

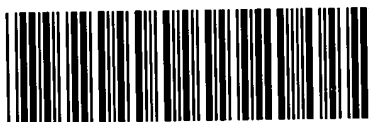
CANADA SQUARE OPERATIONS LIMITED

(Registered Number: 02999842)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2015

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CANADA SQUARE OPERATIONS LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2015

The Directors present their Report and the audited financial statements of Canada Square Operations Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2015.

Business environment

The Company is a wholly-owned indirect subsidiary of Citigroup Inc. and is authorised and regulated by the Financial Conduct Authority (FCA). The words "Citigroup" and "Citi" are used interchangeably throughout this document and both refer to Citigroup Inc.

Effective from 14 December 2012, the Company ceased to offer the following regulated activities;

- Accepting deposits
- Advising on investments (except pension transfers and opt outs)
- Arranging safeguarding and administration of assets
- Safeguarding and administration of assets (without arranging)

During 2012, the Company also changed its regulatory status with the PRA from BIPRU to MIPRU.

In 2013, the servicing and the legal title of its mortgages were transferred to a third party, an FCA regulated vendor. The third party has the expertise and proven track record of managing and improving portfolio performance while minimising costs. The Group retained the interest, market and credit risk of its remaining mortgage portfolios.

In 2015, all remaining mortgage portfolios were disposed.

Going concern basis

The financial statements have been prepared on a going concern basis taking into account the ultimate reliance on support from the Company's parent. The Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. Given the Group's ultimate reliance on the support of the parent, please refer to the risk factors impacting Citigroup Inc. from its 2015 annual report, on form 10-K at <http://www.citigroup.com/citi/investor/sec.htm>.

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

- principal activities, strategic direction and challenges and uncertainties are described in the 'overview and principal activities' and 'business review and financial results' section of the Strategic Report;
- a financial summary, including the income statement and balance sheet, is provided in the financial results section on pages 12 to 18; and
- objectives, policies and processes for managing market, credit, liquidity and operational risk, and the Group's approach to capital management and allocation, are described in Note 29 – 'Financial instruments and risk management' and Note 30 - 'Capital Management'.

Post balance sheet events

On 22 April 2016, the Company received a £4.5 million capital contribution from CitiFinancial Holdings Limited (CFHL), £5.2 million from Citibank Overseas Investment Corporation (COIC) and £5.2 million from Yonder Investment Corporation (Yonder).

Dividends

The Company paid a dividend of £nil (2014: £nil) during the year. The Directors do not recommend the payment of a final dividend for the year (2014: £nil).

Other matters

The Group will prepare unaudited interim accounts at 30 June 2016 under the European Union Transparency Directive.

CANADA SQUARE OPERATIONS LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2015

Risk Management

The Group has elected to include information on financial risk management as per Schedule 7.6(1) (a) and (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 the Group.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' indemnity

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

Directors

The Directors who held office during the year ended 31 December 2015 were:

A M Duffell (resigned 29 February 2016)
A Farace
J V Mistry (appointed 12 October 2015)
D A Milne (resigned 24 March 2015)

Employee involvement

The Group places a high value on 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 the Group and of Citigroup as a whole. Employees are encouraged to present their suggestions and views to the Group through various channels including an employee representative body and the annual Voice of the Employee survey. Qualifying employees participate in performance-based incentive schemes.

CANADA SQUARE OPERATIONS LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2015

Employment of disabled people

The Group 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 the Group. Training, career development and promotion of disabled persons are, as far as possible, identical to those available to other employees who are not disabled.

Diversity

At Citi diversity is recognised as one of its key values. Therefore, the Group has made it a priority to foster a culture where the best people want to work, 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 – regardless of differences. The Group fosters 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.

Environment

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

Charitable donations and political contributions

The Company made charitable donations and political contributions of £nil during the year (2014: £nil).

Disclosure of information to auditors

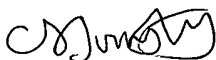
In accordance with section 418, Companies Act 2006 and subject to all the provisions of section 418, it is stated by the Directors who held office at the date of approval of this Directors' Report that:

- so far as each is aware, there is no relevant audit information of which the Company's Auditor is 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 the Company's Auditor is aware of that information.

Auditor

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By Order of the Board



J V Mistry

Director

25 April 2016

Incorporated in England and Wales

Registered Office: Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB

Registered Number: 02999842

CANADA SQUARE OPERATIONS LIMITED

STRATEGIC REPORT

for the year ended 31 December 2015

The Directors present their Strategic Report of Canada Square Operations Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2015.

Overview & Principal activities

The Group ceased to offer mortgage loans with effect from June 2008, personal instalment loans with effect from November 2009, credit cards with effect from April 2011 and savings accounts with effect from October 2011. As at year end the Group offers no products to customers.

Citigroup Inc. has two reporting segments, Citicorp and Citi Holdings. The business transacted within the Group falls under the Citi Holdings reporting segment and, in line with that of Citigroup, the Group's strategy has been to continue to wind down Citi Holdings, as soon as is practicable, in an economically rational manner.

On 23 April 2015, the Group sold its final portfolio of second charge mortgages to an unrelated third party for a consideration of £8.3 million resulting in a gain of £0.6 million. On 28 July 2015, the Group purchased a portfolio of first charge mortgages from Future Mortgages Limited, another Citigroup subsidiary, for a consideration of £342.2 million. This portfolio was sold on the same day alongside an additional portfolio of first charge mortgages to an unrelated third party for a consideration of £344.0 million resulting in a gain of £1.2 million. On 1 September 2015, the Group sold its final portfolio of first charge mortgages to Future Mortgages Limited for a consideration of £50.4 million resulting in a loss of £2.0 million. The sales are aligned with Citi Holdings strategy as detailed above. See Note 9 - 'Loss on sale of receivables' for further information. As at the year end the Group no longer held any mortgage portfolios.

Payment Protection Insurance

The mis-selling of PPI by financial institutions in the UK has been, and continues to be, the subject of intense review and focus by UK regulators, particularly the FCA. The FCA has found certain problems across the industry with how these products were sold, including customers not realising that the cost of PPI premiums was being added to their loan or PPI being unsuitable for the customer.

PPI is designed to cover a customer's loan repayments if certain events occur, such as long-term illness or unemployment. Prior to 2008, certain of Citi's legacy UK consumer finance businesses, primarily CitiFinancial Europe plc and the Company, engaged in the sale of PPI. While Citi has completed its disposal of these businesses, Citi generally remains subject to customer complaints for, and retains the potential liability relating to, the sale of PPI by these businesses.

In 2011, the FCA required all firms engaged in the sale of PPI in the UK to review their historical sales processes for PPI. In addition, the FCA has required all such firms to contact proactively any customers who may have been mis-sold PPI after January 2005 and invite them to have their individual sale reviewed (Customer Contact Exercise). Citi completed the Customer Contact Exercise in October 2014. Additionally, while Citi is not required to contact customers proactively for the sale of PPI prior to January 2005, it is still subject to customer complaints and redress for those sales. Redress, as a result of customer complaints pursuant to the required Customer Contact Exercise, generally involves the repayment of premiums and the refund of all applicable contractual interest together with compensatory interest of 8%. As noted above, Citi remains subject to customer complaints on the sale of PPI prior to January 2005 and, thus, it could be subject to customer complaints substantially higher than the amounts noted in these financial statements.

In addition, during the fourth quarter of 2014, the UK Supreme Court issued a ruling in a case (Plevin) involving PPI pursuant to which the court ruled, independent of the sale of the PPI contract, the PPI contract at issue in the case was "unfair" due to the high sales commissions earned and the lack of disclosure to the customer thereof. During the fourth quarter of 2015, the FCA issued a consultation paper that proposed (1) a deadline for PPI complaints (both non-Plevin and Plevin complaints) of two years after the effective date of the final rules; (2) an FCA-led customer communications campaign in advance of the deadline, with bank funding of the campaign; and (3) a failure to disclose a sales commission of 50% or more would be deemed unfair when assessing a new PPI complaint and require a customer refund of the difference between the commission paid and 50%, plus interest. Final rules are expected from the FCA in spring 2016.

CANADA SQUARE OPERATIONS LIMITED

STRATEGIC REPORT

for the year ended 31 December 2015

Overview & Principal activities (continued)

Payment Protection Insurance (continued)

During 2015, the Group increased its PPI reserves by approximately £84.6 million, compared to an increase of £30.5 million during 2014. The increase in the reserves during 2015 was primarily due to the FCA's consultation paper, changes in the accounting of the customer remediation provision that now factors in future costs of administering PPI claims and a continued elevated level of customer complaints on the sale of PPI prior to January 2005, which the Group believes is largely as a result of the continued regulatory focus and increased customer awareness of PPI issues across the industry. During 2015, the Group paid £49.6 million of PPI claims (2014: £61.4 million), which were charged against the reserve, resulting in a year-end PPI reserve of £143.1 million (2014: £108.1 million).

Citi believes the number of PPI complaints, the amount of refunds and the impact on Citi could remain volatile and are subject to continued significant uncertainty.

Other remediation initiatives

CPP is a UK insurance firm that sold services to retail cardholders relating to lost or stolen cards (card protection) and identity protection. In the past, the Company sold approximately £31.6 million in premiums to credit card customers as agent for CPP. During 2013, the FCA announced that both the card protection product and the identity protection product had been misold both by CPP and the industry who had introduced customers to CPP. The Company participated in a court-approved Scheme of Arrangement set up to provide redress to affected customers. At the year end the Group held a provision of £nil (2014: £0.5 million) after utilising the remainder of this loss contingency during the year following the completion of the Group's remediation initiative.

Business review and financial results

As a consequence of the Group's divestment and restructuring strategy, as well as the completion of the Customer Contact Exercise, average headcount has continued to decrease significantly to 48 employees (2014: 84). The Group continues to hold a provision of £1.5 million (2014: £0.3 million) for restructuring costs as detailed in Note 23 – 'Provisions for liabilities and charges'.

The Group generated a pre-tax loss of £106.9 million in the year to 31 December 2015 (2014: £35.7 million). The Group generated a loss after tax of £106.9 million (2014: £35.7 million).

Group's performance

	2015 £'000	2014 £'000	Total Variance £'000
Interest and similar income	2,177	4,942	(2,765)
Interest expense and similar charges	(1,400)	(1,140)	(260)
Net interest income	777	3,802	(3,025)
Net fee and commission income	3	298	(295)
Net foreign exchange and fair value gain	-	1	(1)
Net other operating income	163	5,586	(5,423)
Total operating income	943	9,687	(8,744)
Operating expenses	(20,409)	(18,456)	(1,953)
Customer remediation provisions	(84,570)	(30,550)	(54,020)
Net credit (loss)/gain	(2,680)	5,329	(8,009)
Loss on sale of receivables	(219)	(1,758)	1,539
Loss before income tax	(106,935)	(35,748)	(71,187)
Income tax charge	-	-	-
Loss for the financial year	(106,935)	(35,748)	(71,187)

CANADA SQUARE OPERATIONS LIMITED

STRATEGIC REPORT

for the year ended 31 December 2015

Business review and financial results (continued)

Income

Total operating income was £0.9 million (2014: £9.7 million), a decrease of £8.8 million on the previous year, driven by the movements in the following categories:

Net interest income decreased from a profit of £3.8 million in 2014 to £0.8 million in 2015, due to the disposal of the remaining mortgage portfolios over the current and prior year.

Net other operating income decreased by £5.4 million during the year mainly due to a one-off gain recognised in the prior year from the release of expired warranties previously provided for by the Group connected to the disposals in 2011.

Costs

Total operating expenses were £20.4 million (2014: £18.5 million) showing a 10% increase due to higher restructuring and other charges in 2015. During 2015, the Group increased its PPI reserves by approximately £84.6 million compared to an increase of £30.5 million during 2014.

Net credit losses increased to a £2.7 million loss from a £5.3 million gain in 2014, due to management's assessment of the credit quality of the remaining mortgage portfolios prior to their disposal in 2015.

The Group's position at 31 December

	2015 £'000	2014 £'000		2015 £'000	2014 £'000
Assets			Liabilities		
Loans and advances to banks	206,344	81,922	Customer accounts	13	13
Loans and advances to customers	-	97,769	Provision for liabilities and charges	145,934	109,623
All other assets	599	8,955	Subordinated liabilities - Dated loan capital	20,089	20,089
			All other liabilities	24,409	25,488
			Total liabilities	190,445	155,213
			Total equity shareholders' funds attributable to equity holders of the parent company	16,498	33,433
Total assets	206,943	188,646	Total liabilities and equity shareholders' funds	206,943	188,646

Balance sheet

Total assets of £206.9 million at 31 December 2015 were 10% higher than at 31 December 2014 (£188.6 million). This was primarily due to an increase in loans and advances to banks driven by the cash consideration received from the sale of the remaining mortgage portfolios during the year.

During the year the Group received capital contributions totalling £90.0 million (2014: £62.0 million).

In addition to the financial results of the Group, senior management consider the following key financial indicators: Maintenance of required levels of regulatory capital, net interest margin and gross receivables, actual revenues and expenses against budget.

CANADA SQUARE OPERATIONS LIMITED

STRATEGIC REPORT

for the year ended 31 December 2015

Regulatory capital

The Company's regulatory capital resources at 31 December were as follows:

	2015 £'000	2014 £'000
Total regulatory capital	(9,331)	29,581

The Company's total regulatory capital fell below the required minimum as at the end of the year due to changes in the accounting of the customer remediation provision that now factors in future costs of administering PPI claims. This was remediated via a £15 million capital contribution on 22 April 2016.

Details surrounding the Company's capital management are detailed in Note 30 – 'Capital management'.

Risk management – overview

The Group utilises Citigroup's risk management model and organisation, with its multi-dimensional risk oversight and its people, processes and systems to ensure robust oversight of entity risks. In addition, the Group deploys entity specific risk management and controls, to ensure local challenge to risk taking and to ensure the approach is appropriate for the Group.

Citigroup, and the Group, believe that effective risk management is of primary importance to its overall operations. Accordingly, Citi's risk management process has been designed to monitor, evaluate and manage the principal risks it assumes in conducting its activities. Specifically, the activities that the Group engages in, and the risks those activities generate, must be consistent with the underlying commitment to the principles of "Responsible Finance".

"Responsible Finance" means conduct that is transparent, prudent and dependable, and that delivers better outcomes for Citi's clients and society. In order to achieve these principles, Citi establishes and enforces expectations for its risk-taking activities through its risk culture, defined roles and responsibilities, and through its supporting policies, procedures and processes that enforce these standards.

While the management of risk is the collective responsibility of all employees, Citi, and the Group, assign accountability into three lines of defence:

- first line of defence: The business owns all of its risks, and is responsible for the management of those risks;
- second line of defence: The Groups's control functions (e.g., Risk, Finance, Compliance, etc.) establish standards for the management of risks and effectiveness of controls; and
- third line of defence: Citi's Internal Audit function independently provides assurance, based on a risk-based audit plan, that processes are reliable, and governance and controls are effective.

Risk Culture

The Group's risk management framework is designed to balance business ownership and accountability for risks with well defined independent risk management oversight and responsibility. The Group applies Citi's global risk management framework based on the following principles established by the Chief Risk Officer:

- a defined business strategy;
- accountability through a common framework to manage risks;
- risk decisions based on transparent, accurate and rigorous analytics;
- a common risk capital model to evaluate risks;
- expertise, stature, authority and independence of risk managers; and
- risk managers empowered to make decisions and escalate issues.

CANADA SQUARE OPERATIONS LIMITED

STRATEGIC REPORT

for the year ended 31 December 2015

Risk management – overview (continued)

Significant focus has been placed on fostering a risk culture based on a policy of Taking Intelligent Risk with Shared Responsibility, without Forsaking Individual Accountability:

- taking intelligent risk means that the Group must identify, measure and aggregate risks and it must establish risk tolerances based on a full understanding of concentrations and “tail risk”;
- shared responsibility means that all individuals collectively bear responsibility to seek input and leverage knowledge across and within the “Three Lines of Defence”; and
- individual accountability means that all individuals must actively manage risk, identify issues, and make fully informed decisions that take into account all risks to the Group.

Roles and responsibilities:

The Group utilises Citigroup's risk management framework which aims to recognise the diversity of the Citigroup's business activities by combining corporate oversight with independent risk management functions within each business. The independent risk managers at the business level are responsible for establishing and implementing risk management policies and practices within their business, for overseeing the risk in their business, and for responding to the needs and issues of their business. This ensures the active management of the principal risks of the Group.

Since the financial crisis in 2008, both Citigroup and the Group's risk management and internal governance processes have undergone significant improvements on all major fronts, including more rigorous credit assessments and credit review of obligors, heightened controls over business and reporting processes through a Manager's Control Assessment (MCA) process, implementation of a formalised operational risk scenario analysis and enhancement of comprehensive entity stress testing. Entity specific risk management and oversight has been put in place and control and governance processes continue to evolve in line with the best practices specific to the risk space.

Further disclosures on the Company's risk management framework and risk governance processes is provided in Note 29 - 'Financial instruments and risk management'.

Risk management – principal risks

The Group's principal risks arose from its lending activity to consumer clients within the UK, and include both financial and non-financial risks. With the mortgage portfolio sales during the year, the Group no longer has third party exposure to market, credit or liquidity risk. However, there will be no change in the Group's obligation regarding PPI, as the Group will continue to be responsible for dealing with any new PPI settlement claims and any existing claims still in process.

The Group's maximum credit exposure is represented by the financial assets presented on the balance sheet.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human factors, systems or from external events. It includes the reputation and franchise risk associated with business practices or market conduct in which Citi is involved.

In recent years there has been an increased focus internally and from the public and regulators with regard to the identification, measurement and management of the operational risk of large financial institutions. This focus was underpinned by the disruptions that the industry witnessed during the financial crisis of 2008 as well as a number of public revelations of misconduct within the financial industry. Citigroup has a operational risk management framework, which continues to evolve to reflect industry best practice and the external environment.

Citi's operational risk is managed through an overall framework designed to balance strong corporate oversight with well defined independent risk management. This framework includes:

- recognised ownership of the risk by the businesses;
- oversight by Citi's independent control functions; and
- independent assessment by Citi's Internal Audit function.

CANADA SQUARE OPERATIONS LIMITED

STRATEGIC REPORT

for the year ended 31 December 2015

Risk management – principal risks (continued)

The goal is to keep operational risk at appropriate levels relative to the characteristics of Citigroup's businesses, the markets in which it operates, its capital and liquidity, and the competitive, economic and regulatory environment.

To anticipate, mitigate and control operational risk, Citigroup maintains a system of policies and has established a consistent framework for monitoring, assessing and communicating operational risks and the overall effectiveness of the internal control environment across Citigroup. As part of this framework, Citi has established a MCA program to help managers self-assess key operational risks and controls and identify and address weaknesses in the design and/or effectiveness of internal controls that mitigate significant operational risks.

A key challenge in the area is related to tracking of relevant external events, such as losses incurred by peers through fines and penalties due to non-compliance with regulations, investigations and lawsuits involving large financial institutions and their incorporation where applicable into Citigroup's internal model for operational risk.

Future outlook

With the sale of the last customer portfolio, the Directors' strategy is to continue to manage the entity in a manner which allows it to efficiently meet its legacy customer remediation liabilities while minimising, as much as possible, any negative financial impact to its shareholders.

By order of the Board



J V Mistry
Director

25 April 2016

Incorporated in England and Wales
Registered office: Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB
Registered Number: 02999842

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CANADA SQUARE OPERATIONS LIMITED

We have audited the Group and Parent financial statements of Canada Square Operations Limited (the "Company") for the year ended 31 December 2015 set out on pages 12 to 56, with the exception of the unaudited information on page 55. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's and parent company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



Namrata Basker (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

15 Canada Square
London
E14 5GL
25 April 2016

CANADA SQUARE OPERATIONS LIMITED

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Interest and similar income	3	2,177	4,942
Interest expense and similar charges	3	(1,400)	(1,140)
Net interest income		<u>777</u>	<u>3,802</u>
Net fee and commission income	4	3	298
Net foreign exchange and fair value gain	5	-	1
Net other operating income	6	163	5,586
Total operating income		<u>943</u>	<u>9,687</u>
Personnel expenses	7	(4,109)	(4,388)
General administrative expenses	8	(16,300)	(14,068)
Customer remediation provision	8	(84,570)	(30,550)
Operating loss		<u>(104,036)</u>	<u>(39,319)</u>
Net credit (losses)/gains		(2,680)	5,329
Loss on sale of receivables	9	(219)	(1,758)
Loss before income tax		<u>(106,935)</u>	<u>(35,748)</u>
Income tax charge	10	-	-
Loss for the financial year		<u>(106,935)</u>	<u>(35,748)</u>
Other comprehensive income		-	-
Total comprehensive loss for the year		<u>(106,935)</u>	<u>(35,748)</u>

The total comprehensive income and expense for the year is attributable to the shareholders of the parent company.

The accompanying notes on pages 19 to 56 form an integral part of these financial statements.

CANADA SQUARE OPERATIONS LIMITED

CONSOLIDATED BALANCE SHEET

as at 31 December 2015

	Note	2015 £'000	2014 £'000
Assets			
Loans and advances to banks	27	206,344	81,922
Loans and advances to customers	12	-	97,769
Prepayments and accrued income	18	-	147
Intangible assets	16	-	-
Property, plant and equipment	17	-	-
Other assets	19	599	8,808
Total assets		206,943	188,646
Liabilities			
Customer accounts		13	13
Other liabilities	21	14,627	17,775
Accruals	22	9,782	7,713
Provisions for liabilities and charges	23	145,934	109,623
Subordinated liabilities - Dated loan capital	24	20,089	20,089
Total liabilities		190,445	155,213
Equity shareholders' funds			
Share capital	26	530,654	530,654
Share premium account		1,558	1,558
Retained earnings		(1,187,516)	(1,080,581)
Other reserves		671,802	581,802
Total equity shareholder's funds attributable to equity holders of the parent		16,498	33,433
Total liabilities and equity shareholders' funds		206,943	188,646

The accompanying notes on pages 19 to 56 form an integral part of these financial statements.

Approved by the Directors on 25 April 2016 and signed on their behalf by:



J V Mistry
Director

Registered Number: 02999842

CANADA SQUARE OPERATIONS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 December 2015

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained losses £'000	Total £'000
Balance at 1 January 2014	530,654	1,558	519,802	(1,044,833)	7,181
Loss for the year	-	-	-	(35,748)	(35,748)
Total comprehensive loss for the year	-	-	-	(35,748)	(35,748)
Transaction with owners, recorded directly in equity					
Contribution by and distribution to owners					
Capital contribution	-	-	62,000	-	62,000
Balance as at 31 December 2014 and 1 January 2015	530,654	1,558	581,802	(1,080,581)	33,433
Loss for the year	-	-	-	(106,935)	(106,935)
Total comprehensive loss for the year	-	-	-	(106,935)	(106,935)
Transaction with owners, recorded directly in equity					
Contribution by and distribution to owners					
Capital contribution	-	-	90,000	-	90,000
Balance as at 31 December 2015	530,654	1,558	671,802	(1,187,516)	16,498

The accompanying notes on pages 19 to 56 form an integral part of these financial statements.

CANADA SQUARE OPERATIONS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Cash flow used in operating activities			
Loss before tax		(106,935)	(35,748)
Adjustments for non-cash items included in net profit and other adjustments:			
Net credit losses/(gain)		2,680	(5,329)
Loss on disposal	9	219	1,758
Net (increase)/decrease in operating assets			
Loans and advances to customers		(307,300)	17,559
Prepayments and accrued income		147	835
Other assets		8,209	(6,279)
Net increase/(decrease) in operating liabilities			
Payables due to banks		-	(64)
Accruals		2,069	5,921
Other liabilities		(3,631)	7,462
Provisions for liabilities and charges		36,311	(46,136)
Net cash flow used in operating activities		<u>(368,231)</u>	<u>(60,021)</u>
Cash flow from investing activities			
Proceeds from sale of receivables	9	402,653	30,292
Net cash flow from investing activities		<u>402,653</u>	<u>30,292</u>
Net cash flow from financing activities			
Capital contribution	25	90,000	62,000
Repayment of subordinated loans		-	(226)
Cash flow from financing activities		<u>90,000</u>	<u>61,774</u>
Net increase in cash and cash equivalents		124,422	32,045
Cash and cash equivalents, beginning of the year	27	81,922	49,877
Cash and cash equivalents, end of the year	27	<u><u>206,344</u></u>	<u><u>81,922</u></u>

The accompanying notes on pages 19 to 56 form an integral part of these financial statements.

CANADA SQUARE OPERATIONS LIMITED

COMPANY BALANCE SHEET

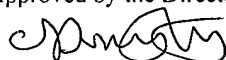
as at 31 December 2015

	Note	2015 £'000	2014 £'000
Assets			
Loans and advances to banks	27	206,201	81,777
Loans and advances to customers	12	-	97,769
Prepayments and accrued income	18	-	148
Investment in subsidiary undertakings	15	3,305	3,305
Intangible assets	16	-	-
Property, plant and equipment	17	-	-
Other assets	19	600	8,808
Total assets		210,106	191,807
Liabilities			
Customer accounts		13	13
Other liabilities	21	43,619	46,765
Accruals	22	9,782	7,713
Provisions for liabilities and charges	23	145,934	109,623
Subordinated liabilities - Dated loan capital	24	20,089	20,089
Total liabilities		219,437	184,203
Total equity			
Share capital	26	530,654	530,654
Share premium accounts		1,558	1,558
Retained losses		(1,194,962)	(1,088,027)
Other reserves		653,419	563,419
Total equity attributable to equity holders of the parent		(9,331)	7,604
Total liabilities and equity		210,106	191,807

The accompanying notes on pages 19 to 56 form an integral part of these financial statements.

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own individual income statement.

Approved by the Directors on 25 April 2016 and signed on their behalf by:



J V Mistry

Director

Registered Number: 02999842

CANADA SQUARE OPERATIONS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained losses £'000	Total £'000
Balance at 1 January 2014	530,654	1,558	501,419	(1,052,279)	(18,648)
Loss for the year	-	-	-	(35,748)	(35,748)
Total comprehensive loss for the year	-	-	-	(35,748)	(35,748)
Transaction with owners, recorded directly in equity					
Contribution by and distribution to owners					
Capital contribution	-	-	62,000	-	62,000
Balance at 31 December 2014 and 1 January 2015	530,654	1,558	563,419	(1,088,027)	7,604
Loss for the year	-	-	-	(106,935)	(106,935)
Total comprehensive loss for the year	-	-	-	(106,935)	(106,935)
Transaction with owners, recorded directly in equity					
Contribution by and distribution to owners					
Capital contribution	-	-	90,000	-	90,000
Balance at 31 December 2015	530,654	1,558	653,419	(1,194,962)	(9,331)

The accompanying notes on pages 19 to 56 form an integral part of these financial statements.

CANADA SQUARE OPERATIONS LIMITED

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Cash flow used in operating activities			
Loss before tax		(106,935)	(35,748)
Adjustments for non-cash items included in net profit and other adjustments:			
Net credit losses/(gain)		2,680	(5,329)
Loss on disposal	9	219	1,758
Net (increase)/decrease in operating assets			
Loans and advances to customers		(307,300)	17,559
Prepayments and accrued income		148	1,131
Other assets		8,208	(6,575)
Net increase/(decrease) in operating liabilities			
Payable due to banks		-	(64)
Accruals		2,069	5,921
Other liabilities		(3,629)	7,461
Provisions for liabilities and charges		36,311	(46,136)
Net cash flow used in operating activities		<u>(368,229)</u>	<u>(60,022)</u>
Cash flow from investing activities			
Proceeds from sale of receivables	9	402,653	30,292
Net cash flow from investing activities		<u>402,653</u>	<u>30,292</u>
Net cash flow from financing activities			
Capital contribution	25	90,000	62,000
Repayment of subordinated loans		-	(226)
Net cash flow from financing activities		<u>90,000</u>	<u>61,774</u>
Net increase in cash and cash equivalents		124,424	32,044
Cash and cash equivalents, beginning of the year	27	81,777	49,733
Cash and cash equivalents, end of the year	27	<u><u>206,201</u></u>	<u><u>81,777</u></u>

The accompanying notes on pages 19 to 56 form an integral part of these financial statements.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

a) Basis of preparation

The Company and Group financial statements have both been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. On publishing the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The loss of Company for the year ended 31 December 2015 was £106.9 million.

These financial statements have been prepared under the historical cost convention as modified to include the fair value of certain financial instruments to the extent required or permitted under the accounting standards and as set out in the relevant accounting policies. The consolidated financial statements are presented in Pound Sterling (£) and all values are rounded to the nearest thousand pounds, except where otherwise indicated.

The financial statements have been prepared on a going concern basis taking into account the ultimate reliance on support from the Group's parent. The risks and uncertainties identified by the Group are discussed further in the Strategic Report on pages 5 to 10. Taking these risk factors into account the Directors acknowledge and accept the intent and ability of Citigroup to provide support to the Group if required and consequently present these financial statements on a going concern basis. Given the Group's ultimate reliance on the support of our parent, please refer to the risk factors impacting Citigroup Inc. from its 2015 annual report, on form 10-K at <http://www.citigroup.com/citi/investor/sec.htm>.

b) Changes in accounting policy and disclosures

Standards issued but not yet effective

There are a number of accounting standards that have been amended by the International Accounting Standards Board (IASB), but which are not yet effective for the Company and Group financial statements, the Group does not plan on early adoption of these standards, they include:

- In December 2014 the IASB published the final Standard Disclosure Initiative (Amendments to IAS 1). These amendments to IAS 1 Presentation of Financial Statements address some of the concerns expressed about existing presentation and disclosure requirements and ensure that entities are able to use judgement when applying IAS 1. The final Standard Disclosure Initiative (Amendments to IAS 1) is effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- *Annual Improvements to IFRS 2010-2012 and 2011-2013 Cycles.* The IASB's annual improvement projects for the 2010-2012 and 2011-2013 cycles resulted in minor amendments to multiple standards. The amendments are effective for annual reporting periods beginning on or after 1 February 2015, with early adoption permitted. The amendments are not expected to have a significant impact on the Group's financial statements.
- *Annual Improvements to IFRS 2012-2014 Cycle.* The IASB's annual improvement projects for the 2012-2014 cycle resulted in minor amendments to multiple standards. The amendments are effective for annual reporting periods beginning on or after 1 January 2016, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

Standards issued but not yet endorsed by the EU

There are a number of accounting standards and interpretations that have been issued by the International Accounting Standards Board (IASB), but which are not yet effective for the Company and Group financial statements, the Group does not plan on early adoption of these standards, they include:

- **IFRS 9 - *Financial Instruments*.** The IASB completed the final element of its comprehensive response to the financial crisis with the publication of IFRS 9 in July 2014. The improved standard includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard replaces the existing guidance in IAS 39 - *Financial Instruments: Recognition and Measurement* and carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9.
- **IFRS 15 - *Revenue from Contracts with Customers*.** IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and IFRIC 13 - *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
- **IFRS 16 - *Leases*.** IFRS 16 specifies the requirements for recognition, measurement and presentation of leases. It removes the classification of leases as either operating leases or finance leases for the lessee, treating all leases as finance leases except for short-term leases and leases of low-value assets. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted, if IFRS 15 has been adopted. The standard is not expected to have a significant impact on the Group's financial statements.

c) Consolidation

Subsidiary undertakings that are directly or indirectly controlled by the Group are consolidated. Subsidiary undertakings are fully consolidated from the date on which control is obtained by the Group. The Group defines control over a subsidiary undertaking to be when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. They are de-consolidated from the date that control ceases. When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. The Group uses the purchase method of accounting to account for the acquisition of a subsidiary undertaking.

Inter-company transactions, balances and unrealised gains or losses on transactions between group companies are eliminated. The Group's accounting policies have been consistently applied for the purposes of preparing the consolidated accounts.

The Group's results are consolidated in the financial statements of its ultimate parent company, Citigroup Inc., which are made available to the public annually.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

d) Segmental reporting

An operating segment is a component of the Group which earns revenues and incurs expenses, whose results are regularly reviewed by management and for which discrete financial information is available. The Group is organised into one operating segment; Local Consumer Lending comprising credit cards, personal loans, residential mortgages and customer deposits. This organisational structure is the basis upon which the Group reports its primary segment information. There is a single geographical segment in which management review the Group's operation being the United Kingdom.

e) Foreign currencies

The Group and Company financial statements are presented in Pounds Sterling (£), which is the functional and presentational currency of the Group and Company.

At the balance sheet date monetary assets and liabilities are translated at the year end rates of exchange and translation differences are included in the income statement. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate at the date of the transaction. Any exchange profits and losses on non-monetary items remeasured through other comprehensive income are taken directly to the statement of comprehensive income.

f) Net interest income

Interest income and expense on financial assets and liabilities are recognised in the income statement using the effective interest rate method. Fees and direct costs relating to loan origination, re-financing or restructuring and to loan commitments are deferred and amortised to interest earned on loans and advances using the effective interest method. The effective interest rate (EIR) is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

g) Net fee and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission expenses are expensed as the services are received.

h) Net foreign exchange and fair value loss

Net income on items at fair value through profit and loss comprises all gains less losses related to financial instruments designated at fair value, and includes all realised and unrealised fair value changes, together with related interest, dividends and foreign exchange differences.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

i) Other financial instruments

The Group classifies its financial assets as loans and receivables, available-for-sale or at fair value through to profit or loss.

All classes of financial assets and liabilities are recognised on the trade date, with the exception of loans and advances to customers which are on a settlement basis.

Loans and receivables at amortised cost

Loans and receivables consist of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not classified as available-for-sale and the Company does not intend on inception to sell them immediately or in the near term. They are initially recognised at fair value, which is the cash given to originate the loan, including any directly attributable transaction costs less fees received and subsequently measured at amortised cost using the effective interest rate method, less any impairment charges. Loans are recognised when cash is advanced to borrowers and are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities

Deposits and subordinated loans are initially measured at fair value net of transaction costs at trade date. Subsequently, they are measured at amortised cost using the effective interest rate method.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ("a loss event") and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the Group about the following loss events:

- 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;
- the disappearance of an active market for that financial asset because of financial difficulties; 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:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Allowance for loan losses includes assets that are collectively assessed.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

j) Impairment of financial assets (continued)

Loans and Receivables

Assets held at amortised cost

Financial assets with similar credit risk characteristics within loans and advances to customers, which are not individually significant and for which it would be impracticable to perform individual loan assessments upon, are grouped together to assess impairment collectively. The resulting collective impairment loss is shown as allowance for loans and advances. Losses from future events are not recognised. The collective assessment includes an assessment of losses:

- that have been incurred but not yet identified taking into account historical loss experience and the estimated period between impairment occurring and loss being identified;
- based on statistical analysis of historical data and the Group's experience of delinquency and default; and
- from the impact of other risk factors including bankruptcy trends, economic conditions and the current level of write offs that are not fully reflected in the statistical analysis. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowance by adjusting the impairment allowances derived solely from historical loss experience.

In estimating the future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks, which have been adjusted for conditions in the historical loss experience which no longer exist. The estimated future cash flows are discounted using the financial asset's original or variable EIR and exclude credit losses that have not yet been incurred.

For consumer loans, each portfolio of smaller-balance, homogeneous loans – including consumer mortgage – is independently evaluated for impairment. The allowance for loan losses attributed to these loans is established via a process that estimates the probable losses inherent in the specific portfolio based upon various analyses. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with analyses that reflect current trends and conditions.

Management also considers overall portfolio indicators, including historical credit losses, delinquent, non-performing, and classified loans, trends in volumes and terms of loans, an evaluation of overall credit quality, the credit process, including lending policies and procedures, and economic, geographical, product and other environmental factors.

The amount of impairment loss is recognised immediately in the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

The Group writes off loans and advances to customers that are deemed irrecoverable. The financial asset is derecognised and the corresponding impairment provision reversed.

Renegotiated and forborne loans and advances

Allowances for loan losses are determined for impaired smaller balance homogeneous loans whose terms have been modified due to the borrowers' financial difficulties and where it has been determined that a concession was granted to the borrower. Such temporary waivers may include interest rate reductions and/or term extensions. Where long-term concessions have been granted, the allowance for loan losses for such loans is determined by comparing expected cash flows of the loans discounted at the loans' original effective interest rates to the carrying value of the loans.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

j) Impairment of financial assets (continued)

Instances of forbearance granted to borrowers include “capitalisations”, where the Group permits the borrower to reschedule one or more monthly instalments, following which at a later date monthly instalment amounts would be increased such that the final maturity date is not extended and no interest waiver or principal forgiveness is granted. For those consumer receivables where forbearance is deemed to represent evidence of impairment, a collectively assessed impairment allowance is recorded, measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate.

k) Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from assets has expired or the Group has transferred its contractual right to receive the cash flows of the financial assets and either substantially all the risks and rewards of ownership have been transferred or substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

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

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

l) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement using the methods that best reflect the economic benefits over their estimated useful economic lives. The estimated useful life of computer software is 3-5 years.

Computer software:

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. The cost of developed software includes directly attributable internal and external costs.

m) Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses (see below). Depreciation is provided to write off the cost, less the estimated residual value of each asset, on a straight-line basis over their estimated useful lives. Land is not depreciated. Estimated useful lives are as follows:

Leasehold improvements	10 years
Fixtures and fittings	10 years
Plant and equipment	between 3 and 10 years
Computer equipment	between 3 and 5 years

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

m) Property, plant and equipment (continued)

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

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement in the year the asset is derecognised.

n) Impairment of intangible assets and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its intangible assets or property, plant and equipment are impaired. Where impairment is identified, a write-down of the carrying value to the recoverable amount will be charged as an immediate expense to the income statement.

o) Operating leases

Leases are classified as operating leases where the risks and rewards of ownership are retained by the lessor. Operating lease rentals are expensed to the income statement on a straight line basis.

p) Shares in subsidiary undertakings

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

The Group determines whether it is necessary to recognise an impairment loss on its investment in shares in subsidiary undertakings by comparing the carrying value of the investment with the net asset value of the subsidiary undertaking at the reporting date.

q) Income taxes

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

Deferred tax assets and liabilities are recognised for taxable and deductible temporary differences between the tax bases 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 balance sheet date.

r) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits 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. Included within provisions are CPP and PPI as detailed in the customer remediation provisions section of Note 2 – 'Use of assumptions and estimates'.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

s) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with original maturity of less than three months, including: cash and non-restricted balances with central banks, government securities, loans and advances to banks, amounts due from other banks.

t) Employee benefits

The Group participates in and operates state and non-state run defined contribution pension schemes for its employees in the UK. The charge against profit is the contributions payable in respect of the service provided during the year. Other employee benefits are recognised in the income statement as incurred.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Use of assumptions and estimates

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

The preparation of financial statements requires management to make 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. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are:

Going concern

The financial statements are prepared on a going concern basis taking into account the continuing support from the Group's parent and its ongoing commitment to settle obligations surrounding customer remediation provisions. The risks and uncertainties identified by the parent group, together with those factors which lead to the Group's reliance on parental support, are discussed further in the Strategic Report on pages 5 to 10. Taking these factors into account the Directors acknowledge and accept the intent and ability of Citigroup to provide support to the Group if required and consequently present these financial statements on a going concern basis.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Impairment losses on loans and advances to customers

The Group's accounting policy for losses in relation to the impairment of customer loans and advances, including loans subject to forbearance, is described in Note 1(j). Impairment losses on loans and advances to customers are measured and recognised both for receivables for which there is objective evidence of impairment and also, using a statistical model for collective impairment, of portfolios of receivables that have not been individually identified as impaired. The evaluation process is subject to numerous judgements and estimates including default rates, recovery rates as well as historical loss experience. In addition the impairment reserve also includes judgemental management adjustments due to the UK macro-economic environment and portfolio specific characteristics, including the concentration of interest only mortgages and loans under forbearance. The changes in these estimates could have a direct impact on credit costs in any quarter and could result in a change in the allowance.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Use of assumptions estimates and judgements (continued)

(ii) Deferred tax assets

The Group's accounting policy for the recognition of deferred tax assets is described in Note 1(q) to the financial statements. 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 balance sheet 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 judgement takes into account the impact of both negative and positive evidence, including historical financial results and projections of future taxable income, on which the recognition of the deferred tax asset is mainly dependent.

As at 31 December 2015, Management's forecasts do not support the assumption that it is probable that the Group will generate sufficient suitable taxable income to utilise a deferred tax asset. Therefore, no deferred tax assets have been recognised.

(iii) Customer remediation provisions

As a result of the judgement on the Judicial Review proceedings relating to the FSA Policy Statement 10/12: The assessment and redress of Payment Protection Insurance Complaints ('PS 10/12'), being announced in favour of the FCA, in April 2011, the Group continues to manage a provision for potential future claims relating to the sale of Payment Protection Insurance (PPI) in its results.

The Group continues to review all complaints received which allege that PPI, or any other products, have been mis-sold and resolve them appropriately. In determining an appropriate provision for the settlement of future claims from customers who purchased PPI, management has made certain judgements and estimates as to potential outcomes. Redress, whether as a result of customer complaints pursuant to the required Customer Contact Exercise, generally involves the repayment of premiums and the refund of all applicable contractual interest together with compensatory interest of 8%.

During 2015, the Group increased its PPI reserves by approximately £84.6 million, compared to an increase of £30.5 million during 2014. The increase in the reserves during 2015 was primarily due to the FCA's consultation paper, changes in the accounting of the customer remediation provision that now factors in future costs of administering PPI claims and a continued elevated level of customer complaints on the sale of PPI prior to January 2005, which Citi believes is largely as a result of the continued regulatory focus and increased customer awareness of PPI issues across the industry. During 2015, Citi paid £49.6 million (2014: £61.4 million) of PPI claims, which were charged against the reserve, resulting in a year-end PPI reserve of £143.1 million (compared to £108.1 million as of 31 December 2014).

Management's estimates are informed by past experience and industry data and will continue to be revised as experience evolves.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Net interest and similar income

	Group and Company	
	2015	2014
	£'000	£'000
Interest and similar income		
Loans and advances to banks	376	180
Loans and advances to customers	1,801	4,762
	<u>2,177</u>	<u>4,942</u>
Interest expense and similar charges		
Subordinated loan	(1,400)	(1,140)
	<u>(1,400)</u>	<u>(1,140)</u>
Net interest income	<u>777</u>	<u>3,802</u>

4. Net fee and commission income

	Group and Company	
	2015	2014
	£'000	£'000
Fee and commission income	3	298
	<u>3</u>	<u>298</u>

5. Net foreign exchange and fair value gain

	Group and Company	
	2015	2014
	£'000	£'000
Foreign exchange translation gains less losses	-	1
	<u>-</u>	<u>1</u>

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Net other operating income

Included within other operating income was a £0.2 million gain (2014: £0.3 million gain) on sale of other real estate owned (OREO) properties.

In 2014, other operating income also included the release of expired warranty provisions totalling £4.8 million connected to the disposals in 2011.

7. Personnel expenses

	Group and Company	
	2015	2014
	£'000	£'000
Employee remuneration	1,700	3,435
Payroll taxes	8	107
Pension costs - defined contribution plans	220	256
Other staff costs	298	498
Restructuring costs	1,883	92
	<u>4,109</u>	<u>4,388</u>

The average number of persons employed by the Group during the year was 48 (2014: 84).

As explained in Note 1(t) the Group contributes at a set agreed rate into a defined contribution scheme. The expense recognised is the amount of contributions payable in respect of the year.

Other staff costs include temporary staff costs, training, recruitment, medical health insurance, social welfare costs and other sundry staff costs.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. General administrative expenses

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Administrative expenses	10,739	13,127	10,739	13,127
Software costs	-	291	-	291
Provision costs	90,131	31,200	90,131	31,200
	<u>100,870</u>	<u>44,618</u>	<u>100,870</u>	<u>44,618</u>

Included within provision costs is £84.6 million (2014: £30.5 million) of provision builds for PPI.

Included within administrative expenses is auditors' remuneration as follows:

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	83	83	75	75
	<u>83</u>	<u>83</u>	<u>75</u>	<u>75</u>

9. Loss on sale of receivables

	2015	2014
	£'000	£'000
Proceeds	402,653	30,292
Less:		
Carrying value of receivables	(402,389)	(31,595)
Expenses directly related to receivables	(483)	(455)
Loss on sale	<u>(219)</u>	<u>(1,758)</u>

On 23 April 2015 the Group sold its portfolio of 2nd lien mortgages to a unrelated third party for a net consideration of £8.3 million resulting in a gain on disposal of £0.6 million.

On 28 July 2015 the Group sold its portfolio of certain first charge mortgages to a unrelated third party for a net consideration of £344.0 million resulting in a gain on disposal of £1.2 million.

On 1 September 2015 the Group sold its remaining mortgage portfolio to Future Mortgages Limited, another indirect Citigroup subsidiary undertaking, for a net consideration of £50.4 million resulting in a loss on disposal of £2.0 million.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Income tax

a) Analysis of tax charge in the year

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Current tax:				
UK corporation tax on losses of the period	-	-	-	-
Deferred tax:				
Origination and reversal of temporary differences	-	-	-	-
Total deferred tax (note 20)	-	-	-	-
Tax charge	-	-	-	-

b) Factors affecting tax charge for the period

The tax assessed for the Group for the period is higher than the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%). The differences are explained below:

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Loss before tax	(106,935)	(35,748)	(106,935)	(35,748)
Loss multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%)	(21,654)	(7,682)	(21,654)	(7,682)
Effects of:				
Expenses not deductible for tax purposes	18,134	-	18,134	-
Movement in unrecognised deferred tax asset	(13,458)	7,682	(13,458)	7,682
Group relief for no consideration	16,978	-	16,978	-
Income tax charge	-	-	-	-

The main rate of corporation tax in the UK was reduced from 21% to 20% on 1 April 2015. Finance (No. 2) Act 2015 provides that the corporation tax rate will reduce to 19% from 1 April 2017 and further to 18% from 1 April 2020. These rates were enacted in November 2015.

The main rate of corporation tax for the year beginning 1 April 2015 reduced from 21% to 20% which results in a weighted average tax rate of 20.25% for 2015 (2014: 21.49%).

Deferred tax in the UK is calculated at 18% which was the rate substantively enacted in November 2015.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Financial assets and liabilities

The following tables summarise the carrying value and fair values of the financial assets and financial liabilities and the classification of each class of financial asset and liability:

Group 2015	Note	Loans and receivables	Amortised cost	Total carrying amount	Fair value
		£'000	£'000	£'000	£'000
Assets					
Loans and advances to banks		206,344	-	206,344	206,344
Other assets	19	599	-	599	599
Total financial assets		206,943	-	206,943	206,943
Liabilities					
Customer accounts		-	13	13	13
Subordinated loan	24	-	20,089	20,089	21,190
Other liabilities	21	-	14,627	14,627	14,627
Total financial liabilities		-	34,729	34,729	35,830

Group 2014	Note	Loans and receivables	Amortised cost	Total carrying amount	Fair value
		£'000	£'000	£'000	£'000
Assets					
Loans and advances to banks		81,922	-	81,922	81,922
Loans and advances to customers	12	97,769	-	97,769	95,113
Other assets	19	8,808	-	8,808	8,808
Total financial assets		188,499	-	188,499	185,843
Liabilities					
Customer accounts		-	13	13	13
Subordinated loan	24	-	20,089	20,089	22,318
Other liabilities	21	-	17,775	17,775	17,775
Total financial liabilities		-	37,877	37,877	40,106

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Financial assets and liabilities (continued)

Company 2015	Note	Loans and receivables £'000	Amortised cost £'000	Total carrying amount £'000	Fair value £'000
Assets					
Loans and advances to banks		206,201	-	206,201	206,201
Other assets	19	600	-	600	600
Total financial assets		206,801	-	206,801	206,801
Liabilities					
Customer accounts		-	13	13	13
Subordinated loan	24	-	20,089	20,089	21,190
Other liabilities	21	-	43,619	43,619	43,619
Total financial liabilities		-	63,721	63,721	64,822

Company 2014	Note	Loans and receivables £'000	Amortised cost £'000	Total carrying amount £'000	Fair value £'000
Assets					
Loans and advances to banks		81,777	-	81,777	81,777
Loans and advances to customers	12	97,769	-	97,769	95,113
Other assets	19	8,808	-	8,808	8,808
Total financial assets		188,354	-	188,354	185,698
Liabilities					
Customer accounts		-	13	13	13
Subordinated loan	24	-	20,089	20,089	22,318
Other liabilities	21	-	46,765	46,765	46,765
Total financial liabilities		-	66,867	66,867	69,096

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:

- The fair value for loans and advances and other lending are estimated using internal valuation techniques. If information is available at the year end, the Group uses model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Otherwise year end balances are discounted at current market rates and no counterparty credit spreads are considered.
- The carrying value of short-term financial instruments not accounted for at fair value, as well as receivables and payables arising in the ordinary course of business, approximates fair value because of the relatively short period of time between their origination and expected realisation, or where discounting does not have a material impact on the carrying value of the financial instrument.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Financial assets and liabilities (continued)

IFRS 13 specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

Estimated fair value of financial instruments not carried at fair value

The table below presents the carrying value and fair value of the Group's financial instruments which are not carried at fair value.

The table excludes the values of non-financial assets and liabilities, which are integral to a full assessment of the Group's financial position and the value of its net assets.

Group 2015

	£'000		Estimated fair value £'000		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Assets					
Loans and advances to banks	206,344	206,344	-	206,344	-
Other assets	599	599	-	-	599
Liabilities					
Customer accounts	13	13	-	13	-
Subordinated loan	20,089	21,190	-	-	21,190
Other liabilities	14,627	14,627	-	-	14,627

Group 2014

	£'000		Estimated fair value £'000		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Assets					
Loans and advances to banks	81,922	81,922	-	81,922	-
Loans and advances to customers	97,769	95,113	-	-	95,113
Other assets	8,808	8,808	-	-	8,808
Liabilities					
Customer accounts	13	13	-	13	-
Subordinated loan	20,089	22,318	-	-	22,318
Other liabilities	17,775	17,775	-	-	17,775

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Financial assets and liabilities (continued)

Company 2015

	£'000		Estimated fair value £'000		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Assets					
Loans and advances to banks	206,201	206,201	-	206,201	-
Other assets	600	600	-	-	600
Liabilities					
Customer accounts	13	13	-	13	-
Subordinated loan	20,089	21,190	-	-	21,190
Other liabilities	43,619	43,619	-	-	43,619

Company 2014

	£'000		Estimated fair value £'000		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Assets					
Loans and advances to banks	81,777	81,777	-	81,777	-
Loans and advances to customers	97,769	95,113	-	-	95,113
Other assets	8,808	8,808	-	-	8,808
Liabilities					
Customer accounts	13	13	-	13	-
Subordinated loan	20,089	22,318	-	-	22,318
Other liabilities	46,765	46,765	-	-	46,765

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Loans and advances to customers

	Group and Company	
	2015	2014
	£'000	£'000
Mortgage and real estate	-	99,397
Less: allowance for losses on loans	-	(1,628)
	<u>-</u>	<u>97,769</u>

On 28 July 2015, the Group purchased a portfolio of first charge mortgages from Future Mortgages Limited, another Citigroup subsidiary, for a consideration of £342.2 million.

During the year, the Group disposed of its remaining mortgage portfolios. Please refer to Note 9 'Loss on sale of receivables' for further information.

13. Allowances for loans and advances to customers

	Group and Company	
	2015	2014
	£'000	£'000
At 1 January	1,628	10,734
Net increase/(decrease) of allowances for loans recognised in the income statement	2,582	(6,604)
Release on disposal	(4,210)	(2,502)
At 31 December	<u>-</u>	<u>1,628</u>

During 2015, recoveries of £4,921 (2014: £0.9 million) were recognised in the income statement on loans that were fully written off in prior years. During 2015, write-offs of £65,289 (2014: £2.1 million) were recognised in the income statement on loans that were not provided for in prior years.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Pledged assets and collateral accepted as security for assets

Collateral accepted as security for assets

Depending on a customer's standing and the type of loan provided, charges over collateral have been obtained to mitigate credit risk. In the event of a default the Group may utilise the collateral as a source of repayment.

The table below provides a quantification of the value of the fixed charges the Group and Company holds over residential mortgages and are able to enforce, in the event the borrower fails to meet its contractual obligation, in order to satisfy a debt through sale in an established market. Due to the disposal of the Group's remaining mortgage portfolios during the year the following table has only been provided for comparative purposes.

	2015 £'000	2014 £'000
1st residential mortgages		
Fully collateralised	-	89,691
Loan to Value ('LTV') ratio:		
-less than 25%	-	6,508
-25 to 50%	-	27,894
-51 to 75%	-	42,600
-76 to 90%	-	11,880
-91 to 100%	-	809
Partially collateralised		
-greater than 100% LTV	-	528
-collateral value on greater than 100% LTV		478
Total 1st residential mortgages	-	90,219
2nd lien residential mortgages identified for sale	-	9,178
Total residential mortgages	-	99,397

The above table shows residential mortgage lending by level of collateral. The collateral included in the table consists of first charges on real estate. The loan-to-value (LTV) ratio is calculated as the gross balance sheet amount of the loan at the balance sheet date divided by the value of the collateral. The value of collateral is determined using professional valuations and house price indices. The collateral valuation excludes any adjustments for obtaining and selling the collateral. Valuations are updated on a quarterly basis. More frequent re-valuations are conducted where market conditions or portfolio performance are subject to significant change or where a loan is identified and assessed as impaired.

The fair value of third party financial assets accepted as collateral that is permitted to be sold or repledged in the absence of default was £nil (2014: £nil).

The Group had pledged no assets as collateral for liabilities as at the year end.

Management does not consider the value of any collateral on second mortgages in the fair value of third party financial assets accepted as collateral.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Investment in subsidiary undertakings

The Company's investments in the share capital of subsidiary undertakings did not change during 2015 or 2014. There have been no indications of impairment on investments in subsidiaries as at 31 December 2015.

Details of principal Group subsidiary undertakings held at 31 December 2015 are as follows:

Name	Country of incorporation	Nature of business	% holding in ordinary share capital
Canada Square Operations No. 1 Limited	England	Non-trading	100%
Canada Square Operations No. 2 Limited	England	Non-trading	100%
Canada Square Operations No. 3 Limited	England	Non-trading	100%
Canada Square Operations No. 4 Limited	England	Non-trading	100%
East Fourteen Limited	England	Non-trading	100%
CSO Jersey Limited	Jersey	Non-trading	100%
GKT Contracts Limited	Jersey	Non-trading	100%

All of the above entities are directly owned by the Company.

16. Intangible assets

Group and Company	Client Intangible £'000	Computer software £'000	Total £'000
Cost			
At 1 January 2014	4,456	101,958	106,414
31 December 2014 and 1 January 2015	4,456	101,958	106,414
At 31 December 2015	4,456	101,958	106,414
Amortisation and impairment losses			
At 1 January 2014	4,456	101,958	106,414
At 31 December 2014 and 1 January 2015	4,456	101,958	106,414
At 31 December 2015	4,456	101,958	106,414
Net carrying value			
At 31 December 2015	-	-	-
At 31 December 2014	-	-	-
At 1 January 2014	-	-	-

Client intangible represented the premium paid on the acquisition of a mortgage portfolio from Citibank N.A. The amortisation of the premium was accelerated due to the sale of the mortgage portfolio.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Property, plant and equipment

Group and Company	Leasehold Improvements £'000	Fixtures & fittings £'000	Plant & equipment £'000	Total £'000
Cost				
At 1 January 2014	7,022	16,624	46,586	70,232
At 31 December 2014, 1 January 2015 and 31 December 2015	<u>7,022</u>	<u>16,624</u>	<u>46,586</u>	<u>70,232</u>
Depreciation				
At 1 January 2014	7,022	16,624	46,586	70,232
At 31 December 2014, 1 January 2015 and 31 December 2014	<u>7,022</u>	<u>16,624</u>	<u>46,586</u>	<u>70,232</u>
Net book value				
At 31 December 2015	-	-	-	-
At 31 December 2014	-	-	-	-
At 1 January 2014	-	-	-	-

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18. Prepayments and accrued income

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Prepayments and accrued income	-	147	-	148
	<u>-</u>	<u>147</u>	<u>-</u>	<u>148</u>
	<u>-</u>	<u>147</u>	<u>-</u>	<u>148</u>

19. Other assets

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Amounts owed from Group companies	599	8,808	600	8,808
	<u>599</u>	<u>8,808</u>	<u>600</u>	<u>8,808</u>
	<u>599</u>	<u>8,808</u>	<u>600</u>	<u>8,808</u>

20. Deferred tax

The main rate of corporation tax in the UK was reduced from 21% to 20% on 1 April 2015. Finance (No. 2) Act 2015 provides that the corporation tax rate will reduce to 19% from 1 April 2017 and further to 18% from 1 April 2020. These rates were enacted in November 2015.

At 31 December 2015 the Group had loss carry forwards of £nil (2014: £135.5 million) as the company has ceased to trade for tax purposes and therefore cannot utilise any losses carried forward in future periods.

At 31 December 2015, the Group had other temporary differences of £1.2 million (2014: £67.5 million) for which no deferred tax asset was recognised due to uncertainty over the utilisation of these losses.

Total unrecognised deferred tax at 31 December 2015 is therefore £0.2 million (2014: £41.0 million).

21. Other liabilities

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Amounts owed to Group companies	8,646	13,925	37,687	42,965
Other balances	5,981	3,850	5,932	3,800
	<u>14,627</u>	<u>17,775</u>	<u>43,619</u>	<u>46,765</u>
	<u>14,627</u>	<u>17,775</u>	<u>43,619</u>	<u>46,765</u>

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Accruals

	Group and Company	
	2015	2014
	£'000	£'000
Accruals and deferred income	9,782	7,713
	<u>9,782</u>	<u>7,713</u>

23. Provisions for liabilities and charges

Group and company

	Restructuring provision		Other provisions		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	306	2,990	109,317	152,769	109,623	155,759
Charges against profits	2,027	-	88,104	31,200	90,131	31,200
Provisions utilised	(715)	(2,684)	(53,011)	(73,997)	(53,726)	(76,681)
Provision released	(126)	-	32	(655)	(94)	(655)
At 31 December	<u>1,492</u>	<u>306</u>	<u>144,442</u>	<u>109,317</u>	<u>145,934</u>	<u>109,623</u>

Restructuring provision of £1.5 million (2014: £0.3 million) relates to the provision for the cost of staff redundancies and compensation. Within other provisions, £143.1 million (2014: £108.1 million) has been set up to cover settlement and administration costs related to possible claims on mis-selling of insurance products in previous years, including PPI policies as detailed in Note 2 – 'Use of assumptions and estimates'. The current provision represents the Company's best estimate of all future expected costs of PPI redress, however, it is possible the eventual costs may differ.

24. Subordinated liabilities – Dated loan capital

	2015	2014
	£'000	£'000
Sterling subordinated notes due 2021	20,089	20,089
	<u>20,089</u>	<u>20,089</u>

The sterling subordinated loan notes due in 2021 pay interest at a fixed rate of 6.875% per annum until their maturity. The first call date of these notes is in December 2016, when they are callable at par. Interest is payable annually in arrears on 30 December.

The right of repayment of the holders of the subordinated debt are subordinated to the claims of all depositors and creditors as regards the principal and interest thereon. Interest incurred in the year in respect of subordinated liabilities was £1.4 million (2014: £1.1 million).

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25. Capital and reserves

Further details regarding capital and reserves movements are shown in the Consolidated and Company Statement of Changes in Equity on pages 14 and 17.

The capital reserve includes the capital contributions from the parent company which are distributable.

In March 2015 the Company received a £3.0 million capital contribution from CFHL, £3.5 million from COIC and £3.5 million from Yonder Investment Corporation.

In August 2015 the Company received a £12.0 million contribution from CFHL, £14.0 million from COIC and £14.0 million from CIL Yonder Investment Corporation

In December 2015 the Company received a £12.0 million capital contribution from CFHL, £14.0 million from COIC and £14.0 million from CIL Yonder Investment Corporation

26. Share capital

The Company is incorporated in England and Wales with the following share capital:

Allotted, called-up and fully paid	2015 £'000	2014 £'000
530,654,418 (2014: 530,654,418) sterling ordinary shares of £1	530,654	530,654

All ordinary shares confer identical rights in respect of capital, dividends, voting and otherwise.

27. Cash and cash equivalents

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Due within 3 months:				
Loans and advances to banks	206,344	81,922	206,201	81,777
	<u>206,344</u>	<u>81,922</u>	<u>206,201</u>	<u>81,777</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise balances above which are due within three months.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28. Related party transactions

As at the year end, 35% of the Company's share capital was held by COIC, 35% of the Company's share capital was held by Yonder and 30% of the Company's share capital was held by CFHL. The largest group in which the results of the Group are consolidated is that headed by Citigroup Inc. which is incorporated in the United States. The Group and Company define related parties as the Board of Directors, their close family members, parent and fellow subsidiaries and associated companies.

The Company entered into transactions with related parties at arm's length. These include loans and deposits that provide funding to Group companies. Various services are provided between related parties and these are all also provided at arm's length. The table below summarises the Group's balances with related parties, where COIC, and Yonder are the parent undertakings. There were no related party transactions with the ultimate parent company, Citigroup Inc.

Group	2015		Total £'000
	Parent undertakings £'000	Other Citigroup undertakings £'000	
Assets			
Loans and advances to banks	-	203,020	203,020
Other assets	166	433	599
Liabilities			
Other liabilities	-	8,646	8,646
Accruals	-	558	558
Income statement			
Interest and similar income	-	318	318
General administrative expense	-	2,701	2,701
Group	2014		Total £'000
	Parent undertakings £'000	Other Citigroup undertakings £'000	
Assets			
Loans and advances to banks	-	81,213	81,213
Other assets	-	8,808	8,808
Liabilities			
Other liabilities	-	13,925	13,925
Accruals	-	416	416
Income statement			
Interest and similar income	-	(3)	(3)
General administrative expense	-	137	137

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28. Related party transactions (continued)

Company	2015			Total £'000
	Parent undertaking £'000	Subsidiary undertakings £'000	Other Citigroup undertakings £'000	
Assets				
Loans and advances to banks	-	-	203,020	203,020
Other assets	166	-	434	600
Liabilities				
Other liabilities	-	29,041	8,646	37,687
Accruals	-	-	558	558
Income statement				
Interest and similar income	-	-	318	318
General administrative expense	-	-	2,701	2,701
2014				
Company	Parent undertaking £'000	Subsidiary undertaking £'000	Other Citigroup undertakings £'000	Total £'000
Assets				
Loans and advances to banks	-	-	81,213	81,213
Other assets	-	-	8,808	8,808
Liabilities				
Other liabilities	-	29,041	13,924	42,965
Accruals	-	-	416	416
Income statement				
Interest and similar income	-	-	(3)	(3)
General administrative expense	-	-	137	137

All subsidiary undertakings are wholly owned by the Company.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28. Related party transactions (continued)

Directors' remuneration

Directors' compensation for the year comprises:

	2015 £'000	2014 £'000
Salaries and other short-term benefits	99	112
Post-employment benefits	2	2
	<u>101</u>	<u>114</u>

Contributions to pension schemes are accruing to four of the Directors (2014: three). Three of the Directors (2014: two) of the Company participate in Citigroup share plans and three of the Directors (2014: two) of the Company participate in Citigroup share option plans. During the year, three of the Directors (2014: none) exercised options. The remuneration for the highest paid Director was £88,524 (2014: £94,000) with £32,732 (2014: £30,000) being share based compensation and accrued pension of £1,114 (2014: £2,000). During the year, the highest paid Director did exercise Citigroup share options. The Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Directors' remuneration is allocated based on the apportionment of time incurred by Directors for services to the Group. Directors are employed by other Citigroup companies and therefore the Group does not incur any charge for these costs.

29. Financial instruments and risk management

Objectives, policies and strategies

As detailed on page 9 in the Strategic Report, under 'Risk management – principal risks', with the disposal of the remaining mortgage portfolios during the year, the Group no longer has third party exposure to market, credit or liquidity risk. The following financial instrument and risk management disclosures address any remaining risks or are required for comparative purposes in connection to prior year financial information.

The provision of credit and transacting in financial instruments and lending to customers was fundamental to the Group's business. The risks associated with financial instruments and the credit exposures from lending were significant components of the overall risks faced by the Group. Financial instruments create, modify or reduce the liquidity, credit and market risk of the Group's balance sheet and supported the extension of credit to the Group's customers.

The recent market disruptions have increased the risk associated with holding financial instruments. The purpose for which the Group holds or issues financial instruments can be classified into two main categories:

- **Customer loans and deposits:** Customer loans (retail mortgage) formed a large part of the Group's business. The Group had detailed policies and strategies in respect of its customer loans that seeked to minimise the risks associated with these financial instruments.
- **Finance:** The objective of using financial instruments for financing purposes is to manage the Group's balance sheet in terms of minimising market risk and to support liquidity management. Responsibility for overseeing and implementing balance sheet management lies with the Citigroup's Treasury department.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Objectives, policies and strategies (continued)

The performance of the UK influences liquidity and pricing, counterparty demand for credit, and the risk of delinquency or default, all of which can negatively impact the Group's credit exposure. Although credit exposures are regularly reviewed, in these market circumstances default risk may arise from events or circumstances that are difficult to foresee.

In addition, market and economic conditions affected consumer confidence, consumer spending, personal bankruptcy and house prices, amongst other factors. This increased the likelihood that more of the Group's consumer customers could have become delinquent in their loans or other obligations which, in turn, could have resulted in a higher level of charge-offs and provisions for credit losses.

Market uncertainty places additional importance on the risk management policies and procedures which are outlined below. The Group believes that effective risk management is of primary importance to its overall operations. Accordingly, the Group seeks to maintain a comprehensive risk management process to monitor, evaluate and manage the principal risks it assumes in conducting its activities.

Citigroup's and intrinsically the Group's risk management framework is based on the following principles:

- a defined business strategy;
- accountability through a common framework to manage risks;
- risk decisions based on transparent, accurate and rigorous analytics;
- a common risk capital model to evaluate risks;
- expertise, stature, authority and independence of risk managers; and
- risk managers empowered to make decisions and escalate issues.

Risk management

Citigroup manages risk across three dimensions; businesses, regions and critical products. Each of the major business groups has a Business Chief Risk Officer who is the focal point for risk decisions (such as setting risk limits or approving transactions) in the business.

There are also Regional Chief Risk Officers, accountable for the risks in their geographic area, who are the primary risk contact for the regional business heads and local regulators. Risk management within the Group is overseen by the United Kingdom Risk Managers along with the managers for the differential risk types such as credit risk, market risk, liquidity risk and operational risk.

Risk aggregation and stress testing

The Citigroup Chief Risk Officer, as noted above, is responsible for monitoring and controlling major risk exposures and concentrations across the organisation. This means aggregating risks, within and across businesses, as well as subjecting those risks to alternative stress scenarios in order to assess the potential economic impact they may have on the Group.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Risk management (continued)

Supplementing the stress testing described above, Risk Management, working with input from the businesses and finance, provides periodic updates to senior management and the Risk Committee on significant potential exposures across Citigroup arising from risk concentrations, financial market participants and other systemic issues. These risk assessments are forward-looking exercises, intended to inform senior management and the Board of Directors about the potential economic impacts to Citigroup that may occur, directly or indirectly, as a result of hypothetical scenarios, based on judgmental analysis from independent risk managers. The stress testing and risk assessment exercises are a supplement to the standard limit-setting and risk capital exercises described later in this section, as these processes and incorporate events in the marketplace and within Citigroup that impact our outlook on the form, magnitude, correlation and timing of identified risks that may arise. In addition to enhancing awareness and understanding of potential exposures within the Group, the results of these processes then serve as the starting point for developing risk management and mitigation strategies.

Along with the processes described above, the following sections summarise the processes that were in place during 2015 for managing the Group's major risks.

Market risk

Market risk is the risk to earnings that arises from adverse changes in interest rates and foreign exchange rates and in their implied volatilities. Price risk is measured using various tools, including Interest Rate Gap Analysis, Interest Rate Exposure (IRE) limits, stress and scenario analysis, which are applied to interest rate risk.

The Group along with other Citigroup entities' business oversight groups have defined market risk management responsibilities. Within each business, a process is in place to control market risk exposure. The risk management process includes the establishment of appropriate market risk controls and limits, policies and procedures and appropriate senior management risk oversight with a risk management function independent from the business.

Interest rate risk

Interest rate risk is measured using Interest Rate Gap Analysis, IRE limits, stress and scenario analysis. Interest Rate Gap Analysis utilises the maturity or re-pricing schedules of balance sheet items to determine interest rate exposures within given tenor buckets. IRE measures the potential earnings impact, over a specified reporting period, from a defined standard set of parallel shifts in the curve. Limits are set for the UK consumer business activity, of which the Group is a part. Market Risk Management monitors these limits.

The IRE measures the potential change in expected net interest earnings over a horizon of 12 months, 5 years and 10 years. The following table shows the IRE measures for the Company at 31 December assuming a parallel upward shift of interest rates by 100 basis points. A positive IRE indicates a potential increase of earnings while a negative IRE indicates a potential decline of earnings.

£'000	2015			2014		
	12 Months	5 Years	10 Years	12 Months	5 Years	10 Years
GBP	-	-	-	(434)	(434)	(434)

The Group no longer holds mortgage assets.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Credit risk

The Group disposed of its remaining mortgage portfolios in 2015 and no longer has third party exposure to credit risk from consumer portfolios. The following credit risk management disclosures address any remaining risks or are required for comparative purposes in connection to prior year financial information.

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred at the balance sheet date. Significant changes in the economy could result in losses that are different from those provided for at the balance sheet date. Prior to the sale of the Group's remaining mortgage portfolio in the year, credit risk arose on the Group's lending business activities in the United Kingdom.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations and, through this analysis, the granting of forbearance facilities to customers. Although the Group is no longer open to new business, exposure to credit risk was also managed in part by obtaining collateral, the value of which is affected by the fluctuation in market house prices.

The Group held collateral against loans and advances to customers in the form of mortgage interests over property and guarantees. Loans and advances to other group companies are perceived to have a limited credit risk and therefore are not deemed to require collateral.

The Group's maximum credit exposure is represented by the financial assets presented on the balance sheet.

Management of credit risk

Collections activity is outsourced and external lawyers are used for the legal processes.

Exposure to Retail credit risk - Loans and advances to customers

The table below is provided for comparative purposes.

Group and Company 2014	Residential mortgages £'000	Total £'000
Gross amount	99,397	99,397
Carrying amount	97,769	97,769
Current	86,501	86,501
1-119 days past due	3,718	3,718
2nd lien residential mortgages identified for sale	9,178	9,178
Gross amount	99,397	99,397
Allowance for loans and advances	(1,628)	(1,628)
Total carrying amount	97,769	97,769

The credit quality of Local Consumer Lending assets is measured and reported on a equivalent days past due model. This model identifies the gross value of balances which are current (i.e. are not yet past due) and those balances which are past due depending on how many days past due the balance is.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Credit risk (continued)

Forbearance facilities granted to certain mortgage borrowers

The Group granted forbearance facilities to certain consumer borrowers that are in financial difficulty. Forbearance facilities are defined to be concessions provided to customers that modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default or repossession. The contractual terms of a loan may be modified for a number of reasons including changing market conditions and other factors not related to the current or potential credit deterioration of a customer. Forbearance programs were tracked and disclosed on an individual basis and it is possible for individual loans to be granted both types of forbearance facility.

These facilities fall into two types:

- "Temporary waivers" where the Group grants an interest rate reduction and/or term extension; and
- "Capitalisations" where the Group permits the borrower to reschedule one or more monthly instalments, following which at a later date monthly instalment amounts would be increased such that the final maturity date is not extended and no interest waiver or principal forgiveness is granted.

Capitalisations are granted in circumstances where the borrower's financial difficulty is believed to be only temporary.

Grants of forbearance as above are deemed to represent evidence of impairment in the case of all Temporary waivers, and also for Capitalisations where the cumulative forbore delay in repayments exceeds more than four months for Capitalisations granted on or after 1 January 2011.

For those consumer receivables where forbearance is deemed to represent evidence of impairment, a collectively assessed impairment allowance is recorded, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For the above purposes, these forbore consumer receivables are grouped into separate pools between first and second lien mortgages, and between Temporary waivers and Capitalisations. Past repayment experience with the respective forbearance program is one of the variables considered in estimating future cash flows from each pool.

A capitalisation restructuring that results in an 'insignificant delay', being a cumulative delay of no more than four months of payments and excluding any prior delays, over the tenor of the loan irrespective whether or not the Company charges any interest, is not considered impaired, after considering customer behavioural scores. As of 31 December 2015 the total carrying amount of loans satisfying either of the above criteria was £nil (2014: £20.3 million). The Group's allowance for collectively assessed impairment takes into account any increased propensity for default on these loans, relative to other loans for which the Group has not granted forbearance facilities.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Credit risk (continued)

ii) Forbearance facilities granted to certain mortgage borrowers (continued)

As of 31 December 2015 the total number of loans and advances to customers granted a forbearance facility was nil (2014: 205), representing nil% of total number of loans (2014: 19%), with a carrying value of £nil (2014: £20.5 million). Forbearance disclosures are subject to evolving industry practice and regulatory guidance.

The following table analyses the Group's forbearance facilities by product group as at the year ended 31 December 2015.

Residential mortgages	2015		2014	
	Temporary waivers	Capitalisations	Temporary waivers	Capitalisations
Program				
Number of loans under forbearance	-	-	1	204
Average interest rate reduction	N/A	N/A	1.24%	N/A
Loans and advances under forbearance	£'000	£'000	£'000	£'000
Gross amount under forbearance	-	-	96	20,529
Allowance for loans and advances	-	-	(13)	(143)
Carrying amount under forbearance	-	-	83	20,386

Liquidity risk

The Group defines liquidity risk as the risk that the Group 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 of the Group.

The Group's funding and liquidity objectives aim to maintain liquidity to fund its existing asset base, while at the same time maintain sufficient excess liquidity, structured appropriately, to continue operating under a wide variety of market conditions, including both short and long-term market disruptions.

Liquidity risk management policy is set at a Citigroup level. In Western Europe, liquidity is managed centrally as part of the fungible banking region known internally as 'EU Bank', which includes the Group.

The UK forum for liquidity management for Citigroup is the UK Asset/Liability Management Committee (UK ALCO) and is chaired by the Chief Country Officer. This forum is composed of the UK CFO, EMEA CFO, UK legal entity Risk Manager, UK Treasurer, EMEA Regional Treasurer, the Financing Desk Heads and key business representatives.

A liquidity plan is prepared annually and the liquidity profile is monitored on an on-going basis and reported daily for the EU Bank. Liquidity risk is monitored using various ratios and limits in accordance with the Liquidity Risk Management Policy for Citigroup. The funding and liquidity plan includes analysis of the balance sheet as well as of the economic and business conditions impacting subsidiaries in the UK. As part of the funding and liquidity plan, liquidity limits, liquidity ratios and assumptions for periodic stress tests are reviewed and approved.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Liquidity risk (continued)

Stress testing and scenario analyses are intended to quantify the potential impact of a liquidity event on the EU Bank's balance sheet and liquidity position, and to identify viable funding alternatives that can be utilised. These scenarios include potential significant changes in key funding sources, market triggers (such as credit rating downgrades), uses of funding and political and economic conditions, including standard and stressed market conditions as well as firm-specific events.

Some span liquidity events over a full year while others may cover a more intense shock over a shorter period such as one month. These potential liquidity events can identify potential mismatches between liquidity sources and uses over a variety of time horizons, and liquidity limits are set accordingly. To monitor the liquidity of a unit, these stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily.

Given the range of potential stresses, the Group maintains a series of contingency funding plans on a consolidated basis as well as for individual entities and regionally. The plans specify a wide range of readily available actions that are in a variety of adverse market conditions, or idiosyncratic disruptions.

The following table analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Note that in managing liquidity risk, management use certain assumptions based on behavioural characteristics which differ from the contractual maturity dates shown below.

Group	3 months or less £'000	>3 months and <1 year £'000	>1 year and <5 years £'000	Greater than 5 years £'000	Total £'000
2015					
Assets					
Loans and advances to banks	206,344	-	-	-	206,344
All other assets	599	-	-	-	599
Total assets	206,943	-	-	-	206,943
2014 total assets	91,768	11,656	12,959	72,263	188,646
Liabilities					
Subordinated liabilities	-	20,089	-	-	20,089
All other liabilities and equity	24,422	-	145,934	16,498	186,854
Total liabilities and equity	24,422	20,089	145,934	16,498	206,943
2014 total liabilities	25,501	-	129,712	33,433	188,646
2015 net liquidity gap	182,521	(20,089)	(145,934)	(16,498)	-
2014 net liquidity gap	66,267	11,656	(116,753)	38,830	-

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Liquidity risk (continued)

Company	3 months or less £'000	>3 months and <1 year £'000	>1 year and <5 years £'000	Greater than 5 years £'000	Gross nominal outflow £'000
2015					
Assets					
Loans and advances to banks	206,201	-	-	-	206,201
All other assets	3,905	-	-	-	3,905
Total assets	210,106	-	-	-	210,106
2014 total assets	94,929	11,656	12,959	72,263	191,807
Liabilities					
Subordinated liabilities	-	20,089	-	-	20,089
All other liabilities and equity	53,414	-	145,934	(9,331)	190,017
Total liabilities and equity	53,414	20,089	145,934	(9,331)	210,106
2014 total liabilities	54,490	-	129,712	7,605	191,807
2015 net liquidity gap	156,692	(20,089)	(145,934)	9,331	-
2014 net liquidity gap	52,095	11,656	(116,753)	64,658	-

The table below analyses the Group's financial liabilities (excluding other liabilities) into relevant maturity groupings based on the remaining contractual future undiscounted cash flows including interest. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on a combination of contractual and behavioural maturity profiles.

Group and Company	3 months or less £'000	>3 months and <1 year £'000	>1 year and <5 years £'000	Greater than 5 years £'000	Gross nominal outflow £'000
2015					
Liabilities					
Subordinated loan notes	-	21,470	-	-	21,470
	-	21,470	-	-	21,470
2014					
Liabilities					
Subordinated loan notes	-	1,381	21,470	-	22,851
	-	1,381	21,470	-	22,851

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and loans and advances to banks. The Group would also be able to meet unexpected net cash outflows through intercompany borrowing.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Operational risk management process (unaudited)

Framework

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes the reputation and franchise risk associated with business practices or market conduct that the Group undertakes. Operational risk is inherent in the Group's business activities and, as with other risk types, is managed through an overall framework with checks and balances that includes:

- Recognised ownership of the risk by the businesses;
- Oversight by independent risk management and control functions; and
- Independent review by Internal Audit.

The goal is to keep operational risk at appropriate levels relative to the characteristics of the Group's business, its capital and liquidity, and the economic and regulatory environment.

To anticipate, mitigate and control operational risk, Citigroup maintains a system of policies and has established a consistent framework for monitoring, assessing and communicating operational risks and the overall effectiveness of the internal control environment across Citigroup. As part of this framework, Citigroup has established a "Manager's Control Assessment" (MCA) program to help managers' self-assess key operational risks and controls and identify and address weaknesses in the design and/or effectiveness of internal controls that mitigate significant operational risks. MCAs are in place for all the major business lines and control areas impacting the Group.

As noted above, each major business segment must implement an operational risk process consistent with the requirements of this framework.

The process for operational risk management includes the following steps:

- identify and assess key operational risks;
- design controls to mitigate identified risks;
- establish key risk and control indicators;
- implement a process for early problem recognition and timely escalation;
- produce a comprehensive operational risk report; and
- ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

In addition, Enterprise Risk Management, within Citi's independent risk management function, proactively assists the businesses, operations and technology and the other independent control groups in enhancing the effectiveness of controls and managing operational risks across products, business lines and regions, and facilitates the management of operational risk at a Group level. To enhance its operational risk management the Group has implemented a forward looking scenario analysis to identify and quantify emerging operational risks. This development has been integrated into the operational risk capital calculation for the Group.

Operations of outsource service suppliers

As mentioned earlier in this report, the Group transferred the servicing and legal title of its mortgages to a third party during 2013. As a result of this arrangement, the Group was removed from future regulatory risk, as the vendor assumes legal title over the transferred assets. The Group continued to remain compliant with all existing legal, financial and regulatory obligations as it retained the credit, interest and market risk for these mortgages up until their disposal during the year.

As part of the transfer agreement, the Directors ensured that the Group had significant oversight of the vendor, and its processes, to ensure the same level of reporting and controls of the portfolio remained within the Group.

CANADA SQUARE OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30. Capital management

The Group's approach to capital management is driven by strategic and organisational requirements, taking into account the regulatory, economic and commercial environment.

It is the Group's objective to continue to maintain a strong capital base to support the business and regulatory capital requirement at all times. The composition and amount of capital will be commensurate with the regulations in force.

Capital forecasts are prepared taking into account strategic growth plans and the capital plans for each entity. Capital forecasts are updated and reviewed at a minimum on a quarterly basis.

Regulatory capital

The Company's capital adequacy position is managed and monitored in accordance with the prudential requirements for mortgage and home finance firms and insurance intermediaries (MIPRU) of the FCA, the UK regulator. The Company must at all times meet the relevant minimum capital requirements of the FCA. The Company has established processes and controls in place to monitor and manage its capital adequacy position and remained in compliance with these requirements throughout the year.

Under the FCA's minimum capital standards, the Company is required to maintain an excess of total capital resources over its capital resources requirements.

Capital resources consist of share capital, share premium, retained earnings, capital reserves, interim net losses and other regulatory adjustments relating to items that are included in equity, but are treated differently for capital purposes.

The Company's policy is to maintain sufficient capital base in order to maintain investor, creditor and market confidence.

The Company's regulatory capital resources at 31 December were as follows:

	2015 £'000'	2014 £'000
Total regulatory capital*	(9,331)	29,581

* Unaudited

The Company's total regulatory capital fell below the required minimum as at the end of the year due to changes in the accounting of the customer remediation provision that now factors in future costs of administering PPI claims. This was remediated via a £15 million capital contribution on 22 April 2016.

CANADA SQUARE OPERATIONS LIMITED

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31. Operating lease commitments

At the year end the rental commitments under non-cancellable operating leases were as follows:

Group	Total 2015 £'000	Total 2014 £'000
Expiring:		
- Within one year	138	138
- Between one and five years	253	390
	<u>391</u>	<u>528</u>

In accordance with and subject to the terms of the original lease agreement held the Group remains liable for dilapidation payments.

32. Segmental analysis

The Group is organised into a single business group, Local Consumer Lending and operates in a single geographic region, the United Kingdom. As the Group is a single reportable segment, total operating income is disclosed by product below:

	Group and Company	
	2015 £'000	2014 £'000
Residential mortgages	1,969	9,970
Treasury and other	(1,026)	(283)
Total operating income	<u>943</u>	<u>9,687</u>

33. Post balance sheet event

On 22 April 2016, the Company received a £4.5 million capital contribution from CFHL, £5.3 million from COIC, and £5.3 million from Yonder.

34. Parent companies

As at the year end, 35% of the Company's share capital was held by COIC, 35% of the Company's share capital was held by Yonder and 30% of the Company's share capital was held by CFHL.

The Company is a subsidiary undertaking of COIC and Yonder, which are incorporated in the United States. The Company's ultimate parent company is Citigroup Inc, which is incorporated in the United States.

The largest group in which the results of the Group are consolidated is that headed by Citigroup Inc. The audited consolidated financial statements of Citigroup Inc. are made available to the public annually in accordance with Securities and Exchange Commission regulations and may be obtained from www.citigroup.com/citi/corporategovernance/ar.htm.