CITIBANK EUROPE PLC

(Registered Number: 132781)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2012

CITIBANK EUROPE PLC

CONTENTS

REPORT OF THE DIRECTORS (continued)

Audit Committee

The Audit Committee is a standing committee of the Board of Directors of the Company and is constituted and mandated in accordance with the European Communities (Statutory Audits) (Directive 2006/43/EC). Through an interactive process with the Company's senior management, Citi Internal Audit and the Independent Auditors, the Audit Committee receives information on, and oversees the adequacy of, the internal control environment established by management in relation to the Company's businesses as set out in more detail in the Terms of Reference for the Audit Committee.

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).

Regulatory capital requirements

The Company's primary regulator, the Central Bank of Ireland, sets and monitors capital requirements for the Company. Please refer to note 13 for more detailed information. Further information on the Company's capital requirements and risk management ("Pillar 3 Disclosures") can be found in the other regulatory findings section at http://www.citigroup.com/citi/investor/reg.htm.

The total capital requirement is calculated in accordance with Irish Statutory Instruments. The Company had Own Funds of $6,103,622 at the end of 2012 (2011: $3,761,952) which represents a capital adequacy ratio of 25% (2011:15%).

Financial instruments

The financial risk management objectives and policies and the exposure to market risk, credit risk, and liquidity risk of the Company and its subsidiary undertakings have been disclosed in note 13 about financial instruments and risk management.

Research & development

The Company is actively pursuing research and development ("R&D") opportunities in all aspects of financial services business and, through its innovation laboratory is a centre of excellence for the development of innovative financial services and solutions.

Overseas branches and subsidiaries

The Company operates branches in Poland, the Czech Republic, Hungary, Slovakia and Romania and has subsidiaries in Hungary and the United Kingdom. The Company's branches contributed $169 million (2011: $200 million) to the profit before tax. The Company has taken provisions in 2012 for a restructuring of the Romania Retail business.

Political donations

During the year the Company made no political donations (2011: $nil).

Post balance sheet events

There are no subsequent events to report at the date of approval of the annual report.

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REPORT OF THE DIRECTORS (continued)

Directors, secretary and their interests

The names of the Directors and Secretary who held office during 2012 were as follows:

Francesco Vanni d'Archirafi (Chairman)
Aidan Brady (Chief Executive Officer)
Jim Farrell
Mark Fitzgerald
Bo J. Hammerich
Brian Hayes
Mary Lambkin
Marc Luet (appointed 20th January 2012)
Frank McCabe
Terence O'Leary
Cecilia Ronan
Patrick Scally
Christopher Teano
Tony Woods
Deirdre Pepper (Secretary)

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:

	31-Dec-12	31-Dec-11
	Common stock	Common stock*
Director/secretary		
Francesco Vanni d'Archirafi	258,980	197,848
Aidan Brady	35,817	21,793
Jim Farrell	337	217
Mark Fitzgerald	9,846	8,124
Bo J. Hammerick	2,270	1,543
Brian Hayes	9,799	6,150
Mary Lambkin	-	500
Marc Luet	28,500	28,500
Frank McCabe	4,650	4,785
Terence O'Leary	14,913	29,062
Deirdre Pepper	42	42
Cecelia Ronan	251	251
Patrick Scally	1,871	1,384
Christopher Teano	1,834	1,500
Tony Woods	1,103	1,430

*or date of appointment if later

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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 2011**	**Granted**	**Exercised/ lapsed**	**at 31 December 2012**	**Exercise price US$**
Francesco Vanni d'Archirafi	75,000	-	-	75,000	49.10
Aidan Brady	14,400	-	-	14,400	
Jim Farrell	-	-	-	-	
Mark Fitzgerald	2,691	-	-	2,691	40.80 - 417.50
Bo J. Hammerick	1,543	-	-	1,543	
Brian Hayes	8,059	-	-	8,059	
Mary Lambkin	-	-	-	-	
Marc Luet	-			-	
Frank McCabe	-	-	-	-	
Terence O'Leary	5,387	-	240	5,147	
Deirdre Pepper	46	-	-	46	
Cecelia Ronan	231	-	-	231	
Patrick Scally	2,335	-	-	2,335	40.80
Christopher Teano	4,977	-	-	4,977	
Tony Woods	4,172	-	-	4,172	40.80 - 495

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 2012 was US$39.56 (2011: US$26.54) and during the calendar year ended 31 December 2012, the closing price ranged from a low of US$38.65 (2011: US$24.50) to a high of US$39.60 (2011: US$51.44).

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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 2012. 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 2012.

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: 21st March 2013

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

KPMG
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

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 2012 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 (EU).

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 2012 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012.

Independent Auditor's Report to the members of Citibank Europe plc
(continued)

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.

The net assets of the Company, as stated in the Company Statement of Financial Position 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 2012 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 2012 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 2013

CITIBANK EUROPE PLC

INCOME STATEMENT

For the years ended 31 December 2012 and 31 December 2011

	Note	2012 $ 000	2011 $ 000
Interest income		630,657	691,855
Interest expense		(143,750)	(143,504)
Net interest income	3	486,907	548,351
Net fee and commission income	4	1,124,964	1,090,870
Net trading income	5	182,358	92,093
Other operating income	6	4,012	13,562
Dividend income		283	155
Operating income		1,798,524	1,745,031
Net credit losses	13	(23,473)	(21,701)
Personnel expenses	7	(318,015)	(279,146)
Other expenses		(484,543)	(387,691)
Profit before income tax		972,493	1,056,493
Income tax expense	10	(141,261)	(139,326)
Profit for the year		831,232	917,167

The current year profit arises solely from continuing operations.

The financial statements were approved by the Board of Directors on 21st March 2013 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 2012 and 31 December 2011

	Note	2012 $ 000	2011 $ 000
Profit for the year	28	831,232	917,167
Other comprehensive income, net of income tax			
Net gain / (loss) on available-for-sale financial assets	28	54,908	(20,372)
Exchange differences on translation of foreign operations	28	237,914	(183,368)
Other comprehensive income for the year, net of tax		292,822	(203,740)
Total comprehensive income for the year		1,124,054	713,427

The financial statements were approved by the Board of Directors on 21st March 2013 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 2012, 31 December 2011 and 31 December 2010

	Note	2012 $ 000	2011 $ 000	2010 $ 000
Assets				
Cash and balances at central bank	11	1,988,529	1,585,761	1,332,190
Trading assets	12,14	903,545	741,890	315,025
Derivative financial instruments	14,16	1,490,844	2,666,231	2,057,577
Loans and advances to banks	14	6,515,191	10,075,577	9,975,555
Loans and advances to customers	14	10,576,845	8,415,721	6,502,258
Investment securities	14,15	2,058,178	2,638,549	2,145,249
Shares in subsidiary undertakings	18	3,372	1,646	1,730
Property and equipment	19	24,910	27,912	34,999
Goodwill and intangible assets	20	329,557	299,107	298,923
Non current assets - held for sale		-	-	72,037
Current income tax		10,876	6,592	-
Deferred tax assets	21	7,327	14,652	13,967
Prepayments and accrued income		119,293	137,182	146,589
Other assets		166,006	497,945	308,232
Total assets		24,194,473	27,108,765	23,204,331
Liabilities				
Deposits by banks	14	3,554,479	8,109,781	4,931,269
Customer accounts	14	8,657,175	8,606,309	8,808,785
Derivative financial instruments	14,16	1,532,110	2,767,954	2,115,827
Debt securities in issue	26	842,198	498,068	-
Accruals and deferred income		205,526	176,881	187,081
Current income tax		7,372	6,696	3,497
Other liabilities	17	2,119,064	1,702,060	1,840,999
Total liabilities		16,917,924	21,867,749	17,887,458
Equity shareholders' funds				
Share capital	24, 28	10,071	10,071	10,071
Share premium account	28	1,593,607	1,593,607	1,593,607
Capital reserves	28	1,239,171	320,987	320,987
Other reserves (net)	28	7,560	(278,557)	(76,533)
Retained earnings	28	4,426,140	3,594,908	3,468,741
Total equity attributable to equity holders		7,276,549	5,241,016	5,316,873
Total liabilities and equity shareholders' funds		24,194,473	27,108,765	23,204,331

The financial statements were approved by the Board of Directors on 21st March 2013 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 2012 and 31 December 2011

		Share Capital $ 000	Share Premium $ 000	Capital Reserve $ 000	Other Reserves $ 000	Retained Earnings $ 000	Total $ 000
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	28	-	-	-	-	831,232	831,232
Net gain on available-for-sale financial assets	28	-	-	-	54,908	-	54,908
Exchange differences on translation of foreign operations	28	-	-	-	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	28	-	-	-	(6,705)	-	(6,705)
Capital contribution	28	-	-	918,184	-	-	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

		Share Capital $ 000	Share Premium $ 000	Capital Reserve $ 000	Other Reserves $ 000	Retained Earnings $ 000	Total $ 000
Balance at 1 January 2011	Note	10,071	1,593,607	320,987	(76,533)	3,468,739	5,316,871
Total comprehensive income for the year							
Profit for the year	28	-	-	-	-	917,167	917,167
Net loss on available-for-sale financial assets	28	-	-	-	(20,372)	-	(20,372)
Exchange differences on translation of foreign operations	28	-	-	-	(183,368)	-	(183,368)
Total comprehensive income for the year		-	-	-	(203,740)	917,167	713,427
Transactions with owners, recorded directly in equity							
Share based payments	28	-	-	-	1,716	-	1,716
Dividends/remittances		-	-	-	-	(790,998)	(790,998)
Total contributions by and distributions to owners		-	-	-	1,716	(790,998)	(789,282)
Balance at 31 December 2011		10,071	1,593,607	320,987	(278,557)	3,594,908	5,241,016

CITIBANK EUROPE PLC

STATEMENT OF CASH FLOWS
For the years ended 31 December 2012 and 31 December 2011

	Note	2012 $ 000	2011 $ 000
Cash flows from operating activities			
Profit before tax		972,493	1,056,493
Adjustments for:			
Depreciation of property and equipment	8	7,856	8,299
Amortisation of intangibles	8	11,488	9,914
Net impairment loss on loans and advances	13	23,473	21,701
Finance income		(630,657)	(691,855)
Finance costs		143,750	143,504
Change in trading assets		(290,042)	(222,295)
Change in derivative financial instrument assets		1,175,387	(608,654)
Change in loans and advances to banks (greater than 3 months)		1,155,133	(1,097,026)
Change in loans and advances to customers		(2,161,124)	(1,913,463)
Change in prepayments and accrued income		17,889	9,407
Change in other assets		334,980	(196,990)
Change in non-current assets held for sale		-	72,037
Change in deposits from banks		(4,555,302)	3,178,512
Change in customer account balances		50,866	(202,476)
Change in derivative financial instrument liabilities		(1,235,844)	652,127
Change in investment securities		(154,757)	259,796
Change in debt securities in issue		344,130	498,068
Change in accruals and deferred income		28,645	(10,200)
Change in other liabilities		399,384	(129,946)
		(4,362,252)	836,953
Interest received		630,657	691,855
Interest paid		(143,750)	(143,504)
Income tax paid		(137,544)	(143,404)
Effect of exchange translations and other adjustments		229,404	(149,198)
Net cash from / (used in) operating activities		(3,783,485)	1,092,702
Cash flows from investing activities			
Acquisition of investment securities		(13,801,021)	(21,922,916)
Disposal of investment securities		14,591,057	21,149,448
Acquisition of property and equipment	19	(6,975)	(6,082)
Proceeds from disposal of property and equipment	19	7,798	7,739
Acquisition of intangible assets	20	(45,530)	(24,583)
Proceeds from disposal of intangible assets	20	14,140	(22,585)
Dividend from subsidiary	18	916,617	-
Net cash (used in) / from investing activities		1,676,086	(818,865)
Financing activities			
Dividends paid to parent		-	(790,999)
Net cash (used in) / from financing activities		-	(790,999)
Net (decrease)/increase in cash and cash equivalents		(2,107,399)	(517,162)
Cash and cash equivalents at beginning of year	11	8,317,379	8,834,541
Cash and cash equivalents at end of year	11	6,209,980	8,317,379

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 E.U.

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.

On 1st June 2012, the parent company Citibank Holdings Ireland Limited contributed Citigroup Capital Finance Ireland Limited to the Company as a subsidiary via a share transfer agreement of 1,000,000 shares at nil consideration. On 2nd June 2012, Citigroup Capital Finance Ireland Limited sent a dividend for the remainder of its distributable reserves of $917 million to the Company. The reserves relate to profits earned prior to its ownership by the Company.

IAS 27.38A states that in preparing a parent company's separate financial statements, the parent should recognise the entire dividend amount in profit or loss when its right to receive it is established. However Section 149(5) of the Companies Act 1963 does not permit a parent company to include in its income statement a dividend that relates to profits earned by a subsidiary in the period prior to the parent's ownership of it, thereby requiring the exclusion of pre-acquisition profits from the parent company's income statement.

The Company has determined that as it is required to prepare statutory financial statements that give a true and fair view that takes into account compliance with the requirements of company law, it includes all post-acquisition dividends $917million presented as a reduction in the carrying amount of its investment in the subsidiary in the Statement of Financial Position.

If the IAS 27 and IAS 36 approach had been applied it would have resulted in an increase in the dividend income line in the Statement of Comprehensive Income in the amount of $917 million.

These financial statements have therefore been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the EU, as applied in accordance with the Companies Acts 1963 to 2012.

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. These consolidated accounts give a fair and true value of the financial performance and position of the group.

As such, these financial statements present information about the Company as an individual undertaking and not about its group. The consolidated financial statements of Citigroup Inc., within which the Company is included, are available from the address stated in note 29.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

d) Functional and presentation currency

These financial statements are presented in US dollar, which is the Company's functional currency. On 1st March 2012, the Company changed its functional accounting currency from Euro to US dollar. Prior to 2012, the financial statements were presented in Euro, which was the Company's functional currency. Prior year comparatives have been translated at closing rate for the Statement of Financial Position, translated at historical rates for equity accounts, and translated at the average rates for the Income Statement. In some cases as indicated, financial information presented in US dollar has been rounded to the nearest thousand or million as deemed appropriate.

This change in functional currency during the period, is also considered a change in presentational currency and in accordance with IAS 1 requires presentation of a third statement of financial position. In accordance with IAS8 (IAS8.19 (b)), this change in presentational currency has been applied retrospectively using the methodology outlined above. The methodology is as outlined in IAS21.39 (a) – (c), translation of the presentation currency.

e) Changes in accounting policy and disclosures

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 been adopted by the EU so are not effective for the Company and Group financial statements, these include:

- The first phase of IFRS 9 'Financial Instruments' covering the requirements for the classification and measurement of financial assets is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. 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 has been published during December 2012. The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting. The original expected completion date has been extended, with exposure drafts for the second and third phases expected by the first quarter of 2013. As the final IFRS 9 standard is subject to EU endorsement, the timing of which is uncertain the Group is unable to provide a date by which it plans to apply the standard. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

The Company is currently assessing the impact of the following standards due in 2013 on the Company's financial position or performance:

- IFRS 1 Government Loans - Amendments to IFRS 1

- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS

- IFRS 10 - Consolidated Financial Statements, IAS 27 Separate Financial

- IFRS 11 - Joint Arrangements

- IFRS 12 - Disclosure of Involvement with Other Entities

- IFRS 13 - Fair Value measurement. The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Company.

- IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS

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

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

- IAS 19 Employee Benefits – Amendments. The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Company.

- IAS 27 Separate Financial Statements (as revised in 2011)

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

- Annual Improvements May 2012. These improvements will not have an impact on the Company, but include:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards
  - IAS 1 Presentation of Financial Statements
  - IAS 16 Property Plant and Equipment
  - IAS 32 Financial Instruments, Presentation
  - IAS 34 Interim Financial Reporting
  - These improvements are effective for annual periods beginning on or after 1 January 2013.

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. Maintenance fees are applied to certain pre-paid card balances if the account suffers an extended period of inactivity. 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.

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

h) Net trading income

Net trading income on items at fair value through profit and 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 and unrealised 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.

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 and 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 and 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. In 2012 the Company had no embedded derivatives (2011: nil).

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 simultanously. 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.

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:

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

k) Impairment of financial assets (continued)

- 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 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.

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

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.

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 seven 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.

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 income tax benefit or expense in the income statement.

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 weighted 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.

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

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 recognises the fair value of the awards at the grant date as compensation expense over the vesting period with a corresponding credit in equity as a capital contribution from Citigroup. All amounts paid to Citigroup and the associated obligation under the SPAPA are recognised in equity 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, again over the vesting period.

t) Accounting for government grants

Grants are credited to the income statement to offset the matching expenditure. Where grants are repayable, should the Company cease to meet certain conditions over a defined period, such amounts are credited to the income statement on a straight-line basis over that period.

u) Accounting for business combinations

Goodwill represents the excess of the cost of the acquisition over the Company's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

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: cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, loans and advances to customers and short-term trading assets.

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) 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".

y) 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.

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 management to make 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(i). 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. Management uses estimates 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
Management used judgement 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 2012 was $238 million ($365 million as originally calculated less $127 million impairment charge in 2010). 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 (2011: $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 (2011: $nil) being recognised during 2012. The current year discount rate was 10.64% (2011: 13.35%). Note 20 further discusses "Impairment testing on goodwill".

There was no reduction in the value of goodwill from prior year primarily driven by a better current base year in 2012 than in 2011 with increased revenues and lower Cost of Credit charges.

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

Valuation of intangible assets
Management 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(h). 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, where this is not possible management may be required to make estimates. Note 14 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 26 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 21 further discusses "Deferred tax assets".

3. **Net interest income**

	2012 $ 000	2011 $ 000
Interest and similar income		
Loans and advances to banks	133,211	156,247
Loans and advances to customers	369,317	398,904
Investment securities - available for sale	113,307	132,325
Other interest income	14,822	4,379
	630,657	691,855
Interest expense and similar charges		
Deposits by banks	49,841	57,136
Customer accounts	92,876	86,325
Other interest paid	1,033	43
	143,750	143,504
Net interest income	486,907	548,351

Included in interest income is a total of $17.4 million (2011: $8.4 million) accrued on impaired loans. Total 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 $506 million (2011: $515 million). Included in the income statement is a net loss of $2 million (2011: $19 million loss) in relation to loans recognised at fair value through the profit and loss.

4. Net fee and commission income

	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

	2011		
	$ 000	$ 000	$ 000
	Consumer	Institutional	Total
Fee and commission income	90,074	1,058,455	1,148,529
Fee and commission expense	(28,233)	(29,426)	(57,659)
Net fee and commission income	61,841	1,029,029	1,090,870

Included in fee and commission income are fees earned by the Company on trust activities where the Company holds assets on behalf of its customers. This fee income totalled $69 million in 2012 (2011: $54 million).

5. Net trading income

	2012	2011
	$ 000	$ 000
Trading securities	50,730	5,890
Trading derivatives	131,628	86,203
	182,358	92,093

6. Other operating income

Other operating income consists mainly of other intergroup income and other miscellaneous income (2012: $4.0 million, 2011: $13.6 million).

7. Personnel expenses

The average number of persons employed by the Company during the year was 4,524 (2011: 3,949).

	2012	2011
	$ 000	$ 000
Employee remuneration	259,509	224,988
Share based payments	5,604	7,042
Pension costs	10,817	7,132
Social security costs	42,085	39,984
	318,015	279,146

The Company operates a number of defined contribution pension schemes. During the year contributions of $10.8 million (2011: $7.1 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 (2011: $nil) were payable to these schemes at the year-end. Note 23 provides further details of share-based incentive plans.

NOTES TO THE FINANCIAL STATEMENTS

8. Statutory information

Profit before tax is arrived at after charging for:

	2012 $ 000	2011 $ 000
Research and Development	16,820	20,860
Depreciation	7,856	8,299
Amortisation	11,488	9,914
Auditors' remuneration		
- audit of company's individual statutory accounts	465	413
- audit of group accounts	81	52
- other assurance services	36	44

No other fees were paid to the auditor during 2012 (2011: €nil).

9. Directors' emoluments

	2012 $ 000	2011 $ 000
Aggregate emoluments		
- fees	291	315
- other remuneration, including pension contributions	4,884	5,095
	5,175	5,410

10. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2012 $ 000	2011 $ 000
Current tax:		
Corporation tax on profits of the period	(133,936)	(138,199)
Total current tax	(133,936)	(138,199)
Deferred tax:		
Origination and reversal of temporary differences		
Losses		
Current year deferred tax	(7,325)	(1,127)
Total deferred tax (note 21)	(7,325)	(1,127)
Total income tax expense	(141,261)	(139,326)

10. Tax on profit on ordinary activities (continued)

(b) Reconciliation of effective tax rate:

	2012 $ 000	2011 $ 000
Profit before income tax	972,493	1,056,493
Income tax at Irish corporation tax rate of 12.5%	(121,562)	(132,062)
Effects of:		
Income taxes paid in foreign jurisdictions	(34,413)	(37,027)
Capital allowances and other timing differences	1,372	1,430
Non deductible expenses	(3,242)	1,098
Double tax relief credit	20,776	25,724
Double taxation relief adjustment	118	1,413
Utilisation of losses bought forward	(7,325)	127
Other	-	1,098
Corporation tax on profits of the period	(141,261)	(138,199)

11. 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:

	2012 $ 000	2011 $ 000
Cash and balances at central bank	1,988,529	1,585,761
Loans and advances to banks with maturity less than 3 months	4,143,711	6,525,491
Trading assets - government bonds with maturity less than 3 months	77,740	206,127
	6,209,980	8,317,379

12. Trading assets

	2012 $ 000	2011 $ 000
Government bonds with maturity less than three months	77,740	206,127
Government bonds with maturity greater than three months	825,805	535,763
Total trading assets	903,545	741,890

13. 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.

The purpose for which the Company holds or issues financial instruments can be classified into four main categories:

- **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.

  In the normal course of business, the Company enters into a variety of derivative transactions in the interest rate and foreign exchange markets. They are used to provide financial services to customers and to take, hedge and modify positions as part of trading activities. Derivatives may also be used to economically hedge or modify risk exposures arising on the statement of financial position from a variety of activities, including lending and securities investment. Most of the counterparties in the Company's derivative transactions are banks and other financial institutions. The risks involved in derivatives include market, credit and liquidity risk.

- **Other liabilities**: The Company holds other liabilities, which, are primarily composed of amounts payable in relation to pre-funded obligations arising from the Company's Worldlink multi-currency transaction services business.

13. Financial instruments and risk management (continued)

Risk management

Each of the major business groups within Citigroup has a Business Chief Risk Officer who is the focal point for risk decisions (such as setting risk limits or approving transactions) in the business.

There are also Regional Chief Risk Officers accountable for the risks in their geographic area and also the primary risk contact for the regional business heads and local regulators. In addition, the position of Product Chief Risk Officer was created for those areas of critical importance to Citigroup such as real estate, structured credit products and fundamental credit. The Product Risk Officers are accountable for the risks within their specialty. The Product Risk Officers serve as a resource to the Chief Risk Officer, as well as to the Business and Regional Chief Risk Officers.

In addition to changing the risk management organisation to facilitate the management of risk across these three dimensions, the Citigroup risk organisation also includes the Business Management team to ensure that the risk organisation has the appropriate infrastructure, processes and management reporting. This team which supports risk management within the Company includes:

- the risk capital group, which continues to enhance the risk capital model and ensure that it is consistent across all our business activities;
- the risk architecture group, which ensures we have integrated systems and common metrics and thereby allows us to aggregate and stress exposures across the institution;
- the infrastructure risk group, which focuses on improving our operational processes across businesses and regions.

Credit, Market and Operational risk are managed, monitored and controlled through the Company's Credit, Market and Operational Risk Committees. Each of these committees reports to the Risk Management Committee.

Risk aggregation and stress testing

The Company's Chief Risk Officer, as noted above, monitors and controls major risk exposures and concentrations across the organisation. This means aggregating risks, within and across businesses, as well as subjecting those risks to alternative stress scenarios in order to assess the potential economic impact they may have on the Company.

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

Supplementing the stress testing described above, Risk Management, working with input from the businesses and Finance, provides periodic updates to senior management and the Citigroup Board of Directors on significant potential exposures across Citigroup arising from risk concentrations, financial market participants and other systemic issues. These risk assessments are forward-looking exercises, intended to inform senior management and the Citigroup Board of Directors about the potential economic impacts to Citigroup that may occur, directly or indirectly, as a result of hypothetical scenarios, based on judgmental analysis from independent risk managers.

The stress testing and risk assessment exercises are a supplement to the standard limit-setting as these processes incorporate events in the marketplace and within Citigroup that impact our outlook on the form, magnitude, correlation and timing of identified risks that may arise. In addition to enhancing awareness and understanding of potential exposures within the Company, the results of these processes then serve as the starting point for developing risk management and mitigation strategies.

The Company also conducts stress testing and concentration risk testing from the individual legal vehicle perspective and the results are built into the future capital plans of the entity.

13. Financial instruments and risk management (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human factors or systems or from external events. It includes the reputation 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 standard, regulatory administrative actions or Company policies.

Operational risk is inherent in the Company's business activities and, as with other risk types is managed through a control framework comprising of 3 Lines of Defense as follows;

- Decentralized Ownership of the Risk with Business Management Accountability;
- Oversight by Independent Risk Management and Control functions; and
- Independent Assessment by Internal Audit.

Framework

The Company follows the approach to operational risk as defined in the Citi Operational Risk Management Policy. The objective of the Policy is to establish a consistent value – added framework for assessing and communicating operational risk and the overall effectiveness of the internal control environment across Citi. The Operational Risk Management Framework is intended to ensure management across Citi of the operational risks and ongoing exposures in the development and delivery of products and services to our clients, and support Basel implementation. (To further enhance the operational risk management framework, in 2012 the company started a process of transitioning from the Risk and Control Selfassessment to the Manager's Control Assessment. Manager's Control Assessment (MCA) is a diagnostic tool used in the management of financial, operational and regulatory risks as a key component of the Business Environmental and Internal Control Factors (BEICFs) required under Basel Capital Standards. MCA Standards are consistent with the requirements of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework, and with Sarbanes-Oxley (SOX) sections 302 and 404. MCA is also a key element of Citi's Operational Risk Management Framework and Policy.)

The Company Operational risk and Outsourcing Committee has been refocused and operational risk working groups have been established to escalate operational risk related concerns to further proactive management of operational risk.

Information about operational risk, historical losses and the control environment, is reported and summarised for the Audit and Risk Committees, senior management and for the Board of Directors.

Market risk

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

Market risk management

Within each business, a process is in place to control market risk exposure. The risk management process includes the establishment of appropriate market risk controls and limits, policies and procedures and appropriate senior management risk oversight with a risk management function independent from the business. Management of this process begins with the professionals nearest to the Group's customers, products, and markets, and extends up to the senior executives who manage these businesses and to the country level. Periodic reviews are conducted by Citi Internal Audit to ensure compliance with institutional policies and procedures for the assessment, management and control of market risk.

Price risk is measured using Interest Rate Exposure ("IRE") limits, stress and scenario analysis, which are applied to interest rate risk arising in the non-trading portfolios. Sensitivity limits and Value-at Risk ("VaR"), stress and scenario analysis, are applied to the trading portfolios.

13. Financial instruments and risk management (continued)

Market risk management (continued)

Trading price risk

Overall objectives
The Company uses a daily VaR measure, in conjunction with factor sensitivity and stress reporting, as a mechanism for monitoring and controlling market risk for the trading portfolio. The VaR is calculated at a 99% confidence level assuming a one-day liquidation horizon. Daily losses are expected to exceed the VaR, on an average, once every one hundred business days.

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

VaR limitations
Although extensive back-testing of the VaR hypothetical portfolios, with varying concentrations by industry, risk rating and other factors is performed, the VaR cannot necessarily provide an indication of the potential size of loss when an extreme event occurs. Hence a comprehensive set of factor sensitivity limits and stress tests are used, in addition to VaR limits.

A VaR trigger is in place for the Company that ensures any excesses are discussed and resolved between risk and the business and entity management. In addition, the Company is subject to formal limits on interest rate and issuer exposures that are closely monitored by Risk Management and senior business management.

The following table summarises the Company's trading price risk by branch, 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:

	$ 000	$ 000	$ 000	$ 000	$ 000
Czech	**31-Dec-12**				**31-Dec-11**
	Outstanding	Min	Avg	Max	Outstanding
Portfolio VaR	725	223	1,342	2,556	2,461
VaR of interest instruments	700	221	1,252	2,515	2,485
VaR of currency instruments	211	4	159	754	127
Hungary	**31-Dec-12**				**31-Dec-11**
	Outstanding	Min	Avg	Max	Outstanding
Portfolio VaR	744	514	967	2,040	1,091
VaR of interest instruments	762	297	673	1,190	1,038
VaR of currency instruments	38	38	471	1,408	127
Slovakia	**31-Dec-12**				**31-Dec-11**
	Outstanding	Min	Avg	Max	Outstanding
Portfolio VaR	15	13	86	665	47
VaR of interest instruments	10	0	12	20	10
VaR of currency instruments	11	6	86	667	43
Romania	**31-Dec-12**				**31-Dec-11**
	Outstanding	Min	Avg	Max	Outstanding
Portfolio VaR	1,826	649	1,648	3,195	2,399
VaR of interest instruments	1,829	643	1,630	3,185	2,367
VaR of currency instruments	40	7	121	1,993	163

NOTES TO THE FINANCIAL STATEMENTS

13. Financial instruments and risk management (continued)

Market risk management (continued)

Non-trading price risk

Price risk in the non-trading portfolios is measured using Interest Rate gap Analysis, IRE, stress and scenario analysis. Interest Rate gap Analysis utilises the maturity or re-pricing schedules of statement of financial position items to determine interest rate exposures within given tenor buckets. 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 each country and business activity, of which the Company is a part. Market Risk Management monitors these limits.

Interest rate risk

The Company's exposure to interest rate fluctuations on its banking portfolio is proactively managed and monitored within approved guidelines. Interest rate risk is measured using IRE limits and stress and scenario analysis. The IRE measures the potential change in expected net interest earnings over an accounting horizon of 12 months and 5 years and has been broken down into the main currencies on the Company's statement of financial position. The following table shows the IRE measures for the Company at 31 December assuming a parallel upward shift of interest rates by 100 basis points. A positive IRE indicates a potential increase of earnings from such an upward shift, while a negative IRE indicates a potential decline of earnings.

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

	2012		2011	
Currency	**12 Month**	**5 Year**	**12 Month**	**5 Year**
	$ 000	**$ 000**	**$ 000**	**$ 000**
USD	3,106	7,275	(6,570)	(530)
EUR	(2,117)	1,889	840	4,092
RON	(2,863)	(4,442)	(1,990)	(4,893)
CZK	780	6,304	(1,494)	1,990
HUF	(5,675)	(15,262)	(3,303)	(5,498)
GBP	1,228	2,071	499	2,490

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

Currency risk

It is the policy of the 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 Euro. Treasury monitors daily open foreign currency positions ensuring that exposure is less than agreed allocated limits.

13. Financial instruments and risk management (continued)

Market risk management (continued)

Based on the net exposures at year end, the following table shows the impact on these net exposures of a reasonably possible movement of the respective currencies against the US dollar in 2012 and the Euro in 2011, with all other variables held constant, on the income statement:

	2012		
	Net exposure	**(%)**	**Income statement impact**
	$ 000		**$ 000**
EUR	112,975	3	3,389
HUF	(26,223)	3	(787)
RON	18,034	3	541

	2011		
	Net exposure	**(%)**	**Income statement impact**
	$ 000		**$ 000**
USD	58,965	9	5,307
HUF	21,568	14	3,020
RON	(7,484)	5	(374)

Liquidity risk

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 asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligation when they fall due under normal and stress circumstances.

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/Liability Management 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.

A liquidity policy is prepared by Treasury and approved by the Board annually and the liquidity profile is monitored on an on-going basis and reported daily. Liquidity risk is measured and managed using the Market Access Report ("MAR") process in accordance with Citigroup policy.

NOTES TO THE FINANCIAL STATEMENTS

13. Financial instruments and risk management (continued)

Liquidity risk (continued)

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

As at 31 December 2012	Less than 12 months $ 000	Over 12 months $ 000	Total $ 000
Assets			
Cash and balances at central bank	1,988,529	-	1,988,529
Loans and advances to banks	6,402,956	112,235	6,515,191
Loans and advances to customers	10,121,637	455,208	10,576,845
Derivative financial instruments	289,383	1,201,461	1,490,844
Trading assets	504,152	399,393	903,545
Investment securities	962,174	1,096,004	2,058,178
All other assets	337,041	324,300	661,341
Total assets	20,605,872	3,588,601	24,194,473
Liabilities			
Deposits by banks	3,554,479	-	3,554,479
Customer accounts	8,656,580	595	8,657,175
Derivative financial instruments	342,081	1,190,029	1,532,110
All other liabilities	3,128,849	45,311	3,174,160
Total liabilities	15,681,989	1,235,935	16,917,924
Net contractual inflow / (outflow)	4,923,883	2,352,666	7,276,549

13. Financial instruments and risk management (continued)

Liquidity risk (continued)

As at 31 December 2011	Less than 12 months $ 000	Over 12 months $ 000	Total $ 000
Assets			
Cash and balances at central bank	1,585,761	-	1,585,761
Loans and advances to banks	9,577,748	497,829	10,075,577
Loans and advances to customers	8,002,454	413,267	8,415,721
Derivative financial instruments	221,772	2,444,459	2,666,231
Trading assets	359,632	382,258	741,890
Investment securities	877,896	1,760,653	2,638,549
All other assets	667,060	317,976	985,036
Total assets	21,292,322	5,816,443	27,108,765
Liabilities			
Deposits by banks	8,095,874	13,907	8,109,781
Customer accounts	8,601,312	4,997	8,606,309
Derivative financial instruments	305,187	2,462,767	2,767,954
All other liabilities	2,333,731	49,974	2,383,705
Total liabilities	19,336,104	2,531,645	21,867,749
Net contractual inflow / (outflow)	1,956,218	3,284,798	5,241,016

13. **Financial instruments and risk management** (continued)

Liquidity risk (continued)

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

As at 31 December 2012	1 year and less $ 000	>1 year and < 5 years $ 000	Greater than 5 years $ 000	Total $ 000
Liabilities				
Deposits by banks	3,566,228	-	-	3,566,228
Customer accounts	8,670,762	627	-	8,671,389
Derivative financial instruments	342,834	698,041	492,092	1,532,967
Debt securities in issue	844,493	-	-	844,493
Total undiscounted financial liabilities	13,424,317	698,668	492,092	14,615,077

As at 31 December 2011	1 year and less $ 000	>1 year and < 5 years $ 000	Greater than 5 years $ 000	Total $ 000
Liabilities				
Deposits by banks	8,256,012	13,390	699	8,270,101
Customer accounts	8,653,607	3,884	-	8,657,491
Derivative financial instruments	305,597	381,889	2,080,880	2,768,366
Debt securities in issue	499,422	-	-	499,422
Total undiscounted financial liabilities	17,714,638	399,163	2,081,579	20,195,380

13. Financial instruments and risk management (continued)

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.

2012	1 year and less $ 000	>1 year and 5 years $ 000	Greater than 5 years $ 000	Carrying amount $ 000
Letters of credit	12,571,090	5,065,548	216,093	17,852,731
Undrawn commitments to lend	1,890,967	1,649,383	562,860	4,103,210
Other commitments and guarantees	1,116,464	614,291	7,475	1,738,230
Total commitments and guarantees	15,578,521	7,329,222	786,428	23,694,171
2011				
Letters of credit	12,534,713	5,055,242	229,861	17,819,816
Undrawn commitments to lend	981,965	2,184,753	157,681	3,324,399
Other commitments and guarantees	1,011,270	315,075	212,623	1,538,968
Total commitments and guarantees	14,527,949	7,555,069	600,165	22,683,183

Credit risk

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

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

The different business groups manage their credit risk process as follows:

1. Institutional Clients Group ("ICG")

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

- joint business and independent risk management responsibility for managing credit risks;
- single centre of control for each credit relationship that coordinates credit activities with that client;
- a minimum of two authorised-credit-officer signatures are required on extensions of credit, one of which must be from a credit officer in credit risk management;
- risk rating standards, applicable to every obligor and facility; and
- consistent standards for credit origination documentation and remedial management.

13. Financial instruments and risk management (continued)

Credit risk (continued)

The Company has established processes for the consistent calculation, measurement, monitoring and reporting of credit risk across all ICG businesses globally. At the most granular level, credit is extended under a credit limit approved by a unit aligned with the obligor. As part of the approval or subsequent renewal process, Independent Risk Management is responsible for assigning a risk rating to the obligor. The risk rating refers to an expected probability of default of the obligor and is therefore part of the expression of the credit risk associated with extending credit. Each credit limit is assigned a facility risk rating, taking the obligor risk rating and including any facility level characteristics (security, collateral, etc) to assign a rating that is an expression of the expected loss on a facility (the product of probability of default and loss given default). The final component of credit risk is the amount of exposure and here measures vary from the most simple (e.g. value of the asset) to complex (e.g. estimating potential replacement cost on a derivative contract). The processes required for these measurements therefore also vary considerably - from a simple feed of balances to a complex simulation engine.

Credit risk is therefore measured at a number of levels, including:

- At a facility level which may include one or more contracts, availments or transactions.
- At an obligor level if there are multiple facilities approved for an obligor - where the risk associated with an obligor default can be assessed
- At a group level - considering the implications of a group structure of multiple obligors with common ownership.

Obligor probability of default is monitored by having independent risk analysts and managers aligned to the obligor, who maintain current information about the obligor's condition and revisit the risk rating and approved limits in the event of material new information coming to light.

Exposure is monitored against the approved limits and excesses are automatically identified to an appropriate member of Independent Risk Management. Escalation processes ensure that larger and aged exceptions are raised to an appropriately Senior Credit Officer.

The Company has a Credit risk reporting system (Global Risk Reporting - GRR), to which all material exposures are reported on a daily basis by numerous underlying product processors and other feeder systems. An analyst or risk manager can, therefore, obtain a snapshot as at close of business previous day of all material exposures to his/her obligor(s), whether or not exposure has exceeded a limit.

2. Global Cards and Consumer Banking ("Consumer")

Country Business Managers have ownership of portfolios and are accountable for managing the risk/return trade-offs in their businesses. In cooperation with Senior/Country Credit Officers they implement policies, procedures and risk management practices in their businesses that are compliant with global consumer credit risk policies.

Consumer risk officers regularly review the performance of the consumer businesses and ensure that appropriate control is exercised. A risk differentiated approach is employed, such that critical activities, for example collection and fraud, are reviewed with greater frequency.

Credit authority levels, the delegation process, approval processes for portfolios, product approvals, and other types of required approvals, as well as credit authority levels and responsibilities are defined in Global Consumer Credit and Fraud Risk Policies. These policies establish a consistent set of standards for the appointment of Credit Officers and Senior Credit Officers, streamline the approval process, create auditable policies, and ensure the accountability and responsibility of risk management staff. The Country Credit Officer prepares credit strategy in collaboration with the Country Business Manager, which is reviewed by the Regional Senior Credit Officer.

NOTES TO THE FINANCIAL STATEMENTS

13. Financial instruments and risk management (continued)

Credit risk (continued)

There is an established set of measures, procedures and policies that aims at monitoring results of retail portfolios that ensures internal control. These include:

- Comparison of indicators to past performance
- Country Credit Officer reviews
- Stress tests
- Mandates and approval authorities

In addition to these procedures each business has credit benchmarks that set out its short and long-term expectations.

Exposure to credit risk - Loans and advances to third parties

2012	Charge and credit card debtors $ 000	Commercial loans $ 000	Consumer loans $ 000	Total $ 000
Gross Amount	509,758	13,180,437	192,659	13,882,854
Individually impaired				
Current	-	66,579	-	66,579
1 - 119 days past due	-	51	-	51
120 - 179 days past due	-	-	-	-
180 days or more past due	-	7,189	-	7,189
Gross Amount	-	73,819	-	73,819
Impairment provision on individually impaired loans	-	(16,570)	-	(16,570)
Carrying amount of individually impaired loans	-	57,249	-	57,249
Collectively assessed				
Current	481,225	13,078,888	186,377	13,746,490
1 - 119 days past due	24,330	18,848	5,724	48,902
120 - 179 days past due	4,203	4,191	12	8,406
180 days or more past due	-	4,691	546	5,237
Gross Amount	509,758	13,106,618	192,659	13,809,035
Impairment provision on collectively assessed loans	(26,574)	(45,304)	(11,473)	(83,351)
Carrying amount of collectively assessed loans	483,184	13,061,314	181,186	13,725,684
Total impairment provision	(26,574)	(61,874)	(11,473)	(99,921)
Total carrying amount	483,184	13,118,563	181,186	13,782,933
Impairment provision on undrawn commitments	-	(29,410)	-	(29,410)
Total Impairment on drawn and undrawn commitments	(26,574)	(91,284)	(11,473)	(129,331)

NOTES TO THE FINANCIAL STATEMENTS

13. Financial instruments and risk management (continued)

Credit risk (continued)

The total carrying amount in this table includes third party loans and advances to banks and loans and advances to customers as per note 14. See table below for split by category.

Total carrying amounts	**Note**	**2012** **$ 000**
Loans and advances to banks		
Loans and advances - 3rd party	14	3,206,088
Loans and advances to customers		
Charge and credit card debtors	14	483,184
Commercial loans	14	9,335,329
Consumer loans	14	181,186
Loans held at fair value through the profit and loss	14	577,146
Loans and advances to Customers		10,576,845
Loans and advances to third parties		**13,782,933**

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

13. Financial instruments and risk management (continued)

Credit risk (continued)

Exposure to credit risk - Loans and Advances to third parties

2011	Charge and credit card debtors	Commercial loans	Consumer loans	Total
	$ 000	$ 000	$ 000	$ 000
Gross Amount	468,588	10,444,984	177,630	11,091,202
Individually impaired				
Current	-	61,462	-	61,462
1 - 119 days past due	-	528	-	528
120 - 179 days past due	-	-	-	-
180 days or more past due	-	4,579	-	4,579
Gross Amount	-	66,569	-	66,569
Impairment provision on individually impaired loans	-	(23,356)	-	(23,356)
Carrying amount of individually impaired loans	-	43,213	-	43,213
Collectively assessed				
Current	438,925	10,311,203	156,972	10,907,100
1 - 119 days past due	26,208	60,455	20,563	107,226
120 - 179 days past due	3,456	144	6	3,606
180 days or more past due	-	6,614	89	6,703
Gross Amount	468,589	10,378,416	177,630	11,024,635
Impairment provision on collectively assessed loans	(27,466)	(47,022)	(15,363)	(89,852)
Carrying amount of collectively assessed loans	441,123	10,331,394	162,267	10,934,783
Total impairment provision	(27,466)	(70,378)	(15,363)	(113,207)
Total carrying amount	441,123	10,374,607	162,266	10,977,996
Impairment provision on undrawn commitments	-	(23,317)	-	(23,317)
Total Impairment on drawn and undrawn commitments	(27,466)	(93,695)	(15,363)	(136,524)

13. Financial instruments and risk management (continued)

Credit risk (continued)

The total carrying amount in this table includes third party loans and advances to banks and loans and advances to customers as per note 14. See table below for split by category.

Total carrying amounts	Note	2011 $ 000
Loans and advances to banks		
Loans and advances - 3rd party	14	2,562,275
Loans and advances to customers		
Charge and credit card debtors	14	441,123
Commercial loans	14	7,199,947
Consumer loans	14	162,267
Loans held at fair value through the profit and loss	14	612,384
Loans and advances to Customers		8,415,721
Loans and advances to third parties		**10,977,996**

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

13. Financial instruments and risk management (continued)

Credit risk (continued)

Net credit losses charged to the current year income statement

	2012 $ 000	2011 $ 000
Individual provisions taken in the year	(1,118)	15,679
Net change to portfolio provisions in the year	(10,108)	(10,542)
Credit write-offs	80,011	77,923
Credit recoveries	(45,312)	(61,359)
Net credit losses/recoveries total	23,473	21,701

Movement in provisions for impairment balances

	Charge and credit card debtors $ 000	Commercial loans $ 000	Consumer loans $ 000	Total $ 000
Balance at 1 January 2011	39,516	78,453	29,258	147,227
Individual provisions taken in the year	-	15,679	-	15,679
Net change to portfolio provisions in the year	(9,795)	11,932	(12,679)	(10,542)
Provisions released due to Credit write-offs	-	(1,869)	-	(1,869)
Provisions released due to Credit recoveries	-	(4,917)	-	(4,917)
Foreign exchange adjustments	(2,257)	(5,582)	(1,215)	(9,054)
Balance at 31 December 2011	27,464	93,696	15,364	136,524
Individual provisions taken in the year	-	(1,118)	-	(1,118)
Net change to portfolio provisions in the year	(2,563)	(3,299)	(4,246)	(10,108)
Foreign exchange adjustments	1,673	2,006	354	4,033
Balance at 31 December 2012	26,574	91,285	11,472	129,331

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NOTES TO THE FINANCIAL STATEMENTS

13. Financial instruments and risk management (continued)

Credit risk (continued)

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

	2012 $ 000	2011 $ 000
Gross exposure		
- Commitments and guarantees (third party)	23,115,594	22,081,990
- Balance sheet exposures (third party)	19,034,462	16,480,382
Total exposure	42,150,056	38,562,372

Note: The Company does not recognise inter group balances as giving rise to credit exposure.

Statement of financial position exposures include cash and cash balance at central banks, trading assets, loans and advances, investment securities, derivative financial assets and other assets.

Cash and OECD Government bonds are held as collateral against a significant number of commitments and guarantees. The Company holds $13.93 billion in cash and other high grade collateral, $12.125 billion of which is held against exposures arising from the Insurance Letters of Credit business line.

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

	2012 $ 000	2011 $ 000
Financial services	4,899,088	3,362,101
Governments & Central bank	4,549,039	5,506,777
Transport	1,935,795	1,568,959
Engineering / Electronics	839,030	987,554
Consumer	1,494,770	1,133,439
Chemicals	775,473	668,101
Oil & Gas	425,744	629,779
Agriculture	583,267	483,255
Food & Drinks industry	485,005	405,005
Construction	126,797	123,527
Communication	1,050,750	576,399
Other	1,805,890	1,035,486
	18,970,648	16,480,382

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

13. Financial instruments and risk management (continued)

Credit risk (continued)

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

	2012 $ 000	2011 $ 000
Western Europe	6,215,273	4,132,229
Central Europe	8,275,281	8,295,881
Central / South America	1,540,880	1,383,426
Middle East / Africa	1,485,465	1,341,759
North America	489,796	593,489
Other	963,953	733,598
	18,970,648	16,480,382

Capital management regulatory capital requirements

The Company's primary regulator the Central Bank of Ireland sets and monitors capital requirements for the Company.

In implementing current capital requirements the Central Bank of Ireland requires the Company to maintain a prescribed ratio of total capital to risk weighted assets. The Company calculates requirements in line with the Central Bank of Ireland's regulations.

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 requirements

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

	2012 $ 000	2011 $ 000
Total regulatory capital	6,103,662	3,761,952

The Company is required by the Central Bank 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 Basel II regulatory capital requirements. The Company has complied with the minimum capital adequacy ratio of 8% throughout the period.

14. Financial assets and liabilities

The below tables outline the total financial assets and liabilities held as at 31 December 2012 and 31 December 2011.

	2012 $ 000	2011 $ 000
Total financial assets held at fair value	5,029,713	6,659,054
Total financial assets not held at fair value	19,164,760	20,449,711
Total financial assets	**24,194,473**	**27,108,765**

	2012 $ 000	2011 $ 000
Total financial liabilities held at fair value	1,547,404	2,826,886
Total financial liabilities not held at fair value	15,370,520	19,040,863
Total financial liabilities	**16,917,924**	**21,867,749**

In accordance with IFRS 7, Financial Instruments: Disclosures, the Company has adopted the fair value hierarchy classification of financial instruments. This requires the Company to classify its financial instruments held at fair value according to a hierarchy based on the significance of the inputs used to arrive at the overall fair value of these instruments. The fair value hierarchy is determined as follows:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

There have been no transfers between levels 1 and 2 and no level 3 financial instruments were held during the year ended 31 December 2012.

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14. Financial assets and liabilities (continued)

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

31 December 2012		Fair value		
	Level 1	Level 2	Level 3	Total
	$ 000	$ 000	$ 000	$ 000
Financial assets				
Derivative financial instruments	-	1,490,844	-	1,490,844
Trading assets	229,708	673,837	-	903,545
Investment securities	811,066	1,247,112	-	2,058,178
Loans held at fair value through the profit and loss	-	577,146	-	577,146
Financial assets held at fair value	1,040,774	3,988,939	-	5,029,713
Financial liabilities				
Derivative financial instruments	-	1,532,110	-	1,532,110
Other financial liabilities held for trading	-	15,294	-	15,294
Financial liabilities held at fair value	-	1,547,404	-	1,547,404

31 December 2011		Fair value		
	Level 1	Level 2	Level 3	Total
	$ 000	$ 000	$ 000	$ 000
Financial assets				
Derivative financial instruments	-	2,666,231	-	2,666,231
Trading assets	238,336	503,554	-	741,890
Investment securities	1,090,980	1,547,569	-	2,638,549
Loans held at fair value through the profit and loss	-	612,384	-	612,384
Financial assets held at fair value	1,329,316	5,329,738	-	6,659,054
Financial liabilities				
Derivative financial instruments	-	2,767,954	-	2,767,954
Other financial liabilities held for trading	-	58,932	-	58,932
Financial liabilities held at fair value	-	2,826,886	-	2,826,886

Loans held at fair value through the profit and loss, totalling $577 million (2011: $612 million) are included in the Statement of Financial Position within loans and advances to customers. These assets were transferred to the Company during 2010 and are also discussed in note 1(h) – *financial assets at fair value through the profit and loss*.

NOTES TO THE FINANCIAL STATEMENTS

14. Financial assets and liabilities (continued)

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.

		31 December 2012				31 December 2011	
	Note	Loans and receivables $ 000	Other amortised cost $ 000	Total carrying amount $ 000	Total fair value $ 000	Total carrying amount $ 000	Total fair value $ 000
Financial assets							
Cash and balances at central bank	11	1,988,529	-	1,988,529	1,988,415	1,585,761	1,585,761
Loans and advances to banks							
Loans and advances - intercompany	27	3,309,103	-	3,309,103	3,309,104	7,513,302	7,513,302
Loans and advances - 3rd party		3,206,088	-	3,206,088	3,206,082	2,562,275	2,562,275
		6,515,191	-	6,515,191	6,515,186	10,075,577	10,075,577
Loans and advances to customers							
Charge and credit card debtors	13	483,185	-	483,185	480,522	441,123	438,847
Commercial loans	13	9,335,329	-	9,335,329	9,333,770	7,199,947	7,203,726
Consumer loans	13	181,185	-	181,185	187,593	162,267	159,494
		9,999,699	-	9,999,699	10,001,885	7,803,337	7,802,067
Other financial assets		-	661,341	661,341	661,341	985,035	985,035
		18,503,419	661,341	19,164,760	19,166,827	20,449,710	20,448,440

At 31 December 2012 $455 million of Loans and advances to customers are expected to be recovered more than 12 months after the reporting date (2011: $413 million). The carrying amount of renegotiated loans as at 31 December 2012 was $29 million (2011: $36 million).

Other financial assets are primarily comprised of receivables balances from the Company's Worldlink multi-currency transaction services business.

Loans held at fair value through the profit and loss, totalling $577 million (2011: $612 million) are included in the Statement of Financial Position within loans and advances to customers.

14. Financial assets and liabilities (continued)

	31 December 2012				31 December 2011	
	Loans and receivables	Other amortised cost	Total carrying amount	Total fair value	Total carrying amount	Total fair value
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Financial liabilities						
Deposit by banks						
Deposits by banks - Intercompany	2,412,020	126,486	2,538,506	2,538,492	7,473,672	7,473,672
Deposits by banks - 3rd party	931,478	84,495	1,015,973	1,015,855	636,109	636,109
	3,343,498	**210,981**	**3,554,479**	**3,554,347**	**8,109,781**	**8,109,781**
Customer accounts	3,541,582	5,115,593	8,657,175	8,651,757	8,606,309	8,542,881
Other liabilities and debt securities in issue	-	3,158,866	3,158,866	3,158,866	2,324,773	2,199,086
	6,885,080	**8,485,440**	**15,370,520**	**15,364,970**	**19,040,863**	**18,851,748**

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 and 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.

- 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 and loss in order to avoid any accounting mismatch between an accrual basis loan and a derivative that is held at fair value. Any mark-to-market gains or losses on the loans and swaps are taken directly to the income statement. Credit risk on the loans is considered minimal (and relatively stable) due to each loan being guaranteed by a highly rated export credit agency.

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

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

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

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15. Investment securities

Investment securities are primarily composed of government securities from OECD member states.

	2012	2011
	$ 000	$ 000
Investment securities - available for sale		
Debt securities:		
- listed	1,509,972	2,120,424
- unlisted	548,115	518,032
Equity securities:		
- unlisted	91	93
	2,058,178	2,638,549

16. Derivative financial instruments

	2012 Notional amount	2012 Fair value		2011 Notional amount	2011 Fair value	
		Assets	Liabilities		Assets	Liabilities
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Exchange rate related contracts						
Forwards and futures	10,167,257	90,320	152,633	9,748,760	237,529	216,226
Currency swaps	2,860,238	42,953	29,291	10,345,348	206,158	236,137
Options	1,168,768	13,368	13,368	1,659,141	34,488	34,458
	14,196,263	146,641	195,292	21,753,249	478,175	486,821
Interest rate related contracts						
Forward rate agreement	14,568,417	29,477	30,231	15,758,922	20,564	43,111
Interest rate swaps	54,228,097	1,313,991	1,305,655	86,182,431	2,164,815	2,235,345
Options	112,159	69	266	210,596	2,079	2,079
	68,908,673	1,343,537	1,336,152	102,151,949	2,187,458	2,280,535
Equity and commodity related contracts						
Options	293	52	52	4,072	97	97
Swaps	39,118	614	614	7,270	501	501
	39,411	666	666	11,342	598	598
Total derivative contracts	83,144,347	1,490,844	1,532,110	123,916,540	2,666,231	2,767,954

See note 13 for more details on how the Company uses derivative financial instruments as part of its risk management policies and procedures.

17. Other liabilities

	2012 $ 000	2011 $ 000
Accounts payable	1,581,133	1,123,893
Other balances	537,931	578,167
	2,119,064	1,702,060

Accounts payable predominantly comprises amounts payable in relation to pre–funded obligations arising from the Company's Worldlink multi–currency 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 supplier finance transactions.

18. Shares in subsidiary undertakings

	2012 $ 000	2011 $ 000
At 1 January	1,646	1,676
Addition through business transfer	918,184	-
Dividend	(916,617)	-
Foreign exchange revaluation	159	(30)
At 31 December	3,372	1,646

The Company has an investment in the following subsidiaries:

Name	Country of incorporation	Nature of business	Year end	Registered office	Percentage ownership
Citibank Kereskedelmi és Szolgáltató Kft.	Hungary	Purchase and rental of fixed assets	31 December	Hegyalja út 7-13., 1016, Budapest, Hungary	100 percent of ordinary share capital
Citigroup Capital Finance Ireland Limited	United Kingdom	Not currently trading	31 December	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	100 percent of ordinary share capital

On 1 June 2012, the parent company Citibank Holdings Ireland Limited contributed Citigroup Capital Finance Ireland Limited to the Company as a subsidiary via a share transfer agreement of 1,000,000 shares at nil consideration. On 2 June 2012, Citigroup Capital Finance Ireland Limited remitted a dividend for the remainder of its distributable reserves of $917 million to the Company. The reserves relate to profits that arose prior to its ownership by the Company and is accounted for as a distribution on investment.

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19. Property and equipment

	Leasehold improvements $ 000	Vehicles, furniture and equipment $ 000	Total $ 000
Cost			
At 1 January 2011	26,353	61,509	87,862
Additions	1,333	4,749	6,082
Disposals	(317)	(7,422)	(7,739)
Write-offs	(423)	(1,690)	(2,113)
Foreign exchange	(1,660)	(3,151)	(4,811)
At 31 December 2011	25,286	53,995	79,281
Additions	2,533	4,442	6,975
Disposals	-	(7,798)	(7,798)
Write-offs	(1,074)	(2,494)	(3,568)
Foreign exchange	1,414	2,147	3,561
At 31 December 2012	28,159	50,292	78,451
Depreciation			
At 1 January 2011	8,760	45,211	53,971
Charged in year	2,901	5,398	8,299
Disposals	(317)	(6,402)	(6,719)
Write-offs	(377)	(1,286)	(1,663)
Foreign exchange	(162)	(2,357)	(2,519)
At 31 December 2011	10,805	40,564	51,369
Charged in year	3,141	4,715	7,856
Disposals	-	(5,239)	(5,239)
Write-offs	(869)	(2,494)	(3,363)
Foreign exchange	713	2,205	2,918
At 31 December 2012	13,790	39,751	53,541
Net book value			
At 31 December 2012	14,369	10,541	24,910
At 31 December 2011	14,481	13,431	27,912

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2011: $nil).

20. Goodwill and intangible assets

	Goodwill $ 000	Computer software $ 000	Total $ 000
Cost			
1 January 2011	400,288	81,987	482,275
Additions	-	24,583	24,583
Disposals	-	(709)	(709)
Write-offs	-	(5)	(5)
Foreign exchange	(23,585)	(1,941)	(25,526)
At 31 December 2011	376,703	103,915	480,618
Additions	-	45,530	45,530
Disposals	-	(11)	(11)
Write-offs	-	(15,510)	(15,510)
Foreign exchange	17,138	2,397	19,535
31 December 2012	393,841	136,321	530,162
Amortisation and impairment losses			
1 January 2011	130,948	52,404	183,352
Amortisation	-	9,914	9,914
Disposals	-	(709)	(709)
Write-offs	-	(1)	(1)
Foreign exchange	(7,715)	(3,330)	(11,045)
At 31 December 2011	123,233	58,278	181,511
Amortisation	-	11,488	11,488
Disposals	-	(11)	(11)
Write-offs	-	(1,370)	(1,370)
Foreign exchange	5,606	3,381	8,987
31 December 2012	128,839	71,766	200,605
Net carrying value			
31 December 2012	265,002	64,555	329,557
31 December 2011	253,470	45,637	299,107

There was no reduction in the value of goodwill from prior year. See note 2 for assumptions used in conjunction with the valuation of goodwill.

There was no internally generated software or capitalised borrowing costs related to the acquisition of intangible assets during the year (2011: $nil).

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21. Deferred tax assets

The movement on the deferred tax is as follows:

	Balance at 1 January 2012	Recognised in the Income statement	Balance at 31 December 2012
	$ 000	$ 000	$ 000
Property / equipment and software	357	477	834
Available for sale securities	(282)	(1,713)	(1,995)
Allowances for loan losses	7,241	(1,102)	6,139
Tax Loss carry-forward	608	(120)	488
Share based payment transactions	770	(390)	380
Other	5,958	(4,477)	1,481
Total asset	14,652	(7,325)	7,327

22. Called up share capital

Authorised	2012	2011
	€ 000	€ 000
5,000,000,000 common stock of €1 each	5,000,000	5,000,000

Allotted, called-up and fully paid	2012	2011
	$ 000	$ 000
9,318,254 (2011: 9,318,254) common stock of €1 each	10,071	10,071

23. 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 program Citigroup issues common shares in the form of restricted share awards, deferred share awards and share payments. For all stock award programs 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 the Citigroup's Capital Accumulation Program ("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 programs.

The program 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.

Prior to 2008 CAP participants were able to elect to receive all or part of their award in stock options. The figures presented in the stock option programme table include options granted under CAP.

In 2010 the Company awarded Deferred Cash Stock Unit's ("DCSU"). None were awarded subsequently. The DCSU has been accounted for as a cash settled liability which fully amortised and vested in 2012.

As part of the 2011 and 2012 remuneration the Company entered into an arrangement referred to as an "EU Short Term" award. The award will be delivered in the form of immediately vested restricted shares subject to a six month sale restriction.

Citigroup participated in a 1-for-10 reverse stock split of Citigroup common stock effective after the close of trading on May 6, 2011. Every ten shares of issued and outstanding Citigroup common stock was automatically combined into one issued and outstanding share of common stock without any change in the par value per share. No fractional shares were issued in connection with the reverse stock split.

23. Share-based incentive plans (continued)

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

	2012	2011
Shares awarded	86,236	83,680
Weighted average fair market value per share	$30.87	$49.92
	$ 000	**$ 000**
Compensation cost charged to earnings	5,604	7,043
Fair value adjustments recorded to equity	(6,705)	1,856
Total carrying amount of equity-settled transaction liability	6,794	5,187

(b) Stock option programme

The Company has historically offered a number of Citigroup stock option programmes to its employees. However, since January 2005, stock options have been granted only to CAP participants who elect to receive stock options in lieu of restricted or deferred stock awards (Pre 2008) and to non-executive directors who elect to receive their compensation in the form of a stock option grant.

All stock options are granted on Citigroup common stock with exercise prices equal to the fair market value at the time of grant.

Options granted since January 2005 typically vest 25% each year over four years and have six-year terms. The sale of underlying shares acquired through the exercise of employee stock options granted since 2003 is restricted for a two-year period (and the shares are subject to stock ownership commitment of senior employees thereafter).

Since 2009 the Company has made discretionary grants of options to eligible employees pursuant to the broad-based Citigroup Employee Option Grant (CEOG) Program 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. To the extent permitted, CEOG options granted to eligible UK employees were granted under an HMRC approved sub-plan with any excess over the applicable individual limit being granted under the global plan, which is not an HMRC approved plan.

The stock option activity with respect to 2012 and 2011 under Citigroup stock option plans is as follows:

	2012		2011	
	Options	Weighted average exercise price $	Options	Weighted average exercise price $
Outstanding, beginning of year	137,820	62.93	205,853	88.30
Granted	-	-	-	-
Forfeited	(929)	222.72	(21,280)	56.81
Exercised			(888)	40.80
Transfers	11,378	43.26	(38,546)	120.52
Expired	(5,323)	426.79	(7,317)	494.16
Outstanding, end of year	142,946	46.77	137,821	62.93
Exercisable, end of year	142,946	46.77	95,487	67.90

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23. Share-based incentive plans (continued)

Stock option programme (continued)

The following table summarises the stock options outstanding under Citigroup stock option plans at 31 December 2012:

Range of exercise prices	Number outstanding	Options outstanding: Weighted average contractual life remaining	Options outstanding: Weighted average exercise price $	Options exercisable: Number exercisable	Options exercisable: Weighted average exercise price $
< $50.00	139,422	2.83	40.80	139,422	40.80
$50.00 - $399.99	3,069	1.06	244.50	3,069	244.50
$400.00 - $499.99	0	0.01	420.00	0	0.00
> $450.00	455	0.04	543.77	455	543.80
	142,946	2.78	46.77	142,946	46.77

The following table summarises the stock options outstanding under Citigroup stock option plans at 31 December 2011*:

Range of exercise prices	Number outstanding	Options outstanding: Weighted average contractual life remaining	Options outstanding: Weighted average exercise price $	Options exercisable: Number exercisable	Options exercisable: Weighted average exercise price $
< $50.00	128,218	3.83	40.80	86,847	40.80
$50.00 - $399.99	3,858	2.06	244.50	2,894	244.50
$400.00 - $499.99	4,895	0.12	421.01	4,896	421.01
>$450	850	0.58	514.83	850	514.84
	137,822	3.63	62.93	95,487	67.90

* adjusted 2011 for reverse stock split

Fair value assumptions
Reload options have been treated as separate grants from the related original grants. The result of this program 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 program, 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.

23. Share-based incentive plans (continued)

Stock option programme (continued)

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.

	2012	2011
Weighted average fair value at year end of options granted during the year	$0.00	$0.00
Weighted average expected life		
Original grants	3 years	4 years
Reload grants	0 years	0 years
Option life	3 years	4 years
Valuation assumptions		
Expected volatility	42.56%	41.10%
Risk-free interest rate	0.38%	0.60%
Expected dividend yield	0.13%	0.10%
Expected annual forfeitures	9.62%	9.60%

24. 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 2012 $ 000	Contract amount 2011 $ 000
Undrawn Credit lines	4,103,210	3,324,398
Other commitments		
- less than 1 yr	7,214,024	7,102,402
- 1 yr and over	12,140,131	12,037,383
Extended rate commitment	236,806	219,000
Total	23,694,171	22,683,183

Other commitments primarily relate to the Insurance Letters of Credit business.

24. Contingent liabilities and commitments (continued)

The Company held an impairment provision of $29 million as at 31 December (2011: $25 million), with respect to its commitments.

The extended rate commitment is a facility providing fixed foreign exchange rates against clients operational cashflows for a set number of days after the rate is fixed.

25. Operating lease commitments

	2012 $ 000	2011 $ 000
Expiring:		
- within one year	12,138	3,593
- between one and five years	38,602	27,337
- in five years or more	9,296	18,509
	60,036	49,439

26. Debt securities in issue

In the ordinary course of business, the Company enters into transactions that result in the transfer of financial assets which consist primarily of loans and advances to customers. The transferred financial assets continue either to be recognized in their entirety or to the extent of the Company retaining involvement.

The Company purchases receivables at a discount from suppliers. The Company then issues loan participation notes to investors based on this asset, and the receivable is transferred to a trust established through an affiliate. The Company retains some element of risk participation by writing a predefined percentage protection on losses incurred by the investor. The table below presents the carrying value of transferred financial assets that the Company retains 1% of credit risk.

	2012 $ 000	2011 $ 000
Carrying amount of assets		
Loans and advances to customers	842,198	498,068
Carrying amount of associated liabilities		
Debt securities in issue	842,198	498,068
	842,198	498,068

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27. Related party transactions

The Company is a wholly owned subsidiary undertaking of Citibank Holdings Ireland Limited, which is incorporated in Ireland. The largest Company 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. Directors' remuneration is disclosed in note 9.

At 31 December 2012 there were no outstanding exposures to Directors including loans (2011: €nil).

A number of arms' length transactions are entered into with other Group companies. These include loans and deposits that provide funding to Group 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.

	2012			
	Parent company undertakings $ 000	Subsidiary undertakings $ 000	Other Citigroup undertakings $ 000	Total $ 000
Assets				
Loans and advances to banks	7	576	3,309,103	3,309,686
Loans and advances to customers	-	-	58	58
Prepayments and accrued income	-	-	(1,219)	(1,219)
Other assets and derivatives	-	-	46,937	46,937
Other; FX Spot reval gain	-	-	1,805	1,805
Liabilities				
Deposits by banks	-	1,076	2,538,506	2,539,582
Customer accounts	-	-	24,301	24,301
Accruals and deferred income	-	-	29,111	29,111
Other liabilities and derivatives	-	-	44,190	44,190
Commitments and guarantees	10	24,512	554,055	578,577
Income statement				
Interest and similar income	6	(1,828)	46,701	44,879
Interest payable	-	2,390	(33,459)	(31,069)
Net fee and commission income	382	28	339,794	340,204
Other operating income	-	135	(10,553)	(10,418)
Net trading income	-	2,658	42,420	45,078
Other expenses	(1,621)	6,659	(213,023)	(207,985)

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NOTES TO THE FINANCIAL STATEMENTS

27. Related party transactions (continued)

	2011			
	Parent company undertakings $ 000	Subsidiary undertakings $ 000	Other Citigroup undertakings $ 000	Total $ 000
Assets				
Loans and advances to banks	-	-	7,513,302	7,513,302
Loans and advances to customers	-	-	1,767	1,767
Prepayments and accrued income	-	-	9,359	9,359
Other assets and derivatives	-	-	2,627,991	2,627,991
Liabilities				
Deposits by banks	(6)	-	7,473,672	7,473,666
Customer accounts	-	-	26,254	26,254
Accruals and deferred income	-	-	30,159	30,159
Other liabilities and derivatives	-	-	2,745,165	2,745,165
Commitments and guarantees	-	-	614,420	614,420
Income statement				
Interest and similar income	-	-	73,087	73,087
Interest payable	-	-	(16,554)	(16,554)
Net fee and commission income	-	-	338,855	338,855
Other operating income	-	-	34,943	34,943
Net trading income	-	-	7,337	7,337
Other expenses	-	-	(86,880)	(86,880)

NOTES TO THE FINANCIAL STATEMENTS

28. Reserves

Capital contributions arise from contributions from the Company's intermediate parent undertaking, Citibank Overseas Investment Corporation, of which $321 million (2011: $321 million) forms part of the Company's distributable reserves.

	Share capital	Share premium	Capital reserve	Other reserves: Gains / (Losses) arising from AFS	Other reserves: Translation reserves	Other reserves: Share based payments	Retained earnings	Total
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
At 1 January 2011	10,071	1,593,607	320,987	(17,032)	(69,309)	9,808	3,468,739	5,316,871
Profit for the period	-	-	-	-	-	-	917,167	917,167
Gains / (Losses) arising from AFS	-	-	-	(20,372)	-	-	-	(20,372)
Share based payments	-	-	-	-	-	1,716	-	1,716
Translation reserve	-	-	-	-	(183,368)	-	-	(183,368)
Dividend	-	-	-	-	-	-	(790,998)	(790,998)
At 31 December 2011	10,071	1,593,607	320,987	(37,404)	(252,677)	11,524	3,594,908	5,241,016
Profit for the period	-	-	-	-	-	-	831,232	831,232
Gains / (Losses) arising from AFS	-	-	-	54,908	-	-	-	54,908
Share based payments	-	-	-	-	-	(6,705)	-	(6,705)
Translation reserve	-	-	-	-	237,914	-	-	237,914
Capital contribution	-	-	918,184	-	-	-	-	918,184
At 31 December 2012	10,071	1,593,607	1,239,171	17,504	(14,763)	4,819	4,426,140	7,276,549

On 1st June 2012, the parent company Citibank Holdings Ireland Limited contributed Citigroup Capital Finance Ireland Limited to the Company as a subsidiary via a share transfer agreement of 1,000,000 shares at nil consideration. On 2nd June 2012, Citigroup Capital Finance Ireland Limited remitted a dividend for the remainder of its distributable reserves of $917 million to the Company. The reserves relate to profits earned prior to its ownership by the Company.

IAS 27.38A states that in preparing a parent company's separate financial statements, the parent should recognise the entire dividend amount in profit or loss when its right to receive it is established. However Section 149(5) of the Companies Act 1963 does not permit a parent company to include in its income statement a dividend that relates to profits earned by a subsidiary in the period prior to the parent's ownership of it, thereby requiring the exclusion of pre-acquisition profits from the parent company's income statement.

The Company has determined that as it is required to prepare statutory financial statements that give a true and fair view that takes into account compliance with the requirements of company law, it includes all post-acquisition dividends $917million presented as a reduction in the carrying amount of its investment in the subsidiary in the Statement of Financial Position and a capital contribution to the Company's reserves.

If the IAS 27 and IAS 36 approach had been applied it would have resulted in an increase in the dividend income line in the Statement of Comprehensive Income in the amount of $917 million.

These financial statements have therefore been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the EU, as applied in accordance with the Companies Acts 1963 to 2012.

NOTES TO THE FINANCIAL STATEMENTS

29. Parent companies

The Company is a subsidiary undertaking of Citibank Holding Ireland Limited, incorporated in Ireland.

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

The smallest Company in which the results of the Company are consolidated is that headed by Citibank Holdings Ireland Limited. Copies of the Company accounts will be available to the public and may be obtained from its offices at Citigroup Centre, 1 North Wall Quay, Dublin 1.

30. Subsequent events

There are no subsequent events to report at the date of approval of the annual report.

31. Approval of financial statements

The financial statements of the Company were approved by the Board of Directors on 21st March 2013.