CITIBANK EUROPE PLC

(Registered Number: 132781)

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

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BOARD OF DIRECTORS AND OTHER INFORMATION

DIRECTORS	Susan Dean – Chairperson (appointed Non-Executive 22nd March 2016 and as Chairperson 15th September 2016) Francesco Vanni d'Archirafi – Chairperson (resigned as Chairperson 15th September 2016 and as Non-Executive 31st December 2016) Zdenek Turek – Chief Executive Officer Aidan Brady – Chief Executive Officer (resigned 31st January 2016) Breffni Byrne – Independent Non-Executive Jim Farrell – Independent Non-Executive Bo J. Hammerich – Non-Executive Deepak Jain – Non-Executive Mary Lambkin – Independent Non-Executive Marc Luet – Non-Executive (resigned 31st December 2016) Rajesh Mehta – Non-Executive (resigned 31st December 2016) Barry O'Leary -Independent Non-Executive (appointed 17th June 2016) Ebru Pakcan – (appointed 1st February 2017) Cecilia Ronan – Executive Patrick Scally – Non-Executive (resigned 31st December 2016) Christopher Teano – Non-Executive (resigned 31st December 2016) Tony Woods – Executive (resigned 31st December 2016)
COMPANY SECRETARY	Deirdre Pepper (resigned 10th February 2017) Nigel Kemp (appointed 10th February 2017)
REGISTERED OFFICE	1 North Wall Quay, Dublin 1
SOLICITORS	Arthur Cox Solicitors Earlsfort Centre, Earlsfort Terrace, Dublin 2 A&L Goodbody International Financial Services Centre, North Wall Quay, Dublin 1 Matheson 70 Sir John Rogersons Quay, Dublin 2
AUDITOR	KPMG Chartered Accountants 1 Harbourmaster Place, IFSC, Dublin 1
BANKERS	Citibank NA, London Branch Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB

CITIBANK EUROPE PLC

DIRECTORS' REPORT
For the year ended 31 December 2016

The Directors present their report and the annual consolidated financial statements of Citibank Europe plc ("the Company" or "CEP") and its subsidiaries (the "Group") for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Principal Activities

On 1 January 2016, the Group merged with Citibank International Limited ("CIL"), a Citi affiliate headquartered in the United Kingdom. The Group is headquartered in Dublin and for the year under review had branches across 20 European countries (see Cross-Border information below), including two subsidiaries in the United Kingdom. Its ultimate parent is Citigroup Inc. (hereafter referred to as either "Citigroup" or "Citi").

The Group, which holds a banking licence from the Central Bank of Ireland under Section 9 of the Central Bank Act 1971, provides financial services to clients and other Citigroup businesses on a worldwide basis. From 1 January 2017 the Group has been directly regulated by European Central Bank ("ECB") through the Single Supervisory Mechanism (SSM) "The Regulator". The role of the Regulator is to grant or withdraw licences, conduct supervisory reviews, ensure compliance with EU prudential rules, establish capital requirements in order to counter any financial risks and assess banks acquisition and disposal of qualifying holdings.

The Group is passported under the EU Banking Consolidation Directive and accordingly is permitted to conduct a broad range of banking and financial services activities across the European Economic Area (EEA) through its branches and on a cross-border basis.

The core activities of the Group comprise the Institutional Clients Group (ICG). The principal ICG businesses are Treasury and Trade Services ("TTS"), Markets and Securities Services and Banking, servicing a wide range of target market clients including governments, public sector clients, multinational corporations, large local corporates, financial institutions, and fund managers.

As part of the Citi-Holdings ongoing divestiture of non-core businesses, the Consumer business in the Czech Republic was sold in Q1 2016. These businesses are classified separately as discontinued operations. The sale of the Hungarian Consumer business was completed in February 2017, for further details please refer to Note 40.

Cross-Border Merger of the Group

On 1 January 2016, the Group underwent a cross-border merger with CIL.

The merger was undertaken as part of Citigroup's pursuit of legal entity simplification and efficiency and is aligned to Citigroup's strategic objectives of embodying a simpler, smaller, safer and stronger institution.

Prior to the merger, the Group had branches in: Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia. The merger resulted in the addition of fourteen branches (Austria, Belgium, Denmark, Finland, France, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and the United Kingdom) in other European financial centres, including two Citi service centres ("CSC") in Hungary and Poland, which provide operational support to both the Group and other Citigroup entities and two subsidiaries.

Under the terms of the merger, cash consideration of $3.4 billion was paid by the Group to CIL's parent, Citi Overseas Holdings Bahamas Limited ("COHBL") along with 423,036 newly issued shares in CEP, each with a nominal value of EUR 1. The share premium associated with this transaction was $369 million. The issued shares were subsequently transferred via a contribution agreement from COHBL to the Group's parent, Citibank Holdings Ireland Limited ("CHIL"), thus maintaining CHIL's full ownership of the Group.

Cross-Border Merger of the Group (continued)

In line with the Group's accounting policies, the merger between CEP and CIL was recorded at book value. Further details of the value of acquired assets and liabilities are disclosed in Note 33.

Comparatives, where provided have not been restated nor prepared on a pro forma basis unless otherwise indicated. Proforma information is in Note 33 "Merger" to indicate the effect the merger had on the Group.

Business Review, Results and Future Development

The Group reported profit after tax of $863 million for the year to 31st December 2016 (2015: $624 million). The increase in profitability is due to a combination of the impact of the merger with CIL as well as the strong performance across the Group's major business lines and principal geographies. This increase in profitability was despite the continued challenging business environment. The ongoing macroeconomic and geopolitical uncertainty which persisted throughout the year impacted corporate confidence and interest rates in the markets where the Group does business continued to remain at very low levels.

The principal sources of revenue, Net Fee and Commission Income and Net Interest Income increased relative to the previous year due to increased client activity in certain sectors and as a result of the merger with CIL. Overall operating income was $2,169 million for the year to 31st December 2016 (2015: $1,315 million).

Operating expenses (excluding Net Impairments on Loans and Advances) increased during the year principally due to larger Personnel Expenses arising from the merger with CIL. Overall operating expenses (excluding Net Impairments on Loans and Advances) were $1,222 million for the year to December 2016 (2015: $575 million).

The Group recorded a net impairment recovery of $6 million for the year to December 2016 (2015: Impairment Loss of $19 million).

The Group's total assets increased year on year to $49.3 billion (2015: $26.6 billion). Increases were noted across all of the Group's major asset classes, in particular cash on deposit and loans and advances, and these were due principally to the merger with CIL. Deposits increased substantially over the year also, for the same reason. For further comparative analysis please refer to Note 33 "Merger".

The Directors continue to monitor business and economic conditions, as well as the financial impact they may have on the Group including the possible impact of Brexit.

The long-term credit rating for the Group remains at A+ (Standard & Poor's and Fitch) and A1 (Moody's), post-merger.

Key performance indicators

The Group's consolidated key financial indicators during the year were as follows:

	31 December 2016	31 December 2015*	Variance
	$ 000	$ 000	
Profit before Income Tax	953,079	720,424	32%
Profit after Income Tax	862,537	623,591	38%
Operating Efficiency	55%	43%	12%
Shareholders' Funds	9,401,222	8,149,625	15%
Return on Capital Employed	10%	9%	1%
Leverage Ratio	11%	18%	(7)%

* The 2015 figures are not comparable as they do not represent the effect of the merger.

Capital management

The Group has regulatory capital resources of US$7.5 billion (US$8 billion as at 31 December 2015) which are entirely made up of Tier One equity. The capital ratio at 31 December 2016 was 17.5% (34.7% as at 31 December 2015) which exceeds the minimum requirement. Further information on the Group's capital requirements and risk management is available in the Pillar 3 disclosure document (http://citigroup.com/citi/investor/reg.htm) for further details please refer to Note 17.

Dividend

The Directors approved the payment of a final dividend of $1.075 billion (2015: $nil) on 10th February 2017.

Corporate Governance

Internal Accounting and Financial Controls

Within the Group, the accounting process comprises the Board, the Audit Committee and the Finance Function. The Directors are responsible for preparing the Directors' report and Citibank Europe plc Group and Company financial statements in accordance with applicable law. The Board has established an audit Committee that operates within specific terms of reference approved by the Board. The Group Finance function is responsible for preparing the consolidated financial statements in accordance with IFRS as adopted by the EU and with respect to local legal requirements.

Audit Committee

The Audit Committee is a sub-committee of the Board of Directors. Its role is to oversee the adequacy of the internal control environment established by management in relation to the Group's businesses. The Audit Committee also assists the Board of Directors in fulfilling its oversight responsibility relating to the integrity of the Group's financial statements, financial reporting process and systems of internal accounting and financial controls. The Audit Committee draws on the work of Internal Audit and the Group's senior management.

Risk Committee

The Risk Committee is a sub-committee of the Board of Directors. Its role is to advise the Board on the Group's overall current and future risk appetite, taking account of the overall risk appetite of the Group and the current and future financial position of the Group. The Risk Committee also reviews amendments to Group risk policies applicable to Group and is responsible for implementing and calculating stress and concentration risk, economic capital and business risk along with adopting any regulatory developments from a risk perspective. The Risk Committee draws on the work of the internal Risk Department and the Group's senior management.

Related Party Lending Committee

The Related Party Lending Committee is responsible for assisting the Group in the discharge of its obligations under the Code of Practise in lending to Related Parties 2013 (Code) issued by the Central Bank of Ireland.

Remuneration Committee

The Remuneration Committee is a sub-committee of the Board of Directors. It is responsible for assisting the Board on decisions regarding remuneration, including those which have implications for risk management of the Group.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for the monitoring and managing of the statement of financial position, including capital, funding, liquidity and the market risk of the non-trading portfolios. In this regard, the Committee functions as a forum for senior management to ensure adherence to Group-wide policies and procedures, regulatory requirements, rating agency commitments and as necessary to recommend and implement appropriate funding plans.

Nomination Committee

The Nomination Committee is a sub-committee of the Board. It is responsible for assisting the Board on decisions regarding the appointment of Directors and Senior Management and related matters including succession planning, diversity, fitness and probity and performance reviews.

Corporate Governance Code for Credit Institutions and Insurance undertakings

The Group is designated as a High Impact credit institution per the Corporate Governance Code for Credit Institutions and Insurance Undertakings 2013 ("the Code"). As such, the Group has complied with the additional requirements for High Impact designated institutions.

In 2016, the Group has been identified as an Other Systemically Important Institution (O-SII). Under Regulation 121(1) of the European Union (Capital Requirements) Regulations 2014 (S.I. No. 158 of 2014) ("CRD Regulations"), the Central Bank of Ireland is designated as the authority in charge of identifying O-SIIs which have been authorised within the State.

Principal Risks and Uncertainties

In addition to the aforementioned uncertainties in relation to the macroeconomic and interest rate environment the Group is exposed to a variety of risks inherent in the financial services industry. The most significant of these risks to the Group are credit risk, market risk, operational risk and liquidity risk. A detailed description of these risks and how they are managed has been disclosed in Note 17.

Political Donations

During the year the Group did not make any political donations (2015: $nil).

Directors, secretary and their interests

Neither the Directors, nor the Company Secretary, have any beneficial interest in the share capital of the Group. Neither the Directors nor the Company Secretary had an interest in more than 1% of the nominal value of the ultimate holding Group's issued share capital.

Accounting records

The Directors believe that they have complied with the requirement of Section 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The adequate accounting records of the Group are maintained at 1 North Wall Quay, Dublin 1.

Auditor

In accordance with Section 383(2) of the Companies Act 2014, the auditors, KPMG, Chartered Accountants, will continue in office.

The Directors have taken all steps that they ought to have taken to make themselves aware of all audit information and to establish that auditors are aware of all such information and, so far as the Directors are aware, there is no relevant audit information of which the auditors are unaware, in accordance with section 330 (1)-(3) of the Companies Act 2014.

Directors' Compliance Statement

As required by section 225 of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Group's compliance with its "relevant obligations" (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates.

CITIBANK EUROPE PLC

DIRECTORS' REPORT
For the year ended 31 December 2016

Statement of Directors' responsibilities in respect of the Directors' Report and the audited financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and applicable law.

Under company law the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and of its profit or loss for that period. In preparing the Group financial statements, the directors are required to:

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

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 (the "Transparency Regulations"), to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Group and enable them to ensure that its financial statements comply with the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

Each of the Directors, whose names and functions are listed on page 3 of these consolidated Financial Statements confirm that, to the best of each person's knowledge and belief;

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2016 and its result for the year then ended; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board: 29th March 2017

Zdenek Turek Director	Jim Farrell Director	Breffni Byrne Director	Nigel Kemp Secretary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITIBANK EUROPE PLC

We have audited the financial statements ("Financial statements") of Citibank Europe plc ("the Group") for the year ended 31 December 2016 which comprise the Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Income Statement and Statement of Other Comprehensive Income, Company Income Statement and Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2016 and of its profit for the year then ended;
- the Company financial statements give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2016 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Group were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated financial statements is consistent with the consolidated financial statements.

In addition we report, in relation to information given in the Corporate Governance Statement on pages 6 to 7 that:

- based on knowledge and understanding of the Group and its environment obtained in the course of our audit, no material misstatements in the information identified above have come to our attention;
- based on the work undertaken in the course of our audit, in our opinion:

  - the description of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements, and information relating to voting rights and other matters required by the European Communities (Takeover Bids Directive 2004/25/EC) Regulations 2006 and specified by the Companies Act 2014 for our consideration, are consistent with the financial statements and have been prepared in accordance with the Companies Act 2014; and
  - the Corporate Governance Statement contains the information required by the Companies Act 2014.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITIBANK EUROPE PLC

3 We have nothing to report in respect of matters on which we are required to report by exception

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the consolidated financial statements, a material misstatement of fact, or that is otherwise misleading.

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

29th March 2017

N. Marshall

Niamh Marshall
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin 1

CITIBANK EUROPE PLC

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2016

	Note	2016 $ 000	2015 $ 000
Interest income		417,341	263,154
Interest expense		(59,192)	(36,254)
Net interest income	**3**	358,149	226,900
			-
Net fee and commission income	**4**	1,164,918	841,855
Net trading income	**5**	161,248	100,011
Net investment income	**6**	149,617	21,828
Net income from other financial instruments at fair value through profit or loss	**7**	32,887	5,266
Other operating income	**8**	301,980	118,938
Operating income		2,168,799	1,314,798
Net credit recoveries/(losses)	**17**	5,909	(19,430)
Personnel expenses	**10**	(614,865)	(229,508)
Other expenses	**12**	(606,764)	(345,436)
Profit before income tax		953,079	720,424
			-
Income tax expense	**13**	(124,740)	(97,935)
			-
Profit for the period from continuing operations		828,339	622,489
			-
Profit from discontinued operations, net of tax	**29**	34,198	1,102
			-
Profit for the period		862,537	623,591

The accompanying notes on pages 21 to 107 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29th March 2017 and signed on their behalf by:

Zdenek Turek Director	Jim Farrell Director	Breffni Byrne Director	Nigel Kemp Secretary

CITIBANK EUROPE PLC

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Note	2016 $ 000	2015 $ 000
Profit for the period		862,537	623,591
Items that will not be reclassified to profit or loss			-
Losses on remeasurement of defined benefit liability/asset	14	(55,699)	-
Related tax	14	11,500	-
Items that may be reclassified to profit or loss			
Foreign currency translation		(28,792)	(30,208)
Hedge of net investments in foreign operations (effective portion)		(15,628)	-
Fair value reserve (Available-for-sale financial assets)		(30,042)	15,509
Related tax		(8,593)	(3,376)
Other Comprehensive Income for the Period, Net of Tax		(127,254)	(18,075)
Total Other Comprehensive Income for the Period		735,283	605,516

The accompanying notes on pages 21 to 107 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29th March 2017 and signed on their behalf by:

Zdenek Turek
Director

Jim Farrell
Director

Breffni Byrne
Director

Nigel Kemp
Secretary

CITIBANK EUROPE PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	31 December 2016 $ 000	31 December 2015 $ 000
Assets			
Cash and cash equivalents	**15**	16,435,227	4,811,631
Trading assets	**16,18**	1,095,380	972,537
Derivative financial instruments	**18,19**	2,147,168	118,655
Loans and advances to banks	**18**	7,487,475	9,226,926
Loans and advances to customers	**18**	14,588,945	8,262,356
Investment securities	**20**	3,064,088	2,216,309
Assets associated with disposal group held for sale	**29**	194,389	424,967
Current tax asset		5,884	7,673
Property and equipment	**21**	144,076	12,512
Goodwill and Intangible assets	**22**	358,682	99,464
Deferred tax assets	**23**	290,026	2,687
Other assets	**24**	3,470,643	469,153
Total assets		49,281,983	26,624,870
Deposits by banks	**18**	7,695,263	6,959,971
Customer accounts	**18**	24,065,741	7,912,281
Derivative financial instruments	**18,19**	2,191,961	118,210
Debt securities in issue	**26**	71	-
Liabilities associated with disposal group held for sale	**29**	639,331	1,257,791
Current tax liability		35,647	3,195
Provisions	**27**	55,419	18,213
Other liabilities	**28**	5,197,328	2,205,584
Total liabilities		39,880,761	18,475,245
Equity shareholders' funds			
Share capital	**30**	10,532	10,071
Share premium account	**30**	1,962,747	1,593,607
Other reserves (net)	**37**	846,336	782,678
Retained earnings		6,581,607	5,763,269
Total equity attributable to equity shareholders		9,401,222	8,149,625
Total liabilities and equity shareholders' funds		49,281,983	26,624,870

The accompanying notes on pages 21 to 107 form an integral part of these financial statements.
The financial statements were approved by the Board of Directors on 29th March 2017 and signed on their behalf by:

Zdenek Turek Director	Jim Farrell Director	Breffni Byrne Director	Nigel Kemp Secretary

CITIBANK EUROPE PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

		Attributable to equity holders of the Group								
	Note	Share capital $ 000	Share premium $ 000	Capital reserve $ 000	Merger reserve $ 000	Translation reserve $ 000	Fair value reserve $ 000	Equity reserve $ 000	Retained earnings $ 000	Total $ 000
Balance at 1 January 2015		10,071	1,593,607	824,123	-	(28,487)	1,978	2,783	5,139,678	7,543,753
Total comprehensive income/(loss):										-
Profit for the period		-	-	-	-	-	-	-	623,591	623,591
Other comprehensive income/(loss), net of tax:										-
Remeasurements of defined benefit liability/(asset)		-	-	-	-		-	-	-	-
Foreign currency translation differences for foreign operations		-	-	-	-	(30,208)	-	-	-	(30,208)
Net loss on hedge of net investment in foreign operation		-	-	-	-	-	-	-	-	-
Fair value reserve (Available-for-sale financial assets)							12,133			12,133
Total other comprehensive income/(loss)		-	-	-	-	(30,208)	12,133	-	-	(18,075)
Total comprehensive income/(loss)		-	-	-	-	(30,208)	12,133	-	623,591	605,516
Equity settled share-based payment		-	-	-	-	-	-	357	-	357
Total contributions by and distributions to owners		-	-	-	-	-	-	357	-	357
Balance at 31 December 2015		10,071	1,593,607	824,123	-	(58,695)	14,111	3,139	5,763,269	8,149,625
Balance at 1 January 2016		10,071	1,593,607	824,123	-	(58,695)	14,111	3,139	5,763,269	8,149,625
Total comprehensive income/(loss):										
Profit for the period		-	-	-	-	-	-	-	862,537	862,537
Other comprehensive income/(loss), net of tax:										-
Remeasurements of defined benefit liability/(asset)	14	-	-	-	-	-	-	-	(44,199)	(44,199)
Foreign currency translation differences for foreign operations		-	-	-	-	(28,792)	-	-	-	(28,792)
Net loss on hedge of net investment in foreign operation		-	-	-	-	(15,628)	-	-	-	(15,628)
Fair value reserve (Available-for-sale financial assets)		-	-	-	-	-	(38,635)	-	-	(38,635)
Total other comprehensive income/(loss)		-	-	-	-	(44,420)	(38,635)	-	(44,199)	(127,254)
Total comprehensive income/(loss)		-	-	-	-	(44,420)	(38,635)	-	818,338	735,283
Transactions with owners, recorded directly in equity										
Issue of ordinary shares related to merger	33	461	369,140	-	-	-	-	-	-	369,601
Equity increase/decrease resulting from merger	33	-	-	-	57,578	19,283	69,717	-	-	146,578
Equity settled share-based payment	31	-	-	-		-	-	135	-	135
Total contributions by and distributions to owners		461	369,140	-	57,578	19,283	69,717	135	-	516,314
Balance at 31 December 2016		10,532	1,962,747	824,123	57,578	(83,832)	45,193	3,274	6,581,607	9,401,222

The accompanying notes on pages 21 to 107 form an integral part of these financial statements.

CITIBANK EUROPE PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	31 December 2016 $ 000	31 December 2015 $ 000
Cash flows from operating activities			
Profit after tax		862,537	623,591
Adjustments for:			
Income tax charged	13	129,587	98,118
Depreciation and amortisation	12,21,22	162,766	33,944
Net impairment (recoveries)/losses on loans and advances	17	(5,909)	19,430
Loss on disposal of property and equipment		975	-
Provision released and other movements during the year	27	8,647	(1,810)
Expenses related to share based payment	10	14,584	3,904
Expenses related to post-employment defined benefit plans	14	5,894	-
Interest income	3	(417,341)	(263,154)
Interest expense	3	59,192	36,254
Gains on investment securities		(82,404)	-
Change in trading assets	16	328,093	289,500
Change in derivative financial instrument assets	19	(488,802)	156,222
Change in loans and advances to banks (more than 3 months)		5,062,091	(6,363,163)
Change in loans and advances to customers	17	(532,671)	2,078,097
Operating cash flow from discontinued operation	29	102,514	-
Change in other assets	24	21,565	360,472
Change in deposits from banks	18	(6,506,393)	2,909,438
Change in customer account balances	18	806,783	116,250
Change in derivative financial instrument liabilities	19	402,023	(199,838)
Change in investment securities	20	658,623	79,785
Change in debt securities in issue	26	(554,699)	(1,655,181)
Change in other liabilities	28	249,042	(635,198)
Provision utilized during the year	27	(13,734)	(380)
		272,963	(2,313,719)
Interest received	3	417,341	263,154
Interest paid	3	59,192	(36,254)
Income tax paid		(92,150)	(75,990)
Share based payment related payment		(9,937)	-
Defined benefit related payment	14	(2,940)	(4,433)
Effect of exchange translations and other adjustments		(12,153)	(34,068)
Net cash from operating activities		632,316	(2,201,310)
Cash flows from investing activities			
Acquisition of investment securities		(3,167,693)	(3,076,380)
Disposal of investment securities		4,084,856	2,438,840
Acquisition of property and equipment	21	(79,027)	(3,308)
Proceeds from disposal of property and equipment		-	1,068
Acquisition of intangible assets	22	(104,213)	(18,579)
Proceeds from disposal of intangible assets	22	-	1,174
Dividends received from investments		1,327	76
Addition from business transfer		-	(656)
Proceeds from sale of discontinued business		(443,641)	-
Net Cash and cash equivalents gained during the merger	33	12,966,267	-
Net cash from/(used in) investing activities		13,257,876	(657,765)
Financing activities			
Redemption of issued debt		(22,347)	-
Net cash (used in) financing activities		(22,347)	-
Net increase in cash and cash equivalents		13,867,845	(2,859,075)
Cash and cash equivalents at beginning of period	15	7,037,802	9,896,877
Cash and cash equivalents at end of period	15	20,905,647	7,037,802

CITIBANK EUROPE PLC

COMPANY INCOME STATEMENT
for the year ended 31 December 2016

	Note	2016 $ 000	2015* $ 000
Interest income		417,341	263,154
Interest expense		(59,192)	(36,254)
Net interest income	3	358,149	226,900
			-
Net fee and commission income	4	1,164,918	841,855
Net trading income	5	161,248	100,011
Net investment income	6	149,617	21,828
Net income from other financial instruments at fair value through profit or loss	7	32,887	5,266
Other operating income	8	301,980	118,938
Operating income		2,168,799	1,314,798
Net credit (losses)/recoveries	17	5,909	(19,430)
Personnel expenses	10	(614,865)	(229,508)
Other expenses	12	(606,747)	(345,436)
Profit before income tax		953,096	720,424
			-
Income tax expense	13	(124,743)	(97,935)
			-
Profit for the period from continuing operations		828,353	622,489
			-
Profit/(loss) from discontinued operations, net of tax	29	34,198	1,102
			-
Profit for the period		862,551	623,591

* The presentation of certain captions has changed for consistency following the merger (see Note 1e).

The accompanying notes on pages 21 to 107 form an integral part of these financial statements.

CITIBANK EUROPE PLC

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Note	2016 $ 000	2015 $ 000
Profit for the period		862,551	623,591
Items that will not be reclassified to profit or loss			-
Losses on remeasurement of defined benefit liability/asset	14	(55,699)	-
Related tax	14	11,500	-
Items that may be reclassified to profit or loss			
Foreign currency translation		(25,734)	(30,208)
Hedge of net investments in foreign operations (effective portion)		(15,628)	-
Fair value reserve (Available-for-sale financial assets)		(30,042)	15,509
Related tax		(8,593)	(3,376)
Other Comprehensive Income for the Period, Net of Tax		(124,196)	(18,075)
Total Comprehensive Income for the Period		738,355	605,516

The accompanying notes on pages 21 to 107 form an integral part of these financial statements.

CITIBANK EUROPE PLC

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	31 December 2016 $ 000	31 December 2015 $ 000
Assets			
Cash and cash equivalents	15	16,423,472	4,811,631
Trading assets	16,18	1,095,380	972,537
Derivative financial instruments	18,19	2,147,168	118,655
Loans and advances to banks	18	7,487,475	9,226,926
Loans and advances to customers	18	14,588,945	8,262,356
Investment securities	20	3,064,088	2,216,309
Assets associated with disposal group held for sale	29	194,389	424,967
Shares in subsidiary undertakings	25	14,876	1,378
Current tax asset		5,883	7,673
Property and equipment	21	144,076	12,512
Goodwill and Intangible assets	22	358,682	99,464
Deferred tax assets	23	289,981	2,687
Other assets	24	3,470,643	469,142
Total assets		49,285,058	26,626,237
Deposits by banks	18	7,695,263	6,959,971
Customer accounts	18	24,065,741	7,913,639
Derivative financial instruments	18,19	2,191,961	118,210
Debt securities in issue	26	71	-
Liabilities associated with disposal group held for sale	29	639,331	1,257,791
Current tax liability		35,650	3,195
Provisions	27	55,419	18,213
Other liabilities	28	5,197,328	2,205,584
Total liabilities		39,880,764	18,476,603
Equity shareholders' funds			
Share capital	30	10,532	10,071
Share premium account	30	1,962,747	1,593,607
Other reserves (net)	37	849,394	782,705
Retained earnings		6,581,621	5,763,251
Total equity attributable to equity shareholders		9,404,294	8,149,634
Total liabilities and equity shareholders' funds		49,285,058	26,626,237

The accompanying notes on pages 21 to 107 form an integral part of these financial statements.

CITIBANK EUROPE PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Note	Share capital $ 000	Share premium $ 000	Capital reserve $ 000	Merger reserve $ 000	Translation reserve $ 000	Fair value reserve $ 000	Equity reserve $ 000	Retained earnings $ 000	Total $ 000
		Attributable to equity holders of the Group								
Balance at 1 January 2015		10,071	1,593,607	824,123	-	(28,487)	1,978	2,783	5,139,678	7,543,753
Total comprehensive income/(loss):										-
Profit for the period		-	-	-	-	-	-	-	623,591	623,591
Other comprehensive income/(loss), net of tax:										-
Foreign currency translation differences for foreign operations		-	-	-	-	(30,208)	-	-	-	(30,208)
Fair value reserve (Available-for-sale financial assets)							12,133			12,133
Total other comprehensive income/(loss)		-	-	-	-	(30,208)	12,133	-	-	(18,075)
Total comprehensive income/(loss)		-	-	-	-	(30,208)	12,133	-	623,591	605,516
Equity settled share-based payment		-	-	-	-	-	-	357	-	357
Total contributions by and distributions to owners		-	-	-	-	-	-	357	-	357
Balance at 31 December 2015		10,071	1,593,607	824,123	-	(58,695)	14,111	3,139	5,763,269	8,149,625
Balance at 1 January 2016		10,071	1,593,607	824,123	-	(58,695)	14,111	3,139	5,763,269	8,149,625
Total comprehensive income/(loss):										
Profit for the period		-	-	-	-	-	-	-	862,551	862,551
Other comprehensive income/(loss), net of tax:										-
Remeasurements of defined benefit liability/(asset)	**14**	-	-	-	-	-	-	-	(44,199)	(44,199)
Foreign currency translation differences for foreign operations		-	-	-	-	(25,734)	-	-	-	(25,734)
Net loss on hedge of net investment in foreign operation		-	-	-	-	(15,628)	-	-	-	(15,628)
Fair value reserve (Available-for-sale financial assets)		-	-	-	-	-	(38,635)	-	-	(38,635)
Total other comprehensive income/(loss)		-	-	-	-	(41,362)	(38,635)	-	(44,199)	(124,196)
Total comprehensive income/(loss)		-	-	-	-	(41,362)	(38,635)	-	818,352	738,355
Transactions with owners, recorded directly in equity										
Issue of ordinary shares related to merger	**33**	461	369,140	-	-	-	-	-	-	369,601
Equity increase/decrease resulting from merger	**33**	-	-	-	57,578	19,283	69,717	-	-	146,578
Equity settled share-based payment	**31**	-	-	-		-	-	135	-	135
Total contributions by and distributions to owners		461	369,140	-	57,578	19,283	69,717	135	-	516,314
Balance at 31 December 2016		10,532	1,962,747	824,123	57,578	(80,774)	45,193	3,274	6,581,621	9,404,294

The accompanying notes on pages 21 to 107 form an integral part of these financial statements.

CITIBANK EUROPE PLC

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	31 December 2016 $ 000	31 December 2015 $ 000
Cash flows from operating activities			
Profit after tax		862,551	623,591
Adjustments for:			
Income tax charged	13	129,590	98,118
Depreciation and amortisation	12, 21, 22	162,766	33,944
Net impairment (recoveries)/losses on loans and advances	17	(5,909)	19,430
Loss on disposal of property and equipment		975	-
Provision released and other movements during the year	27	8,647	(1,810)
Expenses related to share based payment	10	14,584	3,904
Expenses related to post-employment defined benefit plans	14	5,894	-
Interest income	3	(417,341)	(263,154)
Interest expense	3	59,192	36,254
Gains on investment securities		(82,404)	-
Change in trading assets	16	328,093	289,500
Change in derivative financial instrument assets	19	(488,802)	156,222
Change in loans and advances to banks (more than 3 months)		5,062,091	(6,363,163)
Change in loans and advances to customers	17	(532,671)	2,078,097
Operating cash flow from discontinued operation	29	102,514	-
Change in other assets	24	21,565	360,472
Change in deposits from banks	18	(6,506,393)	2,909,438
Change in customer account balances	18	806,783	116,250
Change in derivative financial instrument liabilities	19	402,023	(199,838)
Change in investment securities	20	658,623	79,785
Change in debt securities in issue	26	(554,699)	(1,655,181)
Change in other liabilities	28	249,042	(635,198)
Provision utilized during the year	27	(13,734)	(380)
		272,980	(2,313,719)
Interest received	3	417,341	263,154
Interest paid	3	59,192	(36,254)
Income tax paid		(92,150)	(75,990)
Share based payment related payment		(9,937)	-
Defined benefit related payment	14	(2,940)	(4,433)
Effect of exchange translations and other adjustments		(23,924)	(34,068)
Net cash from operating activities		620,562	(2,201,310)
Cash flows from investing activities			
Acquisition of investment securities		(3,167,693)	(3,076,380)
Disposal of investment securities		4,084,856	2,438,840
Acquisition of property and equipment	21	(79,027)	(3,308)
Proceeds from disposal of property and equipment		-	1,068
Acquisition of intangible assets	22	(104,213)	(18,579)
Proceeds from disposal of intangible assets	22	-	1,174
Dividends received from subsidiary companies		1,327	76
Addition from business transfer		-	(656)
Proceeds from sale of discontinued business		(443,641)	-
Cash and cash equivalents gained during the busines combination		12,966,267	-
Net cash from/(used in) investing activities		13,257,876	(657,765)
Financing activities			
Redemption of issued debt		(22,347)	-
Net cash (used in) financing activities		(22,347)	-
Net increase in cash and cash equivalents		13,856,090	(2,859,075)
Cash and cash equivalents at beginning of period	15	7,037,802	9,896,877
Cash and cash equivalents at end of period	15	20,893,892	7,037,802

1. Principal accounting policies

The accounting policies which have been applied are set out below:

The accounting policies of the Group are consistent with those of the Company. As a result of, or in relation to the merger with CIL, the additional accounting policies set out below have also been adopted:

a) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the company law of Republic of Ireland. The IFRSs are standards and interpretations adopted by the International Accounting Standards Board ("IASB"). These are the IFRSs, the International Accounting Standards ("IAS") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

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

These financial statements are the Group's first consolidated financial statements.

The merger between the Group and Citibank International Limited became effective on 1 January 2016 under the European Cross-Border Merger Directive (2005/56/EC), as implemented in the UK and Ireland. It was recorded at book value in accordance with CEP's accounting policy for common control transactions. Comparatives, where provided, have been disclosed on a prospective basis and hence, not restated to reflect the impact of the merger. For further details please refer to Note 33 – Merger.

b) Consolidation (new)

Subsidiary undertakings that are directly or indirectly controlled by the Group are consolidated. Subsidiary undertakings are fully consolidated from the date on which control is obtained by the Group. The Group defines control over a subsidiary undertaking to be when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. They are de - consolidated from the date that control ceases. When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity.

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

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

c) Segmental reporting (new)

An operating segment is a component of the Group, which earns revenues and incurs expenses, whose results are regularly reviewed by chief operating decision makers and for which discrete financial information is available. The operating segments of Citicorp and Citi Holdings represent the organisational structure upon which the Group reports its primary segment information. There are three geographic segments for which chief operating decision makers review the operations of the Group – Ireland, United Kingdom and Continental-Europe. Segment income, segment expenses and segment performance include transfers between business segments, which are conducted at arm's length.

d) Functional and presentation currency

These financial statements are presented in USD, which is the functional currency of both the merged Group and Company. Prior to the merger, the functional currency of CIL had been GBP.

1. **Principal accounting policies** (continued)

e) Changes in accounting policy and disclosures

Standards issued but not yet effective

There are a number of accounting standards that have been issued by the International Accounting Standards Board (IASB), but which are not yet effective for the Group. The Group does not plan on early adoption of these standards, they include:

- **IFRS 15 – Revenue from Contracts with Customers.** In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15 which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases. IFRS 15 will be effective from 1 January 2018, and was adopted by the EU on 22 September 2016. The Group is assessing the potential impact on its consolidated financial statements resulting from the issued standard.

- **IFRS 16 – Leases.** In January 2016, the IASB issued IFRS 16, which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets and lease liabilities on the balance sheet for most leases. Lessees will also recognize depreciation expense on the lease asset and interest expense on the lease liability in the statement of income. There are no significant changes to lessor accounting aside from enhanced disclosure requirements. IFRS 16 will be effective from 1 January 2019 and subject to EU adaptation. The Group is assessing the potential impact on its consolidated financial statements resulting from the issued standard.

- **IFRS 9 – Financial Instruments**

  Introduction
  IFRS 9 – *Financial Instruments*. The new standard includes a new model for classification and measurement of financial assets, a forward-looking 'expected loss' impairment model for debt instruments and a substantially reformed approach to hedge accounting. The standard replaces the existing guidance in IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 is effective from 1 January 2018, with early adoption permitted and adopted by the EU as at 22 November 2016.

  Classification and measurement
  From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI)).

  The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

  The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

  The Group expects that, in many instances, the classification and measurement outcomes will be similar to IAS 39, although some differences may arise.

1. **Principal accounting policies** (continued)

   e) **Changes in accounting policy and disclosures** (continued)

   - **IFRS 9 – Financial Instruments** (continued)

     Classification and measurement (continued)
     The Group has made an early assessment of the potential impact of IFRS 9 to classification and measurement at transition based on an assessment of financial assets as at 31 December 2016:

     - Held-for-Trading financial assets will be classified and measured as FVTPL.
     - Designated at fair value financial assets will continue to be classified as measured at FVTPL due to the business model assessment or the fact that the designation eliminates or significantly reduces an accounting mismatch.
     - Loans and advances to banks and to customers currently classified and measured at amortised cost are expected to continue to be measured and classified at amortised cost unless they fail the business model or SPPI test.
     - Investment debt securities currently classified as Available-for-Sale and measured at FVOCI consist of government and corporate bonds that are held for an indefinite period of time as they may be sold in response to needs for liquidity or changes in interest rates or exchange rates. These debt securities are expected to be classified and measured as FVOCI as they are held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets unless they fail the SPPI criterion.
     - Investment equity securities currently classified as Available-for-Sale and measured at FVOCI will primarily be classified as FVTPL under IFRS 9. An entity may, at initial recognition, irrevocably elect to classify and measure non trading equity instruments at FVOCI, however, all amounts recognised in OCI can never be reclassified to profit or loss.
     - Investment securities currently classified as Held-to-Maturity and measured at amortised cost are expected to be classified and measured at amortised cost as the financial assets are held within a business model whose objective is to collect contractual cash flows that satisfy the SPPI criterion.

     For financial liabilities, IFRS 9 largely retains the pre-existing requirements for classification and measurement previously included in IAS 39. However, under IFRS 9 fair value changes on financial liabilities which are designated at fair value through profit or loss that are attributable to changes in the credit risk of the liability will be presented in other comprehensive income.

     The assessment above may not be fully representative of the impact as at 1 January 2018 because IFRS 9 requires that the business models be assessed based on the facts and circumstances from the date of initial application. In addition, the contractual terms and conditions of the financial assets assessed as at 31 December 2016 may not reflect the contractual terms and conditions of the group's financial asset at transition and management are still finalising their business model and SPPI assessments.

     Impairment
     IFRS 9 introduces an expected credit loss (ECL) impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in earlier recognition of credit losses.

     Scope
     Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework will be considered in determining the scope of our application of the new expected credit loss impairment model.

1. **Principal accounting policies** (continued)

e) **Changes in accounting policy and disclosures** (continued)

- **IFRS 9 – Financial Instruments** (continued)

Impairment (continued)

Expected credit loss impairment model

Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-Stage expected credit loss impairment model:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the next 12 months.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses will be recognized. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Stage 1 and Stage 2 credit loss allowances effectively replace the collectively-assessed allowance for incurred but not identified losses recorded under IAS 39, while Stage 3 credit loss allowances effectively replace the individually and collectively assessed allowances for impaired loans.

Under IFRS 9, the population of financial assets and corresponding allowances disclosed as Stage 3 will not necessarily correspond to the amounts of financial assets currently disclosed as impaired in accordance with IAS 39. Consistent with IAS 39, loans are written off when there is no realistic probability of recovery. Accordingly, the Group's policy on when financial assets are written off is not expected to significantly change on adoption of IFRS 9.

The recognition and measurement of impairment is intended to be more forward looking than under IAS 39. The estimation of an ECL is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate will also consider the time value of money.

The measurement of an ECL will primarily be determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. For a financial asset in Stage 1 the Group will utilise a 12-month PD whereas a financial asset within Stage 2 will utilise a lifetime PD in order to estimate an impairment allowance. For credit impaired financials asset within Stage 3 the Group will continue to leverage existing processes.

An impairment allowance will be estimated for Corporate loans at an individual loan level utilising sophisticated models depending on the relative size, quality and complexity of the portfolios. Impairment allowances for the small Consumer loans portfolio will be estimated utilising a less sophisticated model. In limited circumstances, for Consumer loan portfolios, where the Group does not have access to detailed historical information and/or loss experience, the Group will adopt a simplified approach using backstops and other qualitative information specific to each portfolio. Models will leverage existing models currently used globally for stress-testing and regulatory capital reporting purposes but will incorporate specifically developed components to make the estimates compliant with IFRS 9. These models will be validated and tested during 2017.

A financial asset will move between Stage 1 and Stage 2 if there has been a significant increase in credit risk relative to initial recognition. Determining whether there has been a significant increase in credit risk will require significant judgement and is based on relative changes in the financial asset's lifetime PD alongside other qualitative assessments by the Business, Finance and Risk or pre-defined backstops.

1. **Principal accounting policies** (continued)

   e) **Changes in accounting policy and disclosures** (continued)

   - **IFRS 9 – Financial Instruments** (continued)

     Impairment (continued)

     The assessment surrounding a significant increase in credit risk since initial recognition will be performed for each reporting period by assessing the change in the risk of default occurring over the remaining life of the financial asset, rather than changes in the magnitude of loss if the default were to occur.

     Estimates must consider information about past events, current conditions and reasonable and supportable forecasts around future events and economic conditions. The application of forward looking information will require significant judgment. The Group is developing models that will include multiple scenarios that consider the variability and uncertainty in expected losses including factors such as GDP growth rates and unemployment rates.

     The definition of default used in the measurement of ECLs and Stage movements is expected to be consistent with the definition of default used for internal credit risk management purposes.

     Financial assets can move in both directions through the Stages of the IFRS 9 impairment model depending on whether the assessment of whether there is a significant increase of credit risk since initial recognition or whether the asset is credit impaired subsequently changes.

     Changes in the required credit loss allowance, including the impact of movements between Stage 1 (12 month expected credit losses) and Stage 2 (lifetime expected credit losses), will be recorded in profit or loss.

     Hedge accounting

     The new hedge accounting requirements aim to simplify hedge accounting, align accounting with the entity's risk management strategy and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. However, due to the fact that the IASB is still addressing the accounting of macro hedging activities through a separate project, IFRS 9 includes an accounting policy choice to continue accounting for hedge accounting under IAS 39 until the macro hedging project is finalised. The Group will elect the accounting policy choice to continue to apply hedge accounting under IAS 39.

     Transition

     The impairment and classification and measurement requirements of IFRS 9 will be applied retrospectively by adjusting the Group's Balance Sheet at 1 January 2018, the date of initial application of IFRS 9, with the difference between previous carrying amounts and carrying amounts at initial application recognized in retained earnings. There is no requirement to restate comparative periods other than for hedge accounting.

     To manage our transition to IFRS 9, the Group has implemented a comprehensive enterprise-wide program led jointly by Finance and Risk Management that focuses on key areas of impact, including financial reporting, data, systems and processes, as well as communications and training. During 2016, the Group completed an assessment of the scope and complexity of the adoption of IFRS 9 which identified areas with differences between IFRS 9 and IAS 39. The Group continues to monitor and revisit our preliminary conclusions in order to identify any further financial, capital and business implications.

     Citi has put in place dedicated Governance including a Steering Committee to monitor and continuously assess and prepare for the impact of the new standard on Citi's internal processes and systems. Citi is developing its impairment models and will validate these in 2017 via the execution of parallel runs. Accounting Policy Manuals, internal control documents and financial reporting processes and system changes are currently being prepared to support high quality implementation of the Standard. The Group is leveraging from these project initiatives with specific local challenge and input to ensure that the approach is appropriate for the Group.

   The IASB has published a number of minor amendments to IFRSs in the 'Annual Improvements to IFRSs 2012-2014' and in a series of stand-alone amendments, one of which has not yet been endorsed for use in the EU. The Group has not early adopted any of the amendments effective after 31 December 2016 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements.

1. **Principal accounting policies** (continued)

e) **Changes in accounting policy and disclosures** (continued)

Amendment to classification and presentation
As a result of the merger certain comparatives have been changed to comply with the current presentation due to the following two main updates:

- Intercompany recoveries (primarily earned by the Group's CSC for operational services provided to other Citi affiliates) are presented under Other operating income. Intercompany revenue distributions (attribution of revenue earned by providing services to non-Citi affiliates) are presented under the relevant revenue line. Previously they were shown under Net fee and commission income.
- Gain or loss in relation to financial instrument designated at fair value and related interest have been recognised under "Net income from other financial instruments at fair value through profit or loss". Previously they were recorded under Net interest income.

f) **Net interest income and expense**

Interest income and expense on financial assets and liabilities is recognised in the income statement using the effective interest rate method. Under this method, fees and direct costs relating to loan origination, re-financing or restructuring and to loan commitments are deferred and amortised to interest earned on loans and advances over the life of the instrument. When calculating the effective interest rate, the Group estimates future cash flows considering all contracted terms of the financial instrument, but no future credit losses.

Interest income and expense presented in the income statement include:
- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- Interest on available-for-sale investment securities.
- Interest on cash balances.

g) **Net fee and commission income**

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

Other fees and commission income, including transaction processing fees, account servicing fees, transaction processing fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. These fees are recorded in fee income as they are earned. To the extent that upfront fees are capitalised but subsequently there is a partial sell down of the related asset, the fees are released to the income statement in proportion to the amount of the loan sold down.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

h) **Net trading income and expense**

Net trading income comprises all gains and losses related to trading assets and liabilities, and include all realised fair value changes, together with related interest, dividends and foreign exchange differences.

i) **Net income on financial instruments designated at fair value through profit or loss**

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

j) **Dividend income**

Dividend income is recognised when the right to receive income is established.

k) **Financial assets and liabilities**

Recognition
The Group initially recognises loans and advances and deposits on the date at which the cash flow occurs. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

1. **Principal accounting policies** (continued)

k) **Financial assets and liabilities** (continued)

Trading assets
The trading book of the Group consists of all positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book and which are free from any restrictive covenants on their tradability or are able to be hedged. Positions held with trading intent are those held intentionally for short-term resale and / or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations. The term 'positions' shall include positions arising from client servicing and market making. Trading intent is evidenced on the basis of the strategies, policies and procedures established by the Group to manage the position or portfolio.

Loans and receivables and other assets
Loans and receivables and other assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. They comprise Cash, Loans and Advances to Banks, Loans and Advances to Customers and Other Assets.

Loans and advances are initially recognised at fair value, which is the cash given to originate the loan, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment charges. Where substantially all the risk and rewards relating to amounts receivable under loan agreements are transferred to another party, neither the amounts receivable under the loans nor the amounts payable to the other party are recognised in the financial statements as assets and liabilities and only the excess of interest received over interest paid is dealt with in the income statement.

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

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

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

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Group accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

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

1. **Principal accounting policies** (continued)

k) **Financial assets and liabilities** (continued)

Investment securities
Investment securities are recognised on a trade date basis and are classified as available-for-sale ("AFS").

Available-for-sale investment securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets that are not classified as at fair value through profit or loss or as loans and receivables are classified as AFS. A financial asset classified as AFS is initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets classified as AFS are carried at fair value with the changes in fair value reported in other comprehensive income. For AFS debt instruments, changes in carrying amounts relating to changes in foreign exchange rate are recognized in the Statement of Income and other changes in carrying amount are recognized in other comprehensive income as indicated above. For financial assets classified as AFS that are nonmonetary items (equity instruments), the gain or loss that is recognized in other comprehensive income includes any related foreign exchange component. However, interest calculated using the effective interest rate method is recognised under net interest income in the income statement.

When available-for-sale investment securities are sold or impaired the cumulative gain or loss previously recognised in equity is transferred to the income statement and disclosed within net investment income.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statement.

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

Held-to-maturity investment securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investment securities are initially recognised at fair value, including directly attributable costs, and subsequently measured at amortised cost using the effective interest method less any impairment losses. Any foreign currency transaction gain or loss on held to maturity investments security is recognized in the income statement. A sale or reclassification of any held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. Sales or reclassification is allowed in any of the following circumstances:

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

Financial liabilities
Deposits by banks, customer accounts, accruals and deferred income, debt securities in issue and other liabilities are measured at amortised cost. Other liabilities are primarily made up of amounts payable to both intercompany and third party organisations. Where financial liabilities as at fair value such as liabilities arising from short sale transactions, are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from subsequent changes in fair value are recognised directly in the income statement within net trading income.

Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a currently enforceable legal right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

1. Principal accounting policies (continued)

k) Financial assets and liabilities (continued)

Fair Value Measurement
"Fair Value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument.

The value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change occurred.

l) Impairment of financial assets

Impairment of loans and advances
The Group assesses at each statement of financial position date whether there is objective evidence that a loans and advances are impaired. Loans and advances are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset prior to the statement of financial position date ("a loss event") and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Objective evidence that a loans and advances are impaired includes observable data that comes to the attention of the Group such as:

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

The Group first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loans and advances, whether significant or not, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assesses them for impairment. Loans and advances that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1. **Principal accounting policies** (continued)

l) Impairment of financial assets (continued)

Impairment of loans and advances (continued)

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

Following impairment, interest income is recognised using the original effective interest rate. The Group discounts future cash flows for the purpose of measuring the impairment loss, using the original effective interest rate, applied to the revised carrying amount.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Subsequent recoveries of amounts previously written off are recorded against net credit losses in the income statement.

Reversals of impairment

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

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact, which can be reliably measured, on the estimated future cash flows of the financial asset an impairment loss is recognised.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to the income statement. The cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in the income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

The impairment methodologies for available-for-sale financial assets are set out as follows:

- Available-for-sale debt securities. In assessing objective evidence of impairment at the reporting date, the Group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in the recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.
- Available-for-sale equity securities. Objective evidence of impairment may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the equity below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition.

1. **Principal accounting policies** (continued)

l) Impairment of financial assets (continued)

Impairment of available-for-sale financial assets (continued)

Once an impairment loss has been recognised, the subsequent accounting treatment for changes in the fair value of that asset depends on the type of asset:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement;
- for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred.

m) De-recognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flow from assets has expired or the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

n) Finance and operating leases (new)

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

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

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

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

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

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

1. Principal accounting policies (continued)

n) Property and equipment

Items of property and equipment, including freehold and leasehold improvements are stated at cost, less accumulated depreciation and impairment losses (see below). Depreciation is provided to write off the cost, less the estimated residual value of each asset, on a straight-line basis over their estimated useful lives. Estimated useful lives of vehicles, furniture and equipment are between one and seven years.

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

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

o) Intangible assets

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

Other intangibles
Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement using the methods that best reflect the economic benefits over their estimated useful economic lives and residual values are reviewed at each financial year end and adjusted if appropriate. The estimated useful lives are as follows.

Acquired computer software licenses	3 - 5 years
Computer software development	1 - 10 years

Computer software

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised cost of internally developed software includes all internal and external costs directly attributable to developing the software and are amortised over its useful life.

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

p) Impairment of non-financial assets

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

1. **Principal accounting policies** (continued)

q) Income taxes

Income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses available for carry-forward are recognised as a deferred tax asset if it is probable that future taxable profit will be available against which the losses can be utilised.

Deferred tax assets and liabilities are recognised for taxable and deductible temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that there will be suitable profits available against which these differences can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on tax rates that are enacted or substantively enacted at the statement of financial position date.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Current and deferred taxes are recognised as income tax benefit or expense in the income statement.

r) Levies

Levies are imposed by governments to the Group in accordance with the legislation, other than income taxes, fines or other penalties that are imposed for breach of the legislation. The Group recognises a liability to pay a levy on the date identified by the legislation that triggers the obligation. Levies are recorded under general administrative expenses in the Group's income statement.

s) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in currencies other than US Dollars are translated into US Dollars using the year end spot exchange rates. Non-monetary assets and liabilities denominated in currencies other than US Dollar that are classified as "held for trading" or "designated at fair value" are translated into US Dollars using the year end spot rate. Non-monetary assets and liabilities, denominated in currencies other than US Dollars that are not measured at fair value, have been translated at the relevant historical exchange rates. Any gains or losses on exchange are taken to the profit and loss account as incurred except gains and losses on financial assets classified as AFS that are nonmonetary items.

The assets and liabilities of overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

t) Employee benefits (new)

Defined benefit plans
The Group also participates in and continues to operate defined benefit pension schemes for employees in Greece, Netherlands, Belgium, Spain, Austria, Ireland, France and Norway. Staffs do not make contributions for basic pensions. For its overseas defined benefit plans, the net liability recognised in the balance sheet is the actuarially calculated present value of the defined benefit obligation at the balance sheet date, less the fair value of the plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Remeasurement gains and losses are recognised immediately in the statement of comprehensive income. For defined benefit obligations, the current service cost and any past service costs are included in the profit and loss account within operating expenses and the interest income on pension scheme assets, net of the impact of the interest cost on the pension scheme liabilities, is included within other finance income.
A surplus is recognised on the balance sheet where an economic benefit is available as a reduction in future contributions or as a refund of monies to the Group.

1. **Principal accounting policies** (continued)

t) **Employee benefits (new)** (continued)

Defined contribution plans

The Group operates a number of defined contribution pension schemes. The Group's annual contributions are charged to the income statement in the period to which they relate. The pension scheme's assets are held in separate trustee administered funds.

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of the offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as part of a restructuring programme, if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

u) **Share based incentive plans**

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

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

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

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

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

1. Principal accounting policies (continued)

v) Accounting for government grants

Grants are credited to the income statement to offset the matching expenditure. Grants received, which are repayable if defined conditions are not met, are credited to the income statement on a straight-line basis over that period.

w) Cash and cash equivalents

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

x) Provisions

Provisions are recognised when it is probable that an outflow of economic resources will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

y) Subsidiary undertakings

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

z) Common control transactions

The Group accounts for business combinations between entities under common control at book value. Comparatives have not been restated nor prepared on a pro forma basis unless otherwise indicated.

aa) Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that meet the definition of criteria to be classified as held for sale.

The results of discontinued operations have been disclosed separately as a single amount in the income statement for the relevant periods presented, comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on measurement to fair value less costs to sell. Prior period disclosures have been updated to distinguish between continuing and discontinued operations. Please refer to Note 29 'Discontinued operations' for further information.

bb) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. In acting in this capacity, the Group has concluded that it acts as an agent, therefore such assets and incomes arising thereon are excluded from these financial statements, as they are not assets of the Group.

cc) Issued debt securities

The Group has designated as at fair value through profit and loss a number of issued debt securities that contain embedded equity, interest rate and credit derivatives that would otherwise be required to be split and separately accounted for at fair value. The fair value of issued debt securities also takes into account an allowance for the Group's own credit risks. See Note 18 – 'Financial assets and liabilities' for further details."

2. Use of assumptions and estimates

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

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

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

When preparing the financial statements, it is the Directors' responsibility under Irish Company law to select suitable accounting policies and to make judgments and estimates that are reasonable and prudent. The accounting policies that are deemed critical to the Group's IFRS results and financial position, in terms of the materiality of the items to which the policy is applied, or which involve a high degree of judgment or estimation are:

Impairment of loans
In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individually significant loans or from a loan portfolio. Estimates are based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. Impairments are discussed and presented further in Note 17.

Valuation of intangible assets
Assumptions may be required in the valuation of certain material intangible assets and management may use external professional advice to assist with this process.

Share-based incentive plans
The Group participates in a number of Citigroup Inc's share-based incentive plans. Awards granted through Citigroup Inc's Stock Option Program are measured by applying an option pricing model, taking into account the terms and conditions of the program. Analysis of past exercise behaviour, Citigroup Inc's dividend history and historical volatility are key inputs to the valuation model. See Note 31 for further details.

Retirement benefit obligation
The Group participates in locally operated defined benefit schemes for its European branches. Defined benefit schemes are measured on an actuarial basis, with the key assumptions being inflation, discount rate and mortality. Under the revised IAS 19 the expected return on plan assets is calculated by applying the AA corporate bond yield discount rate. Inflation rates are selected by reference to the European Central Bank target for inflation. Mortality assumptions are based upon the relevant standard industry and national mortality tables. Discount rates are based on specific corporate bond indices which reflect the underlying yield curve of each scheme. Management judgement is required in estimating the rate of future salary growth. All assumptions are unbiased, mutually compatible and based upon market expectations at the reporting date. The sensitivity of key assumptions is discussed in Note 14 – 'Retirement benefit obligations.'

Valuation of financial instruments
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data and where this is not possible may be required to make estimates. Note 18 further outlines the approach to valuation of financial instruments.

2. Use of assumptions and estimates (continued)

Credit value adjustment (CVA), funding valuation adjustment (FVA) and debt valuation adjustment (DVA)
CVA and FVA are applied to over-the-counter (OTC) derivative instruments in which the base valuation generally discounts expected cash flows using the relevant base interest rate curve for the currency of the derivative (e.g., LIBOR for uncollateralised U.S. dollar derivatives). As not all counterparties have the same credit risk as that implied by the relevant base curve, a CVA is necessary to incorporate the market view of both counterparty credit risk and Citi's own credit risk in the valuation. FVA reflects a market funding risk premium inherent in the uncollateralised portion of derivative portfolios, and in collateralised derivatives where the terms of the agreement do not permit the reuse of the collateral received.

Citi's CVA methodology is composed of two steps. First, the credit exposure profile for each counterparty is determined using the terms of all individual derivative positions and a Monte Carlo simulation or other quantitative analysis to generate a series of expected cash flows at future points in time. The calculation of this exposure profile considers the effect of credit risk mitigants, including pledged cash or other collateral and any legal right of offset that exists with counterparty through arrangements such as netting agreements. Individual derivative contracts that are subject to an enforceable master netting agreement with a counterparty are aggregated for this purpose, since it is those aggregate net cash flows that are subject to nonperformance risk.

This process identifies specific, point-in-time future cash flows that are subject to nonperformance risk, rather than using the current recognised net asset or liability as a basis to measure the CVA. Second, market-based views of default probabilities derived from observed credit spreads in the credit default swap (CDS) market are applied to the expected future cash flows determined in step one. Citi's own-credit CVA is determined using Citi-specific CDS spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spread indices for each credit rating and tenor. For certain identified netting sets where individual analysis is practicable (e.g., exposures to counterparties with liquid CDSs), counterparty-specific CDS spreads are used.

The CVA and FVA are designed to incorporate a market view of the credit and funding risk, respectively, inherent in the derivative portfolio. However, most unsecured derivative instruments are negotiated bilateral contracts and are not commonly transferred to third parties. Derivative instruments are normally settled contractually or, if terminated early, are terminated at a value negotiated bilaterally between the counterparties. Thus, the CVA and FVA may not be realised upon a settlement or termination in the normal course of business. In addition, all or a portion of these adjustments may be reversed or otherwise adjusted in future periods in the event of changes in the credit or funding risk associated with the derivative instruments.

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

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

The Group has designated various debt instruments at fair value through profit or loss. Under IFRS 13, the Group is required to incorporate its own-credit risk in the fair value for these liabilities.

During 2016, the Group recorded CVA/FVA/DVA loss of approximately $4.5 million (2015: $nil).

3. Net interest income

	Group and Company	
	2016	**2015***
Interest and similar income	**$ 000**	**$ 000**
Cash and cash equivalents	1,132	-
Loans and advances to banks	77,258	42,584
Loans and advances to customers	293,719	185,825
Investment securities - available for sale	44,116	32,376
Other interest income	1,116	2,369
Total interest income	417,341	263,154
Interest expense and similar charges		
Deposits by banks	11,929	17,458
Customer accounts	25,880	14,676
Debt securities in issue	740	-
Other interest paid	20,643	4,120
Total interest expense	59,192	36,254
Net interest income	358,149	226,900

* The presentation of certain lines has changed for consistency following the merger (see Note 1e).

Included in interest income is a total of $1.2 million (2015: $1.95 million) received on impaired loans.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Net fee and commission income

	Group and Company	
	2016	2015*
	$ 000	$ 000
Securities	8,448	-
Clearing and settlement	51,728	31,400
Asset management	1,750	729
Custody and Fiduciary transactions	187,241	62,024
Payment services	319,767	306,665
Customer resources distributed but not managed	150,329	48,006
Structured Finance	96,028	84,048
Loan commitments given	176,428	201,276
Other	254,446	122,292
Total fee and commission income	1,246,165	856,440
Clearing and settlement	(36,296)	(2,865)
Custody	(19,834)	(2,174)
Servicing of securitization activities	(468)	(226)
Loan commitments received	-	(555)
Other	(24,649)	(8,765)
Total fee and commission expense	(81,247)	(14,585)
Net fee and commission income	1,164,918	841,855

* The presentation of certain lines has changed for consistency following the merger (see Note 1e).

Included in fee and commission income are fees earned by the Group on fiduciary activities where the Group holds assets on behalf of its customers. This fee income totalled $149 million in 2016 (2015: $54 million).

5. Net trading income

	Group and Company	
	2016	2015*
	$ 000	$ 000
Derivatives	85,585	65,608
Debt securities	74,123	34,403
Loans and advances	1,540	-
Total net trading income	161,248	100,011

* The presentation of certain lines has changed for consistency following the merger (see Note 1e).

6. Net investment income

	Group and Company	
	2016	2015
	$ 000	$ 000
Net gain of available-for-sale financial assets	148,290	21,752
Dividends on available-for-sale financial assets	1,327	76
Total net investment income	149,617	21,828

7. Net income on other financial instruments designated at fair value through profit and loss

	Group and Company	
	2016	2015
	$ 000	$ 000
Loans and advances	33,039	5,266
Debt securities issued	(152)	-
Total net income on other financial instruments at fair value through profit and loss	32,887	5,266

8. Other operating income

	Group and Company	
	2016	2015*
	$ 000	$ 000
Intercompany recoveries	301,980	118,937
Total other operating income	301,980	118,937

* The presentation of certain lines has changed for consistency following the merger (see Note 1e).

A significant portion of expenses within the Group originate from services provided by the CSCs to other Citi entities, both globally and regionally. These costs are allocated out to businesses and legal entities based on a number of drivers. All of these transfer pricing agreements are reviewed regularly for appropriateness. These recoveries are recognised in other operating income.

9. Auditor's remuneration

	Group and Company	
	2016	2015
	$ 000	$ 000
Audit fee	699	476
Other assurance	270	210
Tax advisory services	33	28
Other non-audit services	-	-
	1,002	714

Additional fees paid to other KPMG member firms outside Ireland for services include local audit fees of $1.2 million, other assurance fees of $0.3 million, tax advisory fees of $0.04 million and any other non-audit service fees of $0.1 million.

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10. Personnel expenses

The average number of persons employed by the Group during the year was 9,158 (2015: 3,941). This comprises 9,023 Direct Staff Full Time and 135 Direct Staff Part-time.

The Group operates 11 defined contribution pension schemes and seven defined benefit schemes. In 2016 contributions of $12.1 million (2015: $10.2 million) were made to the scheme.

	Group and Company	
	2016	**2015**
	$ 000	**$ 000**
Wages and salaries	452,944	189,043
Social security costs	89,454	26,300
Share based payment expenses	14,584	3,904
Pensions and post retirement benefits:	22,082	10,261
Restructuring costs	35,801	-
Total personnel expenses	614,865	229,508

11. Directors' emoluments

	Group and Company	
	2016	**2015**
	$ 000	**$ 000**
Directors' emoluments are as follows:		
For qualifying services	2,615	3,238
For long term incentive schemes	-	-
Pension schemes		
- Defined contribution scheme	112	111
Compensation for loss of office	1,392	-
	4,119	3,349

As of 31 December 2016 retirement benefits were accruing to three directors (2015: three).

12. Other expenses

Group	**2016** **$ 000**	**2015** **$ 000**
Research and Development	4,926	7,034
Depreciation	48,257	4,062
Amortisation	114,509	29,882
Communications & Technology	97,596	54,909
Contractors	47,014	27,686
Tax charges and Levies	57,157	32,524
Premises	48,616	23,592
Other administrative expenses	188,689	165,747
Total other expenses	606,764	345,436

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Other expenses (continued)

Company	2016 $ 000	2015 $ 000
Research and Development	4,926	7,034
Depreciation	48,257	4,062
Amortisation	114,509	29,882
Communications & Technology	97,596	54,909
Contractors	47,014	27,686
Tax charges and Levies	57,157	32,524
Premises	48,616	23,592
Other administrative expenses	188,672	165,747
Total other expenses	606,747	345,436

13. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

Group	2016 $ 000	2015 $ 000
Current tax:		
Corporation tax on profits of the period	(149,941)	(97,081)
Total current tax	(149,941)	(97,081)
Deferred tax:		
Current year deferred tax	20,354	(1,037)
Total deferred tax (note 23)	20,354	(1,037)
Total income tax expense	(129,587)	(98,118)
- of this continuing operation	(124,740)	(97,935)

Company	2016 $ 000	2015 $ 000
Current tax:		
Corporation tax on profits of the period	(149,944)	(97,081)
Total current tax	(149,944)	(97,081)
Deferred tax:		
Origination and reversal of timing differences		
Current year deferred tax	20,354	(1,037)
Total deferred tax (note 23)	20,354	(1,037)
Total income tax expense	(129,590)	(98,118)
- of this continuing operation	(124,743)	(97,935)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Tax on profit on ordinary activities (continued)

(b) Reconciliation of effective tax rate:

Group	**31 December 2016 \$ 000**	**31 December 2015 \$ 000**
Profit before income tax from continued operations	953,079	720,424
Profit before income tax from discontinued operations	39,045	1,284
Total profit before income tax	992,124	721,708
Total income tax at Irish corporation tax rate of 12.5%	(124,015)	(90,214)
Effects of:		
Income taxes paid in foreign jurisdictions	(60,430)	(20,773)
Capital allowances and other timing differences	29,675	2,307
Non deductible expenses	(12,644)	(4,861)
Double tax relief credit	30,133	14,233
Double taxation relief adjustment	3,787	817
Utilisation of excess foreign tax credits	25,866	-
Taxes paid at higher rate	(21,958)	-
Utilisation of losses brought forward	-	118
Other	-	254
Total income tax expense	(129,587)	(98,118)
- of this continuing operation	(124,740)	(97,935)
- of this discontinuing operation	(4,847)	(183)

Company	**31 December 2016 \$ 000**	**31 December 2015 \$ 000**
Profit before income tax from continued operations	953,096	720,424
Profit before income tax from discontinued operations	39,045	1,284
Total profit before income tax	992,141	721,708
Total income tax at Irish corporation tax rate of 12.5%	(124,018)	(90,214)
Effects of:		
Income taxes paid in foreign jurisdictions	(60,430)	(20,773)
Capital allowances and other timing differences	29,674	2,307
Non deductible expenses	(12,644)	(4,861)
Double tax relief credit	30,133	14,233
Double taxation relief adjustment	3,787	817
Utilisation of excess foreign tax credits	25,866	-
Taxes paid at higher rate	(21,958)	-
Utilisation of losses brought forward	-	118
Other	-	254
Total income tax expense	(129,590)	(98,118)
- of this continuing operation	(124,743)	(97,935)
- of this discontinuing operation	(4,847)	(183)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Retirement benefit obligation

As a result of the merger, the Group now participates in a pre-existing locally operated defined benefit and defined contribution schemes for its European branches. The Branches in Greece, Netherlands, Belgium, Spain, Austria, France and Norway operate defined benefit schemes locally, apart from Belgium these are closed to new entrants. In certain countries employers pay contributions towards the state pension scheme or participate in a defined contribution schemes. The Group fulfils its duties in this regard as required by local statute.

Employer contributions to the defined benefit schemes in 2016 were $3 million (2015: nil). The group expects to make contributions of approximately $2 million in 2017. The defined benefit obligation includes benefits for current employees, former employees and current pensioners. The weighted average duration of the obligation is 18.5 years. The main plans provide benefits related to salary close to retirement or earlier withdrawal from service.

Material amendments, curtailments and settlements within the Group during 2015 and 2016 encompassed the following:

In 2016 a restructuring took place in Greece leading to the departure of a number of employees from the pension and medical plans. The impact of these departures was a reduction to the defined benefit obligation of $2 million which has been recognized as a past service credit in 2016.

When comparing the plan to 2015, liabilities increased by $53 million, which included remeasurement losses of $72million driven by lower discount rates as yields on bonds fell across the Eurozone due to certain macro variables. Assets increased by $1 million including a remeasurement gain of $16 million, driven by higher fair value bond prices which is offset by $15 million of regular benefit payments. The total remeasurement impact to OCI in 2016 was therefore a loss of $56 million.

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

	Group and Company	
	31 December 2016	31 December 2015
	$ 000	$ 000
Present value of funded defined benefit obligation	(466,681)	-
Fair value of plan assets	282,858	-
Deficit	(183,823)	-
Present value of unfunded defined benefit obligation	(14,703)	-
Net liability recognised on the balance sheet (Note 28)	(198,526)	-
Deferred tax asset (Note 23)	11,500	-
Net pension liability	(187,026)	-

The analysis of the income statement charge is as follows:

	Group and Company	
	2016	2015
	$ 000	$ 000
Operating costs:		
Current service cost	2,847	-
Past service cost/(credit) (incl. curtailments)	(1,743)	-
Settlement cost/(credit)	-	-
Administration expenses	1,057	-
Financing costs:		
Interest cost on defined benefit obligations	10,767	-
Interest income on scheme assets	(7,034)	-
Expense/(income) recognised in the income statement	5,894	-
of which attributable to discontinued operations	-	-
Expense recognised in the income statement for continuing operations	5,894	-

14. Retirement benefit obligation (continued)

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

	Group and Company 2016 $ 000	2015 $ 000
Opening defined benefit obligation	-	-
Defined benefit obligation on date of merger	(428,871)	-
Exchange rate adjustments	16,549	-
Current service cost	(2,847)	-
Interest cost on defined benefit obligations	(10,767)	-
Remeasurement losses due to changes in financial assumptions	(71,986)	-
Remeasurement losses due to changes in demographic assumptions	(1,241)	-
Remeasurement gains due to changes in liability experience	1,189	-
Net benefits paid out	14,891	-
Past service cost (including curtailments)	1,743	-
Closing defined benefit obligation	(481,340)	-

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

	Group and Company 2016 $ 000	2015 $ 000
Opening fair value of plan assets	-	-
Fair value of plan assets on date of merger	281,697	-
Exchange rate adjustments	(9,248)	-
Interest income on plan assets	7,034	-
Return on plan assets excluding interest income	16,339	-
Contributions by the employer	2,940	-
Contributions by the participants	44	-
Net benefits paid out	(14,891)	-
Administration costs incurred	(1,057)	-
Closing fair value of plan assets	282,858	-

The actual return on plan assets is as follows:

	Group and Company 2016 $ 000	2015 $ 000
Interest income on plan assets	7,034	-
Return on plan assets excluding interest income	16,339	-
Total return on plan assets	23,373	-

14. Retirement benefit obligation (continued)

The interest income on scheme assets is set using the discount rate assumption. In 2016, asset values grew by more than assumed, leading to an overall remeasurement gain of $16 million, as bond yields decreased in.

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

	Group and Company	
	2016	**2015**
	$ 000	**$ 000**
Total remeasurement losses	(55,699)	-
Total losses in the statement of comprehensive income	(55,699)	-
Cumulative amount of losses recognised in the statement of comprehensive income	(55,699)	-

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

	Group and Company	
	2016	**2015**
	$ 000	**$ 000**
Fair value of plan assets	282,858	-
Defined benefits obligation	(481,384)	-
Deficit in plan	(198,526)	-

	2016	**2015**
	$ 000	**$ 000**
Remeasurement gains on plan assets	16,339	-
Experience gains on obligation	1,189	-
Assumption loss on obligation	(73,227)	-
Total remeasurement loss on scheme liabilities	(72,038)	-
Total remeasurement loss	(55,699)	-

The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate on scheme liabilities and mortality assumptions. The future life expectancy of scheme members is a key assumption. However, mortality assumptions are expected to vary from country to country, due to variations in underlying population mortality as well as in variations of the profile of typical membership of the Group pension scheme. The average life expectancy of an individual retiring at age 65 is 22 for males and 23 for females.

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

- The possibility that bond yields will change which will affect the size of the obligations and the level of pension cost.
- The possibility that asset returns will be lower than expected.
- The risk of changes in mortality rates as the majority of the Group's defined benefit obligations are to provide benefits for the life of the member, increases in life expectancy will result in an increase in the liabilities.
- As the Greek pension plan is integrated with Greek social security any further amendments to the Greek Social Security Pension could potentially lead to higher benefits.

14. Retirement benefit obligation (continued)

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

	Group and Company	
	2016	2015
Discount rate for assessing scheme liabilities	1.70%	N/A
Future salary increases	2.10%	N/A
Rate of increase for pensions in payment	1.80%	N/A
Inflation rate assumption	1.70%	N/A

The fair values of the plan assets are as follows:

Fair values of the plan assets	Group and Company $ 000			
	2016		2015	
	Total fair value	Of which not quoted in active market	Total fair value	Of which not quoted in active market
Equities	48,045	-	-	-
Property	-	-	-	-
Government bonds	119,547	-	-	-
Corporate bonds	98,351	-	-	-
Other	16,914	3,392	-	-
Total fair value of assets	282,857	3,392	-	-

The key assumption used for IAS 19 is the discount rate although the results are also sensitive, but to a lesser extent to other assumptions. If different assumptions were used, there could be a material effect on the results disclosed. The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant.

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

	Group and Company	
	2016 $ 000	2015 $ 000
Effect of decreasing the discount rate assumption by 1% on liabilities	(93,751)	-
Effect of participants living one extra year than expected on liabilities	(14,803)	-
Effect of increasing the pension increase rate by 1% on liabilities	(34,405)	-

Future benefits expected to be paid from pension plans is as follows:

	Group and Company					
	2017 $ 000	2018 $ 000	2019 $ 000	2020 $ 000	2021 $ 000	2022-2026 $ 000
Expected benefit payments	14,955	14,465	14,822	15,929	15,668	82,578

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15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances, maturing within three months. The Group does not include government bonds of non OECD countries as cash equivalents, even where their maturity is within three months.

Group	31 December 2016 $ 000	31 December 2015 $ 000
Cash and balances with central banks	12,284,613	2,688,377
Other demand deposits	4,150,614	2,123,254
Cash and cash equivalents	16,435,227	4,811,631
Loans and advances to banks with maturity less than 3 months	4,470,420	2,226,171
Total	20,905,647	7,037,802

Company	31 December 2016 $ 000	31 December 2015 $ 000
Cash and balances with central banks	12,272,858	2,688,377
Other demand deposits	4,150,614	2,123,254
Cash and cash equivalents	16,423,472	4,811,631
Loans and advances to banks with maturity less than 3 months	4,470,420	2,226,171
Total	20,893,892	7,037,802

16. Trading assets

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Government bonds	404,458	972,537
Corporate bonds	6,688	-
European commercial paper	455,359	-
Loans	228,875	-
Total trading assets	1,095,380	972,537

17. Risk management

17.1 Risk management missions, organisation and governance

Risk management framework

The Group operates through a comprehensive risk management framework to ensure the risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organisation so that Group's financial strength is safeguarded.

The framework applies to Group in its entirety, including all businesses, functions and branches. To support this, a number of Board approved frameworks and policies are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed.

The core aspects of the risk management approach are described below.

Risk governance

Group's risk management framework is based on a 'three lines of defence' governance model, whereby each line has a specific role and defined responsibilities in such a way that the execution of tasks is separated from the control of the same tasks. At the same time, the three lines of defence have to collaborate with each other in structured forums and processes to bring various perspectives together and to lead the bank toward outcomes that are in clients' and shareholders' interests, create economic value, and are systemically responsible:

- Each of the Group's businesses (the first line of defence) own and manage the risks inherent in or arising from the business, and is responsible for establishing and operating controls to mitigate key risks, performing manager assessments of the design and effectiveness of internal controls, and promoting a culture of compliance and control.
- The Group's independent control functions (the second line of defence), including Independent Risk Management, Fundamental Credit Review (FCR), Finance, Compliance, Legal, and Human Resources (HR), set standards against which the businesses and functions are required to manage and oversee risks, including conformance with applicable laws, regulatory requirements, and policies and standards of ethical conduct. These functions are involved in identifying, measuring, monitoring, or controlling aggregate risks, and are independent from front line units.
- The Group's Internal Audit function (the third line of defence) independently reviews activities of the first two lines of defence, based on a risk-based audit plan and methodology approved by the Audit Committee.

This governance framework ensures that risk is managed in line with the risk appetite and is cascaded throughout the Group.

Risk appetite

The Group's Risk Appetite Statement is a formal articulation of the aggregate level of risk and types of risk that the Group is willing to accept in order to achieve its business objectives.
The objective is to ensure that those risks are consistent with Group's Mission, Value Proposition, and Principle of Responsible Finance and that they are identified, understood, quantified, mitigated, communicated, and captured.

The Group's Risk Appetite Statement:

- Covers all quantitative and qualitative risks and applies to all Group businesses, functions, and branches;
- Is built on principle-based, qualitative boundaries to guide behaviour, as well as quantitative boundaries.

The quantitative articulation takes the form of Risk Capital and other key Risk Metric Limits. In order to support the quantitative element of risk appetite, Group articulates its Risk Appetite in terms of qualitative statements and metrics.
Risk Management reviews and presents Group's Risk Appetite usage against the established thresholds on a regular basis to the Risk Committee, which annually recommends approval of Risk Appetite in the form of the Risk Appetite Statement to the Board.

17. Risk management (continued)

17.1 Risk management missions, organisation and governance (continued)

Risk identification and assessment process

Risk Identification in the Group is a continuous process. The Group has a formalized process for the identification and assessment of material risks across the bank, which is consistent with the Three Lines of Defence model.

This is an evolving process that provides the Group with the opportunity to consider the risks facing the bank, while raising awareness of those risks through broad participation from within the bank.

This process ensures that Group's view of identified assessed and emerging risks evolves in conjunction with changes in Group's risk profile and with changing market conditions.

Stress testing

Stress testing is a core responsibility of Risk Management conducted in conjunction with the Business. The Group's Chief Risk Officer, monitors and controls major risk exposures across the organisation. This means subjecting those risks to alternative stress scenarios in order to assess the potential economic impact they may have on the Group.

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

This exercise intend to inform senior management and the Group Board of Directors about the potential economic impacts to the Group that may occur, directly or indirectly, as a result of hypothetical scenarios, based on judgmental analysis from independent risk managers.

In addition to enhancing awareness and understanding of potential exposures within the Group, the results of this process then serve as the starting point for developing risk management and mitigation strategies.

17.2 Credit Risk

Definition

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in many of the Group's business activities, including:

- lending;
- sales and trading;
- derivatives;
- payment services;
- settlement;
- securities transactions; and
- when the Group acts as an intermediary on behalf of its clients and other third parties.

Governance and Organisation

Credit Risk Management within the Group is part of the second line of defence (the front office being the first, internal audit the third) and aligns the credit risk taking with the strategic planning of the Group.

From a Group credit approval perspective, new and existing credit approvals adhere to Citi global policies. In addition, the Group has put in place a specific Credit Approval Framework and Corporate Portfolio Management Booking Guidelines.

17. Risk management (continued)

17.2 Credit Risk (continued)

Governance and Organisation (continued)

In line with the above framework, the Group has a Credit portfolio reporting process. Group credit risk is presented to the Credit Risk Committee at each scheduled meeting, which subsequently is reported to the Group's Board Risk Committee for review.

Risk Measurement

Credit risk measurement is primarily based on internal systems introduced and developed within the Basel framework. Each counterparty is assigned an internal rating by credit risk analysts, using dedicated rating tools. This internal rating corresponds to an evaluation of the level of default risk borne by the counterparty, expressed by means of an internal rating scale. Rating assessment is a key factor in the loan issuance process. Ratings are reviewed at least once a year, making it possible to identify counterparties requiring the close attention.

To manage the general credit risk profile and limit concentration of risk, credit risk limits are set for each counterparty, establishing the maximum acceptable level for each one. Limits by economic sector and by product may also be imposed by the Risk Management department. The Risk Management department may freeze specific limits at any time in order to take the latest events into account.

Financial assets are assessed for the exhibition of objective evidence of impairment whether or not they are individually significant. A financial asset is considered impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the exposure (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment Provisioning

Specific and Collective Provisions are reported for financial assets that are measured at amortised costs (Loans and Receivables, Held-to-Maturity Investments).

Financial assets are assessed for the exhibition of objective evidence of impairment whether or not they are individually significant. A financial asset is considered impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the exposure (a ' loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant.

- A Specific provision is an individual assessment of impairment when there is objective evidence that a financial asset is defaulted as result of one or more prescribed impairment triggers. In such case, Group assigns a risk rating 8, 9 or 10. Specific provisions are calculated if the exposure to a Borrower exceeds the threshold amount, which varies per business unit. A provision is calculated based on several scenarios and assumptions. Provisions level is up to date given the quarterly reviews; Discounted cash flow (DCF) is measured when this is a significant risk driver which can be calculated. The future cash flow is based on best estimate of when/if recoveries will occur. Recoveries can be from any source, such as the sale of collateral, on-going cash flows, sale of a business/subsidiary, etc. If the exposure to a Borrower is below the threshold amount, a provision is calculated by risk managers using their judgement in selecting from the most appropriate method such as: discounted cash flow model; fair value of collateral; observable market price of loan.

- A Collective assessment of impairment are made for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio, but which Group has not yet determined or recognised. The probability of default (PD) time horizon used in the calculation of Collective provisions refers to the period during which an asset is impaired (in default), but not yet recognised as such - due to lack of objective evidence – and the moment that objective evidence of impairment occurs and becomes available to the Group ('emergence period').

An analysis is produced by Group Risk Management on a quarterly basis in order to determine the appropriate level of Collective Provision and Risk Costs, and provided to the Impairment Working Group for review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Risk management (continued)

17.2 Credit Risk (continued)

Risk Exposure

Loans outstanding

The total carrying amounts in this table includes loans and advances to banks and loans and advances to customers as per note 18. See table below for split by category.

Total carrying amounts		Group and Company	
	Note	31 December 2016 $ 000	31 December 2015 $ 000
Loans and advances to banks			
Loans and advances - 3rd party	18	2,326,248	2,084,575
Loans and advances to customers			
Commercial loans	18	14,067,871	7,868,383
Loans held at fair value through the profit and loss	18	507,836	393,973
Loans and advances to customers		14,575,707	8,262,356
Loans and advances to third parties		**16,901,955**	**10,346,931**
Loans and advances - Related party		5,174,465	7,142,351
Loans and advances		**22,076,420**	**17,489,282**

At the Group level, there are regular, focussed reviews of individual obligors and portfolios by the Risk Committee. A breakdown of the Group's total credit exposure including commitments is as follows:

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Gross exposure		
- Commitments and guarantees (third party)	35,170,990	18,443,108
- Balance sheet exposures (third party)	36,679,618	16,900,745
Total exposure	71,850,608	35,343,853

CITIBANK EUROPE PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Risk management (continued)

17.2 Credit Risk (continued)

Exposure to credit risk - Loans and advances to third parties

	Group and Company	
	31 December 2016 $ 000	**31 December 2015 $ 000**
Gross amount	17,003,138	10,395,076
Individually impaired		
Not past due or less than 90 days	78,951	7,013
91 - 179 days past due	5,419	-
180 days or more past due	125,960	30,900
Gross amount	210,330	37,913
Impairment provision on individually impaired loans	(30,472)	(24,465)
Carrying amount of individually impaired loans	179,858	13,448
Collectively assessed		
Not past due or less than 90 days	16,792,808	10,356,348
91 - 179 days past due	-	393
180 days or more past due	-	422
Gross amount	16,792,808	10,357,163
Impairment provision on collectively assessed loans	(70,712)	(33,234)
Carrying amount of collectively assessed loans	16,722,096	10,323,929
Carrying amount of loans neither past due, nor impaired	-	9,553
Total impairment provision	(101,184)	(57,699)
Total carrying amount	16,901,955	10,346,931
Impairment provision on undrawn commitments	(33,987)	(12,923)
Total impairment on drawn and undrawn commitments	(135,171)	(70,622)

CITIBANK EUROPE PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Risk management (continued)

17.2 Credit Risk (continued)

Net credit losses charged to the current period income statement

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Net change to individual provisions taken in the year	31,016	(18,756)
Net change to collective provisions taken in the year	(4,701)	3,409
Credit recoveries recognised directly in the income statement	13,484	27,031
Write-offs recognised directly in the income statement	(33,890)	(31,114)
Net credit recoveries/(losses)	5,909	(19,430)

Move in provisions for impairment balances

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Allowance for impairment		
Individual allowance for impairment		
Opening balance	(24,465)	(6,140)
Transfer in	(39,854)	-
Charge for the year	(8,923)	(22,019)
Release	8,046	-
Effect of foreign currency movements	2,830	3,694
Write offs	31,894	-
Closing balance	(30,472)	(24,465)
Collective allowance for impairment		
Opening balance	(46,157)	(66,487)
Transfer in	(52,365)	-
Charge for the year	(27,257)	940
Release	22,557	-
Recoveries	-	3,248
Effect of foreign currency movements	(1,477)	(1,777)
Write offs	-	2,556
Other movements	-	15,363
Closing balance	(104,699)	(46,157)
Total allowance for impairment	(135,171)	(70,622)

17. Risk management (continued)

17.2 Credit Risk (continued)

The restructuring of a facility is considered to be a Troubled Debt Restructuring, when the debtor is experiencing financial difficulties and the Group grants a concession to the debtor that it would not otherwise consider. A Troubled Debt Restructuring may result from a variety of actions taken by the Group such as the receipt of assets or a new or restructured facility in partial or full satisfaction of a facility or a modification of the terms of the existing facility.

Credit quality of Restructured and Non-restructured corporate loans

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

Pass	A pass facility has no evident weakness, marginal risk or low loss severity and is adequately protected by the obligor's current sound worth and paying capacity of the obligor.
Special mention	A special mention asset has potential weaknesses that deserve management's close attention.
Substandard	The substandard classification is made up of three sub categories:
- *Substandard*	A substandard asset is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any.
- *Doubtful*	An asset classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- *Loss*	Assets classified as "loss" are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Risk management (continued)

17.2 Credit Risk (continued)

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

			Group and Company	
			31 December 2016 $ 000	31 December * 2015 $ 000
Total corporate loans and advances to banks and customers			22,177,604	17,554,333
Total provision on corporate loans and advances to banks and customers			101,184	65,051
Total net corporate loans and advances to banks and customers			22,076,420	17,489,282
Restructured loans				
	Gross corporate loans		**133,230**	**1,919**
		Good	38,414	-
		Special mention	-	-
		Substandard or worse	94,816	1,919
	Collective provision		-	-
		Good	-	-
		Special mention	-	-
		Substandard or worse	-	-
	Specific provision		**24,207**	**502**
		Good	18,806	-
		Special mention	-	-
		Substandard or worse	5,401	502
	Net corporate loans		**109,023**	**1,417**
Non-restructured loans				
	Gross corporate loans		**22,044,374**	**17,552,414**
		Pass	21,290,540	17,552,414
		Special mention	520,526	-
		Substandard or worse	233,308	-
	Collective provision		**70,712**	**31,315**
		Pass	40,484	15,287
		Special mention	3,507	1,625
		Substandard or worse	26,721	14,403
	Specific provision		**6,265**	**33,234**
		Good	5,914	-
		Special mention	-	-
		Substandard or worse	351	33,234
	Net corporate loans		**21,967,397**	**17,487,865**

*The above table has been expanded from prior year to include loans and advances to both banks and customers.

17. Risk management (continued)

17.2 Credit Risk (continued)

Credit quality – Trading portfolio

The credit quality of the Group's financial assets is maintained by adherence to Citigroup policies on the provision of credit to counterparties. The Group monitors the credit ratings of its counterparties with the table below presenting an analysis of the Group's trading portfolio of European Commercial Paper, Corporate Bonds and Government Bonds by rating agency designation based on Standard & Poor's or Moody's ratings as at 31 December:

Group and Company

Trading portfolio	**Traded loans**	**European commercial paper**	**Corporate bonds**	**Government bonds**	**Total**
	%	**%**	**%**	**%**	**%**
	2016	**2016**	**2016**	**2016**	**2016**
AAA to AA-	-	40	-	14	54
A+ to A-	-	3	-	1	4
Lower than A-	11	-	-	24	35
Unrated	7	-	-	-	7
Total	18	43	-	39	100
	2015	**2015**	**2015**	**2015**	**2015**
AAA to AA-	-	-	-	4	4
A+ to A-	-	-	-	37	37
Lower than A-	-	-	-	59	59
Unrated	-	-	-	-	-
Total	-	-	-	100	100

17. Risk management (continued)

17.2 Credit Risk (continued)

Concentration Risk

The Group's statement of financial position (on balance sheet) credit risk concentrations by industry are as follows:

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Mining and quarrying	672,888	248,798
Manufacturing	5,663,774	3,378,282
Electricity, gas, water, steam and air conditioning supply	500,074	125,095
Construction	196,830	14,571
Wholesale and retail trade	1,786,445	1,073,234
Transport and storage	1,013,922	691,814
Accommodation and food service activities	61,090	1,176
Information and communication	1,670,870	998,697
Credit and insurance institutions	17,932,457	9,491,166
Real estate activities	528,869	7,826
Professional, scientific and technical activities	190,313	138,663
Administrative and support service activities	544,111	376,450
Public administration and defence, compulsory social security	2,197,064	-
Household/Retail	1,289,226	25
General governments	1,334,154	297,743
Other services	1,097,531	57,205
	36,679,618	16,900,745

* The presentation of certain lines has changed for consistency following the merger (See Note 1e).

Included in credit risk exposures are cash and cash equivalents, trading assets, derivative financial instruments, loans and advances, investment securities and other assets.

The table below shows statement of financial position credit concentrations by region:

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Central Europe	2,604,621	8,342,656
Western Europe	30,420,459	5,449,551
Middle East / Africa	1,153,653	1,051,604
Central / South America	923,961	775,835
North America	991,672	758,624
Asia	585,252	522,475
	36,679,618	16,900,745

17. Risk management (continued)

17.2 Credit Risk (continued)

Analysis of encumbered and unencumbered assets

This table summarises Encumbered and Un-Encumbered assets in by asset categories.

	Group and Company*		
Assets	**Encumbered**	**Un-Encumbered**	**Total**
	$million	**$million**	**$million**
Cash and cash equivalents	1,570	14,865	16,435
Equity Instruments	-	35	35
Investment Securities	328	2,736	3,064
- of which: covered bonds	-	-	-
- of which: asset-backed securities	27	8	35
- of which: by general governments	269	2,293	2,562
- of which: by financial corporations	59	349	408
- of which: by non-financial corporations	-	94	94
Loans and advances other than loans on demand	172	21,904	22,076
Other Assets	1,340	6,332	7,672
Assets subtotal	3,410	45,872	49,282

Collateral Received	**Encumbered**	**Un-Encumbered**	**Total**
	$million	**$million**	**$million**
Cash and cash equivalents	-	-	-
Equity Instruments	-	-	-
Investment Securities	1,103	2,550	3,654
- of which: covered bonds	143	-	143
- of which: asset-backed securities	499	81	580
- of which: by general governments	445	2,469	2,914
- of which: by financial corporations	16	-	16
- of which: by non-financial corporations	-	-	-
Loans and advances other than loans on demand	-	-	-
Other collateral received	-	793	793
Collateral received subtotal	1,103	3,343	4,447

* The Company and the Group figures are identical, except for the Group balance of cash and cash equivalents balance is $11.8 million higher than the Company balance at 31 December 2016.

17. Risk management (continued)

17.2 Credit Risk (continued)

Financial instruments subject to offsetting

Details of financial instruments which are subject to offsetting in accordance with IAS 32, enforceable master netting arrangements and similar agreements are as follows:

Types of financial assets

	Group and Company					
As at 31 December 2016	**(a)**	(b)	**(c)=(a)+(b)**	(d) Related amounts not set off in the statement of financial position		**(e)=(c)-(d)**
Description	**Gross amount**	Gross amount of recognised financial liabilities set off in the SOFP	**Net amount presented in the SOFP**	(d) i. Financial instruments	(d) ii. Cash collateral received	**Net amount**
	$000	$000	**$000**	$000	$000	**$000**
Derivatives	2,128,130	-	2,128,130	364,216	9,832	1,754,082
Reverse repurchase securities borrowing and similar agreements	3,416,803	-	3,416,803	-	-	3,416,803
Other financial instruments	3,759	-	-	3,759	-	-
Total	**5,548,692**	-	**5,544,933**	**367,975**	**9,832**	**5,170,885**

Types of financial liabilities

As at 31 December 2016	**(a)**	(b)	**(c)=(a)+(b)**	(d) Related amounts not set off in the statement of financial position		**(e)=(c)-(d)**
Description	**Gross amount**	Gross amount of recognised financial assets set off in the SOFP	**Net amount presented in the SOFP**	(d) i. Financial instruments	(d) ii. Cash collateral pledged	**Net amount**
	$000	$000	**$000**	$000	$000	**$000**
Derivatives	2,105,083	-	2,105,083	364,216	18,867	1,722,000
Other financial instruments	-	-	-	-	-	-
Total	**2,105,083**	-	**2,105,083**	**364,216**	**18,867**	**1,722,000**

17. Risk management (continued)

17.2 Credit Risk (continued)

Types of financial assets

As at 31 December 2015	**Group and Company**					
	(a)	(b)	**(c)=(a)+(b)**	(d) Related amounts not set off in the statement of financial position		**(e)=(c)-(d)**
Description	**Gross amount**	Gross amount of recognised financial liabilities set off in the SOFP	**Net amount presented in the SOFP**	(d) i. Financial instruments	(d) ii. Cash collateral received	**Net amount**
	$000	$000	**$000**	$000	$000	**$000**
Derivatives	86,876	-	86,876	270	12,858	73,748
Reverse repurchase securities borrowing and similar agreements	191,542	-	191,542	189,829	-	1,713
Total	**278,418**	-	**278,418**	**190,099**	**12,858**	**75,461**

Types of financial liabilities

As at 31 December 2015	**Group and Company**					
	(a)	(b)	**(c)=(a)+(b)**	(d) Related amounts not set off in the statement of financial position		**(e)=(c)-(d)**
Description	**Gross amount**	Gross amount of recognised financial assets set off in the SOFP	**Net amount presented in the SOFP**	(d) i. Financial instruments	(d) ii. Cash collateral pledged	**Net amount**
	$000	$000	**$000**	$000	$000	**$000**
Derivatives	69,633	-	69,633	270	23,090	46,273
Other financial instruments	971	-	971	971	-	-
Total	**70,604**	-	**70,604**	**1,241**	**23,090**	**46,273**

17. Risk management (continued)

17.3 Market Risk

Definition

Market risk includes a number of components, currency risk, interest rate risk and other price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Other price risk is the risk to fair value or future cash flows because of changes in market factors other than currency risk and interest rate risk.

Sources of Market Risk

Trading Portfolio

The trading portfolio comprises positions held for short term trading intent, where the business looks for the short-term price differences between buying and selling. The positions arise mainly from customer flows. The main products traded are Foreign Exchange (FX) Spots, Swaps and Forwards, Local Sovereign Bonds and Euro Commercial Papers (ECP).

The main sources of market risk within the trading portfolio, include, but are not limited to:

- Interest rate risk: The valuation risk resulting from direct or indirect interest rate changes.
- Currency risk: The valuation risk resulting from direct or indirect currency price changes.
- Credit Spread Risk: The valuation risk resulting from a direct or indirect change in the credit spread.

Non-Trading Portfolio:

The non-trading portfolio comprises positions which can be held to maturity. The positions arise mainly from customer flows. The main products include loans held at amortised cost, deposits, Available for Sale (AFS) securities and held to maturity portfolios. The main sources of market risk within the non-trading portfolio, include, but are not limited to:

- Interest rate change, potential pre-tax impact on Net Interest Margin due to direct or indirect interest rate changes.
- Fair value change of the instrument due to a given change in the underlying market risk factor.

Governance and Organisation

As part of the framework, The following Committees and Sub-Committees have oversight in some capacity for market risk related items, namely:

- Board Risk Committee
- Assets & liabilities Committee (ALCO)
- Management Committee
- Market Risk Sub-Committee
- Product Review Committee

The Assets & Liabilities Committee and its sub-Committee, the Market Risk Committee are the two primary Committees tasked with governing Market Risk in the Group. Any new or materially changing Markets related businesses/products being introduced in the Group must be approved by the Product Review Committee. The Management Committee oversees new or materially changing Market Risk Policies as they occur. The Risk Committee receives an update from ALCO on a quarterly basis covering Market Risk related items.

The Head of Market Risk reports directly to the Group's Chief Risk Officer ('CRO') and is responsible for the second line of oversight and management of the market risk portfolio of the Group.

The Head of Market Risk relies on a number of business specific market risk managers to manage day to day market risk related responsibilities in line with the Framework and policy guidelines.

17. Risk management (continued)

17.3 Market Risk (continued)

Risk Measurement

Group Market risk is measured in accordance with established standards to ensure consistency across businesses, stability in methodologies and transparency of risk. These standards are designed to:

- Articulate standards for defining, measuring and communicating market risk, and develop a common language for discussing them;
- Promote the transparency and comparability of market risk-taking activities;
- Provide a consistent framework to measure market risk exposures in order to facilitate business performance analysis.

From a Group perspective key measurements by source of risk include, however are not limited to the following:

Trading Portfolio:

The key critical measurement concepts associated with the trading book is the Value at Risk.

Value at Risk (VaR) Objective

VaR estimates the potential decline in the value of a position or a portfolio, under normal market conditions, within a defined confidence level, and over a specific time period.

VaR is used to establish internal limits representing the maximum loss that a position might exhibit resulting from a one-day loss measured on a historical basis with a determined confidence level. VaR is also used for external regulatory reporting purposes.

Risk Analytics and the Risk Managers are jointly responsible for overseeing the production of the VaR calculations, and are ultimately responsible for ensuring their integrity.

VaR methodology

The VaR engine is based on a structured Monte-Carlo approach where 5,000 scenarios of market rates or prices are simulated. The covariance of volatility and correlation is updated, at least quarterly, based on three years' worth of market data.

The parameters used in a statistical simulation of market risk include:

- The historical 'look-back' period used to calculate historical volatilities and correlations;
- The holding period, i.e., the number of days of changes in market risk factors the portfolio is subjected to; and
- A confidence interval is determined to estimate the potential loss, for Group's risk management purposes.

VaR limitations

The VaR cannot necessarily provide an indication of the potential size of loss when an extreme event occurs. Hence a comprehensive set of factor sensitivity limits and stress tests are used, in addition to VaR limits. A VaR trigger is in place for the Group that ensures any excesses are discussed and resolved between risk and the business and entity management. In addition, the Group is subject to formal limits on interest rate, Foreign Exchange and issuer exposures that are closely monitored by Risk Management and senior business management.

17. **Risk management** (continued)

17.3 **Market Risk** (continued)

Non-trading Portfolio:

The critical measurement concepts associated with the non-trading book are outlined below:

- Income Metrics: Measures the potential pre-tax impact on Net interest revenue, for accrual positions, due to defined shifts in interest rates over a specified reporting period.
  - Interest Rate Exposure ("IRE"): measures the potential earnings impact, over a specified reporting period, from a defined standard set of parallel shifts in the curve. Interest Rate Exposure is calculated separately for each currency and reflects the re-pricing gaps in the position, as well as option positions, both explicit and embedded. Limits are set for each country and business activity, of which the Group is a part. Market Risk Management monitors these limits.

- Interest rate gap analysis – utilises the maturity or re-pricing schedules of statement of financial position items to determine interest rate exposures within given tenor buckets.

- Valuation Metrics: Measure the impact of interest rate changes on the Group's capital.
  - Factor sensitivities: Factor sensitivities are used to measure an instrument's sensitivity to a change in value due to a 1 basis point move in for Available For Sale Bonds ("AFS").
  - Economic Value of Equity: The net of the economic value of all relevant on and off balance sheet assets, less the economic value of all relevant on and off balance sheet liabilities, using present value calculations that discount cash flows derived from the current positions.
  - Economic Value Sensitivity: The change in Economic Value of Equity of the accrual portfolio for a pre-defined change in the yield curve.

- Risk Capital: Interest rate risk in the banking book ("IRRBB") is measured using an Asset and liability management Risk Capital Model, which measures interest rate factor sensitivities for the underlying accrual balance sheet exposures.

Interest rate risk

Interest Rate Exposure measures the potential pre-tax impact on Net Interest Margin ("NIM") over a specified reporting period, for accrual positions, due to defined shifts in appropriate interest rates. Net Interest Margin is the difference between the yield earned on the accrual portfolio assets (including customer loans) and the rate paid on the liabilities (including customer deposits or company borrowings). NIM is affected by changes in the level of interest rates. Interest Rate Exposure is a static measure based on existing positions, computed as a change in expected NIM in each currency resulting solely from unanticipated changes in interest rates. Factors such as changes in volumes, margins and the impact of prior-period pricing decisions are not captured by Interest Rate Exposure. Interest Rate Exposure assumes that businesses make no additional changes in pricing or balances in response to the unanticipated rate changes.

Citi's market risk management policy governs the Group's measurement and reporting of interest rate risk in the non-trading portfolio. Business-specific assumptions underlying these measurements must be documented and models used to measure interest rate risk must be independently reviewed for accuracy.

Currency risk

It is the policy of the Group to reduce foreign currency risk that may arise in the normal course of business. The Group deals in financial instruments in a number of currencies, and open currency positions arise for funding mismatches and accruals of interest and expense provisions in currencies other than USD. Treasury monitors daily open foreign currency positions ensuring that exposure is less than agreed allocated limits.

17. Risk management (continued)

17.3 Market Risk (continued)

Risk Exposure

Trading price risk

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

	Group and Company				
VAR	**31 December 2016**	**000's**	**000's**	**000's**	**31 December 2015**
	Outstanding	MAX	MIN	AVG	Outstanding
Portfolio VAR	1,571	4,934	1,382	3,405	4,173

Non-trading price risk

Interest rate risk

The table below represents the expected profit / (loss) from a 100 basis point increase in interest rates on all tenors.

Group and Company

Interest rate exposure report

	31 December 2016		**31 December 2015**	
Currency	**12 Month**	**2 Year**	**12 Month**	**2 Year**
	$ 000	**$ 000**	**$ 000**	**$ 000**
USD	(11,432)	(5,099)	(1,829)	(1,504)
EUR	(9,438)	(12,044)	(3,990)	(4,289)
RON	(413)	(259)	(3,460)	(5,299)
CZK	2,608	5,868	(1,694)	(1,842)
HUF	(7,446)	(14,424)	(4,907)	(9,694)
GBP	10,728	23,060	(638)	(642)
JPY	(8)	(8)	-	-
Other	(967)	(1,175)	(341)	(324)

17. Risk management (continued)

17.3 Market Risk (continued)

Risk exposure (continued)

Currency risk

Based on the net exposures at period end, the following table shows the impact on these net exposures of a reasonably possible movement of the respective currencies against the US dollar, with all other variables held constant, on the income statement:

	Group and Company		
	31 December 2016		
	Net exposure	(%)	Income statement impact
	$ 000		$ 000
EUR	72,117	2.06%	1,489
HUF	236,402	2.41%	3,833
RON	97,711	2.50%	637
GBP	14,306	2.78%	659
	31 December 2015		
	Net exposure	(%)	Income statement impact
	$ 000		$ 000
EUR	39,464	2.43%	957
HUF	15,687	1.87%	306
RON	33,362	2.36%	2,571

17.4 Liquidity Risk

Definition

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Group's funding and liquidity objectives aim to maintain liquidity to fund the existing asset base and grow the core business, while at the same time maintaining sufficient liquidity, structured appropriately, to continue operating under a variety of market conditions, including both short and long-term stresses.

Governance and Organisation

Management of liquidity is the responsibility of the Group Treasurer who aims to ensure that all funding obligations are met when due.

The forum for liquidity issues is the Asset and Liability Committee ("ALCO"), which includes senior executives within the Group. The ALCO reviews the current and prospective funding requirements for the Group, as well as the capital position and statement of financial position. The ultimate responsibility for liquidity rests with the Board.

A liquidity plan is prepared annually and the liquidity profile is monitored on an on-going basis and reported daily.

17. Risk management (continued)

17.4 Liquidity Risk (continued)

Risk Measurement

The internal liquidity management framework includes indicators enabling the assessment of Group's resilience to liquidity risk.

Group is required to comply with the liquidity requirements of the Regulator.

Group also runs internal liquidity metrics, including liquidity ratios, which compare liquidity reserves with liquidity deficits. All these indicators are assessed according to a variety of scenarios, in the major currencies.

CRDIV related liquidity metrics are monitored and reported, namely the Liquidity Coverage Ratio (LCR) and Net Stable Funding Requirement (NSFR). LCR measures the stock of liquid assets against net cash outflows arising in a 30 day stress scenario. NSFR is intended to ensure that a firm has an acceptable amount of stable funding to support its assets and activities over the medium term (one year period).

Risk Exposure

Analysis of financial assets and liabilities by remaining contractual maturities

The table below shows an analysis of financial assets and liabilities analysed according to when they are contractually expected to be recovered or settled.

	Group and Company*		
As at 31 December 2016	**Less than 12 months $ 000**	**Over 12 months $ 000**	**Total $ 000**
Assets			
Cash and cash equivalents	16,435,227	-	16,435,227
Loans and advances to banks	5,650,198	1,837,277	7,487,475
Loans and advances to customers	9,990,819	4,598,126	14,588,945
Derivative financial instruments	972,492	1,174,676	2,147,168
Trading assets	680,642	414,738	1,095,380
Investment securities	1,339,272	1,724,816	3,064,088
Non current assets - held for sale	194,389	-	194,389
Other financial assets	3,148,833	-	3,148,833
Total financial assets	38,411,872	9,749,633	48,161,505
Liabilities			
Deposits by banks	7,695,263	-	7,695,263
Customer accounts	24,043,271	22,470	24,065,741
Derivative financial instruments	1,006,936	1,185,025	2,191,961
Debt securities in issue	71	-	71
Non current liabilities - held for sale	639,331	-	639,331
Other financial liabilities	4,739,598	-	4,739,598
Total financial liabilities	38,124,470	1,207,495	39,331,965

* The Company and the Group figures are identical, except for:
  - The Group balance of cash and cash equivalents is $11.8 million higher than the Company balance at 31 December 2016.
  - The Group balance of customer accounts in $1.4m lower than the Company balance at 31 December 2015.

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17. Risk management (continued)

17.4 Liquidity Risk (continued)

Risk Exposure (continued)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

	Group and Company*		
As at 31 December 2015	**Less than 12 months $ 000**	**Over 12 months $ 000**	**Total $ 000**
Assets			
Cash and cash equivalents	4,811,631	-	4,811,631
Loans and advances to banks	5,371,636	3,855,290	9,226,926
Loans and advances to customers	5,417,620	2,844,736	8,262,356
Derivative financial instruments	25,072	93,583	118,655
Trading assets	112,303	860,234	972,537
Investment securities	515,002	1,701,307	2,216,309
Non-current assets held for sale	424,967	-	424,967
Other financial assets	84,408	382,205	466,613
Total financial assets	16,762,639	9,737,355	26,499,994
Liabilities			
Deposits by banks	6,959,971	-	6,959,971
Customer accounts	7,913,072	567	7,913,639
Derivative financial instruments	36,258	81,952	118,210
Debt securities in issue	-	-	-
Subordinated loan notes	-	-	-
Non current liabilities - held for sale	1,257,791	-	1,257,791
Other financial liabilities	2,014,471	49,204	2,063,675
Total financial liabilities	18,181,563	131,723	18,313,286

* The Company and the Group figures are identical, except for:
- The Group balance of cash and cash equivalents is $11.8 million higher than the Company balance at 31 December 2016.
- The Group balance of customer accounts in $1.4m lower than the Company balance at 31 December 2015.

17. Risk management (continued)

17.4 Liquidity Risk (continued)

Risk Exposure (continued)

Contractual maturities of undiscounted cash flows of financial liabilities

The table below analyses the Group's undiscounted contractual cash flows from financial liabilities into relevant maturity groupings.

As at 31 December 2016	**Group and Company***			
Liabilities	**1 year and less $ 000**	**>1 year and < 5 years $ 000**	**Greater than 5 years $ 000**	**Total $ 000**
Deposits by banks	7,779,505	-	-	7,779,505
Customer accounts	24,306,480	16,757	6,431	24,329,668
Derivative financial instruments	1,017,960	823,813	402,325	2,244,098
Debt securities in issue	72	-	-	72
Non current liabilities - held for sale	646,330	-	-	646,330
Other financial liabilities	4,791,483	-	-	4,791,483
Total undiscounted financial liabilities	38,541,830	840,570	408,756	39,791,156

As at 31 December 2015 **Liabilities**	**1 year and less $ 000**	**>1 year and < 5 years $ 000**	**Greater than 5 years $ 000**	**Total $ 000**
Deposits by banks	6,990,492	-	-	6,990,492
Customer accounts	7,925,780	63	504	7,926,347
Derivative financial instruments	38,462	13,657	68,309	120,428
Debt securities in issue	-	-	-	-
All other liabilities	1,257,791	-	-	1,257,791
Total undiscounted financial liabilities	16,212,525	13,720	68,813	16,295,058

* The Company and the Group figures are identical, except for:
- The Group balance of cash and cash equivalents is $11.8 million higher than the Company balance at 31 December 2016.
- The Group balance of customer accounts in $1.4m lower than the Company balance at 31 December 2015.

17. Risk management (continued)

17.4 Liquidity Risk (continued)

The following table analyses the Group's commitments and guarantees into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. These instruments can be called at any time prior to their contractual maturity.

	Group and Company			
31 December 2016	**1 year and less $ 000**	**>1 year and <5 years $ 000**	**Greater than 5 years $ 000**	**Total $ 000**
Letters of credit	11,541,260	3,181,721	64	14,723,045
Undrawn commitments to lend	3,595,058	14,905,101	609,538	19,109,697
Other commitments and guarantees	1,668,462	623,403	-	2,291,865
Total commitments and guarantees	16,804,780	18,710,225	609,602	36,124,607

31 December 2015	**1 year and less $ 000**	**>1 year and <5 years $ 000**	**Greater than 5 years $ 000**	**Total $ 000**
Letters of credit	10,445,138	2,129,567	25,621	12,600,326
Undrawn commitments to lend	861,744	2,285,830	1,026,438	4,174,012
Other commitments and guarantees	1,295,496	1,615,689	37,299	2,948,484
Total commitments and guarantees	12,602,378	6,031,086	1,089,358	19,722,822

17. Risk management (continued)

17.5 Operational Risk

Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human factors or systems or from external events. It includes reputational and franchise risk associated with business practices or market conduct that the Group undertakes. It also includes the risk of failing to comply with applicable laws, regulations, ethical standards, regulatory administrative actions or Group policies. Operational Risk does not encompass strategic risk or the risk of loss resulting solely from authorised judgments made with respect to taking credit, market, liquidity, or insurance risk.

Operational risk is inherent in the Group's business activities and, as with other risk types is managed through a control framework comprising of three lines of defense:

- Decentralized ownership of the risk with business management accountability;
- Oversight by independent risk management and control functions; and
- Independent assessment by Internal Audit

Operational Risk Framework

To anticipate, mitigate and control operational risk, the Group maintains a system of policies and has established a consistent framework for monitoring, assessing and communicating operational risks and the overall effectiveness of the internal control environment.

The Operational Risk Management framework comprises of the following components to identify, assess and manage operational risk

- Annual Risk Assessment
- Operational Risk Scenario analysis
- Capture of Operational Risk Event Data
- Formal Assurance Programme
- Issue/Corrective Action Plan

Management Control Assessment (MCA) is a diagnostic tool used in the management of operational risks as a key component of the Business Environment and Internal Control Factors (BEICFs) required under Basel Capital Standards. It uses input of the components of the operational risk management framework to provide an overall view of the operational risk profile of an entity be that a Business, Country, Legal Entity view.

Governance and Organisation

The Group's operational risk management framework relies on strong governance, with clearly defined roles and responsibilities.

The following committees are responsible for operational risk at Group level:

- Risk Committee: Has oversight of the prospective aspects of operational risk, including, but not limited to: parameters of the operational risk management framework, the Operational Risk Capital Model and the Operational Risk component of Internal Capital Adequacy Approval Process. The committee also receives updates from the Group Operational Risk and Outsourcing Committee regarding these topics.
- Audit Committee: Has oversight of the forensic aspects of operational risk, including the individual operational losses, the causes and remedies and the MCA results.
- Operational Risk and Outsourcing Committee (OROC): is the principal forum maintaining oversight over the adequacy and effectiveness of the operational risk framework and associated policies towards the anticipation and mitigation of operational risks and appropriate management of all outsourcing, across of the Group's businesses.

17. Risk management (continued)

17.6 Capital Management

The Group's Regulator sets and monitors capital requirements for the Group.

In implementing current capital requirements the Regulator requires the Group to maintain a prescribed ratio of total capital to risk weighted assets.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Regulatory capital (unaudited)

The Group's primary Regulator sets and monitors capital requirements for the Company.

The Group's unaudited regulatory capital position at 31 December 2016 was as follows:

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Regulatory capital	7,473,993	8,042,113
Tier 1 capital ratio	18%	35%

The Group is required by the Regulator to maintain adequate capital and the Group is subject to the risk of having insufficient capital resources to meet minimum regulatory capital requirements. The Group's minimum capital requirement is calculated in accordance with CRDIV regulatory capital requirements. The Group has complied with the minimum capital adequacy ratio of 8% throughout the period.

18. Financial assets and liabilities

The below tables outline the total financial assets and liabilities held as at 31 December 2016 and 31 December 2015.

	Group and Company*	
	31 December 2016 $ 000	31 December 2015 $ 000
Derivative financial instruments	2,147,168	118,655
Trading assets	1,095,380	972,537
Financial investments available-for-sale	3,056,092	2,216,309
Loans designated at fair value through profit or loss	507,836	391,247
Total financial assets held at fair value	**6,806,476**	**3,698,748**
Cash and cash equivalents	16,435,227	4,811,631
Loans and advances at amortized cost	21,568,584	17,098,035
Other financial assets	3,148,833	682,019
Total financial assets not held at fair value	**41,152,644**	**22,591,685**
Total financial assets	**47,959,119**	**26,290,433**

	31 December 2016 $ 000	31 December 2015 $ 000
Derivative financial instruments	2,191,961	118,210
Debt securities	71	-
Financial liabilities at fair value through profit or loss	231,454	175,543
Total financial liabilities held at fair value	**2,423,486**	**293,753**
Deposits by banks	7,695,263	6,959,971
Customer accounts	24,065,741	7,912,281
Other liabilities and debt securities in issue	5,147,545	2,411,729
Total financial liabilities not held at fair value	**36,908,550**	**17,283,981**
Total financial liabilities	**39,332,036**	**17,577,734**

* The Company and the Group figures are identical, except for:
- The Group balance of cash and cash equivalents is $11.8 million higher than the Company balance at 31 December 2016.
- The Group balance of customer accounts in $1.4m lower than the Company balance at 31 December 2015.

Fair Value Definition

IFRS 13 – *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Among other things, the standard requires the Group to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value.

Under IFRS 13, the probability of default by the counterparty is factored into the valuation of derivative positions and includes the impact of the Group's own credit risk on derivatives and other liabilities measured at fair value.

Fair Value Hierarchy

IFRS 13 specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions.

18. Financial assets and liabilities (continued)

Fair Value Hierarchy (continued)

These two types of inputs have created the following fair value hierarchy:

- Level 1: Quoted prices for *identical* instruments in active markets.

- Level 2: Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets.

- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable.*

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible. The frequency of transactions and the size of the bid-ask spread when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observed prices in those markets.

The Group's policy with respect to transfers between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the end of the reporting period.

Determination of Fair Value

The Group generally uses quoted market prices in an active market to calculate the fair value of a financial asset or liability and classifies such items as Level 1. In some cases where a market price is available, the Group will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified as Level 2.

If quoted market prices are not available, fair values are based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters such as interest rates, currency rates and option volatilities. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation.

Where available, the Group may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified as Level 2. If prices are not available, other valuation techniques would be used and the item would be classified as Level 3.

Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors or brokers. Vendors and brokers' valuations may be based on a variety of inputs ranging from observed prices to proprietary valuation models.

The Group uses the following procedures to determine the fair value of financial assets and financial liabilities irrespective of whether they are "held for trading" or have been "designated at fair value" including an indication of the level in the fair value hierarchy in which each financial instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models and any significant assumptions.

Market valuation adjustments

Liquidity adjustments are applied to items in Level 2 and Level 3 of the fair value hierarchy to ensure that the fair value reflects the liquidity or illiquidity of the market. The liquidity reserve may utilise the bid-ask spread for an instrument as one of the factors.

18. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

Market valuation adjustments (continued)

Counterparty credit-risk adjustments are applied to derivatives, such as over-the-counter uncollateralised derivatives, where the base valuation uses market parameters based on the relevant base interest rate curves. Not all counterparties have the same credit risk as that implied by the relevant base curve, so it is necessary to consider the market view of the credit risk of a counterparty in order to estimate the fair value of such an item.

Bilateral or "own" credit-risk adjustments are applied to reflect the Group's own credit risk when valuing derivatives and liabilities measured at fair value. Counterparty and own credit adjustments consider the expected future cash flows between the Group and its counterparties under the terms of the instrument and the effect of credit risk on the valuation of those cash flows, rather than a point-in-time assessment of the current recognised net asset or liability. Furthermore, the credit-risk adjustments take into account the effect of credit-risk mitigants, such as pledged collateral and any legal right of offset (to the extent such offset exists) with a counterparty through arrangements such as netting agreements.

Generally, the unit of account for a financial instrument is the individual financial instrument. The Group applies market valuation adjustments that are consistent with the unit of account, which does not include adjustment due to the size of the Group's position, except as follows. IFRS 13 permits an exception, through an accounting policy election, to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position when certain criteria are met. Citi has elected to measure certain portfolios of financial instruments, such as derivatives, that meet those criteria on the basis of the net open risk position. The Group applies market valuation adjustments, including adjustments to account for the size of the net open risk position, consistent with market participant assumptions and in accordance with the unit of account.

Derivatives
The majority of derivatives entered into by the Group are executed over the counter and are valued using a combination of external prices and internal valuation techniques, including benchmarking to pricing vendor services. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. The principal techniques used to value these instruments are industry wide approaches including discounted cash flows, modelling and numerical approaches.

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

The Group uses the overnight indexed swap (OIS) curves as fair value measurement inputs for the valuation of certain collateralised interest-rate related derivatives. Citi uses the relevant benchmark curve for the currency of the derivative (e.g., the London Interbank Offered Rate for U.S. dollar derivatives) as the discount rate for uncollateralized derivatives. Citi incorporates FVA into the fair value measurements due to what it believes to be an industry migration toward incorporating the market's view of funding risk premium in OTC derivatives. Citi's FVA methodology leverages the existing CVA methodology to estimate a funding exposure profile. The calculation of this exposure profile considers collateral agreements where the terms do not permit the firm to reuse the collateral received, including where counterparties post collateral to third-party custodians.

Trading assets
Where available, the Group uses quoted market prices to determine the fair value of trading assets; such items are classified as Level 1 of the fair value hierarchy. Examples include government bonds. For corporate bonds, European commercial papers and loans the Group generally determines the fair value utilising internal valuation techniques. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable. If available, the Group may also use quoted prices for recent trading activity of assets with similar characteristics to the bond or loan being valued. Government bonds, corporate bonds, European commercial papers or loans priced using such methods are generally classified as Level 2.

However, when less liquidity exists, a quoted price is stale or prices from independent sources vary, they are generally classified as Level 3.

18. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

Investment securities
Investment securities classified as available-for-sale are measured at fair value by reference to quoted market price. In these instances they may be classified as Level 1.

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

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

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

Own debt valuation adjustments are recognized on the Group's liabilities for which the fair value option has been elected using Citi's credit spreads observed in the bond market. The fair value of liabilities for which the fair value option is elected (other than non-recourse and similar liabilities) is impacted by the narrowing or widening of the Citigroup credit spreads.

Other financial assets and liabilities
Fair values of customer account deposit liabilities, subordinated loans, other assets and other liabilities are estimated using discounted cash flows, applying market rates where practicable. Where market rates are used an adjustment is made for the Citigroup credit spread.

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

18. Financial assets and liabilities (continued)

Financial Instruments at Fair Value

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Group and Company			
31 December 2016	Fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
	$ 000	**$ 000**	**$ 000**	**$ 000**
Financial assets				
Derivative financial instruments	-	2,147,168	-	2,147,168
Trading assets	-	889,641	205,739	1,095,380
Investment securities	1,520,388	1,500,677	35,027	3,056,092
Loans held at fair value through profit or loss	-	491,166	16,670	507,836
Financial assets held at fair value	1,520,388	5,028,652	257,436	6,806,476
Financial liabilities				
Derivative financial instruments	-	2,191,961	-	2,191,961
Debt securities issued	-	71	-	71
Other financial liabilities held for trading	-	231,454	-	231,454
Financial liabilities held at fair value	-	2,423,486	-	2,423,486

31 December 2015	Fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
	$ 000	**$ 000**	**$ 000**	**$ 000**
Financial assets				
Derivative financial instruments	-	118,655	-	118,655
Trading assets	39,293	924,399	8,845	972,537
Investment securities	54,915	2,140,771	20,623	2,216,309
Loans held at fair value through profit or loss	-	7,757	386,030	393,787
Financial assets held at fair value	94,208	3,191,582	415,498	3,701,288
Financial liabilities				
Derivative financial instruments	-	118,210	-	118,210
Other financial liabilities held for trading	-	175,543	-	175,543
Financial liabilities held at fair value	-	293,753	-	293,753

18. Financial assets and liabilities (continued)

Financial Instruments at Fair Value (continued)

Loans held at fair value through profit or loss, totalling $508 million (2015: $394 million) are included in the Statement of Financial Position within loans and advances to customers.

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

As discussed above, the Group classifies financial instruments as Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. The gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The Group often hedges positions with offsetting positions that are classified in a different level. For example, the gains and losses for assets and liabilities in the Level 3 category presented in the tables below do not reflect the effect of offsetting losses and gains on hedging instruments that have been classified by the Group in the Level 1 and Level 2 categories. In addition, the Group hedges items classified in the Level 3 category with instruments also classified in Level 3 of the fair value hierarchy.

Valuation process for Level 3 Fair Value Measurements

Price verification procedures and related internal control procedures are governed by the Citigroup *Pricing and Price Verification Policy and Standards*, which is jointly owned by Finance and Risk Management. Finance has implemented the *Pricing and Price Verification Standards and Procedures* to facilitate compliance with this policy.

For fair value measurements of substantially all assets and liabilities held by the Group, individual business units are responsible for valuing the trading account assets and liabilities, and Product Control within Finance performs independent price verification procedures to evaluate those fair value measurements. Product Control is independent of the individual business units and reports into the Global Head of Product Control. Fair value measurements of assets and liabilities are determined using various techniques, including, but not limited to, discounted cash flows and internal models, such as option and correlation models.

Based on the observability of inputs used, Product Control classifies the inventory as Level 1, Level 2 or Level 3 of the fair value hierarchy. When a position involves one or more significant inputs that are not directly observable, additional price verification procedures are applied. These procedures may include reviewing relevant historical data, analysing profit and loss, valuing each component of a structured trade individually, and benchmarking, among others.

Reports of Level 3 inventory of each business line of the Group are distributed to senior management in Finance, Risk and the individual business lines. Reports are distributed to the EMEA Risk Committee and in monthly meetings with Senior Management. Whenever a valuation adjustment is needed to bring the price of an asset or liability to its exit price, Product Control reports it to management along with other price verification results.

In addition, the pricing models used in measuring fair value are governed by an independent control framework. Although the models are developed and tested by the individual business units, they are independently validated by the Model Validation Group within Model Risk Management and reviewed by Finance with respect to their impact on the price verification procedures. The purpose of this independent control framework is to assess model risk arising from models' theoretical soundness, calibration techniques where needed, and the appropriateness of the model for a specific product in a defined market. To ensure their continued applicability, models are independently reviewed annually. In addition, Risk Management approves and maintains a list of products permitted to be valued under each approved model for a given business.

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18. Financial assets and liabilities (continued)

Valuation process for Level 3 Fair Value Measurements (continued)

Movement in level 3 financial instruments measured at fair value

The Group classified financial instruments as Level 3 of the fair value hierarchy when there is a reliance on at least one significant unobservable input to the valuation model. The gains and losses presented below include changes in the fair value related to the observable and unobservable inputs.

	31 December 2016				31 December 2015		
Assets	**Trading assets**	**Loans and advances to customers**	**Investment securities available for sale**	**Total**	**Trading assets**	**Loans and advances to customers**	**Total**
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Balance at 1 January	8,845	386,030	20,623	415,498	12,896	444,408	457,304
				-			-
Additions due to merger	105,309	428,583	59,727	593,619	-	-	-
Purchases	297,735	-	18,079	315,814	-	-	-
Issues	-	-	-	-	-	-	-
Sales	(197,373)	(371,817)	-	(569,190)	-	-	-
Settlements	10,994	(55,897)	(92,508)	(137,411)	-	(23,525)	(23,525)
Transfer into Level 3	-	-	-	-	-	-	-
Transfer out of Level 3	-	(342,099)	-	(342,099)	-	-	-
Total gains/(losses)	-	-	-	-	-	-	-
- in Profit or loss	(19,771)	(28,130)	92,508	44,607	(4,051)	(2,829)	(6,880)
- in OCI	-	-	(63,402)	(63,402)	-	-	-
Balance at 31 December	205,739	16,670	35,027	257,436	8,845	418,054	426,899

During the year the Group had Level 3 instruments which were transferred to Level 2 category. The transfer of Loans and advances occurred as result of obtaining as a source for previously unobservable inputs for the credit risk component of the fair value.

18. Financial assets and liabilities (continued)

Valuation process for Level 3 Fair Value Measurements (continued)

Total gains or losses for the year are presented in the income statement as follows:

	31 December 2016				31 December 2015		
	Trading assets	Loans and advances to customers	Investment securities available for sale	Total	Trading assets	Loans and advances to customers	Total
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Interest income	1,540	-	-	1,540	-	-	-
Fair value movement	(19,771)	(28,130)	92,508	44,607	(4,051)	(2,829)	(6,880)
Total	(18,231)	(28,130)	92,508	46,147	(4,051)	(2,829)	(6,880)

During the year, total changes in fair value of US$5.7 million was recognised in the income statement relating to loans where the fair value was estimated using a valuation technique which uses one or more significant inputs based on unobservable market data.

A key contributor to level 3 inventory movements were loans and advances to customers, where the Group has originated loans that it intends to sell in the near term. These loans contributed to $372 million of sales.

Qualitative discussion of the ranges of significant unobservable inputs

The following section describes the ranges of the most significant unobservable inputs used by the Group in Level 3 fair value measurements. The level of aggregation and the diversity of instruments held by the Group lead to a wide range of unobservable inputs that may not be evenly distributed across the Level 3 inventory.

Yield
Ranges for the yield inputs vary significantly depending upon the type of security. For example, securities that typically have lower yields, such as municipal bonds, will fall on the lower end of the range, while more illiquid securities or securities with lower credit quality, such as certain residual tranche asset-backed securities, will have much higher yield inputs.

18. Financial assets and liabilities (continued)

Valuation process for Level 3 Fair Value Measurements (continued)

Qualitative discussion of the ranges of significant unobservable inputs (continued)

Credit Spread
Credit spread is relevant primarily for fixed income and credit instruments; however, the ranges for the credit spread input can vary across instruments. For example, certain fixed income instruments typically have lower credit spreads, whereas certain instruments with high-risk counterparties are typically subject to higher credit spreads when they are uncollateralized or have a longer tenor. Other instruments, which are dependent upon or derived from one or more underlying instrument, also have credit spreads that vary with the attributes of the underlying obligor. Stronger companies have tighter credit spreads, and weaker companies have wider credit spreads.

Price
The price input is a significant unobservable input for certain fixed income instruments. For these instruments, the price input is expressed as a percentage of the notional amount, with a price of 100 meaning that the instrument is valued at par. For most of these instruments, the price varies between zero and slightly above 100. Relatively illiquid assets that have experienced significant losses since issuance, such as certain asset-backed securities, are at the lower end of the range, whereas most investment grade corporate bonds will fall in the middle to the higher end of the range. The price input is also a significant unobservable input for certain equity securities; however, the range of price inputs varies depending on the nature of the position, the number of shares outstanding and other factors.

2016	Fair value $ '000	Methodology	Input	Low	High
Assets					
Trading assets	205,739	Price-based	Price	0.0	100.0
Loans held at fair value through profit or loss	16,670	Price-based	Price	0.0	101.0
Investment equity securities	35,027	Quoted market price if available to which a discount has been applied for the illiquidity and the conversion rate variability.	Final conversion rate has been applied for Series B Preferred Stock into Class A Common Stock.	no discount for conversion rate variability with a discount for illiquidity only	100% discount for conversion rate variability

Investment equity securities contain mainly Visa Inc. Series B Preferred Stock.

18. Financial assets and liabilities (continued)

Sensitivity to unobservable inputs and interrelationships between unobservable inputs

The impact of key unobservable inputs on the Level 3 fair value measurements may not be independent of one another. In addition, the amount and direction of the impact on a fair value measurement for a given change in an unobservable input depends on the nature of the instrument as well as whether the Group holds the instrument as an asset or a liability. For certain instruments, the pricing hedging and risk management are sensitive to the correlation between various inputs rather than on the analysis and aggregation of the individual inputs.

The following section describes the sensitivities and interrelationships of the most significant unobservable inputs used by the Group in Level 3 fair value measurements.

Yield

Adjusted yield is generally used to discount the projected future principal and interest cash flows on instruments, such as loans. Adjusted yield is impacted by changes in the interest rate environment and relevant credit spreads.

In some circumstances, the yield of an instrument is not observable in the market and must be estimated from historical data or from yields of similar securities. This estimated yield may need to be adjusted to capture the characteristics of the security being valued. In other situations, the estimated yield may not represent sufficient market liquidity and must be adjusted as well. Whenever the amount of the adjustment is significant to the value of the security, the fair value measurement is classified as Level 3.

Credit Spread

Credit spread is a component of the security representing its credit quality. Credit spread reflects the market perception of changes in prepayment, delinquency and recovery rates, therefore capturing the impact of other variables on the fair value. Changes in credit spread affect the fair value of securities differently depending on the characteristics and maturity profile of the security. For example, credit spread is a more significant driver of the fair value measurement of a high yield bond as compared to an investment grade bond. Generally, the credit spread for an investment grade bond is also more observable and less volatile than its high yield counterpart.

Valuation uncertainty is computed on a quarterly basis across all financial instruments. The methodology used to derive the impact across each product is determined by applying sensitivity adjustments to the price or significant model input parameters used in the valuation. The adjustments are typically computed with reference to proxy analysis using third party data. Examples of the approach used to derive sensitivity adjustments are outlined below:

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

18. Financial assets and liabilities (continued)

Estimated fair value of financial instruments not carried at fair value

Set out below, is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

Other financial assets are primarily made up of receivables balances from the Group's treasury and trade solutions and markets and securities services business.

The following summarises the major methods and assumptions used in estimating the fair value of the financial assets and financial liabilities used in the above tables:

- Derivative financial instruments, trading assets, and debt securities in issue are measured at fair value by reference to quoted market prices in active markets. If quoted market prices are not available then fair values are estimated on the basis of other valuation techniques, including discounted cash flow models and options pricing models. The market price includes credit value adjustments where appropriate.

- Investment securities classified as available-for-sale or designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated based on other recognised valuation techniques.

- The fair value for loans and advances and other lending are estimated using internal valuation techniques such as discounted cash flow analysis. If available, the Group may also use quoted prices for recent trading activity of assets with similar characteristics to the loan being valued. In certain cases the carrying value approximates fair value because the instruments are short term in nature or reprice frequently.

- The fair value of debt securities in issue that are classified at amortised cost is measured using discounted cash flows.

- Fair values of customer account deposit liabilities, other assets and other liabilities are estimated using discounted cash flows, applying either market rates where practicable, or rates currently offered by the Group for deposits of similar remaining maturities. Where market rates are used no adjustment is made for counterparty credit spreads.

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

18. Financial assets and liabilities (continued)

Estimated fair value of financial instruments not carried at fair value (Continued)

The table below sets out the estimated fair value, at level 1, 2 and 3 of those assets and liabilities not held at fair value in the statement of financial position. The numbers presented below are unaudited.

	Group and Company*				
	31 December 2016		Estimated fair value		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	16,435,227	16,435,227	16,435,227	-	-
Loans and advances to banks	7,487,475	7,246,793	-	7,246,793	-
- of which intercompany	5,161,227	5,006,390	-	5,006,390	-
Loans and advances to customers	14,081,109	13,465,092	-	-	13,465,092
- of which intercompany	13,238	12,841	-	-	12,841
Other financial assets	3,148,834	3,049,822	-	476,513	2,573,310
Total financial assets	**41,152,644**	**40,196,934**	**16,435,227**	**7,723,306**	**16,038,402**
Liabilities					
Deposits from banks	7,695,263	7,637,826	-	7,637,826	-
Customer accounts	24,065,741	23,886,118	-	23,886,118	-
Other financial liabilities	5,147,547	5,109,126	-	581,676	4,527,450
Total financial liabilities	**36,908,551**	**36,633,070**	**-**	**32,105,620**	**4,527,450**

	31 December 2015		Estimated fair value		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	4,811,631	4,811,631	4,811,631	-	-
Loans and advances to banks	9,226,926	9,226,926	-	9,226,926	-
- of which intercompany	7,142,191	7,142,191	-	7,142,191	-
Loans and advances to customers	7,871,109	7,854,495	-	-	7,854,495
Other financial assets	682,019	683,362	-	-	683,362
Total financial assets	**22,591,685**	**22,576,414**	**4,811,631**	**9,226,926**	**8,537,857**
Liabilities					
Deposits from banks	6,959,971	6,959,885	-	6,959,885	-
Customer accounts	7,912,281	7,929,767	-	7,929,767	-
Other financial liabilities	2,411,729	2,411,729	-	175,543	2,236,186
Total financial liabilities	**17,283,981**	**17,301,381**	**-**	**15,065,195**	**2,236,186**

* The Company and the Group figures are identical, except for:
- The Group balance of cash and cash equivalents is $11.8 million higher than the Company balance at 31 December 2016.
- The Group balance of customer accounts in $1.4m lower than the Company balance at 31 December 2015.

19. Derivative financial instruments

	Group and Company					
	31 December 2016			31 December 2015		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Derivatives held for trading	65,605,141	2,147,168	2,182,385	17,300,745	118,655	118,210
Derivatives held for risk management	158,115	-	9,576	-	-	-
Total	65,763,256	2,147,168	2,191,961	17,300,745	118,655	118,210
Derivatives - Trading						
Foreign exchange	51,448,287	1,832,730	1,844,758	13,848,584	79,652	78,752
- OTC	51,448,287	1,832,730	1,844,758	13,848,584	79,652	78,752
- Organised market	-	-	-	-	-	-
Interest rate	13,480,405	299,542	314,627	3,383,443	34,402	34,857
- OTC	13,480,405	299,542	314,627	3,383,443	34,402	34,857
- Organised market	-	-	-	-	-	-
Equity	415,580	7,820	7,891	68,718	4,601	4,601
- OTC	415,580	7,820	7,891	68,718	4,601	4,601
- Organised market	-	-	-	-	-	-
Credit	237,014	88	8,122	-	-	-
Commodity	23,855	6,988	6,987	-	-	-
Other	-	-	-	-	-	-
Total	65,605,141	2,147,168	2,182,385	17,300,745	118,655	118,210

See Note 17 for more details on how the Group uses derivative financial instruments as part of its risk management policies and procedures.

19. Derivative financial instruments (continued)

	Group and Company					
	31 December 2016			31 December 2015		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Derivatives held for risk management						
Instrument type:						
Foreign exchange	158,115	-	9,576	-	-	-
Total	158,115	-	9,576	-	-	-

The Group has anet investment hedge in place to reduce its foreign currency exposure risk with the Group's EUR functional currency branches. The hedge contracts are renewed every 3 months at maturity and the gain or loss on the contract is recognised in the fair value reserve and will be released to the Income Statement upon the disposal of the investments.

20. Investment securities

Investment securities are primarily composed of government securities.

	Group and Company	
	31 December 2016	31 December 2015
	$ 000	$ 000
Held to maturity	7,996	-
Available for sale	3,056,092	2,216,309
Total investment securities	3,064,088	2,216,309
(a) Held to maturity		
Corporate bonds	7,996	-
Total	7,996	-
(b) Available for sale investment securities		
Government bonds	2,618,713	2,194,830
Corporate bonds	402,351	689
Subtotal	3,021,064	2,195,519
Equity securities measured at fair value	35,028	20,790
Total Available for sale investment securities	3,056,092	2,216,309

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21. Property and equipment

	Group and Company		
	Leasehold improvements $ 000	Vehicles, furniture and equipment $ 000	Total $ 000
Cost			
At 1 January 2015	21,028	39,366	60,394
Additions from merger	28	628	656
Additions	665	1,987	2,652
Reclasification to HFS	(2,405)	(2,471)	(4,876)
Disposals	(574)	(7,475)	(8,049)
Write-offs	(1,157)	(1,817)	(2,974)
Foreign exchange	(2,172)	(4,475)	(6,647)
At 31 December 2015	15,413	25,743	41,156
Additions from merger	30,128	797,954	828,082
Additions	8,345	72,434	80,779
Disposals	(3,630)	(129,470)	(133,100)
Write-offs	(1,865)	(3,882)	(5,747)
Foreign exchange	(1,382)	(126,389)	(127,771)
At 31 December 2016	47,009	636,390	683,399
Depreciation			
At 1 January 2015	12,642	30,244	42,886
Charged in year	1,769	2,293	4,062
Reclasification to HFS	(2,016)	(2,200)	(4,216)
Disposals	(379)	(6,870)	(7,249)
Write-offs	(825)	(1,589)	(2,414)
Foreign exchange	(1,157)	(3,268)	(4,425)
At 31 December 2015	10,034	18,610	28,644
Additions from merger	10,084	647,914	657,998
Charged in year	5,800	42,457	48,257
Disposals	(3,397)	(79,698)	(83,095)
Write-offs	(1,660)	(3,316)	(4,976)
Foreign exchange	(1,648)	(105,857)	(107,505)
At 31 December 2016	19,213	520,110	539,323
Net book value			
At 31 December 2016	27,797	116,280	144,076
At 31 December 2015	5,379	7,133	12,512

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2015: $nil).

22. Intangible assets

	Group and Company			
	Goodwill $ 000	Computer software $ 000	Other Intangibles $ 000	Total $ 000
Cost				
1 January 2015	-	178,428	12,187	190,615
Additions	-	17,091	-	17,091
Acquisitions	-	1,488	-	1,488
Disposals	-	(15,777)	-	(15,777)
Foreign exchange	-	(12,155)	(1,341)	(13,496)
At 31 December 2015	-	169,075	10,846	179,921
				-
Additions from merger	49,669	651,032	23,507	724,208
Additions	-	104,213	-	104,213
Disposals	-	(103,726)	-	(103,726)
Write-offs	-	(1,180)	-	(1,180)
Foreign exchange	(7,442)	(108,332)	(1,075)	(116,849)
At 31 December 2016	42,227	711,082	33,278	786,587
Amortisation and impairment losses				
1 January 2015	-	67,839	744	68,583
Amortisation	-	28,742	1,140	29,882
Impairment	-	3,885	-	3,885
Disposals	-	(14,603)	-	(14,603)
Foreign exchange	-	(7,100)	(190)	(7,290)
At 31 December 2015	-	78,763	1,694	80,457
Additions from merger	28,183	334,103	23,507	385,793
Amortisation	-	113,376	1,132	114,508
Impairment	-	-	-	-
Acquisitions	-	-	-	-
Disposals	-	(83,262)	(11)	(83,273)
Write-offs	-	(640)	-	(640)
Foreign exchange	(3,718)	(64,374)	(848)	(68,940)
At 31 December 2016	24,465	377,966	25,474	427,905
Net carrying value				
At 31 December 2016	17,762	333,116	7,804	358,682
At 31 December 2015	-	90,312	9,152	99,464

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

22. Intangible assets (continued)

Goodwill was allocated to the Netherlands and the United Kingdom. The cash flow projections in respect of the Netherlands (Direct custody and clearing business) cover a ten year period and the cash flow projections in respect of the UK (Fund administration business) management assess the discounted cash flows of the Market and Securities Services business over a five year period.

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

23. Deferred tax assets

The movement on the deferred tax is as follows:

	Group and Company				
	Balance at 1 January 2016 $ 000	Transfer because of business combination $ 000	Recognised in the Income statement $ 000	Recognised in other comprehensive income $ 000	Balance at 31 December 2016 $ 000
Accelerated Tax Depreciation/Group relief	3,500	254,560	21,900	-	279,960
Available for sale securities	(4,833)	700	-	(8,593)	(12,726)
Pension and other retirement benefits	-	38,480	11,500	-	49,980
Allowances for loan losses	1,520	-	-	-	1,520
Tax loss carry-forward	116	-	-	-	116
Other Temporary Differences	2,384	16,280	(1,546)	-	17,118
Fx Translation	-	6,500	-	(52,442)	(45,942)
Total asset	2,687	316,520	31,854	(61,035)	290,026

24. Other assets

	Group	
	31 December 2016 $ 000	31 December 2015 $ 000
Receivables from unsettled regular way trades	1,328,580	-
Settlement Clearing lines	646,827	297,273
Margin account receivables	493,637	-
Secondary loan trading	679,789	-
Other balances	321,810	171,880
	3,470,643	469,153

24. **Other assets** (continued)

	Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Receivables from unsettled regular way trades	1,328,580	-
Settlement Clearing lines	646,827	297,273
Margin account receivables	493,637	-
Secondary loan trading	679,789	-
Other balances	321,810	171,869
	3,470,643	469,142

Settlement clearing lines arise from the timing of short term transactions between the point of funding and the settlement period in the Group's transaction services business. Other balances represent receivables due and other financial assets recorded.

Receivables from unsettled regular way trades are short term receivables from European commercial papers or other securities transactions and settlement takes place within two or three days after the trade date.

25. Shares in subsidiaries

	Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Beginning of period	1,378	3,106
Increase due to merger	14,876	-
Foreign exchange revaluation	-	(161)
Disposal	(1,378)	(1,567)
End of period	14,876	1,378

The Company has an investment in the following subsidiaries:

Name	Country of incorporation	Nature of business	Year end	Registered office	Percentage ownership
CitiCapital Leasing (March) Limited	England	Lease finance	31 March	United Kingdom	100%
CitiCapital Leasing (June) Limited	England	Liquidation	30 June	United Kingdom	100%

Citibank Kereskedelmi és Szolgáltató Kft. was liquidated on 7th April 2016. CitiCapital Leasing (June) Limited was liquidated on 4 January 2017 (Cost value: $ 0.7 million).

Following the merger with CIL on 1 January 2016, CIL's 17 nominee subsidiaries have also become subsidiaries of the Group.

26. Debt securities in issue

The Group historically issued debt for the purpose of risk mitigation. These instruments are listed through the Irish Stock Exchange and are currently in a wind up position. One note remains which is due to mature on 12th April 2017.

The fair value of debt securities in issue is estimated using discounted cash flows applying LIBOR and EURIBOR rates. The items are placed in Level 2 or Level 3 depending on the observability of the significant inputs to the model. At 31 December 2016 all of these instruments were categorized to Level 2.

Own debt valuation adjustments are recognized on the Group's liabilities for which the fair value option has been elected using Citi's credit spreads observed in the bond market. The fair value of liabilities for which the fair value option is elected (other than non-recourse and similar liabilities) is impacted by the narrowing or widening of the Citigroup credit spreads.

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Designated as at fair value through profit or loss (at initial recognition)	71	-
Total debt securities	71	-

27. Provisions

Provisions recorded for restructuring largely relate to termination benefits. Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Provision for property costs are mainly related to provision for onerous contracts. Provisions for onerous contracts are recorded when the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to arise from that contract, taking into account impairment of property, plant and equipment assets first.

Provision for commitments and guarantees given are recorded for committed loans, when the Group has contractual obligation to provide funds for clients, or for any contractual commitments which are not recorded in the balance sheet.

Provisions are recognised when there is a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

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27. Provisions (continued)

Group and Company

	Restructuring provision $'000	Provision for property costs $'000	Other provisions $'000	Commitments and guarantees $'000	Total $ 000
31 December 2016					
Opening balance	3,149	379	1,761	12,924	18,213
Increase/decrease related to business combination	238	1,041	14,968	26,047	42,294
Provisions made during the year	24,660	980	655	2,984	29,279
Provisions used during the year	(11,251)	(24)	(2,459)	-	(13,734)
Provisions released during the year	(2,628)	(552)	(10,890)	(8,592)	(22,662)
Exchange Adjustments	(112)	(8)	(519)	(24)	(663)
Other movements	1,686	21	337	648	2,692
Closing balance	**15,742**	**1,837**	**3,853**	**33,987**	**55,419**

	Restructuring provision $'000	Provision for property costs $'000	Other provisions $'000	Commitments and guarantees $'000	Total $ 000
31 December 2015					
Opening balance	548	4,290	2,158	15,630	22,625
Provisions made during the year	3,138	(1,410)	1,974	1,496	5,198
Provisions used during the year	(369)	-	(11)	-	(380)
Provisions released during the year	(119)	(2,298)		(3,735)	(6,151)
Effect of foreign currency movements	(49)	(204)	(139)	(466)	(858)
Other movements	-	-	(2,221)	-	(2,221)
Closing balance	**3,149**	**379**	**1,761**	**12,924**	**18,213**

28. Other liabilities

	Group and Company	
	31 December 2016 $ 000	31 December 2015 $ 000
Other liabilities		
Accounts payable	3,593,985	1,565,055
Margin Account Obligations	648,422	-
Short sales	204,850	-
Retirement obligations (note 14)	198,526	-
Other	551,545	640,529
Total other liabilities	5,197,328	2,205,584

Accounts payable predominantly relates to obligations arising from the Group's transaction services business. The other balances include amounts payable to other financial institutions, corporates and other group entities, primarily relating to prepaid risk participations, items in the process of settlement and margin account obligations. Settlement of these accounts are short term in nature, balances can fluctuate depending on the underlying business activity.

Margin Accounts Obligations reflects the Group's obligation to pay collateral back to clients upon their own settlement of margin calls as they arise.

Short Sales- represent payables arising from short sale transactions where securities and money market instruments are sold but not owned at the time of the transaction.

29. Discontinued operations and asset and liabilities held for sale

In 2015 the Group reported the Consumer Business within the Czech Republic and Hungarian Branch's as "Held for Sale" and "Discontinued operation" after meeting the criteria for such a designation under IFRS 5. Subsequently the Czech Republic Consumer business was disposed of in March 2016 with a gain on sale of $16.3 million. In March 2017 the Hungarian Branch reported a gain on disposal of $20.4 million in relation to the disposal of its Consumer Business.

In line with the Group's policy in relation to 'non-current assets held for sale and discontinued operations', the results of the Consumer business in Czech Republic and Hungary are now shown as discontinued operations in the Group's financial statements.

The table overleaf details the Income statement and Cash Flows relating to the Discontinued Operations with prior year comparatives included.

29. Discontinued operations and asset and liabilities held for sale (continued)

A. Income statement

Results of discontinued operation	31 December 2016 $ 000	31 December 2015 $ 000
Total revenues	60,393	122,450
- of this: Interest income	39,211	72,100
- of this: Net fee and commission income	13,067	41,567
Total expenses	(52,532)	(131,369)
- of this: Interest expense	(48)	(848)
- of this: Personnel expense	(21,784)	(39,620)
Net credit recoveries	11,780	10,203
Gain on sale of discontinued operation	19,404	-
Profit before income tax	39,045	1,284
Income tax expense/(credit)	(4,847)	(183)
Total comprehensive income/(expense) for the year	34,198	1,101

Total revenues represents the sum of interest income, net fee and commission income, dividend income, net trading income, net investment income and other operating income.

B. Cash flows and statement of financial position

	31 December 2016 $ 000	31 December 2015 $ 000
Net cash from operating activities	102,514	50,246
Net increase in cash and cash equivalents	102,514	50,246

The table below details the assets and liabilities in relation to assets held for sale for the period in 2016.

Statement of Financial Position	31 December 2016 $ 000	31 December 2015 $ 000
Assets		
Loans and advances to customers	185,505	406,334
Deferred tax assets	382	2,930
Other assets	8,502	15,703
Total Assets	194,389	424,967
Liabilities		
Customer accounts	621,087	1,239,086
Deferred tax liabilities	-	986
Other liabilities	18,244	17,719
Total Liabilities	639,331	1,257,791

30. Called up share capital

	Group and Company	
Authorised	**31 December 2016 $ 000**	**31 December 2015 $ 000**
5,000,000,000 Ordinary shares of €1 each	4,691,500	4,691,500
Allotted, called-up and fully paid		
Opening balance: 9,318,254 (2015: 9,318,254) Ordinary shares of €1 each	10,071	10,071
Issuance of Ordinary Shares	461	-
Closing balance 9,741,290 (2015: 9,318,254) Ordinary shares of €1 each	10,532	10,071
Share premium		
Opening balance	1,593,607	1,593,607
from Issuance of Ordinary Shares	369,140	-
Closing balance	1,962,747	1,593,607

On 1 January 2016, the Group as part of the merger with Citibank International Limited issued 423,036 additional €1 ordinary shares as part consideration to Citi Overseas Holdings Bahamas Limited (COHBL) which contributed those shares to CHIL.

31. Share-based incentive plans

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

In the share award programme Citigroup issues common shares in the form of restricted share awards, deferred share awards and share payments. For all stock award programmes during the applicable vesting period, the shares awarded are not issued to participants (in the case of a deferred stock award) or cannot be sold or transferred by the participants (in the case of a restricted stock award), until after the vesting conditions have be satisfied. Recipients of deferred share awards do not have any shareholder rights until shares are delivered to them, but they generally are entitled to receive dividend-equivalent payments during the vesting period. Recipients of restricted share awards are entitled to a limited voting right and to receive dividend or dividend-equivalent payments during the vesting period. Once a share award vests the shares become freely transferrable, but in the case of certain employees, may be subject to transfer restriction by their terms or share ownership commitment.

(a) Stock award programme

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

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

31. Share-based incentive plans (continued)

(a) Stock award programme (continued)

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

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

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

	2016	**2015**
Shares awarded	258,105	72,061
Weighted average fair market value per share	$37.35	$50.51
	$'000	**$'000**
Compensation cost charged to earnings	14,584	3,904
Fair value adjustments recorded to equity	(135)	(357)
Total carrying amount of equity-settled transaction liability	22,051	7,871

	2016 $ Million		**2015 $ Million**
Stock Awards			
Granted in 2016	9.7		-
Granted in 2015	1.9		3.0
Granted in 2014	0.7		0.4
Granted in 2013	0.2		0.3
Granted in 2012	0.0		0.1
Granted in 2011	0.0		0.3
Granted in 2010 & prior	0.0		-
Cash Accrued	2.0	-	0.2
Total Expense	14.5		3.9

31. Share-based incentive plans (continued)

(c) Stock option programme (continued)

	2016	2015
Weighted average fair value at year end of options granted during the year	N/A	N/A
Weighted average expected life		
Option life	All expired	All expired
Valuation assumptions		
Expected volatility	N/A	N/A
Risk-free interest rate	N/A	N/A
Expected dividend yield	N/A	N/A
Expected annual forfeitures	N/A	N/A

32. Contingent liabilities and commitments

The following tables give the nominal principal amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the statement of financial position date and do not represent amounts at risk.

	Contract amount 31 December 2016 $ 000	Contract amount 31 December 2015 $ 000
Undrawn credit lines	19,109,697	4,174,011
Other commitments		
- less than 1 yr	13,209,722	11,740,635
- 1 yr and over	3,805,188	3,808,176
Total	36,124,607	19,722,822

Other commitments primarily relate to the Trade business in Ireland. The Group held a collective impairment provision of $33.9 million as at 31 December 2016 (2015: $12.9 million), with respect to its commitments.

33. Merger

As noted in the directors' report on 1 January 2016 the Group merged with CIL.

At the date of the merger, CIL's fair value was $3.75 billion. The consideration paid by CEP comprised cash $3.4 billion and 423,036 €1 issued shares, the share premium of which was $369 million. After taking into consideration the value of CIL's CTA and Fair value reserves which were transferred upon acquisition, a capital contribution of $57.6 million was recorded to the merger reserve.

The overleaf table details the key balance sheet items of CIL, CEP and the combined entity on a pro-forma basis as at 31 December 2015.

31. Share-based incentive plans (continued)

(b) Stock option programme

The Group has historically offered a number of Citigroup stock option programmes to its employees. Stock options have been granted only to CAP participants who elect to receive stock options in lieu of restricted or deferred stock awards. All stock options are granted on Citigroup common stock with exercise prices equal to the fair market value at the time of grant.

Since 2009 the Group has made discretionary grants of options to eligible employees pursuant to the broad-based Citigroup Employee Option Grant (CEOG) Programme under the Citigroup Stock Incentive Plan. Under CEOG, the options generally vest equally over three years, the option term is 6 years from the grant date and the shares acquired on exercise are not subject to a sale restriction.

The stock option activity with respect to 2016 and 2015 under Citigroup stock option plans is as follows:

	2016		2015	
	Options	Weighted average exercise price $	Options	Weighted average exercise price $
Outstanding, beginning of year	-	-	277,517	40.80
Exercised	-	-	(244,764)	40.80
Transfers	-	-	(3,238)	40.80
Expired	-	-	(29,515)	40.80
Outstanding, end of year	-	-	-	-
Exercisable, end of year	-	-	-	-

No options were reported by the Group for the year ended 31 December 2016.

Fair value assumptions

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

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

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

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33. Merger (continued)

Balance Sheet	**CIL 31st Dec 2015**[1;2] *$ millions*	**CEP 31st Dec 2015** *$ millions*	**CEP+CIL Pro-Forma 31st Dec 2015**[1] *$ millions*	**CEP 31st Dec 2016** *$ millions*
TOTAL ASSETS	31,533	26,625	58,158	49,282
of which:				
Cash and cash equivalents	7,179	4,812	11,991	16,435
Loans & Advances to Banks	10,260	9,227	19,487	7,487
Loans & Advances to Customers	5,788	8,262	14,050	14,589
Trading & Investment Securities	4,446	3,308	7,754	4,159
Other Assets	3,860	1,016	4,876	6,612
TOTAL LIABILITIES	27,622	18,475	46,097	39,881
of which:				
Deposits by Banks	7,242	6,960	14,202	7,695
Customer Accounts	15,347	7,912	23,259	24,066
Other Liabilities	5,033	3,603	8,636	8,120
TOTAL EQUITY	3,908	8,150	12,057	9,401

[1]The figures are unaudited.
[2]CIL's Statement of Financial Position was converted from GBP to US dollars by applying the year end rate.

The below table details the key income statement items of CIL, CEP and the combined entity on a pro-forma basis as at 31 December 2015.

Income statement	**CIL 31st Dec 2015**[1;3] *$ millions*	**CEP 31st Dec 2015** *$ millions*	**CEP+CIL Pro-Forma 31st Dec 2015**[1] *$ millions*	**CEP 31st Dec 2016** *$ millions*
OPERATING INCOME	736	1,315	2,051	2,169
of which:				
Net interest income	113	226	339	358
Net fee and commission income	406	842	1,248	1,165
Trading and investment income	65	122	187	311
Other Operating Income	218	119	337	302
TOTAL EXPENSES	(642)	(575)	(1,217)	(1,222)
of which:				
Personnel expenses	(303)	(230)	(533)	(615)
Other expenses	(339)	(345)	(684)	(607)
NET CREDIT (LOSSES)/RECOVERIES	(9)	(19)	(28)	6

[1]The figures are unaudited.
[3]CIL's Income statement was converted from GBP to US dollars by applying at the respective month end rate.

34. Involvement with unconsolidated structured entities

Nature, purpose and extent of the Group's interests in unconsolidated structured entities

The Group engages in various business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that any voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entities indicate that the structured entities are controlled by the Group. The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements, or other means. The extent of the Group's interests to unconsolidated structured entities will vary depending on the type of structured entities.

Asset Based Financing

The Group provides loans and other forms of financing to structured entities that hold assets. Those loans are subject to the same credit approvals as all other loans originated or purchased by the Group.

The Group does not have the power to direct the activities that most significantly impact these structured entities economic performance, and thus it does not consolidate them. These vehicles are funded usually via a syndicate of lenders.

The table below sets out an analysis of carrying amounts of interests held by the Group in unconsolidated structured entities and the maximum exposure to loss. All exposures are included in loans and advances to customers and are funded.

	31 December 2016	31 December 2015
	$ 000	$ 000
Carrying amount		
Asset-Based Financing	1,012,860	826,334
Total	1,012,860	826,334

The above exposure is made up of 32 entities (2015: 22) with a total SPE asset of $3,980 million (2015: $1,720 million) and further commitments of $3 million (2015: $10 million).

During the year the Group did not provide financial support to unconsolidated structured entities.

The maximum funded exposure represents the balance sheet carrying amount of the Group's investment in the structured entities. It reflects the initial amount of cash invested in the structured entities adjusted for any accrued interest and cash principal payments received. The carrying amount may also be adjusted for increases or declines in fair value or any impairment in value recognised in the income statement. The maximum exposure of unfunded positions represents the remaining undrawn committed amount, including liquidity and credit facilities provided by the Group.

35. Operating lease commitments

	Group and Company	
	31 December 2016	31 December 2015
	$ 000	$ 000
Expiring:		
- within one year	7,826	7,466
- between one and five years	12,831	18,488
- in five years or more	994	2,528
	21,651	28,482

36. Related party transactions

The Group is a wholly owned subsidiary undertaking of Citibank Holdings Ireland Limited, which is incorporated in Ireland. The largest Group in which the results of the Group are consolidated is that headed by Citigroup Inc., which is incorporated in the United States of America. The Group defines related parties as the Board of Directors, senior management, their close family members, parent and fellow subsidiaries and associated companies. The Group considers the key management of the Group to be the Board of Directors.

At 31 December 2016 there were no outstanding exposures to Directors including loans (2015: $nil).

A number of arm's length transactions are entered into with other Citigroup companies. These include loans and deposits that provide funding to other Citigroup companies as well as derivative contracts used to hedge residual risks that are included in the other assets and other liabilities balances. Various services are provided between related parties and these are all also provided at arm's length. The table below summarises balances with related parties.

	Group 31 December 2016		
	Parent company undertakings $ 000	Other Citigroup undertakings $ 000	Total $ 000
Assets			
Cash and cash equivalents	-	4,029,372	4,029,372
Loans and advances to banks	-	5,161,227	5,161,227
Loans and advances to customers	-	13,238	13,238
Prepayments and accrued income	-	-	-
Other assets	-	1,288,752	1,288,752
Derivatives	-	1,116,719	1,116,719
Liabilities			
Deposits by banks	-	6,089,302	6,089,302
Customer accounts	-	557,644	557,644
Accruals and deferred income	-	-	-
Provisions	-	18,275	18,275
Other liabilities	-	190,763	190,763
Derivatives	-	1,116,719	1,116,719
Commitments and guarantees	-	953,617	953,617
Income statement			
Interest and similar income	-	35,569	35,569
Interest payable	-	(12,169)	(12,169)
Net fee and commission income	-	330,314	330,314
Other operating income	-	273,010	273,010
Net trading expense	-	(213,921)	(213,921)
Other expenses	-	(174,548)	(174,548)

There were no transactions with the parent company or the subsidiaries during the year.

36. Related party transactions (continued)

	31 December 2015		
	Parent company undertakings $ 000	Other Citigroup undertakings $ 000	Total $ 000
Assets			
Cash and cash equivalents	-	1,804,449	1,804,449
Loans and advances to banks	-	7,142,351	7,142,351
Prepayments and accrued income	-	735	735
Other assets	-	131,927	131,927
Derivatives	-	82,542	82,542
Liabilities			
Deposits by banks	-	5,848,487	5,848,487
Customer accounts	-	26,470	26,470
Accruals and deferred income	-	8,519	8,519
Other liabilities	-	58,599	58,599
Derivatives	-	77,394	77,394
Other, FX spot reval loss	-	-	-
Other	-	(356)	(356)
Commitments and guarantees	-	1,279,714	1,279,714
Income statement			
Interest and similar income	-	17,097	17,097
Interest payable	-	(15,224)	(15,224)
Net fee and commission income	-	308,148	308,148
Other operating income	-	(12,434)	(12,434)
Net trading income	-	126,509	126,509
Other expenses	-	(183,674)	(183,674)

The material transactions within the Group are with respect to the merger of CEP and CIL both entities under common control of Citi Overseas Holdings Bahamas Limited. The merger involved the issuance of 423,036 shares and cash consideration of $3.3 billion as consideration.

36. Related party transactions (continued)

	Company		
	31 December 2016		
	Parent company undertakings $ 000	**Other Citigroup undertakings $ 000**	**Total $ 000**
Assets			
Cash and cash equivalents	-	4,017,617	4,017,617
Loans and advances to banks	-	5,161,227	5,161,227
Loans and advances to customers	-	13,238	13,238
Prepayments and accrued income	-	-	-
Other assets	-	1,288,752	1,288,752
Derivatives	-	1,116,719	1,116,719
Liabilities			
Deposits by banks	-	6,089,302	6,089,302
Customer accounts	-	557,644	557,644
Accruals and deferred income	-	-	-
Provisions	-	18,275	18,275
Other liabilities	-	190,763	190,763
Derivatives	-	1,116,719	1,116,719
Commitments and guarantees	-	-	-
Income statement			
Interest and similar income	-	35,569	35,569
Interest payable	-	(12,169)	(12,169)
Net fee and commission income	-	330,314	330,314
Other operating income	-	273,010	273,010
Net trading expense	-	(213,921)	(213,921)
Other expenses	-	(174,548)	(174,548)

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36. Related party transactions (continued)

	Company 31 December 2015		
	Parent company undertakings $ 000	**Other Citigroup undertakings $ 000**	**Total $ 000**
Assets			
Cash and cash equivalents	-	1,804,449	1,804,449
Loans and advances to banks	-	7,142,351	7,142,351
Prepayments and accrued income	-	735	735
Other assets	-	131,927	131,927
Derivatives	-	82,542	82,542
Liabilities			
Deposits by banks	-	5,848,487	5,848,487
Customer accounts	-	26,470	26,470
Accruals and deferred income	-	8,519	8,519
Other liabilities	-	58,599	58,599
Derivatives	-	77,394	77,394
Other, FX spot reval loss	-	-	-
Other	-	(356)	(356)
Commitments and guarantees	-	1,279,714	1,279,714
Income statement			
Interest and similar income	-	17,097	17,097
Interest payable	-	(15,224)	(15,224)
Net fee and commission income	-	308,148	308,148
Other operating income	-	(12,434)	(12,434)
Net trading income	-	126,509	126,509
Other expenses	-	(183,674)	(183,674)

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37. Reserves

Translation reserve

The translation reserve represents the cumulative gains and losses on the translation of the Group's net investment in its foreign operations, excluding any ineffectiveness, of investment hedge derivatives. Gains and losses accumulated in this reserve are reclassified to the income statement when the Group loses control, joint control or significant influence over the foreign operation or on disposal or partial disposal of the operation.

Fair value reserve

The fair value reserve represents the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of available for sale financial investments at fair value.

Equity reserve

The Equity reserve represents amounts expensed in the income statement in connection with share based payments, net of transfers to retained earnings on the exercise, lapsing or forfeiting of share awards.

Capital Reserve

The capital reserve represents capital contributions received from parent companies.

Merger Reserve

The merger reserve represents the difference between the fair value and book value and any transferred over reserve balances from the merger with CIL.

38. Segmental analysis

The chief operating decision makers of the Group (being the Board of Directors) defined its two main operating segments as Citicorp and Citi Holdings and it conducts its business in Ireland, United Kingdom and Continental Europe. The table below provides an analysis of its two main operating segments by these geographical regions.

The Group's management reviews the performance of the Group based on the same operating segments as Citigroup Inc.

Citicorp consists of Citi's Institutional Clients Group ("ICG"). This comprises Corporate and Investment Banking, Markets and Securities Services, Treasury and Trade Solutions and the Citi Private Bank.

Citi Holdings delivers a wide array of retail banking, cards, lending, insurance and investment services through a network of local branches, offices and electronic delivery systems. The Citi Holdings business services both individual consumers as well as small businesses. Post year end 2016, this Segment will no longer be reported separately and will roll into Citicorp.

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

Gross income includes interest income, dividend income, net fee and commission income, net income on items at fair value through profit and loss, net investment income and other operating income.

	31 December 2016									
	Citicorp				Citi Holdings		Total			
	Ireland	United Kingdom	Continental Europe	Total	Continental Europe	Total	Ireland	United Kingdom	Continental Europe	Total
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Gross income	970,796	380,154	817,849	2,168,799	39,044	39,044	970,796	380,154	856,893	2,207,843
				-		-				
Interest income	210,791	111,899	89,319	412,009	39,211	39,211	210,791	111,899	128,530	451,220
Interest expense	(6,043)	(26,910)	(20,907)	(53,860)	(48)	(48)	(6,043)	(26,910)	(20,955)	(53,908)
Profit/(loss) before tax	543,189	168,049	240,686	951,924	39,045	39,045	543,189	168,049	279,731	990,969
Income tax(expense)/credit	(78,519)	51,245	(96,311)	(123,585)	(4,847)	(4,847)	(78,519)	51,245	(101,158)	(128,432)
Profit/(loss) for the period	464,670	219,294	144,375	828,339	34,198	34,198	464,670	219,294	178,573	862,537
Total assets	15,056,136	13,455,792	20,575,666	49,087,594	194,389	194,389	15,056,136	13,455,792	20,770,055	49,281,983
Total liabilities	10,148,631	9,199,969	19,892,830	39,241,430	639,331	639,331	10,148,631	9,199,969	20,532,161	39,880,761

No income, expenses, assets or liabilities were reported within Citi Holdings for Ireland and United Kingdom.

38. Segmental analysis (continued)

	31 December 2015									
	Citicorp				Citi Holdings		Total			
	Ireland	United Kingdom	Continental Europe	Total	Continental Europe	Total	Ireland	United Kingdom	Continental Europe	Total
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Gross income	1,043,692	-	268,740	1,312,432	122,450	122,450	1,043,692	-	391,190	1,434,882
Interest income	317,897	-	94,112	412,009	72,100	72,100	317,897	-	166,212	484,109
Interest expense	(28,188)	-	(25,672)	(53,860)	(41,567)	(41,567)	(28,188)	-	(67,239)	(95,427)
Profit/(loss) before tax	607,699	-	114,010	721,709	1,284	1,284	607,699	-	115,294	722,993
Income tax(expense)/credit	(77,760)	-	(21,459)	(99,219)	(183)	(183)	(77,760)	-	(21,642)	(99,402)
Profit/(loss) for the period	529,939	-	92,551	529,939	1,101	1,101	529,939	-	93,652	623,591
Total assets	16,928,251	-	9,271,652	26,201,270	424,967	424,967	16,928,251	-	9,696,619	26,624,870
Total liabilities	8,683,968	-	8,533,486	39,241,430	1,257,791	1,257,791	8,683,968	-	9,791,277	18,475,245

39. Parent companies

The Group is a subsidiary undertaking of Citibank Holding Ireland Limited (CHIL), incorporated in Ireland.

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

The smallest Group in which the results of the Group are consolidated is CHIL. Copies of the Group accounts will be available to the public and may be obtained from its offices at 1 North Wall Quay, IFSC, Dublin 1.

40. Subsequent Events

The Group's Consumer business in Hungary was sold in Q1 2017 as part of Citigroup's strategy to exit this business in 11 markets, the gain on disposal was recorded at $20.4 million. The Group also sold its Prepaid Card business, a business within Treasury Trade Solutions with a gain on disposal of $2.3 million. The Group's UK based subsidiary, CitiCapital Leasing (June) Limited was liquidated in Q1 2017.

On 1 January 2017 the Group came under the direct supervision of the ECB through the Single Supervisory Mechanism (SSM).

In Q1 2017 the Group has recorded a cost of credit charge relating to obligors initially provided for within the 2016 financial statements as a result of events which have occurred since year end. The incremental provision is $25 million.

41. Approval of financial statements

The financial statements of the Group were approved by the Board of Directors on the 29th March 2017.