

**CITIBANK EUROPE PLC**

**(Registered Number: 132781)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

# **CITIBANK EUROPE PLC**

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# CITIBANK EUROPE PLC

## BOARD OF DIRECTORS AND OTHER INFORMATION

### DIRECTORS

William J. Mills - Chairman  
Francesco Vanni d'Archirafi - Vice Chairman  
Aidan Brady - Chief Executive  
Sanjeeb Chaudhuri - Non-Executive  
Mark Fitzgerald  
Bo J. Hammerich - Non-Executive  
Brian Hayes  
Mary Lambkin\* - Independent Non-Executive  
Frank McCabe\* - Independent Non-Executive  
Terence O'Leary - Non-Executive  
Cecilia Ronan  
Patrick Scally\* - Non-Executive  
Naveed Sultan - Non-Executive  
Christopher Teano - Non-Executive  
Tony Woods

### COMPANY SECRETARY

Deirdre Pepper

*\* Denotes Audit Committee Members*

### REGISTERED OFFICE

1 North Wall Quay, Dublin 1

### SOLICITORS

Matheson Ormsby Prentice  
70 Sir John Rogersons Quay, Dublin 2

### AUDITOR

KPMG  
Chartered Accountants  
1 Harbourmaster Place, IFSC, Dublin 1

### BANKERS

Citibank NA, London Branch  
Citigroup Centre, Canada Square,  
Canary Wharf, London, E14 5LB

# CITIBANK EUROPE PLC

## REPORT OF THE DIRECTORS

The Directors present their report and the financial statements of Citibank Europe plc (“the Company”) for the year ended 31 December 2010.

Citi works tirelessly to serve individuals, communities, institutions and nations. With 200 years of experience meeting the world's toughest challenges and seizing its greatest opportunities, we strive to create the best outcomes for our clients with financial solutions that are simple, creative and responsible. It is an institution connecting over 1,000 cities, 160 countries and millions of people.

### Principal activities and business review

The Company, which was granted a banking licence by the Central Bank of Ireland under Section 9 of the Central Bank Act 1971, provides financial services to clients and other Citigroup businesses on a worldwide basis. The Company's head office is in Dublin, with branches in Poland, the Czech Republic, Hungary, Slovakia and Romania.

Although financial markets stabilised during 2010, the macroeconomic environment has remained challenging. Despite these difficult economic conditions the Company continued to perform strongly. The profit before tax of the Company for the year amounted to €57 million (2009: €02 million) and includes a €8 million impairment charge on goodwill the Company recognised on the acquisition of the Czech branch (please see note 21 for more details). The Company made a profit for the year of €458 million (2009: €16 million).

The primary contributors of profits in the Company are the Worldlink and European Funds Transfer products which between them contributed profit before tax of €368 million in 2010 (2009: €357 million).

A key performance indicator for the Company is its cost/income ratio, which is calculated by dividing the total of personnel expenses and other expenses by operating income. In 2010 the Company's cost/income ratio was 42% (2009: 43%).

Instability in the world economy has increased the risk of customer and or counterparty delinquency or default. However, the Company has experienced a reduction in the level of loan loss reserve accumulation required in the current year. Note 13 of the financial statements provides further information on some of the key risks to which the Company is exposed. The Company's strategy continues to be to take advantage of global opportunities for the further development of its business. The company has put special focus on research and development and is dedicated to the pursuit of innovation within financial services.

No interim dividends were paid by the Company during the year (2009: nil) and the Directors do not recommend the payment of a final dividend (2009: nil).

### *Income*

Total operating income was €1,212 million, a minimal increase on the previous year (2009: €1,204 million). Net interest income decreased by 5.5% to €334 million from €353 million in 2009.

### *Costs*

Operating expenses increased by 5.5% year on year to €477 million.

### Audit Committee

The Audit Committee is a standing committee of the Board of Directors of CEP and is constituted and mandated in accordance with the European Communities (Statutory Audits) (Directive 2006/43/EC). Through an interactive process with the Company's senior management, Audit and Risk Review and the Independent Auditors, the Audit Committee receives information on, and oversees the adequacy of, the internal control environment established by management in relation to the Company's businesses as set out in more detail in the Terms of Reference for the Audit Committee.

# **CITIBANK EUROPE PLC**

## **REPORT OF THE DIRECTORS** (continued)

### **Regulatory capital requirements**

The Company's lead regulator, the Central Bank of Ireland, sets and monitors capital requirements for the Company. Please refer to note 13 for more detailed information. Further information on the Company's capital requirements and risk management ("Pillar 3 Disclosures") can be found in the other regulatory findings section at [www.citigroup.com/citi/fin](http://www.citigroup.com/citi/fin).

### **Financial instruments**

The financial risk management objectives and policies and the exposure to market price risk, credit risk, and liquidity risk of the Company and its subsidiary undertakings have been disclosed in the Management policies in note 13.

### **Research & development**

The Company is actively pursuing research and development ("R&D") opportunities in all aspects of financial services business and is a centre of excellence for the development of innovative financial and transaction servicing products and solutions.

### **Overseas branches**

The Company operates branches in Poland, the Czech Republic, Hungary, Slovakia and Romania and has a subsidiary in Hungary. The Company's branches contributed €105 million (2009: €93 million) to the profit before tax.

### **Political donations**

During the year the Company made no political donations (2009: nil).

### **Post balance sheet events**

On the 16<sup>th</sup> March 2011, the Board of Citibank N.A agreed to purchase from the Company certain software assets, which were held for sale. The total amount held for sale was €54 million (2009: €nil).

# CITIBANK EUROPE PLC

## REPORT OF THE DIRECTORS (continued)

### Directors, secretary and their interests

The names of the Directors and Secretary who held office during 2010 were as follows:

William J. Mills (Chairman, appointed as a Director 4<sup>th</sup> January 2010)  
Francesco Vanni d'Archirafi (Vice Chairman)  
Aidan Brady (Chief Executive Officer)  
Sanjeeb Chaudhuri  
Mark Fitzgerald  
Bo J. Hammerich (appointed 1<sup>st</sup> June 2010)  
Brian Hayes  
Mary Lambkin  
Frank McCabe  
Terence O'Leary  
Cecilia Ronan (appointed 10<sup>th</sup> August 2010)  
Patrick Scally (appointed 1<sup>st</sup> June 2010)  
Naveed Sultan  
Christopher Teano  
Tony Woods  
Deirdre Pepper – Secretary (appointed 10<sup>th</sup> August 2010)

Neither the Directors, nor the Company Secretary, have any beneficial interest in the share capital of the Company. The Directors' and Secretary's interests in the shares of the ultimate holding company, Citigroup Inc., are as follows:

<b>Director/secretary</b>	<b>31 December 2010 Common stock</b>	<b>31 December 2009 Common stock</b>
William J. Mills	2,804,083	2,191,798
Francesco Vanni d'Archirafi	451,661	392,766
Aidan Brady	162,377	108,467
Sanjeeb Chaudhuri	92,334	33,690
Mark Fitzgerald	38,624	21,158
Bo J. Hammerich	10,872	-
Brian Hayes	36,755	25,657
Frank McCabe	47,850	1,350
Mary Lambkin	5,000	5,000
Terence O'Leary	112,416	44,100
Cecilia Ronan	4,456	1,119
Patrick Scally	9,396	-
Naveed Sultan	7,092	71,478
Christopher Teano	35,000	23,000
Tony Woods	10,386	7,165
Deirdre Pepper	-	-

# CITIBANK EUROPE PLC

## REPORT OF THE DIRECTORS (continued)

### Directors, secretary and their interests (continued)

The Company forms part of Citigroup Inc. (“the Group”). The Group operates a staff share option scheme and, in addition to the interests disclosed above, certain Directors of the Company have options to acquire shares in the ultimate parent holding company, Citigroup Inc. Full details are as follows:

#### Stock options over common stock of Citigroup Inc. (notes (a) and (b))

Director/secretary	at 31 December 2009*	During the year		at 31 December 2010	Exercise Price US\$
		Granted	Exercised/ lapsed		
William J. Mills	-	-	-	-	-
Francesco Vanni d’ Archirafi	26,805	-	-	26,805	42.11 – 49.55
Aidan Brady	163,992	-	19,992	144,000	4.08 – 49.54
Sanjeeb Chaudhuri	127,046	-	-	127,046	4.08 – 32.50
Mark Fitzgerald	26,910	-	-	26,910	4.08 – 41.45
Bo J. Hammerich*	20,259	-	-	20,259	4.08 – 42.11
Brian Hayes	82,878	-	2,287	80,591	4.08 – 41.45
Terence O’Leary	73,580	-	-	73,580	4.08 – 55.00
Cecilia Ronan	770	-	-	770	4.08 – 49.54
Patrick Scally*	4,512	-	-	4,512	4.08 – 50.32
Naveed Sultan	220,028	225,972	-	476,000	3.516 – 49.54
Christopher Teano	49,779	-	-	49,779	4.08 – 49.54
Tony Woods	41,721	-	-	41,721	4.08 – 49.54
Deirdre Pepper *	-	-	-	-	-

#### Notes:

- (a) Options outstanding, once vested, are exercisable at the discretion of the holders.
- (b) Details of the Share Option Scheme are contained in the financial statements of Citigroup Inc. The middle market price of Citigroup Inc. common stock at 31 December 2010 was US\$4.73 (2009: US\$3.31) and during the calendar year ended 31 December 2010, the closing price ranged from a low of US\$3.15 (2009: US\$1.02) to a high of US\$4.97 (2009: US\$7.46).

\* or date of appointment, if later.

# CITIBANK EUROPE PLC

## REPORT OF THE DIRECTORS (continued)

### Directors' responsibilities for financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the E.U.

The company's financial statements are required by law and IFRSs as adopted by the E.U. to give a true and fair view of the state of affairs of the company and of its profit or loss for that period.

In preparing each of the financial statements, the directors are required to:

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

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2009. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts 1963 to 2009.

### Accounting records

The Directors believe that they have complied with the requirement of Section 202 of the Companies Act, 1990 with regard to books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the Company are maintained at 1 North Wall Quay, Dublin 1.

### Auditors

In accordance with Section 160(2) of the Companies Act 1963, the auditors, KPMG, Chartered Accountants, will continue in office.

On behalf of the board:

31<sup>st</sup> March 2011

Aidan Brady  
Director

Frank McCabe  
Director

Mary Lambkin  
Director

Deirdre Pepper  
Secretary

# CITIBANK EUROPE PLC

## Independent Auditor's Report to the Members of Citibank Europe plc

We have audited the financial statements of Citibank Europe plc for the year ended 31 December 2010 which comprise of the Income statement, Statement of other comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act, 1990. 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 independent auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the E.U. are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts 1963 to 2009. We also report to you whether, in our opinion: proper books of account have been kept by the company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the company's financial statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Directors' Report and consider implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# CITIBANK EUROPE PLC

## Independent Auditor's Report to the Members of Citibank Europe plc (continued)

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2010 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

KPMG  
Chartered Accountants  
Registered Auditor  
1 Harbourmaster Place  
IFSC  
Dublin 1

31<sup>st</sup> March 2011

# CITIBANK EUROPE PLC

## INCOME STATEMENT

For the years ended 31 December 2010 and 31 December 2009

	Note	2010 €000	2009 €000
Interest income		414,472	482,380
Interest expense		(80,631)	(128,973)
<b>Net interest income</b>	<b>3</b>	<u>333,841</u>	<u>353,407</u>
Net fee and commission income	<b>4</b>	772,683	697,055
Net trading income	<b>5</b>	89,699	146,973
Other operating income	<b>6</b>	15,759	5,225
Dividend income		431	1,297
<b>Operating income</b>		<u>1,212,413</u>	<u>1,203,957</u>
Net credit losses	<b>13</b>	(79,990)	(148,815)
Personnel expenses	<b>7</b>	(192,081)	(176,630)
Other expenses	<b>8</b>	(285,546)	(276,093)
Impairment on goodwill	<b>21</b>	<u>(98,000)</u>	<u>-</u>
<b>Profit before income tax</b>		556,796	602,419
Income tax expense	<b>10</b>	(98,612)	(86,097)
<b>Profit for the year</b>		<u><u>458,184</u></u>	<u><u>516,322</u></u>

The current year profit arises solely from continuing operations.

The financial statements were approved by the Board of Directors on 31<sup>st</sup> March 2011 and signed on their behalf by:

Aidan Brady  
Director

Frank McCabe  
Director

Mary Lambkin  
Director

Deirdre Pepper  
Secretary

# CITIBANK EUROPE PLC

## STATEMENT OF OTHER COMPREHENSIVE INCOME

For the years ended 31 December 2010 and 31 December 2009

	Note	2010 €000	2009 €000
Profit for the year	29	<u>458,184</u>	<u>516,322</u>
<b>Other comprehensive income, net of income tax</b>			
Net loss on available-for-sale financial assets	29	(14,277)	(1,769)
Exchange differences on translation of foreign operations	29	(7,464)	(9,318)
Share based payments	29	<u>447</u>	<u>1,239</u>
Other comprehensive income for the year, net of tax		(21,294)	(9,848)
<b>Total comprehensive income for the year</b>		<u><u>436,890</u></u>	<u><u>506,474</u></u>

The financial statements were approved by the Board of Directors on 31<sup>st</sup> March 2011 and signed on their behalf by:

Aidan Brady  
Director

Frank McCabe  
Director

Mary Lambkin  
Director

Deirdre Pepper  
Secretary

# CITIBANK EUROPE PLC

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2010 and 31 December 2009

	Note	2010 €000	2009 €000
<b>Assets</b>			
Cash and balances at central banks	11	996,999	310,121
Trading assets	12,14	235,762	83,574
Derivative financial instruments	14,16	1,539,872	1,779,021
Loans and advances to banks	14	7,465,615	7,797,349
Loans and advances to customers	14	4,866,231	2,962,360
Investment securities	14,15	1,605,485	896,692
Shares in subsidiary undertakings	19	1,295	1,295
Property and equipment	20	26,193	26,520
Goodwill and intangible assets	21	206,806	315,828
Non current assets - held for sale	22	53,912	-
Current income tax		-	1,546
Deferred tax assets	23	10,453	12,219
Prepayments and accrued income		109,706	136,783
Other assets	14	230,677	215,503
<b>Total assets</b>		<u>17,349,006</u>	<u>14,538,811</u>
<b>Liabilities</b>			
Deposits by banks	14	3,690,517	1,001,051
Customer accounts	14	6,592,415	6,898,393
Derivative financial instruments	14,16	1,583,466	1,833,136
Promissory Notes	14,17	-	7,212
Accruals and deferred income		140,010	83,272
Current income tax		2,617	-
Other liabilities	18	1,377,787	1,190,443
<b>Total liabilities</b>		<u>13,386,812</u>	<u>11,013,507</u>
<b>Equity shareholders' funds</b>			
Share capital	24,29	9,318	9,318
Share premium account	29	1,111,484	1,111,484
Capital reserves	29	279,538	279,538
Other reserves	29	(23,174)	(894)
Retained earnings	29	2,585,028	2,125,858
Total equity attributable to equity holders		3,962,194	3,525,304
<b>Total liabilities and equity shareholders' funds</b>		<u>17,349,006</u>	<u>14,538,811</u>

The financial statements were approved by the Board of Directors on 31<sup>st</sup> March 2011 and signed on their behalf by:

Aidan Brady  
Director

Frank McCabe  
Director

Mary Lambkin  
Director

Deirdre Pepper  
Secretary

# CITIBANK EUROPE PLC

## STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2010 and 31 December 2009

		Share Capital €'000	Share Premium €'000	Capital Reserve €'000	Other Reserves €'000	Retained Earnings €'000	Total €'000
<b>Balance at 1 January 2010</b>	<b>Note</b>	9,318	1,111,484	279,538	(894)	2,125,858	3,525,304
<b>Total comprehensive income for the year</b>							
Profit for the year	<b>29</b>	-	-	-	-	458,184	458,184
Net loss on available-for-sale financial assets	<b>29</b>	-	-	-	(14,277)	-	(14,277)
Exchange differences on translation of foreign operations	<b>29</b>	-	-	-	(8,450)	986	(7,464)
Share based payments	<b>29</b>	-	-	-	447	-	447
<b>Total comprehensive income for the year</b>		-	-	-	(22,280)	459,170	436,890
<b>Transactions with owners, recorded directly in equity</b>							
Issue of ordinary shares related to business combinations	<b>29</b>	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-
<b>Balance at 31 December 2010</b>		<u>9,318</u>	<u>1,111,484</u>	<u>279,538</u>	<u>(23,174)</u>	<u>2,585,028</u>	<u>3,962,194</u>
		<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Balance at 1 January 2009</b>		7,460	601,947	279,538	8,954	1,609,536	2,507,435
<b>Total comprehensive income for the year</b>							
Profit for the year	<b>29</b>	-	-	-	-	516,322	516,322
Net loss on available-for-sale financial assets	<b>29</b>	-	-	-	(1,769)	-	(1,769)
Exchange differences on translation of foreign operations	<b>29</b>	-	-	-	(9,318)	-	(9,318)
Share based payments	<b>29</b>	-	-	-	1,239	-	1,239
<b>Total comprehensive income for the year</b>		-	-	-	(9,848)	516,322	506,474
<b>Transactions with owners, recorded directly in equity</b>							
Issue of ordinary shares related to business combinations	<b>29</b>	1,858	509,537	-	-	-	511,395
Total contributions by and distributions to owners		1,858	509,537	-	-	-	511,395
<b>Balance at 31 December 2009</b>		<u>9,318</u>	<u>1,111,484</u>	<u>279,538</u>	<u>(894)</u>	<u>2,125,858</u>	<u>3,525,304</u>

# CITIBANK EUROPE PLC

## STATEMENT OF CASH FLOWS

For the years ended 31 December 2010 and 31 December 2009

	Note	2010 €000	2009 €000
<b>Cash flows from operating activities</b>			
Profit for the period		458,184	516,322
<i>Adjustments for:</i>			
Dividend income		(431)	(1,297)
Income tax charged		98,612	86,097
Depreciation of property and equipment	8	7,968	8,488
Amortisation of intangibles	8	8,533	5,544
Net impairment loss on loans and advances	13	79,990	148,815
Impairment on goodwill	21	98,000	-
Loss on disposal of subsidiary undertaking	19	-	2,750
Loss on disposal property and equipment	20	-	5,339
Finance income		(414,472)	(482,380)
Finance costs		80,631	128,973
Change in trading assets		(151,024)	(61,702)
Change in derivative financial instrument assets		239,149	1,224,446
Change in loans and advances to banks (greater than 3 months)		1,670,871	(3,216,603)
Change in loans and advances to customers		(1,983,862)	(54,306)
Change in prepayments and accrued income		27,077	141,749
Change in other assets		(15,173)	799,797
Change in deposits from banks		2,689,466	(2,288,434)
Change customer account balances		(305,978)	(560,718)
Change in derivative financial instrument liabilities		(249,670)	(1,113,785)
Change in debt securities in issue		(7,212)	(84,508)
Change in accruals and deferred income		56,740	15,889
Change in other liabilities		187,345	(280,488)
		<u>2,574,744</u>	<u>(5,060,012)</u>
Interest received		414,472	482,380
Interest paid		(80,631)	(128,973)
Income tax paid		(92,683)	(98,459)
Effect of exchange translations and other adjustments		(17,409)	(8,877)
<b>Net cash (used in) / from operating activities</b>		<u>2,798,493</u>	<u>(4,813,941)</u>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(13,929,489)	(9,841,651)
Disposal of investment securities		13,214,916	10,079,018
Proceeds from disposal of property and equipment	20	(7,770)	(12,728)
Acquisition of intangible assets	21	(49,893)	(26,039)
Proceeds from disposal of intangible assets	21	492	2
Dividends received from subsidiary companies		431	1,297
Disposal of subsidiary undertaking	19	-	2,476
Cash received through acquisitions		-	1,006,773
<b>Net cash from investing activities</b>		<u>(771,313)</u>	<u>1,209,148</u>
<b>Financing activities</b>			
		-	-
<b>Net (decrease)/increase in cash and cash equivalents</b>		2,027,180	(3,604,793)
Cash and cash equivalents at beginning of year	11	4,584,015	8,188,808
<b>Cash and cash equivalents at end of year</b>	11	<u>6,611,195</u>	<u>4,584,015</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies

The accounting policies which have been applied are set out below:

#### a) Reporting entity

Citibank Europe Plc (the "Company") is a company domiciled in Ireland. The address of the Company's registered office is 1 North Wall Quay, Dublin 1. The Company is involved in the provision of banking services on a worldwide basis.

#### b) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the E.U.

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

The Company's single subsidiary undertaking has not been consolidated within the Company accounts as it is not deemed material in accordance with European Communities (Credit Institutions : Account) Regulations, S.I. No. 294/1992, Regulation 7, Part 2, Par. 2(2).

In preparing these accounts the Company has adopted the following amendments to standards for the first time:

- Revised IFRS 3 'Business Combinations, is effective from 1 January 2010 and is being applied prospectively and has no impact on prior periods financial results.
- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. The amendments to IAS 27, which become mandatory for the Company's 2010 consolidated financial statements, do not have an impact on the consolidated financial statements.

The Company has elected not to early adopt the following standards:

- IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets.

The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes recognised in profit or loss.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### b) Basis of presentation (continued)

The standard requires that derivatives embedded in contracts with a host of that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at a amortised cost or fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted and the Company is currently in the process of evaluating the potential effect of this standard.

#### c) Functional and presentation currency

These financial statements are presented in Euro, which is the Company's functional currency. In some cases as indicated, financial information presented in Euro has been rounded to the nearest thousand or million as deemed appropriate.

#### d) Net interest income

Interest income and expense on financial assets and liabilities is recognised in the income statement using the effective interest rate method. Under this 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 over the life of the instrument. When calculating the effective interest rate, the Company estimates future cashflows considering all contracted terms of the financial instrument, but no future credit losses.

Interest income and expense presented in the income statement include:

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

#### e) Fees and commissions

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 income, including transaction processing fees, account servicing fees, transaction processing fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Maintenance fees are applied to certain pre-paid card balances if the account suffers an extended period of inactivity. These fees are recorded in fee income as they are earned. To the extent that upfront fees are capitalised but subsequently there is a partial sell down of the related asset, the fees are released to the income statement in proportion to the amount of the loan sold down.

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

#### f) Trading income

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

#### g) Dividends

Dividend income is recognised when the right to receive income is established.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### h) Financial assets and liabilities

##### *Recognition*

The company initially recognises loans and advances and deposits on the date at which cashflow occurs. All other financial assets and liabilities are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

##### *Trading assets*

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

Trading intent is evidenced on the basis of the strategies, policies and procedures established by the Company to manage the position or portfolio.

##### *Loans and receivables and other assets*

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

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

##### *Financial assets at fair value through the profit and loss*

During 2010, the Company acquired a group of loans at fair value. At the same time, the Company entered into interest rate swaps to manage the interest rate risk of the acquired loans. The loans have been designated at fair value through the profit and loss in order to avoid any accounting mismatch between an accrual basis loan and a fair valued derivative. Any mark-to-market gains or losses on the loans and the swaps are taken directly to the income statement.

Other assets primarily comprise amounts receivable in relation to non pre-funded payments and are measured at cost.

##### *Derivative contracts*

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

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Company accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the balance sheet together with the host contract. In 2010 the Company had no embedded derivatives (2009: nil).

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### h) Financial assets and liabilities (continued)

##### *Investment securities*

Investment securities are recognised on a trade date basis and are classified as available-for-sale.

Available-for-sale investment securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investment securities are initially recognised at fair value including directly attributable costs and subsequently measured at fair value with the changes in the fair value reported as a separate component of equity except for impairment charges which are recognised directly in the income statement.

The translation of gains and losses on foreign currency debt securities is taken directly through the income statement. When available-for-sale debt securities are sold or impaired the cumulative gain or loss previously recognised in equity is transferred to the income statement and disclosed within investment income.

When the Company sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Company's financial statement.

##### *Financial liabilities*

Deposits by banks, customer accounts, accruals and deferred income, debt securities in issue and other liabilities are measured at amortised cost. Other liabilities are primarily made up of amounts payable to both intercompany and third party organisations.

##### *Offsetting*

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

#### i) Impairment of financial assets

The Company 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 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 Company 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:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### i) Impairment of financial assets (continued)

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Company 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.

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any other subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

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

Following impairment, interest income is recognised using the original effective interest rate which is used to discount the future cash flows for the purpose of measuring the impairment loss, applied to the revised carrying amount.

When a loan is un-collectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded against net credit losses in the income statement.

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

#### j) De-recognition of financial assets and liabilities

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### k) Property and equipment

Items of property 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. Estimated useful lives of vehicles, furniture and equipment are between 1 and 7 years.

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

#### l) Goodwill and intangible assets

##### (i) Goodwill

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

##### (ii) Other intangible assets

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

Amortisation is charged to the income statement using the methods that best reflect the economic benefits over their estimated useful economic lives. The estimated useful life of software is three to seven years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

#### m) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that its goodwill and intangible assets or property and equipment are impaired. Goodwill is tested for impairment annually or more frequently if events or changes in circumstance indicate that it might be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment losses in respect of goodwill are not reversed. Impairment losses are recognised in the income statement. Note 2 provides additional details of estimates and judgements related to impairment on non-financial assets.

#### n) Income taxes

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

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### n) Income taxes (continued)

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

#### o) Foreign currencies

Transactions in foreign currencies are translated to Euro at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Euro at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency of each branch at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency of each branch translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

The assets and liabilities of overseas branches are translated into the Company's presentation currency at the rate of exchange as at the statement of financial position date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

#### p) Employee benefits

##### *Defined contribution plans*

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

##### *Short term benefits*

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

##### *Termination benefits*

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

#### q) Share based incentive plans

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

The Company recognises the fair value of the awards at grant date as compensation expense over the vesting period with a corresponding credit in equity as a capital contribution from Citigroup Inc. All amounts paid to Citigroup Inc and the associated obligation under the SPAPA are recognised in equity over the vesting period. Subsequent changes in the fair value of all unexercised awards and the SPAPA are reviewed annually and any changes in value are recognised in equity, again over the vesting period.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### r) Accounting for government grants

Grants are credited to the income statement to offset the matching expenditure. Where grants are repayable, should the company cease to meet certain conditions over a defined period, such amounts are credited to the profit and loss account on a straight-line basis over that period.

#### s) Accounting for business combinations

Goodwill represents the excess of the cost of the acquisition over the Company's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

#### t) 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, treasury bills and other eligible bills, loans and advances to banks, loans and advances to customers and short-term trading assets.

#### u) Provisions

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

#### v) Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term and are included within "Other expenses".

#### w) Subsidiary undertakings

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

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Use of estimates and judgements

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

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

#### *Impairment of loans*

The Company's accounting policy for losses in relation to the impairment of customer loans and advances is described in Note 1(i). In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individually significant loans or from a loan portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows.

#### *Impairment testing of goodwill*

Management used judgement in determining whether there was an impairment loss on goodwill recognised as part of the Czech branch conversion on 1 January 2008. A value in use calculation was used to determine if any impairment of the assets and liabilities of the Czech branch had occurred. The calculation was based on forecasted EBIT for the next three years and financial projections based on macroeconomic indicators and future business strategies were extrapolated out to a total of 15 years. The forecasted EBIT growth rate used in the current year calculation was 5% (2009: 3%). The reduction in the value of goodwill from prior year was primarily driven by a change in forecasted revenue and expense levels after 2013, as these have been based off the 2009 actuals which were lower than previously forecasted in the prior year projections.

The value in use calculation of discounted cash flows resulted in a lower net present value of discounted cashflows than the carrying amount of the goodwill, thus giving rise to impairment losses of €98million (2009: nil) being recognised during 2010. The current year discount rate was 12.37% (2009: 11.79%).

The key assumptions described above may change as economic and market conditions change.

#### *Valuation of intangible assets*

Management may be required to use estimates on the valuation of certain material intangible assets and will use external professional advice to assist with this process.

#### *Valuation of financial instruments*

The Company's accounting policy for valuation of financial instruments is included in note 1(h). The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, where this is not possible management may be required to make estimates. Note 13 further outlines the valuation of financial instruments.

#### *Share-based incentive plans*

The Company participates in a number of Citigroup share-based incentive plans. Awards granted through Citigroup's Stock Option Program are measured by applying an option pricing model, taking into account the terms and conditions of the program. Analysis of past exercise behaviour, Citigroup's dividend history and historical volatility are inputs to the valuation model. Note 25 further discusses "Share-based incentive plans".

#### *Deferred tax assets*

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.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Net interest income

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
<b>Interest and similar income</b>		
Loans and advances to banks	78,532	132,277
Loans and advances to customers	256,971	255,049
Investment securities - available for sale	77,893	78,564
Other interest income	1,076	16,490
	<u>414,472</u>	<u>482,380</u>
<b>Interest expense and similar charges</b>		
Deposits by banks	17,492	22,170
Customer accounts	62,711	104,611
Other interest paid	428	2,192
	<u>80,631</u>	<u>128,973</u>
<b>Net interest income</b>	<u><u>333,841</u></u>	<u><u>353,407</u></u>

Included in interest income is a total of €6 million (2009: €8 million) accrued on impaired loans. Total interest income and expense calculated using the effective interest rate method reported above that relates to financial assets and liabilities not carried at fair value through the profit and loss are €61 million and €80 million respectively. Included in the income statement is a net gain of €5 million (2009: nil) in relation to loans recognised at fair value through the profit and loss.

### 4. Fee and commission income

	<b>2010</b>		
	<b>€000</b>	<b>€000</b>	<b>€000</b>
	<b>Consumer</b>	<b>Institutional</b>	<b>Total</b>
Fee and commission income	48,751	750,675	799,426
Fee and commission expense	(7,859)	(18,884)	(26,743)
<b>Net fee and commission income</b>	<u>40,892</u>	<u>731,791</u>	<u>772,683</u>
	<b>2009</b>		
	<b>€000</b>	<b>€000</b>	<b>€000</b>
	<b>Consumer</b>	<b>Institutional</b>	<b>Total</b>
Fee and commission income	49,705	677,628	727,333
Fee and commission expense	(11,746)	(18,532)	(30,278)
<b>Net fee and commission income</b>	<u>37,959</u>	<u>659,096</u>	<u>697,055</u>

Included in fees and commissions are fees earned by the Company on trust activities where the Company holds assets on behalf of its customers. This fee income totalled €46 million in 2010 (2009: €49 million).

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Net trading income

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Trading securities	28,899	47,207
Trading derivatives	60,800	99,766
	<u>89,699</u>	<u>146,973</u>

### 6. Other operating income

Other operating income consists mainly of other intergroup income and other miscellaneous income (2010: €15.8 million, 2009: €5.2 million).

### 7. Personnel expenses

The average number of persons employed by the Company during the year was 3,965 (2009: 3,746).

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Employee remuneration	154,854	146,207
Share based payments	5,367	3,840
Pension costs	3,788	3,878
Social security costs	28,072	22,705
	<u>192,081</u>	<u>176,630</u>

The Company operates a number of defined contribution pension schemes. During the year contributions of €3.8 million (2009: €3.9 million) were made to the scheme. The assets of the scheme are held separately from those of the Company in an external independently administered fund. Contributions of €nil (2009: €nil) were payable to these schemes at the year-end. Note 25 provides further details of share-based incentive plans.

### 8. Other expenses

Profit before tax is arrived at after charging for:

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Research and Development	8,500	6,000
Depreciation	7,968	8,488
Amortisation	8,533	5,544
Auditors' remuneration		
- audit of company's individual statutory accounts	135	135
- other assurance services	43	144

No other fees were paid to the auditor during 2010.

## NOTES TO THE FINANCIAL STATEMENTS

# CITIBANK EUROPE PLC

## 9. Directors' emoluments

### Directors' emoluments

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Aggregate emoluments		
- fees	125	150
- other remuneration, including pension contributions	2,618	3,733
	<u>2,743</u>	<u>3,883</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Tax on profit on ordinary activities

#### (a) Analysis of tax charge in the year:

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
<b>Current tax:</b>		
Corporation tax on profits of the period	(96,846)	(100,676)
Adjustments in respect of corporation tax for earlier years	-	4,637
	<hr/>	<hr/>
Total current tax	(96,846)	(96,039)
<b>Deferred tax:</b>		
Current year deferred tax	(1,766)	9,942
Total deferred tax (note 23)	(1,766)	9,942
	<hr/>	<hr/>
<b>Total income tax expense</b>	<b>(98,612)</b>	<b>(86,097)</b>

#### (b) Reconciliation of effective tax rate:

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
Profit before income tax	556,796	602,419
Income tax at Irish corporation tax rate of 12.5%	(69,600)	(75,302)
Effects of:		
Income taxes paid in foreign jurisdictions	(26,182)	(38,487)
Capital allowances and other sundry differences	2,246	1,646
Non-deductible expenses	(5,653)	(3,625)
Double taxation relief	12,837	11,405
Impairment of Goodwill	(12,250)	-
Double taxation relief loss adjustment	1,668	3,385
Utilisation of losses brought forward	91	91
Income tax on dividends	-	157
Other	(3)	54
	<hr/>	<hr/>
<b>Corporation tax on profits of the period</b>	<b>(96,846)</b>	<b>(100,676)</b>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances that mature within three months:

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
Cash and balances with central banks	996,999	310,121
Loans and advances to banks	5,613,031	4,273,894
Trading assets - government bonds with maturity less than 3 months	1,165	-
	<u>6,611,195</u>	<u>4,584,015</u>

### 12. Trading assets

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
Government bonds with maturity less than three months	1,165	-
Government bonds with maturity greater than three months	234,597	83,574
Total trading assets	<u>235,762</u>	<u>83,574</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management

#### Objectives, policies and strategies

Financial instruments are fundamental to the Company's business and constitute the core elements of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Company. Financial instruments create, modify or reduce the liquidity, credit and market risk of the Company's balance sheet.

The purpose for which the Company holds or issues financial instruments can be classified into five main categories:

- **Loans and deposits:** Loans and deposits form a large part of the Company's business. The Company has detailed policies and strategies in respect of its customer loans and deposits that seek to minimise the risks associated with these financial instruments.
- **Investment securities:** The Company holds securities, excluding strategic investments, for use on a continuing basis in the Company's activities. The objective of holding such financial instruments is primarily to hedge interest rate exposure and to manage cash positions.
- **Hedging:** Where financial instruments form part of the Company's management strategy they are classified as economic hedges. The objective for holding financial instruments as hedges is to match or minimise the risk arising because of adverse movements in interest rates or exchange rates. Cash products and fx forwards are the main instruments used for economically hedging the balance sheet.

In the normal course of business, the Company enters into a variety of derivative transactions in the interest rate and foreign exchange markets. They are used to provide financial services to customers and to take, hedge and modify positions as part of trading activities. Derivatives may also be used to economically hedge or modify risk exposures arising on the balance sheet from a variety of activities, including lending and securities investment. Most of the counterparties in the Company's derivative transactions are banks and other financial institutions. The risks involved in derivatives include market, credit and liquidity risk.

- **Other liabilities:** The Company holds other liabilities, which, are primarily composed of amounts payable in related to pre-funded obligations arising from the Company's Worldlink multi-currency transaction services business.
- **Derivative trading:** In the normal course of business, the Company enters into a variety of derivative transactions principally in the interest rate and foreign exchange markets. They are used to provide financial services to customers and to take, hedge, and modify positions, as part of trading activities. Most of the counterparties in the Company's derivative transactions are banks and other financial institutions.

#### Risk management

Each of the major business groups within Citi 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, and also the primary risk contact for the regional business heads and local regulators. In addition, the position of Product Chief Risk Officer was created for those areas of critical importance to Citigroup such as real estate, structured credit products and fundamental credit. The Product Risk Officers are accountable for the risks within their specialty. The Product Risk Officers serve as a resource to the Chief Risk Officer, as well as to the Business and Regional Chief Risk Officers.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Risk management (continued)

In addition to changing the risk management organisation to facilitate the management of risk across these three dimensions, the Citigroup risk organisation also includes the Business Management team to ensure that the risk organisation has the appropriate infrastructure, processes and management reporting. This team which supports risk management within the Company includes:

- the risk capital group, which continues to enhance the risk capital model and ensure that it is consistent across all our business activities;
- the risk architecture group, which ensures we have integrated systems and common metrics, and thereby allows us to aggregate and stress exposures across the institution;
- the infrastructure risk group, which focuses on improving our operational processes across businesses and regions.

Credit, Market and Operational risk are managed, monitored and controlled through the Citibank Europe plc Credit, Market and Operational Risk Committees.

#### *Risk aggregation and stress testing*

The Citi Chief Risk Officer, as noted above, monitors and controls 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 Company.

Comprehensive stress tests take place across Citigroup mark-to-market, available-for-sale, and accrual portfolios. These firm-wide stress reports measure the potential impact to the Group and its component businesses including the risk within the Group of very large changes in various types of key risk factors (e.g., interest rates, credit spreads), as well as the potential impact of a number of historical and hypothetical forward-looking systemic stress scenarios.

Supplementing the stress testing described above, Risk Management, working with input from the businesses and Finance, provides periodic updates to senior management and the Citigroup Board of Directors 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 Citigroup 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 as these processes 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 Company, the results of these processes then serve as the starting point for developing risk management and mitigation strategies.

Citibank Europe Plc also conducts stress testing from the entities perspective and the results are built into the future capital plans of the entity.

#### **Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human factors or systems or from external events. It includes the reputation and franchise risk associated with business practices or market conduct that the Company undertakes. Operational risk is inherent in the Company'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
- Independent review by Audit and Risk Review (ARR).

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Operational risk *(continued)*

##### *Framework*

The Company follows the approach to operational risk as defined by in the Citigroup Risk and Control Self – Assessment (RCSA)/Operational Risk Policy. The objective of the Policy is to establish a consistent value – added framework for assessing and communicating operational risk and the overall effectiveness of the internal control environment across Citigroup. Information about operational risk, historical losses and the control environment, is reported and summarised for the Audit committee, senior management and for the Directors.

#### Market risk

Market risk encompasses a number of components, currency risk, interest rate risk and other price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Other price risk is the risk to fair value or future cash flows because of changes in market prices other than currency risk and interest rate risk.

#### Market risk management

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. Management of this process begins with the professionals nearest to the Group's customers, products, and markets, and extends up to the senior executives who manage these businesses and to the country level. Periodic reviews are conducted by Audit and Risk Review to ensure compliance with institutional policies and procedures for the assessment, management, and control of market risk.

Price risk is measured using Interest Rate Exposure ("IRE") limits, stress and scenario analysis, which are applied to interest rate risk arising in the non-trading portfolios and factor sensitivity limits and Value-at Risk ("VaR"), stress and scenario analysis, which are applied to the trading portfolios.

#### Trading price risk

##### *Overall objectives*

The Company uses a daily VaR measure, in conjunction with factor sensitivity and stress reporting, as a mechanism for monitoring and controlling market risk for the trading portfolio. The VaR is calculated at a 99% confidence level assuming a one-day liquidation horizon. Daily losses are expected to exceed the VaR, on average, once every one hundred business days.

##### *VaR Methodology*

The VaR engine is based on a structured Monte-Carlo approach where 5,000 scenarios of market rates/prices are simulated. The covariance matrix of volatility and correlation is updated at least quarterly, based on three years' worth of market data.

##### *VaR limitations*

Although extensive back-testing of the VaR hypothetical portfolios, with varying concentrations by industry, risk rating and other factors is performed, the VaR cannot necessarily provide an indication of the potential size of loss when an extreme event occurs. Hence a comprehensive set of factor sensitivity limits and stress tests are used, in addition to VaR limits.

A VaR trigger is in place for the Company that ensures any excesses are discussed and resolved between risk and the business and entity management. In addition, the Company is subject to formal limits on interest rate and issuer exposures that are closely monitored by Risk Management and senior business management.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

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

	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
<b>Czech</b>	<b>31-Dec-10</b>				<b>31-Dec-09</b>
	Outstanding	Min	Avg	Max	Outstanding
VaR of interest instruments	351	249	601	914	779
VaR of currency instruments	223	24	502	1,591	36
<b>Hungary</b>	<b>31-Dec-10</b>				<b>31-Dec-09</b>
	Outstanding	Min	Avg	Max	Outstanding
VaR of interest instruments	806	363	1,010	2,492	526
VaR of currency instruments	177	30	468	1,721	208
<b>Slovakia</b>	<b>31-Dec-10</b>				<b>31-Dec-09</b>
	Outstanding	Min	Avg	Max	Outstanding
VaR of interest instruments	4	2	8	39	5
VaR of currency instruments	10	3	11	195	13
<b>Romania</b>	<b>31-Dec-10</b>				<b>31-Dec-09</b>
	Outstanding	Min	Avg	Max	Outstanding
VaR of interest instruments	2,388	578	1,312	2,662	553
VaR of currency instruments	200	59	221	515	152

### Non-trading price risk

Price risk in the non-trading portfolios is measured using Interest Rate Gap Analysis, IRE (Interest Rate Exposure) 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. IRE is calculated separately for each currency and reflects the re-pricing gaps in the position, as well as option positions, both explicit and embedded. Limits are set for each country and business activity, of which the Company is a part. Market Risk Management monitors these limits.

#### Interest rate risk

The Company's exposure to interest rate fluctuations on its banking portfolio is proactively managed and monitored within approved guidelines. Interest rate risk is measured using, IRE limits and stress and scenario analysis. The IRE measures the potential change in expected net interest earnings over an accounting horizon of 12 months and 5 years and has been broken down into the main currencies on the Company's balance sheet. 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 from such an upward shift, while a negative IRE indicates a potential decline of earnings.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Market risk management (continued)

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

#### Interest rate exposure report

Currency €000's	2010		2009	
	12 Month	5 Year	12 Month	5 Year
USD	(3,145)	(3,486)	(1,977)	(986)
EUR	2,438	2,361	166	2,753
RON	(631)	(1,965)	(703)	(2,085)
CZK	(1,741)	(4,808)	(687)	1,048
HUF	(1,655)	(2,940)	(2,169)	(1,851)
GBP	293	412	56	465

Citi's market risk management policy governs the Company's measurement and reporting of interest rate risk in the non-trading portfolio. Business-specific assumptions underling these measurements must be documented and models used to measure interest rate risk must be independently reviewed for accuracy.

#### Currency risk

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

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

	2010		
	Net exposure €000	(%)	Income statement impact €000
USD	25,805	10	2,581
HUF	2,205	11	243
RON	(6,236)	8	(499)
2009			
	Net exposure €000	(%)	Income statement impact €000
USD	7,077	10	708
HUF	(24,986)	16	(3,998)
RON	(11,638)	3	(349)

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Liquidity risk

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

The forum for liquidity issues is the Asset/Liability Management Committee (“ALCO”), which includes senior executives within the Company. The ALCO reviews the current and prospective funding requirements for the Company, as well as the capital position and balance sheet.

A liquidity policy is prepared annually and the liquidity profile is monitored on an on-going basis and reported daily. Liquidity risk is measured and managed using the Market Access Report (“MAR”) process in accordance with Citigroup policy.

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

<b>As at 31 December 2010</b>	<b>Less than 12 months €000</b>	<b>Over 12 months €000</b>	<b>Total €000</b>
<b>Assets</b>			
Cash and balances at central banks	996,999	-	996,999
Loans and advances to banks	6,977,460	488,155	7,465,615
Loans and advances to customers	4,490,351	375,880	4,866,231
Derivative financial instruments	1,534,194	5,678	1,539,872
Trading assets	162,451	73,311	235,762
Investment securities	710,724	894,761	1,605,485
All other assets	403,453	235,589	639,042
<b>Total assets</b>	<u>15,275,632</u>	<u>2,073,374</u>	<u>17,349,006</u>
<b>Liabilities</b>			
Deposits by banks	3,674,700	15,817	3,690,517
Customer accounts	6,590,095	2,320	6,592,415
Derivative financial instruments	1,579,881	3,585	1,583,466
Debt securities in issue	-	-	-
All other liabilities	1,476,322	44,092	1,520,414
<b>Total liabilities</b>	<u>13,320,998</u>	<u>65,814</u>	<u>13,386,812</u>
<b>Net</b>	1,954,634	2,007,560	3,962,194

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Liquidity risk (continued)

As at 31 December 2009	Less than 12 months €000	Over 12 months €000	Total €000
<b>Assets</b>			
Cash and balances at central	310,121	-	310,121
Loans and advances to banks	7,342,286	455,063	7,797,349
Loans and advances to customers	2,334,339	628,021	2,962,360
Derivative financial instruments	660,182	1,118,839	1,779,021
Trading assets	41,323	42,251	83,574
Investment securities	591,619	305,073	896,692
All other assets	201,364	508,330	709,694
<b>Total assets</b>	<u>11,481,234</u>	<u>3,057,577</u>	<u>14,538,811</u>
<b>Liabilities</b>			
Deposits by banks	1,001,051	-	1,001,051
Customer accounts	6,896,488	1,905	6,898,393
Derivative financial instruments	657,832	1,175,304	1,833,136
Debt securities in issue	7,212	-	7,212
All other liabilities	1,198,034	75,681	1,273,715
<b>Total liabilities</b>	<u>9,760,617</u>	<u>1,252,890</u>	<u>11,013,507</u>
<b>Net</b>	1,720,617	1,804,687	3,525,304

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Liquidity risk (continued)

The table below analyses the Company's liabilities into relevant maturity groupings based on the remaining contractual cash flows.

<b>As at 31 December 2010</b>	<b>1 year and less €000</b>	<b>&gt;1 year and 5 years €000</b>	<b>Greater than 5 years €000</b>	<b>Carrying amount €000</b>
<b>Liabilities</b>				
Deposits by banks	3,674,700	15,817	-	3,690,517
Customer accounts	6,590,095	2,320	-	6,592,415
Derivative financial instruments	1,579,881	2,531	1,054	1,583,466
Debt securities in issue	-	-	-	-
All other liabilities	1,476,322	34,945	9,147	1,520,414
<b>Total liabilities</b>	<u>13,320,998</u>	<u>55,613</u>	<u>10,201</u>	<u>13,386,812</u>

<b>As at 31 December 2009</b>	<b>1 year and less €000</b>	<b>&gt;1 year and 5 years €000</b>	<b>Greater than 5 years €000</b>	<b>Carrying amount €000</b>
<b>Liabilities</b>				
Deposits by banks	1,001,051	-	-	1,001,051
Customer accounts	6,896,488	1,905	-	6,898,393
Derivative financial instruments	657,832	13,243	1,162,061	1,833,136
Debt securities in issue	7,212	-	-	7,212
All other liabilities	1,198,034	25,594	50,087	1,273,715
<b>Total liabilities</b>	<u>9,760,617</u>	<u>40,742</u>	<u>1,212,148</u>	<u>11,013,507</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Liquidity risk (continued)

The following table analyses the Company's commitments and guarantees into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	<b>1 year and less €000</b>	<b>&gt;1 year and 5 years €000</b>	<b>Greater than 5 years €000</b>	<b>Carrying amount €000</b>
<b>2010</b>				
Undrawn commitments to lend	1,315,703	1,383,013	828,396	3,527,113
Letters of credit	4,756,824	8,024,093	-	12,780,917
Other commitments and guarantees	536,846	607,334	9,048	1,153,228
<b>Total commitments and guarantees</b>	<b>6,609,373</b>	<b>10,014,440</b>	<b>837,445</b>	<b>17,461,258</b>
<b>2009</b>				
Undrawn commitments to lend	473,858	387,042	93,735	954,635
Letters of credit	2,138,683	8,735,817	-	10,874,500
Other commitments and guarantees	982,694	399,213	2,532	1,384,439
<b>Total commitments and guarantees</b>	<b>3,595,235</b>	<b>9,522,072</b>	<b>96,267</b>	<b>13,213,574</b>

#### Credit risk

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in many of Citigroup's business activities, including:

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

The different business groups manage their credit risk process as follows:

##### 1. Institutional Clients Group ("ICG")

For corporate clients and investment banking activities across the organization, the credit process is grounded in a series of fundamental policies, including:

- joint business and independent risk management responsibility for managing credit risks;
- single centre of control for each credit relationship that coordinates credit activities with that client;
- a minimum of two authorised-credit-officer signatures are required on extensions of credit, one of which must be from a credit officer in credit risk management;
- risk rating standards, applicable to every obligor and facility; and
- consistent standards for credit origination documentation and remedial management.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Credit risk (continued)

The Company has established processes for the consistent calculation, measurement, monitoring and reporting of credit risk across all ICG businesses globally. At the most granular level, credit is extended under a credit limit approved by a unit aligned with the obligor. As part of the approval or subsequent renewal process, Independent Risk Management is responsible for assigning a risk rating to the obligor. The risk rating refers to an expected probability of default of the obligor and is therefore part of the expression of the credit risk associated with extending credit. Each credit limit is assigned a facility risk rating, taking the obligor risk rating and including any facility level characteristics (security, collateral, etc) to assign a rating that is an expression of the expected loss on a facility (the product of probability of default and loss given default). The final component of credit risk is the amount of exposure and here measures vary from the most simple (e.g. value of the asset) to complex (e.g. estimating potential replacement cost on a derivative contract). The processes required for these measurements therefore also vary considerably - from a simple feed of balances to a complex simulation engine.

Credit risk is therefore measured at a number of levels, including:

- At a facility level which may include one or more contracts, availments or transactions.
- At an obligor level if there are multiple facilities approved for an obligor - where the risk associated with an obligor default can be assessed
- At a group level - considering the implications of a group structure of multiple obligors with common ownership.

Obligor probability of default is monitored by having independent risk analysts and managers aligned to the obligor, who maintain current information about the obligor's condition and revisit the risk rating and approved limits in the event of material new information coming to light.

Exposure is monitored against the approved limits and excesses are automatically identified to an appropriate member of Independent Risk Management. Escalation processes ensure that larger and aged exceptions are raised to an appropriately Senior Credit Officer.

The Company has a Credit risk reporting system (Global Risk Reporting - GRR), to which all material exposures are reported on a daily basis by numerous underlying product processors and other feeder systems. An analyst or risk manager can, therefore, obtain a snapshot as at close of business previous day of all material exposures to his/her obligor(s), whether or not exposure has exceeded a limit.

#### 2. Global Cards and Consumer Banking (“Consumer”)

Country Business Managers have ownership of portfolios and are accountable for managing the risk/return trade-offs in their businesses. In cooperation with Senior/Country Credit Officers they implement policies, procedures and risk management practices in their businesses that are compliant with global consumer credit risk policies.

Consumer risk officers regularly review the performance of the consumer businesses and ensure that appropriate control is exercised. A risk differentiated approach is employed, such that critical activities, for example collection and fraud, are reviewed with greater frequency.

Credit authority levels, the delegation process, approval processes for portfolios, product approvals, and other types of required approvals, as well as credit authority levels and responsibilities are defined in Global Consumer Credit and Fraud Risk Policies. These policies establish a consistent set of standards for the appointment of Credit Officers and Senior Credit Officers, streamline the approval process, create auditable policies, and ensure the accountability and responsibility of risk management staff. The Country Credit Officer prepares credit strategy in collaboration with the Country Business Manager, which is reviewed by the Regional Senior Credit Officer.

There is an established set of measures, procedures and policies that aims at monitoring results of retail portfolios that ensures internal control. These include:

- Comparison of indicators to past performance
- Country Credit Officer reviews
- Stress tests
- Mandates and approval authorities

In addition to these procedures each business has credit benchmarks that set out its short and long-term expectations.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Financial instruments and risk management (continued)

#### Credit risk (continued)

#### Exposure to credit risk - Loans and advances to third parties

2010	Charge and credit card debtors €000	Commercial loans €000	Consumer loans €000	Total €000
Gross Amount	403,878	5,762,515	189,058	6,355,451
<i>Individual impairments</i>				
Current	-	69,115	-	69,115
1 - 119 days past due	-	7,480	-	7,480
120 - 179 days past due	-	148	-	148
180 days or more past due	-	17,587	-	17,587
Gross Amount	-	94,330	-	94,330
Impairment loss on individually assessed loans	-	(22,103)	-	(22,103)
Carrying amount of individually assessed loans	-	72,227	-	72,227
<i>Collective impairments</i>				
Current	352,713	5,644,930	152,829	6,150,472
1 - 89 days past due	33,626	11,475	22,347	67,448
90 - 119 days past due	5,682	939	13,882	20,503
120 - 180 days past due	11,857	810	-	12,667
Over 180 days	-	10,031	-	10,031
Gross Amount	403,878	5,668,185	189,058	6,261,121
Impairment loss on collectively assessed loans	(29,574)	(28,443)	(21,897)	(79,914)
Carrying amount of collectively assessed loans	374,304	5,639,742	167,161	6,181,207
Total impairment provision	(29,574)	(50,546)	(21,897)	(102,017)
Total carrying amount	374,304	5,711,968	167,161	6,253,433
Impairment on undrawn commitments	-	(8,167)	-	(8,167)

The total carrying amount in this table includes third party loans and advances to banks and loans and advances to customers as per note 14. See table below for split by category.

<i>Total carrying amounts</i>	Note	2010 €000
<b>Due from banks</b>		
Loans and advances - 3rd party	14	1,387,202
<b>Loans and advances to customers</b>		
Charge and credit card debtors	14	374,304
Commercial loans	14	3,806,127
Consumer loans	14	167,161
Loans held at fair value through the profit and loss	14	518,639
		<u>6,253,433</u>

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**13. Financial instruments and risk management (continued)**

**Credit risk (continued)**

**Exposure to credit risk - Loans and Advances to third parties**

<b>2009</b>	<b>Charge and credit card debtors €000</b>	<b>Commercial loans €000</b>	<b>Consumer loans €000</b>	<b>Total €000</b>
Gross Amount	379,834	3,203,241	345,421	3,928,496
<i>Individual impairments</i>				
Current	-	17,650	-	17,650
1 - 119 days past due	-	79,208	-	79,208
120 - 179 days past due	-	-	-	-
180 days or more past due	-	20,598	-	20,598
Gross Amount	-	117,456	-	117,456
Impairment loss on individually assessed loans	-	(28,969)	-	(28,969)
Carrying amount of individually assessed loans	-	88,487	-	88,487
<i>Collective impairments</i>				
Current	329,319	3,074,151	280,002	3,683,472
1 - 89 days past due	41,167	5,539	57,265	103,971
90 - 119 days past due	5,751	3,866	5,847	15,464
120 - 180 days past due	3,595	284	2,307	6,186
Over 180 days	-	1,947	-	1,947
Gross Amount	379,832	3,085,787	345,421	3,811,040
Impairment loss on collectively assessed loans	(31,361)	(31,371)	(28,918)	(91,650)
Carrying amount of collectively assessed loans	348,471	3,054,416	316,503	3,719,390
Total impairment provision	(31,361)	(60,340)	(28,918)	(120,619)
Total carrying amount	348,471	3,142,903	316,503	3,807,877
Impairment on undrawn commitments	-	(5,450)	-	(5,450)

The total carrying amount in this table includes third party loans and advances to banks and loans and advances to customers as per note 14. See table below for split by category.

<i>Total carrying amounts</i>	<b>Note</b>	<b>2009 €000</b>
<b>Due from banks</b>		
Loans and advances - 3rd party	<b>14</b>	845,517
<b>Loans and advances to customers</b>		
Charge and credit card debtors	<b>14</b>	348,471
Commercial loans	<b>14</b>	2,297,386
Consumer loans	<b>14</b>	316,503
		<u><b>3,807,877</b></u>

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**13. Financial instruments and risk management** (continued)

**Credit risk** (continued)

**Movement in provisions for impairment balances**

	<b>Charge and credit card debtors €000</b>	<b>Commercial loans €000</b>	<b>Consumer loans €000</b>	<b>Total €000</b>
Balance at 1 January 2009	(11,575)	(56,128)	(1,989)	(69,692)
Provisions from business combination	(5,756)	(10,697)	(18,808)	(35,261)
Provisions taken in 2009	(6,480)	(20,478)	5,842	(21,116)
Balance at 31 December 2009	(23,811)	(87,303)	(14,955)	(126,069)
Provisions taken in year	2,246	6,500	7,138	15,885
Balance at 31 December 2010	<u>(21,565)</u>	<u>(80,803)</u>	<u>(7,817)</u>	<u>(110,184)</u>

**Net credit losses charged to the current year income statement**

	<b>2010 €000</b>	<b>2009 €000</b>
Current year impairment charges	15,885	(56,377)
Net credit write-offs/recoveries	(95,875)	(92,438)
	<u>(79,990)</u>	<u>(148,815)</u>

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**13. Financial instruments and risk management** (continued)

**Credit risk** (continued)

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

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Gross exposure		
- Commitments and guarantees	17,461,258	13,213,574
- Balance sheet exposures	17,001,944	14,044,265
Total exposure	<u>34,463,202</u>	<u>27,257,839</u>

Note: The Company does not recognise inter group balances as giving rise to credit exposure.

Balance sheet exposures include cash and cash balance at central banks, trading assets, loans and advances, investment securities, derivative financial assets and other assets.

Cash and OECD Government bonds are held as collateral against a significant number commitments and guarantees.

The Company's Balance sheet credit risk concentrations by industry are as follows:

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Financial services	9,572,917	9,709,237
Governments & Central banks.	2,875,787	1,277,238
Engineering / Electronics	1,075,950	505,009
Consumer	912,248	709,746
Transport	658,753	59,501
Agriculture	363,478	211,370
Food & Drinks industry	332,723	138,004
Chemicals	216,063	206,114
Oil & Gas	147,562	58,750
Construction	106,633	72,428
Communication	98,746	9,005
Local government	39,459	-
Other	601,625	1,087,863
	<u>17,001,944</u>	<u>14,044,265</u>

Included in credit risk exposures are cash & balances at central banks, trading assets, derivative financial instruments, loans and advances, investment securities and other assets.

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**13. Financial instruments and risk management** (continued)

**Credit risk** (continued)

The table below shows balance sheet credit concentrations by region.

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Western Europe	9,186,910	7,292,221
Central Europe	4,890,149	5,745,655
Central / South America	1,356,117	135,647
Middle East / Africa	763,282	306,897
North America	597,964	290,599
Other	207,522	273,246
	<u>17,001,944</u>	<u>14,044,265</u>

**Capital management regulatory capital requirements**

The Company's lead regulator the Central Bank of Ireland ("CB") sets and monitors capital requirements for the Company.

In implementing current capital requirements the CB requires the Company to maintain a prescribed ratio of total capital to total capital requirements. The Company calculates requirements in line with the CB's rules.

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

**Regulatory capital requirements**

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

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
<b>Total regulatory capital</b>	<u>2,910,429</u>	<u>2,795,538</u>
<b>Total capital requirements</b>	<u>1,221,095</u>	<u>1,039,074</u>
<b>Capital adequacy ratio</b>	17%	22%

The Company has complied with all capital adequacy requirements throughout the period. Further information on the Company's capital requirements and risk management ("Pillar 3 Disclosures") can be found at [www.citigroup/citi/fin](http://www.citigroup/citi/fin).

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**14. Financial assets and liabilities**

The below tables outline the total financial assets and liabilities held as at 31 December 2010 and 31 December 2009.

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
Total financial assets held at fair value	3,899,758	2,759,287
Total financial assets not held at fair value	13,040,883	11,285,333
Total financial assets	<u><b>16,940,641</b></u>	<u><b>14,044,620</b></u>

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
Total financial liabilities held at fair value	1,583,466	1,833,136
Total financial liabilities not held at fair value	11,660,719	9,072,138
Total financial liabilities	<u><b>13,244,185</b></u>	<u><b>10,905,274</b></u>

In accordance with IFRS 7, Financial Instruments: Disclosures, the Company has adopted the fair value hierarchy classification of financial instruments. This requires the Company to classify its financial instruments held at fair value according to a hierarchy based on the significance of the inputs used to arrive at the overall fair value of these instruments. The fair value hierarchy is determined as follows:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

There have been no transfers between levels 1 and 2 and no level 3 financial instruments held during the year ended 31 December 2010.

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**14. Financial assets and liabilities (continued)**

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

31 December 2010	Fair value			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
<b>Financial assets</b>				
Derivative financial instruments	-	1,539,872	-	1,539,872
Trading assets	55,919	179,843	-	235,762
Investment securities	787,509	817,976	-	1,605,485
Loans held at fair value through the profit and loss	-	518,639	-	518,639
<b>Financial assets held at fair value</b>	<u>843,428</u>	<u>3,056,330</u>	<u>-</u>	<u>3,899,758</u>

31 December 2010	Fair value			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
<b>Financial liabilities</b>				
Derivative financial instruments	-	1,583,466	-	1,583,466
<b>Financial liabilities held at fair value</b>	<u>-</u>	<u>1,583,466</u>	<u>-</u>	<u>1,583,466</u>

Loans held at fair value through the profit and loss, totalling €519 million are included in the statement of financial position within the loans and advances to customers caption. These assets were transferred to the Company during the year and are also discussed in note 1(h) – *financial assets at fair value through the profit and loss*.

31 December 2009	Fair value			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
<b>Financial assets</b>				
Derivative financial instruments	-	1,779,021	-	1,779,021
Trading assets	50,876	32,698	-	83,574
Investment securities	568,967	327,725	-	896,692
<b>Financial assets held at fair value</b>	<u>619,843</u>	<u>2,139,444</u>	<u>-</u>	<u>2,759,287</u>

31 December 2009	Fair value			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
<b>Financial liabilities</b>				
Derivative financial instruments	-	1,833,136	-	1,833,136
<b>Financial liabilities held at fair value</b>	<u>-</u>	<u>1,833,136</u>	<u>-</u>	<u>1,833,136</u>

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**14. Financial assets and liabilities (continued)**

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

	Note	31 December 2010			31 December 2009		
		Loans and receivables €000	Other amortised cost €000	Total carrying amount €000	Total fair value €000	Total carrying amount €000	Total fair value €000
<b>Financial assets</b>							
Cash and balances with central bank	11	979,734	17,265	996,999	996,999	310,121	310,121
<b>Loans and advances to banks</b>							
Loans and advances - intercompany	28	6,078,413	-	6,078,413	6,072,723	6,951,832	6,951,832
Loans and advances - 3rd party		1,387,202	-	1,387,202	1,388,196	845,517	844,966
		<u>7,465,615</u>	<u>-</u>	<u>7,465,615</u>	<u>7,460,918</u>	<u>7,797,349</u>	<u>7,796,798</u>
<b>Loans and advances to customers</b>							
Charge and credit card debtors	13	374,304	-	374,304	374,390	348,471	325,109
Commercial loans	13	3,806,127	-	3,806,127	3,806,553	2,297,386	2,298,951
Consumer loans	13	167,161	-	167,161	150,221	316,503	297,592
		<u>4,347,592</u>	<u>-</u>	<u>4,347,592</u>	<u>4,331,164</u>	<u>2,962,360</u>	<u>2,921,652</u>
<b>Other financial assets</b>		-	230,677	230,677	230,677	215,503	215,149
		<u><b>12,792,941</b></u>	<u><b>247,942</b></u>	<u><b>13,040,883</b></u>	<u><b>13,019,759</b></u>	<u><b>11,285,333</b></u>	<u><b>11,243,720</b></u>

Loans held at fair value through the profit and loss, totalling €19 million (2009: €nil) are included in the statement of financial position within the loans and advances to customers caption. These assets were transferred to the Company during the year and are also discussed in note 1(h) – *financial assets at fair value through the profit and loss*.

At 31 December 2010 €376 million of Loans and advances to customers are expected to be recovered more than 12 months after the reporting date (2009: €628 million). The carrying amount of renegotiated loans as at 31 December 2010 was €19 million (2009: €7 million).

Other financial assets are primarily comprised of receivables balances from the Company's Worldlink multi-currency transaction services business.

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**14. Financial assets and liabilities (continued)**

	31 December 2010			31 December 2009	
	Other amortised cost €000	Total carrying amount €000	Total fair value €000	Total carrying amount €000	Total fair value €000
<b>Financial liabilities</b>					
Deposits by banks - Intercompany	2,347,434	2,347,434	2,347,428	310,280	310,239
Deposits by banks - 3rd party	1,343,083	1,343,083	1,343,077	690,771	690,726
	<b>3,690,517</b>	<b>3,690,517</b>	<b>3,690,505</b>	<b>1,001,051</b>	<b>1,000,965</b>
Customer accounts	6,592,415	6,592,415	6,552,932	6,898,393	6,893,437
Securities in issue	-	-	-	7,212	7,212
Other liabilities	1,377,787	1,377,787	1,377,788	1,165,482	1,165,482
	<b>11,660,719</b>	<b>11,660,719</b>	<b>11,621,225</b>	<b>9,072,138</b>	<b>9,067,096</b>

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

- Derivative financial instruments, trading assets, and debt securities in issue are measured at fair value by reference to quoted market prices in active markets. If quoted market prices are not available then fair values are estimated on the basis of other valuation techniques, including discounted cash flow models and options pricing models. The market price includes credit value adjustments
- Investment securities classified as available-for-sale or designated at fair value, through P&L, are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated based on other recognised valuation techniques.
- The fair value for loans and advances and other lending are estimated using internal valuation techniques such as discounted cash flow analyses. If available, the Company may also use quoted prices for recent trading activity of assets with similar characteristics to the loan being valued. In certain cases the fair value approximates carrying value because the instruments are short term in nature or reprice frequently.
- During 2010, the Company acquired a group of loans at fair value. At the same time, the Company entered into interest rate swaps to manage the interest rate risk of the acquired loans. The loans have been designated at fair value through the profit and loss in order to avoid any accounting mismatch between an accrual basis loan and a derivative that is held at fair value. Any mark-to-market gains or losses on the loans and swaps are taken directly to the income statement. Credit risk on the loans is considered minimal (and relatively stable) due to each loan being guaranteed by AAA rated export credit agency.
- The fair value of debt securities in issue that are classified at amortised cost is measured using discounted cash flows.
- Fair values of customer account deposit liabilities, other assets and other liabilities are estimated using discounted cash flows, applying either market rates where practicable, or rates currently offered by the Group for deposits of similar remaining maturities. Where market rates are used no adjustment is made for counterparty credit spreads.
- The carrying amount of cash and balances at central banks is a reasonable approximation of fair value due to the short term nature of the balances.

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**15. Investment securities**

Investment securities are primarily composed of government securities from OECD member states.

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
<b>Investment securities - available for sale</b>		
Debt securities:		
- listed	1,228,472	669,334
- unlisted	376,941	226,752
Equity securities:		
- listed	-	534
- unlisted	72	72
	<u>1,605,485</u>	<u>896,692</u>

**16. Derivative financial instruments**

	<b>2010</b>	<b>2010</b>		<b>2009</b>	<b>2009</b>	
	<b>Notional amount</b>	<b>Fair value</b>		<b>Notional amount</b>	<b>Fair value</b>	
	<b>€000</b>	<b>Asset</b>	<b>Liability</b>	<b>€000</b>	<b>Asset</b>	<b>Liability</b>
		<b>€000</b>	<b>€000</b>		<b>€000</b>	<b>€000</b>
<b>Exchange rate related contracts</b>						
Forwards and futures	8,516,278	130,149	123,947	7,798,574	121,763	126,323
Currency swaps	6,131,427	130,404	133,862	7,933,600	165,100	197,970
Options	1,262,380	15,198	15,184	2,557,311	46,657	46,644
	<u>15,910,085</u>	<u>275,751</u>	<u>272,993</u>	<u>18,289,485</u>	<u>333,520</u>	<u>370,937</u>
<b>Interest rate related contracts</b>						
Forward rate agreement	8,825,201	5,436	7,722	5,028,910	11,009	9,697
Interest rate swaps	53,639,191	1,256,316	1,300,086	58,763,822	1,346,084	1,364,094
Options	114,945	1,700	1,996	3,846,698	87,282	87,282
	<u>62,579,337</u>	<u>1,263,452</u>	<u>1,309,804</u>	<u>67,639,430</u>	<u>1,444,375</u>	<u>1,461,073</u>
<b>Equity and commodity related contracts</b>						
Options	8,216	669	669	694	1	1
Swaps	-	-	-	2,566	1,125	1,125
	<u>8,216</u>	<u>669</u>	<u>669</u>	<u>3,260</u>	<u>1,126</u>	<u>1,126</u>
<b>Total derivative contracts</b>	<u>78,497,638</u>	<u>1,539,872</u>	<u>1,583,466</u>	<u>85,932,175</u>	<u>1,779,021</u>	<u>1,833,136</u>

See note 13 for more details on how the Company uses derivative financial instruments as part of its risk management policies and procedures.

**CITIBANK EUROPE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

**17. Promissory Notes**

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
Fixed rate notes	-	7,212
	<u>-</u>	<u>7,212</u>

**18. Other liabilities**

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
Accounts payable	1,031,357	1,000,905
Other balances	346,430	189,538
	<u>1,377,787</u>	<u>1,190,443</u>

Accounts payable predominantly comprises amounts payable in relation to pre – funded obligations arising from the Company’s Worldlink multi–currency transaction services business. The other balance includes amounts payable to other financial institutions, corporates and other group entities, primarily relating to prepaid risk participations, items in the process of settlement and supplier finance transactions.

**19. Shares in subsidiary undertakings**

	<b>2010</b> <b>€000</b>	<b>2009</b> <b>€000</b>
<b>At 1 January</b>	1,295	5,227
Addition through business combination	-	1,295
Disposal	-	(5,227)
<b>At 31 December</b>	<u>1,295</u>	<u>1,295</u>

The Company has an investment in the following subsidiary:

<b>Name</b>	<b>Country of incorporation</b>	<b>Nature of business</b>	<b>Year end</b>	<b>Registered office</b>	<b>Percentage ownership</b>
Citibank Kereskedelmi és Szolgáltató Kft.	Hungary	Purchase and rental of fixed assets	31 December	Hegyalja út 7-13., 1016, Budapest, Hungary	100 percent of ordinary share capital

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Property and equipment

	Leasehold improvements €000*	Vehicles, furniture and equipment €000*	Total €000
<b>Cost</b>			
<b>At 1 January 2009</b>	11,798	17,293	29,091
Additions from business combinations	15,161	22,063	37,224
Additions	6,715	6,013	12,728
Disposals	(5,853)	(4,790)	(10,643)
Foreign exchange	(572)	(597)	(1,169)
<b>At 31 December 2009</b>	27,249	39,982	67,231
Additions	4,032	16,246	20,278
Disposals	(13,455)	(14,395)	(27,850)
Foreign exchange	523	570	1,093
<b>At 31 December 2010</b>	18,349	42,403	60,752
<b>Depreciation</b>			
<b>At 1 January 2009</b>	9,221	12,724	21,945
Additions from business combinations	5,309	10,692	16,001
Charged in year	3,136	5,352	8,488
Disposals	(2,563)	(2,740)	(5,303)
Foreign exchange	(53)	(367)	(420)
<b>At 31 December 2009</b>	15,050	25,661	40,711
Charged in year	2,646	5,322	7,968
Disposals	(13,100)	(2,241)	(15,341)
Foreign exchange	510	711	1,221
<b>At 31 December 2010</b>	5,106	29,453	34,559
<b>Net book value</b>			
At 31 December 2010	13,243	12,950	26,193
At 31 December 2009	12,198	14,321	26,520

\* In the current year, the opening balances of property plant and equipment at 1 January 2009 have been restated. The restatement arose due to a reclassification of assets from vehicles, furniture and equipment to leasehold improvements. On a net book value basis, the reclassification had no impact in any of the current or prior periods.

There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (2009: €nil).

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Goodwill and Intangible assets

	<b>Goodwill €000</b>	<b>Computer software €000</b>	<b>Total €000</b>
<b>Cost</b>			
<b>1 January 2009</b>	281,943	9,877	291,820
Additions from business combinations	-	7,502	7,502
Additions	-	26,039	26,039
Disposals	-	(1,142)	(1,142)
Foreign exchange	-	(22)	(22)
<b>At 31 December 2009</b>	281,943	42,254	324,197
Additions	-	49,893	49,893
Disposals	-	(1,503)	(1,503)
Transfer to non current assets - held for sale	-	(53,912)	(53,912)
Foreign exchange	-	2,746	2,746
<b>31 December 2010</b>	<u>281,943</u>	<u>39,478</u>	<u>321,421</u>
<b>Amortisation and impairment losses</b>			
<b>1 January 2009</b>	-	3,243	3,243
Amortisation	-	5,544	5,544
Disposals	-	(1,140)	(1,140)
Foreign exchange	-	722	722
<b>At 31 December 2009</b>	-	8,369	8,369
Amortisation	-	8,533	8,533
Impairment	98,000	-	98,000
Disposals	-	(1,011)	(1,011)
Foreign exchange	-	724	724
<b>31 December 2010</b>	<u>98,000</u>	<u>16,615</u>	<u>114,615</u>
<b>Net carrying value</b>			
31 December 2010	<u>183,943</u>	<u>22,863</u>	<u>206,806</u>
31 December 2009	<u>281,943</u>	<u>33,885</u>	<u>315,828</u>

The goodwill arose during 2008 as a result of the acquisition of assets in the Czech Republic. The fair value of the acquired operations was €600 million which included a goodwill component of €82 million. The recoverable amount of the business following a value in use calculation is €183 million, therefore management are of the opinion that there has been an impairment on goodwill in the order of €98 million and this impairment loss is recognised in the income statement. The reduction in value from prior year was primarily driven by a change in forecasted revenue and expense levels after 2013, as these have been based off the 2009 actuals which were lower than previously forecasted in the prior year projections. See note 2 for assumptions used in conjunction with the valuation of goodwill.

There was no internally generated software or capitalised borrowing costs related to the acquisition of intangible assets during the year (2009: €nil).

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Non current assets – held for sale

	2010 €000	2009 €000
<b>Intangible assets</b>		
Computer software	53,912	-
	<u>53,912</u>	<u>-</u>

During the year, it was agreed that steps will be taken to negotiate a sale of software assets to an affiliated company. The total assets to be sold amount to €4 million and have been classified as held for sale, as the sale was not completed as at year end but is expected to be completed within the next 12 months. The proposed transaction has subsequently been approved by the board of directors of both the Company and its affiliate.

### 23. Deferred tax assets

	2010 €000	2009 €000
<b>At 1 January 2010</b>	12,219	4,355
Acquired from business combination - asset	-	4,176
Acquired from business combination - liability	-	(6,254)
Income statement charge (note 10a)	(1,766)	9,942
<b>At 31 December 2010</b>	<u>10,453</u>	<u>12,219</u>

**The movement on the deferred tax is as follows:**

	Balance at 1 January 2010	Recognised in the Income statement	Recognised in other comprehensive income	Balance at 31 December 2010
Property / Equipment and Software	1,023	1,624	-	2,647
Available for sale Securities	60	(426)	-	(366)
Allowances for loan losses	5,951	(3,036)	-	2,915
Tax Loss carry- forward	650	(90)	-	560
Share based payment transactions	566	(974)	-	(408)
Other	3,969	1,136	-	5,105
	<u>12,219</u>	<u>(1,766)</u>	<u>-</u>	<u>10,453</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 24. Called up share capital

<b>Authorised</b>	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
5,000,000,000 common stock of €1 each	<u>5,000,000</u>	<u>5,000,000</u>
<b>Allotted, called-up and fully paid</b>	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
9,318,254 (2009: 9,318,254) common stock of €1 each	<u>9,318</u>	<u>9,318</u>

### 25. Share-based incentive plans

The Company participates in a number of Citigroup share-based incentive plans to attract, retain and motivate employees, to compensate them for their contributions to the Company, and to encourage employee stock ownership.

#### Stock option programme

The Company participates in a number of Citigroup stock option programmes for its employees. Generally, since January 2005, stock options have been granted only to Citigroup's Capital Accumulation Programme ('CAP') participants who elect to receive stock options in lieu of restricted or deferred stock awards. All stock options are granted on Citigroup common stock with exercise prices equal to the fair market value at the time of grant. Options granted since January 2005 typically vest 25% each year over four years and have six-year terms. Options granted in 2004 typically also have six-year terms but vest in thirds each year over three years, with the first vesting date occurring 17 months after the grant date. The sale of underlying shares acquired through the exercise of employee stock options granted since 2003 is restricted for a two-year period (and the shares are subject to stock ownership commitment of senior executives thereafter). Prior to 2003, Citigroup options, including options granted since the date of the merger of Citicorp and Travelers Group, Inc., generally had a 10 year term and vested at a rate of 20% per year over five years, with the first vesting occurring 12 to 18 months following the grant date.

Certain options, mostly granted prior to 1 January 2003, permit an employee exercising an option under certain conditions to be granted new options (reload options) in an amount equal to the number of common shares used to satisfy the exercise price and the withholding taxes due upon exercise. The reload options are granted for the remaining term of the related original option and vest after six months. An option may not be exercised using the reload method unless the market price on the date of exercise is at least 20% greater than the option exercise price. Reload options have been treated as separate grants from the related original grants. Reload options are intended to encourage employees to exercise options at an earlier date and to retain the shares so acquired, in furtherance of the Company's long-standing policy of encouraging increased employee stock ownership.

Since 2009 the Company made a discretionary one-off grant of options to eligible employees pursuant to the broad-based Citigroup Employee Option Grant (CEOG) Program under the Citigroup 2009 Stock Incentive Plan. Under CEOG, the options generally vest ratably over three years, the option term is 6 years from the grant date and the shares acquired on exercise are not subject to a sale restriction.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 25. Share-based incentive plans (continued)

Information for the Company with respect to stock option activity in 2010 and 2009 under Citigroup stock option plans is as follows:

	2010		2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
		\$		\$
<b>Outstanding, beginning of year</b>	2,356,871	11.26	183,923	41.46
Granted	-	-	1,921,531	4.08
Forfeited	(52,560)	15.36	(3,799)	49.22
Transfers	(193,384)	27.86	292,128	42.62
Expired	(52,398)	41.15	(36,912)	32.05
Outstanding, end of year	2,058,529	8.83	2,356,871	11.26
Exercisable, end of year	1,163,399	12.39	395,960	44.20

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 25. Share-based incentive plans (continued)

The following table summarises the information about stock options outstanding under Citigroup stock option plans at 31 December 2010:

Range of exercise prices	Number outstanding	Options outstanding		Options exercisable	
		Weighted average contractual life remaining	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
< \$5.00	1,802,136	4.24	4.08	912,134	4.08
\$5.01 - \$39.99	34,867	0.05	24.45	30,134	24.45
\$40.00 - \$44.99	136,502	0.07	42.11	136,502	42.11
≥ \$45.00	85,024	0.01	49.71	84,620	49.69
	<u>2,058,529</u>	<u>4.37</u>	<u>8.83</u>	<u>1,163,390</u>	<u>12.39</u>

The following table summarises the information about stock options outstanding under Citigroup stock option plans at 31 December 2009:

Range of exercise prices	Number outstanding	Options outstanding		Options exercisable	
		Weighted average contractual life remaining	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
< \$5.00	1,921,531	4.75	4.08	-	-
\$5.01 - \$39.99	40,208	0.07	24.45	10,052	24.45
\$40.00 - \$44.99	242,470	0.15	41.87	242,470	41.87
≥ \$45.00	152,662	0.05	49.60	143,438	49.52
	<u>2,356,871</u>	<u>5.02</u>	<u>11.26</u>	<u>395,960</u>	<u>44.20</u>

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 25. Share-based incentive plans (continued)

#### Stock award programme

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

The program provides that employees who meet certain age plus years-of-service requirements may terminate active employment and continue vesting in their awards provided they comply with specified non-compete provisions. Awards granted to retirement-eligible employees are accrued in the year prior to the grant date in the same manner as cash incentive compensation is accrued.

Stock awards granted in January 2010, 2009, 2008, 2007 and 2006 generally vest 25% per year over four years. The figures presented in the stock option programme table include options granted under CAP.

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

	<b>2010</b>	<b>2009</b>
Shares awarded	1,429,047	2,136,528
Weighted average fair market value per share	\$4.17	\$4.67
Compensation cost charged to earnings	€5,366,947	€8,839,737
Total carrying amount of equity-settled transaction liability	€4,919,803	€2,600,645
Total intrinsic value of liability for vested benefits	€443,711	€NIL
Fair value adjustments recorded to equity	€447,144	€1,239,092

#### Fair value assumptions

Reload options have been treated as separate grants from the related original grants. Under the Company's reload program, upon exercise of an option, employees use previously owned shares to pay the exercise price and surrender shares otherwise to be received for related tax withholding, and receive a reload option covering the same number of shares used for such purposes. Reload options vest at the end of a six-month period. Reload options are intended to encourage employees to exercise options at an earlier date and to retain the shares so acquired, in furtherance of the Company's long-standing policy of encouraging increased employee stock ownership. The result of this program is that employees generally will exercise options as soon as they are able and, therefore, these options have shorter expected lives. Shorter option lives result in lower valuations using a Binomial option model. However, such values are expensed more quickly due to the shorter vesting period of reload options. In addition, since reload options are treated as separate grants, the existence of the reload feature results in a greater number of options being valued.

Shares received through option exercises under the reload program, as well as certain other options granted, are subject to restrictions on sale. Discounts have been applied to the fair value of options granted to reflect these sale restrictions.

Additional valuation and related assumption information for Citigroup option plans is presented below. Citigroup used a binomial type model to value stock options. Volatility has been estimated by taking the historical volatility in traded Citigroup options and adjusting where there are known factors that may affect future volatility.

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 25. Share-based incentive plans (continued)

For options granted during	2010	2009
<b>Weighted average fair value at year end</b>		
Option	n/a	\$0.41
<b>Weighted average expected life</b>		
Optional grants	n/a	5 years
Reload grants	n/a	1 year
Option life	n/a	5 years
<b>Valuation assumptions</b>		
Expected volatility	n/a	37.74%
Risk-free interest rate	n/a	2.56%
Expected dividend yield	n/a	0.00%
Expected annual forfeitures	n/a	9.62%

### 26. Contingent liabilities and commitments

The following tables give the nominal principal amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with Irish Financial Regulator guidelines on capital adequacy.

	<b>Contract amount 2010 €000</b>	<b>Risk weighted amount 2010 €000</b>	<b>Contract amount 2009 €000</b>	<b>Risk weighted amount 2009 €000</b>
<b>Undrawn Credit lines</b>	3,256,044	1,169,639	1,939,628	747,474
<b>Other commitments</b>				
- less than 1 yr	5,341,952	1,586,786	2,085,489	716,520
- 1 yr and over	8,639,261	1,463,423	8,988,457	1,165,944
<b>Extended rate commitment</b>	<u>224,000</u>	<u>224,000</u>	<u>200,000</u>	<u>200,000</u>
<b>Total</b>	<u><u>17,461,257</u></u>	<u><u>4,443,848</u></u>	<u><u>13,213,574</u></u>	<u><u>2,680,372</u></u>

Other commitments primarily relate to the Insurance Letters of Credit business.

The Company has granted a floating charge over certain holdings in securities, collateral and monies relating to the Company's participation in clearance/settlement systems.

The Company held an impairment provision of €8.2 million as at 31 December 2010 (2009: €5.5 million), with respect to their commitments.

The extended rate commitment is a facility providing fixed foreign exchange rates against clients operational cashflows for a set number of days after the rate is fixed.

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**NOTES TO THE FINANCIAL STATEMENTS**

**27. Operating leases commitments**

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Expiring:		
- within one year	3,668	33
- between one and five years	23,941	34,832
- in five years or more	16,166	22,234
	<u>43,775</u>	<u>57,099</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**28. Related party transactions**

The Company is a wholly owned subsidiary undertaking of Citibank Holdings Ireland Limited, which is incorporated in Ireland. The largest Company in which the results of the Company are consolidated is that headed by Citigroup Inc., which is incorporated in the United States. The Company defines related parties as the Board of Directors, senior management, their close family members, parent and fellow subsidiaries and associated companies. The Company considers the key management of the company to be the Board of Directors. Directors' remuneration is disclosed in note 9.

At 31 December 2010 there were no outstanding exposures to directors including loans (2009: €nil).

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

	<b>2010</b>		
	<b>Subsidiary undertakings €000</b>	<b>Other Citigroup undertakings €000</b>	<b>Total €000</b>
<b>Assets</b>			
Loans and advances to banks	-	6,078,413	6,078,413
Prepayments and accrued income	-	36,790	36,790
Other assets and derivatives	-	1,725,375	1,725,375
<b>Liabilities</b>			
Deposits by banks	-	2,347,435	2,347,435
Customer accounts	-	22,654	22,654
Accruals and deferred income	-	35,569	35,569
Other liabilities and derivatives	-	1,543,941	1,543,941
<b>Commitments and guarantees</b>	-	554,105	554,105
<b>Income statement</b>			
Interest and similar income	-	62,155	62,155
Interest payable	-	(10,001)	(10,001)
Net fee and commission income	-	293,626	293,626
Other Operating Income	253	2,178	2,431
Net Trading Income	-	32,399	32,399
Other expenses	-	(99,513)	(99,513)

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 28. Related party transactions (continued)

	<b>2009</b>		
	<b>Subsidiary undertakings €000</b>	<b>Other Citigroup undertakings €000</b>	<b>Total €000</b>
<b>Assets</b>			
Loans and advances to banks	-	6,951,832	6,951,832
Loans and advances to customers	-	21,265	21,265
Prepayments and accrued income	-	37,708	37,708
Other assets and derivatives	-	1,603,780	1,603,780
<b>Liabilities</b>			
Deposits by banks	-	(310,280)	(310,280)
Customer accounts	307	(27,146)	(26,839)
Accruals and deferred income	-	(12,462)	(12,462)
Other liabilities and derivatives	-	(1,796,603)	(1,796,603)
<b>Commitments and guarantees</b>	-	(89,656)	(89,656)
<b>Income statement</b>			
Interest and similar income	(165)	97,946	97,781
Interest payable	-	(10,343)	(10,343)
Net fee and commission income	(1)	225,521	225,520
Other Operating Income	-	(9,266)	(9,266)
Net Trading Income	-	48,550	48,550
Other expenses	(6)	(63,881)	(63,887)

# CITIBANK EUROPE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 29. Reserves

Capital contributions arise from contributions from the Company's intermediate parent undertaking, Citibank Overseas Investment Corporation, of which €279,538,000 forms part of the Company's distributable reserves.

	Share capital €000	Share premium €000	Capital reserve €000	Share based payments €000	Translation reserves €000	AFS bond reserve €000	Retained earnings €000	Total €000
<b>At 1 January 2009</b>	7,460	601,947	279,538	5,654	-	3,300	1,609,536	2,507,435
Profit for the period	-	-	-	-	-	-	516,322	516,322
Share capital issuance	1,858	509,537	-	-	-	-	-	511,395
Available for sale reserve	-	-	-	-	-	(1,769)	-	(1,769)
Share based payments	-	-	-	1,239	-	-	-	1,239
Translation reserve	-	-	-	-	(9,318)	-	-	(9,318)
<b>At 31 December 2009</b>	<u>9,318</u>	<u>1,111,484</u>	<u>279,538</u>	<u>6,893</u>	<u>(9,318)</u>	<u>1,531</u>	<u>2,125,858</u>	<u>3,525,304</u>
Profit for the period	-	-	-	-	-	-	458,184	458,184
Available for sale reserve	-	-	-	-	-	(14,277)	-	(14,277)
Share based payments	-	-	-	447	-	-	-	447
Translation reserve	-	-	-	-	(8,450)	-	986	(7,464)
<b>At 31 December 2010</b>	<u>9,318</u>	<u>1,111,484</u>	<u>279,538</u>	<u>7,340</u>	<u>(17,768)</u>	<u>(12,746)</u>	<u>2,585,028</u>	<u>3,962,194</u>

### 30. Parent companies

The Company is a subsidiary undertaking of Citigroup Inc., which is incorporated in the United States of America under the laws of the State of Delaware.

The largest Company in which the results of the Company 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](http://www.citigroup.com/citi/corporategovernance/ar.htm).

The smallest Company in which the results of the Company are consolidated is that headed by Citibank Holdings Ireland Limited. Copies of these Company accounts will be available to the public and may be obtained from its offices at Citigroup Centre, 1 North Wall Quay, Dublin 1.

### 31. Subsequent events

On the 16<sup>th</sup> March 2011, the Board of Citibank N.A agreed to purchase from the Company certain software assets, which were held for sale. The total amount held for sale was €54 million (2009: €nil).

### 32. Approval of financial statements

The financial statements of the Company were approved by the Board of Directors on 31<sup>st</sup> March 2011.