CITIBANK EUROPE PLC

(Registered Number: 132781)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2013

CITIBANK EUROPE PLC

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CITIBANK EUROPE PLC

BOARD OF DIRECTORS AND OTHER INFORMATION

DIRECTORS	Aidan Brady - Chief Executive Officer Breffni Byrne - Independent Non- Executive Francesco Vanni d'Archirafi - Chairman Jim Farrell - Independent Non-Executive Mark Fitzgerald Bo J. Hammerich - Non-Executive Mary Lambkin - Independent Non-Executive Marc Luet – Non-Executive Rajesh Mehta – Non-Executive Cecilia Ronan Patrick Scally – Non-Executive Christopher Teano – Non-Executive Zdenek Turek – Non-Executive Tony Woods
COMPANY SECRETARY	Deirdre Pepper
REGISTERED OFFICE	1 North Wall Quay, Dublin 1
SOLICITORS	Arthur Cox Solicitors Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland A&L Goodbody International Financial Services Centre, North Wall Quay, Dublin 1 Matheson 70 Sir John Rogersons Quay, Dublin 2
AUDITOR	KPMG Chartered Accountants 1 Harbourmaster Place, IFSC, Dublin 1
BANKERS	Citibank NA, London Branch Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB

CITIBANK EUROPE PLC

REPORT OF THE DIRECTORS

The Directors present their report and the financial statements of Citibank Europe plc ("the Company") for the year ended 31 December 2013. The Company's ultimate parent is Citigroup Inc.

Principal Activities

The Company is headquartered in Dublin and has branch offices in the Czech Republic, Hungary, Romania, Slovakia, and Poland. On 1 January 2014 the Company acquired the existing business of another Citigroup entity in Bulgaria.

The Company, which was granted a banking licence by 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.

The principal activity of the Company is the provision of Transaction Services to its Financial Services and Corporate client base. Other client-driven activities performed by the Company include Consumer Banking in the Czech Republic and Hungarian branches.

The Company's strategy is aligned with Citi's overall franchise goals of executing against five priorities: client, capital, controls, cost and culture. The Company has put a special focus on research and development through its Citi Innovation Lab.

Business Review and Results

The business environment in which the Company operates, remained challenging in 2013. Already low interest rates continued to decline in the Company's markets, impacting interest rate margins. General uncertainty in the macroeconomic environment also impacted corporate confidence and consequently client activity

Despite these headwinds the Company had another profitable performance in 2013 with profits after tax of US$715 million (2012: US$831 million).

The principal sources of revenue, interest income and fees and commissions incurred modest declines relative to the previous year (Operating Income 2013: US$1,732 million; 2012: US$1,799 million) due to the business environment challenges referred to previously.

Operating expenses of US$877 million (2012: US$803 million) increased from the previous year, due in part to the introduction of a transaction tax in one of the Company's markets.

The Company's balance sheet increased to US$25.5 billion (2012: US$24.2 billion) principally due to increased lending to commercial clients and increased customer deposits.

The business and economic environment conditions are expected to remain challenging and uncertain through 2014. The Directors continue to monitor these conditions and the financial impact they may have on the Company.

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

	2013	2012	Movement
	$'000	$'000	%
Profit before Income Tax	823,186	972,493	(15)
Profit after Income Tax	714,516	831,232	(14)
Shareholders' Funds	7,112,959	7,276,549	(2)

The Company paid an interim dividend of $800 million (2012: $nil) to its parent company, Citibank Holdings Ireland Limited in Q4 2013. The directors do not recommend the payment of a final dividend (2012: $nil).

REPORT OF THE DIRECTORS (continued)

Business Review and Results *(continued)*

The Company has regulatory capital resources of US$6.2 billion (2012: US$6.1 billion) which are entirely made up of Tier One equity. The capital ratio at 31 December 2013 as reported to the Central Bank of Ireland was 24% (2012: 25%) which comfortably 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).

Corporate Governance

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 draws on the work of Citi Internal Audit, the Company's Independent External Auditors, 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 Board and the current and future financial position of the Company. The Risk Committee draws on the work of the Audit Committee, the Company's Independent External Auditors and the Company's senior management.

Corporate Governance Code for Credit Institutions and Insurance undertakings

The Company is subject to the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance undertakings ("the Code"). Having been classified by the Central Bank of Ireland as a major institution, the Company is subject to the requirements in Appendix 1 of the Code (Annual Compliance Statement).

Principal Risks and Uncertainties

The Company is exposed to a variety of risks inherent in the financial services industry. The most significant of these risks to the Company are credit risk, market risk, operational risk and liquidity risk. A detailed description of these risks and how they are managed has been disclosed in note 14.

Political Donations

During the year the Company made no political donations (2012: $nil).

Post balance sheet events

On the 1 January 2014, the Company acquired the existing business of another Citigroup entity in Bulgaria.

CITIBANK EUROPE PLC

REPORT OF THE DIRECTORS (continued)

Directors, secretary and their interests

The names of the Directors and Secretary who held office during 2013 were as follows:

Aidan Brady

Breffni Byrne (appointed 30th April 2013)

Francesco Vanni d'Archirafi

Jim Farrell

Mark Fitzgerald (resigned 31st January 2014)

Bo J. Hammerich

Brian Hayes (resigned 6th September 2013)

Mary Lambkin

Marc Luet

Frank McCabe (resigned 21st March 2013)

Rajesh Mehta (appointed 2nd December 2013)

Terence O'Leary (resigned 8th July 2013)

Deirdre Pepper

Cecilia Ronan

Patrick Scally

Christopher Teano

Zdenek Turek (appointed 2nd December 2013)

Tony Woods

Neither the Directors, nor the Company Secretary, have any beneficial interest in the share capital of the Company. The Directors' and Secretary's interests in the shares of the ultimate holding company, Citigroup Inc., are as follows:

Director/secretary	at 31 December 2013 Common stock	at 31 December 2012 Common stock
Aidan Brady	41,548	35,817
Breffni Byrne (appointed 30th April 2013)	-	-
Francesco Vanni d'Archirafi	283,714	258,980
Jim Farrell	500	337
Mark Fitzgerald (resigned 31st January 2014)	5,681	9,846
Bo J. Hammerich	3,591	2,270
Mary Lambkin	500	500
Marc Luet	14,148	28,500
Rajesh Mehta (appointed 2nd December 2013)	11,914	-
Deirdre Pepper	-	-
Cecilia Ronan	1,068	251
Patrick Scally	3,163	2,134
Christopher Teano	2,754	1,834
Zdenek Turek (appointed 2nd December 2013)	24,457	-
Tony Woods	1,289	1,103

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REPORT OF THE DIRECTORS (continued)

Directors, secretary and their interests (continued)

The Company forms part of Citigroup Inc. ("the Group"). The Group operates a staff share option scheme and, in addition to the interests disclosed above, certain Directors of the Company have options to acquire shares in the ultimate parent holding company, Citigroup Inc. Full details are as follows:

Stock options over common stock of Citigroup Inc. (notes (a) and (b))

		During the year			
Director/secretary	**at 31 December 2012**	**Granted**	**Exercised/ lapsed**	**at 31 December 2013**	**Exercise price US$**
Aidan Brady	14,400	-	-	14,400	40.80
Breffni Byrne (appointed 30th April 2013)	-	-	-	-	-
Francesco Vanni d'Archirafi	75,000	-	-	75,000	49.10
Jim Farrell	-	-	-	-	-
Mark Fitzgerald (resigned 31st January 2014)	2,691	-	-	2,691	40.80
Bo J. Hammerich	1,543	-	-	1,543	40.80
Mary Lambkin	-	-	-	-	-
Marc Luet	-	-	-	-	-
Rajesh Mehta (appointed 2nd December 2013)	-	-	-	5,731	40.8 - 244.50
Deirdre Pepper	69	-	-	69	40.80
Cecilia Ronan	231	-	-	231	40.80
Patrick Scally	2,335	-	-	2,335	40.80
Christopher Teano	4,977	-	-	4,977	40.80
Zdenek Turek (appointed 2nd December 2013)	-	-	-	19,757	40.80
Tony Woods	4,172	-	-	4,172	40.80

Notes:

(a) Options outstanding, once vested, are exercisable at the discretion of the holders.

(b) Details of the Share Option Scheme are contained in the financial statements of Citigroup Inc. The middle market price of Citigroup Inc. common stock at 31 December 2013 was US$52.11 (2012: US$39.56) and during the calendar year ended 31 December 2013, the closing price ranged from a low of US$41.15 (2012: US$38.65) to a high of US$53.29 (2012: US$39.60).

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REPORT OF THE DIRECTORS (continued)

Directors' responsibilities for financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU.

The Company's financial statements are required by law and IFRSs as adopted by the EU to give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing each of 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 IFRSs 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.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts, 1963 to 2013.

Accounting records

The Directors believe that they have complied with the requirement of Section 202 of the Companies Act, 1990 with regard to books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the Company are maintained at 1 North Wall Quay, Dublin 1.

Auditors

In accordance with Section 160(2) of the Companies Act 1963, the auditors, KPMG, Chartered Accountants, will continue in office.

On behalf of the board: 21 March 2014

Aidan Brady Director	Jim Farrell Director	Mary Lambkin Director	Deirdre Pepper Secretary

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

We have audited the financial statements of Citibank Europe Plc for the year ended 31 December 2013 which comprise of the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8 the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2013.

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

Matters on which we are required to report by the Companies Acts 1963 to 2013

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

The Company statement of financial position is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

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

21 March 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF [illegible] EUROPE PLC

Matters on which we are required to report by the Companies Acts 1963 to 2012

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

The Company statement of financial position is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company.

In our opinion the information given in the Directors' report is consistent with the financial statements.

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[illegible]
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin

[illegible] 2013

CITIBANK EUROPE PLC

INCOME STATEMENT
For the years ended 31 December 2013 and 31 December 2012

	Note	2013 $ 000	2012 $ 000
Interest income		551,427	630,657
Interest expense		(109,768)	(143,750)
Net interest income	3	441,659	486,907
Net fee and commission income	4	1,088,477	1,124,964
Net trading income	5	199,568	182,358
Other operating income	6	2,374	4,012
Dividend income		228	283
Operating income		1,732,306	1,798,524
Net credit losses	14	(31,657)	(23,473)
Personnel expenses	7	(324,930)	(318,015)
Other expenses	8	(552,533)	(484,543)
Profit before income tax		823,186	972,493
Income tax expense	11	(108,670)	(141,261)
Profit for the year		714,516	831,232

The current year profit arises solely from continuing operations.

The financial statements were approved by the Board of Directors on 21 March 2014 and signed on their behalf by:

Aidan Brady Director	Jim Farrell Director	Mary Lambkin Director	Deirdre Pepper Secretary

CITIBANK EUROPE PLC

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the years ended 31 December 2013 and 31 December 2012

	Note	2013 $ 000	2012 $ 000
Profit for the year	29	714,516	831,232
Other comprehensive income, net of income tax			
Net gain / (loss) on available-for-sale financial assets	29	(17,699)	54,908
Exchange differences on translation of foreign operations and other items	29	(58,305)	237,914
Other comprehensive income for the year, net of tax		(76,004)	292,822
Total comprehensive income for the year		638,512	1,124,054

The financial statements were approved by the Board of Directors on 21 March 2014 and signed on their behalf by:

Aidan Brady
Director

Jim Farrell
Director

Mary Lambkin
Director

Deirdre Pepper
Secretary

CITIBANK EUROPE PLC

STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Note	2013 $ 000	2012 $ 000
Assets			
Cash and balances at central bank	12	1,857,107	1,988,529
Trading assets	13,15	1,042,734	903,545
Derivative financial instruments	15,17	1,643,708	1,490,844
Loans and advances to banks	15	6,711,148	6,515,191
Loans and advances to customers	15	10,849,577	10,576,845
Investment securities	16	2,393,427	2,058,178
Shares in subsidiary undertakings	19	3,474	3,372
Property and equipment	20	20,583	24,910
Goodwill and intangible assets	21	334,371	329,557
Current income tax		8,639	10,876
Deferred tax assets	22	8,697	7,327
Other assets		639,418	285,299
Total assets		25,512,883	24,194,473
Liabilities			
Deposits by banks	15	3,546,439	3,554,479
Customer accounts	15	9,238,777	8,657,175
Derivative financial instruments	15,17	1,611,139	1,532,110
Debt securities in issue	27	1,090,262	842,198
Accruals and deferred income		178,351	205,526
Current income tax		5,957	7,372
Other liabilities	18	2,728,999	2,119,064
Total liabilities		18,399,924	16,917,924
Equity shareholders' funds			
Share capital	23,29	10,071	10,071
Share premium account	29	1,593,607	1,593,607
Capital reserves	29	1,239,171	1,239,171
Other reserves (net)	29	3,197	7,560
Retained earnings	29	4,266,913	4,426,140
Total equity attributable to equity shareholders		7,112,959	7,276,549
Total liabilities and equity shareholders' funds		25,512,883	24,194,473

The financial statements were approved by the Board of Directors on 21 March 2014 and signed on their behalf by:

Aidan Brady Director	Jim Farrell Director	Mary Lambkin Director	Deirdre Pepper Secretary

CITIBANK EUROPE PLC

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2013

2013		**Share Capital $ 000**	**Share Premium $ 000**	**Capital Reserve $ 000**	**Other Reserves $ 000**	**Retained Earnings $ 000**	**Total $ 000**
Balance at 1 January 2013	**Note**	10,071	1,593,607	1,239,171	7,560	4,426,140	7,276,549
Total comprehensive income for the year							
Profit for the year	29	-	-	-		714,516	714,516
Net loss on available-for-sale financial assets	29	-	-	-	(17,699)	-	(17,699)
Exchange diff. on translation of foreign operations and other items	29	-	-	-	15,438	(73,743)	(58,305)
Total comprehensive income for the year		-	-	-	(2,261)	640,773	638,512
Transactions with owners, recorded directly in equity							
Share based payments	29	-	-	-	(2,102)	-	(2,102)
Capital contribution	29	-	-	-	-	-	-
Dividends/remittances	29	-	-	-	-	(800,000)	(800,000)
Total contributions by and distributions to owners		-	-	-	(2,102)	(800,000)	(802,102)
Balance at 31 December 2013		10,071	1,593,607	1,239,171	3,197	4,266,913	7,112,959

		Share Capital $ 000	**Share Premium $ 000**	**Capital Reserve $ 000**	**Other Reserves $ 000**	**Retained Earnings $ 000**	**Total $ 000**
Balance at 1 January 2012	**Note**	10,071	1,593,607	320,987	(278,557)	3,594,908	5,241,016
Total comprehensive income for the year							
Profit for the year	29	-	-	-	-	831,232	831,232
Net gain on available-for-sale financial assets	29	-	-	-	54,908	-	54,908
Exchange differences on translation of foreign operations	29	-	-	-	237,914	-	237,914
Total comprehensive income for the year		-	-	-	292,822	831,232	1,124,054
Transactions with owners, recorded directly in equity							
Share based payments	29	-	-	-	(6,705)	-	(6,705)
Dividends/remittances		-	-	-	-	-	-
Capital contribution	29	-	-	918,184	-	-	
Total contributions by and distributions to owners		-	-	918,184	(6,705)	-	911,479
Balance at 31 December 2012		10,071	1,593,607	1,239,171	7,560	4,426,140	7,276,549

CITIBANK EUROPE PLC

STATEMENT OF CASH FLOWS
For the years ended 31 December 2013

	Note	2013 $ 000	2012 $ 000
Cash flows from operating activities			
Profit before tax		823,186	972,493
Adjustments for:			
Depreciation of property and equipment	20	7,488	7,856
Amortisation of intangibles	21	12,007	11,488
Net impairment loss on loans and advances	14	31,657	23,473
Loss on disposal of business unit		670	-
Loss on disposal of property and equipment	20	93	-
Finance income		(551,427)	(630,657)
Finance costs		109,768	143,750
Change in trading assets		(139,189)	(367,782)
Change in derivative financial instrument assets		(152,864)	1,175,387
Change in loans and advances to banks (greater than 3 months)		1,006,211	1,155,133
Change in loans and advances to customers		(272,732)	(2,161,124)
Change in prepayments and accrued income		58,061	17,889
Change in other assets		(354,119)	334,980
Change in deposits from banks		(8,040)	(4,555,302)
Change in customer account balances		581,602	50,866
Change in derivative financial instrument liabilities		79,029	(1,235,844)
Change in investment securities		(628)	(154,757)
Change in debt securities in issue		248,064	344,130
Change in accruals and deferred income		(27,175)	28,645
Change in other liabilities		609,935	399,384
		2,061,597	(4,439,992)
Interest received		551,427	630,657
Interest paid		(109,768)	(143,750)
Income tax paid		(107,848)	(137,544)
Effect of exchange translations and other adjustments		(138,636)	229,404
Net cash from / (used in) operating activities		2,256,772	(3,861,225)
Cash flows from investing activities			
Acquisition of investment securities		(17,849,755)	(13,801,021)
Disposal of investment securities		17,515,134	14,591,057
Acquisition of property and equipment	20	(4,538)	(6,975)
Proceeds from disposal of property and equipment	20	1,377	7,798
Acquisition of intangible assets	21	(21,064)	(45,530)
Proceeds from disposal of intangible assets	21	4,249	14,140
Dividends received from subsidiary companies		228	-
Dividend from subsidiary	29	-	916,617
Net cash (used in) / from investing activities		(354,369)	1,676,086
Financing activities			
Dividends paid to parent		(800,000)	-
Net cash (used in) / from financing activities		(800,000)	-
Net (decrease)/increase in cash and cash equivalents		1,102,403	(2,185,139)
Cash and cash equivalents at beginning of year	12	6,132,240	8,317,379
Cash and cash equivalents at end of year	12	7,234,643	6,132,240

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

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

a) Reporting entity

Citibank Europe Plc (the "Company") is a company domiciled in Ireland. The address of the Company's registered office is 1 North Wall Quay, Dublin 1. The Company is involved in the provision of banking services on a worldwide basis.

b) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

c) Consolidation

The Company has applied the exemption in Regulation 9A of the European Communities (Companies: Group Accounts) Regulations 1992 from the preparation of consolidated group accounts as the financial results of the Company and its subsidiary undertakings are included in the consolidated group accounts of Citigroup Inc. on a basis that Citigroup Inc. is the ultimate parent of the Company and the consolidated financial statements of Citigroup Inc. have been drawn up in a manner which is equivalent to the requirements of the Seventh Directive of the Bank Accounts Directive. The consolidated financial statements of Citigroup Inc., within which the Company is included, are available from the address stated in note 30.

d) Functional and presentation currency

These financial statements are presented in US dollar, which is the Company's functional currency.

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

e) Changes in accounting policy and disclosures

New and amended standards and interpretations
In preparing these accounts the Company has adopted the following amendments to standards for the first time:

- Amended IFRS 7 Financial Instruments: Disclosures.
The amendment provides enhanced disclosures for transferred financial assets that are derecognised in their entirety and transferred assets that are not derecognised in their entirety. The effective date is for annual periods beginning on or after 1 July 2011.

- IFRS 13 – Fair Value measurement. The standard does not change when an entity is required to apply fair value measurement, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities. Adoption of the standard has not had a significant impact on the measurement of the Group's financial assets or liabilities. IFRS 13 also sets additional disclosure requirements. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Company has provided relevant comparative disclosures under those standards.

- IAS 1 – Presentation of Items of Other Comprehensive Income – Amendments. The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Group's financial position or performance. Comparative information has been re-presented on the same basis.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 16 – *Property Plant and Equipment.* This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

- IAS 32 – Financial Instruments, Presentation. This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

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

- The first phase of IFRS 9 – Financial Instruments covers the requirements for the classification and measurement of financial assets. Limited improvements have been made to the classification and measurement model in IFRS 9 in an attempt to align closer with the US GAAP model. An exposure draft was published during December 2012. The IASB plans to issue a final standard in the second quarter of 2014. For the second phase, Impairment methodology, an exposure draft 'Financial Instruments: Expected Credit Losses' was published in March 2013 with deliberations still on-going, with plans to issue a final standard in the second quarter of 2014. On 19 November 2013, the IASB published IFRS 9 Financial Instruments (2013) which addresses the third phase of Hedge accounting. As the final IFRS 9 standard is subject to EU endorsement, the timing of which is uncertain the Company is unable to provide a date by which it plans to apply the standard. The Company will quantify the effect of the adoption of the various phases of IFRS 9 when issued in full, to present a comprehensive view.

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

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

- IFRS 10 – Consolidated Financial Statements, IAS 27 Consolidated and Separate Financial Statements. The E.U. endorsed standard becomes effective for annual periods beginning on or after 1 January 2014. It replaces the requirements of IAS 27 that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Adoption of IFRS 10 is not expected to have a material impact on the financial position or performance of the company.

- IFRS 12 – Disclosure of Interest in Other Entities. The E.U. endorsed standard becomes effective for annual periods beginning on or after 1 January 2014. It covers disclosure requirements that were previously in IAS 27 related to consolidated financial statements, in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosures including judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Company concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Company to reach a different conclusion regarding consolidation. The Company will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. The standard will not have any impact on the financial position or performance of the Company.

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011). As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2014. IAS 32 – Offsetting Financial Assets and Financial Liabilities – Amendments. These amendments clarify the meaning of "legally enforceable right to set-off". It will be necessary to assess the impact to the Company by reviewing settlement procedures and legal documentation. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Group as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Company's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects. These amendments become effective for annual periods beginning on or after 1 January 2014.

- IFRIC 21 – Levies. IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognise a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements. IFRIC 21 become effective for annual periods beginning on or after 1 January 2014

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

f) Net interest income

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

Interest income and expense presented in the income statement include:

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

g) Net fee and commission income

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

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

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

h) Net trading income

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

i) Dividend income

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

NOTES TO THE FINANCIAL STATEMENTS

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

j) Financial assets and liabilities

Recognition
The company initially recognises loans and advances and deposits on the date at which cashflow occurs. 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.

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 benefiting from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations. The term 'positions' shall include proprietary positions and 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 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, and subsequently measured at amortised cost using the effective interest rate method, less any impairment charges. Where substantially all the risk and rewards relating to amounts receivable under loan agreements are transferred to another party, neither the amounts receivable under the loans nor the amounts payable to the other party are recognised in the financial statements as assets and liabilities and only the excess of interest received over interest paid is dealt with in the income statement.

Financial assets at fair value through the profit or loss
During 2010, the Company acquired a group of loans at fair value. At the same time, the Company entered into interest rate swaps to manage the interest rate risk of the acquired loans. The loans have been designated at fair value through the profit or loss in order to avoid any accounting mismatch between an accrual basis loan and a fair valued derivative. Any mark-to-market gains or losses on the loans and the swaps are taken directly to the income statement.

Other assets primarily comprise amounts receivable in relation to non pre-funded payments and are measured at cost.

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

j) **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 and using valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in fair value are recognised in the income statement.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The 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 clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

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

Available-for-sale investment securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investment securities are initially recognised at fair value and subsequently measured at fair value with the changes in the fair value reported as a separate component of equity except for impairment charges which are recognised directly in the income statement.

The translation of gains and losses on foreign currency debt securities is taken directly through the income statement. When available-for-sale investment securities are sold or impaired the cumulative gain or loss previously recognised in equity is transferred to the income statement and disclosed within net trading 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 statement.

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.

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 legal right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the 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.

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the 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 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.

k) **Impairment of financial assets**

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset prior to the statement of financial position date ("a loss event") and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the Company about the following loss events:

- 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 financial assets 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 financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets 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.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to income statement. The cumulative loss that is removed from equity and recognised in 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

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

k) Impairment of financial assets (continued)

statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale investment security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any other subsequent recovery in the fair value of an impaired available-for-sale investment security is recognised directly in equity.

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

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

When a loan is un-collectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded against net credit losses in the income statement.

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.

l) 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.

m) Property and equipment

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

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.

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

n) Goodwill and intangible assets

(i) Goodwill
Acquired goodwill represents the excess of the cost of an acquisition over the net fair value of the Company's share of the net identifiable assets, liabilities and contingent liabilities of the acquired 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. Goodwill with an indefinite life is tested for impairment at least annually.

(ii) Other intangible assets
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 using the methods that best reflect the economic benefits over their estimated useful economic lives. The estimated useful life of software is three to ten years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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 it 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. Note 2 provides additional details of estimates and judgements related to impairment on non-financial assets.

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 income tax benefit or expense in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

q) Foreign currencies

Transactions in foreign currencies are translated to US dollar at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to US dollar at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency of each branch at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency of each branch translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

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.

r) Employee benefits

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 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.

s) Share based incentive plans

The Company participates in a number of Citigroup Inc. ("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 are 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

(e) Foreign currencies

Transactions in foreign currencies are translated to US dollar at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to US dollar at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency of each branch at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

The assets and liabilities of overseas branches are translated into the Company's presentational currency at the rate of exchange ruling 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.

(f) Employee benefits

Defined contribution plans
The Company operates a number of defined contribution pension schemes. The Company's contributions are charged to the income statement in the period to which they relate. The assets of the schemes are held separately from the Company in independently 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 an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised 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.

(g) Share based incentive plans

The Company participates in a number of Citigroup Inc. ("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 compensation expense over the vesting period with a corresponding credit to the equity as a capital contribution from Citigroup. All amounts paid to Citigroup and the associated obligations are 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 equity reserve over the vesting period.

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

s) Share based incentive plans *(continued)*

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.

t) 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.

u) Cash and cash equivalents

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

v) 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.

w) Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term and are included within "Other expenses".

x) Subsidiary undertakings

Shares in subsidiary undertakings, comprising unlisted securities, are shown at cost less allowance for impairment. Please also refer to the Principal accounting policies (b) Basis of presentation note.

NOTES TO THE FINANCIAL STATEMENTS

2. Use of estimates and judgements

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 IFRSs 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
The Company's accounting policy for losses in relation to the impairment of customer loans and advances is described in Note 1(k). 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.

Impairment testing of goodwill
Judgement is required in determining whether there was an impairment loss on goodwill recognised as part of the Czech branch conversion on 1 January 2008. A value in use calculation is used to determine if any impairment of the assets and liabilities of the Czech branch had occurred.

The carry value brought forward to 2013 was $265 million. In the current year, the value in use calculation did not give rise to an impairment of the assets and liabilities of the Czech branch (2012: $nil).

The value in use calculation was based on forecasted profit before income tax for the next three years and financial projections based on macroeconomic indicators and future business strategies were extrapolated out to a total of 15 years. The value in use calculation of discounted cash flows resulted in higher net present value of discounted cashflows than the carrying amount of goodwill, thus giving rise to no impairment losses (2012: $nil) being recognised during 2013. The current year discount rate was 10.41% (2012: 10.64%). Note 21 further discusses "Impairment testing on goodwill".

The key assumptions described above may change as economic and market conditions change.

Valuation of intangible assets
Estimates may be required to use estimates on the valuation of certain material intangible assets and may use external professional advice to assist with this process.

2. Use of estimates and judgements (continued)

Valuation of financial instruments
The Company's accounting policy for valuation of financial instruments is included in Note 1(j). 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 15 further outlines the valuation of financial instruments.

Share-based incentive plans
The Company participates in a number of Citigroup share-based incentive plans. Awards granted through Citigroup'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's dividend history and historical volatility are inputs to the valuation model. Note 24 further discusses "Share-based incentive plans".

Deferred tax assets
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. Note 22 further discusses "Deferred tax assets".

3. Net interest income

	2013 $ 000	2012 $ 000
Interest and similar income		
Loans and advances to banks	93,076	133,211
Loans and advances to customers	362,698	369,317
Investment securities - available for sale	78,839	113,307
Other interest income	16,814	14,822
	551,427	630,657
Interest expense and similar charges		
Deposits by banks	35,170	49,841
Customer accounts	73,313	92,876
Other interest paid	1,285	1,033
	109,768	143,750
Net interest income	441,659	486,907

Included in interest income is a total of $3.6 million (2012: $17.4 million) received on impaired loans. Net interest income and expense, calculated using the effective interest rate method, reported above that relates to financial assets and liabilities not carried at fair value through the income statement is $350million (2012: $506 million). Included in the income statement is a net loss of $15 million (2012: $2 million loss) in relation to loans recognised at fair value through the profit or loss.

4. Net fee and commission income

		2013	
	$ 000	$ 000	$ 000
	Consumer	Institutional	Total
Fee and commission income	73,578	1,035,837	1,109,415
Fee and commission expense	(7,803)	(13,135)	(20,938)
Net fee and commission income	65,775	1,022,702	1,088,477

		2012	
	$ 000	$ 000	$ 000
	Consumer	Institutional	Total
Fee and commission income	66,994	1,094,966	1,161,960
Fee and commission expense	(11,545)	(25,451)	(36,996)
Net fee and commission income	55,449	1,069,515	1,124,964

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 $61 million in 2013 (2012: $69 million).

5. Net trading income

	2013 $ 000	2012 $ 000
Trading securities	115,749	50,730
Trading derivatives	83,819	131,628
	199,568	182,358

6. Other operating income

Other operating income consists mainly of intergroup income and other miscellaneous income (2013: $2.4 million, 2012: $4 million).

7. Personnel expenses

The average number of persons employed by the Company during the year was 4,269 (2012: 4,524).

	2013 $ 000	2012 $ 000
Employee remuneration	264,259	259,509
Share based payments	5,760	5,604
Pension costs	12,836	10,817
Social security costs	42,075	42,085
	324,930	318,015

The Company operates two defined contribution pension schemes. During the year contributions of $12.8 million (2012: $10.8 million) were made to the scheme. The assets of the scheme are held separately from those of the Company in an external independently administered fund. Contributions of $nil (2012: $nil) were payable to these schemes at the year-end. Note 24 provides further details of share-based incentive plans.

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8. Other expenses

	2013 $ 000	2012 $ 000
Depreciation	7,488	7,856
Amortisation	12,007	11,488
Research and Development	13,434	16,820
Occupancy	30,308	35,804
Tax charges	82,895	43,898
Other administrative expenses	406,401	368,677
Total Other expenses	552,533	484,543

9. Auditors' remuneration

	2013 $ 000	2012 $ 000
Audit of company's individual statutory accounts	452	465
Audit of group accounts	12	81
Other assurance services	28	36
Total	492	582

No other fees were paid to the auditor during 2013 (2012: $nil).

10. Directors' emoluments

	2013 $ 000	2012 $ 000
Aggregate emoluments		
- fees	347	291
- other remuneration, including pension contributions	6,087	4,884
- remuneration for loss of office	1,748	-
	8,182	5,175

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11. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2013 $ 000	2012 $ 000
Current tax:		
Corporation tax on profits of the period	(110,040)	(133,936)
Total current tax	(110,040)	(133,936)
Deferred tax:		
Origination and reversal of temporary differences		
Losses		
Current year deferred tax	1,370	(7,325)
Total deferred tax (note 22)	1,370	(7,325)
Total income tax expense	(108,670)	(141,261)

(b) Reconciliation of effective tax rate:

	2013 $ 000	2012 $ 000
Profit before income tax	823,186	972,493
Income tax at Irish corporation tax rate of 12.5%	(102,898)	(121,562)
Effects of:		
Income taxes paid in foreign jurisdictions	(28,230)	(34,413)
Capital allowances and other timing differences	1,778	1,372
Non Deductible expenses	(2,330)	(3,242)
Double tax relief credit	20,177	20,776
Double taxation relief adjustment	1,007	1,705
Utilisation of losses bought forward	118	118
Deferred Taxation	1,370	(7,325)
Other	338	1,310
Total income tax expense	(108,670)	(141,261)

12. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances that mature within three months. We do not include government bonds of non OECD countries as cash equivalent, where there maturity is within three months.

	2013 $ 000	2012 $ 000
Cash and balances at central bank	1,857,107	1,988,529
Loans and advances to banks with maturity less than 3 months	5,377,536	4,143,711
	7,234,643	6,132,240

13. Trading assets

	2013 $ 000	2012 $ 000
Government bonds with maturity less than three months	4,768	77,740
Government bonds with maturity greater than three months	1,037,966	825,805
Total trading assets	1,042,734	903,545

14. Financial instruments and risk management

Objectives, policies and strategies

Financial instruments are fundamental to the Company's business and constitute the core elements of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Company. Financial instruments create, modify or reduce the liquidity, credit and market risk of the Company's statement of financial position.

- **Loans and deposits**: Loans and deposits form a large part of the Company's business. The Company has detailed policies and strategies in respect of its customer loans and deposits that seek to minimise the risks associated with these financial instruments.

- **Investment securities**: The Company holds securities, excluding strategic investments, for use on a continuing basis in the Company's activities. The objective of holding such financial instruments is primarily to hedge interest rate exposure and to manage cash positions.

- **Derivative trading and hedging**: Where financial instruments form part of the Company's management strategy they are classified as economic hedges. The objective for holding financial instruments as hedges is to match or minimise the risk arising because of adverse movements in interest rates or exchange rates. Cash products and fx forwards are the main instruments used for economically hedging the statement of financial position.