

Citibank UK Limited
(Registered Number: 11283101)

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2021

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CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

The Directors present their strategic report on Citibank UK Limited (“CUKL” or “the Company”) for the year ended 31 December 2021.

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”).

As at 31st December, Citi operated via two primary business segments, the Institutional Clients Group (“ICG”) and the Global Consumer Bank (“GCB”). The Company’s principal business for the majority of the year was Retail banking which aligned to 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. In September the Company purchased a Trustee and Fiduciary Business from a Citi subsidiary which operated under the ICG segment. ICG businesses also utilise the excess liquidity generated from the GCB business to fund high quality loans, bonds and securitised notes considering, among other factors, the Liquidity, Risk and Governance framework of the entity. As part of Citi’s strategic refresh its operating segments are changing in 2022. The primary segments will be ICG, Personal Banking and Wealth Management (PBWM) and Legacy Franchises. The Company’s GCB activities will be aligned to PBWM and the Trustee and Fiduciary business will continue to be under ICG.

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.

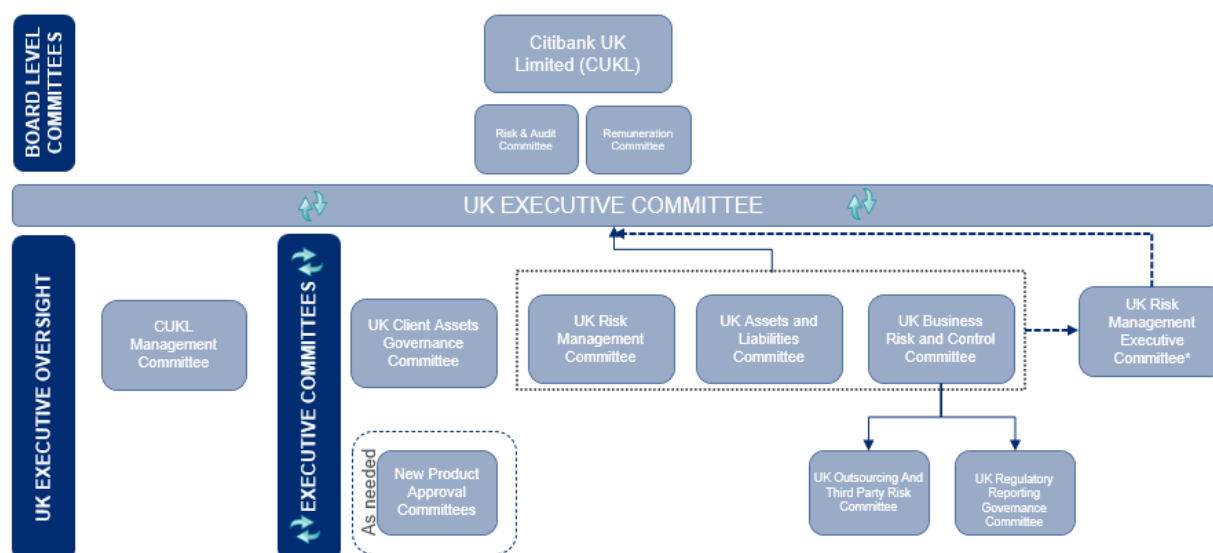
CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

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 2021:



*Owned by 2nd line of defence

Principal Risks

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

- credit risk;
- market risk;
- liquidity risk;
- 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.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

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.

Key stakeholder engagement

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 since the pandemic, with a number of initiatives launched to boost employee morale, engagement and well-being. 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 CUKL Board has been kept actively engaged throughout the year and has been presented with results of Voice of Employee survey across themes including Culture, Diversity, Innovation Employee Psychological Safety.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

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 positively impacting lives, and volunteering to mentor young people through 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.

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 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.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

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 and provision of trustee, custodial and depositary services to collective investment schemes (CIS) primarily domiciled and regulated in the UK. 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 2021 £ 000	31 December 2020 £ 000	Variance
Profit before Income Tax	11,742	33,681	-65%
Profit after Income Tax	10,814	25,542	-58%
Operating Efficiency*	86%	62%	24%
Shareholders' funds**	378,126	404,330	-6%
Return on Capital Employed***	3%	8%	-5%
Leverage Ratio	5.22%	6.8%	-1.6%
Return on Assets****	0.15%	0.45%	-0.3%

*Operating efficiency is a proportionate representation of operating expenses over net operating income (excluding interest expense).

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

***Return on Capital Employed is profit before tax over total equity attributable to shareholders.

****Return on assets is profit before tax over total assets.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

4. Financial Highlights

4.1. Income Statement Summary

	2021	2020
	£ 000	£ 000
Interest receivable	42,733	37,549
Interest payable	(1,816)	(5,318)
Fees and commissions receivable	34,505	31,551
Fees and commissions payable	(5,050)	(3,088)
Dealing profits	3,743	26,886
Other operating income	530	40
Administrative expenses	(61,763)	(50,367)
Depreciation and amortisation	(2,346)	(1,979)
Other operating charges	(103)	(377)
Provisions	1,309	(1,216)
Profit on ordinary activities before tax	11,742	33,681
Tax on profit on ordinary activities	(928)	(8,139)
Profit for the financial year	10,814	25,542

Profit for the financial year was £10.8 million (2020: £25.5 million) primarily driven by Interest receivable and by Fees and commissions receivable from Global Consumer Banking and Fiduciary Services. Government bonds and securities backed by credit card receivables drove the interest receivable with majority of the interest payable being on customer deposits. Fees and Commissions were fees for wealth management advice, investments custody and retail banking from the Consumer business along with fees from the recently purchased Fiduciary business. The year-on-year reduction in Profit is mainly due to gains in 2020 from the sale of debt instruments under Dealing Profits with lower gains on sale in 2021.

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

4.2. Statement of Financial Position Summary

	31 December	31 December
	2021	2020
	£ 000	£ 000
Total assets	7,194,284	5,625,900
Total liabilities	6,816,158	5,221,570
Shareholders' funds	378,126	404,330

The majority of the Company's assets are government bonds, placements with Bank of England, securities purchased under resale agreement with Citibank N.A. London Branch and securities backed by credit card receivables. The Company also has commercial real estate loans, residential mortgage backed securities and cash placed at the Bank of England and with other Citi affiliates.

Over 90% of the Company's liabilities are customer deposits with a small amount of subordinated borrowing from the Company's parent.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

4. Financial Highlights (continued)

4.3. Regulatory Capital (unaudited)

CUKL's regulatory capital position is summarised below.

	31 December 2021 £ 000	31 December 2020 £ 000
Regulatory capital	408,203	420,699
Tier 1 capital ratio	44.2%	38.3%

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 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

CUKL's 2021 financial results were achieved against a backdrop characterised by a number of key themes: the global spread of COVID-19 – and in particular the Omicron variant - and its impact on economic and trade activity including increased volatility in financial markets, a lower, yet gradually improving, interest rate environment, continued economic uncertainty, a severe rise in geopolitical tension, and an increasingly competitive landscape - from traditional competitors investing in digital capabilities and new solutions and non-traditional competitors (e.g., Fintechs) expanding their footprints.

The UK Gross domestic product (GDP) rebounded in 2021, growing at an estimated 7-8%, after shrinking by close to 10% in 2020. Global and UK activity returned to pre-pandemic levels towards the end of 2021, with the economic impact of Omicron expected to be limited and of short duration. Unemployment levels continued to fall, following the closure of the furlough scheme. Supply chain constraints and higher energy prices have led to an uptick in price inflation in 2021. Twelve-month CPI (Consumer Price Index) rose to 5.4% in December, higher than the Bank of England's expectations. In December, the Bank of England's Monetary Policy Committee (MPC) voted to increase Bank rate by 0.15 percentage points, to 0.25% in an attempt to control rising prices. The Bank rate was further increased subsequently to 0.75% by 0.25 and 0.25 percentage points in February and March 2022.

Interest-generating businesses continued to be impacted by a lower – yet improving - interest rate environment.

5. 2022 Future Outlook

CUKL's core strategic themes and operational priorities are defined in accordance with Citi's overall strategy of being the pre-eminent banking partner for institutions with cross-border needs and a global leader in wealth management. The objective of the Company is to maintain a proper balance between the following key priorities:

- **Clients & innovation:** Continued focus on serving affluent and HNW clients, increase investment penetration 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.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

5. 2022 Future Outlook (continued)

5.1. *The UK's withdrawal from the EU*

The UK's membership of the European Union (EU) came to an end on 31 January 2020 following the ratification by the UK and the EU of the Withdrawal Agreement with a transition period. The Brexit transition period ended on 31 December 2020 and the UK's onshored EU legislation applies following the end of the transition period.

On-shored EU financial services legislation include the CRR, CRD, Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS). Additionally, the UK regulatory authorities used a temporary transitional power (TTP) to delay or phase-in on-shoring changes to UK regulatory requirements for a period of 15 months that ended on 31 March 2022.

5.2. *Market Outlook*

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

- The degree of uncertainty and risk around the geopolitical outlook remains severe and will continue to pose a risk to economic projections, supply-chain networks, and commodity and energy prices.
- CPI inflation is projected – by the Bank of England – to further increase in the first four months of 2022, adding further pressures on economic growth and activity. The Bank of England projects CPI inflation to fall back gradually but remain above the bank's 2% target for the near-term.
- The Bank of England voted to increase the Bank Rate by 0.25 percentage points in March 2022, to 0.75% and is widely expected to increase its benchmark rate again in 2022, a favourable decision to interest-generating businesses. The UK GDP growth is expected to slow to subdued rates, driven by the adverse impact of higher energy prices and tradable good prices.
- The outlook for Covid-19 is more positive than a year ago, supported by the successful rollout of vaccines but new infectious variants can add to the uncertainty in projecting economic and business activity.

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.

5.3. *Regulatory Developments*

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

- Onshoring of EU legislation and regulatory requirements;
- Payment Services Regulations 2017 ("PSRs");
- Revisions to implement the Capital Requirements Regulation/ Capital Requirements Directive CRR2/ CRD V package and proposals for the CRR3/ CRD VI package;
- Operational Resilience;
- FCA Guidance for firms on the fair treatment of vulnerable customers;
- Consumer Duty;
- SRD II.;
- CSDR;
- Sanctions;
- ESG; and
- Enhanced Due Diligence: updated UK list of high risk countries.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

5. 2022 Future Outlook (continued)

5.3. *Regulatory Developments* (continued)

Onshoring of EU legislation and regulatory requirements

‘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 had until 31 March 2022 to comply. CUKL has implemented these requirements.

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 had until the 14 March 2022 to comply with the last remaining original PSR requirements relating to Strong Customer Authentication for e-commerce. CUKL has a programme in place to address these requirements. The FCA introduced additional changes to the Regulatory Technical Standards on Strong Customer Authentication and Secure Communication on 29 November 2021 which came into force on 26 March 2022.

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

On 1 January 2022 HM Treasury and the PRA made extensive revisions to the UK Capital Requirements Regulation (“UK CRR”) and the UK prudential framework. The changes reflect the UK approach to implementing 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.

In November 2020, the UK Treasury, in conjunction with the PRA and FCA, delayed the implementation of CRR2 in the UK until 1 January 2022. This applied 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. In addition, a number of provisions in the UK CRR were revoked and replaced by rules in the PRA Rulebook on 1 January 2022 including certain provisions in Part Three relating to capital requirements for credit risk, the majority of Part Four (large exposures), Part Six (liquidity), Part Seven (Leverage), Part Seven A (reporting requirements) and Part Eight (Disclosures).

The BCBS expects its members to implement the final Basel III (Basel 3.1) standards from 1 January 2023. The changes include a new Standardised Approach to Credit Risk (“SA-CR”) and Standardised Approach to Operational Risk (“SA_OR”) which are anticipated to impact CUKL. In addition, the new Output Floor will be based on the revised Basel III standardised approaches. In November 2021 the UK Regulatory Initiatives Grid indicated there would be consultation on these reforms in H2 2022 with policy decisions taken in Q4 2022 or March 2023. This consultation is also expected to include the full implementation of the Fundamental Review of the Trading Book as a binding requirement. No implementation date for the reforms was specified.

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.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

5. 2022 Future Outlook (continued)

5.3. *Regulatory Developments* (continued)

Operational Resilience and Third Party Risk Management

In 2021, the FCA and PRA published their rules aimed at building the resilience of the UK financial services sector to operational disruption. Operational resilience is a relatively new regulatory framework that seeks to oversee an organisation's ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption assuming it will occur. The regulations require Citi to complete the following specific actions: identify Critical Business Services (CBS) and then for each CBS; set impact tolerances; map the end-to-end process, conduct severe but plausible scenario testing and consolidate along with identified vulnerabilities and associated remediation actions in CBS and legal entity level self-assessments. Each of these activities has been completed for CUKL. Work will continue in 2022 on remediation activities and developing scenario planning towards meeting the March 2025 timeframe for all CBS to remain within impact tolerance across a range of scenarios.

In addition, new rules regarding Outsourcing and Third Party Risk Management come into force on 31 March 2022 that require firms to assess the materiality and risk of all third party arrangements, not just those that fall within the regulatory definition of outsourcing. Where agreements are material or high risk the PRA expects firms to implement effective, risk-based controls. CUKL is embedding the new rules into its control framework.

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 identify gaps and implement relevant enhancements. Firms can expect to be asked to demonstrate how their business model, the actions they have taken and their culture ensure the fair treatment of all customers, including vulnerable customers.

Consumer Duty

The FCA plans to introduce a new Consumer Duty that will require firms to focus on supporting and empowering their retail customers to make good financial decisions and avoid foreseeable harm at every stage of the customer relationship. The Consumer Duty will be introduced through a headline principle (that a firm must act to deliver good outcomes for retail customers) and cross-cutting rules and outcomes. The cross-cutting rules require firms to: act in good faith; avoid foreseeable harm; and enable and support retail customers to pursue their financial objectives. The outcomes relate to: the governance of products and services; price and value; consumer understanding; and consumer support. The FCA is due to publish its final rules in Q3 2022 and to allow firms nine months to implement following publication of the final rules. CUKL is reviewing the requirements and draft rules in preparation for implementation.

Shareholder Rights Directive (SRD II)

SRD II came into effect on 3 September 2020 with the purpose of facilitating shareholder engagement in respect of EU listed shares of EU issuers. Although the UK is outside the EU the rules apply on an extra-territorial basis so UK intermediaries must comply with EU SRD II rules implemented across EU Member States. CUKL is now fully compliant with applicable requirements.

Central Securities Depository Regulation – Settlement Discipline Regime (CSDR)

CSDR introduced a cash penalty regime that requires participants in Central Securities Depositories ("CSDs"), such as Euroclear and Clearstream across the European Economic Area ("EEA") to pay penalties for settlement failures. The benefit or burden of cash penalty amount may in turn be passed on to CUKL by custodians and settlement agents used to facilitate settlement of transactions on behalf of CUKL clients. CSDR is a European regulation and although the UK is no longer part of the EU the cash penalty regime under CSDR applies where a transaction is settled through an EEA CSD. The requirement came into force on 1 February 2022 and CUKL has taken steps to implement accordingly.

Sanctions

The Company has insignificant direct exposures in Russia or Ukraine and therefore the Company's financial risks have not been directly impacted by the geopolitical tensions or conflict in Ukraine. Because of the sanctions the Company is unable to offer its entire range of products and services to all of its customers. The Company continues to monitor the potential indirect macroeconomic impacts from the tensions and conflict in order to mitigate its exposures and risks.

CITIBANK UK LIMITED

STRATEGIC REPORT

for the year ended 31 December 2021

5. 2022 Future Outlook (continued)

5.3. *Regulatory Developments* (continued)

Environmental, Social and Governance (ESG)

The FCA and PRA are due to publish a Consultation Paper on Diversity in Financial Services in H1 2022 with a policy statement to follow in H2 2022. In Q2 2022 the FCA is due to publish a consultation paper on sustainability disclosure requirements (SDR) that require certain firms to disclose their management of sustainability risks, impacts and opportunities. The FCA is also working to introduce sustainable investment labels to help consumers navigate investment products based on their sustainability characteristics.

Enhanced Due Diligence: updated UK list of high risk countries

The Money Laundering and Terrorist Financing (Amendment) (High-Risk Countries) Regulations 2022 came into force on 22 March 2022 and consolidates existing lists of high risk countries and adds new countries to the list. CUKL carries out enhanced customer due diligence and enhanced ongoing monitoring on all customers, new and existing, established in the high-risk third countries listed.

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.

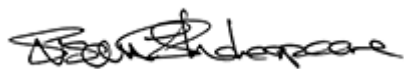
7. Events after reporting period

The recent action of Russian military forces and support personnel in Ukraine has escalated tensions between Russia and the U.S., NATO, the EU and the U.K. Certain jurisdictions have imposed, and are likely to impose material additional, financial and economic sanctions and export controls against certain Russian entities and/or individuals.

Commencing from the week of February 21, 2022, the U.S., the U.K., and the EU each imposed packages of financial and economic sanctions that, in various ways, constrain transactions with numerous Russian entities and individuals; transactions in Russian sovereign debt; and investment, trade, and financing to, from, or in certain regions of Ukraine.

The Company has insignificant direct exposures in Russia or Ukraine and therefore the Company's financial risks have not been directly impacted by the geopolitical tensions or conflict in Ukraine. Because of the sanctions the Company is unable to offer its entire range of products and services to all of its customers. The Company continues to monitor the potential indirect macroeconomic impacts from the tensions and conflict in order to mitigate its exposures and risks.

By order of the Board



S G Shakespeare
Director

27 April 2022

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 2021

The Directors present their Report and the audited financial statements of CUKL for the year ended 31 December 2021.

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 forecasts of 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 2021, 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 2021, 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 13;
- a financial summary, including the income statement and statement of financial position, is provided in the financial results section on pages 26 to 29; and
- objectives, policies and processes for managing market, liquidity, credit and operational risk, and CUKL's approach to capital management and allocation, are described in Note 13 – 'Risk management', starting on page 59.

CITIBANK UK LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2021

Dividends

During the year CUKL paid no dividends on its ordinary shares (2020: £nil), and paid £3,250 thousand dividend (2020: £3,250 thousand) on its Additional Tier 1 Capital.

Information included in the Strategic Report

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

The Strategic Report also incorporates a discussion of likely future business developments, while important events affecting the Company since the end of the financial year are described in Note 29 – '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 2021 and since year-end were:

Non-Executive

J Dawson

J H Rawlingson

CITIBANK UK LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2021

Directors (continued)

Executive

J D K Bardrick

D B Chubak (resigned on 30 September 2021)

A K Ghai

P T Hodes (appointed 20 August 2021)

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 2021 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 Inc., has been measuring its environmental footprint for two decades and began reporting on its direct operational impacts in 2002. In 2021, Citi continued its progress to reduce its carbon footprint by continuing to use 100% renewable electricity across its facilities globally. 2021 was a challenging year because of the Covid-19 pandemic continuing to disrupt normal operations but efforts were made to ensure that energy use was minimised on site and that carbon emissions were reduced.

CITIBANK UK LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2021

Disclosures concerning greenhouse gas emissions (continued)

Sustainable Operations (continued)

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 GHG emissions by 2025, from a 2010 baseline:

- a 45% reduction in location-based GHG emissions (CO₂e)
- 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 building to operate at the highest level of sustainability.

In addition to these 2025 reduction targets, in March 2021 Citi announced its commitment to net zero emissions for its global operations by 2030, which will include Scope 1 and 2 emissions. At this time, we're evaluating our emissions inventory among all Scope 3 categories to determine which are material and which we will have the ability to influence. This exercise will determine the areas of our supply chain that may be included in our net zero operations emissions target.

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.

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 2021 and 31 December 2020:

Energy Consumption			2021	2020***
Energy (kWh)			4,185,000	3,170,000
GHG Emissions				
Scope	Source	Unit	2021	2020***
1	Direct	tCO ₂ e	294	201
2	Indirect – Location-based	tCO ₂ e	573	478
	Indirect – Market-based	tCO ₂ e	0	0
3	Commercial air & rail travel	tCO ₂ e	16	39
	Employee expensed car mileage	tCO ₂ e	0	0
Total	Scope 1, 2 (location) & Scope 3 Business Travel	tCO ₂ e	883	679
	Scope 1, 2 (market) & Scope 3 Business Travel	tCO ₂ e	309	201
Intensity Ratio*			2021	2020***
tCO ₂ e/Sq. Ft**			0.027	0.017
tCO ₂ e/FTE			3.718	3.219

* 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

*** certain information has been restated for better comparability with the current year presentation

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 and 2021 published by the Department for Business, Energy & Industrial Strategy.

CITIBANK UK LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2021

Disclosures concerning greenhouse gas emissions (continued)

Streamlined Energy and Carbon Reporting (continued)

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.

As part of the reporting for 2021 we have also included associated fuel consumption emissions which were not reported for 2020, though this is not material in the total amount of energy consumed. Additionally, there have been amendments to the 2020 calculations which have been updated and reflected in this report. These changes have resulted in an increase in energy consumption and reported emissions for 2020. The Company's energy consumption and resultant emissions also increased between 2020 and 2021. This is likely to have resulted from the following factors. Firstly, in 2021 because of an increase in the running hours of the CHP plant, Scope 1 emissions will have increased and secondly, due to increased data granularity in the headcount data which affected the figures.

Energy efficiency in action

The main sources of the Company's operations are from the running of data centres, offices and 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. The below highlights the energy efficiency actions that were undertaken in 2021.

In the Citigroup Centre 1 and Citigroup Centre 2 buildings:

- Installation of an analytics software "building analytics" which monitors every asset in the building assessing whether it's running according to design/operational requirements and sending alerts to the engineering team on the specific asset that is not performing in line with expectations.
- The chilled water temperature was raised by 1.5 degrees
- Mothballed empty floors, isolating chilled water, tech rooms, VAV boxes and air compartment units

In the Riverdale Data Centre:

- Solar PV installed to supply energy for lighting.
- Temperature monitoring system called "Ekkosense" installed in the data hall on level 4 to monitor temperature at server height and send feedback to the CRAC units to adjust accordingly.

Political contributions

No political contributions were made during the year (2020: £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.

CITIBANK UK LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2021

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

27 April 2022

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

CITIBANK UK LIMITED

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

1. Our opinion is unmodified

We have audited the financial statements of Citibank UK Limited ("the Company") for the year ended 31 December 2021 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 the Company's affairs as at 31 December 2021 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 UK-adopted international accounting standards; 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 three financial years ended 31 December 2021. 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:	£3.9m (2020:£2m)
financial statements as a whole	1% (2020: 0.5%) of Net Assets

Key audit matters vs 2020

Recurring risks	Expected credit loss on commercial real estate loans	▼
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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 2020), in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

	The risk	Our response
Expected credit loss ("ECL") on commercial real estate ("CRE") loans (2021: £0.4 million; 2020: £1.2 million) <i>Refer to page 41-47 (accounting policy) and page 60-77 (financial disclosures).</i>	Subjective estimate Risk vs. 2020: ▼ The risk associated with material misstatement of ECL has significantly reduced from prior year, primarily because of the improvement in the economic outlook due to recovery from Covid-19. Consequently: - Certain exposures have been transferred back to Stage 1 during the year on account of reduction in probability of default ('PD'); - The exposures are now subject to 12 months ECL instead of lifetime ECL; and - Reduction in PD coupled with low Loan-to-value ('LTV') ratios further reduces the likelihood and magnitude of ECL being materially misstated. Additionally, one facility has been fully repaid in 2021, which further reduces the gross exposure subject to ECL estimation uncertainty. As a result of all these factors, ECL on the remaining three facilities is significantly lower than our materiality thresholds. However, considering the following factors, we still determine ECL to be a key audit matter ('KAM'): a) Estimation of ECL on the Commercial Real Estate ('CRE') loans involves judgement and estimation uncertainty; b) Users of a bank's financial statements consider credit risk to be one of the areas of greatest focus, subjectivity and complexity; and c) Due to the extent of judgement involved, we invest a considerable amount of time in forming our audit approach (including consultations), allocation of resources (comprising involvement of specialists), performing audit testing and reaching an opinion.	Our procedures include: Test of details: Key aspects of our testing involved the following procedures: - We assessed and challenged management's assessment of whether the application of curing criteria and staging methodology to transfer exposures to stage 1 is appropriate considering the quantitative and qualitative factors of each obligor in line with IFRS 9 guidelines; and - Considering the low level of loan-to-value ("LTVs"), we assessed reasonableness of the collateral values by performing market research and benchmarking to determine if there were any indications of a significant decline in the real estate market from prior year. Our credit risk modelling specialists We involved our own credit risk modelling specialists to assist us in assessing reasonableness of the ECL by independently re-estimating the range of ECL in the CRE portfolio by performing the following procedures: - Independently testing and determining the Obligor Risk Rating ('ORR') for each facility; - Independent determination of minimum and maximum PD range for each facility using a historical period with similar default rates and recovery patterns; - Challenged the loss given default ("LGD") using the latest collateral valuation, considering expected movements given the commercial real estate price index and reasonable and supportable evidence to estimate collateral values in a severely stressed scenario; and - Independent re-computation of ECL range based on independently determined PDs and LGDs.

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

	The risk (continued)	Our response (continued)
Expected credit loss ("ECL") on commercial real estate ("CRE") loans (continued)	The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in relation to 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") or reduction in credit risk ('curing') and ultimately the staging. 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 the ORR is inappropriate and does not reflect the true credit worthiness of the borrower. As a result, the PD and the staging determined using ORR and other factors, may lead to misstatement of the underlying ECL on these facilities. • Curing – Two exposures have been transferred back to Stage 1 during the year, resulting in 12 months ECL being recognised on those exposures instead of lifetime. There is a risk that the Company has not sufficiently and appropriately monitored whether the exposures have exhibited characteristics of a decrease in credit risk as per IFRS 9 guidelines for curing.	Assessing transparency: We assessed whether disclosures of the key judgements and assumptions made were appropriate in line with the accounting standards including the transfer of exposures to stage 1. Our results: We concluded the ECL on CRE loans determined by the Company to be acceptable (2020: acceptable)

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

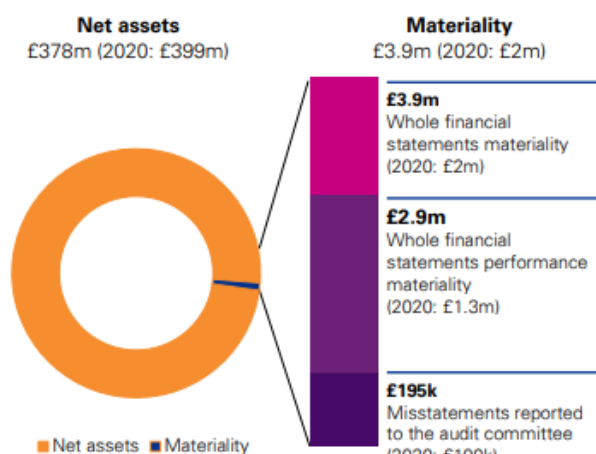
Materiality for the financial statements as a whole was set at £3.9m (2020: £2m), determined with reference to a benchmark of net assets, of which it represents 1% (2020: 0.5%). We considered net assets to be the most appropriate benchmark to remain consistent with the prior year benchmark and based on quantitative and qualitative factors including volatility in revenues and profits due to changes in the interest rate environment and economic recovery from the Covid-19 pandemic.

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 75% (2020 : 65%) of materiality for the financial statements as a whole, which equates to £2.9m (2020 : £1.3m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £195k (2020: £100k), 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.

We were able to rely upon the Company's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.



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, the financial services industry, and the general economic environment to identify the inherent risks to the business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We did not identify any specific risk which could adversely affect the Company's available financial resources over the period.

Our procedures also included:

- Evaluating the availability of funding and liquidity in the event of a market wide stress scenario; and
- Evaluating the stress testing performed by management and consideration of whether the stresses applied are appropriate for assessing going concern; and
- 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.

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; and
- we found the going concern disclosure in note 1 to be acceptable.

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 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 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. 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 high-risk criteria included entries posted to unusual or seldom-used accounts, journals containing key words which could be indicative of fraud, unexpected revenue journals, and journals with unusual debits and credits to cash and borrowings.

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 15, 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.



Matthew Davies (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

27 April 2022

CITIBANK UK LIMITED

INCOME STATEMENT

for the year ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Interest receivable	4	42,733	37,549
Interest payable	4	(1,816)	(5,318)
Fees and commissions receivable	5	34,505	31,551
Fees and commissions payable	5	(5,050)	(3,088)
Dealing profits	6	3,743	26,886
Other operating income		530	40
Administrative expenses	7	(61,763)	(50,367)
Depreciation and amortisation		(2,346)	(1,979)
Other operating charges		(103)	(377)
Provisions	13	1,309	(1,216)
Profit on ordinary activities before tax		11,742	33,681
Tax on profit on ordinary activities	10	(928)	(8,139)
Profit for the financial year		10,814	25,542

The accompanying notes on pages 30 to 104 form an integral part of these financial statements.

CITIBANK UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021

	2021 £ 000	2020 £ 000
Profit for the financial year	10,814	25,542
Items that are or may be reclassified subsequently to income statement		
Debt instruments at FVOCI - net change in fair value	(44,921)	53,343
Debt instruments at FVOCI - reclassified to profit or loss	(3,980)	(27,034)
Related tax	15,139	(6,910)
Other comprehensive (loss)/gain for the year, net of tax	(33,762)	19,399
Total comprehensive (loss)/gain for the year	(22,948)	44,941

The accompanying notes on pages 30 to 104 form an integral part of these financial statements.

CITIBANK UK LIMITED

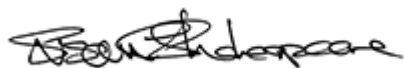
STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

		31 December 2021 £ 000	31 December 2020 £ 000
	Note		
Assets			
Cash and balances at central banks	11	1,176,483	523,979
Derivative financial instruments	14, 15	324,553	135,163
Treasury bills and other eligible bills	16	2,309,712	2,113,702
Loans and advances to banks	14	1,287,129	624,621
Loans and advances to customers	14	265,672	353,748
Debt securities	17	1,756,683	1,769,954
Intangible fixed assets	18	6,687	7,339
Other assets	20	65,217	97,394
Prepayment and accrued income	21	2,148	—
Total assets		7,194,284	5,625,900
Liabilities			
Deposits by banks	14	8,316	18,965
Customer accounts	14	6,372,454	4,983,443
Derivative financial instruments	14, 15	320,789	139,610
Other liabilities	23	56,809	21,551
Accruals and deferred income	24	4,868	5,733
Provisions for liabilities		850	176
Subordinated liabilities	22	52,072	52,092
Called up share capital	25	—	—
Reserves	27	341,987	375,755
Profit and loss account		36,139	28,575
Total liabilities		7,194,284	5,625,900
MEMORANDUM ITEMS			
Contingent liabilities		—	—
Commitments	26	27,472	24,159

The accompanying notes on pages 30 to 104 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 27 April 2022 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 2021

Attributable to equity holders of the Company						
Note	Called up share capital £ 000	Reserves			Profit and loss account £ 000	Total £ 000
		Other reserve £ 000	Fair value reserve £ 000	Equity reserve £ 000		
Balance at 1 January 2020	—	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 gain	—	—	(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 decrease resulting from common control transaction	—	—	—	21	—	21
Tax on equity settled share-based payment	—	—	—	(6)	—	(6)
Total contributions and distributions	—	—	—	15	(3,250)	(3,235)
Balance at 31 December 2020	—	363,589	12,151	15	28,575	404,330
Total comprehensive income for the year						
Profit for the financial year	—	—	—	—	10,814	10,814
Other comprehensive loss for the year						
Debt instruments at FVOCI - net change in fair value	—	—	(44,921)	—	—	(44,921)
Debt instruments at FVOCI - reclassified to profit or loss	—		(3,980)	—	—	(3,980)
Tax on other comprehensive loss	—	—	15,139	—	—	15,139
Total other comprehensive loss	—	—	(33,762)	—	—	(33,762)
Total comprehensive loss	—	—	(33,762)	—	10,814	(22,948)
Transactions with owners, recorded directly in equity Contributions and distributions						
Capital contribution	27	22,991	—	—	—	22,991
Equity decrease resulting from common control transaction	27	(22,991)	—	—	—	(22,991)
Dividends on Additional Tier 1 Capital	—	—	—	—	(3,250)	(3,250)
Equity settled share-based payment	—	—	—	(8)	—	(8)
Tax on equity settled share-based payment	—	—	—	2	—	2
Total distributions	—	—	—	(6)	(3,250)	(3,256)
Balance at 31 December 2021	—	363,589	(21,611)	9	36,139	378,126

The accompanying notes on pages 30 to 104 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 UK-adopted international accounting standards ("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';
 - (ii) paragraph 118(e) of IAS 38 'Intangible assets';
- the requirements of paragraphs 10(d), 16, 38A, 38B-D, 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 30 – '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 Citibank Europe Plc, UK Branch and Citibank N.A. London Branch.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

a) Basis of preparation (continued)

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.

The Directors have reviewed forecasts of 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 2021, Citigroup disclosed that in addition to the widespread public health implications, the COVID-19 pandemic has severely impacted global health, financial markets, consumer and business spending, and economic conditions in all of the jurisdictions where Citi operates. The extent of the future pandemic impacts remains uncertain but may include, among other impacts, disruption of the global supply chain, higher inflation or interest rates, financial market volatility, increase in credit costs for Citi, and public health impacts. The pandemic may continue to have negative impacts on Citi's businesses and overall results of operations and financial condition. 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 2021, 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 amended by the International Accounting Standards Board ("IASB"), which became effective from 1 January 2021. They include:

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16) – Phase 2
- COVID-19-Related Rent Concessions (Amendments to IFRS 16, Leases)
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities

The above amended standards did not have a significant impact on the Company's financial statements except for Interest Rate Benchmark Reform which is detailed below.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

Standards issued and effective (continued)

Interest Rate Benchmark Reform

The Company has initially adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) from 1 January 2021. The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate. If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then the Company updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis;

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Company first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Company applied the policies on accounting for modifications to the additional changes.

Managing interest rate benchmark reform and associated risks

For decades, LIBOR and other rates or indices deemed to be benchmarks that have been widely used across financial products and markets globally. These benchmarks have been the subject of ongoing national and international regulatory scrutiny and reform, resulting in regulators generally expecting or requiring banks, including Citi, to cease entering into new contracts that reference USD LIBOR as a benchmark by 31 December 2021. The LIBOR administrator ceased publication of non-USD LIBOR and one week and two-month USD LIBOR on a representative basis on 31 December 2021, with plans to cease publication of all other USD LIBOR tenors on 30 June 2023. As a result, Citi ceased entering into new contracts referencing USD LIBOR as of 1 January 2022, other than for limited purposes as permitted by regulatory guidance and Citi has been in compliance with this expectation.

LIBOR and other benchmarks have been used in a substantial number of the Company's outstanding loans and advances to customers, securities backed by credit card receivables and subordinated liabilities.

Despite ongoing actions to prepare for the transition away from LIBOR, market participants, including Citi, may not be adequately prepared for the uncertainties associated with these benchmarks' discontinuance or, as necessary, be able to successfully modify their outstanding contracts or products which reference these benchmarks. For example, the transition away from and discontinuance of LIBOR or any other benchmark rate presents various uncertainties, operational, legal, reputational or compliance, financial and other risks and challenges to holders of these contracts and products as well as financial markets and institutions, including Citi. These include, among others, the pricing, liquidity, value of, return on and market for financial instruments and contracts that reference LIBOR or any other benchmark rate.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

Standards issued and effective (continued)

Managing interest rate benchmark reform and associated risks (continued)

The Company recognises that a transition away from and discontinuance of LIBOR, also the replacement of some interbank offered rates (IBORs) presents various risks and challenges that could significantly impact financial markets and market participants. Accordingly, the Company has continued its efforts to identify and manage its interest rate benchmark reform risks. For example, the Company continues to closely monitor legislative, regulatory and other developments related to interest rate benchmark reform matters and legislative relief.

In addition, Citi has established a LIBOR governance and implementation program focused on identifying and addressing the impact of LIBOR transition on Citi's clients, operational capabilities and financial contracts. The program operates globally across Citi's businesses and functions and includes active involvement of senior management, oversight by Citi's Asset & Liability Committee and reporting to the Risk Management Committee of Citigroup's Board of Directors. As part of the program, Citi has continued to implement its LIBOR transition action plans and associated roadmaps under the following key workstreams: program management; transition strategy and risk management; customer management, including internal communications and training, legal/contract management and product management; financial exposures and risk management; regulatory and industry engagement; operations and technology; and finance, risk, tax and treasury.

During 2021, Citi continued to participate in a number of working groups formed by global regulators, including the Alternative Reference Rates Committee (ARRC) convened by the Federal Reserve Board. These working groups promote and advance development of alternative reference rates and seek to identify and address potential challenges from any transition to such rates. The Company's action plans and associated roadmaps are intended to be consistent with the timelines recommended by these working groups. The Company also continued to engage with regulators, financial accounting bodies and others on interest rate benchmark reform matters.

Citi's interest rate benchmark reform transition efforts include, among other things, reducing its overall exposure to LIBOR, increasing Citi's virtual client communication efforts and client transition facilitation, including outreach regarding new industry-led protocols and solutions, and using alternative reference rates in certain newly issued financial instruments and products. Further, Citi has also been investing in its systems and infrastructure, as client activity moves away from LIBOR to alternative reference rates.

In 2021, Citi has been focused on remediating existing LIBOR contracts for which publication ceased on a representative basis on 31 December 2021. Substantially all of these contracts have been remediated by 31 December 2021, and Citi continues to actively engage in and track the remediation of any remaining contracts after 31 December 2021. For LIBOR contracts that have not yet been remediated, Citi has also been reviewing the effect of relevant legislative solutions, which are expected to facilitate the transition to replacement rates.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

Standards issued and effective (continued)

Managing interest rate benchmark reform and associated risks (continued)

The Company monitors the progress of transition from LIBORs and other IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate. The Company considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR which would deem it remediated for contract management:

	USD	GBP	Total
	£ 000	£ 000	£ 000
IBOR exposures by Benchmarks*			
Financial Assets**	1,404,738	—	1,404,738
Financial Liabilities***	—	52,000	52,000

*by 31 December 2021, the Company has exposure indexed to a benchmark that is still subject to IBOR reform

**Financial assets include Securities Backed By Credit Card Receivables

***Financial liabilities include subordinated liabilities

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 (“EIR”) method. 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.

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. For assets which are initially recognized as purchased or credit impaired, interest revenue is calculated through the use of a credit-adjusted effective interest rate which takes into consideration expected credit losses. A credit-adjusted EIR is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

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. Trustee and Fiduciary Services provide trustee, custodial and depositary services to collective investment schemes (CIS) primarily domiciled and regulated in the UK. The service entails both the safeguarding of assets held by those CIS, an activity normally delegated by the Business to specialist global custodians, and the protection of investor interests through oversight of the activities performed by the manager of the CIS. Trustee fees are calculated as a percentage of the net asset value (NAV) of the CIS, invoiced and paid monthly in arrears.

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 profit comprises all gains and losses related to assets and liabilities, and include all fair value changes related to derivatives, gain or loss 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.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

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 through 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 cash and balances at central banks, 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

Classification and Measurement (continued)

Financial Assets

FVTPL

The following financial assets were classified under 'Fair value through 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.

Amortised cost

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, Prepayment and accrued income 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

Classification and Measurement (continued)

Financial assets (continued)

Amortised cost

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.

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

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

Financial Liabilities (continued)

Financial liabilities measured at amortised cost comprise Deposits by banks, Customer accounts, Subordinated liabilities and Other financial liabilities. 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.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

f) Financial assets and liabilities (continued)

Fair Value Measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

g) Impairment of financial assets

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

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss impairment model

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

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.
- Stage 2 – Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognised equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.

The credit losses for financial assets in Stage 1 and Stage 2 are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

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

For other financial assets, the Company applied measurement approaches depending on the relative quality, size and complexity of the portfolios. For debt securities, the impairment allowance is estimated leveraging existing models currently used globally for stress-testing and regulatory capital reporting purposes. For financial assets that are short term and simple in nature, the Company adopted a simplified modelling approach based on those described above.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

Determining whether credit risk has increased significantly

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.

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 or when the exposure meets quantitative thresholds for curing as determined by the transaction. 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

Determining whether credit risk has increased significantly (continued)

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 performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

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

Expected life

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

Definition of default

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). The risk rating of ‘8’ is used solely for facilities classified as non-performing due to a cross-border event.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss impairment model (continued)

Presentation of the allowance of ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the asset;
- Loan commitments: as a provision; and
- Debt instruments measured at FVOCI: as the carrying amount of these financial assets is at fair value, no loss allowance is recognised in the statement of financial position, however, the loss allowance is disclosed in Note 13 and is recognised in the fair value reserve.

Write-off

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

Reversals of impairment

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

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

i) Intangible assets (continued)

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.

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 2020, 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.

l) 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

m) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the year end spot exchange rates. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are translated into the functional currency using the date the fair value was determined. Non-monetary assets and liabilities, denominated in currencies other than the functional currency that are not measured at fair value, have been translated at the relevant historical exchange rates. Any gains or losses on exchange are generally taken to the income statement as incurred.

n) Employee benefits

Defined contribution plans

The Company'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.

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. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

o) Share based incentive plans (continued)

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

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

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

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 17 September 2021, the Trustee and Fiduciary Services Business was transferred from CEP UK 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

t) Fiduciary activities

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

2. Use of assumptions and estimates

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

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

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

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgments and estimates that are reasonable and prudent. The accounting policies that are deemed critical to the Company's FRS101 results and financial position, in terms of the materiality of the items to which the policy is applied, or which involve a high degree of judgment or estimation are:

Impairment of financial assets

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Use of assumptions and estimates (continued)

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 or decrease 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.

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 decreased its expected credit losses of approximately £2 million during 2021, bringing its total ECL to approximately £0.8 million at 31 December 2021. As part of this estimate the Company incorporates a Management Adjustment Factor (MAF) to account for factors not captured in the model (please refer to note 13.2 Credit Risk for further information). The Company no longer applies a Wholesale Impairment Model Overlay; the model output is consistent with the expected performance of the wholesale portfolios. As at 31 December 2021, the macroeconomic outlook has significantly improved, resulting in significantly lower PD estimates in comparison to last year. Combined with conservative LGD estimates, CUKL management has deemed the Model ECL appropriate. The Company believes its credit portfolio to be appropriately rated and classified as of 31 December 2021. 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 2021.

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 15 – 'Financial assets and liabilities' further outlines the approach to valuation of financial instruments.

CITIBANK UK LIMITED

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. Business transfer under common control

On 17 September 2021, a Trustee and Fiduciary Services Business was acquired by the Company from Citibank Europe Plc ("CEP") UK branch, with a client Assets Under Management ("AUM") of £198.2 billion and Assets Under Custody ("AUC") of £169.4 billion as at 30 September 2021. As at 31 December 2021, the client AUM was £205.2 billion and AUC was £172.9 billion. The Company paid a consideration of \$31 million (£23 million) for the Trustee and Fiduciary Services Business to CEP UK branch.

The Trustee and Fiduciary Business did not have any separately identifiable assets, tangible or intangible, on CUKL's balance sheet.

4. Net interest receivable

	2021 £ 000	2020 £ 000
Interest and similar receivable		
Interest receivable and similar income arising from debt securities		
Debt securities	28,253	6,214
Other interest receivable and similar income		
Cash and balances at central banks	493	948
Treasury bills and other eligible bills	3,884	5,322
Loans and advances to banks	2,413	8,940
Loans and advances to customers	7,690	16,125
Total interest receivable	<u>42,733</u>	<u>37,549</u>
Interest payable and similar charges		
Customer accounts	(920)	(4,257)
Subordinated liabilities	(885)	(1,049)
Deposit by banks	(5)	—
Other interest paid	(6)	(12)
Total interest payable	<u>(1,816)</u>	<u>(5,318)</u>
Net interest receivable	<u>40,917</u>	<u>32,231</u>

There were no impaired loans nor interest income (2020: £nil) received on impaired loans during the year.

Interest receivable from group undertakings amounted to £28 million (2020: £12 million), while interest payable to group undertakings amounted to £0.9 million (2020: £1 million).

All interest income arose within the United Kingdom.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Net fee and commission receivable

	2021	2020
	£ 000	£ 000
Brokerage Commissions (receivable)	6,093	7,753
Custody and Safekeeping transactions (receivable)	9,872	6,511
Transaction fees (receivable)	14,494	13,395
Other (receivable)	4,046	3,892
Total fee and commission receivable	34,505	31,551
Transaction fees (payable)	(5,050)	(3,088)
Total fee and commission payable	(5,050)	(3,088)
Net fee and commission receivable	29,455	28,463

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 £9.9 million in 2021 (2020: £6.5 million).

There were no fee and commission receivable from, or fee and commission payable to group undertakings during the year. (2020: £nil).

All fee and commission income arose within the United Kingdom.

6. Dealing profits

	2021	2020
	£ 000	£ 000
Gain on foreign exchange exposure management	1,508	27,773
Loss on revaluation of foreign currency transactions	(1,467)	(27,150)
Net gain on sale of debt instruments at FVOCI	3,980	27,034
Mark-to-market loss from financial instruments	(278)	(771)
Total dealing profits	3,743	26,886

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Administrative expenses

a. Staff costs

	2021	2020
	£ 000	£ 000
Wages and salaries	17,066	15,775
Social security costs	1,927	1,919
Share based payment expenses	264	302
Pensions and post retirement benefits	1,518	1,512
Restructuring costs	83	23
Total personnel expenses	20,858	19,531

The following table shows the average number of employees by function for 2021 and 2020:

	2021	2020
Personal Banking and Wealth Management	191	192
Fiduciary Services	1	—
Corporate Functions	9	14
Independent Control Functions	11	5
Total number of staff	212	211

b. Other administrative expenses

	2021	2020
	£ 000	£ 000
Communications and technology	13,674	12,126
Contractors and consultancy	1,530	1,394
Rent expenses	1,682	1,972
Marketing and advertising	4,392	2,706
Travel and events	37	229
Stationary and office supplies	877	1,138
Transaction processing	318	157
Net intercompany recharges	14,774	9,771
Other administrative expenses	3,621	1,343
Total other expenses	40,905	30,836

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Auditor's remuneration

	2021 £ 000	2020 £ 000
Audit fee	672	728
Audit of subsidiaries fee	39	—
Audit-related assurance services	88	86
Non-audit services	—	9
	<u>799</u>	<u>823</u>

There were no other services provided by the Company's auditor or by any associate of the Company's auditor to the Company (2020: £nil).

9. Directors' emoluments

	2021 £ 000	2020 £ 000
Directors' emoluments are as follows:		
Aggregate emoluments	893	1,014
Company contributions to money purchase pension scheme	73	79
	<u>966</u>	<u>1,093</u>

Contributions to money purchase pension schemes are accruing to five of the Directors (2020: five). Contributions to defined benefit pension schemes are accruing for none of the Directors (2020: none). Four of the Directors (2020: three) of the Company participate in parent company share plans.

The remuneration of the highest paid Director was £411,955 (2020: £455,707) and accrued pension of £67,041 (2020: £66,746). Share-based stock awards were granted to the highest paid Director of \$68,789.

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.

Two of the Directors are 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2021 £ 000	2020 £ 000
Current tax:		
UK corporation tax on profits of the period	2,539	8,357
Adjustment in respect of prior years	(1,348)	287
Total current tax	1,191	8,644
Deferred tax:		
Origination and reversal of timing differences	(258)	(151)
Adjustment in respect of previous periods	(5)	(354)
Total deferred tax	(263)	(505)
Total income tax expense	928	8,139

(b) Tax included in other comprehensive income and equity

	2021 £ 000	2020 £ 000
Deferred tax:		
Origination and reversal of timing differences	(15,141)	6,916
Total tax credit included in other comprehensive income and equity	(15,141)	6,916

(c) Reconciliation of tax charges

	31 December 2021 £ 000	31 December 2020 £ 000
Profit before income tax	11,742	33,681
Total profit before income tax	11,742	33,681
Profit multiplied by the standard rate of corporation tax in the UK of 27% (2020: 27%)	3,170	9,093
Effects of:		
Deduction for AT1 dividend	(878)	(878)
Expenses not deductible for tax purposes	75	—
Impact of difference between current and deferred tax rates	(87)	(9)
Adjustments in respect of prior years	(1,352)	(67)
Total current income tax expense	928	8,139

The UK tax rate in the year was 27%. This includes a surcharge of 8% on the profits of banking companies applicable from 1 January 2016. The main rate of corporation tax in the UK (excluding the surcharge) has been 19% from 1 April 2017. Finance Act 2021, which received Royal Assent on 10 June 2021, introduced an increase in the UK corporation tax rate to 25% from 1 April 2023 and the expected impact of this change has been reflected in deferred tax. Finance Act 2022, which received Royal Assent on 24 February 2022, introduced a decrease in the bank surcharge from 8% to 3% from 1 April 2023. However, the impact of this has not been reflected in deferred tax, as the decrease was not substantively enacted at the balance sheet date.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Tax on profit on ordinary activities (continued)

(d) Deferred taxation assets

	31 December 2021 £ 000	31 December 2020 £ 000
At the beginning of the period	(4,235)	2,176
Adjustments in respect of prior years	5	354
Credited to profit or loss account	258	151
Credited to other comprehensive income and equity	15,141	(6,916)
At the end of the period	11,169	(4,235)

	31 December 2021 £ 000	31 December 2020 £ 000
Deferred tax asset is made up as follows:		
Capital allowances	403	198
Other timing differences	10,645	(4,494)
Deferred compensation	121	61
	11,169	(4,235)

11. Cash and balances at central banks

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

	31 December 2021 £ 000	31 December 2020 £ 000
Placements with Bank of England	1,176,483	523,980
Expected credit loss	—	(1)
Cash and balances at central banks	1,176,483	523,979

12. Loans and advances to banks and customers

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Loans and advances to banks			
Securities purchased under resale agreement		1,045,497	346,479
Deposits with banks		241,665	278,146
Expected credit loss		(33)	(4)
Loans and advances to banks total carrying amount	15	1,287,129	624,621
Loans and advances to customers			
CRE loans		161,247	242,104
Consumer loans		104,906	113,129
Expected credit loss		(481)	(1,485)
Loans and advances to customers total carrying amount	15	265,672	353,748

Consumer loans balance is repayable on demand.

Expected credit loss related to CRE loans was £457 thousand (2020: £1,405 thousand) and related to consumer loans it was £24 thousand (2020: £80 thousand).

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management

13.1 Introduction

Culture as It Relates to Risk Management

Citi's culture drives a strong risk and control environment and is at the core of Citi's approach to risk management, underpinning the way Citi conducts business. It consists of the shared attitudes, values and expected behaviours that promote open discussions and decisions in line with Citi's Strategy, Mission, Value Proposition, Leadership Principles and Risk Appetite. The Cultural Change team defines, implements, monitors, and reviews measures and indicators to ensure Citi's culture and values are embedded effectively.

Every employee of Citigroup Inc. and its consolidated subsidiaries, including other persons performing services for Citi that may be subject by contract or other agreement, are accountable for risk management and must identify, escalate, and mitigate or accept risk-taking activities that exceed Citi's risk appetite, in a timely manner.

Risk Management Framework

Citibank UK Limited (CUKL or the "Company") has a comprehensive Risk Management Framework in place to ensure all CUKL's risks are managed appropriately and consistently across the entity and at an aggregate level to safeguard the Company's financial strength. The CUKL Risk Management Framework (RMF or the "Framework") details the principles used to support effective entity-wide risk management across the end-to-end risk management lifecycle. It covers the risk management roles and responsibilities of the CUKL Board of Directors, CUKL Senior Management, and employees who execute activities on behalf of CUKL across the lines of defence. The Framework applies to CUKL and all its businesses and functions operating within CUKL.

The risk governance framework refers to the implementation of the RMF in conjunction with the underlying set of risk policies, standards, procedures, and processes within Citi, as adopted by CUKL. CUKL's risk governance framework has been developed in consideration of the entity's size, complexity, and risk profile, and supports the breadth of CUKL's product offerings and geographies that give rise to risk exposure.

Citi has defined policies for risk management at an enterprise-wide level and by risk category. As a part of Citi, CUKL adopts Citi level policies, wherever possible. Citi's policies reflect the core principles and regulatory requirements that Citi must follow to ensure that all business operations are conducted in accordance with applicable laws, rules, regulations, principles of safety and soundness and Citi's commitment to Responsible Finance. Citi's policies are critical to maintaining a culture of compliance and control and effectively managing risk within CUKL. The CUKL Risk Management Framework highlights where processes are aligned to Citi-wide risk management policies, standards, procedures, and processes, and describes the applications of these processes for managing risk within CUKL.

CUKL uses a three lines of defence construct to manage its risk, bringing risk taking, risk oversight, and risk assurance under one umbrella and providing an avenue for the (i) accountability of the first line units that create risk, (ii) effective challenge from the second line units that independently assess risk, and (iii) independent assurance from the third line units. Control and support functions are units tasked with maintaining a strong control environment.

The lines of defence construct is an important component of the risk governance structure. It assigns distinct roles and responsibilities to each line to support risk management. The lines of defence and control and support functions coordinate with each other in support of the common goal of identifying, measuring, monitoring, and controlling risk taking activities so they remain consistent with the Company's strategy and risk appetite. The lines of defence and control and support functions also play a critical role in the governance and execution of the Framework.

Risk Management Mission

In pursuit of its mission to be an industry leading organisation in risk management, CUKL Risk Management acts as a strong independent partner of the business to actively manage risk in a manner consistent with CUKL's risk appetite as determined by the CUKL Executive Management Team and as reviewed and approved by the CUKL Board of Directors.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.1 Introduction (continued)

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 that include the maintenance of a strong financial position. The Risk Appetite 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 CUKL Risk and Audit Committee. The CUKL Risk and Audit Committee recommends the approval of risk appetite limits in the form of the Risk Appetite Statement to the Board, at least annually.

Material Risk Identification and Assessment Process

The Company has a formalised process for the identification and assessment of material risks across the Company, 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 such as the Internal Capital Adequacy Assessment Process ("ICAAP").

Stress Testing

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

13.2 Credit Risk

Definition

Credit risk is the risk of loss resulting from the decline in credit quality (or downgrade risk) or failure of a borrower, counterparty, third party or issuer to honour its financial or contractual obligations. Credit risk may result from several 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 and delinquency managed credit portfolios and may 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 asset securitisations; settlement and clearing activities; and securities financing transactions.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Definition (continued)

‘Credit Risk Management’ teams within Risk Management provide independent oversight of credit risk for CUKL. The teams are aligned by client, industry, product and/or region type:

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

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)
- Provide senior management and the Board of Directors with an independent view of the firm's credit risk profile

Governance and Organisation

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

- CUKL Board (“the Board”)
- CUKL Risk and Audit Committee (“the RAC”)
- CUKL Management Committee (“the Manco”)
- UK Risk Management Committee (“UK RMC”)
- UK Risk Management Executive Committee (“UK RMEC”)
- Product Approval Committees (“PACs”)

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. 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 CUKL RAC, and the regulators, if necessary.

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 CUKL RAC.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Governance and Organisation (continued)

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, if necessary.

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.

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 characterising credit risk, the Exposure at Default 'EAD', probability of Default 'PD', and Loss Given Default 'LGD' are key components for measuring credit risk.

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

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

Total Facilities Amounts ("TFA"): New facilities and annual reviews for a Relationship are approved according to the Citi Credit Approval Grid as defined by risk management policy.

All approved facilities 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.

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.

Other local regulatory limits: CUKL is also subject to other limits such as large exposures and shadow banking.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 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 Company has an internal risk rating 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.

The Obligor Risk Rating (“ORR”) represents the Probability of Default (“PD”) of an Obligor within a one-year time horizon. Risk ratings for Obligor 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 Obligor that are not in Default. The risk rating of ‘8’ is used solely for facilities classified as non-performing due to a cross-border event. 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 credit risk grades relate to 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 average PDs in the table may differ from those generated in the IFRS 9 impairment model.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Ratings (continued)

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

		2021				2020			
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
		£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Cash and balances at central banks									
	1	1,176,483	—	—	1,176,483	—	—	—	—
	2	—	—	—	—	523,979	—	—	523,979
Loans and advances to banks					—				—
	2	1,287,129	—	—	1,287,129	624,621	—	—	624,621
Loans and advances to customers - CRE loans									
	4	46,131	—	—	46,131	—	—	—	—
	5	—	—	—	—	127,212	—	—	127,212
	6	49,887	—	—	49,887	—	—	—	—
	7	65,228	—	—	65,228	—	114,892	—	114,892
Total		2,624,858	—	—	2,624,858	1,275,812	114,892	—	1,390,704

– 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 Margin and Securities Backed Finance (“MSBF”) portfolio is delinquency managed. The exposures consist of collateralised loans to individuals 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, investments in government issued securities for liquidity risk management, and investments in securitised assets are governed by the Citi Investment Security Policy. These investments are risk managed from initial purchase through the holding period by independent credit risk and market risk functions.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Ratings (continued)

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
	2021	2021	2021
	£ 000	£ 000	£ 000
AAA to AA-	2,032,710	277,002	2,309,712
	2020	2020	2020
	£ 000	£ 000	£ 000
AAA to AA-	2,108,657	5,045	2,113,702

All treasury bills and other eligible bills were classified as Stage 1 performing as at 31 December 2021 and 2020.

Credit quality – Debt securities

	Securities Backed By Credit Card Receivables	Residential Mortgage Backed Securities	Total
	2021	2021	2021
	£ 000	£ 000	£ 000
AAA to AA-	1,404,002	352,681	1,756,683
	2020	2020	2020
	£ 000	£ 000	£ 000
AAA to AA-	1,393,046	376,908	1,769,954

All debt securities were classified as Stage 1 performing as at 31 December 2021 and 2020.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Concentration Risk

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

	31 December 2021 £ 000	31 December 2020 £ 000
Financial and insurance activities	1,611,957	760,759
Government	2,032,711	2,108,657
Central Bank	1,176,483	523,979
Supranational	277,002	5,044
Real Estate	513,470	617,608
Consumer retail	1,527,437	1,601,835
– of which: credit card receivables	1,404,002	1,393,046
Other services	33,845	641
	7,172,905	5,618,523

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 financial assets.

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

	31 December 2021 £ 000	31 December 2020 £ 000
Central / Eastern Europe	74,191	87,622
Western Europe	4,936,858	3,573,718
– of which: United Kingdom	4,112,847	3,094,961
Middle East / Africa	7,998	11,401
Central / South America	1,495	—
North America	2,150,356	1,943,297
Asia	2,007	2,485
	7,172,905	5,618,523

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Collateral held and other credit enhancements

The Company holds collateral and other credit enhancements against certain 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
Derivative Financial Instruments		
Foreign exchange - OTC assets (i)	100%	Cash
Loans and Advances to Banks		
Reverse sale and repurchase agreements (ii)	100%	Marketable securities
Loans and Advances to retail customers		
Margin Backed Secured Financing (iii)	100%	Marketable securities
Loans and Advances to corporate customers		
Non- Recourse Secured Lending (iv)	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 FX Swaps with CBNA London by receiving cash collateral in compliance with the credit support annex (“CSA”) signed between the parties.
- (ii) The Company mitigates the credit risk of reverse sale and repurchase agreements by entering into master netting agreements and holding collateral in the form of marketable securities. The market value of the collateral is monitored daily.
- (iii) 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 is updated daily to monitor any potential shortfall in collateral loanable value. The Company has a well-established margin-call process to ensure the credit exposures are sufficiently secured at all times.

- (iv) The Company underwrites senior secured loans where ‘Commercial Real Estate’ is taken as the First Way-Out; the source of repayment of the loan is the cash flow from the leasing or sale of the real estate. The second-way out is 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 own their assets through bankruptcy remote Special Purpose Vehicles (“SPVs”) 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. In each case when the loan is put on a watch list, the valuation is monitored more closely. The collateral valuation is largely performed by an independent third-party valuer, instructed by an independent risk function and organised around business and risk management.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Collateral held and other credit enhancements (continued)

The following table sets out the total collateral value as at 31 December 2021 and 31 December 2020 by each exposure type:

	Carrying amount £ 000 2021	Collateral value £ 000 2021	Carrying amount £ 000 2020	Collateral value £ 000 2020
Foreign exchange - OTC assets	324,553	324,553	135,163	135,163
Derivative financial instruments	324,553	324,553	135,163	135,163
Securities purchased under resale agreement	1,045,497	1,045,497	346,479	346,479
Loans and advances to banks	1,045,497	1,045,497	346,479	346,479
Consumer loans				
– of which Margin Backed Secured Financing	103,076	103,076	110,389	110,389
– of which unsecured overdraft	1,806	—	2,660	—
CRE loans	160,790	160,790	240,699	240,699
Loans and advances to customers	265,672	263,866	353,748	351,088

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 the 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 changed 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Incorporation of forward-looking information (continued)

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. 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. The scenario probability weights applied are calculated using statistical analysis to derive each scenario's likelihood of occurrence and are reviewed quarterly. The current and previous year-end period weights are shown below.

<u>Probability Weight for IFRS9 Scenarios</u>	<u>at 31 December 2021</u>	<u>at 31 December 2020</u>
Optimistic	15.00%	24.38%
Base	55.00%	50.81%
Pessimistic	30.00%	24.81%

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 GDP, Unemployment, and Commercial Real Estate Price Index 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 2021												
GDP Year on Year % Change	9.33%	3.60%	1.86%	1.88%	8.97%	2.90%	1.46%	1.55%	8.63%	2.21%	0.94%	1.22%
Unemployment Rate	4.22	4.30	3.68	3.39	5.08	4.84	4.26	3.98	5.56	5.43	4.68	4.46
Commercial Real Estate Price Index (Net Sellable Area) Year % Change	1.27	3.88	7.29	6.20	0.72	2.86	6.66	5.70	0.38	1.51	5.67	5.18
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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

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. To reflect the expected variability of credit losses due to deviations in realised defaults and loss rates relative to the forward-looking scenarios, and deviations in loss estimates 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 provides 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 the Interagency Policy Statement on the Allowance for Loan and Lease Losses issued by the 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 may have on the ECL estimate. The weight assignment is based on judgment process and is supported by quantitative analysis whenever possible. The factors considered in the ELS and their respective weights are evaluated and updated annually.

CUKL Risk Management is responsible for assessing the inputs by entering the ratings that are assigned to each factor in the ELS model template to compute the ELS to scale the Expected Credit Loss estimate. This assessment is performed at least annually unless a material change in ratings of any factors necessitates more frequent assessment.

IFRS 9 Wholesale Impairment Model Overlay

The Company 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 consider the actual quantum and quality of the collateral available on the loans; the model considers the relationship between LGD and macroeconomic factors like GDP, but it does not consider the value of the underlying property in arriving at the LGD.

The Company treats ‘collateral’ as the First Way Out on the CRE Facilities which otherwise have No-Recourse to the sponsor in event of default. The collateral valuations are largely based on the estimated future operating cashflow generation capabilities of these assets and the expected Debt-Yield ratios. The collateral value represents 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 from external agencies and internal desktop valuations shows that all the assets remain over-collateralised with an average LTV of approximately 50%. In the event of obligor default, the options are to either sell the assets outright to a potential investor or re-finance the loan to other interested lenders to repay existing lenders. It may be assumed that in such an instance, the operating cash flows have depleted to a level insufficient to service the debt interest, stressing the current valuation and calling for a haircut to account for the otherwise depleted cashflows to determine the final loss given default.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

IFRS 9 Wholesale Impairment Model Overlay (continued)

As at December 2020, the obligor rating downgrades and negative macroeconomic outlook resulted in very high PD estimates, which combined with very conservative LGD estimates resulting in very conservative overall Model ECL estimates (including MAF). A decision was made to assess each CRE loan independently, using the latest collateral value, assumed shocks to commercial real estate prices under forward-looking scenarios, and additional value haircuts to account for recovery costs and likely value drops under default. Based on such assessment, Management deemed an ECL of £1.5 million as appropriate, approximately 1% LGD. Management also noted that the ECL is very sensitive to the assumed LGD with every incremental 1% LGD adding approximately £1.25 million of ECL.

Since December 2020, the macroeconomic outlook has significantly improved, resulting in significantly lower PD estimates in comparison to last year. Model ECL (including MAF) is estimated at £0.5 million. CUKL management has deemed the total ECL appropriate without the need for a loan by loan assessment at this time.

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”).

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 have 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.

As at December 2020, the ECL Scalar was increased to account for the severe economic conditions at the time. As at December 2021, it has decreased to pre-COVID-19 levels after the improvement in a primary factor driver.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

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

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 £80 million since December 2020 due to the repayment of a facility. The repayment was conducted in the normal course of business.

There have been no missed interest payments on any of the CRE facilities, and all assets remain current and performing with no further deterioration in ratings. Further, there are sufficient cash reserves and/or sponsor guarantees, to provide sufficient comfort against expected credit losses. Performance is expected to continue to improve and return to pre-COVID-19 levels after the removal of all COVID-19 restrictions in England.

- **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; there has been no significant impact on the MSBF balances as at 31 December 2021. The portfolio has remained constant during the year.

The business continues to maintain a very stringent Loanable Value policy, combined with the Margin Call policy forcing top-up calls and sell-outs with margin erosions of 25% and 50% respectively.

- **UK Residential Mortgage Backed Securities (“RMBS”) –**

There have been no collateral performance issues affecting CUKL investments in these instruments. Additional stress testing performed as part of the CUKL ICAAP indicates there is expected to be no or immaterial credit impact given the seniority of the CUKL investments and their high levels of credit enhancement.

- **US OMNI Notes –**

CUKL invested £1,403 million (\$1,900 million) in senior notes collateralised by a diversified pool of US credit card receivables. The notes are secured by credit enhancement from junior notes by up to 29%, providing 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 and Supranational Securities –**

CUKL maintains an investment portfolio in sovereign and supranational securities to manage liquidity and interest rate risk. A sharp increase in yields on the bonds has resulted in some economic gains in the income statement. The increase in interest rates, however, has led to a sharp decrease in the fair value of these investments leading to a negative OCI of approximately £23 million as at 31 December 2021.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 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 and Risk Officers. The IWG reviews, considers, and escalates any material changes in risk profile to the CUKL Manco and RAC, as appropriate. The RAC reviews the provisions on an annual basis 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

Exposure	2021				2020			
	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	624,625	—	—	624,625	1,852,320	—	—	1,852,320
Net movement during the year	662,537	—	—	662,537	(1,227,695)	—	—	(1,227,695)
At 31 December	1,287,162	—	—	1,287,162	624,625	—	—	624,625

ECL	2021				2020			
	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	4	—	—	4	2	—	—	2
Net movement during the year	29	—	—	29	2	—	—	2
At 31 December	33	—	—	33	4	—	—	4

b) Loans and advances to customers

Exposure	2021				2020*			
	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	240,290	114,930	13	355,233	579,400	—	—	579,400
Payments and assets derecognised	(80,883)	—	—	(80,883)	(223,864)	—	—	(223,864)
Transfers to Stage 1	114,892	(114,892)	—	—	—	—	—	—
Transfers to Stage 2	—	—	—	—	(114,930)	114,930	—	—
Net movement during the year	(8,202)	3	2	(8,197)	(316)	—	13	(303)
At 31 December	266,097	41	15	266,153	240,290	114,930	13	355,233

ECL	2021				2020			
	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	150	1,322	13	1,485	551	—	—	551
ECL on assets derecognised	(71)	—	—	(71)	(234)	—	—	(234)
Transfers to Stage 1	1,280	(1,280)	—	—	—	—	—	—
Transfers to Stage 2	—	—	—	—	(1,322)	1,322	—	—
Net movement during the year	—	(42)	(13)	(55)	93	—	13	106
Changes due to changes in credit risk and estimation methodology	(878)	—	—	(878)	1,062	—	—	1,062
At 31 December	481	—	—	481	150	1,322	13	1,485

*certain information has been reclassified for better comparability with the current year presentation

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Exposure (continued)

Expected credit loss (continued)

c) Cash and balances at central banks

Exposure	2021				2020			
	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	523,980	—	—	523,980	410,731	—	—	410,731
Net movement during the	652,503	—	—	652,503	113,249	—	—	113,249
At 31 December	1,176,483	—	—	1,176,483	523,980	—	—	523,980

ECL	2021				2020			
	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	1	—	—	1	1	—	—	1
Net movement during the	(1)	—	—	(1)	—	—	—	—
At 31 December	—	—	—	—	1	—	—	1

d) Treasury bills and other eligible bills

Exposure	2021				2020*			
	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	2,113,702	—	—	2,113,702	1,625,349	—	—	1,625,349
New assets originated or purchased	1,213,139	—	—	1,213,139	1,472,078	—	—	1,472,078
Payments and assets derecognised	(643,021)	—	—	(643,021)	(310,319)	—	—	(310,319)
Net movement during the	(374,108)	—	—	(374,108)	(673,406)	—	—	(673,406)
At 31 December	2,309,712	—	—	2,309,712	2,113,702	—	—	2,113,702

ECL	2021				2020*			
	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	447	—	—	447	281	—	—	281
New assets originated or purchased	121	—	—	121	369	—	—	369
Payments and assets derecognised	(107)	—	—	(107)	(77)	—	—	(77)
Net movement during the	(194)	—	—	(194)	(126)	—	—	(126)
At 31 December	267	—	—	267	447	—	—	447

*certain information has been reclassified for better comparability with the current year presentation

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Exposure (continued)

Expected credit loss (continued)

e) Debt securities

Exposure	2021				2020			
	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	1,769,954	—	—	1,769,954	280,016	—	—	280,016
New assets originated or purchased	—	—	—	—	1,393,046	—	—	1,393,046
Net movement during the	(13,271)	—	—	(13,271)	96,892	—	—	96,892
At 31 December	<u>1,756,683</u>	<u>—</u>	<u>—</u>	<u>1,756,683</u>	<u>1,769,954</u>	<u>—</u>	<u>—</u>	<u>1,769,954</u>

ECL	2021				2020			
	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	—	—	—	—	—	—	—	—
At 31 December	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

f) Other financial assets

Exposure	2021				2020			
	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	97,477	—	—	97,477	22,315	—	—	22,315
Net movement during the	(46,953)	—	—	(46,953)	75,162	—	—	75,162
At 31 December	<u>50,524</u>	<u>—</u>	<u>—</u>	<u>50,524</u>	<u>97,477</u>	<u>—</u>	<u>—</u>	<u>97,477</u>

ECL	2021				2020			
	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	121	—	—	121	5	—	—	5
Net movement during the	(121)	—	—	(121)	116	—	—	116
At 31 December	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>121</u>	<u>—</u>	<u>—</u>	<u>121</u>

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 Credit Risk (continued)

Risk Exposure (continued)

Expected credit loss (continued)

g) Other commitments

Exposure	2021				2020			
	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	24,159	—	—	24,159	31,873	—	—	31,873
Net movement during the year	3,313	—	—	3,313	(7,714)	—	—	(7,714)
At 31 December	27,472	—	—	27,472	24,159	—	—	24,159

ECL	2021				2020			
	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	37	—	—	37	39	—	—	39
Net movement during the year	(36)	—	—	(36)	(2)	—	—	(2)
At 31 December	1	—	—	1	37	—	—	37

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.2 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 2021 and 31 December 2020.

Income statement	2021				2020			
	IFRS 9 ECL				IFRS 9 ECL			
	Stage 1 £ 000	Stage 2 £ 000	Stage 3 £ 000	Total £ 000	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	180	—	—	180	(166)	—	—	(166)
Loans and advances to banks	(29)	—	—	(29)	(2)	—	—	(2)
Loans and advances to customers	(331)	1,322	13	1,004	401	(1,322)	(13)	(934)
Other assets	121	—	—	121	(116)	—	—	(116)
Prepayment and accrued income	(4)	—	—	(4)	—	—	—	—
Total On Balance Sheet	(62)	1,322	13	1,273	117	(1,322)	(13)	(1,218)
Off balance sheet								
Other commitments	36	—	—	36	2	—	—	2
Total Off Balance Sheet	36	—	—	36	2	—	—	2
Total provisions reversed/(created)				1,309				(1,216)

The following table shows the ECL provision on financial assets in the statement of financial position as at 31 December 2021 and 31 December 2020.

Statement of financial position	2021				2020			
	IFRS 9 ECL				IFRS 9 ECL			
	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	—	—	1
Treasury bills and other eligible bills	267	—	—	267	447	—	—	447
Loans and advances to banks	33	—	—	33	4	—	—	4
Loans and advances to customers	481	—	—	481	150	1,322	13	1,485
Other assets	—	—	—	—	121	—	—	121
Prepayment and accrued income	4	—	—	4	—	—	—	—
Total On Balance Sheet	785	—	—	785	723	1,322	13	2,058
Off balance sheet								
Other commitments	1	—	—	1	37	—	—	37
Total Off Balance Sheet	1	—	—	1	37	—	—	37
Total	786	—	—	786	760	1,322	13	2,095

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 2021 and 2020.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.3 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 the income statement. 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.

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:

- CUKL Board ("the Board")
- CUKL Risk and Audit Committee ("the RAC")
- CUKL Management Committee ("the Manco")
- UK Risk Management Committee ("UK RMC")
- UK Risk Management Executive Committee ("UK RMEC")
- UK Asset & Liability Committee ("UK ALCO")
- Product Approval Committees ("PACs")

The UK ALCO 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 the relevant Product Approval Committees. The CUKL Manco ensures that appropriate risk considerations are incorporated in the strategic planning process. The CUKL RAC 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. The CUKL CRO is supported by Treasury Risk Management ("TRM"), within the risk management organisation, to provide independent oversight of non-trading market risk on CUKL's balance sheet.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.3 Market Risk (continued)

Risk Measurement

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

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

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

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:
 - 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.

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 2021	31 December 2020	31 December 2021	31 December 2020
	12 Month - Up 100 bps		12 Month - Down 100 bps	
Income statement impact	£ 000	£ 000	£ 000	£ 000
USD	17,399	11,405	(10,646)	(2,392)
EUR	348	1,190	(2)	(9)
GBP	4,753	9,895	(5,973)	(196)
CHF	(16)	(53)	—	1
Other	111	(73)	(56)	8
Total	22,595	22,364	(16,677)	(2,588)

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.3 Market Risk (continued)

Risk Measurement (continued)

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

Currency	Economic Value Sensitivity report			
	31 December	31 December	31 December	31 December
	2021	2020	2021	2020
Income statement impact	Up 100 bps		Down 100 bps	
	£ 000	£ 000	£ 000	£ 000
USD	8,134	35,764	(10,905)	(17,255)
EUR	10,730	9,647	(90)	11
GBP	7,697	18,129	(17,692)	(3,941)
CHF	1,401	1,260	(33)	5
Other	2,018	1,805	(1,940)	(910)
Total	29,980	66,605	(30,660)	(22,090)

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 £12.7 million as at 31 December 2021 (2020: £17.3 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.

13.4 Liquidity Risk

Definition

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

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.4 Liquidity Risk (continued)

Governance and Organisation

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

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

- CUKL Board (“the Board”)
- CUKL Risk and Audit Committee (“the RAC”)
- CUKL Management Committee (“the Manco”)
- UK Risk Management Executive Committee (“UK RMEC”)
- UK Asset & Liability Committee (“UK ALCO”)
- UK Executive Committee (“UK ExCo”)

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 UK 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:

- The Resolution Liquidity Adequacy and Positioning (“RLAP”) which serves as the short-term (30-day) stress scenario under severe market, credit and economic conditions.
- The Term Liquidity Stress Test (“TLST”) which serves as a long-term (12-months) combined (market and idiosyncratic) stress scenario, comparatively less severe than RLAP stress.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.4 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 2021	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	1,176,483	—	—	—	1,176,483
Treasury bills and other eligible bills	3,037	—	2,204,167	102,509	2,309,713
Loans and advances to banks	1,018,972	118,157	—	150,000	1,287,129
Loans and advances to customers	19,224	182,055	64,393	—	265,672
Derivative financial instruments	120,069	195,435	9,049	—	324,553
Debt securities	1,695	—	352,204	1,402,783	1,756,682
Other financial assets	50,525	—	—	—	50,525
Prepayment and accrued income	2,148	—	—	—	2,148
Total financial assets	2,392,153	495,647	2,629,813	1,655,292	7,172,905
Liabilities					
Deposits by banks	8,316	—	—	—	8,316
Customer accounts	6,360,193	12,261	—	—	6,372,454
Derivative financial instruments	114,580	197,085	9,124	—	320,789
Subordinated liabilities	72	—	52,000	—	52,072
Other financial liabilities	56,809	—	—	—	56,809
Total financial liabilities	6,539,970	209,346	61,124	—	6,810,440

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.4 Liquidity Risk (continued)

Risk Exposure

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

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

Customer accounts include £6,195 million current account balances (2020: £4,705 million), which are repayable on demand.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.4 Liquidity Risk (continued)

Risk Exposure (continued)

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

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

	Less than 3 months £ 000	>3 months and <12 months £ 000	>1 year and < 5 years £ 000	Greater than 5 years £ 000	Total £ 000
As at 31 December 2021					
Other commitments	7,149	20,160	163	—	27,472
Total commitments	7,149	20,160	163	—	27,472
	Less than 3 months £ 000	>3 months and <12 months £ 000	>1 year and < 5 years £ 000	Greater than 5 years £ 000	Total £ 000
As at 31 December 2020					
Other commitments	8,300	15,859	—	—	24,159
Total commitments	8,300	15,859	—	—	24,159

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.4 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 2021	Less than 3 months	>3 months and <12 months	>1 year and < 5 years	Greater than 5 years	Total
Liabilities	£ 000	£ 000	£ 000	£ 000	£ 000
Deposits by banks	8,316	—	—	—	8,316
Customer accounts	6,360,206	12,263	—	—	6,372,469
Derivative financial instruments	114,580	197,085	9,124	—	320,789
Subordinated loans	336	1,224	55,203	—	56,763
Other financial liabilities	56,809	—	—	—	56,809
Total undiscounted financial liabilities	6,540,247	210,572	64,327	—	6,815,146

As at 31 December 2020	Less than 3 months	>3 months and <12 months	>1 year and < 5 years	Greater than 5 years	Total
Liabilities	£ 000	£ 000	£ 000	£ 000	£ 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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.4 Liquidity Risk (continued)

Risk Exposure (continued)

Analysis of encumbered and unencumbered assets (unaudited)

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

	As at 31 December 2021			As at 31 December 2020			
	Assets	Encumbered	Un- Encumbered	Total	Encumbered	Un- Encumbered	Total
		£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Cash and balances at central banks		—	1,176,483	1,176,483	—	523,979	523,979
Investment Securities & Debt Trading Instruments		6,833	4,059,562	4,066,395	15,402	3,868,254	3,883,656
- of which: asset-backed securities		—	1,756,683	1,756,683	—	1,769,954	1,769,954
- of which: by general governments		6,833	2,025,877	2,032,710	15,402	2,093,255	2,108,657
- of which: by financial corporations		—	277,002	277,002	—	5,045	5,045
Loans and advances other than loans on demand		—	1,552,801	1,552,801	—	978,369	978,369
Other Assets		—	398,605	398,605	—	239,896	239,896
Assets subtotal		6,833	7,187,451	7,194,284	15,402	5,610,498	5,625,900
	Collateral Received	Encumbered	Un- Encumbered	Total	Encumbered	Un- Encumbered	Total
		£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Investment Securities		—	1,072,578	1,072,578	—	397,163	397,163
- of which: by general governments		—	930,908	930,908	—	397,163	397,163
- of which: by financial corporations		—	141,670	141,670	—	—	—
Collateral received subtotal		—	1,072,578	1,072,578	—	397,163	397,163
Total assets and collateral received		6,833	8,260,029	8,266,862	15,402	6,007,661	6,023,063

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

Encumbered assets 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 2021 (2020: £nil).

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.5 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.

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:

- CUKL Board (“the Board”)
- CUKL Risk and Audit Committee (“the RAC”)
- CUKL Management Committee (“the Manco”)
- UK Risk Management Executive Committee (“UK RMEC”)
- UK Consumer Risk and Control Forum

The CUKL RAC and Manco have 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.

The UK Consumer Risk and Control Forum is the primary internal decision-making body for Consumer Senior Management on all material risk matters including legal, compliance, and regulatory and operational risk. The Forum also serves as the escalation channel on Consumer matters arising from key governance committees within the business. The Forum escalates significant risks to the Manco and RAC. Escalations to Country and Regional level Committees are also considered.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.6 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.

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:

- CUKL Board ("the Board")
- CUKL Risk and Audit Committee ("the RAC")
- CUKL Management Committee ("the Manco")
- UK Risk Management Executive Committee ("UK RMEC")
- UK Consumer Risk and Control Forum

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 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 Risk Appetite is presented to the RAC on a quarterly basis.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.7 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.

13.8 Strategic Risk (unaudited)

Strategic risk is the risk of a sustained impact (not episodic impact) to the firm's core strategic objectives as measured by impacts on anticipated earnings, market capitalization, or capital, arising from the external factors affecting the firm's operating environment; as well as the risks associated with defining the strategy and executing the strategy, which are identified, measured and managed as part of the Strategic Risk Framework at the Enterprise Level.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.9 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. The majority of credit assets are concentrated in the UK and the US. Only those assets related to tourism in commercial real estate are exposed to risks from climate change such as flooding. The financial risks from climate change are expected to be less material to the entity at the present time.

Governance and Organisation

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Risk management (continued)

13.10 Capital Management (unaudited)

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 2021 £ 000	31 December 2020 £ 000
Regulatory capital	408,203	420,699
Tier 1 capital ratio (unaudited)	44.2%	38.3%

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 on the Investor Relations page of the Citigroup website.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Financial assets and liabilities

The below tables outline the total financial assets and liabilities held as at 31 December 2021 and as at 31 December 2020.

	31 December 2021 £ 000	31 December 2020 £ 000
Derivative financial instruments (measured at FVTPL)	324,553	135,163
Treasury bills and other eligible bills (measured at FVOCI)	2,309,712	2,113,702
Total financial assets held at fair value	2,634,265	2,248,865
Cash and balances at central banks	1,176,483	523,979
Loans and advances to banks	1,287,129	624,621
Loans and advances to customers	265,672	353,748
Debt securities	1,756,683	1,769,954
Other financial assets	50,525	97,356
Prepayment and accrued income	2,148	—
Total financial assets at amortised cost	4,538,640	3,369,658
Total financial assets	7,172,905	5,618,523
	31 December 2021 £ 000	31 December 2020 £ 000
Derivative financial instruments (measured at FVTPL)	320,789	139,610
Total financial liabilities held at fair value	320,789	139,610
Deposits by banks	8,316	18,965
Customer accounts	6,372,454	4,983,443
Other financial liabilities	56,809	16,022
Subordinated liabilities	52,072	52,092
Total financial liabilities at amortised cost	6,489,651	5,070,522
Total financial liabilities	6,810,440	5,210,132

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Financial assets and liabilities (continued)

Fair Value Hierarchy (continued)

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.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

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.

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Financial assets and liabilities (continued)

Determination of Fair Value (continued)

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.

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 2021	Fair value			Total £ 000
	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	
Financial assets				
Derivative financial instruments	—	324,553	—	324,553
Treasury bills and other eligible bills	2,309,712	—	—	2,309,712
Financial assets held at fair value	2,309,712	324,553	—	2,634,265
Financial liabilities				
Derivative financial instruments	—	320,789	—	320,789
Financial liabilities held at fair value	—	320,789	—	320,789
31 December 2020	Fair value			Total £ 000
	Level 1 £ 000	Level 2 £ 000	Level 3 £ 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

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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Financial assets and liabilities (continued)

Estimated fair value of financial instruments not carried at fair value

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, prepayment and accrued income, 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 2021		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	1,176,483	1,176,483	—	1,176,483	—
Loans and advances to banks	1,287,129	1,286,863	—	1,286,863	—
Loans and advances to customers	265,672	266,499	—	—	266,499
Debt securities	1,756,683	1,760,509	—	1,760,509	—
Other financial assets	50,525	50,525	—	—	50,525
Prepayment and accrued income	2,148	2,148	—	—	2,148
Total financial assets	4,538,640	4,543,027	—	4,223,855	319,172
Liabilities					
Deposits by banks	8,316	8,316	—	8,316	—
Customer accounts	6,372,454	6,372,454	—	6,372,454	—
Other financial liabilities	56,809	56,809	—	—	56,809
Subordinated liabilities	52,072	48,670	—	48,670	—
Total financial liabilities	6,489,651	6,486,249	—	6,429,440	56,809

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Financial assets and liabilities (continued)

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

	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

15. Derivative financial instruments

	31 December 2021				31 December 2020			
	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	7,441,287	6,424,536	324,553	320,789	2,797,766	2,786,588	135,163	139,610

Derivative financial liabilities' balance is inclusive of cash collateral of £2.7 million (2020: £7.5 million).

16. Treasury bills and other eligible bills

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

	31 December 2021	31 December 2020
	£ 000	£ 000
Treasury bills and other eligible bills		
Treasury bills and similar securities		
Government bonds	2,032,711	2,108,657
EIB securities	277,001	5,045
Total	2,309,712	2,113,702

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Debt securities

	31 December 2021 £ 000	31 December 2020 £ 000
Residential Mortgage Backed Securities	352,681	376,908
Securities Backed By Credit Card Receivables	1,404,002	1,393,046
	<u>1,756,683</u>	<u>1,769,954</u>

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 (2020: none) of the debt securities were issued by public bodies.

18. Intangible fixed assets

	Computer software £ 000
Cost	
At 31 December 2020	23,630
Additions	2,115
Disposals	(718)
At 31 December 2021	<u>25,027</u>
Amortisation and impairment losses	
At 31 December 2020	16,291
Charge for the year	2,321
Disposals	(272)
At 31 December 2021	<u>18,340</u>
Net carrying value	
At 31 December 2021	<u>6,687</u>
At 31 December 2020	<u>7,339</u>

The Company has not recognised any impairment in the income statement related to its intangible assets (2020: £nil).

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19. Shares in Group undertakings

As part of the fiduciary business transfer from CEP UK to the Company, 20 related nominee companies have been re-parented to the Company in October 2021, thus the Company becoming the 100% owner of their shares.

Details of Company subsidiary undertakings held at 31 December 2021 as required by section 409 of the Companies Act are set out below. All have a year end of 31 December and a registered address of Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

Name	Nature of business	% holding in share capital	
		2021	2020
CitiClient (CPF) Nominees Limited	Nominee	100 %	— %
CitiClient (CPF) Nominees No 2 Limited	Nominee	100 %	— %
CIP Threadneedle UK Property Nominee No. 1 Limited	Nominee	100 %	— %
CIP Threadneedle UK Property Nominee No. 2 Limited	Nominee	100 %	— %
CTCL (BUKP) Fund Nominee No 1 Limited	Nominee	100 %	— %
CTCL (BUKP) Fund Nominee No 2 Limited	Nominee	100 %	— %
CIP SLI UKPF Nominee No 1 Limited	Nominee	100 %	— %
CIP SLI UKPF Nominee No 2 Limited	Nominee	100 %	— %
CIP SLI GREF Nominee 1 Limited	Nominee	100 %	— %
CIP SLI GREF Nominee 2 Limited	Nominee	100 %	— %
CEP ASI UKPF Nominee 1 Limited	Nominee	100 %	— %
CEP ASI UKPF Nominee 2 Limited	Nominee	100 %	— %
CEP KAMES UKPF Nominee 1 Limited	Nominee	100 %	— %
CEP KAMES UKPF Nominee 2 Limited	Nominee	100 %	— %
CEP CBRE UK Property Nominee 1 Limited	Nominee	100 %	— %
CEP CBRE UK Property Nominee 2 Limited	Nominee	100 %	— %
CEP CBRE UK Long Income Nominee 1 Limited	Nominee	100 %	— %
CEP CBRE UK Long Income Nominee 2 Limited	Nominee	100 %	— %
CEP CBRE UK Affordable Housing Nominee 1 Limited	Nominee	100 %	— %
CEP CBRE UK Affordable Housing Nominee 2 Limited	Nominee	100 %	— %

The total value of the shares acquired in the above companies amounted to £22.

20. Other assets

	31 December 2021 £ 000	31 December 2020 £ 000
Accounts receivable	31,686	1,168
Clearing and settlement accounts	18,839	96,189
Tangible fixed assets	12	37
Current tax assets	3,511	—
Deferred tax assets	11,169	—
Total	65,217	97,394

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

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21. Prepayment and accrued income

	31 December 2021 £ 000	31 December 2020 £ 000
Fee and commission income	2,152	—
Expected credit loss	(4)	—
Total	2,148	—

Exposures under prepayment and accrued income are categorised as Stage 1.

22. Subordinated liabilities

	Date Acquired	Currency	£ 000	Interest Rate	Maturity Date
27 August 2019		GBP	52,072	1.63% + 3 months LIBOR	27 August 2029

As at 31 December 2021, subordinated liabilities consists of £52 million (2020: £52 million) of Tier 2 subordinated loan borrowings from COIC and £72 thousand related accrued interest (2020: £92 thousand).

Charges incurred during the year with respect to subordinated loans and charged to the income statement amounted to £886 thousand (2020: £1,050 thousand).

Interest rate is applicable up until 28 February 2022, after this period reset interest rate shall be used which is SONIA plus 1.7493% margin.

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.

23. Other liabilities

	31 December 2021 £ 000	31 December 2020 £ 000
Accounts payable	45,831	7,787
Clearing and settlement accounts	10,978	8,235
Current tax liabilities	—	1,294
Deferred tax liabilities	—	4,235
Total	56,809	21,551

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.

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

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24. Accruals and deferred income

	31 December 2021 £ 000	31 December 2020 £ 000
Employee compensation	1,866	1,873
Other accrued expenses	3,002	3,860
Total	4,868	5,733

25. Called up share capital

The Company has 1 (2020: 1) allotted, called-up and unpaid Ordinary share of £1 (2020: £1).

26. 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 2021 £ 000	Contract amount 31 December 2020 £ 000
Undrawn loan facilities	27,472	24,159

27. Reserves

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

Other reserve

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

On 17 September 2021, the Company received \$31 million capital contribution from its parent, Citibank Overseas Investment Corporation (“COIC”). On 17 September 2021, a Trustee and Fiduciary Services Business was transferred to the Company from Citibank Europe Plc (“CEP”) UK branch. The Company paid a consideration of \$31 million (£23 million) for the Trustee and Fiduciary Services Business to CEP UK branch.

Additional Tier 1 capital:

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

Initial interest rate is applicable up until 27 August 2024, after this period reset interest rate shall be used which is SONIA plus 5.7371% 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.

CITIBANK UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27. Reserves (continued)

Fair value reserve

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

Equity reserve

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

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

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 ratably 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.

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NOTES TO THE FINANCIAL STATEMENTS

28. Share-based incentive plans (continued)

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

	2021	2020
Shares awarded	6,214	4,595
Weighted average fair market value per share	\$60.54	\$76.71
	£ 000	£ 000
Compensation cost charged to earnings	255	264
Fair value adjustments recorded to equity	8.1	-21
Total carrying amount of equity-settled transaction liability	200.3	234
	2021	2020
	£ 000	£ 000
<u>Stock Awards</u>		
Granted in 2021	262.7	—
Granted in 2020	-4.9	261.0
Granted in 2019	-2.8	3.1
<u>Cash Accrued</u>	10.3	0.1
<u>Total Expense</u>	265.3	264.2

The Company did not operate or have any stock option programme (2020: nil).

29. 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:

	2021	2020
Number of employees (average full-time equivalent)	211	211
Turnover (£ 000)	74,115	87,580
Profit before tax (£ 000)	11,742	33,681
Corporation Tax paid (£ 000)	5,966	9,536

Turnover contains net interest receivable, net fee and commission receivable and dealing profits. No public subsidies were received during the year (2020: £nil).

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30. 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.

31. 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>

32. Events after the reporting period

The recent action of Russian military forces and support personnel in Ukraine has escalated tensions between Russia and the U.S., NATO, the EU and the U.K. Certain jurisdictions have imposed, and are likely to impose material additional, financial and economic sanctions and export controls against certain Russian entities and/or individuals.

Commencing from the week of February 21, 2022, the U.S., the U.K., and the EU each imposed packages of financial and economic sanctions that, in various ways, constrain transactions with numerous Russian entities and individuals; transactions in Russian sovereign debt; and investment, trade, and financing to, from, or in certain regions of Ukraine.

The Company has insignificant direct exposures in Russia or Ukraine and therefore the Company’s financial risks have not been directly impacted by the geopolitical tensions or conflict in Ukraine. Because of the sanctions the Company is unable to offer its entire range of products and services to all of its customers. The Company continues to monitor the potential indirect macroeconomic impacts from the tensions and conflict in order to mitigate its exposures and risks.

33. Approval of financial statements

The financial statements of the Company were approved by the Board of Directors on the 27 April 2022.