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.

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)

Objectives, policies and strategies (continued)

[illegible]

Operational risk

[illegible]

[illegible]

[illegible]

[illegible]

Market risk

[illegible]

Market risk management

[illegible]

[illegible]

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
Czech	**31-Dec-13**				**31-Dec-12**
	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
Hungary	**31-Dec-13**				**31-Dec-12**
	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
Slovakia	**31-Dec-13**				**31-Dec-12**
	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
Romania	**31-Dec-13**				**31-Dec-12**
	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

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

	2013		2012	
Currency	**12 Month**	**5 Year**	**12 Month**	**5 Year**
	$ 000	**$ 000**	**$ 000**	**$ 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:

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.

14. Financial instruments and risk management (continued)

Liquidity risk (continued)

As at 31 December 2013	Less than 12 months $ 000	Over 12 months $ 000	Total $ 000
Assets			
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
Total financial assets	17,710,522	7,369,887	25,080,409
Liabilities			
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
Total financial liabilities	16,805,238	1,380,373	18,185,611

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
Assets			
Cash and balances at central bank	1,988,529	-	1,988,529
Loans and advances to banks	6,402,956	112,235	6,515,191
Loans and advances to customers	10,121,637	455,208	10,576,845
Derivative financial instruments	289,383	1,201,461	1,490,844
Trading assets	504,152	399,393	903,545
Investment securities	962,174	1,096,004	2,058,178
All other assets	337,041	324,300	661,341
Total financial assets	20,605,871	3,588,602	24,194,473
Liabilities			
Deposits by banks	3,554,479	-	3,554,479
Customer accounts	8,656,580	595	8,657,175
Derivative financial instruments	342,081	1,190,029	1,532,110
All other liabilities	3,128,849	45,311	3,174,160
Total financial liabilities	15,681,989	1,235,935	16,917,924

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.

As at 31 December 2013	1 year and less $ 000	>1 year and < 5 years $ 000	Greater than 5 years $ 000	Total $ 000
Liabilities				
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
Total undiscounted financial liabilities	14,265,196	860,199	411,463	15,536,858

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

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.

2013	1 year and less $ 000	>1 year and 5 years $ 000	Greater than 5 years $ 000	Total $ 000
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
Total commitments and guarantees	13,350,718	7,842,551	1,006,321	22,199,589
2012				
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
Total commitments and guarantees	15,341,715	7,329,222	786,428	23,457,365

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.

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

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

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

The Company has a Credit risk reporting system (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.

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.

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

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:

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

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.

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:

	2013 $ 000	2012 $ 000
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
	20,917,369	18,970,648

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

	2013 $ 000	2012 $ 000
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
	20,917,369	18,970,648

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**	**Commercial loans**	**Consumer loans**	**Total**
	$ 000	**$ 000**	**$ 000**	**$ 000**
Gross Amount	498,489	14,475,565	100,784	15,074,838
Individually impaired				
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
Collectively assessed				
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
Individually impaired				
Current	-	66,579	-	66,579
1 - 119 days past due	-	51	-	51
120 - 179 days past due	-	-	-	-
180 days or more past due	-	7,189	-	7,189
Gross Amount	-	73,819	-	73,819
Impairment provision on individually impaired loans	-	(16,570)	-	(16,570)
Carrying amount of individually impaired loans	-	57,249	-	57,249
Collectively assessed				
Current	481,225	13,078,888	186,377	13,746,490
1 - 119 days past due	24,330	18,848	5,724	48,902
120 - 179 days past due	4,203	4,191	12	8,406
180 days or more past due	-	4,691	546	5,237
Gross Amount	509,758	13,106,618	192,659	13,809,035
Impairment provision on collectively assessed loans	(26,574)	(45,304)	(11,473)	(83,352)
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)

14. Financial instruments and risk management (continued)

Credit risk (continued)

Net credit losses charged to the current year income statement

	2013 $ 000	2012 $ 000
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)
Net credit losses	31,657	23,473

Movement in provisions for impairment balances

	Charge and credit card debtors $ 000	Commercial loans $ 000	Consumer loans $ 000	Total $ 000
Balance at 1 January 2012	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
Balance at 31 December 2012	26,574	91,285	11,472	129,331
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
Balance at 31 December 2013	19,456	76,636	4,499	100,591

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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 Description	(a) Gross amount	(b) Gross amount of recognised financial liabilities set off in the SOFP	(c)=(a)+(b) Net amount presented in the SOFP	(d) Related amounts not set off in the statement of financial position (d) i. Financial instruments	(d) ii. Cash collateral received	(e)=(c)-(d) 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	-	-	-	-	-	-
Total	**223,700**	-	**223,700**	**148,450**	**51,634**	**23,616**

Types of financial liabilities

As at 31 December 2013 Description	(a) Gross amount	(b) Gross amount of recognised financial assets set off in the SOFP	(c)=(a)+(b) Net amount presented in the SOFP	(d) Related amounts not set off in the statement of financial position (d) i. Financial instruments	(d) ii. Cash collateral pledged	(e)=(c)-(d) 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	-	-	-	-	-	-
Total	**94,961**	-	**94,961**	**73,274**	**2,283**	**19,404**

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 $ 000	2012 $ 000
Total regulatory capital	**6,161,360**	**6,103,662**

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.

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.

	2013 $ 000	2012 $ 000
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	**25,080,409**	**23,700,393**

	2013 $ 000	2012 $ 000
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	**18,185,611**	**16,620,260**

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.

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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			
	Level 1	Level 2	Level 3	Total
	$ 000	$ 000	$ 000	$ 000
Financial assets				
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
Financial assets held at fair value	1,395,195	4,185,617	-	5,580,812
Financial liabilities				
Derivative financial instruments	-	1,611,139	-	1,611,139
Other financial liabilities held for trading	-	79,377	-	79,377
Financial liabilities held at fair value	-	1,690,516	-	1,690,516

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

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.

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.

		31 December 2013				31 December 2012	
	Note	Loans and receivables $ 000	Other amortised cost $ 000	Total carrying amount $ 000	Total fair value $ 000	Total carrying amount $ 000	Total fair value $ 000
Financial assets							
Cash and balances at central bank	12	1,857,107	-	1,857,107	1,857,107	1,988,529	1,988,415
Loans and advances to banks							
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
Loans and advances to customers							
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
Other financial assets		582,707	-	582,707	582,707	167,261	167,261
		19,499,597	-	**19,499,597**	**19,487,884**	**18,670,680**	**18,672,747**

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15. Financial assets and liabilities (continued)

	31 December 2013				31 December 2012	
	Loans and receivables	Other amortised cost	Total carrying amount	Total fair value	Total carrying amount	Total fair value
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Financial liabilities						
Deposit by banks						
Deposits by banks - Intercompany	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
	923,435	**2,623,004**	**3,546,439**	**3,546,145**	**3,554,479**	**3,554,347**
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
	2,330,587	**14,164,508**	**16,495,095**	**16,494,669**	**15,072,856**	**15,067,306**

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.

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
Assets					
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
Total financial assets	**19,499,597**	**19,487,884**	**1,857,107**	**6,711,155**	**10,919,622**
Liabilities					
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
Total financial liabilities	**16,574,472**	**16,574,046**	-	**13,954,429**	**2,619,617**

16. Investment securities

Investment securities are primarily composed of government securities.

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

17. Derivative financial instruments

	2013 Notional amount	2013 Fair value		2012 Notional amount	2012 Fair value	
		Assets	Liabilities		Assets	Liabilities
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Exchange rate related contracts						
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
	17,393,231	126,350	89,828	14,196,263	146,641	195,292
Interest rate related contracts						
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
	38,574,195	1,516,643	1,520,596	68,908,673	1,343,537	1,336,152
Equity and commodity related contracts						
Options	3,436	53	53	293	52	52
Swaps	88,638	662	662	39,118	614	614
	92,074	715	715	39,411	666	666
Total derivative contracts	56,059,500	1,643,708	1,611,139	83,144,347	1,490,844	1,532,110

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

18. Other liabilities

	2013 $ 000	2012 $ 000
Accounts payable	1,905,377	1,581,133
Other balances	823,622	537,931
	2,728,999	2,119,064

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

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

The Company has an investment in the following subsidiaries:

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

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

20. Property and equipment

	Leasehold improvements $ 000	Vehicles, furniture and equipment $ 000	Total $ 000
Cost			
At 1 January 2012	25,286	53,995	79,281
Additions	2,533	4,442	6,975
Disposals	-	(7,798)	(7,798)
Write-offs	(1,074)	(2,494)	(3,568)
Foreign exchange	1,414	2,147	3,561
At 31 December 2012	28,159	50,292	78,451
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
At 31 December 2013	26,627	46,705	73,332
Depreciation			
At 1 January 2012	10,805	40,564	51,369
Charged in year	3,141	4,715	7,856
Disposals	-	(5,239)	(5,239)
Write-offs	(869)	(2,494)	(3,363)
Foreign exchange	713	2,205	2,918
At 31 December 2012	13,790	39,751	53,541
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
At 31 December 2013	15,494	37,255	52,749
Net book value			
At 31 December 2013	11,133	9,450	20,583
At 31 December 2012	14,369	10,541	24,910

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

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21. Goodwill and intangible assets

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

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.

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	7,325	894	478	8,697

23. Called up share capital

Authorised	**2013 $ 000**	**2012 $ 000**
5,000,000,000 common stock of €1 each	5,000,000	5,000,000

Allotted, called-up and fully paid	**2013 $ 000**	**2012 $ 000**
9,318,254 (2012: 9,318,254) common stock of €1 each	10,071	10,071

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 be satisfied. Recipients of deferred share awards do not have any shareholder rights until shares are delivered to them, but they generally are entitled to receive dividend-equivalent payments during the vesting period. Recipients of restricted share awards are entitled to a limited voting right and to receive dividend or dividend-equivalent payments during the vesting period. Once a share award vests the shares become freely transferrable, but in the case of certain employees, may be subject to transfer restriction by their terms or share ownership commitment.

(a) Stock award programme

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

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

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

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

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

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.

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
Outstanding, end of year	132,126	44.72	142,946	46.77
Exercisable, end of year	132,126	44.72	142,946	46.77

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:

		Options outstanding		Options exercisable	
Range of exercise prices	Number outstanding	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
	132,126	1.79	44.72	132,126	44.72

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

		Options outstanding		Options exercisable	
Range of exercise prices	Number outstanding	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
	142,946	2.78	46.77	142,946	46.77

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.

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.

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

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.

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

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.

26. Operating lease commitments

	2013 $ 000	2012 $ 000
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
	63,297	60,036

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.

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

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			
	Parent company undertakings $ 000	Subsidiary undertakings $ 000	Other Citigroup undertakings $ 000	Total $ 000
Assets				
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
Liabilities				
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
Commitments and guarantees	-	-	434,008	434,008
Income statement				
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)

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NOTES TO THE FINANCIAL STATEMENTS

28. Related party transactions (continued)

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

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NOTES TO THE FINANCIAL STATEMENTS

29. Reserves

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

				Other reserves				
	Share capital	Share premium	Capital reserve	Gains/(Losses) arising from AFS	Translation reserves and other items	SBP	Retained earnings	Total
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
At 1 January 2012	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	-	-	-	-	-	-	-	-
At 31 December 2012	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)
At 31 December 2013	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.

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.

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 21st March 2014.