Citibank UK Limited

(Registered Number: 11283101)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2020

CITIBANK UK LIMITED

STRATEGIC REPORT
for the year ended 31 December 2020

The Directors present their strategic report on Citibank UK Limited ("CUKL" or "the Company") for the year ended 31 December 2020.

1. Introduction

Citibank UK Limited is a 100% owned subsidiary of Citibank Overseas Investment Corporation ("COIC"), which is a subsidiary of the banking entity Citibank NA ("CBNA"), a subsidiary of Citigroup Inc. ("Citi").

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 to fund high quality loans, bonds and securitised notes considering, 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 regulated by the PRA and Financial Conduct Authority ("FCA"). Pursuant to the 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 Corporate Governance Report and Principal Risks

CUKL has an established management and governance framework incorporating all 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")

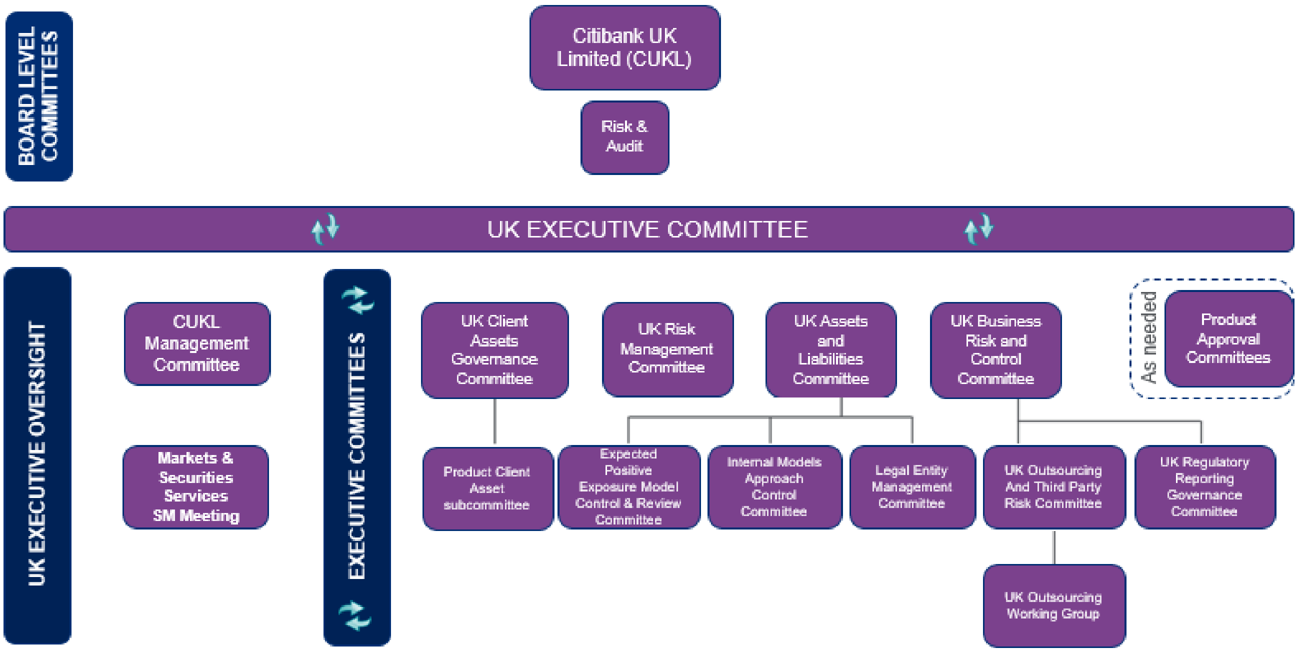
The SMCR focuses on a small number of individuals ("Senior Managers") who hold key roles or have overall responsibility for whole areas of relevant UK entities and branches. Senior Managers require regulatory pre-approval to perform a Senior Management Function ("SMF"). The SMCR requires Senior Managers 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 2020

2. CUKL Corporate Governance Report 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 2020:



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 12 – 'Risk management':

- credit risk;
- market risk;
- liquidity risk;
- operational risk;
- compliance risk;
- reputational risk; and
- strategic risk.

Section 172(1) 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.

2. CUKL Corporate Governance Report and Principal Risks (continued)

Section 172(1) Statement (continued)

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.

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 including our clients, shareholder, staff and global regulators.

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 its key stakeholders. The Board also reviews strategy and financial performance as well as operational and financial risks and regulator priorities. The Board receives this information in advance of each quarterly meeting and by holding strategy sessions at regular intervals.

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.

<u>Key stakeholder engagement</u>

Clients

The CUKL Board receives regular reporting of client performance and themes, allowing an understanding and oversight of the direction of client sentiment. CUKL continuously receives feedback from clients through its relationship managers, CitiPhone operatives, net promoter score surveys and in-app messaging and ratings, which provide in-depth understanding of our clients' needs and expectations, alongside regular client service benchmarking, leveraging external reporting and analysis where appropriate. The businesses within CUKL operate a globally coordinated client-centric sales organisation focussed on building market share and generating profitable growth.

Employees

CUKL recognises the central role of a clear purpose and strong ethical culture in delivering the best results for our stakeholders. CUKL places great value on the contributions of its employees and seeks to promote their involvement in the business wherever possible. It has continued its previous practice of keeping employees informed through both 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. This has been extremely important during 2020 with the global pandemic, which has meant that employee engagement and employee well-being has been a factor that has required more focus. The CUKL Board has been kept actively engaged throughout the year. Employees are encouraged to provide feedback and suggestions to senior leadership through various channels including an employee representative body and the Voice of the Employee survey. The Board has been presented with results on the results of Voice of Employee survey and across themes including Culture, Diversity, Innovation Employee Psychological Safety amongst others.

2. CUKL Corporate Governance Report and Principal Risks (continued)

Section 172(1) Statement (continued)

Suppliers

CUKL works to maintain fair, resilient and professional working relationships with its suppliers. CUKL has a well-established framework for the engagement with and on-going relationship management of its key suppliers, ensuring shared values in the conduct of their business. CUKL presents the Board with an annual statement on the steps taken to ensure that its operations and supply chains are free of human trafficking and modern slavery, as per the Modern Slavery Act 2015 ("the Act") to ensure there are no blind spots.

Regulators

CUKL maintains an open and regular engagement with the regulators to ensure clarity and transparency over its strategy and plan, key risks and opportunities, and progress on ongoing initiatives. Regulatory engagement is maintained both at the Board as well as the Executive Management level to ensure regulatory expectations are consistently understood and met. Primary regulatory engagement for CUKL is with the PRA/ Bank of England and FCA supervisory teams and senior management. CUKL has also been providing updates on the operational impact of COVID-19 on a regular basis.

Communities

CUKL is committed to enabling growth and progress in the communities where it operates. CUKL actively engages in fundraising activities as part of Citi's wider commitment to philanthropy and communities. CUKL works closely on country led initiatives helping raise vital funds for Guide Dogs in 2020 positively impacting 178 lives, volunteering to mentor young people though Career Ready charity, amongst others. This engagement allows CUKL to interact with local communities across generations and better understand the needs and requirements of society enabling it to innovate for the future.

Environment

CUKL recognises the importance of its environmental responsibilities and abides by all policies to ensure sustainable operations. As part of firm wide commitment, CUKL is focused on initiatives designed to minimise impact on the environment including safe disposal of waste, recycling and reducing energy consumption. The CUKL Board has continuous dialogue with management on climate change as part of board discussions. By the end of 2020, Citi as a firm achieved its goals of 100% use of renewable electricity for facilities globally and a 30% reduction in energy consumption from a 2005 baseline.

Government and Policymakers

As part of Citi, CUKL follows Citigroup's approach that responsible corporate citizenship includes holding an ongoing dialogue with its stakeholders, and contributing towards the public policy environment that CUKL operates within.

CUKL complies with all relevant transparency requirements, at both the European Union and various individual country level as part of firm wide commitment.

CUKL is committed to increasing the transparency and supports Citigroup's efforts to supplement its annual citizenship reporting with articles, reports, surveys, and other relevant perspectives throughout the year.

3. Mission and Strategy

The Company is well positioned with an existing, profitable business model and further potential to deliver improvement in sustainable growth and operating efficiency.

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. Whilst carrying out its core activities the Company 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 ICG assets including loans, securitised notes, and high-quality liquid assets.

The Consumer business in the UK is primarily a deposit-taking and wealth management business serving 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, Russia, Hong Kong 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.

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

	31 December 2020 £ 000	31 December 2019 ** £ 000	Variance
Profit before Income Tax	33,681	9,511	254%
Profit after Income Tax	25,542	7,086	260%
Operating Efficiency	62%	59%	3%
Shareholders' funds*	404,330	362,624	12%
Return on Capital Employed	8%	3%	5%
Leverage Ratio	6.8%	7.2%	-0.4%

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

**The key performance indicators for 2019 represent the business activities of the Company from 16 September 2019 to 31 December 2019, following the transfer of the retail business from CEP UK and CBNA London on the 16th of September 2019.

STRATEGIC REPORT
for the year ended 31 December 2020

4. Financial Highlights

4.1 Income Statement Summary

	2020 £ 000	2019 £ 000
Interest receivable	37,549	17,376
Interest payable	(5,318)	(3,705)
Fees and commissions receivable	31,551	9,380
Fees and commissions payable	(3,088)	(578)
Dealing profits	26,886	942
Other operating income	40	-
Administrative expenses	(50,367)	(12,136)
Depreciation and amortisation	(1,979)	(846)
Other operating charges	(377)	(44)
Provisions	(1,216)	(878)
Profit on ordinary activities before tax	33,681	9,511
Tax on profit on ordinary activities	(8,139)	(2,425)
Profit for the financial year	25,542	7,086

Profit for the financial year was £25.5 million (2019: £7.1 million) primarily driven by Interest receivable and Dealing profits from Institutional Client Group's placement of the retail client deposits and Fees and commissions receivable from Global Consumer Banking. Commercial Real Estate Loans, Securities Purchased under Resale Agreements and Government bonds drove the interest receivable with majority of the 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 are mainly driven by gains from sale of debt instruments measured at fair value through other comprehensive income.

Expenses were mainly driven by staff and technology including related support.

4.2 Statement of Financial Position Summary

	31 December 2020 £ 000	31 December 2019 £ 000
Total assets	5,625,900	4,810,642
Total liabilities	5,221,570	4,448,018
Shareholders' funds	404,330	362,624

The majority of the Company's assets are government bonds, securitised notes backed by real estate mortgages and credit card receivables. The Company also has commercial real estate loans and cash placed at the Bank of England and with other Citi affiliates.

Over 85% of the Company's liabilities are customer deposits with a small amount of subordinated borrowing from the Company's parent.

4. Financial Highlights (continued)

4.3 Regulatory Capital

CUKL's regulatory capital position is summarised below.

	31 December 2020 £ 000	31 December 2019 £ 000
Regulatory capital	420,699	395,773
Tier 1 capital ratio (unaudited)	38.3%	39.4%

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

In 2020, Citigroup has performed well amidst a challenging environment impacted by the health, economic, and social impacts of the global pandemic. The Banking sector, in general, witnessed high builds of Allowance for Credit Losses in 2020. The Allowances have largely stabilised in the second half of 2020, with a more positive market outlook for 2021.

Similar to Citi, CUKL's 2020 financial results were achieved against a backdrop characterised by a number of key themes:

- increased volatility in financial markets and the global spread of COVID-19 and its impact on client activity,
- a lower interest rate environment that is expected to remain throughout 2021 and beyond,
- continued political and economic uncertainty,
- increasingly competitive landscape due to new technologies (Automation, Machine Learning, and Robotic Process Automation),
- new legislations resulting in increased compliance requirements.

Despite the uncertainty, global stock markets posted their largest gains since the financial crisis. The UK economy has been significantly impacted by COVID-related restrictions and lockdowns that have suppressed several sectors' activity and overall household expenditure, causing the economy to shrink by close to 10% in 2020.

5. 2021 Future Outlook

CUKL's core strategic themes and operational priorities are defined in accordance with Citi's overall strategy. The objective of the Company is to 'Be the Best for our Clients' and to maintain a proper balance between the following key priorities:

- ***Clients & innovation:*** *Continued focus on serving affluent and HNW clients, increase investment penetration, expand referral markets and deliver a client centric wealth management advisory service complemented by a digital led transaction banking ecosystem and cross-border solutions.*
- ***Controls & Governance:*** *Embracing leading practices in governance, risk management and controls.*
- ***Sustained Financial Performance/Returns & Efficiency:*** *Delivering a sustainable and profitable franchise focused on serving target market clients, optimising returns within the targeted Risk Appetite Framework while maintaining efficiency.*

5. 2021 Future Outlook (continued)

5.1 The UK's withdrawal from the EU

Following the UK referendum on EU membership in June 2016, Citi established a formal programme to deliver a coordinated response to the UK's decision to leave the EU. The UK's membership of the European Union came to an end on 31st January 2020 following the ratification by the UK and the EU of the Withdrawal Agreement with a transition period. The Brexit transition period ended at 11:00pm (UK) on 31 December 2020, resulting in EU laws, rules and regulations no longer being applicable to the UK. For Financial Services, and Citi, the UK has onshored a number of rules and regulations in addition to outlining transitional powers and availing of temporary permissions regime, where appropriate.

Given the uncertainties in the outcome of the UK's negotiations with the EU, Citi assumed a "Hard" Brexit scenario in its contingency planning, without an extended transition period or an agreed deal.

The key objective has been to design and implement a strategy that allows Citi to continue servicing its clients in the EEA and UK with minimal disruption, where possible, whilst maintaining simplicity and transparency.

Across the impacted legal entities, including CUKL, Citi ensured its operational readiness to support its clients following the end of Brexit transition period. Citi continues to monitor political, legislative, and regulatory developments for its EEA based client activities and all impacted legal entities.

CUKL does not expect a material impact on its business model from the withdrawal. CUKL will continue to service EEA clients but with limitations.

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:

- Potential risks include lower levels of volatility in the markets driven by geo-political events, Brexit fragmentation and EU/UK regulators dynamics, accelerated deployment of digital tech from our competitors, IBOR reforms as the entire market transitions to alternative reference rates and potential credit events resulting from sustained GDP contraction.
- In addition to the widespread public health implications, the COVID-19 pandemic has had an extraordinary impact on macroeconomic conditions globally.

  The pandemic and responses to it have had, and will likely continue to have, severe impacts on global health and economic conditions. These impacts will continue to evolve by region, country or state, largely depending on the duration and severity of the public health consequences, including the duration and further spread of the coronavirus; the potential for new variants of the virus; timely development, production and distribution of effective vaccines; availability of therapeutics; public response; and government actions. The impacts to global economic conditions include, among others:
    - the institution of social distancing and restrictions on the movement of the public including international travel;
    - closures, reduced activity and failures of many businesses, leading to loss of revenues and net losses;
    - sharply reduced global economic output, resulting in lower loan volumes;
    - lower interest rates;
    - disruption of global supply chains; and
    - significant disruption and volatility in financial markets.

  Ongoing legislative and regulatory changes globally to address the economic impact from the pandemic, such as corporate relief measures and continued lower interest rates, could further affect the Company's businesses, operations and financial performance.

5. 2021 Future Outlook (continued)

5.2 Market Outlook (continued)

The pandemic may not be contained for an extended period of time. A prolonged health crisis could further reduce economic activity, resulting in additional declines in employment and business and consumer confidence. These factors could further negatively impact global economic activity and markets; cause a decline in the Company's revenues and further increase the Company's credit and other costs.

Further, it is unclear how the macroeconomic business environment or societal norms may be impacted after the pandemic. The post-pandemic environment may undergo unexpected developments or changes in financial markets, the fiscal, monetary, tax and regulatory environments and consumer customer and corporate client behaviour. These developments and changes could have an adverse impact on the Company's financial performance and financial position.

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:

- The Trade and Cooperation Agreement ("TCA") agreed in December 2020 between the UK and EU;
- Onshoring of EU legislation and regulatory requirements;
- Payment Services Regulations 2017 ("PSRs");
- Transition from LIBOR;
- Revisions to implement the Capital Requirements Regulation/ Capital Requirements Directive CRR2/ CRD V package and proposals for the CRR3/ CRD VI package;
- Changes to the UK prudential regulatory framework post the Brexit transition period;
- Further proposed COVID-19 regulatory measures;
- Operational Resilience; and
- FCA Guidance for firms on the fair treatment of vulnerable customers.

The Trade and Cooperation Agreement ("TCA") agreed in December 2020 between the UK and EU

The Trade and Cooperation Agreement ("TCA") agreed in December 2020 between the UK and EU governs the UK-EU relationship following the end of the transition period on 31 December 2020. The TCA does not contain provisions allowing market access for financial services firms. In particular, the TCA does not contain provisions replicating the financial services passporting regime and it does not address the issue of equivalence (which could have provided an alternative basis on which to access the EU financial services markets).

The absence of any market access framework agreed at UK-EU level means that individual UK financial institutions contemplating providing financial services to customers based in EU member states will need to consider the law and regulation applying in individual member states to see whether they can carry out that business and, if so, what regulatory and licensing requirements will apply.

Please refer to section "The UK's withdrawal from the EU" above for further details regarding the impact on CUKL.

Onshoring of EU legislation and regulatory requirements

The transition period ended at 11pm on 31 December 2020 and the UK's onshored EU legislation applies following the end of the transition period. 'Onshoring' was the process of amending EU legislation and regulatory requirements so that they work in a UK-only context.

The onshoring process has resulted in changes to some regulatory requirements. For most of these changes firms have until 31 March 2022 to comply. There are, however, a number of exceptions such as changes to MiFID II transaction reporting requirements, contractual recognition of bail in and Client Assets (CASS), all of which applied from the end of the transition period at 11pm on 31 December 2020.

CUKL is reviewing and implementing these changes in accordance with this schedule.

5. 2021 Future Outlook (continued)

5.3 Regulatory Developments (continued)

Payment Services Regulations 2017 ("PSRs")

The PSRs aim to promote the development of innovative online and mobile payments, more secure payments and enhanced consumer protection. The PSRs are already in force but firms have until the end of June 2021 to transition to alternative certificates to allow Third Party Providers to identify themselves to payment services providers (like CUKL) as UK firms can no longer rely on EU mandated eIDAS certificates. In addition, firms have until the 14 September 2021 to comply with the last remaining PSR requirements relating to Strong Customer Authentication for e-commerce. CUKL has a programme in place to address these changes.

Transition from LIBOR

LIBOR is still used as the interest rate benchmark to price or value a wide range of financial products. Following a statement from the Financial Conduct Authority ("FCA"), firms in the UK must cease using LIBOR by the end of 2021. Citi is currently conducting a global project to determine the client, product, and legal entity impact. As part of the rate reforms and regulatory guidance, Citi have chosen to opt for the following five Alternative Reference Rates ("ARR"): SOFR (USD), SONIA (GBP), TONA (JPY), EURIBOR (EUR), SARON compounded in advance (CHF).

CUKL has continued to identify its transition exposures with a focus on clients who have invested in products linked to LIBOR. CUKL is currently working on the system enhancements that are required to ensure internal systems reference the applicable ARR instead of LIBOR in the appropriate modules.

As some regulators, including Bank of England have announced that new loan contracts must stop referring to LIBOR from April 2021 onwards, amendments to be made and necessary communication will be sent to clients adopting a phased approach for existing and new contracts. All new GBP MSBF loans from April 2021 onwards will refer to a fixed rate in place of LIBOR.

Revisions to implement the CRR2/ CRDV package and proposals for the CRR3/ CRDVI package

CUKL will be impacted by a number of regulatory rule changes introduced by the Basel Committee on Banking Supervision ("BCBS") and other standard setters that have been legislated for in Europe by CRR 2/ CRD V. It is expected that, although the UK has now left the EU, the UK will continue to apply similar prudential regulation to that in force within the EU.

In November 2020, the UK Treasury, in conjunction with the PRA and FCA, delayed the implementation of CRR2 in the UK until 1 Jan 2022. This will apply to the Standardised Approach for Measuring Counterparty Credit Risk Exposures (SA-CCR), the Large Exposures framework, NSFR (Net Stable Funding Ratio) and the Leverage Ratio.

A further proposal to revise the CRR (known as CRR3) is expected to be published by the European Commission in Q2 2021. 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. As published in the UK Regulatory Initiatives Grid, we expect formal engagement from the UK regulators on this package between April and September 2021.

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.

Changes to the UK prudential regulatory framework post the Brexit transition period

Two key documents have been issued since the end of the Brexit transition period. Her Majesty's Treasury ("HMT") published a consultation paper on issues arising from the implementation of the final Basel III standards. This paper provided details of the provisions in the UK Capital Requirements Regulation (575/2013) (UK CRR) that will be revoked using their powers under the Financial Services Bill. These provisions will be replaced by PRA rules, which the PRA are consulting on in CP 5/21. This consultation will implement some of the set of international standards that remain to be implemented in the UK, such as aspects of the CRR2 package that were not onshored in the UK prior to the end of the Brexit transition period. Currently, UK firms can benefit from the preferential risk weights applicable to EU27 exposures and assets under the capital and large exposures frameworks. This transitional relief will apply until the end of March 2022.

Further proposed COVID-19 regulatory measures

The COVID-19 pandemic has had a significant impact on the economy and global regulators have responded with a range of measures to support firms through this period. Regulatory updates are still evolving and they vary by jurisdiction. They cover many topics including reductions in countercyclical capital buffers, the payment of dividends, the use of capital buffers, the securitisation framework and amendments to the CRR. These measures are intended to help firms to mitigate the economic impacts of the pandemic on their businesses and to allow them to continue to lend to the wider economy.

5. 2021 Future Outlook (continued)

5.3 Regulatory Developments (continued)

Operational Resilience
In 2021, the FCA, PRA and Bank of England will finalise their rules aimed at building the resilience of the UK financial services sector to operational disruption. This could include the industry response to the COVID-19 pandemic and other high-profile incidents which have taken place since the draft rules were published. CUKL is currently part of Citigroup pilot testing of impact tolerance on payments. As part of this testing, CUKL closely engages with regulators to understand the intent, purpose and global resilience requirements. Firms can expect a 9 to 12 month implementation period to comply with the new rules once the consultation process is completed. This is likely to mean that firms must by year-end 2021 have identified their business services and which ones are "important" business services, mapped what resources are used to deliver those important business services to clients and set impact tolerance levels for these important business services.

FCA Guidance for firms on the fair treatment of vulnerable customers
FCA guidance for firms on the fair treatment of vulnerable customers was published on 23 February 2021. CUKL is reviewing its processes, systems and controls to determine whether any enhancements are required. CUKL takes its responsibilities to treat customers fairly, particularly those customers who are vulnerable, seriously.

Operational readiness for a zero or negative Bank Rate
The PRA published a 'Dear CEO' letter dated 4 February 2021 in which it outlined the feedback from its request for information on preparedness in the event a zero or negative Bank Rate is introduced and also outlined its expectation on firms in terms of the timelines for implementing both tactical and strategic solutions. CUKL is assessing its options in terms of both solutions.

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. Events after the reporting period

At the date on which these financial statements were approved, there were no significant events affecting the Company since the year end.

By order of the Board

S G Shakespeare
Director

20 May 2021

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

CITIBANK UK LIMITED

DIRECTORS' REPORT
for the year ended 31 December 2020

The Directors present their Report and the audited financial statements of CUKL for the year ended 31 December 2020.

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

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.

As was reported in the ultimate parent company's (Citigroup's) Annual Report on SEC Form 10-K for the year ended 31 December 2020, Citigroup disclosed that in addition to the widespread public health implications, the COVID-19 pandemic has had an extraordinary impact on macroeconomic conditions in the U.S. and around the world. 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 assessment was completed with reference to the stress testing processes within the Internal Capital Adequacy Assessment Process (ICAAP) prepared in the summer of 2020, and Internal Liquidity Adequacy Assessment Process (ILAAP) which demonstrated that CUKL has sufficient capital and liquidity buffers to withstand the current market conditions. In this assessment, 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 Bank of England's Scenario for banks and building societies not part of concurrent stress testing 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 indicate 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 11;
- a financial summary, including the income statement and statement of financial position, is provided in the financial results section on pages 22 to 25; 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 12 – 'Risk management', starting on page 48.

Dividends
During the year CUKL paid no dividends on its ordinary shares (2019: £nil), and paid £3,250 thousand dividend (2019: £803 thousand) on its Additional Tier 1 Capital.

CITIBANK UK LIMITED

DIRECTORS' REPORT
for the year ended 31 December 2020

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 12 – '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 26 – 'Events after the reporting period'.

Statement of Directors' responsibilities
The directors are responsible for preparing the Annual Report, the 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 and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

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 the profit or loss of the company 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 and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 the 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 2020 and since year-end were:

Non-Executive
J Dawson
J H Rawlingson

Executive
J D K Bardrick
D B Chubak
A K Ghai
S G Shakespeare

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.

Employees

CUKL recognises the central role of a clear purpose and strong ethical culture in delivering the best results for our stakeholders. CUKL places great value on the contributions of its employees and seeks to promote their involvement in the business wherever possible. It has continued its previous practice of keeping 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. This has been extremely important during 2020 with the global pandemic, which has meant that employee engagement and employee well-being has been a factor that has required more focus. The CUKL Board has been kept actively engaged throughout the year. Employees are encouraged to provide feedback and suggestions to senior leadership through various channels including an employee representative body and the Voice of the Employee survey. The Board has been presented with results on the results of Voice of Employee survey and across themes including Culture, Diversity, Innovation Employee Psychological Safety amongst others.

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

Engagement with stakeholders is discussed in the Strategic report's Section 172(1) Statement, starting from page 3.

Disclosures concerning greenhouse gas emissions

Sustainable Operations

The Company, as part of Citigroup, has been measuring its environmental footprint for two decades and began reporting on its direct operational impacts in 2002. In 2020, Citi finished tracking progress against its third generation of operational footprint goals, first announced in 2015. These goals cover energy use, water consumption, recycling, waste and green building design. By the end of 2020, Citi had achieved its goals of 100% use of renewable electricity for facilities globally and a 30% reduction in energy consumption from a 2005 baseline.

To build on this success and reduce its operational footprint further, Citi is committed to the following goals for increasing its energy efficiency and reducing greenhouse gas ("GHG") emissions by 2025, from a 2010 baseline:

- a 45% reduction in location-based GHG emissions (CO_2e)
- a 40% reduction in energy consumption and maintain 100% renewable electricity sourcing
- certifying 40% of floor area to be LEED, WELL or equivalent standard, with a focus on Citi owned buildings to operate at the highest level of sustainability.

Citi reports Scope 1, Scope 2 and Scope 3 Business Travel GHG emissions in both its Environmental Impact Report and its CDP response. Citi's global energy consumption and GHG emissions can be found in the annual Environmental, Social and Governance Report. Citi's GHG emissions and environmental data are verified and assured by SGS, a leading third-party inspection, verification, testing and certification company.

Disclosures concerning greenhouse gas emissions (continued)

Streamlined Energy and Carbon Reporting
The following tables present the Company's energy consumption, greenhouse gas emissions and chosen intensity metrics for its UK-based operations for the financial year ended 31 December 2020:

Energy Consumption	
Energy (kWh)	2,061,000

GHG Emissions

Scope	**Source**	**Unit**	
1	Direct	tCO2e	77
2	Indirect – Location-based	tCO2e	393
	Indirect – Market-based	tCO2e	0
3	Commercial air & rail travel	tCO2e	39
	Employee expensed car mileage	tCO2e	0
Total	**Scope 1, 2 (location) & Scope 3 Business Travel**	**tCO2e**	**470**
	Scope 1, 2 (market) & Scope 3 Business Travel	**tCO2e**	**77**

Intensity Ratio*	
tCO2e/Sq. Ft**	0.017
tCO2e/FTE	2.226

* these intensity metrics have been calculated using Scope 1 & 2 (location) emissions
** calculated using Citi's total Scope 1 & 2 carbon footprint from the group's UK portfolio

The Company's emissions are calculated in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition). The boundaries of the GHG inventory are defined using the operational control approach and cover the emissions the Company is responsible for across Scope 1, 2 and Scope 3 business travel. The emissions are calculated using the emissions factors for 2020 published by the Department for Business, Energy & Industrial Strategy.

Citi gathers data from its operations on an ongoing basis, with primary evidence sourced from office managers and technical team. Where Citi pay for occupancy via service charge and the share of consumption is not known, consumption is calculated by benchmarking the energy/square foot against our global portfolio. As multiple Citi-owned subsidiaries occupy the same office spaces and make use of data centres, the figures presented have been calculated using the company's UK headcount pro-rata to the Citi UK headcount. Citi purchase 100% renewable electricity in the UK through green tariffs for electricity directly purchased. Where electricity is obtained in leased properties from landlords, guarantee of origin certificates are purchased for the equivalent amount used.

Energy efficiency in action
As a financial services provider, the main sources of greenhouse emissions from Citibank UK Limited's operations are the running of data centres, the offices in which the majority of employees are based and the Scope 3 business travel of employees travelling for work.

Whether undertaking new construction or renovating existing buildings, Citi prioritise efficiency and sustainability to minimise the environmental impact of its facilities. In the Company's UK-based sites as part of its energy management system, interval data analysis is conducted fortnightly to track savings from energy efficiency measures. This allows the Company to consistently review the efficacy of proposed measures and identify any problems.

In 2020, as the result of the COVID-19 pandemic and associated lockdowns from March onward, employee occupation of offices was heavily reduced resulting in a 20-30% decrease in energy consumption during lockdown months. The Company told all employees to work from home where possible and invested in upgrading video conferencing and online meeting tools in order to facilitate this transition. The travel restrictions put in place also greatly reduced Scope 3 emissions associated with air and rail travel, as well as the number of car journeys taken by employees in 2020.

Disclosures concerning greenhouse gas emissions (continued)

Energy efficiency in action (continued)
With a return to office scheduled for 2021, the Company's video conferencing and remote-working tools will stay in place, ensuring employees do not travel for work unless necessary. In 2019, through energy audits undertaken in compliance with the Energy Saving Opportunity Scheme ("ESOS"), several opportunities were identified to reduce energy consumption in the Citigroup Centre office and Riverdale Data Centre. This included a programme to convert all remaining non-LED lights to LEDs. These recommendations will be implemented as part of the current programme of renovations at Citigroup Centre in London, due to be completed in 2021 and 2022.

Political contributions
No political contributions were made during the year (2019: £nil).

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

20 May 2021

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

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 2020 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, 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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 two financial years ended 31 December 2020. 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	£2.0m (2019:£1.8m) 0.5% (2019: 0.5%) of Net Assets	
Key audit matter		**vs 2019**
Recurring risks	Expected credit loss on commercial real estate loans	▲

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2019), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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 these matters.

<table>
<tr><th></th><th>The risk</th><th>Our response</th></tr>
<tr>
<td>Expected credit loss ("ECL") on commercial real estate ("CRE") loans

(£1.2 million; 2019: £0.6 million)

Refer to page 33-38 (accounting policy) and page 52-60 (financial disclosures).</td>
<td>Subjective estimate

The estimation of ECL on the CRE loans involves significant judgement and estimation uncertainty. Additionally, the Covid-19 pandemic has had a significant impact on the UK economy and has resulted in increased risk in ECL. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the estimation of ECL are:

Obligor Risk Rating ("ORR") - ORR is one of the main attributes in determining the Probability of Default ("PD"), significant increase in credit risk ("SICR") and ultimately the staging of CRE loans. There is a risk that the ORR assigned by the Company may not reflect recent developments in credit quality, risk profile or emerging macro-economic risks and therefore that the ORR is inappropriate and did not reflect the true credit worthiness of the borrower. As a result, the PD and staging determined using ORR and other factors, may lead to material misstatement of the underlying ECL on these facilities.

Macro-economic variables, scenarios and weightages - IFRS 9 requires the Company to measure ECL on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the relevance, reliability and reasonableness of macro-economic variables, scenarios and weightages used especially when considering the current uncertain economic environment in the UK. There is a risk that the most significant macroeconomic variables, scenarios and weightages applied are inappropriate due to the level of judgement required, as these variables have high estimation uncertainty, leading to the ECL amount recognised in the financial statements being materially misstated.

Post Model Adjustments ("PMAs") - Adjustments to the model-driven ECL results are recorded by management to address emerging trends and portfolio-specific risk or known impairment model limitations. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts.</td>
<td>Our procedures included:

— Key aspects of our control testing involved the following:
• Review and approval of ORR: Evaluating the design and implementation of key controls in relation to the review and approval of the loan credit grading assessments;
• Authorisation of economic variables, scenarios and weightages: Evaluating the design and implementation of key controls for authorisation of economic variables forecasts and scenario weightages and controls over the relevance and reliability of these variables.
• Review and approval of PMAs: Evaluating the design and implementation of key controls in relation to the review and approval of the post model adjustments.

— Test of details: Due to the subjectivity and extent of judgement involved in determining the estimate, coupled with current uncertainty in the economic outlook and the sensitivity of ECL to multiple factors including, but not limited to, the underlying performance of the obligor, collateral values and forward looking factors, we considered it appropriate to determine an ECL range.

— 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 the financial and liquidity position of the borrower to repay their financial obligations as per contractual arrangements. Further, we also assessed if there were any triggering factors that would be indicative of SICR for Stage 1 facilities and Default for Stage 2 facilities. We have also tested a sample of payments received during the year to assess if there were any defaults.
• Our economics specialists: We involved our own economics specialists to assist us by challenging and evaluating appropriateness of the economic variables, scenarios and weightages utilised in the IFRS 9 model.
• Our valuation specialists: We involved our corporate finance valuation specialists to assist us in assessing the reasonableness of the fair value of the collateral for Stage 2 facilities.
o We further challenged the LGD using these collateral fair values, considered expected movements as per commercial real estate price index and reasonable and supportable evidence to estimate collateral values in a severely stressed scenario;
• Our financial risk modelling specialists: We involved our own financial risk modelling specialists to independently estimate the probability of default for each facility; and
o Independently recalculated an ECL range for Stage 2 facilities using independently determined PDs.
• Assessing transparency: Assessing the appropriateness of disclosures recorded in the financial statements in line with accounting standards including the PMAs and sensitivity to reflect the economic uncertainty.

Our results

— We concluded the ECL on commercial real estate loans determined by the Company to be acceptable (2019: acceptable).</td>
</tr>
</table>

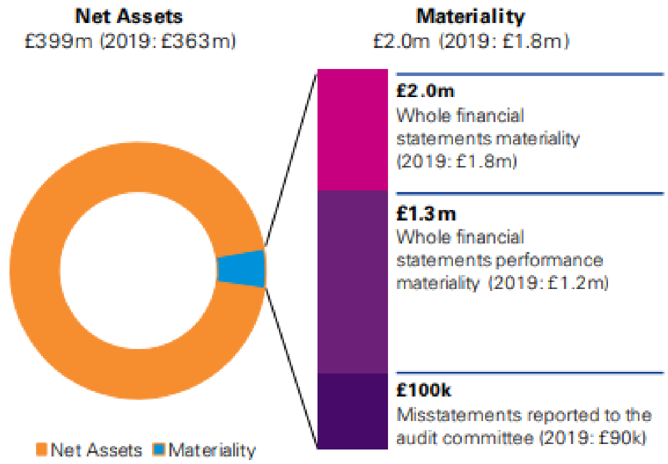
3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £2.0m (2019: £1.8m), determined with reference to a benchmark of net assets, of which it represents 0.5% (2019: 0.5%). We considered net assets to be the most appropriate benchmark based on quantitative and qualitative factors including, but not limited to, profit volatility on account of the Covid-19 pandemic and limited historical period to perform averaging.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £1.3m (2019: £1.2m). We applied this percentage in our determination of performance materiality based on the increased risk of material misstatement on account of the Covid-19 pandemic.

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £100k (2019: £90k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.



4. 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").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was:

- the impact on regulatory capital requirements in the event of an economic slowdown or recession, particularly due to the uncertainty around the ECL estimate in relation to the CRE portfolio.

We considered whether this risk could plausibly affect the regulatory capital requirements in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

— Evaluation of stress testing performed by management and consideration of whether the stresses applied are appropriate for assessing going concern. We also independently assessed if the stressed scenarios used by management were reasonable and comparable to market wide stressed scenarios;

— Evaluating whether management's assessment has failed to identify events or conditions that may cast significant doubt on going concern and whether the method used by management is appropriate; and

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the Risk and Audit Committee, Internal Audit and inspection of policy documentation, as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Risk and Audit Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Reviewing the customer complaints to assess if these could be indicative of a material misstatement.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the determination of obligor risk ratings or post-model adjustments in relation to the IFRS 9 ECL on the CRE portfolio. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue recognition is highly automated and does not involve any complexities or judgements.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls in relation to:-

a) maker-checker controls over manual journal entries and post closing adjustments.

b) Testing the General IT controls ("GITC") and IT application controls over automated flow of journal entries to the general ledger and sub-ledger.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included entries which were posted to correct or fix the original journal entry.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 and 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.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 and 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 license to operate. We identified the following areas as those most likely to have such an effect: Money laundering, General data protection regulation, Sanctions list and financial crime, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. 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. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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.

7. 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, 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 13, 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 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 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.

9. 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
20 May 2021

CITIBANK UK LIMITED

INCOME STATEMENT
for the year ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Interest receivable	**3**	37,549	17,376
Interest payable	**3**	(5,318)	(3,705)
Fees and commissions receivable	**4**	31,551	9,380
Fees and commissions payable	**4**	(3,088)	(578)
Dealing profits	**5**	26,886	942
Other operating income		40	-
Administrative expenses	**6**	(50,367)	(12,136)
Depreciation and amortisation		(1,979)	(846)
Other operating charges		(377)	(44)
Provisions	**12**	(1,216)	(878)
Profit on ordinary activities before tax		33,681	9,511
Tax on profit on ordinary activities	**9**	(8,139)	(2,425)
Profit for the financial year		25,542	7,086

The accompanying notes on pages 26 to 87 form an integral part of these financial statements.

CITIBANK UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	2020 £ 000	2019 £ 000
Profit for the financial year	25,542	7,086
Items that are or may be reclassified subsequently to income statement		
Debt instruments at FVOCI - net change in fair value	53,343	(9,664)
Debt instruments at FVOCI - reclassified to profit or loss	(27,034)	-
Related tax	(6,910)	2,416
Other comprehensive gain/(loss) for the year, net of tax	19,399	(7,248)
Total comprehensive gain/(loss) for the year	44,941	(162)

The accompanying notes on pages 26 to 87 form an integral part of these financial statements.

CITIBANK UK LIMITED

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Assets			
Cash and balances at central banks	**10**	523,979	410,731
Derivative financial instruments	**13, 14**	135,163	31,272
Treasury bills and other eligible bills	**15**	2,113,702	1,625,349
Loans and advances to banks	**13**	624,621	1,852,319
Loans and advances to customers	**13**	353,748	578,849
Debt securities	**16**	1,769,954	280,016
Intangible fixed assets	**17**	7,339	7,615
Other assets	**18**	97,394	24,491
Total assets		5,625,900	4,810,642
Liabilities			
Deposits by banks	**13**	18,965	5,799
Customer accounts	**13**	4,983,443	4,345,627
Derivative financial instruments	**13, 14**	139,610	31,510
Other liabilities	**20**	21,551	8,758
Accruals and deferred income	**21**	5,733	4,090
Provisions for liabilities		176	113
Subordinated liabilities	**19**	52,092	52,121
Called up share capital	**22**	-	-
Reserves	**24**	375,755	356,341
Profit and loss account		28,575	6,283
Total liabilities		5,625,900	4,810,642
MEMORANDUM ITEMS			
Contingent liabilities		-	-
Commitments	**23**	24,159	31,873

The accompanying notes on pages 26 to 87 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 May 2021 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 2020

	Attributable to equity holders of the Company					
		Reserves				
	Called up share capital £ 000	Other reserve £ 000	Fair value reserve £ 000	Equity reserve £ 000	Profit and loss account £ 000	Total £ 000
Balance at 1 January 2019	-	-	-	-	-	-
Total comprehensive income for the year						
Profit for the financial year	-	-	-	-	7,086	7,086
Other comprehensive loss for the year						
Debt instruments at FVOCI - net change in fair value	-	-	(9,664)	-	-	(9,664)
Tax on other comprehensive loss	-	-	2,416	-	-	2,416
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	-	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
Total comprehensive income for the year						
Profit for the financial year	-	-	-	-	25,542	25,542
Other comprehensive gain for the year						
Debt instruments at FVOCI - net change in fair value	-	-	53,343	-	-	53,343
Debt instruments at FVOCI - reclassified to profit or loss	-		(27,034)	-	-	(27,034)
Tax on other comprehensive income	-	-	(6,910)	-	-	(6,910)
Total other comprehensive gain	-	-	19,399	-	-	19,399
Total comprehensive gain	-	-	19,399	-	25,542	44,941
Transactions with owners, recorded directly in equity						
Contributions and distributions						
Dividends on Additional Tier 1 Capital	-	-	-	-	(3,250)	(3,250)
Equity settled share-based payment	-	-	-	21	-	21
Tax on equity	-	-	-	(6)	-	(6)
Total distributions	-	-	-	15	(3,250)	(3,235)
Balance at 31 December 2020	-	363,589	12,151	15	28,575	404,330

The accompanying notes on pages 26 to 87 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

These financial statements were 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 accounting standards in conformity with the requirements of the Companies Act 2006 ("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 27 – 'Parent companies'.

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

Business activities of the Company started from 16 September 2019, following the transfer of the retail business from CEP UK and CBNA London. Consequently, the comparative information disclosed in these financial statements relates only to this period's business activity, while current year financial information covers a whole year.

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.

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.

As was reported in the ultimate parent company's (Citigroup's) Annual Report on SEC Form 10-K for the year ended 31 December 2020, Citigroup disclosed that in addition to the widespread public health implications, the COVID-19 pandemic has had an extraordinary impact on macroeconomic conditions in the U.S. and around the world. 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. The assessment was completed with reference to the stress testing processes within the Internal Capital Adequacy Assessment Process (ICAAP) prepared in the summer of 2020, and Internal Liquidity Adequacy Assessment Process (ILAAP) which demonstrated that CUKL has sufficient capital and liquidity buffers to withstand the current market conditions. In this assessment, 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 Bank of England's Scenario for banks and building societies not part of concurrent stress testing 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 indicate 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

Standards issued and effective

There are a number of accounting standards that have been issued by the International Accounting Standards Board ("IASB"), which became effective from 1 January 2020. They include:

- Amendments to references to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- COVID-19-Related Rent Concessions (Amendment to IFRS 16)

The above amended standards and interpretations did not have a significant impact on the Company's financial statements.

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 and Safekeeping fees are earned as a fixed fee proportionate to the clients' managed portfolio 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. Included within transactional services fees are relationship fees, which are charged to the clients for holding relationship balances and are recognised evenly over the contract duration.

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 assets and liabilities, and include all fair value changes related to derivatives, gain on disposal of FVOCI instruments, together with related interest, dividends and foreign exchange differences.

f) Financial assets and liabilities

Initial Recognition and Measurement

The Company initially recognises loans and advances, deposits and subordinated liabilities on settlement date. 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.

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

Initial Recognition and Measurement (continued)

Please refer to Note 1(s) 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:

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

Amortised Cost

A financial asset-debt instrument shall be classified and subsequently measured at amortised 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.

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.

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

Classification and Measurement (continued)

Business Model Assessment (continued)

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 and debt securities 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.

Financial Assets

FVTPL

The following financial assets were classified under 'Fair value though profit or loss':

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.

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

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

Financial Assets (continued)

<u>Amortised cost</u>

The following financial assets were classified under 'amortised cost':

Loans and receivables and other financial 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 at Central Banks, 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 to 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 and securities backed by credit card receivables, 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 Residential Backed Mortgage Securities ("RMBS") and other asset backed securities ("ABS"). 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 or credit card receivables). The Company only holds RMBS and ABS linked to senior tranches of the respective securitisations. 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:

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.

There were no modifications relating to financial assets or financial liabilities during the current or the prior year.

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

Classification and Measurement (continued)

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.

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).

Expected credit loss impairment model

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

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.

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

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

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

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

Significant increase in credit risk ("SICR")

At each reporting date, CUKL assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making this assessment, CUKL considers the increase in the risk of default (both in relative terms and absolute terms) over the expected life of the financial asset. The significance of a change in the credit risk since initial recognition depends on the risk of a default occurring at initial recognition. That is, a given change in absolute terms, the risk of a default occurring 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.

Determining whether the credit risk on a financial instrument has increased significantly since initial recognition is based on a multifactor and holistic approach, including both quantitative and qualitative information and analysis. Whether a specific factor is relevant, and its weight compared to other factors, will depend on the type and relevant characteristics of the financial instrument, the borrower as well as the geographic region.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due with a rebuttable presumption if there is reasonable and supportable information demonstrating that credit risk has not increased since initial recognition.

<u>Determining whether credit risk has increased significantly</u>

As a general indicator, the credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling:

- there has been an increase of more than 20 basis points in the lifetime PD between origination and the reporting date; or
- there has been an increase in the lifetime PD between origination and the reporting date of more than one standard deviation of the normal distribution for the lifetime PD at origination.

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Company's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list or classification of forborne for regulatory reporting purposes. Such qualitative factors are based on expert judgement and relevant historical experiences.

The Company identifies key drivers behind changes in credit risk for portfolios. Generally, a significant increase in credit risk is assessed based on the estimation of PDs and consideration of qualitative factors, each of which are designed to reflect forward-looking information, on an individual instrument basis as described above. However, if the Company identifies a key driver that is not considered in the individual assessment on a timely basis, then the Company will evaluate whether there is reasonable and supportable information that enables it to make an additional assessment on a collective basis with respect to all or some of a portfolio. This may lead to the Company concluding that a segment or proportion of a portfolio has undergone a significant increase in credit risk.

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

Significant increase in credit risk ("SICR") (continued)

The 30 days past due 'backstop' criteria assumes a rebuttable presumption that credit risk has significantly increased if contractual payments are more than 30 days past due. This presumption can only be rebutted if there is reasonable and supportable information demonstrating that credit risk not increased since initial recognition. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures from Stage 1 into Stage 2. Exposures move back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met. The 30 days past due back stop criteria only apply to exposures in Stage 1 and 2.

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.

Management overlays may be applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; – the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

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). If not already credit impaired, Stage 2 is determined by the existence of a significant credit deterioration (or credit improvement if previously deemed to be credit impaired) 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.

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

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

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

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.

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 12 and is recognised in the fair value reserve.

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

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

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.

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, when the Company neither transfers nor retains substantially all of the risks and rewards of ownership but 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 depreciation and amortisation 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

Any gain or loss on disposal is recognised within other income in profit or loss.

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.

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

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.

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.

k) Levies

Levies are imposed by governments to the Company in accordance with legislation, other than income taxes, fines or other penalties that are imposed for breach of such 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.

l) 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.

m) Employee benefits

Defined contribution plans
The Company's 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.

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

o) Share based incentive plans

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

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

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

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

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

p) Cash and balances at central banks

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

q) 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.

r) 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 (refer to Note 1g) for more information on the Company's accounting policy regarding credit impairment).

s) 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.

1. Principal accounting policies (continued)

s) Common control transactions (continued)

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.

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 preparation of the financial statements are described in detail above.

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

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

When preparing the financial statements, it is the Directors' responsibility 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 12 – 'Risk management'.

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, the determination of a significant increase of credit risk and the assessment of default. 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.

2. Use of assumptions and estimates (continued)

Impairment of financial assets (continued)
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.

The Company had builds to its expected credit losses of approximately £8.6 million during 2020, bringing its total ECL to approximately £9.4 million at 31 December 2020. As part of this estimate the Company incorporates a Management Adjustment Factor (MAF) and a Wholesale Impairment Model Overlay to account for factors not captured in the model (please refer to note 12.2 Credit Risk for further information). The Company believes its credit portfolio to be appropriately rated and classified as of 31 December 2020. During the year and since the onset of the COVID-19 pandemic, the Company has taken action to adjust internal ratings and classifications of exposures as both the macroeconomic environment and obligor-specific factors have changed, particularly where additional stress has been seen. The extent of the pandemic's ultimate impact on the Company's ECL will depend on, among other things, (i) how consumers respond to the government support measures and assistance programs; (ii) the impact on unemployment; (iii) the timing and extent of the economic recovery; (iv) the severity and duration of the resurgence of COVID-19; (v) the rate of distribution and administration of vaccines; and (vi) the extent of any market volatility. The Company believes its analysis of the allowance for expected credit losses reflects a reasonable and supportable forward looking view of the economic analysis as of 31 December 2020.

Useful lives and impairment of non-financial assets
Judgements are applied in estimating the useful lives and the impairment losses on non-financial assets that should be recorded in the income statement.

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. In determining the business model, 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Use of assumptions and estimates (continued)

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.

3. Net interest receivable

	2020 £ 000	2019 £ 000
Interest and similar receivable		
Interest receivable and similar income arising from debt securities		
Debt securities	6,214	487
Other interest receivable and similar income		
Cash and balances at central banks	948	732
Treasury bills and other eligible bills	5,322	1,825
Loans and advances to banks	8,940	8,440
Loans and advances to customers	16,125	5,892
Total interest receivable	37,549	17,376
Interest payable and similar charges		
Customer accounts	(4,257)	(3,262)
Subordinated liabilities	(1,049)	(435)
Other interest paid	(12)	(8)
Total interest payable	(5,318)	(3,705)
Net interest receivable	32,231	13,671

There were no impaired loans nor interest income (2019: £nil) received on impaired loans during the year.

Interest receivable from group undertakings amounted to £8.9 million (2019: £8.4 million), while interest payable to group undertakings amounted to £1 million (2019: £0.4 million).

All interest income arose within the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS

4. Net fee and commission receivable

	2020	2019
	£ 000	£ 000
Brokerage Commissions (receivable)	7,753	1,754
Custody and Safekeeping transactions (receivable)	6,511	2,275
Transaction fees (receivable)	13,395	4,279
Other (receivable)	3,892	1,072
Total fee and commission receivable	31,551	9,380
Transaction fees (payable)	(3,088)	(578)
Total fee and commission payable	(3,088)	(578)
Net fee and commission receivable	28,463	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 £6.5 million in 2020 (2019: £2.3 million).

There were no fee and commission receivable from, or fee and commission payable to group undertakings during the year. (2019: £nil).

All fee and commission income arose within the United Kingdom.

5. Dealing profits

	2020	2019
	£ 000	£ 000
Gain on foreign exchange exposure management	27,773	7,109
Loss on revaluation of foreign currency transactions	(27,150)	(7,178)
Net gain on sale of debt instruments at FVOCI	27,034	-
Mark-to-market (loss)/gain from financial instruments	(771)	1,011
Total dealing profits	26,886	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.

6. Administrative expenses

a. Staff costs

	2020 £ 000	2019 £ 000
Wages and salaries	15,775	3,886
Social security costs	1,919	497
Share based payment expenses	302	62
Pensions and post retirement benefits	1,512	347
Restructuring costs	23	64
Total personnel expenses	19,531	4,856

The following table shows the average number of employees by function for 2020 and 2019:

	2020	2019
Retail Banking	192	196
Corporate Functions	14	11
Independent Control Functions	5	6
Total number of staff	211	213

b. Other administrative expenses

	2020 £ 000	2019* £ 000
Communications and technology	12,126	4,188
Contractors and consultancy	1,394	460
Rent expenses	1,972	549
Marketing and advertising	2,706	499
Travel and events	229	127
Stationary and office supplies	1,138	241
Transaction processing	157	25
Net intercompany recharges	9,771	755
Other administrative expenses	1,343	436
Total other expenses	30,836	7,280

* Other administrative expenses have been split out further in 2020 in order to give additional detail to the reader on the nature of expenses included within this note.

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

Certain comparative figures have been reclassified to confirm to the presentation adopted in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

7. Auditor's remuneration

	2020 £ 000	2019 £ 000
Audit fee	728	580
Audit-related assurance services	86	85
Non-audit services	9	-
	823	665

The 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 (2019: £nil).

8. Directors' emoluments

	2020 £ 000	2019 £ 000
Directors' emoluments are as follows:		
Aggregate emoluments	1,014	554
Company contributions to money purchase pension scheme	79	23
	1,093	577

Contributions to money purchase pension schemes are accruing to five of the Directors (2019: six). Contributions to defined benefit pension schemes are accruing for none of the Directors (2019: none). Three of the Directors (2019: five) of the Company participate in parent company share plans.

The remuneration of the highest paid Director of £455,707 (2019: £119,651) and accrued pension of £66,746 (2019: £14,935). The share-based stock awards granted to the highest paid Director of $94,565.

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.

One Director is employed and remunerated directly by Citibank UK Limited. All other Directors are employed by other group undertakings that bear their respective costs entirely. These costs are not recharged.

9. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2020 £ 000	2019 £ 000
Current tax:		
UK corporation tax on profits of the period	8,357	2,185
Adjustment in respect of prior years	287	-
Total current tax	8,644	2,185
Deferred tax:		
Origination and reversal of timing differences	(151)	240
Adjustment in respect of previous periods	(354)	-
Total deferred tax	(505)	240
Total income tax expense	8,139	2,425

NOTES TO THE FINANCIAL STATEMENTS

9. Tax on profit on ordinary activities (continued)

(b) Tax included in other comprehensive income and equity

	2020 £ 000	2019 £ 000
Deferred tax:		
Origination and reversal of timing differences	6,916	(2,416)
Total tax credit included in other comprehensive income and equity	6,916	(2,416)

(c) Reconciliation of tax charges

	31 December 2020 £ 000	31 December 2019 £ 000
Profit before income tax	33,681	9,511
Total profit before income tax	33,681	9,511
Profit multiplied by the standard rate of corporation tax in the UK of 27% (2019: 27%)	9,093	2,568
Effects of:		
Deduction for AT1 dividend	(878)	(217)
Expenses not deductible for tax purposes	-	93
Impact of difference between current and deferred tax rates	(9)	(19)
Adjustments in respect of prior years	(67)	-
Total current income tax expense	8,139	2,425

The main rate of corporation tax in the UK has been 19% from 1 April 2017. The company is also subject to the banking surcharge of 8%. On 3 March 2021 in the 2021 Budget, it was announced that the UK corporation tax rate would be increasing to 25% from 1 April 2023, however, the impact of this has not been reflected, as this has not been substantively enacted at the balance sheet date. The government will undertake a review of the rate of the 8% banking surcharge in the autumn.

(d) Deferred taxation assets

	31 December 2020 £ 000	31 December 2019 £ 000
At the beginning of the period	2,176	-
Adjustments in respect of prior years	354	-
Charged to profit or loss account	151	(240)
Credited to other comprehensive income and equity	(6,916)	2,416
At the end of the period	(4,235)	2,176

9. Tax on profit on ordinary activities (continued)

(d) Deferred taxation assets (continued)

Deferred tax asset is made up as follows:	31 December 2020 £ 000	31 December 2019 £ 000
Capital allowances	198	(240)
Other timing differences	(4,494)	2,416
Deferred compensation	61	-
	(4,235)	2,176

10. Cash and balances at central banks

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

	31 December 2020 £ 000	31 December 2019 £ 000
Placements with Bank of England	523,980	410,732
Expected credit loss	(1)	(1)
Cash and balances at central banks	523,979	410,731

11. Loans and advances to banks and customers

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Loans and advances to banks			
Securities purchased under resale agreement		346,479	1,445,193
Deposits with banks		278,146	407,128
Expected credit loss		(4)	(2)
Loans and advances to banks total carrying amount	**14**	**624,621**	**1,852,319**
Loans and advances to customers			
CRE loans		242,104	467,879
Consumer loans		113,129	111,521
Expected credit loss		(1,485)	(551)
Loans and advances to customers total carrying amount	**14**	**353,748**	**578,849**

Consumer loans balance is repayable on demand.

Expected credit loss related to CRE loans was £1,405 thousand (2019: £511 thousand) and related to consumer loans it was £80 thousand (2019: £40 thousand).

12. Risk management

12.1 Introduction

Risk Management Mission

CUKL utilises Citi's Risk Management model and organisation, 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 provide 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.

12. Risk management (continued)

12.1 Introduction (continued)

Risk Management Mission (continued)

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 including market, credit, liquidity, 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.

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.

Citi uses a three lines of defence construct to manage its risk. The construct comprises units that create risks (first line of defence), those that independently assess risk (second line of defence) and units that provide independent assurance (third line of defence). Additionally, the firm has units tasked with maintaining a strong control environment (control and support functions). Citi's lines of defence construct is an important component of this risk governance structure. It assigns distinct roles and responsibilities to each line of defence to support the management of risk. The lines of defence and control and support functions coordinate with each other in the risk management system in support of the common goal of identifying, measuring, monitoring and controlling risk taking activities so they remain consistent with the firm's strategy and risk appetite.

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.

12. Risk management (continued)

12.1 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.

12.2 Credit Risk

Definition

Credit risk is the risk of loss resulting from the decline in credit quality (or downgrade risk) or failure of a borrower, counterparty, third party or issuer to honor its financial or contractual obligations. Credit risk may result from a number of drivers including:

- A deterioration in creditworthiness of an obligor or an unwillingness to pay on an individual basis;
- Large losses from exposures to multiple obligors within a single (or related) industry or sub-industry, product, segment and/or country or region (Concentration Risk);
- Ineffective credit enhancements (e.g., collateral), which includes wrong way risk; or
- Specific conditions in a product or structure, or converging risk elements.

Credit risk arises in both classifiably managed credit portfolios and delinquency managed credit portfolios and can originate from business activities across CUKL, which include, but are not limited to: consumer, commercial and corporate lending, including lending to financial and sovereign institutions; derivative transactions and structured finance; settlement and clearing activities; and securities financing transactions.

'Credit Risk Management' teams within Risk Management provide independent oversight of credit risks for CUKL. These Credit Risk Management teams are aligned specific to the credit risk associated with various clients, industries, products and/or regions like:

- Managed segments (Client Group) - Institutional Client Group 'ICG', Global Consumer Bank 'GCB' and Inter-Affiliates mainly 'G10 market treasury';
- Businesses (Industries and regions) – Global Securitised Markets 'GSM', UK Consumer and EMEA IPB 'UKC and IPB' and G10 Markets Treasury; and
- Products – Commercial Real Estate 'CRE', Investments in Securitisation Notes 'UK RMBS and US OMNI Notes', Margin Securities Backed Finance 'MSBF' and Market Treasury activities like Investment in Government Securities. current account balances, securities finance transactions, etc.

The primary responsibilities of these Credit Risk Management teams are to:

- Establish and oversee the design, implementation and maintenance of a credit risk management framework including policy documents and required monitoring, controls and governance (e.g., credit underwriting guidelines, credit authorities);
- Establish, monitor and manage aggregate credit risk limits, including concentration limits, and establish and hold front line units accountable for adhering to established limits or other risk-taking boundaries (e.g., single name or industry limits, product program criteria);
- Provide independent monitoring and review and challenge of the management of credit risk and of the adequacy and effectiveness of credit risk management processes performed in the first line of defence;
- Where relevant, determine credit Risk Capital requirements, firm-wide stress testing loss projections or other credit risk parameters or measures (e.g., probability of default, provision for loan losses); and
- Provide senior management and the Board of Directors with an independent view of the firm's credit risk profile.

12. Risk management (continued)

12.2 Credit Risk (continued)

Governance and Organisation

The following Committees perform an oversight role for credit risk related items:

- Board Risk and Audit Committee ("RAC")
- UK Risk Management Committee ("UK RMC")
- CUKL Management Committee ("ManCo")
- New Product Approval Committee ("NPAC")
- Consumer Products Approval Committee ("CPAC")

The CUKL CRO is responsible for CUKL's overall Credit Risk position and establishes limits to ensure the credit risk remains within the Board approved risk appetite.

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, UK RMC 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.

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 CUKL CRO engages with the businesses and credit risk managers to remain abreast of the credit quality of the assets booked on CUKL's balance sheet. The CUKL CRO is also responsible for bringing all material credit risk events to the attention of CUKL senior management, the Board Risk and Audit Committee, and the regulators, if necessary.

Risk Measurement

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be characterised in terms of an actual Default or by deterioration in the counterparty's credit quality. The former case may result in an actual and immediate loss, whereas in the latter case, future losses become more likely leading to a mark-to-market impact. When characterizing credit risk, the Exposure at Default 'EAD', probability of Default 'PD', and Loss Given Default 'LGD' are the key aspects.

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**

Examples of commonly used classifiably managed credit risk measures and metrics include credit limits, counterparty risk ratings (i.e. probability of default), loss given default, exposure at default, credit classifications, Risk Capital, expected loss and stress loss.

Credit Limit/Approval Framework

CUKL uses various limits and approval requirements to manage credit risk, as detailed below.

Total Facilities Amount ("TFA"): New facilities and annual reviews for a Relationship are approved according to the Total Facilities Section of the Citi Credit Approval Grid.

Single Name Concentration Limits: are designed to maintain a diversified credit portfolio of risk assets and to mitigate idiosyncratic concentrations to any one Relationship for Relationship Exposure, Investment Exposure and across all of Citi. There is a portfolio review process to review and establish Client Specific Limits.

Industry Limits: are designed to manage concentrations in correlation risk from the risk assets per industry and to optimise asset allocation as measured by all Relationships in the Banking Book.

Product Limits: are designed to manage credit risk from specialised products or products with unique characteristics.

All facilities approved on CUKL have an assigned limit at the Legal Entity level with an overall TFA established on a relationship level considering all other Citi relationships beyond CUKL.

12. Risk management (continued)

12.2 Credit Risk (continued)

Risk Ratings

The risk ratings help assign classifiable managed obligors to:

- Rating grades that approximately reflect the likelihood of default, and
- Loss severity rating grades (or Loss Given Default estimates) that approximately reflect the loss severity expected in the event of default during economic downturn conditions.

The Risk Rating Process is the end-to-end process for deriving Obligor Risk Ratings ("ORR") and Facility Risk Ratings ("FRR"). It includes models, supplemental guidelines, support adjustments, collateral adjustments, process controls, as well as any other defined processes that a business undertakes in order to arrive at ORRs and FRRs. At a minimum, the Risk Rating Process must be re-approved every three years.

The Obligor Risk Rating ("ORR") represents the probability of Default of an Obligor 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. The 9 and 10 rating categories indicate the Obligor is in Default.

The Facility Risk Rating ("FRR") represents the Loss Norm for each Facility, and is the product of two components:

- The one-year Probability of Default of the Obligor, i.e. the Final ORR
- 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.

The Obligor Limit Rating ("OLR") represents a longer-term (beyond 1-year) view of an Obligor's credit quality. The OLR is derived from the ORR and considers a range of factors, such as quality of management and strategy, nature of industry, and regulatory environment, among others.

The table below provides an indicative mapping of how the Company's internal ORR to the PD and to the external credit ratings of Standard & Poors.

Risk rating		Average Probability of Default (%)	External rating
Rating 1 to 4-:	Investment Grade	0.00 - 0.34	AAA to BBB-
Rating 5+ to 6-:	Non-investment Grade	0.89 - 12.16	BB+ to B-
Rating 7+ to 7-:	Higher Risk	16.64 to 22.13	CCC+ to CCC-
Rating 8 to 10:	Credit Impaired	Loss estimate on individual basis	SD/D

The Company groups its exposures based on their ORR ratings as explained above:

		2020				2019			
	ORR	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Cash and balances at central banks									
	1	-	-	-	**-**	410,731	-	-	**410,731**
	2	523,979	-	-	**523,979**	-	-	-	**-**
Loans and advances to banks									
	2	624,621	-	-	**624,621**	1,852,319	-	-	**1,852,319**
Loans and advances to customers - CRE loans									
	3	-	-	-	**-**	89,091	-	-	**89,091**
	4	-	-	-	**-**	279,479	-	-	**279,479**
	5	127,212	-	-	**127,212**	99,309	-	-	**99,309**
	7	-	114,892	-	**114,892**	-	-	-	**-**
Total		**1,275,812**	**114,892**	**-**	**1,390,704**	**2,730,929**	**-**	**-**	**2,730,929**

12. Risk management (continued)

12.2 Credit Risk (continued)

- **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 the 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 including concentration, liquidity, loanable value of the collaterals and a stringent margin-monitoring process.

- **Exposures to Investment in Debt Securities**

Within classifiably managed exposures 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.

The following table shows the carrying amount of Treasury bills and other eligible bills and Debt securities by Fitch rating agency's rating categories.

Credit quality – Treasury bills and other eligible bills

	Government bonds	EIB securities	Total
	2020	**2020**	**2020**
	£ 000	**£ 000**	**£ 000**
AAA to AA-	2,108,657	5,045	2,113,702
	2019	**2019**	**2019**
	£ 000	**£ 000**	**£ 000**
AAA to AA-	1,620,305	5,044	1,625,349

All treasury bills and other eligible bills were classified as Stage 1 performing as at 31 December 2020 and 2019.

Credit quality – Debt securities

	Securities Backed By Credit Card Receivables	Residential Mortgage Backed Securities	Total
	2020	**2020**	**2020**
	£ 000	**£ 000**	**£ 000**
AAA to AA-	1,393,046	376,908	1,769,954
	2019	**2019**	**2019**
	£ 000	**£ 000**	**£ 000**
AAA to AA-	-	280,016	280,016

All debt securities were classified as Stage 1 performing as at 31 December 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.2 Credit Risk (continued)

Concentration Risk

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

	31 December 2020 £ 000	31 December 2019 £ 000
Financial and insurance activities	760,759	1,884,694
Government	2,108,657	1,620,305
Central Bank	523,979	410,731
Supranational	5,044	5,044
Real Estate	617,608	747,385
Consumer retail	1,601,835	130,442
- of which: credit card receivables	1,393,046	-
Other services	641	2,250
	5,618,523	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 2020 £ 000	31 December 2019 £ 000
Central / Eastern Europe	87,622	64,943
Western Europe	3,573,718	4,250,712
- of which: United Kingdom	3,094,961	3,772,424
Middle East / Africa	11,401	15,014
Central / South America	-	184
North America	1,943,297	468,305
Asia	2,485	1,693
	5,618,523	4,800,851

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

12. Risk management (continued)

12.2 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		
Reverse sale and repurchase agreements - 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%	First ranking mortgage over the Real Estate Properties, floating charge over relevant bank accounts; share pledge(s) over the borrower(s); and security assignment in respect of key contracts such as subordinated debt/intra-group loans, hedging and insurance contracts.

(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 the 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 largely by an independent third party valuer, instructed by an independent risk function organised around business and risk management.

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.2 Credit Risk (continued)

Collateral held and other credit enhancements (continued)

The following table sets out the total collateral value as at 31 December 2020 and 31 December 2019 by each exposure type:

	Carrying amount £ 000 2020	Collateral value £ 000 2020	Carrying amount £ 000 2019	Collateral value £ 000 2019
Securities purchased under resale agreement	346,479	346,479	1,445,193	1,445,193
Loans and advances to banks	**346,479**	**346,479**	**1,445,193**	**1,445,193**
Consumer loans				
- of which Margin Backed Secured Financing	110,389	110,389	107,812	107,812
- of which unsecured overdraft	2,660	-	3,669	-
CRE loans	240,699	240,699	467,368	467,368
Loans and advances to customers	**353,748**	**351,088**	**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.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Company formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario.

The central scenario is aligned with information used by the Company for other purposes such as strategic planning and budgeting.

The scenarios are prepared by the economists in Citi's Global Country Risk Management ("GCRM") and the external information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasts.

The scenarios are refreshed on a quarterly basis to include both up to date actual data and to reflect changes in the outlook. Given the scope of Citi's business activity, the quarterly scenarios produced for ECL calculation are global in nature, and as such are designed to reflect the impact of significant economic events such as Brexit and COVID-19. The probability weightings applied in measuring ECL are also reviewed quarterly and are shown below for the current and previous year-ends.

12. Risk management (continued)

12.2 Credit Risk (continued)

Incorporation of forward-looking information (continued)

Probability Weight for IFRS9 Scenarios	at 31 December 2020	at 31 December 2019
Optimistic	24.38%	18.84%
Base	50.81%	59.66%
Pessimistic	24.81%	21.50%

Periodically, EFT carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Company's senior management.

In developing its IFRS 9 forecasting models, the Company has identified the key drivers of credit risk and credit losses based on the sector, product and geography characteristics attaching to each financial instrument and using an analysis of historical data has estimated relationships between the identified macro-economic drivers and credit risk and credit losses. The key drivers include GDP growth, unemployment rates and real estate price indices. The Company estimates each economic driver for credit risk over an active forecast period of three years. A mean revision period is applied to the year 3 forecast values to align the forecast to the long run averages for these variables.

The table below lists the main GDP and Unemployment macroeconomic assumptions used in the base, upside and downside scenarios over a 3-year forecast period for the UK, which represents the key geography to which it has exposures to commercial loans:

UK Key Macro Economic Variable	Optimistic				Base				Pessimistic			
	Year 0	Year 1	Year 2	Year 3	Year 0	Year 1	Year 2	Year 3	Year 0	Year 1	Year 2	Year 3
At December 2020												
GDP Year on Year % Change	-9.72%	-0.05%	4.30%	2.60%	-9.83%	-0.81%	3.87%	2.21%	-9.96%	-1.50%	3.31%	1.73%
Unemployment Rate	7.26	7.05	5.58	4.78	8.00	7.60	6.15	5.35	8.43	8.21	6.56	5.80
Commercial Real Estate Price Index (Net Sellable Area) Year % Change	-3.28	2.25	6.25	6.23	-3.52	1.14	5.55	5.71	-3.61	-0.15	4.46	5.09
At December 2019												
GDP Year on Year % Change	-0.57%	0.10%	0.06%	0.04%	-0.63%	-0.65%	-0.42%	-0.39%	-0.74%	-1.33%	-1.02%	-0.91%
Unemployment Rate	3.54	3.57	3.60	3.59	4.01	4.17	4.16	4.16	4.37	4.77	4.65	4.60
Commercial Real Estate Price Index (Net Sellable Area) Year % Change	7.94	2.93	3.10	3.64	7.69	1.79	2.40	3.12	7.60	0.48	1.28	2.51

Management Adjustment Factor ("MAF")

The ECL scalar/MAF factor is applied to Model ECL reserves on performing exposures to account for factors not captured in the model. Citi's Wholesale credit reserve levels under the IFRS 9 Standard are estimated using a methodology that calculates credit losses by incorporating reasonable and supportable forward-looking macroeconomic forecasts over the life of the assets. To reflect the expected variability of credit losses due to deviations in realised defaults and loss rates relative to the forward looking scenarios, and loss estimate deviations due to the heterogeneous size of loans in the portfolio, the reserve level is scaled by an Expected Loss Scalar ("ELS") to arrive at the final Expected Credit Loss ("ECL") estimate as required under IFRS 9. The ELS serves to provide local portfolio management with a framework to consistently derive the appropriate level of credit reserves in each period. The ELS is influenced by qualitative or environmental factors, that are likely to cause estimated credit losses associated with the institution's existing portfolio to differ from the historical loss experience, based on Interagency Policy Statement on the Allowance for Loan and Lease Losses issued by Federal Reserve. These drivers are further divided into four primary drivers and five secondary drivers. The factors are judgmentally selected and assigned weights based on the level of impact they can potentially have on the Expected Credit Loss estimate. The weight assignment is done through a judgemental process and is supported by quantitative analysis wherever possible. The factors considered in the ELS and their respective weights are evaluated and updated annually.

CUKL Risk Management is responsible for performing an assessment of the inputs through the ratings that are assigned to each factor. Once the ratings are entered in the ELS model template, an ELS is computed which will be used to scale the Expected Credit Loss estimate. This assessment is performed at least annually unless a more frequent assessment is required due to material change in ratings of any of the factors.

12. Risk management (continued)

12.2 Credit Risk (continued)

IFRS 9 Wholesale Impairment Model Overlay

CUKL leverages the Wholesale impairment model, which delivers an Expected Credit Loss ("ECL") for Held For Investment loans, in compliance with the IFRS 9 requirements. The model assesses a "Loss Given Default" ("LGD") estimate of approximately 15% across all commercial real estate ("CRE") loans held by the Company. The LGD estimates do not take into account the actual quantum and quality of the collateral available on these loans. In other words, the model considers the relationship between LGD and macro-economic factors like GDP, Commercial Real Estate Price index; however it does not give consideration to the value of the underlying property in arriving at the LGD, partly because the collateral is deemed illiquid and partly because the LGD is believed to be less correlated to collateral value in event of obligor default based on the historical loss data used in model development.

CUKL treats 'collateral' as the First Way Out on the CRE Facilities which otherwise has No-Recourse to the sponsor in event of default. The collateral valuations are mostly based on the estimated future operating cashflow generation capabilities of these assets and the expected Debt-Yield ratios. Essentially the collateral value would represent the cash outlay a potential investor/lender will be willing to make for an expected income yield. The latest valuation appraisals of the CRE portfolio as provided by external agencies and/or internal desktop valuations shows that all the assets remain over-collateralised with an average LTV of ~50%. In the event of the obligor default, the options would be either to sell the assets outright to a potential investor or re-finance the loan to other interested lenders to repay existing lenders. It can be assumed that in such an instance, the operating cash flows would have depleted to a level insufficient to service the debt interest, as such the current valuation could be reasonably expected to get stressed and call for a haircut to account for otherwise depleted cashflows, in order to determine the final loss given default.

The obligor rating downgrades and unprecedented negative macro-economic outlook resulted in very high PD estimates, which combined with very conservative LGD estimates, resulted in the overall Model ECL estimates (including MAF) to be very conservative at about 9% of total CRE exposures. Recognising the fact that the LGD model does not directly account for the collateral and the CRE loans in CUKL portfolio are well over-collateralised, with excellent asset characteristics and are backed by well-known sponsors; it can be reasonably argued that for CUKL to incur such extreme losses on these loans will be very extreme and would not be in line with the 'reasonable and supportable' principle of IFRS 9.

As such, a decision was made to make an independent assessment on each of the individual CRE loans, taking into account the latest collateral value, assumed shocks to the commercial real estate price index under forward looking scenarios, and additional value haircuts, to account for recovery costs and likely value drops under default. Based on such assessment, CUKL management decided to account for an ECL of £1.5 million, which equates to ~1% LGD and was deemed appropriate. Management also noted that the ECL is very sensitive to the assumed LGD with every incremental 1% LGD resulting in additional ~£1.25 million of ECL.

Impact of COVID-19 on ECL assessment under IFRS 9

On 26 March 2020, the PRA provided guidance on, among other things, the consistent and robust application in the context of COVID-19 of the definition of default in the Capital Requirements Regulation ("CRR") and of the expected credit loss accounting ("ECL") requirements of International Financial Reporting Standard 9 ("IFRS 9"). The purpose of providing the guidance was to help firms implement and enhance existing regulatory and accounting requirements in a robust, well-balanced and consistent way, notwithstanding the unique challenges created by COVID-19 related events. Much of this guidance related to payment holidays, moratoria or deferrals ("payment deferrals").

Further, in May 2020, the FCA published updated guidance on how lenders should treat retail mortgage borrowers at the end of the initial deferral period ("the FCA's guidance"). As a consequence, firms are assessing the capital and accounting treatment of the various ways in which those initial payment deferrals might end.

The guidance does not specifically affect the CUKL IFRS 9 ECL assessment or CUKL credit risk management as none of the credit portfolios of CUKL has been impacted directly by the payment holidays and/or deferrals. CUKL continues to assess each credit facility individually based on the specific obligor financial performance and business outlook or the performance of the collateral offered, as in the case of consumer margin backed securities finance.

Forward-looking scenarios used for IFRS 9 ECL calculations, have considered the impact of the extreme global economic slowdown due to COVID-19, and have been in place from May 2020 for ECL provisions.

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.2 Credit Risk (continued)

Impact of COVID-19 on ECL assessment under IFRS 9 (continued)

Further, there has been a revision in the ECL Scalar assessed for performing exposures of CUKL from 55.28% to 67.57%, to account for the severe economic conditions currently prevailing.

Consequently, the overall ECL reserves have increased by £1.2 million, predominantly attributable to the CRE portfolio.

Below is a brief update on the COVID-19 impact on each of the external credit portfolios:

- **Commercial Real Estate loans ("CRE") -**
  CRE exposures have reduced by £225 million since December 2019 due to the prepayment of some facilities. These prepayments were unrelated to the Current COVID scenario and were conducted in the normal course of the business. Of the remaining facilities, exposures to hotels have particularly seen a severe impact on cash flow and the immediate business outlook, leading to credit risk rating downgrades. There continues to be fair amount of uncertainty in the unprecedented economic environment making it difficult to predict the impact on the credit quality and performance of these assets. However. It is important to highlight that there have been no missed interest payments on any of the CRE facilities and all assets remain current and performing but under constant credit review. Further, there are sufficient cash reserves and/or sponsor guarantees, in most of the transactions, to provide sufficient comfort against expected credit losses at current times.

- **Consumer Margin Securities Backed Finance ("MSBF") loans –**
  All the MSBF facilities remain within the acceptable loanable values of the collateral. No losses have been recorded to date; and overall there has been no significant impact on the MSBF balances as at December 2020 and the portfolio has remained rather constant during the year through the pandemic.

  Further, there has been a change in the collateral concentration policy, leading to a more diversified collateral pool behind the majority of the facilities.

  It is also worth noting, that the business continues to maintain a very stringent Loanable Value policy, combined with the Margin Call policy forcing top-up calls and sell-out with margin erosions of 25% and 50% respectively, leading to good credit controls during these times of stress.

- **UK Residential Mortgage Backed Securities ("RMBS") –**
  There have been no major or significant collateral performance issues affecting CUKL investments in these instruments. It is not yet clear how payment holidays will be resolved, although the level of payment holidays within the RMBS collateral pools has fallen markedly from peak levels, nor is it clear the extent to which payment holidays will alleviate borrowers' distress and prevent delinquencies and defaults. To understand the impact, S&P have performed three hypothetical stress scenarios (low, med, high shock) to theoretical RMBS transactions representative of UK Owner Occupied and Buy-To-Let markets to test liquidity, an increase in defaults, house price decline and a delay in repossessions. The results indicate that the most senior Class A notes would maintain their AAA rating.

  Given the seniority of the CUKL investments and their high levels of credit enhancement, there is expected to be no or an immaterial credit impact at this stage.

- **US OMNI Notes –**
  CUKL invested USD 1,900 million in AAA rated senior notes collateralised by a diversified pool of credit card receivables in the US, The investment was also made close to the financial year end and as such the investment was structured and priced accounting for increased risks in the current market environment, including the potential impact of COVID-19 on collateral pool performance. The securities are secured by credit enhancements from junior notes by up to 29%, which provides enough cushion for any reasonably predictable default losses on the underlying asset pool.

  Given the seniority of the CUKL investments and their high levels of credit enhancement, there is expected to be no or an immaterial credit impact at this stage.

- **Investment in Government Securities and other Sovereign Exposures –**
  CUKL has maintained the investments in sovereign securities to manage liquidity and interest rate risk throughout the market volatility. A sharp decline in yields on the UK Gilts, US Treasuries and German Government bonds has resulted in some economic loss in the income statement; however, the increase in fair value of these investments has led to a material positive OCI of approximately £44.9 million as at 31 December 2020.

12. Risk management (continued)

12.2 Credit Risk (continued)

Provisions Oversight

The Company reviews provisions periodically at the UK IFRS 9 Working Group ("IWG") which is jointly chaired by the UK Chief Finance Officer and the UK 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 Board RAC, as appropriate.

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

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

	2020				2019			
Exposure	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**
Outstanding exposure as at 1 January	1,852,320	-	-	1,852,320	-	-	-	-
Transfer due to business combination	-	-	-	-	4,370,900	-	-	4,370,900
Net movement during the year	(1,227,695)	-	-	(1,227,695)	(2,518,580)	-	-	(2,518,580)
At 31 December	**624,625**	**-**	**-**	**624,625**	**1,852,320**	**-**	**-**	**1,852,320**

	2020				2019			
ECL	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**
IFRS 9 ECL as at 1 January	2	-	-	2	-	-	-	-
Transfer due to business combination	-	-	-	-	2	-	-	2
Net movement during the year	2	-	-	2	-	-	-	-
At 31 December	**4**	**-**	**-**	**4**	**2**	**-**	**-**	**2**

b) Loans and advances to customers

	2020				2019			
Exposure	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**
Outstanding exposure as at 1 January	579,400	-	-	579,400	-	-	-	-
Transfer due to business combination	-	-	-	-	121,459	-	-	121,459
New assets originated or purchased	4,569	-	-	4,569	467,879	-	-	467,879
Payments and assets derecognised	(223,864)	-	-	(223,864)	-	-	-	-
Transfers to Stage 2	(114,930)	114,930	-	-	-	-	-	-
Net movement during the year	(4,885)	-	13	(4,872)	(9,938)	-	-	(9,938)
At 31 December	**240,290**	**114,930**	**13**	**355,233**	**579,400**	**-**	**-**	**579,400**

	2020				2019			
ECL	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**	**Stage 1 £ 000**	**Stage 2 £ 000**	**Stage 3 £ 000**	**Total £ 000**
IFRS 9 ECL as at 1 January	551	-	-	551	-	-	-	-
ECL on assets originated or purchased	-	-	-	-	551	-	-	551
ECL on assets derecognised	(234)	-	-	(234)	-	-	-	-
Transfers to Stage 2	(1,322)	1,322	-	-	-	-	-	-
Net movement during the year	93	-	13	106	-	-	-	-
Changes due to changes in credit risk and estimation methodology	1,062	-	-	1,062	-	-	-	-
At 31 December	**150**	**1,322**	**13**	**1,485**	**551**	**-**	**-**	**551**

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.2 Credit Risk (continued)

Risk Exposure (continued)

Expected credit loss (continued)

c) Cash and balances at central banks

Exposure	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
Outstanding exposure as at 1 January	410,731	-	-	410,731	-	-	-	-
Net movement during the year	113,249	-	-	113,249	410,731	-	-	410,731
At 31 December	**523,980**	**-**	**-**	**523,980**	**410,731**	**-**	**-**	**410,731**

ECL	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
IFRS 9 ECL as at 1 January	1	-	-	1	-	-	-	-
Net movement during the year	-	-	-	-	1	-	-	1
At 31 December	**1**	**-**	**-**	**1**	**1**	**-**	**-**	**1**

d) Treasury bills and other eligible bills

Exposure	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
Outstanding exposure as at 1 January	1,625,349	-	-	1,625,349	-	-	-	-
New assets originated or purchased	-	-	-	-	1,625,349	-	-	1,625,349
Net movement during the year	488,353	-	-	488,353	-	-	-	-
At 31 December	**2,113,702**	**-**	**-**	**2,113,702**	**1,625,349**	**-**	**-**	**1,625,349**

ECL	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
IFRS 9 ECL as at 1 January	281	-	-	281	-	-	-	-
New assets originated or purchased	-	-	-	-	281	-	-	281
Net movement during the year	166	-	-	166	-	-	-	-
At 31 December	**447**	**-**	**-**	**447**	**281**	**-**	**-**	**281**

e) Debt securities

Exposure	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
Outstanding exposure as at 1 January	280,016	-	-	280,016	-	-	-	-
New assets originated or purchased	1,393,046	-	-	1,393,046	280,016	-	-	280,016
Net movement during the year	96,892	-	-	96,892	-	-	-	-
At 31 December	**1,769,954**	**-**	**-**	**1,769,954**	**280,016**	**-**	**-**	**280,016**

ECL	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
IFRS 9 ECL as at 1 January	-	-	-	-	-	-	-	-
At 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.2 Credit Risk (continued)

Risk Exposure (continued)

Expected credit loss (continued)

f) Other financial assets

Exposure	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
Outstanding exposure as at 1 January	22,315	-	-	22,315	-	-	-	-
Transfer due to business combination	-	-	-	-	7,090	-	-	7,090
Net movement during the year	75,162	-	-	75,162	15,225	-	-	15,225
At 31 December	**97,477**	**-**	**-**	**97,477**	**22,315**	**-**	**-**	**22,315**

ECL	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
IFRS 9 ECL as at 1 January	5	-	-	5	-	-	-	-
Net movement during the year	116	-	-	116	5	-	-	5
At 31 December	**121**	**-**	**-**	**121**	**5**	**-**	**-**	**5**

g) Other commitments

Exposure	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
Outstanding exposure as at 1 January	31,873	-	-	31,873	-	-	-	-
Transfer due to business combination	-	-	-	-	23,696	-	-	23,696
New assets originated or purchased	-	-	-	-	8,177	-	-	8,177
Net movement during the year	(7,714)	-	-	(7,714)	-	-	-	-
At 31 December	**24,159**	**-**	**-**	**24,159**	**31,873**	**-**	**-**	**31,873**

ECL	2020 Stage 1 £ 000	2020 Stage 2 £ 000	2020 Stage 3 £ 000	2020 Total £ 000	2019 Stage 1 £ 000	2019 Stage 2 £ 000	2019 Stage 3 £ 000	2019 Total £ 000
IFRS 9 ECL as at 1 January	39	-	-	39	-	-	-	-
ECL on new assets originated or purchased	-	-	-	-	39	-	-	39
Net movement during the year	(2)	-	-	(2)	-	-	-	-
At 31 December	**37**	**-**	**-**	**37**	**39**	**-**	**-**	**39**

Net movements during the year include the effect of foreign currency exchange rate changes.

Certain comparative figures have been reclassified to confirm to the presentation adopted in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.2 Credit Risk (continued)

Expected credit loss (continued)

The following table shows the ECL provision on financial assets in the income statement for the year ended 31 December 2020 and 31 December 2019.

Income statement	2020 IFRS 9 ECL Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000	2019 IFRS 9 ECL 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	(166)	-	-	(166)	(281)	-	-	(281)
Loans and advances to banks	(2)	-	-	(2)	(2)	-	-	(2)
Loans and advances to customers	401	(1,322)	(13)	(934)	(551)	-	-	(551)
Other assets	(116)	-	-	(116)	(5)	-	-	(5)
Total On Balance Sheet	**117**	**(1,322)**	**(13)**	**(1,218)**	**(840)**	**-**	**-**	**(840)**
Off balance sheet								
Other commitments	2	-	-	2	(39)	-	-	(39)
Total Off Balance Sheet	**2**	**-**	**-**	**2**	**(39)**	**-**	**-**	**(39)**
Total provisions				**(1,216)**				**(879)**

The following table shows the ECL provision on financial assets in the statement of financial position as at 31 December 2020 and 31 December 2019.

Statement of financial position	2020 IFRS 9 ECL Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000	2019 IFRS 9 ECL Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000
Cash and balances at central banks	1	-	-	1	1	-	-	1
Treasury bills and other eligible bills	447	-	-	447	281	-	-	281
Loans and advances to banks	4	-	-	4	2	-	-	2
Loans and advances to customers	150	1,322	13	1,485	551	-	-	551
Other assets	121	-	-	121	5	-	-	5
Total On Balance Sheet	**723**	**1,322**	**13**	**2,058**	**840**	**-**	**-**	**840**
Off balance sheet								
Other commitments	37	-	-	37	39	-	-	39
Total Off Balance Sheet	**37**	**-**	**-**	**37**	**39**	**-**	**-**	**39**
Total	**760**	**1,322**	**13**	**2,095**	**879**	**-**	**-**	**879**

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 2020 and 2019.

12.3 Market Risk

Definition

Market risk is the risk of loss arising from changes in the value of CUKL's assets and liabilities or reduced net interest revenues resulting from changes in market variables, such as interest rates, exchange rates, equity and commodity prices or credit spreads. Losses can be exacerbated by the negative convexity of positions, as well as the presence of basis or correlation risks. Market risk emanates from both trading and non-trading portfolios. Trading portfolios comprise all assets and liabilities marked-to-market, with results reflected in earnings. Non-trading portfolios include all other assets and liabilities.

Sources of Market Risk

Trading Book Portfolio

CUKL does not currently hold any trading positions or intend to engage in any trading activities. All assets and liabilities in all currencies are mostly matched which eliminates foreign exchange rate risk. As such positions, if any, giving rise to market risk are held within the Non-Trading Book portfolio.

12. Risk management (continued)

12.3 Market Risk (continued)

Sources of Market Risk (continued)

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 defence. 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 'CRO' is responsible for second line of defence oversight and management of the market risk portfolio of the Company. CUKL CRO is supported by Treasury Risk Management ("TRM"), within the risk management organisation, which provides independent oversight of non-trading market risk on CUKL balance sheet.

Risk Measurement

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

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

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

Non-trading Portfolio:

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

- Income Metrics:
  - 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.
  - 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.
  - Economic Value Sensitivity ("EVS"): The change in EVE for a pre-defined change in the yield curve.

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.3 Market Risk (continued)

Risk Measurement (continued)

Interest rate risk

The Company measures interest rate risk using both income and valuation metrics. These metrics provide complementary views of the impact of interest rate risk on the 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 2020	31 December 2019	31 December 2020	31 December 2019
	12 Month - Up 100 bps		12 Month - Down 100 bps	
Income statement impact	**£ 000**	**£000**	**£ 000**	**£000**
USD	11,405	4,384	(2,392)	(5,096)
EUR	1,190	2,668	(9)	1,153
GBP	9,895	2,279	(196)	(1,747)
CHF	(53)	139	1	(2)
Other	(73)	59	8	(54)
Total	**22,364**	**9,529**	**(2,588)**	**(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 2020	31 December 2019	31 December 2020	31 December 2019
	Up 100 bps		Down 100 bps	
Income statement impact	**£ 000**	**£000**	**£ 000**	**£000**
USD	35,764	8,550	(17,255)	(8,555)
EUR	9,647	6,784	11	(1,097)
GBP	18,129	(7,371)	(3,941)	(6,026)
CHF	1,260	1,479	5	-
Other	1,805	1,780	(910)	(1,605)
Total	**66,605**	**11,222**	**(22,090)**	**(17,283)**

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 £17.3 million as at 31 December 2020 (2019: £1.3 million). 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.

12. Risk management (continued)

12.4 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.

CUKL'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 defence.

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

- 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.

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 Capital Requirements Directive IV ("CRD IV") and PRA reporting requirements including Liquidity Coverage Ratio ("LCR"), PRA 110 Cash Flow Mismatch, Net Stable Funding Ratio ("NSFR"), Asset Encumbrance and Additional Liquidity Monitoring Metrics ("ALMM").

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.

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.4 Liquidity Risk (continued)

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 2020	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	523,979	-	-	-	523,979
Treasury bills and other eligible bills	11,363	155,144	1,261,655	685,540	2,113,702
Loans and advances to banks	29,055	345,566	250,000	-	624,621
Loans and advances to customers	34,159	126,009	193,580	-	353,748
Derivative financial instruments	50,815	63,062	21,286	-	135,163
Debt securities	3,532	-	376,466	1,389,956	1,769,954
Other financial assets	97,356	-	-	-	97,356
Total financial assets	750,259	689,781	2,102,987	2,075,496	5,618,523
Liabilities					
Deposits by banks	18,965	-	-	-	18,965
Customer accounts	4,939,032	44,411	-	-	4,983,443
Derivative financial instruments	55,326	63,011	21,273	-	139,610
Subordinated liabilities	92	-	52,000	-	52,092
Other financial liabilities	16,022	-	-	-	16,022
Total financial liabilities	5,029,437	107,422	73,273	-	5,210,132

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.4 Liquidity Risk (continued)

Risk Exposure (continued)

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

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 £4,705 million current account balances (2019: £3,594 million), which are repayable on demand.

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 2020	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	8,300	15,859	-	-	24,159
Total commitments	8,300	15,859	-	-	24,159

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

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.4 Liquidity Risk (continued)

Risk Exposure (continued)

Contractual maturities of undiscounted cash flows of financial liabilities

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

As at 31 December 2020 Liabilities	Less than 3 months £ 000	>3 months and <12 months £ 000	>1 year and < 5 years £ 000	Greater than 5 years £ 000	Total £ 000
Deposits by banks	18,965	-	-	-	18,965
Customer accounts	4,939,063	44,422	-	-	4,983,485
Derivative financial instruments	55,326	63,011	21,273	-	139,610
Subordinated loans	295	657	54,312	-	55,264
Other financial liabilities	16,022	-	-	-	16,022
Total undiscounted financial liabilities	5,029,671	108,090	75,585	-	5,213,346

As at 31 December 2019 Liabilities	Less than 3 months £ 000	>3 months and <12 months £ 000	>1 year and < 5 years £ 000	Greater than 5 years £ 000	Total £ 000
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

NOTES TO THE FINANCIAL STATEMENTS

12. Risk management (continued)

12.4 Liquidity Risk (continued)

Risk Exposure (continued)

Analysis of encumbered and unencumbered assets (unaudited)

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

	As at 31 December 2020			As at 31 December 2019		
Assets	**Encumbered**	**Un-Encumbered**	**Total**	**Encumbered**	**Un-Encumbered**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Cash and balances at central banks	-	523,979	523,979	-	410,731	410,731
Investment Securities & Debt Trading Instuments	15,402	3,868,254	3,883,656	-	1,905,365	1,905,365
- of which: asset-backed securities	-	1,769,954	1,769,954	-	280,016	280,016
- of which: by general governments	15,402	2,093,255	2,108,657	-	1,620,305	1,620,305
- of which: by financial corporations	-	5,045	5,045	-	5,044	5,044
Loans and advances other than loans on demand	-	978,369	978,369	-	2,431,168	2,431,168
Other Assets	-	239,896	239,896	-	57,436	57,436
Assets subtotal	15,402	5,610,498	5,625,900	-	4,804,700	4,804,700
Collateral Received	**Encumbered**	**Un-Encumbered**	**Total**	**Encumbered**	**Un-Encumbered**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Investment Securities	-	397,163	397,163	13,042	1,437,874	1,450,916
- of which: by general governments	-	397,163	397,163	13,042	1,437,874	1,450,916
Collateral received subtotal	-	397,163	397,163	13,042	1,437,874	1,450,916
Total assets and collateral received	15,402	6,007,661	6,023,063	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.

There were no encumbered collaterals as at 31 December 2020. In prior year, encumbered collaterals were rated by Moody's rating agency as AA2.

12.5 Operational Risk (unaudited)

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition of operational risk includes legal risk—which is the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of the bank to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of the bank's business—but excludes strategic and reputation risks. 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 defence:

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

12. Risk management (continued)

12.5 Operational Risk (unaudited) (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 defence 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 monitoring 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.

12.6 Compliance Risk (unaudited)

Definition

Compliance Risk is the risk to current or projected financial condition and resilience, arising from violations of laws or regulations, or from non-conformance with prescribed practices, internal policies and procedures, or ethical standards. It exposes the Firm to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance Risk can result in diminished reputation, harm to the Firm's customers, limited business opportunities, and lessened expansion potential. Compliance Risk is not limited to risk from failure to comply with consumer protection-related laws and regulations. It encompasses the risk of noncompliance with all laws and regulations, as well as prudent ethical standards and contractual obligations. It also includes exposure to litigation (known as 'Legal Risk') from all aspects of banking, traditional and non-traditional.

Compliance risk includes the following risk categories: Money Laundering Risk, Bribery Risk, Sanctions Risk, Customer/Client Protection Risk and Market Practices Risk.

12. Risk management (continued)

12.6 Compliance Risk (unaudited) (continued)

Governance and Organisation

The Compliance Risk Management ("CRM") Framework is documented in the CRM Policy. All staff are required to understand and be aware of key aspects of Citi's CRM framework, which is composed of the following four key components:

- Governance and Organisation;
- Compliance Risk Requirements;
- Processes and Activities; and
- Resources and Capabilities.

These key components are anchored in Citi's three lines of defence model, specifying ongoing responsibilities for identifying, measuring, monitoring, and controlling Compliance Risk. Notwithstanding the specific responsibilities set forth for each line of defence, all staff, across all lines of defence, have the obligation to manage Compliance Risk and comply with all relevant laws, regulations, rules, and Citi policies/procedures.

CUKL has a dedicated Compliance Officer with direct access to the CUKL Board and Risk and Audit Board Committee members. The CUKL Compliance Officer also has a matrix reporting line to the EMEA Chief Compliance Officer, the Senior Manager Function holder ("SMF") responsible for Compliance Oversight (SMF16).

The following committees have oversight responsibilities at Company level:

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

Additionally, the CUKL Board has ultimate responsibility for ensuring that the Company complies with all legal, regulatory and policy requirements.

The CUKL Compliance Risk Appetite statement sets forth the level of Compliance Risk that the Company is prepared to take while pursuing the firm's strategic goals, consistent with Citi's Mission and Value Proposition. The Compliance Risk Appetite is articulated through qualitative Compliance Risk statements that describe CUKL's appetite for compliance risk and quantitative measures to monitor the firm's Compliance Risk exposure. The CUKL Compliance Risks Appetite is presented to the RAC on a quarterly basis.

12.7 Reputation Risk (unaudited)

Reputation risk is the risk to the current or projected financial condition and resilience arising from negative public opinion. This risk may impair a bank's competitiveness by affecting its ability to establish new relationships or services or continue servicing existing relationships. It arises directly from how we conduct our business and can impact how key stakeholders, such as customers or clients, employees, regulators, shareholders or other stakeholders view the integrity of Citi. External economic, industry, market, competitive, regulatory or legislative pressures can also contribute to reputation risk. Reputation risk can arise from, or exist in combination with, other key risks, primarily Operational, Strategic and Compliance risk or through failure to consider long-term impacts of business decisions on stakeholders. Reputation risk can occur even when all actions are legal and in accordance with all policies, processes and current practices.

Similar to Compliance risk, key reputation risk identification, escalation and reporting processes include:

- Regulatory Inventory and Regulatory Change Management;
- Policies, Procedures, and Controls;
- Training;
- Manager's Control Assessments; and
- Risk Mitigation and Issue Remediation.

The Reputation Risk Appetite Approach ("RRAA") is aligned to Citi's six key stakeholder groups (shareholders, clients, customers, employees, regulators and other stakeholders). The RRAA will detail metrics that can impact each stakeholder group. Among others, metric themes will include the monitoring of negative social media sentiment, Environmental, Social, and Governance risk, and technology outages and incidents that may impact CUKL's customers or clients.

12. Risk management (continued)

12.8 Strategic Risk (unaudited)

Strategic risk is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from poor, but authorised, business decisions (in compliance with regulations, policies and procedures), an inability to adapt to changes in the operating environment (e.g. economic, regulatory or legislative, or competitive), or other external factors that may impair the ability to carry out a business strategy.

CUKL senior executive management is ultimately responsible for the development and execution of the strategy of the firm. The CUKL Board is responsible for the oversight of the management's execution of the strategy. Executive Management identifies strategic risks, measures and monitors business performance and provides updates to the Board on progress against established strategic objectives.

CUKL identifies and assesses strategic risk on an ongoing basis through a range of business as usual business and risk management practices. CUKL also identifies and assesses strategic risk through the Strategic Planning process, which includes the Risk Assessment of the Strategic Plan. Risks inherent to the Strategic Plan and risks to executing the Strategic Plan are raised through that process.

CUKL's Strategic Risk Appetite measures strategic risk at the firm-wide level using key indicators that reflect business growth goals and financial targets. These are continuously being updated.

12.9 Climate Change Risk (unaudited)

Definition and Oversight

Climate change presents immediate and long-term risks to Citi and to its clients and customers, with the risks expected to increase over time. Climate risk refers to the risk of loss arising from climate change and is divided into physical risk and transition risk.

- Physical risk considers how chronic and acute climate change (e.g., increased storms, drought, fires, floods) can directly damage physical assets (e.g., real estate, crops) or otherwise impact their value or productivity.
- Transition risk considers how changes in policy, technology, and market preference to address climate change (e.g., carbon price policies, power generation shifts from fossil fuels to renewable energy) can lead to changes in the value of assets, commodities and companies.

Climate risk is an overarching risk that can act as a driver of other types of risk in the Citi risk taxonomy, such as credit risk from obligors exposed to high climate risk, reputational risk from increased stakeholder concerns about financing high carbon industries, and operational risk from physical climate risks to Citi's facilities.

Risk Identification

The Company's risk management is still evolving on the identification, measurement, management and reporting of the financial risks presented by climate change. Considering the majority of credit assets are concentrated in the UK and the US; and at the same time none of the current risk exposures - except for those related to tourism - are directly exposed to sectors that represent very high risks from climate change like Fuel & Energy, Agriculture, Tourism, etc. and overall the credit exposures are very short maturity allowing the Company to have a swifter response to emerging risks as they present themselves, the financial risks from climate change are expected to be less material to the entity, at the present time.

12. Risk management (continued)

12.9 Climate Change Risk (unaudited) (continued)

Governance and Organisation

Citi currently identifies climate risk as an "emerging risk" within its risk governance framework. Emerging risks are risks or thematic issues that are either new to the landscape, or in the case of climate risk, existing risks that are rapidly changing or evolving in an escalating fashion, which are difficult to assess due to limited data or other uncertainties.

With the increased importance and focus on climate risk, Citi has continued to expand its governance of climate risk and integrate climate considerations into the priorities of Citigroup's and CUKL's Board of Directors and senior management.

Citi manages and mitigates the credit and reputational risks from climate change through a number of internal initiatives, including Citi's Environmental and Social Risk Management ("ESRM") Policy. First established in 2003, the ESRM Policy is part of Citi's broader credit risk management policy and is applicable to all Citi entities globally. The ESRM Policy provides the framework for how Citi identifies, mitigates, and manages the potential environmental and social risks (including climate risks) associated with clients' activities that could lead to credit or reputation risks to the firm. It guides how Citi evaluates lending, underwriting and advisory in environmentally sensitive and/or high-carbon sectors, and presents opportunities for Citi to engage clients on solutions to thematic risks.

Citi's ESRM Policy covers lending and underwriting with identified use of proceeds directed to physical assets and activities, as well as sector standards for corporate relationships in higher-risk sectors, including carbon-intensive sectors.

12.10 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 was as follows:

	31 December 2020 £ 000	**31 December 2019 £ 000**
Regulatory capital	420,699	395,773
Tier 1 capital ratio (unaudited)	38.3%	39.4%

Tier 1 capital encompasses tangible shareholders' funds.

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.

NOTES TO THE FINANCIAL STATEMENTS

13. Financial assets and liabilities

The below tables outline the total financial assets and liabilities held as at 31 December 2020 and as at 31 December 2019.

	31 December 2020 £ 000	31 December 2019 £ 000
Derivative financial instruments (measured at FVTPL)	135,163	31,272
Treasury bills and other eligible bills (measured at FVOCI)	2,113,702	1,625,349
Total financial assets held at fair value	**2,248,865**	**1,656,621**
Cash and balances at central banks	523,979	410,731
Loans and advances to banks	624,621	1,852,319
Loans and advances to customers	353,748	578,849
Debt securities	1,769,954	280,016
Other financial assets	97,356	22,315
Total financial assets at amortised cost	**3,369,658**	**3,144,230**
Total financial assets	**5,618,523**	**4,800,851**

	31 December 2020 £ 000	31 December 2019 £ 000
Derivative financial instruments (measured at FVTPL)	139,610	31,510
Total financial liabilities held at fair value	**139,610**	**31,510**
Deposits by banks	18,965	5,799
Customer accounts	4,983,443	4,345,627
Other financial liabilities	16,022	6,573
Subordinated liabilities	52,092	52,121
Total financial liabilities at amortised cost	**5,070,522**	**4,410,120**
Total financial liabilities	**5,210,132**	**4,441,630**

13. 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 of a 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

The calculation of fair value incorporates the Company's estimate of the fair value of financial assets and financial liabilities. Other entities may use different valuation methods and assumptions in determining fair values, so comparisons of fair values between entities may not necessarily be meaningful.

The Company specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs are developed using market data and reflect market participant assumptions, while unobservable inputs reflect the Company's market assumptions.

The 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.

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 factors that are driven by the liquidity of markets and determine the relevance of observed prices in those markets.

Financial instruments may move between levels in the fair value hierarchy when factors such as the observability of pricing information, or of market input parameters, change. 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 specific cases where a market price is available, the Company will make use of alternative pricing techniques, such as matrix pricing, whereby a similar instrument is used as a proxy, to calculate more appropriate fair value for the instrument being valued, 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, foreign exchange rates and option volatilities. Instruments valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified as Level 3 even though there may be some significant inputs that are readily observable. Similarly, an instrument may be classified in Level 2, if the unobservable inputs are not deemed significant to the valuation.

13. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

The Company may also apply a price-based methodology, which utilises, where available, quoted prices or other market information obtained from recent trading activity in positions with the same or similar characteristics to the position being valued. The frequency and size of transactions are among the factors considered in determining the relevance of prices observed from those markets. If relevant and observable prices are available for all significant pricing inputs, those instruments would be classified as Level 2. When that is not the case, and there are one or more significant unobservable "price" inputs, then those valuations will be classified as Level 3. Furthermore, when a quoted price is stale, a significant adjustment to the price of a similar security is necessary to reflect differences in the terms of the actual security or loan being valued, or prices from independent sources are insufficient to corroborate the valuation, the "price" inputs are considered unobservable and the fair value measurements are 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, and the Company assesses the quality and relevance of this information in determining the fair value measurement and disclosure of each instrument if such information is used as part of that determination.

Set out below is a description of the procedures used by CUKL to determine the fair value of financial assets and financial liabilities irrespective of whether they are measured at fair value mandatorily or have been designated as such. This description includes an indication of the level in the fair value hierarchy in which each financial instrument is generally classified. Where appropriate, it also includes details of the valuation models, the key inputs to those models and any significant assumptions.

Individual business units are responsible for providing the fair value measurements for substantially all trading account assets and liabilities. Fair value measurements of assets and liabilities are determined using various techniques including, but not limited to, discounted cash flows and internal models, such as option and correlation models. Management ensures that the resulting fair values are appropriate for financial reporting through an internal independent price verification process, which is defined and governed by established policies, standards and procedures. Results from this independent price verification process are reported to management via formally governed committees and regulators.

Any pricing models used in measuring the fair value are governed by an independent control framework. Although the models are developed and tested by the individual business units, they are independently validated by the appropriate independent internal control functions, separate from the trading businesses. The purpose of this independent control framework is to assess model risk arising from models' theoretical soundness, calibration techniques where needed, and the appropriateness of the model for a specific product in a defined market. To ensure their continued applicability, models are subject to independent annual model review.

NOTES TO THE FINANCIAL STATEMENTS

13. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

Market valuation adjustments
Market valuation adjustments are applied to items classified as Level 2 or Level 3 in the fair value hierarchy to ensure that the fair value reflects the price at which the net open risk position could be exited. These valuation adjustments are based on the bid/offer spread for an instrument in the market. When Citi has elected to measure certain portfolios of financial investments, such as derivatives, on the basis of the net open risk position, the valuation adjustment may take into account the size of the position.

Credit valuation adjustments
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 derivative liabilities and other 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.

Derivatives
Exchange-traded derivatives in active markets are generally fair valued using quoted market prices (i.e. exchange prices) and are therefore classified as Level 1 of the fair value hierarchy.

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. These derivative instruments are classified as either Level 2 or Level 3 depending on the observability of the significant inputs to the model. The principal techniques used to value these instruments are discounted cash flows and internal models, such as derivative pricing models (e.g., Black-Scholes and Monte Carlo simulations). The type of inputs may include interest rate yield curves, credit spreads, foreign exchange rates, volatilities and correlations.

The Company discounts future cash flows using appropriate interest rate curves. In the case of collateralised interest rate derivatives the Company follows the terms in the collateral agreement governing the transaction. The agreements generally provide that an OIS curve is used. The OIS curves reflect the interest rate paid on the collateral against the fair value of these derivatives. Citi uses the relevant benchmark curve for the currency of the derivative (e.g., the U.S. Dollar London Interbank Offered Rate (LIBOR) for U.S. dollar derivatives) as the discount rate for uncollateralised derivatives.

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.

NOTES TO THE FINANCIAL STATEMENTS

13. 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 2020		**Fair value**		
	Level 1	**Level 2**	**Level 3**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**
Financial assets				
Derivative financial instruments	-	135,163	-	135,163
Treasury bills and other eligible bills	2,108,657	5,045	-	2,113,702
Financial assets held at fair value	2,108,657	140,208	-	2,248,865
Financial liabilities				
Derivative financial instruments	-	139,610	-	139,610
Financial liabilities held at fair value	-	139,610	-	139,610

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 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.

13. Financial assets and liabilities (continued)

Estimated fair value of financial instruments not carried at fair value

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

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, subordinated 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.

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 2020		**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	523,979	523,979	-	523,979	-
Loans and advances to banks	624,621	624,430	-	624,430	-
Loans and advances to customers	353,748	350,190	-	-	350,190
Debt securities	1,769,954	1,770,079	-	1,770,079	-
Other financial assets	97,356	97,356	-	-	97,356
Total financial assets	**3,369,658**	**3,366,034**	-	**2,918,488**	**447,546**
Liabilities					
Deposits by banks	18,965	18,965	-	18,965	-
Customer accounts	4,983,443	4,983,443	-	4,983,443	-
Other financial liabilities	16,022	16,022	-	-	16,022
Subordinated liabilities	52,092	43,083	-	43,083	-
Total financial liabilities	**5,070,522**	**5,061,513**	-	**5,045,491**	**16,022**

NOTES TO THE FINANCIAL STATEMENTS

13. Financial assets and liabilities (continued)

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

	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**

14. Derivative financial instruments

	31 December 2020				31 December 2019			
	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	2,797,766	2,786,588	135,163	139,610	1,111,751	749,855	31,272	31,510

Derivative financial liabilities' balance is inclusive of cash collateral of £7.5 million (2019: £1.5 million).

15. Treasury bills and other eligible bills

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

	31 December 2020	31 December 2019
	£ 000	£ 000
Treasury bills and other eligible bills		
Treasury bills and similar securities		
Government bonds	2,108,657	1,620,305
EIB securities	5,045	5,044
Total	2,113,702	1,625,349

16. Debt securities

	31 December 2020 £ 000	31 December 2019 £ 000
Residential Mortgage Backed Securities	376,908	280,016
Securities Backed By Credit Card Receivables	1,393,046	-
	1,769,954	280,016

Debt securities include Residential Mortgage Backed Securities, which are backed by the interest paid on loans for local residences, and Securities Backed by Credit Card Receivables. None (2019: none) of the debt securities were issued by public bodies.

17. Intangible fixed assets

	Computer software £ 000
Cost	
At 31 December 2019	24,209
Additions	3,080
Disposals	(3,659)
At 31 December 2020	23,630
Amortisation and impairment losses	
At 31 December 2019	16,594
Charge for the year	1,910
Disposals	(2,213)
At 31 December 2020	16,291
Net carrying value	
At 31 December 2020	7,339
At 31 December 2019	7,615

The Company has not recognised any impairment in the income statement related to its intangible assets (2019: £nil).

Disposals belong to fully depreciated assets, no gain or loss occurred.

18. Other assets

	31 December 2020 £ 000	31 December 2019 £ 000
Accounts receivable	1,168	2,745
Clearing and settlement accounts	96,189	19,570
Tangible fixed assets	37	-
Deferred tax assets	-	2,176
Total	97,394	24,491

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

Certain comparative figures have been reclassified to confirm to the presentation adopted in these financial statements.

For further details in relation to Deferred tax assets please see Note 9 (d) – Tax on profit on ordinary activities**.**

19. Subordinated liabilities

Date Aquired	**Currency**	**£ 000**	**Interest Rate**	**Maturity Date**
27 August 2019	GBP	52,092	1.63% + 3 months LIBOR	27 August 2029

As at 31 December 2020, subordinated liabilities consists of £52 million (2019: £52 million) of Tier 2 subordinated loan borrowings from COIC and £92 thousand related accrued interest (2019: £121 thousand).

Charges incurred during the year with respect to subordinated loans and charged to the income statement amounted to £1,050 thousand (2019: £435 thousand).

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.

20. Other liabilities

	31 December 2020 £ 000	31 December 2019 £ 000
Accounts payable	7,787	413
Clearing and settlement accounts	8,235	6,160
Current tax liabilities	1,294	2,185
Deferred tax liabilities	4,235	-
Total	21,551	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.

Certain comparative figures have been reclassified to confirm to the presentation adopted in these financial statements.

For further details in relation to Deferred tax liabilities please see Note 9 (d) – Tax on profit on ordinary activities**.**

21. Accruals and deferred income

	31 December 2020 £ 000	31 December 2019 £ 000
Employee compensation	1,873	865
Other accrued expenses	3,860	3,225
Total	5,733	4,090

22. Called up share capital

The Company has 1 (2019: 1) allotted, called-up and unpaid Ordinary share of £1 (2019: £1).

23. Commitments

The following tables give the nominal principal 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 2020 £ 000	Contract amount 31 December 2019 £ 000
Undrawn loan facilities	24,159	31,873

24. 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.

<u>Additional Tier 1 capital:</u>

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.

Equity reserve

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

25. Share-based incentive plans

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

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

Stock award programme

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

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

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

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

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

	2020	2019
Shares awarded	4,595	205
Weighted average fair market value per share	$76.71	$62.43
	£'000	**£'000**
Compensation cost charged to earnings	264	4
Fair value adjustments recorded to equity	(21)	1
Total carrying amount of equity-settled transaction liability	234	5

25. Share-based incentive plans (continued)

	2020 £'000	2019 £'000
Stock Awards		
Granted in 2020	261.0	-
Granted in 2019	3.1	4.3
Cash Accrued	0.1	-
Total Expense	264.2	4.3

The Company did not operate or have any stock option programme (2019: nil).

26. Country-by-Country Report

The Capital Requirements Regulations (Country-by-Country Reporting ("CBCR")) came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the EU Capital Requirements Directive IV ("CRD 4").

The objective of the CBCR requirement is to improve transparency and provide a requirement for institutions in scope to disclose, on a country-by-country basis, information on their activities, turnover, employees, profits, corporate taxes and public subsidies.

The Company is a UK registered entity and is a credit institution for the purposes of CRD IV and is therefore within the scope of CBCR.

For the purposes of CBCR, the appropriate disclosures required are summarised below:

	2020	2019
Number of employees (average full-time equivalent)	211	213
Turnover (£ 000)	87,580	23,415
Profit before tax (£ 000)	33,681	9,511
Corporation Tax paid (£ 000)	9,536	NIL

No public subsidies were received during the year (2019: £nil).

27. 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.

28. Modern Slavery Act

The information relating to the Modern Slavery Act, as required by the Modern Slavery Act 2015, is published at: https://www.citibank.co.uk/personal/home.do

NOTES TO THE FINANCIAL STATEMENTS

29. Events after the reporting period

At the date on which these financial statements were approved, there were no significant events affecting the Company since the year end.

30. Approval of financial statements

The financial statements of the Company were approved by the Board of Directors on the 20 May 2021.