

**CITIBANK EUROPE PLC**

**(Registered Number: 132781)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2013**

# CITIBANK EUROPE PLC

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# CITIBANK EUROPE PLC

## BOARD OF DIRECTORS AND OTHER INFORMATION

### DIRECTORS

Aidan Brady - Chief Executive Officer  
Breffni Byrne - Independent Non- Executive  
Francesco Vanni d'Archirafi - Chairman  
Jim Farrell - Independent Non-Executive  
Mark Fitzgerald  
Bo J. Hammerich - Non-Executive  
Mary Lambkin - Independent Non-Executive  
Marc Luet – Non-Executive  
Rajesh Mehta – Non-Executive  
Cecilia Ronan  
Patrick Scally – Non-Executive  
Christopher Teano – Non-Executive  
Zdenek Turek – Non-Executive  
Tony Woods

### COMPANY SECRETARY

Deirdre Pepper

### REGISTERED OFFICE

1 North Wall Quay, Dublin 1

### SOLICITORS

Arthur Cox Solicitors  
Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland

A&L Goodbody  
International Financial Services Centre, North Wall Quay, Dublin 1

Matheson  
70 Sir John Rogersons Quay, Dublin 2

### AUDITOR

KPMG  
Chartered Accountants  
1 Harbourmaster Place, IFSC, Dublin 1

### BANKERS

Citibank NA, London Branch  
Citigroup Centre, Canada Square,  
Canary Wharf, London, E14 5LB

# CITIBANK EUROPE PLC

## REPORT OF THE DIRECTORS

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

### Principal Activities

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

The Company, which was granted a banking licence by the Central Bank of Ireland under Section 9 of the Central Bank Act 1971, provides financial services to clients and other Citigroup businesses on a worldwide basis.

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

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

### Business Review and Results

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

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

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

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

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

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

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

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

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

# CITIBANK EUROPE PLC

## REPORT OF THE DIRECTORS (continued)

### Business Review and Results (continued)

The Company has regulatory capital resources of US\$6.2 billion (2012: US\$6.1 billion) which are entirely made up of Tier One equity. The capital ratio at 31 December 2013 as reported to the Central Bank of Ireland was 24% (2012: 25%) which comfortably exceeds the minimum requirement. Further information on the Company's capital requirements and risk management is available in the Pillar 3 disclosure document (<http://citigroup.com/citi/investor/reg.htm>).

### Corporate Governance

#### Audit Committee

The Audit Committee is a sub-committee of the Board of Directors. Its role is to oversee the adequacy of the internal control environment established by management in relation to the Company's businesses. The Audit Committee draws on the work of Citi Internal Audit, the Company's Independent External Auditors, and the Company's senior management.

#### Risk Committee

The Risk Committee is a sub-committee of the Board of Directors. Its role is to advise the Board on the Company's overall current and future risk appetite, taking account of the overall risk appetite of the Board and the current and future financial position of the Company. The Risk Committee draws on the work of the Audit Committee, the Company's Independent External Auditors and the Company's senior management.

### Corporate Governance Code for Credit Institutions and Insurance undertakings

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

### Principal Risks and Uncertainties

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

### Political Donations

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

### Post balance sheet events

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

# CITIBANK EUROPE PLC

## REPORT OF THE DIRECTORS (continued)

### Directors, secretary and their interests

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

Aidan Brady  
Breffni Byrne (appointed 30<sup>th</sup> April 2013)  
Francesco Vanni d'Archirafi  
Jim Farrell  
Mark Fitzgerald (resigned 31<sup>st</sup> January 2014)  
Bo J. Hammerich  
Brian Hayes (resigned 6<sup>th</sup> September 2013)  
Mary Lambkin  
Marc Luet  
Frank McCabe (resigned 21<sup>st</sup> March 2013)  
Rajesh Mehta (appointed 2<sup>nd</sup> December 2013)  
Terence O'Leary (resigned 8<sup>th</sup> July 2013)  
Deirdre Pepper  
Cecilia Ronan  
Patrick Scally  
Christopher Teano  
Zdenek Turek (appointed 2<sup>nd</sup> December 2013)  
Tony Woods

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

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

# CITIBANK EUROPE PLC

## 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))

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

#### Notes:

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

# CITIBANK EUROPE PLC

## REPORT OF THE DIRECTORS (continued)

### Directors' responsibilities for financial statements

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

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

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

In preparing each of the financial statements, the Directors are required to:

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

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

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

### Accounting records

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

### Auditors

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

On behalf of the board:

21 March 2014



Aidan Brady  
Director



Jim Farrell  
Director



Mary Lambkin  
Director



Deirdre Pepper  
Secretary

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

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

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

## **Respective responsibilities of directors and auditor**

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

## **Scope of the audit of the financial statements**

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

## **Opinion on financial statements**

In our opinion:

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

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

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

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

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

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

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

### **Matters on which we are required to report by exception**

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



Jonathan Lew

**for and on behalf of  
KPMG**

**Chartered Accountants, Statutory Audit Firm**

1 Harbourmaster Place

IFSC

Dublin 1

**21 March 2014**

# CITIBANK EUROPE PLC

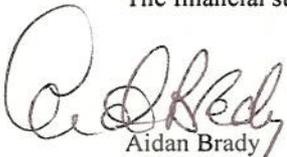
## INCOME STATEMENT

For the years ended 31 December 2013 and 31 December 2012

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

The current year profit arises solely from continuing operations.

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

  
Aidan Brady  
Director

  
Liam Farrell  
Director

  
Mary Lambkin  
Director

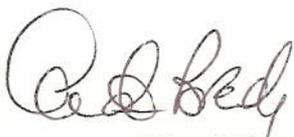
  
Deirdre Pepper  
Secretary

# CITIBANK EUROPE PLC

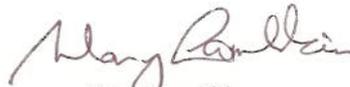
## STATEMENT OF OTHER COMPREHENSIVE INCOME For the years ended 31 December 2013 and 31 December 2012

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

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

  
Aidan Brady  
Director

  
Jim Farrell  
Director

  
Mary Lambkin  
Director

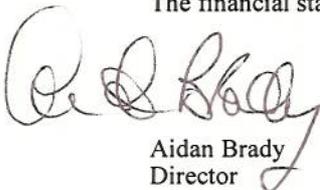
  
Daire Pepper  
Secretary

# CITIBANK EUROPE PLC

## STATEMENT OF FINANCIAL POSITION As at 31 December 2013

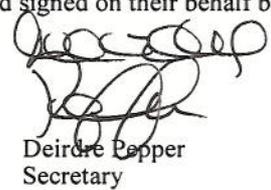
	Note	2013 \$ 000	2012 \$ 000
<b>Assets</b>			
Cash and balances at central bank	12	1,857,107	1,988,529
Trading assets	13,15	1,042,734	903,545
Derivative financial instruments	15,17	1,643,708	1,490,844
Loans and advances to banks	15	6,711,148	6,515,191
Loans and advances to customers	15	10,849,577	10,576,845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

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

  
Aidan Brady  
Director

  
Jim Farrell  
Director

  
Mary Lambkin  
Director

  
Deirdre Pepper  
Secretary

# CITIBANK EUROPE PLC

## STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2013

		Share Capital	Share Premium	Capital Reserve	Other Reserves	Retained Earnings	Total
2013		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
<b>Balance at 1 January 2013</b>	Note	10,071	1,593,607	1,239,171	7,560	4,426,140	7,276,549
<b>Total comprehensive income for the year</b>							
Profit for the year	29	-	-	-	-	714,516	714,516
Net loss on available-for-sale financial assets	29	-	-	-	(17,699)	-	(17,699)
Exchange diff. on translation of foreign operations and other items	29	-	-	-	15,438	(73,743)	(58,305)
<b>Total comprehensive income for the year</b>		-	-	-	(2,261)	640,773	638,512
<b>Transactions with owners, recorded directly in equity</b>							
Share based payments	29	-	-	-	(2,102)	-	(2,102)
Capital contribution	29	-	-	-	-	-	-
Dividends/remittances	29	-	-	-	-	(800,000)	(800,000)
Total contributions by and distributions to owners		-	-	-	(2,102)	(800,000)	(802,102)
<b>Balance at 31 December 2013</b>		<u>10,071</u>	<u>1,593,607</u>	<u>1,239,171</u>	<u>3,197</u>	<u>4,266,913</u>	<u>7,112,959</u>
		Share Capital	Share Premium	Capital Reserve	Other Reserves	Retained Earnings	Total
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
<b>Balance at 1 January 2012</b>	Note	10,071	1,593,607	320,987	(278,557)	3,594,908	5,241,016
<b>Total comprehensive income for the year</b>							
Profit for the year	29	-	-	-	-	831,232	831,232
Net gain on available-for-sale financial assets	29	-	-	-	54,908	-	54,908
Exchange differences on translation of foreign operations	29	-	-	-	237,914	-	237,914
<b>Total comprehensive income for the year</b>		-	-	-	292,822	831,232	1,124,054
<b>Transactions with owners, recorded directly in equity</b>							
Share based payments	29	-	-	-	(6,705)	-	(6,705)
Dividends/remittances		-	-	-	-	-	-
Capital contribution	29	-	-	918,184	-	-	918,184
Total contributions by and distributions to owners		-	-	918,184	(6,705)	-	911,479
<b>Balance at 31 December 2012</b>		<u>10,071</u>	<u>1,593,607</u>	<u>1,239,171</u>	<u>7,560</u>	<u>4,426,140</u>	<u>7,276,549</u>

# CITIBANK EUROPE PLC

## STATEMENT OF CASH FLOWS

For the years ended 31 December 2013

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies

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

#### a) Reporting entity

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

#### b) Basis of presentation

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

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

#### c) Consolidation

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

#### d) Functional and presentation currency

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### e) Changes in accounting policy and disclosures

##### *New and amended standards and interpretations*

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

- Amended IFRS 7 Financial Instruments: Disclosures. The amendment provides enhanced disclosures for transferred financial assets that are derecognised in their entirety and transferred assets that are not derecognised in their entirety. The effective date is for annual periods beginning on or after 1 July 2011.
- IFRS 13 – Fair Value measurement. The standard does not change when an entity is required to apply fair value measurement, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities. Adoption of the standard has not had a significant impact on the measurement of the Group's financial assets or liabilities. IFRS 13 also sets additional disclosure requirements. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Company has provided relevant comparative disclosures under those standards.
- IAS 1 – Presentation of Items of Other Comprehensive Income – Amendments. The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Group's financial position or performance. Comparative information has been re-presented on the same basis.

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

- IAS 16 – *Property Plant and Equipment*. This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 – Financial Instruments, Presentation. This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

##### *Standards issued but not yet effective*

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

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

- IFRS 10 – Consolidated Financial Statements, IAS 27 Consolidated and Separate Financial Statements. The E.U. endorsed standard becomes effective for annual periods beginning on or after 1 January 2014. It replaces the requirements of IAS 27 that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Adoption of IFRS 10 is not expected to have a material impact on the financial position or performance of the company.
- IFRS 12 – Disclosure of Interest in Other Entities. The E.U. endorsed standard becomes effective for annual periods beginning on or after 1 January 2014. It covers disclosure requirements that were previously in IAS 27 related to consolidated financial statements, in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosures including judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Company concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Company to reach a different conclusion regarding consolidation. The Company will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. The standard will not have any impact on the financial position or performance of the Company.
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011). As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2014. IAS 32 – Offsetting Financial Assets and Financial Liabilities – Amendments. These amendments clarify the meaning of “legally enforceable right to set-off”. It will be necessary to assess the impact to the Company by reviewing settlement procedures and legal documentation. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Group as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Company's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects. These amendments become effective for annual periods beginning on or after 1 January 2014.
- IFRIC 21 – Levies. IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognise a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements. IFRIC 21 become effective for annual periods beginning on or after 1 January 2014

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### f) Net interest income

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

Interest income and expense presented in the income statement include:

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

#### g) Net fee and commission income

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

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

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

#### h) Net trading income

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

#### i) Dividend income

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### j) Financial assets and liabilities

##### *Recognition*

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

##### *Trading assets*

The trading book of the Company consists of all positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book and which are free from any restrictive covenants on their tradability or are able to be hedged. Positions held with trading intent are those held intentionally for short-term resale and / or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations. The term 'positions' shall include proprietary positions and positions arising from client servicing and market making.

Trading intent is evidenced on the basis of the strategies, policies and procedures established by the Company to manage the position or portfolio.

##### *Loans and receivables and other assets*

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

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

##### *Financial assets at fair value through the profit or loss*

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

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

##### *Derivative contracts*

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

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

##### *Investment securities*

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

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

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

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

##### *Financial liabilities*

Deposits by banks, customer accounts, accruals and deferred income, debt securities in issue and other liabilities are measured at amortised cost. Other liabilities are primarily made up of amounts payable to both intercompany and third party organisations.

##### *Offsetting*

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

##### *Fair Value Measurement*

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

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

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

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

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

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

#### k) Impairment of financial assets

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

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

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### k) Impairment of financial assets (continued)

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

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

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

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

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

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

#### l) De-recognition of financial assets and liabilities

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

#### m) Property and equipment

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### n) Goodwill and intangible assets

##### *(i) Goodwill*

Acquired goodwill represents the excess of the cost of an acquisition over the net fair value of the Company's share of the net identifiable assets, liabilities and contingent liabilities of the acquired undertaking at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is stated at cost less any accumulated impairment losses. Goodwill with an indefinite life is tested for impairment at least annually.

##### *(ii) Other intangible assets*

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

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

#### o) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that its goodwill and intangible assets or property and equipment are impaired. These non-financial assets are tested for impairment annually or more frequently if events or changes in circumstance indicate that it might be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment losses in respect of goodwill are not reversed. Impairment losses are recognised in the income statement. Note 2 provides additional details of estimates and judgements related to impairment on non-financial assets.

#### p) Income taxes

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

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### q) Foreign currencies

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

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

#### r) Employee benefits

##### *Defined contribution plans*

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

##### *Short term benefits*

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

##### *Termination benefits*

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

#### s) Share based incentive plans

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### s) Share based incentive plans (continued)

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

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

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

#### t) Accounting for government grants

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

#### u) Cash and cash equivalents

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

#### v) Provisions

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

#### w) Operating leases

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

#### x) Subsidiary undertakings

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Use of estimates and judgements

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

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

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

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

#### *Impairment of loans*

The Company's accounting policy for losses in relation to the impairment of customer loans and advances is described in Note 1(k). In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individually significant loans or from a loan portfolio. Estimates are based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows.

#### *Impairment testing of goodwill*

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

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

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

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

#### *Valuation of intangible assets*

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Use of estimates and judgements (continued)

#### *Valuation of financial instruments*

The Company's accounting policy for valuation of financial instruments is included in Note 1(j). The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data and where this is not possible may be required to make estimates. Note 15 further outlines the valuation of financial instruments.

#### *Share-based incentive plans*

The Company participates in a number of Citigroup share-based incentive plans. Awards granted through Citigroup's Stock Option Program are measured by applying an option pricing model, taking into account the terms and conditions of the program. Analysis of past exercise behaviour, Citigroup's dividend history and historical volatility are inputs to the valuation model. Note 24 further discusses "Share-based incentive plans".

#### *Deferred tax assets*

A deferred tax asset is recognised to the extent that it is probable that suitable future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of suitable future taxable profits, future reversals of existing taxable temporary differences and planning strategies. Note 22 further discusses "Deferred tax assets".

### 3. Net interest income

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Net fee and commission income

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

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

Included in fee and commission income are fees earned by the Company on fiduciary activities where the Company holds assets on behalf of its customers. This fee income totalled \$61 million in 2013 (2012: \$69 million).

### 5. Net trading income

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Trading securities	115,749	50,730
Trading derivatives	83,819	131,628
	<u>199,568</u>	<u>182,358</u>

### 6. Other operating income

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

### 7. Personnel expenses

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

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Other expenses

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

### 9. Auditors' remuneration

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

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

### 10. Directors' emoluments

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Tax on profit on ordinary activities

#### (a) Analysis of tax charge in the year:

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

#### (b) Reconciliation of effective tax rate:

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Cash and cash equivalents

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

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

### 13. Trading assets

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

### 14. Financial instruments and risk management

#### Objectives, policies and strategies

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

- **Loans and deposits:** Loans and deposits form a large part of the Company's business. The Company has detailed policies and strategies in respect of its customer loans and deposits that seek to minimise the risks associated with these financial instruments.
- **Investment securities:** The Company holds securities, excluding strategic investments, for use on a continuing basis in the Company's activities. The objective of holding such financial instruments is primarily to hedge interest rate exposure and to manage cash positions.
- **Derivative trading and hedging:** Where financial instruments form part of the Company's management strategy they are classified as economic hedges. The objective for holding financial instruments as hedges is to match or minimise the risk arising because of adverse movements in interest rates or exchange rates. Cash products and fx forwards are the main instruments used for economically hedging the statement of financial position.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management *(continued)*

#### Objectives, policies and strategies *(continued)*

- 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.

#### 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:

- risk capital group, which continues to enhance the risk capital model and ensure that it is consistent across all our business activities;
- risk architecture group, which ensures we have integrated systems and common metrics and thereby allows us to aggregate and stress exposures across the institution;
- 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 Company 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 Company's Board of Directors on significant potential exposures across the Company 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 Citibank Europe Plc. Board of Directors about the potential economic impacts to Citibank Europe Plc. that may occur, directly or indirectly, as a result of hypothetical scenarios, based on judgmental analysis from independent risk managers.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Objectives, policies and strategies (continued)

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 the Company 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.

#### 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 three lines of defence 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.

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 factors 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 scenario analysis, which are applied to interest rate risk arising in the non-trading portfolios. Sensitivity limits and Value-at Risk ("VaR"), stress scenario analysis, are applied to the trading portfolios.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. 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,fx 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
	<b>31-Dec-13</b>				<b>31-Dec-12</b>
<b>Czech</b>	Outstanding	Max	Min	Avg	Outstanding
Portfolio VaR	1,033	3,304	658	1,762	725
VaR of interest instruments	1,003	3,214	640	1,742	700
VaR of currency instruments	254	1,026	9	190	211
	<b>31-Dec-13</b>				<b>31-Dec-12</b>
<b>Hungary</b>	Outstanding	Max	Min	Avg	Outstanding
Portfolio VaR	1,146	2,565	329	1,212	744
VaR of interest instruments	1,110	2,486	245	1,113	762
VaR of currency instruments	302	1,554	35	533	38
	<b>31-Dec-13</b>				<b>31-Dec-12</b>
<b>Slovakia</b>	Outstanding	Max	Min	Avg	Outstanding
Portfolio VaR	14	89	14	36	15
VaR of interest instruments	14	86	9	29	10
VaR of currency instruments	8	89	2	20	11
	<b>31-Dec-13</b>				<b>31-Dec-12</b>
<b>Romania</b>	Outstanding	Max	Min	Avg	Outstanding
Portfolio VaR	2,362	2,943	905	1,735	1,826
VaR of interest instruments	2,324	2,935	896	1,723	1,829
VaR of currency instruments	87	561	8	115	40

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. 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.

#### Interest rate exposure report

Currency	2013		2012	
	12 Month \$ 000	5 Year \$ 000	12 Month \$ 000	5 Year \$ 000
USD	(6,425)	(5,164)	3,106	7,275
EUR	(2,019)	(2,031)	(2,117)	1,889
RON	(3,000)	(3,000)	(2,863)	(4,442)
CZK	(7,000)	(7,000)	780	6,304
HUF	(1,000)	(1,000)	(5,675)	(15,262)
GBP	733	732	1,228	2,071

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.

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, with all other variables held constant, on the income statement:

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Market risk management (continued)

	2013		
	Net exposure	(%)	Income statement impact
	\$ 000		\$ 000
EUR	(28,683)	2	(502)
HUF	(33,556)	2	(748)
RON	(35,436)	2	(563)

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

#### 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.

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Liquidity risk (continued)

<b>As at 31 December 2013</b>	<b>Less than 12 months \$ 000</b>	<b>Over 12 months \$ 000</b>	<b>Total \$ 000</b>
<b>Assets</b>			
Cash and balances at central bank	1,857,107	-	1,857,107
Loans and advances to banks	6,702,317	8,831	6,711,148
Loans and advances to customers	6,973,799	3,875,779	10,849,578
Derivative financial instruments	418,986	1,224,722	1,643,708
Trading assets	98,042	944,692	1,042,734
Investment securities	1,089,809	1,303,618	2,393,427
Other financial assets	570,462	12,245	582,707
<b>Total financial assets</b>	<u><u>17,710,522</u></u>	<u><u>7,369,887</u></u>	<u><u>25,080,409</u></u>
<b>Liabilities</b>			
Deposits by banks	3,465,443	80,996	3,546,439
Customer accounts	9,238,121	656	9,238,777
Derivative financial instruments	421,321	1,189,818	1,611,139
Debt securities in issue	1,090,262	-	1,090,262
Other financial liabilities	2,590,091	108,903	2,698,994
<b>Total financial liabilities</b>	<u><u>16,805,238</u></u>	<u><u>1,380,373</u></u>	<u><u>18,185,611</u></u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Liquidity risk (continued)

As at 31 December 2012	Less than 12 months \$ 000	Over 12 months \$ 000	Total \$ 000
<b>Assets</b>			
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
<b>Total financial assets</b>	<u>20,605,871</u>	<u>3,588,602</u>	<u>24,194,473</u>
<b>Liabilities</b>			
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
<b>Total financial liabilities</b>	<u>15,681,989</u>	<u>1,235,935</u>	<u>16,917,924</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. 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.

	1 year and less \$ 000	>1 year and < 5 years \$ 000	Greater than 5 years \$ 000	Total \$ 000
<b>As at 31 December 2013</b>				
<b>Liabilities</b>				
Deposits by banks	3,485,452	79,018	2,026	3,566,496
Customer accounts	9,257,205	660	-	9,257,865
Derivative financial instruments	421,734	780,521	409,437	1,611,692
Debt securities in issue	1,100,805	-	-	1,100,805
<b>Total undiscounted financial liabilities</b>	<u>14,265,196</u>	<u>860,199</u>	<u>411,463</u>	<u>15,536,858</u>
	1 year and less \$ 000	>1 year and < 5 years \$ 000	Greater than 5 years \$ 000	Total \$ 000
<b>As at 31 December 2012</b>				
<b>Liabilities</b>				
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
<b>Total undiscounted financial liabilities</b>	<u>13,424,317</u>	<u>698,668</u>	<u>492,092</u>	<u>14,615,077</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. 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.

	1 year and less \$ 000	>1 year and 5 years \$ 000	Greater than 5 years \$ 000	Total \$ 000
<b>2013</b>				
Letters of credit	11,648,724	4,657,260	43,863	16,349,847
Undrawn commitments to lend	673,227	2,599,872	342,765	3,615,864
Other commitments and guarantees	1,028,767	585,419	619,693	2,233,878
<b>Total commitments and guarantees</b>	<u>13,350,718</u>	<u>7,842,551</u>	<u>1,006,321</u>	<u>22,199,589</u>
<b>2012</b>				
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	879,658	614,291	7,475	1,501,424
<b>Total commitments and guarantees</b>	<u>15,341,715</u>	<u>7,329,222</u>	<u>786,428</u>	<u>23,457,365</u>

#### 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.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. 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, avancements 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 (OPTIMA), 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.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. 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.

The total carrying amount in this table includes third party loans and advances to banks and loans and advances to customers as per note 15. See table below for split by category.

<i>Total carrying amounts</i>	<b>Note</b>	<b>2013 \$ 000</b>	<b>2012 \$ 000</b>
<b>Loans and advances to banks</b>			
Loans and advances - 3rd party	<b>15</b>	4,142,065	3,206,088
<b>Loans and advances to customers</b>			
Charge and credit card debtors	<b>15</b>	479,033	483,184
Commercial loans	<b>15</b>	9,773,316	9,335,329
Consumer loans	<b>15</b>	96,285	181,186
Loans held at fair value through the profit and loss	<b>15</b>	500,943	577,146
Loans and advances to Customers		10,849,577	10,576,845
<b>Loans and advances to third parties</b>		<b>14,991,642</b>	<b>13,782,933</b>

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:

	<b>2013 \$ 000</b>	<b>2012 \$ 000</b>
Gross exposure		
- Commitments and guarantees (third party)	21,765,581	23,115,594
- Balance sheet exposures (third party)	20,917,369	18,970,648
<b>Total exposure</b>	<b>42,682,950</b>	<b>42,086,242</b>

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.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Credit risk (continued)

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

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Governments & Central bank	5,640,612	4,549,039
Financial services	5,558,324	4,899,088
Other	1,874,597	1,805,890
Communication	1,543,134	1,050,750
Transport	1,372,017	1,935,795
Oil & Gas	1,194,283	425,744
Consumer	1,084,915	1,494,770
Engineering / Electronics	1,032,909	839,030
Food & Drinks industry	425,716	485,005
Construction	382,516	126,797
Agriculture	375,671	583,267
Local government	247,265	-
Chemicals	185,410	775,473
	<u>20,917,369</u>	<u>18,970,648</u>

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.

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

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Central Europe	8,241,746	8,275,281
Western Europe	7,873,317	6,215,273
Middle East / Africa	1,595,287	1,485,465
Central / South America	1,237,112	1,540,880
North America	1,219,998	489,796
Asia	749,909	963,953
	<u>20,917,369</u>	<u>18,970,648</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Credit risk (continued)

#### Exposure to credit risk - Loans and advances to third parties

2013	Charge and credit card debtors \$ 000	Commercial loans \$ 000	Consumer loans \$ 000	Total \$ 000
Gross Amount	498,489	14,475,565	100,784	15,074,838
<i>Individually impaired</i>				
Current	53	45,990	-	46,043
1 - 119 days past due	-	5	-	5
120 - 179 days past due	-	4,266	-	4,266
180 days or more past due	-	17,475	-	17,475
Gross Amount	53	67,736	-	67,789
Impairment provision on individually impaired loans	-	(11,199)	-	(11,199)
Carrying amount of individually impaired loans	53	56,537	-	56,590
<i>Collectively assessed</i>				
Current	492,897	14,394,571	96,904	14,984,372
1 - 119 days past due	4,450	7,579	3,421	15,450
120 - 179 days past due	1,089	1,295	-	2,384
180 days or more past due	-	4,384	459	4,843
Gross Amount	498,436	14,407,829	100,784	15,007,049
Impairment provision on collectively assessed loans	(19,456)	(48,042)	(4,499)	(71,997)
Carrying amount of collectively assessed loans	478,980	14,359,787	96,285	14,935,052
Total impairment provision	(19,456)	(59,241)	(4,499)	(83,196)
Total carrying amount	479,033	14,416,324	96,285	14,991,642
Impairment provision on undrawn commitments	-	(17,395)	-	(17,395)
Total Impairment on drawn and undrawn commitments	(19,456)	(76,636)	(4,499)	(100,591)

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Credit risk (continued)

#### 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
<i>Individually impaired</i>				
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
<i>Collectively assessed</i>				
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)	(83,352)
Carrying amount of collectively assessed loans	483,184	13,061,314	181,186	13,725,683
Total impairment provision	(26,574)	(61,874)	(11,473)	(99,921)
Total carrying amount	483,184	13,118,563	181,185	13,782,932
Impairment provision on undrawn commitments	-	(29,410)	-	(29,410)
Total Impairment on drawn and undrawn commitments	(26,574)	(91,284)	(11,473)	(129,331)

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Credit risk (continued)

#### Net credit losses charged to the current year income statement

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Individual provisions taken in the year	(1,023)	(1,118)
Net change to collective provisions taken in the year	1,665	(10,108)
Credit write-offs	99,747	80,011
Credit recoveries	(68,732)	(45,312)
<b>Net credit losses</b>	<u>31,657</u>	<u>23,473</u>

#### Movement in provisions for impairment balances

	<b>Charge and credit card debtors \$ 000</b>	<b>Commercial loans \$ 000</b>	<b>Consumer loans \$ 000</b>	<b>Total \$ 000</b>
<b>Balance at 1 January 2012</b>	27,464	93,696	15,364	136,524
Individual provisions taken in the year	-	(1,118)	-	(1,118)
Net change to collective provisions taken in the year	(2,563)	(3,299)	(4,246)	(10,108)
Provisions released due to Credit write-offs	-	-	-	-
Provisions released due to Credit recoveries	-	-	-	-
Foreign exchange adjustments	1,673	2,006	354	4,033
<b>Balance at 31 December 2012</b>	<u>26,574</u>	<u>91,285</u>	<u>11,472</u>	<u>129,331</u>
Individual provisions taken in the year	-	(1,023)	-	(1,023)
Net change to collective provisions taken in the year	(5,694)	2,188	(1,908)	(5,414)
Provisions released due to Credit write-offs	(1,052)	(2,768)	(5,340)	(9,160)
Provisions released due to Credit recoveries	-	(19,840)	-	(19,840)
Foreign exchange adjustments	(372)	(285)	275	(382)
Net change to portfolio provisions against off balance sheet exposures	-	7,079	-	7,079
<b>Balance at 31 December 2013</b>	<u>19,456</u>	<u>76,636</u>	<u>4,499</u>	<u>100,591</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial instruments and risk management (continued)

#### Credit risk (continued)

Offsetting financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

#### Types of financial assets

As at 31 December 2013	(a)	(b)	(c)=(a)+(b)	(d)		(e)=(c)-(d)
Description	Gross amount	Gross amount of recognised financial liabilities set off in the SOFP	Net amount presented in the SOFP	Related amounts not set off in the statement of financial position (d) i. Financial instruments (d) ii. Cash collateral received		Net amount
	\$000	\$000	\$000	\$000	\$000	\$000
Derivatives	135,664	-	135,664	64,824	51,634	19,206
Reverse repurchase securities borrowing and similar agreements	88,036	-	88,036	83,626	-	4,410
Other financial instruments	-	-	-	-	-	-
<b>Total</b>	<b>223,700</b>	<b>-</b>	<b>223,700</b>	<b>148,450</b>	<b>51,634</b>	<b>23,616</b>

#### Types of financial liabilities

As at 31 December 2013	(a)	(b)	(c)=(a)+(b)	(d)		(e)=(c)-(d)
Description	Gross amount	Gross amount of recognised financial assets set off in the SOFP	Net amount presented in the SOFP	Related amounts not set off in the statement of financial position (d) i. Financial instruments (d) ii. Cash collateral pledged		Net amount
	\$000	\$000	\$000	\$000	\$000	\$000
Derivatives	94,961	-	94,961	73,274	2,283	19,404
Repurchase securities lending and similar agreements	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-
<b>Total</b>	<b>94,961</b>	<b>-</b>	<b>94,961</b>	<b>73,274</b>	<b>2,283</b>	<b>19,404</b>

# CITIBANK EUROPE PLC

## 14. Financial instruments and risk management (continued)

### Credit risk (continued)

#### 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 2013 was as follows:

	2013	2012
	\$ 000	\$ 000
<b>Total regulatory capital</b>	<u>6,161,360</u>	<u>6,103,662</u>

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.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Financial assets and liabilities

The below tables outline the total financial assets and liabilities held as at 31 December 2013 and 31 December 2012.

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Total financial assets held at fair value	5,580,812	5,029,713
Total financial assets not held at fair value	19,499,597	18,670,680
Total financial assets	<u><b>25,080,409</b></u>	<u><b>23,700,393</b></u>

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Total financial liabilities held at fair value	1,690,516	1,547,404
Total financial liabilities not held at fair value	16,495,095	15,072,856
Total financial liabilities	<u><b>18,185,611</b></u>	<u><b>16,620,260</b></u>

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 2013.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 15. 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 2013	Fair value			Total \$ 000
	Level 1 \$ 000	Level 2 \$ 000	Level 3 \$ 000	
<b>Financial assets</b>				
Derivative financial instruments	-	1,643,708	-	1,643,708
Trading assets	243,506	799,228	-	1,042,734
Investment securities	1,151,689	1,241,738	-	2,393,427
Loans held at fair value through the profit and loss	-	500,943	-	500,943
<b>Financial assets held at fair value</b>	<u>1,395,195</u>	<u>4,185,617</u>	<u>-</u>	<u>5,580,812</u>
<b>Financial liabilities</b>				
Derivative financial instruments	-	1,611,139	-	1,611,139
Other financial liabilities held for trading	-	79,377	-	79,377
<b>Financial liabilities held at fair value</b>	<u>-</u>	<u>1,690,516</u>	<u>-</u>	<u>1,690,516</u>
31 December 2012	Fair value			Total \$ 000
	Level 1 \$ 000	Level 2 \$ 000	Level 3 \$ 000	
<b>Financial assets</b>				
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
<b>Financial assets held at fair value</b>	<u>1,040,774</u>	<u>3,988,939</u>	<u>-</u>	<u>5,029,713</u>
<b>Financial liabilities</b>				
Derivative financial instruments	-	1,532,110	-	1,532,110
Other financial liabilities held for trading	-	15,294	-	15,294
<b>Financial liabilities held at fair value</b>	<u>-</u>	<u>1,547,404</u>	<u>-</u>	<u>1,547,404</u>

Loans held at fair value through the profit or loss, totalling \$501 million (2012: \$577 million) are included in the Statement of Financial Position within loans and advances to customers.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 15. 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.

At 31 December 2013 \$3,876 million of Loans and advances to customers are expected to be recovered more than 12 months after the reporting date (2012: \$455 million). The carrying amount of renegotiated loans as at 31 December 2013 was \$16million (2012: \$29 million).

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

	Note	31 December 2013			31 December 2012		
		Loans and receivables \$ 000	Other amortised cost \$ 000	Total carrying amount \$ 000	Total fair value \$ 000	Total carrying amount \$ 000	Total fair value \$ 000
<b>Financial assets</b>							
Cash and balances at central bank	12	1,857,107	-	1,857,107	1,857,107	1,988,529	1,988,415
<b>Loans and advances to banks</b>							
Loans and advances - intercompany	28	2,569,083	-	2,569,083	2,569,086	3,309,103	3,309,104
Loans and advances - 3rd party		4,142,065	-	4,142,065	4,142,069	3,206,088	3,206,082
		6,711,148	-	6,711,148	6,711,155	6,515,191	6,515,186
<b>Loans and advances to customers</b>							
Charge and credit card debtors	14	479,033	-	479,033	471,869	483,185	480,522
Commercial loans	14	9,773,316	-	9,773,316	9,769,873	9,335,329	9,333,770
Consumer loans	14	96,286	-	96,286	95,173	181,185	187,593
		10,348,635	-	10,348,635	10,336,915	9,999,699	10,001,885
<b>Other financial assets</b>		582,707	-	582,707	582,707	167,261	167,261
		<b>19,499,597</b>	<b>-</b>	<b>19,499,597</b>	<b>19,487,884</b>	<b>18,670,680</b>	<b>18,672,747</b>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Financial assets and liabilities (continued)

	31 December 2013			31 December 2012		
	Loans and receivables \$ 000	Other amortised cost \$ 000	Total carrying amount \$ 000	Total fair value \$ 000	Total carrying amount \$ 000	Total fair value \$ 000
<b>Financial liabilities</b>						
Deposit by banks						
Deposits by banks - Intercompany	792,178	1,908,662	2,700,840	2,700,551	2,538,506	2,538,492
Deposits by banks - 3rd party	131,257	714,342	845,599	845,594	1,015,973	1,015,855
	<b>923,435</b>	<b>2,623,004</b>	<b>3,546,439</b>	<b>3,546,145</b>	<b>3,554,479</b>	<b>3,554,347</b>
Customer accounts	1,407,152	7,831,625	9,238,777	9,238,645	8,657,175	8,651,757
Other liabilities and debt securities in issue	-	3,709,879	3,709,879	3,709,879	2,861,202	2,861,202
	<b>2,330,587</b>	<b>14,164,508</b>	<b>16,495,095</b>	<b>16,494,669</b>	<b>15,072,856</b>	<b>15,067,306</b>

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

- Derivative financial instruments, trading assets, and debt securities in issue are measured at fair value by reference to quoted market prices in active markets. If quoted market prices are not available then fair values are estimated on the basis of other valuation techniques, including discounted cash flow models and options pricing models. The market price includes credit value adjustments where appropriate.
- Investment securities classified as available-for-sale or designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated based on other recognised valuation techniques.
- The fair value for loans and advances and other lending are estimated using internal valuation techniques such as discounted cash flow analysis. If available, the Company may also use quoted prices for recent trading activity of assets with similar characteristics to the loan being valued. In certain cases the carrying value approximates fair value because the instruments are short term in nature or reprice frequently.
- During 2010, the Company acquired a group of loans at fair value. At the same time, the Company entered into interest rate swaps to manage the interest rate risk of the acquired loans. The loans have been designated at fair value through the profit or loss in order to avoid any accounting mismatch between an accrual basis loan and a 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.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Financial assets and liabilities (continued)

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

	December 31 2013		Estimated fair value		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>					
Cash and balances at central bank	1,857,107	1,857,107	1,857,107	-	-
Loans and advances to banks	6,711,148	6,711,155	-	6,711,155	-
Loans and advances to customers	10,348,635	10,336,915	-	-	10,336,915
Other financial assets	582,707	582,707	-	-	582,707
<b>Total financial assets</b>	<b>19,499,597</b>	<b>19,487,884</b>	<b>1,857,107</b>	<b>6,711,155</b>	<b>10,919,622</b>
<b>Liabilities</b>					
Deposits from banks	3,546,439	3,546,145	-	3,546,145	-
Customer accounts	9,238,777	9,238,645	-	9,238,645	-
Debt securities in issue	1,090,262	1,090,262	-	1,090,262	-
Other financial liabilities	2,698,994	2,698,994	-	79,377	2,619,617
<b>Total financial liabilities</b>	<b>16,574,472</b>	<b>16,574,046</b>	<b>-</b>	<b>13,954,429</b>	<b>2,619,617</b>

### 16. Investment securities

Investment securities are primarily composed of government securities.

	2013	2012
	\$ 000	\$ 000
<b>Investment securities - available for sale</b>		
Debt securities:		
- listed	2,393,332	1,509,972
- unlisted	-	548,115
Equity securities:		
- unlisted	95	91
	<u>2,393,427</u>	<u>2,058,178</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 17. Derivative financial instruments

	2013	2013		2012	2012	
	Notional amount	Fair value		Notional amount	Fair value	
	\$ 000	Assets \$ 000	Liabilities \$ 000	\$ 000	Assets \$ 000	Liabilities \$ 000
<b>Exchange rate related contracts</b>						
Forwards and futures	12,562,557	98,312	62,275	10,167,257	90,320	152,633
Currency swaps	4,137,535	19,324	18,858	2,860,238	42,953	29,291
Options	693,139	8,714	8,695	1,168,768	13,368	13,368
	<u>17,393,231</u>	<u>126,350</u>	<u>89,828</u>	<u>14,196,263</u>	<u>146,641</u>	<u>195,292</u>
<b>Interest rate related contracts</b>						
Forward rate agreement	492,794	214	234	14,568,417	29,477	30,231
Interest rate swaps	37,978,311	1,516,336	1,520,258	54,228,097	1,313,991	1,305,655
Options	103,090	93	104	112,159	69	266
	<u>38,574,195</u>	<u>1,516,643</u>	<u>1,520,596</u>	<u>68,908,673</u>	<u>1,343,537</u>	<u>1,336,152</u>
<b>Equity and commodity related contracts</b>						
Options	3,436	53	53	293	52	52
Swaps	88,638	662	662	39,118	614	614
	<u>92,074</u>	<u>715</u>	<u>715</u>	<u>39,411</u>	<u>666</u>	<u>666</u>
<b>Total derivative contracts</b>	<u>56,059,500</u>	<u>1,643,708</u>	<u>1,611,139</u>	<u>83,144,347</u>	<u>1,490,844</u>	<u>1,532,110</u>

See note 14 for more details on how the Company uses derivative financial instruments as part of its risk management policies and procedures.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Other liabilities

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Accounts payable	1,905,377	1,581,133
Other balances	823,622	537,931
	<u>2,728,999</u>	<u>2,119,064</u>

Accounts payable predominantly comprises amounts payable in relation to obligations arising from the Company's transaction services business. The other balances include amounts payable to other financial institutions, corporates and other group entities, primarily relating to prepaid risk participations, items in the process of settlement and supplier finance transactions.

### 19. Shares in subsidiary undertakings

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
<b>At 1 January</b>	3,372	1,646
Addition through business transfer	-	918,184
Dividend	-	(916,617)
Foreign exchange revaluation	102	159
<b>At 31 December</b>	<u>3,474</u>	<u>3,372</u>

The Company has an investment in the following subsidiaries:

<b>Name</b>	<b>Country of incorporation</b>	<b>Nature of business</b>	<b>Year end</b>	<b>Registered office</b>	<b>Percentage ownership</b>
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 were accounted for as a distribution on investment.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Property and equipment

	Leasehold improvements \$ 000	Vehicles, furniture and equipment \$ 000	Total \$ 000
<b>Cost</b>			
<b>At 1 January 2012</b>	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
<b>At 31 December 2012</b>	<u>28,159</u>	<u>50,292</u>	<u>78,451</u>
Additions	871	3,642	4,513
Acquisitions	2	23	25
Disposals	(238)	(6,186)	(6,424)
Write-offs	(2,487)	(1,686)	(4,173)
Foreign exchange	320	620	940
<b>At 31 December 2013</b>	<u>26,627</u>	<u>46,705</u>	<u>73,332</u>
<b>Depreciation</b>			
<b>At 1 January 2012</b>	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
<b>At 31 December 2012</b>	<u>13,790</u>	<u>39,751</u>	<u>53,541</u>
Charged in year	3,406	4,082	7,488
Disposals	(182)	(5,840)	(6,022)
Write-offs	(1,694)	(1,173)	(2,867)
Foreign exchange	174	435	609
<b>At 31 December 2013</b>	<u>15,494</u>	<u>37,255</u>	<u>52,749</u>
<b>Net book value</b>			
At 31 December 2013	<u>11,133</u>	<u>9,450</u>	<u>20,583</u>
At 31 December 2012	<u>14,369</u>	<u>10,541</u>	<u>24,910</u>

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2012: \$nil).

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Goodwill and intangible assets

	<b>Goodwill</b>	<b>Computer</b>	<b>Total</b>
	<b>\$ 000</b>	<b>software</b>	<b>\$ 000</b>
		<b>\$ 000</b>	<b>\$ 000</b>
<b>Cost</b>			
<b>1 January 2012</b>	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
<b>At 31 December 2012</b>	<u>393,841</u>	<u>136,321</u>	<u>530,162</u>
Additions	-	21,064	21,064
Acquisitions	-	10,307	10,307
Write-offs	-	(5,141)	(5,141)
Foreign exchange	(10,995)	(3,212)	(14,207)
<b>31 December 2013</b>	<u>382,846</u>	<u>159,339</u>	<u>542,185</u>
<b>Amortisation and impairment losses</b>			
<b>1 January 2012</b>	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
<b>At 31 December 2012</b>	<u>128,839</u>	<u>71,766</u>	<u>200,605</u>
Amortisation	-	12,007	12,007
Acquisitions	-	6	6
Write-offs	-	(4,857)	(4,857)
Foreign exchange	-	53	53
<b>31 December 2013</b>	<u>128,839</u>	<u>78,975</u>	<u>207,814</u>
<b>Net carrying value</b>			
31 December 2013	<u>254,007</u>	<u>80,364</u>	<u>334,371</u>
31 December 2012	<u>265,002</u>	<u>64,555</u>	<u>329,557</u>

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 (2012: \$nil).

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. Goodwill is stated at cost less any accumulated impairment losses. Goodwill with an indefinite life is tested for impairment at least annually.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Deferred tax assets

The movement on the deferred tax is as follows:

	Balance at 1 January 2013 \$ 000	Recognised in the Income statement \$ 000	Recognised in other comprehensive income \$ 000	Balance at 31 December 2013 \$ 000
Property / equipment and software	833	849	-	1,682
Available for sale securities	(1,995)	-	478	(1,517)
Allowances for loan losses	6,139	(348)	-	5,791
Tax Loss carry-forward	488	(106)	-	382
Share based payment transactions	380	(224)	-	156
Other	1,480	723	-	2,203
Total asset	<u>7,325</u>	<u>894</u>	<u>478</u>	<u>8,697</u>

### 23. Called up share capital

<b>Authorised</b>	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
5,000,000,000 common stock of €1 each	<u>5,000,000</u>	<u>5,000,000</u>
<b>Allotted, called-up and fully paid</b>	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
9,318,254 (2012: 9,318,254) common stock of €1 each	<u>10,071</u>	<u>10,071</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 24. 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 been 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 ratably 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.

As part of remuneration since 2011 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. All values shown have been adjusted for post reverse stock split.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 24. Share-based incentive plans (continued)

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

	2013	2012
Shares awarded	62,932	86,236
Weighted average fair market value per share	\$44.05	\$30.87
	\$	\$
Compensation cost charged to earnings	2,651	5,604
Fair value adjustments recorded to equity	2,102	(6,705)
Total carrying amount of equity-settled transaction liability	8,204	6,794

#### (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.

The stock option activity with respect to 2013 and 2012 under Citigroup stock option plans is as follows:

	2013		2012	
	Options	Weighted average exercise price \$	Options	Weighted average exercise price \$
Outstanding, beginning of year	142,946	46.77	137,820	62.93
Granted	-	-	-	-
Forfeited	(401)	244.50	(929)	222.72
Exercised	(12,724)	40.80	-	-
Transfers	2,760	31.63	11,378	43.26
Expired	(455)	543.80	(5,323)	426.79
	132,126	44.72	142,946	46.77
Outstanding, end of year	132,126	44.72	142,946	46.77
Exercisable, end of year	132,126	44.72	142,946	46.77

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 24. 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 2013:

Range of exercise prices	Number outstanding	Options outstanding		Options exercisable	
		Weighted average contractual life remaining	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
< \$50.00	129,582	1.83	40.80	129,582	40.80
\$50.00 - \$249.99	2,544	0.06	244.50	2,544	244.50
	<u>132,126</u>	<u>1.79</u>	<u>44.72</u>	<u>132,126</u>	<u>44.72</u>

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		Options exercisable	
		Weighted average contractual life remaining	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
< \$50.00	139,422	2.83	40.80	139,422	40.80
\$50.00 - \$249.99	3,069	1.06	244.50	3,069	244.50
≥ \$250.00	455	0.04	543.77	455	543.80
	<u>142,946</u>	<u>2.78</u>	<u>46.77</u>	<u>142,946</u>	<u>46.77</u>

#### *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.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 24. Share-based incentive plans (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.

	<b>2013</b>	<b>2012</b>
<b>Weighted average fair value at year end of options granted during the year</b>	<u>\$0.00</u>	<u>\$0.00</u>
<b>Weighted average expected life</b>		
Option life	<u>2 years</u>	<u>3 years</u>
<b>Valuation assumptions</b>		
Expected volatility	37.23%	42.56%
Risk-free interest rate	0.45%	0.38%
Expected dividend yield	0.08%	0.13%
Expected annual forfeitures	<u>9.62%</u>	<u>9.62%</u>

### 25. 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.

	<b>Contract amount 2013 \$ 000</b>	<b>Contract amount 2012 \$ 000</b>
<b>Undrawn Credit lines</b>	3,615,864	4,103,210
<b>Other commitments</b>		
- less than 1 yr	12,677,491	12,140,131
- 1 yr and over	5,906,234	7,214,024
<b>Total</b>	<u>22,199,589</u>	<u>23,457,365</u>

Other commitments primarily relate to the Trade business in Ireland. The Company held a collective impairment provision of \$17 million as at 31 December (2012: \$29 million), with respect to its commitments.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 26. Operating lease commitments

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Expiring:		
- within one year	12,230	12,138
- between one and five years	44,863	38,602
- in five years or more	6,204	9,296
	<u>63,297</u>	<u>60,036</u>

### 27. 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.

	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
<b>Carrying amount of assets</b>		
Loans and advances to customers	<u>1,090,262</u>	<u>842,198</u>
<b>Carrying amount of associated liabilities</b>		
Debt securities in issue	<u>1,090,262</u>	<u>842,198</u>
	<u>1,090,262</u>	<u>842,198</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 28. 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 10.

At 31 December 2013 there were no outstanding exposures to Directors including loans (2012: \$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.

	2013			Total \$ 000
	Parent company undertakings \$ 000	Subsidiary undertakings \$ 000	Other Citigroup undertakings \$ 000	
<b>Assets</b>				
Loans and advances to banks	-	-	2,569,083	2,569,083
Loans and advances to customers	-	-	-	-
Prepayments and accrued income	-	-	(5,252)	(5,252)
Other assets	-	(1,203)	128,642	127,439
Derivatives	-	-	1,550,610	1,550,610
Other, FX Spot reval gain	-	-	874	874
<b>Liabilities</b>				
Deposits by banks	-	-	2,699,140	2,699,140
Customer accounts	-	-	18,991	18,991
Accruals and deferred income	-	-	22,044	22,044
Other liabilities	-	-	48,277	48,277
Derivatives	-	-	1,529,902	1,529,902
Other, FX Spot reval loss	-	-	980	980
<b>Commitments and guarantees</b>	-	-	434,008	434,008
<b>Income statement</b>				
Interest and similar income	-	-	29,701	29,701
Interest payable	-	-	(24,482)	(24,482)
Net fee and commission income	-	-	273,188	273,188
Other operating income	-	-	3,805	3,805
Net trading income	-	-	63,296	63,296
Other expenses	-	72	(180,554)	(180,482)
Dividend paid	-	-	(800,000)	(800,000)

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 28. Related party transactions (continued)

	2012			
	Parent company undertakings \$ 000	Subsidiary undertakings \$ 000	Other Citigroup undertakings \$ 000	Total \$ 000
<b>Assets</b>				
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
<b>Liabilities</b>				
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
<b>Commitments and guarantees</b>	10	24,512	554,055	578,577
<b>Income statement</b>				
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)

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 29. Reserves

The Company paid an interim dividend of \$800 million (2012: \$nil) to its parent company, Citibank Holdings Ireland Limited in Q4 2013.

	Share capital \$ 000	Share premium \$ 000	Capital reserve \$ 000	Other reserves			Retained earnings \$ 000	Total \$ 000
				Gains/(Losses) arising from AFS \$ 000	Translation reserves and other items \$ 000	SBP \$ 000		
<b>At 1 January 2012</b>	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
Dividend	-	-	-	-	-	-	-	-
<b>At 31 December 2012</b>	10,071	1,593,607	1,239,171	17,504	(14,763)	4,819	4,426,140	7,276,549
Profit for the period	-	-	-	-	-	-	714,516	714,516
Gains / (Losses) arising from AFS	-	-	-	(17,699)	-	-	-	(17,699)
Share based payments	-	-	-	-	-	(2,102)	-	(2,102)
Translation reserve and other items	-	-	-	(61)	15,499	-	(73,743)	(58,305)
Capital contribution	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	(800,000)	(800,000)
<b>At 31 December 2013</b>	10,071	1,593,607	1,239,171	(256)	736	2,717	4,266,913	7,112,959

Capital contributions arise from contributions from the Company's intermediate parent undertaking, Citibank Overseas Investment Corporation, of which \$321 million (2012: \$321 million) forms part of the Company's distributable reserves.

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.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### **29. Reserves** *(continued)*

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 2013.

### **30. 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 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](http://www.citigroup.com/citi/corporategovernance/ar.htm).

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

### **31. Subsequent events**

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

### **32. Approval of financial statements**

The financial statements of the Company were approved by the Board of Directors on the 21<sup>st</sup> March 2014.