.15**	$	1.23	**$**	**2.06**	$	3.32
Adjusted weighted average common shares outstanding(3)		**3,015.3**		2,998.6		**3,014.9**		2,997.4

(1) Third quarter of 2012 includes the recognition of a $3,340 million impairment charge related to the carrying value of Citi's remaining 35% interest in the Morgan Stanley Smith Barney joint venture (MSSB).The nine months of 2012 included the recognition of a $1,181 million impairment charge related to Citi's investment in Akbank. See Note 11 to the Consolidated Financial Statements.

(2) *Other revenue* for the third quarter of 2012 includes a $1,344 million loss related to the sale of a 14% interest in MSSB. Additionally, *Other revenue* for the nine months of 2012 included the recognition of a $424 million loss related to the sale of Citi's 10.1% stake in Akbank.

(3) Due to rounding, earnings per share on continuing operations and *Discontinued operations* may not sum to earnings per share on net income.

(4) All per share amounts and Citigroup shares outstanding for all periods reflect Citigroup's 1-for-10 reverse stock split, which was effective May 6, 2011.

The Notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

Citigroup Inc. and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars	2012	2011	2012	2011
Net income before attribution of noncontrolling interests	**$ 493**	$ 3,743	**$ 6,536**	$ 10,217
Citigroup's other comprehensive income (loss)				
Net change in unrealized gains and losses on investment securities, net of taxes	**$ 776**	$ 505	**$ 566**	$ 2,297
Net change in cash flow hedges, net of taxes	**186**	(532)	**317**	(449)
Net change in foreign currency translation adjustment, net of taxes and hedges	**1,245**	(4,935)	**1,346**	(2,795)
Pension liability adjustment, net of taxes(1)	**(24)**	140	**(7)**	180
Citigroup's total other comprehensive income (loss)	**$ 2,183**	$ (4,822)	**$ 2,222**	$ (767)
Other comprehensive income (loss) attributable to noncontrolling interests				
Net change in unrealized gains and losses on investment securities, net of taxes	**$ 9**	$ (5)	**$ 18**	$ (2)
Net change in foreign currency translation adjustment, net of taxes	**39**	(110)	**41**	(60)
Total other comprehensive income (loss) attributable to noncontrolling interests	**$ 48**	$ (115)	**$ 59**	$ (62)
Total comprehensive income (loss) before attribution of noncontrolling interests	**$ 2,724**	$ (1,194)	**$ 8,817**	$ 9,388
Total comprehensive income (loss) attributable to noncontrolling interests	**73**	(143)	**250**	44
Citigroup's comprehensive income (loss)	**$ 2,651**	$ (1,051)	**$ 8,567**	$ 9,344

(1) Primarily reflects adjustments based on the final year-end actuarial valuations of the Company's pension and postretirement plans and amortization of amounts previously recognized in *Other comprehensive income*.

The Notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

Citigroup Inc. and Subsidiaries

In millions of dollars	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks (including segregated cash and other deposits)	**$ 33,802**	$ 28,701
Deposits with banks	**170,028**	155,784
Federal funds sold and securities borrowed or purchased under agreements to resell (including $166,506 and $142,862 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**277,542**	275,849
Brokerage receivables	**31,077**	27,777
Trading account assets (including $101,309 and $119,054 pledged to creditors at September 30, 2012 and December 31, 2011, respectively)	**315,201**	291,734
Investments (including $22,238 and $14,940 pledged to creditors at September 30, 2012 and December 31, 2011, respectively, and $276,489 and $274,040 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**295,474**	293,413
Loans, net of unearned income		
Consumer (including $1,256 and $1,326 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**407,752**	423,340
Corporate (including $4,103 and $3,939 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**250,671**	223,902
Loans, net of unearned income	**$ 658,423**	$ 647,242
Allowance for loan losses	**(25,916)**	(30,115)
Total loans, net	**$ 632,507**	$ 617,127
Goodwill	**25,915**	25,413
Intangible assets (other than MSRs)	**5,963**	6,600
Mortgage servicing rights (MSRs)	**1,920**	2,569
Other assets (including $8,426 and $13,360 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**141,873**	148,911
Assets of discontinued operations held for sale	**44**	
Total assets	**$ 1,931,346**	$ 1,873,878

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

In millions of dollars	September 30, 2012 (Unaudited)	December 31, 2011
Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs		
Cash and due from banks	**$ 589**	$ 536
Trading account assets	**570**	567
Investments	**7,429**	10,582
Loans, net of unearned income		
Consumer (including $1,219 and $1,292 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**91,452**	103,275
Corporate (including $170 and $198 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**21,839**	23,780
Loans, net of unearned income	**$ 113,291**	$ 127,055
Allowance for loan losses	**(6,042)**	(8,000)
Total loans, net	**$ 107,249**	$ 119,055

Other assets		**1,252**		859
Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs	**$**	**117,089**	$	131,599

Statement continues on the next page.

CONSOLIDATED BALANCE SHEET
(Continued)

Citigroup Inc. and Subsidiaries

In millions of dollars, except shares and per share amounts	September 30, 2012 (Unaudited)	December 31, 2011
Liabilities		
Non-interest-bearing deposits in U.S. offices	**$ 133,981**	$ 119,437
Interest-bearing deposits in U.S. offices (including $892 and $848 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**239,574**	223,851
Non-interest-bearing deposits in offices outside the U.S.	**63,792**	57,357
Interest-bearing deposits in offices outside the U.S. (including $972 and $478 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**507,297**	465,291
Total deposits	**$ 944,644**	$ 865,936
Federal funds purchased and securities loaned or sold under agreements to repurchase (including $123,459 and $97,712 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**224,370**	198,373
Brokerage payables	**55,376**	56,696
Trading account liabilities	**129,990**	126,082
Short-term borrowings (including $761 and $1,354 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**49,164**	54,441
Long-term debt (including $27,336 and $24,172 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**271,862**	323,505
Other liabilities (including $3,407 and $3,742 as of September 30, 2012 and December 31, 2011, respectively, at fair value)	**67,202**	69,272
Liabilities of discontinued operations held for sale		
Total liabilities	**$ 1,742,608**	$ 1,694,305
Stockholders' equity		
Preferred stock ($1.00 par value; authorized shares: 30 million), issued shares: **12,038 as of September 30, 2012** and December 31, 2011, at aggregate liquidation value	**$ 312**	$ 312
Common stock ($0.01 par value; authorized shares: 6 billion), issued shares: **2,946,810,798 as of September 30, 2012** and 2,937,755,921 as of December 31, 2011	**29**	29
Additional paid-in capital	**106,203**	105,804
Retained earnings	**96,650**	90,520
Treasury stock, at cost: **September 30, 2012 14,290,098 shares** and December 31, 2011 13,877,688 shares	**(851)**	(1,071)
Accumulated other comprehensive income (loss)	**(15,566)**	(17,788)
Total Citigroup stockholders' equity	**$ 186,777**	$ 177,806
Noncontrolling interest	**1,961**	1,767
Total equity	**$ 188,738**	$ 179,573
Total liabilities and equity	**$ 1,931,346**	$ 1,873,878

The following table presents certain liabilities of consolidated VIEs, which are included in the Consolidated Balance Sheet above. The liabilities in the table below include third-party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts where creditors or beneficial interest holders have recourse to the general credit of Citigroup.

In millions of dollars	September 30, 2012 (Unaudited)	December 31, 2011
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Citigroup		

Short-term borrowings	**$**	**16,624**	$	21,009
Long-term debt (including $1,394 and $1,558 as of September 30, 2012 and December 31, 2011, respectively, at fair value)		**35,641**		50,451
Other liabilities		**641**		587
Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Citigroup	**$**	**52,906**	$	72,047

The Notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

Citigroup Inc. and Subsidiaries

In millions of dollars, except shares in thousands	Nine Months Ended September 30, 2012	2011
Preferred stock at aggregate liquidation value		
Balance, beginning of year	**$ 312**	$ 312
Balance, end of period	**$ 312**	$ 312
Common stock and additional paid-in capital		
Balance, beginning of year	**$ 105,833**	$ 101,316
Employee benefit plans	**391**	526
ADIA Upper DECs Equity Units Purchase Contract		3,750
Other	**8**	(1)
Balance, end of period	**$ 106,232**	$ 105,591
Retained earnings		
Balance, beginning of year	**$ 90,520**	$ 79,559
Adjustment to opening balance, net of taxes(1)	**(107)**	
Adjusted balance, beginning of period	**$ 90,413**	$ 79,559
Citigroup's net income (loss)	**6,345**	10,111
Common dividends(2)	**(91)**	(52)
Preferred dividends	**(17)**	(17)
Other		1
Balance, end of period	**$ 96,650**	$ 89,602
Treasury stock, at cost		
Balance, beginning of year	**$ (1,071)**	$ (1,442)
Issuance of shares pursuant to employee benefit plans	**224**	354
Treasury stock acquired(3)	**(4)**	(1)
Balance, end of period	**$ (851)**	$ (1,089)
Citigroup's accumulated other comprehensive income (loss)		
Balance, beginning of year	**$ (17,788)**	$ (16,277)
Net change in Citigroup's *accumulated other comprehensive income*	**2,222**	(767)
Balance, end of period	**$ (15,566)**	$ (17,044)
Total Citigroup common stockholders' equity (shares outstanding: 2,932,521 as of September 30, 2012 and 2,923,878 as of December 31, 2011)	**$ 186,465**	$ 177,060
Total Citigroup stockholders' equity	**$ 186,777**	$ 177,372
Noncontrolling interest		
Balance, beginning of year	**$ 1,767**	$ 2,321
Initial origination of a noncontrolling interest	**88**	28
Transactions between Citigroup and the noncontrolling-interest shareholders	**(41)**	(351)
Net income attributable to noncontrolling-interest shareholders	**191**	106
Dividends paid to noncontrolling-interest shareholders	**(32)**	(67)
Net change in *accumulated other comprehensive income (loss)*	**59**	(62)
Other	**(71)**	(5)

Net change in noncontrolling interests	**$**	**194**	$	(351)
Balance, end of period	**$**	**1,961**	$	1,970
Total equity	**$**	**188,738**	$	179,342

(1) The adjustment to the opening balance for *Retained earnings* in 2012 represents the cumulative effect of adopting ASU 2010-26, *Financial Services Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. See Note 1 to the Consolidated Financial Statements.

(2) Common dividends declared were as follows: $0.01 per share in the first, second and third quarters of 2012; $0.01 in the second and third quarters of 2011.

(3) All open market repurchases were transacted under an existing authorized share repurchase plan and relate to customer fails/errors.

The Notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

Citigroup Inc. and Subsidiaries

In millions of dollars	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities of continuing operations		
Net income before attribution of noncontrolling interests	**$ 6,536**	$ 10,217
Net income attributable to noncontrolling interests	**191**	106
Citigroup's net income	**$ 6,345**	$ 10,111
(Loss) income from discontinued operations, net of taxes	**(36)**	38
(Loss) gain on sale, net of taxes	**(1)**	74
Income from continuing operations excluding noncontrolling interests	**$ 6,382**	$ 9,999
Adjustments to reconcile net income to net cash provided by (used in) operating activities of continuing operations		
Amortization of deferred policy acquisition costs and present value of future profits	**$ 151**	$ 188
(Additions)/reductions to deferred policy acquisition costs	**98**	(33)
Depreciation and amortization	**2,264**	2,135
Provision for credit losses	**7,852**	9,184
Realized gains from sales of investments	**(2,813)**	(1,928)
Net impairment losses recognized in earnings	**4,903**	2,024
Change in trading account assets	**(23,467)**	(3,365)
Change in trading account liabilities	**3,908**	19,797
Change in federal funds sold and securities borrowed or purchased under agreements to resell	**(1,693)**	(43,928)
Change in federal funds purchased and securities loaned or sold under agreements to repurchase	**25,997**	34,054
Change in brokerage receivables net of brokerage payables	**(9,279)**	(2,435)
Change in loans held-for-sale	**2,192**	(406)
Change in other assets	**(35)**	(7,660)
Change in other liabilities	**(2,070)**	4,360
Other, net	**(6,826)**	8,834
Total adjustments	**$ 1,182**	$ 20,821
Net cash provided by operating activities of continuing operations	**$ 7,564**	$ 30,820
Cash flows from investing activities of continuing operations		
Change in deposits with banks	**$ (14,244)**	$ 1,576
Change in loans	**(13,555)**	(6,389)
Proceeds from sales and securitizations of loans	**4,874**	8,941
Purchases of investments	**(188,566)**	(254,411)
Proceeds from sales of investments	**114,234**	159,154
Proceeds from maturities of investments	**80,193**	112,409
Capital expenditures on premises and equipment and capitalized software	**(1,875)**	(2,447)
Proceeds from sales of premises and equipment, subsidiaries and affiliates, and repossessed assets	**876**	1,063
Net cash (used in) provided by investing activities of continuing operations	**$ (18,063)**	$ 19,896
Cash flows from financing activities of continuing operations		
Dividends paid	**$ (104)**	$ (69)
Issuance of ADIA Upper DECs equity units purchase contract		3,750
Treasury stock acquired	**(4)**	(1)
Stock tendered for payment of withholding taxes	**(194)**	(228)
Issuance of long-term debt	**23,819**	25,225
Payments and redemptions of long-term debt	**(81,746)**	(75,016)
Change in deposits	**78,708**	6,326
Change in short-term borrowings	**(5,027)**	(13,872)

Net cash provided by (used in) financing activities of continuing operations	**$**	**15,452**	$	(53,885)
Effect of exchange rate changes on cash and cash equivalents	**$**	**148**	$	1,478
Discontinued operations				
Net cash provided by discontinued operations	**$**		$	2,669
Change in cash and due from banks	**$**	**5,101**	$	978
Cash and due from banks at beginning of period		**28,701**		27,972
Cash and due from banks at end of period	**$**	**33,802**	$	28,950
Supplemental disclosure of cash flow information for continuing operations				
Cash paid (received) during the year for income taxes	**$**	**2,582**	$	2,617
Cash paid during the year for interest		**15,185**		15,382
Non-cash investing activities				
Transfers to OREO and other repossessed assets	**$**	**391**	$	1,038
Transfers to trading account assets from investments (held-to-maturity)				12,700

The Notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements as of September 30, 2012 and for the three- and nine-month periods ended September 30, 2012 and 2011 include the accounts of Citigroup Inc. (Citigroup) and its subsidiaries (collectively, the Company, Citi or Citigroup). In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation have been reflected. The accompanying unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes included in Citigroup's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 Annual Report on Form 10-K) and Citigroup's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012.

Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles, but is not required for interim reporting purposes, has been condensed or omitted.

Management must make estimates and assumptions that affect the Consolidated Financial Statements and the related footnote disclosures. While management makes its best judgment, actual results could differ from those estimates. Current market conditions increase the risk and complexity of the judgments in these estimates.

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

As noted above, the Notes to Consolidated Financial Statements are unaudited.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Citigroup and its subsidiaries. The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments of designated venture capital subsidiaries or investments accounted for at fair value under the fair value option, are accounted for under the equity method, and the pro rata share of their income (loss) is included in *Other revenue*. Income from investments in less than 20%-owned companies is recognized when dividends are received. As discussed in more detail in Note 17 to the Consolidated Financial Statements, Citigroup consolidates entities deemed to be variable interest entities when Citigroup is determined to be the primary beneficiary. Gains and losses on the disposition of branches, subsidiaries, affiliates, buildings, and other investments are included in *Other revenue*.

Significant Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified six policies as being significant because they require management to make subjective and/or complex judgments about matters that are inherently uncertain. These policies relate to Valuations of Financial Instruments, Allowance for Credit Losses, Securitizations, Goodwill, Income Taxes and Litigation Accruals. The Company, in consultation with the Audit Committee of the Board of Directors, has reviewed and approved these significant accounting policies, which are further described under "Significant Accounting Policies and Significant Estimates" and Note 1 to the Consolidated Financial Statements in the Company's 2011 Annual Report on Form 10-K.

ACCOUNTING CHANGES

OCC Chapter 7 Bankruptcy Guidance

In the third quarter of 2012, the Office of the Comptroller of the Currency (OCC) issued guidance relating to the accounting for mortgage loans discharged through bankruptcy proceedings pursuant to Chapter 7 of the U.S. Bankruptcy Code (Chapter 7 bankruptcy). Under this new OCC guidance, the discharged loans are accounted for as troubled debt restructurings (TDRs). These TDRs, other than FHA-insured loans, are written down to their collateral value less cost to sell. FHA-insured loans are reserved for based on a discounted cash flow model. As a result of implementing this guidance, Citigroup recorded an incremental $635 million of charge-offs in the third quarter, the vast majority of which related to loans which were current. These charge-offs were substantially offset by a related loan loss reserve release of approximately $600 million, with a net reduction in pretax income of $35 million. Furthermore, as a result of this OCC guidance, as of September 30, 2012, TDRs increased by $1.7 billion, and non-accrual loans increased by $1.5 billion ($1.3 billion of which was current).

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* The ASU requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income (OCI) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Citigroup has selected the two-statement approach. Under this approach, Citi is required to present components of net income and total net income in the Statement of Income. The Statement of Comprehensive Income follows the Statement of Income and includes the components of OCI and a total for OCI, along with a total for comprehensive income. The ASU removed the option of reporting other comprehensive income in the statement of changes in stockholders' equity. This ASU became effective for Citigroup on January 1, 2012 and a Statement of Comprehensive Income is included in these Consolidated Financial Statements.

Furthermore, under the ASU, an entity would have been required to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. However, in December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which deferred this requirement.

In June 2012, the FASB issued an exposure draft that requires new footnote disclosures of items reclassified from accumulated OCI to net income, which adjustments would not be included in either the Statement of Comprehensive Income or the Income Statement. The exposure draft does not propose an effective date. However, the FASB has indicated it intends to make these requirements effective as soon as possible, potentially as early as the fourth quarter of 2012 or the first quarter of 2013.

Credit Quality and Allowance for Credit Losses Disclosures

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310)*: *Disclosures about Credit Quality of Financing Receivables and Allowance for Credit Losses*. The ASU required a greater level of disaggregated information about the allowance for credit losses and the credit quality of financing receivables. The period-end balance disclosure requirements for loans and the allowance for loan losses were effective for reporting periods ended on or after December 15, 2010 and were included in the Company's 2010 Annual Report on Form 10-K, while disclosures for activity during a reporting period in the loan and allowance for loan losses accounts were effective for reporting periods beginning on or after December 15, 2010 and were included in the Company's Forms 10-Q beginning with the first quarter of 2011 (see Notes 12 and 13 to the Consolidated Financial Statements). The troubled debt restructuring disclosure requirements that were part of this ASU became effective in the third quarter of 2011 (see below).

Troubled Debt Restructurings (TDRs)

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

Any shortfall in contractual loan payments is considered a concession.

Creditors cannot assume that debt extensions at or above a borrower's original contractual rate do not constitute troubled debt restructurings because the new contractual rate could still be below the market rate.

If a borrower doesn't have access to funds at a market rate for debt with characteristics similar to the restructured debt, that may indicate that the creditor has granted a concession.

A borrower that is not currently in default may still be considered to be experiencing financial difficulty when payment default is considered "probable in the foreseeable future."

Effective in the third quarter of 2011, as a result of the Company's adoption of ASU 2011-02, certain loans modified under short-term programs beginning January 1, 2011 that were previously measured for impairment under ASC 450 are now measured for impairment under ASC 310-10-35. At the end of the first interim period of adoption (September 30, 2011), the recorded investment in receivables previously measured under ASC 450 was $1,170 million and the allowance for credit losses associated with those loans was $467 million. The effect of adopting the ASU was an approximate $60 million reduction in pretax income for the quarter ended September 30, 2011.

Repurchase Agreements Assessment of Effective Control

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

The ASU became effective for Citigroup on January 1, 2012. The guidance has been applied prospectively to transactions or modifications of existing transactions occurring on or after January 1, 2012. The ASU has not had a material effect on the Company's financial statements. A nominal amount of the Company's repurchase transactions that would previously have been accounted for as sales is now accounted for as financing transactions.

Fair Value Measurement

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The ASU created a common definition of fair value for U.S. GAAP and IFRS and aligned the measurement and disclosure requirements. It required significant additional disclosures both of a qualitative and quantitative nature, particularly for those instruments measured at fair value that are classified in Level 3 of the fair value hierarchy. Additionally, the ASU provided guidance on when it is appropriate to measure fair value on a portfolio basis and expanded the prohibition on valuation adjustments where the size of the Company's position is a characteristic of the adjustment from Level 1 to all levels of the fair value hierarchy.

The ASU became effective for Citigroup on January 1, 2012. As a result of implementing the prohibition on valuation adjustments where the size of the Company's position is a characteristic, the Company released reserves of approximately $125 million, increasing pretax income in the first quarter of 2012.

Deferred Asset Acquisition Costs

In October 2010, the FASB issued ASU No. 2010-26, *Financial Services Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. The ASU amended the guidance for insurance entities that required deferral and subsequent amortization of certain costs incurred during the acquisition of new or renewed insurance contracts, commonly referred to as deferred acquisition costs (DAC). The new guidance limited DAC to those costs directly related to the successful acquisition of insurance contracts; all other acquisition-related costs must be expensed as incurred. Under prior guidance, DAC consisted of those costs that vary with, and primarily relate to, the acquisition of insurance contracts.

The ASU became effective for Citigroup on January 1, 2012 and was adopted using the retrospective method. As a result of implementing the ASU, DAC was reduced by approximately $165 million and a $58 million deferred tax asset was recorded with an offset to opening retained earnings of $107 million (net of tax).

FUTURE APPLICATION OF ACCOUNTING STANDARDS

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment.* The ASU is intended to simplify the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. Some examples of intangible assets subject to the guidance include indefinite-lived trademarks, licenses and distribution rights. The ASU allows companies to perform a qualitative assessment about the likelihood of impairment of an indefinite-lived intangible asset to determine whether further impairment testing is necessary, similar in approach to the goodwill impairment test.

The ASU will become effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted.

Offsetting

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The standard requires new disclosures about certain financial instruments and derivative instruments that are either offset in the balance sheet (presented on a net basis) or subject to an enforceable master netting arrangement or similar arrangement. The standard requires disclosures that provide both gross and net information in the notes to the financial statements for relevant assets and liabilities. This ASU does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. Citi believes the new disclosure requirements should enhance comparability between those companies that prepare their financial statements on the basis of U.S. GAAP and those that prepare their financial statements in accordance with IFRS. For many financial institutions, the differences in the offsetting requirements between U.S. GAAP and IFRS result in a significant difference in the amounts presented in the balance sheets prepared in accordance with U.S. GAAP and IFRS. The disclosure standard will become effective for annual and quarterly periods beginning January 1, 2013. The disclosures are required retrospectively for all comparative periods presented.

Potential Amendments to Current Accounting Standards

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

All these projects may have significant impacts for the Company. Upon completion of the standards, the Company will need to re-evaluate its accounting and disclosures. However, due to ongoing deliberations of the standard-setters, the Company is currently unable to determine the effect of future amendments or proposals.

2. DISCONTINUED OPERATIONS

Sale of Certain Citi Capital Advisors Business

During the third quarter of 2012, the Company executed definitive agreements to transition a carve-out of its liquid strategies business within Citi Capital Advisors (CCA), which is part of the *Institutional Clients Group* segment, to certain employees responsible for managing those operations. The transaction will be accounted for as a sale and is currently expected to close in the first quarter of 2013. This sale is reported as discontinued operations for the third quarter of 2012 only. Prior periods were not reclassified due to the immateriality of the impact in those periods.

The following is a summary as of September 30, 2012 of the assets of *Discontinued operations* held for sale on the Consolidated Balance Sheet for the operations related to the CCA business to be sold:

In millions of dollars	September 30, 2012
Assets	
Deposits at interest with banks	$ 7
Goodwill	17
Intangible assets	20
Total assets	$ 44

Summarized financial information for *Discontinued operations* for the operations related to CCA follows:

In millions of dollars	Three Months Ended September 30, 2012
Total revenues, net of interest expense	$ 11
Income (loss) from discontinued operations	$ (45)
Gain on sale	
Benefit for income taxes	(16)
Income (loss) from discontinued operations, net of taxes	$ (29)

Sale of Egg Banking PLC Credit Card Business

On March 1, 2011, the Company announced that Egg Banking plc (Egg), an indirect subsidiary which was part of the Citi Holdings segment, entered into a definitive agreement to sell its credit card business to Barclays PLC. The sale closed on April 28, 2011. An after-tax gain on sale of $126 million was recognized in the second quarter of 2011. Egg operations had total assets and total liabilities of approximately $2.7 billion and $39 million, respectively, at the time of sale.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars	2012	2011	2012	2011
Total revenues, net of interest expense	$	$ 38	$ 1	$ 331
Income (loss) from discontinued operations	$ (1)	$ (5)	$ (4)	$ 39
Gain (loss) on sale		15	(1)	141
Provision for income taxes	(1)	4	(2)	63
Income from discontinued operations, net of taxes	$	$ 6	$ (3)	$ 117

	Nine Months Ended September 30,	
In millions of dollars	**2012**	**2011**
Cash flows from operating activities	**$**	$ (146)
Cash flows from investing activities		2,827
Cash flows from financing activities		(12)
Net cash provided by discontinued operations	**$**	$ 2,669

Combined Results for Discontinued Operations

The following is summarized financial information for the CCA business, the Egg credit card business and previous discontinued operations, for which Citi continues to have minimal residual costs associated with the sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars	**2012**	**2011**	**2012**	**2011**
Total revenues, net of interest expense	**$ 11**	$ 39	**$ 12**	$ 336
Income (loss) from discontinued operations	**$ (46)**	$ (5)	**$ (49)**	$ 38
Gain (loss) on sale		16	**(1)**	146
Provision (benefit) for income taxes	**(15)**	10	**(13)**	72
Income (loss) from discontinued operations, net of taxes	**$ (31)**	$ 1	**$ (37)**	$ 112

Cash flows from discontinued operations

	Nine Months Ended September 30,	
In millions of dollars	**2012**	**2011**
Cash flows from operating activities	**$**	$ (146)
Cash flows from investing activities		2,827
Cash flows from financing activities		(12)
Net cash provided by discontinued operations	**$**	$ 2,669

3. BUSINESS SEGMENTS

Citigroup is a diversified bank holding company whose businesses provide a broad range of financial services to Consumer and Corporate customers around the world. The Company's activities are conducted through the *Global Consumer Banking (GCB), Institutional Clients Group (ICG), Citi Holdings* and *Corporate/Other* business segments.

The *Global Consumer Banking* segment includes a global, full-service Consumer franchise delivering a wide array of banking, credit card lending, and investment services through a network of local branches, offices and electronic delivery systems and is composed of four *Regional Consumer Banking (RCB)* businesses: *North America, EMEA, Latin America* and *Asia*.

The Company's *ICG* segment is composed of *Securities and Banking* and *Transaction Services* and provides corporations, governments, institutions and investors in approximately 100 countries with a broad range of banking and financial products and services.

The Citi Holdings segment is composed of *Brokerage and Asset Management, Local Consumer Lending* and *Special Asset Pool*.

Corporate/Other includes net treasury results, unallocated corporate expenses, offsets to certain line-item reclassifications (eliminations), the results of discontinued operations and unallocated taxes.

The accounting policies of these reportable segments are the same as those disclosed in Note 1 to the Consolidated Financial Statements in the Company's 2011 Annual Report on Form 10-K.

The prior-period balances reflect reclassifications to conform the presentation in those periods to the current period's presentation. Reclassifications made in the first quarter of 2012 related to the transfer of the substantial majority of the Company's retail partner cards business (which Citi now refers to as "Citi retail services") from Citi Holdings *Local Consumer Lending* to Citicorp *North America Regional Consumer Banking*. Additionally, certain consolidated expenses were re-allocated to the respective businesses receiving the services.

The following table presents certain information regarding the Company's continuing operations by segment:

	Revenues, net of interest expense(1)		**Provision (benefit) for income taxes**		**Income (loss) from continuing operations(1)(2)**		**Identifiable assets**	
	Three Months Ended September 30,							
In millions of dollars, except identifiable assets in billions	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**Sept. 30, 2012**	**Dec. 31, 2011**
Global Consumer Banking	**$ 10,180**	$ 9,963	**$ 1,053**	$ 931	**$ 2,164**	$ 2,013	**$ 394**	$ 385
Institutional Clients Group	**7,428**	9,441	**606**	1,208	**1,977**	3,024	**1,064**	980
Subtotal Citicorp	**$ 17,608**	$ 19,404	**$ 1,659**	$ 2,139	**$ 4,141**	$ 5,037	**$ 1,458**	$ 1,365
Corporate/Other	**33**	300	**(675)**	(147)	**(55)**	(74)	**302**	284
Total Citicorp and *Corporate/Other*	**$ 17,641**	$ 19,704	**984**	$ 1,992	**$ 4,086**	$ 4,963	**$ 1,760**	$ 1,649
Citi Holdings	**(3,690)**	1,127	**(2,472)**	(714)	**(3,562)**	(1,221)	**171**	225
Total	**$ 13,951**	$ 20,831	**$ (1,488)**	$ 1,278	**$ 524**	$ 3,742	**$ 1,931**	$ 1,874

	Revenues, net of interest expense(1)		**Provision (benefit) for income taxes**		**Income (loss) from continuing operations(1)(2)**	
	Nine Months Ended September 30,					
In millions of dollars	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Global Consumer Banking	**$ 29,965**	$ 29,310	**$ 3,090**	$ 2,677	**$ 6,342**	$ 5,952
Institutional Clients Group	**23,658**	26,184	**1,977**	2,983	**6,530**	7,629

Subtotal Citicorp	**$**	**53,623**	$	55,494	**$**	**5,067**	$	5,660	**$**	**12,872**	$	13,581
Corporate/Other		**268**		502		**(1,093)**		(593)		**(794)**		(687)
Total Citicorp and *Corporate/Other*	**$**	**53,891**	$	55,996		**3,974**	$	5,067	**$**	**12,078**	$	12,894
Citi Holdings		**(1,892)**		5,183		**(3,741)**		(1,637)		**(5,505)**		(2,789)
Total	**$**	**51,999**	$	61,179	**$**	**233**	$	3,430	**$**	**6,573**	$	10,105

(1) Includes Citicorp total revenues, net of interest expense, in *North America* of $7.4 billion and $8.1 billion; in *EMEA* of $2.8 billion and $3.6 billion; in *Latin America* of $3.7 billion and $3.4 billion; and in *Asia* of $3.7 billion and $4.3 billion for the three months ended September 30, 2012 and 2011, respectively. Includes Citicorp total revenues, net of interest expense, in *North America* of $22.4 billion and $23.8 billion; in *EMEA* of $8.9 billion and $9.8 billion; in *Latin America* of $10.8 billion and $10.2 billion; and in *Asia* of $11.5 billion and $11.7 billion for the nine months ended September 30, 2012 and 2011, respectively. Regional numbers exclude Citi Holdings and *Corporate/Other*, which largely operate within the U.S.

(2) Includes pretax provisions (credits) for credit losses and for benefits and claims in the *GCB* results of $1.6 billion and $1.6 billion; in the *ICG* results of $(32) million and $164 million; and in the Citi Holdings results of $1.2 billion and $1.6 billion for the three months ended September 30, 2012 and 2011, respectively. Includes pretax provisions (credits) for credit losses and for benefits and claims in the *GCB* results of $4.6 billion and $4.9 billion; in the *ICG* results of $192 million and $70 million; and in the Citi Holdings results of $3.7 billion and $5.0 billion for the nine months ended September 30, 2012 and 2011, respectively.

4. INTEREST REVENUE AND EXPENSE

For the three- and nine-month periods ended September 30, 2012 and 2011, respectively, *interest revenue* and *expense* consisted of the following:

In millions of dollars	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest revenue				
Loan interest, including fees	**$ 12,171**	$ 12,671	**$ 36,628**	$ 37,728
Deposits with banks	**296**	423	**994**	1,342
Federal funds sold and securities borrowed or purchased under agreements to resell	**825**	948	**2,670**	2,689
Investments, including dividends	**1,882**	1,924	**5,646**	6,461
Trading account assets(1)	**1,616**	2,073	**5,008**	6,293
Other interest	**144**	106	**414**	373
Total interest revenue	**$ 16,934**	$ 18,145	**$ 51,360**	$ 54,886
Interest expense				
Deposits(2)	**$ 1,912**	$ 2,228	**$ 5,820**	$ 6,472
Federal funds purchased and securities loaned or sold under agreements to repurchase	**713**	796	**2,161**	2,466
Trading account liabilities(1)	**46**	91	**151**	343
Short-term borrowings	**173**	155	**564**	493
Long-term debt	**2,177**	2,761	**7,211**	8,748
Total interest expense	**$ 5,021**	$ 6,031	**$ 15,907**	$ 18,522
Net interest revenue	**$ 11,913**	$ 12,114	**$ 35,453**	$ 36,364
Provision for loan losses	**2,511**	3,049	**7,924**	9,129
Net interest revenue after provision for loan losses	**$ 9,402**	$ 9,065	**$ 27,529**	$ 27,235

(1) Interest expense on *Trading account liabilities* of *ICG* is reported as a reduction of interest revenue from *Trading account assets*.

(2) Includes deposit insurance fees and charges of $290 million and $387 million for the three months ended September 30, 2012 and 2011, respectively, and $959 million and $974 million for the nine months ended September 30, 2012 and 2011, respectively.

5. COMMISSIONS AND FEES

The table below sets forth Citigroup's *Commissions and fees* revenue for the three and nine months ended September 30, 2012 and 2011, respectively. The primary components of *Commissions and fees* revenue for the three and nine months ended September 30, 2012 were credit card and bank card fees, investment banking fees and trading-related fees.

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

Investment banking fees are substantially composed of underwriting and advisory revenues. Investment banking fees are recognized when Citigroup's performance under the terms of the contractual arrangements is completed, which is typically at the closing of the transaction. Underwriting revenue is recorded in *Commissions and fees* net of both reimbursable and non-reimbursable expenses, consistent with the AICPA Audit and Accounting Guide for Brokers and Dealers in Securities (codified in ASC 940-605-05-1). Expenses associated with advisory transactions are recorded in *Other operating expenses*, net of client reimbursements. Out-of-pocket expenses are deferred and recognized at the time the related revenue is recognized. In general, expenses incurred related to investment banking transactions that fail to close (are not consummated) are recorded gross in *Other operating expenses*.

Trading-related fees primarily include commissions and fees from the following: executing transactions for clients on exchanges and over-the-counter markets; sale of mutual funds, insurance and other annuity products; and assisting clients in clearing transactions, providing brokerage services and other such activities. Trading-related fees are recognized when earned in *Commissions and fees*. Gains or losses, if any, on these transactions are included in *Principal transactions* (see Note 6 to the Consolidated Financial Statements).

The following table presents *Commissions and fees* revenue for the three and nine months ended September 30, 2012 and 2011:

In millions of dollars	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Credit cards and bank cards	**$ 896**	$ 906	**$ 2,589**	$ 2,715
Investment banking	**822**	476	**2,128**	1,935
Trading-related	**535**	679	**1,695**	2,037
Transaction services	**355**	387	**1,091**	1,148
Other Consumer(1)	**234**	230	**658**	660
Checking-related	**221**	225	**686**	696
Loan servicing	**108**	30	**209**	280
Corporate finance(2)	**136**	106	**379**	405
Other	**(3)**	4	**86**	92
Total commissions and fees	**$ 3,304**	$ 3,043	**$ 9,521**	$ 9,968

(1) Primarily consists of fees for investment fund administration and management, third-party collections, commercial demand deposit accounts and certain credit card services.

(2) Consists primarily of fees earned from structuring and underwriting loan syndications.

6. PRINCIPAL TRANSACTIONS

Principal transactions revenue consists of realized and unrealized gains and losses from trading activities. Trading activities include revenues from fixed income, equities, credit and commodities products, as well as foreign exchange transactions. Not included in the table below is the impact of net interest revenue related to trading activities, which is an integral part of trading activities' profitability. See Note 4 to the Consolidated Financial Statements for information about net interest revenue related to trading activity. The following table presents principal transactions revenue for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars	**2012**	**2011**	**2012**	**2011**
Global Consumer Banking	**$ 204**	$ 233	**$ 619**	$ 482
Institutional Clients Group	**731**	1,665	**4,081**	5,213
Subtotal Citicorp	**$ 935**	$ 1,898	**$ 4,700**	$ 5,695
Local Consumer Lending	**(16)**	(28)	**(56)**	(74)
Brokerage and Asset Management	**3**	(14)	**(1)**	1
Special Asset Pool	**(1)**	137	**13**	1,874
Subtotal Citi Holdings	**$ (14)**	$ 95	**$ (44)**	$ 1,801
Corporate/Other	**55**	110	**(109)**	390
Total Citigroup	**$ 976**	$ 2,103	**$ 4,547**	$ 7,886
Interest rate contracts(1)	**$ 427**	$ 1,972	**$ 2,289**	$ 5,318
Foreign exchange contracts(2)	**676**	576	**1,880**	1,958
Equity contracts(3)	**(43)**	(358)	**303**	217
Commodity and other contracts(4)	**8**	107	**71**	131
Credit derivatives(5)	**(92)**	(194)	**4**	262
Total	**$ 976**	$ 2,103	**$ 4,547**	$ 7,886

(1) Includes revenues from government securities and corporate debt, municipal securities, preferred stock, mortgage securities, and other debt instruments. Also includes spot and forward trading of currencies and exchange-traded and over-the-counter (OTC) currency options, options on fixed income securities, interest rate swaps, currency swaps, swap options, caps and floors, financial futures, OTC options, and forward contracts on fixed income securities.

(2) Includes revenues from foreign exchange spot, forward, option and swap contracts, as well as FX translation gains and losses.

(3) Includes revenues from common, preferred and convertible preferred stock, convertible corporate debt, equity-linked notes, and exchange-traded and OTC equity options and warrants.

(4) Primarily includes revenues from crude oil, refined oil products, natural gas, and other commodities trades.

(5) Includes revenues from structured credit products.

7. INCENTIVE PLANS

The Company administers award programs involving grants of stock options, restricted or deferred stock awards, deferred cash awards and stock payments. The award programs are used to attract, retain and motivate officers, employees and non-employee directors, to provide incentives for their contributions to the long-term performance and growth of the Company, and to align their interests with those of stockholders. These programs are administered by the Personnel and Compensation Committee of the Citigroup Board of Directors (the Committee), which is composed entirely of independent non-employee directors. All grants of equity awards since April 19, 2005 have been made pursuant to stockholder-approved stock incentive plans.

The following table shows selected components of compensation expense relating to the Company's compensation programs for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended		Nine Months Ended	
In millions of dollars	**September 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Stock award and stock option compensation expense	**$ 324**	$ 326	**$ 1,035**	$ 1,095
Deferred cash compensation expense	**39**	30	**174**	163
Profit sharing plan expense	**61**	49	**213**	232
Replacement deferred cash award expense	**29**	66	**86**	125

Selected programs are described below.

Stock Award, Stock Option and Deferred Cash Award Programs

For stock awards, compensation expense is generally the fair value of the shares on their grant date amortized over the vesting period of the awards. The Company's primary stock award program is the Capital Accumulation Program (CAP), pursuant to which awards of restricted or deferred stock vest over periods of three or four years. Compensation expense for stock awards to retirement-eligible employees is generally accelerated to the date when the retirement rules are met. If the retirement rules will have been met on or before the expected award date, the entire estimated expense is recognized in the year prior to grant in the same manner as cash incentive compensation is accrued. Certain stock awards with performance conditions or that are subject to the EU clawback provision described below may be subject to variable accounting, pursuant to which the associated charges fluctuate with changes in Citigroup's stock price over the applicable vesting periods. As a result, the total amount that will be recognized as expense on these awards cannot be determined in full until the awards vest.

For deferred cash awards, compensation expense is generally the value awarded amortized over the vesting period of the awards. For deferred cash awards to retirement-eligible employees, compensation expense is recognized on an accelerated basis in the same manner as for stock awards. Amortized expenses are subject to adjustment to reflect any amounts that are cancelled as a result of a clawback provision or a performance-based vesting condition. If provided, interest on unvested deferred cash awards accrues during the vesting period and is expensed monthly at the applicable rate.

In a change from prior years, incentive awards in January 2012 to individual employees who are deemed to have influence over the Company's material risks (covered employees) were delivered as a mix of immediate cash bonuses, deferred stock awards under CAP and deferred cash awards. (Previously, annual incentives to these employees were typically awarded as a combination of cash bonus and restricted or deferred stock awards, primarily under CAP.) For covered employees, the minimum percentage of incentive pay required to be deferred was raised from 25% to 40%, with a maximum deferral of 60% for the most highly paid employees. For incentive awards made to covered employees in January 2012 (in respect of 2011 performance), only 50% of the deferred portion was delivered as a stock award under CAP; the other 50% was delivered in the form of a deferred cash award. The 2012 deferred cash awards are subject to performance-based vesting conditions that will result in cancellation of unvested amounts on a formulaic basis if a participant's business experiences losses in any year during the vesting period.

All CAP and deferred cash awards made in January 2012 provide for a clawback of unvested amounts in specified circumstances, including in the case of employee misconduct or where the awards were based on earnings that were misstated. Except as described below, CAP and deferred cash awards generally vest at a rate of 25% per year over a four-year period, subject to the participant's remaining employed during the vesting period or satisfying certain other vesting conditions. Participants in CAP are entitled to receive dividend equivalent payments during the vesting period of their awards. The 2012 deferred cash awards earn notional interest at an annual rate of 3.55%, compounded annually. Accrued interest is paid when the principal award amount vests.

CAP and deferred cash awards made in January 2012 to identified staff in the European Union (EU) have several features that differ from the generally applicable provisions described above. Identified staff are those Citigroup employees whose compensation is subject to various banking regulations on sound incentive compensation policies in the EU. CAP and deferred cash awards to these employees are scheduled to vest ratably over three years of service, but vested awards are subject to a six-month sale restriction (in the case of shares) or an additional six-month waiting period (in the case of deferred cash). Deferred incentive awards to identified staff in the EU are subject to cancellation, in the sole discretion of the Committee, if (a) there is reasonable evidence a participant engaged in misconduct or committed material error in connection with his or her employment, or (b) the Company or the employee's business unit suffers a material downturn in its financial performance or a material failure of risk management (the EU clawback). For CAP and deferred cash awards to these employees, the EU clawback is in addition to the clawback provision described above.

Other Incentive Compensation

Citigroup may at times issue deferred cash awards to new hires in replacement of prior employer's awards or other forfeited compensation. The vesting schedules and terms and conditions of these deferred cash awards may be structured to match the terms of awards or other compensation from a prior employer that was forfeited to accept employment with the Company.

Additionally, certain subsidiaries or business units of the Company operate and may from time to time introduce other incentive plans for certain employees who have an incentive-based award component.

8. RETIREMENT BENEFITS

Pension and Postretirement Plans

The Company has several non-contributory defined benefit pension plans covering certain U.S. employees and has various defined benefit pension and termination indemnity plans covering employees outside the United States. The U.S. qualified defined benefit plan was frozen effective January 1, 2008, for most employees. Accordingly, no additional compensation-based contributions have been credited to the cash balance portion of the plan for existing plan participants after 2007. However, certain employees covered under the prior final pay plan formula continue to accrue benefits. The Company also offers postretirement health care and life insurance benefits to certain eligible U.S. retired employees, as well as to certain eligible employees outside the United States.

The following tables summarize the components of net (benefit) expense recognized in the Consolidated Statement of Income for the Company's U.S. qualified and nonqualified pension plans, postretirement plans and plans outside the United States.

Net (Benefit) Expense

	Three Months Ended September 30,							
	Pension plans				Postretirement benefit plans			
	U.S. plans		Non-U.S. plans		U.S. plans		Non-U.S. plans	
In millions of dollars	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Qualified Plans								
Benefits earned during the period	**$ 3**	$ 3	**$ 50**	$ 51	**$**	$	**$ 7**	$ 7
Interest cost on benefit obligation	**141**	153	**93**	97	**11**	13	**29**	30
Expected return on plan assets	**(224)**	(222)	**(101)**	(108)	**(1)**	(1)	**(27)**	(31)
Amortization of unrecognized								
Net transition obligation								
Prior service cost (benefit)			**1**	1				
Net actuarial loss	**24**	16	**19**	18	**1**		**6**	6
Curtailment (gain) loss			**4**	29				
Net qualified plans (benefit) expense	**$ (56)**	$ (50)	**$ 66**	$ 88	**$ 11**	$ 12	**$ 15**	$ 12
Net nonqualified plans expense	**$ 11**	$ 10	**$**	$	**$**	$	**$**	$
Total net (benefit) expense	**$ (45)**	$ (40)	**$ 66**	$ 88	**$ 11**	$ 12	**$ 15**	$ 12

	Nine Months Ended September 30,							
	Pension plans				Postretirement benefit plans			
	U.S. plans		Non-U.S. plans		U.S. plans		Non-U.S. plans	
In millions of dollars	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Qualified Plans								
Benefits earned during the period	**$ 9**	$ 11	**$ 150**	$ 152	**$**	$	**$ 21**	$ 22
Interest cost on benefit obligation	**423**	463	**277**	292	**33**	42	**87**	91
Expected return on plan assets	**(672)**	(666)	**(302)**	(324)	**(3)**	(5)	**(81)**	(92)
Amortization of unrecognized								
Net transition obligation				(1)				
Prior service cost (benefit)			**3**	3	**(1)**	(2)		
Net actuarial loss	**72**	50	**58**	55	**3**	8	**19**	18
Curtailment (gain) loss			**12**	29				
Net qualified plans (benefit) expense	**$ (168)**	$ (142)	**$ 198**	$ 206	**$ 32**	$ 43	**$ 46**	$ 39

Net nonqualified plans expense	**$**	**31**	$	30	**$**		$		**$**		$	
Total net (benefit) expense	**$**	**(137)**	$	(112)	**$**	**198**	$	206	**$**	**32**	$	43

Contributions

The Company's funding policy for U.S. and non-U.S. pension and postretirement plans is generally to fund to minimum funding requirements in accordance with applicable local laws and regulations. The Company may increase its contributions above the minimum required contribution, if appropriate.

The following table summarizes the actual cash contributions (including benefits paid directly by the Company) and the expected contributions for the remainder of 2012 for the Company's U.S. qualified and nonqualified pension plans, postretirement plans and plans outside the United States.

	Pension plans			Postretirement plans	
	U.S. Plans				
In millions of dollars	Qualified	Non-qualified	Non-U.S. plans	U.S. plans	Non-U.S. plans
Actual year-to-date cash contributions & benefits paid directly by the employer	$	$ 35	$ 213	$ 41	$ 4
Expected 2012 contributions for the remainder of the year	$	$ 11	$ 100	$ 14	$ 86

Postemployment Plans

The Company sponsors U.S. postemployment plans that provide income continuation and health and welfare benefits to certain eligible U.S. employees on long-term disability.

The following table summarizes the components of net expense recognized in the Consolidated Statement of Income for the Company's U.S. postemployment plans.

	Postemployment plans (U.S. only)			
	Three Months Ended September 30,		Nine months Ended September 30,	
In millions of dollars	2012	2011	2012	2011
Service cost	**$ 12**	$ 10	**$ 36**	$ 29
Interest cost	**4**	3	**11**	9
Expected return on assets				
Prior service cost	**2**	2	**6**	6
Net actuarial loss	**3**	2	**9**	6
Net expense recognized	**$ 21**	$ 17	**$ 62**	$ 50

9. EARNINGS PER SHARE

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share (EPS) computations for the three and nine months ended September 30, 2012 and 2011:

In millions, except per-share amounts	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011(1)	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011(1)
Income from continuing operations before attribution of noncontrolling interests	**$ 524**	$ 3,742	**$ 6,573**	$ 10,105
Less: Noncontrolling interests from continuing operations	**25**	(28)	**191**	106
Net income from continuing operations (for EPS purposes)	**$ 499**	$ 3,770	**$ 6,382**	$ 9,999
Income (loss) from discontinued operations, net of taxes	**(31)**	1	**(37)**	112
Citigroup's net income	**$ 468**	$ 3,771	**$ 6,345**	$ 10,111
Less: Preferred dividends	**4**	4	**17**	17
Net income available to common shareholders	**$ 464**	$ 3,767	**$ 6,328**	$ 10,094
Less: Dividends and undistributed earnings allocated to employee restricted and deferred shares with nonforfeitable rights to dividends, applicable to basic EPS	**11**	70	**138**	164
Net income allocated to common shareholders for basic EPS	**$ 453**	$ 3,697	**$ 6,190**	$ 9,930
Add: Interest expense, net of tax, on convertible securities and adjustment of undistributed earnings allocated to employee restricted and deferred shares with nonforfeitable rights to dividends, applicable to diluted EPS	**2**	6	**10**	12
Net income allocated to common shareholders for diluted EPS	**$ 455**	$ 3,703	**$ 6,200**	$ 9,942
Weighted-average common shares outstanding applicable to basic EPS	**2,926.8**	2,910.8	**2,926.5**	2,907.9
Effect of dilutive securities				
T-DECs	**87.8**	87.6	**87.8**	87.6
Other employee plans	**0.6**	0.1	**0.5**	0.8
Convertible securities	**0.1**	0.1	**0.1**	0.1
Options				1.0
Adjusted weighted-average common shares outstanding applicable to diluted EPS	**3,015.3**	2,998.6	**3,014.9**	2,997.4
Basic earnings per share(2)				
Income from continuing operations	**$ 0.17**	$ 1.27	**$ 2.13**	$ 3.38
Discontinued operations	**(0.01)**		**(0.01)**	0.04
Net income	**$ 0.15**	$ 1.27	**$ 2.12**	$ 3.41
Diluted earnings per share(2)				
Income from continuing operations	**$ 0.16**	$ 1.23	**$ 2.07**	$ 3.28
Discontinued operations	**(0.01)**		**(0.01)**	0.04
Net income	**$ 0.15**	$ 1.23	**$ 2.06**	$ 3.32

(1) All per-share amounts and Citigroup shares outstanding for all periods reflect Citigroup's 1-for-10 reverse stock split which was effective May 6, 2011.

(2)

Due to rounding, earnings per share on continuing operations and discontinued operations may not sum to earnings per share on net income.

During the third quarters of 2012 and 2011, weighted-average options to purchase 35.6 million and 38.1 million shares of common stock, respectively, were outstanding but not included in the computation of earnings per share because the weighted-average exercise prices of $51.97 and $71.24, respectively, were greater than the average market price of the Company's common stock.

Warrants issued to the U.S. Treasury as part of the Troubled Asset Relief Program (TARP) and the loss-sharing agreement (all of which were subsequently sold to the public in January 2011), with an exercise price of $178.50 and $106.10 for approximately 21.0 million and 25.5 million shares of common stock, respectively, were not included in the computation of earnings per share in the third quarters of 2012 and 2011, because they were anti-dilutive.

The final tranche of equity units held by the Abu Dhabi Investment Authority (ADIA) converted into 5.9 million shares of Citigroup common stock during the third quarter of 2011.

10. TRADING ACCOUNT ASSETS AND LIABILITIES

Trading account assets and *Trading account liabilities*, at fair value, consisted of the following at September 30, 2012 and December 31, 2011:

In millions of dollars	September 30, 2012	December 31, 2011
Trading account assets		
Mortgage-backed securities(1)		
U.S. government-sponsored agency guaranteed	**$ 32,102**	$ 27,535
Prime	**1,247**	877
Alt-A	**802**	609
Subprime	**753**	989
Non-U.S. residential	**454**	396
Commercial	**1,800**	2,333
Total mortgage-backed securities	**$ 37,158**	$ 32,739
U.S. Treasury and federal agency securities		
U.S. Treasury	**$ 17,347**	$ 18,227
Agency obligations	**3,030**	1,172
Total U.S. Treasury and federal agency securities	**$ 20,377**	$ 19,399
State and municipal securities	**$ 5,474**	$ 5,364
Foreign government securities	**89,382**	79,551
Corporate	**34,907**	37,026
Derivatives(2)	**57,153**	62,327
Equity securities	**50,569**	33,230
Asset-backed securities(1)	**6,173**	7,071
Other debt securities	**14,008**	15,027
Total trading account assets	**$ 315,201**	$ 291,734
Trading account liabilities		
Securities sold, not yet purchased	**$ 74,271**	$ 69,809
Derivatives(2)	**55,719**	56,273
Total trading account liabilities	**$ 129,990**	$ 126,082

(1) The Company invests in mortgage-backed and asset-backed securities. These securitizations are generally considered VIEs. The Company's maximum exposure to loss from these VIEs is equal to the carrying amount of the securities, which is reflected in the table above. For mortgage-backed and asset-backed securitizations in which the Company has other involvement, see Note 17 to the Consolidated Financial Statements.

(2) Presented net, pursuant to enforceable master netting agreements. See Note 18 to the Consolidated Financial Statements for a discussion regarding the accounting and reporting for derivatives.

11. INVESTMENTS

Overview

In millions of dollars	September 30, 2012	December 31, 2011
Securities available-for-sale	**$ 271,261**	$ 265,204
Debt securities held-to-maturity(1)	**10,943**	11,483
Non-marketable equity securities carried at fair value(2)	**5,228**	8,836
Non-marketable equity securities carried at cost(3)	**8,042**	7,890
Total investments	**$ 295,474**	$ 293,413

(1) Recorded at amortized cost less impairment for securities that have credit-related impairment.

(2) Unrealized gains and losses for non-marketable equity securities carried at fair value are recognized in earnings. During the third quarter of 2012, the Company sold EMI Music resulting in a total $1.5 billion decrease in non-marketable equity securities carried at fair value. During the second quarter of 2012, the Company sold EMI Music Publishing resulting in a total of $1.3 billion decrease in non-marketable equity securities carried at fair value.

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

Securities Available-for-Sale

The amortized cost and fair value of securities available-for-sale (AFS) at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012				December 31, 2011			
In millions of dollars	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities AFS								
Mortgage-backed securities(1)								
U.S. government-sponsored agency guaranteed	**$ 42,511**	**$ 1,768**	**$ 62**	**$ 44,217**	$ 44,394	$ 1,438	$ 51	$ 45,781
Prime	**122**	**4**		**126**	118	1	6	113
Alt-A	**149**			**149**	1			1
Subprime								
Non-U.S. residential	**7,122**	**156**		**7,278**	4,671	9	22	4,658
Commercial	**458**	**20**	**4**	**474**	465	16	9	472
Total mortgage-backed securities	**$ 50,362**	**$ 1,948**	**$ 66**	**$ 52,244**	$ 49,649	$ 1,464	$ 88	$ 51,025
U.S. Treasury and federal agency securities								
U.S. Treasury	**$ 56,015**	**$ 1,425**	**$ 18**	**$ 57,422**	$ 48,790	$ 1,439	$	$ 50,229
Agency obligations	**26,530**	**456**		**26,986**	34,310	601	2	34,909
Total U.S. Treasury and federal agency securities	**$ 82,545**	**$ 1,881**	**$ 18**	**$ 84,408**	$ 83,100	$ 2,040	$ 2	$ 85,138
State and municipal(2)	**$ 19,775**	**$ 134**	**$ 1,806**	**$ 18,103**	$ 16,819	$ 134	$ 2,554	$ 14,399
Foreign government	**90,358**	**887**	**181**	**91,064**	84,360	558	404	84,514

Corporate	**9,401**	**397**	**31**	**9,767**	10,005	305	53	10,257
Asset-backed securities(1)	**12,090**	**76**	**155**	**12,011**	11,053	31	81	11,003
Other debt securities	**51**	**3**		**54**	670	13		683
Total debt securities AFS	**$ 264,582**	**$ 5,326**	**$ 2,257**	**$ 267,651**	$ 255,656	$ 4,545	$ 3,182	$ 257,019
Marketable equity securities AFS	**$ 3,736**	**$ 37**	**$ 163**	**$ 3,610**	$ 6,722	$ 1,658	$ 195	$ 8,185
Total securities AFS	**$ 268,318**	**$ 5,363**	**$ 2,420**	**$ 271,261**	$ 262,378	$ 6,203	$ 3,377	$ 265,204

(1) The Company invests in mortgage-backed and asset-backed securities. These securitizations are generally considered VIEs. The Company's maximum exposure to loss from these VIEs is equal to the carrying amount of the securities, which is reflected in the table above. For mortgage-backed and asset-backed securitizations in which the Company has other involvement, see Note 17 to the Consolidated Financial Statements.

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

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

The table below shows the fair value of AFS securities that have been in an unrealized loss position for less than 12 months or for 12 months or longer as of September 30, 2012 and December 31, 2011:

	Less than 12 months		12 months or longer		Total	
In millions of dollars	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
September 30, 2012						
Securities AFS						
Mortgage-backed securities						
U.S. government-sponsored agency guaranteed	**$ 2,548**	**$ 35**	**$ 462**	**$ 27**	**$ 3,010**	**$ 62**
Prime			**16**		**16**	
Alt-A						
Subprime						
Non-U.S. residential	**12**		**18**		**30**	
Commercial	**6**		**32**	**4**	**38**	**4**
Total mortgage-backed securities	**$ 2,566**	**$ 35**	**$ 528**	**$ 31**	**$ 3,094**	**$ 66**
U.S. Treasury and federal agency securities						
U.S. Treasury	**$ 4,831**	**$ 18**	**$**	**$**	**$ 4,831**	**$ 18**
Agency obligations	**224**				**224**	
Total U.S. Treasury and federal agency securities	**$ 5,055**	**$ 18**	**$**	**$**	**$ 5,055**	**$ 18**
State and municipal	**$ 345**	**$ 26**	**$ 11,097**	**$ 1,780**	**$ 11,442**	**$ 1,806**
Foreign government	**21,103**	**71**	**5,950**	**110**	**27,053**	**181**
Corporate	**1,385**	**8**	**254**	**23**	**1,639**	**31**
Asset-backed securities	**962**	**5**	**3,248**	**150**	**4,210**	**155**
Other debt securities						
Marketable equity securities AFS	**1,619**	**27**	**1,070**	**136**	**2,689**	**163**
Total securities AFS	**$ 33,035**	**$ 190**	**$ 22,147**	**$ 2,230**	**$ 55,182**	**$ 2,420**
December 31, 2011						
Securities AFS						
Mortgage-backed securities						
U.S. government-sponsored agency guaranteed	$ 5,398	$ 32	$ 51	$ 19	$ 5,449	$ 51
Prime	27	1	40	5	67	6
Alt-A						
Subprime						
Non-U.S. residential	3,418	22	57		3,475	22
Commercial	35	1	31	8	66	9
Total mortgage-backed securities	$ 8,878	$ 56	$ 179	$ 32	$ 9,057	$ 88
U.S. Treasury and federal agency securities						
U.S. Treasury	$ 553	$	$	$	$ 553	$
Agency obligations	2,970	2			2,970	2
Total U.S. Treasury and federal agency securities	$ 3,523	$ 2	$	$	$ 3,523	$ 2
State and municipal	$ 59	$ 2	$ 11,591	$ 2,552	$ 11,650	$ 2,554
Foreign government	33,109	211	11,205	193	44,314	404
Corporate	2,104	24	203	29	2,307	53
Asset-backed securities	4,625	68	466	13	5,091	81

Other debt securities	164				164	
Marketable equity securities AFS	47	5	1,457	190	1,504	195
Total securities AFS	$ 52,509	$ 368	$ 25,101	$ 3,009	$ 77,610	$ 3,377

The following table presents the amortized cost and fair value of AFS debt securities by contractual maturity dates as of September 30, 2012 and December 31, 2011:

In millions of dollars	September 30, 2012 Amortized cost	September 30, 2012 Fair value	December 31, 2011 Amortized cost	December 31, 2011 Fair value
Mortgage-backed securities(1)				
Due within 1 year	**$ 21**	**$ 22**	$	$
After 1 but within 5 years	**287**	**289**	422	423
After 5 but within 10 years	**2,418**	**2,548**	2,757	2,834
After 10 years(2)	**47,636**	**49,385**	46,470	47,768
Total	**$ 50,362**	**$ 52,244**	$ 49,649	$ 51,025
U.S. Treasury and federal agency securities				
Due within 1 year	**$ 7,358**	**$ 7,359**	$ 14,615	$ 14,637
After 1 but within 5 years	**69,323**	**70,867**	62,241	63,823
After 5 but within 10 years	**2,899**	**3,167**	5,862	6,239
After 10 years(2)	**2,965**	**3,015**	382	439
Total	**$ 82,545**	**$ 84,408**	$ 83,100	$ 85,138
State and municipal				
Due within 1 year	**$ 201**	**$ 201**	$ 142	$ 142
After 1 but within 5 years	**2,888**	**2,891**	455	457
After 5 but within 10 years	**249**	**445**	182	188
After 10 years(2)	**16,437**	**14,566**	16,040	13,612
Total	**$ 19,775**	**$ 18,103**	$ 16,819	$ 14,399
Foreign government				
Due within 1 year	**$ 37,139**	**$ 37,149**	$ 34,924	$ 34,864
After 1 but within 5 years	**45,261**	**45,627**	41,612	41,675
After 5 but within 10 years	**7,060**	**7,191**	6,993	6,998
After 10 years(2)	**898**	**1,097**	831	977
Total	**$ 90,358**	**$ 91,064**	$ 84,360	$ 84,514
All other(3)				
Due within 1 year	**$ 1,319**	**$ 1,327**	$ 4,055	$ 4,072
After 1 but within 5 years	**10,890**	**10,947**	9,843	9,928
After 5 but within 10 years	**3,419**	**3,598**	3,009	3,160
After 10 years(2)	**5,914**	**5,960**	4,821	4,783
Total	**$ 21,542**	**$ 21,832**	$ 21,728	$ 21,943
Total debt securities AFS	**$ 264,582**	**$ 267,651**	$ 255,656	$ 257,019

(1) Includes mortgage-backed securities of U.S. government-sponsored entities.

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

(3) Includes corporate, asset-backed and other debt securities.

The following table presents interest and dividends on investments for the three and nine months ended September 30, 2012 and 2011:

In millions of dollars	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Taxable interest	**$ 1,636**	$ 1,694	**$ 4,900**	$ 5,649
Interest exempt from U.S. federal income tax	**168**	173	**508**	569
Dividends	**78**	57	**238**	243
Total interest and dividends	**$ 1,882**	$ 1,924	**$ 5,646**	$ 6,461

The following table presents realized gains and losses on all investments for the three and nine months ended September 30, 2012 and 2011. The gross realized investment losses exclude losses from other-than-temporary impairment:

	Three Months Ended		Nine Months Ended	
In millions of dollars	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Gross realized investment gains	**$ 660**	$ 920	**$ 3,155**	$ 2,224
Gross realized investment losses(1)	**(45)**	(155)	**(342)**	(296)
Net realized gains	**$ 615**	$ 765	**$ 2,813**	$ 1,928

(1) During the periods presented, the Company sold various debt securities that were classified as held-to-maturity. These sales were in response to a significant deterioration in the creditworthiness of the issuers or securities. In addition, certain securities were reclassified to AFS investments in response to significant credit deterioration. The Company intends to sell the securities and recorded other-than-temporary-impairment reflected in the following table. For the three months ended September 30, 2012, the securities sold had a carrying value of $302 million and the Company recorded a realized loss of $4 million; the securities reclassified to AFS investments had a carrying value of $137 million and the Company recorded other-than-temporary-impairment of $33 million. For the nine months ended September 30, 2012 and 2011, the securities sold had a carrying value of $1,545 million and $1,067 million respectively, and the Company recorded a realized loss of $173 million and $138 million, respectively. For the nine months ended September 30, 2012, securities reclassified to AFS totaled $244 million and the Company recorded other-than-temporary impairment of $59 million.

Debt Securities Held-to-Maturity

The carrying value and fair value of debt securities held-to-maturity (HTM) at September 30, 2012 and December 31, 2011 were as follows:

	Amortized cost(1)	Net unrealized loss recognized in AOCI	Carrying value(2)	Gross unrealized gains	Gross unrealized losses	Fair value
In millions of dollars						
September 30, 2012						
Debt securities held-to-maturity						
Mortgage-backed securities(3)						
Prime	**$ 298**	**$ 55**	**$ 243**	**$ 24**	**$ 13**	**$ 254**
Alt-A	**3,170**	**934**	**2,236**	**508**	**223**	**2,521**
Subprime	**245**	**42**	**203**	**11**	**24**	**190**
Non-U.S. residential	**2,649**	**418**	**2,231**	**53**	**165**	**2,119**
Commercial	**308**	**1**	**307**		**5**	**302**
Total mortgage-backed securities	**$ 6,670**	**$ 1,450**	**$ 5,220**	**$ 596**	**$ 430**	**$ 5,386**
State and municipal	**$ 1,307**	**$ 84**	**$ 1,223**	**$ 176**	**$ 34**	**$ 1,365**
Foreign government(4)	**2,849**		**2,849**	**7**	**1**	**2,855**
Corporate	**935**	**117**	**818**	**53**		**871**
Asset-backed securities(3)	**864**	**31**	**833**	**8**	**61**	**780**
Total debt securities held-to-maturity	**$ 12,625**	**$ 1,682**	**$ 10,943**	**$ 840**	**$ 526**	**$ 11,257**
December 31, 2011						
Debt securities held-to-maturity						
Mortgage-backed securities(3)						

Prime	$ 360	$ 73	$ 287	$ 21	$ 20	$ 288
Alt-A	4,732	1,404	3,328	20	319	3,029
Subprime	383	47	336	1	71	266
Non-U.S. residential	3,487	520	2,967	59	290	2,736
Commercial	513	1	512	4	52	464
Total mortgage-backed securities	$ 9,475	$ 2,045	$ 7,430	$ 105	$ 752	$ 6,783
State and municipal	$ 1,422	$ 95	$ 1,327	$ 68	$ 72	$ 1,323
Foreign government						
Corporate	1,862	113	1,749		254	1,495
Asset-backed securities(3)	1,000	23	977	9	87	899
Total debt securities held-to-maturity	$ 13,759	$ 2,276	$ 11,483	$ 182	$ 1,165	$ 10,500

(1) For securities transferred to HTM from *Trading account assets*, amortized cost is defined as the fair value of the securities at the date of transfer plus any accretion income and less any impairments recognized in earnings subsequent to transfer. For securities transferred to HTM from AFS, amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of a purchase discount or premium, less any impairment recognized in earnings.

(2) HTM securities are carried on the Consolidated Balance Sheet at amortized cost less any unrealized gains and losses recognized in AOCI. The changes in the values of these securities are not reported in the financial statements, except for other-than-temporary impairments. For HTM securities, only the credit loss component of the impairment is recognized in earnings, while the remainder of the impairment is recognized in AOCI.

(3)

The Company invests in mortgage-backed and asset-backed securities. These securitizations are generally considered VIEs. The Company's maximum exposure to loss from these VIEs is equal to the carrying amount of the securities, which is reflected in the table above. For mortgage-backed and asset-backed securitizations in which the Company has other involvement, see Note 17 to the Consolidated Financial Statements.

(4)

During the second quarter of 2012, the Company (via its Banamex entity) purchased Mexican government bonds with a par value $2.6 billion and classified them as held-to-maturity.

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

The net unrealized losses classified in AOCI relate to debt securities reclassified from AFS investments to HTM investments in a prior year. Additionally, for HTM securities that have suffered credit impairment, declines in fair value for reasons other than credit losses are recorded in AOCI. The AOCI balance was $1.7 billion as of September 30, 2012, compared to $2.3 billion as of December 31, 2011. The AOCI balance for HTM securities is amortized over the remaining life of the related securities as an adjustment of yield in a manner consistent with the accretion of discount on the same debt securities. This will have no impact on the Company's net income because the amortization of the unrealized holding loss reported in equity will offset the effect on interest income of the accretion of the discount on these securities.

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

The table below shows the fair value of debt securities in HTM that have been in an unrecognized loss position for less than 12 months or for 12 months or longer as of September 30, 2012 and December 31, 2011:

	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrecognized losses	Fair value	Gross unrecognized losses	Fair value	Gross unrecognized losses
In millions of dollars						
September 30, 2012						
Debt securities held-to-maturity						
Mortgage-backed securities	**$ 203**	**$ 11**	**$ 1,755**	**$ 419**	**$ 1,958**	**$ 430**
State and municipal			**368**	**34**	**368**	**34**
Foreign government	**552**	**1**			**552**	**1**
Corporate						
Asset-backed securities	**228**	**28**	**404**	**33**	**632**	**61**
Total debt securities held-to-maturity	**$ 983**	**$ 40**	**$ 2,527**	**$ 486**	**$ 3,510**	**$ 526**
December 31, 2011						
Debt securities held-to-maturity						
Mortgage-backed securities	$ 735	$ 63	$ 4,827	$ 689	$ 5,562	$ 752
State and municipal			682	72	682	72
Foreign government						
Corporate			1,427	254	1,427	254
Asset-backed securities	480	71	306	16	786	87
Total debt securities held-to-maturity	$ 1,215	$ 134	$ 7,242	$ 1,031	$ 8,457	$ 1,165

Excluded from the gross unrecognized losses presented in the above table are the $1.7 billion and $2.3 billion of gross unrealized losses recorded in AOCI as of September 30, 2012 and December 31, 2011, respectively, mainly related to the HTM securities that were reclassified from AFS investments. Virtually all of these unrecognized losses relate to securities that have been in a loss position for 12 months or longer at September 30, 2012 and December 31, 2011.

The following table presents the carrying value and fair value of HTM debt securities by contractual maturity dates as of September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
In millions of dollars	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Mortgage-backed securities				
Due within 1 year	**$**	**$**	$	$
After 1 but within 5 years	**252**	**249**	275	239
After 5 but within 10 years	**55**	**54**	238	224
After 10 years(1)	**4,913**	**5,083**	6,917	6,320
Total	**$ 5,220**	**$ 5,386**	$ 7,430	$ 6,783
State and municipal				
Due within 1 year	**$ 15**	**$ 16**	$ 4	$ 4
After 1 but within 5 years	**34**	**36**	43	46
After 5 but within 10 years	**62**	**66**	31	30
After 10 years(1)	**1,112**	**1,247**	1,249	1,243
Total	**$ 1,223**	**$ 1,365**	$ 1,327	$ 1,323
Foreign government				
Due within 1 year	**$**	**$**	$	$
After 1 but within 5 years	**2,849**	**2,855**		
After 5 but within 10 years				
After 10 years(1)				
Total	**$ 2,849**	**$ 2,855**	$	$
All other(2)				
Due within 1 year	**$**	**$**	$ 21	$ 21
After 1 but within 5 years	**843**	**897**	470	438
After 5 but within 10 years	**40**	**41**	1,404	1,182
After 10 years(1)	**768**	**713**	831	753
Total	**$ 1,651**	**$ 1,651**	$ 2,726	$ 2,394
Total debt securities held-to-maturity	**$ 10,943**	**$ 11,257**	$ 11,483	$ 10,500

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

(2) Includes corporate and asset-backed securities.

Evaluating Investments for Other-Than-Temporary Impairment

Overview

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary.

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

Regardless of the classification of the securities as AFS or HTM, the Company has assessed each position with an unrealized loss for other-than-temporary impairment (OTTI). Factors considered in determining whether a loss is temporary include:

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

The Company's review for impairment generally entails:

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

Debt

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

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

For debt securities, a critical component of the evaluation for OTTI is the identification of credit impaired securities, where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. For securities purchased and classified as AFS with the expectation of receiving full principal and interest cash flows as of the date of purchase, this analysis considers the likelihood of receiving all contractual principal and interest. For securities reclassified out of the trading category in the fourth quarter of 2008, the analysis considers the likelihood of receiving the expected principal and interest cash flows anticipated as of the date of reclassification in the fourth quarter of 2008. The extent of the Company's analysis regarding credit quality and the stress on assumptions used in the analysis have been refined for securities where the current fair value or other characteristics of the security warrant.

Equity

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to cost or whether it is more-likely-than-not that the Company will be required to sell the security prior to recovery of its cost basis. Where management lacks that intent or ability, the security's decline in fair value is deemed to be other-than-temporary and is recorded in earnings. AFS equity securities deemed other-than-temporarily impaired are written down to fair value, with the full difference between fair value and cost recognized in earnings.

Management assesses equity method investments with fair value less than carrying value for OTTI. Fair value is measured as price multiplied by quantity if the investee has publicly listed securities. If the investee is not publicly listed, other methods are used (see Note 19 to the Consolidated Financial Statements).

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

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

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

The sections below describe current circumstances related to certain of the Company's significant equity method investments, specific impairments and the Company's process for identifying credit-related impairments in its security types with the most significant unrealized losses as of September 30, 2012.

Akbank

As previously announced on March 23, 2012, Citi decided to reduce its ownership interest in Akbank T.A.S., an equity investment in Turkey (Akbank), to below 10%. As of March 31, 2012, Citi held a 20% equity interest in Akbank, which it purchased in January 2007, accounted for as an equity method investment. As a result of its decision to sell its share holdings in Akbank, in the first quarter of 2012 Citi recorded an impairment charge related to its total investment in Akbank amounting to approximately $1.2 billion pretax ($763 million after-tax). This impairment charge was primarily driven by the recognition of all respective net investment foreign currency hedging and translation losses previously reflected in AOCI as well as a reduction in carrying value of the investment to reflect the market price of Akbank's shares. The impairment charge was recorded in other-than-temporary impairment losses on investments in the Consolidated Statement of Income. During the second quarter of 2012, Citi sold a 10.1% stake in Akbank, resulting in a loss on sale of $424 million ($274 million after tax), recorded within other revenue. The remaining 9.9% stake in Akbank is recorded within marketable equity securities available-for-sale.

MSSB

On September 17, 2012, Citi sold to Morgan Stanley a 14% interest (the "14% Interest") in MSSB as to which Morgan Stanley exercised its purchase option on June 1, 2012. Morgan Stanley paid to Citi $1.89 billion in cash as the purchase price of the 14% Interest. The purchase price was based on an implied 100% valuation of MSSB of $13.5 billion, as agreed between Morgan Stanley and Citi pursuant to an agreement dated September 11, 2012 (for additional information, see Citi's Form 8-K filed with the U.S. Securities and Exchange Commission on September 11, 2012). The related approximately $5.5 billion deposits were transferred to Morgan Stanley at no premium, as agreed between the parties.

In addition, Morgan Stanley has agreed, subject to obtaining regulatory approval, to purchase Citi's remaining 35% interest in MSSB no later than June 1, 2015 at a purchase price of $4.725 billion which is based on the same implied 100% valuation of MSSB of $13.5 billion.

Citi's carrying value of its 49% interest in MSSB was approximately $11.3 billion. As a result of the agreement entered into with Morgan Stanley on September 11, 2012, Citi recorded a charge to net income in the third quarter of 2012 of approximately $2.9 billion after-tax ($4.7 billion pre-tax), consisting of (1) a charge to net income of approximately $800 million after-tax ($1.3 billion pre-tax), representing a loss on sale of the 14% interest, and (2) an other-than-temporary impairment of the carrying value of its remaining 35% interest in MSSB of approximately $2.1 billion after-tax ($3.4 billion pre-tax).

After the sale, Citi continues to account for its remaining 35% interest in MSSB under the equity method, with the carrying value capped at the agreed selling price of $4.725 billion.

Mortgage-backed securities

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

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

The key assumptions for mortgage-backed securities as of September 30, 2012 are in the table below:

	September 30, 2012
Prepayment rate(1)	**1%-8% CRR**
Loss severity(2)	**45%-95%**

(1) Conditional repayment rate (CRR) represents the annualized expected rate of voluntary prepayment of principal for mortgage-backed securities over a certain period of time.

(2) Loss severity rates are estimated considering collateral characteristics and generally range from 45%-60% for prime bonds, 50%-95% for Alt-A bonds and 65%-90% for subprime bonds.

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

State and municipal securities

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

Citigroup monitors the bond issuer and insurer ratings on a daily basis. The average portfolio rating, ignoring any insurance, is Aa3/AA-. In the event of a rating downgrade, the subject bond is specifically reviewed for potential shortfall in contractual principal and interest. The remainder of Citigroup's AFS and HTM state and municipal bonds are specifically reviewed for credit impairment based on instrument-specific estimates of cash flows, probability of default and loss given default.

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

Recognition and Measurement of OTTI

The following table presents the total OTTI recognized in earnings during the three and nine months ended September 30, 2012:

OTTI on Investments and Other Assets	**Three Months Ended September 30, 2012**				**Nine Months Ended September 30, 2012**			
In millions of dollars	**AFS**	**HTM**	**Other Assets**	**Total**	**AFS**	**HTM**	**Other Assets**	**Total**
Impairment losses related to securities that the Company does not intend to sell nor will likely be required to sell:								
Total OTTI losses recognized during the period ended September 30, 2012	**$ 2**	**$ 73**	**$**	**$ 75**	**$ 12**	**$ 328**	**$**	**$ 340**
Less: portion of OTTI loss recognized in AOCI (before taxes)					**1**	**65**		**66**
Net impairment losses recognized in earnings for securities that the Company does not intend to sell nor will likely be required to sell	**$ 2**	**$ 73**	**$**	**$ 75**	**$ 11**	**$ 263**	**$**	**$ 274**
OTTI losses recognized in earnings for securities that the Company intends to sell or more-likely-than-not will be required to sell before recovery(1)	**55**		**3,340**	**3,395**	**108**		**4,521**	**4,629**

Total impairment losses recognized in earnings	**$ 57**	**$ 73**	**$ 3,340**	**$ 3,470**	**$ 119**	**$ 263**	**$ 4,521**	**$ 4,903**

(1) As described under "MSSB" above, third quarter of 2012 includes the recognition of a $3,340 million impairment charge related to the carrying value of Citi's remaining 35% interest in the Morgan Stanley Smith Barney joint venture (MSSB). Additionally, as described under "Akbank" above, in the first quarter of 2012, the Company recorded an impairment charge relating to its total investment in Akbank amounting to $1.2 billion pretax ($763 million after-tax).

The following is a three month roll-forward of the credit-related impairments recognized in earnings for AFS and HTM debt securities held as of September 30, 2012 that the Company does not intend to sell nor will likely be required to sell:

	Cumulative OTTI credit losses recognized in earnings				
In millions of dollars	June 30, 2012 balance	Credit impairments recognized in earnings on securities not previously impaired	Credit impairments recognized in earnings on securities that have been previously impaired	Reductions due to credit-impaired securities sold, transferred or matured	Sept. 30, 2012 balance
AFS debt securities					
Mortgage-backed securities					
Prime	$ 292	$	$	$	$ 292
Alt-A	2				2
Commercial real estate	2				2
Total mortgage-backed securities	$ 296	$	$	$	$ 296
State and municipal securities	7				7
U.S. Treasury securities	67				67
Foreign government securities	168	2			170
Corporate	147			(28)	119
Asset-backed securities	10				10
Other debt securities	52				52
Total OTTI credit losses recognized for AFS debt securities	$ 747	$ 2	$	$ (28)	$ 721
HTM debt securities					
Mortgage-backed securities					
Prime	$ 98	$ 1	$	$ (1)	$ 98
Alt-A	2,376	7	65	(11)	2,437
Subprime	254			(2)	252
Non-U.S. residential	80				80
Commercial real estate	10				10
Total mortgage-backed securities	$ 2,818	$ 8	$ 65	$ (14)	$ 2,877
State and municipal securities	11				11
Corporate	403				403
Asset-backed securities	113				113
Other debt securities	11				11
Total OTTI credit losses recognized for HTM debt securities	$ 3,356	$ 8	$ 65	$ (14)	$ 3,415

The following is a nine month roll-forward of the credit-related impairments recognized in earnings for AFS and HTM debt securities held as of September 30, 2012 that the Company does not intend to sell nor will likely be required to sell:

	Cumulative OTTI credit losses recognized in earnings				
In millions of dollars	Dec. 31, 2011 balance	Credit impairments recognized in earnings on securities not previously impaired	Credit impairments recognized in earnings on securities that have been previously impaired	Reductions due to credit-impaired securities sold, transferred or matured	Sept. 30, 2012 balance
AFS debt securities					
Mortgage-backed securities					
Prime	$ 292	$	$	$	$ **292**
Alt-A	2				**2**
Commercial real estate	2				**2**
Total mortgage-backed securities	$ 296	$	$	$	$ **296**
State and municipal securities	3	**4**			**7**
U.S. Treasury securities	67				**67**
Foreign government securities	168	**2**			**170**
Corporate	151	**1**	**4**	**(37)**	**119**
Asset-backed securities	10				**10**
Other debt securities	52				**52**
Total OTTI credit losses recognized for AFS debt securities	$ 747	$ **7**	$ **4**	$ **(37)**	$ **721**
HTM debt securities					
Mortgage-backed securities					
Prime	$ 84	$ **6**	$ **9**	$ **(1)**	$ **98**
Alt-A	2,218	**18**	**212**	**(11)**	**2,437**
Subprime	252		**2**	**(2)**	**252**
Non-U.S. residential	96			**(16)**	**80**
Commercial real estate	10				**10**
Total mortgage-backed securities	$ 2,660	$ **24**	$ **223**	$ **(30)**	$ **2,877**
State and municipal securities	9	**1**	**1**		**11**
Foreign Government					
Corporate	391	**3**	**9**		**403**
Asset-backed securities	113				**113**
Other debt securities	9	**2**			**11**
Total OTTI credit losses recognized for HTM debt securities	$ 3,182	$ **30**	$ **233**	$ **(30)**	$ **3,415**

Investments in Alternative Investment Funds that Calculate Net Asset Value per Share

The Company holds investments in certain alternative investment funds that calculate net asset value (NAV) per share, including hedge funds, private equity funds, funds of funds and real estate funds. The Company's investments include co-investments in funds that are managed by the Company and investments in funds that are managed by third parties. Investments in funds are generally classified as non-marketable equity securities carried at fair value.

The fair values of these investments are estimated using the NAV per share of the Company's ownership interest in the funds, where it is not probable that the Company will sell an investment at a price other than NAV.

In millions of dollars at September 30, 2012	Fair value	Unfunded commitments	Redemption frequency (if currently eligible) monthly, quarterly, annually	Redemption notice period
Hedge funds	$ 835	$	Generally quarterly	**10-95 days**
Private equity funds(1)(2)	876	374		
Real estate funds(3)(4)	243	77		
Total	$ 1,954(5)	$ 451		

(1) Includes investments in private equity funds carried at cost with a carrying value of $7 million.

(2) Private equity funds include funds that invest in infrastructure, leveraged buyout transactions, emerging markets and venture capital.

(3) Includes several real estate funds that invest primarily in commercial real estate in the U.S., Europe and Asia. Real estate funds include investments to be sold carried at their estimated sales price of $29 million.

(4) With respect to the Company's investments that it holds in private equity funds and real estate funds, distributions from each fund will be received as the underlying assets held by these funds are liquidated. It is estimated that the underlying assets of these funds will be liquidated over a period of several years as market conditions allow. While certain investments within the portfolio may be sold, no specific assets have been identified for sale. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the NAV of the Company's ownership interest in the partners' capital. Private equity and real estate funds do not allow redemption of investments by their investors. Investors are permitted to sell or transfer their investments, subject to the approval of the general partner or investment manager of these funds, which generally may not be unreasonably withheld.

(5) Included in the total fair value of investments above is $0.5 billion of fund assets that are valued using NAVs provided by third-party asset managers. Amounts exclude investments in funds that are consolidated by Citi.

Under The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the Company will be required to limit its investments in and arrangements with "private equity funds" and "hedge funds" as defined under the statute and impending regulations. Citi does not believe the implementation of the fund provisions of the Dodd-Frank Act will have a material negative impact on its overall results of operations.

12. LOANS

Citigroup loans are reported in two categories Consumer and Corporate. These categories are classified primarily according to the segment and subsegment that manages the loans.

Consumer Loans

Consumer loans represent loans and leases managed primarily by the *Global Consumer Banking* and *Local Consumer Lending* businesses. The following table provides information by loan type:

In millions of dollars	September 30, 2012	December 31, 2011
Consumer loans		
In U.S. offices		
Mortgage and real estate(1)	**$ 128,737**	$ 139,177
Installment, revolving credit, and other	**14,210**	15,616
Cards	**108,819**	117,908
Commercial and industrial	**5,042**	4,766
Lease financing		1
	$ 256,808	$ 277,468
In offices outside the U.S.		
Mortgage and real estate(1)	**$ 54,529**	$ 52,052
Installment, revolving credit, and other	**36,290**	34,613
Cards	**39,671**	38,926
Commercial and industrial	**20,070**	19,975
Lease financing	**742**	711
	$ 151,302	$ 146,277
Total Consumer loans	**$ 408,110**	$ 423,745
Net unearned income	**(358)**	(405)
Consumer loans, net of unearned income	**$ 407,752**	$ 423,340

(1) Loans secured primarily by real estate.

Included in the loan table above are lending products whose terms may give rise to additional credit issues. Credit cards with below-market introductory interest rates and interest-only loans are examples of such products. However, these products are closely managed using appropriate credit techniques that are intended to mitigate their additional inherent risk.

During the three and nine months ended September 30, 2012 and 2011, the Company sold and/or reclassified (to held-for-sale) $1.3 billion and $3.1 billion, and $2.7 billion and $14.0 billion, respectively, of Consumer loans. The Company did not have significant purchases of Consumer loans during the nine months ended September 30, 2012 or September 30, 2011.

Citigroup has established a risk management process to monitor, evaluate and manage the principal risks associated with its Consumer loan portfolio. Credit quality indicators that are actively monitored include delinquency status, consumer credit scores (FICO), and loan to value (LTV) ratios, each as discussed in more detail below.

Delinquency Status

Delinquency status is carefully monitored and considered a key indicator of credit quality. Substantially all of the U.S. residential first mortgage loans use the MBA method of reporting delinquencies, which considers a loan delinquent if a monthly payment has not been received by the end of the day immediately preceding the loan's next due date. All other loans use the OTS method of reporting delinquencies, which considers a loan delinquent if a monthly payment has not been received by the close of business on the loan's next due date.

As a general rule, residential first mortgages, home equity loans and installment loans are classified as non-accrual when loan payments are 90 days contractually past due. Credit cards and unsecured revolving loans generally accrue interest until payments are 180 days past due. Commercial market loans are placed on a cash (non-accrual) basis when it is determined, based on actual experience and a forward-looking assessment of the collectability of the loan in full, that the payment of interest or principal is doubtful or when interest or principal is 90 days past due.

The policy for re-aging modified U.S. Consumer loans to current status varies by product. Generally, one of the conditions to qualify for these modifications is that a minimum number of payments (typically ranging from one to three) be made. Upon modification, the loan is re-aged to current status. However, re-aging practices for certain open-ended Consumer loans, such as credit cards, are governed by Federal Financial Institutions Examination Council (FFIEC) guidelines. For open-ended Consumer loans subject to FFIEC guidelines, one of the conditions for the loan to be re-aged to current status is that at least three consecutive minimum monthly payments, or the equivalent amount, must be received. In addition, under FFIEC guidelines, the number of times that such a loan can be re-aged is subject to limitations (generally once in 12 months and twice in five years). Furthermore, Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) loans are modified under those respective agencies' guidelines, and payments are not always required in order to re-age a modified loan to current.

The following tables provide details on Citigroup's Consumer loan delinquency and non-accrual loans as of September 30, 2012 and December 31, 2011:

Consumer Loan Delinquency and Non-Accrual Details at September 30, 2012

In millions of dollars	Total current(1)(2)	30-89 days past due(3)	≥ 90 days past due(3)	Past due Government guaranteed(4)	Total loans(2)	Total non-accrual(5)	90 days past due and accruing
In *North America* offices							
Residential first mortgages	$ 76,311	$ 3,495	$ 3,684	$ 6,235	$ 89,725	$ 5,295	$ 4,842
Home equity loans(6)	37,071	703	853		38,627	1,889	
Credit cards	106,261	1,590	1,496		109,347		1,496
Installment and other	13,656	297	327		14,280	318	10
Commercial market loans	7,379	29	15		7,423	149	9
Total	$ 240,678	$ 6,114	$ 6,375	$ 6,235	$ 259,402	$ 7,651	$ 6,357
In offices outside *North America*							
Residential first mortgages	$ 45,305	$ 606	$ 479	$	$ 46,390	$ 778	$
Home equity loans(6)	4		2		6	2	
Credit cards	37,967	959	778		39,704	513	487
Installment and other	29,180	508	197		29,885	260	
Commercial market loans	31,435	105	167		31,707	466	
Total	$ 143,891	$ 2,178	$ 1,623	$	$ 147,692	$ 2,019	$ 487
Total *GCB* and *LCL*	$ 384,569	$ 8,292	$ 7,998	$ 6,235	$ 407,094	$ 9,670	$ 6,844
Special Asset Pool (SAP)	$ 594	$ 31	$ 33	$	$ 658	$ 91	
Total Citigroup	$ 385,163	$ 8,323	$ 8,031	$ 6,235	$ 407,752	$ 9,761	$ 6,844

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

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

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

(4) Consists of residential first mortgages that are guaranteed by U.S. government entities that are 30-89 days past due of $1.4 billion and ≥ 90 days past due of $4.8 billion.

(5) Includes $1.5 billion of loans ($1.2 billion of residential first mortgages and $0.3 billion of home equity loans) in *North America* that were reclassified to non-accrual as a result of new OCC guidance with respect to the treatment of mortgage loans where the borrower has gone through Chapter 7 bankruptcy. (See Note 1 to the Consolidated Financial Statements.) Of the $1.5 billion of such non-accrual loans, $1.3 billion was current as of September 30, 2012.

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

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

In millions of dollars	Total current(1)(2)	30-89 days past due(3)	≥ 90 days past due(3)	Past due Government guaranteed(4)	Total loans(2)	Total non-accrual	90 days past due and accruing
In *North America* offices							
Residential first mortgages	$ 81,081	$ 3,550	$ 4,121	$ 6,686	$ 95,438	$ 4,176	$ 5,054
Home equity loans(5)	41,585	868	1,022		43,475	982	
Credit cards	114,022	2,344	2,058		118,424		2,058
Installment and other	15,215	340	222		15,777	438	10
Commercial market loans	6,643	15	207		6,865	220	14
Total	$ 258,546	$ 7,117	$ 7,630	$ 6,686	$ 279,979	$ 5,816	$ 7,136
In offices outside *North America*							
Residential first mortgages	$ 43,310	$ 566	$ 482	$	$ 44,358	$ 744	$
Home equity loans(5)	6		2		8	2	
Credit cards	38,289	930	785		40,004	496	490
Installment and other	26,300	528	197		27,025	258	
Commercial market loans	30,491	79	127		30,697	401	
Total	$ 138,396	$ 2,103	$ 1,593	$	$ 142,092	$ 1,901	$ 490
Total *GCB* and *LCL*	$ 396,942	$ 9,220	$ 9,223	$ 6,686	$ 422,071	$ 7,717	$ 7,626
Special Asset Pool (SAP)	1,193	29	47		1,269	115	
Total Citigroup	$ 398,135	$ 9,249	$ 9,270	$ 6,686	$ 423,340	$ 7,832	$ 7,626

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

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

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

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

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

Consumer Credit Scores (FICO)

In the U.S., independent credit agencies rate an individual's risk for assuming debt based on the individual's credit history and assign every consumer a "FICO" credit score. These scores are continually updated by the agencies based upon an individual's credit actions (e.g., taking out a loan or missed or late payments).

The following table provides details on the FICO scores attributable to Citi's U.S. Consumer loan portfolio as of September 30, 2012 and December 31, 2011 (commercial market loans are not included in the table since they are business-based and FICO scores are not a primary driver in their credit evaluation). FICO scores are updated monthly for substantially all of the portfolio or, otherwise, on a quarterly basis.

FICO score distribution in U.S. portfolio(1)(2) *In millions of dollars*	**September 30, 2012** Less than 620	≥ 620 but less than 660	Equal to or greater than 660
Residential first mortgages	**$ 17,497**	**$ 8,270**	**$ 51,322**
Home equity loans	**5,646**	**3,295**	**27,820**
Credit cards	**7,790**	**10,128**	**87,334**
Installment and other	**4,422**	**2,459**	**5,457**
Total	**$ 35,355**	**$ 24,152**	**$ 171,933**

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

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

FICO score distribution in U.S. portfolio(1)(2) *In millions of dollars*	**December 31, 2011** Less than 620	≥ 620 but less than 660	Equal to or greater than 660
Residential first mortgages	$ 20,370	$ 8,815	$ 52,839
Home equity loans	6,783	3,703	30,884
Credit cards	9,621	10,905	93,234
Installment and other	3,789	2,858	6,704
Total	$ 40,563	$ 26,281	$ 183,661

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

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

Loan to Value Ratios (LTV)

LTV ratios (loan balance divided by appraised value) are calculated at origination and updated by applying market price data.

The following tables provide details on the LTV ratios attributable to Citi's U.S. Consumer mortgage portfolios as of September 30, 2012 and December 31, 2011. LTV ratios are updated monthly using the most recent Core Logic HPI data available for substantially all of the portfolio applied at the Metropolitan Statistical Area level, if available; otherwise, at the state level. The remainder of the portfolio is updated in a similar manner using the Office of Federal Housing Enterprise Oversight indices.

LTV distribution in U.S. portfolio(1)(2) *In millions of dollars*	September 30, 2012 Less than or equal to 80%	> 80% but less than or equal to 100%	Greater than 100%
Residential first mortgages	**$ 41,550**	**$ 19,298**	**$ 16,243**
Home equity loans	**13,020**	**9,939**	**13,621**
Total	**$ 54,570**	**$ 29,237**	**$ 29,864**

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

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

LTV distribution in U.S. portfolio(1)(2) *In millions of dollars*	December 31, 2011 Less than or equal to 80%	> 80% but less than or equal to 100%	Greater than 100%
Residential first mortgages	$ 36,422	$ 21,146	$ 24,425
Home equity loans	12,724	10,232	18,226
Total	$ 49,146	$ 31,378	$ 42,651

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

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

Impaired Consumer Loans

Impaired loans are those for which Citigroup believes it is probable that it will not collect all amounts due according to the original contractual terms of the loan. Impaired Consumer loans include non-accrual commercial market loans as well as smaller-balance homogeneous loans whose terms have been modified due to the borrower's financial difficulties and Citigroup has granted a concession to the borrower. These modifications may include interest rate reductions and/or principal forgiveness. Impaired Consumer loans exclude smaller-balance homogeneous loans that have not been modified and are carried on a non-accrual basis. In addition, impaired Consumer loans exclude substantially all loans modified pursuant to Citi's short-term modification programs (i.e., for periods of 12 months or less) that were modified prior to January 1, 2011.

Effective in the third quarter of 2012, as a result of new OCC guidance, mortgage loans to borrowers that have gone through Chapter 7 bankruptcy are classified as TDRs. These TDRs, other than FHA-insured loans, are written down to collateral value less cost to sell. FHA-insured loans are reserved based on a discounted cash flow model. (See Note 1 to the Consolidated Financial Statements.) Approximately $635 million of incremental charge-offs was recorded in the third quarter as a result of this new guidance, the vast majority of which related to current loans, and was substantially offset by a related reserve release of approximately $600 million. As of September 30, 2012, the recorded investment in receivables reclassified to TDRs as a result of this new OCC guidance approximated $1,714 million, composed of $1,327 million of residential first mortgages and $387 million of home equity loans.

The following tables present information about total impaired Consumer loans at September 30, 2012 and December 31, 2011, respectively, and for the three- and nine-month periods ended September 30, 2012 and September 30, 2011 for interest income recognized on impaired Consumer loans:

Impaired Consumer Loans

	Sept. 30, 2012				Three Months Ended Sept. 30, 2012	Three Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2012	Nine Months Ended Sept.30, 2011
In millions of dollars	**Recorded investment(1)(2)**	**Unpaid principal balance**	**Related specific allowance(3)**	**Average carrying value(4)**	**Interest income recognized(5)(6)**	**Interest income recognized(5)(6)**	**Interest income recognized(5)(6)**	**Interest income recognized(5)(6)**
Mortgage and real estate								
Residential first mortgages	**$ 21,169**	**$ 22,444**	**$ 2,809**	**$ 19,643**	**$ 251**	$ 220	**$ 674**	$ 674
Home equity loans	**2,134**	**2,319**	**1,248**	**1,820**	**31**	21	**64**	51
Credit cards	**5,014**	**5,071**	**2,032**	**5,800**	**75**	98	**240**	296
Installment and other								
Individual installment and other	**2,013**	**2,018**	**858**	**2,121**	**88**	75	**218**	228
Commercial market loans	**519**	**700**	**74**	**514**	**5**	3	**18**	19
Total(7)	**$ 30,849**	**$ 32,552**	**$ 7,021**	**$ 29,898**	**$ 450**	$ 417	**$ 1,214**	$ 1,268

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

(2) $2,517 million of residential first mortgages, $438 million of home equity loans and $186 million of commercial market loans do not have a specific allowance.

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

(4) Average carrying value represents the average recorded investment ending balance for last four quarters and does not include related specific allowance.

(5) Includes amounts recognized on both an accrual and cash basis.

(6) Cash interest receipts on smaller-balance homogeneous loans are generally recorded as revenue. The interest recognition policy for commercial market loans is identical to that for Corporate loans, as described below.

(7) Prior to 2008, the Company's financial accounting systems did not separately track impaired smaller-balance, homogeneous Consumer loans whose terms were modified due to the borrowers' financial difficulties and it was determined that a concession was granted to the borrower. Smaller-balance consumer loans modified since January 1, 2008 amounted to $30.3 billion at September 30, 2012. However, information derived from Citi's risk management systems indicates that the amounts of outstanding modified loans, including those modified prior to 2008, approximated $31.3 billion at September 30, 2012.

	December 31, 2011			
In millions of dollars	Recorded investment(1)(2)	Unpaid principal balance	Related specific allowance(3)	Average carrying value(4)
Mortgage and real estate				
Residential first mortgages	$ 19,616	$ 20,803	$ 3,404	$ 18,642
Home equity loans	1,771	1,823	1,252	1,680
Credit cards	6,695	6,743	3,122	6,542
Installment and other				
Individual installment and other	2,264	2,267	1,032	2,644
Commercial market loans	517	782	75	572
Total(5)	$ 30,863	$ 32,418	$ 8,885	$ 30,080

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

(2) $858 million of residential first mortgages, $16 million of home equity loans and $182 million of commercial market loans do not have a specific allowance.

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

(4) Average carrying value represents the average recorded investment ending balance for last four quarters and does not include related specific allowance.

(5) Prior to 2008, the Company's financial accounting systems did not separately track impaired smaller-balance, homogeneous Consumer loans whose terms were modified due to the borrowers' financial difficulties and it was determined that a concession was granted to the borrower. Smaller-balance consumer loans modified since January 1, 2008 amounted to $30.3 billion at December 31, 2011. However, information derived from Citi's risk management systems indicates that the amounts of outstanding modified loans, including those modified prior to 2008, approximated $31.5 billion at December 31, 2011.

Consumer Troubled Debt Restructurings

The following tables present Consumer TDRs occurring during the three- and nine-month periods ended September 30, 2012 and 2011:

Three months ended September 30, 2012:

In millions of dollars except number of loans modified	Number of loans modified	Post-modification recorded investment(1)(2)	Chapter 7 bankruptcy(2)	Deferred principal(3)	Contingent principal forgiveness(4)	Principal forgiveness	Average interest rate reduction
North America							
Residential first mortgages	**33,751**	**$ 3,905**	**$ 181**	**$ 2**	**$**	**$ 66**	**1%**
Home equity loans	**23,728**	**507**	**454**	**1**		**8**	
Credit cards	**46,178**	**229**					**16**
Installment and other revolving	**14,759**	**106**					**6**
Commercial markets(5)	**42**	**7**					
Total	**118,458**	**$ 4,754**	**$ 635**	**$ 3**	**$**	**$ 74**	
International							
Residential first mortgages	**1,078**	**$ 55**	**$**	**$**	**$**	**$ 1**	**1%**
Home equity loans	**9**	**1**					
Credit cards	**51,149**	**162**					**28**
Installment and other revolving	**10,807**	**61**					**34**
Commercial markets(5)	**58**	**73**					
Total	**63,101**	**$ 352**				**$ 1**	

Three months ended September 30, 2011:

In millions of dollars except number of loans modified	Number of loans modified	Post-modification recorded investment(1)	Deferred principal(3)	Contingent principal forgiveness(4)	Principal forgiveness	Average interest rate reduction
North America						
Residential first mortgages	7,448	$ 1,187	$	$ 10	$	2%
Home equity loans	3,770	195				4
Credit cards	146,783	853				19
Installment and other revolving	23,289	173				4
Commercial markets(5)	54	6				
Total	181,344	$ 2,414	$	$ 10	$	
International						
Residential first mortgages	2,283	$ 78	$	$	$ 1	1%
Home equity loans	10	1				
Credit cards	48,800	142				26
Installment and other revolving	32,716	128			1	12
Commercial markets(5)	34	30				
Total	83,843	$ 379	$	$	$ 2	

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

(2)
Post-modification balances in *North America* include $2,797 million of residential first mortgages and $473 million of home equity loans to borrowers that have gone through Chapter 7 bankruptcy. These amounts include $1,327 million of residential first mortgages and $387 million of home equity loans that are now classified as TDRs as a result of new OCC guidance. Chapter 7 bankruptcy column amounts are the incremental charge-offs that were recorded in the third quarter of 2012 as a result of this new OCC guidance.

(3)
Represents portion of loan principal that is non-interest bearing but still due from borrower. Effective in the first quarter of 2012, such deferred principal is charged-off at the time of modification to the extent that the related loan balance exceeds the underlying collateral value. A significant amount of the reported balances have been charged-off.

(4)
Represents portion of loan principal that is non-interest bearing and, depending upon borrower performance, eligible for forgiveness.

(5)
Commercial markets loans are generally borrower-specific modifications and incorporate changes in the amount and/or timing of principal and/or interest.

Nine months ended September 30, 2012:

In millions of dollars except number of loans modified	Number of loans modified	Post-modification recorded investment(1)(2)	Chapter 7 bankruptcy(2)	Deferred principal(3)	Contingent principal forgiveness(4)	Principal forgiveness	Average interest rate reduction
North America							
Residential first mortgages	**47,567**	**$ 6,365**	**$ 181**	**$ 8**	**$ 2**	**$ 405**	**2%**
Home equity loans	**28,584**	**689**	**454**	**4**		**34**	**2**
Credit cards	**161,577**	**841**					**17**
Installment and other revolving	**49,991**	**365**					**6**
Commercial markets(5)	**138**	**13**					
Total	**287,857**	**$ 8,273**	**$ 635**	**$ 12**	**$ 2**	**$ 439**	
International							
Residential first mortgages	**4,113**	**$ 176**	**$**	**$**	**$**	**$ 2**	**1%**
Home equity loans	**39**	**3**					
Credit cards	**156,477**	**465**				**1**	**29**
Installment and other revolving	**34,042**	**202**				**1**	**23**
Commercial markets(5)	**281**	**129**			**1**	**2**	
Total	**194,952**	**$ 975**	**$**	**$**	**$ 1**	**$ 6**	

Nine months ended September 30, 2011:

In millions of dollars except number of loans modified	Number of loans modified	Post-modification recorded investment(1)	Deferred principal(3)	Contingent principal forgiveness(4)	Principal forgiveness	Average interest rate reduction
North America						
Residential first mortgages	26,823	$ 4,224	$ 57	$ 45	$	2%
Home equity loans	14,521	759	16	1		4
Credit cards	509,214	2,976				19
Installment and other revolving	77,858	586				4
Commercial markets(5)	491	49			1	
Total	628,907	$ 8,594	$ 73	$ 46	$ 1	
International						
Residential first mortgages	5,987	$ 242	$	$	$ 5	1%
Home equity loans	49	3				
Credit cards	172,582	475			2	23
Installment and other revolving	115,034	459			8	11
Commercial markets(5)	43	48				
Total	293,695	$ 1,227	$	$	$ 15	

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(1)

Post-modification balances include past due amounts that are capitalized at modification date.

(2)

Post-modification balances in *North America* include $2,797 million of residential first mortgages and $473 million of home equity loans to borrowers that have gone through Chapter 7 bankruptcy. These amounts include $1,327 million of residential first mortgages and $387 million of home equity loans that are now classified as TDRs as a result of new OCC guidance. Chapter 7 bankruptcy column amounts are the incremental charge-offs that were recorded in the third quarter of 2012 as a result of this new OCC guidance.

(3) Represents portion of loan principal that is non-interest bearing but still due from borrower. Effective in the first quarter of 2012, such deferred principal is charged-off at the time of modification to the extent that the related loan balance exceeds the underlying collateral value. A significant amount of the reported balances have been charged-off.

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

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

The following table presents Consumer TDRs that defaulted during the three- and nine-month periods ended September 30, 2012 and 2011, respectively, and for which the payment default occurred within one year of the modification:

In millions of dollars	Three Months Ended Sept. 30, 2012(1)	Three Months Ended Sept. 30, 2011(1)	Nine Months Ended Sept. 30, 2012(1)	Nine Months Ended Sept.30, 2011(1)
North America				
Residential first mortgages	**$ 240**	$ 448	**$ 893**	$ 1,303
Home equity loans	**21**	30	**73**	82
Credit cards	**82**	284	**362**	1,077
Installment and other revolving	**31**	35	**94**	75
Commercial markets		1		2
Total	**$ 374**	$ 798	**$ 1,422**	$ 2,539
International				
Residential first mortgages	**$ 12**	$ 27	**$ 42**	$ 96
Home equity loans				2
Credit cards	**52**	70	**155**	265
Installment and other revolving	**25**	47	**90**	193
Commercial markets	**2**	8	**3**	11
Total	**$ 91**	$ 152	**$ 290**	$ 567

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

Corporate Loans

Corporate loans represent loans and leases managed by the *Institutional Clients Group* or the *Special Asset Pool* in Citi Holdings. The following table presents information by Corporate loan type as of September 30, 2012 and December 31, 2011:

In millions of dollars	September 30, 2012	December 31, 2011
Corporate		
In U.S. offices		
Commercial and industrial	**$ 30,056**	$ 20,830
Loans to financial institutions	**17,376**	15,113
Mortgage and real estate(1)	**24,221**	21,516
Installment, revolving credit and other	**32,987**	33,182
Lease financing	**1,394**	1,270
	$ 106,034	$ 91,911
In offices outside the U.S.		
Commercial and industrial	**$ 85,854**	$ 79,764
Installment, revolving credit and other	**16,758**	14,114
Mortgage and real estate(1)	**6,214**	6,885
Loans to financial institutions	**35,014**	29,794
Lease financing	**574**	568
Governments and official institutions	**984**	1,576
	$ 145,398	$ 132,701
Total Corporate loans	**$ 251,432**	$ 224,612

Net unearned income (loss)		**(761)**		(710)
Corporate loans, net of unearned income	**$**	**250,671**	$	223,902

(1) Loans secured primarily by real estate.

The Company sold and/or reclassified (to held-for-sale) $2,384 million and $745 million of Corporate loans during the nine and three months ended September 30, 2012, respectively, and $4,736 million and $1,067 million during the nine and three months ended September 30, 2011, respectively. The Company did not have significant purchases of Corporate loans classified as held-for-investment during the nine and three months ended September 30, 2012 and September 30, 2011.

Corporate loans are identified as impaired and placed on a cash (non-accrual) basis when it is determined, based on actual experience and a forward-looking assessment of the collectability of the loan in full, that the payment of interest or principal is doubtful or when interest or principal is 90 days past due, except when the loan is well collateralized and in the process of collection. Any interest accrued on impaired Corporate loans and leases is reversed at 90 days and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectability of principal, all cash receipts are thereafter applied to reduce the recorded investment in the loan. While Corporate loans are generally managed based on their internally assigned risk rating (see further discussion below), the following tables present delinquency information by Corporate loan type as of September 30, 2012 and December 31, 2011:

Corporate Loan Delinquency and Non-Accrual Details at September 30, 2012

In millions of dollars	30-89 days past due and accruing(1)	≥ 90 days past due and accruing(1)	Total past due and accruing	Total non-accrual(2)	Total current(3)	Total loans
Commercial and industrial	$ 48	$ 16	$ 64	$ 974	$ 113,854	$ 114,892
Financial institutions				465	50,111	50,576
Mortgage and real estate	207	109	316	841	29,167	30,324
Leases	4		4	6	1,958	1,968
Other	96	6	102	143	48,563	48,808
Loans at fair value						4,103
Total	$ 355	$ 131	$ 486	$ 2,429	$ 243,653	$ 250,671

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

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

(3)
Corporate loans are past due when principal or interest is contractually due but unpaid. Loans less than 30 days past due are presented as current.

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

In millions of dollars	30-89 days past due and accruing(1)	≥ 90 days past due and accruing(1)	Total past due and accruing	Total non-accrual(2)	Total current(3)	Total loans
Commercial and industrial	$ 93	$ 30	$ 123	$ 1,134	$ 98,157	$ 99,414
Financial institutions		2	2	763	42,642	43,407
Mortgage and real estate	224	125	349	1,039	26,908	28,296
Leases	3	11	14	13	1,811	1,838
Other	225	15	240	287	46,481	47,008
Loans at fair value						3,939
Total	$ 545	$ 183	$ 728	$ 3,236	$ 215,999	$ 223,902

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

(2)
Citi generally does not manage Corporate loans on a delinquency basis. Non-accrual loans generally include those loans that are ≥ 90 days past due or those loans for which Citi believes, based on actual experience and a forward-looking assessment of the

collectability of the loan in full, that the payment of interest or principal is doubtful.

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

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

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

Corporate Loans Credit Quality Indicators at September 30, 2012 and December 31, 2011

	Recorded investment in loans(1)	
In millions of dollars	**September 30, 2012**	**December 31, 2011**
Investment grade(2)		
Commercial and industrial	**$ 78,820**	$ 67,282
Financial institutions	**39,973**	35,159
Mortgage and real estate	**12,176**	10,729
Leases	**1,293**	1,161
Other	**43,903**	42,428
Total investment grade	**$ 176,165**	$ 156,759
Non-investment grade(2)		
Accrual		
Commercial and industrial	**$ 35,098**	$ 30,998
Financial institutions	**10,138**	7,485
Mortgage and real estate	**3,085**	3,812
Leases	**669**	664
Other	**4,762**	4,293
Non-accrual		
Commercial and industrial	**974**	1,134
Financial institutions	**465**	763
Mortgage and real estate	**841**	1,039
Leases	**6**	13
Other	**143**	287
Total non-investment grade	**$ 56,181**	$ 50,488
Private Banking loans managed on a delinquency basis(2)	**$ 14,222**	$ 12,716
Loans at fair value	**4,103**	3,939
Corporate loans, net of unearned income	**$ 250,671**	$ 223,902

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

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

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

The following tables present non-accrual loan information by Corporate loan type at September 30, 2012 and December 31, 2011, respectively, and interest income recognized on non-accrual Corporate loans for the three- and nine-month periods ended September 30, 2012 and 2011:

Non-Accrual Corporate Loans

In millions of dollars	September 30, 2012 Recorded investment(1)	Unpaid principal balance	Related specific allowance	Average carrying value(2)	Three Months Ended September 30, 2012 Interest income recognized	Nine Months Ended September 30, 2012 Interest income recognized
Non-accrual corporate loans						
Commercial and industrial	**$ 974**	**$ 1,314**	**$ 152**	**$ 1,090**	**$ 22**	**$ 57**
Loans to financial institutions	**465**	**509**	**14**	**595**		
Mortgage and real estate	**841**	**1,118**	**73**	**900**	**1**	**22**
Lease financing	**6**	**14**		**9**	**1**	**2**
Other	**143**	**478**	**15**	**208**	**1**	**7**
Total non-accrual Corporate loans	**$ 2,429**	**$ 3,433**	**$ 254**	**$ 2,802**	**$ 25**	**$ 88**

In millions of dollars	December 31, 2011 Recorded investment(1)	Unpaid principal balance	Related specific allowance	Average carrying value(3)
Non-accrual Corporate loans				
Commercial and industrial	$ 1,134	$ 1,455	$ 186	$ 1,446
Loans to financial institutions	763	1,127	28	1,056
Mortgage and real estate	1,039	1,245	151	1,487
Lease financing	13	21		25
Other	287	640	55	420
Total non-accrual Corporate loans	$ 3,236	$ 4,488	$ 420	$ 4,434

In millions of dollars	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Interest income recognized	**$ 31**	**$ 77**

In millions of dollars	September 30, 2012 Recorded investment(1)	September 30, 2012 Related specific allowance	December 31, 2011 Recorded investment(1)	December 31, 2011 Related specific allowance
Non-accrual Corporate loans with valuation allowances				
Commercial and industrial	**$ 398**	**$ 152**	$ 501	$ 186
Loans to financial institutions	**41**	**14**	78	28
Mortgage and real estate	**369**	**73**	540	151
Other	**40**	**15**	120	55
Total non-accrual Corporate loans with specific allowance	**$ 848**	**$ 254**	$ 1,239	$ 420
Non-accrual Corporate loans without specific allowance				
Commercial and industrial	**$ 576**		$ 633	
Loans to financial institutions	**424**		685	

Mortgage and real estate		**472**			499	
Lease financing		**6**			13	
Other		**103**			167	
Total non-accrual Corporate loans without specific allowance	**$**	**1,581**	**N/A**	$	1,997	N/A

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

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

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

N/A Not Applicable

Corporate Troubled Debt Restructurings

The following tables provide details on Corporate TDR activity and default information as of and for the three- and nine-month periods ended September 30, 2012 and 2011.

The following table presents Corporate TDRs occurring during the three-month period ended September 30, 2012:

In millions of dollars	Carrying Value	TDRs involving changes in the amount and/or timing of principal payments(1)	TDRs involving changes in the amount and/or timing of interest payments(2)	TDRs involving changes in the amount and/or timing of both principal and interest payments	Balance of principal forgiven or deferred	Net P&L impact(3)
Commercial and industrial	**$ 47**	**$ 47**	**$**	**$**	**$**	**$**
Loans to financial institutions						
Mortgage and real estate	**1**			**1**		
Other						
Total	**$ 48**	**$ 47**	**$**	**$ 1**	**$**	**$**

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

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

(3) Balances reflect charge-offs and reserves recorded during the three months ended September 30, 2012 on loans subject to a TDR during the period then ended.

The following table presents Corporate TDRs occurring during the three-month period ended September 30, 2011:

In millions of dollars	Carrying Value	TDRs involving changes in the amount and/or timing of principal payments(1)	TDRs involving changes in the amount and/or timing of interest payments(2)	TDRs involving changes in the amount and/or timing of both principal and interest payments	Balance of principal forgiven or deferred	Net P&L impact(3)
Commercial and industrial	$ 70	$	$	$ 70	$	$ 15
Loans to financial institutions						
Mortgage and real estate	16		14	2		
Other	74		67	7		
Total	$ 160	$	$ 81	$ 79	$	$ 15

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

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

(3)
Balances reflect charge-offs and reserves recorded during the three months ended September 30, 2011 on loans subject to a TDR during the period then ended.

The following table presents Corporate TDRs occurring during the nine-month period ended September 30, 2012:

In millions of dollars	Carrying Value	TDRs involving changes in the amount and/or timing of principal payments(1)	TDRs involving changes in the amount and/or timing of interest payments(2)	TDRs involving changes in the amount and/or timing of both principal and interest payments	Balance of principal forgiven or deferred	Net P&L impact(3)
Commercial and industrial	$ 86	$ 71	$ 4	$ 11	$	$ 1
Loans to financial institutions						
Mortgage and real estate	94	60		34		
Other						
Total	**$ 180**	**$ 131**	**$ 4**	**$ 45**	**$**	**$ 1**

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

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

(3)
Balances reflect charge-offs and reserves recorded during the nine months ended September 30, 2012 on loans subject to a TDR during the period then ended.

The following table presents Corporate TDRs occurring during the nine-month period ended September 30, 2011:

In millions of dollars	Carrying Value	TDRs involving changes in the amount and/or timing of principal payments(1)	TDRs involving changes in the amount and/or timing of interest payments(2)	TDRs involving changes in the amount and/or timing of both principal and interest payments	Balance of principal forgiven or deferred	Net P&L impact(3)
Commercial and industrial	$ 110	$	$	$ 110	$	$ 16
Loans to financial institutions						
Mortgage and real estate	244	3	14	227	4	37
Other	74		67	7		
Total	$ 428	$ 3	$ 81	$ 344	$ 4	$ 53

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

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

(3) Balances reflect charge-offs and reserves recorded during the nine months ended September 30, 2011 on loans subject to a TDR during the period then ended.

The following table presents total Corporate loans modified in a TDR at September 30, 2012 and 2011, as well as those TDRs that defaulted during the three and nine months of 2012 and 2011, and for which the payment default occurred within one year of the modification:.

In millions of dollars	TDR Balances at Sept. 30, 2012	TDRs in payment default Three Months Ended Sept. 30, 2012	TDRs in payment default Nine Months Ended Sept. 30, 2012	TDR Balances at Sept. 30, 2011	TDRs in payment default Three Months Ended Sept. 30, 2011	TDRs in payment default Nine Months Ended Sept. 30, 2011
Commercial and industrial	**$ 395**	**$ 45**	**$ 52**	$ 419	$ 6	$ 7
Loans to financial institutions	**21**			579		
Mortgage and real estate	**127**			263		
Other	**557**			100		
Total	**$ 1,100**	**$ 45**	**$ 52**	$ 1,361	$ 6	$ 7

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

13. ALLOWANCE FOR CREDIT LOSSES

In millions of dollars	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Allowance for loan losses at beginning of period	**$ 27,611**	$ 34,362	**$ 30,115**	$ 40,655
Gross credit losses(1)(2)	**(4,638)**	(5,217)	**(13,726)**	(18,254)
Gross recoveries	**659**	703	**2,216**	2,324
Net credit losses (NCLs)	**$ (3,979)**	$ (4,514)	**$ (11,510)**	$ (15,930)
NCLs replenishments	**$ 3,979**	$ 4,514	**$ 11,510**	$ 15,930
Net reserve builds (releases)(1)	**(868)**	(1,591)	**(1,678)**	(7,023)
Net specific reserve builds (releases)(2)	**(600)**	126	**(1,908)**	222
Total provision for credit losses	**$ 2,511**	$ 3,049	**$ 7,924**	$ 9,129
Other, net(3)	**(227)**	(845)	**(613)**	(1,802)
Allowance for loan losses at end of period	**$ 25,916**	$ 32,052	**$ 25,916**	$ 32,052
Allowance for credit losses on unfunded lending commitments at beginning of period(4)	**$ 1,104**	$ 1,097	**$ 1,136**	$ 1,066
Provision for unfunded lending commitments	**(41)**	43	**(72)**	55
Other, net		(1)	**(1)**	18
Allowance for credit losses on unfunded lending commitments at end of period(2)	**$ 1,063**	$ 1,139	**$ 1,063**	$ 1,139
Total allowance for loans, leases, and unfunded lending commitments	**$ 26,979**	$ 33,191	**$ 26,979**	$ 33,191

(1) The third quarter of 2012 includes approximately $635 million of incremental charge-offs related to new OCC guidance with respect to the treatment of mortgage loans where the borrower has gone through Chapter 7 bankruptcy. There was a corresponding approximately $600 million release in the third quarter of 2012 allowance for loan losses previously established related to these charge-offs. See Note 1 to the Consolidated Financial Statements.

(2) The first quarter of 2012 included approximately $370 million of incremental charge-offs related to previously deferred principal balances on modified mortgages. These charge-offs were related to anticipated forgiveness of principal, largely in connection with the national mortgage settlement. There was a corresponding approximate $350 million reserve release in the first quarter of 2012 specific to these charge-offs.

(3) The nine months ended September 30, 2012 primarily included reductions of approximately $620 million related to the sale or transfer to held-for-sale of various U.S. loan portfolios. The nine months ended September 30, 2011 included a reduction of approximately $1,230 million related to the sale or transfer to held-for-sale of various U.S. loan portfolios and a reduction of $240 million related to the sale of the Egg Banking PLC credit card business. See Note 2 to the Consolidated Financial Statements

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

Allowance for Credit Losses and Investment in Loans

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012

In millions of dollars	Corporate	Consumer	Total	Corporate	Consumer	Total
Allowance for loan losses at beginning of period	**$ 2,972**	**$ 24,639**	**$ 27,611**	**$ 2,879**	**$ 27,236**	**$ 30,115**
Charge-offs	**(196)**	**(4,442)**	**(4,638)**	**(508)**	**(13,218)**	**(13,726)**
Recoveries	**79**	**580**	**659**	**320**	**1,896**	**2,216**
Replenishment of net charge-offs	**117**	**3,862**	**3,979**	**188**	**11,322**	**11,510**
Net reserve releases	**1**	**(869)**	**(868)**	**78**	**(1,756)**	**(1,678)**
Net specific reserve builds (releases)	**(175)**	**(425)**	**(600)**	**(170)**	**(1,738)**	**(1,908)**
Other	**19**	**(246)**	**(227)**	**30**	**(643)**	**(613)**
Ending balance	**$ 2,817**	**$ 23,099**	**$ 25,916**	**$ 2,817**	**$ 23,099**	**$ 25,916**

	September 30, 2012			December 31, 2011		
In millions of dollars	Corporate	Consumer	Total	Corporate	Consumer	Total
Allowance for loan losses						
Determined in accordance with ASC 450-20	**$ 2,502**	**$ 16,048**	**$ 18,550**	$ 2,408	$ 18,334	$ 20,742
Determined in accordance with ASC 310-10-35	**254**	**7,021**	**7,275**	420	8,885	9,305
Determined in accordance with ASC 310-30	**61**	**30**	**91**	51	17	68
Total allowance for loan losses	**$ 2,817**	**$ 23,099**	**$ 25,916**	$ 2,879	$ 27,236	$ 30,115
Loans, net of unearned income						
Loans collectively evaluated for impairment in accordance with ASC 450-20	**$ 243,510**	**$ 375,226**	**$ 618,736**	$ 215,778	$ 390,831	$ 606,609
Loans evaluated for impairment in accordance with ASC 310-10-35	**2,946**	**30,849**	**33,795**	3,994	30,863	34,857
Loans acquired with deteriorated credit quality in accordance with ASC 310-30	**112**	**421**	**533**	191	320	511
Loans held at fair value	**4,103**	**1,256**	**5,359**	3,939	1,326	5,265
Total loans, net of unearned income	**$ 250,671**	**$ 407,752**	**$ 658,423**	$ 223,902	$ 423,340	$ 647,242

14. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in *Goodwill* during the first nine months of 2012 were as follows:

In millions of dollars	
Balance at December 31, 2011	**$ 25,413**
Foreign exchange translation	**397**
Balance at March 31, 2012	**$ 25,810**
Foreign exchange translation	**$ (306)**
Smaller acquisitions/divestitures	**(8)**
Purchase accounting adjustments and other	**(13)**
Balance at June 30, 2012	**$ 25,483**
Foreign exchange translation	**449**
Discontinued operations	**(17)**
Balance at September 30, 2012	**$ 25,915**

During the first nine months of 2012, no goodwill was written off due to impairment. The Company performed its annual goodwill impairment test during the third quarter of 2012 resulting in no impairment for any of the reporting units.

As per ASC 350, *Intangibles Goodwill and Other*, management performed a qualitative assessment for the *Transaction Services* reporting unit. Through consideration of various factors including excess of fair value over the carrying value in prior year, projected growth via positive cash flows, and no adverse changes anticipated in the business and macroeconomic environment, management determined that it is not more likely than not that the fair value of this reporting unit is less than its carrying amount and therefore the two step impairment test was not required.

While there was no indication of impairment for the *Brokerage and Asset Management* (*BAM*) and *Local Consumer Lending* Cards (*LCL* Cards) reporting units, goodwill present in these reporting units may be particularly sensitive to further deterioration in economic conditions. If the future were to differ adversely from management's best estimate of key economic assumptions and associated cash flows were to decrease by a small margin, the Company could potentially experience future impairment charges with respect to the $42 million and $109 million of goodwill remaining in the *BAM* and *LCL* Cards reporting units, respectively. The fair value as a percentage of allocated book value as of the July 1, 2012 test for *BAM* and *LCL* Cards was 121% and 110%, respectively.

The following table shows reporting units with goodwill balances as of September 30, 2012:

In millions of dollars **Reporting unit(1)**	**Goodwill**
North America Regional Consumer Banking	**$ 6,808**
EMEA Regional Consumer Banking	**365**
Asia Regional Consumer Banking	**5,695**
Latin America Regional Consumer Banking	**1,889**
Securities and Banking	**9,411**
Transaction Services	**1,596**
Brokerage and Asset Management	**42**
Local Consumer Lending Cards	**109**
Total	**$ 25,915**

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(1)

Local Consumer Lending Other is excluded from the table as there is no goodwill allocated to it.

Intangible Assets

As of September 30, 2012 and December 31, 2011, the components of intangible assets were as follows:

	September 30, 2012			December 31, 2011		
In millions of dollars	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
Purchased credit card relationships	**$ 7,633**	**$ 5,628**	**$ 2,005**	$ 7,616	$ 5,309	$ 2,307
Core deposit intangibles	**1,314**	**997**	**317**	1,337	965	372
Other customer relationships	**821**	**382**	**439**	830	356	474
Present value of future profits	**239**	**133**	**106**	235	123	112
Indefinite-lived intangible assets	**499**		**499**	492		492
Other(1)	**4,825**	**2,228**	**2,597**	4,866	2,023	2,843
Intangible assets (excluding MSRs)	**$ 15,331**	**$ 9,368**	**$ 5,963**	$ 15,376	$ 8,776	$ 6,600
Mortgage servicing rights (MSRs)	**1,920**		**1,920**	2,569		2,569
Total intangible assets	**$ 17,251**	**$ 9,368**	**$ 7,883**	$ 17,945	$ 8,776	$ 9,169

(1) Includes contract-related intangible assets.

The changes in intangible assets during the first nine months of 2012 were as follows:

In millions of dollars	**Net carrying amount at December 31, 2011**	**Acquisitions/ divestitures**	**Amortization**	**Impairments**	**FX and other(1)**	**Discontinued Operations**	**Net carrying amount at September 30, 2012**
Purchased credit card relationships	$ 2,307	$	$ (303)	$	$ 1	$	**$ 2,005**
Core deposit intangibles	372		(63)		8		**317**
Other customer relationships	474		(34)		(1)		**439**
Present value of future profits	112		(7)		1		**106**
Indefinite-lived intangible assets	492				7		**499**
Other	2,843	2	(241)	(1)	14	(20)	**2,597**
Intangible assets (excluding MSRs)	$ 6,600	$ 2	$ (648)	$ (1)	$ 30	$ (20)	**$ 5,963**
Mortgage servicing rights (MSRs)(2)	2,569						**1,920**
Total intangible assets	$ 9,169						**$ 7,883**

(1) Includes foreign exchange translation and purchase accounting adjustments.

(2) See Note 17 to the Consolidated Financial Statements for the roll-forward of MSRs.

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15. DEBT

Short-Term Borrowings

Short-term borrowings consist of commercial paper and other borrowings at September 30, 2012 and December 31, 2011 as follows:

In millions of dollars	September 30, 2012	December 31, 2011
Commercial paper		
Bank	**$ 11,837**	$ 14,872
Non-bank	**560**	6,414
	$ 12,397	$ 21,286
Other borrowings(1)	**36,767**	33,155
Total	**$ 49,164**	$ 54,441

(1) At September 30, 2012 and December 31, 2011, collateralized short-term advances from the Federal Home Loan Banks were $6 billion and $5 billion, respectively.

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

Some of Citigroup's non-bank subsidiaries have credit facilities with Citigroup's subsidiary depository institutions, including Citibank, N.A. Borrowings under these facilities are secured in accordance with Section 23A of the Federal Reserve Act.

Citigroup Global Markets Holdings Inc. (CGMHI) has borrowing agreements consisting of facilities that CGMHI has been advised are available, but where no contractual lending obligation exists. These arrangements are reviewed on an ongoing basis to ensure flexibility in meeting CGMHI's short-term requirements.

Long-Term Debt

In millions of dollars	September 30, 2012	December 31, 2011
Citigroup parent company	**$ 154,333**	$ 181,702
Bank(1)	**61,887**	77,895
Other non-bank	**55,642**	63,908
Total(2)(3)	**$ 271,862**	$ 323,505

(1) Represents Citibank, N.A., as well as subsidiaries of Citibank and Banamex. At September 30, 2012 and December 31, 2011, collateralized long-term advances from the Federal Home Loan Banks were $17.3 billion and $11.0 billion, respectively.

(2) Of this amount, approximately $13.5 billion consisted of Temporary Liquidity Guarantee Program (TLGP) debt that will mature in full by the end of 2012.

(3) Includes senior notes with carrying values of $170 million issued to Safety First Trust Series 2007-4, 2008-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, 2009-1, 2009-2, and 2009-3 at September 30, 2012 and $215 million issued to Safety First Trust Series 2007-3,

2007-4, 2008-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, 2009-1, 2009-2, and 2009-3 at December 31, 2011. Citigroup Funding Inc. (CFI) owns all of the voting securities of the Safety First Trusts. The Safety First Trusts have no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the Safety First Trust securities and the Safety First Trusts' common securities. The Safety First Trusts' obligations under the Safety First Trust securities are fully and unconditionally guaranteed by CFI, and CFI's guarantee obligations are fully and unconditionally guaranteed by Citigroup.

CGMHI has committed long-term financing facilities with unaffiliated banks. At September 30, 2012, CGMHI had drawn down $300 million available under these facilities. Generally, a bank can terminate these facilities by giving CGMHI one-year prior notice.

Long-term debt outstanding includes trust preferred securities with a balance sheet carrying value of $10,560 million and $16,057 million at September 30, 2012 and December 31, 2011, respectively. In issuing these trust preferred securities, Citi formed statutory business trusts under the laws of the State of Delaware. The trusts exist for the exclusive purposes of (i) issuing trust preferred securities representing undivided beneficial interests in the assets of the trust; (ii) investing the gross proceeds of the trust preferred securities in junior subordinated deferrable interest debentures (subordinated debentures) of its parent; and (iii) engaging in only those activities necessary or incidental thereto. Generally, upon receipt of certain regulatory approvals, Citigroup has the right to redeem these securities.

As previously disclosed, during the third quarter of 2012, Citi redeemed three series of its trust preferred securities resulting in a pretax gain of $198 million. The redemptions under Citigroup Capital XII and XXI closed on July 18, 2012, while Citigroup Capital XIX closed on August 15, 2012.

The following table summarizes the financial structure of each of the subsidiary trusts issuing these trust preferred securities as of September 30, 2012:

Trust preferred securities with distributions guaranteed by Citigroup *In millions of dollars, except share amounts*	**Issuance date**	**Securities issued**	**Liquidation value(1)**	**Coupon rate**	**Common shares issued to parent**	**Junior subordinated debentures owned by trust** Amount	Maturity	Redeemable by issuer beginning
Citigroup Capital III	Dec. 1996	194,053	$ 194	7.625%	6,003	$ 200	Dec. 1, 2036	Not redeemable
Citigroup Capital VII	July 2001	35,885,898	897	7.125%	1,109,874	925	July 31, 2031	July 31, 2006
Citigroup Capital VIII	Sept. 2001	43,651,597	1,091	6.950%	1,350,050	1,125	Sept. 15, 2031	Sept. 17, 2006
Citigroup Capital IX	Feb. 2003	33,874,813	847	6.000%	1,047,675	873	Feb. 14, 2033	Feb. 13, 2008
Citigroup Capital X	Sept. 2003	14,757,823	369	6.100%	456,428	380	Sept. 30, 2033	Sept. 30, 2008
Citigroup Capital XI	Sept. 2004	18,387,128	460	6.000%	568,675	474	Sept. 27, 2034	Sept. 27, 2009
Citigroup Capital XIII	Sept. 2010	89,840,000	2,246	7.875%	1,000	2,246	Oct. 30, 2040	Oct. 30, 2015
Citigroup Capital XIV	June 2006	12,227,281	306	6.875%	40,000	307	June 30, 2066	June 30, 2011
Citigroup Capital XV	Sept. 2006	25,210,733	630	6.500%	40,000	631	Sept. 15, 2066	Sept. 15, 2011
Citigroup Capital XVI	Nov. 2006	38,148,947	954	6.450%	20,000	954	Dec. 31, 2066	Dec. 31, 2011
Citigroup Capital XVII	Mar. 2007	28,047,927	701	6.350%	20,000	702	Mar. 15, 2067	Mar. 15, 2012
Citigroup Capital XVIII	June 2007	99,901	161	6.829%	50	161	June 28, 2067	June 28, 2017
Citigroup Capital XX	Nov. 2007	17,709,814	443	7.875%	20,000	443	Dec. 15, 2067	Dec. 15, 2012
Citigroup Capital XXXIII	July 2009	3,025,000	3,025	8.000%	100	3,025	July 30, 2039	July 30, 2014
Adam Capital Trust III	Dec. 2002	17,500	18	3 mo. LIB +335 bp.	542	18	Jan. 7, 2033	Jan. 7, 2008
Adam Statutory Trust III	Dec. 2002	25,000	25	3 mo. LIB +325 bp.	774	26	Dec. 26, 2032	Dec. 26, 2007
Adam Statutory Trust IV	Sept. 2003	40,000	40	3 mo. LIB +295 bp.	1,238	41	Sept. 17, 2033	Sept. 17, 2008
Adam Statutory Trust V	Mar. 2004	35,000	35	3 mo. LIB +279 bp.	1,083	36	Mar. 17, 2034	Mar. 17, 2009
Total obligated			**$ 12,442**			**$ 12,567**		

(1) Represents the proceeds received from the trust at the date of issuance.

In each case, the coupon rate on the debentures is the same as that on the trust securities. Distributions on the trust securities and interest on the debentures are payable quarterly, except for Citigroup Capital III and Citigroup Capital XVIII on which distributions are payable semiannually.

16. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of *Accumulated other comprehensive income (loss)* for the nine months ended September 30, 2012 and 2011 are as follows:

Nine months ended September 30, 2012: *In millions of dollars*	**Net unrealized gains (losses) on investment securities**	**Foreign currency translation adjustment, net of hedges**	**Cash flow hedges**	**Pension liability adjustments**	**Accumulated other comprehensive income (loss)**
Balance, December 31, 2011	**$ (35)**	**$ (10,651)**	**$ (2,820)**	**$ (4,282)**	**$ (17,788)**
Change, net of taxes(1)(2)(3)(4)(5)(6)	**(774)**	**1,697**	**220**	**(90)**	**1,053**
Balance, March 31, 2012	**$ (809)**	**$ (8,954)**	**$ (2,600)**	**$ (4,372)**	**$ (16,735)**
Change, net of taxes(1)(3)(4)(5)(6)	**564**	**(1,596)**	**(89)**	**107**	**(1,014)**
Balance, June 30, 2012	**$ (245)**	**$ (10,550)**	**$ (2,689)**	**$ (4,265)**	**$ (17,749)**
Change, net of taxes(1)(3)(5)(6)	**776**	**1,245**	**186**	**(24)**	**2,183**
Balance, September 30, 2012	**$ 531**	**$ (9,305)**	**$ (2,503)**	**$ (4,289)**	**$ (15,566)**

Nine months ended September 30, 2011: *In millions of dollars*	**Net unrealized gains (losses) on investment securities**	**Foreign currency translation adjustment, net of hedges**	**Cash flow hedges**	**Pension liability adjustments**	**Accumulated other comprehensive income (loss)**
Balance, December 31, 2010	**$ (2,395)**	**$ (7,127)**	**$ (2,650)**	**$ (4,105)**	**$ (16,277)**
Change, net of taxes(1)(3)(5)(6)	740	1,364	152	37	2,293
Balance, March 31, 2011	**$ (1,655)**	**$ (5,763)**	**$ (2,498)**	**$ (4,068)**	**$ (13,984)**
Change, net of taxes(1)(3)(5)(6)	1,052	776	(69)	3	1,762
Balance, June 30, 2011	**$ (603)**	**$ (4,987)**	**$ (2,567)**	**$ (4,065)**	**$ (12,222)**
Change, net of taxes(1)(3)(5)(6)	505	(4,935)	(532)	140	(4,822)
Balance, September 30, 2011	**$ (98)**	**$ (9,922)**	**$ (3,099)**	**$ (3,925)**	**$ (17,044)**

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(1) The after-tax realized gains (losses) on sales and impairments of securities during the nine months ended September 30, 2012 and 2011 were $(1,255) million and $(26) million, respectively. For details of the realized gains (losses) on sales and impairments on Citigroup's investment securities included in income, see Note 11 to the Consolidated Financial Statements.

(2) For net unrealized gains (losses) on investment securities, includes the after-tax impact of realized gains from the sales of minority investments: $672 million from the Company's entire interest in Housing Development Finance Corporation Ltd. (HDFC); and $421 million from the Company's entire interest in Shanghai Pudong Development Bank (SPDB).

(3) For the third quarter of 2012, the foreign currency translation adjustment primarily reflected the movements in (by order of impact) the Mexican peso, Pound sterling, Chilean peso and Korean won against the U.S. dollar, and changes in related tax effects and hedges. For the second quarter of 2012, the foreign currency translation adjustment primarily reflected the movements in (by order of impact) the Mexican peso, Brazilian real, Indian rupee, Russian ruble and Polish zloty against the U.S. dollar, and changes in related tax effects and hedges. For the first quarter of 2012, primarily reflected the movements in (by order of impact) the Mexican peso, Turkish lira,

Japanese yen, Euro and Polish zloty against the U.S. dollar, and changes in related tax effects and hedges. For the nine months ended September 30, 2011, primarily reflected the movements in (by order of impact) the Mexican peso, Turkish lira, Brazilian real, Indian rupee and Polish zloty against the U.S. dollar, and changes in related tax effects and hedges.

(4) The after-tax impact due to impairment charges and the loss related to Akbank, included within the foreign currency translation adjustment, during the six months ended June 30, 2012 was $667 million. See Note 11 to the Consolidated Financial Statements.

(5) For cash flow hedges, primarily driven by Citigroup's pay fixed/receive floating interest rate swap programs that are hedging the floating rates on deposits and long-term debt.

(6) For the pension liability adjustment, primarily reflects adjustments based on the final year-end actuarial valuations of the Company's pension and postretirement plans and amortization of amounts previously recognized in other comprehensive income.

The pretax and after-tax changes in each component of *Accumulated other comprehensive income (loss)* for the nine months ended September 30, 2012 and 2011 are as follows:

Nine months ended September 30, 2012:

In millions of dollars	Pretax	Tax effect	After-tax
Balance, December 31, 2011	**$ (25,454)**	**$ 7,666**	**$ (17,788)**
Change in net unrealized gains (losses) on investment securities	**(1,204)**	**430**	**(774)**
Foreign currency translation adjustment	**1,499**	**198**	**1,697**
Cash flow hedges	**359**	**(139)**	**220**
Pension liability adjustment	**31**	**(121)**	**(90)**
Change	**$ 685**	**$ 368**	**$ 1,053**
Balance, March 31, 2012	**$ (24,769)**	**$ 8,034**	**$ (16,735)**
Change in net unrealized gains (losses) on investment securities	**945**	**(381)**	**564**
Foreign currency translation adjustment	**(1,728)**	**132**	**(1,596)**
Cash flow hedges	**(141)**	**52**	**(89)**
Pension liability adjustment	**127**	**(20)**	**107**
Change	**$ (797)**	**$ (217)**	**$ (1,014)**
Balance, June 30, 2012	**$ (25,566)**	**$ 7,817**	**$ (17,749)**
Change in net unrealized gains (losses) on investment securities	**1,189**	**(413)**	**776**
Foreign currency translation adjustment	**1,068**	**177**	**1,245**
Cash flow hedges	**294**	**(108)**	**186**
Pension liability adjustment	**(33)**	**9**	**(24)**
Change	**$ 2,518**	**$ (335)**	**$ 2,183**
Balance, September 30, 2012	**$ (23,048)**	**$ 7,482**	**$ (15,566)**

Nine months ended September 30, 2011:

In millions of dollars	Pretax	Tax effect	After-tax
Balance, December 31, 2010	**$ (24,607)**	**$ 8,330**	**$ (16,277)**
Change in net unrealized gains (losses) on investment securities	1,262	(522)	740
Foreign currency translation adjustment	1,280	84	1,364
Cash flow hedges	267	(115)	152
Pension liability adjustment	57	(20)	37
Change	$ 2,866	$ (573)	$ 2,293
Balance, March 31, 2011	**$ (21,741)**	**$ 7,757**	**$ (13,984)**
Change in net unrealized gains (losses) on investment securities	1,600	(548)	1,052
Foreign currency translation adjustment	745	31	776
Cash flow hedges	(118)	49	(69)
Pension liability adjustment	(12)	15	3
Change	$ 2,215	$ (453)	$ 1,762
Balance, June 30, 2011	**$ (19,526)**	**$ 7,304**	**$ (12,222)**
Change in net unrealized gains (losses) on investment securities	893	(388)	505
Foreign currency translation adjustment	(5,228)	293	(4,935)
Cash flow hedges	(857)	325	(532)
Pension liability adjustment	221	(81)	140
Change	$ (4,971)	$ 149	$ (4,822)

Balance, September 30, 2011	**$**	**(24,497)**	**$**	**7,453**	**$**	**(17,044)**

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17. SECURITIZATIONS AND VARIABLE INTEREST ENTITIES

Uses of SPEs

A special purpose entity (SPE) is an entity designed to fulfill a specific limited need of the company that organized it. The principal uses of SPEs are to obtain liquidity and favorable capital treatment by securitizing certain of Citigroup's financial assets, to assist clients in securitizing their financial assets and to create investment products for clients. SPEs may be organized in many legal forms including trusts, partnerships or corporations. In a securitization, the company transferring assets to an SPE converts all (or a portion) of those assets into cash before they would have been realized in the normal course of business through the SPE's issuance of debt and equity instruments, certificates, commercial paper and other notes of indebtedness, which are recorded on the balance sheet of the SPE and not reflected in the transferring company's balance sheet, assuming applicable accounting requirements are satisfied.

Investors usually only have recourse to the assets in the SPE and often benefit from other credit enhancements, such as a collateral account or over-collateralization in the form of excess assets in the SPE, a line of credit, or from a liquidity facility, such as a liquidity put option or asset purchase agreement. The SPE can typically obtain a more favorable credit rating from rating agencies than the transferor could obtain for its own debt issuances, resulting in less expensive financing costs than unsecured debt. The SPE may also enter into derivative contracts in order to convert the yield or currency of the underlying assets to match the needs of the SPE investors or to limit or change the credit risk of the SPE. Citigroup may be the provider of certain credit enhancements as well as the counterparty to any related derivative contracts.

Most of Citigroup's SPEs are variable interest entities (VIEs), as described below.

Variable Interest Entities

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

The variable interest holder, if any, that has a controlling financial interest in a VIE is deemed to be the primary beneficiary and must consolidate the VIE. Citigroup would be deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

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

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

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

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

Citigroup's involvement with consolidated and unconsolidated VIEs with which the Company holds significant variable interests or has continuing involvement through servicing a majority of the assets in a VIE as of September 30, 2012 and December 31, 2011 is presented below:

	As of September 30, 2012							
				Maximum exposure to loss in significant unconsolidated VIEs(1)				
				Funded exposures(2)		Unfunded exposures(3)		
In millions of dollars	Total involvement with SPE assets	Consolidated VIE / SPE assets	Significant unconsolidated VIE assets(4)	Debt investments	Equity investments	Funding commitments	Guarantees and derivatives	Total
Citicorp								
Credit card securitizations	$ 75,694	$ 75,694	$	$	$	$	$	$
Mortgage securitizations(5)								
U.S. agency-sponsored	234,332		234,332	2,606			23	2,629
Non-agency-sponsored	9,416	1,320	8,096	398				398
Citi-administered asset-backed commercial paper conduits (ABCP)	28,231	20,325	7,906			7,906		7,906
Third-party commercial paper conduits								
Collateralized debt obligations (CDOs)	5,563		5,563	25				25
Collateralized loan obligations (CLOs)	10,565		10,565	398	20			418
Asset-based financing	27,004	1,163	25,841	11,914	81	2,883	117	14,995
Municipal securities tender option bond trusts (TOBs)	15,512	7,726	7,786	304		4,785		5,089
Municipal investments	19,030	275	18,755	1,949	2,998	1,454		6,401
Client intermediation	2,369	170	2,199	337				337
Investment funds	2,108	21	2,087		29			29
Trust preferred securities	12,699		12,699		127			127
Other	2,478	130	2,348	323	278	162	92	855
Total	$ 445,001	$ 106,824	$ 338,177	$ 18,254	$ 3,533	$ 17,190	$ 232	$ 39,209
Citi Holdings								
Credit card securitizations	$ 781	$ 399	$ 382	$	$	$	$	$
Mortgage securitizations								
U.S. agency-sponsored	118,940		118,940	695			143	838
Non-agency-sponsored	17,623	1,670	15,953	47			2	49
Student loan securitizations	1,723	1,723						
Collateralized debt obligations (CDOs)	5,028		5,028	125			151	276
Collateralized loan obligations (CLOs)	4,884		4,884	438			101	539
Asset-based financing	7,945	3	7,942	3,048	11	328		3,387
Municipal investments	7,758		7,758	124	237	1,002		1,363
Client intermediation	33	33						
Investment funds	1,151		1,151		46			46
Other	6,587	6,437	150		3			3
Total	$ 172,453	$ 10,265	$ 162,188	$ 4,477	$ 297	$ 1,330	$ 397	$ 6,501
Total Citigroup	$ 617,454	$ 117,089	$ 500,365	$ 22,731	$ 3,830	$ 18,520	$ 629	$ 45,710

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

(2) Included in Citigroup's September 30, 2012 Consolidated Balance Sheet.

(3) Not included in Citigroup's September 30, 2012 Consolidated Balance Sheet.

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

(5) Citicorp mortgage securitizations also include agency and non-agency (private-label) re-securitization activities. These SPEs are not consolidated. See "Re-Securitizations" below for further discussion.

As of December 31, 2011

				Maximum exposure to loss in significant unconsolidated VIEs(1)				
				Funded exposures(2)		Unfunded exposures(3)		
In millions of dollars	Total involvement with SPE assets	Consolidated VIE / SPE assets	Significant unconsolidated VIE assets(4)	Debt investments	Equity investments	Funding commitments	Guarantees and derivatives	Total
Citicorp								
Credit card securitizations	$ 87,083	$ 87,083	$	$	$	$	$	$
Mortgage securitizations(5)								
U.S. agency-sponsored	232,179		232,179	3,769			26	3,795
Non-agency-sponsored	9,743	1,622	8,121	348				348
Citi-administered asset-backed commercial paper conduits (ABCP)	34,987	21,971	13,016			13,016		13,016
Third-party commercial paper conduits	7,507		7,507			298		298
Collateralized debt obligations (CDOs)	3,334		3,334	20				20
Collateralized loan obligations (CLOs)	8,127		8,127	64				64
Asset-based financing	19,034	1,303	17,731	7,892	2	2,891	121	10,906
Municipal securities tender option bond trusts (TOBs)	16,849	8,224	8,625	708		5,413		6,121
Municipal investments	20,331	299	20,032	2,345	3,535	1,586		7,466
Client intermediation	2,110	24	2,086	468				468
Investment funds	3,415	30	3,385		171	63		234
Trust preferred securities	17,882		17,882		128			128
Other	6,210	97	6,113	354	172	279	79	884
Total	$ 468,791	$ 120,653	$ 348,138	$ 15,968	$ 4,008	$ 23,546	$ 226	$ 43,748
Citi Holdings								
Credit card securitizations	$ 780	$ 581	$ 199	$	$	$	$	$
Mortgage securitizations								
U.S. agency-sponsored	152,265		152,265	1,159			120	1,279
Non-agency-sponsored	20,821	1,764	19,057	61			2	63
Student loan securitizations	1,822	1,822						
Collateralized debt obligations (CDOs)	6,581		6,581	117			120	237
Collateralized loan obligations (CLOs)	7,479		7,479	1,125		6	90	1,221
Asset-based financing	10,490	73	10,417	5,004	3	250		5,257
Municipal investments	7,820		7,820	206	265	1,049		1,520
Client intermediation	111	111						
Investment funds	1,114	14	1,100		43			43
Other	6,762	6,581	181	3	36	15		54
Total	$ 216,045	$ 10,946	$ 205,099	$ 7,675	$ 347	$ 1,320	$ 332	$ 9,674
Total Citigroup	$ 684,836	$ 131,599	$ 553,237	$ 23,643	$ 4,355	$ 24,866	$ 558	$ 53,422

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

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

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

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

(5) Citicorp mortgage securitizations also include agency and non-agency (private-label) re-securitization activities. These SPEs are not consolidated. See "Re-Securitizations" below for further discussion.

Reclassified to conform to the current year's presentation.

The previous tables do not include:

- certain venture capital investments made by some of the Company's private equity subsidiaries, as the Company accounts for these investments in accordance with the Investment Company Audit Guide;
- certain limited partnerships that are investment funds that qualify for the deferral from the requirements of ASC 810 where the Company is the general partner and the limited partners have the right to replace the general partner or liquidate the funds;
- certain investment funds for which the Company provides investment management services and personal estate trusts for which the Company provides administrative, trustee and/or investment management services;
- VIEs structured by third parties where the Company holds securities in inventory, as these investments are made on arm's-length terms;
- certain positions in mortgage-backed and asset-backed securities held by the Company, which are classified as *Trading account assets* or *Investments*, where the Company has no other involvement with the related securitization entity deemed to be significant (for more information on these positions, see Notes 10 and 11 to the Consolidated Financial Statements);
- certain representations and warranties exposures in legacy *Securities and Banking*-sponsored mortgage-backed and asset-backed securitizations, where the Company has no variable interest or continuing involvement as servicer. The outstanding balance of mortgage loans securitized during 2005 to 2008 where the Company has no variable interest or continuing involvement as servicer was approximately $19 billion at September 30, 2012; and
- certain representations and warranties exposures in Citigroup residential mortgage securitizations, where the original mortgage loan balances are no longer outstanding.

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

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

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

Funding Commitments for Significant Unconsolidated VIEs Liquidity Facilities and Loan Commitments

The following table presents the notional amount of liquidity facilities and loan commitments that are classified as funding commitments in the VIE tables above as of September 30, 2012:

In millions of dollars	Liquidity facilities	Loan commitments
Citicorp		
Citi-administered asset-backed commercial paper conduits (ABCP)	**$ 7,906**	**$**
Asset-based financing	**6**	**2,877**
Municipal securities tender option bond trusts (TOBs)	**4,785**	
Municipal investments		**1,454**
Other		**162**
Total Citicorp	**$ 12,697**	**$ 4,493**
Citi Holdings		
Asset-based financing	**$**	**$ 328**
Municipal investments		**1,002**
Total Citi Holdings	**$**	**$ 1,330**
Total Citigroup funding commitments	**$ 12,697**	**$ 5,823**

Citicorp and Citi Holdings Consolidated VIEs

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

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

The following table presents the carrying amounts and classifications of consolidated assets that are collateral for consolidated VIE and SPE obligations as of September 30, 2012 and December 31, 2011:

	September 30, 2012			December 31, 2011		
In billions of dollars	Citicorp	Citi Holdings	Citigroup	Citicorp	Citi Holdings	Citigroup
Cash	**$ 0.2**	**$ 0.4**	**$ 0.6**	$ 0.2	$ 0.4	$ 0.6
Trading account assets	**0.5**		**0.5**	0.4	0.1	0.5
Investments	**7.4**		**7.4**	10.6		10.6
Total loans, net	**97.7**	**9.6**	**107.3**	109.0	10.1	119.1
Other	**1.0**	**0.2**	**1.2**	0.5	0.3	0.8
Total assets	**$ 106.8**	**$ 10.2**	**$ 117.0**	$ 120.7	$ 10.9	$ 131.6
Short-term borrowings	**$ 18.7**	**$**	**$ 18.7**	$ 22.5	$ 0.8	$ 23.3
Long-term debt	**29.7**	**6.0**	**35.7**	44.8	5.6	50.4
Other liabilities	**0.5**	**0.1**	**0.6**	0.4	0.2	0.6
Total liabilities	**$ 48.9**	**$ 6.1**	**$ 55.0**	$ 67.7	$ 6.6	$ 74.3

Citicorp and Citi Holdings Significant Variable Interests in Unconsolidated VIEs Balance Sheet Classification

The following table presents the carrying amounts and classification of significant variable interests in unconsolidated VIEs as of September 30, 2012 and December 31, 2011:

	September 30, 2012			December 31, 2011		
In billions of dollars	Citicorp	Citi Holdings	Citigroup	Citicorp	Citi Holdings	Citigroup
Trading account assets	**$ 3.4**	**$ 0.5**	**$ 3.9**	$ 5.5	$ 1.0	$ 6.5
Investments	**3.3**	**2.8**	**6.1**	3.9	4.4	8.3
Loans	**13.7**	**1.0**	**14.7**	9.0	1.6	10.6
Other	**1.4**	**0.5**	**1.9**	1.6	1.0	2.6
Total assets	**$ 21.8**	**$ 4.8**	**$ 26.6**	$ 20.0	$ 8.0	$ 28.0
Long-term debt	**$ 0.2**	**$**	**$ 0.2**	$ 0.2	$	$ 0.2
Other liabilities						
Total liabilities	**$ 0.2**	**$**	**$ 0.2**	$ 0.2	$	$ 0.2

Credit Card Securitizations

The Company securitizes credit card receivables through trusts that are established to purchase the receivables. Citigroup transfers receivables into the trusts on a non-recourse basis. Credit card securitizations are revolving securitizations; that is, as customers pay their credit card balances, the cash proceeds are used to purchase new receivables and replenish the receivables in the trust.

Substantially all of the Company's credit card securitization activity is through two trusts Citibank Credit Card Master Trust (Master Trust) and the Citibank Omni Master Trust (Omni Trust). Since the adoption of SFAS 167 (ASC 810) on January 1, 2010, these trusts are treated as consolidated entities because, as servicer, Citigroup has the power to direct the activities that most significantly impact the economic performance of the trusts and also holds a seller's interest and certain securities issued by the trusts, and provides liquidity facilities to the trusts, which could result in potentially significant losses or benefits from the trusts. Accordingly, the transferred credit card receivables remain on the Consolidated Balance Sheet with no gain or loss recognized. The debt issued by the trusts to third parties is included in the Consolidated Balance Sheet.

The Company relies on securitizations to fund a significant portion of its credit card businesses in *North America*. The following table reflects amounts related to the Company's securitized credit card receivables as of September 30, 2012 and December 31, 2011:

	Citicorp		Citi Holdings	
In billions of dollars	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Principal amount of credit card receivables in trusts	**$ 78.4**	$ 89.8	**$ 0.4**	$ 0.6
Ownership interests in principal amount of trust credit card receivables				
Sold to investors via trust-issued securities	**$ 28.8**	$ 42.7	**$ 0.1**	$ 0.3
Retained by Citigroup as trust-issued securities	**13.0**	14.7	**0.1**	0.1
Retained by Citigroup via non-certificated interests	**36.6**	32.4	**0.2**	0.2
Total ownership interests in principal amount of trust credit card receivables	**$ 78.4**	$ 89.8	**$ 0.4**	$ 0.6

Credit Card Securitizations Citicorp

The following table summarizes selected cash flow information related to Citicorp's credit card securitizations for the three and nine months ended September 30, 2012 and 2011:

In billions of dollars	Three months ended September 30, 2012	2011
Proceeds from new securitizations	**$ 0.5**	$
Pay down of maturing notes	**(3.0)**	(0.6)

In billions of dollars	Nine months ended September 30, 2012	2011
Proceeds from new securitizations	**$ 0.5**	$
Pay down of maturing notes	**(14.4)**	(11.5)

Credit Card Securitizations Citi Holdings

The following table summarizes selected cash flow information related to Citi Holdings' credit card securitizations for the three and nine months ended September 30, 2012 and 2011:

In billions of dollars	Three months ended September 30, 2012	2011
Proceeds from new securitizations	**$ 0.3**	$
Pay down of maturing notes		

In billions of dollars	Nine months ended September 30, 2012	2011
Proceeds from new securitizations	**$ 0.3**	$ 3.9
Pay down of maturing notes	**(0.1)**	(7.2)

Managed Loans

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

Funding, Liquidity Facilities and Subordinated Interests

As noted above, Citigroup securitizes credit card receivables through two securitization trusts Master Trust, which is part of Citicorp, and Omni Trust, which is also substantially part of Citicorp. The liabilities of the trusts are included in the Consolidated Balance Sheet, excluding those retained by Citigroup.

Master Trust issues fixed- and floating-rate term notes. Some of the term notes are issued to multi-seller commercial paper conduits. The weighted average maturity of the term notes issued by the Master Trust was 3.4 years as of September 30, 2012 and 3.1 years as of December 31, 2011.

Master Trust Liabilities (at par value)

In billions of dollars	Sept. 30, 2012	Dec. 31, 2011
Term notes issued to multi-seller commercial paper conduits	**$**	$
Term notes issued to third parties	**22.9**	30.4
Term notes retained by Citigroup affiliates	**5.9**	7.7
Total Master Trust liabilities	**$ 28.8**	$ 38.1

The Omni Trust issues fixed- and floating-rate term notes, some of which are purchased by multi-seller commercial paper conduits. The weighted average maturity of the third-party term notes issued by the Omni Trust was 1.7 years as of September 30, 2012 and 1.5 years as of December 31, 2011.

Omni Trust Liabilities (at par value)

In billions of dollars	Sept. 30, 2012	Dec. 31, 2011
Term notes issued to multi-seller commercial paper conduits	**$ 1.7**	$ 3.4
Term notes issued to third parties	**4.4**	9.2
Term notes retained by Citigroup affiliates	**7.1**	7.1
Total Omni Trust liabilities	**$ 13.2**	$ 19.7

Mortgage Securitizations

The Company provides a wide range of mortgage loan products to a diverse customer base. Once originated, the Company often securitizes these loans through the use of SPEs. These SPEs are funded through the issuance of trust certificates backed solely by the transferred assets. These certificates have the same average life as the transferred assets. In addition to providing a source of liquidity and less expensive funding, securitizing these assets also reduces the Company's credit exposure to the borrowers. These mortgage loan securitizations are primarily non-recourse, thereby effectively transferring the risk of future credit losses to the purchasers of the securities issued by the trust. However, the Company's Consumer business generally retains the servicing rights and in certain instances retains investment securities, interest-only strips and residual interests in future cash flows from the trusts and also provides servicing for a limited number of *Securities and Banking* securitizations. *Securities and Banking* and *Special Asset Pool* do not retain servicing for their mortgage securitizations.

The Company securitizes mortgage loans generally through either a government-sponsored agency, such as Ginnie Mae, Fannie Mae or Freddie Mac (U.S. agency-sponsored mortgages), or private label (non-agency-sponsored mortgages) securitization. The Company is not the primary beneficiary of its U.S. agency-sponsored mortgage securitizations because Citigroup does not have the power to direct the activities of the SPE that most significantly impact the entity's economic performance. Therefore, Citi does not consolidate these U.S. agency-sponsored mortgage securitizations.

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

In certain instances, the Company has (1) the power to direct the activities and (2) the obligation to either absorb losses or right to receive benefits that could be potentially significant to its non-agency-sponsored mortgage securitizations and, therefore, is the primary beneficiary and consolidates the SPE.

Mortgage Securitizations Citicorp

The following tables summarize selected cash flow information related to Citicorp mortgage securitizations for the three and nine months ended September 30, 2012 and 2011:

	Three months ended September 30,		
	2012		2011
In billions of dollars	U.S. agency-sponsored mortgages	Non-agency-sponsored mortgages	Agency- and non-agency-sponsored mortgages
Proceeds from new securitizations	**$ 13.8**	**$ 1.5**	$ 12.8
Contractual servicing fees received	**0.1**		0.1
Cash flows received on retained interests and other net cash flows			

	Nine months ended September 30,		
	2012		2011
In billions of dollars	U.S. agency-sponsored mortgages	Non-agency-sponsored mortgages	Agency- and non-agency-sponsored mortgages
Proceeds from new securitizations	**$ 40.7**	**$ 2.0**	$ 38.7
Contractual servicing fees received	**0.4**		0.4
Cash flows received on retained interests and other net cash flows	**0.1**		0.1

Gains (losses) recognized on the securitization of U.S. agency-sponsored mortgages were $2.5 million and $8.4 million for the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2012, gains (losses) recognized on the securitization of non-agency-sponsored mortgages were $21.9 million and $20.4 million, respectively.

Agency and non-agency mortgage securitization gains (losses) for the three and nine months ended September 30, 2011 were $(1.6) million and $(9.3) million, respectively.

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Key assumptions used in measuring the fair value of retained interests at the date of sale or securitization of mortgage receivables for the three and nine months ended September 30, 2012 and 2011 were as follows:

	Three months ended September 30, 2012		
		Non-agency-sponsored mortgages(1)	
	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests
Discount rate	**0.2% to 12.9%**		**4.6% to 17.2%**
Weighted average discount rate	**12.0%**		**9.0%**
Constant prepayment rate	**9.4% to 36.4%**		**3.8% to 8.4%**
Weighted average constant prepayment rate	**10.8%**		**6.6%**
Anticipated net credit losses(2)	**NM**		**35.0% to 60.0%**
Weighted average anticipated net credit losses	**NM**		**44.0%**

	Three months ended September 30, 2011		
		Non-agency-sponsored mortgages(1)	
	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests
Discount rate	**3.0% to 17.5%**		
Weighted average discount rate	**10.9%**		
Constant prepayment rate	**5.0% to 23.1%**		
Weighted average constant prepayment rate	**9.6%**		
Anticipated net credit losses(2)	**NM**		
Weighted average anticipated net credit losses	**NM**		

	Nine months ended September 30, 2012		
		Non-agency-sponsored mortgages(1)	
	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests
Discount rate	**0.2% to 14.4%**	**13.4%**	**4.6% to 19.3%**
Weighted average discount rate	**11.4%**	**13.4%**	**13.2%**
Constant prepayment rate	**7.3% to 36.4%**	**8.1%**	**2.2% to 8.4%**
Weighted average constant prepayment rate	**10.2%**	**8.1%**	**4.7%**
Anticipated net credit losses(2)	**NM**	**50.5%**	**35.0% to 62.9%**
Weighted average anticipated net credit losses	**NM**	**50.5%**	**54.3%**

	Nine months ended September 30, 2011		
		Non-agency-sponsored mortgages(1)	
	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests
Discount rate	**0.6% to 28.3%**	**2.4% to 10.0%**	**8.4%**
Weighted average discount rate	**11.4%**	**4.5%**	**8.4%**
Constant prepayment rate	**2.2% to 23.1%**	**1.0% to 2.2%**	**22.1%**
Weighted average constant prepayment rate	**7.2%**	**1.9%**	**22.1%**
Anticipated net credit losses(2)	**NM**	**35.0% to 72.0%**	**11.4%**
Weighted average anticipated net credit losses	**NM**	**45.3%**	**11.4%**

(1)

Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

(2)
Anticipated net credit losses represent estimated loss severity associated with defaulted mortgage loans underlying the mortgage securitizations disclosed above. Anticipated net credit losses, in this instance, do not represent total credit losses incurred to date, nor do they represent credit losses expected on retained interests in mortgage securitizations.

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

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The range in the key assumptions is due to the different characteristics of the interests retained by the Company. The interests retained range from highly rated and/or senior in the capital structure to unrated and/or residual interests.

The effect of adverse changes of 10% and 20% in each of the key assumptions used to determine the fair value of retained interests and the sensitivity of the fair value to such adverse changes, each as of September 30, 2012, is set forth in the tables below. The negative effect of each change is calculated independently, holding all other assumptions constant. Because the key assumptions may not in fact be independent, the net effect of simultaneous adverse changes in the key assumptions may be less than the sum of the individual effects shown below.

	September 30, 2012		
		Non-agency-sponsored mortgages(1)	
	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests
Discount rate	**0.2% to 15.9%**	**1.5% to 32.6%**	**7.2% to 28.3%**
Weighted average discount rate	**6.4%**	**12.7%**	**14.1%**
Constant prepayment rate	**17.2% to 52.6%**	**2.3% to 23.5%**	**0.5% to 30.0%**
Weighted average constant prepayment rate	**31.1%**	**16.7%**	**9.9%**
Anticipated net credit losses(2)	**NM**	**0.0% to 28.8%**	**29.4%**
Weighted average anticipated net credit losses	**NM**	**3.1%**	**29.4%**

	September 30, 2011		
		Non-agency-sponsored mortgages(1)	
	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests
Discount rate	**2.4% to 22.7%**	**3.6% to 27.6%**	**1.5% to 32.7%**
Weighted average discount rate	**8.3%**	**8.4%**	**15.4%**
Constant prepayment rate	**16.2% to 30.6%**	**2.2% to 54.7%**	**1.0% to 30.3%**
Weighted average constant prepayment rate	**27.2%**	**11.6%**	**11.0%**
Anticipated net credit losses(2)	**NM**	**0.0% to 79.3%**	**31.8% to 90.0%**
Weighted average anticipated net credit losses	**NM**	**41.7%**	**48.3%**

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(1) Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

(2) Anticipated net credit losses represent estimated loss severity associated with defaulted mortgage loans underlying the mortgage securitizations disclosed above. Anticipated net credit losses, in this instance, do not represent total credit losses incurred to date, nor do they represent credit losses expected on retained interests in mortgage securitizations.

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

		Non-agency-sponsored mortgages(1)	
In millions of dollars	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests
Carrying value of retained interests	**$ 1,745**	**$ 95**	**$ 498**
Discount rates			
Adverse change of 10%	**$ (45)**	**$ (3)**	**$ (30)**
Adverse change of 20%	**(87)**	**(5)**	**(57)**
Constant prepayment rate			
Adverse change of 10%	**$ (120)**	**$ (2)**	**$ (11)**
Adverse change of 20%	**(221)**	**(3)**	**(23)**
Anticipated net credit losses			
Adverse change of 10%	**$ (11)**	**$ (1)**	**$ (10)**

Adverse change of 20%	**(23)**	**(2)**	**(20)**

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(1) Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

Mortgage Securitizations Citi Holdings

The following tables summarize selected cash flow information related to Citi Holdings mortgage securitizations for the three and nine months ended September 30, 2012 and 2011:

	Three months ended September 30,		
	2012		2011
In billions of dollars	U.S. agency-sponsored mortgages	Non-agency-sponsored mortgages	Agency- and Non-agency-sponsored mortgages
Proceeds from new securitizations	**$ 0.1**	$	$ 0.3
Contractual servicing fees received	**0.1**		0.1
Cash flows received on retained interests and other net cash flows			

	Nine months ended September 30,		
	2012		2011
In billions of dollars	U.S. agency-sponsored mortgages	Non-agency-sponsored mortgages	Agency- and Non-agency-sponsored mortgages
Proceeds from new securitizations	**$ 0.3**	$	$ 0.9
Contractual servicing fees received	**0.3**		0.5
Cash flows received on retained interests and other net cash flows			0.1

Gains recognized on the securitization of U.S. agency-sponsored mortgages were $8.9 million and $39.7 million for the three and nine months ended September 30, 2012, respectively. Gains recognized on securitizations of U.S. agency-sponsored mortgages were $28.6 million and $55.7 million for the three and nine months ended September 30, 2011, respectively. The Company did not securitize non-agency-sponsored mortgages during the three and nine months ended September 30, 2012 and 2011.

Similar to Citicorp mortgage securitizations discussed above, the range in the key assumptions is due to the different characteristics of the interests retained by the Company. The interests retained range from highly rated and/or senior in the capital structure to unrated and/or residual interests.

The effect of adverse changes of 10% and 20% in each of the key assumptions used to determine the fair value of retained interests, and the sensitivity of the fair value to such adverse changes, each as of September 30, 2012, is set forth in the tables below. The negative effect of each change is calculated independently, holding all other assumptions constant. Because the key assumptions may not in fact be independent, the net effect of simultaneous adverse changes in the key assumptions may be less than the sum of the individual effects shown below.

	September 30, 2012		
		Non-agency-sponsored mortgages(1)	
	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests
Discount rate	**7.2%**	**9.3% to 10.0%**	**3.3% to 8.1%**
Weighted average discount rate	**7.2%**	**9.3%**	**5.7%**
Constant prepayment rate	**29.3%**	**22.2%**	**6.6% to 9.8%**
Weighted average constant prepayment rate	**29.3%**	**22.2%**	**8.2%**
Anticipated net credit losses	**NM**	**0.2%**	**37.0% to 48.0%**
Weighted average anticipated net credit losses	**NM**	**0.2%**	**42.4%**
Weighted average life	**3.8 years**	**4.2 years**	**9.7 to 11.5 years**

	September 30, 2011		
		Non-agency-sponsored mortgages(1)	
	U.S. agency-sponsored mortgages	Senior interests	Subordinated interests

Discount rate	**7.2%**	**1.9% to 16.0%**	**8.6% to 29.9%**
Weighted average discount rate	**7.2%**	**0.3%**	**13.5%**
Constant prepayment rate	**29.1%**	**39.7%**	**2.0% to 25.6%**
Weighted average constant prepayment rate	**29.1%**	**37.7%**	**10.0%**
Anticipated net credit losses	**NM**	**0.3% to 40.0%**	**40.0% to 95.0%**
Weighted average anticipated net credit losses	**NM**	**1.6%**	**50.7%**
Weighted average life	**4.0 years**	**3.0 to 4.9 years**	**0.3 to 7.5 years**

(1)
Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

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

In millions of dollars	U.S. agency-sponsored mortgages	Non-agency-sponsored mortgages(1) Senior interests	Subordinated interests
Carrying value of retained interests	**$ 603**	**$ 102**	**$ 19**
Discount rates			
Adverse change of 10%	**$ (17)**	**$ (2)**	**$ (1)**
Adverse change of 20%	**(34)**	**(5)**	**(2)**
Constant prepayment rate			
Adverse change of 10%	**$ (57)**	**$ (6)**	**$**
Adverse change of 20%	**(109)**	**(12)**	**(1)**
Anticipated net credit losses			
Adverse change of 10%	**$ (40)**	**$ (7)**	**$ (2)**
Adverse change of 20%	**(79)**	**(14)**	**(5)**

(1) Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

Mortgage Servicing Rights

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

The fair value of capitalized mortgage servicing rights (MSRs) was $1.9 billion and $2.9 billion at September 30, 2012 and 2011, respectively. The MSRs correspond to principal loan balances of $347 billion and $421 billion as of September 30, 2012 and 2011, respectively. The following table summarizes the changes in capitalized MSRs for the three and nine months ended September 30, 2012 and 2011:

In millions of dollars	Three months ended September 30, 2012	2011
Balance, as of June 30	**$ 2,117**	$ 4,258
Originations	**101**	126
Changes in fair value of MSRs due to changes in inputs and assumptions	**(118)**	(1,196)
Other changes(1)	**(180)**	(336)
Balance, as of September 30	**$ 1,920**	$ 2,852

In millions of dollars	Nine months ended September 30, 2012	2011
Balance, as of the beginning of year	**$ 2,569**	$ 4,554
Originations	**324**	425
Changes in fair value of MSRs due to changes in inputs and assumptions	**(289)**	(1,301)
Other changes(1)	**(684)**	(826)
Balance, as of September 30	**$ 1,920**	$ 2,852

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

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

The Company receives fees during the course of servicing previously securitized mortgages. The amounts of these fees for the three and nine months ended September 30, 2012 and 2011 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
In millions of dollars	**2012**	**2011**	**2012**	**2011**
Servicing fees	**$ 236**	$ 292	**$ 757**	$ 897
Late fees	**16**	19	**49**	58
Ancillary fees	**37**	39	**90**	92
Total MSR fees	**$ 289**	$ 350	**$ 896**	$ 1,047

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

Re-securitizations

The Company engages in re-securitization transactions in which debt securities are transferred to a VIE in exchange for new beneficial interests. During the quarter ended September 30, 2012, Citi transferred non-agency (private-label) securities with an original par value of approximately $541 million to re-securitization entities. These securities are backed by either residential or commercial mortgages and are often structured on behalf of clients. As of September 30, 2012, the fair value of Citi-retained interests in private-label re-securitization transactions structured by Citi totaled approximately $394 million ($102 million of which relates to re-securitization transactions executed in 2012) and are recorded in *Trading account assets*. Of this amount, approximately $10 million and $384 million related to senior and subordinated beneficial interests, respectively. The original par value of private-label re-securitization transactions in which Citi holds a retained interest as of September 30, 2012 was approximately $7.3 billion.

The Company also re-securitizes U.S. government-agency guaranteed mortgage-backed (agency) securities. During the quarter ended September 30, 2012, Citi transferred agency securities with a fair value of approximately $7.5 billion to re-securitization entities. As of September 30, 2012, the fair value of Citi-retained interests in agency re-securitization transactions structured by Citi totaled approximately $1.4 billion ($0.6 billion of which related to re-securitization transactions executed in 2012) and are recorded in *Trading account assets*. The original fair value of agency re-securitization transactions in which Citi holds a retained interest as of September 30, 2012 was approximately $65.9 billion.

As of September 30, 2012, the Company did not consolidate any private-label or agency re-securitization entities.

Citi-Administered Asset-Backed Commercial Paper Conduits

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

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

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

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

Substantially all of the funding of the conduits is in the form of short-term commercial paper, with a weighted average life generally ranging from 30 to 45 days. At the respective period ends September 30, 2012 and December 31, 2011, the weighted average lives of the commercial paper issued by consolidated and unconsolidated conduits were approximately 45 and 37 days, respectively.

The primary credit enhancement provided to the conduit investors is in the form of transaction-specific credit enhancement described above. In addition, each consolidated conduit has obtained a letter of credit from the Company, which needs to be sized to be at least 8-10% of the conduit's assets with a floor of $200 million. The letters of credit provided by the Company to the consolidated conduits total approximately $1.9 billion. The net result across all multi-seller conduits administered by the Company is that, in the event defaulted assets exceed the transaction-specific credit enhancements described above, any losses in each conduit are allocated first to the Company and then the commercial paper investors.

The Company also provides the conduits with two forms of liquidity agreements that are used to provide funding to the conduits in the event of a market disruption, among other events. Each asset of the conduits is supported by a transaction-specific liquidity facility in the form of an asset purchase agreement (APA). Under the APA, the Company has generally agreed to purchase non-defaulted eligible receivables from the conduit at par. The APA is not generally designed to provide credit support to the conduit, as it generally does not permit the purchase of defaulted or impaired assets. Any funding under the APA will likely subject the underlying borrower to the conduits to increased interest costs. In addition, the Company provides the conduits with program-wide liquidity in the form of short-term lending commitments. Under these commitments, the Company has agreed to lend to the conduits in the event of a short-term disruption in the commercial paper market, subject to specified conditions. The Company receives fees for providing both types of liquidity agreements and considers these fees to be on fair market terms.

Finally, the Company is one of several named dealers in the commercial paper issued by the conduits and earns a market-based fee for providing such services. Along with third-party dealers, the Company makes a market in the commercial paper and may from time to time fund commercial paper pending sale to a third party. On specific dates with less liquidity in the market, the Company may hold in inventory commercial paper issued by conduits administered by the Company, as well as conduits administered by third parties. The amount of commercial paper issued by its administered conduits held in inventory fluctuates based on market conditions and activity. As of September 30, 2012, the Company owned $9.0 billion and $255 million of the commercial paper issued by its consolidated and unconsolidated administered conduits, respectively.

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

The Company administers one conduit that originates loans to third-party borrowers and those obligations are fully guaranteed primarily by AAA-rated government agencies that support export and development financing programs. The economic performance of this government-guaranteed loan conduit is most significantly impacted by the performance of its underlying assets. The guarantors must approve each loan held by the entity and the guarantors have the ability (through establishment of the servicing terms to direct default mitigation and to purchase defaulted loans) to manage the conduit's loans that become delinquent to improve the economic performance of the conduit. Because the Company does not have the power to direct the activities of this government-guaranteed loan conduit that most significantly impact the economic performance of the entity, it was concluded that the Company should not consolidate the entity. The total notional exposure under the program-wide liquidity agreement for the Company's unconsolidated administered conduit as of September 30, 2012 is $0.6 billion. The program-wide liquidity agreement, along with each asset APA, is considered in the Company's maximum exposure to loss to the unconsolidated administered conduit.

As of September 30, 2012, this unconsolidated government-guaranteed loan conduit held assets and funding commitments of approximately $7.9 billion.

Third-Party Commercial Paper Conduits

The Company also provides liquidity facilities to single- and multi-seller conduits sponsored by third parties. These conduits are independently owned and managed and invest in a variety of asset classes, depending on the nature of the conduit. The facilities provided by the Company typically represent a small portion of the total liquidity facilities obtained by each conduit, and are collateralized by the assets of each conduit. The Company is not the party that has the power to direct the activities of these conduits that most significantly impact their economic performance and thus does not consolidate them. As of September 30, 2012, the Company had no involvement in third-party commercial paper conduits.

Collateralized Debt and Loan Obligations

A securitized collateralized debt obligation (CDO) is an SPE that purchases a pool of assets consisting of asset-backed securities and synthetic exposures through derivatives on asset-backed securities and issues multiple tranches of equity and notes to investors.

A cash CDO, or arbitrage CDO, is a CDO designed to take advantage of the difference between the yield on a portfolio of selected assets, typically residential mortgage-backed securities, and the cost of funding the CDO through the sale of notes to investors. "Cash flow" CDOs are entities in which the CDO passes on cash flows from a pool of assets, while "market value" CDOs pay to investors the market value of the pool of assets owned by the CDO at maturity. In these transactions, all of the equity and notes issued by the CDO are funded, as the cash is needed to purchase the debt securities.

A synthetic CDO is similar to a cash CDO, except that the CDO obtains exposure to all or a portion of the referenced assets synthetically through derivative instruments, such as credit default swaps. Because the CDO does not need to raise cash sufficient to purchase the entire referenced portfolio, a substantial portion of the senior tranches of risk is typically passed on to CDO investors in the form of unfunded liabilities or derivative instruments. Thus, the CDO writes credit protection on select referenced debt securities to the Company or third parties and the risk is then passed on to the CDO investors in the form of funded notes or purchased credit protection through derivative instruments. Any cash raised from investors is invested in a portfolio of collateral securities or investment contracts. The collateral is then used to support the obligations of the CDO on the credit default swaps written to counterparties.

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

A third-party asset manager is typically retained by the CDO/CLO to select the pool of assets and manage those assets over the term of the SPE. The Company is the manager for a limited number of CLO transactions.

The Company earns fees for warehousing assets prior to the creation of a "cash flow" or "market value" CDO/CLO, structuring CDOs/CLOs and placing debt securities with investors. In addition, the Company has retained interests in many of the CDOs/CLOs it has structured and makes a market in the issued notes.

The Company's continuing involvement in synthetic CDOs/CLOs generally includes purchasing credit protection through credit default swaps with the CDO/CLO, owning a portion of the capital structure of the CDO/CLO in the form of both unfunded derivative positions (primarily super-senior exposures discussed below) and funded notes, entering into interest-rate swap and total-return swap transactions with the CDO/CLO, lending to the CDO/CLO, and making a market in the funded notes.

Where a CDO/CLO entity issues preferred shares (or subordinated notes that are the equivalent form), the preferred shares generally represent an insufficient amount of equity (less than 10%) and create the presumption that preferred shares are insufficient to finance the entity's activities without subordinated financial support. In addition, although the preferred shareholders generally have full exposure to expected losses on the collateral and uncapped potential to receive expected residual returns, they generally do not have the ability to make decisions about the entity that have a significant effect on the entity's financial results because of their limited role in making day-to-day decisions and their limited ability to remove the asset manager. Because one or both of the above conditions will generally be met, the Company has concluded that, even where a CDO/CLO entity issued preferred shares, the entity should be classified as a VIE.

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

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

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

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

Key Assumptions and Retained Interests Citi Holdings

The key assumptions, used for the securitization of CDOs and CLOs during the quarter ended September 30, 2012, in measuring the fair value of retained interests were as follows:

	CDOs	CLOs
Discount rate	**46.2% to 50.8%**	**1.9% to 2.1%**

The effect of an adverse change of 10% and 20% in the discount rates used to determine the fair value of retained interests is set forth in the table below:

In millions of dollars	CDOs	CLOs
Carrying value of retained interests	**$ 14**	**$ 403**
Discount rates		
Adverse change of 10%	**$ (1)**	**$ (2)**
Adverse change of 20%	**(2)**	**(4)**

Asset-Based Financing

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

Asset-Based Financing Citicorp

The primary types of Citicorp's asset-based financings, total assets of the unconsolidated VIEs with significant involvement and the Company's maximum exposure to loss at September 30, 2012, are shown below. For the Company to realize that maximum loss, the VIE (borrower) would have to default with no recovery from the assets held by the VIE.

In billions of dollars	Total unconsolidated VIE assets	Maximum exposure to unconsolidated VIEs
Type		
Commercial and other real estate	$ 8.9	$ 2.2
Hedge funds and equities	0.6	0.4
Airplanes, ships and other assets	16.3	12.4
Total	$ 25.8	$ 15.0

Asset-Based Financing Citi Holdings

The primary types of Citi Holdings' asset-based financings, total assets of the unconsolidated VIEs with significant involvement and the Company's maximum exposure to loss at September 30, 2012, are shown below. For the Company to realize that maximum loss, the VIE (borrower) would have to default with no recovery from the assets held by the VIE.

In billions of dollars	Total unconsolidated VIE assets	Maximum exposure to unconsolidated VIEs
Type		
Commercial and other real estate	$ 1.4	$ 0.4
Corporate loans	2.9	2.3
Airplanes, ships and other assets	3.6	0.7
Total	$ 7.9	$ 3.4

The following table summarizes selected cash flow information related to asset-based financings for the three and nine months ended September 30, 2012 and 2011:

	Three months ended September 30,	
In billions of dollars	2012	2011
Cash flows received on retained interests and other net cash flows	$ 0.4	$ 0.2

	Nine months ended September 30,	
In billions of dollars	2012	2011
Cash flows received on retained interests and other net cash flows	$ 1.7	$ 1.2

The effect of an adverse change of 10% and 20% in the discount rates used to determine the fair value of retained interests at September 30, 2012 is set forth in the table below:

In millions of dollars	Asset-based Financing
Carrying value of retained interests	$ 2,350
Value of underlying portfolio	
Adverse change of 10%	$
Adverse change of 20%	

Municipal Securities Tender Option Bond (TOB) Trusts

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

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

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

The Company serves as remarketing agent to the trusts, placing the Floaters with third-party investors at inception, facilitating the periodic reset of the variable rate of interest on the Floaters and remarketing any tendered Floaters. If Floaters are tendered and the Company (in its role as remarketing agent) is unable to find a new investor within a specified period of time, it can declare a failed remarketing, in which case the trust is unwound. The Company may, but is not obligated to, buy the Floaters into its own inventory. The level of the Company's inventory of Floaters fluctuates over time. As of September 30, 2012, the Company held $203 million of Floaters related to both customer and non-customer TOB trusts.

For certain non-customer trusts, the Company also provides credit enhancement. Approximately $210 million of the municipal bonds owned by TOB trusts have a credit guarantee provided by the Company.

The Company provides liquidity to many of the outstanding trusts. If a trust is unwound early due to an event other than a credit event on the underlying municipal bond, the underlying municipal bonds are sold in the market. If there is a shortfall in the trust's cash flows between the redemption price of the tendered Floaters and the proceeds from the sale of the underlying municipal bonds, the trust draws on a liquidity agreement in an amount equal to the shortfall. For customer TOBs where the Residual is less than 25% of the trust's capital structure, the Company has a reimbursement agreement with the Residual holder under which the Residual holder reimburses the Company for any payment made under the liquidity arrangement. Through this reimbursement agreement, the Residual holder remains economically exposed to fluctuations in value of the underlying municipal bonds. These reimbursement agreements are generally subject to daily margining based on changes in value of the underlying municipal bond. In cases where a third party provides liquidity to a non-customer TOB trust, a similar reimbursement arrangement is made whereby the Company (or a consolidated subsidiary of the Company) as Residual holder absorbs any losses incurred by the liquidity provider.

As of September 30, 2012, liquidity agreements provided with respect to customer TOB trusts totaled $5.1 billion of which $3.7 billion was offset by reimbursement agreements. The remaining exposure related to TOB transactions where the Residual owned by the customer was at least 25% of the bond value at the inception of the transaction and no reimbursement agreement was executed. The Company also provides other liquidity agreements or letters of credit to customer-sponsored municipal investment funds, that are not variable interest entities, and municipality-related issuers that totaled $7.1 billion as of September 30, 2012. These liquidity agreements and letters of credit are offset by reimbursement agreements with various term-out provisions.

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

Non-customer TOB trusts generally are consolidated. Similar to customer TOB trusts, the Company has concluded that the power over the non-customer TOB trusts is primarily held by the Residual holder, which may unilaterally cause the sale of the trust's bonds. Because the Company holds the Residual interest, and thus has the power to direct the activities that most significantly impact the trust's economic performance, it consolidates the non-customer TOB trusts.

Municipal Investments

Municipal investment transactions include debt and equity interests in partnerships that finance the construction and rehabilitation of low-income housing, facilitate lending in new or underserved markets, or finance the construction or operation of renewable municipal energy facilities. The Company generally invests in these partnerships as a limited partner and earns a return primarily through the receipt of tax credits and grants earned from the investments made by the partnership. The Company may also provide construction loans or permanent loans to the development or continuation of real estate properties held by partnerships. These entities are generally considered VIEs. The power to direct the activities of these entities is typically held by the general partner. Accordingly, these entities are not consolidated by the Company.

Client Intermediation

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

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

Investment Funds

The Company is the investment manager for certain investment funds that invest in various asset classes including private equity, hedge funds, real estate, fixed income and infrastructure. The Company earns a management fee, which is a percentage of capital under management, and may earn performance fees. In addition, for some of these funds the Company has an ownership interest in the investment funds. The Company has also established a number of investment funds as opportunities for qualified employees to invest in private equity investments. The Company acts as investment manager to these funds and may provide employees with financing on both recourse and non-recourse bases for a portion of the employees' investment commitments.

The Company has determined that a majority of the investment entities managed by Citigroup are provided a deferral from the requirements of SFAS 167, *Amendments to FASB Interpretation No. 46(R)*, because they meet the criteria in Accounting Standards Update No. 2010-10, *Consolidation (Topic 810), Amendments for Certain Investment Funds* (ASU 2010-10). These entities continue to be evaluated under the requirements of ASC 810-10, prior to the implementation of SFAS 167 (FIN 46(R), *Consolidation of Variable Interest Entities*), which required that a VIE be consolidated by the party with a variable interest that will absorb a majority of the entity's expected losses or residual returns, or both.

Trust Preferred Securities

The Company has raised financing through the issuance of trust preferred securities. In these transactions, the Company forms a statutory business trust and owns all of the voting equity shares of the trust. The trust issues preferred equity securities to third-party investors and invests the gross proceeds in junior subordinated deferrable interest debentures issued by the Company. The trusts have no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the preferred equity securities held by third-party investors. Obligations of the trusts are fully and unconditionally guaranteed by the Company.

Because the sole asset of each of the trusts is a receivable from the Company and the proceeds to the Company from the receivable exceed the Company's investment in the VIE's equity shares, the Company is not permitted to consolidate the trusts, even though it owns all of the voting equity shares of the trust, has fully guaranteed the trusts' obligations, and has the right to redeem the preferred securities in certain circumstances. The Company recognizes the subordinated debentures on its Consolidated Balance Sheet as long-term liabilities. For additional information, see Note 15 to the Consolidated Financial Statements.

18. DERIVATIVES ACTIVITIES

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

Futures and forward contracts, which are commitments to buy or sell at a future date a financial instrument, commodity or currency at a contracted price and may be settled in cash or through delivery.

Swap contracts, which are commitments to settle in cash at a future date or dates that may range from a few days to a number of years, based on differentials between specified financial indices, as applied to a notional principal amount.

Option contracts, which give the purchaser, for a premium, the right, but not the obligation, to buy or sell within a specified time a financial instrument, commodity or currency at a contracted price that may also be settled in cash, based on differentials between specified indices or prices.

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

Trading Purposes Customer Needs: Citigroup offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, Citigroup considers the customers' suitability for the risk involved and the business purpose for the transaction. Citigroup also manages its derivative risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.

Trading Purposes Citigroup trades derivatives as an active market maker. Trading limits and price verification controls are key aspects of this activity.

Hedging Citigroup uses derivatives in connection with its risk-management activities to hedge certain risks or reposition the risk profile of the Company. For example, Citigroup issues fixed-rate long-term debt and then enters into a receive-fixed, pay-variable-rate interest rate swap with the same tenor and notional amount to convert the interest payments to a net variable-rate basis. This strategy is the most common form of an interest rate hedge, as it minimizes interest cost in certain yield curve environments. Derivatives are also used to manage risks inherent in specific groups of on-balance-sheet assets and liabilities, including AFS securities and deposit liabilities, as well as other interest-sensitive assets and liabilities. In addition, foreign-exchange contracts are used to hedge non-U.S.-dollar-denominated debt, foreign-currency-denominated AFS securities and net investment exposures.

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

Information pertaining to the volume of derivative activity is provided in the tables below. The notional amounts, for both long and short derivative positions, of Citigroup's derivative instruments as of September 30, 2012 and December 31, 2011 are presented in the table below.

Derivative Notionals

In millions of dollars	Hedging instruments under ASC 815 (SFAS 133)(1)(2) September 30, 2012	Hedging instruments under ASC 815 (SFAS 133)(1)(2) December 31, 2011	Other derivative instruments — Trading derivatives September 30, 2012	Other derivative instruments — Trading derivatives December 31, 2011	Other derivative instruments — Management hedges(3) September 30, 2012	Other derivative instruments — Management hedges(3) December 31, 2011
Interest rate contracts						
Swaps	**$ 135,176**	$ 163,079	**$ 29,882,342**	$ 28,069,960	**$ 125,308**	$ 119,344
Futures and forwards			**5,125,812**	3,549,642	**50,317**	43,965
Written options			**3,872,194**	3,871,700	**25,067**	16,786
Purchased options			**3,639,994**	3,888,415	**7,780**	7,338
Total interest rate contract notionals	**$ 135,176**	$ 163,079	**$ 42,520,342**	$ 39,379,717	**$ 208,472**	$ 187,433
Foreign exchange contracts						
Swaps	**$ 22,791**	$ 27,575	**$ 1,392,390**	$ 1,182,363	**$ 16,452**	$ 22,458
Futures and forwards	**65,588**	55,211	**3,402,183**	3,191,687	**37,603**	31,095
Written options	**130**	4,292	**761,308**	591,818	**137**	190
Purchased options	**5,743**	39,163	**761,294**	583,891	**2,056**	53
Total foreign exchange contract notionals	**$ 94,252**	$ 126,241	**$ 6,317,175**	$ 5,549,759	**$ 56,248**	$ 53,796
Equity contracts						
Swaps	**$**	$	**$ 95,632**	$ 86,978	**$**	$
Futures and forwards			**16,799**	12,882		
Written options			**366,044**	552,333		
Purchased options			**325,289**	509,322		
Total equity contract notionals	**$**	$	**$ 803,764**	$ 1,161,515	**$**	$
Commodity and other contracts						
Swaps	**$**	$	**$ 28,188**	$ 23,403	**$**	$
Futures and forwards			**85,092**	73,090		
Written options			**104,423**	90,650		
Purchased options			**107,436**	99,234		
Total commodity and other contract notionals	**$**	$	**$ 325,139**	$ 286,377	**$**	$
Credit derivatives(4)						
Protection sold	**$**	$	**$ 1,438,553**	$ 1,394,528	**$**	$
Protection purchased	**2,168**	4,253	**1,512,036**	1,486,723	**25,287**	21,914
Total credit derivatives	**$ 2,168**	$ 4,253	**$ 2,950,589**	$ 2,881,251	**$ 25,287**	$ 21,914
Total derivative notionals	**$ 231,596**	$ 293,573	**$ 52,917,009**	$ 49,258,619	**$ 290,007**	$ 263,143

(1) The notional amounts presented in this table do not include hedge accounting relationships under ASC 815 (SFAS 133) where Citigroup is hedging the foreign currency risk of a net investment in a foreign operation by issuing a foreign-currency-denominated debt instrument. The notional amount of such debt is $5,739 million and $7,060 million at September 30, 2012 and December 31,

2011, respectively.

(2)

Derivatives in hedge accounting relationships accounted for under ASC 815 (SFAS 133) are recorded in either *Other assets/Other liabilities* or *Trading account assets/Trading account liabilities* on the Consolidated Balance Sheet.

(3)

Management hedges represent derivative instruments used in certain economic hedging relationships that are identified for management purposes, but for which hedge accounting is not applied. These derivatives are recorded in either *Other assets/Other liabilities* or *Trading account assets/Trading account liabilities* on the Consolidated Balance Sheet.

(4)

Credit derivatives are arrangements designed to allow one party (protection buyer) to transfer the credit risk of a "reference asset" to another party (protection seller). These arrangements allow a protection seller to assume the credit risk associated with the reference asset without directly purchasing that asset. The Company has entered into credit derivative positions for purposes such as risk management, yield enhancement, reduction of credit concentrations and diversification of overall risk.

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

In millions of dollars at September 30, 2012	Derivatives classified in trading account assets/liabilities(1)(2) Assets	Liabilities	Derivatives classified in other assets/liabilities(2) Assets	Liabilities
Derivative instruments designated as ASC 815 (SFAS 133) hedges				
Interest rate contracts	$ 8,746	$ 2,192	$ 4,046	$ 1,437
Foreign exchange contracts	358	1,508	1,028	704
Total derivative instruments designated as ASC 815 (SFAS 133) hedges	$ 9,104	$ 3,700	$ 5,074	$ 2,141
Other derivative instruments				
Interest rate contracts	$ 899,973	$ 892,846	$ 703	$ 184
Foreign exchange contracts	71,467	78,136	238	156
Equity contracts	19,946	34,688		
Commodity and other contracts	11,429	12,648		
Credit derivatives(3)	58,685	56,410	207	319
Total other derivative instruments	$ 1,061,500	$ 1,074,728	$ 1,148	$ 659
Total derivatives	$ 1,070,604	$ 1,078,428	$ 6,222	$ 2,800
Cash collateral paid/received(4)(5)	4,027	8,871	389	607
Less: Netting agreements and market value adjustments(6)	(978,765)	(974,456)		
Less: Net cash collateral received/paid(7)	(38,713)	(57,124)	(4,403)	
Net receivables/payables	$ 57,153	$ 55,719	$ 2,208	$ 3,407

(1) The trading derivatives fair values are presented in Note 10 to the Consolidated Financial Statements.

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

(3) The credit derivatives trading assets are composed of $41,888 million related to protection purchased and $16,797 million related to protection sold as of September 30, 2012. The credit derivatives trading liabilities are composed of $17,777 million related to protection purchased and $38,633 million related to protection sold as of September 30, 2012.

(4) For the trading asset/liabilities, this is the net amount of the $61,151 million and $47,584 million of gross cash collateral paid and received, respectively. Of the gross cash collateral paid, $57,124 million was used to offset derivative liabilities and, of the gross cash collateral received, $38,713 million was used to offset derivative assets.

(5) For the other asset/liabilities, this is the net amount of the $389 million and $5,010 million of the gross cash collateral paid and received, respectively. Of the gross cash collateral received, $4,403 million was used to offset derivative assets.

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

(7)

Represents the netting of cash collateral paid and received by counterparty under enforceable credit support agreements.

	Derivatives classified in trading account assets/liabilities(1)(2)		Derivatives classified in other assets/liabilities(2)	
In millions of dollars at December 31, 2011	Assets	Liabilities	Assets	Liabilities
Derivative instruments designated as ASC 815 (SFAS 133) hedges				
Interest rate contracts	$ 8,274	$ 3,306	$ 3,968	$ 1,518
Foreign exchange contracts	3,706	1,451	1,201	863
Total derivative instruments designated as ASC 815 (SFAS 133) hedges	$ 11,980	$ 4,757	$ 5,169	$ 2,381
Other derivative instruments				
Interest rate contracts	$ 749,213	$ 736,785	$ 212	$ 96
Foreign exchange contracts	90,611	95,912	325	959
Equity contracts	20,235	33,139		
Commodity and other contracts	13,763	14,631		
Credit derivatives(3)	90,424	84,726	430	126
Total other derivative instruments	$ 964,246	$ 965,193	$ 967	$ 1,181
Total derivatives	$ 976,226	$ 969,950	$ 6,136	$ 3,562
Cash collateral paid/received(4)(5)	6,634	7,870	307	180
Less: Netting agreements and market value adjustments(6)	(875,592)	(870,366)		
Less: Net cash collateral received/paid(7)	(44,941)	(51,181)	(3,462)	
Net receivables/payables	$ 62,327	$ 56,273	$ 2,981	$ 3,742

(1)

The trading derivatives fair values are presented in Note 10 to the Consolidated Financial Statements.

(2)

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

(3)

The credit derivatives trading assets are composed of $79,089 million related to protection purchased and $11,335 million related to protection sold as of December 31, 2011. The credit derivatives trading liabilities are composed of $12,235 million related to protection purchased and $72,491 million related to protection sold as of December 31, 2011.

(4)

For the trading assets/liabilities, this is the net amount of the $57,815 million and $52,811 million of gross cash collateral paid and received, respectively. Of the gross cash collateral paid, $51,181 million was used to offset derivative liabilities and, of the gross cash collateral received, $44,941 million was used to offset derivative assets.

(5)

For the other assets/liabilities, this is the net amount of the $307 million and $3,642 million of the gross cash collateral paid and received, respectively. Of the gross cash collateral received, $3,462 million was used to offset derivative assets.

(6)

Represents the netting of derivative receivable and payable balances for the same counterparty under enforceable netting agreements.

(7) Represents the netting of cash collateral paid and received by counterparty under enforceable credit support agreements.

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

The amounts recognized in *Principal transactions* in the Consolidated Statement of Income for the three-and nine- month periods ended September 30, 2012 and 2011 related to derivatives not designated in a qualifying hedging relationship as well as the underlying non-derivative instruments are included in the table below. Citigroup presents this disclosure by business classification, showing derivative gains and losses related to its trading activities together with gains and losses related to non-derivative instruments within the same trading portfolios, as this represents the way these portfolios are risk managed.

	Principal transactions gains (losses)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars	2012	2011	2012	2011
Interest rate contracts	**$ 427**	$ 1,972	**$ 2,289**	$ 5,318
Foreign exchange	**676**	576	**1,880**	1,958
Equity contracts	**(43)**	(358)	**303**	217
Commodity and other	**8**	107	**71**	131
Credit derivatives	**(92)**	(194)	**4**	262
Total Citigroup(1)	**$ 976**	$ 2,103	**$ 4,547**	$ 7,886

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

The amounts recognized in *Other revenue* in the Consolidated Statement of Income for the three- and nine- month periods ended September 30, 2012 and 2011 are shown below. The table below does not include the offsetting gains/losses on the hedged items, which amounts are also recorded in *Other revenue*.

	Gains (losses) included in Other revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars	2012	2011	2012	2011
Interest rate contracts	**$ (122)**	$ 1,090	**$ (292)**	$ 1,027
Foreign exchange	**825**	(1,576)	**59**	1,096
Credit derivatives	**(398)**	586	**(724)**	362
Total Citigroup(1)	**$ 305**	$ 100	**$ (957)**	$ 2,485

(1) Non-designated derivatives are derivative instruments not designated in qualifying hedging relationships.

Accounting for Derivative Hedging

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

Derivative contracts hedging the risks associated with the changes in fair value are referred to as fair value hedges, while contracts hedging the risks affecting the expected future cash flows are called cash flow hedges. Hedges that utilize derivatives or debt instruments to manage the foreign exchange risk associated with equity investments in non-U.S.-dollar-functional-currency foreign subsidiaries (net investment in a foreign operation) are called net investment hedges.

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

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

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

Fair Value Hedges

Hedging of benchmark interest rate risk

Citigroup hedges exposure to changes in the fair value of outstanding fixed-rate issued debt and certificates of deposit. Depending on the risk management objectives, these types of hedges are designated as either fair value hedges of only the benchmark interest rate risk or fair value hedges of both the benchmark interest rate and foreign exchange risk. The fixed cash flows from those financing transactions are converted to benchmark variable-rate cash flows by entering into, respectively, receive-fixed, pay-variable interest rate swaps or receive-fixed in non-functional currency, pay variable in functional currency swaps. These fair value hedge relationships use either regression or dollar-offset ratio analysis to determine whether the hedging relationships are highly effective at inception and on an ongoing basis.

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

Hedging of foreign exchange risk

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

The following table summarizes the gains (losses) on the Company's fair value hedges for the three- and nine-month periods ended September 30, 2012 and September 30, 2011:

	Gains (losses) on fair value hedges(1)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars	2012	2011	2012	2011
Gain (loss) on the derivatives in designated and qualifying fair value hedges				
Interest rate contracts	**$ 297**	$ 4,143	**$ 750**	$ 3,678
Foreign exchange contracts	**196**	590	**600**	(405)
Total gain (loss) on the derivatives in designated and qualifying fair value hedges	**$ 493**	$ 4,733	**$ 1,350**	$ 3,273
Gain (loss) on the hedged item in designated and qualifying fair value hedges				
Interest rate hedges	**$ (418)**	$ (4,207)	**$ (953)**	$ (3,913)
Foreign exchange hedges	**(172)**	(613)	**(542)**	318
Total gain (loss) on the hedged item in designated and qualifying fair value hedges	**$ (590)**	$ (4,820)	**$ (1,495)**	$ (3,595)
Hedge ineffectiveness recognized in earnings on designated and qualifying fair value hedges				
Interest rate hedges	**$ (121)**	$ (110)	**$ (203)**	$ (244)
Foreign exchange hedges	**(11)**	17		14
Total hedge ineffectiveness recognized in earnings on designated and qualifying fair value hedges	**$ (132)**	$ (93)	**$ (203)**	$ (230)
Net gain (loss) excluded from assessment of the effectiveness of fair value hedges				
Interest rate contracts	**$**	$ 46	**$**	$ 9
Foreign exchange contracts	**35**	(40)	**58**	(101)
Total net gain (loss) excluded from assessment of the effectiveness of fair value hedges	**$ 35**	$ 6	**$ 58**	$ (92)

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

Cash Flow Hedges

Hedging of benchmark interest rate risk

Citigroup hedges variable cash flows resulting from floating-rate liabilities and rollover (re-issuance) of short-term liabilities. Variable cash flows from those liabilities are converted to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps and receive-variable, pay-fixed forward-starting interest rate swaps. These cash-flow hedging relationships use either regression analysis or dollar-offset ratio analysis to assess whether the hedging relationships are highly effective at inception and on an ongoing basis. When certain interest rates do not qualify as a benchmark interest rate, Citigroup designates the risk being hedged as the risk of overall changes in the hedged cash flows. Since efforts are made to match the terms of the derivatives to those of the hedged forecasted cash flows as closely as possible, the amount of hedge ineffectiveness is not significant.

Hedging of foreign exchange risk

Citigroup locks in the functional currency equivalent cash flows of long-term debt and short-term borrowings that are denominated in a currency other than the functional currency of the issuing entity. Depending on the risk management objectives, these types of hedges are designated as either cash flow hedges of only foreign exchange risk or cash flow hedges of both foreign exchange and interest rate risk, and the hedging instruments used are foreign exchange cross-currency swaps and forward contracts. These cash flow hedge relationships use dollar-offset ratio analysis to determine whether the hedging relationships are highly effective at inception and on an ongoing basis.

Hedging of overall changes in cash flows

Citigroup hedges the overall exposure to variability in cash flows related to the future acquisition of mortgage-backed securities using "to be announced" forward contracts. Since the hedged transaction is the gross settlement of the forward, the assessment of hedge effectiveness is based on assuring that the terms of the hedging instrument and the hedged forecasted transaction are the same.

Hedging total return

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

The amount of hedge ineffectiveness on the cash flow hedges recognized in earnings for three- and nine-month periods ended September 30, 2012 and September 30, 2011 is not significant.

The pretax change in *Accumulated other comprehensive income (loss)* from cash flow hedges is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions of dollars	2012	2011	2012	2011
Effective portion of cash flow hedges included in AOCI				
Interest rate contracts	**$ (59)**	$ (1,132)	**$ (324)**	$ (1,689)
Foreign exchange contracts	**112**	(65)	**52**	(166)
Total effective portion of cash flow hedges included in AOCI	**$ 53**	$ (1,197)	**$ (272)**	$ (1,855)
Effective portion of cash flow hedges reclassified from AOCI to earnings				
Interest rate contracts	**$ (186)**	$ (285)	**$ (647)**	$ (951)
Foreign exchange contracts	**(56)**	(60)	**(140)**	(198)
Total effective portion of cash flow hedges reclassified from AOCI to earnings(1)	**$ (242)**	$ (345)	**$ (787)**	$ (1,149)

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

For cash flow hedges, any changes in the fair value of the end-user derivative remaining in *Accumulated other comprehensive income (loss)* on the Consolidated Balance Sheet will be included in earnings of future periods to offset the variability of the hedged cash flows when such cash flows affect earnings. The net loss associated with cash flow hedges expected to be reclassified from *Accumulated other comprehensive income (loss)* within 12 months of September, 2012 is approximately $1.0 billion. The maximum length of time over which forecasted cash flows are hedged is 10 years.

The after-tax impact of cash flow hedges on AOCI is shown in Note 16 to the Consolidated Financial Statements.

Net Investment Hedges

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

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

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

The pretax gain (loss) recorded in the *Foreign currency translation adjustment* account within *Accumulated other comprehensive income (loss)*, related to the effective portion of the net investment hedges, is $(1,580) million and $(2,636) million for the three- and nine-month periods ended September 30, 2012, respectively, and $2,776 million and $902 million for the three- and nine-month periods ended September 30, 2011, respectively.

Credit Derivatives

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

The Company makes markets and trades a range of credit derivatives. Through these contracts, the Company either purchases or writes protection on either a single name or a portfolio of reference credits. The Company also uses credit derivatives to help mitigate credit risk in its Corporate and Consumer loan portfolios and other cash positions, and to facilitate client transactions.

The range of credit derivatives sold includes credit default swaps, total return swaps, credit options and credit-linked notes.

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

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

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

A credit-linked note is a form of credit derivative structured as a debt security with an embedded credit default swap. The purchaser of the note writes credit protection to the issuer, and receives a return which will be negatively affected by credit events on the underlying reference credit. If the reference entity defaults, the purchaser of the credit-linked note may assume the long position in the debt security and any future cash flows from it, but will lose the amount paid to the issuer of the credit-linked note. Thus the maximum amount of the exposure is the carrying amount of the credit-linked note. As of September 30, 2012 and December 31, 2011, the amount of credit-linked notes held by the Company in trading inventory was immaterial.

The following tables summarize the key characteristics of the Company's credit derivative portfolio as protection seller as of September 30, 2012 and December 31, 2011:

In millions of dollars as of September 30, 2012	**Maximum potential amount of future payments**	**Fair value payable(1)(2)**
By industry/counterparty		
Bank	$ 930,387	$ 23,164
Broker-dealer	320,560	10,753
Non-financial	3,395	107
Insurance and other financial institutions	184,211	4,609
Total by industry/counterparty	$ 1,438,553	$ 38,633
By instrument		
Credit default swaps and options	$ 1,437,397	$ 38,502
Total return swaps and other	1,156	131
Total by instrument	$ 1,438,553	$ 38,633
By rating		
Investment grade	$ 703,826	$ 9,884
Non-investment grade	212,614	15,787
Not rated	522,113	12,962
Total by rating	$ 1,438,553	$ 38,633
By maturity		
Within 1 year	$ 333,769	$ 1,790
From 1 to 5 years	933,192	24,719
After 5 years	171,592	12,124
Total by maturity	$ 1,438,553	$ 38,633

1) In addition, fair value amounts payable under credit derivatives purchased were $18,096 million.

(2) In addition, fair value amounts receivable under credit derivatives sold were $16,797 million.

In millions of dollars as of December 31, 2011	**Maximum potential amount of future payments**	**Fair value payable(1)(2)**
By industry/counterparty		
Bank	$ 929,608	$ 45,920

Broker-dealer		321,293		19,026
Non-financial		1,048		98
Insurance and other financial institutions		142,579		7,447
Total by industry/counterparty	$	1,394,528	$	72,491
By instrument				
Credit default swaps and options	$	1,393,082	$	72,358
Total return swaps and other		1,446		133
Total by instrument	$	1,394,528	$	72,491
By rating				
Investment grade	$	611,447	$	16,913
Non-investment grade		226,939		28,034
Not rated		556,142		27,544
Total by rating	$	1,394,528	$	72,491
By maturity				
Within 1 year	$	266,723	$	3,705
From 1 to 5 years		947,211		46,596
After 5 years		180,594		22,190
Total by maturity	$	1,394,528	$	72,491

(1) In addition, fair value amounts payable under credit derivatives purchased were $12,361 million.

(2) In addition, fair value amounts receivable under credit derivatives sold were $11,335 million.

Citigroup evaluates the payment/performance risk of the credit derivatives for which it stands as a protection seller based on the credit rating assigned to the underlying referenced credit. Where external ratings by nationally recognized statistical rating organizations (such as Moody's and S&P) are used, investment grade ratings are considered to be Baa/BBB or above, while anything below is considered non-investment grade. The Citigroup internal ratings are in line with the related external credit rating system. On certain underlying reference credits, mainly related to over-the-counter credit derivatives, ratings are not available, and these are included in the not-rated category. Credit derivatives written on an underlying non-investment grade reference credit represent greater payment risk to the Company. The non-investment grade category in the table above primarily includes credit derivatives where the underlying referenced entity has been downgraded subsequent to the inception of the derivative.

The maximum potential amount of future payments under credit derivative contracts presented in the table above is based on the notional value of the derivatives. The Company believes that the maximum potential amount of future payments for credit protection sold is not representative of the actual loss exposure based on historical experience. This amount has not been reduced by the Company's rights to the underlying assets and the related cash flows. In accordance with most credit derivative contracts, should a credit event (or settlement trigger) occur, the Company is usually liable for the difference between the protection sold and the recourse it holds in the value of the underlying assets. Thus, if the reference entity defaults, Citi will generally have a right to collect on the underlying reference credit and any related cash flows, while being liable for the full notional amount of credit protection sold to the buyer. Furthermore, this maximum potential amount of future payments for credit protection sold has not been reduced for any cash collateral paid to a given counterparty as such payments would be calculated after netting all derivative exposures, including any credit derivatives with that counterparty in accordance with a related master netting agreement. Due to such netting processes, determining the amount of collateral that corresponds to credit derivative exposures alone is not possible. The Company actively monitors open credit risk exposures and manages this exposure by using a variety of strategies, including purchased credit derivatives, cash collateral or direct holdings of the referenced assets. This risk mitigation activity is not captured in the table above.

Credit-Risk-Related Contingent Features in Derivatives

Certain derivative instruments contain provisions that require the Company to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit-risk-related event. These events, which are defined by the existing derivative contracts, are primarily downgrades in the credit ratings of the Company and its affiliates. The fair value (excluding CVA) of all derivative instruments with credit-risk-related contingent features that are in a net liability position at September 30, 2012 and December 31, 2011 is $37 billion and $33 billion, respectively. The Company has posted $33 billion and $28 billion as collateral for this exposure in the normal course of business as of September 30, 2012 and December 31, 2011, respectively.

Each downgrade would trigger additional collateral or cash settlement requirements for the Company and its affiliates. In the event that each legal entity was downgraded a single notch by the three rating agencies as of September 30, 2012, the Company would be required to post an additional $5.2 billion, as either collateral or settlement of the derivative transactions. Additionally, the Company would be required to segregate with third-party custodians collateral previously received from existing derivative counterparties in the amount of $1.6 billion upon the single notch downgrade, resulting in aggregate cash obligations and collateral requirements of approximately $6.8 billion.

19. FAIR VALUE MEASUREMENT

ASC 820-10 (formerly SFAS 157) defines fair value, establishes a consistent framework for measuring fair value and requires disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Among other things, the standard requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Fair Value Hierarchy

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

Level 1: Quoted prices for *identical* instruments in active markets.

Level 2: Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

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

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

Determination of Fair Value

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

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

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

The Company may also apply a price-based methodology, which utilizes, where available, quoted prices or other market information obtained from recent trading activity in positions with the same or similar characteristics to the position being valued. The market activity 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 may be classified as Level 2. When less liquidity exists for a security or loan, a quoted price is stale, a significant adjustment to the price of a similar security is necessary to reflect differences in the terms of the actual security or loan being valued, or prices from independent sources are insufficient to corroborate the valuation, the "price" inputs are considered unobservable and the fair value measurements are classified as Level 3.

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

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

Market valuation adjustments

Liquidity adjustments are applied to items in Level 2 and Level 3 of the fair value hierarchy to ensure that the fair value reflects the liquidity or illiquidity of the market. The liquidity reserve may utilize the bid-offer spread for an instrument as one of the factors.

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

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

Generally, the unit of account for a financial instrument is the individual financial instrument. The Company applies market valuation adjustments that are consistent with the unit of account, which does not include adjustment due to the size of the Company's position, except as follows. ASC 820-10 permits an exception, through an accounting policy election, to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position when certain criteria are met. Citi has elected to measure certain portfolios of financial instruments, such as derivatives, that meet those criteria on the basis of the net open risk position. The Company applies market valuation adjustments, including adjustments to account for the size of the net open risk position, consistent with market participant assumptions and in accordance with the unit of account.

Valuation Process for Level 3 Fair Value Measurements

Price verification procedures and related internal control procedures are governed by the Citigroup *Pricing and Price Verification Policy and Standards*, which is jointly owned by Finance and Risk Management. Finance has implemented the *ICG Securities and Banking Pricing and Price Verification Standards and Procedures* to facilitate compliance with this policy.

For fair value measurements of substantially all assets and liabilities held by the Company, individual business units are responsible for valuing the trading account assets and liabilities, and Product Control within Finance performs independent price verification procedures to evaluate those fair value measurements. Product Control is independent of the individual business units and reports into the Global Head of Product Control. It has the final authority over the independent valuation of financial assets and liabilities. Fair value measurements of assets and liabilities are determined using various techniques, including, but not limited to, discounted cash flows and internal models, such as option and correlation models.

Based on the observability of inputs used, Product Control classifies the inventory as Level 1, Level 2 or Level 3 of the fair value hierarchy. When a position involves one or more significant inputs that are not directly observable, additional price verification procedures are applied. These procedures may include reviewing relevant historical data, analyzing profit and loss, valuing each component of a structured trade individually, and benchmarking, among others.

Reports of inventory that is classified within Level 3 of the fair value hierarchy are distributed to senior management in Finance, Risk and the individual business. This inventory is also discussed in Risk Committees and in monthly meetings with senior trading management. As deemed necessary, reports may go to the Audit Committee of the Board of Directors or the full Board of Directors. Whenever a valuation adjustment is needed to bring the price of an asset or liability to its exit price, Product Control reports it to management along with other price verification results.

In addition, the pricing models used in measuring fair value are governed by an independent control framework. Although the models are developed and tested by the individual business units, they are independently validated by the Model Validation Group within Risk Management and reviewed by Finance with respect to their impact on the price verification procedures. The purpose of this independent control framework is to assess model risk arising from models' theoretical soundness, calibration techniques where needed, and the appropriateness of the model for a specific product in a defined market. Valuation adjustments, if any, go through a similar independent review process as the valuation models. To ensure their continued applicability, models are independently reviewed annually. In addition, Risk Management approves and maintains a list of products permitted to be valued under each approved model for a given business.

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

No quoted prices exist for such instruments so fair value is determined using a discounted cash-flow technique. Cash flows are estimated based on the terms of the contract, taking into account any embedded derivative or other features. Expected cash flows are discounted using interest rates appropriate to the maturity of the instrument as well as the nature of the underlying collateral. Generally, when such instruments are held at fair value, they are classified within Level 2 of the fair value hierarchy as the inputs used in the valuation are readily observable. However, certain long-dated positions are classified within Level 3 of the fair value hierarchy.

Trading account assets and liabilities trading securities and trading loans

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

For bonds and secondary market loans traded over the counter, the Company generally determines fair value utilizing valuation techniques, including discounted cash flows, price-based and internal models, such as Black-Scholes and Monte Carlo simulation. Fair value estimates from these 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. A price-based methodology utilizes, where available, quoted prices or other market information obtained from recent trading activity of assets with similar characteristics to the bond or loan being valued. The yields used in discounted cash flow models are derived from the same price information. Trading securities and loans priced using such methods are generally classified as Level 2. However, when less liquidity exists for a security or loan, a quoted price is stale, a significant adjustment to the price of a similar security or loan is necessary to reflect differences in the terms of the actual security or loan being valued, or prices from independent sources are insufficient to corroborate valuation, a loan or security is generally classified as Level 3. The price input used in a price-based methodology may be zero for a security, such as a subprime CDO, that is not receiving any principal or interest and is currently written down to zero.

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

Trading account assets and liabilities derivatives

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

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

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign-exchange rates, volatilities and correlation. The Company uses overnight indexed swap (OIS) curves as fair value measurement inputs for the valuation of certain collateralized interest-rate related derivatives. The instrument is classified in either Level 2 or Level 3 depending upon the observability of the significant inputs to the model.

Subprime-related direct exposures in CDOs

The valuation of high-grade and mezzanine asset-backed security (ABS) CDO positions utilizes prices based on the underlying assets of each high-grade and mezzanine ABS CDO. The high-grade and mezzanine positions are largely hedged through the ABX and bond short positions. This results in closer symmetry in the way these long and short positions are valued by the Company. Citigroup uses trader marks to value this portion of the portfolio and will do so as long as it remains largely hedged.

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

Investments

The investments category includes available-for-sale debt and marketable equity securities, whose fair value is generally determined by utilizing similar procedures described for trading securities above or, in some cases, using consensus pricing as the primary source.

Also included in investments are nonpublic investments in private equity and real estate entities held by the *S&B* business. Determining the fair value of nonpublic securities involves a significant degree of management resources and judgment as no quoted prices exist and such securities are generally very thinly traded. In addition, there may be transfer restrictions on private equity securities. The Company uses an established process for determining the fair value of such securities, utilizing commonly accepted valuation techniques, including comparables analysis. In determining the fair value of nonpublic securities, the Company also considers events such as a proposed sale of the investee company, initial public offerings, equity issuances or other observable transactions. As discussed in Note 11 to the Consolidated Financial Statements, the Company uses net asset value (NAV) to value certain of these investments.

Private equity securities are generally classified as Level 3 of the fair value hierarchy.

Short-term borrowings and long-term debt

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

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

Alt-A mortgage securities

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

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

The valuation techniques used for Alt-A mortgage securities, as with other mortgage exposures, are price-based and discounted cash flows. The primary market-derived input is yield. Cash flows are based on current collateral performance with prepayment rates and loss projections reflective of current economic conditions of housing price change, unemployment rates, interest rates, borrower attributes and other market indicators.

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

Items Measured at Fair Value on a Recurring Basis

The following tables present for each of the fair value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring basis at September 30, 2012 and December 31, 2011. The Company's hedging of positions that have been classified in the Level 3 category is not limited to other financial instruments that have been classified as Level 3, but also instruments classified as Level 1 or Level 2 of the fair value hierarchy. The effects of these hedges are presented gross in the following table.

Fair Value Levels

In millions of dollars at September 30, 2012	Level 1(1)	Level 2(1)	Level 3	Gross inventory	Netting(2)	Net balance
Assets						
Federal funds sold and securities borrowed or purchased under agreements to resell	$	$ 205,398	$ 4,677	$ 210,075	$ (43,569)	$ 166,506
Trading securities						
Trading mortgage-backed securities						
U.S. government-sponsored agency guaranteed	$	$ 31,418	$ 684	$ 32,102	$	$ 32,102
Prime		304	943	1,247		1,247
Alt-A		493	309	802		802
Subprime		187	566	753		753
Non-U.S. residential		401	53	454		454
Commercial		1,276	524	1,800		1,800
Total trading mortgage-backed securities	$	$ 34,079	$ 3,079	$ 37,158	$	$ 37,158
U.S. Treasury and federal agency securities						
U.S. Treasury	$ 14,592	$ 2,755	$	$ 17,347	$	$ 17,347
Agency obligations		3,030		3,030		3,030
Total U.S. Treasury and federal agency securities	$ 14,592	$ 5,785	$	$ 20,377	$	$ 20,377
State and municipal	$	$ 5,226	$ 248	$ 5,474	$	$ 5,474
Foreign government	59,790	29,394	198	89,382		89,382
Corporate		32,556	2,351	34,907		34,907
Equity securities	47,491	2,835	243	50,569		50,569
Asset-backed securities		1,051	5,122	6,173		6,173
Other debt securities		11,594	2,414	14,008		14,008
Total trading securities	$ 121,873	$ 122,520	$ 13,655	$ 258,048	$	$ 258,048
Trading account derivatives						
Interest rate contracts		906,612	2,107	908,719		
Foreign exchange contracts	12	71,082	731	71,825		
Equity contracts	3,100	15,290	1,556	19,946		
Commodity contracts	646	9,893	890	11,429		
Credit derivatives		54,630	4,055	58,685		
Total trading account derivatives	$ 3,758	$ 1,057,507	$ 9,339	$ 1,070,604		
Gross cash collateral paid				$ 61,151		
Netting agreements and market value adjustments					$ (1,074,602)	
Total trading account derivatives	$ 3,758	$ 1,057,507	$ 9,339	$ 1,131,755	$ (1,074,602)	$ 57,153
Investments						
Mortgage-backed securities						
U.S. government-sponsored agency guaranteed	$ 50	$ 42,963	$ 1,204	$ 44,217	$	$ 44,217
Prime		124	2	126		126
Alt-A		113	36	149		149
Subprime						
Non-U.S. residential		5,727	1,551	7,278		7,278
Commercial		474		474		474
Total investment mortgage-backed securities	$ 50	$ 49,401	$ 2,793	$ 52,244	$	$ 52,244

U.S. Treasury and federal agency securities						
U.S. Treasury	**$ 13,454**	**$ 43,893**	**$ 75**	**$ 57,422**	**$**	**$ 57,422**
Agency obligations		**26,974**	**12**	**26,986**		**26,986**
Total U.S. Treasury and federal agency securities	**$ 13,454**	**$ 70,867**	**$ 87**	**$ 84,408**	**$**	**$ 84,408**

Fair Value Levels

In millions of dollars at September 30, 2012	Level 1(1)	Level 2(1)	Level 3	Gross inventory	Netting(2)	Net balance
State and municipal	$	$ 17,512	$ 591	$ 18,103	$	$ 18,103
Foreign government	36,823	53,860	381	91,064		91,064
Corporate		9,430	337	9,767		9,767
Equity securities	2,399	153	1,058	3,610		3,610
Asset-backed securities		8,659	3,352	12,011		12,011
Other debt securities			54	54		54
Non-marketable equity securities		444	4,784	5,228		5,228
Total investments	$ 52,726	$ 210,326	$ 13,437	$ 276,489	$	$ 276,489
Loans(3)	$	$ 295	$ 5,064	$ 5,359	$	$ 5,359
Mortgage servicing rights			1,920	1,920		1,920
Nontrading derivatives and other financial assets measured on a recurring basis, gross	$	$ 9,775	$ 2,665	$ 12,440		
Gross cash collateral paid				$ 389		
Netting agreements and market value adjustments					$ (4,403)	
Nontrading derivatives and other financial assets measured on a recurring basis	$	$ 9,775	$ 2,665	$ 12,829	$ (4,403)	$ 8,426
Total assets	$ 178,357	$ 1,605,821	$ 50,757	$ 1,896,475	$ (1,122,574)	$ 773,901
Total as a percentage of gross assets(4)	9.7%	87.5%	2.8%	100.0%		
Liabilities						
Interest-bearing deposits	$	$ 1,103	$ 761	$ 1,864	$	$ 1,864
Federal funds purchased and securities loaned or sold under agreements to repurchase		166,187	841	167,028	(43,569)	123,459
Trading account liabilities						
Securities sold, not yet purchased	64,654	9,492	125	74,271		74,271
Trading account derivatives						
Interest rate contracts		892,809	2,229	895,038		
Foreign exchange contracts	8	78,315	1,321	79,644		
Equity contracts	3,581	27,922	3,185	34,688		
Commodity contracts	731	10,113	1,804	12,648		
Credit derivatives		51,894	4,516	56,410		
Total trading account derivatives	$ 4,320	$ 1,061,053	$ 13,055	$ 1,078,428		
Gross cash collateral received				47,584		
Netting agreements and market value adjustments					$ (1,070,293)	
Total trading account derivatives	$ 4,320	$ 1,061,053	$ 13,055	$ 1,126,012	$ (1,070,293)	$ 55,719
Short-term borrowings		662	99	761		761
Long-term debt		20,870	6,466	27,336		27,336
Nontrading derivatives and other financial liabilities measured on a recurring basis, gross	$	$ 2,797	$ 3	$ 2,800		
Gross cash collateral received				$ 5,010		
Netting agreements and market value adjustments					$ (4,403)	
Nontrading derivatives and other financial liabilities measured on a recurring basis		2,797	3	7,810	(4,403)	3,407
Total liabilities	$ 68,974	$ 1,262,164	$ 21,350	$ 1,405,082	$ (1,118,265)	$ 286,817
Total as a percentage of gross liabilities(4)	5.1%	93.3%	1.6%	100.0%		

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(1) For both the three months and nine months ended September 30, 2012, the Company transferred assets of $0.3 billion and $1.3 billion, respectively, from Level 1 to Level 2, primarily related to foreign government bonds which were traded with less frequency. During the three months and nine months ended September 30, 2012, the Company transferred assets of $0.5 billion, $1.0 billion, respectively, from Level 2 to Level 1 related primarily

to foreign government bonds, which were traded with sufficient frequency to constitute a liquid market. During the three months and nine months ended September 30, 2012, the Company transferred liabilities of $5 million and $24 million, respectively, from Level 1 to Level 2, and $99 million and $134 million, respectively, from Level 2 to Level 1.

(2) Represents netting of: (i) the amounts due under securities purchased under agreements to resell and the amounts owed under securities sold under agreements to repurchase; and (ii) derivative exposures covered by a qualifying master netting agreement, cash collateral and the market value adjustment.

(3) There is no allowance for loan losses recorded for loans reported at fair value.

(4) Percentage is calculated based on total assets and liabilities measured at fair value on a recurring basis, excluding collateral paid/received on derivatives.

Fair Value Levels

In millions of dollars at December 31, 2011	Level 1	Level 2	Level 3	Gross inventory	Netting(1)	Net balance
Assets						
Federal funds sold and securities borrowed or purchased under agreements to resell	$	$ 188,034	$ 4,701	$ 192,735	$ (49,873)	$ 142,862
Trading securities						
Trading mortgage-backed securities						
U.S. government-sponsored agency guaranteed	$	$ 26,674	$ 861	$ 27,535	$	$ 27,535
Prime		118	759	877		877
Alt-A		444	165	609		609
Subprime		524	465	989		989
Non-U.S. residential		276	120	396		396
Commercial		1,715	618	2,333		2,333
Total trading mortgage-backed securities	$	$ 29,751	$ 2,988	$ 32,739	$	$ 32,739
U.S. Treasury and federal agency securities						
U.S. Treasury	$ 15,612	$ 2,615	$	$ 18,227	$	$ 18,227
Agency obligations		1,169	3	1,172		1,172
Total U.S. Treasury and federal agency securities	$ 15,612	$ 3,784	$ 3	$ 19,399	$	$ 19,399
State and municipal	$	$ 5,112	$ 252	$ 5,364	$	$ 5,364
Foreign government	52,429	26,601	521	79,551		79,551
Corporate		33,786	3,240	37,026		37,026
Equity securities	29,707	3,279	244	33,230		33,230
Asset-backed securities		1,270	5,801	7,071		7,071
Other debt securities		12,284	2,743	15,027		15,027
Total trading securities	$ 97,748	$ 115,867	$ 15,792	$ 229,407	$	$ 229,407
Trading account derivatives						
Interest rate contracts	$ 67	$ 755,473	$ 1,947	$ 757,487		
Foreign exchange contracts		93,536	781	94,317		
Equity contracts	2,240	16,376	1,619	20,235		
Commodity contracts	958	11,940	865	13,763		
Credit derivatives		81,123	9,301	90,424		
Total trading account derivatives	$ 3,265	$ 958,448	$ 14,513	$ 976,226		
Gross cash collateral paid				57,815		
Netting agreements and market value adjustments					$ (971,714)	
Total trading account derivatives	$ 3,265	$ 958,448	$ 14,513	$ 1,034,041	$ (971,714)	$ 62,327
Investments						
Mortgage-backed securities						
U.S. government-sponsored agency guaranteed	$ 59	$ 45,043	$ 679	$ 45,781	$	$ 45,781
Prime		105	8	113		113
Alt-A		1		1		1
Subprime						
Non-U.S. residential		4,658		4,658		4,658
Commercial		472		472		472
Total investment mortgage-backed securities	$ 59	$ 50,279	$ 687	$ 51,025	$	$ 51,025
U.S. Treasury and federal agency securities						

U.S. Treasury	$	11,642	$	38,587	$		$	50,229	$	$	50,229
Agency obligations				34,834		75		34,909			34,909
Total U.S. Treasury and federal agency securities	$	11,642	$	73,421	$	75	$	85,138	$	$	85,138

Fair Value Levels

In millions of dollars at December 31, 2011	Level 1	Level 2	Level 3	Gross inventory	Netting(1)	Net balance
State and municipal	$	$ 13,732	$ 667	$ 14,399	$	$ 14,399
Foreign government	33,544	50,523	447	84,514		84,514
Corporate		9,268	989	10,257		10,257
Equity securities	6,634	98	1,453	8,185		8,185
Asset-backed securities		6,962	4,041	11,003		11,003
Other debt securities		563	120	683		683
Non-marketable equity securities		518	8,318	8,836		8,836
Total investments	$ 51,879	$ 205,364	$ 16,797	$ 274,040	$	$ 274,040
Loans(2)	$	$ 583	$ 4,682	$ 5,265	$	$ 5,265
Mortgage servicing rights			2,569	2,569		2,569
Nontrading derivatives and other financial assets measured on a recurring basis, gross	$	$ 14,270	$ 2,245	$ 16,515		
Gross cash collateral paid				307		
Netting agreements and market value adjustments					$ (3,462)	
Nontrading derivatives and other financial assets measured on a recurring basis	$	$ 14,270	$ 2,245	$ 16,822	$ (3,462)	$ 13,360
Total assets	$ 152,892	$ 1,482,566	$ 61,299	$ 1,754,879	$ (1,025,049)	$ 729,830
Total as a percentage of gross assets(3)	9.0%	87.4%	3.6%	100.0%		
Liabilities						
Interest-bearing deposits	$	$ 895	$ 431	$ 1,326	$	$ 1,326
Federal funds purchased and securities loaned or sold under agreements to repurchase		146,524	1,061	147,585	(49,873)	97,712
Trading account liabilities						
Securities sold, not yet purchased	58,456	10,941	412	69,809		69,809
Trading account derivatives						
Interest rate contracts	37	738,833	1,221	740,091		
Foreign exchange contracts		96,020	1,343	97,363		
Equity contracts	2,822	26,961	3,356	33,139		
Commodity contracts	873	11,959	1,799	14,631		
Credit derivatives		77,153	7,573	84,726		
Total trading account derivatives	$ 3,732	$ 950,926	$ 15,292	$ 969,950		
Gross cash collateral received				52,811		
Netting agreements and market value adjustments					$ (966,488)	
Total trading account derivatives	$ 3,732	$ 950,926	$ 15,292	$ 1,022,761	$ (966,488)	$ 56,273
Short-term borrowings		855	499	1,354		1,354
Long-term debt		17,268	6,904	24,172		24,172
Nontrading derivatives and other financial liabilities measured on a recurring basis, gross	$	$ 3,559	$ 3	$ 3,562		
Gross cash collateral received				$ 3,642		
Netting agreements and market value adjustments					$ (3,462)	
Nontrading derivatives and other financial liabilities measured on a recurring basis	$	$ 3,559	$ 3	$ 7,204	$ (3,462)	$ 3,742
Total liabilities	$ 62,188	$ 1,130,968	$ 24,602	$ 1,274,211	$ (1,019,823)	$ 254,388

Total as a percentage of gross liabilities(3)	5.1%	92.9%	2.0%	100.0%

(1) Represents netting of: (i) the amounts due under securities purchased under agreements to resell and the amounts owed under securities sold under agreements to repurchase; and (ii) derivative exposures covered by a qualifying master netting agreement, cash collateral and the market value adjustment.

(2) There is no allowance for loan losses recorded for loans reported at fair value.

(3) Percentage is calculated based on total assets and liabilities measured at fair value on a recurring basis, excluding collateral paid/received on derivatives.

Changes in Level 3 Fair Value Category

The following tables present the changes in the Level 3 fair value category for the three and nine months ended September 30, 2012 and 2011. The Company classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

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

Level 3 Fair Value Rollforward

		Net realized/unrealized gains (losses) included in									
In millions of dollars	Jun. 30, 2012	Principal transactions	Other(1)(2)	Transfers into Level 3	Transfers out of Level 3	Purchases	Issuances	Sales	Settlements	Sept. 30. 2012	Unrealized gains (losses) still held(3)
Assets											
Fed funds sold and securities borrowed or purchased under agreements to resell	$ 4,414	$ 5	$	$ 258	$	$	$	$	$	$ 4,677	$
Trading securities											
Trading mortgage-backed securities											
U.S. government-sponsored agency guaranteed	$ 895	$ (12)	$	$ 135	$ (199)	$ 97	$ 17	$ (217)	$ (32)	$ 684	$ (21)
Prime	1,069	53		83	(38)	36		(259)	(1)	943	2
Alt-A	273	21		42	(2)	15		(39)	(1)	309	7
Subprime	487	34		111	(19)	29		(74)	(2)	566	7
Non-U.S. residential	116	8		7	(19)	4		(63)		53	2
Commercial	416	(1)		163	(29)	38		(63)		524	1
Total trading mortgage-backed securities	$ 3,256	$ 103	$	$ 541	$ (306)	$ 219	$ 17	$ (715)	$ (36)	$ 3,079	$ (2)
U.S. Treasury and federal agency securities											
U.S. Treasury	$	$	$	$	$	$	$	$	$	$	$
Agency obligations	13							(13)			
Total U.S. Treasury and federal agency securities	$ 13	$	$	$	$	$	$	$ (13)	$	$	$
State and municipal	$ 223	$ 13	$	$ 4	$	$ 20	$	$ (12)	$	$ 248	$ 5
Foreign government	333	1		14	(124)	39		(65)		198	3
Corporate	2,189			43	(58)	392		(215)		2,351	1
Equity securities	217	13		30	(4)	52		(21)	(44)	243	(7)
Asset-backed securities	4,835	212		24	(43)	2,030		(1,933)	(3)	5,122	162
Other debt securities	2,266	(7)		324	(143)	781		(749)	(58)	2,414	2
Total trading securities	$ 13,332	$ 335	$	$ 980	$ (678)	$ 3,533	$ 17	$ (3,723)	$ (141)	$ 13,655	$ 164
Trading derivatives, net(4)											
Interest rate contracts	619	(188)		172	(275)	23		(19)	(454)	(122)	194
Foreign exchange contracts	(517)	50		(70)	(17)	2		(6)	(32)	(590)	(85)
Equity contracts	(1,587)			(84)	20	101		(163)	84	(1,629)	(328)

Commodity contracts	**(902)**	**(12)**		**(15)**		**25**		**(2)**	**(8)**	**(914)**	**216**
Credit derivatives	**298**	**(775)**		**45**	**(70)**	**2**			**39**	**(461)**	**(80)**
Total trading derivatives, net(4)	**$ (2,089)**	**$ (925)**	**$**	**$ 48**	**$ (342)**	**$ 153**	**$**	**$ (190)**	**$ (371)**	**$ (3,716)**	**$ (83)**
Investments											
Mortgage-backed securities											
U.S. government-sponsored agency guaranteed	**$ 1,399**	**$**	**$ 10**	**$ 472**	**$ (1,257)**	**$ 580**	**$**	**$**	**$**	**$ 1,204**	**$ 55**
Prime	**2**									**2**	
Alt-A	**3**					**37**		**(4)**		**36**	

In millions of dollars	Jun. 30, 2012	Net realized/unrealized gains (losses) included in Principal transactions	Other(1)(2)	Transfers into Level 3	Transfers out of Level 3	Purchases	Issuances	Sales	Settlements	Sept. 30. 2012	Unrealized gains (losses) still held(3)
Subprime	6		1					(7)			
Non-U.S. residential	300		2			1,249				1,551	
Commercial	5				(5)						
Total investment mortgage-backed debt securities	$ 1,715	$	$ 13	$ 472	$ (1,262)	$ 1,866	$	$ (11)	$	$ 2,793	$ 55
U.S. Treasury and federal agency securities	$	$	$	$ 75	$	$ 12	$	$	$	$ 87	$
State and municipal	480		(4)			118		(3)		591	6
Foreign government	329		(3)	68	(80)	127		(26)	(34)	381	1
Corporate	421		(6)	23	(2)	7		(66)	(40)	337	(4)
Equity securities	1,180		52					(54)	(120)	1,058	28
Asset-backed securities	2,771		(170)	402	(11)	755		(27)	(368)	3,352	(170)
Other debt securities	55		(53)			52				54	
Non-marketable equity securities	6,278		232			76		(1,734)	(68)	4,784	34
Total investments	$ 13,229	$	$ 61	$ 1,040	$ (1,355)	$ 3,013	$	$ (1,921)	$ (630)	$ 13,437	$ (50)
Loans	$ 4,737	$	$ 79	$ 87	$	$ 142	$ 415	$ (144)	$ (252)	$ 5,064	$ 15
Mortgage servicing rights	$ 2,117	$	$ (169)	$	$	$	$ 101	$	$ (129)	$ 1,920	$ (169)
Other financial assets measured on a recurring basis	$ 2,375	$	$ 207	$ 13	$	$ 1	$ 635	$ (4)	$ (562)	$ 2,665	$ 207
Liabilities											
Interest-bearing deposits	$ 698	$	$ (85)	$	$ (36)	$	$ 71	$	$ (57)	$ 761	$
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,045	(24)			(14)			(215)	1	841	4
Trading account liabilities											
Securities sold, not yet purchased	148	16		13	(12)			24	(32)	125	9
Short-term borrowings	367	(20)		43			66		(397)	99	(10)
Long-term debt	5,952	(135)	8	363	(216)		648		(408)	6,466	(245)
Other financial liabilities measured on a recurring basis	2		(3)				1	(1)	(2)	3	(3)

Level 3 Fair Value Rollforward

In millions of dollars	Dec. 31, 2011	Net realized/unrealized gains (losses) included in Principal transactions	Other(1)(2)	Transfers into Level 3	Transfers out of Level 3	Purchases	Issuances	Sales	Settlements	Sept. 30, 2012	Unrealized gains (losses) still held(3)
Assets											
Fed funds sold and securities borrowed or purchased under agreements to resell	$ 4,701	$ 70	$	$ 283	$ (377)	$	$	$	$	$ 4,677	$
Trading securities											
Trading mortgage-backed securities											
U.S. government-sponsored agency guaranteed	$ 861	$ 21	$	$ 673	$ (544)	$ 352	$ 62	$ (631)	$ (110)	$ 684	$ (27)
Prime	759	119		442	(165)	570		(780)	(2)	943	6
Alt-A	165	47		49	(62)	278		(167)	(1)	309	4
Subprime	465	6		166	(94)	448		(421)	(4)	566	2
Non-U.S. residential	120	24		46	(57)	105		(185)		53	1
Commercial	618	(71)		254	(217)	353		(413)		524	12
Total trading mortgage-backed securities	$ 2,988	$ 146	$	$ 1,630	$ (1,139)	$ 2,106	$ 62	$ (2,597)	$ (117)	$ 3,079	$ (2)
U.S. Treasury and federal agency securities											
U.S. Treasury	$	$	$	$	$	$	$	$	$	$	$
Agency obligations	3					13		(16)			
Total U.S. Treasury and federal agency securities	$ 3	$	$	$	$	$ 13	$	$ (16)	$	$	$
State and municipal	$ 252	$ 30	$	$ 4	$ (7)	$ 48	$	$ (79)	$	$ 248	$ 3
Foreign government	521	5		26	(864)	881		(371)		198	2
Corporate	3,240	9		391	(449)	2,148		(1,614)	(1,374)	2,351	(40)
Equity securities	244	(58)		49	(17)	256		(163)	(68)	243	(27)
Asset-backed securities	5,801	434		189	(104)	5,690		(6,226)	(662)	5,122	126
Other debt securities	2,743	15		964	(1,566)	2,143		(1,630)	(255)	2,414	
Total trading securities	$ 15,792	$ 581	$	$ 3,253	$ (4,146)	$ 13,285	$ 62	$ (12,696)	$ (2,476)	$ 13,655	$ 62
Trading derivatives, net(4)											
Interest rate contracts	726	(46)		295	(394)	239		(158)	(784)	(122)	(169)
Foreign exchange contracts	(562)	130		(152)	29	190		(203)	(22)	(590)	(14)
Equity contracts	(1,737)	199		(120)	387	304		(498)	(164)	(1,629)	(581)
Commodity contracts	(934)	(51)		(20)	45	98		(80)	28	(914)	(55)
Credit derivatives	1,728	(2,227)		(85)	(129)	116		(10)	146	(461)	(926)
Total trading derivatives, net(4)	$ (779)	$ (1,995)	$	$ (82)	$ (62)	$ 947	$	$ (949)	$ (796)	$ (3,716)	$ (1,745)
Investments											
Mortgage-backed securities											
U.S. government-sponsored agency guaranteed	$ 679	$	$ 6	$ 472	$ (2,778)	$ 2,825	$	$	$	$ 1,204	$ 55
Prime	8				(6)					2	
Alt-A						40		(4)		36	
Subprime			1			6		(7)			
Non-U.S. residential			2			1,549				1,551	
Commercial					(11)	11					

Total investment mortgage-backed debt securities	**$ 687**	**$**	**$ 9**	**$ 472**	**$ (2,795)**	**$ 4,431**	**$**	**$ (11)**	**$**	**$ 2,793**	**$ 55**
U.S. Treasury and federal agency securities	**$ 75**	**$**	**$**	**$ 75**	**$ (75)**	**$ 12**	**$**	**$**	**$**	**$ 87**	**$**
State and municipal	**667**		**9**		**(151)**	**276**		**(210)**		**591**	**(3)**
Foreign government	**447**		**13**	**148**	**(236)**	**328**		**(216)**	**(103)**	**381**	**3**
Corporate	**989**		**(11)**	**68**	**(698)**	**136**		**(102)**	**(45)**	**337**	**5**
Equity securities	**1,453**		**101**					**(228)**	**(268)**	**1,058**	**16**
Asset-backed securities	**4,041**		**(160)**	**402**	**(54)**	**767**		**(77)**	**(1,567)**	**3,352**	**1**
Other debt securities	**120**		**(53)**			**52**		**(64)**	**(1)**	**54**	

Level 3 Fair Value Rollforward

In millions of dollars	Dec. 31, 2011	Net realized/unrealized gains (losses) included in Principal transactions	Other(1)(2)	Transfers into Level 3	Transfers out of Level 3	Purchases	Issuances	Sales	Settlements	Sept. 30. 2012	Unrealized gains (losses) still held(3)
Non-marketable equity securities	8,318		411			343		(3,204)	(1,084)	4,784	139
Total investments	$ 16,797	$	$ 319	$ 1,165	$ (4,009)	$ 6,345	$	$ (4,112)	$ (3,068)	$ 13,437	$ 216
Loans	$ 4,682	$	$ 17	$ 1,004	$ (25)	$ 249	$ 930	$ (239)	$ (1,554)	$ 5,064	$ 65
Mortgage servicing rights	$ 2,569	$	$ (462)	$	$	$ 2	$ 322	$ (5)	$ (506)	$ 1,920	$ (464)
Other financial assets measured on a recurring basis	$ 2,245	$	$ 305	$ 21	$ (31)	$ 3	$ 1,264	$ (46)	$ (1,096)	$ 2,665	$ 235
Liabilities											
Interest-bearing deposits	$ 431	$	$ (105)	$ 213	$ (36)	$	$ 251	$	$ (203)	$ 761	$ (142)
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,061	(89)			(14)			(211)	(84)	841	36
Trading account liabilities											
Securities sold, not yet purchased	412	(44)		18	(43)			164	(470)	125	(40)
Short-term borrowings	499	(76)		46	(11)		261		(772)	99	(26)
Long-term debt	6,904	6	89	712	(1,122)		1,823		(1,756)	6,466	(534)
Other financial liabilities measured on a recurring basis	3		(5)			(2)	2	(1)	(4)	3	(2)

In millions of dollars	Jun. 30, 2011	Net realized/unrealized gains (losses) included in Principal transactions	Other(1)(2)	Transfers in and/or out of Level 3	Purchases	Issuances	Sales	Settlements	Sept. 30, 2011	Unrealized gains (losses) still held(3)
Assets										
Fed funds sold and securities borrowed or purchased under agreements to resell	$ 3,431	$ 209	$	$ 1,050	$	$	$	$	$ 4,690	$ 157
Trading securities										
Trading mortgage-backed securities										
U.S. government-sponsored agency guaranteed	$ 947	$ (140)	$	$ 225	$ 224	$ 35	$ (177)	$ (47)	$ 1,067	$ (167)
Prime	651	9		19	120		(135)	(4)	660	2
Alt-A	229			44	30		(57)	(7)	239	1
Subprime	723	7		(196)	50		(95)		489	44
Non-U.S. residential	323	(19)		(80)	37		(87)		174	(15)
Commercial	550	(15)		333	61		(73)	(24)	832	(61)
Total trading mortgage-backed securities	$ 3,423	$ (158)	$	$ 345	$ 522	$ 35	$ (624)	$ (82)	$ 3,461	$ (196)
U.S. Treasury and federal agencies securities										
U.S. Treasury	$	$	$	$	$	$	$	$	$	$
Agency obligations	46	7		(48)			(5)			
Total U.S. Treasury and federal agencies securities	$ 46	$ 7	$	$ (48)	$	$	$ (5)	$	$	$
State and municipal	$ 246	$ 4	$	$ 3	$ 79	$	$ (101)	$	$ 231	$ 9
Foreign government	903	4		(30)	455		(337)		995	(28)
Corporate	4,680	(120)		244	507		(888)	(318)	4,105	(86)
Equity securities	648	(172)		(81)	33		(162)		266	(77)
Asset-backed securities	6,609	(240)		287	660		(1,040)	(2)	6,274	(235)
Other debt securities	2,322	(128)		727	795		(699)	(4)	3,013	3
Total trading securities	$ 18,877	$ (803)	$	$ 1,447	$ 3,051	$ 35	$ (3,856)	$ (406)	$ 18,345	$ (610)
Trading derivatives, net(4)										
Interest rate contracts	201	7		393	4		(4)	(66)	535	115
Foreign exchange contracts	(539)	(72)		62	11		(2)	35	(505)	(66)
Equity contracts	(1,845)	212		(126)	124		(57)	(225)	(1,917)	(572)
Commodity contracts	(1,059)	225		67			(8)	46	(729)	253
Credit derivatives	210	1,681		266				(182)	1,975	1,750
Total trading derivatives, net(4)	$ (3,032)	$ 2,053	$	$ 662	$ 139	$	$ (71)	$ (392)	$ (641)	$ 1,480
Investments										
Mortgage-backed securities										
U.S. government-sponsored agency guaranteed	$ 59	$	$ (17)	$	$ 4	$	$	$	$ 46	$ (17)
Prime	23		(2)	13			(17)	(1)	16	
Alt-A	1		(1)							
Subprime										
Commercial			(7)	29	3		(22)		3	
Total investment mortgage-backed debt securities	$ 83	$	$ (27)	$ 42	$ 7	$	$ (39)	$ (1)	$ 65	$ (17)
U.S. Treasury and federal agencies securities	$	$	$	$	$	$	$	$	$	$
State and municipal	355		35	(4)	5		(3)		388	35
Foreign government	329		14	(60)	127		(4)	(53)	353	11
Corporate	993		(107)	(11)	56		(37)	(88)	806	(83)
Equity securities	1,621		4	(5)			(4)	(110)	1,506	(14)

In millions of dollars	Jun. 30, 2011	Net realized/unrealized gains (losses) included in Principal transactions	Other(1)(2)	Transfers in and/or out of Level 3	Purchases	Issuances	Sales	Settlements	Sept. 30, 2011	Unrealized gains (losses) still held(3)
Asset-backed securities	4,475		(2)	(23)	19			(223)	4,246	
Other debt securities	653		8				(285)	(103)	273	(24)
Non-marketable equity securities	8,181		(143)	(24)	804		(616)	(457)	7,745	(128)
Total investments	$ 16,690	$	$ (218)	$ (85)	$ 1,018	$	$ (988)	$ (1,035)	$ 15,382	$ (220)
Loans	$ 3,590	$	$ (164)	$ 635	$	$ 847	$ (18)	$ (244)	$ 4,646	$ (126)
Mortgage servicing rights	$ 4,258	$	$ (1,327)	$	$	$ 125	$	$ (204)	$ 2,852	$ (1,327)
Other financial assets measured on a recurring basis	$ 2,449	$	$ 57	$ (56)		$ 142	$ (114)	$ (98)	$ 2,380	$ 63
Liabilities										
Interest-bearing deposits	$ 586	$	$ 40	$ (124)	$	$ 37	$	$	$ 459	$ (45)
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,078	(39)		(19)					1,098	
Trading account liabilities										
Securities sold, not yet purchased	447	(83)		97			238	(141)	724	(14)
Short-term borrowings	611	48		(377)		354		(66)	474	(1)
Long-term debt	7,287	59	106	(276)		228		(355)	6,719	(50)
Other financial liabilities measured on a recurring basis	16		(1)	2		1		(13)	7	(3)

In millions of dollars	Dec. 31, 2010	Net realized/unrealized gains (losses) included in Principal transactions	Other(1)(2)	Transfers in and/or out of Level 3	Purchases	Issuances	Sales	Settlements	Sept. 30, 2011	Unrealized gains (losses) still held(3)
Assets										
Fed funds sold and securities borrowed or purchased under agreements to resell	$ 4,911	$ 80	$	$ (301)	$	$	$	$	$ 4,690	$ 79
Trading securities										
Trading mortgage-backed securities										
U.S. government-sponsored agency guaranteed	$ 831	$ (59)	$	$ 314	$ 579	$ 35	$ (529)	$ (104)	$ 1,067	$ (113)
Prime	594	93		16	1,435		(1,468)	(10)	660	43
Alt-A	385	11		28	1,607		(1,773)	(19)	239	1
Subprime	1,125	(5)		(133)	501		(961)	(38)	489	98
Non-U.S. residential	224	18		(48)	328		(348)		174	(26)
Commercial	418	81		397	400		(440)	(24)	832	1
Total trading mortgage-backed securities	$ 3,577	$ 139	$	$ 574	$ 4,850	$ 35	$ (5,519)	$ (195)	$ 3,461	$ 4
U.S. Treasury and federal agencies securities										
U.S. Treasury	$	$	$	$	$	$	$	$	$	$
Agency obligations	72	9		(45)	5		(41)			
Total U.S. Treasury and federal agencies securities	$ 72	$ 9	$	$ (45)	$ 5	$	$ (41)	$	$	$
State and municipal	$ 208	$ 56	$	$ 110	$ 1,048	$	$ (1,191)	$	$ 231	$ 2
Foreign government	566	11		131	1,314		(640)	(387)	995	(23)
Corporate	5,004	20		1,469	2,985		(3,258)	(2,115)	4,105	(237)
Equity securities	776	(101)		(250)	161		(320)		266	(85)
Asset-backed securities	7,620	311		501	4,398		(5,173)	(1,383)	6,274	(361)
Other debt securities	1,833	(147)		591	2,115		(1,375)	(4)	3,013	1
Total trading securities	$ 19,656	$ 298	$	$ 3,081	$ 16,876	$ 35	$ (17,517)	$ (4,084)	$ 18,345	$ (699)
Trading derivatives, net(4)										
Interest rate contracts	(730)	(108)		1,102	8		(15)	278	535	258
Foreign exchange contracts	(336)	8		(76)	11		(2)	(110)	(505)	(226)
Equity contracts	(1,639)	409		(191)	180		(217)	(459)	(1,917)	(811)
Commodity contracts	(1,023)	378		(33)	2		(68)	15	(729)	(247)
Credit derivatives	2,296	1,098		(1)				(1,418)	1,975	2,101
Total trading derivatives, net(4)	$ (1,432)	$ 1,785	$	$ 801	$ 201	$	$ (302)	$ (1,694)	$ (641)	$ 1,075
Investments										
Mortgage-backed securities										
U.S. government-sponsored agency guaranteed	$ 22	$	$ (15)	$ 37	$ 9	$	$ (7)	$	$ 46	$ (31)
Prime	166		(1)	(109)	7		(46)	(1)	16	
Alt-A	1		(1)							
Subprime										
Commercial	527		(4)	(510)	42		(52)		3	
Total investment mortgage-backed debt securities	$ 716	$	$ (21)	$ (582)	$ 58	$	$ (105)	$ (1)	$ 65	$ (31)
U.S. Treasury and federal agencies securities	$ 17	$	$	$ (15)	$	$	$ (2)	$	$	$
State and municipal	504		(12)	(59)	38		(83)		388	(22)
Foreign government	358		11	(36)	233		(67)	(146)	353	2
Corporate	525		(101)	13	527		(54)	(104)	806	289
Equity securities	2,055		(53)	(34)			(13)	(449)	1,506	(4)
Asset-backed securities	5,424		39	30	106		(447)	(906)	4,246	5
Other debt securities	727		(3)	67	35		(287)	(266)	273	(24)
Non-marketable equity securities	6,960		437	(862)	4,152		(1,733)	(1,209)	7,745	111

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In millions of dollars	Dec. 31, 2010	Net realized/unrealized gains (losses) included in Principal transactions	Net realized/unrealized gains (losses) included in Other(1)(2)	Transfers in and/or out of Level 3	Purchases	Issuances	Sales	Settlements	Sept. 30, 2011	Unrealized gains (losses) still held(3)
Total investments	$ 17,286	$	$ 297	$ (1,478)	$ 5,149	$	$ (2,791)	$ (3,081)	$ 15,382	$ 326
Loans	$ 3,213	$	$ (317)	$ 390	$ 248	$ 1,876	$ (18)	$ (746)	$ 4,646	$ (282)
Mortgage servicing rights	$ 4,554	$	$ (1,426)	$	$	$ 230	$	$ (506)	$ 2,852	(1,426)
Other financial assets measured on a recurring basis	$ 2,509	$	$ 48	$ (100)	$ 57	$ 380	$ (172)	$ (342)	$ 2,380	91
Liabilities										
Interest-bearing deposits	$ 277	$	$ 13	$ (73)	$	$ 281	$	$ (13)	459	$ (101)
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,261	(28)		81			(165)	(107)	1,098	
Trading account liabilities										
Securities sold, not yet purchased	187	10		296			385	(134)	724	(24)
Short-term borrowings	802	192		(255)		522		(403)	474	(6)
Long-term debt	8,494	(18)	272	(648)		1,161		(2,034)	6,719	69
Other financial liabilities measured on a recurring basis	19		(18)	9	1	13	(1)	(52)	7	(9)

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

(2) Unrealized gains (losses) on MSRs are recorded in *Other revenue* on the Consolidated Statement of Income.

(3) Represents the amount of total gains or losses for the period, included in earnings (and *Accumulated other comprehensive income (loss)* for changes in fair value for available-for-sale investments), attributable to the change in fair value relating to assets and liabilities classified as Level 3 that are still held at September 30, 2012 and 2011.

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

Level 3 Fair Value Rollforward

The following were the significant Level 3 transfers for the period June 30, 2012 to September 30, 2012:

Transfers of U.S. government-sponsored agency guaranteed mortgage backed securities in *Investments* of $0.5 billion from Level 2 to Level 3, consisting of securities for which the pricing was unobservable.

Approximately $1.3 billion of U.S. government-sponsored agency guaranteed mortgage backed securities in *Investments* were newly issued at June 30, 2012, and therefore had limited trading activity and were previously classified as Level 3. As trading activity in these securities increased and pricing became observable, these positions were transferred to Level 2.

In addition, the period from June 30, 2012 to September 30, 2012 included sales of non-marketable equity securities classified as *Investments* of $1.5 billion relating to the sale of EMI Music.

The following were the significant Level 3 transfers for the period December 31, 2011 to September 30, 2012:

Transfers of U.S. government-sponsored agency guaranteed mortgage backed securities in *Investments* of $0.5 billion from Level 2 to Level 3, consisting of securities for which the pricing was unobservable.

Transfers of $2.8 billion of U.S. government-sponsored agency guaranteed mortgage backed securities in *Investments* from Level 3 to Level 2, including newly issued securities previously classified as Level 3. As trading activity in these securities increased and pricing became observable, these positions were transferred to Level 2.

Transfers of other debt trading securities from Level 2 to Level 3 of $1.0 billion, the majority of which consisted of trading loans for which there were a reduced number of contributors to external pricing services.

Transfers of *Long-term debt* of $1.1 billion from Level 3 to Level 2 related mainly to structured debt for which the underlyings became more observable.

In addition, the period from December 31, 2011 to September 30, 2012 included sales of non-marketable equity securities classified as *Investments* of $2.8 billion relating to the sale of EMI Music and EMI Music Publishing.

The following were the significant Level 3 transfers for the period June 30, 2011 to September 30, 2011:

Transfers of *Federal funds sold and securities borrowed or purchased under agreements to resell* of $1.1 billion from Level 2 to Level 3, driven primarily by transfers of certain collateralized long-dated callable reverse repos (structured reverse repos). The Company has noted that there is more transparency and observability for repo curves (used in the determination of the fair value of structured reverse repos) with a tenor of five years or less; thus, structured reverse repos that are expected to mature beyond the five-year point are generally classified as Level 3. The primary factor driving the change in expected maturities in structured reverse repo transactions is the embedded call option feature that enables the investor (the Company) to elect to terminate the trade early. During the three months ended September 30, 2011, the decrease in interest rates caused the estimated maturity dates of certain structured reverse repos to lengthen to more than five years, resulting in the transfer from Level 2 to Level 3.

Transfers of *Loans* of $0.6 billion from Level 2 to Level 3, due to a lack of observable prices for certain loans.

The following were the significant Level 3 transfers for the period December 31, 2010 to September 30, 2011:

Transfers of *Loans* from Level 2 to Level 3 of $0.4 billion, due to a lack of observable prices for certain loans.

In addition to the Level 3 transfers, the Level 3 roll-forward table above for the period December 31, 2010 to September 30, 2011 included:

The reclassification of $4.3 billion of securities from *Investments* held-to-maturity to *Trading account assets* during the first quarter of 2011. These reclassifications have been included in purchases in the Level 3 roll-forward table above. The Level 3 assets reclassified, and subsequently sold, included $2.8 billion of trading mortgage-backed securities (of which $1.5 billion were Alt-A, $1.0 billion were prime, $0.2 billion were subprime and $0.1 billion were commercial), $0.9 billion of state and municipal debt securities, $0.3 billion of corporate debt securities and $0.2 billion of asset-backed securities.

Purchases of non-marketable equity securities classified as *Investments* included approximately $2.8 billion relating to Citi's acquisition of the share capital of Maltby Acquisitions Limited, the holding company that controls EMI Group Ltd., in the first quarter of 2011.

Valuation Techniques and Inputs for Level 3 Fair Value Measurements

The Company's Level 3 inventory consists of both cash securities and derivatives of varying complexities. The valuation methodologies applied to measure the fair value of these positions include discounted cash flow analyses, internal models and comparative analysis. A position is classified within Level 3 of the fair value hierarchy when at least one input is unobservable and is considered significant to its valuation. The specific reason for why an input is deemed unobservable varies. For example, at least one significant input to the pricing model is not observable in the market, at least one significant input has been adjusted to make it more representative of the position being valued, or the price quote available does not reflect sufficient trading activities.

The following table presents the valuation techniques covering the majority of Level 3 inventory and the most significant unobservable inputs used in Level 3 fair value measurements as of September 30, 2012. Differences between this table and amounts presented in the Level 3 fair value roll-forward table represent individually immaterial items that have been measured using a variety of valuation techniques other than those listed.

Valuation Techniques and Inputs for Level 3 Fair Value Measurements

	Fair Value *(in millions)*	Methodology	Input	Low(1)(2)	High(1)(2)
Assets					
Federal funds sold and securities borrowed or purchased under agreements to resell	**$ 4,677**	Cash flow	Interest Rate	0.97%	1.39%
Trading and investment securities					
Mortgage-backed securities	**$ 5,872**	Price-based	Price	$ 0.00	$ 122.69
		Cash flow	Yield	0.00%	27.88%
State and municipal, foreign government, corporate, and other debt securities	**$ 6,661**	Price-based	Price	$ 0.00	$ 159.63
		Yield Analysis	Yield	0.00%	30.00%
		Internal model	Credit Spread	0 bps	723 bps
		Comparables Analysis	Recovery Rate	0.00%	100.00%
		Cash flow			
Equity securities	**$ 1,301**	Cash flow	Yield	9.00%	10.00%
		Price-based	Price	$ 0.00	$ 650.00
Asset-backed securities	**$ 8,474**	Price-based	Price	$ 0.00	$ 128.64
		Cash flow	Yield	0.00%	29.72%
			Weighted Average Life (WAL)	2.1 years	24.8 years
Non-marketable equity	**$ 4,784**	Price-based	Discount to price	$ 0.00	$ 36.00
		Comparables Analysis	Fund NAV	$ 0.00	$ 310,794,142
		Cash flow	EBITDA Multiples	4.00	14.50
			Price-to-book ratio	0.9	1.56
			Cost of capital	8.50%	25.00%
Derivatives Gross(3)					
Interest rate contracts (gross)	**$ 4,482**	Internal Model	Interest Rate (IR) Volatility	0.10%	100.00%
		Cash flow	Yield	0.05%	3.00%
			Credit Spread	0 bps	750 bps
			Interest Rate	0.00%	13.00%
			Mean Reversion	20.00%	20.00%
Foreign exchange contracts (gross)	**$ 2,052**	Internal Model	IR Volatility	0.10%	0.63%
			Foreign Exchange (FX) Volatility	2.00%	51.02%
			IR-FX Correlation	40.00%	60.00%
			FX-Credit Correlation	65.00%	100.00%
			Recovery Rate	20.00%	40.00%
Equity contracts (gross)(4)	**$ 4,747**	Internal Model	Equity Volatility	3.86%	113.83%
		Cash flow	Equity Forward	77.00%	111.10%
			Equity-Equity Correlation	10.00%	99.90%
			Equity-IR Correlation	23.50%	49.00%
			Price	$ 0.00	$ 36,109.13
Commodity contracts (gross)	**$ 2,694**	Internal Model	Forward Price	37.45%	112.13%
			Commodity Correlation	(77.00)%	95.00%
			Commodity Volatility	5.00%	136.00%
Credit derivatives (gross)	**$ 8,618**	Internal Model	Price	$ 0.00	$ 124.78
		Price-based	Recovery Rate	9.00%	78.00%
			Credit Correlation	5.00%	95.00%
			Credit Spread	0 bps	2,980 bps
			Upfront Points	3.50	100.00
Nontrading derivatives and other financial assets and liabilities measured on a recurring basis	**$ 2,668**	Comparables Analysis	Price	$ 100.00	$ 100.00

(gross)(3)								
			Internal Model	Redemption Rate		30.62%		99.50%
Loans	**$**	**4,917**	Price-based	Price	$	0.44	$	103.05
			Yield Analysis	Credit Spread		0 bps		723 bps
			Internal Model	Future Evolution of NAV	$	0.00	$	100.00
Mortgage servicing rights	**$**	**1,920**	Cash flow	Yield		0.00%		38.10
				Prepayment Period		2.2 yrs		7.5 yrs

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	Fair Value *(in millions)*	Methodology	Input	Low(1)(2)	High(1)(2)
Liabilities					
Interest-bearing deposits	**$ 761**	Internal Model	Equity Volatility	11.32%	72.70%
			Forward Price	37.45%	112.13%
			Equity Forward	98.60%	111.10%
			Equity-IR Correlation	23.50%	49.00%
			Equity-Equity Correlation	63.00%	98.00%
Federal funds purchased and securities loaned or sold under agreements to repurchase	**841**	Internal Model	Interest Rate	0.23%	5.18%
Trading account liabilities					
Securities sold, not yet purchased	**125**	Price-based	Price	$ 0.00	$ 500.00
		Cash flow	WAL	2.1 years	24.8 years
			Yield	0.00%	21.54%
Short-term borrowings and long-term debt	**$ 6,669**	Internal Model	Equity Volatility	12.50%	44.70%
		Price-based	Equity Forward	77.00%	110.10%
		Yield Analysis	IR Volatility	0.10%	0.63%
			Price	$ 0.44	$ 103.05
			Equity-Equity Correlation	10.00%	99.90%

(1) Some inputs are shown as zero due to rounding.

(2) When the low and high inputs are the same, there is either a constant input applied to all positions, or the methodology involving the input applies to one large position only.

(3) Both trading and nontrading account derivatives assets and liabilities are presented on a gross absolute value basis.

(4) Includes hybrid products.

Sensitivity to Unobservable Inputs and Interrelationships between Unobservable Inputs

The impact of key unobservable inputs on the Level 3 fair value measurements may not be independent of one another. In addition, the amount and direction of the impact on a fair value measurement for a given change in an unobservable input depends on the nature of the instrument as well as whether the Company holds the instrument as an asset or a liability. For certain instruments, the pricing, hedging, and risk management are sensitive to the correlation between various inputs rather than on the analysis and aggregation of the individual inputs.

The following section describes the sensitivities and interrelationships of the most significant unobservable inputs used by the Company in Level 3 fair value measurements.

Correlation

Correlation is a measure of the co-movement between two variables. A variety of correlation-related assumptions are required for a wide range of instruments including equity and credit baskets, foreign-exchange options, CDOs backed by loans or bonds, mortgages, subprime mortgages and many other instruments. For almost all of these instruments, correlations are not observable in the market and must be estimated using historical information. Estimating correlation can be especially difficult where it may vary over time. Extracting correlation information from market data requires significant assumptions regarding the informational efficiency of the market (for example, swaption markets). Changes in correlation levels can have a major impact, favorable or unfavorable, on the value of an instrument, depending on its nature. A change in the default correlation of the fair value of the underlying bonds comprising a CDO structure would affect the fair value of the senior tranche. For example, an increase in the default correlation of the underlying bonds would reduce the fair value of the senior tranche because highly correlated instruments produce larger losses in the event of default and a part of these losses would become attributable to the senior tranche. That same change in default correlation would have a different impact on junior tranches of the same structure.

Volatility

Volatility represents the speed and severity of market price changes and is a key factor in pricing options. Typically, instruments can become more expensive if volatility increases. For example, as an index becomes more volatile, the cost to Citi of maintaining a given level of exposure increases because more frequent rebalancing of the portfolio is required. Volatility generally depends on the tenor of the underlying instrument and the strike price or level defined in the contract. Volatilities for certain combinations of tenor and strike are not observable. The general relationship between changes in the value of a portfolio to changes in volatility also depends on changes in interest rates and the level of the underlying index. Generally, long option positions (assets) benefit from increases in volatility, whereas short option positions (liabilities) will suffer losses. Some instruments are more sensitive to changes in volatility than others. For example, an at the money option would experience a larger percentage change in its fair value than a deep in the money option. In addition, the fair value of an option with more than one underlying security (for example, an option on a basket of bonds) depends on the volatility of the individual underlying securities as well as their correlations.

Yield

Adjusted yield is generally used to discount the projected future principal and interest cash flows on instruments, such as asset-backed securities. Adjusted yield is impacted by changes in the interest rate environment and relevant credit spreads.

Sometimes, the yield of an instrument is not observable in the market and must be estimated from historical data or from yields of similar securities. This estimated yield may need to be adjusted to capture the characteristics of the security being valued. In other situations, the estimated yield may not represent sufficient market liquidity and must be adjusted as well. Whenever the amount of the adjustment is significant to the value of the security, the fair value measurement is classified as Level 3.

Prepayment

Voluntary unscheduled payments (prepayments) change the future cash flows for the investor and thereby change the fair value of the security. The effect of prepayments is more pronounced for residential mortgage-backed securities. An increase in prepayment in speed or magnitude generally creates losses for the holder of these securities. Prepayment is generally negatively correlated with delinquency and interest rate. A combination of low prepayment and high delinquencies amplify each input's negative impact on mortgage securities' valuation. As prepayment speeds change, the weighted average life of the security changes, which impacts the valuation either positively or negatively, depending upon the nature of the security and the direction of the change in the weighted average life.

Recovery

Recovery is the proportion of the total outstanding balance of a bond or loan that is expected to be collected in a liquidation scenario. For many credit securities (such as asset-backed securities), there is no directly observable market input for recovery, but indications of recovery levels are available from pricing services. The assumed recovery of a security may differ from its actual recovery that will be observable in the future. The recovery rate impacts the valuation of credit securities. Generally, an increase in the recovery rate assumption increases the fair value of the security. An increase in loss severity, the inverse of the recovery rate, reduces the amount of principal available for distribution and as a result, decreases the fair value of the security.

Credit Spread

Credit spread is a component of the security representing its credit quality. Credit spread reflects the market perception of changes in prepayment, delinquency, and recovery rates, therefore capturing the impact of other variables on the fair value. Changes in credit spread affect the fair value of securities differently depending on the characteristics and maturity profile of the security. For example, credit spread is a more significant driver of the fair value measurement of a high yield bond as compared to an investment grade bond. Generally, the credit spread for an investment grade bond is also more observable and less volatile than its high yield counterpart.

Mean Reversion

A number of financial instruments require an estimate of the rate at which the interest rate reverts to its long term average. Changes in this estimate can significantly affect the fair value of these instruments. However, sometimes there is insufficient external market data to calibrate this parameter, especially when pricing more complex instruments. The level of mean reversion affects the correlation between short- and long-term interest rates. The fair values of more complex instruments, such as Bermudan swaptions (options with multiple exercise dates) and constant maturity spread options, are more sensitive to the changes in this correlation as compared to less complex instruments, such as caps and floors.

Qualitative Discussion of the Ranges of Significant Unobservable Inputs

The following section describes the ranges of the most significant unobservable inputs used by the Company in Level 3 fair value measurements. The level of aggregation and the diversity of instruments held by the Company lead to a wide range of unobservable inputs that may not be evenly distributed across the Level 3 inventory.

Correlation

There are many different types of correlation inputs, for example, credit correlation, cross-asset correlation (such as equity-interest rate correlation), and same-asset correlation (such as interest rate-interest rate correlation). Correlation inputs are generally used to value hybrid and exotic instruments. Generally, same-asset correlation inputs have a narrower range than cross-asset correlation inputs. However, due to the complex and unique nature of these instruments, the ranges for correlation inputs can vary widely across portfolios.

Volatility

Similar to correlation, asset-specific volatility inputs vary widely by asset type. For example, ranges for foreign exchange volatility are generally lower and narrower than equity volatility. Equity volatilities are wider due to the nature of the equities market and the terms of certain exotic instruments. For most instruments, the interest rate volatility input is on the lower end of the range; however, for certain structured or exotic instruments (such as market-linked deposits or exotic interest rate derivatives) the range is much wider.

Yield

Ranges for the yield inputs vary significantly depending upon the type of security. For example, securities that typically have lower yields, such as municipal bonds, will fall on the lower end of the range, while more illiquid securities or securities with lower credit quality, such as certain residual tranche asset-backed securities, will have much higher yield inputs.

Credit Spread

Credit spread is relevant primarily for fixed income and credit instruments; however, the ranges for the credit spread input can vary across instruments. For example, certain fixed income instruments, such as certificates of deposit, typically have lower credit spreads, whereas certain derivative instruments with high-risk counterparties are typically subject to higher credit spreads when they are uncollateralized or have a longer tenor. Other instruments, such as credit default swaps, also have credit spreads that vary with the attributes of the underlying obligor. Stronger companies have tighter credit spreads, and weaker companies have wider credit spreads.

Price

The price input is relevant for both fixed income and equity instruments. Generally, for fixed income instruments, the price input ranges from zero to 100. Relatively illiquid assets that have experienced significant losses since issuance, such as certain asset-backed securities, are at the lower end of the range, whereas most investment grade corporate bonds will fall in the middle to the higher end of the range. For certain structured debt securities with embedded derivatives, the price input may be above 100 to reflect the unique terms of the instrument. For equity securities, the range of price inputs varies depending on the nature of the position, the number of shares outstanding and other factors.

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above. These include assets measured at cost that have been written down to fair value during the periods as a result of an impairment. In addition, these assets include loans held-for-sale and other real estate owned that are measured at the lower of cost or market (LOCOM).

The following table presents the carrying amounts of all assets that were still held as of September 30, 2012 and December 31, 2011, and for which a nonrecurring fair value measurement was recorded during the nine and twelve months then ended:

In millions of dollars	**Fair value**	**Level 2**	**Level 3**
September 30, 2012			
Loans held-for-sale	**$ 1,853**	**$ 637**	**$ 1,216**
Other real estate owned	**207**	**44**	**163**
Loans(1)	**5,296**	**4,830**	**466**
Other assets(2)	**4,725**	**4,725**	
Total assets at fair value on a nonrecurring basis	**$ 12,081**	**$ 10,236**	**$ 1,845**

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

(2) Represents Citi's remaining 35% investment in the Morgan Stanley Smith Barney joint venture whose carrying amount is the agreed purchase price. See Note 11 to the Consolidated Financial Statements.

In millions of dollars	**Fair value**	**Level 2**	**Level 3**
December 31, 2011			
Loans held-for-sale	$ 2,644	$ 1,668	$ 976
Other real estate owned	271	88	183
Loans(1)	3,911	3,185	726
Total assets at fair value on a nonrecurring basis	$ 6,826	$ 4,941	$ 1,885

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

The fair value of loans-held-for-sale is determined where possible using quoted secondary-market prices. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan. Fair value for the other real estate owned is based on appraisals. For loans whose carrying amount is based on the fair value of the underlying collateral, the fair values depend on the type of collateral. Fair value of the collateral is typically estimated based on quoted market prices if available, appraisals or other internal valuation techniques.

Where the fair value of the related collateral is based on an unadjusted appraised value, the loan is generally classified as Level 2. Where significant adjustments are made to the appraised value, the loan is classified as Level 3. Additionally, for corporate loans, appraisals of the collateral are often based on sales of similar assets; however, because the prices of similar assets require significant adjustments to reflect the unique features of the underlying collateral, these fair value measurements are generally classified as Level 3.

Valuation Techniques and Inputs for Level 3 Nonrecurring Fair Value Measurements

The following table presents the valuation techniques covering the majority of Level 3 nonrecurring fair value measurements and the most significant unobservable inputs used in those measurements as of September 30, 2012:

In millions of dollars	Fair Value	Methodology	Input	Low	High
Loans held-for-sale	**$ 1,216**	Price-based	Price	$ 38.96	$ 100.00
		Cash flow	Yield	15.00%	15.00%
Other real estate owned	**154**	Price-based	Discount to price	$ 11.00	$ 40.00
			Price(1)	$ 0.00	$ 18,604,507
Loans(2)	**466**	Price-based	Discount to price	$ 25.00	$ 34.00
		Recovery Analysis	Recovery Rate	0.00%	100.00%

(1) Prices for other real estate owned are based on appraised values.

(2) Represents loans held for investment whose carrying amounts are based on the fair value of the underlying collateral, including primarily real-estate secured loans.

Nonrecurring Fair Value Changes

The following table presents total nonrecurring fair value measurements for the period, included in earnings, attributable to the change in fair value relating to assets that are still held at September 30, 2012 and 2011:

In millions of dollars	Three Months Ended Sept. 30, 2012	Nine Months Ended Sept. 30, 2012
Loans held-for-sale	**$ (12)**	**$ (11)**
Other real estate owned	**(7)**	**(22)**
Loans(1)	**(957)**	**(1,461)**
Other assets(2)	**(3,340)**	**(3,340)**
Total nonrecurring fair value gains (losses)	**$ (4,316)**	**$ (4,834)**

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

(2) Third quarter of 2012 includes the recognition of a $3,340 million impairment charge related to the carrying value of Citi's remaining 35% interest in the Morgan Stanley Smith Barney joint venture. See Note 11 to the Consolidated Financial Statements.

In millions of dollars	Three Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2011
Loans held-for-sale	**$ (114)**	**$ (215)**
Other real estate owned	**(56)**	**(74)**
Loans(1)	**(376)**	**(855)**
Total nonrecurring fair value gains (losses)	**$ (546)**	**$ (1,144)**

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

Estimated Fair Value of Financial Instruments Not Carried at Fair Value

The table below presents the carrying value and fair value of Citigroup's financial instruments which are not carried at fair value. The table below therefore excludes items measured at fair value on a recurring basis presented in the tables above.

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

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

	September 30, 2012		Estimated fair value		
In billions of dollars	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Assets					
Investments	**$ 19.0**	**$ 19.3**	**$ 2.9**	**$ 14.8**	**$ 1.6**
Federal funds sold and securities borrowed or purchased under agreements to resell	**111.0**	**111.0**		**103.3**	**7.7**
Loans(1)(2)	**624.4**	**614.0**		**5.0**	**609.0**
Other financial assets(2)(3)	**266.5**	**266.5**	**9.5**	**195.0**	**62.0**
Liabilities					
Deposits	**$ 942.8**	**$ 941.3**	**$**	**$ 767.7**	**$ 173.6**
Federal funds purchased and securities loaned or sold under agreements to repurchase	**100.9**	**100.9**		**100.8**	**0.1**
Long-term debt	**244.5**	**247.2**		**198.9**	**48.3**
Other financial liabilities(4)	**136.6**	**136.6**		**28.6**	**108.0**

	December 31, 2011	
In billions of dollars	Carrying value	Estimated fair value
Assets		
Investments	$ 19.4	$ 18.4
Federal funds sold and securities borrowed or purchased under agreements to resell	133.0	133.0
Loans(1)(2)	609.3	598.7
Other financial assets(2)(3)	245.7	245.7
Liabilities		
Deposits	$ 864.6	$ 864.5
Federal funds purchased and securities loaned or sold under agreements to repurchase	100.7	100.7
Long-term debt	299.3	289.7
Other financial liabilities(4)	141.1	141.1

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(1) The carrying value of loans is net of the *Allowance for loan losses* of $25.9 billion for September 30, 2012 and $30.1 billion for December 31, 2011. In addition, the carrying values exclude $2.7 billion and $2.5 billion of lease finance receivables at September 30, 2012 and December 31, 2011, respectively.

(2) Includes items measured at fair value on a nonrecurring basis.

(3) Includes cash and due from banks, deposits with banks, brokerage receivables, reinsurance recoverable and other financial instruments included in *Other assets* on the Consolidated Balance Sheet, for all of which the carrying value is a reasonable estimate of fair value.

(4) Includes brokerage payables, separate and variable accounts, short-term borrowings (carried at cost) and other financial instruments included in *Other liabilities* on the Consolidated Balance Sheet, for all of which the carrying value is a reasonable estimate of fair value.

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

The estimated fair values of loans reflect changes in credit status since the loans were made, changes in interest rates in the case of fixed-rate loans, and premium values at origination of certain loans. The carrying values (reduced by the *Allowance for loan losses*) exceeded the estimated fair values of Citigroup's loans, in aggregate, by $10.4 billion and by $10.6 billion at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, the carrying values, net of allowances, exceeded the estimated fair values by $8.7 billion and $1.7 billion for Consumer loans and Corporate loans, respectively.

The estimated fair values of the Company's corporate unfunded lending commitments at September 30, 2012 and December 31, 2011 were liabilities of $6.2 billion and $4.7 billion, respectively, which are substantially fair valued at Level 3. The Company does not estimate the fair values of consumer unfunded lending commitments, which are generally cancelable by providing notice to the borrower.

20. FAIR VALUE ELECTIONS

The Company may elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in earnings. The election is made upon the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made. The changes in fair value are recorded in current earnings. Additional discussion regarding the applicable areas in which fair value elections were made is presented in Note 19 to the Consolidated Financial Statements.

All servicing rights are recognized initially at fair value. The Company has elected fair value accounting for its mortgage servicing rights. See Note 17 to the Consolidated Financial Statements for further discussions regarding the accounting and reporting of MSRs.

The following table presents, as of September 30, 2012 and December 31, 2011, the fair value of those positions selected for fair value accounting, as well as the changes in fair value gains and losses for the nine months ended September 30, 2012 and 2011:

	Fair value at		Changes in fair value gains (losses) for the nine months ended September 30,	
In millions of dollars	**September 30, 2012**	**December 31, 2011**	**2012**	**2011**
Assets				
Federal funds sold and securities borrowed or purchased under agreements to resell				
Selected portfolios of securities purchased under agreements to resell and securities borrowed(1)	**$ 166,506**	$ 142,862	**$ (192)**	$ (23)
Trading account assets	**12,317**	14,179	**934**	(1,030)
Investments	**488**	526	**(39)**	243
Loans				
Certain Corporate loans(2)	**4,103**	3,939	**100**	78
Certain Consumer loans(2)	**1,256**	1,326	**(78)**	(280)
Total loans	**$ 5,359**	$ 5,265	**$ 22**	$ (202)
Other assets				
MSRs	**$ 1,920**	$ 2,569	**$ (462)**	$ (1,426)
Certain mortgage loans held for sale	**4,174**	6,213	**281**	158
Certain equity method investments	**46**	47	**(1)**	(11)
Total other assets	**$ 6,140**	$ 8,829	**$ (182)**	$ (1,279)
Total assets	**$ 190,810**	$ 171,661	**$ 543**	$ (2,291)
Liabilities				
Interest-bearing deposits	**$ 1,864**	$ 1,326	**$ (109)**	$ 55
Federal funds purchased and securities loaned or sold under agreements to repurchase				
Selected portfolios of securities sold under agreements to repurchase and securities loaned(1)	**123,459**	97,712	**40**	(106)
Trading account liabilities	**1,852**	1,763	**(140)**	604
Short-term borrowings	**761**	1,354	**42**	194
Long-term debt	**27,336**	24,172	**(1,811)**	2,501
Total liabilities	**$ 155,272**	$ 126,327	**$ (1,978)**	$ 3,248

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(1) Reflects netting of the amounts due from securities purchased under agreements to resell and the amounts owed under securities sold under agreements to repurchase.

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

Own Debt Valuation Adjustments for Structured Debt

Own debt valuation adjustments are recognized on Citi's debt liabilities for which the fair value option has been elected using Citi's credit spreads observed in the bond market. The fair value of debt liabilities for which the fair value option is elected (other than non-recourse and similar liabilities) is impacted by the narrowing or widening of the Company's credit spreads. The estimated change in the fair value of these debt liabilities due to such changes in the Company's own credit risk (or instrument-specific credit risk) was a loss of $560 million and a gain of $1,606 million for the three months ended September 30, 2012 and 2011, respectively, and a loss of $1,552 million and a gain of $1,734 million for the nine months ended September 30, 2012 and 2011, respectively. Changes in fair value resulting from changes in instrument-specific credit risk were estimated by incorporating the Company's current credit spreads observable in the bond market into the relevant valuation technique used to value each liability as described above.

The Fair Value Option for Financial Assets and Financial Liabilities

Selected portfolios of securities purchased under agreements to resell, securities borrowed, securities sold under agreements to repurchase, securities loaned and certain non-collateralized short-term borrowings

The Company elected the fair value option for certain portfolios of fixed-income securities purchased under agreements to resell and fixed-income securities sold under agreements to repurchase, securities borrowed, securities loaned (and certain non-collateralized short-term borrowings) on broker-dealer entities in the United States, United Kingdom and Japan. In each case, the election was made because the related interest-rate risk is managed on a portfolio basis, primarily with derivative instruments that are accounted for at fair value through earnings.

Changes in fair value for transactions in these portfolios are recorded in *Principal transactions*. The related interest revenue and interest expense are measured based on the contractual rates specified in the transactions and are reported as interest revenue and expense in the Consolidated Statement of Income.

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

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

There was no notional amount of these unfunded letters of credit at September 30, 2012 and $0.6 billion at December 31, 2011. The amount funded was insignificant with no amounts 90 days or more past due or on non-accrual status at September 30, 2012 and December 31, 2011.

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

Certain loans and other credit products

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

The following table provides information about certain credit products carried at fair value at September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
In millions of dollars	Trading assets	Loans	Trading assets	Loans
Carrying amount reported on the Consolidated Balance Sheet	**$ 12,263**	**$ 3,927**	$ 14,150	$ 3,735
Aggregate unpaid principal balance in excess of (less than) fair value	**(8)**	**(51)**	540	(54)
Balance of non-accrual loans or loans more than 90 days past due	**105**		134	
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due	**43**		43	

In addition to the amounts reported above, $1,745 million and $648 million of unfunded loan commitments related to certain credit products selected for fair value accounting were outstanding as of September 30, 2012 and December 31, 2011, respectively.

Changes in fair value of funded and unfunded credit products are classified in *Principal transactions* in the Company's Consolidated Statement of Income. Related interest revenue is measured based on the contractual interest rates and reported as *Interest revenue* on *Trading account assets* or loan interest depending on the balance sheet classifications of the credit products. The changes in fair value for the nine months ended September 30, 2012 and 2011 due to instrument-specific credit risk totaled to a gain of $46 million and $55 million, respectively.

Certain investments in private equity and real estate ventures and certain equity method investments

Citigroup invests in private equity and real estate ventures for the purpose of earning investment returns and for capital appreciation. The Company has elected the fair value option for certain of these ventures, because such investments are considered similar to many private equity or hedge fund activities in Citi's investment companies, which are reported at fair value. The fair value option brings consistency in the accounting and evaluation of these investments. All investments (debt and equity) in such private equity and real estate entities are accounted for at fair value. These investments are classified as *Investments* on Citigroup's Consolidated Balance Sheet.

Citigroup also holds various non-strategic investments in leveraged buyout funds and other hedge funds for which the Company elected fair value accounting to reduce operational and accounting complexity. Since the funds account for all of their underlying assets at fair value, the impact of applying the equity method to Citigroup's investment in these funds was equivalent to fair value accounting. These investments are classified as *Other assets* on Citigroup's Consolidated Balance Sheet.

Changes in the fair values of these investments are classified in *Other revenue* in the Company's Consolidated Statement of Income.

Certain mortgage loans (HFS)

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

The following table provides information about certain mortgage loans HFS carried at fair value at September 30, 2012 and December 31, 2011:

In millions of dollars	**September 30, 2012**	**December 31, 2011**
Carrying amount reported on the Consolidated Balance Sheet	**$ 4,174**	$ 6,213
Aggregate fair value in excess of unpaid principal balance	**302**	274
Balance of non-accrual loans or loans more than 90 days past due		
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due		

The changes in fair values of these mortgage loans are reported in *Other revenue* in the Company's Consolidated Statement of Income. There was no change in fair value during the nine months ended September 30, 2012 due to instrument-specific credit risk. The change in fair value during the nine months ended September 30, 2011 due to instrument-specific credit risk resulted in a loss of $0.2 million. Related interest income continues to be measured based on the contractual interest rates and reported as such in the Consolidated Statement of Income.

Certain consolidated VIEs

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

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

With respect to the consolidated mortgage VIEs for which the fair value option was elected, the mortgage loans are classified as *Loans* on Citigroup's Consolidated Balance Sheet. The changes in fair value of the loans are reported as *Other revenue* in the Company's Consolidated Statement of Income. Related interest revenue is measured based on the contractual interest rates and reported as *Interest revenue* in the Company's Consolidated Statement of Income. Information about these mortgage loans is included in the table below. The change in fair value of these loans due to instrument-specific credit risk was a loss of $78 million and $280 million for the nine months ended September 30, 2012 and 2011, respectively.

The debt issued by these consolidated VIEs is classified as long-term debt on Citigroup's Consolidated Balance Sheet. The changes in fair value for the majority of these liabilities are reported in *Other revenue* in the Company's Consolidated Statement of Income. Related interest expense is measured based on the contractual interest rates and reported as such in the Consolidated Statement of Income. The aggregate unpaid principal balance of long-term debt of these consolidated VIEs exceeded the aggregate fair value by $894 million and $984 million as of September 30, 2012 and December 31, 2011, respectively.

The following table provides information about Corporate and Consumer loans of consolidated VIEs carried at fair value at September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
In millions of dollars	**Corporate loans**	**Consumer loans**	**Corporate loans**	**Consumer loans**
Carrying amount reported on the Consolidated Balance Sheet	**$ 170**	**$ 1,219**	$ 198	$ 1,292
Aggregate unpaid principal balance in excess of fair value	**355**	**326**	394	436
Balance of non-accrual loans or loans more than 90 days past due	**33**	**120**	23	86
Aggregate unpaid principal balance in excess of fair value for non-accrual loans or loans more than 90 days past due	**37**	**114**	42	120

Certain structured liabilities

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

The change in fair value for these structured liabilities is reported in *Principal transactions* in the Company's Consolidated Statement of Income. Changes in fair value for these structured liabilities include an economic component for accrued interest which is included in the change in fair value reported in *Principal transactions.*

Certain non-structured liabilities

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

Related interest expense on non-structured liabilities is measured based on the contractual interest rates and reported as such in the Consolidated Statement of Income.

The following table provides information about long-term debt carried at fair value, excluding the debt issued by the consolidated VIEs, at September 30, 2012 and December 31, 2011:

In millions of dollars	**September 30, 2012**	**December 31, 2011**
Carrying amount reported on the Consolidated Balance Sheet	**$ 25,942**	$ 22,614
Aggregate unpaid principal balance in excess of (less than) fair value	**(3,884)**	1,680

The following table provides information about short-term borrowings carried at fair value at September 30, 2012 and December 31, 2011:

In millions of dollars	**September 30, 2012**	**December 31, 2011**
Carrying amount reported on the Consolidated Balance Sheet	**$ 761**	$ 1,354
Aggregate unpaid principal balance in excess of (less than) fair value	**(187)**	49

21. GUARANTEES AND COMMITMENTS

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

In addition, the guarantor must disclose the maximum potential amount of future payments the guarantor could be required to make under the guarantee, if there were a total default by the guaranteed parties. The determination of the maximum potential future payments is based on the notional amount of the guarantees without consideration of possible recoveries under recourse provisions or from collateral held or pledged. As such, the Company believes such amounts bear no relationship to the anticipated losses, if any, on these guarantees. The following tables present information about the Company's guarantees at September 30, 2012 and December 31, 2011:

	Maximum potential amount of future payments			
In billions of dollars at September 30, 2012 except carrying value in millions	**Expire within 1 year**	**Expire after 1 year**	**Total amount outstanding**	**Carrying value *(in millions)***
Financial standby letters of credit	**$ 22.6**	**$ 77.2**	**$ 99.8**	**$ 481.4**
Performance guarantees	**7.2**	**5.2**	**12.4**	**42.2**
Derivative instruments considered to be guarantees	**13.7**	**8.7**	**22.4**	**1,725.8**
Loans sold with recourse		**0.4**	**0.4**	**90.4**
Securities lending indemnifications(1)	**86.7**		**86.7**	
Credit card merchant processing(1)	**70.3**		**70.3**	
Custody indemnifications and other		**29.0**	**29.0**	**36.2**
Total	**$ 200.5**	**$ 120.5**	**$ 321.0**	**$ 2,376.0**

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

	Maximum potential amount of future payments			
In billions of dollars at December 31, 2011 except carrying value in millions	**Expire within 1 year**	**Expire after 1 year**	**Total amount outstanding**	**Carrying value *(in millions)***
Financial standby letters of credit	$ 25.2	$ 79.5	$ 104.7	$ 417.5
Performance guarantees	7.8	4.5	12.3	43.9
Derivative instruments considered to be guarantees	7.2	8.0	15.2	2,065.9
Loans sold with recourse		0.4	0.4	89.6
Securities lending indemnifications(1)	90.9		90.9	
Credit card merchant processing(1)	70.2		70.2	
Custody indemnifications and other		40.0	40.0	30.7
Total	$ 201.3	$ 132.4	$ 333.7	$ 2,647.6

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

Financial standby letters of credit

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

Performance guarantees

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

Derivative instruments considered to be guarantees

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

The derivative instruments considered to be guarantees, which are presented in the tables above, include only those instruments that require Citi to make payments to the counterparty based on changes in an underlying instrument that is related to an asset, a liability, or an equity security held by the guaranteed party. More specifically, derivative instruments considered to be guarantees include certain over-the-counter written put options where the counterparty is not a bank, hedge fund or broker-dealer (such counterparties are considered to be dealers in these markets and may, therefore, not hold the underlying instruments). However, credit derivatives sold by the Company are excluded from the tables above as they are disclosed separately in Note 18 to the Consolidated Financial Statements. In addition, non-credit derivative contracts that are cash settled and for which the Company is unable to assert that it is probable the counterparty held the underlying instrument at the inception of the contract also are excluded from the tables above.

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

Loans sold with recourse

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

In addition to the amounts shown in the tables above, the repurchase reserve for Citigroup residential mortgages representations and warranties was $1,516 million and $1,188 million at September 30, 2012 and December 31, 2011, respectively, and these amounts are included in *Other liabilities* on the Consolidated Balance Sheet.

Repurchase Reserve Whole Loan Sales

The repurchase reserve estimation process for potential residential mortgage whole loan representation and warranty claims is subject to various assumptions. The assumptions used to calculate this repurchase reserve include numerous estimates and judgments and thus contain a level of uncertainty and risk that, if different from actual results, could have a material impact on the reserve amounts. As of September 30, 2012, the most significant assumptions used to calculate the reserve levels are:

- correlation between loan characteristics and repurchase claims;
- claims appeal success rates; and
- estimated loss per repurchase or make-whole payment.

As referenced above, the repurchase reserve estimation process for potential whole loan representation and warranty claims relies on various assumptions that involve numerous estimates and judgments, including with respect to certain future events, and thus entails inherent uncertainty. As of September 30, 2012, Citi estimates that the range of reasonably possible loss for whole loan sale representation and warranty claims in excess of amounts accrued could be up to $0.6 billion. This estimate was derived by modifying the key assumptions discussed above to reflect management's judgment regarding reasonably possible adverse changes to those assumptions. Citi's estimate of reasonably possible loss is based on currently available information, significant judgment and numerous assumptions that are subject to change.

Repurchase Reserve Private-Label Securitizations

The pace at which Citi has received repurchase claims for breaches of representations and warranties on its private-label securitizations remains volatile and has continued to increase. To date, the Company has received actual repurchase claims for breaches of representations and warranties related to private-label securitizations at a sporadic and unpredictable rate, and most of the claims received are not yet resolved. Thus, Citi cannot estimate probable future repurchases from such private-label securitizations. Rather, at the present time, Citi views repurchase claims related to private-label securitizations as episodic, such that repurchase reserves are currently expected to be recorded principally on the basis of estimated losses arising from actual claims received, rather than predictions regarding claims estimated to be received or paid in the future.

Securities lending indemnifications

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

Credit card merchant processing

Credit card merchant processing guarantees represent the Company's indirect obligations in connection with the processing of private label and bank card transactions on behalf of merchants.

Citigroup's primary credit card business is the issuance of credit cards to individuals. In addition, the Company: (a) provides transaction processing services to various merchants with respect to its private-label cards and (b) has potential liability for bank card transaction processing services. The nature of the liability in either case arises as a result of a billing dispute between a merchant and a cardholder that is ultimately resolved in the cardholder's favor. The merchant is liable to refund the amount to the cardholder. In general, if the credit card processing company is unable to collect this amount from the merchant, the credit card processing company bears the loss for the amount of the credit or refund paid to the cardholder.

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

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

The Company's maximum potential contingent liability related to both bank card and private-label merchant processing services is estimated to be the total volume of credit card transactions that meet the requirements to be valid charge back transactions at any given time. At September 30, 2012 and December 31, 2011, this maximum potential exposure was estimated to be $70 billion.

However, the Company believes that the maximum exposure is not representative of the actual potential loss exposure based on the Company's historical experience. This contingent liability is unlikely to arise, as most products and services are delivered when purchased and amounts are refunded when items are returned to merchants. The Company assesses the probability and amount of its contingent liability related to merchant processing based on the financial strength of the primary guarantor, the extent and nature of unresolved charge-backs and its historical loss experience. At September 30, 2012 and December 31, 2011, the losses incurred and the carrying amounts of the Company's contingent obligations related to merchant processing activities were immaterial.

Custody indemnifications

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

Other guarantees and indemnifications

Credit Card Protection Programs

The Company, through its credit card business, provides various cardholder protection programs on several of its card products, including programs that provide insurance coverage for rental cars, coverage for certain losses associated with purchased products, price protection for certain purchases and protection for lost luggage. These guarantees are not included in the table, since the total outstanding amount of the guarantees and the Company's maximum exposure to loss cannot be quantified. The protection is limited to certain types of purchases and certain types of losses and it is not possible to quantify the purchases that would qualify for these benefits at any given time. The Company assesses the probability and amount of its potential liability related to these programs based on the extent and nature of its historical loss experience. At September 30, 2012 and December 31, 2011, the actual and estimated losses incurred and the carrying value of the Company's obligations related to these programs were immaterial.

Other Representation and Warranty Indemnifications

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

Value-Transfer Networks

The Company is a member of, or shareholder in, hundreds of value-transfer networks (VTNs) (payment, clearing and settlement systems as well as exchanges) around the world. As a condition of membership, many of these VTNs require that members stand ready to pay a pro rata share of the losses incurred by the organization due to another member's default on its obligations. The Company's potential obligations may be limited to its membership interests in the VTNs, contributions to the VTN's funds, or, in limited cases, the obligation may be unlimited. The maximum exposure cannot be estimated as this would require an assessment of future claims that have not yet occurred. We believe the risk of loss is remote given historical experience with the VTNs. Accordingly, the Company's participation in VTNs is not reported in the Company's guarantees tables above and there are no amounts reflected on the Consolidated Balance Sheet as of September 30, 2012 or December 31, 2011 for potential obligations that could arise from the Company's involvement with VTN associations.

Long-Term Care Insurance Indemnification

In the sale of an insurance subsidiary, the Company provided an indemnification to an insurance company for policyholder claims and other liabilities relating to a book of long-term care (LTC) business (for the entire term of the LTC policies) that is fully reinsured by another insurance company. The reinsurer has funded two trusts with securities whose fair value (approximately $4.9 billion at September 30, 2012 and $4.4 billion at December 31, 2011) is designed to cover the insurance company's statutory liabilities for the LTC policies. The assets in these trusts are evaluated and adjusted periodically to ensure that the fair value of the assets continues to cover the estimated statutory liabilities related to the LTC policies, as those statutory liabilities change over time. If the reinsurer fails to perform under the reinsurance agreement for any reason, including insolvency, and the assets in the two trusts are insufficient or unavailable to the ceding insurance company, then Citigroup must indemnify the ceding insurance company for any losses actually incurred in connection with the LTC policies. Since both events would have to occur before Citi would become responsible for any payment to the ceding insurance company pursuant to its indemnification obligation and the likelihood of such events occurring is currently not probable, there is no liability reflected in the Consolidated Balance Sheet as of September 30, 2012 related to this indemnification. However, Citi continues to closely monitor its potential exposure under this indemnification obligation.

Carrying Value Guarantees and Indemnifications

At September 30, 2012 and December 31, 2011, the total carrying amounts of the liabilities related to the guarantees and indemnifications included in the tables above amounted to approximately $2.4 billion and $2.6 billion, respectively. The carrying value of derivative instruments is included in either *Trading liabilities* or *Other liabilities*, depending upon whether the derivative was entered into for trading or non-trading purposes. The carrying value of financial and performance guarantees is included in *Other liabilities*. For loans sold with recourse, the carrying value of the liability is included in *Other liabilities*. In addition, at September 30, 2012 and December 31, 2011, *Other liabilities* on the Consolidated Balance Sheet include an allowance for credit losses of $1,063 million and $1,136 million, respectively, relating to letters of credit and unfunded lending commitments.

Collateral

Cash collateral available to the Company to reimburse losses realized under these guarantees and indemnifications amounted to $39 billion and $35 billion at September 30, 2012 and December 31, 2011, respectively. Securities and other marketable assets held as collateral amounted to $56 billion and $65 billion at September 30, 2012 and December 31, 2011, respectively, the majority of which collateral is held to reimburse losses realized under securities lending indemnifications. Additionally, letters of credit in favor of the Company held as collateral amounted to $2.3 billion and $1.5 billion at September 30, 2012 and December 31, 2011, respectively. Other property may also be available to the Company to cover losses under certain guarantees and indemnifications; however, the value of such property has not been determined.

Performance risk

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

Presented in the tables below are the maximum potential amounts of future payments that are classified based upon internal and external credit ratings as of September 30, 2012 and December 31, 2011. As previously mentioned, the determination of the maximum potential future payments is based on the notional amount of the guarantees without consideration of possible recoveries under recourse provisions or from collateral held or pledged. As such, the Company believes such amounts bear no relationship to the anticipated losses, if any, on these guarantees.

	Maximum potential amount of future payments			
In billions of dollars as of September 30, 2012	Investment grade	Non-investment Grade	Not rated	Total
Financial standby letters of credit	**$ 79.2**	**$ 11.2**	**$ 9.4**	**$ 99.8**
Performance guarantees	**7.1**	**3.3**	**2.0**	**12.4**
Derivative instruments deemed to be guarantees			**22.4**	**22.4**
Loans sold with recourse			**0.4**	**0.4**
Securities lending indemnifications			**86.7**	**86.7**
Credit card merchant processing			**70.3**	**70.3**
Custody indemnifications and other	**29.0**			**29.0**
Total	**$ 115.3**	**$ 14.5**	**$ 191.2**	**$ 321.0**

	Maximum potential amount of future payments			
In billions of dollars as of December 31, 2011	Investment grade	Non-investment Grade	Not rated	Total
Financial standby letters of credit	$ 79.3	$ 17.2	$ 8.2	$ 104.7
Performance guarantees	6.9	3.2	2.2	12.3
Derivative instruments deemed to be guarantees			15.2	15.2
Loans sold with recourse			0.4	0.4
Securities lending indemnifications			90.9	90.9
Credit card merchant processing			70.2	70.2
Custody indemnifications and other	40.0			40.0
Total	$ 126.2	$ 20.4	$ 187.1	$ 333.7

Credit Commitments and Lines of Credit

The table below summarizes Citigroup's credit commitments as of September 30, 2012 and December 31, 2011:

In millions of dollars	U.S.	Outside of U.S.	September 30, 2012	December 31, 2011
Commercial and similar letters of credit	$ 1,455	$ 6,522	$ 7,977	$ 8,910
One- to four-family residential mortgages	3,073	1,438	4,511	3,504
Revolving open-end loans secured by one- to four-family residential properties	15,249	2,988	18,237	19,326
Commercial real estate, construction and land development	1,625	889	2,514	1,968
Credit card lines	490,618	135,149	625,767	653,985
Commercial and other consumer loan commitments	145,004	88,645	233,649	224,109
Other commitments and contingencies	1,041	683	1,724	3,201
Total	$ 658,065	$ 236,314	$ 894,379	$ 915,003

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

Commercial and similar letters of credit

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

One- to four-family residential mortgages

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

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

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

Commercial real estate, construction and land development

Commercial real estate, construction and land development include unused portions of commitments to extend credit for the purpose of financing commercial and multifamily residential properties as well as land development projects.

Both secured-by-real-estate and unsecured commitments are included in this line, as well as undistributed loan proceeds, where there is an obligation to advance for construction progress payments. However, this line only includes those extensions of credit that, once funded, will be classified as *Total loans, net* on the Consolidated Balance Sheet.

Credit card lines

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

Commercial and other consumer loan commitments

Commercial and other consumer loan commitments include overdraft and liquidity facilities, as well as commercial commitments to make or purchase loans, to purchase third-party receivables, to provide note issuance or revolving underwriting facilities and to invest in the form of equity. Amounts include $61 billion and $65 billion with an original maturity of less than one year at September 30, 2012 and December 31, 2011, respectively.

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

Other commitments and contingencies

Other commitments and contingencies include all other transactions related to commitments and contingencies not reported on the lines above.

22. CONTINGENCIES

The following information supplements and amends, as applicable, the disclosures in Note 29 to the Consolidated Financial Statements of Citigroup's 2011 Annual Report on Form 10-K and Note 22 to the Consolidated Financial Statements of Citigroup's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012. For purposes of this Note, Citigroup and its affiliates and subsidiaries, as well as their current and former officers, directors and employees, are sometimes collectively referred to as Citigroup and Related Parties.

In accordance with ASC 450 (formerly SFAS 5), Citigroup establishes accruals for litigation and regulatory matters when Citigroup believes it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Once established, accruals are adjusted from time to time, as appropriate, in light of additional information. The amount of loss ultimately incurred in relation to matters for which an accrual has been established may be substantially higher or lower than the amounts accrued for those matters.

If Citigroup has not accrued for a matter because the matter does not meet the criteria for accrual (as set forth above), or Citigroup believes an exposure to loss exists in excess of the amount accrued for a particular matter, in each case assuming a material loss is reasonably possible, Citigroup discloses the matter. In addition, for such matters, Citigroup discloses an estimate of the aggregate reasonably possible loss or range of loss in excess of the amounts accrued for those matters as to which an estimate can be made. At September 30, 2012, Citigroup's estimate was materially unchanged from its estimate of approximately $4 billion at December 31, 2011, as more fully described in Note 29 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K.

As available information changes, the matters for which Citigroup is able to estimate, and the estimates themselves, will change. In addition, while many estimates presented in financial statements and other financial disclosure involve significant judgment and may be subject to significant uncertainty, estimates of the range of reasonably possible loss arising from litigation and regulatory proceedings are subject to particular uncertainties. For example, at the time of making an estimate, Citigroup may have only preliminary, incomplete or inaccurate information about the facts underlying the claim; its assumptions about the future rulings of the court or other tribunal on significant issues, or the behavior and incentives of adverse parties or regulators, may prove to be wrong; and the outcomes it is attempting to predict are often not amenable to the use of statistical or other quantitative analytical tools. In addition, from time to time an outcome may occur that Citigroup had not accounted for in its estimates because it had deemed such an outcome to be remote. For all these reasons, the amount of loss in excess of accruals ultimately incurred for the matters as to which an estimate has been made could be substantially higher or lower than the range of loss included in the estimate.

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

For further information on ASC 450 and Citigroup's accounting and disclosure framework for litigation and regulatory matters, see Note 29 to the Consolidated Financial Statements of Citigroup's 2011 Annual Report on Form 10-K.

Credit Crisis-Related Litigation and Other Matters

Citigroup continues to cooperate fully in response to subpoenas and requests for information from the Securities and Exchange Commission, the Department of Justice and subdivisions thereof, bank regulators, and other federal and state government agencies and authorities in connection with formal and informal (and, in many instances, industry-wide) inquiries concerning Citigroup's mortgage-related conduct and business activities, and other matters related to the credit crisis.

Mortgage-Related Litigation and Other Matters

Securities Actions: On August 29, 2012, the United States District Court for the Southern District of New York issued an order preliminarily approving the parties' settlement in IN RE CITIGROUP INC. SECURITIES LITIGATION, pursuant to which Citigroup has agreed to pay $590 million. A fairness hearing is scheduled for January 15, 2013. Additional information relating to this action is publicly available in court filings under the docket number 07 Civ. 9901 (S.D.N.Y.) (Stein, J.).

On August 30, 2012, Rentokil-Initial Pension Scheme filed a putative class action complaint against Citigroup and Related Parties on behalf of purchasers of 26 Citigroup offerings of medium term Euro Notes issued between October 12, 2005 and February 25, 2009. The complaint asserts claims under Section 90 of the Financial Services and Markets Act 2000 and includes allegations similar to those asserted in IN RE CITIGROUP INC. BOND LITIGATION. Additional information relating to this action is publicly available in court filings under the docket number 12 Civ. 6653 (S.D.N.Y.) (Stein, J.).

ERISA Matters: On October 15, 2012, the United States Supreme Court denied plaintiffs-appellants' petition for a writ of certiorari seeking review of the United States Court of Appeals for the Second Circuit's decision affirming the district court's dismissal of plaintiffs' complaint in GRAY v. CITIGROUP INC. Additional information relating to this action is publicly available in court filings under the docket numbers 07 Civ. 9790 (S.D.N.Y.) (Stein, J.), 09-3804-cv (2d Cir.), and No. 11-1531 (S. Ct.).

Beginning on October 28, 2011, several putative class actions were filed in the United States District Court for the Southern District of New York by current or former Citigroup employees asserting claims under ERISA against Citigroup and Related Parties alleged to have served as ERISA plan fiduciaries from 2008 to 2009. On July 27, 2012, these actions were consolidated under the caption IN RE CITIGROUP ERISA LITIGATION II, and on September 14, 2012, plaintiffs filed a consolidated complaint. Additional information relating to this action is publicly available in court filings under the docket number 11 Civ. 7672 (S.D.N.Y.) (Koeltl, J.).

Mortgage-Backed Securities and CDO Investor Actions and Repurchase Claims: On July 27, 2012, John Hancock Life Insurance Co. and several affiliated entities filed a complaint in the United States District Court for the District of Minnesota against various defendants, including Citigroup Global Markets Inc. (CGMI), asserting disclosure claims arising out of purchases of RMBS. Additional information relating to this action is publicly available in court filings under the docket number 12 Civ. 01841 (D. Minn.) (Montgomery, J.).

On July 27, 2012, Royal Park Investments SA/NV filed a summons with notice in New York Supreme Court against various defendants, including Citigroup and Related Parties, asserting disclosure claims arising out of purchases of RMBS. Additional information relating to this action is publicly available in court filings under the docket number 652607/2012 (N.Y. Sup. Ct.).

On August 10, 2012, the Federal Deposit Insurance Corporation filed complaints in the Alabama Circuit Court of Montgomery County and the United States District Courts for the Southern District of New York and the Central District of California against various defendants, including Citigroup and Related Parties, asserting disclosure claims arising out of RMBS purchases by a failed bank for which the FDIC is acting as receiver. Additional information relating to these actions is publicly available in court filings under the docket numbers 12 Civ. 6911 (C.D. Cal.) (Pfaelzer, J.), 12 Civ. 6166 (S.D.N.Y.) (Stanton, J.), 12 Civ. 0790 (M.D. Al.) (Watkins, C.J.), 12 Civ. 0784 (M.D. Al.) (Watkins, C.J.), 12 Civ. 0791 (M.D. Al.) (Watkins, C.J.), and MDL No. 2265 (C.D. Cal.).

On August 14, 2012, a motions panel of the United States Court of Appeals for the Second Circuit granted defendants' motion for leave to appeal from the district court's denial of defendants' motion to dismiss in FEDERAL HOUSING FINANCE AGENCY v. UBS AMERICAS, INC., ET AL., a parallel case to FEDERAL HOUSING FINANCE AGENCY v. ALLY FINANCIAL INC., ET AL., FEDERAL HOUSING FINANCE AGENCY v. CITIGROUP INC., ET AL., and FEDERAL HOUSING FINANCE AGENCY v. JPMORGAN CHASE & CO., ET AL. Additional information relating to these actions is publicly available in court filings under the docket numbers 11 Civ. 5201, 6188, 6196 and 7010 (S.D.N.Y.) (Cote, J.) and 12-2547-cv (2d Cir.).

On September 5, 2012, IKB International S.A. and IKB Deutsche Industriebank AG filed a summons with notice in New York Supreme Court against Citigroup and Related Parties. Additional information relating to this action is publicly available in court filings under the docket number 653100/2012 (N.Y. Sup. Ct.).

On September 19, 2012, the Illinois state court denied defendants' motions to dismiss in FEDERAL HOME LOAN BANK OF CHICAGO v. BANC OF AMERICA FUNDING CORP., ET AL. Additional information relating to this action is publicly available in court filings under docket number 10-CH-45033 (Ill. Cir. Ct.) (Pantle, J.).

On September 28, 2012, the Massachusetts state court denied in part and granted in part defendants' motion to dismiss in CAMBRIDGE PLACE INVESTMENT MANAGEMENT, INC. v. MORGAN STANLEY & CO., INC., ET AL. Additional information relating to this action is publicly available in court filings under the docket numbers 10-2741-BLS1 (Mass. Super. Ct.) (Billings, J.) and 11-0555-BLS1 (Mass. Super. Ct.) (Billings, J.).

On October 15, 2012, the United States District Court for the Southern District of New York granted lead plaintiffs' amended motion for class certification in NEW JERSEY CARPENTERS HEALTH FUND V. RESIDENTIAL CAPITAL LLC, ET AL., having previously denied lead plaintiffs' motion for class certification on January 18, 2011. Plaintiffs in this action allege violations of Sections 11, 12, and 15 of the Securities Act of 1933 and assert disclosure claims on behalf of a putative class of purchasers of mortgage-backed securities issued by Residential Accredited Loans, Inc. pursuant or traceable to prospectus materials filed on March 3, 2006 and April 3, 2007. CGMI is one of the underwriter defendants. Additional information relating to this action is publicly available in court filings under the docket number 08 CV 8781 (S.D.N.Y.) (Baer, J.).

Interbank Offered Rates-Related Litigation and Other Matters

In connection with the investigations and inquiries regarding submissions made by panel banks to bodies that publish various interbank offered rates, certain Citigroup subsidiaries have received additional requests for information and documents from various domestic and overseas regulators and enforcement agencies, including the Monetary Authority of Singapore and a consortium of state Attorneys General. Citigroup continues to cooperate with the inquiries and investigations and respond to the requests.

Citigroup and Citibank, N.A., along with other U.S. Dollar (USD) LIBOR panel banks, are defendants in the multidistrict litigation (MDL) proceeding before Judge Buchwald in the United States District Court for the Southern District of New York captioned IN RE LIBOR-BASED FINANCIAL INSTRUMENTS ANTITRUST LITIGATION, appearing under docket number 1:11-md-2262 (S.D.N.Y.). Judge Buchwald has appointed interim lead class counsel for, and consolidated amended complaints have been filed on behalf of, three separate putative classes of plaintiffs: (1) over-the-counter (OTC) purchasers of derivative instruments tied to USD LIBOR; (2) purchasers of exchange-traded derivative instruments tied to USD LIBOR; and (3) indirect OTC purchasers of U.S. debt securities. Each of these putative classes alleges that the panel bank defendants conspired to suppress USD LIBOR in violation of the Sherman Act and/or the Commodity Exchange Act, thereby causing plaintiffs to suffer losses on the instruments they purchased. Also consolidated into the MDL proceeding are individual civil actions commenced by various Charles Schwab entities that allege that the panel bank defendants conspired to suppress the USD LIBOR rates in violation of the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), and California state law, causing the Schwab entities to suffer losses on USD LIBOR-linked financial instruments that they owned. Plaintiffs in these actions seek compensatory damages and restitution for losses caused by the alleged violations, as well as treble damages under the Sherman Act. The Schwab and OTC plaintiffs also seek injunctive relief.

Citigroup and Citibank, N.A., along with other defendants, have moved to dismiss all of the above actions that were consolidated into the MDL proceeding as of June 29, 2012. Briefing on the motion to dismiss was completed on September

27, 2012. Judge Buchwald has stayed all subsequently filed actions that fall within the scope of the MDL until she resolves the motion to dismiss. Citigroup and/or Citibank, N.A. are named in five such stayed actions.

The stayed actions include two similar lawsuits filed on behalf of putative classes of community and other banks, savings and loans institutions and credit unions that allegedly suffered losses on loans they made at interest rates tied to USD LIBOR and a further lawsuit filed on behalf of a putative class of persons and entities who purchased derivative instruments tied to USD LIBOR from certain third party commercial banks and insurance companies. Additional information relating to these actions is publicly available in court filings under docket numbers 1:12-cv-4205 (S.D.N.Y.) (Buchwald, J.), 1:12-cv 5723 (S.D.N.Y.) (Buchwald, J.) and 1:12-cv-5822 (S.D.N.Y.) (Buchwald, J.).

In addition, on August 8, 2012, a new putative class action captioned LIEBERMAN ET AL. V. CREDIT SUISSE GROUP AG was filed in the Southern District of New York against various USD LIBOR panel banks, including Citibank, on behalf of purchasers who owned a preferred equity security on which dividends were payable at a rate linked to USD LIBOR. Plaintiffs in this action assert unjust enrichment and antitrust claims under the laws of various states, alleging that the panel banks colluded to artificially suppress USD LIBOR, thereby lowering the dividends plaintiffs received on their securities. On October 4, 2012, another new putative class action captioned ADAMS ET AL. V. BANK OF AMERICA CORP. was filed in the Southern District of New York against various USD LIBOR panel banks and their affiliates, including Citigroup and Citibank, N.A., on behalf of a putative class of individual adjustable rate mortgage borrowers. Plaintiffs allege that the panel banks manipulated USD LIBOR to raise rates on certain dates in order to increase plaintiffs' payment obligations, in violation of federal and New York state antitrust law. The plaintiffs in these actions seek compensatory damages, treble damages, and injunctive relief. Judge Buchwald has consolidated these cases into the MDL proceeding. Additional information relating to these actions is publicly available in court filings under docket numbers 1:12-cv-6056 (S.D.N.Y.) (Buchwald, J.) and 1:12-cv-7461 (S.D.N.Y.) (Buchwald, J).

In addition, on April 30, 2012, an action was filed in the same court on behalf of a putative class of persons and entities who transacted in exchange-traded Euroyen futures and option contracts between June 2006 and September 2010. This action, captioned LAYDON V. MIZUHO BANK LTD. ET AL., is not part of the MDL. The complaint names as defendants banks that are or were members of the panels making submissions used in the calculation of Japanese Yen LIBOR and the Tokyo Inter-Bank Offered Rate (TIBOR), and certain affiliates of some of those banks, including Citibank, N.A. and Citibank, Japan Ltd. The complaint alleges that the plaintiffs were injured as a result of purported manipulation of those reference interest rates, and asserts claims arising under the Commodity Exchange Act, the Sherman Act, and state consumer protection statutes. Plaintiffs seek compensatory damages, treble damages under the Sherman Act, and injunctive relief. Judge Daniels has issued an order directing the plaintiffs to file an amended complaint by November 30, 2012. Additional information relating to this action is publicly available in court filings under the docket number 12-cv-3419 (S.D.N.Y.) (Daniels, J.).

KIKOs

As of September 30, 2012, 85 civil lawsuits had been filed in district courts by small and medium-size export businesses against a Citigroup subsidiary (CKI). To date, 82 cases have been decided at the district court level, and CKI has prevailed in 64 of those decisions. In the other 18 decisions, plaintiffs were awarded only a portion of the damages sought. The damage awards total in the aggregate approximately $28.8 million.

Of the 82 cases decided at the district court level, 60 have been appealed to the high court, including the 18 in which an adverse decision was rendered against CKI in the district court. Of the eight appeals decided at high court level, CKI prevailed in four cases, and in the other four plaintiffs were awarded partial damages, which increased the aggregate damages awarded against CKI by a further $8.5 million. CKI is appealing the four adverse decisions to the Supreme Court.

Tribune Company Bankruptcy

On July 23, 2012, the United States Bankruptcy Court for the District of Delaware confirmed the fourth amended plan of reorganization. Certain parties are appealing that decision. Additional information relating to this action is publicly available in court filings under the docket numbers 08-13141 (Bankr. D. Del.) (Carey, J.) and 12 Civ. 01072, 01073, 00128, 01106 and 01100 (D. Del.) (Sleet, C.J.).

Interchange Litigation

On October 19, 2012, the class plaintiffs in the putative class actions filed the parties' settlement agreement with the court as part of a motion for preliminary approval of the settlement. A preliminary approval hearing has been scheduled for November 9, 2012. Visa and MasterCard also entered into a settlement agreement with the merchants that filed individual, non-class actions. While Citigroup and Related Parties are not parties to the individual merchant non-class settlement agreement, they are contributing to that settlement, and the agreement provides for a release of claims against Citigroup and Related Parties.

Settlement Payments

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

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

23. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS SCHEDULES

These condensed Consolidating Financial Statements schedules are presented for purposes of additional analysis, but should be considered in relation to the Consolidated Financial Statements of Citigroup taken as a whole.

Citigroup Parent Company

The holding company, Citigroup Inc.

Citigroup Funding Inc. (CFI)

CFI is a first-tier subsidiary of Citigroup, which issues commercial paper, medium-term notes and structured equity-linked and credit-linked notes, all of which are guaranteed by Citigroup.

Other Citigroup Subsidiaries and consolidating adjustments

Includes all other subsidiaries of Citigroup, intercompany eliminations, income (loss) from discontinued operations, Citigroup parent company elimination of distributed and undistributed income of subsidiaries and investment in subsidiaries.

During the third quarter of 2012, Citi de-registered the public debt of Citigroup Global Markets Holdings Inc. (CGMHI), CitiFinancial Credit Company (CCC) and Associates First Capital Corporation (AFCC) pursuant to Section 15 of the Securities and Exchange Act of 1934. The public debt of each of CGMHI, CCC and AFCC continues to be guaranteed by Citigroup Inc. However, as a result of the deregistration of the public debt of these entities, they are no longer required to be included in the Condensed Consolidating Financial Statement Schedules of Citi's Annual and Quarterly Reports filed with the U.S. Securities and Exchange Commission.

Condensed Consolidating Statements of Income and Comprehensive Income

	Three Months Ended September 30, 2012			
In millions of dollars	Citigroup parent company	CFI	Other Citigroup subsidiaries, eliminations and income from discontinued operations	Citigroup consolidated
Revenues				
Dividends from subsidiaries	$ 2,800	$	$ (2,800)	$
Interest revenue	4	22	16,908	16,934
Interest revenue intercompany	767	252	(1,019)	
Interest expense	1,678	252	3,091	5,021
Interest expense intercompany	(100)	(47)	147	
Net interest revenue	$ (807)	$ 69	$ 12,651	$ 11,913
Commissions and fees	$	$	$ 3,304	$ 3,304
Commissions and fees intercompany				
Principal transactions	62	(972)	1,886	976
Principal transactions intercompany	9	542	(551)	
Other income	(642)	50	(1,650)	(2,242)
Other income intercompany	762	(121)	(641)	
Total non-interest revenues	$ 191	$ (501)	$ 2,348	$ 2,038
Total revenues, net of interest expense	$ 2,184	$ (432)	$ 12,199	$ 13,951
Provisions for credit losses and for benefits and claims	$	$	$ 2,695	$ 2,695
Expenses				
Compensation and benefits	$ 32	$	$ 6,100	$ 6,132
Compensation and benefits intercompany	2		(2)	
Other expense	239		5,849	6,088
Other expense intercompany	40	1	(41)	
Total operating expenses	$ 313	$ 1	$ 11,906	$ 12,220
Income (loss) before taxes and equity in undistributed income of subsidiaries	$ 1,871	$ (433)	$ (2,402)	$ (964)
Provision (benefit) for income taxes	(975)	(161)	(352)	(1,488)
Equity in undistributed income of subsidiaries	(2,378)		2,378	
Income (loss) from continuing operations	$ 468	$ (272)	$ 328	$ 524
Income (loss) from discontinued operations, net of taxes			(31)	(31)
Net income (loss) before attribution of noncontrolling interests	$ 468	$ (272)	$ 297	$ 493
Net income (loss) attributable to noncontrolling interests			25	25
Net income (loss) after attribution of noncontrolling interests	$ 468	$ (272)	$ 272	$ 468
Comprehensive income (loss)				
Net income (loss) before attribution of noncontrolling interests	$ 468	$ (272)	$ 297	$ 493
Citigroup's other comprehensive income (loss)	2,183			2,183
Other comprehensive income (loss) attributable to noncontrolling interests			48	48

Total comprehensive income (loss) before attribution of noncontrolling interests	**$**	**2,651**	**$**	**(272)**	**$**	**345**	**$**	**2,724**
Total comprehensive income (loss) attributable to noncontrolling interests						**73**		**73**
Citigroup's comprehensive income (loss)	**$**	**2,651**	**$**	**(272)**	**$**	**272**	**$**	**2,651**

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Condensed Consolidating Statements of Income and Comprehensive Income

	Three Months Ended September 30, 2011			
In millions of dollars	Citigroup parent company	CFI	Other Citigroup subsidiaries, eliminations and income from discontinued operations	Citigroup consolidated
Revenues				
Dividends from subsidiaries	$ 3,200	$	$ (3,200)	$
Interest revenue	50		18,095	18,145
Interest revenue intercompany	827	661	(1,488)	
Interest expense	2,006	558	3,467	6,031
Interest expense intercompany	(120)	(16)	136	
Net interest revenue	$ (1,009)	$ 119	$ 13,004	$ 12,114
Commissions and fees	$	$	$ 3,043	$ 3,043
Commissions and fees intercompany				
Principal transactions	(44)	1,534	613	2,103
Principal transactions intercompany		(740)	740	
Other income	(3,405)	(84)	7,060	3,571
Other income intercompany	3,823	156	(3,979)	
Total non-interest revenues	$ 374	$ 866	$ 7,477	$ 8,717
Total revenues, net of interest expense	$ 2,565	$ 985	$ 17,281	$ 20,831
Provisions for credit losses and for benefits and claims	$	$	$ 3,351	$ 3,351
Expenses				
Compensation and benefits	$ (15)	$	$ 6,238	$ 6,223
Compensation and benefits intercompany	1		(1)	
Other expense	176		6,061	6,237
Other expense intercompany	100	5	(105)	
Total operating expenses	$ 262	$ 5	$ 12,193	$ 12,460
Income (loss) before taxes and equity in undistributed income of subsidiaries	$ 2,303	$ 980	$ 1,737	$ 5,020
Provision (benefit) for income taxes	(300)	395	1,183	1,278
Equity in undistributed income of subsidiaries	1,168		(1,168)	
Income (loss) from continuing operations	$ 3,771	$ 585	$ (614)	$ 3,742
Income (loss) from discontinued operations, net of taxes			1	1
Net income (loss) before attribution of noncontrolling interests	$ 3,771	$ 585	$ (613)	$ 3,743
Net income (loss) attributable to noncontrolling interests			(28)	(28)
Net income (loss) after attribution of noncontrolling interests	$ 3,771	$ 585	$ (585)	$ 3,771
Comprehensive income (loss)				
Net income (loss) before attribution of noncontrolling interests	$ 3,771	$ 585	$ (613)	$ 3,743
Citigroup's other comprehensive income (loss)	(4,822)			(4,822)
Other comprehensive income (loss) attributable to noncontrolling interests			(115)	(115)

Total comprehensive income (loss) before attribution of noncontrolling interests	$	(1,051)	$	585	$	(728)	$	(1,194)
Total comprehensive income (loss) attributable to noncontrolling interests						(143)		(143)
Citigroup's comprehensive income (loss)	$	(1,051)	$	585	$	(585)	$	(1,051)

Condensed Consolidating Statements of Income and Comprehensive Income

	Nine Months Ended September 30, 2012			
In millions of dollars	Citigroup parent company	CFI	Other Citigroup subsidiaries, eliminations and income from discontinued operations	Citigroup consolidated
Revenues				
Dividends from subsidiaries	$ 7,680	$	$ (7,680)	$
Interest revenue	122	36	51,202	51,360
Interest revenue intercompany	2,515	884	(3,399)	
Interest expense	5,440	893	9,574	15,907
Interest expense intercompany	(328)	(350)	678	
Net interest revenue	$ (2,475)	$ 377	$ 37,551	$ 35,453
Commissions and fees	$	$	$ 9,521	$ 9,521
Commissions and fees intercompany				
Principal transactions	84	(1,869)	6,332	4,547
Principal transactions intercompany	15	772	(787)	
Other income	(138)	54	2,562	2,478
Other income intercompany	499	(189)	(310)	
Total non-interest revenues	$ 460	$ (1,232)	$ 17,318	$ 16,546
Total revenues, net of interest expense	$ 5,665	$ (855)	$ 47,189	$ 51,999
Provisions for credit losses and for benefits and claims	$	$	$ 8,520	$ 8,520
Expenses				
Compensation and benefits	$ 86	$	$ 18,558	$ 18,644
Compensation and benefits intercompany	6		(6)	
Other expense	839	1	17,189	18,029
Other expense intercompany	223	3	(226)	
Total operating expenses	$ 1,154	$ 4	$ 35,515	$ 36,673
Income (loss) before taxes and equity in undistributed income of subsidiaries	$ 4,511	$ (859)	$ 3,154	$ 6,806
Provision (benefit) for income taxes	(1,224)	(324)	1,781	233
Equity in undistributed income of subsidiaries	610		(610)	
Income (loss) from continuing operations	$ 6,345	$ (535)	$ 763	$ 6,573
Income (loss) from discontinued operations, net of taxes			(37)	(37)
Net income (loss) before attribution of noncontrolling interests	$ 6,345	$ (535)	$ 726	$ 6,536
Net income (loss) attributable to noncontrolling interests			191	191
Net income (loss) after attribution of noncontrolling interests	$ 6,345	$ (535)	$ 535	$ 6,345
Comprehensive income (loss)				
Net income (loss) before attribution of noncontrolling interests	$ 6,345	$ (535)	$ 726	$ 6,536
Citigroup's other comprehensive income (loss)	2,222			2,222
Other comprehensive income (loss) attributable to noncontrolling interests			59	59
Total comprehensive income (loss) before attribution of noncontrolling interests	$ 8,567	$ (535)	$ 785	$ 8,817

Total comprehensive income (loss) attributable to noncontrolling interests			**250**	**250**
Citigroup's comprehensive income (loss)	**$ 8,567**	**$ (535)**	**$ 535**	**$ 8,567**

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Condensed Consolidating Statements of Income and Comprehensive Income

	Nine Months Ended September 30, 2011			
In millions of dollars	Citigroup Parent company	CFI	Other Citigroup subsidiaries, eliminations and income from discontinued operations	Citigroup consolidated
Revenues				
Dividends from subsidiaries	$ 10,370	$	$ (10,370)	$
Interest revenue	155		54,731	54,886
Interest revenue intercompany	2,590	1,854	(4,444)	
Interest expense	6,164	1,595	10,763	18,522
Interest expense intercompany	(401)	285	116	
Net interest revenue	$ (3,018)	$ (26)	$ 39,408	$ 36,364
Commissions and fees	$	$	$ 9,968	$ 9,968
Commissions and fees intercompany				
Principal transactions	9	1,997	5,880	7,886
Principal transactions intercompany	1	(1,031)	1,030	
Other income	(4,823)	(73)	11,857	6,961
Other income intercompany	5,090	64	(5,154)	
Total non-interest revenues	$ 277	$ 957	$ 23,581	$ 24,815
Total revenues, net of interest expense	$ 7,629	$ 931	$ 52,619	$ 61,179
Provisions for credit losses and for benefits and claims	$	$	$ 9,922	$ 9,922
Expenses				
Compensation and benefits	$ 51	$	$ 19,250	$ 19,301
Compensation and benefits intercompany	5		(5)	
Other expense	753	1	17,667	18,421
Other expense intercompany	302	7	(309)	
Total operating expenses	$ 1,111	$ 8	$ 36,603	$ 37,722
Income (loss) before taxes and equity in undistributed income of subsidiaries	$ 6,518	$ 923	$ 6,094	$ 13,535
Provision (benefit) for income taxes	(1,633)	324	4,739	3,430
Equity in undistributed income of subsidiaries	1,960		(1,960)	
Income (loss) from continuing operations	$ 10,111	$ 599	$ (605)	$ 10,105
Income (loss) from discontinued operations, net of taxes			112	112
Net income (loss) before attribution of noncontrolling interests	$ 10,111	$ 599	$ (493)	$ 10,217
Net income (loss) attributable to noncontrolling interests			106	106
Net income (loss) after attribution of noncontrolling interests	$ 10,111	$ 599	$ (599)	$ 10,111
Comprehensive income (loss)				
Net income (loss) before attribution of noncontrolling interests	$ 10,111	$ 599	$ (493)	$ 10,217
Citigroup's other comprehensive income (loss)	(767)			(767)
Other comprehensive income (loss) attributable to noncontrolling interests			(62)	(62)
Total comprehensive income (loss) before attribution of noncontrolling interests	$ 9,344	$ 599	$ (555)	$ 9,388

Total comprehensive income (loss) attributable to noncontrolling interests				44	44
Citigroup's comprehensive income (loss)	$ 9,344	$ 599	$	(599)	$ 9,344

Condensed Consolidating Balance Sheet

In millions of dollars	September 30, 2012 Citigroup Parent company	CFI	Other Citigroup subsidiaries and eliminations	Citigroup consolidated
Assets				
Cash and due from banks	$	$ 51	$ 33,751	$ 33,802
Cash and due from banks intercompany	37	25	(62)	
Federal funds sold and resale agreements			277,542	277,542
Federal funds sold and resale agreements intercompany				
Trading account assets		12	315,189	315,201
Trading account assets intercompany	54	140	(194)	
Investments	1,788		293,686	295,474
Loans, net of unearned income			658,423	658,423
Loans, net of unearned income intercompany		44,732	(44,732)	
Allowance for loan losses			(25,916)	(25,916)
Total loans, net	$	$ 44,732	$ 587,775	$ 632,507
Advances to subsidiaries	92,434		(92,434)	
Investments in subsidiaries	197,879		(197,879)	
Other assets	23,037	81	353,658	376,776
Other assets intercompany	61,684	163	(61,847)	
Assets of discontinued operations held for sale			44	44
Total assets	$ 376,913	$ 45,204	$ 1,509,229	$ 1,931,346
Liabilities and equity				
Deposits	$	$	$ 944,644	$ 944,644
Federal funds purchased and securities loaned or sold			224,370	224,370
Federal funds purchased and securities loaned or sold intercompany	185		(185)	
Trading account liabilities			129,990	129,990
Trading account liabilities intercompany	47	138	(185)	
Short-term borrowings	16	866	48,282	49,164
Short-term borrowings intercompany		209	(209)	
Long-term debt	154,333	37,461	80,068	271,862
Long-term debt intercompany		4,767	(4,767)	
Advances from subsidiaries	19,119		(19,119)	
Other liabilities	5,512	272	116,794	122,578
Other liabilities intercompany	10,924	43	(10,967)	
Liabilities of discontinued operations held for sale				
Total liabilities	$ 190,136	$ 43,756	$ 1,508,716	$ 1,742,608
Citigroup stockholders' equity	186,777	1,448	(1,448)	186,777
Noncontrolling interests			1,961	1,961
Total equity	$ 186,777	$ 1,448	$ 513	$ 188,738
Total liabilities and equity	$ 376,913	$ 45,204	$ 1,509,229	$ 1,931,346

Condensed Consolidating Balance Sheet

	December 31, 2011			
In millions of dollars	Citigroup Parent company	CFI	Other Citigroup subsidiaries and eliminations	Citigroup consolidated
Assets				
Cash and due from banks	$	$	$ 28,701	$ 28,701
Cash and due from banks intercompany	3		(3)	
Federal funds sold and resale agreements			275,849	275,849
Federal funds sold and resale agreements intercompany				
Trading account assets	7	18	291,709	291,734
Trading account assets intercompany	92	269	(361)	
Investments	37,477		255,936	293,413
Loans, net of unearned income			647,242	647,242
Loans, net of unearned income intercompany		58,039	(58,039)	
Allowance for loan losses			(30,115)	(30,115)
Total loans, net		$ 58,039	$ 559,088	$ 617,127
Advances to subsidiaries	$ 108,644		(108,644)	
Investments in subsidiaries	194,979		(194,979)	
Other assets	35,776	367	330,911	367,054
Other assets intercompany	29,935	3,257	(33,192)	
Total assets	$ 406,913	$ 61,950	$ 1,405,015	$ 1,873,878
Liabilities and equity				
Deposits	$	$	$ 865,936	$ 865,936
Federal funds purchased and securities loaned or sold			198,373	198,373
Federal funds purchased and securities loaned or sold intercompany	185		(185)	
Trading account liabilities		298	125,784	126,082
Trading account liabilities intercompany	96	90	(186)	
Short-term borrowings	13	7,133	47,295	54,441
Short-term borrowings intercompany		3,153	(3,153)	
Long-term debt	181,702	45,081	96,722	323,505
Long-term debt intercompany		2,971	(2,971)	
Advances from subsidiaries	17,046		(17,046)	
Other liabilities	19,625	889	105,454	125,968
Other liabilities intercompany	10,440	352	(10,792)	
Total liabilities	$ 229,107	$ 59,967	$ 1,405,231	$ 1,694,305
Citigroup stockholders' equity	$ 177,806	$ 1,983	$ (1,983)	$ 177,806
Noncontrolling interests			1,767	1,767
Total equity	$ 177,806	$ 1,983	$ (216)	$ 179,573
Total liabilities and equity	$ 406,913	$ 61,950	$ 1,405,015	$ 1,873,878

Condensed Consolidating Statements of Cash Flows

	Nine Months Ended September 30, 2012			
In millions of dollars	Citigroup Parent company	CFI	Other Citigroup subsidiaries and eliminations	Citigroup consolidated
Net cash provided by (used in) operating activities of continuing operations	$ (26,455)	$ 452	$ 33,567	$ 7,564
Cash flows from investing activities of continuing operations				
Change in loans	$	$ 14,822	$ (28,377)	$ (13,555)
Proceeds from sales of loans			4,874	4,874
Purchases of investments	(5,701)		(182,865)	(188,566)
Proceeds from sales of investments	37,056		77,178	114,234
Proceeds from maturities of investments	4,190		76,003	80,193
Changes in investments and advances intercompany	16,380		(16,380)	
Other investing activities	1		(15,244)	(15,243)
Net cash provided by (used in) investing activities of continuing operations	$ 51,926	$ 14,822	$ (84,811)	$ (18,063)
Cash flows from financing activities of continuing operations				
Dividends paid	$ (104)	$	$	$ (104)
Treasury stock acquired	(4)			(4)
Proceeds/(repayments) from issuance of long-term debt third-party, net	(27,224)	(7,978)	(22,725)	(57,927)
Proceeds/(repayments) from issuance of long-term debt intercompany, net		1,930	(1,930)	
Change in deposits			78,708	78,708
Net change in short-term borrowings and other investment banking and brokerage borrowings third-party		(6,329)	1,302	(5,027)
Net change in short-term borrowings and other advances intercompany	2,089	(2,888)	799	
Capital contributions from parent				
Other financing activities	(194)	67	(67)	(194)
Net cash (used in) provided by financing activities of continuing operations	$ (25,437)	$ (15,198)	$ 56,087	$ 15,452
Effect of exchange rate changes on cash and due from banks	$	$	$ 148	$ 148
Net cash provided by (used in) discontinued operations	$	$	$	$
Net increase (decrease) in cash and due from banks	$ 34	$ 76	$ 4,991	$ 5,101
Cash and due from banks at beginning of period	3		28,698	28,701
Cash and due from banks at end of period	$ 37	$ 76	$ 33,689	$ 33,802
Supplemental disclosure of cash flow information for continuing operations				
Cash paid during the year for				
Income taxes	$ 40	$ 56	$ 2,486	$ 2,582
Interest	5,981	861	8,343	15,185
Non-cash investing activities				
Transfers to repossessed assets	$	$	$ 391	$ 391

Condensed Consolidating Statements of Cash Flows

	Nine Months Ended September 30, 2011			
In millions of dollars	**Citigroup parent company**	**CFI**	**Other Citigroup subsidiaries and eliminations**	**Citigroup consolidated**
Net cash (used in) provided by operating activities	$ (9,397)	$ 2,189	$ 38,028	$ 30,820
Cash flows from investing activities				
Change in loans	$	$ 31,465	$ (37,854)	$ (6,389)
Proceeds from sales and securitizations of loans			8,941	8,941
Purchases of investments	(31,805)		(222,606)	(254,411)
Proceeds from sales of investments	3,079		156,075	159,154
Proceeds from maturities of investments	20,292		92,117	112,409
Changes in investments and advances intercompany	31,088		(31,088)	
Business acquisitions	(10)		10	
Other investing activities			192	192
Net cash provided by (used in) investing activities	$ 22,644	$ 31,465	$ (34,213)	$ 19,896
Cash flows from financing activities				
Dividends paid	$ (75)	$	$ 6	$ (69)
Treasury stock acquired	(1)			(1)
Proceeds/(Repayments) from issuance of long-term debt third-party, net	(13,602)	(4,161)	(32,028)	(49,791)
Proceeds/(Repayments) from issuance of long-term debt intercompany, net		32	(32)	
Change in deposits			6,326	6,326
Net change in short-term borrowings and other investment banking and brokerage borrowings third-party		(1,007)	(12,865)	(13,872)
Net change in short-term borrowings and other advances intercompany	(3,100)	(28,441)	31,541	
Capital contributions from parent				
Other financing activities	3,522	(77)	77	3,522
Net cash used in financing activities	$ (13,256)	$ (33,654)	$ (6,975)	$ (53,885)
Effect of exchange rate changes on cash and due from banks	$	$	$ 1,478	$ 1,478
Net cash used in discontinued operations	$	$	$ 2,669	$ 2,669
Net increase (decrease) in cash and due from banks	$ (9)	$	$ 987	$ 978
Cash and due from banks at beginning of period	11		27,961	27,972
Cash and due from banks at end of period	$ 2	$	$ 28,948	$ 28,950
Supplemental disclosure of cash flow information				
Cash paid during the year for:				
Income taxes	$ 115	$ (326)	$ 2,828	$ 2,617
Interest	6,899	464	8,019	15,382
Non-cash investing activities:				
Transfers to repossessed assets	$	$	$ 1,038	$ 1,038
Transfers to trading account assets from investments (held-to-maturity)			12,700	12,700

24. SUBSEQUENT EVENTS

Hurricane Sandy

On October 29 and 30, 2012, the metropolitan New York City region and New Jersey suffered severe damage from Hurricane Sandy. Citi continues to assess the impact on Citi's facilities and customers in the affected areas and what impact, if any, the storm could have on its results of operations for the fourth quarter of 2012.

Preferred Stock Issuance

On October 29, 2012, Citi issued $1.5 billion of non-cumulative Preferred Stock (callable beginning January 30, 2023) at a dividend rate of 5.95%.

LEGAL PROCEEDINGS

For a discussion of Citigroup's litigation and related matters, see Note 22 to the Consolidated Financial Statements.

UNREGISTERED SALES OF EQUITY AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Share Repurchases

Under its long-standing repurchase program, Citigroup may buy back common shares in the market or otherwise from time to time. This program is used for many purposes, including offsetting dilution from stock-based compensation programs. The following table summarizes Citigroup's share repurchases during the first nine months of 2012:

In millions, except per share amounts	Total shares purchased(1)	Average price paid per share	Approximate dollar value of shares that may yet be purchased under the plan or programs
First quarter 2012			
Open market repurchases(1)	0.1	$ 36.58	$ 6,726
Employee transactions(2)	1.4	29.26	N/A
Total first quarter 2012	1.5	$ 29.85	$ 6,726
Second quarter 2012			
Open market repurchases(1)		$	$ 6,726
Employee transactions(2)	0.1	32.62	N/A
Total second quarter 2012	0.1	32.62	$ 6,726
July 2012			
Open market repurchases(1)		$	$ 6,726
Employee transactions(2)			N/A
August 2012			
Open market repurchases(1)		$	$ 6,726
Employee transactions(2)			N/A
September 2012			
Open market repurchases(1)		$	$ 6,726
Employee transactions(2)			N/A
Total third quarter 2012			$ 6,726
Year-to-date 2012			
Open market repurchases(1)	0.1	$ 36.58	$ 6,726
Employee transactions(2)	1.5	29.40	N/A
Total year-to-date 2012	1.6	$ 29.96	$ 6,726

(1) Open market repurchases are transacted under an existing authorized share repurchase plan. Since 2000, the Board of Directors has authorized the repurchase of shares in the aggregate amount of $40 billion under Citi's existing share repurchase plan.

(2) Consists of shares added to treasury stock related to activity on employee stock option program exercises, where the employee delivers existing shares to cover the option exercise, or under Citi's employee restricted or deferred stock program, where shares are withheld to satisfy tax requirements.

N/A Not applicable

For so long as the U.S. government continues to hold any Citigroup trust preferred securities acquired pursuant to the exchange offers consummated in 2009, Citigroup is, subject to certain exemptions, generally restricted from redeeming or repurchasing any of its equity or trust preferred securities, or paying regular cash dividends in excess of $0.01 per share of common stock per quarter, which restriction may be waived.

Exhibits

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 6th day of November, 2012.

CITIGROUP INC.
(Registrant)

By /s/ JOHN C. GERSPACH

John C. Gerspach
Chief Financial Officer
(Principal Financial Officer)

By /s/ JEFFREY R. WALSH

Jeffrey R. Walsh
Controller and Chief Accounting Officer
(Principal Accounting Officer)

EXHIBIT INDEX

3.01+	Restated Certificate of Incorporation of Citigroup Inc., as amended, as in effect on the date hereof.
10.01*+	Form of Citigroup Inc. 2013 CAP/DCAP Agreement.
12.01+	Calculation of Ratio of Income to Fixed Charges.
12.02+	Calculation of Ratio of Income to Fixed Charges (including preferred stock dividends).
31.01+	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02+	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.01+	Financial statements from the Quarterly Report on Form 10-Q of Citigroup Inc. for the quarter ended September 30, 2012, filed on November 6, 2012, formatted in XBRL: (i) the Consolidated Statement of Income, (ii) the Consolidated Balance Sheet, (iii) the Consolidated Statement of Changes in Equity, (iv) the Consolidated Statement of Cash Flows and (v) the Notes to Consolidated Financial Statements.

The total amount of securities authorized pursuant to any instrument defining rights of holders of long-term debt of the Company does not exceed 10% of the total assets of the Company and its consolidated subsidiaries. The Company will furnish copies of any such instrument to the Securities and Exchange Commission upon request.

* Denotes a management contract or compensatory plan or arrangement.

\+ Filed herewith

QuickLinks