CITIBANK EUROPE PLC

(Registered Number: 132781)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2017

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BOARD OF DIRECTORS AND OTHER INFORMATION

DIRECTORS	Susan Dean – Chairperson – Non-Executive Zdenek Turek – Chief Executive Officer Barry O'Leary -Independent Non-Executive Bo J. Hammerich – Non-Executive Breffni Byrne – Independent Non-Executive Cecilia Ronan – Executive Deepak Jain – Non-Executive Ebru Pakcan – Non-Executive (appointed 1st February 2017) Jeanne Short – Independent Non-Executive (appointed 11th July 2017) Jim Farrell – Independent Non-Executive Mary Lambkin – Independent Non-Executive (resigned 29th March 2017)
COMPANY SECRETARY	Deirdre Pepper (resigned 10th February 2017) Nigel Kemp (appointed 10th February 2017) Fiona Mahon (appointed 7th September 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 Statutory Auditor and 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 2017

The Directors present their report and the annual financial statements of Citibank Europe plc ("the Company" or "CEP") for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Principal Activities

The Company is headquartered in Dublin and for the year under review had branches across 20 European countries, including one subsidiary. Its ultimate parent is Citigroup Inc. (hereafter referred to as either "Citigroup" or "Citi").

The Company, 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 Company has been directly regulated by European Central Bank ("ECB") through the Single Supervisory Mechanism ("SSM" or The Regulator).

The Company 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 Company 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.

Business Results

The Company reported profit after tax of $600 million for the year to 31 December 2017 (2016: $863 million). The decrease in profitability is due to a combination of one off items impacting operating income in the prior year and net impairment losses in 2017.

Overall operating income was $2,067 million for the year to 31 December 2017 (2016: $2,169 million) and was lower than prior year primarily due to income from a one-off transaction reported in 2016 in Net Investment Income and not repeated in 2017. The principal sources of revenue, remained unchanged with Net Fee and Commission Income and Net Interest Income generating over 60 % of revenues.

Operating expenses (excluding Net Impairments on Loans and Advances) decreased during the year primarily due to the divestiture of certain businesses in the later part 2016, partially offset by increases in compensation costs driven by additional headcount mainly in shared services centres. Overall operating expenses (excluding Net Impairments on Loans and Advances) were $1,164 million for the year to December 2017 (2016: $1,222 million).

The Company recorded net impairment losses of $168 million for the year to December 2017 (2016: impairment recovery of $6 million). This was driven principally by episodic events and a change in the impaired loan classification methodology.

The Company's total assets have remained broadly static year on year at $49.6 billion (2016: $49.3 billion). Decreases through the reporting period have been primarily due to reduced Cash and Derivative Instrument Balances, offset through increases in Loans and Advances to Customers.

Future Developments

The Company is closely monitoring the potential impacts of the United Kingdom's exit from the European Union ("EU"). Appropriate Governance structures have been established to develop, implement and monitor the Company's strategic responses in the period up to March 2019.

On 1 January 2018 the new accounting standard IFRS 9 became effective. A detailed assessment of the new standard and its impact on the Company is provided in Note 1 – 'Principal accounting policies' to the financial statements.

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

Key performance indicators

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

	31 December 2017	31 December 2016	Variance
Profit before Income Tax	735,438	953,096	-23%
Profit after Income Tax	600,020	862,551	-30%
Operating Efficiency	55%	55%	0%
Shareholders' Funds*	8,916,620	9,404,294	-5%
Return on Capital Employed	8%	10%	-2%
Leverage Ratio	10%	11%	-1%

* The Shareholders' Funds are based on the Company's actual total equity positions which are different from the regulatory capital.

Capital management

The Company has regulatory capital resources of $7.5 billion ($7.5 billion as at 31 December 2016) which are entirely made up of Tier One equity. The capital ratio at 31 December 2017 was 16.5% (17.5% as at 31 December 2016) which exceeds the minimum requirement. Further information on the Company'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 – 'Risk management'.

Dividend

No dividend is proposed in relation to 2017 earnings (2016: $1.075 billion).

Corporate Governance

Internal Accounting and Financial Controls

Within the Company, the accounting process comprises the Board, the Audit Committee and the finance function. The Directors are responsible for preparing the Directors' report and the 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 Company's finance function is responsible for preparing the financial statements in accordance with IFRS 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 Company's businesses. The Audit Committee also assists the Board of Directors in fulfilling its oversight responsibility relating to the integrity of the Company'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 Company'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 Company's overall current and future risk appetite, taking account of the overall risk appetite of the Company and the current and future financial position of the Company. The Risk Committee also reviews amendments to Company risk policies and is responsible for monitoring of economic capital and material risks along with adopting any regulatory developments from a risk perspective. The Risk Committee draws on the work of the internal Risk Department and the Company's senior management.

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 Company.

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.

Related Party Lending Committee

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

Executive Committee

The Executive Committee takes key decisions regarding the management of the Company, in line with the strategic plan and as directed by the Board of the Company.

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 Company-wide policies and procedures, regulatory requirements, rating agency commitments and as necessary to recommend and implement appropriate funding plans.

Corporate Governance Code for Credit Institutions and Insurance undertakings

The Company 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 Company has complied with the additional requirements for High Impact designated institutions.

The Company is rated 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.

Political Donations

During the year the Company did not make any political donations (2016: nil).

Directors, secretary and their interests

Neither the Directors, nor the Company Secretary, have any beneficial interest in the share capital of the Company. Neither the Directors, nor the Company Secretary, had an interest in more than 1% of the nominal value of the ultimate holding Company's issued share capital during the year ended 31 December 2017 (2016: nil).

Accounting records

The Directors believe that they have complied with the requirement of Sections 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 Company are maintained at 1 North Wall Quay, Dublin 1.

Auditor

In accordance with Section 383(2) of the Companies Act 2014, the auditors, KPMG, Statutory Auditors and 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 Company'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.

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 the 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

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

- select suitable accounting policies and then apply them consistently;
- make judgements 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 the going concern basis unless it is inappropriate to presume that the Company will continue in business

CITIBANK EUROPE PLC

DIRECTORS' REPORT (continued)
For the year ended 31 December 2017

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

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 Company and which enable them to ensure that the financial statements of the Company comply with the provision of the Companies Act 2014 and with the requirements of the European Union (Credit Institutions: Financial Statements) Regulations 2015.

They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

On behalf of the board: 23th March 2018

Zdenek Turek	Jim Farrell	Breffni Byrne	Fiona Mahon
Director	Director	Director	Secretary

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

1. Opinion: our opinion is unmodified

We have audited the financial statements of Citibank Europe plc ("the Company") for the year end 31 December 2017 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes, including the accounting policies in Note 1 – 'Principal accounting policies'. 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.

In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;

- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014; and

- the financial statements have been properly prepared in accordance with the requirements of the European Union (Credit Institutions: Financial Statements) Regulations 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 17 June 2016. The period of total uninterrupted engagement is the 2 years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remained independent of the Company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority ("IAASA") as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

2. Key audit matters: our assessment of risks of material misstatement (continued)

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Allowance for Credit Losses $250m (2016 - $135m)
Refer to Note 1 – 'Principal accounting policies' and Notes 17 – 'Risk management' to 18 – 'Financial assets and liabilities'

The key audit matter	How the matter was addressed in our audit
The carrying value of loans and advances to customers and banks held at amortised cost may be materially misstated, if credit provisions are not appropriately identified and estimated. The identification of impaired loans and the determination of credit provisions involves a significant degree of management judgement particularly in relation to the estimation of future cash flows and the calculation of the collective provision.	Our audit procedures included, among others: • Testing the design, implementation and operating effectiveness of key controls relating to the credit appraisal, monitoring and provisioning processes. • Obtaining a selection of loan reviews as performed by credit managers, dispersed across loan gradings, industry segments and geographies and challenging the reasonableness of management's judgement regarding: o The ratings applied by management (which then drive the collective impairment calculation); and o The impairment decisions (where a trigger for a specific impairment is met) by forming our own judgement based on the individual facts and circumstances. • Testing the appropriateness of the collective provision model in conjunction with our modelling specialist by: o Testing the inputs of underlying data; o Evaluating model methodology, key assumptions and mathematical accuracy of the model; and o Comparing the model output to the Company's observed loss history. • Reviewing the adequacy of the Company's specific provisions. • Critically assessing whether financial statement disclosures appropriately reflect the Company's exposure to credit risk and are in compliance with IFRS. Based on evidence obtained, we found that the provision for impairment was acceptable.

Revenue Recognition over Fees and Commissions $432m (2016 - $412m)
Refer to Note 1 – 'Principal accounting policies' and Note 4 – 'Net fee and commission income'

The key audit matter	How the matter was addressed in our audit
The Company has several revenue streams many with high volumes of low margin transactions. While the underlying products that generate this income are relatively straightforward, the calculation of revenue on both Worldlink and FXLM transactions is complex. There is a risk over the existence and accuracy of fees and commissions.	Our audit procedures included, among others: • Testing the design, implementation and operating effectiveness of key controls relating to the revenue process from initiation to recording in the financial statements. • Performing substantive audit procedures over revenue, fees and commissions on a sample basis. • As part of our substantive procedures, we also utilised detailed data analytical procedures to test material revenue streams. Based on evidence obtained, we found that fees and commissions revenue was acceptable.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Company financial statements as a whole was set at $50 million (2016: $70 million). This has been calculated with reference to a benchmark of profit before tax (of which it represents circa 7 per cent (2016: 7 per cent)), which we consider to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Company.

Our audit process included reporting to the Audit Committee all corrected and uncorrected misstatements we identified through our audit work with a value in excess of $2.5 million (2016: $3.5 million), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

We tailored the scope of our audit to ensure that we performed a sufficient level of audit procedures to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

The Group team (being KPMG Dublin as statutory auditors) instructed component auditors in the UK, Czech Republic, Hungary and Romania, as to the significant areas to be covered in their testing, including the relevant risks detailed above. The remaining components were covered centrally by the Group team.

The Group team set the component auditors' materiality levels, which ranged from $15m - $40m (2016: $25m to $50m), having regard to both the size and risk profile of the components.

The components for which an audit of one or more account balances was performed are included in the table below and accounted for the following percentages of the Company's results:

	Revenue	Profit before tax	Total assets
Audits of one or more account balances			
2017	96%	98%	95%
2016	92%	98%	99%

These components were either individually significant or were included in order to provide further coverage over the Company's Income Statement and Statement of Financial Position.

In addition to the above, we sent instructions to KPMG teams in additional locations to perform specified audit procedures of: (a) internal controls and IT controls performed in shared service centres; and (b) IT and valuation models, the testing of which is centralised in the US and the UK.

For the residual components, the Group team performed an analysis at an aggregated group level to re-examine its assessment that there were no significant risks of material misstatement within such components.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the financial statements. The other information comprises the information included in the directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on that work, we report that:

- we have not identified material misstatements in the directors' report;
- in our opinion, the information given in the directors' report is consistent with the financial statements;
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

6. Our opinions on other matters prescribed the Companies Act 2014 are unmodified

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

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company's statement of financial position and the profit and loss account is in agreement with the accounting records.

7. We have nothing to report on other matters on which we are required to report by exception

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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 7 to 8, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf

9. The purpose of our audit work and to whom we owe our responsibilities

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 our report, or for the opinions we have formed.

N. Marshall

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

23 March 2018

CITIBANK EUROPE PLC

INCOME STATEMENT
for the year ended 31 December 2017

	Note	2017 $ 000	2016* $ 000
Interest income		433,763	417,341
Interest expense		(61,670)	(59,192)
Net interest income	3	372,093	358,149
Net fee and commission income	4	1,053,164	1,109,903
Net trading income	5	211,494	161,248
Net investment income	6	42,563	149,617
Net income from other financial instruments designated at fair value through profit or loss	7	261	32,887
Other operating income	8	387,614	356,995
Operating income		2,067,189	2,168,799
Net credit (losses)/recoveries	17	(168,062)	5,909
Personnel expenses	10	(643,477)	(614,865)
Other expenses	12	(520,212)	(606,747)
Profit before income tax		735,438	953,096
Income tax expense	13	(145,741)	(124,743)
Profit for the period from continuing operations		589,697	828,353
Profit from discontinued operations, net of tax	29	10,323	34,198
Profit for the period		600,020	862,551

* Certain captions for comparatives have been updated for presentation purposes only.

The accompanying notes on pages 19 to 98 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23rd March 2018 and signed on their behalf by:

Zdenek Turek
Director

Jim Farrell
Director

Breffni Byrne
Director

Fiona Mahon
Secretary

CITIBANK EUROPE PLC

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Note	2017 $ 000	2016 $ 000
Profit for the period		600,020	862,551
Items that will not be reclassified to profit or loss			
Losses on remeasurement of defined benefit liability/asset	**14**	(8,207)	(55,699)
Related tax	**23**	1,027	11,500
Items that may be reclassified to profit or loss			
Foreign currency translation		8,082	(25,734)
Hedge of net investments in foreign operations (effective portion)		14,806	(15,628)
Fair value reserve (Available-for-sale financial assets)		(36,504)	(30,042)
Valuation gains or losses taken to equity		5,153	85,832
Transferred to profit or loss		(41,657)	(115,874)
Related tax		10,613	(8,593)
Other Comprehensive Income for the Period, Net of Tax		(10,183)	(124,196)
Total Comprehensive Income for the Period		589,837	738,355

The accompanying notes on pages 19 to 98 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23rd March 2018 and signed on their behalf by:

Zdenek Turek
Director

Jim Farrell
Director

Breffni Byrne
Director

Fiona Mahon
Secretary

CITIBANK EUROPE PLC

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	31 December 2017 $ 000	31 December 2016 $ 000
Assets			
Cash and cash equivalents	**15**	14,589,546	16,423,472
Trading assets	**16,18**	967,414	1,095,380
Derivative financial instruments	**18,19**	1,603,601	2,147,168
Investment securities	**20**	2,887,331	3,064,088
Loans and advances to banks	**18**	7,264,565	7,487,475
Loans and advances to customers	**18**	17,999,036	14,588,945
Assets associated with disposal group held for sale	**29**	-	194,389
Shares in subsidiary undertakings	**25**	14,175	14,876
Current tax asset		39,282	5,883
Other assets	**24**	3,788,345	3,470,643
Deferred tax assets	**23**	304,740	289,981
Property and equipment	**21**	57,075	144,076
Goodwill and Intangible assets	**22**	102,853	358,682
Total assets		49,617,963	49,285,058
Liabilities			
Deposits by banks	**18**	7,134,623	7,695,263
Customer accounts	**18**	26,192,250	24,065,741
Derivative financial instruments	**18,19**	1,667,005	2,191,961
Debt securities in issue	**26**	-	71
Liabilities associated with disposal group held for sale	**29**	-	639,331
Current tax liability		34,639	35,650
Provisions	**27**	93,885	55,419
Deferred tax liabilities	**23**	18,084	-
Other liabilities	**28**	5,560,857	5,197,328
Total liabilities		40,701,343	39,880,764
Equity shareholders' funds			
Share capital	**30**	10,532	10,532
Share premium account	**30**	1,962,747	1,962,747
Other reserves (net)	**36**	843,880	849,394
Retained earnings		6,099,461	6,581,621
Total equity attributable to equity shareholders		8,916,620	9,404,294
Total liabilities and equity shareholders' funds		49,617,963	49,285,058

The accompanying notes on pages 19 to 98 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23rd March 2018 and signed on their behalf by:

Zdenek Turek
Director

Jim Farrell
Director

Breffni Byrne
Director

Fiona Mahon
Secretary

CITIBANK EUROPE PLC

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

		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 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		461	369,140	-	-	-	-	-	-	369,601
Equity increase/decrease resulting from merger		-	-	-	57,578	19,283	69,717	-	-	146,578
Equity settled share-based payment	31	-	-	-	-	-	-	135	-	135
Share options exercised		-	-	-	-	-	-	-	-	-
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
Balance at 1 January 2017		10,532	1,962,747	824,123	57,578	(80,774)	45,193	3,274	6,581,621	9,404,294
Total comprehensive income/(loss):										
Profit for the period		-	-	-	-	-	-	-	600,020	600,020
Other comprehensive income/(loss), net of tax:										-
Remeasurements of defined benefit liability/(asset)	14	-	-	-	-	-	-	-	(7,180)	(7,180)
Foreign currency translation differences for foreign operations		-	-	-	-	8,082	-	-	-	8,082
Net gain on hedge of net investment in foreign operation		-	-	-	-	14,806	-	-	-	14,806
Fair value reserve (Available-for-sale financial assets)		-	-	-	-	-	(25,891)	-	-	(25,891)
Total other comprehensive income/(loss)		-	-	-	-	22,888	(25,891)	-	(7,180)	(10,183)
Total comprehensive income/(loss)		-	-	-	-	22,888	(25,891)	-	592,840	589,837
Transactions with owners, recorded directly in equity										
Issue of ordinary shares related to merger		-	-	-	-	-	-	-	-	-
Equity increase/decrease resulting from merger		-	-	-	-	-	-	-	-	-
Equity settled share-based payment	31	-	-	-	-	-	-	(2,511)	-	(2,511)
Dividends/remittances		-	-	-		-	-	-	(1,075,000)	(1,075,000)
Total contributions by and distributions to owners		-	-	-	-	-	-	(2,511)	(1,075,000)	(1,077,511)
Balance at 31 December 2017		10,532	1,962,747	824,123	57,578	(57,886)	19,302	763	6,099,461	8,916,620

The accompanying notes on pages 19 to 98 form an integral part of these financial statements.

CITIBANK EUROPE PLC

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Note	31 December 2017 $ 000	31 December 2016 $ 000
Cash flows from operating activities			
Profit after tax		600,020	862,551
Adjustments for:			
Income tax charged	13	145,741	129,590
Depreciation and amortisation	12, 21, 22	105,236	162,766
Net impairment (recoveries)/losses on loans and advances	17	168,062	(5,909)
Loss on disposal of property and equipment		49	975
Provision released and other movements during the year	27	49,286	8,647
Expenses related to share based payment	10	9,801	14,584
Expenses related to post-employment defined benefit plans	14	6,915	5,894
Interest income	3	(433,763)	(417,341)
Interest expense	3	61,670	59,192
Gains on investment securities		(28,548)	(82,404)
Change in trading assets	16	127,966	328,093
Change in derivative financial instrument assets	19	543,567	(488,802)
Change in loans and advances to banks (more than 3 months)		1,188,512	5,062,091
Change in loans and advances to customers	17	(3,410,091)	(532,671)
Operating cash flow from discontinued operation	29	-	102,514
Change in other assets	24	(317,702)	21,565
Change in deposits from banks	18	(560,640)	(6,506,393)
Change in customer account balances	18	2,126,509	806,783
Change in derivative financial instrument liabilities	19	(524,956)	402,023
Change in investment securities	20	605,063	658,623
Change in debt securities in issue	26	(71)	(554,699)
Change in other liabilities	28	363,529	249,042
Provision utilized during the year	27	(10,820)	(13,734)
		815,335	272,980
Interest received	3	433,763	417,341
Interest paid	3	(61,670)	59,192
Income tax paid		(97,132)	(92,150)
Share based payment related payment		(10,327)	(9,937)
Defined benefit related payment	14	(2,502)	(2,940)
Effect of exchange translations and other adjustments		35,767	(23,924)
Net cash from operating activities		1,113,234	620,562
Cash flows from investing activities			
Acquisition of investment securities		2,429,034	(3,167,693)
Disposal of investment securities		(2,828,791)	4,084,856
Acquisition of property and equipment	21	(42,706)	(79,027)
Proceeds from disposal of property and equipment		(49)	-
Acquisition of intangible assets	22	(19,106)	(104,213)
Dividends received from investments		-	1,327
Addition from business transfer		-	-
Proceeds from sale of discontinued business		(444,942)	(443,641)
Net Cash and cash equivalents gained during the merger		-	12,966,267
Net cash from/(used in) investing activities		(906,560)	13,257,876
Financing activities			
Dividends paid to parent		(1,075,000)	-
Redemption of issued debt		-	(22,347)
Net cash (used in) financing activities		(1,075,000)	(22,347)
Net increase in cash and cash equivalents		(868,324)	13,856,090
Cash and cash equivalents at beginning of period	15	20,893,892	7,037,802
Cash and cash equivalents at end of period	15	20,025,568	20,893,892

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

The Company has consistently applied the accounting policies as set out below to all periods presented in these financial statements

a) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the company law of Republic of Ireland.

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.

b) Functional and presentation currency

These financial statements are presented in USD, which is the functional currency of the Company.

c) 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 Company. The Company does not plan on early adoption of these standards. They are as follows:

- **IFRS 9 – Financial Instruments**

  Introduction

  IFRS 9 – *Financial Instruments*. IFRS 9 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.

  - Based on current estimates, the adoption of IFRS 9 is expected to result in an increase to retained earnings, as at 1 January 2018, in a range between $55 and $65 million. This is primarily driven by decreases in the allowance for credit losses under the new impairment requirements. The Company will continue to monitor and refine the impact of IFRS 9 in 2018.

  The assessment above may not be fully representative of the impact as at 1 January 2018 because, although at an advanced stage, the Company is still finalising its implementation efforts and assessments.

  Transition

  The impairment, classification and measurement requirements of IFRS 9 will be applied retrospectively by adjusting the Company'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 recognised in retained earnings. There is no requirement to restate comparative periods other than for hedge accounting.

  To manage the transition to IFRS 9, the Company 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 communication and training.

  The Company has put in place dedicated Governance to monitor, continuously assess and prepare for the impact of the new standard on internal processes and systems. The Company has leveraged from global project initiatives with local governance to ensure that the approach is appropriate for the Company.

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

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

   Standards issued but not yet effective (continued)

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

     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 financial assets and their 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 measurement as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

     The Company believes that the classification and measurement outcomes will be similar to IAS 39, although some differences may arise. The expected impact on the Company due to the changes to classification and measurement of financial instruments from the adoption of IFRS 9 as at 1 January 2018 is highlighted below:

     - Held-for-Trading financial assets will be classified and measured as FVTPL.
     - Financial assets designated at fair value 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 will continue to be measured and classified at amortised cost unless they fail the business model or SPPI test.
     - Investment in 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 need for liquidity or changes in interest rates or exchange rates.
       These debt securities will 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 securities currently classified as Held-to-Maturity and measured at amortised cost will 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.
     - Investment in equity securities currently classified as Available-for-Sale and measured at FVOCI will be classified as FVTPL under IFRS 9. The Company has made an accounting policy choice not to irrevocably elect to classify and measure non-trading equity instruments at FVOCI as all amounts recognised in OCI can never be reclassified to profit or loss.
     - As at the date of approval of these financial statements, no significant impact has been identified on the classification and measurement of financial assets resulting from the business model or SPPI tests. The transitional adjustments in relation to classification and measurement are therefore not expected to be significant to the financial statements.

     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.

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

c) Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

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

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 going forward.

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.*

Expected credit loss impairment model

Under IFRS 9, credit loss provisions will be measured on each reporting date according to a three-stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

- 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 expected up to 12 months. Interest is calculated based on the gross carrying amount of the asset.
- Stage 2 – Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognised equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the 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 provisions effectively replace the collectively-assessed allowance for incurred but not identified losses recorded under IAS 39, while Stage 3 credit loss provisions effectively replace the individually assessed provisions for impaired loans.

Consistent with IAS 39, loans are written off when there is no realistic probability of recovery. Accordingly, the Company's policy on when financial assets are written off will not change significantly upon adoption of IFRS 9.

The recognition and measurement of impairment is intended to be more forward looking than under IAS 39. 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"), exposure at default ("EAD") and forward looking macroeconomic indicators. For a financial asset in Stage 1 the Company will utilise up to 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 financial assets within Stage 3 the Company will continue to leverage existing processes.

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

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

Standards issued but not yet effective (continued)

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

Wholesale Classifiably Managed Exposures

An impairment allowance will be estimated for credit exposures at an individual level utilising sophisticated models depending on the relative size, quality and complexity of the portfolios.

Delinquency Managed Exposures

Impairment provisions for the small consumer loan portfolios will be estimated utilising a less sophisticated approach that is reasonable and proportionate after considering both entity level and portfolio level factors. In particular, for consumer loan portfolios, where the Company does not have access to detailed historical information and/or loss experience, the Company will adopt a simplified approach using backstops and other qualitative information specific to each portfolio.

Other Financial Assets Simplified Approaches

For other financial assets, being short term and simple in nature, the Company will apply a non-modelled measurement approach that may differ from what is described above. 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 have been validated and tested during 2017.

Significant increase in credit risk ("SICR")

A financial asset will move from Stage 1 to Stage 2 if there has been a significant increase in credit risk relative to initial recognition. From 1 January 2018, and at each reporting date going forward, the Company shall assess whether the credit risk of a financial instrument has increased significantly since initial recognition. Determining whether there has been a significant increase in credit risk will require judgement. When making this assessment, the Company will consider the increase in the risk of default (both in relative terms and absolute terms) over the expected life of the financial asset. A given change in absolute terms of the risk of a default since initial recognition will be more significant for a financial instrument with a lower initial risk of default compared to one with a higher initial risk of default. A change in the probability of default of the obligor is driven primarily by the obligor risk rating. Internal credit risk rating categories will capture the further qualitative indicators that act as backstops.

Staging

Financial assets can move in either direction through the Stages of the IFRS 9 impairment model. Transfer can take place if there has been a significant increase of credit risk since initial recognition or if the asset's credit impairment subsequently changes.

In order to determine the ECL reporting stage for an obligation, the Company will check whether the asset is already impaired (Stage 3) or not (Stage 1 and 2). Stage 2 will be determined by the existence of a significant credit deterioration (or credit improvement) compared with the credit rating at initial recognition. Stage 1 assets do not have significant credit deterioration compared with that at initial recognition.

Changes in the required credit loss allowance, including the impact of movements between Stage 1 (up to a 12-month ECL) and Stage 2 (lifetime ECL) will be recorded in profit or loss as an adjustment of the provision for credit losses.

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

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

   Standards issued but not yet effective (continued)

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

     Expected life

     When measuring ECL, the Company must consider the maximum contractual period over which the Company is exposed to credit risk, including possible drawdowns and the expected maturity of the financial asset. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Company is exposed to credit risk and where the credit losses would not be mitigated by management actions.

     Stage 3 definition of default

     As mentioned above, to determine whether an instrument should move to a lifetime ECL, the change in the risk of a default occurring over the expected life of the financial instruments must be considered. IFRS 9 does not define the term "default," but instead requires each entity to do so. Under IFRS 9, the Company must apply a default definition that is consistent with that used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. The definition of default used for this purpose must be applied consistently to all financial instruments unless information becomes available that demonstrates another default definition is more appropriate for a particular financial instrument.

     The Company classifies an exposure as a Non-Performing Exposure ("NPE") if it satisfies either or both of the following criteria:

     1. There are material exposures which are more than 90 days past-due;
     2. The obligor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

     Forward Looking Information ("FLI") and multiple economic scenarios

     Estimates must consider information about past events, current conditions and reasonable and supportable forecasts around future events and economic conditions. The application of FLI will require judgment. The Company has developed models that will include multiple economic scenarios that consider the variability and uncertainty in expected losses including factors such as GDP growth rates and unemployment rates, provided by the economists in Citi's Global Country Risk Management ("GCRM"). These estimates are based on portfolio data that reflect the current risk attributes of obligors and debt instruments combined with loss projections derived from the rating migration, PD and loss models built for estimating stress credit losses for wholesale portfolios. As mentioned above, these models have incorporated specifically developed components to make the estimates compliant with IFRS 9. The PD, LGD and Credit Conversion Factor ("CCF") models are calibrated to the observed historical patterns of defaults and losses over several years and linked to economic drivers. The model reflects different loss likelihood and loss severity as a function of different economic forecasts.

     The Company will not use the best case or worst case scenario, but will assess a representative number of scenarios (at least 3 when applying a sophisticated approach and where multiple scenarios are deemed to have a material non-linear impact) and probability weight these scenarios to determine the ECL.

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

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

   Standards issued but not yet effective (continued)

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

  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 Company will elect the accounting policy choice to continue to apply hedge accounting under IAS 39.

- **IFRS 15 – Revenue from Contracts with Customers.** In May 2014, the International Accounting Standards Board 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 is effective from 1 January 2018, and was adopted by the EU on 22 September 2016. The new standard established the principals 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, principals based five-step model for revenue recognition to be applied to contracts with customers except for revenue arising from items such as those financial instruments covered under IFRS 9. To manage the implementation, the Company has initiated a project program led by the Finance Team that focus on key areas of impact, including financial reporting, systems and process, training as well as communications. Apart from the limited changes necessary to comply with the enhanced presentation and disclosure requirements, we do not expect any material impact of IFRS 15 on the Company financial results.

- **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 recognise depreciation expense on the lease asset and interest expense on the lease liability in the income statement. 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 Company is assessing the potential impact on its financial statements resulting from this standard.

- **Amendments to IFRS 2 – Share-based Payment.** The amendments covers (i) the measurement of cash-settled share-based payments, (ii) the classification of share-based payments settled net of tax withholdings and (iii)accounting for a modification of a share-based payment from cash-settled to equity settled. The amendments are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The amendments are not expected to have a significant impact on the Company.

- **IFRIC 23 – Uncertainty over Income Tax Treatments.** The interpretation provides requirements that add to the requirements in IAS 12 – Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income taxes. The interpretation applies for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted. The interpretation is not expected to have a significant impact on the Company.

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

d) 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 ("EIR"). Under this method, fees and direct costs directly attributable 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.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability

When calculating the EIR, the Company 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 includes:

- Interest on financial assets and liabilities at amortised cost on an effective interest basis;
- Interest on available-for-sale investment securities; and
- Interest on cash balances.

e) Net fee and commission income

Fee and commission income and expenses that are integral to the EIR on a financial asset or liability are included in the measurement of EIR (see Note 1 (d) above)

Other fee and commission income, including transaction processing fees, account servicing 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.

If a loan commitment is not expected to result in the drawdown of a loan then the related loan commitment fee is recognised on a straight line basis over the commitment period.

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

f) 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.

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

g) 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 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.

h) Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are presented in 'Net trading income' when the dividend income has arisen from trading assets.

i) Financial assets and liabilities

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

A financial asset or liability is measured initially at fair value plus, for an item not measured at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issuance.

Trading assets
The trading book of the Company 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 benefitting 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 Company 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 Company 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 EIR 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 Company 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.

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

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

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 or using valuation techniques, including discounted cash flow models and option 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 Company 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 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 change in the fair value of the derivative is recognised immediately in the income statement as a reclassification adjustment on disposal of the foreign operation.

Investment securities

Available for Sale

Available-for-sale ("AFS") investment securities are those non derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to need 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 recognised at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. AFS financial assets 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 rates are recognised in the income statement and other changes in carrying amount are recognised 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 recognised in other comprehensive income includes any related foreign exchange component.

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 Company 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 Company's financial statements. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

i) Financial assets and liabilities (continued)

Investment securities (continued)

Held-to-maturity investment securities

These are financial assets with fixed or determinable payments and fixed maturities that the Company's management has the 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 investment securities is recognised 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 Company from classifying investment securities as held to maturity for the current and the following two financial years. Sales or reclassifications are 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.

Reverse repurchase agreements
When the Company 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 Company`s financial statements.

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 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 Company 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 IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

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 Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

i) Financial assets and liabilities (continued)

Fair Value Measurement (continued)
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 Company 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 Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change occurred.

j) Impairment of financial assets

Impairment of loans and advances
The Company assesses at each statement of financial position date whether there is objective evidence that 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/have had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Objective evidence of impairment includes observable data that comes to the attention of the Company 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 Company 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 Company 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.

For loans and advances the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows considering collateral, discounted at the asset's original EIR. 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 EIR. The Company discounts future cash flows for the purpose of measuring the impairment loss, using the original EIR, applied to the revised carrying amount.

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

j) Impairment of financial assets (continued)

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 application of the effective interest method time 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 Company 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)

j) 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.

k) De-recognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flow from assets has expired or the Company 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.

l) Finance and operating leases

Where the Company 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 (m) 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 life. 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

m) 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 ten 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 Company 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.

n) Intangible assets

Goodwill

Acquired goodwill represents the excess of the cost of an acquisition over the fair value of the Company'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.

Computer software

Expenditure on internally developed software is recognised as an asset when the Company 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.

Amortisation is charged to the income statement and presented in the other expenses line 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

Other intangibles - Client intangibles

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Other intangibles relate to client intangibles that are identifiable assets and are recognised at their present value based on cash flow forecasts on acquired contractual rights over customer relationships.

Amortisation is charged to the income statement and presented in the other expenses line using the methods that best reflect the economic benefits over their estimated economic lives and residual values are reviewed at each financial year end and adjusted if appropriate. The estimated useful lives are as follows.

Client intangibles	3 - 5 years

o) Impairment of non-financial assets

At each reporting date, the Company 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)

p) 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 an income tax benefit or expense in the income statement.

q) Levies

Levies are imposed by governments to the Company in accordance with the legislation, other than income taxes, fines or other penalties that are imposed for breach of the legislation. The Company 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 Company's income statement.

r) 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 income statement as incurred except gains and losses on financial assets classified as AFS equity investments which are recognised in OCI that are non-monetary items.

The assets and liabilities of overseas branches are translated into the Company'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.

s) Employee benefits

Defined benefit plans
The Company participates in and continues to operate defined benefit pension schemes for employees in Greece, Netherlands, Belgium, Spain, Austria, Ireland, France and Norway. Staff do not make contributions for basic pensions. For its overseas defined benefit plans, the net liability recognised in the statement of financial position is the actuarially calculated present value of the defined benefit obligation at the Statement of financial position 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 statement of financial position where an economic benefit is available as a reduction in future contributions or as a refund of monies to the Company.

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

s) **Employee benefits** (continued)

Defined contribution plans
The Company operates a number of defined contribution pension schemes. The Company'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 Company 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 Company 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 Company 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.

t) **Share based incentive plans**

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

The Company uses equity-settled accounting for its share-based incentive plans, with separate accounting for its associated obligations to make payments to Citigroup. The Company 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 Citigroup's share-based incentive plans that have a graded vested period each "tranche" of the award is treated as a separate award, where a plan has a cliff vest the award only has a single "tranche". The expense is recognised in the first year of deferral.

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

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

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

u) 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.

v) 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: non-restricted and restricted cash balances with central banks, treasury bills and other eligible bills and loans and advances to banks.

w) 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.

x) Subsidiary undertakings

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

y) Common control transactions

The Company 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.

z) Discontinued operation

A discontinued operation is a component of the Company'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.

aa) Fiduciary activities

The Company 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.

bb) Issued debt securities

The Company has designated 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 Company's own credit risks. See Note 18 – 'Financial assets and liabilities' for further details.

2. Use of assumptions and estimates

The results of the Company 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 Company'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 Company 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 – 'Risk management'.

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 Company 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 – 'Share-based incentive plans' for further details.

Retirement benefit obligation
The Company 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 – 'Financial assets and liabilities' further outlines the approach to valuation of financial instruments.

Deferred tax
The Company's accounting policy for the recognition of deferred tax assets is described in Note 1(p) – 'Principal accounting policies'. A deferred tax asset is recognised to the extent that it is probable that suitable future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of suitable future taxable profits, future reversals of existing taxable temporary differences and planning strategies.

The amount of the deferred tax asset recognised is based on the evidence available about conditions at the balance sheet date, and requires significant judgements to be made by management, especially those based on management's projections of business growth, credit losses and the timing of a general economic recovery.

Management's forecasts support the assumption that it is probable that the future results of the Company will generate sufficient suitable taxable income to utilise the deferred tax assets.

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 non-performance risk.

This process identifies specific, point-in-time future cash flows that are subject to non-performance risk, rather than using the current recognised net asset or liability as a basis to measure the CVA. Second, market-based views of default probabilities derived from observed credit spreads in the credit default swap ("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 Company has designated various debt instruments at fair value through profit or loss. Under IFRS 13, the Company is required to incorporate its own-credit risk in the fair value for these liabilities.

During 2017, the Company recorded CVA/FVA/DVA gain of approximately $7.6 million (2016: loss of $4.5 million).

NOTES TO THE FINANCIAL STATEMENTS

3. Net interest income

	2017	2016
Interest and similar income	**$ 000**	**$ 000**
Cash and cash equivalents	470	1,132
Loans and advances to banks	73,805	77,258
Loans and advances to customers	305,491	293,719
Investment securities - available for sale	31,469	44,116
Other interest income	22,528	1,116
Total interest income	433,763	417,341
Interest expense and similar charges		
Deposits by banks	11,983	11,929
Customer accounts	14,100	25,880
Debt securities in issue	-	740
Other interest paid	35,587	20,643
Total interest expense	61,670	59,192
Net interest income	372,093	358,149

Included in interest income is a total of $14.5 million (2016: $1.2 million) received on impaired loans.

NOTES TO THE FINANCIAL STATEMENTS

4. Net fee and commission income

	2017 $ 000	2016* $ 000
Securities	-	8,448
Clearing and settlement	43,665	51,728
Asset management	1,752	1,750
Custody and Fiduciary transactions	208,094	187,241
Payment services	309,661	319,767
Customer resources distributed but not managed	133,164	150,329
Structured Finance	94,832	96,028
Loan commitments given	100,329	109,745
Other	262,964	266,114
Total fee and commission income	1,154,461	1,191,150
Clearing and settlement	(43,023)	(36,296)
Custody	(25,942)	(19,834)
Other	(32,332)	(25,117)
Total fee and commission expense	(101,297)	(81,247)
Net fee and commission income	1,053,164	1,109,903

* Certain captions for comparatives have been updated for presentation purposes only.

Included in fee and commission income are fees earned by the Company on fiduciary activities where the Company holds assets on behalf of its customers. This fee income totalled $148 million in 2017 (2016: $149 million).

5. Net trading income

	2017 $ 000	2016 $ 000
Derivatives	175,040	85,585
Debt securities	25,872	74,123
Loans and advances	10,582	1,540
Total net trading income	211,494	161,248

The increase in the net trading income is driven through affiliate derivative transactions.

NOTES TO THE FINANCIAL STATEMENTS

6. Net investment income

	2017 $ 000	2016 $ 000
Net gain of available-for-sale financial assets	41,657	148,290
Dividends on available-for-sale financial assets	906	1,327
Total net investment income	42,563	149,617

7. Net income from other financial instruments designated at fair value through profit or loss

	2017 $ 000	2016 $ 000
Loans and advances	261	33,039
Debt securities issued	-	(152)
Total net income from other financial instruments designated at fair value through profit or loss	261	32,887

8. Other operating income

	2017 $ 000	2016* $ 000
Intercompany recoveries	387,614	356,995
Total other operating income	387,614	356,995

* Certain captions for comparatives have been updated for presentation purposes only.

A significant portion of expenses within the Company originates from services provided by the Citi Service Centre ("CSC") 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

	2017 $ 000	2016 $ 000
Audit fee	742	699
Other assurance	349	270
Tax advisory services	2	33
Other non-audit services	-	-
	1,093	1,002

Additional fees paid to other KPMG member firms outside Ireland for services include local audit fees of $1.2 million (of which $1 million were to offices involved in the statutory audit of the Company), other assurance fees of $0.1 million, tax advisory fees of $0.04 million and any other non-audit service fees of $0.16 million.

10. Personnel expenses

The average number of persons employed by the Company during the year was 8,915 (2016: 9,158). This comprises 8,805 Direct Staff Full Time and 110 Direct Staff Part-time. The average number of persons employed through the Company's continuing operations during the year was 8,915 (2016: 8,604). The average number of persons employed through the Company's discontinued operations during the year was nil (2016: 554).

The following table shows the average number of employees by function for 2017 and 2016:

	2017	2016
Investment Banking	619	600
Retail Banking	315	805
Corporate Functions	2,952	2,411
Independent Control Functions	293	256
All Other	4,736	5,086
Total number of staff	8,915	9,158

"All Other" relates primarily to Operation and Technology headcount which are based in the Company's Service Centres.

The Company operates 11 defined contribution pension schemes of which seven are defined benefit schemes. In 2017 contributions of $26 million (2016: $22 million) were made to the schemes.

	2017 $ 000	2016 $ 000
Wages and salaries	505,840	452,944
Social security costs	91,705	89,454
Share based payment expenses	9,801	14,584
Pensions and post retirement benefits	25,736	22,082
Restructuring costs	10,395	35,801
Total personnel expenses	643,477	614,865

11. Directors' emoluments

	2017 $ 000	2016 $ 000
Directors' emoluments are as follows:		
For qualifying services	3,157	2,615
For long term incentive schemes	-	-
Pension schemes		
- Defined contribution scheme	98	112
Compensation for loss of office	-	1,392
	3,255	4,119

As of 31 December 2017 retirement benefits were accruing to two directors (2016: three).

12. Other expenses

	2017 $ 000	2016 $ 000
Research and development	5,502	4,926
Depreciation	36,072	48,257
Amortisation	69,164	114,509
Communications and technology	111,438	97,596
Contractors	45,545	47,014
Tax charges and levies	51,191	57,157
Premises	48,532	48,616
Other administrative expenses	152,768	188,672
Total other expenses	520,212	606,747

13. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2017 $ 000	2016 $ 000
Current tax:		
Corporation tax on profits of the period	(101,202)	(149,944)
Total current tax	(101,202)	(149,944)
Deferred tax:		
Current year deferred tax	(45,913)	20,354
Total deferred tax (note 23)	(45,913)	20,354
Total income tax expense	(147,115)	(129,590)
- of this continuing operation	(145,741)	(124,743)

(b) Reconciliation of effective tax rate:

	31 December 2017 $ 000	31 December 2016 $ 000
Profit before income tax from continued operations	735,438	953,096
Profit before income tax from discontinued operations	11,697	39,045
Total profit before income tax	747,135	992,141
Income tax at Irish corporation tax rate of 12.5%	(93,392)	(124,018)
Effects of:		
Income taxes paid in foreign jurisdictions	4,979	(644)
Capital allowances and other timing differences	5,070	29,674
Non deductible expenses	(17,859)	(32,998)
Taxes paid at higher rate	-	(21,958)
Total current income tax expense	(101,202)	(149,944)
- of this continuing operation	(99,828)	(145,097)
- of this discontinuing operation	(1,374)	(4,847)

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

14. Retirement benefit obligation

The Company participates in locally operated defined benefit and defined contribution schemes for its European branches. The overseas branches in Greece, Netherlands, Belgium, Spain, Austria, Ireland, France and Norway operate defined benefit schemes locally. In some of the European countries employers pay contributions towards the state pension scheme. The Company fulfils its duties in this regard as required by local statute. Across the Company various countries participate in defined contribution schemes.

Employer contributions to the defined benefit schemes in 2017 were $3 million (2016: $3 million). The Company expects to make contributions of approximately $2 million in 2018. The defined benefit obligation includes benefits for current employees, former employees and current pensioners. The weighted average duration of the obligation is 18.4 years. The main plans provide benefits related to salary close to retirement or earlier withdrawal from service.

Material amendments, curtailments and settlements within the during 2016 and 2017 encompassed the following:

Following the merger of Citibank International Limited with Citibank Europe Plc, an internal agreement which enhanced the retirement indemnities required by collective agreement was terminated in France. This reduced the plan obligation by $1.4 million (€1.2 million) in 2017, and will result in small expense reduction going forward.

The retirement age in the Netherlands was changed in late 2017 from 67 to 68, without a change in accrual rate. The transfer of the accrued benefits with retirement age 67 into benefits with retirement age 68 led to a small increase in the plan obligation of $0.2 million (€0.2 million).

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 $1.7 million which has been recognized as a past service credit in 2016.
The amounts recognised in the balance sheet are determined as follows:

	31 December 2017 $ 000	31 December 2016 $ 000
Present value of funded defined benefit obligation	(537,821)	(466,681)
Fair value of plan assets	315,302	282,858
Deficit	(222,519)	(183,823)
Present value of unfunded defined benefit obligation	(17,103)	(14,703)
Net liability recognised on the balance sheet (note 28)	(239,622)	(198,526)
Deferred tax asset (note 23)	29,953	49,980
Net pension liability	(209,669)	(148,546)

The analysis of the income statement charge is as follows:

	2017 $ 000	2016 $ 000
Operating costs:		
Current service cost	3,383	2,847
Past service credit (incl. curtailments)	(1,176)	(1,743)
Administration expenses	1,071	1,057
Financing costs:		
Interest cost on defined benefit obligations	8,692	10,767
Interest income on scheme assets	(5,055)	(7,034)
Expense recognised in the income statement	6,915	5,894
of which attributable to discontinued operations	-	-
Expense recognised in the income statement for continuing operations	6,915	5,894

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

14. **Retirement benefit obligation** (continued)

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

	2017 $ 000	2016 $ 000
Opening defined benefit obligation	(481,384)	-
Defined benefit obligation on date of merger	-	(428,871)
Exchange rate adjustments	(67,219)	16,549
Current service cost	(3,383)	(2,847)
Interest cost on defined benefit obligations	(8,692)	(10,767)
Remeasurement losses due to changes in financial assumptions	(4,956)	(71,986)
Remeasurement losses due to changes in demographic assumptions	(835)	(1,241)
Remeasurement gains due to changes in liability experience	(6,216)	1,189
Contributions by plan participants	(45)	(44)
Net benefits paid out	16,630	14,891
Past service cost (including curtailments)	1,176	1,743
Closing defined benefit obligation	(554,924)	(481,384)

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

	2017 $ 000	2016 $ 000
Opening fair value of plan assets	282,858	-
Fair value of plan assets on date of merger	-	281,697
Exchange rate adjustments	38,743	(9,248)
Interest income on plan assets	5,055	7,034
Return on plan assets excluding interest income	3,800	16,339
Contributions by the employer	2,502	2,940
Contributions by the participants	45	44
Net benefits paid out	(16,630)	(14,891)
Administration costs incurred	(1,071)	(1,057)
Closing fair value of plan assets	315,302	282,858

The actual return on plan assets is as follows:

	2017 $ 000	2016 $ 000
Interest income on plan assets	5,055	7,034
Return on plan assets excluding interest income	3,800	16,339
Total return on plan assets	8,855	23,373

14. Retirement benefit obligation (continued)

The interest income on scheme assets is set using the discount rate assumption. In 2017 there was a small increase in asset values leading to a remeasurement gain of $4 million. In 2016, asset values grew by more than assumed, leading to an overall remeasurement gain of $16 million, as bond yields decreased during the period.

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

	2017 $ 000	2016 $ 000
Total remeasurement losses	(8,207)	(55,699)
Total losses in the statement of comprehensive income	(8,207)	(55,699)
Cumulative amount of losses recognised in the statement of comprehensive income	(63,906)	(55,699)

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

	2017 $ 000	2016 $ 000
Fair value of plan assets	315,302	282,858
Defined benefits obligation	(554,924)	(481,384)
Deficit in plan	(239,622)	(198,526)

	2017 $ 000	2016 $ 000
Remeasurement gains on plan assets	3,800	16,339
Experience (loss)/gain on obligation	(6,216)	1,189
Assumption loss on obligation	(5,791)	(73,227)
Total remeasurement loss on scheme liabilities	(12,007)	(72,038)
Total remeasurement loss	(8,207)	(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 company 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 Company 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 Company'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.

NOTES TO THE FINANCIAL STATEMENTS

14. Retirement benefit obligation (continued)

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

	2017	2016
Discount rate for assessing scheme liabilities	1.70%	1.70%
Future salary increases	2.10%	2.10%
Rate of increase for pensions in payment	2.00%	1.80%
Inflation rate assumption	1.90%	1.70%

The fair values of the plan assets are as follows:

Fair values of the plan assets

	2017		2016	
$ 000	Total fair value	Of which not quoted in active market	Total fair value	Of which not quoted in active market
Equities	74,033	-	48,045	-
Property	132	-	-	-
Government bonds	85,361	-	119,547	-
Corporate bonds	106,124	-	98,351	-
Other	49,652	3,613	16,914	3,392
Total fair value of assets	315,302	3,613	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:

	2017 $ 000	2016 $ 000
Effect of decreasing the discount rate assumption by 1% on liabilities	(110,080)	(93,751)
Effect of participants living one extra year than expected on liabilities	(18,475)	(14,803)
Effect of increasing the pension increase rate by 1% on liabilities	(40,285)	(34,405)

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

	2018 $ 000	2019 $ 000	2020 $ 000	2021 $ 000	2022 $ 000	2023-2027 $ 000
Expected benefit payments	15,579	16,928	17,924	16,935	16,714	95,437

15. Notes to the cash flows statement

a) Cash and cash equivalents

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

	31 December 2017 $ 000	31 December 2016 $ 000
Cash and balances with central banks	11,138,682	12,272,858
Other demand deposits	3,450,864	4,150,614
Cash and cash equivalents	14,589,546	16,423,472
Loans and advances to banks with maturity less than 3 months	5,436,022	4,470,420
Total	20,025,568	20,893,892

b) Change in liabilities arising from financing activities

	Repurchase agreements $ 000
31 December 2016	-
Proceeds from repurchase agreement (net)	120,240
31 December 2017	120,240

16. Trading assets

	31 December 2017 $ 000	31 December 2016 $ 000
Government bonds	709,448	404,458
Corporate bonds	6,219	6,688
European commercial paper	-	455,359
Loans	251,747	228,875
Total trading assets	967,414	1,095,380

17. Risk management

17.1 Risk management missions, organisation and governance

Risk management framework

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

The framework applies to the Company 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 Company's material risks are managed.

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

Risk governance

The 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. The three lines of defence also collaborate with each other in structured fora and through formalised processes to bring various perspectives together and to lead the Company toward outcomes that are in clients' and shareholders' interests, create economic value and are systemically responsible.

Each of the Company's businesses (the first line of defence) owns and manages 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 Company'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 business, operations and control functions are required to manage and oversee risks, including compliance 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 Company'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 Company.

Risk appetite

The Company's Risk Appetite Statement is the formal articulation of the aggregate levels and types of risk that the Company is willing to accept in order to achieve its strategic objectives which includes the maintenance of a strong financial position. It includes qualitative statements and associated risk review thresholds, and quantitative statements and associated risk limits.

The objective is to ensure that those risks are consistent with Company's Mission, Value Proposition, and Principle of Responsible Finance and that they are identified, understood, quantified, mitigated, communicated and captured.

Risk Management reviews and reports the Company's Risk Appetite usage against the established thresholds on a regular basis to the Board 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 mission, organisation and governance (continued)

Risk identification and assessment process

Risk Identification in the Company is a continuous process. The Company 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 Company with the opportunity to consider the risks facing the Company, while raising awareness of those risks through broad participation from within the Company.

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

The Material Risk Identification and Assessment process informs the Company's Strategic Plan and, in turn, Risk Appetite setting and other formal risk processes, among others ICAAP, ILAAP, and recovery planning.

Stress testing

The stress testing programme is an integral part of the Company's risk management framework and is supported by an effective infrastructure. Stress testing is integrated into the Company's risk management processes.

The stress testing programme is actionable and informs decision making at all appropriate management levels of the Company. The stress testing programme, as part of a range of risk management tools, supports different business decisions and processes including strategic decisions.

The effectiveness and robustness of stress tests is assessed regularly, qualitatively as well as quantitatively, in light of changing external conditions to ensure that they are up-to-date. The frequency of assessment of different parts of the stress testing programme is set as annually. The stress testing programme is sound and robust including the design, scenarios, use of judgement and results.

The Company's Board has the ultimate responsibility for ensuring an appropriate stress testing framework is in place. The Board reviews stress test scenarios prior to the stress tests being conducted, and the results of stress tests are reported to the Board.

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 Company's business activities, including:

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

Governance and Organisation

Credit Risk Management within the Company 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 Company.

From a Company credit approval perspective, new and existing credit approvals adhere to Citi global and CEP policies. The Company has put in place specific Credit Risk and Remedial Management Policies.

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

17. Risk management (continued)

17.2 Credit Risk (continued)

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 credit approval 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. The Risk Management may freeze specific limits at any time in order to take the latest events into account.

Impairment Provisioning

Specific and Collective Provisions are calculated for financial assets that are measured at amortised cost (Loans and Receivables, Held-to-Maturity Investments), where deemed necessary/where impairment triggers have been met.

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 Company 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 arising from a non-performing exposure 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, the Company assigns a risk rating of 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; or observable market price of loan.
- A Specific provision will be recorded on a non-performing non-defaulted exposure. This arises when an obligor presents criteria as being assessed as non-performing, but which have not defaulted on the contractual obligations regarding the performance of the exposure. These obligors are assigned a risk rating of 7- and an average PD based on empirical data from the Company's portfolio.
- A Collective assessment of impairment is 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 the Company has not yet determined or recognised. The 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 Company ('emergence period').

An analysis is produced by 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.

17. Risk management (continued)

17.2 Credit Risk (continued)

Risk Exposure

Loans outstanding

The total carrying amounts in this table include loans and advances to banks and loans and advances to customers as per Note 18 – 'Financial assets and liabilities'. See table below for split by category.

	Note	31 December 2017 $ 000	31 December 2016 $ 000
Loans and advances to banks			
Loans and advances - 3rd party	18	3,509,836	2,326,248
Loans and advances to customers			
Commercial loans	18	17,663,177	14,067,871
Loans held at fair value through the profit and loss	18	322,861	507,836
Loans and advances to customers		17,986,038	14,575,707
Loans and advances to third parties		**21,495,874**	**16,901,955**
Loans and advances - Related party		3,767,727	5,174,465
Loans and advances		**25,263,601**	**22,076,420**

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

	31 December 2017 $ 000	31 December 2016 $ 000
Gross exposure		
- Commitments and guarantees (third party)	37,768,131	35,170,990
- Balance sheet exposures (third party)	41,418,070	36,679,618
Total exposure	79,186,201	71,850,608

Loans held at fair value through profit and loss

Details of changes in the fair value of loans and advances attributable to credit risk are set out below.

Changes in fair value attributable to changes in the credit risk	For the year 2017 $ 000	Cumulative 2017 $ 000	For the year 2016 $ 000	Cumulative 2016 $ 000
Loans held at fair value through profit and loss	270	10,674	(16,251)	(16,251)
Traded loans	36,570	9,915	-	-

17. Risk management (continued)

17.2 Credit Risk (continued)

Exposure to credit risk - Loans and advances to third parties

	31 December 2017 $ 000	31 December 2016 $ 000
Gross amount	21,668,582	17,003,138
Individually impaired		
Not past due or less than 90 days	1,121,500	78,951
91 - 179 days past due	16,335	5,419
180 days or more past due	31,612	125,960
Gross amount	1,169,447	210,330
Impairment provision on individually impaired loans	(94,263)	(30,472)
Carrying amount of individually impaired loans	1,075,184	179,858
Collectively assessed		
Not past due or less than 90 days	20,499,135	16,792,808
91 - 179 days past due	-	-
180 days or more past due	-	-
Gross amount	20,499,135	16,792,808
Impairment provision on collectively assessed loans	(78,445)	(70,712)
Carrying amount of collectively assessed loans	20,420,690	16,722,096
Carrying amount of loans neither past due, nor impaired	-	-
Total impairment provision	(172,708)	(101,184)
Total carrying amount	21,495,874	16,901,955
Impairment provision on undrawn commitments	(77,437)	(33,987)
Total impairment on drawn and undrawn commitments	(250,145)	(135,171)

The increase of individually impaired loans is primarily driven by change in the impaired loan classification methodology.

17. Risk management (continued)

17.2 Credit Risk (continued)

Net credit losses charged to the current period income statement

	31 December 2017 $ 000	31 December 2016 $ 000
Net change to individual provisions taken in the year	(102,576)	31,016
Net change to collective provisions taken in the year	(11,222)	(4,701)
Credit recoveries recognised directly in the income statement	11,861	13,484
Write-offs recognised directly in the income statement	(66,125)	(33,890)
Net credit (losses)/recoveries	(168,062)	5,909

Move in provisions for impairment balances

	31 December 2017 $ 000	31 December 2016 $ 000
Allowance for impairment		
Individual allowance for impairment		
Opening balance	(30,472)	(24,465)
Transfer in	-	(39,854)
Charge for the year	(129,634)	(8,923)
Release	1,619	8,046
Effect of foreign currency movements	(325)	2,830
Write offs	24,938	31,894
Other movements	189	-
Closing balance	(133,685)	(30,472)
Collective allowance for impairment		
Opening balance	(104,699)	(46,157)
Transfer in	-	(52,365)
Charge for the year	(19,676)	(27,257)
Release	7,530	22,557
Effect of foreign currency movements	385	(1,477)
Closing balance	(116,460)	(104,699)
Total allowance for impairment	(250,145)	(135,171)

The restructuring of a facility is considered to be a Troubled Debt Restructuring, when the debtor is experiencing financial difficulties and the Company 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 Company such as the receipt of security or a new or restructured facility in partial or full satisfaction of a facility or a modification of the terms of the existing facility.

NOTES TO THE 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 and the associated provisions by type as detailed on page 52 *Impairment Provisioning.*

	31 December 2017 $ 000	31 December 2016* $ 000
Total corporate loans and advances to banks and customers	25,436,309	22,177,604
Total provision on corporate loans and advances to banks and customers	172,708	101,184
Total net corporate loans and advances to banks and customers	25,263,601	22,076,420
Restructured loans		
Gross corporate loans	**38,509**	**133,230**
Performing	-	-
Non-performing non-default	-	-
Non-performing in default	38,509	133,230
Collective provision	-	-
Performing	-	-
Non-performing non-default	-	-
Non-performing in default	-	-
Specific provision	**4,321**	**24,207**
Performing	-	-
Non-performing non-default	-	-
Non-performing in default	4,321	24,207
Net corporate loans	**34,188**	**109,023**
Non-restructured loans		
Gross corporate loans	**25,397,800**	**22,044,374**
Performing	24,283,613	22,026,411
Non-performing non-default	797,664	-
Non-performing in default	316,523	17,963
Collective provision	**78,445**	**70,712**
Performing	78,445	70,712
Non-performing non-default	-	-
Non-performing in default	-	-
Specific provision	**89,942**	**6,265**
Performing	-	-
Non-performing non-default	32,949	-
Non-performing in default	56,993	6,265
Net corporate loans	**25,229,413**	**21,967,397**

* Certain captions for comparatives have been updated for presentation purposes only.

17. Risk management (continued)

17.2 Credit Risk (continued)

Credit quality – Trading portfolio

The credit quality of the Company's financial assets is maintained by adherence to the Company's policies on the provision of credit to counterparties. The Company monitors the credit ratings of its counterparties with the table below presenting an analysis of the Company'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:

Trading portfolio

	Traded loans % 2017	European commercial paper % 2017	Government bonds % 2017	Total % 2017
AAA to AA-	-	-	-	-
A+ to A-	-	-	8	8
Lower than A-	22	-	65	87
Unrated	5	-	-	5
Total	27	-	73	100
	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

17. Risk management (continued)

17.2 Credit Risk (continued)

Credit quality – Available for sale financial assets

Available for sale financial assets

	Government bonds	Corporate bonds	Equity securities measured at fair value	Total
	%	%	%	%
	2017	**2017**	**2017**	**2017**
AAA to AA-	31	14	-	45
A+ to A-	2	-	-	2
Lower than A-	51	-	-	51
Unrated	-	-	2	2
Total	84	14	2	100
	2016	**2016**	**2016**	**2016**
AAA to AA-	45	12	-	57
A+ to A-	3	-	-	3
Lower than A-	39	-	-	39
Unrated	-	-	1	1
Total	87	12	1	100

17. Risk management (continued)

17.2 Credit Risk (continued)

Concentration Risk

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

	31 December 2017 $ 000	31 December 2016 $ 000
Mining and quarrying	382,225	672,888
Manufacturing	6,861,512	5,663,774
Electricity, gas, water, steam and air conditioning supply	526,339	500,074
Construction	184,236	196,830
Wholesale and retail trade	2,149,311	1,786,445
Transport and storage	882,613	1,013,922
Accommodation and food service activities	71,006	61,090
Information and communication	2,047,780	1,670,870
Credit and insurance institutions	17,711,524	17,932,457
Real estate activities	552,231	528,869
Professional, scientific and technical activities	389,465	190,313
Administrative and support service activities	1,303,643	544,111
Public administration and defence, compulsory social security	3,818,346	2,197,064
Household/Retail	1,391,302	1,289,226
General governments	35,392	1,334,154
Other services	3,111,145	1,097,531
	41,418,070	36,679,618

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:

	31 December 2017 $ 000	31 December 2016 $ 000
Central Europe	2,134,252	2,604,621
Western Europe	35,010,970	30,420,459
Middle East / Africa	1,336,869	1,153,653
Central / South America	781,667	923,961
North America	1,068,987	991,672
Asia	1,085,325	585,252
	41,418,070	36,679,618

17. **Risk management** (continued)

17.2 **Credit Risk** (continued)

Analysis of encumbered and unencumbered assets

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

Assets	**Encumbered**	**Un-Encumbered**	**Total**
	$million	**$million**	**$million**
Cash and cash equivalents	2,038	12,551	14,589
Equity Instruments	-	48	48
Investment Securities & Debt Trading Instuments	152	3,396	3,548
- of which: covered bonds	-	-	-
- of which: asset-backed securities	-	7	7
- of which: by general governments	116	3,021	3,137
- of which: by financial corporations	37	386	423
- of which: by non-financial corporations	-	3	3
Loans and advances other than loans on demand	1,039	24,245	25,284
Other Assets	616	5,551	6,167
Assets subtotal	3,845	45,791	49,636

Collateral Received	**Encumbered**	**Un-Encumbered**	**Total**
	$million	**$million**	**$million**
Cash and cash equivalents			-
Equity Instruments			-
Investment Securities	1,299	3,120	4,419
- of which: covered bonds			-
- of which: asset-backed securities			-
- of which: by general governments	1,299	3,120	4,419
- of which: by financial corporations	-	-	-
- of which: by non-financial corporations	-	-	-
Loans and advances other than loans on demand	-	-	-
Other collateral received	-	715	715
			-
Collateral received subtotal	1,299	3,835	5,134
Total assets and collateral received	5,144	49,626	54,770

Collateral held by the Company for securing loan transaction includes:

- Financial collateral such as marketable securities;
- Physical collateral such as Property, Plant and Equipment, Furniture and Fixtures, Shipping Vessels;
- Other types of lending collateral such as trading receivables.

The credit quality of assets is monitored regularly and reported to senior management and the Board on a quarterly basis. In addition, high risk exposures are reported to senior management monthly. Any sudden credit events are promptly escalated to senior risk and business managers.

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

As at 31 December 2017	**(a)**	(b)	**(c)=(a)+(b)**	(d)		**(e)=(c)-(d)**
				Related amounts not set off in the statement of financial position		
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	1,876,714	(273,113)	1,603,601	-	-	1,603,601
Reverse repurchase securities borrowing and similar agreements	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-
Total	**1,876,714**	**(273,113)**	**1,603,601**	-	-	**1,603,601**

Types of financial liabilities

As at 31 December 2017	**(a)**	(b)	**(c)=(a)+(b)**	(d)		**(e)=(c)-(d)**
				Related amounts not set off in the statement of financial position		
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	1,940,118	(273,113)	1,667,005	-	-	1,667,005
Other financial instruments	-	-	-	-	-	-
Total	**1,940,118**	**(273,113)**	**1,667,005**	-	-	**1,667,005**

17. Risk management (continued)

17.2 Credit Risk (continued)

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	3,759	-	-
Total	**5,548,692**	-	**5,548,692**	**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)

17.3 Market Risk

Definition

Market risk is the potential for losses arising from changes in the value of the Company's assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates and other market prices. 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 with short term trading intent, where the business seeks to capture the differences between buying and selling prices. These positions arise mainly from customer flows. The products traded include Foreign Exchange ("FX") Spot, Swaps and Forwards and Sovereign Bonds.

The primary 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 are not held with a trading intent and arise mainly from customer flows. The primary products in the non-trading portfolio include loans held at amortised cost, deposits, available for sale ("AFS") securities and held to maturity securities. The main sources of market risk within the non-trading portfolio, include, but are not limited to:

- Interest rate changes giving rise to a potential pre-tax impact on Net Interest Margin ("NIM").
- Fair value changes to the instrument due to a given change in the underlying market risk factor.

Governance and Organisation

As part of the Market Risk Framework, the following Committees and Sub-Committees perform an oversight role for market risk related items:

- Board Risk Committee
- Asset & Liability Committee ("ALCO")
- Executive Committee
- Market Risk Sub-Committee
- Product Review Committee

The Asset & Liability Committee and its sub-Committee, the Market Risk Committee are the two primary Committees tasked with governing Market Risk in the Company. Any new businesses/products being introduced in the Company or material changes to existing businesses/products must be approved by the Product Review Committee. The Executive Committee ensures that appropriate risk considerations are incorporated in the strategic planning process. The Board Risk Committee oversees the implementation of the Company's market risk strategy and the market risk management function.

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

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

Market risk in the Company is measured in accordance with industry standard methodologies which are designed to:

- 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 Company perspective, key measurement approaches by source of risk include, but are not limited to the following:

Trading Portfolio:

The primary measurement approach for market risk in the trading book is Value at Risk.

Value at Risk ("VaR")

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 calculated using a Monte Carlo approach where 10,000 simulations of market rates or prices are generated. Volatilities and correlations are updated at least quarterly based on three years' worth of market data.
The key parameters used to calculate VaR 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 Company's risk management purposes.

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 are used in addition to VaR limits. These limits are supplemented by VaR and sensitivity triggers that ensure that increased levels of risk are discussed in a timely fashion between risk management and business management.

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. IRE is calculated separately for each currency and reflects the re-pricing gaps in the position, as well as option positions, both explicit and embedded. Limits are set for particular countries and business activities which are monitored by Market Risk Management.

- Valuation Metrics: Measure the impact of interest rate changes on the Company's capital.
    - Factor sensitivities: Factor sensitivities are used to measure an instrument's sensitivity to a change in a 1 basis point move in interest rates for Available For Sale bonds ("AFS").
    - Economic Value of Equity: The net of the present value of all relevant on and off balance sheet assets, less the present value of all relevant on and off balance sheet liabilities.
    - Economic Value Sensitivity: The change in Economic Value of Equity for a pre-defined change in the yield curve.

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

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17. Risk management (continued)

17.3 Market Risk (continued)

Risk Measurement (continued)

Interest rate risk

The Company measures interest rate risk using both income and valuation metrics. These metrics provide complementary views of the impact of interest rate risk on the balance sheet over varying time horizons. The Interest Rate Exposure measure used in the table below 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 this measure and it assumes that businesses make no additional changes in pricing or balances in response to the unanticipated rate changes.

Currency risk

It is the policy of the Company to reduce foreign currency risk that may arise in the normal course of business. The Company 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 open foreign currency positions on a daily basis ensuring that exposures are less than agreed allocated limits.

Risk Exposure

Trading price risk

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

VAR	31 December 2017 Outstanding	000's MAX	000's MIN	000's AVG	31 December 2016 Outstanding
Portfolio VAR	2,187	4,005	1,423	2,317	1,571

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.

Interest rate exposure report

Currency	31 December 2017		31 December 2016	
	12 Month	2 Year	12 Month	2 Year
	$ 000	$ 000	$ 000	$ 000
USD	2,301	9,949	(11,432)	(5,099)
EUR	(3,961)	448	(9,438)	(12,044)
RON	226	1,488	(413)	(259)
CZK	3,062	7,033	2,608	5,868
HUF	(7,926)	(15,673)	(7,446)	(14,424)
GBP	10,139	22,967	10,728	23,060
JPY	(8)	(8)	(8)	(8)
Other	(1,473)	(1,662)	(967)	(1,175)

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:

	31 December 2017		
	Net exposure	**(%)**	**Income statement impact**
	$ 000		**$ 000**
EUR	76,504	1.71%	1,305
HUF	5,056	2.42%	122
RON	82,838	1.80%	1,487
GBP	73,712	1.21%	893

	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

17.4 Liquidity Risk

Definition

Liquidity risk is defined as the risk that the Company 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 Company might be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Company'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 Company 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 Company. The ALCO reviews the current and prospective funding requirements for the Company, 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 the Company's resilience to liquidity risk.

The Company is required to comply with the liquidity requirements of the Regulator.

The Company 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.

As at 31 December 2017	Less than 12 months $ 000	Over 12 months $ 000	Total $ 000
Assets			
Cash and cash equivalents	14,589,546	-	14,589,546
Loans and advances to banks	7,013,341	251,224	7,264,565
Loans and advances to customers	12,016,952	5,982,084	17,999,036
Derivative financial instruments	616,806	986,795	1,603,601
Trading assets	30,386	937,028	967,414
Investment securities	270,862	2,616,469	2,887,331
Non current assets - held for sale	-	-	-
Other financial assets	3,312,750	-	3,312,750
Total financial assets	37,850,643	10,773,600	48,624,243
Liabilities			
Deposits by banks	7,116,577	18,046	7,134,623
Customer accounts	26,192,150	100	26,192,250
Derivative financial instruments	673,935	993,070	1,667,005
Debt securities in issue	-	-	-
Non current liabilities - held for sale	-	-	-
Other financial liabilities	5,089,103	-	5,089,103
Total financial liabilities	39,071,765	1,011,216	40,082,981

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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)

As at 31 December 2016	Less than 12 months $ 000	Over 12 months $ 000	Total $ 000
Assets			
Cash and cash equivalents	16,423,472	-	16,423,472
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	38,400,117	9,749,633	48,149,750
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

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 Company's undiscounted contractual cash flows from financial liabilities into relevant maturity groupings.

As at 31 December 2017	1 year and less $ 000	>1 year and <5 years $ 000	Greater than 5 years $ 000	Total $ 000
Liabilities				
Deposits by banks	7,219,419	8,684	10,400	7,238,503
Customer accounts	26,570,653	102	-	26,570,755
Derivative financial instruments	683,673	401,436	654,067	1,739,176
Debt securities in issue	-	-	-	-
Non current liabilities - held for sale	-	-	-	-
Other financial liabilities	5,162,648	-	-	5,162,648
Total undiscounted financial liabilities	39,636,393	410,222	664,467	40,711,082

As at 31 December 2016	1 year and less $ 000	>1 year and <5 years $ 000	Greater than 5 years $ 000	Total $ 000
Liabilities				
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

17. Risk management (continued)

17.4 Liquidity Risk (continued)

The following table analyses the Company'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.

31 December 2017	1 year and less	>1 year and <5 years	Greater than 5 years	Total
	$ 000	$ 000	$ 000	$ 000
Letters of credit	12,090,077	2,708,551	342,711	15,141,339
Undrawn commitments to lend	4,372,548	15,977,754	817,504	21,167,806
Other commitments and guarantees	-	1,733,004	97,503	1,830,507
Total commitments and guarantees	16,462,625	20,419,309	1,257,718	38,139,652

31 December 2016	1 year and less	>1 year and <5 years	Greater than 5 years	Total
	$ 000	$ 000	$ 000	$ 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

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 Company undertakes. It also includes the risk of failing to comply with applicable laws, regulations, ethical standards, regulatory administrative actions or Company 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 Company'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 Company 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

17. Risk management (continued)

17.5 Operational Risk (continued)

Operational Risk Framework (continued)

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

The following committees are responsible for operational risk at Company 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 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 Committee ("ORC"): 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 outsourcing and information technology, across of the Company's businesses.

17.6 Capital Management

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

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

The Company'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 Company's unaudited regulatory capital position at 31 December 2017 was as follows:

	31 December 2017 $ 000	31 December 2016 $ 000
Regulatory capital	7,470,315	7,473,993
Tier 1 capital ratio	16.5%	17.5%

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

18. Financial assets and liabilities

The below tables outline the total financial assets and liabilities held as at 31 December 2017 and as at 31 December 2016.

	31 December 2017 $ 000	31 December 2016 $ 000
Derivative financial instruments	1,603,601	2,147,168
Trading assets	967,414	1,095,380
Financial investments available-for-sale	2,880,640	3,056,092
Loans designated at fair value through profit or loss	322,861	507,836
Total financial assets held at fair value	**5,774,516**	**6,806,476**
Cash and cash equivalents	14,589,546	16,423,472
Loans and advances at amortized cost	24,940,740	21,568,584
Other financial assets	3,319,441	3,148,834
Total financial assets not held at fair value	**42,849,727**	**41,140,890**
Total financial assets	**48,624,243**	**47,947,366**

	31 December 2017 $ 000	31 December 2016 $ 000
Derivative financial instruments	1,667,005	2,191,961
Debt securities	-	71
Financial liabilities at fair value through profit or loss	290,838	231,454
Total financial liabilities held at fair value	**1,957,843**	**2,423,486**
Deposits by banks	7,134,623	7,695,263
Customer accounts	26,192,250	24,065,741
Other liabilities and debt securities in issue	4,798,265	5,147,545
Total financial liabilities not held at fair value	**38,125,138**	**36,908,549**
Total financial liabilities	**40,082,981**	**39,332,035**

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 Company 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 Company'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 Company'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 Company 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 Company'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 Company 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 Company will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified as Level 2.

If quoted market prices are not available, fair 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 Company 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 Company 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 Company's own credit risk when valuing derivatives and liabilities measured at fair value. Counterparty and own credit adjustments consider the expected future cash flows between the Company 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 Company applies market valuation adjustments that are consistent with the unit of account, which does not include adjustment due to the size of the Company's position, except as follows. 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 Company applies market valuation adjustments, including adjustments to account for the size of the net open risk position, consistent with market participant assumptions and in accordance with the unit of account.

Derivatives

The majority of derivatives entered into by the Company 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 Company 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 Company 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 Company 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS

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 Company 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 Company'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:

31 December 2017		Fair value		
	Level 1	Level 2	Level 3	Total
	$ 000	$ 000	$ 000	$ 000
Financial assets				
Derivative financial instruments	-	1,603,601	-	1,603,601
Trading assets	-	929,945	37,469	967,414
Investment securities	1,080,881	1,751,588	48,171	2,880,640
Loans held at fair value through profit or loss	-	322,861	-	322,861
Financial assets held at fair value	1,080,881	4,607,995	85,640	5,774,516
Financial liabilities				
Derivative financial instruments	-	1,667,005	-	1,667,005
Debt securities issued	-	-	-	-
Other financial liabilities held for trading	-	290,838	-	290,838
Financial liabilities held at fair value	-	1,957,843	-	1,957,843

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 designated at fair value through profit	-	-	-	-
Financial liabilities held at fair value	-	2,423,486	-	2,423,486

18. Financial assets and liabilities (continued)

Financial Instruments at Fair Value (continued)

Loans held at fair value through profit or loss, totalling $323 million (2016: $447 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.

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

Valuation process for Level 3 Fair Value Measurements

For fair value measurements of substantially all assets and liabilities held by the Company, individual business units are responsible for valuing the trading account assets and liabilities, and Product Control within Finance performs independent price verification procedures to evaluate those fair value measurements. Product Control is independent of the individual business units and reports into the Global Head of Product Control. 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS

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 Company 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 2017				31 December 2016			
Assets	**Trading assets**	**Loans and advances to customers**	**Investment securities available for sale**	**Total**	**Trading assets**	**Loans and advances to customers**	**Investment securities available for sale**	**Total**
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Balance at 1 January	205,739	16,670	35,027	257,436	8,845	386,030	20,623	415,498
Additions due to merger	-	-	-	-	105,309	428,583	59,727	593,619
Reclassification to trading assets from loans and advances designated at FVTPL	16,670	(16,670)	-	-	-	-	-	-
Purchases	87,433	-	-	87,433	297,735	-	18,079	315,814
Issues	-	-	-	-	-	-	-	-
Sales	(259,370)	-	(626)	(259,996)	(197,373)	(371,817)	-	(569,190)
Settlements	(6,241)	-	-	(6,241)	10,994	(55,897)	(92,508)	(137,411)
Transfer into Level 3	-	-	-	-	-	-	-	-
Transfer out of Level 3	-	-	-	-	-	(342,099)	-	(342,099)
Total gains/(losses)								
- in Profit or loss	(6,762)	-	3,798	(2,964)	(19,771)	(28,130)	92,508	44,607
- in OCI	-	-	9,972	9,972	-	-	(63,402)	(63,402)
Balance at 31 December	37,469	-	48,171	85,640	205,739	16,670	35,027	257,436

During the year the Company did not have any Level 3 instruments which were transferred to Level 2 or Level 1 category.

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NOTES TO THE FINANCIAL STATEMENTS

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 2017			31 December 2016			
	Trading assets	**Investment securities available for sale**	**Total**	**Trading assets**	**Loans and advances to customers**	**Investment securities available for sale**	**Total**
	\$ 000	**\$ 000**	**\$ 000**	**\$ 000**	**\$ 000**	**\$ 000**	**\$ 000**
Interest income	-	-	-	1,540	-	-	1,540
Total gain and losses	(6,762)	3,798	(2,964)	(19,771)	(28,130)	92,508	44,607
Realised gain and losses							
- Net trading income	(6,762)	-	(6,762)	(19,283)	(28,058)	-	(47,341)
- Net investment income	-	3,798	3,798	-	-	92,317	92,317
Unrealised gain and losses							
- Net trading income	-	-	-	(488)	-	-	(488)
- Net investment income	-	-	-	-	-	191	191
- Net income on other financial instruments at fair value thorugh profit and loss	-	-	-	-	(72)	-	(72)
Total	(6,762)	3,798	(2,964)	(18,231)	(28,130)	92,508	46,147

A key contributor to level 3 inventory movements were trading assets, where the Company has intention to sell in the near term. These assets contributed to \$259 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 Company in Level 3 fair value measurements. The level of aggregation and the diversity of instruments held by the Company lead to a wide range of unobservable inputs that may not be evenly distributed across the Level 3 inventory.

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 uncollateralised 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.

2017	Fair value $ '000	Methodology	Input	Low	High
Assets					
Trading assets	37,469	Price-based	Price	0.0	246.0
Investment equity securities	48,171	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 Company holds the instrument as an asset or a liability. For certain instruments, the pricing hedging and risk management are sensitive to the correlation between various inputs rather than on the analysis and aggregation of the individual inputs.

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

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 Company'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 Company'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 Company 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

	31 December 2017		Estimated fair value		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	14,589,546	14,589,546	14,589,546	-	-
Loans and advances to banks	7,264,565	7,264,298	-	7,264,298	-
- of which intercompany	3,754,729	3,754,729	-	3,754,729	-
Loans and advances to customers	17,676,175	17,567,090	-	-	17,567,090
- of which intercompany	12,998	12,998	-	-	12,998
Other financial assets	3,319,440	3,319,440	-	-	3,319,440
Total financial assets	**42,849,726**	**42,740,374**	**14,589,546**	**7,264,298**	**20,886,530**
Liabilities					
Deposits from banks	7,134,623	7,106,013	-	7,106,013	-
Customer accounts	26,192,250	26,087,219	-	26,087,219	-
Other financial liabilities	4,798,265	4,779,024	-	3,033,527	1,745,497
Total financial liabilities	**38,125,138**	**37,972,256**	-	**36,226,759**	**1,745,497**

	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	16,423,472	16,423,472	16,423,472	-	-
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	**41,140,889**	**40,185,179**	**16,423,472**	**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**

19. Derivative financial instruments

	31 December 2017			31 December 2016		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Derivatives held for trading	88,138,081	1,600,257	1,667,005	65,605,141	2,147,168	2,182,385
Derivatives held for risk management	179,895	3,344	-	158,115	-	9,576
Total	88,317,976	1,603,601	1,667,005	65,763,256	2,147,168	2,191,961

Derivatives - Trading						
Foreign exchange	44,090,480	1,184,186	1,234,144	51,448,287	1,832,730	1,844,758
- OTC	44,090,480	1,184,186	1,234,144	51,448,287	1,832,730	1,844,758
- Organised market	-	-	-	-	-	-
Interest rate	43,329,277	411,499	419,563	13,480,405	299,542	314,627
- OTC	43,329,277	411,499	419,563	13,480,405	299,542	314,627
- Organised market	-	-	-	-	-	-
Equity	491,012	3,833	3,833	415,580	7,820	7,891
- OTC	491,012	3,833	3,833	415,580	7,820	7,891
- Organised market	-	-	-	-	-	-
Credit	204,202	-	8,726	237,014	88	8,122
Commodity	23,110	739	739	23,855	6,988	6,987
Other	-	-	-	-	-	-
Total	88,138,081	1,600,257	1,667,005	65,605,141	2,147,168	2,182,385

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

19. Derivative financial instruments (continued)

	31 December 2017			31 December 2016		
	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	179,895	3,344	-	158,115	-	9,576
Total	179,895	3,344	-	158,115	-	9,576

The Company has a net investment hedge in place to reduce its foreign currency exposure risk with the Company'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.

	31 December 2017 $ 000	31 December 2016 $ 000
Held to maturity	6,691	7,996
Available for sale	2,880,640	3,056,092
Total investment securities	2,887,331	3,064,088
(a) Held to maturity		
Corporate bonds	6,691	7,996
Total	6,691	7,996
(b) Available for sale investment securities		
Government bonds	2,416,804	2,618,713
Corporate bonds	415,665	402,351
Subtotal	2,832,469	3,021,064
Equity securities measured at fair value	48,171	35,028
Total Available for sale investment securities	2,880,640	3,056,092

21. Property and equipment

	Leasehold improvements $ 000	Vehicles, furniture and equipment $ 000	Total $ 000
Cost			
At 1 January 2016	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
Additions	6,157	34,081	40,238
Acquisitions	689	1,780	2,469
Disposals	(7,224)	(650,820)	(658,044)
Write-offs	(481)	(1,048)	(1,529)
Foreign exchange	5,804	61,202	67,006
At 31 December 2017	51,954	81,585	133,539
Depreciation			
At 1 January 2016	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
Charged in year	5,760	30,312	36,072
Acquisitions	-	43	43
Disposals	(5,504)	(548,618)	(554,122)
Write-offs	(239)	(221)	(460)
Foreign exchange	3,204	52,404	55,608
At 31 December 2017	22,434	54,030	76,464
Net book value			
At 31 December 2017	29,520	27,555	57,075
At 31 December 2016	27,797	116,280	144,076

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2016: $nil).

22. Intangible assets

	Goodwill	Computer software	Other Intangibles	Total
Cost	$ 000	$ 000	$ 000	$ 000
1 January 2016	-	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
Additions	-	19,106	-	19,106
Disposals	-	(638,600)	-	(638,600)
Write-offs	-	(1,315)	338	(977)
Foreign exchange	5,546	59,285	1,297	66,128
At 31 December 2017	47,773	149,558	34,913	232,244
Amortisation and impairment losses				
1 January 2016	-	78,763	1,694	80,457
Additions from merger	28,183	334,103	23,507	385,793
Amortisation	-	113,376	1,132	114,508
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
Amortisation	-	68,000	1,164	69,164
Disposals	-	(406,692)	-	(406,692)
Write-offs	-	659	338	997
Foreign exchange	2,702	35,006	309	38,017
At 31 December 2017	27,167	74,939	27,285	129,391
Net carrying value				
At 31 December 2017	20,606	74,619	7,628	102,853
At 31 December 2016	17,762	333,116	7,804	358,682

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

Goodwill was allocated to the Netherlands and the 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.

The cash flows used to estimate the operating profit projections reflect the current market assessment of the risk of the cash generating units. Operating profit represents the operating profit in the business plans, approved by management and as such reflects the best estimate of future profits based on both historical experience and expected growth rates.

The discount rate used to estimate the Netherlands cash flows is the EURIBOR rate. The discount rate used to estimate the UK Fund administration business cash flows is based on a review of comparable companies and relevant market data. The 10 year average of 10 year UK Gilt rate acts as the risk free rate and the stock price volatility of comparable companies acts as market risk rate. The key assumptions reflect past experience or, if appropriate, consider external sources of information.

22. Intangible assets (continued)

There was no evidence of impairment arising from the review of the goodwill for the Netherlands and the UK. A summary of the allocation of goodwill within the units is presented below:

Cash generating unit	**Goodwill**	**Growth**	**Discount rate**	
Institutional Clients Group	**$ 000**	**rate**	**2017**	**2016**
- Netherlands (Direct custody and clearing business)	13,733	-3%	-0.186	-0.083
- UK Fund administration business	6,500	-	-	-
- Greece (Direct custody and clearing business)	372	-3%	-0.186	-0.083

The model is sensitive to changes in the growth rate. The negative growth rate is a conservative management assessment of client attrition. The Target2-Securities ("T2S") settlement platform was implemented in 2016 and while clients have the option to self-clear the impact on the business is mitigated by the slow take up and the unbundling of fee schedules to price for asset servicing activities outside of T2S.

The results of the test indicated that no impairment of the goodwill is necessary. Management believes that reasonable changes in key assumptions used to determine the recoverable amounts would not result in a material impairment.

23. Deferred tax

The movement on the deferred tax is as follows:

	Balance at 1 January 2017 $ 000	**Recognised in the Income statement $ 000**	**Recognised in other comprehensive income $ 000**	**Balance at 31 December 2017 $ 000**
Accelerated Tax Depreciation/Group relief	279,960	(15,344)	-	264,616
Available for sale securities	(12,726)	-	10,613	(2,113)
Pension and other retirement benefits	49,980	(21,054)	1,027	29,953
Allowances for loan losses	1,520	-	-	1,520
Tax loss carry-forward	116	-	-	116
Other Temporary Differences	17,118	(9,515)	-	7,603
Fx Translation	(45,987)	-	30,948	(15,039)
Total Deferred Tax	289,981	(45,913)	42,588	286,656
- of which Deferred Tax Asset				304,740
- of which Deferred Tax Liability				18,084

	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	-	(52,487)	(45,987)
Total Deferred Tax	2,687	316,520	20,354	(49,580)	289,981

24. Other assets

	31 December 2017 $ 000	31 December 2016 $ 000
Receivables from unsettled regular way trades	254,984	1,328,580
Settlement Clearing lines	563,053	646,827
Margin account receivables	621,235	493,637
Secondary loan trading	1,873,477	679,789
Other balances	475,596	321,810
	3,788,345	3,470,643

"Receivables from unsettled regular way trades" and "Secondary loan trading" balances are short term receivables from European commercial papers or other trading security transactions where settlement takes place within two or three days after the trade date.

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

25. Shares in subsidiaries

	31 December 2017 $ 000	31 December 2016 $ 000
Beginning of period	14,876	1,378
Increase due to merger	-	14,876
Disposal	(701)	(1,378)
End of period	14,175	14,876

The Company has an investment in the following subsidiary:

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%

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

26. Debt securities in issue

The Company historically issued debt for the purpose of risk mitigation. These instruments were listed through the Irish Stock Exchange. The one remaining note matured on 12th April 2017.

	31 December 2017 $ 000	31 December 2016 $ 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 Company 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.

	Restructuring provision $ 000	Provision for property costs $ 000	Other provisions $ 000	Commitments and guarantees $ 000	Total $ 000
31 December 2017					
Opening balance	15,742	1,837	3,853	33,987	55,419
Increase/decrease related to business combination	-	-	-	-	-
Provisions made during the year	10,949	2,994	3,073	50,980	67,996
Provisions used during the year	(7,551)	(2,740)	(529)	-	(10,820)
Provisions released during the year	(10,550)	(125)	(1,331)	(7,530)	(19,536)
Exchange Adjustments	549	(41)	6	-	514
Other movements	141	(12)	183	-	312
Closing balance	**9,280**	**1,913**	**5,255**	**77,437**	**93,885**

	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**

28. Other liabilities

	31 December 2017 $ 000	31 December 2016 $ 000
Other liabilities		
Accounts payable	3,672,983	3,593,985
Margin Account Obligations	889,267	648,422
Short sales	287,231	204,850
Retirement obligations (note 14)	239,622	198,526
Other	471,754	551,545
Total other liabilities	5,560,857	5,197,328

Accounts payable predominantly relates to obligations arising from the Company'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 Company'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 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 Company's policy in relation to 'non-current assets held for sale and discontinued operations', the results of the Consumer business in Hungary are now shown as discontinued operations in the Company's financial statements.

The table overleaf details the income statement and cash flows relating to the Discontinued Operations.

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

A. Income statement

Results of discontinued operation	31 December 2017 $ 000	31 December 2016 $ 000
Total revenues	7,900	60,393
- of this: Interest income	7,546	39,211
- of this: Net fee and commission income	354	13,067
Total expenses	(17,202)	(52,532)
- of this: Interest expense	(116)	(48)
- of this: Personnel expense	2,190	(21,784)
Net credit recoveries	(69)	11,780
Gain on sale of discontinued operation	21,068	19,404
Profit before income tax	11,697	39,045
Income tax expense/(credit)	(1,374)	(4,847)
Total comprehensive income/(expense) for the year	10,323	34,198

Total revenues represent 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

Cash flows from (used in) discontinued operation	31 December 2017 $ 000	31 December 2016 $ 000
Net cash from operating activities	-	102,514
Net increase in cash and cash equivalents	-	102,514

The table below details the assets and liabilities in relation to assets held for sale for the period in 2017.

Statement of Financial Position	31 December 2017 $ 000	31 December 2016 $ 000
Assets		
Loans and advances to customers	-	185,505
Deferred tax assets	-	382
Other assets	-	8,502
Total Assets	-	194,389
Liabilities		
Customer accounts	-	621,087
Deferred tax liabilities	-	-
Other liabilities	-	18,244
Total Liabilities	-	639,331

30. Called up share capital

Authorised	**31 December 2017 $ 000**	**31 December 2016 $ 000**
5,000,000,000 Ordinary shares of €1 each	4,691,500	4,691,500

Allotted, called-up and fully paid

Opening balance: 9,741,290 (2016: 9,318,254) Ordinary shares of €1 each	10,532	10,071
Issuance of Ordinary Shares	-	461
Closing balance 9,741,290 (2016: 9,741,290) Ordinary shares of €1 each	10,532	10,532

Share premium

Opening balance	1,962,747	1,593,607
from Issuance of Ordinary Shares	-	369,140
Closing balance	1,962,747	1,962,747

On 1 January 2016, the Company as part of the merger with Citibank International Limited ("CIL") issued 423,036 additional €1 ordinary shares as part consideration to Citi Overseas Holdings Bahamas Limited ("COHBL") which contributed those shares to Citibank Holding Ireland Limited ("CHIL"). No additional shares have been issued in the current reporting period.

31. Share-based incentive plans

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

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 Company 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:

	2017	**2016**
Shares awarded	163,116	258,105
Weighted average fair market value per share	$59.56	$37.35
	$ 000	**$ 000**
Compensation cost charged to earnings	9,801	14,584
Fair value adjustments recorded to equity	2,511	(135)
Total carrying amount of equity-settled transaction liability	22,920	22,051

		2017	**2016**
		$ Million	**$ Million**
<u>Stock Awards</u>			
Granted in 2017		8.5	-
Granted in 2016		1.4	9.7
Granted in 2015		0.7	1.9
Granted in 2014		0.2	0.7
Granted in 2013		0.0	0.2
Granted in 2012 and prior	-	0.0	0.0
<u>Cash Accrued</u>	-	1.0	2.0
<u>Total Expense</u>		9.8	14.5

31. Share-based incentive plans (continued)

(b) Stock option programme

The Company 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 Company 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 2017 and 2016 under Citigroup stock option plans is as follows:

	2017		2016	
	Options	Weighted average exercise price $	Options	Weighted average exercise price $
Outstanding, beginning of year	-	-	-	-
Exercised	-	-	-	-
Transfers	-	-	-	-
Expired	-	-	-	-
Outstanding, end of year	-	-	-	-
Exercisable, end of year	-	-	-	-

No options were reported by the Company for the year ended 31 December 2017.

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.

31. Share-based incentive plans (continued)

(b) Stock option programme (continued)

	2017	2016
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 2017 $ 000	Contract amount 31 December 2016 $ 000
Undrawn credit lines	21,167,806	19,109,697
Other commitments		
- less than 1 yr	12,090,077	13,209,722
- 1 yr and over	4,881,769	3,805,188
Total	38,139,652	36,124,607

Other commitments primarily relate to the Trade business in Ireland. The Company held a collective impairment provision of $77.4 million as at 31 December 2017 (2016: $33.9 million), with respect to its commitments.

33. Involvement with unconsolidated structured entities

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

Asset Based Financing
The Company 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 Company.

The Company 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 Company in unconsolidated structured entities and the maximum exposure to loss. All exposures are included in loans and advances to customers and are funded.

Carrying amount	31 December 2017 $ 000	31 December 2016 $ 000
Asset-Based Financing	994,840	1,012,860
Total	994,840	1,012,860

The above exposure is made up of 32 entities (2016: 32) with a total SPE asset of $4,246 million (2016: $3,980 million) and further commitments of $1 million (2016: $3 million).

During the year the Company did not provide financial support to unconsolidated structured entities, and does not have any current intentions to provide financial or other support to an unconsolidated structured entity nor to assist them in obtaining financial support.

The maximum funded exposure represents the balance sheet carrying amount of the Company'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 Company.

34. Operating lease commitments

	31 December 2017 $ 000	31 December 2016 $ 000
Expiring:		
- within one year	8,515	7,826
- between one and five years	15,533	12,831
- in five years or more	3,470	994
	27,518	21,651

35. Related party transactions

The Company 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 Company are consolidated is that headed by Citigroup Inc., which is incorporated in the United States of America. The Company defines related parties as the Board of Directors, senior management, their close family members, parent and fellow subsidiaries and associated companies. The Company considers the key management of the Company to be the Board of Directors.

At 31 December 2017 there were no outstanding exposures to Directors including loans (2016: $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.

	31 December 2017		
	Parent company undertakings $ 000	Other Citigroup undertakings $ 000	Total $ 000
Assets			
Cash and cash equivalents	-	3,165,464	3,165,464
Loans and advances to banks	-	3,754,729	3,754,729
Loans and advances to customers	-	12,998	12,998
Prepayments and accrued income	-	-	-
Other assets	-	132,390	132,390
Derivatives	-	616,190	616,190
Liabilities			
Deposits by banks	-	6,134,311	6,134,311
Customer accounts	-	249,722	249,722
Accruals and deferred income	-	-	-
Provisions	-	-	-
Other liabilities	-	223,571	223,571
Derivatives	-	1,213,382	1,213,382
Commitments and guarantees	-	371,521	371,521
Income statement			
Interest and similar income	-	31,873	31,873
Interest payable	-	-	-
Net fee and commission income	-	221,934	221,934
Other operating income	-	377,311	377,311
Net trading income	-	611,449	611,449
Other expenses	-	(149,703)	(149,703)

35. Related party transactions (continued)

	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)

36. Reserves

The nature of the reserve balances presented in the Statement of Changes in Equity are described below:

Translation reserve

The translation reserve represents the cumulative gains and losses on the translation of the Company'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 Company 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.

37. Parent companies

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

The largest Group in which the results of the Company 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 http://www.citigroup.com/citi/investor/corporate_governance.html

The smallest Group in which the results of the Company 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.

38. Subsequent Events

On the 5th of March 2018, the Company purchased the Direct Custody and Clearing ("DCC") business from Citigroup Global Markets Deutschland AG ("CGMD") for $33.5 million in consideration.

39. Approval of financial statements

The financial statements of the Company were approved by the Board of Directors on the 23rd March 2018.