CITIBANK CANADA

Basel II Pillar 3 Disclosures

As at December 31, 2012

1. Scope of Application

Qualitative disclosures

This document addresses the Basel II Pillar 3 disclosure requirements (including amendment to market risk as per Basel II.5, effective January 1, 2012) for Citibank Canada (Bank) and all its wholly-owned subsidiaries and variable interest entities (VIEs) where the Bank is the primary beneficiary. There are no differences in the basis of consolidation for accounting and regulatory purposes. All intercompany transactions and balances have been eliminated. There are no specific restrictions on the regulatory capital of the Bank's wholly-owned subsidiaries except that necessary approvals from the Board of Directors and/or officers of the relevant entities are required prior to making changes.

The Bank is a wholly-owned indirect subsidiary of Citibank, N.A. and is licensed to operate as a bank in Canada with full banking powers under the Bank Act as a foreign bank subsidiary. The Bank's immediate parent is Citibank Overseas Investment Corporation and the ultimate parent is Citigroup Inc.

The following disclosures have been prepared purely for explaining the basis on which the Bank has prepared and disclosed information about capital requirements and the management of certain risks and for no other purpose. They do not constitute any form of financial statements and must not be relied upon in making any investment or judgment on the Bank or its parents, Citigroup Inc. and Citibank, N.A. All amounts disclosed herein are in Canadian dollars.

2. Capital Structure

Qualitative disclosures

The Bank's regulatory capital is principally comprised of Tier 1 capital that includes common shares, reserves and retained earnings (adjusted to eliminate certain gains/losses arising from changes in the Bank's own credit spread). The Bank's Tier 2 capital is comprised of an eligible portion of the collective allowance for credit losses.

Quantitative disclosures

The following summarizes the Bank's regulatory capital as at December 31 (in $000s):

	2012	2011
Common shares (no par value; unlimited authorized; 16,803 shares issued)	$601,455	$601,455
Eligible reserves	12,652	1,308
Adjusted retained earnings	577,480	531,456
Gross Tier 1 capital	1,191,587	1,134,219
Tier 1 deductions: Accumulated net after-tax fair value gain/(loss) arising from changes in institution's own credit risk	(884)	(7,703)
Adjusted net Tier 1 capital	1,190,703	1,126,516
Tier 2 capital: Eligible collective allowance	5,000	5,000
Total eligible capital	**$1,195,703**	**$1,131,516**

3. Capital Adequacy

Qualitative disclosures

Capital levels for Canadian banks are regulated pursuant to guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI), based on standards issued by the Bank for International Settlements. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital is principally comprised of the more permanent components of capital and consists primarily of common shareholder's equity. Tier 2 capital is comprised of an eligible portion of the total collective allowance for credit losses. Total capital is defined as the total of Tier 1 and Tier 2 capital less certain deductions as prescribed by OSFI.

The Bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. The capital management process aims to achieve several objectives – exceed regulatory requirements and maintain a cost-effective capital structure that balances strong capital ratios with adequate returns to the Bank's shareholder.

Appropriate levels of the Bank's key capital ratios are maintained on a daily basis in compliance with the OSFI's guidelines. The Bank exceeded these regulatory capital requirements throughout 2011 and 2012. The Board of Directors of the Bank (Board) reviews these ratios on a quarterly basis.

Regulatory ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets (RWA). The calculation of RWA is determined by the OSFI-prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for the market risk exposure associated with the Bank's trading portfolios.

In addition, OSFI formally establishes risk-based capital minimums for deposit-taking institutions. These minimums are currently a Tier 1 capital ratio of 7% and a total capital ratio of 10%. In addition to the Tier 1 and total capital ratios, Canadian banks are also required to ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by total capital, does not exceed a maximum level prescribed by OSFI.

OSFI's guidelines are based on "International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006)" known as Basel II. The Bank's capital ratios have been calculated using the Full Standardized Approach.

Within our capital management framework, the Bank has an internal capital adequacy assessment process (ICAAP) that sets internal capital targets consistent with its risk profile, business plans and operating environment.

The Bank's ICAAP framework is based on quantitative capital goals to ensure that it has sufficient capital to meet its strategic goals and all stakeholders are adequately protected from stress events. These goals include:

- Monitor and tailor risk taking activities in the Bank to ensure losses resulting from a potential stress scenario of one-in–ten year probability do not exceed the Risk Appetite. Risk Appetite is defined as one year forecasted earnings before income-tax for the Bank. This ensures that losses resulting from a stress scenario would be fully absorbed by earnings before income-tax and would not result in a significant reduction of the Bank's capital;
- Maintain Basel II regulatory capital levels above downside triggers on a stressed basis. Stress scenario losses are used for computing the Stress Tier 1 capital ratio. The Stress Tier 1 capital ratio must be higher than the internally defined target;
- Maintain a level of available financial resources defined as Tier 1 capital above the Risk Capital, which is an internal risk based measure of the amount of capital required to support the Bank's risk profile; and
- Maintain positive actual and forecasted cumulative liquidity gap under stress scenario which assumes market, credit and economic conditions are moderate to highly stressed with a potential for further deterioration, access to unsecured wholesale funding market is severely constrained or is unavailable, and the Bank's long term ratings are downgraded one notch below their current level.

Market Risk, Operational Risk, Liquidity Risk, Credit Risk and Pillar 2 risks are the risk elements included in the Bank's ICAAP framework.

Quantitative disclosures

The following summarizes the Bank's Basel II Pillar 1 RWA and capital ratios as at December 31 (in $000s):

	2012	2011
Credit risk (Standardized Approach)		
Corporate	$904,981	$725,050
Bank	181,869	161,716
Trading	783,390	1,038,714
Retail	13,239	11,246
Other	84,213	56,191
Sub-total	1,967,692	1,992,917
Market risk (Internal Models Approach)*	818,063	402,838
Operational risk (Basic Indicator Approach)	381,625	315,275
Total RWA	**$3,167,380**	**$2,711,030**
Tier 1 capital ratio	**37.59%**	**41.55%**
Total capital ratio	**37.75%**	**41.74%**

*The Bank implemented the changes relating to Basel II.5 effective January 1, 2012.

4. Credit Risk – General Disclosures for all Banks

Qualitative disclosures

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines that the loan is fully secured, in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or restoring it to a current status within 180 days from the date the payment has become contractually in arrears. All loans are classified as impaired when interest or principal is past due 180 days, except for loans guaranteed or insured by the Canadian government, the provinces, or a Canadian government agency, which are classified as impaired when interest or principal is contractually 365 days in arrears.

The Bank considers evidence of impairment for loans at both an individual asset and collective level. All individually significant loans are assessed for specific impairment. All individually significant loans found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans that are not individually significant are collectively assessed for impairment by grouping together loans with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Management of credit risk

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. This risk applies to both on-balance sheet and off-balance sheet assets, such as loans, securities, derivatives, loan commitments, letters of credit, and guarantees.

Credit risk arises in many of the Bank's business activities, including:

- Lending;
- Sales and trading;
- Derivatives;
- Securities transactions;
- Settlement; and
- When the Bank acts as an intermediary.

The Bank manages credit risk through specific policies, which are approved by its Board. Credit policies are important in ensuring that an appropriate balance exists between achieving earnings objectives and maintaining a sound credit portfolio. These policies set out the procedures for identifying, measuring, evaluating, approving, monitoring and controlling credit risk.

The Bank's credit policies are based on the following fundamental principles:

- Joint business and independent risk management responsibility for managing credit risk;
- 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.

A risk rating system or standard underwriting criteria is used to evaluate proposed extensions of credit. The risk rating system reflects an estimated probability of default for an obligor and is derived primarily through the use of statistical models (which are validated periodically), external rating agencies (under defined circumstances), or approved scoring methodologies. Senior management of the Bank evaluates proposed business based on the Bank's target market, return requirements, and capital levels and must approve credits above certain limits. The Board approves all Credit Officer and Senior Credit Officer appointments. A series of checks and balances, including multiple reviews of credit approvals and independent reviews of credit performance by Internal Audit group, is in place to ensure the Bank's marketing objectives are balanced against its credit objectives. Controls have been established to ensure that accountability for each aspect of the credit process is maintained.

Extensions of credit to individual relationships are subject to approvals, limits and monitoring procedures. In measuring the extension of credit to the client, the amount of risk on a derivative instrument is determined by the sum of the current replacement cost of the instrument and the potential increase in the replacement cost over the remaining life of the instrument.

In addition, the Bank limits its credit exposure to derivative counterparties by entering into master agreements, which provide for netting whenever possible. Under such netting agreements, the credit risk associated with contracts where the counterparty owes the Bank is offset against contracts with the same counterparty where the Bank owes to the counterparty, provided that settlement of the contracts where the Bank owes occur after the contracts where the counterparty owes.

The Bank follows its Banking Book Collateral and Procedures policy. This policy describes the qualifying collateral pledged to support direct and contingent risk exposures, collateral valuation procedures, reporting processes and controls.

The Bank also follows a Margin Procedures and Controls policy for over-the-counter (OTC) derivatives. The policy describes the rules around margin pledged or transferred as a legally recognizable risk mitigant and requires that all margined OTC derivatives must be covered by an ISDA, CSA or equivalent master agreement, as required by local laws.

Quantitative disclosures

The following table represents the Bank's total gross credit risk exposures for financial instruments measured as the amount outstanding as at December 31, 2012 (in $000s):

	Outstanding amount	Year to date average
Cash resources	$141,867	$183,041
Trading securities	2,068,157	1,709,109
Available for sale securities	57,935	55,620
Loans, net of allowance for credit losses	1,965,820	2,593,503
Derivative financial instruments	6,262,774	6,800,948
Other assets	577,985	794,874
Total	**$11,074,538**	**$12,137,095**

The following table represents the Bank's total gross credit risk exposures for financial instruments measured as the amount outstanding as at December 31, 2011 (in $000s):

	Outstanding amount	Year to date average
Cash resources	$372,847	$252,874
Trading securities	1,940,007	1,691,719
Available for sale securities	47,945	54,429
Loans, net of allowance for credit losses	1,495,434	1,397,494
Derivative financial instruments	7,383,585	6,768,128
Other assets	414,888	766,053
Total	**$11,654,706**	**$10,930,697**

The following table represents the distribution of the Bank's cash resources, securities and loans by geographic segment on the basis of ultimate risk as at December 31 (in $000s):

	2012	2011
Canada	$4,072,069	$3,676,163
Other countries	164,546	180,224
Total	**$4,236,615**	**$3,856,387**

The following table represents the breakdown of the Bank's cash resources, securities, loans and other assets based on the remaining contractual maturity as at December 31 (in $000s):

	Within 1 Year	1 to 5 Years	Over 5 Years	2012 TOTAL	2011 TOTAL
ASSETS					
Cash resources	141,867	-	-	141,867	372,847
Securities – Trading	1,374,392	559,801	133,964	2,068,157	1,940,007
Securities – AFS	57,935	-	-	57,935	47,945
Loans	1,712,848	219,222	33,750	1,965,820	1,495,434
Other assets	493,772	20,902	63,311	577,985	414,888
	3,780,814	**799,925**	**231,025**	**4,811,764**	**4,271,121**

The following table represents the analysis of the Bank's current replacement cost of the Bank's derivative portfolio by geographic segment, before the impact of master netting agreements, on the basis of ultimate risk, as at December 31 (in $000s):

	2012	2011
Canada	$736,333	$1,060,619
United States	5,083,863	5,732,810
Other countries	442,579	590,156
Total	**$6,262,775**	**$7,383,585**

The following table represents the distribution of the Bank's current replacement cost by counterparty type as at December 31 (in $000s):

	2012	2011
Financial institutions	$5,240,273	$5,942,826
Governments	580,767	708,194
Other counterparties	441,735	732,565
Total	**$6,262,775**	**$7,383,585**

The Bank's securities portfolio primarily consists of debt securities issued by the Government of Canada (2012 - $1,413 million; 2011 - $1,422 million) and equity securities issued by various entities (2012 - $627 million; 2011 - $509 million).

The following table represents the distribution of the Bank's gross loan portfolio by category and location of ultimate risk as at December 31 (in $000s):

	2012	2011
Canada		
Business loans:		
Governments and Financial Institutions	$135,090	$127,674
Real Estate	78,374	47,350
Other	59,042	52,657
Mortgage loans:		
Residential	9,051	9,286
Non-Residential	191,797	135,662
Consumer	8,312	8,802
Securities purchased under resale agreements	1,410,873	998,186
Other countries	78,281	120,817
Total gross loans	**1,970,820**	**1,500,434**
Collective allowance for credit losses	(5,000)	(5,000)
Total	**$1,965,820**	**$1,495,434**

The Bank had no impaired loans and $12.8 million (2011 - $0.1 million) past due loans.

The following table summarizes the Bank's changes in allowance for credit losses for 2012 and 2011 (in $000s):

	2012	2011
Balance at beginning of year	$5,000	$18,815
Recoveries	39	102
Provision for credit losses	29	(13,714)
Write-offs	(68)	(203)
Balance at end of year	**$5,000**	**$5,000**

The balance relating to allowance for credit losses at the end of each year is entirely comprised of collective allowance. The collective allowance consists of amounts relating to Corporate Bank and Private Bank credit portfolios and an unallocated portion.

The following table summarizes the collective allowance for Corporate Bank credit portfolio by industry (in $000s):

	2012	2011
Banks	$88	$418
Building Products and related	11	-
Consumer Durables, Retailing and Apparel	1	-
Energy	41	-
Food Beverage & Tobacco	15	11
Funds	3	2
Government	-	1
Household & Personal Products	10	1
Insurance	2	1
Logistics	12	12
Metals and Mining	23	-
Power	115	-
Professional Services	4	3
Technology	32	-
Other	6	-
Total	**$363**	**$449**

The following table summarizes the collective allowance for Private Bank credit portfolio by program ($000s):

	2012	2011
Aircraft Finance	$9	$17
Art Finance	8	5
Commercial Real Estate	216	231
Margin Lending	46	42
Residential Real Estate	14	18
Sports Finance	-	199
Unsecured	-	2
Total	**$293**	**$514**

5. Credit Risk – Disclosures for Portfolios subject to the Standardized Approach and Supervisory Risk Weights in the IRB Approaches

The Bank is using the *Full Standardized Approach*. This approach incorporates information from external credit assessment institution (ECAI) for claims on sovereign, Canadian provincial governments and eligible agents of the Canadian federal and provincial government. The information from ECAI is not used for corporate exposure as the Bank defaults those to 100%. For exposures to banks (and eligible securities firms), the information from ECAI is used in applying the appropriate risk weightings. Such information relates to the credit assessment of the sovereign in the bank's country of incorporation. The Bank uses Standard and Poor's (S&P) for the information required for this approach.

The following table summarizes the Bank's net credit risk exposure (after risk mitigation) in each risk bucket as at December 31 (in $000s):

Risk bucket	2012	2011
150%	$12,827	-
100%	1,350,763	1,415,972
75%	-	10,661
50%	550	-
35%	9,051	9,286
20%	2,971,229	2,828,494
0%	3,701,562	3,285,357
Total	**$8,045,982**	**$7,549,770**

6. Credit Risk Mitigation

Qualitative disclosures

The Bank follows the Margin Procedures and Controls policy as described above in section on *Credit Risk – General Disclosures for all Banks*.

In the normal course of business, the Bank receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The Bank is normally permitted to sell or re-pledge the collateral it receives subject to the obligation to return at the end of the agreements, under terms that are usual and customary to standard derivative, securities borrowing and reverse repurchase agreements. The Bank follows the Banking Book Collateral and Procedures policy as described above in section on *Credit Risk – General Disclosures for all Banks*.

The Bank holds collateral against loans in the form of mortgage interests over property, other registered securities over assets, and guarantees. Generally the collateral value is re-assessed when a loan is individually assessed as substandard or worse.

The valuation procedures relating to collateral received in the form of cash and marketable securities differ from physical assets. The monitoring of cash and marketable securities is typically more frequent than physical assets and is based on product, geography and/or volatility of the security, as appropriate.

The Private Bank credit portfolio receives substantial guarantees against its exposures. These guarantees are primarily in the form of personal guarantees from individuals, controlling the obligor, and entities affiliated to the obligor.

The Bank generally receives fewer guarantees against its Corporate Bank credit and OTC derivatives portfolios. The guarantors primarily consist of parent or entities affiliated to the obligor.

Quantitative disclosures

As at December 31, 2012 the potential reduction in current replacement cost under master netting agreements with third party customers and with related parties for the Bank's derivatives portfolio was $0.2 billion (2011 - $0.3 billion) and $4.7 billion (2011 - $5.5 billion), respectively. On a risk-weighted basis, the netting benefit with third party customers and with related parties was $0.02 billion (2011 - $0.02 billion) and $1.1 billion (2011 – $1.2 billion), respectively.

The value of collateral held relating to the Bank's Private Bank credit portfolio as at December 31, 2012 was $828 million (2011 - $702 million). However, no collateral was held for the Corporate Bank credit portfolio. The Bank also had $1.4 billion (2011 – $1.0 billion) in reverse repos collateralized by Canadian government securities.

Following table summarizes the Corporate Bank credit portfolio exposure as at December 31 for which guarantees have been received (in $000s):

	2012	2011
Direct Exposure	$37,259	$76
Contingent Exposure	8,020	1,615
Pre-settlement Exposure	110,214	250,399
Unused Commitment Exposure	45,912	-
Total	**$201,405**	**$252,090**

Following tables summarizes the Private Bank credit portfolio exposure as at December 31 for which guarantees have been received (in $000s):

	2012	2011
Direct Exposure	$329,168	$287,999
Contingent Exposure	3,645	6,109
Pre-settlement Exposure	3,316	582
Unused Committed Exposure	12,898	7,629
Total	**$349,027**	**$302,319**

7. General Disclosures for Exposures Related to Counterparty Credit Risk

Qualitative disclosures

The Bank manages Counterparty Credit Risk in accordance with the credit risk policies described earlier in section on *Credit Risk – General Disclosures for all Banks*.

Counterparty Credit Risk exposure is calculated to the maturity of the transactions in a portfolio using a Monte-Carlo simulation framework. The simulation models the behaviour of the underlying market factors in a way that captures the desired joint distribution of potential movements. At each point as we walk forward through time, the simulation process revalues each remaining transaction under the simulated scenario. Repeated simulations build up these distributions of potential future value and from these distributions, two measures are selected – (1) pre-settlement loan equivalent (PSLE), which is the expected positive exposure or average over the positive part of the distribution at each point in time; and (2) pre-settlement exposure (PSE) relating to derivatives, which is a high level confidence exposure. For the purposes of credit limits and monitoring of limit usage the PSE measure is used. For purposes of monitoring outstanding exposure or usage against obligor limits the exposure is measured on a PSLE basis.

Credit Reserves

The Bank, pursuant to accounting guidance, incorporates a bilateral credit value adjustment (CVA) in its accounting of counterparty risk. Refer to Market Risk section below for further details on CVA.

Wrong-Way Risk

Wrong-way risk is exhibited in a transaction when its exposure is adversely correlated with the credit quality of the original counterparty. The Bank adheres to a Wrong Way Risk Policy, which lays down guidelines for assessing the degree of wrong way risk present in a specific transaction or across a portfolio as well as reporting and mitigation guidelines.

Collateral requirement due to Credit rating downgrade

As at December 31, 2012 the maximum potential collateral requirement if the Bank is downgraded to zero threshold is $10 million (2011 – $40 million).

Counterparty Credit Risk Capital

The Bank calculates risk capital for CVA on a bilateral basis, i.e. both, the asset CVA and liability CVA are taken into account. The risk capital is based on the unexpected loss resulting from spread changes of counterparties as well as default considerations during a stress period.

Quantitative disclosures

The following table summarizes the Bank's current replacement cost (CRC) and credit equivalent amounts (CEA) of its derivatives portfolio as at December 31 (in $000s):

	2012		2011	
	CRC	CEA	CRC	CEA
Interest rate contracts	$4,224,302	$5,002,921	$4,771,162	$5,512,621
Foreign exchange contracts	1,746,140	3,591,600	2,310,285	4,199,013
Equity, credit and commodity contracts	292,333	1,291,826	302,138	887,867
Total	**$6,262,775**	**$9,886,347**	**$7,383,585**	**10,599,501**

The table below presents the impact of master netting arrangement as at December 31 (in $000s):

	2012	2011
Gross positive fair value of derivative contracts	$6,262,775	$7,383,585
Netting benefit from master netting agreements	(4,945,980)	(5,782,943)
Total net current credit exposure	**$1,316,795**	**$1,600,642**

The Bank's entire credit derivatives portfolio is in respect of intermediation activities as all customer trades are mirrored with back-to-back trades with the Bank's indirect parent. As at December 31, 2012, the notional amount of these trades totalled $2.2 billion (2011 - $2.3 billion) and their current replacement cost totalled $6.1 million (2011 - $43.5 million).

8. Securitization

The Bank neither securitizes its own assets nor sponsors any securitization programs.

However, as at December 31, 2012, the Bank held a trading portfolio of securities issued by Canada Housing Trust (guaranteed by the Government of Canada) in its banking book with a fair value of $235 million (2011 - $248 million). The Canada Housing Trust securities were risk weighted at 0%.

9. Market Risk – Disclosures for Banks using the Internal Models Approach (IMA) for Trading Portfolios

Qualitative disclosures

Market risk is the earnings risk from changes in interest rates, foreign exchange rates, and equity and commodity prices, and in their implied volatilities. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk.

Management of market risk

The Bank manages market risk through specific policies, which are reviewed by the Risk Committee, approved by the Chief Risk Officer (CRO), senior management and the Board. These policies set out well-defined market risk responsibilities for business and corporate oversight groups, as well as limits and other processes to ensure that market risks remain well controlled. The Bank manages foreign exchange risk of non-trading assets and liabilities denominated in foreign currencies through hedging instruments such as forwards and cross currency swaps.

Market risks are measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate risk. Each business is required to establish, with approval from independent market risk management and the CRO, a market risk limit framework for identified risk factors that clearly defines approved risk profiles and is within the parameters of the Bank‘s overall risk appetite. In all cases, the businesses are ultimately responsible for the market risks they take and for remaining within their defined limits. These limits are reviewed annually by the Risk Committee and approved by the CRO, senior management and the Board. The CRO monitors all trading activity and market exposures on a daily basis to ensure risks remain within the established limits and policies.

In addition to the controls above, the risk management process is reviewed by Internal Audit group on a periodic basis to ensure that market risk policies are being adhered to.

Exposure to market risks on trading portfolios

Market risk in trading portfolios is monitored using a series of measures, including:

- Factor sensitivities;
- Value-at-risk (VaR);
- Stressed value-at-risk (Stressed VaR); and
- Stress testing.

Factor sensitivities are expressed as the change in the value of a position for a defined change in a market risk factor, such as a change in the value of a Treasury bill for a one-basis-point change in interest rates. The Bank‘s independent market risk management ensures that factor sensitivities are calculated, monitored and limited, for all relevant risks taken in a trading portfolio.

Market Risk Model and Reporting

VaR estimates the potential decline in the value of a position or a portfolio under normal market conditions. Stressed VaR, a new measure implemented in 2012, estimates the potential decline in the value of a position or a portfolio under stressed market conditions. The Bank's VaR method incorporates the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors and is expressed as the risk to the Bank over a one-day holding period, at a 99% confidence level. The Bank‘s VaR is based on the volatilities of and correlations among a multitude of market risk factors as well as factors that track the specific issuer risk in debt and equity securities. The Stressed VaR calculation uses the same VaR methodology but with volatilities and correlations based on a stress period.

The Bank reports market risk exposures including factor sensitivities, VaR and Stressed VaR figures on a daily basis to senior management highlighting the risks the firm is exposed to and the usage against relevant market risk limits in place, as approved by the Board.

Each trading portfolio has its own market risk limit framework encompassing these measures and other controls, including permitted product lists and a new product approval process for complex products.

Utilization of VaR limits and Stressed VaR limits are reviewed daily by the CRO and regular summaries are submitted to the Risk Committee and the Board.

Back Testing

The performance of the Bank's VaR model is tested through back testing, which involves the comparison of daily static P&L to One-day-VaR and tracks the number of breaches for a twelve-month period to assess the performance of the model. The static P&L is defined as hypothetical changes in portfolio value that would occur if end of the day positions remained unchanged. It, therefore, excludes bid-ask spreads, net interest income, intraday trading, and fees and commissions. The results of the back testing process are reported on a quarterly basis to the Risk Committee, the Board and OSFI.

Prudent Valuation Guidance

The Bank has established adequate systems and controls to ensure that its fair estimates are prudent and reliable. These also include independent price verification procedures which are distinct from daily mark-to-market to ensure market prices or model inputs are regularly verified for accuracy. Further, these procedures also include consideration of valuation adjustments/reserves, as appropriate. For assets and liabilities carried at fair value, the Bank measures such value using the procedures set out below.

- When available, the Bank uses quoted market prices to determine fair value and classify such items as Level 1. In some cases where a market price is not available, the Bank uses 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 to calculate fair value, in which case the items are classified as Level 2.

- If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, option volatilities, etc. Items valued using such internally generated valuation techniques are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

- CVA is applied to OTC derivative instruments, in which the base valuation generally discounts expected cash flows using appropriate interest rate curves. Given that not all counterparties have the same credit risk as that implied by the relevant interest rate curve, a CVA is necessary to incorporate the market view of both counterparty credit risk and Citigroup's own credit risk in the valuation.

The following methods and assumptions are used to estimate the fair values of on-balance sheet financial instruments:

- ***Trading and Available-for-sale Securities***
  When available, the Bank uses quoted market prices to determine the fair value of trading and AFS securities; such items are classified as Level 1 of the fair value hierarchy. Examples include certain government securities and exchange-traded equity securities. For other securities, the Bank generally determines fair value utilizing internal valuation techniques. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Securities priced using such methods are generally classified as Level 2.

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

  The majority of derivatives entered into by the Bank are executed OTC and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. The principal techniques used to value these instruments are discounted cash flows, Black-Scholes and Monte Carlo simulation.

  The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign exchange rates, the spot price of the underlying volatility and correlation.

  A derivative contract is placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model. Correlation and items with longer tenors are generally less observable. Where appropriate, a valuation adjustment is made to cover counterparty credit risk, market liquidity and maintenance costs.

- ***Deposits***
  The Bank determines the fair value of structured liabilities (where a call option is embedded) and hybrid financial instruments (performance linked to risks other than interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above, including independent broker quotes) based on 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.

Stress Testing

The Bank has in place a stress testing program that is applied to all trading desks in the Bank. The program, called global systemic stress testing (GSST), is comprised of historical scenarios and hypothetical scenarios. These scenarios are designed by the senior risk management team with input from senior business management. The macroeconomic variables reflect one-year changes and the market factors are defined as instantaneous shocks. From a trading book perspective the shocks in these scenarios are related to the main risk factor groups, such as equities, interest rate, foreign exchange, commodities and credit. Stress testing program includes a wide range of severities. The use of stress testing is linked to risk appetite monitoring, risk capital calculation and internal capital adequacy assessment process as described earlier in section on *Capital Adequacy*.

Market Risk Capital

The market risk capital methodology is based on an integrated VaR and stress scenario methodology, which is consistent with the Basel II.5 guidelines.

Capital Adequacy

Market Risk is a key part in the internal assessment of capital adequacy. The methodology and process for internal capital adequacy have been described earlier in section on *Capital Adequacy.*

Quantitative disclosures

A summary of the VaR position of the Bank's trading portfolios as at December 31 and during the year is as follows:

(Millions)	**2012**	**2011**
December 31	3.4	3.7
Maximum	4.6	5.0
Minimum	1.9	2.2
Average	2.8	3.2

Changes to Basel II – Effective January 1, 2012

The Bank implemented the changes relating to Basel II.5 effective January 1, 2012 which led to the inclusion of the Stressed VaR in its market risk management framework. The following summarizes the Stressed VaR position of the Bank's trading portfolios as at December 31 and during the year:

(Millions)	**2012**
December 31	5.0
Maximum	8.9
Minimum	2.7
Average	4.4

Back Testing Results

During 2012, there were no back testing breaches. During 2011, the Bank had three back testing breaches which were below the statistical expectation of four breaches in the period. All of these breaches occurred in the month of August and were driven by increased market volatility in the Fixed Income and Equity markets.

The Bank regularly submits various reports to OSFI including ICAAP report, Back testing results, Daily Market Risk report and various reports prepared for the senior management and the Board.

10. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or human factors, or from external events. It includes the reputation and franchise risk associated with business practices or market conduct in which the Bank is involved. Operational risk is inherent in the Bank's business activities and, as with other risk types, is managed through an overall framework designed to balance strong corporate oversight with well-defined independent risk management. This framework includes:

- Recognized ownership of the risk by the business;
- Oversight by the Bank's independent risk management; and
- Independent review by the Bank's Internal Audit group

The goal is to keep operational risk at appropriate levels relative to the characteristics of the Bank's businesses, the markets in which it operates, its capital and liquidity, and the competitive, economic and regulatory environment. Notwithstanding these controls, the Bank incurs operational losses.

Framework

To monitor, mitigate and control operational risk, the Bank maintains a system of comprehensive policies and has established a consistent framework for assessing and communicating operational risk and the overall effectiveness of the internal control environment across the Bank.

The process for operational risk management includes the following steps:

- Identify and assess key operational risk;
- Establish key risk indicators;
- Produce a comprehensive operational risk report; and
- Prioritize and assure adequate resources to actively improve the operational risk environment and mitigate emerging risks.

The operational risk standards facilitate the effective communication and mitigation of operational risk both within and across businesses. As new products and business activities are developed, processes are designed, modified or sourced through alternative means and operational risks are considered.

Information about the businesses' operational risk, historical losses and the control environment is reported by each major business segment and the functional area, and is summarized and reported to senior management as well as the Board.

Measurement and Basel ll

The Basic Indicator Approach is used for computing the operational risk for the purposes of regulatory capital.

Information Security and Continuity of Business

Information security and the protection of confidential and sensitive customer data are a priority for the Bank. The Bank has implemented an Information Security Program. The Information Security Program is reviewed and enhanced periodically to address emerging threats to customers' information. The Continuity of Business and Crisis Management group, with the support of senior management, coordinates preparedness and mitigates business continuity risks by reviewing and testing recovery procedures.

11. Equities – Disclosure for Banking Book Positions

The Bank has no exposure to equity investments in the banking book as at December 31, 2011 and 2012.

12. Interest Rate Risk in the Banking Book

Qualitative disclosures

One of the business functions of the Bank is to provide financial products that meet the needs of its customers. Loans and deposits are tailored to the customers' needs and requirements with regard to its tenor and rate type. Net interest revenue (NIR) is the difference between the yield earned on non-trading portfolio and interest paid on liabilities (including deposits and borrowings). NIR is affected by the changes in the level of interest rates. For example, at any given time there may be an unequal amount of assets and liabilities that are subject to market rates due to maturation or re-pricing. Whenever the amount of liabilities subject to re-pricing exceeds the amount of assets subject to re-pricing, NIR will deteriorate in a rising rate environment.

The Bank's principal measure of risk to NIR is interest rate exposure (IRE). IRE measures the change in expected NIR in each currency resulting solely from unanticipated changes in forward interest rates. Factors such as changes in volumes, spreads, margins and the impact of prior-period pricing decisions are not captured by IRE. IRE assumes that businesses make no additional changes in pricing or balances in response to the unanticipated rate changes. IRE tests the impact on NIR resulting from unanticipated changes in forward interest rates. For example, if the current 90-day LIBOR rate is 3% and the one-year-forward bank rate is 5% (i.e. the estimated 90-day LIBOR rate in one year); the +100 bps IRE scenario measures the impact on the Bank's NIR of a 100 bps instantaneous change in the 90-day LIBOR to 6% in one year.

The market risks in the Bank's non-traded portfolios, all of which are held within Treasury department, are estimated using a common set of standards that define, measure, limit and report the market risk. Treasury department is required to establish, with approval from the CRO, a market risk limit framework that clearly defines approved risk profiles and is within the parameters of the Bank's overall risk appetite. In all cases, Treasury department is ultimately responsible for the market risks it takes and for remaining within its defined limits. These limits are monitored by the CRO and asset/liability management committee. All such limits are reviewed by the Risk Committee and approved by the CRO and the Board.

The Bank follows the Market Risk Management for Accrual Portfolios policy which includes the IRE measures for the firm and the need to perform stress testing for interest rate risk in the banking book. The stress testing is performed as part of the GSST process described above in section on *Market Risk*.

Quantitative disclosures

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100 basis point parallel fall or rise in all yield curves worldwide. As at December 31, 2012, a 100 basis point upward interest rate shift would increase net income in the US dollar book by $0.31 million (2011 - $0.37 million increase) and decrease the Canadian dollar book by $0.06 million (2011 - $0.29 million decrease) resulting in a net increase of $0.25 million (2011 - $0.08 million increase) over the next twelve months, assuming management takes no action. A 100 basis point downward shift would have a comparable, but opposite, impact on net income.

13. Remuneration

Overview

Citigroup Inc., its subsidiaries and affiliates (Citi) aim to implement a broadly consistent global philosophy and framework in relation to its remuneration policies and practices. Citi's global compensation principles are developed and approved by the Personnel and Compensation Committee (P&C Committee) of the Board of Directors of Citigroup Inc., in consultation with management, independent consultants and Citi's senior risk officers. The P&C Committee comprises independent directors who have experience evaluating compensation structures, especially for senior executives. Citi's compensation principles are designed to advance Citi's business strategy by attracting, retaining and motivating the best talent available to execute the strategy, while ensuring, among other things, imprudent risk-taking is not encouraged.

Citi's compensation objectives, as outlined below, have been specifically crafted to discourage imprudent risk-taking, while permitting Citi to offer the competitive pay packages necessary to help Citi continue to employ and attract the most talented professionals in financial services:

- **Enhance shareholder value through the practice of Responsible Finance**
  Citi aims to compensate employees in a manner that encourages them to work together towards Citi's common purpose of achieving risk-adjusted shareholder returns through conduct that is transparent, prudent and dependable. Citi also provides meaningful portions of senior management incentive compensation in the form of equity in order to foster partnership behaviour and to align employee interests with those of shareholders.

- **Facilitate competitiveness to attract and retain the best talent**
  Citi provides compensation programs that are competitive within the global financial services industry in order to support the attraction and retention of the talented employees necessary to sustain and grow its business. Accordingly, Citi continues to award significant percentages of incentive compensation on a deferred basis (such as deferred stock or deferred cash) to senior executives and others with control or significant influence over Citi's material risks.

- **Promote meritocracy by recognizing employee contributions**
  Citi provides discretionary incentive compensation to executive officers and other employees, that is variable, intending to differentiate compensation awards to reflect employees' current contributions and Citi's desire to retain talent, based on financial results as well as non-financial performance such as risk and compliance behaviour. Citi has communicated clearly to all employees that poor risk management practices and imprudent risk-taking activity can and should lead to an adverse impact on incentive compensation, including the award of no incentive compensation.

- **Manage risk through sound incentive compensation practices**
  Citi has complemented effective risk management controls by ensuring that its compensation structure does not incentivize employees to take imprudent risks for Citi and its businesses, and by rewarding a thoughtful balance of risk and return. Specifically, the P&C Committee exercises its discretion in a documented manner that recognizes the characteristics of risks taken as well as profits or losses generated, given the magnitude of risk taken, and has directed management to do so as well. Individual compensation decisions made by the P&C Committee for executive officers reflect this principle.

- **Provide strong, independent oversight of compensation practices**
  The P&C Committee is comprised of independent directors who set expectations of management regarding incentive compensation programs utilizing, where appropriate, an independent adviser.

- **Provide for transparency to employees, shareholders, and other stakeholders**
  Citi aims to communicate its approach to compensation throughout the year, cascading such communications broadly. Citi also promotes all stakeholders' understanding of Citi's design and implementation of incentive compensation.

Citi's full compensation philosophy statement is available online at:
http://www.citigroup.com/citi/investor/data/comp_phil_policy.pdf

The P&C Committee oversees Citi's global remuneration policies and practices. It annually reviews and approves base salary, incentive compensation and long-term incentive compensation for Citi's senior management. The P&C Committee, with the assistance of the Chief Risk Officer, also reviews the design and structure of compensation programs relevant to all employees in the context of risk management. The P&C Committee's terms of reference are documented in the P&C Committee Charter, which is available online at:
http://www.citigroup.com/citi/investor/data/percompcharter.pdf

The above Charter establishes the scope and mandate of the P&C Committee's responsibilities and the general principles governing the remuneration policy of the firm globally. The P&C Committee members are all independent non-executive directors, selected and appointed on account of their background and experience in business and their capability to fulfill their responsibilities as P&C Committee members.

Further details on the P&C Committee, including changes to the design and structure of remuneration processes during the year, are contained in Citi's 2013 Proxy Statement, which is available online at: http://www.citigroup.com/citi/investor/quarterly/2013/ar13cp.pdf?ieNocache=862

Citibank Canada Governance Committee

The Bank's Board has constituted a Governance Committee comprising of five of its members, of which three are independent non-executive directors. The Governance Committee has the responsibility for overseeing the compensation practices of the Bank. These responsibilities include:

- Review and approve annually, the general compensation philosophy and guidelines for the Bank's senior management team, including its Chief Executive Officer. This includes incentive plan design and other remuneration.
- Take such action as the Committee deems necessary to highlight concerns on program and plan design, risk taking activities, etc. to influence compensation decisions related to specific programs or individuals.

Senior management and other material risk takers

The Bank's senior management personnel include its Chief Executive Officer, Heads of Global Functions (Chief Financial Officer, General Counsel, Chief Compliance Officer, CRO, Head of Human Resources, and Head of Operations and Technology), Treasurer, and three business heads who lead the Bank's global transaction services, global markets (derivatives) and private banking operations.

In addition to senior management personnel, noted above, the Bank has identified a group of its employees as "other material risk takers". These are defined as a group of employees who are subject to the same or similar incentive compensation arrangements and who, in the aggregate, may expose the Bank to material amount of risk, even if no individual employee is likely to expose the Bank to a material risk. For the 2012 performance year, this group comprised of twenty-one individuals that spanned across different businesses.

Link between pay and performance
Citi is committed to responsible compensation practices and structures. Citi seeks to balance the need to compensate its employees fairly and competitively based on their performance, while assuring that their compensation reflects principles of risk management and performance metrics that reward long-term contributions to sustained profitability.

Citi's compensation programs aim to enhance stockholder value through the practice of responsible finance, facilitate competitiveness by attracting and retaining the best talent, promote meritocracy by recognizing employee contributions, and manage risk through sound incentive compensation practices.

Individual Performance
As noted above, one of Citi's key compensation principles is to "promote meritocracy by recognizing employee contributions". The performance assessment of all employees is based on individually tailored goals, and an assessment against Citi's Core Principles Statements. The Core Principles Statements incorporate risk management and non-financial performance factors by business area into the performance appraisal process. These are:

- ***Common Purpose***
  One team, with one goal: serving our clients and stakeholders.
- ***Ingenuity***
  Enhancing our clients' lives through innovation that harnesses the breadth and depth of our information, global network, and world-class products.
- ***Leadership***
  Talented people with the best training who thrive in a diverse meritocracy that demands excellence, initiative and courage
- ***Responsible Finance***
  - Understands and proactively manages risk and compliance in respective area of responsibility.
  - Appropriately assesses risk/reward relationships when making business decisions.
  - Identifies risk inherent in particular situations or transactions and its impact on other areas of Citi/Citi as a whole.
  - Ensures that issues are resolved with urgency and escalates them in a timely manner.
  - Adheres to corporate and business specific policies and considers appropriate controls as part of day-to-day responsibilities. (i.e. anti-money laundering).
  - Contributes to a no surprises compliance culture by ensuring transparency and candor in managing control issues.
  - Is transparent and open in communications.

Design and structure of remuneration

Remuneration comprises both fixed and variable components. Citi seeks to balance the components of reward between fixed and variable, and between short term and long-term components. Annual fixed remuneration for senior employees is regularly reviewed by the P&C Committee. Citi operates a fully flexible remuneration policy, including the possibility to pay zero variable remuneration. For relevant employees, an annual review of the balance between fixed and variable compensation takes place and where required, adjustments are made to the fixed element of pay to ensure that an appropriate balance of fixed versus variable continues to be maintained on an ongoing basis.

Fixed Remuneration – Salary and Benefits

Citi's fixed remuneration is set to appropriately attract, retain and motivate employees, in line with market practices, and is benchmarked against market data by role. Pension and other non-cash benefits are offered to employees as part of an overall reward package which is designed to be sufficiently competitive to attract, retain and motivate employees. Citi aims to provide pension and other benefits, which are competitive against the external market.

Variable Compensation

- ***Discretionary Incentive and Retention Award Plan***

  Citi's Discretionary Incentive and Retention Award Plan (DIRAP) is Citi's main discretionary variable compensation plan, and it applies globally. It is designed to incentivize, reward and retain employees based on their current and prospective performance and contribution. Awards made under the DIRAP are typically awarded in the form of cash and/or Citi stock.

- ***Use of Stock and Deferred Cash as Deferred Compensation***

  Citi operates a mandatory deferral policy when total annual variable compensation of an individual exceeds globally set thresholds. Variable compensation subject to deferral is typically awarded in the form of Citi stock and deferred cash. Citi believes that awarding deferred stock and deferred cash are effective means of aligning employee interests with those of shareholders and other stakeholders.

The capital accumulation program (CAP) and Citigroup stock award program (CSAP) are the main programs under which Citi may make awards of stock to selected employees. Deferrals are typically made through awards of Citi stock under CAP and are subject to the terms of the relevant CAP plan.

Clawback and Performance Based Vesting
The unvested deferred portion of awards may be subject to adjustment based on the following:

- The participant received the award based on materially inaccurate audited publicly reported financial statements;
- The participant knowingly engaged in providing materially inaccurate information relating to audited publicly reported financial statements;
- The participant materially violated any risk limits established or revised by senior management and/or risk management; or
- The participant engaged in gross misconduct.

The deferred cash and deferred stock awards are subject to performance based vesting (PBV) criteria and as a result, material risk takers may have their awards reduced or cancelled. The deferred cash award is subject to a discretionary PBV condition which is based on the concept of "significant responsibility" for a "material adverse outcome". The deferred stock award is subject to a formulaic PBV condition which is based on the performance of material risk takers' "reference business".

Severance
Citi generally does not provide guaranteed levels of severance upon early termination of employment. Severance pay is discretionary unless otherwise required by local law or workplace agreements.

Remuneration of control functions
The Bank segregates key control functions (i.e. Compliance and Risk) to minimize any scope for potential conflicts of interests. Accordingly, there should be no conflict of interest on account of any business' potential to influence individual awards in the control function. Citi ensures performance management and compensation decisions for function personnel are directed by function management, and not the business unit.

While remuneration levels for employees in control functions are influenced by Citi's overall performance, individual compensation is determined within the function and pay decisions are based on assessments against measurable goals and targets which are set by each function. Compensation of control function employees is regularly benchmarked against external market data.

Quantitative disclosures

The Governance Committee of the Bank's Board annually reviews and approves the general compensation philosophy and guidelines for the Bank's senior management and other material risk takers.

The following tables summarize number of employees who received awards/payments for each category, as noted below, during the year ended December 31, 2012:

	Senior Management	*Other Material Risk Takers*
Employees receiving a variable remuneration award	11	21
Employees with guaranteed bonuses	-	-
Employees paid sign-on awards*	-	-
Number of severance payments	-	-

* *A sign-on award was made for one individual in 2012 and is not disclosed due to the need to maintain individual confidentiality.*

The following summarizes outstanding deferred remuneration as at December 31, 2012, and deferred remuneration paid during the year ended December 31, 2012 (in $000s)

	Senior Management	Other Material Risk Takers
Outstanding*		
Deferred cash	$906	$606
Deferred stock	3,050	2,510
Paid		
Deferred cash	-	-
Deferred stock	682	590

* *These amounts are exposed to ex post explicit and/or implicit adjustments.*

The following summarizes the total remuneration awards relating to the Bank's senior management and other material risk takers for 2012 (in $000s):

	Senior Management		Other Material Risk Takers	
Fixed remuneration	**Unrestricted**	**Deferred**	**Unrestricted**	**Deferred**
Cash-based	$4,351	-	$7,594	-
Shares and share-like instruments	-	-	-	-
Other	177	-	426	-
Variable remuneration				
Cash-based	$3,470	$667	$4,509	$606
Shares and share-like instruments	-	873	-	656
Other	-	-	-	-

Notes:

1 *Fixed 'unrestricted cash-based' includes base salary, employer's cost of payroll taxes, and employer's health and dental benefits.*

2. *Fixed 'unrestricted other' represents post-employment pension benefits i.e. employer contribution to Citibank Canada Pension Plan.*

3. *Variable 'unrestricted cash-based' represents the cash portion of annual bonus.*

4. *Variable 'deferred cash-based' represents the deferred cash component of the annual bonus.*

5. *Variable 'deferred shares' represents the deferred stock component of the annual bonus.*

The following summarizes total amount of reductions during 2012 due to ex post explicit and implicit adjustments (in $000s):

	Senior Management	Other Material Risk Takers
Ex post explicit adjustment	-	-
Ex post implicit adjustment	$596	$485

14. Basel III – Effective January 1, 2013

The Basel Committee on Banking Supervision issued *Basel III: A global regulatory framework for more resilient banks and banking systems* (Basel III), in December 2010 (revised June 2011) which together with *Basel III: International framework for liquidity risk measurement, standards and monitoring*, presents the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

The reforms raise both the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. The reforms also intend to constrain excess leverage in the banking system and make banks more resilient to procyclical dynamics.

As a result, OSFI issued *Capital Adequacy Requirements (CAR) Guidelines* to implement Basel III capital rules in Canada. The Bank is required to meet the "all-in" target common equity tier 1 (CET1) ratio of 7% by the first quarter of 2013, and "all-in" capital ratios of 8.5% for total tier 1 and 10.5% for total capital by the first quarter of 2014. The "all-in" methodology is defined as capital calculated to include all of the regulatory adjustments that will be required by 2019 but retaining the phase-out rules for non-qualifying capital instruments.

The following summarizes the Bank's capital ratios using Basel III capital rules:

	As at March 31, 2013	**As at December 31, 2012 (Pro Forma)**
CET 1 capital ratio	33.40%	35.47%
Tier 1 capital ratio	33.40%	35.47%
Total capital ratio	33.55%	35.63%

The Bank is also required to publicly disclose the components of capital using "OSFI Modified Transitional Template" for Q1 2013 and Q2 2013. Such disclosures are posted separately on the Bank's website.