Citibank UK Limited

(formerly Citi Marble Arch Limited)

(Registered Number: 11283101)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2019

CITIBANK UK LIMITED

STRATEGIC REPORT
for the year ended 31 December 2019

The Directors present their strategic report on Citibank UK Limited ("CUKL" or "the Company") for the year ended 31 December 2019.

1. Introduction

Citibank UK Limited (formerly Citi Marble Arch Limited) was incorporated on 29 March 2018. Until 24 January 2019, the Company was a wholly owned subsidiary of Citi Overseas Holdings Bahamas Limited ("COHBL"). On 24 January 2019, COHBL transferred its ownership in the Company to Citibank Overseas Investment Corporation ("COIC"), which became its immediate parent company and remains so, as at the date of these financial statements. Citigroup Inc. ("Citi") is the ultimate parent undertaking.

Citi currently operates via two primary business segments, the Institutional Clients Group ("ICG") and the Global Consumer Bank ("GCB"). The Company's principal business falls within the GCB segment of Citi's operations. GCB offers consumer banking products and services, principally to high net worth individuals ("HNWI"), both onshore and offshore. Offshore clients are primarily referred through Citi's global network. The product offering includes multi-currency deposits, investments, foreign exchange solutions and other wealth management services. ICG businesses utilise the excess liquidity generated in the entity to fund high quality loans, bonds and securitised notes taking into account, among other factors, the Liquidity, Risk and Governance framework of the entity.

Effective the 17 May 2019, the Company was authorised by the Prudential Regulation Authority ("PRA") and is further regulated by the Financial Conduct Authority ("FCA"). All costs incurred associated with the legal and regulatory establishment of the Company were borne and paid by Citibank National Association, UK branch ("CBNA London").

Pursuant to above, the existing GCB customers formerly serviced out of Citi affiliates, Citibank Europe Plc UK branch ("CEP UK") and CBNA London were transferred to the Company, on the 16 September 2019, in line with High Court approvals received on 26 July 2019.

2. CUKL Governance and Principal Risks

CUKL has an established management and governance framework incorporating all of its businesses and functions. Its Board of Directors ("the Board") consists of executive and non-executive directors, including the Head of the UK Consumer Banking (the Company's CEO) and the Citi Country Officer ("CCO") for the UK.

The Board is supported by UK Senior Managers and the relevant EMEA and UK business heads together with the regional and country heads of Risk, Finance, Operations & Technology, Legal, Compliance and Human Resources.

Senior Manager Certification Regime ("SMCR")

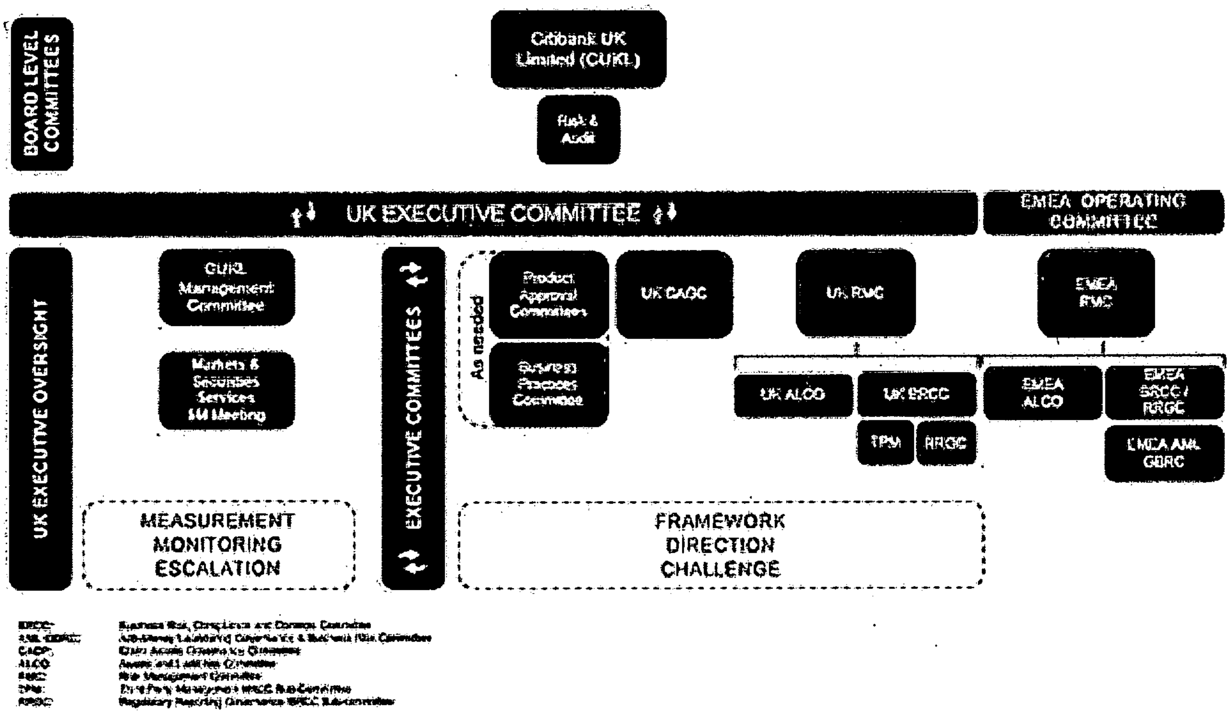
The SMCR focuses on a small number of individuals (Senior Managers) who hold key roles or have overall responsibility for whole areas of relevant UK entities and branches. Senior Managers require regulatory pre-approval to perform a Senior Management Function ("SMF"). The SMCR requires Senior Managers to take reasonable steps to avoid a breach occurring or continuing. As part of the Individual Accountability Regime (of which the SMCR is a part), CUKL maintains a Management Responsibilities Map which documents the firm's governance arrangements.

CITIBANK UK LIMITED

STRATEGIC REPORT
for the year ended 31 December 2019

2. CUKL Governance and Principal Risks (continued)

The chart below highlights the main components of CUKL's governance structure, within Citi's regional and UK management and governance framework during 2019:



Principal Risks

CUKL's principal risks arise from the nature of the services provided to its clients and include both financial and non-financial elements. The principal risks identified by management and covered by CUKL's risk management framework are noted as follows, and are described in more detail in Note 13 – 'Risk management':

- credit risk;
- market risk;
- liquidity risk; and
- operational risk.

CITIBANK UK LIMITED

STRATEGIC REPORT
for the year ended 31 December 2019

3. Mission and Strategy

The Company's mission, in line with that of Citi, is to serve as a trusted partner to its customers by responsibly providing financial services that enable growth and economic progress. Its core activities are offering of consumer banking products and services. Whilst carrying out these activities, it ensures that actions are always in its clients' interests, create economic value and are systemically responsible. The excess liquidity generated by the Consumer business is invested in a range of assets including corporate loans, securitised notes and high quality liquid assets.

The Consumer business in the UK is primarily a deposit-taking and wealth management business serving both onshore and offshore affluent and high net worth customers. The onshore UK business focuses on domestic clients while the offshore business is part of Citi's International Personal Bank ("IPB") focusing on target market clients from Europe and the Middle East. The business aims to be the wealth manager of choice for these clients through:

- Delivering and continually developing a platform of banking and wealth management solutions;
- Targeting those clients whose needs are optimally met with CUKL and Citi's solutions and expertise; and
- Serving clients with a multi-channel approach led by a relationship manager model and complimented by strong digital and online capabilities.

2019 was the Company's first year of operations and the key priority was to transition the existing consumer businesses from CEP UK and CBNA London in to CUKL. This was a significant undertaking that required engagement from teams across Citi as well as with regulators in the UK and the US. The successful transition occurred on the 16th September 2019 with minimal disruption to clients.

The Company has delivered positive returns across its first months of operation.

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

	31 December 2019 £ 000
Profit before Income Tax	9,511
Profit after Income Tax	7,086
Operating Efficiency	59%
Shareholders' funds*	362,624
Return on Capital Employed	3%
Leverage Ratio	7.2%

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

CITIBANK UK LIMITED

STRATEGIC REPORT
for the year ended 31 December 2019

4. Financial Highlights

4.1 Income Statement Summary

	2019 £ 000	2018 £ 000
Interest receivable	17,376	-
Interest payable	(3,705)	-
Fees and commissions receivable	9,380	-
Fees and commissions payable	(578)	-
Dealing profits	942	-
Administrative expenses	(12,136)	-
Depreciation and amortisation	(846)	-
Other operating charges	(44)	-
Provisions	(878)	-
Profit on ordinary activities before tax	9,511	-
Tax on profit on ordinary activities	(2,425)	-
Profit for the financial year	7,086	-

Profit for the financial year was £7.1 million primarily driven by the Consumer business.

Securities Purchased under Resale agreements and Commercial Real Estate loans drove Interest receivable with the majority of interest payable being on customer deposits including time deposit accounts. Fees and Commissions were driven by the Consumer business with fees for wealth management advice, investments custody and retail banking fees. Dealing profits (£1 million) are trading gains primarily driven by net realised gains on matured transactions and unrealised gains primarily driven by MTM on derivatives such as FX Swaps and FX Forwards.

The main contributors to Administrative expenses were staff and technology expenses. There are no changes in strategy anticipated for 2020, which would significantly change the running costs of the Company.

4.2 Statement of Financial Position Summary

	31 December 2019 £ 000	31 December 2018 £ 000
Total assets	4,810,642	-
Total liabilities	4,448,018	-
Shareholders' funds	362,624	-

The majority of Company's assets are government bonds and securities purchased under agreements to resell. The Company also has commercial real estate loans, retail mortgage backed securities and cash placed at the Bank of England and with other Citi affiliates. The strategy for 2020 is to reduce the holdings of securities purchased under agreements to resell and increase holdings of high quality securitised notes.

Over 95% of the Company's liabilities are customer deposits with a small amount of subordinated borrowing from the Company's parent.

More detailed information about the composition of CUKL's statement of financial position can be found in the Statement of Financial Position and the Notes to the Accounts, in particular Note 14 – 'Financial assets and liabilities'.

4. Financial Highlights (continued)

*4.3 **Regulatory Capital***

CUKL's regulatory capital position is summarised below.

	31 December 2019 £ 000	31 December 2018 £ 000
Regulatory capital	395,773	-
Tier 1 capital ratio	39.4%	100%

Tier 1 capital encompasses tangible shareholders' funds. Tier 2 capital comprises long term subordinated debt that is eligible for inclusion as capital. Deductions from capital include adjustments for deferred tax assets, intangible assets and other valuation adjustments.

Pillar 1 prescribes the minimum capital requirements for banks and investment firms under the Basel Capital Accord and the EU Capital Requirements Directive and Regulation ("CRD IV" package). In addition to Pillar 1 requirements, the PRA mandates a set of Pillar 2 regulatory capital standards, which CUKL is required to meet, in its individual capital guidance and additional capital buffers. Management maintains a sufficiently strong and stable capital position, in excess of these minimum regulatory requirements, and monitors CUKL's excess capital to ensure that a surplus is maintained at all times.

4.4 External Environment

The Company's first year of operation was characterised by a number of key themes:

- Continued political and economic uncertainty;
- Increased volatility in financial markets;
- Increasingly competitive landscape due to new technologies such as Automation, Machine Learning and Robotics Process Automation; and
- New Legislations resulting in increased compliance requirements.

Underlying UK GDP growth slowed materially in 2019 as weaker global growth driven by factors including US-China trade war and Brexit-related uncertainties weighed on spending. Weaker world growth was partly driven by trade protectionism and an associated rise in global uncertainty.

5. 2020 Future Outlook

CUKL's core strategic themes and operational priorities are defined in accordance with Citi's overall strategy. These themes are summarised below:

- *Acquire customers where we have a differentiated ability to serve our target clients including expansion of current referral markets*
- *Adapting to meet client needs through new product offerings and enhancements in our digital offerings and experience*
- *Continued development of the entities balance sheet*
- *Prepare for future regulatory changes*

5. **2020 Future Outlook** (continued)

5.1 The UK's withdrawal from the EU

Citibank UK Limited does not expect the UK's withdrawal from the EU to have a material impact on its business model, though there maybe changes once the UK-EU agreed transition period ends on 31 December 2020 in how CUKL is able to operate for the relatively small EU based portfolio of customer. The Company continues to engage with regulators during this time of change in order to minimize the impact on clients.

5.2 Market Outlook

Looking forward, the Company is likely to be impacted by a number of developments with specific significance for its operations and strategy:

- **The UK's withdrawal from the EU** and its associated economic, political, legal and regulatory ramifications will continue to be a source of uncertainty during 2020 as the exact nature of UK's future relationship with EU remains unclear.
- **The impact of Coronavirus** ("COVID-19"): The global spread of COVID-19 has resulted in governments taking varied actions towards stemming its spread and also bolstering economies. Consequently, the global economy has seen a slowdown of economic activity in many sectors and increased volatility in the financial markets including the UK. The impact of COVID-19 is expected to continue for the coming months with likely adverse effects on the operations and financial position of the business. The Company is closely monitoring the spread of COVID-19, the actions and reactions of Governments and the potential effects it will have on its business.
- **Uncertainties with respect to Global Growth** both in advanced and emerging-market economies may have an impact on confidence and financial activity.
- **Political uncertainty** is expected to continue through 2020.
- **Technological Developments** within the finance industry have the potential to significantly change the current technological and operational infrastructure across financial institutions.

Citi and CUKL will continue to monitor and assess these developments in order to mitigate any impact to services offered to clients and to take advantage of any opportunities that they may create. The Company is open to new opportunities to expand the businesses it offers within its risk appetite.

*5.3 **Regulatory Developments***

As the external regulatory environment continues to evolve, the most significant developments expected to impact CUKL stem from:

- Minimum Requirements for Own Funds and Eligible Liabilities ("MREL");
- Payment Services Directive II ("PSD 2");
- Transition from LIBOR;
- Proposed Revisions to the Capital Requirements Regulation CRR2/CRD V and CRR3/CRD VI, including changes to the large exposures rules;
- Anti-Money Laundering Directive 5/6 ("AMLD"); and
- Operational Resilience.

While there is uncertainty around the UK's future relationship with the EU, there will be no divergence in regulatory requirements until the end of the transition period, which is expected to end on 31 December 2020.

Minimum Requirements for Own Funds and Eligible Liabilities ("MREL")
MREL is a requirement for firms to maintain a minimum amount of loss-absorbing resources. This helps to ensure that when firms fail, the resolution authority (the Bank of England) can use a firm's own financial resources to absorb losses and recapitalise the business so it can continue to provide critical functions without the need to rely upon public funds. MREL resources can take the form of regulatory capital (own funds) and certain types of debt liabilities (eligible liabilities) that the Bank would expect to write down and/or convert to equity if a firm fails. CUKL's management monitors MREL closely from 1 January 2019 and the Company will meet its MREL requirements through a combination of Own Funds, Tier 2 Subordinated debt and long term unsecured debt.

5. 2020 Future Outlook (continued)

*5.3 **Regulatory Developments*** (continued)

Payment Services Directive II ("PSD 2")
PSD 2 is a regulatory requirement that aims to promote the development of innovative online and mobile payments, more secure payments and enhance consumer protection. Many elements of PSD 2 have already come into effect and firms will be expected to comply with remaining PSD 2 requirements within 2020 and 2021. CUKL will continue to monitor and assess these developments.

Transition from LIBOR
LIBOR is currently used as the interest rate benchmark to price or value a wide range of financial products. Following guidance from the Financial Conduct Authority ("FCA"), firms in the UK are expected to cease using LIBOR by the end of 2021. Citi, and by extension the Company, is currently conducting a global project to determine the client, product and legal entity impact. It is too early in the project to provide specific guidance on the impact of the transition on the Company, if any.

Proposed Revisions to the Capital Requirements Regulation CRR2/CRD V and CRR3/CRD VI, including changes to the large exposures rules
CUKL will be impacted by a number of regulatory rule changes introduced by the BCBS and other standard setters that have been legislated for in Europe by CRR 2/CRD V. It is expected that following the UK's departure from the EU, the UK will continue to apply similar prudential regulation to that in force within the EU.

CRR2/ CRD V was published in the Official Journal of the EU in June 2019. The majority of the package comes into force on 28 June 2021, however, some provisions have already been implemented, such as MREL. Other key elements for CUKL in CRR 2 include changes to the Large Exposures framework and the Leverage Ratio.

A further proposal to revise the CRR (known as CRR3) is expected to be published by the European Commission in 2020. This will incorporate other changes proposed by the BCBS, of which a new Standardised Approach to Credit Risk ("SA-CR") is anticipated to impact CUKL most.

While there are a number of regulatory changes anticipated over the coming years, Citi and CUKL remain prepared for the implementation of new regulatory requirements, and continue to monitor developments in this area.

Anti-Money Laundering Directive 5/6 ("AMLD")
AMLD 5 became operative from 10th January 2020 and significantly updates AMLD 4: the EU's framework directive on anti-money laundering ("AML"), and counter-terrorist financing ("CTF"). AMLD 6 (which will become operative from 3 December 2020) strengthens and harmonizes predicate offenses, money laundering offenses, and sanctions across the EU and facilitates cross-border police and judicial cooperation on AML matters. CUKL will continue to monitor and assess these developments.

Operational Resilience
On 5 December 2019, the FCA, PRA and Bank of England published their joint Consultation Papers on Operational Resilience. The proposals set out requirements and expectations for firms to identify their important business services by considering how disruption to the business services they provide can have impacts beyond their own commercial interests. Firms must set a tolerance for disruption for each important business service and ensure they can continue to deliver their important business services and are able to remain within their impact tolerances during severe but plausible scenarios. The proposals also include requirements to map and test important business services to identify vulnerabilities in their operational resilience and drive change where it is needed.

6. Non-financial information statement

Section 414CA (4) of the Companies Act 2006 states that a company is exempt from the inclusion of a non-financial information statement in its Strategic Report, if the company had no more than 500 employees in that financial year. The Company has elected to exercise this exemption in relation to the preparation of a non-financial information statement.

7. Section 172 statement

Section 172(1) of the Companies Act 2006 requires each director of the Company to act in a way in which he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters including:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between the Company's members.

The directors of the Company give careful consideration to the matters referred to in section 172(1) when discharging their legal duties. As a Board, we believe in taking decisions for the long-term benefit of the Company and look to safeguard the Company's reputation by upholding the highest standards of business conduct. Depending on the issue in question, the relevance of each stakeholder group and other relevant factors may vary. As such, the Board strives to understand the needs and priorities of each stakeholder group and the other factors relevant to the issue in question during its deliberations and as part of its decision-making.

The Board receives periodic refresher training on their legal duties and may seek advice about the implications of these duties at any time from our Company Secretary. New directors are offered a comprehensive induction programme which includes training on their statutory duties.

8. Events after the reporting period

A novel strain of coronavirus ("COVID-19") that first surfaced in China was classified as a pandemic by the World Health Organization on March 11, 2020, impacting countries globally. The impact of COVID-19 is expected to continue on the global economy for the coming months with likely adverse effects on the operations and financial position of the business. CUKL invoked its business continuity plans following the advice from Governments worldwide restricting movement of people and there has been no material impact on the operations of the Company. The Company has and continues to assess material risks and their implications to the business operations as a result of the global spread of COVID-19. As this is an evolving situation, emerging risks are reviewed and actively managed accordingly as they arise.

This is a non-adjusting event and an estimate of the financial effect cannot be made at the point in time as the situation remains a rapidly evolving one.

By order of the Board

S G Shakespeare
Director

23 June 2020

Incorporated in England and Wales
Registered Office: Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB
Registered Number: 11283101

The Directors present their Report and the audited financial statements of CUKL for the year ended 31 December 2019.

Incorporation and accounting reference date
The Company is incorporated in England and Wales as a private company limited by shares on 29 March 2018. The accounting reference date is 31 December.

Change of name
On 13 September 2018, the Company changed its name from Citi Marble Arch Limited to Citibank UK Limited.

Going concern basis
The financial statements are prepared on a going concern basis taking into account CUKL's existing capital and liquidity resources and the level of reliance placed on support from Citi, CUKL's ultimate parent. The Directors acknowledge the risk that extreme circumstances might adversely impact CUKL's ability to continue trading and are satisfied that CUKL has the resources to continue in business for at least 12 months from signing of the financial statements. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

The Directors have reviewed the capital, liquidity and financial position of the Company including future capital, liquidity and financial plans covering a period of at least 12 months from the date of approval of these Financial Statements.

A novel strain of coronavirus (COVID-19) that first surfaced in China was classified as a pandemic by the World Health Organization on March 11, 2020, impacting countries globally. In considering going concern, the Company continues to closely monitor developments related to the outbreak of COVID-19. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers. To assess any potential impact on the Company, the Directors reassessed the components of capital, liquidity and the financial position of the Company and have concluded that the going concern basis is still appropriate. The reassessment was completed on 31 March 2020 with reference to the stress testing processes within the ICAAP and ILAAP which demonstrated that CUKL has sufficient capital and liquidity buffers to withstand the current market conditions.

In this reassessment, the Directors considered severe but plausible downside scenarios, including stress tests aligned to the ICAAP for which the Company uses an internal model. These stress scenarios are considered to be at least as severe as the PRA anchor scenario. This analysis indicated that the Company would maintain capital and liquidity headroom throughout the period covered by the forecasts, even in reasonably possible downside scenarios.

The Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore, have prepared the financial statements on a going concern basis. In addition, Citigroup Inc. continues to provide confirmation that it will provide sufficient funding to the Company to ensure that it maintains a sound financial situation and is in a position to meet its debt obligations for at least 12 months from signing of the financial statements.

Further information relevant to this assessment is provided in the following sections of these financial statements:

- the principal activities, strategic direction and challenges and uncertainties are described in the Strategic Report on pages 1 to 8;
- a financial summary, including the income statement and statement of financial position, is provided in the financial results section on pages 18 to 21; and
- objectives, policies and processes for managing market, liquidity, credit and operational risk, and CUKL's approach to capital management and allocation, are described in Note 13 – 'Risk management', starting on page 42.

Dividends
During the year CUKL paid no dividends on its ordinary shares (2018: £nil), and paid £803 thousand dividend (2018: £nil) on its Additional Tier 1 Capital.

DIRECTORS' REPORT
for the year ended 31 December 2019

Information included in the Strategic Report
CUKL has elected to include information on financial risk management as per Schedule 7.6(1)(a) & (b) of the "Large and Medium-sized Companies and Groups Regulations 2008" in the Strategic Report as the Directors consider financial risk management to be of strategic importance to CUKL. Further details about financial risk management are provided in Note 13 – 'Risk management.'

The Strategic Report also incorporates a discussion of likely future business developments, while important events affecting the Company since the end of the financial year are described in Note 27 – 'Events after the reporting period'.

Statement of Directors' responsibilities
The directors are responsible for preparing the Annual Report, Strategic Report, 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 UK accounting standards, including Financial Reporting Standard 101 Reduced Disclosure Framework and applicable law.

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 state of affairs of the Company and of its profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework;
- 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors
The Directors who held office during the year ended 31 December 2019 were:

Non-Executive
J Dawson (appointed on 17 May 2019)
J H Rawlingson (appointed on 17 May 2019)

Executive
J D K Bardrick (appointed on 17 April 2019)
D B Chubak (appointed on 17 May 2019)
A K Ghai
S Haider (resigned on 25 April 2019)
D Jain (appointed on 17 April 2019 and resigned on 30 September 2019)
S G Shakespeare (appointed on 26 September 2019)

CITIBANK UK LIMITED

DIRECTORS' REPORT
for the year ended 31 December 2019

Directors' indemnity
Throughout the year and at the date of this report CUKL is party to a group-wide indemnity policy, which benefits all the Directors and is a qualifying third party indemnity provision for the purpose of section 236 of the Companies Act 2006.

Employee involvement
CUKL places great value on the contributions of its employees and seeks to promote their involvement in the business wherever possible. It keeps employees informed by written communications and meetings on matters affecting them as employees and on the various factors affecting the performance of CUKL and of Citi as a group. Employees are encouraged to present their suggestions and views to CUKL through various channels including an employee representative body and the Voice of the Employee survey, which allows employees to share feedback with management in addition to their normal reporting and communication lines within the business.

Employment of disabled people
CUKL is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within CUKL. Training, career development and promotion of disabled persons are, as far as possible, identical to those applicable to other employees who are not disabled.

Diversity and Inclusion
Diversity and Inclusion are recognised as part of CUKL's core values. CUKL fosters a culture where the best people are recruited, where people are promoted on their merits, where respect for others is demanded and valued and where opportunities to develop are widely available to all. CUKL maintains a workplace with different backgrounds, perspectives and ideas and provides employees with a wide range of experiences and skills to develop to their full potential. Citi's Code of Conduct prohibits discrimination and harassment.

Stakeholder engagement statement

- **Who are our key stakeholders and how do we engage with them?**

To ensure the most efficient and effective approach, stakeholder engagement is led by Citigroup, in particular where matters are of group-wide significance or have an impact on Citigroup's reputation.

- **How does the Board satisfy itself that relevant stakeholder and other considerations have been taken into account?**

The CUKL Board considers and discusses information from across the organisation to help it understand the impact on CUKL's operations and the interests and views of our key stakeholders. The Board also reviews strategy and financial performance as well as information such as operational and financial risks and regulator priorities. The Board receives this information in advance of each quarterly meeting.

Using all of the above actions, the Board has an overview of engagement with stakeholders, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006.

Environment
CUKL recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise CUKL's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

Political and Charitable contributions
No political and charitable contributions were made during the year (2018: £nil).

CITIBANK UK LIMITED

DIRECTORS' REPORT
for the year ended 31 December 2019

Audit exemption for comparative period
For the period from 29 March 2018 to 31 December 2018, the Company was entitled to the exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies. Members have not required the Company to obtain an audit of its accounts for the period in question in accordance with section 476 of the Companies Act 2006. The Directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

Disclosure of information to auditors
In accordance with, and subject to all the provisions of, section 418 of the Companies Act 2006, it is stated by the Directors who held office at the date of approval of this Directors' Report that

- so far as each is aware, there is no relevant audit information of which CUKL's Auditors are unaware; and
- each Director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that CUKL's Auditors are aware of that information.

Auditors
Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

S G Shakespeare
Director

23 June 2020

Incorporated in England and Wales
Registered Office: Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB
Registered Number: 11283101

CITIBANK UK LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITIBANK UK LIMITED

1. Our opinion is unmodified

We have audited the financial statements of Citibank UK Limited ("the Company") for the year ended 31 December 2019 which comprise the statement of financial position, income statement, statement of comprehensive income and statement of changes in equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

— give a true and fair view of the state of Company's affairs as at 31 December 2019 and of its profit for the year then ended;
— have been properly prepared in accordance with UK accounting standards, including Financial Reporting Standard 101 Reduced Disclosure Framework; and
— have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. 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 first appointed as auditor by the directors on 30 April 2018. The period of total uninterrupted engagement is for the one financial year ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole		£1.8m 0.5% of Net Assets
Key audit matters		
New risk	Expected credit loss on commercial real estate loans	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITIBANK UK LIMITED

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. The matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

	The risk	Our response
Expected credit loss on commercial real estate loans: (£0.6 million) *Refer to page 29-32 (accounting policy) and page 52 (financial disclosures).*	**Subjective estimate:** There is a risk that the obligor risk rating assigned by the Company may not reflect recent developments in credit quality, risk profile or emerging macro economic risks and therefore the rating is inappropriate and does not reflect the true credit worthiness of the borrower. As a result, this would impact the Probability of Default ("PD"), Significant Increase in Credit Risk ("SICR"), staging and ultimately ECL. Specifically, the obligor may not be downgraded to Stage 2 or Stage 3 when their credit profile deteriorates significantly, and instead continues to be treated as Stage 1 with 12 months ECL being recognised instead of lifetime ECL.	Our procedures included: — **Control design, observation and operation:** Key aspects of our controls testing involved the following: • Testing the design and implementation and operating effectiveness of key controls in relation to the review and approval of the loan credit grading assessments. • Testing the design and implementation and operating effectiveness of key controls on a sample basis around nostro reconciliations to test controls in place to identify and investigate any missed payments that would be indicative of SICR. — **Test of details:** Key aspects of our testing involved: • Performing detailed credit assessments for the CRE loan customers, to evaluate the appropriateness of the risk grades assigned and assess the financial performance of the borrower, source of repayment, cash flows and the impact of external factors to determine financial and liquidity position of the borrower to repay their financial obligations as per contractual arrangement. Further, we also assessed if there were any triggering factors that would be indicative of SICR. — **Our results:** The results of our testing were satisfactory and we considered the ECL on commercial real estate loans to be acceptable.

CITIBANK UK LIMITED

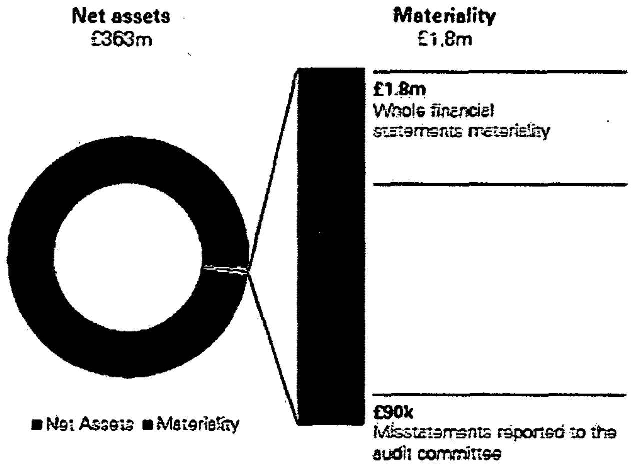
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITIBANK UK LIMITED

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

Materiality for the financial statements as a whole was set at £1.8m, determined with reference to a benchmark of net assets of £363m, of which it represents 0.5%. We considered net assets to be more appropriate as a benchmark than Profit before tax as the Company was operational for only part of the financial year.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £90k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in London.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITIBANK UK LIMITED

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 10, 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.

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 other irregularities (see below), 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 (UK) 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.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience , through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct, money laundering, sanctions list and financial crimes, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

M Davies

Matthew Davies (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
23 June 2020

CITIBANK UK LIMITED

INCOME STATEMENT
for the year ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Interest receivable	4	17,376	-
Interest payable	4	(3,705)	-
Fees and commissions receivable	5	9,380	-
Fees and commissions payable	5	(578)	-
Dealing profits	6	942	-
Administrative expenses	7	(12,136)	-
Depreciation and amortisation	18	(846)	-
Other operating charges		(44)	-
Provisions		(878)	-
Profit on ordinary activities before tax		9,511	-
Tax on profit on ordinary activities	10	(2,425)	-
Profit for the financial year		7,086	-

The accompanying notes on pages 22 to 67 form an integral part of these financial statements.

CITIBANK UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	2019 £ 000	2018 £ 000
Profit for the financial year	7,086	-
Items that are or may be reclassified subsequently to income statement		
Debt investments at FVOCI - net change in fair value	(9,664)	-
Related tax	2,416	-
Other comprehensive loss for the year, net of tax	(7,248)	-
Total comprehensive loss for the year	(162)	-

The accompanying notes on pages 22 to 67 form an integral part of these financial statements.

CITIBANK UK LIMITED

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	31 December 2019 £ 000	31 December 2018 £ 000
Assets			
Cash and balances at central banks	11	410,731	-
Derivative financial instruments	14, 15	31,272	-
Treasury bills and other eligible bills	16	1,625,349	-
Loans and advances to banks	12	1,852,319	-
Loans and advances to customers	12	578,849	-
Debt securities	17	280,016	-
Intangible fixed assets	18	7,615	-
Other assets	19	24,491	-
Total assets		4,810,642	-
Liabilities			
Deposits by banks	14	5,799	-
Customer accounts	14	4,345,627	-
Derivative financial instruments	14, 15	31,510	-
Other liabilities	21	8,758	-
Accruals and deferred income	22	4,090	-
Provisions for liabilities		113	-
Subordinated liabilities	20	52,121	-
Called up share capital	23	-	-
Reserves	25	356,341	-
Profit and loss account		6,283	-
Total liabilities		4,810,642	-
MEMORANDUM ITEMS			
Contingent liabilities		-	-
Commitments	24	31,873	-

The accompanying notes on pages 22 to 67 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23rd June 2020 and signed on their behalf by:

S G Shakespeare
Director
Registered Number: 11283101

CITIBANK UK LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

		Attributable to equity holders of the Company				
			Reserves			
	Note	Called up share capital £ 000	Other reserve £ 000	Fair value reserve £ 000	Profit and loss account £ 000	Total £ 000
Balance at 31 December 2018		-	-	-	-	-
Total comprehensive income for the year						
Profit for the financial year		-	-	-	7,086	7,086
Other comprehensive loss for the year						
Debt investments at FVOCI - net change in fair value net of tax		-	-	(7,248)	-	(7,248)
Total other comprehensive loss		-	-	(7,248)	-	(7,248)
Total comprehensive loss		-	-	(7,248)	7,086	(162)
Transactions with owners, recorded directly in equity						
Contributions and distributions						
Capital contribution		-	318,647	-	-	318,647
Equity decrease resulting from common control transaction		-	(7,058)	-	-	(7,058)
Additional Tier 1 Capital	25	-	52,000	-	-	52,000
Dividends on Additional Tier 1 Capital		-	-	-	(803)	(803)
Total contributions and distributions		-	363,589	-	(803)	362,786
Balance at 31 December 2019		-	363,589	(7,248)	6,283	362,624

The accompanying notes on pages 22 to 67 form an integral part of these financial statements.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

Citibank UK Limited ("the Company") is a private company incorporated, domiciled and registered in England and Wales in the United Kingdom. The registered number is 11283101 and the registered address is Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

a) Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101").* In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The accounts of the Company have been prepared in accordance with the provisions of section 396 of the Companies Act 2006 including applying the requirements set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to banking companies.

The Company has taken advantage of the following disclosure exemptions available under FRS 101:

- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from contracts with customers';
- the requirement in paragraph 38 of IAS 1 'Presentation of financial statements' to present comparative information in respect of
  - (i) paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'; and
  - (ii) paragraph 118(e) of IAS 38 'Intangible assets';
- the requirements of paragraphs 10(d), 16, 38A, and 111 of IAS 1 'Presentation of financial statements';
- the requirements of IAS 7 'Statement of cash flows';
- the requirement in paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- the requirements in IAS 24 'Related party disclosures'. To disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 17 and 18A of IAS 24 that relate to transactions with key management personnel.

These financial statements have been prepared under the historical cost convention, with certain exceptions, such as financial assets and financial liabilities measured at fair value under FRS 101.

The Company's results are consolidated in the financial statements of its ultimate parent company, Citigroup Inc., which are made available to the public annually at the address stated at Note 26 – 'Parent companies'.

The accounting policy set out above has, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Functional and presentational currency
The functional and presentational currency of the Company is Pound Sterling ("£") and all values are rounded to the nearest thousand pounds, except where otherwise indicated.

Comparative period
Citibank UK Limited (formerly Citi Marble Arch Limited) was incorporated on 29 March 2018 and, consequently, the comparative information presented in these financial statements cover the period from 29 March 2018 to 31 December 2018.

Going concern
The financial statements are prepared on a going concern basis taking into account CUKL's existing capital and liquidity resources and the level of reliance placed on support from Citi, CUKL's ultimate parent. The Directors acknowledge the risk that extreme circumstances might adversely impact CUKL's ability to continue trading and are satisfied that CUKL has the resources to continue in business for at least 12 months from signing of the financial statements. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

NOTES TO THE FINANCIAL STATEMENTS

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

   a) **Basis of preparation** (continued)

   Going concern (continued)
   The Directors have reviewed the capital, liquidity and financial position of the Company including future capital, liquidity and financial plans covering a period of at least 12 months from the date of approval of these Financial Statements.

   A novel strain of coronavirus (COVID-19) that first surfaced in China was classified as a pandemic by the World Health Organization on March 11, 2020, impacting countries globally. In considering going concern, the Company continues to closely monitor developments related to the outbreak of COVID-19. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers. To assess any potential impact on the Company, the Directors reassessed the components of capital, liquidity and the financial position of the Company and have concluded that the going concern basis is still appropriate. The reassessment was completed on 31 March 2020 with reference to the stress testing processes within the ICAAP and ILAAP which demonstrated that CUKL has sufficient capital and liquidity buffers to withstand the current market conditions.

   In this reassessment, the Directors considered severe but plausible downside scenarios, including stress tests aligned to the ICAAP for which the Company uses an internal model. These stress scenarios are considered to be at least as severe as the PRA anchor scenario. This analysis indicated that the Company would maintain capital and liquidity headroom throughout the period covered by the forecasts, even in reasonably possible downside scenarios.

   The Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore, have prepared the financial statements on a going concern basis. In addition, Citigroup Inc. continues to provide confirmation that it will provide sufficient funding to the Company to ensure that it maintains a sound financial situation and is in a position to meet its debt obligations for at least 12 months from signing of the financial statements.

   b) **Changes in accounting policy and disclosures**

   There are a number of accounting standards that have been issued by the International Accounting Standards Board ("IASB"), which became effective from 1 January 2019. They include:

   - **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. This standard did not have a material impact on the Company, as it does not enter into lease arrangements.
   - **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 did not have any impact on the Company.
   - **Prepayment Features with Negative Compensation (Amendments to IFRS 9).** In October 2017, IFRS 9 was amended to enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The application of these amendments did not have any impact on the Company.
   - **Annual Improvements to IFRS Standards 2015–2017 Cycle.** In December 2017, the IASB published Annual Improvements to IFRS Standards 2015–2017 Cycle, containing minor amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, and IAS 23 *Borrowing Costs*. The application of these amendments did not have a material impact on the Company.

   c) **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 over the life of the instrument.

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

c) Interest income and interest expense (continued)

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; and
- Interest on treasury bills and other eligible bills measured at fair value through other comprehensive income.

Calculation of EIR is performed on initial recognition of a financial asset or liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

d) 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(c) above).

Brokerage commissions primarily include commissions and fees from the following: executing transactions for clients on exchanges and over-the-counter markets; assisting clients in clearing transactions, providing brokerage services, providing advisory services by authorised Citi sales representatives and other such activities. Brokerage commissions are recognised in net fee and commission income at the point in time the associated service is fulfilled, generally on the trade execution date.

Custody and Safekeeping transactions are primarily composed of custody fees and safekeeping fees. Custody fees are recognised as or when the associated promised service is satisfied, which normally occurs at the point in time the service is requested by the customer and provided by the Company. Safekeeping fee is earned as a fixed fee charged to the client for provision of custody services, or acting as custodian for investment products, during the specified time period agreed upon by all parties and therefore earns its revenue evenly during the contract duration.

Transactional service fees primarily consist of fees charged for processing services such as cash management, global payments, clearing, international funds transfer, foreign currency transactions and other trade services. Such fees are recognised as/when the associated service is satisfied, which normally occurs at the point in time the service is requested by the customer and provided by the Company.

Other fee and commission income are recognised as the related services are performed. These fees are recorded in fee income as they are earned.

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

e) Dealing profit

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

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

f) Financial assets and liabilities

Initial Recognition and Measurement

The Company initially recognises loans and advances, deposits and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Please refer to Note 1(r) Common control transactions for the accounting policy on initial recognition and measurement of financial instruments transferred via a common control transaction.

Classification and Measurement

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

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

Amortized Cost

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

a) Business Model test: the financial asset is held in a business model whose objective is to hold assets in order to collect contractual cash flows; and
b) SPPI test: the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

FVOCI

A financial asset - debt instrument shall be classified and measured at FVOCI (unless designated FVTPL) if both of the following conditions are met:

a) Business Model test: the financial asset – debt instrument is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) SPPI test: the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

FVTPL

Any financial instrument that does not fall into either of the above categories shall be classified and measured at fair value through profit and 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 Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

Classification and Measurement (continued)

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 (i.e., the portfolio level). 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;
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. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Company's business comprises primarily of loans to customers that are held for collecting contractual cash flows. Sales of loans from these portfolios are expected to be very rare.

The Company also holds government debt securities to meet everyday liquidity needs. Such financial assets may be sold by management in response to balance sheet requirements, the currency composition of the underlying deposits and other liquidity considerations. Therefore, the collection of contractual cash flows and the sale of these financial assets is integral to the business objective for holding such financial assets.

Assessment of whether the contractual cash flows are solely payments of principal and interest ('SPPI')

If an instrument is held in either a hold to collect or a hold to collect and sell business model, then an SPPI assessment is required to determine classification. For SPPI, 'principal' is defined as the fair value of the financial asset on initial recognition and '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. Interest 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)

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

Classification and Measurement (continued)

Financial Assets

FVTPL

The following financial assets were classified under 'Fair value though profit or loss' as at 31 December 2019:

Derivative financial instruments

Derivative financial instruments are measured at fair value, with changes reflected through the income statement. Exceptions can only apply if the derivative is part of a hedge accounting programme. The Company enters into derivative transactions for risk management purposes but does not enter into any hedge accounting programmes.

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.

Amortised cost

The following financial assets were classified under 'amortised cost' as at 31 December 2019:

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 Financial Assets.

Loans and advances and other assets are initially recognised at fair value, which is the cash given to originate the loan, plus incremental transaction costs and subsequently measured at amortised cost using the EIR method, less any impairment charges.

Commercial Real Estate loans made by the Company, secured by collateral of the borrower, can limit the Company's claim to cash flows of the underlying collateral (non-recourse loans). The Company applies judgment in assessing whether the terms of non-recourse loans give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest. Such non-recourse exposures held by the Company represent standard lending transactions with cash flows consistent with SPPI where the underlying collateral serves as a credit risk mitigant.

Securities purchased under resale 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 and measured as loans and advances for banks, and the underlying asset is not recognised in the Company's financial statements.

Debt securities

Debt securities are recognised on trade date at fair value and consist of residential mortgage backed securities, which are held in order to collect contractual cash flows. They are subsequently measured at amortised cost using the EIR method, less any impairment charges.

The Company invests in Retail Backed Mortgage Securities (RMBS). Such financial assets are considered to be 'contractually linked instruments'. IFRS 9 provides specific guidance for holders of multiple contractually linked instruments that create concentrations of credit risk i.e. tranches. The holders of such instruments have the right to payments of principal and interest on the principal amount outstanding only if the issuer of the debt securities generates enough cash flows to satisfy the higher ranking tranches. The payments on these tranches will be met via the cashflows received on an underlying pool of financial instruments (i.e., retail mortgages). The Company only holds RMBS linked to a senior tranche of the securitization. In such transactions, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:

- the contractual terms of the tranche being assessed for classification (without looking through to the underlying pool of financial instruments) give rise to cash flows that are SPPI on the principal amount outstanding;
- the underlying pool of financial assets contain only instruments that meet the SPPI criterion (may also include certain derivatives that meet certain conditions and do not introduce any variability inconsistent with SPPI); and
- the exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments.

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

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

Classification and Measurement (continued)

Financial Assets (continued)

FVOCI

The following financial assets were classified as FVOCI as at 31 December 2019:

Treasury bills and other eligible bills
Treasury bills and other eligible bills consist of government and sovereign bonds. Under IFRS 9, these securities are 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.

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.

The Company has not designated any financial liabilities at fair value through profit or loss.

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.

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 plus any eligible transaction cost.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the de-recognition 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. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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 or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in the income statement.

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.

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

f) Financial assets and liabilities (continued)

<u>Classification and Measurement</u> (continued)

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 the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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.

g) Impairment of financial assets

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:
  - Cash and balances at central banks;
  - Loans and advances to banks, including securities purchased under resale agreements;
  - Loans and advances to customers; and
  - Debt securities;
- Investments in debt instruments measured at fair value through other comprehensive income (FVOCI);
- All irrevocable loan commitments that are not measured at FVTPL;
- Trade receivables in the scope of IFRS 15 (Revenue contracts with customers); and
- Any other receivables (e.g., brokerage receivables).

<u>Expected credit loss impairment model</u>

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.

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

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

Expected credit loss impairment model (continued)

- 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).
  Undrawn commitments are measured 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.
- 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 amortised cost, rather than on its gross carrying amount.

Evidence that a financial asset is impaired includes observable data that comes 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 becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The 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 is estimated for financial assets utilising models depending on the relative size, quality and complexity of the portfolios. Exposures captured by these models include the Commercial Real Estate loan portfolio and treasury bills and other eligible bills.

Delinquency Managed Exposures

Impairment allowances for the consumer loan portfolios are estimated utilising a reasonable and proportionate approach after considering both entity level and portfolio level factors. 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.

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.

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

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

Expected credit loss impairment model (continued)

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. At each reporting date, 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 judgement. When making this assessment, the Company considers the increase in the risk of default (both in relative terms and absolute terms) over the remaining 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. For Classifiably Managed Exposures, the 30 days past due presumption is rebutted because the Company has developed a model with reasonable and supportable information including internal risk rating of obligors to determine whether there has been a significant increase of credit risk without having to rely on a days past due backstop. The Company has not rebutted the 30 day presumption for Delinquency Managed Exposures and Other Financial Assets Simplified Approaches.

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. As mentioned above, the 30 days past due presumption is rebutted for Classifiably Managed Exposures but not for Delinquency Managed Exposures. 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.

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.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

Definition of default (continued)

The Company aligns its definition of default with that of the Capital Requirements Regulation ("CRR") Article 178 ("CRR 178"). CRR 178 is an EU law that reflects Basel II rules including the definition of default.

A default shall be considered to have occurred in regard to a particular obligor when either or both of the following have taken place:

1. There are material exposures which are more than 90 days past-due;

2. 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.

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

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, unemployment rates and commercial real estate property prices, 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.

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: as a provision; and

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 13 and is recognised in the fair value reserve.

Write-off

Loans and debt securities (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 provisions 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 provisions in the income statement.

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

h) 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 or, in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expired.

i) Intangible assets

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. Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

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. 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

j) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that its intangible assets 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. An impairment loss is recognised if the intangible asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the intangible asset's fair value less costs of disposal and value in use. Impairment losses are recognised in the income statement.

k) 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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Generally, tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. However in accordance with IAS12 amendments applicable from 1 January 2019, which clarified that all distributions of profit should be treated consistently for tax purposes, the impact of tax deductions associated with Additional Tier 1 ("AT1") Notes issued by the company is recognised in the income statement rather than within equity, whereas the coupons are recognised in equity. This has an impact of reducing the effective tax rate within the income statement itself.

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

k) Income taxes (continued)

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 tax balances are not discounted.

l) 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.

m) 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 measured at fair value are translated into the functional currency using the date the fair value was determined. 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 generally taken to the income statement as incurred.

n) Employee benefits

Defined contribution plans
The Company employees participate a number of defined contribution pension schemes. The Company's annual contributions are charged to the income statement in the period to which the related service is provided. 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.

o) Cash and balances at central banks

Cash and balances at central banks comprise balances with original maturity of less than three months.

p) 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.

1. Principal accounting policies (continued)

q) Loan commitments

Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions. Loss allowances for ECL on commitments are presented in the statement of financial position as a provision.

r) Common control transactions

On 16 September 2019, the retail businesses from CEP UK and CBNA London were transferred to the Company.

IFRS does not provide specific guidance on transactions between entities under common control. Generally, the acquirer in a common control transaction accounts for the transfer of a business in its financial statements via:

- book value (carry-over basis) accounting on the basis that the investment has simply been moved from one part of the group to another; or
- IFRS 3 accounting on the basis that the acquirer is a separate entity in its own right and should not be confused with the economic group as a whole.

A business is considered to be an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. In the context of a business combination, the transferred set of activities must contain inputs and processes applied to the inputs which are or will be used to create outputs in order for the set of activities to constitute a business.

When a business is transferred to the Company from an entity under common control, the Company has made an accounting policy choice to account for the business at the book value of the transferor. This requires recognition of the transferred assets and liabilities (constituting a business under IFRS 3) at their historical carrying amounts. Any difference between transaction price and carrying amounts of assets and liabilities is recognised in equity. No new goodwill or intangibles are created and no profit or loss is generated. During the period, the UK Consumer business was regarded as the transfer of a business for accounting purposes in accordance with IFRS 3. Please refer to Note 3 for more information.

Transfers of financial instruments, that are not considered part of a transfer of a business, are initially recognised at fair value. Any difference in the consideration paid and the fair value of the financial instrument is recognised as an equity transaction.

The Company has also made the accounting choice of not re-presenting comparative information for the business acquired in its financial statements.

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 prèparation 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 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 FRS101 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 financial assets
Judgements are applied in estimating the estimated credit loss which should be recorded in the income statement. Please refer to Note 1(g) for inputs, assumptions and estimating techniques for impairment of financial assets. Impairments are discussed and presented further in Note 13 – 'Risk management'.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Use of assumptions and estimates (continued)

Impairment of financial assets (continued)
The estimation of expected credit losses involves significant judgement, including forward looking information, the application of multiple unbiased macroeconomic scenarios, the expected life of the financial asset and the determination of a significant increase of credit risk. For example, the assessment of whether there is a significant increase in the credit risk of a financial asset since initial recognition is a credit risk analysis that is based on a multifactor and holistic approach and will require judgment. Whether a specific factor is relevant, and its weight compared to other factors, will depend on the type and relevant characteristics of the financial asset, the borrower as well as the geographic region.

Since IFRS 9 does not prescribe one approach to measuring ECLs, the Company has applied management judgment to identify the best approach for meeting the requirements of the Standard. The Company applies judgement to determine the ECL methodologies applied to different portfolios of financial assets, depending on the relative size, quality, complexity and existing credit risk management processes. IFRS 9 requires the estimates of ECLs to reflect 'reasonable and supportable' information that is available without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. The determination of whether information is reasonable and supportable requires significant judgment.

Impairment of non-financial assets
Judgements are applied in estimating the impairment losses on non-financial assets which should be recorded in the income statement. Please refer to Note 1(j) for inputs, assumptions and estimating techniques for impairment of non-financial assets.

Classification and measurement of financial assets
Judgements are applied in determining the classification and measurement of financial assets.

The assessment of the business model requires judgment based on facts and circumstances. The Company considers quantitative factors (the expected frequency and volume of sales) and qualitative factors (the purpose for which financial assets are acquired, the reasons for any sales, how performance and risk is managed and how employees are remunerated, etc.).

Judgement may also be required in order to conclude whether the cash flows of financial assets are solely payments of principal and interest and exclude cashflows that would fail this criteria. The Company has to apply judgment and consider relevant factors such as whether the return on loan assets are equivalent to a lender's return, representing compensation for the time value of money and credit risk only.

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 14 – '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(k) – '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.

NOTES TO THE FINANCIAL STATEMENTS

3. Business transfer under common control

On 16 September 2019, the retail business from CEP UK and CBNA London was transferred to the Company. A premium of £4.6 million and £3 million was paid to CEP UK and CBNA London respectively. The premium was funded through additional capital contributions from Citibank Overseas Investment Corporation (£4.6 million) and Citibank, N.A (£3 million). The business transfer premium was calculated by an independent third party engaged under mutual agreement between business transferor and acquirer to determine an estimated market value of the business, defined as the price at which the business would change hands between a hypothetical willing and able buyer and seller, acting at arm's length in an open market transaction, where neither is under compulsion to buy or sell and when both have reasonable knowledge of relevant facts.

Following assets and liabilities were transferred and recorded at book values:

Assets	**£ 000**
Loans and advances to banks	4,370,900
Loans and advances to customers	121,459
Intangible fixed assets (net carrying value)	7,807
Other assets	7,090
Total Assets	4,507,256

Liabilities	**£ 000**
Customer accounts	4,489,621
Other liabilities	17,635
Total Liabilities	4,507,256
Commitments	23,696

4. Net interest receivable

	2019	**2018**
Interest and similar receivable	**£ 000**	**£ 000**
Interest receivable and similar income arising from debt securities		
Debt securities	487	-
Other interest receivable and similar income		
Cash and balances at central banks	732	-
Treasury bills and other eligible bills	1,825	-
Loans and advances to banks	8,440	-
Loans and advances to customers	5,892	-
Total interest receivable	17,376	-
Interest payable and similar charges		
Customer accounts	(3,262)	-
Subordinated liabilities	(435)	-
Other interest paid	(8)	-
Total interest payable	(3,705)	-
Net interest receivable	13,671	-

There were no impaired loans nor interest income (2018: £nil) received on impaired loans during the year.

Interest receivable from group undertakings amounted to £8.4 million (2018: £nil), while interest payable to group undertakings amounted to £0.4 million (2018: £nil).

All interest income arose within the United Kingdom.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Net fee and commission receivable

	2019 £ 000	2018 £ 000
Brokerage Commissions (receivable)	1,754	-
Custody and Safekeeping transactions (receivable)	2,275	-
Transaction fees (receivable)	4,279	-
Other (receivable)	1,072	-
Total fee and commission receivable	9,380	-
Transaction fees (payable)	(578)	-
Total fee and commission payable	(578)	-
Net fee and commission receivable	8,802	-

Included in fee and commission receivable are fees earned by the Company on custody and safekeeping transactions where the Company holds assets on behalf of its customers. This fee income totalled £2.3 million in 2019 (2018: £nil).

There were no fee and commission receivable from, or fee and commission payable to group undertakings during the year. (2018: £nil).

All fee and commission income arose within the United Kingdom.

6. Dealing profits

	2019 £ 000	2018 £ 000
Gain on foreign exchange exposure management	7,109	-
Loss on revaluation of foreign currency transactions	(7,178)	-
Mark-to-market gains or losses from financial instruments	1,011	-
Total dealing profits	942	-

Foreign exchange exposure risk arises from open positions designated in non-functional currencies that create foreign exchange risk on the Company. The objective of foreign exchange exposure management process is to ensure that such risks are minimised.

All dealing profits arose within the United Kingdom.

7. Administrative expenses

a. Staff costs

	2019 £ 000	2018 £ 000
Wages and salaries	3,886	-
Social security costs	497	-
Share based payment expenses	62	-
Pensions and post retirement benefits	347	-
Restructuring costs	64	-
Total personnel expenses	4,856	-

The following table shows the average number of employees by function for 2019 and 2018:

	2019	2018
Retail Banking	196	-
Corporate Functions	11	-
Independent Control Functions	6	-
Total number of staff	213	-

b. Other administrative expenses

	2019 £ 000	2018 £ 000
Communications and technology	4,420	-
Contractors and consultancy	460	-
Levies and regulatory charges	20	-
Rent expenses	549	-
Marketing and advertising	499	-
Travel and events	127	-
Stationary and office supplies	241	-
Other administrative expenses	964	-
Total other expenses	7,280	-

Rent expenses are intercompany rent allocations charged for the use of 25 Canada Square, Canary Wharf, London E14 5LB.

NOTES TO THE FINANCIAL STATEMENTS

8. Auditor's remuneration

	2019	2018
	£ 000	£ 000
Audit fee	580	-
Audit-related assurance services	85	-
	665	-

The first year audit fee is paid and borne by CBNA UK and will not be recharged to the Company.

There were no other services provided by the Company's auditor or by any associate of the Company's auditor to the Company (2018: £nil).

9. Directors' emoluments

	2019	2018
	£ 000	£ 000
Directors' emoluments are as follows:		
Aggregate emoluments	554	-
Company contributions to money purchase pension scheme	23	-
	577	-

Contributions to money purchase pension schemes are accruing to six of the Directors. Contributions to defined benefit pension schemes are accruing for none of the Directors. Five of the Directors of the Company participate in parent company share plans.

The remuneration of the highest paid Director was £119,651 and the highest accrued pension was £14,935.

The Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report. The above remuneration is based on the apportionment of time incurred by the Directors for services to the Company, both in their capacity as a Director and, where applicable, their normal employment. The cost of Directors' emoluments are borne by other group undertakings, and are not recharged to the Company.

10. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2019	2018
	£ 000	£ 000
Current tax:		
UK corporation tax on profits of the period	2,185	-
Total current tax	2,185	-
Deferred tax:		
Origination and reversal of timing differences	240	-
Total deferred tax	240	-
Total income tax expense	2,425	-

10. Tax on profit on ordinary activities (continued)

(b) Tax included in other comprehensive income

	2019 £ 000	2018 £ 000
Deferred tax:		
Origination and reversal of timing differences	(2,416)	-
Total tax credit included in other comprehensive income	(2,416)	-

(c) Reconciliation of tax charges

	31 December 2019 £ 000	31 December 2018 £ 000
Profit before income tax from continued operations	9,511	-
Total profit before income tax	9,511	-
Profit multiplied by the standard rate of corporation tax in the UK of 27% (2018: 27%)	2,568	-
Effects of:		
Deduction for AT1 dividend	(217)	-
Expenses not deductible for tax purposes	93	-
Impact of difference between current and deferred tax rates	(19)	-
Total current income tax expense	2,425	-

The tax assessed for the period is lower than (2018: £nil) the standard rate of corporation tax in the UK of 27% (2018: 27%).

The main rate of corporation tax in the UK has been 19% from 1 April 2017. The Finance Act 2016, which was enacted on 15 September 2016, reduced the main rate of corporation tax to 17% with effect from 1 April 2020. The company is also subject to the banking surcharge of 8%.

The deferred tax balances have been calculated at the rate of 25% being 17% plus 8%. The 2020 Budget has removed the reduction to 17% such that the rate will remain at 19% (i.e. 27% inclusive of surcharge), however the impact of this has not been reflected, as this has not been substantively enacted at the date of statement of financial position.

(d) Deferred taxation assets

	31 December 2019 £ 000	31 December 2018 £ 000
At the beginning of the period	-	-
Charged to profit or loss account	(240)	-
Credited to other comprehensive income	2,416	-
At the end of the period	2,176	-

	31 December 2019 £ 000	31 December 2018 £ 000
Deferred tax asset is made up as follows:		
Capital allowances	(240)	-
Other timing differences	2,416	-
	2,176	-

NOTES TO THE FINANCIAL STATEMENTS

11. Cash and balances at central banks

Cash and balances at central banks comprise the following balances, maturing within three months.

	31 December 2019 £ 000	31 December 2018 £ 000
Placements with Bank of England	410,732	-
Expected credit loss	(1)	-
Cash and balances at central banks	410,731	-

12. Loans and advances to banks and customers

	Note	31 December 2019 £ 000	31 December 2018 £ 000
Loans and advances to banks			
Securities purchased under resale agreement		1,445,193	-
Deposits with banks		407,128	-
Expected credit loss		(2)	-
Loans and advances to banks total carrying amount	14	**1,852,319**	-
Loans and advances to customers			
CRE loans		467,879	-
Consumer loans		111,521	-
Expected credit loss		(551)	-
Loans and advances to customers total carrying amount	14	**578,849**	-

Consumer loans balance is repayable on demand.

13. Risk management

13.1 Introduction

Risk Management Mission

CUKL utilises Citi's Risk Management model and organization, with its multi-dimensional risk oversight and its people, processes and systems to ensure robust oversight of entity risks. In addition, CUKL has entity specific risk management and controls, to ensure local challenge to risk-taking and to ensure that Citi's approach is appropriate for the entity. In line with Citi's Risk Culture, it is CUKL mission to take intelligent risk with shared responsibility, without forsaking individual accountability.

Taking intelligent risk - means identifying, measuring and aggregating risks; and establishing risk tolerances based on a full understanding of concentrations and 'fat tail' risk;
Shared responsibility - means collectively bearing responsibility to seek input and leverage knowledge across and within the 'Three Lines of Defence'; and
Individual accountability - means that it is each employee's responsibility to adhere to policies and standards, actively manage risk, identify issues, escalate concerns, and make fully informed decisions that take into account risks to Citi.

In pursuit of its mission, CUKL risk management acts as a strong independent partner of the business to actively manage various risks i.e. market, credit, operational and aggregated risk. CUKL has its own defined Risk Appetite Framework, which lays the permissible risk boundaries for the various businesses and functions, which contributes to CUKL's statement of financial position and operations.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.1 Introduction (continued)

Risk Management Framework

CUKL has a comprehensive risk governance framework in place to provide oversight of the monitoring and management of risks, ensuring that the risk profile of the company 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 and functions.

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

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 Board Risk and Audit Committee.

Risk Appetite Statement

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 key in aligning overall corporate strategy, capital allocation, and risk. It aims to support business growth whilst constraining excessive accumulation of risk in the company'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 and Audit Committee. The Board Risk and Audit Committee annually recommends the 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 the company. The Material Risk Identification and Assessment Process provides the Company with the opportunity to consider the risks to its business, raises awareness of those risks through broad participation from within the Company and ensures that the Company's view of the risks evolves in conjunction with changes in Company's strategy, risk profile and market conditions.

The Material Risk Identification and Assessment process further informs the Company's Strategic Plan and, in turn, Risk Appetite setting and other formal processes, which includes Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP"), and Recovery and Resolution planning.

13. Risk management (continued)

13.1 Introduction (continued)

Stress testing

CUKL defines stress testing as an internal risk management tool and a key regulatory requirement used to perform forward-looking capital and liquidity adequacy assessments i.e. the ICAAP and the ILAAP. The stress testing processes are designed to assess the resilience of the Company's statement of financial position, capital and funding plans to adverse economic or financial scenarios on a forward-looking basis.

13.2 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:

- Consumer and Corporate lending;
- Investment in structured finance instruments (asset backed securities);
- Treasury activities like investment in high quality liquid assets ("HQLA") such as UK Gilts, US Treasuries and cash and bank balances; and
- Residual business activities like securities settlement and derivative transactions.

Credit Risk can arise from obligor default, credit concentration, securitisation transactions and counterparty credit risk in derivative and securities financing transactions.

The Company manages credit risk in various forms viz. stringent credit evaluation and approval processes, regular individual and portfolio reviews, continuous limits monitoring, etc. In addition, the Company obtains collateral where appropriate, enters into master netting agreements /collateral arrangements with counterparties, and limits the duration of exposures, where possible.

The maximum exposure of the Company's financial instruments to credit risk reflects the end of the period exposures, before taking into account collateral held or other credit enhancements.

Governance and Organisation

The Risk Management Framework, approved by the Board, provides an holistic outline of how credit risk is managed, and 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 and Audit Committee ("RAC")
- CUKL Management Committee ("CUKL Manco")
- New Product Approval Committee ("NPAC")
- Consumer Products Approval Committee ("CPAC")

From the Company credit approval perspective, each new and existing credit approval adheres to Citi global policies for specific products and the risk rating policies for obligor and facility risk assessment.

The Company has a comprehensive credit portfolio reporting process. Company credit risk profile is monitored by the CUKL Manco at each scheduled meeting, which subsequently is reported to the Company's Board Risk and Audit Committee for review.

The Company's Chief Risk Officer is responsible for second line of defence oversight and management of the credit risk portfolio of the Company.

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Measurement

In line with the Citi Credit Risk management approach CUKL considers credit risk assessment either on a classifiably managed approach or on a delinquency managed approach.

- **Classifiably Managed Exposures**

In case of classifiably managed exposures each individual credit facility goes through a detailed risk rating and assessment process in line with the Citi Risk Rating Policy. The Risk Rating Process is the end-to-end process for deriving Obligor Risk Ratings ("ORRs") and Facility Risk Ratings ("FRRs").

Obligor Risk Rating ("ORR") represents the probability that an obligor will default within a one-year time horizon. Risk ratings for obligors are assigned on a scale of 1 to 10, with sub- grades, where "1" is the best quality risk and "7-" is the worst for obligors that are not in default. ORRs of "9+", "9" and "10" are assigned to obligors meeting the definition of default, when either or both of the following have occurred:

- When the obligor is past due more than 90 days on any material credit obligation to CUKL. Overdrafts are considered to be past due once the customer has breached an advised limit or been advised of a limit smaller than the current outstanding.
- When the bank considers that the obligor is unlikely to pay its credit obligations to CUKL in full without recourse by CUKL to actions such as realizing security (if held), collecting against a guarantee or other form of support, or filing a claim against the insurer.

Facility Risk Rating ("FRR") represents an expected loss rate, or "Loss Norm", for each facility, and is the product of two components:

- The one-year Probability of Default ("PD") of the Obligor, and
- The Loss Given Default ("LGD") of a facility

FRRs are assigned on a scale of 1 to 10, with sub-grades, where '1' is the best quality risk and '7-' is the worst for performing facilities. FRRs of 8, 9, and 10 are assigned to non- performing facilities. For all facilities, the Final ORR of the obligor is the starting point; adjustments may then be made to derive the FRR based on Support considerations, Collateral available as security for non-performance, and Seniority of claim, as detailed in the Citi Risk Rating policy.

Within the classifiably managed exposure the investment in government issued securities, for liquidity risk management, and investment in securitisation securities is also governed by the Citi Investment Security Policy. These investments are risk managed from initial purchase through to the holding period by independent credit risk and market risk functions.

All CUKL credit exposures except the consumer lending portfolio is classifiably managed.

- **Delinquency Managed (Retail) Exposures**

Delinquency-managed portfolios are typically made up of smaller exposures with homogeneous credit risk characteristics, where the underwriting process is more score-based or rules- based, rather than judgmental, and where collection activities and write-offs are primarily driven by the number of days past due.

The exposures to 'Margin and Securities Backed Finance' ("MSBF") to individuals are delinquency managed, where the collateral is the primary way out and is in the form of marketable securities or other financial instruments with market risk.

The risk areas relevant to MSBF product are mainly country or cross border risk, market risk, liquidity risk, issuer risk, concentration risk, and obligor risk, including pre-settlement exposure and settlement risk. These risks are assessed with reference to the collateral security and/or the issuer of the collateral and are mitigated through various risk controls around concentration, liquidity, loanable value of the collaterals and a stringent margin-monitoring process.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Appetite Limits

CUKL sets its credit risk limits in line with its business model and strategy, which is specified in its Risk Appetite Statement. Adherence to these limits is monitored on an ongoing basis and reported to the CUKL Manco and the RAC.

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

Credit Risk Exposures by Credit Quality as at 31 December 2019:

Credit quality – Cash and balances at central banks, loans and advances to banks and customers*

		Cash and balances at central banks £ 000	Loans and advances to banks £ 000	Loans and advances to customers - CRE loans £ 000	Total £ 000
ORR					
	1	410,731	-	-	**410,731**
	2	-	1,852,319	-	**1,852,319**
	3	-	-	89,091	**89,091**
	4	-	-	279,479	**279,479**
	5	-	-	99,309	**99,309**
	6	-	-	-	**-**
Total		**410,731**	**1,852,319**	**467,879**	**2,730,929**
FRR					
	1	410,731	-	-	**410,731**
	2	-	1,852,319	-	**1,852,319**
	3	-	-	89,091	**89,091**
	4	-	-	279,479	**279,479**
	5	-	-	99,309	**99,309**
	6	-	-	-	**-**
Total		**410,731**	**1,852,319**	**467,879**	**2,730,929**

All classifiably managed cash and balances at central banks and loans and advances exposures were classified as Stage 1 and were performing as at 31 December 2019.

*Excludes the exposure to delinquency-managed consumer lending portfolio of £111.5 million. These exposures are managed based on the quality of the underlying collateral. Further details are disclosed on page 48 under Collateral held and other credit enhancements paragraph.

Credit quality – Treasury bills and other eligible bills

	Government bonds £ 000 2019	EIB securities £ 000 2019	Total £ 000 2019
AAA to AA-	1,620,305	5,044	1,625,349

All treasury bills and other eligible bills were classified as performing as at 31 December 2019.

13. Risk management (continued)

13.2 Credit Risk (continued)

Credit quality – Debt securities

	Residential Mortgage Backed Securities 2019 £ 000
AAA to AA-	280,016

All debt securities were classified as performing as at 31 December 2019.

Concentration Risk

The Company's statement of financial position credit risk concentrations by industry are as follows:

	31 December 2019 £ 000	31 December 2018 £ 000
Financial and insurance activities	1,884,694	-
Government	1,620,305	-
Central Bank	410,731	-
Supranational	5,044	-
Real Estate	747,385	-
Consumer retail	130,442	-
Other services	2,250	-
	4,800,851	-

Included in credit risk exposures carrying value are cash and balances at central banks, treasury bills and other eligible bills, derivative financial instruments, loans and advances to banks and customers, debt securities and other assets.

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

	31 December 2019 £ 000	31 December 2018 £ 000
Central / Eastern Europe	64,943	-
Western Europe	4,250,712	-
- of which: United Kingdom	3,772,424	-
Middle East / Africa	15,014	-
Central / South America	184	-
North America	468,305	-
Asia	1,693	-
	4,800,851	-

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

13. **Risk management** (continued)

13.2 **Credit Risk** (continued)

Collateral held and other credit enhancements

The Company holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	% exposure subject to collateral requirement	Type of Collateral
Loans and Advances to Banks		
Securities purchased under resale agreement - note (i)	100%	Marketable securities
Loans and Advances to retail customers		
Margin Backed Secured Financing - note (ii)	100%	Marketable securities
Loans and Advances to corporate customers		
Non- Recourse Secured Lending - note (iii)	100%	Commercial Real Estate and floating charge on

(i) The Company mitigates the credit risk of securities purchased under resale agreements by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

(ii) The Company offers credit, to individuals in the form of direct loans secured by marketable securities (e.g. debts, equities, mutual funds), where the value of the securities or financial instruments is relied upon as the principal way out and the credit extension would not be made without those securities or financial instruments maintaining a certain value. This is defined as Margin and Securities Backed Finance ("MSBF").

The market value of the Collateral used to secure MSBF credit facilities are updated daily, with the day's generally accepted closing price, for monitoring any potential shortfall in collateral loanable value. The Company has a well-established margin-call management process to ensure the credit exposures are sufficiently secured at all times.

(iii) The Company underwrites senior secured loans where 'Commercial Real Estate' is taken as the First Way-Out; meaning that the source of repayment of the loan is the cash flow from the leasing or sale of the real estate, with second-way out being the refinancing of the mortgage. These loans are typically made on a non-recourse basis, to leading global Private Equity real estate L.P. Funds, who owns their assets through bankruptcy remote Special Purpose Vehicles ("SPV") that only hold the specific commercial real estate assets.

The track-record and experience of the CRE investor with a specific commercial real estate asset class and/or market is a critical factor in extending the loan. In addition to the quality of the sponsor, the real estate assets must meet criteria of strong location, and viability within the current real estate cycle. Together, these factors are the most relevant indicator of credit quality underpinning Company's decision to extend credit. Valuation of collateral is updated annually in most cases and in each case when the loan is put on a watch list the valuation is monitored more closely. The collateral valuation is performed by an independent third party valuer in most cases, instructed by an independent risk function organised around business and risk management.

13. Risk management (continued)

13.2 Credit Risk (continued)

<u>**Collateral held and other credit enhancements**</u> (continued)

The following table sets out the total collateral value as at 31 December 2019 by each exposure type:

	Carrying amount £ 000 2019	Collateral value £ 000 2019
Securities purchased under resale agreement	1,445,193	1,445,193
Loans and advances to banks	**1,445,193**	**1,445,193**
Consumer loans		
- of which Margin Backed Secured Financing	107,812	107,812
- of which unsecured overdraft	3,669	-
CRE loans	467,368	467,368
Loans and advances to customers	**578,849**	**575,180**

For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Impairment and provisioning under IFRS

Provisions required against all credit exposures (such as bank deposits, loans and debt securities) recorded at amortised cost or at fair value through other comprehensive income, are derived using the 3 stage approach under 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 expected credit losses under forward looking scenarios, 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 for these assets.
- **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

The company reviews provisions periodically at the Impairment Working Group ("IWG") which is jointly chaired by the Company Financial Controller and the Chief Risk Officer. There are regular, focussed reviews of individual obligors and portfolios by the Risk Management team and any material changes in risk profile is reviewed and considered by the IWG and escalated to the CUKL Manco and/or the RAC, as appropriate.

Further, on an annual basis the provisions are reviewed by the RAC prior to the approval of the annual Financial Statements.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Exposure

Expected credit loss

The following tables show an analysis of changes in the gross carrying amount – which represent maximum gross credit risk exposure – and the corresponding ECL allowances:

a) Loans and advances to banks

Exposure	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Outstanding exposure as at 1 January 2019	-	-	-	-
Transfer due to business combination	4,370,900	-	-	4,370,900
Payments and assets derecognised	(2,518,580)	-	-	(2,518,580)
At 31 December 2019	**1,852,320**	-	-	**1,852,320**

ECL	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
IFRS 9 ECL as at 1 January 2019	-	-	-	-
Transfer due to business combination	2	-	-	2
At 31 December 2019	**2**	-	-	**2**

b) Loans and advances to customers

Exposure	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Outstanding exposure as at 1 January 2019	-	-	-	-
Transfer due to business combination	121,459	-	-	121,459
New assets originated or purchased	467,879	-	-	467,879
Payments and assets derecognised	(9,938)	-	-	(9,938)
At 31 December 2019	**579,400**	-	-	**579,400**

ECL	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
IFRS 9 ECL as at 1 January 2019	-	-	-	-
ECL on assets originated or purchased	551	-	-	551
At 31 December 2019	**551**	-	-	**551**

c) Cash and balances at central banks

Exposure	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Outstanding exposure as at 1 January 2019	-	-	-	-
New assets originated or purchased	410,731	-	-	410,731
At 31 December 2019	**410,731**	-	-	**410,731**

ECL	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
IFRS 9 ECL as at 1 January 2019	-	-	-	-
ECL on new assets originated or purchased	1	-	-	1
At 31 December 2019	**1**	-	-	**1**

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Exposure (continued)

Expected credit loss (continued)

d) Treasury bills and other eligible bills

Exposure	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Outstanding exposure as at 1 January 2019	-	-	-	-
New assets originated or purchased	1,625,349	-	-	1,625,349
At 31 December 2019	**1,625,349**	-	-	**1,625,349**

ECL	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
IFRS 9 ECL as at 1 January 2019	-	-	-	-
ECL on new assets originated or purchased	281	-	-	281
At 31 December 2019	**281**	-	-	**281**

e) Debt securities

Exposure	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at 1 January 2019	-	-	-	-
New assets originated or purchased	280,016	-	-	280,016
	280,016	-	-	**280,016**

ECL	Stage 1	Stage 2	Stage 3	Total
IFRS 9 ECL as at 1 January 2019	-	-	-	-
ECL on new assets originated or purchased	-	-	-	-
	-	-	-	-

f) Other financial assets

Exposure	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
At 31 December 2019	**22,315**	-	-	**22,315**

ECL	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
At 31 December 2019	**5**	-	-	**5**

13. Risk management (continued)

13.2 Credit Risk (continued)

Expected credit loss (continued)

g) Other commitments

Exposure	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**
Outstanding exposure as at 1 January 2019	-	-	-	-
Transfer due to business combination	23,696	-	-	23,696
New assets originated or purchased	8,177	-	-	8,177
At 31 December 2019	**31,873**	-	-	**31,873**

ECL	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**
IFRS 9 ECL as at 1 January 2019	-	-	-	-
ECL on new assets originated or purchased	39	-	-	39
At 31 December 2019	**39**	-	-	**39**

There were no transfers between stages during the year.

The following table shows the ECL provision on financial assets in the income statement for the year ended 31 December 2019.

	IFRS 9 ECL			
Income statement	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**
Financial assets				
Cash and balances at central banks	(1)	-	-	(1)
Treasury bills and other eligible bills	(281)	-	-	(281)
Loans and advances to banks	(2)	-	-	(2)
Loans and advances to customers	(551)	-	-	(551)
Other assets	(5)	-	-	(5)
Total On Balance Sheet	**(840)**	-	-	**(840)**
Off balance sheet				
Other commitments	(39)	-	-	(39)
Total Off Balance Sheet	**(39)**	-	-	**(39)**
Total provisions				**(879)**

The following table shows the ECL provision on financial assets in the statement of financial position as at 31 December 2019.

	IFRS 9 ECL			
Statement of financial position	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**
Cash and balances at central banks	1	-	-	1
Treasury bills and other eligible bills	281	-	-	281
Loans and advances to banks	2	-	-	2
Loans and advances to customers	551	-	-	551
Other assets	5	-	-	5
Total On Balance Sheet	**840**	-	-	**840**
Off balance sheet				
Other commitments	39	-	-	39
Total Off Balance Sheet	**39**	-	-	**39**
Total	**879**	-	-	**879**

13. Risk management (continued)

13.2 Credit Risk (continued)

Financial instruments subject to offsetting

There were no financial instruments in the Company, which were subject to offsetting in accordance with IAS 32 as at 31 December 2019 and 2018.

13.3 Market Risk

Definition

Market risk is defined as the risk to earnings of capital form adverse changes in market factors such as interest rates, foreign exchange rates, equity and commodity prices and in their implied volatilities. Market risk emanates from both the Company's trading and non-trading portfolios.

Sources of Market Risk

Trading Book Portfolio

The company considers all its business activities and exposures as Non-Trading Book and as such positions, if any, giving rise to market risk are held within the Non-Trading Book portfolio.

Non-Trading Portfolio:

The non-trading portfolio comprises positions, which are not held with a trading intent and mainly arise from the deployment of the firms deposit base. The primary products in the non-trading portfolio include cash and balances at central banks, loans, deposits, debt securities and subordinated liabilities measured at amortised cost and treasury bills and other eligible bills measured at FVOCI. 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 change in the underlying market risk factor.

Governance and Organisation

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

- Board Risk and Audit Committee ("RAC")
- Asset & Liability Committee ("ALCO")
- CUKL Management Committee ("CUKL Manco")
- New Product Approval Committee ("NPAC")
- Consumer Products Approval Committee ("CPAC")

The Asset & Liability Committee is the primary Committee 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 NPAC and/or CPAC. The CUKL Manco ensures that appropriate risk considerations are incorporated in the strategic planning process. The Board Risk and Audit Committee oversees the implementation of the Company's market risk strategy and the market risk management function.

The Chief Risk Officer is responsible for second line of defence oversight and management of the market risk portfolio of the Company.

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.

13. Risk management (continued)

13.3 Market Risk (continued)

Risk Measurement (continued)

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

Non-trading Portfolio:

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

- Income Metrics:
  - o Interest Rate Exposure ("IRE"): is an income metric which measures the potential pre-tax impact on Net Interest Revenue ("NIR") for Banking Book positions, due to defined shifts in interest rates over a specified reporting period. NIR is the difference between the accrued interest income earned on assets (e.g. customer loans) and the interest expense paid on the liabilities (e.g. customer deposits).
- Valuation Metrics: Measure the impact of interest rate changes on the Company's capital.
  - o Economic Value of Equity ("EVE"): The net of the economic value of all relevant on and off balance sheet assets, less the economic value of all relevant on and off balance sheet liabilities, using present value calculations that discount cash flows derived from the current positions.
  - o Economic Value Sensitivity ("EVS"): The change in EVE for a pre-defined change in the yield curve.

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 statement of financial position 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.

The table below represents the Interest Rate Exposure ("IRE") from a 100 basis point increase/decrease in interest rates on all tenors.

	Interest rate exposure report			
Currency	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
	12 Month - Up 100 bps		**12 Month - Down 100 bps**	
Income statement impact	**£ 000**	**£000**	**£ 000**	**£000**
USD	4,384	-	(5,096)	-
EUR	2,668	-	1,153	-
GBP	2,279	-	(1,747)	-
CHF	139	-	(2)	-
Other	59	-	(54)	-
Total	**9,529**	-	**(5,746)**	-

The table below represents the Economic Value Sensitivity ("EVS") from a 100 basis point increase/decrease in interest rates on all tenors.

	Economic Value Sensitivity report			
Currency	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
	Up 100 bps		**Down 100 bps**	
Income statement impact	**£ 000**	**£000**	**£ 000**	**£000**
USD	8,550	-	(8,555)	-
EUR	6,784	-	(1,097)	-
GBP	(7,371)	-	(6,026)	-
CHF	1,479	-	-	-
Other	1,780	-	(1,605)	-
Total	**11,222**	-	**(17,283)**	-

13. Risk management (continued)

13.3 Market Risk (continued)

Risk Measurement (continued)

Non-trading Portfolio (continued)

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 GBP. Treasury monitors open foreign currency positions on a daily basis ensuring that exposures are less than agreed allocated limits.

The Company's net exposure in foreign currencies other than British Pound was £1.3 million as at 31 December 2019. A reasonable possible movement of the respective currencies against the British Pound, with all other variables held constant, would not have a material effect on the income statement.

13.4 Liquidity Risk

Definition

Liquidity is the ability of a financial institution to fund increases in assets and meet obligations as they come due, at a reasonable cost, under normal and stress circumstances. Liquidity risk is the risk that the institution will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without adversely affecting either daily operations or the financial condition.

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

Governance and Organisation

The Liquidity Risk Management Framework 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 of Directors
- Board Risk and Audit Committee ("RAC")
- CUKL Management Committee ("CUKL Manco")
- Asset & Liability Committee ("ALCO")
- Executive Committee

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 Company CRO is responsible for second line of defence oversight and independent review and challenge of liquidity management.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.4 Liquidity Risk (continued)

Liquidity 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, by monitoring and reporting the liquidity metrics, namely the Liquidity Coverage Ratio ("LCR") and Net Stable Funding Requirement ("NSFR") as defined in the Capital Requirements Directive IV ("CRD-IV"). LCR measures the stock of liquid assets against net cash outflows arising in a 30 day stress scenario. NSFR, which will be implemented in the EU through the Capital Requirements Regulation 2 ("CRR2") in June 2021, 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 measures internal liquidity metrics, which compare liquidity reserves with liquidity deficits. These metrics are assessed according to a variety of scenarios, in the major currencies, with an intention to quantify the likely impact of an adverse event on the Company statement of financial position and liquidity position and to identify viable alternatives in such an event.

The two main internal scenario based liquidity risk metrics are:

- S2 ratio is a stress metric used to assess the liquidity to meet all maturing obligations within 12 months under the Highly Stressed Market Disruption stress scenario
- Resolution Liquidity Adequacy & Positioning ("RLAP") ratio is the stress metric used to measure the short-term (30 days) survival horizon under a severe market disruption stress scenario.

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 2019	Less than 3 months £ 000	>3 months and <12 months £ 000	>1 year and < 5 years £ 000	Greater than 5 years £ 000	Total £ 000
Assets					
Cash and balances at central banks	410,731	-	-	-	410,731
Treasury bills and other eligible bills	-	3,205	783,249	838,895	1,625,349
Loans and advances to banks	1,452,319	-	400,000	-	1,852,319
Loans and advances to customers	33,155	259,373	286,321	-	578,849
Derivative financial instruments	17,069	10,393	3,810	-	31,272
Debt securities	683	-	279,333	-	280,016
Other financial assets	22,315	-	-	-	22,315
Total financial assets	1,936,272	272,971	1,752,713	838,895	4,800,851
Liabilities					
Deposits by banks	5,799	-	-	-	5,799
Customer accounts	4,281,217	64,410	-	-	4,345,627
Derivative financial instruments	16,560	10,940	4,010	-	31,510
Subordinated liabilities	121	-	52,000	-	52,121
Other financial liabilities	6,573	-	-	-	6,573
Total financial liabilities	4,310,270	75,350	56,010	-	4,441,630

Customer accounts include £3,594 million current account balances, which are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.4 Liquidity Risk (continued)

Risk Exposure (continued)

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

The following table analyses the Company's commitments 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 2019	Less than 3 months £ 000	>3 months and <12 months £ 000	>1 year and < 5 years £ 000	Greater than 5 years £ 000	Total £ 000
Other commitments	10,188	21,664	21	-	31,873
Total commitments	10,188	21,664	21	-	31,873

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 2019	Less than 3 months £ 000	>3 months and <12 months £ 000	>1 year and < 5 years £ 000	Greater than 5 years £ 000	Total £ 000
Liabilities					
Deposits by banks	5,799	-	-	-	5,799
Customer accounts	4,282,434	64,703	-	-	4,347,137
Derivative financial instruments	16,560	10,940	4,010	-	31,510
Subordinated loans	432	953	56,615	-	58,000
Other financial liabilities	6,573	-	-	-	6,573
Total undiscounted financial liabilities	4,311,798	76,596	60,625	-	4,449,019

13. Risk management (continued)

13.4 Liquidity Risk (continued)

Risk Exposure (continued)

Analysis of encumbered and unencumbered assets (unaudited)

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

Assets	Encumbered	Un-Encumbered	Total
	£ 000	£ 000	£ 000
Cash and balances at central banks	-	410,731	410,731
Investment Securities & Debt Trading Instuments	-	1,905,365	1,905,365
- of which: asset-backed securities	-	280,016	280,016
- of which: by general governments	-	1,620,305	1,620,305
- of which: by financial corporations	-	5,044	5,044
Loans and advances other than loans on demand	-	2,431,168	2,431,168
Other Assets	-	57,436	57,436
Assets subtotal	-	4,804,700	4,804,700
Collateral Received	**Encumbered**	**Un-Encumbered**	**Total**
	£ 000	£ 000	£ 000
Investment Securities	13,042	1,437,874	1,450,916
- of which: by general governments	13,042	1,437,874	1,450,916
Collateral received subtotal	13,042	1,437,874	1,450,916
Total assets and collateral received	13,042	6,242,574	6,255,616

Collateral held by the Company includes financial collateral such as marketable securities.

Encumbered collaterals held by the Company ensure Operational Continuity In Resolution ("OCIR"), the Company's ability to continue critical shared services necessary to maintain the provision (or facilitate the orderly wind down) of its critical functions in resolution.

Encumbered collaterals are rated by Moody's rating agency as AA2, and there have been no significant changes in the quality of the collaterals during the reporting period.

13.5 Operational Risk

Definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, systems, human factors or from external events.

It includes reputation and franchise risks associated with Company's business practices and/or market conduct. It also includes the risk of failing to comply with applicable laws, regulations, ethical standards or Company policies.

Operational risk is inherent in the Company's business activities and, as with other risk types, it 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.

13. Risk management (continued)

13.5 Operational Risk (continued)

Governance and Organisation

To anticipate, mitigate and control operational risk, the Company maintains a system of policies and has established a framework for monitoring, assessing and communicating operational risks and the overall effectiveness of the internal control environment. As part of this framework, Citi has defined its operational risk appetite and has established a Manager's Control Assessment ("MCA") programme which helps managers to self-assess key operational risks and controls and to identify and address weaknesses in the design and effectiveness of internal controls that mitigate significant operational risks.

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

- Identification, analysis, monitoring and assessment of operational risks;
- Anticipation and mitigation of operational risk events;
- Measurement and capital computation; and
- Effective and credible challenge of the first line of defense on its identification and management of operational risks.

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:

- Board Risk and Audit Committee ("RAC")
- CUKL Management Committee ("CUKL Manco")
- Business Risk Compliance and Control Committee ("BRCC")

The RAC and the CUKL Manco has oversight of the prospective aspects of operational risk, including, but not limited to the effectiveness of the company's control environment and the status of the corrective action plans.

BRCC is the principal forum for the review and monitor of the operational risk appetite and associated thresholds defined on the related key operational risk indicators. They play an essential role in the governance of identifying, managing and mitigating operational, regulatory, compliance, reputational and conduct risk and control related issues, bringing together all lines of defence ,with a common goal of ensuring that a strong risk and control framework and a risk aware culture is maintained across the franchise.

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

13.6 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

The Company's regulatory capital position at 31 December 2019 was as follows:

	31 December 2019 £ 000	31 December 2018 £ 000
Regulatory capital	395,773	-
Tier 1 capital ratio (unaudited)	39.4%	100%

Tier 1 capital encompasses tangible shareholders' funds.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.6 Capital Management (continued)

Regulatory capital (continued)

Pillar 1 prescribes the minimum capital requirements for banks and investment firms under the Basel Capital Accord and the EU Capital Requirements Directive and Regulation (CRD IV package). In addition to Pillar 1 requirements, the PRA mandates a set of Pillar 2 regulatory capital standards, which CUKL is required to meet, in its individual capital guidance and additional capital buffers. Management maintains a sufficiently strong and stable capital position, in excess of these minimum regulatory requirements, and monitors CUKL's excess capital to ensure that a surplus is maintained at all times.

The capital management of CUKL is further explained in its Basel Pillar III disclosures document, which can be found at http://www.citigroup.com/citi/investor/reg.htm.

14. Financial assets and liabilities

The below tables outline the total financial assets and liabilities held as at 31 December 2019 and as at 31 December 2018.

	31 December 2019 £ 000	31 December 2018 £ 000
Derivative financial instruments (measured at FVTPL)	31,272	-
Treasury bills and other eligible bills (measured at FVOCI)	1,625,349	-
Total financial assets held at fair value	**1,656,621**	**-**
Cash and balances at central banks	410,731	-
Loans and advances to banks	1,852,319	-
Loans and advances to customers	578,849	-
Debt securities	280,016	-
Other financial assets	22,315	-
Total financial assets at amortised cost	**3,144,230**	**-**
Total financial assets	**4,800,851**	**-**

	31 December 2019 £ 000	31 December 2018 £ 000
Derivative financial instruments (measured at FVTPL)	31,510	-
Total financial liabilities held at fair value	**31,510**	**-**
Deposits by banks	5,799	-
Customer accounts	4,345,627	-
Other financial liabilities	6,573	-
Subordinated liabilities	52,121	-
Total financial liabilities at amortised cost	**4,410,120**	**-**
Total financial liabilities	**4,441,630**	**-**

14. 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

14. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

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.

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 funding valuation adjustment ("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 credit value adjustment ("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.

Treasury bills and other eligible bills
Treasury bills and other eligible bills classified and measured at fair value through other comprehensive income 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.

14. 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 2019		**Fair value**		
	Level 1	**Level 2**	**Level 3**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**
Financial assets				
Derivative financial instruments	-	31,272	-	31,272
Treasury bills and other eligible bills	1,625,349	-	-	1,625,349
Financial assets held at fair value	1,625,349	31,272	-	1,656,621
Financial liabilities				
Derivative financial instruments	-	31,510	-	31,510
Financial liabilities held at fair value	-	31,510	-	31,510

The Company did not have any financial assets or liabilities held at fair value as at 31 December 2018, therefore comparative disclosures are not presented in this note.

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.

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

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.

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 below:

- The fair value for loans and advances and debt securities 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 deposits by banks, 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 banks is a reasonable approximation of fair value due to the short term nature of the balances.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. 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 2019		Estimated fair value		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
	£000	£000	£000	£000	£000
Assets					
Cash and balances at central banks	410,731	410,731	-	410,731	-
Loans and advances to banks	1,852,319	1,851,345	-	1,851,345	-
Loans and advances to customers	578,849	580,780	-	-	580,780
Debt securities	280,016	280,313	-	280,313	-
Other financial assets	22,315	22,315	-	-	22,315
Total financial assets	**3,144,230**	**3,145,484**	-	**2,542,389**	**603,095**
Liabilities					
Deposits by banks	5,799	5,799	-	5,799	-
Customer accounts	4,345,627	4,345,627	-	4,345,627	-
Other financial liabilities	6,573	6,573	-	-	6,573
Subordinated liabilities	52,121	46,627	-	46,627	-
Total financial liabilities	**4,410,120**	**4,404,626**	-	**4,398,053**	**6,573**

15. Derivative financial instruments

	31 December 2019				31 December 2018			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Foreign exchange								
- OTC	1,111,751	749,855	31,272	31,510	-	-	-	-

16. Treasury bills and other eligible bills

Treasury bills and other eligible bills are primarily composed of government bonds.

	31 December 2019	31 December 2018
	£ 000	£ 000
Treasury bills and other eligible bills		
Treasury bills and similar securities		
Government bonds	1,620,305	-
EIB securities	5,044	-
Total	1,625,349	-

17. Debt securities

	31 December 2019 £ 000	31 December 2018 £ 000
Residential Mortgage Backed Securities	280,016	-

Debt securities include Residential Mortgage Backed Securities, which are backed by the interest paid on loans for local residences. None of the Residential Mortgage Backed Securities were issued by public bodies.

18. Intangible fixed assets

	Computer software £ 000
Cost	
1 January 2018	-
Additions	-
Disposals	-
At 31 December 2018	-
Transfer due to business combination	23,901
Additions	308
Disposals	-
At 31 December 2019	24,209
Amortisation and impairment losses	
1 January 2018	-
Charge for the year	-
Disposals	-
At 31 December 2018	-
Transfer due to business combination	16,094
Charge for the year	500
Disposals	-
At 31 December 2019	16,594
Net carrying value	
At 31 December 2019	7,615
At 31 December 2018	-

The Company has not recognised any impairment in the income statement related to its intangible assets (2018: £nil)

19. Other assets

	31 December 2019 £ 000	31 December 2018 £ 000
Accounts receivable	2,745	-
Suspense accounts	2,859	-
Clearing and settlement accounts	16,711	-
Deferred tax assets	2,176	-
Total	24,491	-

Suspense accounts include unposted debits to other accounts and clearing account debit balances. They also include deferred debits, which are not deposit related.

Clearing and settlement accounts mainly represent customer trades in products or investments with pending settlements, which are settled in T+2 days.

For further details in relation to Deferred tax assets please see Note 10 (d) – Tax on profit on ordinary activities.

20. Subordinated liabilities

Date Aquired	Currency	£ 000	Interest Rate	Maturity Date
27 August 2019	GBP	52,121	1.63% + 3 months LIBOR	27 August 2029

As at 31 December 2019 subordinated liabilities consists of £52 million of Tier 2 subordinated loan borrowings from COIC and £121 thousand related accrued interest.

Charges incurred during the year with respect to subordinated loans and charged to the income statement amounted to £435 thousand (2018: £nil).

The loan is subordinated to the claims of Senior Creditors (and, if any, Senior Non-Preferred Creditors), but will rank ahead of any instrument whose level of subordination would render it eligible to be treated as a common equity Tier 1 or additional Tier 1 regulatory capital instrument. The subordinated loan can be repaid at any interest payment date on or after 27 August 2024.

21. Other liabilities

	31 December 2019 £ 000	31 December 2018 £ 000
Accounts payable	413	-
Clearing and settlement accounts	6,050	-
Suspense accounts	110	-
Current tax liabilities	2,185	-
Total	8,758	-

Clearing and settlement accounts liabilities include amounts payable to other financial institutions, corporates and other group entities, primarily relating to items in the process of settlement. Settlement of these accounts are short term in nature, balances can fluctuate depending on the underlying business activity.

Suspense accounts represent miscellaneous accounts payables not related to the core business activities.

22. Accruals and deferred income

	31 December 2019 £ 000	31 December 2018 £ 000
Employee compensation	865	-
Other accrued expenses	3,225	-
Total	4,090	-

23. Called up share capital

The Company has 1 (2018: 1) allotted, called-up and unpaid Ordinary share of £1 (2018: £1).

24. Commitments

The following tables give the nominal principal amounts and risk weighted amounts of undrawn loan facilities. 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 2019 £ 000	Contract amount 31 December 2018 £ 000
Other commitments	31,873	-

NOTES TO THE FINANCIAL STATEMENTS

25. Reserves

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

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.

Other reserve

The Other reserve represents capital contributions and Additional Tier 1 capital received from parent companies. Capital contributions are distributable.

Additional Tier 1 capital:

Start Date	Currency	£ 000	Initial Interest Rate	Trigger event
27 August 2019	GBP	52,000	6.25%	If the event that the CET1 Ratio of the Issuer falls below 7.00%, the Issuer will immediately write down the principal amount of the Notes to zero and cancel the Notes

Initial interest rate is applicable up until 27 August 2024, after this period reset interest rate shall be used which is GBP 3 months LIBOR plus 5.6178% margin.

The notes are perpetual with no fixed redemption date, and are redeemable at the issuer's option subject to approval from the PRA. Interest is fixed every 5 years, interest payments are not cumulative and the issuer may cancel any interest payment at its sole discretion. The notes do not confer any voting rights.

26. Parent companies

From incorporation up to 24 January 2019, the Company was a wholly owned subsidiary of Citi Overseas Holdings Bahamas Limited ("COHBL"), registered at 14 University Drive, Nassau, N-1576, Bahamas.

On 24 January 2019, COHBL transferred its share in the Company to Citibank Overseas Investment Corporation ("COIC"), registered at One Penn's Way, New Castle, DE, 19720, United States of America, which became its immediate parent company. The audited financial statements of the immediate parent are available to the public annually and may be obtained from its registered office.

The largest group in which the results of the Company are consolidated is that headed by Citigroup Inc., a company registered at 1209 Orange Street, Wilmington, New Castle, DE 19810, United States of America. Copies of these group accounts are made available to the public annually in accordance with Securities and Exchange Commission regulations and may be obtained from www.citigroup.com/citi/investor/overview.html.

27. Events after the reporting period

A novel strain of coronavirus ("COVID-19") that first surfaced in China was classified as a pandemic by the World Health Organization on March 11, 2020, impacting countries globally. The impact of COVID-19 is expected to continue on the global economy for the coming months with likely adverse effects on the operations and financial position of the business. CUKL invoked its business continuity plans following the advice from Governments worldwide restricting movement of people and there has been no material impact on the operations of the Company. The Company has and continues to assess material risks and their implications to the business operations as a result of the global spread of COVID-19. As this is an evolving situation, emerging risks are reviewed and actively managed accordingly as they arise.

This is a non-adjusting event and an estimate of the financial effect cannot be made at the point in time as the situation remains a rapidly evolving one.

28. Approval of financial statements

The financial statements of the Company were approved by the Board of Directors on the 23rd June 2020.