CITIBANK EUROPE PLC

(Registered Number: 132781)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2018

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BOARD OF DIRECTORS AND OTHER INFORMATION

DIRECTORS	Susan Dean – Chairperson – Non-Executive Zdenek Turek – Executive Barry O'Leary – Independent Non-Executive Bo J. Hammerich – Non-Executive (resigned 4th July 2018) Breffni Byrne – Independent Non-Executive Cecilia Ronan – Executive Deepak Jain – Non-Executive Ebru Pakcan – Non-Executive Jeanne Short – Independent Non-Executive Jim Farrell – Independent Non-Executive Patrick Dewilde – Non-Executive (appointed 24th January 2019)
COMPANY SECRETARY	Fiona Mahon Nigel Kemp (resigned 5th December 2018)
REGISTERED OFFICE	1 North Wall Quay, Dublin 1
SOLICITORS	A&L Goodbody International Financial Services Centre, North Wall Quay, Dublin 1 Arthur Cox Solicitors Earlsfort Centre, Earlsfort Terrace, Dublin 2 Matheson 70 Sir John Rogersons Quay, Dublin 2
AUDITOR	KPMG Statutory Auditor and Chartered Accountants 1 Harbourmaster Place, IFSC, Dublin 1
BANKERS	Citibank NA, London Branch Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB

CITIBANK EUROPE PLC

DIRECTORS' REPORT
For the year ended 31 December 2018

The Directors present their report and the annual financial statements of Citibank Europe plc ("the Company" or "CEP") for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Principal Activities

The Company is headquartered in Dublin and for the year under review had branches across 21 European countries (2017: 20 European countries), and one subsidiary. Its ultimate parent is Citigroup Inc. (hereafter referred to as either "Citigroup" or "Citi"). In April 2018, the Company established a new branch in Germany.

On 27 April 2018, the banking business of Citigroup Global Markets Deutschland AG ("CGMD") in Germany, consisting of Treasury and Trade Solutions, Markets Treasury, Issuer Services, Direct Custody and Clearing Sales and corporate lending was transferred to the Company's newly established German branch. Please refer to Note 33 for more details.

The Company, which holds a banking licence from the Central Bank of Ireland ("CBI") under Section 9 of the Central Bank Act 1971, provides financial services to clients and other Citigroup businesses on a worldwide basis. From 1 January 2017 the Company has been directly regulated by European Central Bank ("ECB") through the Single Supervisory Mechanism ("SSM" or "The Regulator").

The Company is passported under the EU Banking Consolidation Directive and accordingly is permitted to conduct a broad range of banking and financial services activities across the European Economic Area ("EEA") through its branches and on a cross-border basis.

The core activities of the Company comprise the Institutional Clients Group ("ICG"). The principal ICG businesses are Treasury and Trade Solutions ("TTS"), Markets and Securities Services and Banking, servicing a wide range of target market clients including governments, public sector clients, multinational corporations, large local corporates, financial institutions and fund managers.

Business Review

The Company reported profit after tax of $879 million for the year to 31 December 2018 (2017: $600 million). The increase in profitability was due to a strong performance in TTS as well as Security Services and lower net credit losses.

The operating income was $2,326 million for the year to 31 December 2018 (2017: $2,067 million). The increase was driven by higher transaction volumes in the TTS business, as well as an increase in custody and clearing fees. Recoveries from the shared service centres also contributed positively to the overall operating income.

Operating expenses (excluding Net Impairments on Loans and Advances) remained relatively stable at $1,241 million for the year to December 2018 (2017: $1,164 million). Increase of the compensation costs was due to the rise in the headcount in our shared service centres, which was in part offset by an increase in recoveries in operating income.

The Company recorded net impairment losses of $9.9 million for the year ended 31 December 2018, lower than prior year net impairment losses (2017: $168 million) which were driven principally by episodic events and a change in the impaired loan classification methodology in 2017.

The Company's total assets have grown year on year to $60.6 billion (2017: $49.6 billion). The growth in assets was led by the establishment of new German Branch and an increase in cash clearing activity, resulting in higher Loans and Advances and Deposits.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2018

Future Developments

The Company is closely monitoring the potential impacts of the United Kingdom's proposed exit from the European Union ("EU") ("Brexit"). Appropriate governance structures have been established to develop, implement and monitor the Company's strategic responses in the period up to the UK's exit. As part of the Company's overall Brexit strategy, the Board has initiated a process to transfer the Company's UK branch retail business to a separate legal entity in the UK in 2019. Additionally, the Company is in the process of transferring certain Treasury and Trade Solution and Markets offerings from the UK to its branches in EU member States.

Key performance indicators

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

	31 December 2018	31 December 2017	Variance
Profit before Income Tax	1,075,255	735,438	46%
Profit after Income Tax	879,190	600,020	47%
Operating Efficiency	50%	55%	-5%
Shareholders' funds*	9,239,953	8,916,620	4%
Return on Capital Employed	12%	8%	4%
Leverage Ratio	9%	10%	-1%

* The Shareholders' funds equates to total equity attributable to equity shareholders, which is different from regulatory capital.

Credit rating

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

Capital management

The Company had regulatory capital of $7.9 billion as at 31 December 2018 ($8.5 billion as at 31 December 2017) which is entirely made up of Tier One equity. The capital ratio at 31 December 2018 was 17.5% (18.7% as at 31 December 2017) which exceeds the minimum requirement. Further information on the Company's capital requirements and risk management is available in the Pillar 3 disclosure document (http://citigroup.com/citi/investor/reg.htm). For further details, please refer to Note 18 – 'Risk management'.

Dividends

Dividends of $589 million were paid by the Company to its direct parent, Citibank Holding Ireland Limited ("CHIL") in relation to 2017 earnings during the year (2017: $1.075 billion). No dividend is proposed in relation to 2018 earnings.

Corporate Governance

Internal Accounting and Financial Controls

The Directors are responsible for preparing the Directors' report and the Company's financial statements in accordance with applicable law. The Board of Directors ("Board") has established an Audit Committee that operates within specific terms of reference approved by the Board. The Company's finance function is responsible for preparing the financial statements in accordance with IFRS and with respect to local legal requirements.

Audit Committee

The Audit Committee is a sub-committee of the Board. Its role is to oversee the adequacy of the internal control environment established by management in relation to the Company's businesses. The Audit Committee also assists the Board in fulfilling its oversight responsibility relating to the integrity of the Company's financial statements, financial reporting process and systems of internal accounting and financial controls. The Audit Committee draws on the work of Internal Audit and the Company's senior management.

Risk Committee

The Risk Committee is a sub-committee of the Board. Its role is to advise the Board on the Company's overall current and future risk appetite by taking account of the current and future financial position of the Company. The Risk Committee also reviews amendments to Company's risk policies including regulatory developments and is responsible for monitoring of economic capital and material risks. The Risk Committee draws on the work of the internal Risk Department and the Company's senior management.

Remuneration Committee

The Remuneration Committee is a sub-committee of the Board. It is responsible for assisting the Board on decisions regarding remuneration, including those which have implications for risk management of the Company.

Nomination Committee

The Nomination Committee is a sub-committee of the Board. It is responsible for assisting the Board on decisions regarding the appointment of Directors and Senior Management and related matters including succession planning, diversity, fitness and probity and performance reviews.

Related Party Lending Committee

The Related Party Lending Committee is a management committee that reports to the Board and is responsible for assisting the Company in the discharge of its obligations under the Code of Practice in lending to Related Parties 2013 (Code) issued by the CBI.

Executive Committee

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

Corporate Governance Code for Credit Institutions 2015

The Company is designated as a High Impact credit institution per the Corporate Governance Code for Credit Institutions 2015 ("the Code"). As such, the Company has complied with the additional requirements for High Impact designated institutions.

The Company is rated as an Other Systemically Important Institution (O-SII). Under Regulation 121(1) of the European Union (Capital Requirements) Regulations 2014 (S.I. No. 158 of 2014) ("CRD Regulations"), the CBI is designated as the authority in charge of identifying O-SIIs which have been authorised within the State.

Political Donations

During the year the Company did not make any political donations (2017: nil).

Directors, Company Secretary and their interests

The names of the persons who were Directors at any time during the financial year ended 31 December 2018 are set out on page 3. Neither the Directors, nor the Company Secretary, have any beneficial interest in the share capital of the Company. Neither the Directors, nor the Company Secretary, had an interest in more than 1% of the nominal value of the ultimate holding Company's issued share capital during the year ended 31 December 2018 (2017: nil).

Accounting records

The Directors believe that they have complied with the requirement of Sections 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the Finance function. The accounting records of the Company are available at 1 North Wall Quay, Dublin 1.

Non-financial information

The Company's policy on environmental matters, social and employee matters, bribery and corruption and respect for human rights is detailed on the Global Citizenship Report which can be accessed on the ultimate parent group Citigroup Inc. website www.citigroup.com.

Principal Risks and Uncertainties

Information regarding the principal risks and uncertainties facing the Company and its management is described in Note 18 – 'Risk management' on page 54.

Going Concern

The Directors have reviewed the business activities and financial position of the Company and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. Therefore the Directors have prepared these financial statements on the going concern basis.

Auditor

In accordance with Section 383(2) of the Companies Act 2014, the auditors, KPMG, Statutory Auditors and Chartered Accountants, will continue in office.

The Directors have taken all steps that they ought to have taken to make themselves aware of all audit information and to establish that auditors are aware of all such information and, so far as the Directors are aware, there is no relevant audit information of which the auditors are unaware, in accordance with Section 330 (1)-(3) of the Companies Act 2014.

Directors' Compliance Statement

As required by Section 225 of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its "relevant obligations" (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates.

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union ("EU").

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

CITIBANK EUROPE PLC

DIRECTORS' REPORT (continued)
For the year ended 31 December 2018

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company included on the Citigroup Inc. website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Company comply with the provision of the Companies Act 2014 and with the requirements of the European Union (Credit Institutions: Financial Statements) Regulations 2015. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Company comply with the provisions of the Companies Act 2014 and with the requirements of the European Union (Credit Institutions: Financial Statements) Regulations 2015.

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

On behalf of the board: 28th March 2019

Zdenek Turek
Director

Cecilia Ronan
Director

Jim Farrell
Director

Fiona Mahon
Company Secretary

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

Opinion: our opinion is unmodified

We have audited the financial statements of Citibank Europe plc ("the Company") for the year ended 31 December 2018 set out in pages 14 to 106, which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and related notes, including the summary of principal accounting policies set out in Note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

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

We were appointed as auditor by the Directors on 17 June 2016. The period of total uninterrupted engagement is the 3 years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remained independent of the Company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IASSA) as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters: our assessment of risks of material misstatement

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

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

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

Expected credit losses (ECL) $136m
Refer to note (1i) and (1j) (accounting policy) and note 16,18,21,25, and 32 (financial disclosures)

The key audit matter	How the matter was addressed in our audit
On 1 January 2018, the Company adopted IFRS 9. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. These judgements have been key in the development of the new IFRS 9 model which has been built and implemented to measure the expected credit losses of loans and advances to customers measured at amortised cost. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's implementation of IFRS9 include but are not limited to:	With support from the parent company's auditor, we: • We performed an end to end process walkthrough to identify the key systems, applications and controls used in the ECL process. We tested the design and operating effectiveness of the key controls over the completeness and accuracy of the key data inputs into the ECL model. • We tested general IT controls over the key systems used in the process to provide data and calculate ECLs.
• **Accuracy of Expected Credit Loss (ECL) models:** The calculation of ECLs uses complex and inherently judgemental modelling techniques, which involves determining Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The PD models used are the key drivers of the Company's ECL results and are therefore the most significant judgemental aspect of the Company's ECL modelling approach.	• In conjunction with our modelling specialists in New York, we tested the design and implementation of controls over the modelling process and methodologies, including model monitoring, validation and approval, as well as testing the design of controls over model outputs and recognition and approval of post model adjustments. • We tested SICR criteria relating to the authorisation of the criteria, the validation metrics, and the application of the criteria in the model.
• **Significant Increase in Credit Risk (SICR):** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Company's ECL calculation. The application of the criteria relies on a significant number of data elements, which form the basis of modelling of ECL. The application of the appropriate criteria and accuracy of the key data elements used in the loan processes are significant in determining the ECL allowances.	• We performed reconciliations of critical data elements to which the significant risk applies between the source systems and the impairment model at the year end to assess the completeness and accuracy of the transfer of data into the model. • We tested the design and operating effectiveness of key controls relating to the selection and implementation of material economic variables.
• **Forward looking macroeconomic scenarios:** IFRS 9 requires the Company to measure ECLs on a forward-looking basis reflecting future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them.	• We assessed the appropriateness of the key judgements in the ECL model and tested the key controls over the loss rate ECL calculations. • We assessed the reasonableness of the methodology used to estimate ECLs and the ECL scaler, including the reasonableness of the probability weighting for base, benign and stress scenarios. • For a risk-based sample of loans, we critically assessed, by reference to the underlying documentation and through inquiry of management, whether the indicators for a credit impairment had been identified. We challenged the reasonableness of management's judgement in this regard. • The results of our testing were satisfactory and we found the ECL charge and provision recognised to be reasonable.

Revenue recognition $314m (2017 - $312m)

Refer to note (1d) and 1(e) (accounting policy) and note 4 and 5 (financial disclosures)

The key audit matter	How the matter was addressed in our audit
The Company has several revenue streams many with high volumes of low margin transactions. While the underlying products that generate this income are relatively straightforward, the calculation of revenue on Worldlink transactions is complex. There is a risk over the accuracy of income earned from the Worldlink product.	• We tested the design, implementation and operating effectiveness of key controls relating to the revenue process from initiation to recording in the financial statements. • We recalculated income arising from Worldlink for a sample of customers, using the applicable commission spreads as per client agreements and assessed the reasonableness of the FX rates applied to each trade against independently obtained observable market rates. • In relation to revenue earned from Worldlink service fees, we agreed the fees for a sample of customers to monthly invoices. • Based on evidence obtained, we found that Worldlink income was acceptable.

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

The materiality for the Company financial statements as a whole was set at $50 million (2017: $50 million). This has been calculated with reference to a benchmark of profit before tax (of which it represents circa 5 per cent (2017: 7 per cent)), which we consider to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Company.

Our audit process included reporting to the Audit Committee all corrected and uncorrected misstatements we identified through our audit work with a value in excess of $2.5 million (2017: $2.5 million), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

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

The Group team (being KPMG Dublin as statutory auditors) instructed component auditors in the UK, Czech Republic, Hungary, Romania and Germany, as to the significant areas to be covered in their testing, including the relevant risks detailed above. The remaining components were covered centrally by the Group team. The components were either individually significant or were included in order to provide further coverage over the Company's Income Statement and Statement of Financial Position.

The Group team set the component auditors' materiality levels, which ranged from $15m - $30m (2017: $15m - $40m), having regard to both the size and risk profile of the components.

Audit coverage for individual line items within the income statement and statement of financial position falls in the range of 85% to 100%; most line items have audit coverage above 90%.

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

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

We have nothing to report on going concern

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

Other information

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Directors' report and the non-financial statement referenced on page 7.

The financial statements and our auditors report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance thereon.

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

Based solely on our work on the other information we report that, in those parts of the Directors' report specified for our review:

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

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

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

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

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

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

The Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by section 5 (2) to (7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 for the year ended 31 December 2018 as required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) (amendment) Regulations 2018.

Respective responsibilities and restrictions on use

Directors' responsibilities

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

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

Auditor's responsibilities

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

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

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

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for our report, or for the opinions we have formed.

N. Marshall

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

28 March 2019

CITIBANK EUROPE PLC

INCOME STATEMENT
for the year ended 31 December 2018

	Note	2018 $ 000	2017 $ 000
Interest income	4	650,394	433,763
Interest expense	4	(142,744)	(61,670)
Net interest income		507,650	372,093
Net fee and commission income	5	1,102,125	1,053,164
Net trading income	6	144,656	211,494
Net investment income	7	50,965	42,563
Net income from other financial instruments designated at fair value through profit or loss	8	3,900	261
Other operating income	9	516,558	387,614
Operating income		2,325,854	2,067,189
Net credit losses	18	(9,893)	(168,062)
Personnel expenses	11	(720,229)	(643,477)
Other expenses	13	(520,477)	(520,212)
Profit before income tax		1,075,255	735,438
Income tax expense	14	(188,475)	(145,741)
Profit for the period from continuing operations		886,780	589,697
(Loss)/Profit from discontinued operations, net of tax	29	(7,590)	10,323
Profit for the period		879,190	600,020

The accompanying notes on pages 19 to 106 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 28th March 2019 and signed on their behalf by:

Zdenek Turek
Director

Cecilia Ronan
Director

Jim Farrell
Director

Fiona Mahon
Company Secretary

CITIBANK EUROPE PLC

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Note	2018 $ 000	2017 $ 000
Profit for the period		879,190	600,020
Items that will not be reclassified to profit or loss			
Gain/(Loss) on remeasurement of defined benefit liability/asset	15	6,089	(8,207)
Related tax	24	(1,145)	1,027
Items that may be reclassified to profit or loss			
Foreign currency translation		6,607	8,082
Net (loss)/gain on hedge of net investment in foreign operation		(3,528)	14,806
Movement in fair value reserve (FVOCI debt instruments)			
Debt instruments at FVOCI - net change in fair value		(5,454)	-
Debt instruments at FVOCI - reclassified to profit or loss		(5,990)	-
Movement in fair value reserve (available-for-sale financial assets)			
Available-for-sale financial assets - net change in fair value		-	5,153
Available-for-sale financial assets - reclassified to profit or loss		-	(41,657)
Related tax		(3,525)	10,613
Other Comprehensive Expense for the Period, Net of Tax		(6,946)	(10,183)
Total Comprehensive Income for the Period		872,244	589,837

The accompanying notes on pages 19 to 106 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 28th March 2019 and signed on their behalf by:

Zdenek Turek
Director

Cecilia Ronan
Director

Jim Farrell
Director

Fiona Mahon
Company Secretary

CITIBANK EUROPE PLC

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	31 December 2018 $ 000	31 December 2017 $ 000
Assets			
Cash and cash equivalents	16	17,003,234	14,589,546
Trading assets	17,19	1,001,487	967,414
Derivative financial instruments	19,20	1,487,419	1,603,601
Investment securities	21	4,072,096	2,887,331
Loans and advances to banks	18	13,250,086	7,264,565
Loans and advances to customers	18	18,750,539	17,999,036
Assets associated with disposal group held for sale	29	624,148	-
Shares in subsidiary undertakings	26	14,175	14,175
Current tax asset		34,615	39,282
Other assets	25	3,977,463	3,788,345
Deferred tax assets	24	254,374	304,740
Property and equipment	22	75,044	57,075
Goodwill and Intangible assets	23	93,842	102,853
Total assets		60,638,522	49,617,963
Liabilities			
Deposits by banks	19	14,301,103	7,134,623
Customer accounts	19	25,172,720	26,192,250
Derivative financial instruments	19,20	1,502,949	1,667,005
Liabilities associated with disposal group held for sale	29	4,614,811	-
Current tax liability		47,037	34,639
Provisions	27	70,314	93,885
Deferred tax liabilities	24	28,687	18,084
Other liabilities	28	5,660,948	5,560,857
Total liabilities		51,398,569	40,701,343
Equity shareholders' funds			
Share capital	30	10,532	10,532
Share premium account	30	1,962,747	1,962,747
Other reserves (net)	36	796,674	843,880
Retained earnings		6,470,000	6,099,461
Total equity attributable to equity shareholders		9,239,953	8,916,620
Total liabilities and equity shareholders' funds		60,638,522	49,617,963

The accompanying notes on pages 19 to 106 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 28th March 2019 and signed on their behalf by:

Zdenek Turek
Director

Cecilia Ronan
Director

Jim Farrell
Director

Fiona Mahon
Company Secretary

CITIBANK EUROPE PLC

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

		Attributable to equity holders of the Group								
	Note	Share capital $ 000	Share premium $ 000	Capital reserve $ 000	Merger reserve $ 000	Translation reserve $ 000	Fair value reserve $ 000	Equity reserve $ 000	Retained earnings $ 000	Total $ 000
Balance at 1 January 2017		10,532	1,962,747	824,123	57,578	(80,774)	45,193	3,274	6,581,621	9,404,294
Total comprehensive income/(loss):										
Profit for the period		-	-	-	-	-	-	-	600,020	600,020
Other comprehensive income/(loss), net of tax:										
Remeasurements of defined benefit liability/(asset)	15	-	-	-	-	-	-	-	(7,180)	(7,180)
Foreign currency translation differences for foreign operations		-	-	-	-	8,082	-	-	-	8,082
Net gain on hedge of net investment in foreign operation		-	-	-	-	14,806	-	-	-	14,806
Fair value reserve (Available-for-sale financial assets)		-	-	-	-	-	(25,891)	-	-	(25,891)
Total other comprehensive income/(loss)		-	-	-	-	22,888	(25,891)	-	(7,180)	(10,183)
Total comprehensive income/(loss)		-	-	-	-	22,888	(25,891)	-	592,840	589,837
Transactions with owners, recorded directly in equity										
Issue of ordinary shares related to merger		-	-	-	-	-	-	-	-	-
Equity increase/(decrease) resulting from merger		-	-	-	-	-	-	-	-	-
Equity settled share-based payment	31	-	-	-	-	-	-	(2,511)	-	(2,511)
Dividends/remittances		-	-	-	-	-	-	-	(1,075,000)	(1,075,000)
Total contributions by and distributions to owners		-	-	-	-	-	-	(2,511)	(1,075,000)	(1,077,511)
Balance at 31 December 2017		10,532	1,962,747	824,123	57,578	(57,886)	19,302	763	6,099,461	8,916,620
IFRS 9 transition		-	-	-	-	-	-	-	75,405	75,405
Restated balance at 1 January 2018		10,532	1,962,747	824,123	57,578	(57,886)	19,302	763	6,174,866	8,992,025
Total comprehensive income/(loss):										
Profit for the period		-	-	-	-	-	-	-	879,190	879,190
Other comprehensive income/(loss), net of tax:										-
Remeasurements of defined benefit liability/(asset)	15	-	-	-	-	-	-	-	4,944	4,944
Foreign currency translation differences for foreign operations		-	-	-	-	6,607	-	-		6,607
Net loss on hedge of net investment in foreign operation		-	-	-	-	(3,528)	-	-	-	(3,528)
Fair value reserve (FVOCI financial assets)		-	-	-	-	-	(14,969)	-	-	(14,969)
Total other comprehensive income/(loss)		-	-	-	-	3,079	(14,969)	-	4,944	(6,946)
Total comprehensive income/(loss)		-	-	-	-	3,079	(14,969)	-	884,134	872,244
Transactions with owners, recorded directly in equity										
Issue of ordinary shares related to merger		-	-	-	-	-	-	-	-	-
Equity increase/(decrease) resulting from merger		-	-	2,565	(34,100)	-	-	-	-	(31,535)
Equity settled share-based payment	31	-	-	-	-	-	-	(3,781)	-	(3,781)
Dividends/remittances		-	-	-		-	-	-	(589,000)	(589,000)
Total contributions by and distributions to owners		-	-	2,565	(34,100)	-	-	(3,781)	(589,000)	(624,316)
Balance at 31 December 2018		10,532	1,962,747	826,688	23,478	(54,807)	4,333	(3,018)	6,470,000	9,239,953

The accompanying notes on pages 19 to 106 form an integral part of these financial statements.

CITIBANK EUROPE PLC

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Note	31 December 2018 $ 000	31 December 2017 $ 000
Cash flows from operating activities			
Profit after tax		879,190	600,020
Adjustments for:			
Income tax charged	14	188,475	145,741
Depreciation and amortisation	13	31,217	105,236
Net impairment losses/(recoveries) on loans and advances	18	9,893	168,062
(Gain)/loss on disposal of property and equipment		(164)	49
Provision released and other movements during the year	27	(535)	49,286
Expenses related to share based payment	31	13,595	9,801
Expenses related to post-employment defined benefit plans	15	9,146	6,915
Interest income	4	(650,394)	(433,763)
Interest expense	4	142,744	61,670
Gains on investment securities		(5,293)	(28,548)
Change in trading assets	17	(34,073)	127,966
Change in derivative financial instrument assets		126,111	543,567
Change in loans and advances to banks (more than 3 months)		539,200	1,188,512
Change in loans and advances to customers		(687,099)	(3,410,091)
Change in other assets	25	(189,118)	(317,702)
Change in deposits by banks		5,625,879	(560,640)
Change in customer account balances		(2,914,251)	2,126,509
Change in derivative financial instrument liabilities	20	(164,056)	(524,956)
Change in investment securities	21	189,953	(194,451)
Change in debt securities in issue		-	(71)
Change in other liabilities		(15,911)	243,289
Provision utilized during the year	27	(4,549)	(10,820)
		3,089,961	(104,419)
Interest received	4	650,394	433,763
Interest paid	4	(142,744)	(61,670)
Income tax paid		(113,443)	(97,132)
Share based payment related payment		(11,302)	(10,327)
Defined benefit related payment	15	(12,915)	(2,502)
Effect of exchange translations and other adjustments		31,148	35,767
Net cash from operating activities		3,491,099	193,480
Cash flows from investing activities			
Acquisition of investment securities		(2,630,967)	(2,429,034)
Disposal of investment securities		1,261,540	2,828,791
Acquisition of property and equipment	22	(47,940)	(42,706)
Proceeds/(loss) from disposal of property and equipment		164	(49)
Acquisition of intangible assets	23	(14,140)	(19,106)
Proceeds from sale of discontinued business		-	(444,942)
Net Cash and cash equivalents gained during the merger	33	3,433,602	-
Net cash (used in)/from investing activities		2,002,259	(107,046)
Financing activities			
Dividends paid to parent		(589,000)	(1,075,000)
Change in liabilities arising from financing activities		31,941	120,240
Net cash (used in) financing activities		(557,059)	(954,760)
Cash flows from discontinued operations			
Operating cash flow from discontinued operation	29	(411,615)	-
Change in assets associated with disposal group held for sale		(121,090)	-
Change in liabilities associated with disposal group held for sale		4,523,367	-
Net cash flows from discontinued operarions		3,990,662	-
Net increase in cash and cash equivalents		8,926,961	(868,324)
Cash and cash equivalents at beginning of period	16	20,025,568	20,893,892
Cash and cash equivalents at end of period	16	28,952,529	20,025,568

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

The Company has consistently applied the accounting policies as set out below to all periods presented in these financial statements, apart from the newly adopted accounting policies mentioned in 1(c) below.

a) Basis of presentation

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

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

b) Functional and presentation currency

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

c) Changes in accounting policy and disclosures

Standards issued and effective

There are a number of accounting standards that have been issued by the International Accounting Standards Board ("IASB"), which became effective during 2018. They include:

A. IFRS 9 – Financial Instruments

Introduction

IFRS 9 – Financial Instruments includes a new model for classification and measurement of financial assets, a forward-looking 'expected credit loss' impairment model and a substantially reformed approach to hedge accounting. The standard replaces the existing guidance in IAS 39 – Financial Instruments: Recognition and Measurement.

- IFRS 9 resulted in an increase to retained earnings, as at 1 January 2018, of $75 million (please refer to Note 3 for tabular disclosures showing the impact of transitioning from IAS 39 to IFRS 9). This is primarily driven by decreases in the allowance for credit losses under the new impairment requirements.
- Investment equity securities (previously classified as AFS under IAS 39) were designated at FVTPL instead of reclassifying to FVOCI on transition. The Company did not reclassify any other financial assets on transition. Refer to Note 3 for more details.

As permitted by IFRS 9, the Company has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Company's accounting policies resulting from the implementation of IFRS 9 are summarised below:

Classification and measurement

From a classification and measurement perspective, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of

(i) the entity's business model for managing the assets (whether collecting cash flows, selling financial assets, or both are integral to the business model); and

(ii) the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest ("SPPI")).

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

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

Standards issued and effective (continued)

A. **IFRS 9 – Financial Instruments** (continued)

Classification and measurement (continued)

The IAS 39 measurement categories for financial assets have been replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 also allows entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

The accounting for financial liabilities is largely the same as the requirements under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are now presented in OCI (instead of P&L) with no subsequent reclassification to the income statement.

The impact to the Company due to the changes to classification and measurement of financial instruments from the adoption of IFRS 9 as at 1 January 2018 is highlighted below:

- Held-for-Trading financial assets, under IAS 39, continue to be classified and measured as FVTPL.
- Financial assets designated at fair value under IAS 39 continue to be classified as measured at FVTPL due to the business model assessment or the fact that the designation eliminates or significantly reduces an accounting mismatch.
- Loans and advances to banks and to customers classified and measured at amortised cost under IAS 39, continue to be measured and classified at amortised cost under IFRS 9, unless they failed the business model or SPPI test. The Company did not identify any differences in the measurement of loans and advances to banks and customers following transition to IFRS 9.
- Investment debt securities previously classified as Available-for-Sale under IAS 39, and measured at FVOCI, consist of government and corporate bonds that are held for an indefinite period of time as they may be sold in response to need for liquidity or changes in interest rates or exchange rates. These debt securities continue to be measured and classified as FVOCI as they are held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, unless they fail the SPPI criterion.
- Investment equity securities previously classified as Available-for-Sale under IAS 39, and measured at FVOCI, are classified as FVTPL under IFRS 9. The Company has made an accounting policy choice not to irrevocably elect to classify and measure non-trading equity instruments at FVOCI as all amounts recognised in OCI can never be reclassified to profit or loss.
- As at the effective date of IFRS 9, there was no significant impact on the classification and measurement of financial assets resulting from the business model or SPPI tests. Please refer to Note 3 for details of the transitional adjustments required on the adoption of IFRS 9 as at the effective date.

For financial liabilities, IFRS 9 largely retains the pre-existing requirements for classification and measurement previously included in IAS 39. However, under IFRS 9 fair value changes on financial liabilities which are designated at fair value through profit or loss that are attributable to changes in the credit risk of the liability are presented in other comprehensive income.

For a detailed explanation of how the Company classifies and measures financial assets and liabilities under IFRS 9, please see Note 1(i).

1. Principal accounting policies (continued)

c) Changes in accounting policy and disclosures (continued)

Standards issued and effective (continued)

A. IFRS 9 – Financial Instruments (continued)

Impairment

IFRS 9 introduces an expected credit loss ("ECL") impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in the earlier recognition of credit losses going forward.

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortised cost financial assets, debt securities classified as FVOCI, and off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37, Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

For an explanation of how the Company applies the impairment requirements of IFRS 9, see Note 1(j).

Transition

The impairment and classification and measurement requirements of IFRS 9 have been applied retrospectively by adjusting the Company's statement of financial position at 1 January 2018, the date of initial application of IFRS 9, with the difference between carrying amounts as at 31 December 2017 and carrying amounts at initial application recognised in opening retained earnings. There is no requirement to restate comparative periods, therefore, the comparative period has not been restated and does not reflect the requirements of IFRS 9. The Company has adopted consequential amendments to IFRS 7 that are applied to disclosures about 2018 but have not been generally applied to the comparative information. Due to the differences between IFRS 9 and IAS 39, the information for 2018 and 2017 may not be comparable. However, detailed tabular disclosures showing the impact of transitioning from IAS 39 to IFRS 9 are given in Note 3 as required by IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
- For financial liabilities designated as FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch.

To manage transition to IFRS 9, the Company implemented a comprehensive enterprise-wide program led jointly by the Finance and Risk Management functions that focused on key areas of impact, including financial reporting, data, systems and processes, as well as communication and training. Dedicated Governance, including the IFRS 9 Implementation Group, monitored and continuously assessed the Company's preparation for the impact of the new standard on internal processes and systems. The Company has leveraged from Citi global project initiatives with specific local challenge and input, via the IFRS 9 Implementation Group, to ensure that the approach was appropriate for the Company.

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

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

Standards issued and effective (continued)

B. IFRS 15 – Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers, which replaced IAS 18, Revenue and IAS 11, Construction Contracts, was applied effective from 1 January 2018. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model requires the Company to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognise revenue as each performance obligation is satisfied.

There is no significant impact from the adoption of IFRS 15 in relation to the timing of when the Company recognises revenues or when revenue should be recognised gross as a principal or net as an agent. Therefore, the Company will continue to recognise fee and commission income charged for services provided by Citibank Europe plc as the services are provided (for example on completion of the underlying transaction). Revenue recognition for trading income and net investment income are recognised based on requirements of IFRS 9.

The Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated (including grossing up of revenue and expenses) – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

Standards issued but not yet effective

There are a number of accounting standards that have been issued by the IASB, but which are not yet effective. The Company does not plan on early adoption of these standards. They are as follows:

- **IFRS 16 – Leases.** In January 2016, the IASB issued IFRS 16, which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets and lease liabilities on the statement of financial position for most leases. Lessees will also recognise depreciation expense on the lease asset and interest expense on the lease liability in the income statement. There are no significant changes to lessor accounting aside from enhanced disclosure requirements. IFRS 16 will be effective from 1 January 2019 and subject to EU adaptation. An increase of c.$93m in Assets on statement of financial position is expected as a result of the change in standard. The Company will follow a modified retrospective approach. The Company will not restate prior year information and will recognise an adjustment in equity at the beginning of 2019. Upon transition, the right of use (ROU) asset will be based on an amount equal to the lease liability (subject to certain adjustments).
- **IFRIC 23 – Uncertainty over Income Tax Treatments.** The interpretation provides requirements that add to the requirements in IAS 12 – Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income taxes. The interpretation applies for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted. The interpretation is not expected to have a significant impact on the Company.

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

d) Interest income and interest expense

Interest income and expense on financial assets and liabilities is recognised in the income statement using the effective interest rate method ("EIR"). Under this method, fees and direct costs directly attributable to loan origination, re-financing or restructuring and to loan commitments are deferred and amortised to interest earned on loans and advances over the life of the instrument.

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

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

When calculating the EIR, the Company estimates future cash flows considering all contracted terms of the financial instrument, but no future credit losses.

Interest income and expense presented in the income statement includes:

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

e) Net fee and commission income

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

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

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

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

f) Net trading income and expense

Net trading income comprises all gains and losses related to trading assets and liabilities, and include all realised fair value changes, together with related interest, dividends and foreign exchange differences.

g) Net income on financial instruments designated at fair value through profit or loss

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

h) Dividend income

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

1. Principal accounting policies (continued)

i) Financial assets and liabilities

Classification and Measurement

Business Model Assessment

The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Company's business model does not depend on management's intentions for an individual instrument (i.e., it is not an instrument-by-instrument assessment). This assessment is performed at a higher level of aggregation. The level of aggregation is at a level which is reviewed by key management personnel, enabling them to make strategic decisions for the business. The Company has more than one business model for managing its financial instruments.

The assessment of the business model requires judgment based on facts and circumstances, considering quantitative factors and qualitative factors.

The Company considers all relevant evidence that is available at the date of the assessment. Such relevant evidence includes, but is not limited to:

a) How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel;
b) The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
c) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
d) The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment of whether the contractual cash flows are solely payments of principal and interest

If an instrument is held in either a hold to collect or a or hold to collect and sell business model, then an SPPI assessment is required to determine classification. For SPPI, interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a period of time. It can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time and a profit margin that is consistent with a basic lending arrangement. Other contractual features that result in cash flows that are not payments of principal and interest result in the instrument being measured at FVTPL.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that meet the SPPI criteria.

The contractual cash flow test must be performed at initial recognition of the financial asset and, if applicable, as at the date of any subsequent changes to the contractual provisions of the instrument.

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

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

Classification and Measurement (continued)

1. Financial Assets – Derivatives and Equity Instruments

Under IFRS 9, derivatives and in-scope equity instruments are measured at fair value, with changes reflected through the profit and loss account ("FVTPL"). Exceptions can only apply if the derivative is part of a hedge accounting programme.

The Company measures all equity instruments in scope of IFRS 9 at FVTPL.

The measurement of derivatives is consistent with the comparative period's practice under IAS 39, prior to the introduction of IFRS 9.

Investment equity securities previously classified as Available-for-Sale under IAS 39, and measured at FVOCI, are classified as FVTPL under IFRS 9. The Company has made an accounting policy choice not to irrevocably elect to classify and measure non-trading equity instruments at FVOCI as all amounts recognised in OCI can never be reclassified to profit or loss.

2. Financial Assets – Debt Instruments

Under IFRS 9, the following primary classification and measurement categories exist for financial assets debt instruments:

- Amortised cost;
- Fair value through other comprehensive income ("FVOCI"); and
- Fair value though profit or loss ("FVTPL").

In addition, IFRS 9 provides special designation options for financial assets-debt instruments that are either measured at 'amortised cost' or 'FVOCI'. An entity has an option to designate such instruments at FVTPL only where this designation eliminates or significantly reduces an accounting mismatch.

The following paragraphs explain the classification criteria for the 3 categories in more detail.

Amortised Cost

A financial asset debt instrument shall be classified and subsequently measured at amortised cost (unless designated under FVO) only if both of the following conditions are met:

a) Business Model test: the financial asset debt instrument is held under a business model whose objective is to hold assets in order to collect contractual cash flows; and
b) SPPI test.

The following financial assets under IAS 39 were classified as 'loans and receivables' and under IFRS 9 are classified under 'amortised cost' as at 31 December 2017 and as at 31 December 2018 respectively:

Loans and receivables and other assets

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

1. Principal accounting policies (continued)

i) Financial assets and liabilities (continued)

Classification and Measurement (continued)

2. Financial Assets – Debt Instruments (continued)

Amortised Cost (continued)

Loans and receivables and other assets (continued)

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

Loans and advances to banks and to customers classified and measured at amortised cost under IAS 39, continue to be measured and classified at amortised cost under IFRS 9 unless they failed the business model or SPPI test.

Reverse repurchase agreements

When the Company purchases a financial asset and simultaneously enters into an agreement to resell the asset or a substantially similar asset at a fixed price on a future date, the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Company's financial statements.

FVOCI

A financial asset shall be classified and measured at FVOCI (unless designated under FVO) if both of the following conditions are met:

a) Business model test: the financial asset is held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) SPPI test.

The following financial assets under IAS39 were classified as AFS and under IFRS 9 classified as FVOCI as at 31 December 2017 and as at 31 December 2018 respectively:

Available-for-sale investment securities (category existing prior to the introduction of IFRS 9)

Available-for-sale ("AFS") investment securities were those non derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets that were not classified as at fair value through profit or loss or as loans and receivables were classified as AFS. A financial asset classified as AFS was initially recognised at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. AFS financial assets were carried at fair value with the changes in fair value reported in other comprehensive income. For AFS debt instruments, changes in carrying amounts relating to changes in foreign exchange rates were recognised in the income statement and other changes in carrying amount were recognised in other comprehensive income as indicated above. For financial assets classified as AFS that were non-monetary items (equity instruments), the gain or loss that was recognised in other comprehensive income included any related foreign exchange component.

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

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

Classification and Measurement (continued)

2. **Financial Assets – Debt Instruments** (continued)

FVOCI (continued)

Available-for-sale investment securities(category existing prior to the introduction of IFRS 9) (continued)

When available-for-sale investment securities were sold or impaired the cumulative gain or loss previously recognised in equity was transferred to the income statement and disclosed within net investment income.

Investment debt securities previously classified as Available-for-Sale under IAS 39, and measured at FVOCI, consist of government and corporate bonds. Under IFRS 9,these debt securities continue to be classified and measured as FVOCI as they are held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets unless they fail the SPPI criterion.

Investment equity securities previously classified as Available-for-Sale under IAS 39, and measured at FVOCI, are classified as FVTPL under IFRS 9. The Company has made an accounting policy choice not to irrevocably elect to classify and measure non-trading equity instruments at FVOCI as all amounts recognised in OCI can never be reclassified to profit or loss.

FVTPL

Any financial instrument that does not fall into either of the above categories shall be classified and measured at fair value through profit or loss. For example, where the asset is not held within a business model whose objective is to hold to collect the contractual cash flows or within a business model whose objective is to both collect the cash flows and to sell the assets, then the asset will be classified as FVTPL.

Moreover, any instrument for which the contractual cash flow characteristics do not comprise solely payments of principal and interest (that is, they fail the SPPI test) must be classified in the FVTPL category.

The following financial assets were classified and measured as FVTPL under IAS 39 and IFRS9 as at 31 December 2017 and as at 31 December 2018:

Trading assets

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

Held-for-Trading financial assets, under IAS 39, continue to be classified and measured as FVTPL under IFRS 9.

Derivative contracts

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

Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss.

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

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

Classification and Measurement (continued)

3. **Financial Liabilities – Debt Instruments**

For financial liabilities there are two measurement categories: amortised cost and fair value through profit or loss (including a fair value option category). The Company separates derivatives embedded in financial liabilities where they are not closely related to the host contract.

The Company designates financial liabilities at fair value through profit or loss if one of the following exist:

- The liability is managed and performance evaluated on a fair value basis;
- Electing fair value will eliminate or reduce an accounting mismatch; or
- The contract contains one or more embedded derivatives.

For financial liabilities designated at fair value through profit or loss, fair value changes are presented as follows:

- The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability must be recorded in OCI; and
- The remaining amount of the change in the fair value of the liability is recorded in P&L.

Upon early extinguishment (e.g., liability is repurchased before maturity), changes in own credit previously recorded in OCI will not be recycled to P&L. The OCI balance is reclassified directly to retained earnings.

4. **Reclassifications**

Financial asset classification is determined at initial recognition and reclassifications are expected to be extremely rare. A financial asset can only be reclassified if the business model for managing the financial asset changes.

Reclassification of financial liabilities is not permitted.

5. **Modifications**

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Company shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in the income statement.

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

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

Classification and Measurement (continued)

5. **Modifications** (continued)

Financial assets (continued)

As the Company classifies a financial asset at initial recognition on the basis of the contractual terms over the life of the instrument, reclassification on the basis of change of a financial asset's contractual cash flows is not permitted, unless the asset is sufficiently modified that it is derecognised.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

Offsetting

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

Fair Value Measurement

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

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

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

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

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

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

1. Principal accounting policies (continued)

j) Impairment of financial assets

Prior to the introduction of IFRS 9, in the prior financial year, the Company had the following accounting policy for impairment of financial assets in place.

Impairment of loans and advances
The Company assessed at each statement of financial position date whether there was objective evidence that loans and advances were impaired. Loans and advances were impaired and impairment losses were incurred if, there was 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(s) had an impact on the estimated future cash flows of the financial asset or the portfolio that could be reliably estimated.

Objective evidence of impairment included observable data that came to the attention of the Company such as:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It became 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 indicated 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 assessed whether objective evidence of impairment existed for loans and advances that are individually significant and individually or collectively for financial assets that are not individually significant. If the Company determined that no objective evidence of impairment existed for an individually assessed loans and advances, whether significant or not, it included the asset in a group of loans and advances with similar credit risk characteristics and collectively assessed them for impairment. Loans and advances that were individually assessed for impairment and for which an impairment loss was or continued to be recognised were not included in a collective assessment of impairment.

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

Following impairment, interest income was recognised using the original EIR. The Company discounted future cash flows for the purpose of measuring the impairment loss, using the original EIR, applied to the revised carrying amount.

Impairment of available-for-sale financial assets
Available-for-sale financial assets were assessed at each balance sheet date for objective evidence of impairment. If such evidence existed as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event had an impact, which could be reliably measured, on the estimated future cash flows of the financial asset an impairment loss was recognised.

Impairment losses on available-for-sale investment securities were recognised by transferring the cumulative loss that had been recognised directly in equity to the income statement. The cumulative loss that was removed from equity and recognised in the income statement was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in the income statement. Changes in impairment provisions attributable to application of the effective interest method were reflected as a component of interest income.

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

j) **Impairment of financial assets** (continued)

From 1 January 2018, the IFRS 9 impairment standard applies to any debt instruments measured at amortised cost or at fair value through other comprehensive income and also to off balance sheet loan commitments and financial guarantees, including:

- Investments in debt instruments measured at amortised cost. Such investments will include:
  - Corporate, commercial and retail loans (including mortgages and credit card receivables);
  - Deposits with banks; and
  - Reverse repurchase agreements and securities borrowing transactions.
- Investments in debt instruments measured at fair value through other comprehensive income (FVOCI);
- All irrevocable loan commitments that are not measured at FVTPL;
- Written financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at FVTPL;
- Lease receivables recognised by CEP, acting as the lessor, that are within the scope of IAS 17 (Leases);
- Trade receivables in the scope of IFRS 15 (Revenue contracts with customers); and
- Any other receivables (e.g., brokerage receivables).

Expected credit loss impairment model

Credit loss allowances are measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.
- Stage 2 – Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognised equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.
  The credit losses for financial assets in Stage 1 and Stage 2 are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognised. Credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- *Financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Company expects to recover.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

j) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

Measurement of ECL (continued)

Evidence that a financial asset is impaired includes observable data that comes to the attention of the Company such as mentioned on page 30.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Loans are written off when there is no realistic probability of recovery.

The estimation of an expected credit loss (ECL) is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate also considers the time value of money.

The measurement of an ECL is primarily determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date. For a financial asset in Stage 1, the Company will utilise a 12-month PD, whereas a financial asset within Stage 2 and Stage 3 will utilise a lifetime PD in order to estimate an impairment allowance.

Wholesale Classifiably Managed Exposures

An impairment allowance will be estimated for Corporate loans utilising models depending on the relative size, quality and complexity of the portfolios. Impairment allowances for the small consumer loan portfolios will be estimated utilising a less sophisticated approach that is reasonable and proportionate after considering both entity level and portfolio level factors.

Delinquency Managed Exposures

In particular, for consumer loan portfolios, where the Company does not have access to detailed historical information and/or loss experience, the Company adopted a simplified approach using backstops and other qualitative information specific to each portfolio.

NOTES TO THE FINANCIAL STATEMENTS

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

   j) **Impairment of financial assets** (continued)

   Expected credit loss impairment model (continued)

   Other Financial Assets Simplified Approaches

   For other financial assets, being short term and simple in nature, the Company applied a simplified measurement approach that may differ from what is described above. This approach leverages existing models currently used globally for stress-testing and regulatory capital reporting purposes, but incorporates specifically developed components to make the estimates compliant with IFRS 9.

   Significant increase in credit risk (SICR)

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

   Staging

   Financial assets can move in both directions through the stages of the IFRS 9 impairment model depending on whether the assessment of whether there is a significant increase of credit risk since initial recognition or whether the asset is credit impaired subsequently changes.

   In order to determine the ECL reporting stage for an obligation, the Company checks whether the asset is already impaired (Stage 3) or not (Stage 1 and 2). Stage 2 is determined by the existence of a significant credit deterioration (or credit improvement) compared with the credit rating at initial recognition. Stage 1 assets do not have significant credit deterioration compared with that at initial recognition. All newly acquired or originated financial assets that are not purchased or originated credit impaired (POCI) are recognised in Stage 1 initially. The existence of a (statistically) significant deterioration or improvement is combined with the materiality of the probability of default to determine whether a transfer in stages is required. Further, the Company will not rebut the presumption that exposures 30 days past due are deemed to have incurred a significant increase in credit risk. Additional qualitative reviews are also be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

   Changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month expected credit losses) and Stage 2 (lifetime expected credit losses), are recorded in the income statement as an adjustment to the provision for credit losses.

   Expected life

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

1. Principal accounting policies (continued)

j) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

Stage 3 definition of default
As mentioned above, to determine whether an instrument should move to a lifetime ECL, the change in the risk of a default occurring over the expected life of the financial instruments must be considered.

The Company applies a default definition that is consistent with that used for internal credit risk management purposes for the relevant financial instrument and considers qualitative indicators (for example, financial covenants) when appropriate. The definition of default used for this purpose is applied consistently to all financial instruments unless information becomes available that demonstrates another default definition is more appropriate for a particular financial instrument.

As per European Central Bank (ECB) guidance, the Company classifies an exposure as a Non-Performing Exposure ("NPE") if it satisfies either or both of the following criteria:

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

A default shall be considered to have occurred and exposure classified as Stage 3 if the NPE is more than 90 days past due or the indications of unlikeliness to pay according to the Regulatory Capital CRR Article 178 have occurred.

Indications of unlikeliness to pay include:

(i) the exposure is put on non-accrued status;
(ii) a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to taking on the exposure has been recognised;
(iii) CEP sells the exposure at a material economic loss;
(iv) CEP consents to a distressed restructuring of the exposure which results in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or (where relevant) fees.
(v) CEP (or another creditor) has filed for the obligor's bankruptcy (or similar order) which affects the obligor's credit obligation to CEP;
(vi) the obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to CEP.
(vii) Sustained or continuing deterioration in the financial condition or outlook of the borrower to the extent that capacity or willingness to repay is considered doubtful.

All defaulted exposures will have an Obligor Risk Rating of 8, 9, or 10 (individually and portfolio managed obligors only).

A NPE shall be considered not in default and classified as Stage 2 if it has no material exposures which are more than 90 days past-due or if the indications of unlikeliness to pay in section above have not occurred.

Forward Looking Information and multiple economic scenarios
Estimates must consider information about past events, current conditions and reasonable and supportable forecasts around future events and economic conditions. The application of forward looking information (FLI) requires significant judgment. The Company has developed models that include multiple economic scenarios that consider the variability and uncertainty in expected losses including factors such as GDP growth rates and unemployment rates, provided by the economists in Citi's Global Country Risk Management (GCRM). These estimates are based on portfolio data that reflect the current risk attributes of obligors and debt instruments combined with loss projections derived from the rating migration, PD and loss models built for estimating stress credit losses for wholesale portfolios. As mentioned above, these models have incorporated specifically developed components to make the estimates compliant with IFRS 9. The PD, LGD and Credit Conversion Factor (CCF) models are calibrated to the observed historical patterns of defaults and losses over several years and linked to economic drivers. The model reflects different loss likelihood and loss severity as a function of different economic forecasts. The Company does not use the best case or worst case scenario, but assesses a representative number of scenarios (at least 3 when applying a sophisticated approach and where multiple scenarios are deemed to have a material non-linear impact) and probability weights these scenarios to determine the ECL.

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

j) **Impairment of financial assets** (continued)

<u>Expected credit loss impairment model</u> (continued)

Presentation of the allowance of ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the asset
- Loan commitments and financial guarantee contracts: as a provision
- Debt instruments measured at FVOCI: as the carrying amount of these financial assets is at fair value, no loss allowance is recognised in the statement of financial position, however, the loss allowance is disclosed in Note 19 and is recognised in the fair value reserve.

Write-off of loans and advances
Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Subsequent recoveries of amounts previously written off are recorded against net credit losses in the income statement.

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

k) **De-recognition of financial assets and liabilities**

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

l) **Finance and operating leases**

Where the Company leases out equipment and there is a transfer of substantially all of the risks and rewards of ownership to the lessee, the lease is accounted for as a finance lease. Operating leases are leases other than finance leases.

Finance and operating leases – as lessee
Assets held under finance leases and hire purchase contracts are capitalised and depreciated as described in Note 1 (m) below. Finance charges are allocated to accounting periods so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period. Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term and are included within "Other administrative expenses".

Finance and operating leases – as lessor
The net investment in finance leases is included in "Loans and advances to customers". The gross earnings over the period of the lease are allocated to give a constant periodic rate of return on the net investment. Direct costs of initiating leases are added to the initial recognition amount of the lease receivable. Rentals receivable are included within "Interest and similar income".

Residual values
Residual value exposure occurs due to the uncertain nature of the value of an asset at the end of an agreement. Throughout the life of an asset its residual value will fluctuate because of the uncertainty of the future market and technological changes or product enhancements as well as general economic conditions.

Residual values are set at the commencement of the lease based upon management's expectations of future values. During the course of the lease residual values are reviewed on an annual basis so as to identify any potential impairment. Any reduction in the residual value that leads to an impairment of a leased asset is identified within such reviews and recognised immediately.

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

m) Property and equipment

Items of property and equipment, including freehold and leasehold improvements are stated at cost, less accumulated depreciation and impairment losses (see below). Depreciation is provided to write off the cost, less the estimated residual value of each asset, on a straight-line basis over their estimated useful lives.

Freehold buildings	50 years
Leasehold property	lease term
Leasehold improvements	shorter of lease term and 10 years
Vehicles, furniture and equipment	between 1 and 10 years
Leased assets	between 1 and 20 years

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

n) Intangible assets

Goodwill

Acquired goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is stated at cost less any accumulated impairment losses.

Computer software

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

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

Acquired computer software licenses	3 - 5 years
Computer software development	1 - 10 years

Other intangibles - Client intangibles

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

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

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

Client intangibles	3 - 5 years

o) Impairment of non-financial assets

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

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

p) Income taxes

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

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

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

q) Levies

Levies are imposed by governments to the Company in accordance with the legislation, other than income taxes, fines or other penalties that are imposed for breach of the legislation. The Company recognises a liability to pay a levy on the date identified by the legislation that triggers the obligation. Levies are recorded under other administrative expenses in the Company's income statement.

r) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the year end spot exchange rates. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are classified as "FVTPL" are translated into the functional currency using the year end spot rate. Non-monetary assets and liabilities, denominated in currencies other than the functional currency that are not measured at fair value, have been translated at the relevant historical exchange rates. Any gains or losses on exchange are taken to the income statement as incurred. Foreign currency differences that are arising from the translation of a financial liability designated as a hedge of a net investment in foreign operations to the extent that the hedge is effective are recognised in the OCI.

The assets and liabilities of overseas branches are translated into the Company's presentation currency US Dollars 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. Foreign currency differences are recognised in OCI and accumulated in the translation reserve in equity.

s) Employee benefits

Defined benefit plans
The Company participates in and continues to operate defined benefit pension schemes for employees in Greece, Netherlands, Belgium, Spain, Austria, Ireland, France, Germany and Norway. Staff do not make contributions for basic pensions. For its overseas defined benefit plans, the net liability recognised in the statement of financial position is the actuarially calculated present value of the defined benefit obligation at the statement of financial position date, less the fair value of the plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Remeasurement gains and losses are recognised immediately in the statement of comprehensive income. For defined benefit obligations, the current service cost and any past service costs are included in the profit and loss account within operating expenses and the interest income on pension scheme assets, net of the impact of the interest cost on the pension scheme liabilities, is included within other finance income.

A surplus is recognised on the statement of financial position where an economic benefit is available as a reduction in future contributions or as a refund of monies to the Company.

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

s) **Employee benefits** (continued)

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

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

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

t) **Share based incentive plans**

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

u) Accounting for government grants

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

v) Cash and cash equivalents

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

w) Provisions

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

x) Subsidiary undertakings

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

y) Common control transactions

The Company accounts for business combinations between entities under common control at book value.

z) Discontinued operation

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that meets the definition of criteria to be classified as held for sale.

The results of discontinued operations have been disclosed separately as a single amount in the income statement for the relevant periods presented, comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on measurement to fair value less costs to sell. Prior period disclosures have been updated to distinguish between continuing and discontinued operations. Please refer to Note 29 – 'Discontinued operations' for further information.

aa) Fiduciary activities

The Company commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. In acting in this capacity, the Company has concluded that it acts as an agent, therefore such assets and income arising thereon are excluded from these non-statutory financial statements, as they are not assets of the Company.

2. Use of assumptions and estimates

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

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

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

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

Impairment of loans
Judgements are applied in estimating the impairment loss which should be recorded in the income statement. Please refer to Note 1(j) for inputs, assumptions and estimating techniques for impairment of loans. Impairments are discussed and presented further in Note 18 – 'Risk management'.

Valuation of intangible assets
Assumptions may be required in the valuation of certain material intangible assets and management may use external professional advice to assist with this process.

Share-based incentive plans
The Company participates in a number of Citigroup Inc's share-based incentive plans. Awards granted through Citigroup Inc's Stock Option Program are measured by applying an option pricing model, taking into account the terms and conditions of the program. Analysis of past exercise behaviour, Citigroup Inc's dividend history and historical volatility are key inputs to the valuation model. See Note 31 – 'Share-based incentive plans' for further details.

Retirement benefit obligation
The Company participates in locally operated defined benefit schemes for its European branches. Defined benefit schemes are measured on an actuarial basis, with the key assumptions being inflation, discount rate and mortality. Under the revised IAS 19, the expected return on plan assets is calculated by applying the AA corporate bond yield discount rate. Inflation rates are selected by reference to the European Central Bank target for inflation. Mortality assumptions are based upon the relevant standard industry and national mortality tables. Discount rates are based on specific corporate bond indices, which reflect the underlying yield curve of each scheme. Management judgement is required in estimating the rate of future salary growth. All assumptions are unbiased, mutually compatible and based upon market expectations at the reporting date. The sensitivity of key assumptions is discussed in Note 15 – 'Retirement benefit obligations.'

Valuation of financial instruments
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data and where this is not possible may be required to make estimates. Note 19 – 'Financial assets and liabilities' further outlines the approach to valuation of financial instruments.

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

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

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

2. Use of assumptions and estimates (continued)

Credit value adjustment ("CVA"), funding valuation adjustment ("FVA") and debt valuation adjustment ("DVA")

CVA and FVA are applied to over-the-counter ("OTC") derivative instruments in which the base valuation generally discounts expected cash flows using the relevant base interest rate curve for the currency of the derivative (e.g. LIBOR for uncollateralised U.S. dollar derivatives). As not all counterparties have the same credit risk as that implied by the relevant base curve, a CVA is necessary to incorporate the market view of both counterparty credit risk and Citi's own credit risk in the valuation. FVA reflects a market funding risk premium inherent in the uncollateralised portion of derivative portfolios and in collateralised derivatives where the terms of the agreement do not permit the reuse of the collateral received.

Citi's CVA methodology is composed of two steps. First, the credit exposure profile for each counterparty is determined using the terms of all individual derivative positions and a Monte Carlo simulation or other quantitative analysis to generate a series of expected cash flows at future points in time. The calculation of this exposure profile considers the effect of credit risk mitigants, including pledged cash or other collateral and any legal right of offset that exists with counterparty through arrangements such as netting agreements. Individual derivative contracts that are subject to an enforceable master netting agreement with a counterparty are aggregated for this purpose, since it is those aggregate net cash flows that are subject to non-performance risk.

This process identifies specific, point-in-time future cash flows that are subject to non-performance risk, rather than using the current recognised net asset or liability as a basis to measure the CVA. Second, market-based views of default probabilities derived from observed credit spreads in the credit default swap ("CDS") market are applied to the expected future cash flows determined in step one. Citi's own-credit CVA is determined using Citi-specific CDS spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spread indices for each credit rating and tenor. For certain identified netting sets where individual analysis is practicable (e.g., exposures to counterparties with liquid CDSs), counterparty-specific CDS spreads are used.

The CVA and FVA are designed to incorporate a market view of the credit and funding risk, respectively, inherent in the derivative portfolio. However, most unsecured derivative instruments are negotiated bilateral contracts and are not commonly transferred to third parties. Derivative instruments are normally settled contractually or, if terminated early, are terminated at a value negotiated bilaterally between the counterparties. Thus, the CVA and FVA may not be realised upon a settlement or termination in the normal course of business. In addition, all or a portion of these adjustments may be reversed or otherwise adjusted in future periods in the event of changes in the credit or funding risk associated with the derivative instruments.

Own debt valuation adjustments ("DVA") are recognised on debt securities in issue that are designated at fair value using Citigroup's credit spreads observed in the bond market. Accordingly, the fair value of debt securities in issue is impacted by the narrowing or widening of Citigroup's credit spreads.

CVA and DVA may not be realised upon a settlement or termination in the normal course of business. In addition, all or a portion of the credit valuation adjustments may be reversed or otherwise adjusted in future periods in the event of changes in the credit risk of Citigroup or its counterparties, or changes in the credit mitigants (collateral and netting agreements) associated with the derivative instruments.

The Company has designated various debt instruments at fair value through profit or loss. Under IFRS 13, the Company is required to incorporate its own-credit risk in the fair value for these liabilities.

During 2018, the Company recorded CVA/FVA/DVA gain of approximately $0.5 million (2017: gain of $7.6 million).

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

3. Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses.

The following table shows the change in the classification and measurement category from IAS 39 to IFRS 9 and a reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018.

	IAS 39				IFRS 9	
	Measurement category	Carrying amount at 31 December 2017	Reclassification	Remeasurement	Measurement category	Carrying amount at 1 January 2018
Financial assets		$ 000	$ 000	$ 000		$ 000
On Balance Sheet						
Cash and cash equivalents	HTM	14,589,546	-	(106)	AC	14,589,440
Trading assets	HFT	967,414	-	-	FVTPL	967,414
Derivative financial instruments	HFT	1,603,601	-	-	FVTPL	1,603,601
Investments securities - debt	AFS	2,832,469	-	(2,097)	FVOCI	2,830,372
Investments securities - debt	HTM	6,691	-	-	AC	6,691
Investments securities - equity	AFS	48,171	48,171	-	FVTPL	48,171
Loans and advances to banks	HTM	7,264,565	-	(158)	AC	7,264,407
Loans and advances to customers	HTM	17,999,036	-	55,120	AC	18,054,156
Other financial assets	HTM	3,312,750	-	(62)	AC	3,312,688
Total - On Balance Sheet		48,624,243	48,171	52,697		48,676,940
Off Balance Sheet						
Letters of credit	HTM	15,141,339	-	(26,745)	AC	15,114,594
Undrawn commitments to lend	HTM	21,167,806	-	41,813	AC	21,209,619
Other commitments and guarantee	HTM	1,830,507	-	7,640	AC	1,838,147
Total - Off Balance Sheet		38,139,652	-	22,708		38,162,360
Total		86,763,895	48,171	75,405		86,839,300

For financial liabilities, IFRS 9 largely retains the pre-existing requirements for classification and measurement previously included in IAS 39 therefore there was no reclassification of financial liabilities as at 1 January 2018.

For a detailed explanation of how the Company classifies and measures financial assets and liabilities under IFRS 9, please see Note 1(i).

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

3. Transition disclosures (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Reserves and retained earnings
	$ 000
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	6,099,461
Recognition of IFRS 9 ECLs including those measured at FVOCI	75,405
Opening balance under IFRS 9 (1 January 2018)	6,174,866
Total change in equity due to adopting IFRS 9	**75,405**

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

	Impairment under IAS 39 measurement			Remeasure-ment	IFRS 9 1 January 2018			
	Collective $ 000	**Specific $ 000**	**Total $ 000**	**$ 000**	**Stage 1 $ 000**	**Stage 2 $ 000**	**Stage 3 $ 000**	**Total $ 000**
Financial assets								
Cash and balances with central banks	-	-	-	106	106	-	-	106
Loans and advances to banks	1,193	-	1,193	158	1,290	61	-	1,351
Loans and advances to customers	77,252	94,263	171,515	(55,120)	9,021	45,850	61,534	116,405
Investment securities	-	-	-	2,097	2,097	-	-	2,097
Other assets	-	-	-	62	62	-	-	62
Total - On Balance Sheet	**78,445**	**94,263**	**172,708**	**(52,697)**	**12,576**	**45,911**	**61,534**	**120,021**
Off balance sheet								
Letters of credit	1,129	-	1,129	26,745	3,680	23,824	370	27,874
Undrawn commitments to lend	29,195	39,422	68,617	(41,813)	5,127	21,677	-	26,804
Other commitments and guarantees	7,692	-	7,692	(7,640)	52	-	-	52
Total - Off Balance Sheet	**38,015**	**39,422**	**77,437**	**(22,708)**	**8,859**	**45,501**	**370**	**54,730**
Total	**116,460**	**133,685**	**250,145**	**(75,405)**	**21,435**	**91,412**	**61,904**	**174,751**

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

4. Net interest income

	2018	2017
Interest and similar income	**$ 000**	**$ 000**
Cash and cash equivalents	10,955	470
Loans and advances to banks	122,012	73,805
Loans and advances to customers	411,808	305,491
Investment securities	48,702	31,469
Other interest income	56,917	22,528
Total interest income	650,394	433,763
Interest expense and similar charges		
Deposits by banks	(9,347)	(11,983)
Customer accounts	(52,566)	(14,100)
Other interest paid	(80,831)	(35,587)
Total interest expense	(142,744)	(61,670)
Net interest income	507,650	372,093

Included in interest income is a total of $13 million (2017: $14.5 million) received on impaired loans.

The interest income from cash and cash equivalents and investment securities is not part of the EIR model.

5. Net fee and commission income

	2018 $ 000	2017 $ 000
Securities	1,407	-
Clearing and settlement	83,858	43,665
Asset management	1,236	1,752
Custody and Fiduciary transactions	259,690	208,094
Payment services	316,715	309,661
Foreign Exchange transactions	105,793	133,164
Structured Finance	96,869	94,832
Loan commitments given	130,023	100,329
Other	284,051	262,964
Total fee and commission income	1,279,642	1,154,461
Clearing and settlement	(110,591)	(43,023)
Custody	(34,605)	(25,942)
Other	(32,321)	(32,332)
Total fee and commission expense	(177,517)	(101,297)
Net fee and commission income	1,102,125	1,053,164

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 $38.4 million in 2018 (2017: $33.8 million).

6. Net trading income

	2018 $ 000	2017 $ 000
Derivatives	147,630	175,040
Debt securities	22,320	25,872
Loans and advances	(25,294)	10,582
Total net trading income	144,656	211,494

7. Net investment income

	2018	2017
	$ 000	$ 000
Net gain on FVOCI financial assets	44,857	41,657
Dividends on FVOCI financial assets	1,618	906
Equity securities	4,490	-
Total net investment income	50,965	42,563

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

	2018	2017
	$ 000	$ 000
Loans and advances	3,900	261
Total net income from other financial instruments designated at fair value through profit or loss	3,900	261

9. Other operating income

	2018	2017
	$ 000	$ 000
Intercompany recoveries	516,558	387,614
Total other operating income	516,558	387,614

A significant portion of expenses within the Company originate from services provided by the Citi Service Centre ("CSC") to other Citi entities, both globally and regionally. These costs are allocated out to businesses and legal entities based on a number of drivers. All of these transfer pricing agreements are reviewed regularly for appropriateness. These recoveries are recognised in other operating income.

10. Auditor's remuneration

	2018	2017
	$ 000	$ 000
Audit fee	746	742
Other assurance	299	349
Tax advisory services	14	2
Other non-audit services	57	-
	1,116	1,093

Additional fees paid to other KPMG member firms outside Ireland for services include local audit fees of $1.4 million (2017: $1.2 million) (of which $1 million (2017: $1 million) were to offices involved in the statutory audit of the Company), other assurance fees of $0.3 million (2017: $0.1 million), tax advisory fees of $nil (2017: $0.04 million) and any other non-audit service fees of $0.09 million (2017: $0.2 million).

NOTES TO THE FINANCIAL STATEMENTS

11. Personnel expenses

The average number of persons employed by the Company during the year was 9,293 (2017: 8,915). This comprises 9,157 Direct Staff Full Time and 136 Direct Staff Part-time. The average number of persons employed through the Company's continuing operations during the year was 9,209 (2017: 8,915). The average number of persons employed through the Company's discontinued operations during the year was 84 (2017: nil).

The following table shows the average number of employees by function for 2018 and 2017:

	2018	2017
Corporate and Investment Bank	643	619
Retail Banking	273	315
Corporate Functions	3,615	2,952
Independent Control Functions	322	293
All Other	4,440	4,736
Total number of staff	9,293	8,915

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

	2018 $ 000	2017 $ 000
Wages and salaries	564,210	505,840
Social security costs	102,131	91,705
Share based payment expenses	13,618	9,801
Pensions and post retirement benefits	28,769	25,736
Restructuring costs	11,501	10,395
Total personnel expenses	720,229	643,477

The Company operates 11 defined contribution schemes. In 2018 contributions of $32 million (2017: $26 million) were made to the schemes. In addition, the Company also operates 7 defined benefit schemes. For more details, please refer to Note 15.

12. Directors' emoluments

	2018 $ 000	2017* $ 000
Directors' emoluments are as follows:		
For qualifying services	3,847	3,157
For long term incentive schemes	1,562	1,353
Pension schemes		
- Defined contribution scheme	106	98
Compensation for loss of office	-	-
	5,515	4,608

As of 31 December 2018 retirement benefits were accruing to five directors (2017: five).

*2017 comparative has been restated due to omission of $1.35 million in relation to "long term incentive scheme" in prior year.

NOTES TO THE FINANCIAL STATEMENTS

13. Other expenses

	2018 $ 000	2017* $ 000
Research and development	6,298	5,502
Depreciation	16,452	36,072
Amortisation	14,765	69,164
Communications and technology	117,418	111,438
Contractors	44,272	45,545
Levies and regulatory charges	40,946	21,272
Premises	46,013	48,532
Other administrative expenses	234,313	182,687
Total other expenses	520,477	520,212

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

14. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2018 $ 000	2017 $ 000
Current tax:		
Corporation tax on profits of the period	(143,385)	(101,202)
Total current tax	(143,385)	(101,202)
Deferred tax:		
Current year deferred tax	(45,090)	(45,913)
Total deferred tax (Note 24)	(45,090)	(45,913)
Total income tax expense	(188,475)	(147,115)
- of this continuing operation	(188,475)	(145,741)

(b) Reconciliation of effective tax rate:

	31 December 2018 $ 000	31 December 2017 $ 000
Profit before income tax from continued operations	1,075,255	735,438
(Loss) before income tax from discontinued operations	(7,590)	11,697
Total profit before income tax	1,067,665	747,135
Income tax at Irish corporation tax rate of 12.5%	(134,407)	(93,392)
Effects of:		
Income taxes paid in foreign jurisdictions	(12,474)	4,979
Capital allowances and other timing differences	4,707	5,070
Non deductible expenses	(1,211)	(17,859)
Taxes paid at higher rate	-	-
Total current income tax expense	(143,385)	(101,202)
- of this continuing operation	(143,385)	(99,828)
- of this discontinuing operation	-	(1,374)

NOTES TO THE FINANCIAL STATEMENTS

15. Retirement benefit obligation

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

Employer contributions to the defined benefit schemes in 2018 were $13 million (2017: $3 million). The Company expects to make contributions of approximately $13 million in 2019. The defined benefit obligation includes benefits for current employees, former employees and current pensioners. The weighted average duration of the obligation is 17.5 years. The main plans provide benefits related to salary close to retirement or earlier withdrawal from service.

Material amendments, curtailments and settlements within the Company during 2018 and 2017 encompassed the following:

A new cash balance pension plan was setup for Citibank Europe plc, Germany Branch (CEP) at 27 April 2018 when employees with pension promises were transferred to CEP from CGME and contributions to plan assets were made accordingly.

The amounts recognised in the statement of financial position are determined as follows:

	31 December 2018 $ 000	31 December 2017 $ 000
Present value of funded defined benefit obligation	(506,249)	(537,821)
Fair value of plan assets	302,646	315,302
Deficit	(203,603)	(222,519)
Present value of unfunded defined benefit obligation	(15,291)	(17,103)
Net liability recognised on the statement of financial position (Note 28)	(218,894)	(239,622)
Deferred tax asset (Note 24)	27,242	29,953
Net pension liability	(191,652)	(209,669)

The analysis of the income statement charge is as follows:

	2018 $ 000	2017 $ 000
Operating costs:		
Current service cost	4,031	3,383
Past service credit (incl. curtailments)	-	(1,176)
Administration expenses	1,097	1,071
Financing costs:		
Interest cost on defined benefit obligations	9,436	8,692
Interest income on scheme assets	(5,418)	(5,055)
Expense recognised in the income statement	9,146	6,915
of which attributable to discontinued operations	-	-
Expense recognised in the income statement for continuing operations	9,146	6,915

15. Retirement benefit obligation (continued)

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

	2018	2017
	$ 000	$ 000
Opening defined benefit obligation	(554,924)	(481,384)
Exchange rate adjustments	25,690	(67,219)
Current service cost	(4,031)	(3,383)
Interest cost on defined benefit obligations	(9,436)	(8,692)
Remeasurement gain/(loss) due to changes in financial assumptions	19,590	(4,956)
Remeasurement gain/(loss) due to changes in demographic assumptions	2,052	(835)
Remeasurement gain/(loss) due to changes in liability experience	1,246	(6,216)
Contributions by plan participants	(53)	(45)
Net benefits paid out	15,279	16,630
Past service cost (including curtailments)	-	1,176
Net increase in liabilities from acquisitions	(16,953)	-
Closing defined benefit obligation	(521,540)	(554,924)

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

	2018	2017
	$ 000	$ 000
Opening fair value of plan assets	315,302	282,858
Exchange rate adjustments	(14,820)	38,743
Interest income on plan assets	5,418	5,055
(Loss)/Return on plan assets excluding interest income	(16,799)	3,800
Contributions by the employer	12,915	2,502
Contributions by the participants	53	45
Net benefits paid out	(15,279)	(16,630)
Administration costs incurred	(1,097)	(1,071)
Net increase in assets from acquisitions	16,953	-
Closing fair value of plan assets	302,646	315,302

The actual return on plan assets is as follows:

	2018	2017
	$ 000	$ 000
Interest income on plan assets	5,418	5,055
(Loss)/Return on plan assets excluding interest income	(16,799)	3,800
Total (loss)/return on plan assets	(11,381)	8,855

15. Retirement benefit obligation (continued)

The interest income on scheme assets is set using the discount rate assumption. In 2018, there was a decrease in asset values leading to a remeasurement loss of $17 million. In 2017, asset values grew by more than assumed, leading to an overall remeasurement gain of $4 million, as bond yields decreased during the period.

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

	2018 $ 000	2017 $ 000
Total remeasurement gain/(loss)	6,089	(8,207)
Total gain/(loss) in the statement of comprehensive income	6,089	(8,207)
Cumulative amount of loss recognised in the statement of comprehensive income	(57,817)	(63,906)

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

	2018 $ 000	2017 $ 000
Fair value of plan assets	302,646	315,302
Defined benefits obligation	(521,540)	(554,924)
Deficit in plan	(218,894)	(239,622)

	2018 $ 000	2017 $ 000
Remeasurement (loss)/gain on plan assets	(16,799)	3,800
Experience gain/(loss) on obligation	1,246	(6,216)
Assumption gain/(loss) on obligation	21,642	(5,791)
Total remeasurement gain/(loss) on scheme liabilities	22,888	(12,007)
Total remeasurement gain/(loss)	6,089	(8,207)

The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate on scheme liabilities and mortality assumptions. The future life expectancy of scheme members is a key assumption. However, mortality assumptions are expected to vary from country to country, due to variations in underlying population mortality as well as in variations of the profile of typical membership of the company pension scheme. The average life expectancy of an individual retiring at age 65 is 22 for males and 23 for females.

Through its defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

- The possibility that bond yields will change which will affect the size of the obligations and the level of pension cost.
- The possibility that asset returns will be lower than expected.
- The risk of changes in mortality rates as the majority of the Company's defined benefit obligations are to provide benefits for the life of the member, increases in life expectancy will result in an increase in the liabilities.
- As the Greek pension plan is integrated with Greek social security, any further amendments to the Greek Social Security Pension could potentially lead to higher benefits.

15. Retirement benefit obligation (continued)

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

	2018	2017
Discount rate for assessing scheme liabilities	1.90%	1.70%
Future salary increases	2.60%	2.10%
Rate of increase for pensions in payment	1.80%	2.00%
Inflation rate assumption	1.80%	1.90%

The fair values of the plan assets are as follows:

Fair values of the plan assets

	$ 000			
	2018		2017	
	Total fair value	Of which not quoted in active market	Total fair value	Of which not quoted in active market
Equities	67,741	-	74,033	-
Property	124	-	132	-
Government bonds	91,581	-	85,361	-
Corporate bonds	107,483	-	106,124	-
Other	35,717	3,716	49,652	3,613
Total fair value of assets	302,646	3,716	315,302	3,613

The key assumption used for IAS 19 is the discount rate although the results are also sensitive, but to a lesser extent to other assumptions. If different assumptions were used, there could be a material effect on the results disclosed. The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant.

The sensitivity of key assumptions used to value the obligation is as follows:

	2018 $ 000	2017 $ 000
Effect of decreasing the discount rate assumption by 1% on liabilities	(99,436)	(110,080)
Effect of participants living one extra year than expected on liabilities	(15,989)	(18,475)
Effect of increasing the pension increase rate by 1% on liabilities	(32,687)	(40,285)

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

	2019 $ 000	2020 $ 000	2021 $ 000	2022 $ 000	2023 $ 000	2024-2028 $ 000
Expected benefit payments	15,817	17,032	16,079	15,832	17,874	92,145

16. Notes to the cash flows statement

a) Cash and cash equivalents

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

	31 December 2018 $ 000	31 December 2017 $ 000
Cash and balances with central banks	15,251,474	11,138,682
Other demand deposits	1,751,807	3,450,864
Expected credit loss	(47)	-
Cash and cash equivalents	17,003,234	14,589,546
Loans and advances to banks with maturity less than 3 months	11,949,295	5,436,022
Total	28,952,529	20,025,568

b) Expected credit loss – Cash and cash equivalents

The following table shows an analysis of changes in the gross carrying amount and the corresponding ECL allowances:

Exposure	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
Outstanding exposure as at 1 January 2018	14,589,546	-	-	14,589,546
New assets originated or purchased	17,407,438	-	-	17,407,438
Asset derecognised or matured	(14,993,703)	-	-	(14,993,703)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2018	17,003,281	-	-	17,003,281

ECL	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
IFRS 9 ECL as at 1 January 2018	106	-	-	106
ECL on new assets originated or purchased	47	-	-	47
Exposure derecognised or matured	(106)	-	-	(106)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2018	47	-	-	47

16. Notes to the cash flows statement (continued)

c) Change in liabilities arising from financing activities

	Repurchase agreements 2018 $ 000	Repurchase agreements 2017 $ 000
Opening balance at 1 January	120,240	-
Proceeds from repurchase agreement (net)	31,941	120,240
Closing balance at 31 December	152,181	120,240

17. Trading assets

	31 December 2018 $ 000	31 December 2017 $ 000
Government bonds	510,473	709,448
Corporate bonds	14,570	6,219
Loans	476,444	251,747
Total trading assets	1,001,487	967,414

18. Risk management

18.1 Risk management mission, organisation and governance

Risk governance and Risk Management Frameworks

CEP has a comprehensive risk governance framework in place to provide oversight of CEP's monitoring and management of risks, ensuring that the risk profile of CEP is well documented and pro-actively managed at all levels of the organisation so that the Company's financial strength is safeguarded. The framework applies to the Company in its entirety, including all businesses, functions and branches.

Risk governance at CEP is cascaded through risk frameworks and risk policies, which describe how CEP identifies, measure, mitigates, monitors and reports material risk. This ensures transparent lines of responsibility and accountability for the core risk governance processes performed by CEP.

The risk management framework is based on a 'three lines of defence' governance model, whereby each line has a specific role and defined responsibilities in such a way that the execution of tasks is separated from the control of the same tasks. The three lines of defence also collaborate with each other in structured fora and through formalised processes to bring various perspectives together and to lead the Company toward outcomes that are in clients' and shareholders' interests, create economic value and are systemically responsible.

Each of the Company's businesses (the first line of defence) owns and manages the risks inherent in or arising from the business, and is responsible for establishing and operating controls to mitigate key risks, performing manager assessments of the design and effectiveness of internal controls, and promoting a culture of compliance and control.

The Company's independent control functions (the second line of defence), including Independent Risk Management, Finance, Independent Compliance Risk Management, Legal, and Human Resources ("HR"), set standards against which business, operations and control functions are required to manage and oversee risks, including compliance with applicable laws, regulatory requirements, and policies and standards of ethical conduct. These functions are involved in identifying, measuring, monitoring, or controlling aggregate risks, and are independent from front line units.

The Company's Internal Audit function (the third line of defence) independently reviews activities of the first two lines of defence, based on a risk-based audit plan and methodology approved by the Audit Committee.

18. Risk management (continued)

18.1 Risk management missions, organisation and governance (continued)

Risk appetite

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

The Risk Appetite Statement is core in aligning overall corporate strategy, capital allocation, and risk. It aims to support business growth whilst constraining any excessive accumulation of risk in CEP's risk profile.

Risk Management reviews and reports the Company's Risk Appetite usage against the established limits and thresholds on a regular basis to the Board Risk Committee and Board. Board Risk Committee annually recommends approval of Risk Appetite limits in the form of the Risk Appetite Statement to the Board.

Material Risk Identification and Assessment Process

The Company has a formalised process for the identification and assessment of material risks across the bank, which is consistent with the three lines of defence model, and comprised of both a top down and bottom up assessment of risks to CEP. The Material Risk Identification and Assessment Process provides the Company with the opportunity to consider the risks to its business, while raising awareness of those risks through Board participation from within the Company.

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

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

Stress testing

CEP defines stress testing as an internal risk management tool and a key regulatory requirement used to perform forward-looking capital and liquidity and solvency adequacy assessments. CEP conducts Stress Testing internally for monitoring of capital and liquidity adequacy, and also for external supervisory requirements such as the biennial EBA Stress Test. These processes are designed to assess the resilience of CEP's balance sheet, capital and funding plans to adverse economic or financial scenarios on a forward looking basis.

18.2 Credit Risk

Definition

Credit risk is the potential for financial loss resulting from the failure of an obligor to honor its financial or contractual obligations. Credit risk arises in many of the Company's business activities, including:

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

Credit Risk includes default, credit concentration, FX lending, securitisation, country, settlement & delivery, residual, migration and counterparty credit risk.

18. Risk management (continued)

18.2 Credit risk (continued)

Governance and Organisation

Credit Risk Management Framework, approved by Board, provides holistic outline of how credit risk is managed, establishes standards for measuring, managing, monitoring and controlling credit risk in the Company and set responsibilities across all three lines of defense. As part of the Credit Risk Management Framework, the following Committees perform an oversight role for credit risk related items:

- Board Risk Committee
- Executive Committee
- Credit Risk Committee
- Product Review Committee

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

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

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

Risk Measurement

CEP utilises the internal risk rating system that accurately and reliably differentiates between degrees of credit risk. Each counterparty is assigned an internal rating, using dedicated rating tools. This internal rating corresponds to an evaluation of the level of default risk borne by the counterparty, expressed by means of an internal rating scale.

CEP sets its credit risk appetite in line with its business model and strategy and specifies credit risk limits in its Risk Appetite Statement and associated Credit Risk Policies. Adherence to these limits is monitored by the Credit Risk Team on an ongoing basis and reported to the Credit Committee and Board Risk Committee.

To manage the credit risk profile and limit the concentration of credit risk, credit risk limits are set also for each counterparty, establishing the maximum acceptable level for each one. Credit Risk Management may freeze specific limits at any time in order to take the latest events into account.

Impairment and provisioning under IFRS

Provisions required against all debt instruments (such as bank deposits, loans, debt securities and trade receivables) recorded at amortised cost or at fair value through other comprehensive income, are derived using the 3 stage IFRS 9 model.

- **Stage 1** includes assets with no significant increase in credit risk since initial recognition. A 12-months Expected Credit Loss (ECL) i.e. probability-weighted estimate of credit loss is recognised for these assets.
- **Stage 2** includes assets that have experienced a significant increase in credit risk since initial recognition, but the exposure is not yet defaulted. A lifetime ECL is recognised.
- **Stage 3** includes instruments deemed to be credit impaired for which a credit loss has already been suffered. A lifetime ECL is recognised.

Provisions Oversight

CEP reviews provisions periodically and at the Impairment Working Group ("IWG") which is jointly chaired by the CEP Financial Controller and the CEP Head of Credit and are subsequently presented to the Credit Committee.

On an annual basis the provisions are reviewed with the CEP Board and Audit Committee prior to the approval of the annual Financial Statements.

18. Risk management (continued)

18.2 Credit Risk (continued)

Risk Exposure

Loans outstanding

The total carrying amounts in this table include loans and advances to banks and loans and advances to customers as per Note 19 – 'Financial assets and liabilities'. See table below for split by category.

	Note	31 December 2018 $ 000	31 December 2017* $ 000
Loans and advances to banks			
Third party gross exposure		3,109,499	3,529,129
Related party gross exposure		10,142,359	3,754,729
Expected credit loss		(1,772)	(19,293)
Loans and advances to banks total carrying amount	**19**	**13,250,086**	**7,264,565**
Loans and advances to customers			
Commercial loans		18,565,239	17,829,590
Expected credit loss		(69,095)	(153,415)
Loans and advances to customers measured at amortised cost		18,496,144	17,676,175
Loans held at fair value through the profit and loss		254,395	322,861
Loans and advances to customers total carrying amount	**19**	**18,750,539**	**17,999,036**

*For the reconciliation of IAS 39 to IFRS 9 categories refer to Note 3.

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

18. Risk management (continued)

18.2 Credit Risk (continued)

Risk Exposure (continued)

Loans outstanding (continued)

Expected credit loss – Loans and advances to banks and customers

The following table shows an analysis of changes in the gross carrying amount and the corresponding ECL allowances:

Exposure	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
Outstanding exposure as at 1 January 2018	23,597,410	1,127,147	388,891	25,113,448
New assets originated or purchased	28,884,532	716,144	74,862	29,675,538
Asset derecognised or matured	(21,644,070)	(951,216)	(307,206)	(22,902,492)
Transfers to Stage 1	145,819	(140,696)	(5,123)	-
Transfers to Stage 2	(358,972)	370,233	(11,261)	-
Transfers to Stage 3	(43,356)	(744)	44,100	-
Changes due to modifications not resulting in derecognition	-	(4,679)	4,113	(566)
Amounts written off	(3,931)	(1,059)	(64,106)	(69,096)
Foreign exchange adjustments and other movements	(17,090)	16,921	434	265
At 31 December 2018	**30,560,342**	**1,132,051**	**124,704**	**31,817,097**

ECL	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
IFRS 9 ECL as at 1 January 2018	10,311	45,901	61,544	117,756
ECL on new assets originated or purchased	1,356	29,866	23,633	54,855
Exposure derecognised or matured	(8,313)	(34,252)	(2,092)	(44,657)
Transfers to Stage 1	8,410	(8,336)	(74)	-
Transfers to Stage 2	(671)	671	-	-
Transfers to Stage 3	(20)	(18)	38	-
Changes due to modifications not resulting in derecognition	(1,421)	2,620	(263)	936
Amounts written off	(353)	(175)	(57,724)	(58,252)
Foreign exchange adjustments and other movements	1,516	(1,243)	(44)	229
At 31 December 2018	**10,815**	**35,034**	**25,018**	**70,867**

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

	31 December 2018 $ 000	31 December 2017 $ 000
Gross exposure		
- Off Balance Sheet Commitments and Guarantees (third parties)	39,149,890	37,768,131
- Off Balance Sheet Commitments and Guarantees (related parties)	22,626	371,521
- Balance sheet exposures (third parties)	46,934,450	41,418,070
- Balance sheet exposures (related parties)	12,607,875	7,681,771
Total exposure	98,714,841	87,239,493

18. Risk management (continued)

18.2 Credit Risk (continued)

Expected credit loss

The following table shows the ECL charges on financial assets in the income statement for the year ended 31 December 2018.

	IFRS 9 ECL			
Income statement	**Stage 1 $ 000**	**Stage 2 $ 000**	**Stage 3 $ 000**	**Total $ 000**
Financial assets				
Cash and balances with central banks	59	-	-	59
Loans and advances to banks	170	(101)	(332)	(263)
Loans and advances to customers	(516)	10,968	36,848	47,300
Investment securities	825	-	-	825
Other assets	(96)	-	-	(96)
Total On Balance Sheet	**442**	**10,867**	**36,516**	**47,825**
Off balance sheet				
Letters of credit	(2,005)	(1,819)	61	(3,763)
Undrawn commitments to lend	87	(533)	-	(446)
Other commitments and guarantees	(11)	-	-	(11)
Total Off Balance Sheet	**(1,929)**	**(2,352)**	**61**	**(4,220)**
Recoveries of amounts previously written-off				**16,133**
Write-offs				**(69,631)**
Total Net Credit Losses				**(9,893)**

	31 December 2017 $ 000
Net change to individual provisions taken in the year	(102,576)
Net change to collective provisions taken in the year	(11,222)
Credit recoveries recognised directly in the income statement	11,861
Write-offs recognised directly in the income statement	(66,125)
Net credit losses	(168,062)

18. Risk management (continued)

18.2 Credit Risk (continued)

Expected credit loss (continued)

The following table shows the ECL reserve on financial assets in the statement of financial position as at 31 December 2018.

	IFRS 9 ECL			
Statement of financial position	**Stage 1 $ 000**	**Stage 2 $ 000**	**Stage 3 $ 000**	**Total $ 000**
Cash and balances with central banks	47	-	-	47
Loans and advances to banks	1,278	162	332	1,772
Loans and advances to customers	9,537	34,872	24,686	69,095
Investment securities	1,272	-	-	1,272
Other assets	-	-	-	-
Total On Balance Sheet	**12,134**	**35,034**	**25,018**	**72,186**
Off balance sheet				
Letters of credit	5,685	25,643	310	31,638
Undrawn commitments to lend	5,040	22,210	-	27,250
Other commitments and guarantees	62	-	-	62
Total Off Balance Sheet	**10,787**	**47,853**	**310**	**58,950**
Total	**22,921**	**82,887**	**25,328**	**131,136**

	31 December 2017 $ 000
Allowance for impairment	
Individual allowance for impairment	
Opening balance	(30,472)
Transfer in	-
Charge for the year	(129,634)
Release	1,619
Effect of foreign currency movements	(325)
Write offs	24,938
Other movements	189
Closing balance	(133,684)
Collective allowance for impairment	
Opening balance	(104,699)
Transfer in	-
Charge for the year	(19,676)
Release	7,530
Effect of foreign currency movements	385
Closing balance	(116,460)
Total allowance for impairment	(250,144)

18. Risk management (continued)

18.2 Credit Risk (continued)

Expected credit loss - On and Off Balance Sheet

The following table shows an analysis of changes in the gross carrying amount and the corresponding ECL allowances:

Exposure	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
Outstanding exposure as at 1 January 2018	81,384,663	2,092,225	517,668	83,994,556
New assets originated or purchased	85,168,737	1,671,716	74,862	86,915,315
Asset derecognised or matured	(73,111,553)	(1,838,391)	(434,855)	(75,384,799)
Transfers to Stage 1	224,353	(218,102)	(6,251)	-
Transfers to Stage 2	(811,387)	822,648	(11,261)	-
Transfers to Stage 3	(46,751)	(1,204)	47,955	-
Changes due to modifications not resulting in derecognition	-	(4,679)	4,113	(566)
Amounts written off	(4,428)	(1,097)	(64,106)	(69,631)
Foreign exchange adjustments and other movements	2,098	16,921	116	19,135
At 31 December 2018	**92,805,732**	**2,540,037**	**128,241**	**95,474,010**

ECL	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
IFRS 9 ECL as at 1 January 2018	21,435	91,412	61,904	174,751
ECL on new assets originated or purchased	12,253	76,588	23,942	112,783
Exposure derecognised or matured	(17,744)	(78,946)	(2,462)	(99,152)
Transfers to Stage 1	9,212	(9,138)	(74)	-
Transfers to Stage 2	(1,802)	1,802	-	-
Transfers to Stage 3	(20)	(19)	39	-
Changes due to modifications not resulting in derecognition	(1,421)	2,620	(263)	936
Amounts written off	(446)	(179)	(57,724)	(58,349)
Foreign exchange adjustments and other movements	1,454	(1,253)	(34)	167
At 31 December 2018	**22,921**	**82,887**	**25,328**	**131,136**

Credit quality

The Company groups its exposures based on their credit quality as explained below.

- Performing exposure: are those exposures that are not non-performing exposures. Performing exposures are classified Stage 1.
- Non-performing exposure: non-performing exposures (NPEs) satisfy either or both of the following:
  - Exposures which are more than 90 days past-due;
  - The obligor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

This covers comments on the past-due criterion and day counting, materiality, groups, interpretation of unlikely to pay criterion together with hard and soft triggers of unlikely to pay events. Breach of a hard trigger is highly suggestive of the obligor being unlikely to pay, whereas a breach of a soft trigger requires further investigation and analysis in order to determine whether the obligor is unlikely to pay. Please refer to the definition of default and indications of unlikeliness to pay detailed in Note 1(j) on page 34.

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NOTES TO THE FINANCIAL STATEMENTS

18. Risk management (continued)

18.2 Credit Risk (continued)

Credit quality (continued)

As at 31 December 2018:

	12-month ECL $ 000	Lifetime ECL not credit impaired $ 000	Lifetime ECL credit impaired $ 000	Purchased credit-impaired $ 000	Total $ 000
Loans and advances to banks at amortised cost					
Performing	13,209,939	40,695	-	-	13,250,634
Non performing non default	-	-	-	-	-
Non performing in default	-	-	1,224	-	1,224
Total	13,209,939	40,695	1,224	-	13,251,858
Loss allowance	(1,278)	(162)	(332)	-	(1,772)
Carrying amount	13,208,661	40,533	892	-	13,250,086
Loans and advances to customers at amortised cost					
Performing	17,350,403	357,008	-	-	17,707,411
Non performing non default	-	734,348	-	-	734,348
Non performing in default	-	-	123,480	-	123,480
Total	17,350,403	1,091,356	123,480	-	18,565,239
Loss allowance	(9,537)	(34,872)	(24,686)	-	(69,095)
Carrying amount	17,340,866	1,056,484	98,794	-	18,496,144
Loans held at fair value through profit and loss					254,395
Total loans and advances to customers					18,750,539

As at 31 December 2017:

	Collective provision $ 000	Specific provision $ 000	Total $ 000
Loans and advances to banks at amortised cost			
Performing	7,283,858	-	7,283,858
Non performing non default	-	-	-
Non performing in default	-	-	-
Total	7,283,858	-	7,283,858
Loss allowance	(19,293)	-	(19,293)
Carrying amount	7,264,565	-	7,264,565
Loans and advances to customers at amortised cost			
Performing	16,676,888	-	16,676,888
Non performing non default	-	797,664	797,664
Non performing in default	-	355,038	355,038
Total	16,676,888	1,152,702	17,829,590
Loss allowance	(59,152)	(94,263)	(153,415)
Carrying amount	16,617,736	1,058,439	17,676,175

18. Risk management (continued)

18.2 Credit Risk (continued)

Credit quality – Trading Assets

The credit quality of the Company's financial assets is maintained by adherence to the Company's policies on the provision of credit to counterparties. The Company monitors the credit ratings of its counterparties with the table below presenting an analysis of the Company's trading portfolio of Traded loans, Corporate bonds and Government bonds by rating agency designation based on Standard & Poor's or Moody's ratings as at 31 December:

Trading Assets:

	Traded loans $ 000 2018	Corporate bonds $ 000 2018	Government bonds $ 000 2018	Total $ 000 2018
AAA to AA-	-	-	119,705	119,705
A+ to A-	-	-	14,296	14,296
Lower than A-	461,987	-	342,443	804,430
Unrated	48,486	14,570	-	63,056
Total	510,473	14,570	476,444	1,001,487
	2017	**2017**	**2017**	**2017**
AAA to AA-	-	-	-	-
A+ to A-	-	-	73,707	73,707
Lower than A-	201,897	-	635,741	837,638
Unrated	49,850	6,219	-	56,069
Total	251,747	6,219	709,448	967,414

18. Risk management (continued)

18.2 Credit Risk (continued)

Credit quality – FVOCI Investment Securities

	Government bonds $ 000 2018	Corporate bonds $ 000 2018	Equity securities measured at fair value $ 000 2018	Total $ 000 2018
AAA to AA-	1,755,353	334,941	13,872	2,104,166
A+ to A-	57,796	-	36,074	93,870
Lower than A-	1,835,584	-	-	1,835,584
Unrated	-	-	38,476	38,476
Total	3,648,733	334,941	88,422	4,072,096
	2017	**2017**	**2017**	**2017**
AAA to AA-	883,794	415,665	-	1,299,459
A+ to A-	50,079	-	-	50,079
Lower than A-	1,482,931	-	-	1,482,931
Unrated	-	-	48,171	48,171
Total	2,416,804	415,665	48,171	2,880,640

NOTES TO THE FINANCIAL STATEMENTS

18. Risk management (continued)

18.2 Credit Risk (continued)

Concentration Risk

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

	31 December 2018 $ 000	31 December 2017 $ 000
Mining and quarrying	512,510	382,225
Manufacturing	8,134,456	6,861,512
Electricity, gas, water, steam and air conditioning supply	615,703	526,339
Construction	140,582	184,236
Wholesale and retail trade	2,386,273	2,149,311
Transport and storage	954,918	882,613
Accommodation and food service activities	217,577	71,006
Information and communication	2,122,419	2,047,780
Credit and insurance institutions	20,767,442	17,711,524
Real estate activities	441,551	552,231
Professional, scientific and technical activities	426,587	389,465
Administrative and support service activities	966,931	1,303,643
Public administration and defence, compulsory social security	2,708,744	3,818,346
Household/Retail	1,342,442	1,391,302
Other services	5,196,315	3,146,537
	46,934,450	41,418,070

Included in credit risk exposures carrying value are cash and cash equivalents, trading assets, derivative financial instruments, loans and advances, investment securities and other assets.

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

	31 December 2018 $ 000	31 December 2017 $ 000
Central Europe	2,507,633	2,134,252
Western Europe	39,633,973	35,010,970
Middle East / Africa	1,537,055	1,336,869
Central / South America	625,806	781,667
North America	1,236,913	1,068,987
Asia	1,393,070	1,085,325
	46,934,450	41,418,070

The regions above represents the countries and its domiciled customers within these.

NOTES TO THE FINANCIAL STATEMENTS

18. Risk management (continued)

18.2 Credit Risk (continued)

Analysis of encumbered and unencumbered assets

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

Assets	Encumbered $million	Un-Encumbered $million	Total $million
Cash and cash equivalents	817	16,186	17,003
Equity Instruments	-	89	89
Investment Securities & Debt Trading Instuments	325	5,212	5,537
- of which: covered bonds	-	-	-
- of which: asset-backed securities	-	-	-
- of which: by general governments	325	3,863	4,188
- of which: by financial corporations	-	338	338
- of which: by non-financial corporations	-	2	2
Loans and advances other than loans on demand	813	31,187	32,001
Other Assets	1,302	4,709	6,010
Assets subtotal	3,257	57,382	60,639

Collateral Received	Encumbered $million	Un-Encumbered $million	Total $million
Cash and cash equivalents	-	-	-
Equity Instruments	-	-	-
Investment Securities	7,197	4,598	11,795
- of which: covered bonds	57	-	57
- of which: asset-backed securities	2,253	-	2,253
- of which: by general governments	4,734	4,598	9,332
- of which: by financial corporations	153	-	153
- of which: by non-financial corporations	-	-	-
Loans and advances other than loans on demand	-	-	-
Other collateral received	-	709	709
Collateral received subtotal	7,197	5,307	12,504
Total assets and collateral received	10,454	62,689	73,144

Collateral held by the Company for securing loan transaction includes:

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

Encumbered collaterals are rated by Moody's rating agency between AAA and AA3, and there have been no significant changes in the quality of the collaterals during the reporting period.

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

Specific provision is based on an impairment assessment, which takes into consideration enterprise value/collateral. If these sufficiently cover the Company exposure then no provision is taken.

18. Risk management (continued)

18.2 Credit Risk (continued)

Financial instruments subject to offsetting

Details of financial instruments, which are subject to offsetting in accordance with IAS 32, enforceable master netting arrangements and similar agreements are as follows:

Types of financial assets

As at 31 December 2018	**(a)**	(b)	**(c)=(a)+(b)**	(d)		**(e)=(c)-(d)**
				Related amounts not set off in the statement of financial position		
Description	**Gross amount**	Gross amount of recognised financial liabilities set off in the SOFP	**Net amount presented in the SOFP**	(d) i. Financial instruments	(d) ii. Cash collateral received	**Net amount**
	$000	$000	**$000**	$000	$000	**$000**
Derivatives	1,950,632	(463,213)	1,487,419	-	-	1,487,419
Total	**1,950,632**	**(463,213)**	**1,487,419**	**-**	**-**	**1,487,419**

Types of financial liabilities

As at 31 December 2018	**(a)**	(b)	**(c)=(a)+(b)**	(d)		**(e)=(c)-(d)**
				Related amounts not set off in the statement of financial position		
Description	**Gross amount**	Gross amount of recognised financial assets set off in the SOFP	**Net amount presented in the SOFP**	(d) i. Financial instruments	(d) ii. Cash collateral pledged	**Net amount**
	$000	$000	**$000**	$000	$000	**$000**
Derivatives	1,966,162	(463,213)	1,502,949	-	-	1,502,949
Total	**1,966,162**	**(463,213)**	**1,502,949**	**-**	**-**	**1,502,949**

18. Risk management (continued)

18.2 Credit Risk (continued)

Types of financial assets

As at 31 December 2017	**(a)**	(b)	**(c)=(a)+(b)**	(d) Related amounts not set off in the statement of financial position		**(e)=(c)-(d)**
Description	**Gross amount**	Gross amount of recognised financial liabilities set off in the SOFP	**Net amount presented in the SOFP**	(d) i. Financial instruments	(d) ii. Cash collateral received	**Net amount**
	$000	$000	**$000**	$000	$000	**$000**
Derivatives	1,876,714	(273,113)	1,603,601	-	-	1,603,601
Total	**1,876,714**	**(273,113)**	**1,603,601**	-	-	**1,603,601**

Types of financial liabilities

As at 31 December 2017	**(a)**	(b)	**(c)=(a)+(b)**	(d) Related amounts not set off in the statement of financial position		**(e)=(c)-(d)**
Description	**Gross amount**	Gross amount of recognised financial assets set off in the SOFP	**Net amount presented in the SOFP**	(d) i. Financial instruments	(d) ii. Cash collateral pledged	**Net amount**
	$000	$000	**$000**	$000	$000	**$000**
Derivatives	1,940,118	(273,113)	1,667,005	-	-	1,667,005
Total	**1,940,118**	**(273,113)**	**1,667,005**	-	-	**1,667,005**

18. Risk management (continued)

18.3 Market Risk

Definition

Market risk is the potential for losses arising from changes in the value of the Company's assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates and other market prices. Market risk emanates from both the Company's trading and non-trading portfolios.

Sources of Market Risk

Trading Portfolio

The trading portfolio comprises positions held with short term trading intent, where the business seeks to capture the differences between buying and selling prices. These positions arise mainly from customer flows. The products traded include Foreign Exchange ("FX") Spot, Swaps and Forwards and Sovereign Bonds.

The primary sources of market risk within the trading portfolio, include, but are not limited to:

- Interest Rate Risk: The valuation risk resulting from direct or indirect interest rate changes.
- Currency Risk: The valuation risk resulting from direct or indirect currency price changes.
- Credit Spread Risk: The valuation risk resulting from a direct or indirect change in the credit spread.

Non-Trading Portfolio:

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

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

Governance and Organisation

The Market Risk Management Framework, approved by Board provides a holistic outline of how market risk in trading and in non-trading portfolios is managed, establishes standards for measuring, managing, monitoring and controlling market risk in the Company and sets responsibilities across all three lines of defense. As part of the Market Risk Management Framework, the following Committees and Sub-Committees perform an oversight role for market risk related items:

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

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

The Head of Market Risk reports directly to the Company's Chief Risk Officer ("CRO") and is responsible for second line of defence oversight and management of the market risk portfolio of the Company. The Head of Market Risk relies on a number of business specific market risk managers to manage day to day market risk related responsibilities in line with the Framework and policy guidelines.

18. Risk management (continued)

18.3 Market Risk (continued)

Risk Measurement

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

- Promote the transparency and comparability of market risk-taking activities;
- Provide a consistent framework to measure market risk exposures in order to facilitate business performance analysis.

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

Trading Portfolio:

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

Value at Risk ("VaR")

VaR estimates the potential decline in the value of a position or a portfolio, under normal market conditions, within a defined confidence level, and over a specific time period.

VaR is calculated using a Monte Carlo approach where simulations of market rates or prices are generated. Volatilities and correlations are updated at least quarterly based on three years' worth of market data.

The key parameters used to calculate VaR include:

- The historical 'look-back' period used to calculate historical volatilities and correlations;
- The holding period, i.e. the number of days of changes in market risk factors the portfolio is subjected to; and
- A confidence interval is determined to estimate the potential loss, for Company's risk management purposes.

VaR cannot necessarily provide an indication of the potential size of loss when an extreme event occurs. Hence, a comprehensive set of factor sensitivity limits and stress tests are used in addition to VaR limits. These VaR and sensitivity limits are supplemented by triggers that ensure that increased levels of risk are discussed in a timely fashion between risk management and business management.

Non-trading Portfolio:

The critical measurement concepts associated with the non-trading book are outlined below:

- Income Metrics: Measures the potential pre-tax impact on net interest revenue, for accrual positions, due to defined shifts in interest rates over a specified reporting period.
  - Interest Rate Exposure ("IRE"): measures the potential earnings impact, over a 12 month 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.

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

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

18. Risk management (continued)

18.3 Market Risk (continued)

Risk Measurement (continued)

Interest rate risk
The Company measures interest rate risk using both income and valuation metrics. These metrics provide complementary views of the impact of interest rate risk on the balance sheet over varying time horizons. The IRE measure used in the table below is a static measure based on existing positions, computed as a change in expected NIM in each currency resulting solely from unanticipated changes in interest rates. Factors such as changes in volumes, margins and the impact of prior-period pricing decisions are not captured by this measure and it assumes that businesses make no additional changes in pricing or balances in response to the unanticipated rate changes.

Currency risk
It is the policy of the Company to reduce foreign currency risk that may arise in the normal course of business. The Company deals in financial instruments in a number of currencies, and open currency positions arise for funding mismatches and accruals of interest and expense provisions in currencies other than USD. Treasury monitors open foreign currency positions on a daily basis ensuring that exposures are less than agreed allocated limits.

Risk Exposure

Trading price risk

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

VAR	31 December 2018 Outstanding	$ 000 MAX	$ 000 MIN	$ 000 AVG	31 December 2017 Outstanding
Portfolio VAR	1,478	2,482	1,280	1,745	2,187

Non-trading price risk

Interest rate risk

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

Interest rate exposure report

	31 December 2018		31 December 2017	
Currency	**12 Month**	**2 Year**	**12 Month**	**2 Year**
	$ 000	**$ 000**	**$ 000**	**$ 000**
USD	332	6,016	2,301	9,949
EUR	(5,225)	(1,933)	(3,961)	448
RON	(2,535)	(1,370)	226	1,488
CZK	250	995	3,062	7,033
HUF	(6,686)	(12,533)	(7,926)	(15,673)
GBP	5,793	12,949	10,139	22,967
JPY	2	2	(8)	(8)
Other	(1,163)	(1,306)	(1,473)	(1,662)

18. Risk management (continued)

18.3 Market Risk (continued)

Risk exposure (continued)

Non-trading price risk (continued)

Currency risk

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

	31 December 2018		
	Net exposure	**(%)**	**Income statement impact**
	$ 000		**$ 000**
EUR	275,228	1.37%	3,773
HUF	139,081	2.00%	2,784
RON	89,094	1.30%	1,160
GBP	164,593	1.71%	2,815

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

18.4 Liquidity Risk

Definition

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Company's funding and liquidity objectives aim to maintain liquidity to fund the existing asset base and grow the core business, while at the same time maintaining sufficient liquidity, structured appropriately, to continue operating under a variety of market conditions, including both short and long-term stresses.

Governance and Organisation

Liquidity Risk Management Framework, approved by Board, provides holistic outline of how liquidity risk is managed, establishes standards for measuring, managing, monitoring and controlling risk in the Company and set responsibilities across all three lines of defense.

As part of the Liquidity Risk Management Framework, the following Committees perform an oversight role for liquidity risk related items:

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

18. Risk management (continued)

18.4 Liquidity Risk (continued)

Governance and Organisation (continued)

Management of liquidity is the responsibility of the Company Treasurer who aims to ensure that all funding obligations are met when due.

The forum for liquidity issues is the Asset and Liability Committee ("ALCO"), which includes senior executives within the Company. The ALCO reviews the current and prospective funding requirements for the Company, as well as the capital position and statement of financial position. The ultimate responsibility for liquidity rests with the Board.

A liquidity plan is prepared annually and the liquidity profile is monitored on an on-going basis and reported daily

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

Risk Measurement

The internal Liquidity Risk Management framework includes indicators enabling the assessment of the Company's resilience to liquidity risk.

The Company is required to comply with the liquidity requirements of the Regulator. CRDIV related liquidity metrics are monitored and reported, namely the Liquidity Coverage Ratio ("LCR") and Net Stable Funding Requirement ("NSFR"). LCR measures the stock of liquid assets against net cash outflows arising in a 30 day stress scenario. NSFR is intended to ensure that a firm has an acceptable amount of stable funding to support its assets and activities over the medium term (one year period).

The Company also runs internal liquidity metrics, including liquidity ratios, which compare liquidity reserves with liquidity deficits. All these indicators are assessed according to a variety of scenarios, in the major currencies.

Risk Exposure

Analysis of financial assets and liabilities by remaining contractual maturities

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

As at 31 December 2018	Less than 12 months $ 000	Over 12 months $ 000	Total $ 000
Assets			
Cash and cash equivalents	17,003,234	-	17,003,234
Loans and advances to banks	12,953,842	296,244	13,250,086
Loans and advances to customers	13,406,816	5,343,723	18,750,539
Derivative financial instruments	615,695	871,724	1,487,419
Trading assets	256,547	744,940	1,001,487
Investment securities	1,533,509	2,538,587	4,072,096
Other financial assets	3,496,170	-	3,496,170
Total financial assets	49,265,813	9,795,218	59,061,031
Liabilities			
Deposits by banks	10,299,629	4,001,474	14,301,103
Customer accounts	25,172,620	100	25,172,720
Derivative financial instruments	615,489	887,460	1,502,949
Other financial liabilities	5,036,427	-	5,036,427
Total financial liabilities	41,124,165	4,889,034	46,013,199

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18. Risk management (continued)

18.4 Liquidity Risk (continued)

Risk Exposure (continued)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

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

18. Risk management (continued)

18.4 Liquidity Risk (continued)

Risk Exposure (continued)

Contractual maturities of undiscounted cash flows of financial liabilities

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

As at 31 December 2018	1 year and less $ 000	>1 year and < 5 years $ 000	Greater than 5 years $ 000	Total $ 000
Liabilities				
Deposits by banks	10,568,365	4,117,688	6,950	14,693,003
Customer accounts	25,829,419	103	-	25,829,522
Derivative financial instruments	631,548	392,550	577,982	1,602,080
Other financial liabilities	5,167,838	-	-	5,167,838
Total undiscounted financial liabilities	42,197,170	4,510,341	584,932	47,292,443

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

18. Risk management (continued)

18.4 Liquidity Risk (continued)

The following table analyses the Company's commitments and guarantees into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. These instruments can be called at any time prior to their contractual maturity.

31 December 2018	1 year and less $ 000	>1 year and <5 years $ 000	Greater than 5 years $ 000	Total $ 000
Letters of credit	10,989,555	4,689,453	604,276	16,283,284
Undrawn commitments to lend	2,865,825	18,110,470	606,528	21,582,823
Other commitments and guarantees	335,788	970,621	-	1,306,409
Total commitments and guarantees	14,191,168	23,770,544	1,210,804	39,172,516

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

18.5 Operational Risk

Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human factors or systems or from external events. It includes reputational and franchise risk associated with business practices or market conduct that the Company undertakes. It also includes the risk of failing to comply with applicable laws, regulations, ethical standards, regulatory administrative actions or Company policies. Operational risk does not encompass strategic risk or the risk of loss resulting solely from authorised judgments made with respect to taking credit, market, liquidity, or insurance risk.

Operational risk is inherent in the Company's business activities and, as with other risk types is managed through a control framework comprising of three lines of defense:

- Decentralised ownership of the risk with business management accountability;
- Oversight by independent risk management and control functions; and
- Independent assessment by Internal Audit.

Governance and Organisation

To anticipate, mitigate and control operational risk, the Company maintains a system of policies and has established a consistent framework for monitoring, assessing and communicating operational risks and the overall effectiveness of the internal control environment.

The Operational Risk Management framework comprises of the following components to identify, assess and manage operational risk:

- Annual Risk Assessment
- Operational Risk Scenario analysis
- Capture of Operational Risk Event Data
- Formal Assurance Programme
- Issue/Corrective Action Plan

18. Risk management (continued)

18.5 Operational Risk (continued)

Governance and Organisation (continued)

Management Control Assessment ("MCA") is a diagnostic tool used in the management of operational risks, as a key component of the Business Environment and Internal Control Factors ("BEICFs") required under Basel Capital Standards. It uses input of the components of the operational risk management framework to provide an overall view of the operational risk profile of an entity be that a Business, Country, Legal Entity view.

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

The following committees are responsible for operational risk at Company level:

- Risk Committee: Has oversight of the prospective aspects of operational risk, including, but not limited to: parameters of the operational risk management framework, the Operational Risk Capital Model and the Operational Risk component of Internal Capital Adequacy Approval Process.
- Audit Committee: Has oversight of operational risk, including the individual operational losses, the causes and remedies.
- Operational Risk Committee ("ORC"): is the principal forum maintaining oversight over the adequacy and effectiveness of the operational risk framework and associated policies towards the anticipation and mitigation of operational risks.

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

18.6 Capital Management

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

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

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Regulatory capital (unaudited)

The Company's unaudited regulatory capital position at 31 December 2018 was as follows:

	31 December 2018 \$ 000	**31 December 2017 \$ 000**
Regulatory capital	7,920,890	8,487,323
Tier 1 capital ratio	17.5%	18.7%

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

19. Financial assets and liabilities

The below tables outline the total financial assets and liabilities held as at 31 December 2018 and as at 31 December 2017.

	31 December 2018 $ 000	31 December 2017 $ 000
Derivative financial instruments	1,487,419	1,603,601
Trading assets	1,001,487	967,414
Investment securities	4,072,096	2,880,640
Loans designated at fair value through profit or loss	254,395	322,861
Total financial assets held at fair value	**6,815,397**	**5,774,516**
Cash and cash equivalents	17,003,234	14,589,546
Loans and advances to banks at amortised cost	13,250,086	7,264,565
Loans and advances to customers at amortised cost	18,496,144	17,676,175
Other financial assets	3,496,170	3,319,441
Total financial assets at amortised cost	**52,245,634**	**42,849,728**
Total financial assets	**59,061,031**	**48,624,243**

	31 December 2018 $ 000	31 December 2017 $ 000
Derivative financial instruments	1,502,949	1,667,005
Financial liabilities at fair value through profit or loss	345,868	290,838
Total financial liabilities held at fair value	**1,848,817**	**1,957,843**
Deposits by banks	14,301,103	7,134,623
Customer accounts	25,172,720	26,192,250
Other liabilities and debt securities in issue	4,690,559	4,798,265
Total financial liabilities at amortised cost	**44,164,382**	**38,125,138**
Total financial liabilities	**46,013,199**	**40,082,981**

19. Financial assets and liabilities (continued)

Fair Value Definition

IFRS 13 – *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Among other things, the standard requires the Company to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value.

Under IFRS 13, the probability of default by the counterparty is factored into the valuation of derivative positions and includes the impact of the Company's own credit risk on derivatives and other liabilities measured at fair value.

Fair Value Hierarchy

IFRS 13 specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

Fair Value Hierarchy (continued)

These two types of inputs have created the following fair value hierarchy:

- Level 1: Quoted prices for *identical* instruments in active markets.
- Level 2: Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable.*

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible. The frequency of transactions and the size of the bid-ask spread when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observed prices in those markets.

The Company's policy with respect to transfers between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the end of the reporting period.

Determination of Fair Value

The Company generally uses quoted market prices in an active market to calculate the fair value of a financial asset or liability and classifies such items as Level 1. In some cases, where a market price is available, the Company will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified as Level 2.

If quoted market prices are not available, fair values are based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters such as interest rates, currency rates and option volatilities. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation.

Where available, the Company may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified as Level 2. If prices are not available, other valuation techniques would be used and the item would be classified as Level 3.

19. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors or brokers. Vendors and brokers' valuations may be based on a variety of inputs ranging from observed prices to proprietary valuation models.

The Company uses the following procedures to determine the fair value of financial assets and financial liabilities irrespective of whether they are "held for trading" or have been "designated at fair value" including an indication of the level in the fair value hierarchy in which each financial instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models and any significant assumptions.

Market valuation adjustments
Liquidity adjustments are applied to items in Level 2 and Level 3 of the fair value hierarchy to ensure that the fair value reflects the liquidity or illiquidity of the market. The liquidity reserve may utilise the bid-ask spread for an instrument as one of the factors.

Counterparty credit-risk adjustments are applied to derivatives, such as over-the-counter uncollateralised derivatives, where the base valuation uses market parameters based on the relevant base interest rate curves. Not all counterparties have the same credit risk as that implied by the relevant base curve, so it is necessary to consider the market view of the credit risk of a counterparty in order to estimate the fair value of such an item.

Bilateral or "own" credit-risk adjustments are applied to reflect the Company's own credit risk when valuing derivatives and liabilities measured at fair value. Counterparty and own credit adjustments consider the expected future cash flows between the Company and its counterparties under the terms of the instrument and the effect of credit risk on the valuation of those cash flows, rather than a point-in-time assessment of the current recognised net asset or liability. Furthermore, the credit-risk adjustments take into account the effect of credit-risk mitigants, such as pledged collateral and any legal right of offset (to the extent such offset exists) with a counterparty through arrangements such as netting agreements.

Generally, the unit of account for a financial instrument is the individual financial instrument. The Company applies market valuation adjustments that are consistent with the unit of account, which does not include adjustment due to the size of the Company's position, except as follows. IFRS 13 permits an exception, through an accounting policy election, to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position when certain criteria are met. Citi has elected to measure certain portfolios of financial instruments, such as derivatives, that meet those criteria on the basis of the net open risk position. The Company applies market valuation adjustments, including adjustments to account for the size of the net open risk position, consistent with market participant assumptions and in accordance with the unit of account.

Derivatives
The majority of derivatives entered into by the Company are executed over the counter and are valued using a combination of external prices and internal valuation techniques, including benchmarking to pricing vendor services. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. The principal techniques used to value these instruments are industry wide approaches including discounted cash flows, modelling and numerical approaches.

The type of inputs may include interest rate yield curves, credit spreads, foreign exchange rates, volatilities and correlations.

The Company uses the overnight indexed swap ("OIS") curves as fair value measurement inputs for the valuation of certain collateralised interest-rate related derivatives. Citi uses the relevant benchmark curve for the currency of the derivative (e.g., the London Interbank Offered Rate for U.S. dollar derivatives) as the discount rate for uncollateralised derivatives. Citi incorporates FVA into the fair value measurements due to what it believes to be an industry migration toward incorporating the market's view of funding risk premium in OTC derivatives. Citi's FVA methodology leverages the existing CVA methodology to estimate a funding exposure profile. The calculation of this exposure profile considers collateral agreements where the terms do not permit the firm to reuse the collateral received, including where counterparties post collateral to third-party custodians.

19. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

Trading assets
Where available, the Company uses quoted market prices to determine the fair value of trading assets; such items are classified as Level 1 of the fair value hierarchy. Examples include government bonds. For corporate bonds, European commercial papers and loans the Company generally determines the fair value utilising internal valuation techniques. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable. If available, the Company may also use quoted prices for recent trading activity of assets with similar characteristics to the bond or loan being valued. Government bonds, corporate bonds, European commercial papers or loans priced using such methods are generally classified as Level 2.

However, when less liquidity exists, a quoted price is stale or prices from independent sources vary, they are generally classified as Level 3.

Investment securities
Investment securities classified as available-for-sale are measured at fair value by reference to quoted market price. In these instances, they may be classified as Level 1.

If quoted market prices are not available, then fair values are estimated based on other recognised valuation techniques. The key inputs depend upon the type of investment security and the nature of inputs to the valuation technique. The item is placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model.

Loans and advances and other lending
The fair value for loans and advances and other lending are estimated using internal valuation techniques such as discounted cash flow analyses. Cash flows are discounted using LIBOR and EURIBOR rates. If available, the Company may also use quoted prices for recent trading activity of assets with similar characteristics to the loan being valued. The items are placed in Level 2 or Level 3 depending on the observability of the significant inputs to the model. In certain cases, the fair value approximates carrying value because the instruments are short term in nature or reprice frequently.

Debt securities in issue
The fair value of debt securities in issue is estimated using discounted cash flows applying LIBOR and EURIBOR rates. The items are placed in Level 2 or Level 3 depending on the observability of the significant inputs to the model.

Own debt valuation adjustments are recognised on the Company's liabilities for which the fair value option has been elected using Citi's credit spreads observed in the bond market. The fair value of liabilities for which the fair value option is elected (other than non-recourse and similar liabilities) is impacted by the narrowing or widening of the Citigroup credit spreads.

Other financial assets and liabilities
Fair values of customer account deposit liabilities, subordinated loans, other assets and other liabilities are estimated using discounted cash flows, applying market rates where practicable. Where market rates are used an adjustment is made for the Citigroup credit spread.

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

19. Financial assets and liabilities (continued)

Financial Instruments at Fair Value

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

31 December 2018

	Fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
	$ 000	**$ 000**	**$ 000**	**$ 000**
Financial assets				
Derivative financial instruments	-	1,449,967	37,452	1,487,419
Trading assets	-	762,461	239,026	1,001,487
Investment securities	2,024,556	1,959,118	88,422	4,072,096
Loans held at fair value through profit or loss	-	254,395	-	254,395
Financial assets held at fair value	2,024,556	4,425,941	364,900	6,815,397
Financial liabilities				
Derivative financial instruments	-	1,465,659	37,290	1,502,949
Other financial liabilities held for trading	-	345,868	-	345,868
Financial liabilities held at fair value	-	1,811,527	37,290	1,848,817

31 December 2017

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

19. Financial assets and liabilities (continued)

Financial Instruments at Fair Value (continued)

Loans held at fair value through profit or loss, totalling $254 million (2017: $323 million) are included in the statement of financial position within loans and advances to customers.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments.

As discussed above, the Company classifies financial instruments as Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. The gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

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

Valuation process for Level 3 Fair Value Measurements

For fair value measurements of substantially all assets and liabilities held by the Company, individual business units are responsible for valuing the trading account assets and liabilities, and Product Control within Finance performs independent price verification procedures to evaluate those fair value measurements. Product Control is independent of the individual business units and reports into the Global Head of Product Control. Fair value measurements of assets and liabilities are determined using various techniques, including, but not limited to, discounted cash flows and internal models, such as option and correlation models.

Based on the observability of inputs used, Product Control classifies the inventory as Level 1, Level 2 or Level 3 of the fair value hierarchy. When a position involves one or more significant inputs that are not directly observable, additional price verification procedures are applied. These procedures may include reviewing relevant historical data, analysing profit and loss, valuing each component of a structured trade individually, and benchmarking, among others.

Reports of Level 3 inventory of each business line of the Company are distributed to senior management in Finance, Risk and the individual business lines. Reports are distributed to the EMEA Risk Committee and in monthly meetings with Senior Management. Whenever a valuation adjustment is needed to bring the price of an asset or liability to its exit price, Product Control reports it to management along with other price verification results.

In addition, the pricing models used in measuring fair value are governed by an independent control framework. Although the models are developed and tested by the individual business units, they are independently validated by the Model Validation Group within Model Risk Management and reviewed by Finance with respect to their impact on the price verification procedures. The purpose of this independent control framework is to assess model risk arising from models' theoretical soundness, calibration techniques where needed, and the appropriateness of the model for a specific product in a defined market. To ensure their continued applicability, models are independently reviewed annually. In addition, Risk Management approves and maintains a list of products permitted to be valued under each approved model for a given business.

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NOTES TO THE FINANCIAL STATEMENTS

19. Financial assets and liabilities (continued)

Valuation process for Level 3 Fair Value Measurements (continued)

Movement in Level 3 financial instruments measured at fair value

The Company classified financial instruments as Level 3 of the fair value hierarchy when there is a reliance on at least one significant unobservable input to the valuation model. The gains and losses presented below include changes in the fair value related to the observable and unobservable inputs.

	31 December 2018					31 December 2017			
	Derivative financial assets	**Trading assets**	**Investment securities**	**Derivative financial liabilities**	**Total**	**Trading assets**	**Loans and advances to customers**	**Investment securities available for sale**	**Total**
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Balance at 1 January	-	37,469	48,171	-	85,640	205,739	16,670	35,027	257,436
Reclassification to trading assets from loans and advances designated at FVTPL	-	-	-	-	-	16,670	(16,670)	-	(0)
Purchases	37,452	229,910	35,888	(37,290)	265,960	87,433	-	-	87,433
Issues	-	-	-	-	-	-	-	-	-
Sales	-	(26,493)	-	-	(26,493)	(259,370)	-	(626)	(259,996)
Settlements	-	-	-	-	-	(6,241)	-	-	(6,241)
Transfer into Level 3	-	-	-	-	-	-	-	-	-
Transfer out of Level 3	-	-	-	-	-	-	-	-	-
Total gains/(losses)									
- in Profit or loss	-	(1,860)	4,363	-	2,503	(6,762)	-	3,798	(2,964)
- in OCI	-	-	-	-	-	-	-	9,972	9,972
Balance at 31 December	37,452	239,026	88,422	(37,290)	327,610	37,469	-	48,171	85,640

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

CITIBANK EUROPE PLC

NOTES TO THE FINANCIAL STATEMENTS

19. Financial assets and liabilities (continued)

Valuation process for Level 3 Fair Value Measurements (continued)

Total gains or losses for the year are presented in the income statement as follows:

	Derivative financial assets	Trading assets	Investment securities	Derivative financial liabilities	Total	Trading assets	Investment securities available for sale	Total
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Interest income	-	-	-	-	-	-	-	-
Total gains/(losses)	-	(1,860)	4,363	-	2,503	(6,762)	3,798	(2,964)
Realised gain and losses								
- Net trading loss	-	(1,860)	-	-	(1,860)	(6,762)	-	(6,762)
- Net investment income	-	-	4,363	-	4,363	-	3,798	3,798
Unrealised gain and losses	-	-	-	-	-	-	-	-
Total	-	(1,860)	4,363	-	2,503	(6,762)	3,798	(2,964)

A key contributor to level 3 inventory movements were trading assets, where the Company has intention to sell in the near term. These assets contributed to $230 million of purchases.

Qualitative discussion of the ranges of significant unobservable inputs

The following section describes the ranges of the most significant unobservable inputs used by the Company in Level 3 fair value measurements. The level of aggregation and the diversity of instruments held by the Company lead to a wide range of unobservable inputs that may not be evenly distributed across the Level 3 inventory.

Yield
Ranges for the yield inputs vary significantly depending upon the type of security. For example, securities that typically have lower yields, such as municipal bonds, will fall on the lower end of the range, while more illiquid securities or securities with lower credit quality, such as certain residual tranche asset-backed securities, will have much higher yield inputs.

19. Financial assets and liabilities (continued)

Valuation process for Level 3 Fair Value Measurements (continued)

Qualitative discussion of the ranges of significant unobservable inputs (continued)

Credit Spread
Credit spread is relevant primarily for fixed income and credit instruments; however, the ranges for the credit spread input can vary across instruments. For example, certain fixed income instruments typically have lower credit spreads, whereas certain instruments with high-risk counterparties are typically subject to higher credit spreads when they are uncollateralised or have a longer tenor. Other instruments, which are dependent upon or derived from one or more underlying instrument, also have credit spreads that vary with the attributes of the underlying obligor. Stronger companies have tighter credit spreads, and weaker companies have wider credit spreads.

Price
The price input is a significant unobservable input for certain fixed income instruments. For these instruments, the price input is expressed as a percentage of the notional amount, with a price of 100 meaning that the instrument is valued at par. For most of these instruments, the price varies between zero and slightly above 100. Relatively illiquid assets that have experienced significant losses since issuance, such as certain asset-backed securities, are at the lower end of the range, whereas most investment grade corporate bonds will fall in the middle to the higher end of the range. The price input is also a significant unobservable input for certain equity securities; however, the range of price inputs varies depending on the nature of the position, the number of shares outstanding and other factors.

2018	**Fair value $ '000**	**Methodology**	**Input**	**Low**	**High**
Assets					
Derivative contracts	37,452	Model-based	Contingent event	100.0	100.0
Trading assets	239,026	Price-based	Price	0.0	100.0
Investment equity securities	88,422	Quoted market price if available to which a discount has been applied for the illiquidity and the conversion rate variability.	Final conversion rate has been applied for Series B Preferred Stock into Class A Common Stock.	No discount for conversion rate variability with a discount for illiquidity only	100% discount for conversion rate variability
Liabilities					
Derivative contracts	37,290	Model-based	Contingent event	100.0	100.0

19. Financial assets and liabilities (continued)

Sensitivity to unobservable inputs and interrelationships between unobservable inputs

The impact of key unobservable inputs on the Level 3 fair value measurements may not be independent of one another. In addition, the amount and direction of the impact on a fair value measurement for a given change in an unobservable input depends on the nature of the instrument as well as whether the Company holds the instrument as an asset or a liability. For certain instruments, the pricing hedging and risk management are sensitive to the correlation between various inputs rather than on the analysis and aggregation of the individual inputs.

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

Yield

Adjusted yield is generally used to discount the projected future principal and interest cash flows on instruments, such as loans. Adjusted yield is impacted by changes in the interest rate environment and relevant credit spreads.

In some circumstances, the yield of an instrument is not observable in the market and must be estimated from historical data or from yields of similar securities. This estimated yield may need to be adjusted to capture the characteristics of the security being valued. In other situations, the estimated yield may not represent sufficient market liquidity and must be adjusted as well. Whenever the amount of the adjustment is significant to the value of the security, the fair value measurement is classified as Level 3.

Credit Spread

Credit spread is a component of the security representing its credit quality. Credit spread reflects the market perception of changes in prepayment, delinquency and recovery rates, therefore capturing the impact of other variables on the fair value. Changes in credit spread affect the fair value of securities differently depending on the characteristics and maturity profile of the security. For example, credit spread is a more significant driver of the fair value measurement of a high yield bond as compared to an investment grade bond. Generally, the credit spread for an investment grade bond is also more observable and less volatile than its high yield counterpart.

Valuation uncertainty is computed on a quarterly basis across all financial instruments. The methodology used to derive the impact across each product is determined by applying sensitivity adjustments to the price or significant model input parameters used in the valuation. The adjustments are typically computed with reference to proxy analysis using third party data. Examples of the approach used to derive sensitivity adjustments are outlined below:

- Rates: Valuation uncertainty is gauged from a combination of consensus market data and proxy analysis using third party data providers.

- Credit and Securitised Markets: Valuation uncertainty is gauged from a combination of consensus market data, brokers and proxy analysis using third party data providers.

19. Financial assets and liabilities (continued)

Estimated fair value of financial instruments not carried at fair value

Set out below, is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

Other financial assets are primarily made up of receivables balances from the Company's treasury and trade solutions and markets and securities services business.

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

- 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 measured at FVOCI 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.

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

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

19. Financial assets and liabilities (continued)

Estimated fair value of financial instruments not carried at fair value (Continued)

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

	31 December 2018		Estimated fair value		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	17,003,234	17,003,234	17,003,234	-	-
Loans and advances to banks	13,250,086	13,249,800	-	13,249,800	-
Loans and advances to customers	18,496,144	18,417,480	-	-	18,417,480
Other financial assets	3,496,170	3,496,170	-	-	3,496,170
Total financial assets	**52,245,634**	**52,166,684**	**17,003,234**	**13,249,800**	**21,913,650**
Liabilities					
Deposits by banks	14,301,103	14,257,888	-	14,257,888	-
Customer accounts	25,172,720	25,096,654	-	25,096,654	-
Other financial liabilities	4,690,560	4,676,385	-	2,735,411	1,940,974
Total financial liabilities	**44,164,383**	**44,030,927**	**-**	**42,089,953**	**1,940,974**

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

20. Derivative financial instruments

	31 December 2018			31 December 2017		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Derivatives held for trading	140,090,559	1,487,419	1,501,410	88,138,081	1,600,257	1,667,005
Derivatives held for risk management	171,750	-	1,539	179,895	3,344	-
Total	140,262,309	1,487,419	1,502,949	88,317,976	1,603,601	1,667,005
Derivatives - Trading						
Foreign exchange	72,890,030	947,700	945,490	44,090,480	1,184,186	1,234,144
- OTC	72,890,030	947,700	945,490	44,090,480	1,184,186	1,234,144
- Organised market	-	-	-	-	-	-
Interest rate	66,103,596	521,507	530,024	43,329,277	411,499	419,563
- OTC	66,103,596	521,507	530,024	43,329,277	411,499	419,563
- Organised market	-	-	-	-	-	-
Equity	819,795	10,548	10,548	491,012	3,833	3,833
- OTC	819,795	10,548	10,548	491,012	3,833	3,833
- Organised market	-	-	-	-	-	-
Credit	265,150	2,015	9,707	204,202	-	8,726
Commodity	11,988	5,650	5,642	23,110	739	739
Other	-	-	-	-	-	-
Total	140,090,559	1,487,419	1,501,410	88,138,081	1,600,257	1,667,005

See Note 18 – 'Risk management' for more details on how the Company uses derivative financial instruments as part of its risk management policies and procedures.

	31 December 2018			31 December 2017		
	Notional amount		Fair value	Notional amount		Fair value
		Assets	Liabilities		Assets	Liabilities
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Derivatives held for risk management						
Instrument type:						
Foreign exchange	171,750	-	1,539	179,895	3,344	-
Total	171,750	-	1,539	179,895	3,344	-

The Company has a net investment hedge in place to reduce its foreign currency exposure risk with the Company's EUR functional currency branches. The hedge contracts are renewed every 3 months at maturity and the gain or loss on the contract is recognised in the fair value reserve and will be released to the Income Statement upon the disposal of the investments.

21. Investment securities

Investment securities are primarily composed of government securities.

	31 December 2018 $ 000	31 December 2017 $ 000
Amortised cost investment securities		
Corporate bonds	-	6,691
Total	-	6,691
FVOCI investment securities		
Government bonds	3,649,927	2,416,804
Corporate bonds	335,019	415,665
Equity securities	-	48,171
Expected credit loss	(1,272)	-
Total	3,983,674	2,880,640
FVTPL investment securities		
Equity securities	88,422	-
Total	88,422	-
Total investment securities	4,072,096	2,887,331

Expected credit loss – Investment securities

The following table shows an analysis of changes in the gross carrying amount and the corresponding ECL allowances:

Exposure	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
Outstanding exposure as at 1 January 2018	2,839,160	-	-	2,839,160
New assets originated or purchased	2,706,427	-	-	2,706,427
Asset derecognised or matured	(1,580,296)	-	-	(1,580,296)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments and other movements	19,655	-	-	19,655
At 31 December 2018	**3,984,946**	-	-	**3,984,946**

ECL	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
IFRS 9 ECL as at 1 January 2018	2,097	-	-	2,097
ECL on new assets originated or purchased	867	-	-	867
Exposure derecognised or matured	(1,673)	-	-	(1,673)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments and other movements	(19)	-	-	(19)
At 31 December 2018	**1,272**	-	-	**1,272**

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22. Property and equipment

	Leasehold improvements $ 000	Vehicles, furniture and equipment $ 000	Total $ 000
Cost			
At 1 January 2017	47,009	636,390	683,399
Additions	6,157	34,081	40,238
Acquisitions	689	1,780	2,469
Disposals	(7,224)	(650,820)	(658,044)
Write-offs	(481)	(1,048)	(1,529)
Foreign exchange	5,804	61,202	67,006
At 31 December 2017	51,954	81,585	133,539
Additions	29,640	14,585	44,225
Acquisitions	1,721	1,994	3,715
Disposals	(2,334)	(5,783)	(8,117)
Write-offs	(7,489)	(1,881)	(9,370)
Foreign exchange	(6,835)	(594)	(7,429)
At 31 December 2018	66,657	89,906	156,563
Depreciation			
At 1 January 2017	19,213	520,110	539,323
Charged in year	5,760	30,312	36,072
Acquisitions	-	43	43
Disposals	(5,504)	(548,618)	(554,122)
Write-offs	(239)	(221)	(460)
Foreign exchange	3,204	52,404	55,608
At 31 December 2017	22,434	54,030	76,464
Charged in year	11,037	5,366	16,403
Acquisitions	-	2	2
Disposals	(1,351)	(3,042)	(4,393)
Write-offs	(3,295)	(1,638)	(4,933)
Foreign exchange	310	(2,334)	(2,024)
At 31 December 2018	29,135	52,384	81,519
Net book value			
At 31 December 2018	37,522	37,522	75,044
At 31 December 2017	29,520	27,555	57,075

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2017: $nil).

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NOTES TO THE FINANCIAL STATEMENTS

23. Intangible assets

	Goodwill	Computer software	Other Intangibles	Total
Cost	$ 000	$ 000	$ 000	$ 000
1 January 2017	42,227	711,082	33,278	786,587
Additions	-	19,106	-	19,106
Disposals	-	(638,600)	-	(638,600)
Write-offs	-	(1,315)	338	(977)
Foreign exchange	5,546	59,285	1,297	66,128
At 31 December 2017	47,773	149,558	34,913	232,244
Additions	-	13,992	-	13,992
Acquisitions	-	148	-	148
Disposals	-	(2,332)	-	(2,332)
Write-offs	-	(8)	-	(8)
Foreign exchange	(2,635)	(131)	(559)	(3,325)
At 31 December 2018	45,138	161,227	34,354	240,719
Amortisation and impairment losses				
1 January 2017	24,465	377,966	25,474	427,905
Amortisation	-	68,000	1,164	69,164
Disposals	-	(406,692)	-	(406,692)
Write-offs	-	659	338	997
Foreign exchange	2,702	35,006	309	38,017
At 31 December 2017	27,167	74,939	27,285	129,391
Additions		2,383	548	2,931
Amortisation	-	13,333	651	13,984
Disposals	-	(2,177)	-	(2,177)
Write-offs	-	6,262	-	6,262
Foreign exchange	(1,592)	(1,723)	(199)	(3,514)
At 31 December 2018	25,575	93,017	28,285	146,877
Net carrying value				
At 31 December 2018	19,563	68,210	6,069	93,842
At 31 December 2017	20,606	74,619	7,628	102,853

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

Goodwill was allocated to the Netherlands market and the United Kingdom. The cash flow projections in respect of the Netherlands (Direct Custody and Clearing business) cover a ten year period and the cash flow projections in respect of the UK (Fund administration business) management assess the discounted cash flows of the Market and Securities Services business over a five year period.

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

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

NOTES TO THE FINANCIAL STATEMENTS

23. Intangible assets (continued)

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

Cash generating unit	Goodwill	Growth	Discount rate	
Institutional Clients Group	$ 000	rate	2018	2017
- Netherlands (Direct custody and clearing business)	13,111	3%	-0.121	-0.186
- UK Fund administration business	6,096	1%	-	-
- Greece (Direct custody and clearing business)	355	4%	-0.121	-0.186

The model is sensitive to changes in the growth rate. The growth rate is aligned to Base Operating Plan.

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

24. Deferred tax

The movement on the deferred tax is as follows:

	Balance at 1 January 2018 $ 000	Recognised in the Income statement $ 000	Recognised in statement of other comprehensive income $ 000	Balance at 31 December 2018 $ 000
Property, equipment and intangible assets	264,616	(36,830)	-	227,786
Investment securities at FVOCI	(2,113)	(6,224)	(3,525)	(11,862)
Pension and other retirement benefits	29,953	(1,566)	(1,145)	27,242
Allowances for expected credit losses	1,520	-	-	1,520
Tax loss carry-forward	116	-	-	116
Other Temporary Differences	7,603	(470)	-	7,133
Fx Translation	(15,039)	-	(11,209)	(26,248)
Total Deferred Tax	286,656	(45,090)	(15,879)	225,687
- of which Deferred Tax Asset	304,740			254,374
- of which Deferred Tax Liability	18,084			28,687

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

NOTES TO THE FINANCIAL STATEMENTS

25. Other assets*

	31 December 2018 $ 000	31 December 2017 $ 000
Receivables from unsettled regular way trades	687,086	254,984
Settlement clearing lines	404,118	563,053
Margin account receivables	446,106	621,235
Secondary loan trading	1,958,860	1,873,477
Other balances	481,293	475,596
	3,977,463	3,788,345

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

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

*Only financial assets within Other assets are in scope of IFRS 9 as per below.

Expected credit loss – Other assets

The following table shows an analysis of changes in the gross carrying amount and the corresponding ECL allowances:

Exposure	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
Outstanding exposure as at 1 January 2018	3,312,750	-	-	3,312,750
New assets originated or purchased	637,028	-	-	637,028
Asset derecognised or matured	(453,608)	-	-	(453,608)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments and other movements	-	-	-	-
At 31 December 2018	**3,496,170**	-	-	**3,496,170**

ECL	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
IFRS 9 ECL as at 1 January 2018	62	-	-	62
ECL on new assets originated or purchased	-	-	-	-
Exposure derecognised or matured	(62)	-	-	(62)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments and other movements	-	-	-	-
At 31 December 2018	-	-	-	-

26. Shares in subsidiaries

	31 December 2018 $ 000	31 December 2017 $ 000
Beginning of period	14,175	14,876
Disposal	-	(701)
End of period	14,175	14,175

The Company has an investment in the following subsidiary:

Name	Country of incorporation	Nature of business	Year end	Registered office	Percentage ownership
CitiCapital Leasing (March) Limited	England	Lease finance	31 March	United Kingdom	100%

27. Provisions

Provisions recorded for restructuring largely relate to termination benefits. Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Provision for property costs are mainly related to provision for onerous contracts. Provisions for onerous contracts are recorded when the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to arise from that contract, taking into account impairment of property, plant and equipment assets.

Provision for commitments and guarantees given are recorded for committed loans, when the Company has contractual obligation to provide funds for clients, or for any contractual commitments which are not recorded on the statement of financial position.

Provisions are recognised when there is a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

	Restructuring provision $ 000	Provision for property costs $ 000	Other provisions $ 000	Total $ 000
31 December 2018				
Opening balance	9,280	1,913	5,255	16,448
Provisions made during the year	6,345	6	(2,057)	4,294
Provisions used during the year	(4,053)	(117)	(379)	(4,549)
Provisions released during the year	(4,006)	(96)	(732)	(4,834)
Exchange Adjustments	28	(43)	130	115
Other movements	(60)	-	(50)	(110)
Closing balance	**7,534**	**1,663**	**2,167**	**11,364**
Commitments and guarantees				**58,950**
Total provision balance				**70,314**

27. **Provisions** (continued)

	Restructuring provision $ 000	Provision for property costs $ 000	Other provisions $ 000	Total $ 000
31 December 2017				
Opening balance	15,742	1,837	3,853	21,432
Provisions made during the year	10,949	2,994	3,073	17,016
Provisions used during the year	(7,551)	(2,740)	(529)	(10,820)
Provisions released during the year	(10,550)	(125)	(1,331)	(12,006)
Exchange Adjustments	549	(41)	6	514
Other movements	141	(12)	183	312
Closing balance	**9,280**	**1,913**	**5,255**	**16,448**
Commitments and guarantees				**77,437**
Total provision balance				**93,885**

28. **Other liabilities**

	31 December 2018 $ 000	31 December 2017 $ 000
Other liabilities		
Accounts payable	3,573,588	3,672,983
Margin Account Obligations	970,181	889,267
Short sales	273,765	287,231
Retirement obligations (Note 15)	218,894	239,622
Other	624,520	471,754
Total other liabilities	5,660,948	5,560,857

Accounts payable predominantly relates to obligations arising from the Company's transaction services business. The other balances include amounts payable to other financial institutions, corporates and other group entities, primarily relating to prepaid risk participations, items in the process of settlement and margin account obligations. Settlement of these accounts are short term in nature, balances can fluctuate depending on the underlying business activity.

Margin Accounts Obligations reflects the Company's obligation to pay collateral back to clients upon their own settlement of margin calls as they arise.

Short Sales represent payables arising from short sale transactions where securities and money market instruments are sold but not owned at the time of the transaction.

29. **Discontinued operations and asset and liabilities held for sale**

In 2018, the Company reported the Retail business within the UK Branch as "Held for Sale" and "Discontinued operation" after meeting the criteria for such a designation under IFRS 5.

In March 2017, the Hungarian Branch reported a gain on disposal of $20.4 million in relation to the disposal of its Consumer Business.

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

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

A. Income statement

Results of discontinued operation (Retail business of UK branch)	31 December 2018 $ 000	31 December 2017* $ 000
Total revenues	22,993	24,380
- of this: Interest income	758	661
- of this: Net fee and commission income	22,229	22,793
Total expenses	(30,583)	(30,508)
- of this: Interest expense	(11,569)	(5,949)
- of this: Personnel expense	(7,309)	(10,642)
Loss before income tax	(7,590)	(6,128)
Income tax expense	-	-
Total comprehensive expense for the year	(7,590)	(6,128)

*The comparative for 2017 is for the Retail Business for the UK Branch only. Comparative on the income statement on page 14 is for the Consumer Business of Hungarian Branch classified as 'discontinued operations' in the prior year and detailed below.

Results of discontinued operation (Consumer business of Hungary branch)	31 December 2018 $ 000	31 December 2017 $ 000
Total revenues	-	7,900
- of this: Interest income	-	7,546
- of this: Net fee and commission income	-	354
Total expenses	-	(17,202)
- of this: Interest expense	-	(116)
- of this: Personnel expense	-	2,190
Net credit recoveries	-	(69)
Gain on sale of discontinued operation	-	21,068
Profit before income tax	-	11,697
Income tax expense/(credit)	-	(1,374)
Total comprehensive income/(expense) for the year	-	10,323

Total revenues represent the sum of interest income, net fee and commission income, dividend income, net trading income, net investment income and other operating income.

B. Cash flows and statement of financial position

Cash flows from (used in) discontinued operation	31 December 2018 $ 000	31 December 2017 $ 000
Net cash from operating activities	411,615	-
Net increase in cash and cash equivalents	411,615	-

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

The table below details the assets and liabilities in relation to assets held for sale of the Retail business of UK branch for the period in 2018.

Statement of Financial Position	31 December 2018 $ 000	31 December 2017 $ 000
Assets		
Cash and cash equivalents	562,057	58,999
Loans and advances to customers	29,591	66
Other assets	32,500	37,717
Total Assets	624,148	96,782
Liabilities		
Customer accounts	4,571,046	4,479,603
Other liabilities	43,765	39,412
Total Liabilities	4,614,811	4,519,015

30. Called up share capital

	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	Number of Ordinary shares		$ 000	$ 000
Authorised				
At the end of the year	5,000,000,000	5,000,000,000	4,691,500	4,691,500
Share capital				
Allotted, called-up and fully paid	9,741,290	9,741,290	10,532	10,532
Share premium				
At the end of the year			1,962,747	1,962,747

31. Share-based incentive plans

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

In the share award programme Citigroup issues common shares in the form of restricted share awards, deferred share awards and share payments. For all stock award programmes during the applicable vesting period, the shares awarded are not issued to participants (in the case of a deferred stock award) or cannot be sold or transferred by the participants (in the case of a restricted stock award), until after the vesting conditions have be satisfied. Recipients of deferred share awards do not have any shareholder rights until shares are delivered to them, but they generally are entitled to receive dividend-equivalent payments during the vesting period. Recipients of restricted share awards are entitled to a limited voting right and to receive dividend or dividend-equivalent payments during the vesting period. Once a share award vests the shares become freely transferrable, but in the case of certain employees, may be subject to transfer restriction by their terms or share ownership commitment.

31. Share-based incentive plans (continued)

Stock award programme

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

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

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

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

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

	2018	2017
Shares awarded	156,884	163,116
Weighted average fair market value per share	$75.16	$59.56
	$ 000	**$ 000**
Compensation cost charged to earnings	13,618	9,801
Fair value adjustments recorded to equity	(3,781)	(2,511)
Total carrying amount of equity-settled transaction liability	17,678	22,920

	2018 $ Million	2017 $ Million
Stock Awards		
Granted in 2018	10.2	-
Granted in 2017	0.8	8.5
Granted in 2016	0.4	1.4
Granted in 2015	0.1	0.7
Granted in 2014	-	0.2
Cash Accrued	2.1	1.0
Total Expense	13.6	9.8

The Company did not operate or have any stock option programme (2017: nil).

32. Contingent liabilities and commitments

The following tables give the nominal principal amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the statement of financial position date and do not represent amounts at risk.

	Contract amount 31 December 2018 $ 000	Contract amount 31 December 2017 $ 000
Undrawn credit lines	21,582,823	21,167,806
Other commitments		
- less than 1 yr	11,325,343	12,090,077
- 1 yr and over	6,264,350	4,881,769
Total	39,172,516	38,139,652

Other commitments primarily relate to the Trade business in Ireland. The Company held an expected credit loss provision of $59 million as at 31 December 2018 (2017: impairment provision of $77.4 million), with respect to its commitments.

Expected credit loss – Off-balance sheet

The following table shows an analysis of changes in the gross carrying amount and the corresponding ECL allowances:

Exposure	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
Outstanding exposure as at 1 January 2018	37,045,797	965,078	128,777	38,139,652
New assets originated or purchased	35,533,312	955,572	-	36,488,884
Asset derecognised or matured	(34,439,876)	(887,175)	(127,649)	(35,454,700)
Transfers to Stage 1	78,534	(77,406)	(1,128)	-
Transfers to Stage 2	(452,415)	452,415	-	-
Transfers to Stage 3	(3,395)	(460)	3,855	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	(497)	(38)	-	(535)
Foreign exchange adjustments and other movements	(467)	-	(318)	(785)
At 31 December 2018	**37,760,993**	**1,407,986**	**3,537**	**39,172,516**

ECL	Stage 1 $ 000	Stage 2 $ 000	Stage 3 $ 000	Total $ 000
IFRS 9 ECL as at 1 January 2018	8,859	45,501	370	54,730
ECL on new assets originated or purchased	9,983	46,722	309	57,014
Exposure derecognised or matured	(7,590)	(44,694)	(370)	(52,654)
Transfers to Stage 1	802	(802)	-	-
Transfers to Stage 2	(1,131)	1,131	-	-
Transfers to Stage 3	-	(1)	1	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	(93)	(4)	-	(97)
Foreign exchange adjustments and other movements	(43)	-	-	(43)
At 31 December 2018	**10,787**	**47,853**	**310**	**58,950**

33. Business transfer under common control

Direct custody and clearing business ("DCC")

On 5 March 2018, the Company purchased DCC business from Citigroup Global Markets Deutschland AG ("CGMD") for $32 million in consideration. The assets which were transferred comprised of customer contracts and no liabilities were transferred. No goodwill was recognised as the consideration deemed in excess was charged to merger reserve. Revenue and expenses in relation to this business were recognised in the Company's income statement from 5 March 2018.

Banking business of CGMD

On 27 April 2018, the banking business of Citigroup Global Markets Deutschland AG ("CGMD") in Germany, consisting of Treasury and Trade Solutions, Markets Treasury, Issuer Services, Direct Custody and Clearing Sales and corporate lending was transferred to the Company's newly established German branch. The Company paid a consideration of $2.1million to CGMD to acquire the banking business. No goodwill was recognised as part of the transfers and the excess consideration over net assets transferred was charged to merger reserve. Revenue and expenses in relation to this business were recognised in the Company's income statement from 27 April 2018.

The assets and liabilities which were transferred are stated below:

Assets	**$ 000**
Cash and cash equivalents	3,433,602
Derivative financial instruments	9,929
Loans and advances to banks	11,448
Loans and advances to customers	64,404
Total Assets	3,519,383

Liabilities	**$ 000**
Deposits by banks	1,540,601
Customer accounts	1,894,721
Other liabilities	84,061
Total Liabilities	3,519,383

NOTES TO THE FINANCIAL STATEMENTS

34. Involvement with unconsolidated structured entities

Nature, purpose and extent of the Company's interests in unconsolidated structured entities

The Company engages in various business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that any voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

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

Asset Based Financing

The Company provides loans and other forms of financing to structured entities that hold assets. Those loans are subject to the same credit approvals as all other loans originated or purchased by the Company.

The Company does not have the power to direct the activities that most significantly impact these structured entities economic performance, and thus it does not consolidate them. These vehicles are funded usually via a syndicate of lenders.

The table below sets out an analysis of carrying amounts of interests held by the Company in unconsolidated structured entities and the maximum exposure to loss. All exposures are included in loans and advances to customers and are funded.

	31 December 2018 $ 000	31 December 2017 $ 000
Carrying amount		
Asset-Based Financing	711,715	994,840
Total	711,715	994,840

The above exposure is the asset based financing provided to 33 entities (2017: 32). The assets held within these entities amounted to $1,597 million (2017: $4,246 million). The Company has further commitments of $278 million (2017: $1 million) to these entities.

The asset based financing represents the balance sheet carrying amount of the Company's financing in the structured entities. It reflects the initial financing in the structured entities adjusted for any accrued interest and cash principal payments received. The carrying amount may also be adjusted for increases or declines in fair value or any impairment in value recognised in the income statement.

35. Operating lease commitments

	31 December 2018 $ 000	31 December 2017 $ 000
Expiring:		
- within one year	5,285	8,515
- between one and five years	18,010	15,533
- in five years or more	1,080	3,470
	24,375	27,518

The operating lease commitments are in relation to the office buildings of 8 branches in Europe (2017: 9 branches).

NOTES TO THE FINANCIAL STATEMENTS

36. Related party transactions

The Company is a wholly owned subsidiary undertaking of Citibank Holdings Ireland Limited, which is incorporated in Ireland. The largest Group in which the results of the Company are consolidated is that headed by Citigroup Inc., which is incorporated in the United States of America. The Company defines related parties as the Board of Directors, senior management, their close family members, parent and fellow subsidiaries and associated companies. The Company considers the key management of the Company to be the members of the Executive Committee (ExCo).

Transactions with key management personnel

Key management personnel compensation comprised the following:

Remuneration	31 December 2018 $ 000	31 December 2017 $ 000
Salaries and other short term benefits	8,968	6,974
Post-Employment Benefits	423	368
Termination Benefits	-	-
	9,392	7,342

At 31 December 2018, the number of the Key Management Personnel was 10 (2017: 9).

Salaries and other short term benefits comprise salary, role based allowance, variable compensation, cash in lieu of pension and the value of other benefits. Post-employment benefits include employer contributions paid to pension funds.

At 31 December 2018, there were no outstanding exposures to Directors including loans (2017: $nil).

A number of arm's length transactions are entered into with other Citigroup companies. These include loans and deposits that provide funding to other Citigroup companies as well as derivative contracts used to hedge residual risks that are included in the other assets and other liabilities balances. Various services are provided between related parties and these are all also provided at arm's length. The table below summarises balances with related parties.

	31 December 2018		
Assets	Parent company undertakings $ 000	Other Citigroup undertakings $ 000	Total $ 000
Cash and cash equivalents	-	1,534,101	1,534,101
Loans and advances to banks	-	10,142,359	10,142,359
Loans and advances to customers	-	24,265	24,265
Other assets	-	148,247	148,247
Derivatives	-	758,903	758,903
Liabilities			
Deposits by banks	-	12,701,810	12,701,810
Customer accounts	-	916,472	916,472
Other liabilities	-	378,875	378,875
Derivatives	-	894,405	894,405
Commitments and guarantees	-	22,626	22,626
Income statement			
Interest and similar income	-	54,807	54,807
Interest payable	-	(21,155)	(21,155)
Net fee and commission income	-	246,871	246,871
Other operating income	-	438,163	438,163
Net trading income	-	18,530	18,530
Other expenses	-	(217,375)	(217,375)

36. Related party transactions (continued)

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

Dividends of $589 million were paid by the Company to its direct parent, Citibank Holding Ireland Limited ("CHIL") in relation to 2017 earning during the year (2017: $1.075 billion).

37. Reserves

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

Translation reserve

The translation reserve represents the cumulative gains and losses on the translation of the Company's net investment in its foreign operations, excluding any ineffectiveness, of investment hedge derivatives. Gains and losses accumulated in this reserve are reclassified to the income statement when the Company loses control, joint control or significant influence over the foreign operation or on disposal or partial disposal of the operation.

Fair value reserve

The fair value reserve represents the cumulative net change in the fair value of the financial instruments measured as FVOCI on statement of financial position until the assets are derecognised or reclassified.

Equity reserve

The equity reserve represents amounts expensed in the income statement in connection with share based payments, net of transfers to retained earnings on the exercise, lapsing or forfeiting of share awards.

Capital reserve

The capital reserve represents capital contributions received from parent companies.

Merger reserve

The merger reserve represents the difference between the fair value and book value and any transferred over reserve balances from the merger and capital transactions.

38. Parent companies

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

The largest Group in which the results of the Company are consolidated is Citigroup Inc., registered at 1209 Orange Street, Wilmington, New Castle, DE, 19810, United States of America. The audited consolidated financial statements of Citigroup Inc. are made available to the public annually in accordance with Securities and Exchange Commission regulations and may be obtained from http://www.citigroup.com/citi/investor/corporate_governance.html

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

39. Approval of financial statements

The financial statements of the Company were approved by the Board of Directors on the 28th March 2019.