Citigroup Inc.

Pillar 3

Basel III Advanced Approaches Disclosures

For the Quarterly Period Ended June 30, 2014

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OVERVIEW

Organization

Citigroup Inc. (Citi) is a global diversified financial services holding company incorporated under the laws of the state of Delaware, and whose businesses provide consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, trade and securities services and wealth management. Citi has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions.

Citigroup currently operates, for management reporting purposes, via two primary business segments: Citicorp, consisting of Citi's *Global Consumer Banking (GCB)* and *Institutional Clients Group (ICG)* businesses*;* and Citi Holdings, consisting of businesses and portfolios of assets that Citigroup has determined are not central to its core Citicorp businesses.

Citi's principal banking (depository institution) subsidiary is Citibank, N.A., a national banking association, with offerings encompassing consumer finance, credit cards, mortgage lending and retail banking products and services; investment banking, commercial banking, cash management, trade finance and e-commerce products and services; and private banking products and services. Significant Citigroup legal entities other than Citibank, N.A. include Citigroup Global Markets Inc. and Citigroup Global Markets Limited, the primary U.S. and U.K. broker-dealer (nonbanking) subsidiaries, respectively.

Regulatory Capital Standards and Disclosures

Citi is subject to risk-based capital standards issued by the Federal Reserve Board which, commencing with 2014, constitute the substantial adoption of the final U.S. Basel III rules[1] (Final Basel III Rules), such as those governing the composition of regulatory capital (including the application of regulatory capital adjustments and deductions) and, with the exit from Basel III parallel reporting for the second quarter of 2014[2], the Advanced Approaches for deriving risk-weighted assets.

In addition, Citi, as a so-called "Advanced Approaches" banking organization[3] under the Final Basel III Rules, is also required, in conjunction with the exit from Basel III parallel reporting, to begin publicly disclosing certain qualitative and quantitative information regarding Citi's capital structure and adequacy, credit risk and related mitigation policies, securitizations, equity exposures, operational risk, and other matters, all in accordance with the Final Basel III Rules (the Basel III Advanced Approaches Disclosures) effective as of June 30, 2014. Together with the required Basel III Market Risk Disclosures[4], these Basel III Advanced Approaches Disclosures constitute the often referred to "Pillar 3 Disclosures."[5]

Moreover, these Citigroup Basel III Advanced Approaches Disclosures were reviewed and approved in accordance with Citi's Basel Public Disclosures Policy, the latter of which has been approved by Citi's Board of Directors.

[1] The final U.S. Basel III rules are at 12 CFR Part 217 (Federal Reserve Board) and 12 CFR Part 3 (Office of the Comptroller of the Currency).
[2] On February 21, 2014, the Federal Reserve Board granted Citi permission to exit the parallel run period and to begin applying the Advanced Approaches framework in the calculation and public reporting of risk-based capital ratios, effective with the second quarter of 2014.
[3] In general, a U.S. banking organization with consolidated total assets of at least $250 billion or consolidated total on-balance sheet foreign exposures of at least $10 billion.
[4] Citi's Basel III Market Risk Disclosures for the quarterly period ended June 30, 2014 are available at http://www.citigroup.com/citi/investor/reg.htm.
[5] The U.S. Basel II rules set forth a mutually reinforcing three pillar capital framework, with so-called "Pillar 3" establishing minimum disclosure requirements for banking organizations which were intended to improve transparency and strengthen market discipline. Although not explicitly referred to as such, the disclosure requirements under the Final Basel III Rules are founded upon, and are consistent with, the former Pillar 3 disclosures.

SCOPE OF APPLICATION

Basis of Consolidation

Citi's basis of consolidation for both financial and regulatory accounting purposes is in accordance with U.S. GAAP. The Final Basel III Rules are applied to these consolidated financial statements and off-balance sheet exposures.

Certain of Citi's equity investments in entities carried under either the cost or equity method of accounting for U.S. GAAP purposes are neither consolidated nor deducted from regulatory capital under the Final Basel III Rules, but rather are appropriately risk-weighted. However, so-called "significant investments" (greater than 10% ownership or exposure) in the common stock of unconsolidated financial institutions are subject, under the Final Basel III Rules, to potential deduction in arriving at Tier 1 Common Capital. To the extent not deducted, these investments are risk-weighted.

In addition, under the Final Basel III Rules, Citi must deduct 50% of the minimum regulatory capital requirements of insurance underwriting subsidiaries from each of Tier 1 Capital and Tier 2 Capital.

For further information regarding Citi's more significant subsidiaries and basis of consolidation, see Note 1, *"Basis of Presentation"* and Note 20, *"Securitizations and Variable Interest Entities"* in the Notes to Consolidated Financial Statements of Citi's Quarterly Report on Form 10-Q for the period ended June 30, 2014 (Second Quarter 2014 Form 10-Q).

Funds and Capital Transfer Restrictions

For information regarding restrictions or other major impediments on the transfer of funds and capital distributions between Citi entities, see *"Managing Global Risk—Market Risk—Funding and Liquidity Risk"* in Citi's Second Quarter 2014 Form 10-Q, as well as Note 19, *"Regulatory Capital and Citigroup Inc. Parent Company Information"* in the Notes to Consolidated Financial Statements of Citi's 2013 Annual Report on Form 10-K (2013 Form 10-K).

Regulated Subsidiaries' Capital

Total Capital for each of Citi's regulated banking subsidiaries was in excess of their respective minimum total capital requirements as of June 30, 2014. Likewise, all of Citi's regulated broker-dealer subsidiaries were also in compliance with their net capital requirements at that date.

Further, the aggregate amount of surplus capital in Citi's insurance subsidiaries included in consolidated Total Capital as of June 30, 2014 was $3.2 billion. Separately, no Citi insurance subsidiary had a capital shortfall relative to its minimum regulatory capital requirement as of such date.

Regulatory Capital Instruments

Aside from common stock, Citi's other currently qualifying regulatory capital instruments consist of outstanding noncumulative perpetual preferred stock, trust preferred securities and subordinated debt.

Citigroup common stock entitles each holder to one vote per share for the election of directors and for all other matters to be voted on by Citigroup's shareholders. Except as otherwise provided by Delaware law, the holders of common stock vote as one class. Upon a liquidation, dissolution or winding up of Citigroup, the holders of common stock share ratably in the assets remaining and available for distribution after payments to creditors and provision for any preference of any preferred stock. There are no preemptive or other subscription rights, conversion rights or redemption or scheduled installment payment provisions relating to the common stock. For additional information on the terms and conditions of Citi's common stock, see Citi's Consolidated Balance Sheet and *"Equity Security Repurchases"* in Citi's Second Quarter 2014 Form 10-Q.

Each series of Citigroup preferred stock ranks senior to the common stock and ranks equally with each other series of outstanding preferred stock as to dividends and distributions upon a liquidation, dissolution or winding up of Citigroup. Unless full noncumulative dividends for the dividend period then ending have been paid, Citigroup cannot pay any cash dividends on any common stock or other capital stock ranking junior to the preferred stock during the subsequent dividend period. Holders of preferred stock generally do not have voting rights other than those described in the corresponding certificate of designation and as specifically required by Delaware law. For additional information on the terms and conditions of the outstanding preferred stock, see Citi's Consolidated Balance Sheet and Note 19, *"Preferred Stock"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

Under the Final Basel III Rules however, trust preferred securities largely phase out as qualifying regulatory capital instruments. For additional information regarding the structure and terms of Citi's currently outstanding trust preferred securities, see Note 17, *"Debt"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q, and with respect to the future phase out of trust preferred securities see *"Capital Resources—Regulatory Capital Standards Developments—Basel III"* in Citi's 2013 Form 10-K.

Citi's subordinated debt contains customary provisions applicable to all debt securities, with the exception that subordinated debt contains no financial covenants and the only events of default are those related to bankruptcy, insolvency, receivership and other similar actions. The following table presents Citi's qualifying subordinated debt as of June 30, 2014.

Table 1: Qualifying Subordinated Debt

In millions of dollars, except percentages				**June 30, 2014**
Issuance date	**Coupon**	**Redeemable by issuer beginning**	**Maturity**	**Amortized cost**
December 18, 1995	6.88%		December 18, 2015	$ 2
June 6, 2002	6.63%		June 15, 2032	1,000
February 19, 2003	5.88%		February 22, 2033	848
August 1, 2003	5.13%		December 12, 2018	1,094
October 30, 2003	6.00%		October 31, 2033	993
February 10, 2004	1.74%(1)	February 10, 2014	February 10, 2019	1,403
July 1, 2004	5.88%		July 1, 2024	678
February 25, 2005	4.25%(2)	February 25, 2025	February 25, 2030	1,106
April 8, 2005	3.50%(2)	April 8, 2015	April 8, 2020	80
October 7, 2005	4.65%(2)	October 11, 2017	October 11, 2022	451
November 30, 2005	1.58%(1)	November 30, 2012	November 30, 2017	543
March 3, 2006	4.50%		March 3, 2031	522
March 6, 2006	5.37%		March 6, 2036	214
April 6, 2006	2.75%(2)	April 6, 2016	April 6, 2021	205
June 9, 2006	0.50%(3)		June 9, 2016	270
June 29, 2006	4.05%		June 29, 2016	47
August 25, 2006	6.13%		August 25, 2036	1,998
August 25, 2006	0.78%(3)		August 25, 2036	524
February 12, 2007	5.50%		February 15, 2017	499
May 24, 2007	5.16%(2)	May 24, 2022	May 24, 2027	75
May 31, 2007	0.84%(1)	May 31, 2012	May 31, 2017	583
February 4, 2013	4.05%		July 30, 2022	516
May 14, 2013	3.50%		May 15, 2023	1,244
September 13, 2013	5.50%		September 13, 2025	803
September 13, 2013	6.68%		September 13, 2043	549
May 6, 2014	5.30%		May 6, 2044	987
Total Amount Prior to Exclusion				**$ 17,234**
Exclusion (4)				**(625)**
Total Qualifying Subordinated Debt				**$ 16,609**

(1) Subordinated debt issuances containing a fixed-to-floating rate step-up feature where the call/step-up date has passed, and which carried the indicated floating rate as of June 30, 2014.

(2) Subordinated debt issuances containing a fixed-to-floating rate step-up feature where the call/step-up date has not passed, and which carried the indicated fixed rate as of June 30, 2014.

(3) Subordinated debt issuances with floating rates based on three month LIBOR plus a fixed spread.

(4) Under the transition arrangements of the Final Basel III Rules, non-qualifying subordinated debt issuances which consist of those with a fixed-to-floating rate step-up feature where the call/step-up date has not passed are subject to 50% exclusion from Tier 2 Capital during 2014, with the amount of the exclusion determined based upon the aggregate outstanding principal amounts of such issuances as of January 1, 2014.

Regulatory Capital Tiers

For Citi's Tier 1 Common Capital, Tier 1 Capital and Total Capital, and related components, as of June 30, 2014, see *"Capital Resources"* in Citi's Second Quarter 2014 Form 10-Q, and Schedule A of Citi's FFIEC 101 Report, "Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework," as of June 30, 2014.

CAPITAL ADEQUACY

Capital Management

Citi's capital management framework is generally designed to ensure that Citi maintains sufficient capital consistent with its risk profile and all applicable regulatory standards and guidelines. For further information on Citi's capital adequacy, including its capital management framework generally, see *"Capital Resources"* in Citi's 2013 Form 10-K.

Capital Planning

To assess the adequacy of its capital to support current and expected future activities, Citi produces regular capital forecasts taking into account both normal business conditions and a variety of hypothetical stressed scenarios. Beginning in June 2012, Citi integrated its previously existing Internal Capital Adequacy Assessment Process (ICAAP) and the Federal Reserve Board's Comprehensive Capital Analysis and Review (CCAR) through a semi-annual Citi-wide, cross-functional, capital planning process. As part of this process, Citi prepares a capital plan annually for submission to the Federal Reserve Board. The capital plan assesses Citi's regulatory capital requirements, capital goals, stress testing capabilities and results, and associated policies and procedures in addition to a comprehensive discussion of material risks that could impact Citi's capital adequacy. Commencing in January 2013, Citibank, N.A. also prepares annually an integrated Dodd-Frank Annual Stress Test (DFAST)/ICAAP for submission to the Office of the Comptroller of the Currency. These documents are presented to the Board of Directors of Citi and Citibank, N.A., respectively, for approval prior to submission to the appropriate regulatory authority.

Table 2: Advanced Approaches Risk-Weighted Assets

In millions of dollars		June 30, 2014
Credit Risk:		
Wholesale Exposures[1]	$	377,477
Retail Exposures[1]:		
Residential mortgage exposures		93,564
Qualifying revolving exposures		107,876
Other retail exposures		46,129
Total Retail Exposures	$	247,569
Securitization Exposures	$	37,827
Central Counterparty Exposures		3,985
Equity Exposures:		
Equity exposures subject to the simple risk weight approach		19,188
Equity exposures subject to the internal models approach		—
Total Equity Exposures	$	19,188
Other[2]	$	95,962
Total Credit Risk-Weighted Assets Subject to Supervisory 6% Multiplier[3]	$	782,008
Supervisory 6% Multiplier	$	46,920
Credit Valuation Adjustments (CVA)		36,594
Total Credit Risk-Weighted Assets[4]	$	865,522
Market Risk-Weighted Assets[5]	$	111,114
Operational Risk-Weighted Assets		287,500
Total Risk-Weighted Assets	$	1,264,136

(1) For additional information on Citi's wholesale and retail exposures, see *"Credit Risk: Portfolio Disclosures - Internal Ratings Based Approach"* below.
(2) Primarily consists of net deferred tax assets, net premises and equipment, receivables, intangible assets and other assets not subject to the application of internal models in deriving credit risk-weighted assets under the Final Basel III Rules.
(3) Under the Final Basel III Rules, a supervisory 6% multiplier is applied to all components of credit risk-weighted assets other than CVA.
(4) Under the Final Basel III Rules, credit risk-weighted assets during the transition period reflect the effects of transitional arrangements related to regulatory capital adjustments and deductions. For additional information regarding the Basel III transition arrangements for regulatory capital adjustments and deductions, see *"Capital Resources—Basel III Transition Arrangements"* in Citi's Second Quarter 2014 Form 10-Q.
(5) Total market risk-weighted assets consisting principally of those derived from the application of Citi's internal models, as well as those arising from standard specific risk and securitization charges. For additional information regarding market risk-weighted assets, see Citi's Basel III Market Risk Disclosures For the Quarterly Period Ended June 30, 2014 at http://www.citigroup.com/citi/investor/reg.htm.

Risk-Based Capital Ratios

For Citi and Citibank, N.A.'s Tier 1 Common, Tier 1 Capital and Total Capital ratios as of June 30, 2014, as calculated under the Basel III Advanced Approaches framework and reflecting the effects on credit risk-weighted assets of the Basel III transition arrangements related to regulatory capital adjustments and deductions, see *"Capital Resources"* in Citi's Second Quarter 2014 Form 10-Q.

RISK MANAGEMENT

Overview

Citigroup believes that effective risk management is of primary importance to its overall operations. Accordingly, Citi's risk management process has been designed to monitor, evaluate and manage the principal risks it assumes in conducting its activities. Specifically, the activities that Citi engages in - and the risks those activities generate - must be consistent with Citi's underlying commitment to the principles of "Responsible Finance." For Citi, "Responsible Finance" means conduct that is transparent, prudent and dependable, and that delivers better outcomes for Citi's clients and society.

While the management of risk is the collective responsibility of all employees, Citi assigns accountability into three lines of defense:

- First line of defense: The business owns all of its risks, and is responsible for the management of those risks.
- Second line of defense: Citi's control functions (e.g., Risk, Compliance, etc.) establish standards for the management of risks and effectiveness of controls.
- Third line of defense: Citi's Internal Audit function independently provides assurance, based on a risk-based audit plan approved by Citi's Board of Directors, that processes are reliable, and governance and controls are effective.

The risk management organization is structured so as to facilitate the management of risk across three dimensions: businesses, regions and critical products.

Organization Structure, Policies and Processes

For further information on Citi's risk management organization, policies and processes, see *"Managing Global Risk"* in Citi's 2013 Form 10-K.

Scope and Nature of Risk Reporting and Measurement Systems

Citi uses a global risk reporting system to manage credit exposure to its wholesale obligors and counterparties. Retail exposures are booked in local systems specific to local credit risk regulations, however all retail exposures are monitored and managed centrally at the portfolio level. The counterparty exposure profile for derivative counterparty credit risk is calculated using Monte Carlo simulation.

Credit Risk Management Objectives and Policies
Credit risk is the potential financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. Credit risk arises in many of Citi's business activities, including: wholesale and retail lending; capital markets derivative transactions; structured finance; repurchase agreements and reverse repurchase agreements; and settlement and clearing activities.

A discussion of Citi's credit risk management policy can be found in *"Managing Global Risk—Credit Risk"* of Citi's 2013 Form 10-K.

Corporate Credit Risk
For corporate clients and investment banking activities across Citi, the credit process is grounded in a series of fundamental policies, including:

- joint business and independent risk management responsibility for managing credit risks;
- a single center of control for each credit relationship, which coordinates credit activities with each client;
- portfolio limits to ensure diversification and maintain risk/capital alignment;
- a minimum of two authorized credit officer signatures required on most 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.

Consumer Credit Risk
Within *GCB*, credit risk management is responsible for establishing the Global Consumer Credit and Fraud Risk Policies, approving business-specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risk, ensuring the appropriate level of loan loss reserves and approving new products and new risks.

Past Due and Impaired Exposures
For Citi's significant accounting policies regarding past due and impaired loans, see Note 1, *"Summary of Significant Accounting Policies"* in the Notes to the Consolidated Financial Statements of Citi's 2013 Form 10-K, and Note 14, *"Loans"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

For information on Citi's significant accounting policies and estimates regarding impaired securities, including the determination of other-than-temporary impairment, see *"Significant Accounting Policies and Significant Estimates—Valuation of Financial Instruments"* in Citi's 2013 Form 10-K and Note 13, *"Investments"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

Allowance for Credit Losses
For a description of Citi's significant accounting policies and estimates regarding allowance for credit losses, including policies for charging-off accounts deemed uncollectible, see *"Significant Accounting Policies and Significant Estimates—Allowance for Credit Losses"* and Note 1, *"Summary of Significant Accounting Policies"* in the Notes to the Consolidated Financial Statements of Citi's 2013 Form 10-K.

Credit Risk Exposures
See the following references to Citi's Second Quarter 2014 Form 10-Q for quantitative information regarding credit risk exposures, which are presented in accordance with U.S. GAAP.

Corporate and Consumer Loans

- See Note 14, *"Loans"* for information on loans outstanding by counterparty type, geographic region, non-accrual and delinquent loans and certain impaired loans.
- See *"Managing Global Risk—Credit Risk"* for additional information on loans outstanding by counterparty type, geographic region, non-accrual and delinquent loans and certain impaired loans.

Additionally, see Citi's 2013 Form 10-K for the following information regarding corporate and consumer loans.

- See Note 15, *"Loans"* for information on purchased distressed loans.
- See *"Managing Global Risk—Credit Risk—Consumer Loan Details"* and *"Credit Risk—Corporate Credit Details"* for information on consumer and corporate loans by remaining contractual maturity, respectively.

Investment Securities

- See Note 13, *"Investments"* for information on investment securities by issuer type, remaining contractual maturity and investment securities determined to be other-than-temporarily impaired.

Repo-Style Transactions, Eligible Margin Loans and OTC Derivatives

- See Note 10, *"Federal Funds, Securities Borrowed, Loaned, and Subject to Repurchase Agreements"* for respective carrying values.
- See Note 11, *"Brokerage Receivables and Brokerage Payables"* for respective carrying values.

- See Note 21, *"Derivatives Activities"* for derivative notional amounts, gross mark-to-market receivables/ payables, collateral netting benefits and net mark-to-market receivables/ payables.
- See *"Credit Derivatives"* for credit derivative notional amounts and gross mark-to-market receivables/ payables by counterparty type and remaining contractual maturity.

Off-Balance Sheet Exposures

- See Note 24, *"Guarantees and Commitments"* for information on maximum potential amount of future payments by exposure type under guarantees and credit commitments by credit product.

Additionally, see Citi's 2013 Form 10-K for the following information regarding off-balance sheet exposures.

- See Note 28, *"Pledged Assets, Collateral, Commitments and Guarantees"* for information on lease commitments.

Allowance for Credit Losses

- See *"Managing Global Risk—Credit Risk—Details of Credit Loss Experience"* for a reconciliation of changes in the allowance for credit losses.
- See Note 15, *"Allowance for Credit Losses"* for a disaggregation of the allowance for credit losses by impairment method.

Average Credit Risk Exposures

- See *"Average Balances and Interest Rates-Assets"* for a consolidated average balance sheet.

Overview

Under the Final Basel III Rules Citi is required to categorize its credit risk into wholesale, retail, securitization, central counterparty, and equity exposures. Each category may cross multiple business segments presented in Citi's other public reports, such as its Form 10-K and Form 10-Q.

Citi's internal ratings are used for wholesale and retail exposures when calculating credit risk-weighted assets. For securitization, central counterparty and equity exposures, supervisory formulas and risk weights are applied.

Wholesale exposures are classifiably-managed (individually rated) and retail exposures are delinquency-managed (portfolio based). Wholesale exposures are primarily found in *ICG* (including Citi Private Bank), as well as Corporate Treasury. Additionally, classifiably-managed exposures are found in certain commercial business lines within *GCB* and Citi Holdings. Typical financial reporting categories that include wholesale exposures are deposits with banks, debt securities held-to-maturity or available-for-sale, loans, and off-balance sheet commitments such as unused commitments to lend and letters of credit.

Wholesale exposures, which include counterparty credit risk exposures arising from OTC derivative contracts, repo-style transactions and eligible margin loans, consist of exposures such as those to corporates, banks, securities firms, financial institutions, central governments, government agencies, local governments, other public sector entities, income producing real estate, high volatility commercial real estate, high net worth individuals not eligible for retail treatment, and other obligor/counterparty types not included in retail.

Retail exposures are primarily found in consumer business lines within *GCB* and Citi Holdings. Additionally, certain wholesale or commercial exposures less than or equal to $1 million that are found in *ICG* and Citi Private Bank are treated as retail exposures in accordance with the Final Basel III Rules. Typical financial reporting categories that include retail exposures are loans and off-balance sheet commitments to lend. Retail exposures consist of residential mortgage exposures, qualifying revolving exposures, and other retail exposures. Residential mortgage exposures include one-to-four family residential mortgages, both first lien and second lien, as well as home equity lines of credit (HELOC). Qualifying revolving exposures include credit card and charge card products where the overall credit limit is less than or equal to $100,000 and overdraft lines on individual checking accounts. Other retail includes credit card products above the threshold, personal loans, auto loans, student loans, and commercial delinquency-managed exposures, such as wholesale exposures less than or equal to $1 million.

Wholesale Credit Risk Management

Use of Risk Parameter Estimates Other Than for Regulatory Capital Purposes

For Citi's wholesale exposures, internal credit ratings are used in determining approval levels, concentration limits, risk capital, and reserves, in addition to regulatory capital. Each wholesale obligor is assigned an obligor risk rating (ORR) that reflects the one-year probability of default (PD) of the obligor. Each wholesale facility is assigned a facility risk rating (FRR) that reflects the expected loss rate of the facility, the product of the one-year PD and the expected loss given default (LGD) associated with the facility characteristics.

The ORRs are used for longer-term credit assessments for large credit relationships, which form the basis for obligor limits and approval levels. ORRs are established through an integrated framework that combines quantitative and qualitative tools, calibrated and tested across economic cycles, with risk manager expertise on customers, markets and industries. ORRs are generally expected to change in line with material changes in the PD of the obligor. Rating categories are defined consistently across wholesale credit by ranges of PDs and are used to calibrate and objectively test rating models and the final ratings assigned to individual obligors.

Independently-validated models and, in limited cases, external agency ratings, establish the starting point in the obligor rating process. The use of external agency ratings in establishing an internal rating occurs when agency ratings have been reviewed against internal rating performance and definitions, and is generally limited to ratings of BBB+/Baa1 or higher.

Internal rating models include statistically-derived models and expert-judgment rating models. The statistical models are developed by an independent analytical team in conjunction with independent risk management. The analytical team resides in Credit & Operational Risk Analytics (CORA) which is part of the corporate-level independent risk group within Citi's overall Franchise Risk and Strategy organization. The statistical rating models cover Citi's corporate segment and certain commercial activity within the consumer business lines and are based on statistically-significant financial variables. Expert-judgment rating models, developed by independent risk management for the segment, cover industry or obligor segments where there are limited defaults or data histories, or highly-specialized or heterogeneous populations.

To the extent that risk management believes the applicable model does not capture all the relevant factors affecting the credit risk of an obligor, discretionary adjustments may be applied to derive the final ORR, within limits defined by policy. For larger obligors, the final ORRs are derived through the use of a scorecard that is designed to capture the key risks for the segment.

Institutional Clients Group
As discussed above, Citi's wholesale exposures primarily relate to activities in *ICG*. *ICG* provides corporate, institutional, public sector and high-net worth clients around the world with a range of wholesale banking products and services. Citi's *ICG* businesses that incur credit, market, operational and franchise risk are covered by an *ICG* risk management manual (*ICG* risk manual) which sets forth *ICG*'s core risk principles, policy framework, limits, definitions, rules and standards for identifying, measuring, approving and reporting risk, including business conducted in majority-owned, management-controlled entities.

Obligors are assigned a risk rating through a risk rating process governed by the *ICG* risk manual. Total facilities to an obligor are also approved in accordance with the *ICG* risk manual. The *ICG* risk manual requires an annual comprehensive analysis of each obligor and all proposed credit exposures to that obligor.

Independent risk management periodically reviews exposures across the banking book and trading book portfolios to ensure compliance with various limit and concentration constructs. Quarterly reviews are conducted of certain high risk exposures in *ICG*.

Use of Credit Risk Mitigation
Risk mitigation may depend on the type of product. For counterparty credit risk, counterparties may be required to post cash or securities margin as part of the credit service agreement with that counterparty. Margin posted is reflected as a reduction of exposure (at the transaction or netting set level, depending on the degree of legal certainty of the jurisdiction of the transaction) against pre-settlement exposure in Citi's risk systems. For lending based transactions, the primary risk mitigants within *ICG* are guarantees or other types of full support from third parties or related entities, as well as collateral such as cash, securities, real estate, or other asset types. Additionally, exposure can be mitigated through the purchase of credit default swaps. The *ICG* risk manual defines specific documentation requirements for all product contracts, and specific requirements for a guarantee to qualify as "full support" which align with the guarantee eligibility requirements under the Final Basel III Rules.

Recognizing Credit Risk Mitigation
For purposes of calculating Basel III regulatory capital for counterparty credit risk, posted margin is reflected as a reduction to exposure at default (EAD) in accordance with the Final Basel III Rules. For purposes of calculating Basel III regulatory capital for lending products, collateral is recognized in the LGD calculation based on the specific LGD for the related collateral as defined annually by CORA. The benefit of eligible guarantees or other types of full support is captured through PD substitution in the regulatory capital calculation and in the internal assignment of FRRs. In certain cases, collateral may be recognized as an improvement in the rating of the facility based on constraints outlined in the *ICG* risk manual.

Control Mechanisms for the Ratings System
The assignment of risk ratings is governed by the *ICG* risk rating policy. In addition, each business must have an approved risk rating process. The head of CORA must also approve the process to ensure consistent and appropriate practices. Each business' risk rating process must be reviewed and approved at least once every three years, unless more frequent review is specified as a condition of the approval. It is the responsibility of the risk manager to ensure that the process remains appropriate for the business' activities.

The business and independent risk management are involved in assigning risk ratings, and Fundamental Credit Review (FCR) reviews the appropriateness of the risk rating. In addition, FCR may change an existing risk rating during a review, or during ongoing business monitoring, and has final authority. ORRs and FRRs must be reviewed on an annual basis at a minimum and are often subject to more frequent review as developments, such as new extensions of credit or changes in an obligor's performance, warrant.

Retail Credit Risk Management

Policies and Processes for Retail Credit Risk Management
Citi extends retail credit on the basis of the customer's willingness and ability to repay, rather than to place primary reliance on credit risk mitigation. Depending on a customer's standing and the type of product, facilities may be provided on an unsecured basis.

Citi's retail banking operations use credit models in assessing and managing risk in their businesses and, as a result, models play an integral role in customer approval and management processes. Models used include PD models, primarily in the form of application and behavioral scorecards.

Application scorecards are derived from the historically observed performance of new customers. They are derived using customer demographic and financial information, including data available through credit bureaus. Through statistical techniques, the relationship between these variables and the credit performance is quantified to produce output scores reflecting a PD. These scores are used primarily for decision-making regarding new customers and may reflect different default definitions than those required by the Final Basel III Rules. These scores may be used as a segmentation variable in the Basel model.

Behavioral scorecards are derived from the historically observed performance of existing customers (including bureau data). The techniques used to derive the output scores reflecting certain PDs are very similar to those used for application scoring. The output scores are used for existing customer management activities. These scores may be used as a segmentation variable in the Basel model.

Citi's retail credit risk models are primarily internally derived, although occasionally external consultants may be contracted to build models on behalf of the businesses. All such external models are subject to internal model validation policies and processes.

Collateral Valuation and Management
In Citi's residential mortgage businesses, Citi's credit policy requires annual assessment of portfolio loan to value, with individual loans valued more frequently as necessary. A variety of methods, ranging from the use of market indices to individual professional inspection, may be used. For margin and security backed loans, Citi's credit policy generally requires that collateral valuations be performed daily.

Types of Collateral
In Citi's residential real estate businesses, a mortgage of the property is obtained to secure claims. Physical collateral is also typically obtained in vehicle financing in most jurisdictions. Loans to private banking or investment management clients may be made against the pledge of eligible marketable securities or cash or real estate.

Calculation of Risk-Weighted Assets Using Internal Parameters
In accordance with the requirements of the Final Basel III Rules, Citi applies the Advanced Internal Ratings Based (A-IRB) approach for credit risk. Under the A-IRB approach, Citi uses its own estimates of PD, LGD and credit conversion factors (CCF) as risk parameter inputs to Basel III supervisory formulas for the different types of wholesale, counterparty, and retail credit risk exposures when calculating risk-weighted assets.

Wholesale Credit Risk
For wholesale credit risk exposures, the estimates for PD, LGD and EAD are updated on an annual basis by an analytics team in CORA within independent risk management. PD is an estimate of the long-run average one-year default rate for each rating category, adjusted to ensure increasing default rates along the rating scale. PDs and EADs are based on internal data as of 2000 onward.

As required by the Final Basel III Rules, LGD represents the economic loss associated with defaults occurring in a downturn period (or the long-run average, whichever is higher). The economic loss is measured as the present value of the cash flows, post default, and includes costs associated with the work out, such as legal costs. Adjustments are also made for accrued interest and fees and unresolved defaults. Downturn periods are determined in accordance with the Final Basel III Rules and reflect periods of significantly higher internal default rates. LGD is segmented by key drivers of losses, such as product type, collateral type and coverage, seniority, jurisdiction, and/or obligor segment (such as large corporates, financial institutions, sovereigns, SMEs or private banking clients). With the exception of bonds and sovereign LGDs, where external information is sourced to supplement internal data, LGDs are based on Citi's internal data for defaults as of 2000 onward.

The EAD for each facility is equal to 100% of the on-balance sheet (direct) exposure, plus the expected percentage drawdown from any off-balance sheet (unused commitments or contingent) exposure multiplied by the unused or contingent amount of a facility. The percentage of the drawdown amount is referred to as the CCF. CCFs for unused commitments are calculated using regression models on internal data. The key drivers for the models include factors such as current usage, obligor segment, credit quality and/or jurisdiction. As required under the Final Basel III Rules, the average CCF is used for contingent trade letters of credit, while Basel I CCFs are applied to performance letters of credit (50%) and for financial/standby letters of credit (100%) due to limited default data for these products. CCFs include adjustments for downturn periods, consistent with those used for LGD, and accrued but unpaid interest and fees at the time of default.

Maturity for loans and leases is based on remaining contractual maturity. Maturity is capped at five years and with a floor of one year, except as permitted by the Final Basel III Rules.

Retail Credit Risk
The estimates for PD, LGD and CCFs for retail credit exposures are generally updated on a monthly basis using internal data covering a range of economic conditions and are defined similarly to those for wholesale credit. As required by the Final Basel III Rules, PD is an estimate of the one-year default rate based on the long-term averages. The LGD is an estimate of the economic loss that is associated with the defaulted exposures and any risk mitigants, such as insurance and/or collateral, if applicable. CCF is an estimate of the percentage of an undrawn credit line that will be drawn down within a one-year period. The EAD is estimated as a sum of 100% of the drawn exposure at the beginning of this year and the expected portion of undrawn exposure (as of the beginning of the year) corresponding to CCF.

The long-run average CCFs and LGDs are subject to certain adjustments, including an adjustment to reflect the averages associated with downturn periods. The downturn periods are identified based on internal default rates by major product category and country (similar to the approach used for wholesale) in accordance with the Final Basel III Rules.

All Basel III retail parameters are calculated for homogenous segments of credit exposures delineated by risk drivers, such as consumer credit score band, loan to value ratio, months-on-book or delinquency aging. Segments are defined by specific product characteristics within a portfolio. The credit scores are based on Fair Isaacs Corporation (FICO) or internally developed scoring models, which are subject to Citi's model risk management policy, as discussed further below.

Generally, the approach to estimating PD, LGD, and CCF is consistent across all retail exposure subcategories—residential mortgage exposures, qualifying revolving exposures, and other retail exposures.

Credit Rating and Basel Parameter Governance
The *ICG* risk rating policy requires that all wholesale businesses have an approved risk rating process for deriving risk ratings for all obligors and facilities. Establishing the risk rating process is the responsibility of the independent risk manager aligned with each business. The processes must be approved by the head of

an independent analytical team, based on review of default rates, LGD, and alternative practices. The senior credit officer for the business also approves the process. It is the responsibility of the risk manager to ensure that the process remains appropriate for the business' activities. At a minimum, the risk rating process must be re-approved at least once every three years, unless more frequent review is specified as a condition of the approval. All ratings must be reviewed annually, at a minimum.

Risk and the business share responsibility for the accuracy of risk ratings. Independent risk management also has the final authority on an assigned rating. Recognition of loss mitigation in the FRRs for collateral or support requires that the mitigant and the reporting comply with the collateral and support policies. In addition, the accuracy of ratings is tested on an annual basis and at various levels. The annual ORR validation, as well as the rating model testing, is reviewed by senior credit risk managers. Various levels of back-testing, benchmarking and validation cover all models and methodologies used in the assignment of ratings, as well as the models used to calculate Basel parameters.

The estimation of Basel parameters are governed under parameter control standards for wholesale and retail credit exposures. All models used to estimate Basel parameters must comply with Citi's model risk management policy, including the requirement to be validated by an independent validation unit.

Model Risk Management Policy

Model risk refers to the potential adverse impact to Citi from using a model arising from model limitations, model errors or from incorrect or inappropriate use of the model output.

Citi's model risk management policy is designed to comply with supervisory guidance on model risk management and is approved by each of Citi's and Citibank, N.A.'s Chief Risk Officer and Citi's Board of Directors. This policy establishes a model risk management framework designed to ensure consistent standards across Citi for identifying model risk, assessing its magnitude, and managing the risks that arise when using certain quantitative models.

Citi's Chief Risk Officer is responsible for and must approve this policy. The Citi Model Risk Management Committee oversees model risk levels within Citi and reports directly to the Chief Risk Officer.

Independent Validation of Models

Models for wholesale credit and retail credit risk are subject to periodic reviews of assumptions and performance as required under the model risk management policy. Wholesale credit rating models and Basel parameter models (for both wholesale and retail) are integrated into internal risk systems by business, risk and information technology. An independent validation unit conducts initial model validation for the assessment of model risk, including independent review of model documentation and implementation, conceptual soundness and the intended use of a model. The unit also performs independent statistical testing with effective challenges for sensitivity analysis, benchmarking and back-testing of the model methodology. Independent control functions (including risk and validation units) jointly conduct ongoing model performance review and back-testing of a model using internal performance data that meets the regulatory requirements, which includes the assessment of modeling assumptions and data inputs, model output, modeling methodology, and model limitations and compensating controls. This testing is performed on an annual basis for statistical rating models and Basel parameters for wholesale credit risk and on a quarterly basis for Basel parameters for retail credit risk. The definition of default for wholesale and retail credit risk conforms with the applicable definitions in the Final Basel III Rules.

Internal audit is responsible for independently assessing the adequacy and effectiveness of the overall model risk management framework and implementation (including risk rating processes).

As required by the Final Basel III Rules, Tables 3 through 7 below set forth the key Basel parameters (PD, LGD, CCF) that are based on internal models as they are reflected in Citi's wholesale, counterparty credit risk, and retail portfolios of exposures. These key parameters are used as inputs to the Basel III supervisory formulas to calculate credit risk-weighted assets. These tables do not include securitization, central counterparty or equity exposures, which are primarily based on supervisory formulas and risk weights. The presentation is consistent as to categories, exposure types and definitions with U.S. regulatory reporting for Basel III in Citi's FFIEC 101 Report.

Table 3: Wholesale Credit Risk Exposures by Probability of Default [(1)]

In millions of dollars, except percentages	June 30, 2014					
PD Range Bands[(2)]	**Undrawn Exposures[(3)]**	**Total EAD[(4)]**	**CCF[(5)]**	**PD[(5)]**	**LGD[(5)]**	**Risk Weight[(5)]**
0.00% to < 0.15%	$ 106,227	$ 499,579	55.38%	0.02%	37.22%	8.65%
0.15% to < 0.25%	40,866	77,009	52.80	0.16	37.82	22.18
0.25% to < 0.35%	39,199	61,060	52.16	0.27	38.11	39.15
0.35% to < 0.50%	39,581	59,912	49.47	0.44	36.16	49.49
0.50% to < 0.75%	30,485	64,078	50.88	0.73	36.37	57.24
0.75% to < 1.35%	25,084	63,457	51.52	1.19	35.29	60.90
1.35% to < 2.50%	17,011	38,025	50.38	1.93	33.63	71.76
2.50% to < 5.50%	14,753	30,667	51.75	3.80	34.46	83.24
5.50% to < 10.00%	8,734	8,296	59.73	7.91	31.45	118.47
10.00% to < 20.00%	6,525	11,331	60.76	16.49	34.80	102.85
20.00% to < 100%	4,972	8,705	57.32	30.28	35.49	123.14
100% (Default)[(6)]	2,499	4,155	82.64	100.00	30.12	96.93
Total	**$ 335,936**	**$ 926,274**	**53.22%**	**1.41%**	**36.70%**	**30.03%**

(1) Excludes repo-style transactions, eligible margin loans and OTC derivative exposures.
(2) The PD range bands are consistent with U.S. regulatory reporting of Basel III Advanced Approaches in Citi's FFIEC 101 Report.
(3) Amounts represent the face value of undrawn commitments and letters of credit.
(4) Represents total EAD for on-balance sheet and undrawn exposures.
(5) Exposure-weighted average by PD range bands and in total.
(6) The portion of EAD for defaulted wholesale exposures covered by an eligible guarantee from the U.S. government or its agencies is assigned a 20% risk weight in accordance with the Final Basel III Rules.

Table 4: Counterparty Credit Risk Exposures by Probability of Default [(1)]

In millions of dollars, except percentages	June 30, 2014			
PD Range Bands[(2)]	**Total EAD[(3)]**	**PD[(4)]**	**LGD[(4)]**	**Risk Weight[(4)]**
0.00% to < 0.03%	$ 30,143	0.01%	48.10%	5.72%
0.03% to < 0.10%	27,020	0.05	50.49	13.63
0.10% to < 0.15%	13,670	0.10	48.33	23.54
0.15% to < 0.25%	16,029	0.16	50.58	37.22
0.25% to < 0.50%	32,490	0.36	49.58	54.10
0.50% to < 0.75%	22,439	0.71	55.33	94.44
0.75% to < 1.35%	13,562	1.16	52.07	92.68
1.35% to < 2.50%	7,477	1.93	49.38	126.30
2.50% to < 5.50%	7,046	3.79	47.98	145.24
5.50% to < 10.00%	758	7.91	47.36	194.39
10.00% to < 100.00%	3,926	24.70	51.43	289.52
100% (Default)	833	100.00	55.94	100.00
Total	**$ 175,393**	**1.58%**	**50.38%**	**56.60%**

(1) Consists of repo-style transactions, eligible margin loans and OTC derivatives.
(2) See Table 3, footnote (2) above.
(3) Represents total EAD for on- and off-balance sheet exposures.
(4) Exposure-weighted average by PD range bands and in total.

Table 5: Mortgage Exposures by Probability of Default [1]

In millions of dollars, except percentages	June 30, 2014					
PD Range Bands	**Undrawn Exposures[2]**	**Total EAD[3]**	**CCF[4]**	**PD[4]**	**LGD[4]**	**Risk Weight[4]**
0.00% to < 0.05%	$ 10,731	$ 60,950	58.50%	0.03%	33.31%	3.27%
0.05% to < 0.10%	1,784	20,611	73.09	0.07	31.14	5.85
0.10% to < 0.15%	1,057	7,438	72.47	0.12	37.30	10.56
0.15% to < 0.20%	866	3,601	64.24	0.16	39.50	13.93
0.20% to < 0.25%	2,532	10,705	47.60	0.21	54.59	23.75
0.25% to < 0.35%	2,341	7,758	58.05	0.28	44.21	23.19
0.35% to < 0.50%	292	9,113	56.85	0.41	45.80	31.45
0.50% to < 0.75%	522	7,186	47.86	0.64	51.46	49.13
0.75% to < 1.35%	73	11,912	60.14	0.99	49.55	61.91
1.35% to < 2.50%	253	11,333	48.57	1.86	57.55	107.01
2.50% to < 5.50%	33	8,704	47.97	3.69	57.43	160.51
5.50% to < 10.00%	12	8,421	53.22	7.53	54.25	218.13
10.00% to < 20.00%	4	5,509	28.37	13.58	43.28	217.00
20.00% to < 100%	1,118	4,922	99.95	57.53	32.02	134.65
100% (Default)[5]	3	11,114	100.00	100.00	34.11	71.22
Total	**$ 21,621**	**$ 189,277**	**60.98%**	**8.53%**	**41.11%**	**49.43%**

(1) See Table 3, footnotes (1) and (2) above.
(2) Amounts represent the face value of undrawn commitments and letters of credit.
(3) Represents total EAD for on-balance sheet and undrawn exposures.
(4) Exposure-weighted average by PD range bands and in total.
(5) The portion of EAD for defaulted retail exposures covered by an eligible guarantee from the U.S. government or its agencies is assigned a 20% risk weight in accordance with the Final Basel III Rules.

Table 6: Qualifying Revolving Exposures by Probability of Default [1]

In millions of dollars, except percentages	June 30, 2014					
PD Range Bands	**Undrawn Exposures[2]**	**Total EAD[3]**	**CCF**	**PD**	**LGD**	**Risk Weight**
0.00% to < 0.50%	$ 511,260	$ 191,426	28.69%	0.17%	88.73%	7.97%
0.50% to < 1.00%	54,313	38,905	29.97	0.66	88.37	24.58
1.00% to < 1.50%	13,437	15,553	42.13	1.24	90.76	40.87
1.50% to < 2.00%	15,007	22,682	38.73	1.67	90.61	51.05
2.00% to < 2.50%	8,069	13,866	37.31	2.12	90.83	60.98
2.50% to < 3.00%	2,827	4,346	37.65	2.77	90.31	73.41
3.00% to < 3.50%	3,114	5,133	37.90	3.17	90.50	80.78
3.50% to < 4.00%	3,432	9,787	50.72	3.67	92.13	91.14
4.00% to < 5.00%	2,835	7,332	45.23	4.33	90.61	100.12
5.00% to < 6.00%	864	2,426	45.41	5.57	90.45	118.12
6.00% to < 7.00%	709	2,317	42.31	6.53	91.13	131.66
7.00% to < 8.00%	414	1,613	40.77	7.43	90.84	142.18
8.00% to < 10.00%	662	2,590	42.08	8.82	91.12	157.95
10.00% to < 100%	2,011	10,608	38.56	34.63	91.05	195.67
100% (Default)	1	4	100.00	100.00	78.99	100.00
Total	**$ 618,955**	**$ 328,588**	**29.83%**	**2.05%**	**89.33%**	**32.83%**

(1) See Table 3, footnotes (1) and (2) above.
(2) Amounts represent the face value of undrawn commitments and letters of credit.
(3) Represents total EAD for on-balance sheet and undrawn exposures.

Table 7: Other Retail Exposures by Probability of Default [1]

In millions of dollars, except percentages	June 30, 2014					
PD Range Bands	**Undrawn Exposures[2]**	**Total EAD[3]**	**CCF**	**PD**	**LGD**	**Risk Weight**
0.00% to < 0.50%	$ 25,507	$ 32,701	33.65%	0.13%	50.00%	13.52%
0.50% to < 1.00%	2,743	7,102	31.70	0.75	75.07	66.47
1.00% to < 1.50%	589	1,923	19.86	1.23	73.50	80.88
1.50% to < 2.00%	1,159	4,511	23.83	1.75	77.51	96.35
2.00% to < 2.50%	165	2,663	32.65	2.30	73.15	96.95
2.50% to < 3.00%	155	4,414	33.35	2.72	74.59	102.51
3.00% to < 3.50%	343	1,735	5.23	3.14	71.01	99.27
3.50% to < 4.00%	168	5,348	3.83	3.85	84.94	123.42
4.00% to < 5.00%	223	2,664	42.00	4.40	78.77	115.34
5.00% to < 6.00%	80	1,072	25.57	5.36	77.19	114.92
6.00% to < 7.00%	32	3,882	37.99	6.35	81.52	124.65
7.00% to < 8.00%	19	359	10.75	7.43	79.20	122.58
8.00% to < 10.00%	65	516	4.76	8.93	79.50	129.08
10.00% to < 100%	134	3,477	20.09	31.78	76.40	148.49
100% (Default)	5	244	100.00	100.00	82.04	100.00
Total	**$ 31,387**	**$ 72,611**	**32.30%**	**3.42%**	**65.07%**	**63.53%**

(1) See Table 3, footnotes (1) and (2) above.
(2) Amounts represent the face value of undrawn commitments and letters of credit.
(3) Represents total EAD for on-balance sheet and undrawn exposures.

COUNTERPARTY CREDIT RISK: OTC DERIVATIVE CONTRACTS, REPO-STYLE TRANSACTIONS AND ELIGIBLE MARGIN LOANS

Counterparty Credit Risk Exposures

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. For derivatives, counterparty credit risk arises primarily from unsettled security, commodity and foreign exchange transactions with a contractual settlement or delivery lag that is longer than the lesser of the market standard for the particular instrument or five business days (long settlement transactions). Repo-style transactions consist of repurchase or reverse repurchase transactions, or securities borrowing or securities lending transactions, including transactions in which Citi acts as agent for a customer and indemnifies the customer against loss, and are based on securities taken or given as collateral, which are marked-to-market, generally daily. Eligible margin loans are extensions of credit collateralized by liquid and readily marketable debt or equity securities, or gold, and that satisfy other conditions under the Final Basel III Rules.

Methodology Used to Assign Credit Limits

The process for approving a counterparty's credit risk exposure limit is guided by: core credit policies, procedures and standards; experience and judgment of credit risk professionals; and the amount of exposure at risk. The process applies to all counterparty credit risk products—OTC derivative contracts, repo-style transactions and eligible margin loans. The process includes the determination of maximum potential exposure after recognition of netting agreements and collateral as appropriate.

While internal ratings are the starting point in establishing credit assessments, a range of factors, such as quality of management and strategy, nature of industry, and regulatory environment, among others, are also taken into consideration for obligor limits and approval levels. Exposure to credit risk on derivatives is also impacted by market volatility, which may impair the ability of clients to satisfy their obligations to Citi. Credit risk analysts conduct daily monitoring versus limits and any resulting issues are escalated to credit officers and business management as appropriate. Usage against the credit limits may reflect netting agreements and collateral.

Counterparty Credit Risk Capital Calculations

In accordance with the requirements of the Final Basel III Rules, Citi calculates counterparty credit risk-weighted assets using the PD and LGD estimates described in the *"Credit Risk: Portfolio Disclosures – Internal Ratings Based Approach"* section above. The methods used to determine EAD are described below.

Citi's internal counterparty credit risk models calculate expected exposure as the first stage in the preparation of the regulatory capital requirement. The model is calibrated to simulate an economic downturn through the use of a scaling factor (known generically as alpha) to arrive at EAD.

For purposes of calculating regulatory capital for counterparty credit risk, in accordance with the Final Basel III Rules, Citi uses a constant-covariance Monte Carlo simulation of potential future exposure to determine an expected positive exposure (EPE) measure as input to Citi's EAD calculation. The model is calibrated with historical volatilities subject to a set of independent internal validation and statistical backtesting standards. The model utilizes a standard supervisory alpha multiplication factor of 1.4.

Citi also uses the mark-to-market method (also known as the current exposure method) for certain counterparty credit risk exposures. This method assigns to each transaction a regulatory stipulated exposure based on the mark-to-market value and a measure of potential future exposure.

Counterparty credit risk treatment also includes an explicit capital calculation (CVA RWA) to address potential fair value losses from CVA. Citi primarily utilizes the advanced CVA RWA approach for its OTC derivatives. However, the simple CVA RWA approach is used for exchange traded derivatives and other exposures that are cleared through central counterparties for which the current exposure method is applied; this approach is also used for certain exposures in non-U.S. jurisdictions.

Netting agreements and margin collateral may be recognized as credit risk mitigants provided they meet certain eligibility criteria outlined in the Final Basel III Rules, as described below.

Derivative Master Netting Agreements

Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Citi policy requires all netting arrangements to be legally documented. ISDA master agreements are Citi's preferred manner for documenting OTC derivatives. The agreements provide the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

Citi considers the level of legal certainty regarding enforceability of its offsetting rights under master netting agreements and credit support annexes to be an important factor in its risk management process. For example, Citi generally transacts much lower volumes of derivatives under master netting agreements where Citi does not have the requisite level of legal certainty regarding enforceability. For further information on Citi's policies regarding master netting agreements see Note 21, *"Derivative Activities"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

Policies for Securing, Valuing and Managing Collateral, and Establishing Credit Reserves

Citi's policies and procedures cover management and governance of financial assets (including securing and valuing collateral) utilized for the purpose of mitigating the credit risk of OTC derivatives, repo-style transactions and eligible margin loans. Specifically, businesses are required to establish standard eligibility criteria for collateral usage and review processes for approving non-standard collateral. Industry standard legal agreements combined with internal reviews for legal enforceability are used to achieve a perfected security interest in the collateral. Additionally, risk management establishes guidelines on appropriate collateral haircuts related to repo-style transactions and eligible margin loans. Potential correlations between the exposure and the underlying collateral are reflected through appropriate haircuts. A haircut is the percentage of reduction in current market value applicable to each type of collateral and is largely based on liquidity and price volatility of the underlying security.

The current market value of collateral is monitored on a regular basis. Margin procedures are established for managing margin calls for which daily margining is considered best practice in order to maintain an appropriate level of collateral coverage reflecting market value fluctuations. Trades are reconciled on a regular basis that is consistent with regulatory or industry best practice guidelines and margin dispute processes are in place. Procedures are established surrounding collateral substitution and collateral reuse/rehypothecation. Limits and concentration monitoring are utilized to control Citi's collateral concentrations to different types of asset classes.

Additionally, for eligible margin loans, procedures are established to ensure an appropriate level of allowance for credit losses, and the counterparty credit risk arising on derivative transactions is managed through CVA to the fair value of derivative contracts.

Primary Types of Collateral

Cash collateral and security collateral in the form of G10 government debt securities generally is posted to secure the net open exposure of OTC derivative transactions, at a counterparty level, whereby the receiving party is free to commingle/ rehypothecate such collateral in the ordinary course of business. Nonstandard collateral, such as corporate bonds, municipal bonds, U.S. agency securities and/or mortgage-backed securities, may also be pledged as collateral for OTC derivative transactions. Security collateral posted to open and maintain a master netting agreement with a counterparty, in the form of cash and securities, may from time to time be segregated in an account at a third-party custodian pursuant to a tri-party Account Control Agreement.

With respect to repo-style transactions and eligible margin loans, the majority of the collateral is in the form of cash, long-term debt securities rated one category below investment grade or higher, investment grade short-term debt securities and public equity securities, although occasionally, with appropriate agreement, other forms of collateral may be accepted.

Policies With Respect to Wrong-Way Risk Exposures

Wrong-way risk (WWR) occurs when a movement in a market factor causes Citi's exposure to a counterparty to increase at the same time as the counterparty's capacity to meet its obligations is decreasing. Stated differently, WWR occurs when exposure to a counterparty is adversely correlated with the credit quality of the counterparty.

Specific WWR arises when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty. General WWR is less definite than specific WWR and occurs where the credit quality of the counterparty is subject to impairment due to changes in macroeconomic factors.

WWR in a trading exposure arises when there is significant correlation between the underlying asset and the counterparty which, in the event of default, would lead to a significant mark-to-market loss. The interdependence between the counterparty credit exposure and underlying reference asset or collateral for each transaction can exacerbate and magnify the speed in which a portfolio deteriorates. Thus, the goal of Citi's WWR policy is to provide best practices and guidelines for the identification, approval, reporting and mitigation of specific and general WWR.

Citi requires that transactions involving specific WWR, as well as highly correlated WWR, are approved by independent risk management prior to commitment, along with post-trade ongoing risk reporting and reviews by senior management to determine appropriate management and risk mitigation. Risk mitigants for specific WWR transactions include increased margin requirements and offsetting or terminating transactions, among other mitigants.

Citi's WWR policy further uses ongoing product stress testing to identify potential general WWR using simulated macro-economic scenarios. General WWR reports are reviewed on an ongoing basis by senior management to determine appropriate management and mitigation.

Impact of Citi Credit Rating Downgrade on Collateral Pledged

Refer to Note 21, *"Derivative Activities—Credit-Risk-Related Contingent Features in Derivatives"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

OTC Derivative Counterparty Credit Risk Disclosures
For information regarding OTC derivative counterparty credit risk exposure, including the impact of netting contracts and the offsetting of collateral held, see Note 21, *"Derivative Activities"* in the Notes to Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

Table 8: Counterparty Credit Risk Exposures by Product

	June 30, 2014					
	Internal Models Method(1)		**Supervisory Method(2)**		**Total Counterparty Credit Risk**	
In millions of dollars	**EAD**	**RWA**	**EAD**	**RWA**	**EAD**	**RWA(3)**
OTC Derivatives	$ 70,090	$ 52,766	$ 34,542	$ 25,970	$ 104,632	$ 78,736
Repo-Style Transactions and Eligible Margin Loans	39,068	9,930	31,693	10,614	70,761	20,544
Total Exposure	**$ 109,158**	**$ 62,696**	**$ 66,235**	**$ 36,584**	**$ 175,393**	**$ 99,280**

(1) Internal Models Method (IMM) calculates EAD based on Citi's internal models and includes estimates for potential future exposure for OTC derivatives, repo-style transactions and eligible margin loans.
(2) The Supervisory Method used for OTC derivatives is called the Current Exposure Method (CEM) and includes an add-on for potential future exposure based on the Final Basel III Rules.
(3) Risk-weighted assets for counterparty credit risk are included with wholesale exposures in Table 2.

Credit Derivative Notional Amounts
For information on the notional amounts of purchased and sold credit derivatives by product type, see Schedule HC-L, *"Derivatives and Off-Balance Sheet Items"* in Citi's FR Y-9C, "Consolidated Financial Statements for Holding Companies" for the period ended June 30, 2014.

Methodology Used to Assign Economic Capital
Citi measures economic capital (risk capital) associated with unexpected losses over a one-year time horizon and assumes Citi remains a going concern. This "constant level of risk" approach does not incorporate additional losses from liquidation (i.e., when exposures are sold or runoff, they are generally assumed to be replaced with equally risky exposures). It does not project subjective trader/management behavior, nor does it give credit for hypothetical risk mitigation strategies. In the context of risk capital, "potential unexpected economic losses" measures the net present value of the potential decline in net income that might occur, given the strategy with which an exposure is managed and the accounting for that exposure.

The calculation of economic losses depends on whether the risk is classified as "price risk" or "value risk." Price risk is the potential unexpected loss of market value over a one year horizon. Value risk is the potential unexpected loss based on realizable value to maturity. If any of the following criteria are met, the risk is "price risk;" otherwise it is "value risk:"

- intent to sell or hedge exposures at market price;
- funding with short-term liabilities (sufficient long-term financing, even under stress situations, should be available to support all exposures whose risk capital is determined based on value risk); or
- mark-to-market accounting or equivalent (e.g., fair value).

Where exposures subject to price risk are held for the long term and funded with sufficient long-term financing, the potential impact on Citi's net income will include both changing market prices and other factors that will impact net income over the exposure's holding period.

Citi's methodology does not include any offset for expected income. For accrual instruments such as loans, this means that risk capital is calculated as the difference between expected loss on the loan and potential total loss (no offset for interest revenue or fee revenue). For mark-to-market instruments, such as trading book, this means that the unexpected loss is based on price volatility and assumes an expected total return of zero.
Citi's risk capital framework covers both systematic risk and idiosyncratic risk, where material. It is designed to avoid pro-cyclicality, meaning that changes in risk capital are primarily driven by changes in position, not by changes in shocks or assumptions. Citi's methodology covers all risk types, legal entities, and Citi's reportable segments. To account for tail risks, fat-tailed distributions (non-normal price behavior) for individual market factors and high correlation assumptions during stress periods are included.

For more information on Citi's risk capital, see *"Managing Global Risk—Policies and Processes—Risk Capital"* in Citi's 2013 Form 10-K.

CREDIT RISK MITIGATION

Overview

As part of its risk management activities, Citi uses various risk mitigants to hedge portions of the credit risk in its portfolios, in addition to outright asset sales. Credit risk mitigation, including netting, collateral and other techniques, is important to Citi in the effective management of its credit risk exposures.

Generally, in consultation with legal counsel, Citi determines whether collateral documentation is legally enforceable and gives Citi the right to liquidate or take possession of collateral in a timely manner in the event of the default, insolvency, bankruptcy or other defined credit event of the obligor. Also in consultation with legal counsel, Citi approves relevant jurisdictions and counterparty types for netting purposes. Off-balance sheet netting and netting of the collateral against the exposure is permitted if Citi determines that it has these rights.

Credit Risk Mitigation

OTC Derivative Contracts, Repo-Style Transactions and Eligible Margin Loans

Netting is generally permitted for OTC derivative contracts and repo-style transactions. In some cases, netting is also permitted for certain margin lending transactions.

For information on policies and processes for collateral valuation and management, see the *"Counterparty Credit Risk: OTC Derivative Contracts, Repo-Style Transactions and Eligible Margin Loans"* section above.

Retail Exposures

For information on policies and processes for collateral valuation and management for Citi's retail businesses, see the *"Retail Credit Risk Management"* section above.

Wholesale Banking Book Exposures

The main type of credit risk mitigants utilized for the wholesale banking book exposures are guarantees or other types of full support from parents or third parties, as well as collaterals such as real estate or various asset types (inventories, receivables, machinery, securities, etc.).

Collateral Concentrations

The collateral obtained for Citi's banking book portfolios is generally well diversified across a wide range of assets such as financial assets (accounts receivables, securities, cash, etc.), real estate and physical assets (plant and equipment, ships, planes, etc.), with no or limited concentration within any one asset type.

Guarantors and Credit Derivative Counterparties and their Creditworthiness

The general purpose for hedging is compliance with various risk limits. A dedicated group within Citi's risk management coordinates risk mitigation for credit risk in the banking book, including monitoring effectiveness and compliance with managing the exposures to be within risk limits on a regular basis. Actions for mitigating accrual credit risk in the banking book are generally limited to purchasing single-name credit default swaps from third parties, and direct asset sales to third parties.

Eligible credit default swap counterparties used as guarantors of credit risks in the banking book include commercial banks, investment banks or insurance companies that are rated BBB or better by S&P and Moody's with established ISDA agreements and trading limits in place.

Additionally, Citi Private Bank typically obtains personal guarantees from individuals and/or other guarantors.

Recognizing Credit Risk Mitigation

The table below presents the amount of wholesale exposures in the banking book that are covered by eligible guarantees, including eligible credit derivatives.

Table 9: Wholesale Banking Book Exposures Covered by Eligible Guarantees or Credit Derivatives [(1)] [(2)]

In millions of dollars	June 30, 2014
Exposure Type:	
Debt Securities	$ 4,726
Loans	29,418
Unused Commitments and Guarantees	11,186
Other[(3)]	449
Total Exposures	**$ 45,779**

(1) Exposures presented on an EAD basis.
(2) For Basel III regulatory capital calculation purposes, the benefit of eligible guarantees and credit derivatives for wholesale banking book exposures is captured through PD substitution in the calculation of risk-weighted assets. For retail exposures, see Table 5, footnote (5).
(3) Includes deposits with banks and other assets.

Overview

The regulatory capital framework for securitizations is intended to address the capital treatment for exposures that involve the tranching of credit risk and categorizes securitizations. Securitization structures are categorized as either traditional or synthetic in accordance with the Final Basel III Rules.

A traditional securitization is a transaction with the following attributes:

- all or a portion of the credit risk of one or more underlying assets is transferred to one or more third parties other than through the use of credit derivatives or guarantees;
- the credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority;
- performance of the transaction is solely dependent on the performance of the underlying assets; and
- all or substantially all of the underlying assets are financial assets (such as loans, commitments, credit derivatives, guarantees, receivables, asset-backed securities, mortgage-backed securities, other debt securities, or equity securities).

A synthetic securitization shares the same attributes as a traditional securitization, except that all or a portion of the credit risk of one or more underlying assets is transferred to one or more third parties through the use of one or more credit derivatives or guarantees.

Any securitization where one or more of the underlying exposures are securitization exposures would be considered a re-securitization. Asset-backed securities (ABS), collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) would be examples of re-securitizations, if any of the underlying exposures in these structures were themselves securitization exposures (such as an ABS, CDO or CLO tranche(s)).

Objectives

Citi plays a variety of roles in asset securitization transactions, including originator, sponsor and investor. More specifically, Citi acts as underwriter of asset-backed securities, depositor of the underlying assets into securitization vehicles, trustee to securitization vehicles and counterparty to securitization vehicles under derivative contracts. Citi serves as investor in securitization exposures through holdings of such exposures in the banking book. In addition, Citi serves as market maker in securitized products primarily through trading book activity by assisting clients in securitizing their financial assets. Citi may also provide administrative, asset management, underwriting, liquidity facilities and/or other services to the resulting securitization.

Citi is involved in synthetic securitizations which 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, as 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. Citi 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.

Citi engages in re-securitization transactions in which debt securities are transferred to a variable interest entity (VIE) in exchange for new beneficial interests. Private-label re-securitizations are backed by either residential or commercial mortgages and are often structured on behalf of clients. Citi retains senior and subordinated beneficial interests in private-label re-securitization transactions. Citi also re-securitizes U.S. government-agency guaranteed mortgage-backed securities. Citi utilizes an enhanced approval process for re-securitizations which includes reviewing each transaction thorough its New Product Approval Committee.

Citi enters into these securitization arrangements for a variety of business purposes. In addition to providing a source of liquidity and less expensive funding, securitizing assets reduces credit exposure to the borrowers. Securitization arrangements offer investors access to specific cash flows and risks created through the securitization process. Securitization arrangements assist Citi and Citi's customers in monetizing their financial assets at more favorable rates than Citi or the customers could otherwise obtain. Citi uses securitization transactions to segregate the seller's credit risk from the securitized assets and the cash flows generated from those assets, which are to be used for the benefit of purchasers or lenders in the transaction. The segregation is achieved through the transfer of the securitized assets in a 'true sale' from the seller to a bankruptcy-remote special purpose entity (SPE), thereby providing legal isolation of the pool of assets from the default risk of the seller.

Risks

Securitization transactions can involve a number of risks including portfolio risk, seller's risk, and liquidity risk. Portfolio risk arises from the performance of the underlying asset pool (i.e., payment rates, dilution, write-offs/losses). Seller risk represents the portion of unsecured credit exposure in a transaction with the seller. This exposure principally arises from recourse for losses, dilution or yield, lack of cash control or a first priority perfected security interest, potential declines in amount of securitized asset collateral between settlement periods or other non-standard features. Certain securitization structures give rise to contingent liquidity risk, that is, the likelihood that liquidity must be provided unexpectedly, potentially at a time when it is already under stress. Liquidity risk can occur in asset-backed commercial paper conduits or in cases where liquidity backstop arrangements have been provided.

Citi's risk management organization plays an active role in the review and oversight of securitization exposure identification. The nature of identifying a securitization is primarily an economic substance test where Citi seeks to identify evidence of tranching of credit risks in a variety of ways. Securitization identification is subject to a robust review process with controls and oversight. Securitizations exposures can arise in various forms, including but not limited to the following types of exposures:

- asset- and mortgage-backed securities;
- loans, lines of credit, and financial standby letters of credit;
- credit derivatives (including nth-defaulting credit default swaps) and guarantees;
- credit enhancing interest only strips;
- assets sold with retained tranched recourse;
- single assets with tranched risk;
- OTC derivatives with securitization SPEs;
- implicit support; and
- credit enhancing representation and warranties.

Citi manages its securitization and re-securitization positions within an established risk management policy framework whereby each business and Citi's risk management monitors changes in positions and changes in the portfolio structure of securitization and re-securitization positions. Credit risk management is responsible for determining the overall risk appetite for securitization transactions, approving extension of credit and ensuring data capture associated with those extensions of credit are accurate and are within Citi's risk appetite and limits, and ensuring that the transactions meet Citi's standards for Basel III compliance. Market risk management is responsible for ensuring that securitization transactions that are booked in the trading book are consistent with business mandate and endorsing risk and reward balance. Securitization and re-securitization positions are subject to product and obligor limits to ensure diversification in Citi's portfolio. These limits include mezzanine re-securitization limits. For additional information on market risk management practices related to trading book securitization positions, see Citi's Basel III Market Risk Disclosures.

Citi employs several risk mitigation approaches to manage risk appetite for its securitization and re-securitization positions. Under the Final Basel III Rules, a bank must demonstrate that it has truly transferred credit risk of the underlying exposures to one or more third parties to be able to recognize for risk-based capital purposes the use of a credit risk mitigant. The mitigant must meet the requirements of an eligible guarantee or eligible credit derivative. Failure to meet the operating requirements for a synthetic securitization prevents a bank from using the securitization framework and requires a bank to hold capital against the underlying exposures as if they have not been securitized. A bank must ensure that when transferring assets to an SPE that it can demonstrate that it holds sufficient residual capital in addition to the capital in the SPE to absorb losses in a stress situation.

Risk-Based Capital Approaches

Citi utilizes the "hierarchy of approaches" to compute regulatory capital on securitization transactions as required by the Final Basel III Rules. If a securitization exposure is not required to be deducted from regulatory capital, Citi first calculates the risk-based capital requirement using the Supervisory Formula Approach (SFA). The SFA calculation is a models-driven approach based on complex mathematical formulas that considers the attributes of the both the securitization structure and the underlying exposures. SFA requires inputs such as PD and LGD on the underlying collateral. Citi utilizes approved SFA models for a variety of asset classes including credit card receivables, trade receivables, student loans, auto loans, commercial loans and other consumer asset classes within traditional and synthetic securitizations.

Where data is not sufficient to build an SFA model, Citi uses the Standardized Supervisory Formula Approach (SSFA). SSFA requires inputs including the following to calculate regulatory capital:

- Attachment Point: the point at which the collateral losses from underlying assets backing a tranche will have reached an amount that those losses will be applied to the tranche in the form of principal write-downs;
- Detachment Point: the point at which the tranche will be completely wiped out or written-down by losses from the collateral backing the tranche;
- Weighted Average Capital: the weighted average capital charge of the assets in the deal;
- Seriously Delinquent: the percentage of the collateral that are seriously delinquent in the deal (e.g., 90+ days past due, in foreclosure, in bankruptcy); and
- Calibration Parameter: a parameter that increases the riskiness of a tranche for re-securitizations.

A risk weight of 1250% must be applied to a securitization exposure that does not qualify for the SFA and where Citi does not apply the SSFA, or which is not otherwise required to be deducted from regulatory capital.

Securitizations and VIEs

See the following references for certain information regarding securitizations and VIEs:

Consolidation Policy and Securitization Exposures

- See Note 20, *"Securitizations and Variable Interest Entities"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

Transfers of Financial Assets and Gain on Sale

- See Note 1, *"Summary of Significant Accounting Policies"* in the Notes to the Consolidated Financial Statements of Citi's 2013 Form 10-K.

Valuation of Retained or Purchased Interests

- See Note 22, *"Fair Value Measurement"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

Tables 10 through 12 present Citi's banking book exposures subject to securitization treatment, presented on an EAD basis, under the Final Basel III Rules.

Table 10: Securitization Exposures by Risk Weight Band

	June 30, 2014							
	SFA Approach		SSFA Approach		1250% Approach		Total	
In millions of dollars	Exposure	RWA	Exposure	RWA	Exposure	RWA	Exposure	RWA
Risk Weight Band								
0% ≤ 20%	$ 27,226	$ 4,676	$ 14,081	$ 2,815	$ —	$ —	$ 41,307	$ 7,491
> 20% ≤ 50%	13,316	2,921	16,835	4,974	—	—	30,151	7,895
> 50% ≤ 100%	722	718	686	385	—	—	1,408	1,103
> 100% ≤ 200%	—	—	1,142	1,713	—	—	1,142	1,713
> 200% ≤ 650%	28	142	1,284	3,158	—	—	1,312	3,300
> 650% < 1250%	—	—	4	30	—	—	4	30
1250%	—	—	—	—	918	11,070	918	11,070
Securitization	**$ 41,292**	**$ 8,457**	**$ 34,032**	**$ 13,075**	**$ 918**	**$ 11,070**	**$ 76,242**	**$ 32,602**

Table 11: Re-securitization Exposures by Risk Weight Band

	June 30, 2014							
	SFA Approach		SSFA Approach		1250% Approach		Total	
In millions of dollars	Exposure	RWA	Exposure	RWA	Exposure	RWA	Exposure	RWA
Risk Weight Band								
0% ≤ 20%	$ 1,113	$ 223	$ —	$ —	$ —	$ —	$ 1,113	$ 223
> 20% ≤ 50%	—	—	35	17	—	—	35	17
> 50% ≤ 100%	—	—	—	—	—	—	—	—
> 100% ≤ 200%	—	—	—	—	—	—	—	—
> 200% ≤ 650%	—	—	221	1,318	—	—	221	1,318
> 650% < 1250%	—	—	160	1,365	—	—	160	1,365
1250%	—	—	—	—	186	2,302	186	2,302
Re-securitization	**$ 1,113**	**$ 223**	**$ 416**	**$ 2,700**	**$ 186**	**$ 2,302**	**$ 1,715**	**$ 5,225**
Total Securitization Exposures by Approach	**$ 42,405**	**$ 8,680**	**$ 34,448**	**$ 15,775**	**$ 1,104**	**$ 13,372**	**$ 77,957**	**$ 37,827**

Table 12: Securitization Exposures by Collateral Type

	June 30, 2014			
	Exposure			
In millions of dollars	**On-Balance Sheet**	**Off-Balance Sheet**	**Total Exposure**	**Total RWA**
Residential mortgages	$ 14,156	$ 817	$ 14,973	$ 10,989
Corporate loans	18,582	6,191	24,773	9,077
Commercial real estate	1,839	156	1,995	3,657
Auto loans	13,218	1,130	14,348	3,648
Student loans	8,341	38	8,379	2,866
Credit card receivables	2,082	1,050	3,132	633
Other	6,757	3,600	10,357	6,957
Total Securitization Exposures by Collateral Type	**$ 64,975**	**$ 12,982**	**$ 77,957**	**$ 37,827**

Securitization Exposures Deducted from Regulatory Capital

As of June 30, 2014, no securitization exposures were deducted from Citi's regulatory capital.

Re-securitization Exposures Covered by Guarantees

As of June 30, 2014, no re-securitization exposures were covered by guarantees.

EQUITY EXPOSURES NOT SUBJECT TO THE MARKET RISK CAPITAL RULES

Overview

Citi holds equity positions to generate capital gains for its private equity subsidiaries. It can also hold positions as a result of debt to equity conversions, or to maintain strategic relationships. The equities positions are carried at fair value with certain non-marketable equity securities carried at cost or accounted for under the equity method.

The disclosures below are consistent with the definition of equity Citi has adopted for U.S. GAAP financial reporting purposes. For further information, see Note 1, *"Summary of Significant Accounting Policies"* in the Notes to the Consolidated Financial Statements of Citi's 2013 Form 10-K, and Note 13, *"Investments"* in the Notes to the Consolidated Financial Statements of Citi's Second Quarter 2014 Form 10-Q.

Risk-Weighting Approaches

As required under the Final Basel III Rules, Citi applies different approaches in calculating risk-weighted assets for equity exposures not subject to the market risk capital rules, depending upon whether or not the exposure is to an investment fund. Furthermore, three alternative approaches may be utilized in deriving risk-weighted assets for equity exposures to an investment fund, with the approach applied largely a function of the information available.

Under the Simple Risk Weight Approach the adjusted carrying value for each type of equity exposure is multiplied by a prescribed risk weight. The adjusted carrying value for an on-balance sheet equity exposure is the carrying value of the exposure. For an off-balance sheet commitment to acquire an equity exposure (an equity commitment) the effective notional amount of the exposure is multiplied by an applicable CCF based upon whether the commitment is conditional or unconditional, and for conditional equity commitments the original maturity thereof.

For equity exposures to investment funds, Citi applies the Full Look-Through Approach, the Simple Modified Look-Through Approach, or the Alternative Modified Look-Through Approach. In accordance with the Full Look-Through Approach, risk weights are applied on a proportional ownership share basis to each equity exposure held by the fund, as if Citi held the exposure directly. Under the Simple Modified Look-Through Approach, the highest risk weight applicable to any equity exposure the investment fund is permitted to hold under its prospectus, partnership agreement, or similar agreement is applied to the adjusted carrying value of Citi's equity exposure to the fund in deriving the amount of risk-weighted assets. With regard to the Alternative Modified Look-Through Approach, the adjusted carrying value of an equity exposure to an investment fund is assigned on a pro-rata basis to the different risk weight categories based on the investment limits in the fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments. Under this approach it is assumed that the fund invests to the maximum extent permitted under its investment limits in the exposure type with the highest applicable risk weight and continues to make investments in order of the exposure type with the next highest applicable risk weight, until the maximum total investment is reached. The assignment of the pro-rata investment limits risk weights for all exposure types within the fund will not exceed 100 percent.

The following table presents Citi's equity exposures not subject to the Basel III market risk capital rule, using the Simple Risk Weight, the Full Look-Through, the Simple Modified Look-Through, and the Alternative Modified Look-Through Approaches in deriving risk-weighted assets as of June 30, 2014.

Table 13: Equity Exposures Not Subject to Market Risk Capital Rule

	June 30, 2014				
In millions of dollars, except percentages	**Risk Weight Category**	**Carrying Value[1][2]**	**Fair Value**	**Effective Risk Weight[3]**	**RWA[4]**
Simple Risk Weight Approach:					
Equity Exposures subject to a 0% risk weight	0%	$ 4,198	$ 4,198	0%	$ —
Equity Exposures subject to a 20% risk weight	20	2,282	2,282	20	456
Community Development Equity Exposures	100	2,297	2,299	100	2,525
Publicly Traded Equity Exposures[5]	300	2,359	2,379	100	2,359
Non-publicly Traded Equity Exposures[5]	400	8,639	8,668	100	8,769
Equity Exposures in Leveraged Investments Funds	600	69	73	528	379
Total Simple Risk Weight Approach		$ 19,844	$ 19,899	72%	$ 14,488
Equity Exposures to Investment Funds:					
Full Look-Through Approach	N/A	$ 9,240	$ 9,300	17%	$ 1,615
Simple Modified Look-Through Approach	N/A	732	732	88	668
Alternative Modified Look-Through Approach	N/A	3,612	3,612	67	2,417
Total Equity Exposures to Investment Funds		$ 13,584	$ 13,644	34%	$ 4,700
Total Equity Exposures		**$ 33,428**	**$ 33,543**	**57%**	**$ 19,188**

(1) Total carrying value of approximately $33.4 billion consists of approximately $2.4 billion of publicly traded and approximately $31.0 billion of non-publicly traded equity exposures.
(2) Total carrying value excludes approximately $507 million of unfunded equity commitments.
(3) Equity exposures are presented on basis of exposure type, which in some cases will yield a blended effective risk weight.
(4) Unfunded equity commitments are included in the derivation of risk-weighted assets.
(5) Equity exposures within the 300% and 400% risk weight categories were, however, risk-weighted at 100% due to the aggregate amount of such exposures not exceeding the threshold for higher risk weighting treatment.

Realized Gains (Losses)

Total net realized gains arising from sales and liquidations of equity investments were $92 million for the quarter ended June 30, 2014.

Cumulative Unrealized Gains (Losses)

Total net unrealized gains on available-for-sale equity investments recognized in *accumulated other comprehensive income* were $237 million as of June 30, 2014.

OPERATIONAL RISK

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or human factors, or from external events, and includes reputation and franchise risk associated with business practices or market conduct in which Citi is involved.

Operational risk is inherent in Citigroup's global business activities, as well as the internal processes that support those business activities, and can result in losses arising from events related to the following, among others:

- fraud, theft and unauthorized activities;
- employment practices and workplace environment;
- clients, products and business practices;
- physical assets and infrastructure; and
- execution, delivery and process management.

Operational Risk Measurement and Stress Testing

Under the Final Basel III Rules, Citi is required to apply the Advanced Measurement Approach (AMA) in deriving its operational risk capital.

Pursuant to the AMA, Citi employs units of measure which are defined by lines of business and event types (e.g., Trading and Sales–internal fraud, and Retail Banking–clients, products and business practices). Separately, loss severity and frequency are modeled independently. The loss severity is based on Citi's historical internal operational risk loss data, as well as industry loss data. Citi employs an industry event selection process, involving risk managers in the business and operational risk management to identify industry losses that are relevant to Citi based on line of business and operational risk exposure by event type. The mean frequency of losses is estimated from Citi's internal experience. The modeled losses across the units of measure are aggregated considering some correlation in losses across business and event types. The results are subsequently modified each quarter by applying a "qualitative adjustment factor" to reflect the current business environment and internal control factors. Citi uses insurance for the purposes of partially mitigating operational risk; however, such insurance does not have a material impact on Citi's operational risk capital.

Further, scenario analysis is used as a management tool to provide a forward-looking view of specified, identified operational risks. Scenario analysis is conducted by major global business as a systematic process of obtaining opinions from business managers and risk management experts to derive reasoned assessments of the likelihood and loss impact of plausible, high-severity operational risk losses. Scenario analysis results, however, are not used as a direct input into the AMA calculation.

For additional information on operational risk, including Citi's operational risk management, measurement and stress testing, see *"Operational Risk"* in Citi's 2013 Form 10-K.

INTEREST RATE RISK: NON-TRADING ACTIVITIES

For information on Citi's interest rate risk related to non-trading activities, see *"Managing Global Risk—Market Risk—Price Risk—Non-Trading Portfolios"* in Citi's Second Quarter 2014 Form 10-Q.

APPENDIX: GLOSSARY

Banking book refers to exposures not included in the trading book.

Central counterparty is a counterparty (for example, a clearing house) that facilitates trades between counterparties in one or more financial markets by either guaranteeing trades or novating contracts.

Credit valuation adjustment is the fair value adjustment to reflect counterparty credit risk in valuation of OTC derivative contracts.

Exchange traded derivatives include derivatives executed directly on an organized exchange that provides pre-trade price transparency.

Fat-tailed distribution is a probability distribution for which the likelihood of a large deviation from the mean is greater than would be implied by a normal distribution.

FICO score 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).

Idiosyncratic risk is the risk of loss in the value of a position that arises from changes in risk factors unique to that position.

ISDA refers to International Swap Dealers Association.

Monte Carlo simulation is a statistical technique, widely used in finance, engineering, and physics, for simulating outcomes of complex processes. Citi's use of Monte-Carlo simulation to calculate the potential loss of market value of a trading portfolio rests on measurements of the volatilities and correlations of the market rates that affect the market value of the portfolio and on the sensitivities of the market value of the portfolio to changes in market rates.

Netting set is a group of transactions with a single counterparty that are subject to a qualifying master netting agreement.

Over-the-counter derivatives include derivatives executed and settled bilaterally with counterparties without the use of an organized exchange or central clearing house.

Potential future exposure is an add-on for expected future credit exposure related to OTC derivative contracts and is based on the type and remaining maturity of the derivative contract.

Qualifying revolving exposure, generally, is an exposure which is revolving, is unsecured and unconditionally cancelable by the banking organization.

Re-securitization is a securitization which has more than one underlying exposure and in which one or more of the underlying exposures is a securitization exposure.

Retail exposure is a residential mortgage exposure, a qualifying revolving exposure, or another retail exposure.

Scaling factor is a number which scales, or multiplies, some quantity.

Segmentation for retail exposures is required under the Final Basel III rules and means the grouping of retail exposures in each retail subcategory into segments that have homogeneous risk characteristics.

Specific risk is the risk of loss from changes in the market value of a position that could result from factors other than broad market movements and includes event risk, default risk and other idiosyncratic risks of specific issuers of debt or equity securities.

Synthetic securitization is a transaction in which all or a portion of the credit risk of one or more underlying exposures is retained or transferred to one or more third parties through the use of one or more credit derivatives or guarantees and the credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority.

Systematic risk is a broad class of market risk that is differentiated from the specific risk of individual issuers of debt and equity securities. Examples of systematic risk include the risk of changes in equity indices, commodity prices, the Treasury yield curve, spot foreign exchange rates, and average credit spreads per rating and currency. In contrast, examples of specific risk include the risk of changes in the component of the spread of a specific bond or the price of a specific equity that are caused by factors idiosyncratic to the issuer of the security.

U.S. GAAP refers to generally accepted accounting principles in the United States.

Wholesale exposure is a credit exposure to a company, natural person, sovereign, or governmental entity (other than a securitization exposure, retail exposure, pre-sold construction loan, unsettled transaction, or equity exposure).