Citibank Europe plc, pobočka zahraničnej banky

(formerly Citibank (Slovakia) a. s.)

Financial statements

Prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union

Year ended 31 December 2009

(English translation)

March 2010

This report contains 62 pages

Contents

Translation of the Independent Auditors' Report originally prepared in Slovak

Independent Auditors' Report

To the Owners and Management of Citibank Europe plc, pobočka zahraničnej banky:

We have audited the accompanying financial statements of Citibank Europe plc, pobočka zahraničnej banky ("the Branch"), which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, and the statement of cash flows for the year ended 31 December 2009, and the notes to the financial statements.

Managements' responsibility for the financial statements

The Management of the Branch is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2009 and its financial performance and cash flows for the year ended 31 December 2009 in accordance with the International Financial Reporting Standards as adopted by the European Union.

29 March 2010

Audit Company:
KPMG Slovensko spol. s r.o.
SKAU licence No. 96

Responsible Auditor:
Richard Farkaš
SKAU licence No. 406

Citibank Europe plc, pobočka zahraničnej banky

Statement of financial position
As at 31 December 2009

	Notes	2009 € '000	2008 € '000
Assets			
Cash and cash equivalents	6	250,940	728,587
Trading assets	8	9,699	75,937
Loans and advances to banks	9	56,442	19,191
Loans and advances to customers	10	389,555	475,263
Investment securities	12	80,500	100,729
Property and equipment	13	1,823	1,885
Corporate income tax receivable	18	2,386	-
Deferred tax asset	25	1,639	1,257
Other assets	14	1,720	1,217
		794,704	1,404,066
Liabilities			
Trading liabilities	8	6,448	56,265
Deposits by banks	15	332	304,613
Customer accounts	16	661,921	857,263
Subordinated debt	17	-	37,756
Corporate income tax payable	18	-	2,068
Provisions	19	641	431
Other liabilities	20	13,046	30,813
		682,388	1,289,209
Head Office accounts			
Head Office funding	21	54,770	-
Accumulated profit	21	57,074	-
		111,844	-
Share capital and reserves			
Share capital	22	-	54,770
Reserves	23	472	60,087
		472	114,857
		794,704	1,404,066

The financial statements, which include the notes on pages 7 to 62, were approved on 29 March 2010 and signed by:

Igor Kottman
Head of the Branch

Pavel Bubeliny
Chief Financial Officer

Statement of comprehensive income
Year ended 31 December 2009

	Notes	2009 € '000	2008 € '000
Interest income	26	22,271	50,795
Interest expense	27	(5,707)	(26,879)
Net interest income		16,564	23,916
Fee and commission income		7,959	8,578
Fee and commission expense		(3,616)	(4,565)
Net fee and commission income	28	4,343	4,013
Net trading income	29	5,172	20,029
Other operating income		426	557
		5,598	20,586
Operating income		26,505	48,515
Administrative expenses	30	(15,993)	(20,047)
Depreciation	13	(775)	(1,013)
Operating expenditure		(16,768)	(21,060)
Operating profit before impairment losses and provisions		9,737	27,455
Impairment losses on loans and advances	11	(11,092)	(9,054)
Provisions	19	(424)	50
Profit before taxation		(1,779)	18,451
Income tax expense	31	(1,216)	(4,914)
(Loss)/profit after taxation		(2,995)	13,537
Other comprehensive income			
Net gain on available-for-sale assets, net of tax		454	(47)
Other comprehensive income for the year, net of income tax		454	(47)
Total comprehensive income for the year		(2,541)	13,490

The notes on pages 7 to 62 are an integral part of these financial statements.

Statement of cash flows
Year ended 31 December 2009

	Notes	2009 € '000	2008 € '000
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	32	12,940	28,420
Decrease in trading assets		66,238	59,086
Increase in loans and advances to banks		(37,013)	(18,839)
Decrease in loans and advances to customers		72,244	80,257
(Increase)/decrease in other assets		(503)	1,114
Increase in trading liabilities		(49,817)	(41,474)
(Decrease)/increase in deposits by banks		(304,276)	197,001
(Decrease)/increase in customer accounts		(195,556)	126,843
(Decrease)/increase in other liabilities		(17,767)	11,277
Income tax paid		(6,340)	(4,914)
Net cash (used in)/from operating activities		(459,850)	438,771
Cash flows from investing activities			
Acquisition of investment securities		(62,304)	(9,587)
Disposal of investment securities		82,799	10,355
Proceeds from sale of property and equipment		555	458
Purchase of property and equipment		(1,247)	(298)
Net cash from investing activities		19,803	928
Cash flows from financing activities			
Loans paid		-	(6,971)
Subordinated debt paid		(37,600)	(4,340)
Net cash used in financing activities		(37,600)	(11,311)
Net (decrease)/increase in cash and cash equivalents		(477,647)	428,388
Cash and cash equivalents at beginning of year		728,587	300,199
Cash and cash equivalents at end of year	6	250,940	728,587

The notes on pages 7 to 62 are an integral part of these financial statements.

Notes to financial statements
Year ended 31 December 2009

1. General information

Citibank Europe plc, pobočka zahraničnej banky has its registered office at Mlynské Nivy 43, 825 01 Bratislava; IČO: 36 861 260; DIČ: 4020239993 (hereinafter referred to as 'Branch'). The Branch, formerly Citibank (Slovakia) a.s. (hereinafter referred to as 'Bank'), was initially established and registered as a joint stock company with the Commercial Register in 1995. The Bank was a wholly-owned subsidiary of Citibank Overseas Investment Corporation with registered office at One Penn's Way, New Castle, 19720 Delaware, U.S.A.

Effective 1 January 2009, the Bank became a branch of Citibank Europe plc, incorporated in Ireland, when its legal status was changed from joint stock company to *branch of a foreign bank*. The branch conversion was implemented in the form of a cross-border merger, and was approved by both the Irish and Slovak financial regulators. The name of the entity is now Citibank Europe plc, pobočka zahraničnej banky ('the Branch').

The ultimate parent company is Citigroup Inc. 399 Park Avenue, 1043 New York, U.S.A.

Statutory representative:
Henricus Joseph Maria Alexander Lemmens (From 1 January 2009 till 19 November 2009)
Igor Kottman (since 19 November 2009)

Established by:
Citibank Europe plc

The Branch does not have any subsidiaries or associates.

The principal activities of the Branch are the provision of banking and financial services to commercial and private customers resident mainly in the Slovak Republic.

The Branch operates through its head office located in Bratislava and a marketing office located in Košice.

The financial statements of Citibank (Slovakia) a.s. for the preceding accounting period, the year ended 31 December 2008, were approved by the management on 27 March 2009.

The financial statements of the Branch's headquarters, Citibank Europe plc, prepared in accordance with accounting principles generally accepted in the United States of America, are included in the consolidated financial statements of Citigroup Inc. U.S.A. These financial statements are available at 399 Park Avenue, New York, NY 10043, U.S.A.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and as required by Section 17a of the Slovak Act on Accounting 431/2002 as amended.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:
- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in euro, which has been the Branch's functional currency since the entry of Slovakia into the Euro Area on 1 January 2009. The comparative figures, which were originally reported in Slovak crowns ('Sk') have been translated at the conversion rate of €1 = Sk 30.1260.

Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

(d) Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in notes 4 and 5.

(e) Comparative figures

The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with the current period.

(f) Presentation of financial statements

The Branch applies revised IAS 1 *Presentation of Financial Statements (2007)* which became effective on 1 January 2009. Consequently, income and expenses, including any items not recognised in profit or loss, are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

2. Basis of preparation continued

(g) Other accounting developments

(i) Disclosures pertaining to fair values and liquidity risk for financial instruments

The Branch has applied *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reason therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 4.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosures in respect of liquidity risk are included in note 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as explained in notes 2(c) and 2(f).

(a) Foreign currency

Transactions denominated in foreign currencies are translated to euro at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at each end of reporting period are translated to euro at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. All resulting gains and losses are recorded in *Net trading income* in the profit or loss.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Branch's trading operations and are presented, together with all other changes in the fair value of trading assets and liabilities, in *Net trading income*.

Interest income and expense in the statement of comprehensive income include:
- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis.

(c) Fees and commissions

Fee and commission income and expense 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 fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawn-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

3. Significant accounting policies continued

(e) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(f) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under the finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(g) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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.

(h) Financial assets and liabilities

(i) Recognition
The Branch initially recognises loans and advances, deposits by banks, customer accounts, loans received and debt securities in issue on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value though profit or loss) are initially recognised on the trade date at which the Branch becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

3. Significant accounting policies continued

(h) Financial assets and liabilities continued

(ii) Derecognition
The Branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Branch is recognised as a separate asset or liability.

The Branch derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Branch enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Branch also derecognises certain assets when it writes off balances deemed to be uncollectible.

(iii) Offsetting
Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to set off the amounts and 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 by the reporting standards, or for gains and losses arising from a group of similar transactions such as in the Branch's trading activity.

(iv) Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement
The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market-observable prices exist and valuation models. The Branch uses widely recognised valuation models for determining the fair value of the more common financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, the discounted cash flow method and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Branch, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

3. Significant accounting policies continued

(h) Financial assets and liabilities continued

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Branch calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

(vi) Identification and measurement of impairment
At each end of the reporting period, the Branch assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Branch on terms that the Branch would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Branch, or economic conditions that correlate with defaults in the group.

The Branch considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are also collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

In assessing collective impairment, the Branch uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and the current fair value out of other comprehensive income to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

3. Significant accounting policies continued

(h) Financial assets and liabilities continued

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash, unrestricted balances held with the National Bank of Slovakia and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Branch in the management of short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Branch acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit and loss. All changes in fair value are recognised as part of *Net trading income* in the statement of comprehensive income.

Trading assets and liabilities are not reclassified subsequent to their initial recognition except that non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition may be reclassified out of the fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables, and it had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the Branch has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in ‘rare circumstances’.

(k) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedge
When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in income together with the changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of comprehensive income as the hedged item).

3. Significant accounting policies continued

(k) Derivatives held for risk management purposes continued

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is prospectively discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to income as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge
When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit and loss, the effective portion of changes in the fair value of the derivative are recognised directly in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same statement of comprehensive income line as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued and the amount recognised in other comprehensive income and presented in the hedging reserve remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognised immediately in profit or loss.

(iii) Other non-trading derivatives
When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income on the other financial instruments carried at fair value.

(iv) Embedded derivatives
Derivatives may be embedded in another contractual arrangement (a 'host contract'). The Branch accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit and 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 statement of financial position together with the host contract.

(l) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Branch does not intend to sell immediately or in the near term.

When the Branch is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Branch purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo or stock borrowing'), the agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the Branch's financial statements.

3. Significant accounting policies continued

(l) Loans and advances continued

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

(m) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

(i) Held-to-maturity
Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Branch has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Branch from classifying investments securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale
Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in income when the Branch becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are then recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

(n) Property and equipment

(i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs
The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in income as incurred.

3. Significant accounting policies continued

(n) Property and equipment continued

(iii) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The depreciation rates for the current and comparative periods are as follows:

	Rates
Leasehold improvements	10%
Furniture, fittings and equipment	12.5% - 33%
Motor vehicles	25%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iv) Software
Software is stated at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight line basis over the 2 to 5 years estimated useful life of the software.

(o) Leased assets

Leases under which the Branch assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are operating leases and the leased assets are not recognised on the Branch's statement of financial position.

(p) Impairment of non-financial assets

The carrying amounts of the Branch's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

3. Significant accounting policies continued

(p) Impairment of non-financial assets continued

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) Deposits, customer accounts, subordinated debt and Head Office funds

Deposits, customer accounts, subordinated debt and Head Office funds are the Branch's sources of debt funding.

When the Branch sells a financial asset and simultaneously enters into a 'repo' or 'stock lending' 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 Branch's financial statements.

Deposits, customer accounts, subordinated debt and Head Office funds are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(r) Provisions

A provision is recognised if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Branch has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Branch from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Branch recognises any impairment loss on the assets associated with that contract.

(s) Employee benefits

(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Termination benefits
Termination benefits are recognised as an expense when the Branch is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(iii) Short-term benefits
Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3. Significant accounting policies continued

(s) Employee benefits continued

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Branch 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 reliably estimated.

(iv) Share-based payment transactions
The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing this financial statement:

- 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 asset's contractual terms 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 in fair value recognised in profit or loss.

  The standard requires that derivatives embedded in contracts with a host 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 amortised cost of fair value.

  The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

  Management is currently in the process of evaluating the potential effect of this standard. Given the nature of the Branch's operations, this standard is expected to have a pervasive impact on the financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Branch's 2010 financial statements, with retrospective application required. The amendments are not expected to have a significant impact on the financial statements.

4. Use of estimates and judgements

These disclosures supplement the commentary on financial risk management (see note 5).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3 (h)(vi).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by Credit Risk Management.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based on historical experience and current economic conditions. The accuracy of the allowances depends on how well future cash flows are estimated for specific counterparty allowances and on the model assumptions and parameters used in determining collective allowances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (h)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Branch's accounting policies

Critical accounting judgements made in applying the Branch's accounting policies include:

Valuation of financial instruments

The Branch's accounting policy on fair value measurements is discussed under note 3(h)(v).

The Branch measures fair values using the following hierarchy of methods:
- Level 1: Quoted market price 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 prices for 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.

4. Use of estimates and judgements continued

Critical accounting judgements in applying the Branch's accounting policies continued

- 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 could 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.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Branch determines fair values using valuation techniques.

Valuation techniques include discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Branch uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Branch uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

4. Use of estimates and judgements continued

Critical accounting judgements in applying the Branch's accounting policies continued

The Branch has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include: verification of observable pricing inputs and reperformance of model valuations; a review and approval process for new models and changes to models involving both Product Control and Bank Market Risk; calibration and back testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments by senior Product Control personnel; and reporting of significant valuation issues to the Branch ALCO Committee.

The reported amounts of financial instruments stated at fair value analysed according to valuation methodology at 31 December 2009 were as follows:

	Note	Level 1 € '000	Level 2 € '000	Total € '000
Assets				
Trading assets	8	77	9,622	9,699
Investment securities	12	80,500	-	80,500
		80,577	9,622	90,199
Liabilities				
Trading liabilities	8	-	6,448	6,448

The reported amounts of financial instruments stated at fair value analysed according to valuation methodology at 31 December 2008 were as follows:

	Note	Level 1 € '000	Level 2 € '000	Total € '000
Assets				
Trading assets	8	837	75,100	75,937
Investment securities	12	100,729	-	100,729
		101,566	75,100	176,666
Liabilities				
Trading liabilities	8	-	56,265	56,265

4. Use of estimates and judgements continued

Critical accounting judgements in applying the Branch's accounting policies continued

The Branch did not have financial assets or liabilities in the Level 3 fair value hierarchy during the years ended 31 December 2009 and 31 December 2008.

Financial asset and liability classification

The Branch's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as 'trading', management has determined that they meet the definition of trading assets and liabilities set out in accounting policy 3 (j).
- In classifying financial assets as available-for-sale, management has determined that the assets meet the definition of available-for-sale assets set out in accounting policy 3 (m)(i).

5. Financial risk management

(a) Introduction

The Branch has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

Information on the exposure to each of the above risks; the objectives, policies and processes for measuring and managing risk; and on the management of the Branch's capital is set out below.

Risk management framework

Management has overall responsibility for the establishment and oversight of the Branch's risk management framework. In exercising this responsibility they have established the Asset and Liability Committee ('ALCO'), Credit and the Operational Risk committees, which are responsible for developing and monitoring the Branch's risk management policies in their specified areas. All Branch committees have both executive and non-executive members and report regularly to the management on their activities.

The Branch's risk management policies are established to identify and analyse the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Branch, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk and Compliance Committee ('RCC') is responsible for monitoring compliance with the Branch's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Branch. The RCC is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the RCC and the Management Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Branch's loans and advances to customers and other financial instruments. For risk management reporting purposes, the Branch considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, economic group, geographie and industry risk).

For risk management purposes, credit risk arising on trading securities is managed independently, and reported as a component of market risk exposure.

Management of credit risk

The Branch's management delegated responsibility for the management of credit risk to the Credit Committee. Management of credit risk is performed by the Portfolio Management department, headed by the Country Risk Manager. Additionally, an independent Credit Risk Management Services department is responsible for the maintenance and monitoring of credit exposures and the custody of documentation.

5. Financial risk management continued

(b) Credit risk continued

Credit risk management consists of the following components:

- *Formulating local credit* policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to the Credit Officers. Credit facilities require approval of at least two credit officers, one of them being from the Independent Risk Department, who must have a credit delegation sufficient for the facility on question.
- *Reviewing and assessing credit risk*. All extensions of credit are subject to at least an annual review cycle, whereupon all facilities have to be re-approved at the appropriate level. All new facilities in the interim period, prior to being committed to customers are subject to the same review process.
- *Implementation of the risk rating models,* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk rating framework consists of grades reflecting varying degrees of risk of default. At facility level, the model reflects collateral or other credit risk mitigation. The responsibility for setting risk ratings lies with the final approvers as appropriate. Risk ratings models are reviewed periodically at the headquarters level (Citibank NY).
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the senior risk management on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Branch in the management of credit risk.

Each business unit is required to implement corporate credit policies and procedures, with credit approval authorities delegated from the Senior Credit Officers as appropriate. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

5. Financial risk management continued

(b) Credit risk continued

Exposure to credit risk

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2009	2008	2009	2008	2009	2008
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Individually impaired						
Grade 5-7:						
Impaired	3,888	5,042	-	-	-	-
Grade 8-10:						
Impaired	12,408	4,823	-	-	100	100
Gross amount	16,296	9,865	-	-	100	100
Allowance for impairment	(13,011)	(5,296)	-	-	(100)	(100)
Carrying amount	3,285	4,569	-	-	-	-
Collectively impaired						
Non-performing loans	129	120	-	-	-	-
Allowance for impairment	(45)	(70)	-	-	-	-
Carrying amount	84	50	-	-	-	-
Past due but not impaired						
Grade 5-7:	-	-	-	-	-	-
Carrying amount	-	-	-	-	-	-
Past due but not impaired comprises:						
30-60 days	-	-	-	-	-	-
61-90 days	-	-	-	-	-	-
91-180 days	-	-	-	-	-	-
181 days +	-	-	-	-	-	-
Carrying amount	-	-	-	-	-	-
Neither past due nor impaired						
Performing loans	6,940	12,165	-	-	-	-
Grade1-4:	185,232	313,523	56,442	19,191	80,500	100,729
Grade 5-7:	195,782	144,071	-	-	-	-
Unrated	3,755	4,526	-	-	-	-
Gross amount	391,709	474,285	56,442	19,191	80,500	100,729
Collective assessment	(5,523)	(3,641)	-	-	-	-
Carrying amount	386,186	470,644	56,442	19,191	80,500	100,729
Total carrying amount	389,555	475,263	56,442	19,191	80,500	100,729

5. Financial risk management continued

(b) Credit risk continued

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Branch determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

The table with internal ratings (relating to exposures individually assessed for impairment) is as follows:

Internal rating (grade)	1-year Probability of Default Range (%)	S & P *	Moody's *
1	0.0) - 0.01	AAA	Aaa
2+	>0.01 - 0.02	AA+	Aa1
2	>0.02 - 0.03	AA	Aa2
2-	>0.03 - 0.04	AA-	Aa3
3+	>0.04 - 0.05	A+	A1
3	>0.05 - 0.06	A	A2
3-	>0.06 - 0.09	A-	A3
4+	>0.09 - 0.14	BBB+	Baa1
4	>0.14 - 0.26	BBB	Baa2
4-	>0.26 - 0.63	BBB-	Baa3
5+	>0.63 - 1.38	BB+	Ba1
5	>1.38 - 2.64	BB	Ba2
5-	>2.64 - 4.48	BB-	Ba3
6+	>4.48 - 7.04	B+	B1
6	>7.04 - 10.32	B	B2
6-	>10.32 - 14.40	B-	B3
7+	>14.40 - 19.37	CCC+	Caa1
7	>19.37	CCC	Caa2
7-	>19.37	CCC-	Caa3
8	N/A		
9+	Default		
9	Default		
10	Default	SD	

Internal ratings from 1 up to 4 represent investment group grade, from 5 up to 7 sub-investment group grade and 8 and higher default group grade.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Branch believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Branch.

Unrated loans

Unrated loans mainly comprise loans extended to employees.

Notes to financial statements
Year ended 31 December 2009

5. Financial risk management continued

(b) Credit risk continued

Allowances for impairment

The Branch establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Branch writes off a loan/security balance (and any related allowances for impairment losses) when Group Credit determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge-off decisions generally are based on a product-specific past due status.

Set out below is an analysis of the gross and net of allowance for impairment amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Investment securities	
	Gross	Net	Gross	Net
	€ '000	€ '000	€ '000	€ '000
31 December 2009				
Grade 5-7: Individually impaired	3,888	1,023	-	-
Grade 8-10: Individually impaired	12,408	2,262	100	-
	16,296	3,285	100	-
31 December 2008				
Grade 5-7: Individually impaired	5,042	4,541	-	-
Grade 8-10: Individually impaired	4,823	28	100	-
	9,865	4,569	100	-

5. Financial risk management continued

(b) Credit risk continued

The Branch holds collateral against loans and advances to customers in the form of pledges over property, notarial pledges over movable assets and guarantees. Estimates of fair values are based on the value of collateral assessed at the time of borrowing, and periodically updated in accordance with the collateral management policy.

An estimate of the fair value of collateral and other security enhancement held against financial assets is shown below:

	Loans and advances to customers	
	2009	2008
	€ '000	€ '000
Against individually impaired		
Real estate	2,943	3,229
Equipment, inventory and receivables	3,442	4,372
Against neither past due nor impaired		
Pledged accounts and pledged term deposits	-	65,000
Guarantees	170,959	209,449
Securities	112,422	122,278
	289,766	404,328

The Branch did not realise collateral held as security against loans and advances during the years ended 31 December 2009 and 31 December 2008.

The Branch's policy is to pursue timely realisation of the collateral in an orderly manner. The Branch generally does not use the non-cash collateral for its own operations.

The Branch monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk is shown below:

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2009	2008	2009	2008	2009	2008
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Concentration by sector						
Government	10,385	-	-	-	80,402	100,631
Corporate	368,675	458,850	-	-	98	98
Bank	-	-	56,442	19,191	-	-
Retail	10,495	16,413	-	-	-	-
	389,555	475,263	56,442	19,191	80,500	100,729

5. Financial risk management continued

(b) Credit risk continued

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2009	2008	2009	2008	2009	2008
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Concentration by location						
Slovak Republic	343,336	468,871	40	18,283	80,402	100,631
Luxembourg	32,422	1,601	-	-	-	-
Czech Republic	10,385	144	-	-	-	-
Turkey	3,391	4,195	-	-	-	-
Bosnia and Herzegovina	-	391	-	-	-	-
U.S.A.	-	29	-	-	-	-
United Kingdom	-	-	56,402	-	98	98
Other	21	32	-	908	-	-
	389,555	475,263	56,442	19,191	80,500	100,729

Concentration by location for loans and advances is measured based on the location of the entity holding the assets, which has a high correlation with the location of the borrower. Concentration by location of the investment securities is measured based on the location of the issuer of the security.

Loans and advances were made to customers in the following sectors:

	2009	2008
	€ '000	€ '000
Non-financial	287,631	385,188
Financial	45,198	67,144
Resident individuals	10,495	16,413
Non-resident	46,220	6,363
Self-employed	-	155
Insurance	11	-
	389,555	475,263

Settlement risk

The Branch's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Branch mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual obligations. Alternatively, some customer trades are executed on a payment versus delivery basis, which eliminates settlement risk. Settlement limits form part of the credit approval/limit monitoring process.

5. Financial risk management continued

(c) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Branch's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branch's reputation.

Treasury Department receives daily information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Branch. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

There is a combination of liquidity ratios and limits which is used to manage the liquidity position of the Branch. Monitoring and reporting of these ratios and limits is performed by independent departments, and Treasury is obliged to comply with these requirements. Any exceptions are reviewed and addressed by country ALCO and documented in the minutes.

The structure of limits is derived from the forecast statement of financial position and behavioural assumptions associated with each statement of financial position category. The liquidity position is further tested by a set of different scenarios which cover business as usual as well as stress situations estimating the different level of severity of market conditions and its impact on the liquidity position of the Branch.

Notes to financial statements
Year ended 31 December 2009

5. Financial risk management continued

(c) Liquidity risk continued

The remaining period to maturity of monetary assets and liabilities at 31 December 2009 are set out in the following table, which shows the undiscounted cash flows on the basis of their earliest contractual maturity. The Branch's expected cash flows may vary significantly from this analysis as, for example, customer account liabilities are expected to maintain a stable or increasing balance.

	Within 1 year € '000	1-5 years € '000	More than 5 years € '000	Not specified €'000	Total € '000
Monetary assets					
Cash and cash equivalents	250,940	-	-	-	250,940
Trading assets	4,687	5,012	-	-	9,699
Loans and advances to banks	56,442	-	-	-	56,442
Loans and advances to customers	335,048	49,425	5,082	-	389,555
Investment securities	14,942	64,355	522	681	80,500
Deferred tax asset	1,639	-	-	-	1,639
Other assets	54	-	-	1,666	1,720
	663,752	118,792	5,604	2,347	790,495
Monetary liabilities					
Trading liabilities	1,509	4,939	-	-	6,448
Deposits by banks	332	-	-	-	332
Customer accounts	661,921	-	-	-	661,921
Other liabilities	12,258	36	-	752	13,046
Head Office funding	-	-	-	54,770	54,770
	676,020	4,975	-	55,522	736,517

5. Financial risk management continued

(c) Liquidity risk continued

The remaining period to maturity of monetary assets and liabilities at 31 December 2008 was as follows:

	Within 1 year € '000	1-5 years € '000	More than 5 years € '000	Not specified €'000	Total € '000
Monetary assets					
Cash and cash equivalents	728,587	-	-	-	728,587
Trading assets	67,065	8,872	-	-	75,937
Loans and advances to banks	19,191	-	-	-	19,191
Loans and advances to customers	372,660	83,950	17,162	1,491	475,263
Investment securities	44,377	55,266	966	120	100,729
Deferred tax asset	-	1,257	-	-	1,257
Other assets	1217	-	-	-	1,217
	1,233,097	149,345	18,128	1,611	1,402,181
Monetary liabilities					
Trading liabilities	50,332	5,933	-	-	56,265
Deposits by banks	239,613	65,000	-	-	304,613
Customer accounts	857,263	-	-	-	857,263
Subordinated debt	156	-	37,600	-	37,756
Corporate income tax payable	2,068	-	-	-	2,068
Other liabilities	30,016	213	-	584	30,813
	1,179,448	71,146	37,600	584	1,288,778

Notes to financial statements
Year ended 31 December 2009

5. Financial risk management continued

(c) Liquidity risk continued

The remaining period to maturity of commitments and contingencies at 31 December 2009 are set out in the following table:

	Within 1 year € '000	1-5 years € '000	More than 5 years € '000	Total € '000
Guarantees	84,972	36,293	478	121,743
Irrevocable letters of credit	1,272	-	-	1,272
Committed unused lines	87,527	31,296	-	118,823
Contract/notional amount of derivative instruments				
Currency derivatives				
Forward exchange contracts	43,509	-	-	43,509
Currency and cross – currency swaps	118,541	-	-	118,541
Interest rate derivatives				
Interest rate swaps	169,709	156,065	-	325,774
Interest rate options	2,365	-	-	2,365
	507,895	223,654	478	732,027

5. Financial risk management continued

(c) Liquidity risk continued

The remaining period to maturity of commitments and contingencies at 31 December 2008 was as follows:

	Within 1 year € '000	1-5 years € '000	More than 5 years € '000	Total € '000
Guarantees	60,180	62,404	780	123,364
Irrevocable letters of credit	1,208	-	-	1,208
Committed unused lines	54,755	19,193	3,843	77,791
Contract/notional amount of derivative instruments				
Currency derivatives				
Forward exchange contracts	426,780	12,188	-	438,968
Currency and cross-currency swaps	2,375,066	11,975	-	2,387,041
Options	114,766	-	-	114,766
Interest rate derivatives				
Interest rate swaps	94,752	310,380	-	405,132
Interest rate options	3,154	2,364	-	5,518
			-	
	3,130,661	418,504	4,623	3,553,788

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Branch separates its exposure to market risk between trading and banking portfolios.

Overall authority for market risk is vested in ALCO. Market Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Country Risk Manager provides an independent oversight.

5. Financial risk management continued

(d) Market risk continued

Exposure to market risks – trading portfolios

The Branch holds trading positions in various financial instruments including financial derivatives. The majority of the Branch's business activities are conducted based on the requirements of its customers. In accordance with the estimated demand of its customers, the Branch holds a certain supply of financial instruments and maintains access to the financial markets through the quoting of bid and ask prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future developments of financial markets. The speculative expectation and market making thus affect the Branch's business strategy, and its goal is to maximise net income from trading.

The Branch manages the risks associated with its trading activities on the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are volume limits for individual transaction types, stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are described below.

Risk management methods

Market risk is the risk of a change in a product portfolio value arising from changes in market conditions (i.e. changes in interest rates, exchange (FX) rates, prices of commodities, equity instruments and changes in volatility of market factors) that impact the value of the portfolio.

The Branch monitors market risks by modelling the result of a fixed change in the monitored market factor while keeping other factors constant. The potential change in the portfolio value is then defined depending on the current sensitivity of the opened position to the changes in the market factors.

The fixed changes in the market factors used by the Branch for the respective open positions to monitor the market risk are:

- FX rate – 1 % relative change in exchange rate,
- Interest rates – a simultaneous change at all points of the yield curve by 1 basis point (0.01 %) for the trading portfolio and 100 basis points for the banking portfolio,
- Commodity price – 1 % relative change in the commodity price,
- Equity instrument price – 1 % relative change in the share price.

The Branch sets limits for the individual sensitivities of the portfolio value to the fixed changes in market factors. These limits are regularly reassessed.

Interest rate risk of the trading portfolio is measured by analysing the change in the value of the portfolio for a given modification of the yield curve. The Branch simulates changes to the yield curve of 1 basis point at particular points of the curve with unchanged values of the yield curve at non-tested periods. Finally, the sensitivity of the portfolio present value as a result of an increase of the whole yield curve by 1 basis point is performed. A more complex view is obtained by calculating the Value at Risk (VaR).

5. Financial risk management continued

(d) Market risk continued

Value at Risk (VaR)

Value at Risk represents a statistical estimate of the potential loss from an unfavourable market development within a certain time period and at a certain significance level. The Branch determines VaR using the stochastic simulation of a large number of scenarios of potential developments in the financial markets. The VaR is measured based on a one-day holding period and a confidence level of 99 %.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on the Branch's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Branch uses VaR limits for total market risk of the whole portfolio (interest rate risk together with foreign exchange risk) and also VaR limits for ALM and Trading desk. The overall structure of VaR limits is subject to review and approval by ALCO. VaR is measured daily. Daily reports of utilisation of VaR limits are submitted to Market Risk Management and regular summaries are submitted to ALCO.

A summary of the VaR position of the Branch's trading portfolios at 31 December 2009 and 31 December 2008 and during the period is as follows:

	At 31 Dec	Average	Maximum	Minimum
	€ '000	€ '000	€ '000	€ '000
2009				
Foreign currency risk	13	7	343	1
Interest rate risk	5	8	26	4
Overall	14	13		

	At 31 Dec	Average	Maximum	Minimum
	€ '000	€ '000	€ '000	€ '000
2008				
Foreign currency risk	351	162	598	12
Interest rate risk	22	73	279	12
Overall	355	197		

5. Financial risk management continued

(d) Market risk continued

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures. The Branch also carries out stress testing of the interest rate risk of the trading portfolio. These tests are based on the same methodology, but using the changes in interest rates defined for the purpose of stress testing instead of the changes in yield curves by 1 basis point.

Exposure to interest rate risk – non trading portfolio

The Branch is exposed to interest rate risk as its interest-bearing assets and liabilities have different maturity dates, periods of interest rate changes and volumes during these periods. For variable interest rates, the Branch is exposed to a basis risk due to the different mechanisms of setting different interest rates, such as LIBOR, announced interest on deposits, etc. The Branch's interest rate risk management activities are aimed at optimising net interest income in accordance with the Branch's strategy.

The interest rate risk of the banking portfolio is measured using a gap analysis. From the results of this analysis, the value of the Interest Rate Exposure (IRE) is calculated. IRE shows the potential change in net interest income before taxation if interest rates for the monitored currency change by 100 basis points during the fixed period. The measurement of the banking portfolio risk also uses the calculation of Total Return (TRT), which shows the change in value of a hypothetically immunised banking portfolio at current levels of interest rates during the fixed period. The Branch also carries out stress testing of the banking portfolio. This testing is performed using the same methodology as the IRE calculation, but using the change in interest rates defined for the purpose of the stress testing instead of the change by 100 basis points.

A summary of the IRE position of the Branch's banking portfolios at 31 December 2009 and 31 December 2008 and during the period is as follows:

	At 31 Dec	**Average**	**Maximum**	**Minimum**
	€ '000	**€ '000**	**€ '000**	**€ '000**
2009				
EUR 12M IRE	132	(287)	400	(1,277)
USD 12M IRE	(76)	(59)	(15)	(118)
2008				
SKK 12M IRE	(565)	(774)	(257)	(1,196)
EUR 12M IRE	(146)	(238)	(71)	(408)
USD 12M IRE	(39)	(38)	23	(97)

5. Financial risk management continued

(d) Market risk continued

	At 31 Dec € '000	Average € '000	Maximum € '000	Minimum € '000
2009				
EUR 5Y IRE	1,034	72	1,806	(2,126)
USD 5Y IRE	(75)	(59)	(15)	(118)
2008				
SKK 5Y IRE	(127)	(856)	105	(1,863)
EUR 5Y IRE	(174)	(283)	(101)	(479)
USD 5Y IRE	(39)	(37)	23	(96)

Overall non-trading interest rate risk positions are managed by ALM, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Branch's non-trading activities.

Foreign exchange risk

Foreign exchange risk arises from the impact on the value of financial assets and liabilities from changes in foreign exchange rates.

The policy of the Branch is to maintain minimal net exposures to foreign exchange risk. Limits are set for individual foreign currencies and the Branch also uses forward foreign currency contracts to hedge statement of financial position positions.

Notes to financial statements
Year ended 31 December 2009

5. Financial risk management continued

(d) Market risk continued

The Branch had the following currency positions at 31 December 2009:

	Euro € '000	US dollar € '000	Other € '000	Total € '000
Assets				
Cash and cash equivalents	248,487	240	2,213	250,940
Trading assets	9,699	-	-	9,699
Loans and advances to banks	56,442	-	-	56,442
Loans and advances to customers	333,207	45,888	10,460	389,555
Investment securities	80,500	-	-	80,500
Deferred tax asset	1,639	-	-	1,639
Other assets	1,720	-	-	1,720
	731,694	46,128	12,673	790,495
Liabilities				
Trading liabilities	6,448	-	-	6,448
Deposits by banks	227	105	-	332
Customer accounts	635,932	23,175	2,814	661,921
Other liabilities	12,107	817	122	13,046
Head Office funding	54,770	-	-	54,770
	709,484	24, 097	2,936	736,517

5. Financial risk management continued

(d) Market risk continued

The Branch had the following currency positions at 31 December 2008:

	Euro € '000	US dollar € '000	Other € '000	Slovak crown €'000	Total € '000
Assets					
Cash and cash equivalents	2,619	3,812	8,609	713,547	728,587
Trading assets	-	-	-	75,937	75,937
Loans and advances to banks	552	357	-	18,282	19,191
Loans and advances to customers	178,500	27,791	186	268,786	475,263
Investment securities	-	-	-	100,729	100,729
Deferred tax asset	-	-	-	1,257	1,257
Other assets	1	98	-	1,118	1,217
	181,672	32,058	8,795	1,179,656	1,402,181
Liabilities					
Trading liabilities	-	-	-	56,265	56,265
Deposits by banks	66,590	53,243	7,171	177,609	304,613
Customer accounts	166,006	58,602	16,599	616,056	857,263
Subordinated debt	37,756	-	-	-	37,756
Corporate income tax payable	-	-	-	2,068	2,068
Other liabilities	17,843	2,121	1,044	9,805	30,813
	288,195	113,966	24,814	861,803	1,288,778

(e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes reputation and franchise risks associated with the Branch's business practices or market conduct. It also includes the risk of failing to comply with applicable laws, regulations, Regulatory Administrative Actions or the Branch's policies.

The Branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branch's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

5. Financial risk management continued

(e) Operational risk continued

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Branch standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

The Operational Risk Process is made up of the following components:

1. Identify and Assess Key Operational Risks

Key Operational Risks are derived from a judgmental assessment of the Important Risks identified through the Risk Compliance Self Assessment Processes ('RCSA'), as well as other relevant factors that can include internal operational risk loss data, industry events, and other forms of scenario analysis. The identification of Key Operational Risks benefits from a collaborative effort, with the input of business and functional experts.

2. Establish Key Risk Indicators

Key Risk Indicators ('KRIs') are management tools that can be used to monitor exposure to a risk, or to monitor the control of a risk. They may be quantitative in nature, or they may be judgmental. So far as possible, KRIs should:

- Recognise both improvements and deterioration in operational risk exposures on a timely basis;
- Provide forward-looking information to management;
- Translate into quantifiable measures that lend themselves to monitoring and verification; and
- Be identified through a collaborative effort, with the input of business and functional experts.

3. Comprehensive Quarterly Operational Risk Reporting

- Internal Operational Risk Events
- RCSA and Audit and Risk Review Results
- Key Operational Risks and KRI's
- Operational Risk Capital Results
- Management Summary

5. Financial risk management continued

(e) Operational risk continued

The internal audit function is exercising independent control over management of operational risk by checking for compliance with statutes, other generally binding legal regulations, and the Branch's internal regulations and procedures; in particular, examining and evaluating the functionality and effectiveness of the Branch's management and control system, risk management system, and internal capital adequacy assessment process, the fulfilment of requirements for own funds and liquidity, and compliance with exposure limits; examining and evaluating the Branch's preparedness in terms of risk management for performing new types of transactions.

The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Branch and to management of the Branch.

(f) Capital management

The lead regulator of Citibank Europe plc is the Financial Services Authority of Ireland, which sets and monitors capital requirements for the Group as a whole. As a branch of Citibank Europe plc, the Branch is not subject to the capital requirements set by the National Bank of Slovakia ('NBS').

(g) International financial and economic conditions

Measures implemented during 2009 in order to minimise the impact of the international financial and economic crisis on the credit portfolio, among others, include:

- regular portfolio reviews/stress tests,
- identification of high risk groups of obligors (type/size of business, geography, industry),
- strengthened monitoring,
- strengthening of collateral and/or other risk mitigants,
- adjustment of target market, in order to elevate credits with risky profile to higher approval level.

6. Cash and cash equivalents

	2009 € '000	2008 € '000
Cash and balances at the central bank (note 7)	922	713,634
Loans and advances to banks with contractual maturity up to 3 months (note 9)	250,018	14,953
	250,940	728,587

Notes to financial statements
Year ended 31 December 2009

7. Cash and balances at the central bank

	2009	2008
	€ '000	€ '000
Balances with the National Bank of Slovakia:		
Compulsory minimum reserve	40	18,283
Receivables from repurchase agreements	-	331,506
Other	-	380,212
	40	730,001
Balances with other central banks		
Other	1	27
	41	730,028
Cash in hand	921	1,889
	962	731,917
Less compulsory minimum reserve (note 9)	(40)	(18,283)
	922	713,634

The compulsory minimum reserve balance is maintained in accordance with the requirements of European Central Bank and is not available for day-to-day use.

At 31 December 2008, the fair value of NBS treasury bills accepted as collateral in repurchase agreements was € 331,413 thousand.

8. Trading assets and liabilities

	2009	2008
	€ '000	€ '000
Trading assets		
Debt securities (a)	77	837
Derivative instruments (b)	9,622	75,100
	9,699	75,937
Trading liabilities		
Derivative instruments (b)	6,448	56,265

(a) Debt securities

	2009	2008
	€ '000	€ '000
Slovak government bonds	77	837

Notes to financial statements
Year ended 31 December 2009

8. Trading assets and liabilities continued

(b) Derivative instruments

	2009 Contract/ notional amount	2009 Fair value Assets	2009 Fair value Liabilities	2008 Contract/ notional amount	2008 Fair value Assets	2008 Fair value Liabilities
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Currency derivatives						
Forward exchange contracts	43,509	1,075	722	438,968	3,788	10,393
Currency and cross-currency swaps	118,541	2,953	132	2,387,041	63,392	37,952
Options	-	-	-	114,766	2,655	2,655
Interest rate derivatives						
Interest rate swaps	325,774	5,594	5,594	405,132	5,264	5,264
Interest rate options	2,365	-	-	5,518	1	1
	490,189	9,622	6,448	3,351,425	75,100	56,265

9. Loans and advances to banks

	2009	2008
	€ '000	€ '000
Repayable on demand	143,342	14,820
Other loans and advances by contractual maturity:		
- 3 months or less	106,676	133
- over 3 month	56,402	908
Compulsory minimum reserve (note 7)	40	18,283
	306,460	34,144
Less amounts with contractual maturity up to 3 months (note 6)	(250,018)	(14,953)
	56,442	19,191

10. Loans and advances to customers

	2009 € '000	2008 € '000
Repayable on demand	128,729	174,321
Other loans and advances to customers by contractual maturity:		
- 3 months or less	85,255	69,134
- 1 year or less but over 3 months	84,182	99,383
- 5 years or less but over 1 year	63,087	82,101
- over 5 years	46,881	59,331
	408,134	484,270
Allowances for impairment (note 11)	(18,579)	(9,007)
	389,555	475,263

The exposure to the various business segments of loans and advances to customers according to main product types is as follows:

	31 December 2009			31 December 2008		
	Gross amount € '000	Impairment allowance € '000	Carrying amount € '000	Gross amount € '000	Impairment allowance € '000	Carrying amount € '000
Retail customers						
Personal loans	7,069	(330)	6,739	12,481	(369)	12,112
Staff loans	3,658	-	3,658	4,204	-	4,204
Credit cards	98	-	98	97	-	97
Corporate customers						
Large	333,528	(6,580)	326,948	368,134	(3,342)	364,792
Small business	63,781	(11,669)	52,112	99,354	(5,296)	94,058
	408,134	(18,579)	389,555	484,270	(9,007)	475,263

11. Impairment losses on loans and advances

The movements on impairment losses on loans and advances to customers were as follows:

	2009 € '000	2008 € '000
Specific allowances for impairment:		
At 1 January	5,296	1,364
Charge for the year	7,715	3,932
At 31 December	13,011	5,296
Collective allowances for impairment:		
At 1 January	3,711	268
Charge for the year	1,857	3,443
At 31 December	5,568	3,711
Total allowances for impairment	18,579	9,007

	2009 € '000	2008 € '000
Charge for the year	(9,572)	(7,375)
Expenses related to transfer of receivables	(1,513)	(1,950)
Income related to transfer of receivables	230	271
Foreign currency differences	(237)	-
	(1,520)	(1,679)
	(11,092)	(9,054)

12. Investment securities

	2009 € '000	2008 € '000
Debt securities available for sale (a)	80,402	100,631
Equity shares available for sale (b)	98	98
	80,500	100,729

12. Investment securities continued

(a) Debt securities available for sale

	2009 € '000	2008 € '000
Slovak government securities	80,402	100,631

As at 31 December 2009, the Branch pledged Slovak government bonds totalling €3,319 thousand as collateral to the State treasury for a term deposit received amounting to € 100,005 thousand.

Slovak government bonds totalling €10,868 thousand were provided as collateral to the National Bank of Slovakia for euro currency delivery as at 31 December 2008. The total amount of the euro delivery was repaid in three equal instalments ending on 4 February 2009, on which date the collateral was returned.

(b) Equity shares available for sale

Name	Activity	2009 € '000	2008 € '000
RVS, a.s.	Conference and leisure	100	100
VISA, Inc.	Financial services	98	98
		198	198
Specific allowance for impairment		(100)	(100)
		98	98

The Branch holds 1.29% (2008: 1.29%) share in RVS, a.s. - a company registered in the Slovak Republic. In 2007, a full impairment loss was recognised for the investment in RVS. In October 2008, the Branch received 2,682 shares of VISA Incorporated. The Branch's share of the registered capital of VISA Inc. is less than 1%. The company is incorporated in the United Kingdom.

The movements on available-for-sale securities during the year were as follows:

	2009 € '000	2008 € '000
As at 1 January	100,729	101,659
Additions	62,304	9,425
Disposals	(82,987)	(10,297)
Gains/(losses) from changes in fair value (note 23)	454	(58)
As at 31 December	80,500	100,729

There were no movements on specific allowances for impairment on investment securities.

13. Property and equipment

	Leasehold improve-ments € '000	Furniture, fittings and equipment € '000	Motor vehicles € '000	Software € '000	Assets not yet in use € '000	Total € '000
Cost						
At 1 January 2008	1,202	5,672	1,745	1,291	77	9,987
Additions	-	-	-	-	298	298
Transfers	19	42	134	54	(249)	-
Disposals	(498)	(429)	(450)	-	-	(1,377)
At 31 December 2008	723	5,285	1,429	1,345	126	8,908
At 1 January 2009	723	5,285	1,429	1,345	126	8,908
Additions	-	-	-	-	1,247	1,247
Transfers	28	14	576	58	(676)	-
Disposals	(312)	(556)	(678)	-	(323)	(1,869)
At 31 December 2009	439	4,743	1,327	1,403	374	8,286
Depreciation and impairment losses						
At 1 January 2008	502	4,494	902	1,152	-	7,050
Charge for the year	100	427	399	87	-	1,013
Disposals	(290)	(373)	(377)	-	-	(1,040)
At 31 December 2008	312	4,548	924	1,239	-	7,023
At 1 January 2009	312	4,548	924	1,239	-	7,023
Charge for the year	69	326	320	60	-	775
Disposals	(202)	(511)	(622)	-	-	(1,335)
At 31 December 2009	179	4,363	622	1,299	-	6,463
Net book value:						
At 31 December 2009	260	380	705	104	374	1,823
At 31 December 2008	411	737	505	106	126	1,885

At 31 December 2008 and 2009, no assets were held under finance leases. The Branch's property is not pledged.

The Branch's leasehold improvements and equipment are insured against fire, burglary, floods and storms for their replacement value as at 31 December of the preceding period. The Branch has motor hull and compulsory motor car insurance.

Notes to financial statements
Year ended 31 December 2009

14. Other assets

	2009	2008
	€ ‘000	€ ‘000
Prepaid expenses	266	306
Other	1,454	911
	1,720	1,217

15. Deposits by banks

	2009	2008
	€ ‘000	€ ‘000
Repayable on demand	332	100,143
Other deposits by banks with contractual maturity:		
- 3 months or less	-	139,188
- 5 years or less but over 1 year	-	65,282
	332	304,613

16. Customer accounts

	2009	2008
	€ ‘000	€ ‘000
Repayable on demand	358,913	649,335
Other deposits with agreed maturity dates or periods of notice, by contractual maturity:		
- 3 months or less	245,922	207,257
- 1 year or less but over 3 months	57,086	671
	661,921	857,263

17. Subordinated debt

	2009	2008
	€ ‘000	€ ‘000
Citigroup Netherlands B.V.	-	37,756

The subordinated loan at 31 December 2008 was provided under a contract entered into on 9 November 2005. The loan was denominated in euro and principal debt amounted to € 37,600 thousand. The interest rate was set as three-month EURIBOR plus 0.5% p.a. The original debt’s tenor was 10 years. The loan was fully repaid in February 2009.

Notes to financial statements
Year ended 31 December 2009

18. Corporate income tax - receivable

	2009 € '000	2008 € '000
Tax payable for the current period (note 31)	1,886	6,340
Tax prepayments	(4,272)	(4,272)
Corporate income tax – (receivable)/payable	(2,386)	2,068

19. Provisions

The movements on provisions were as follows:

	Restruc-turing € '000	Other € '000	Total € '000
At 1 January 2008	122	106	228
Created through 'Employee costs'	253	-	253
Decrease for the year	-	(50)	(50)
At 31 December 2008	375	56	431
At 1 January 2009	375	56	431
Utilised	(214)	-	(214)
(Decrease)/increase for the year	(18)	442	424
At 31 December 2009	143	498	641

Restructuring
The provision mainly relates to redundancy expenses.

20. Other liabilities

	2009 € '000	2008 € '000
Items in course of settlement	7,973	25,967
Expense accruals	2,535	2,292
Social fund	15	4
Other	2,523	2,550
	13,046	30,813

20. Other liabilities continued

The movements on the Social fund were as follows:

	2009 € '000	2008 €'000
At 1 January	4	4
Creation	82	118
Drawings	(71)	(118)
At 31 December	15	4

21. Head Office accounts

	Head Office funding € '000	Accumulated profit € '000	Total € '000
Transfer from share capital (note 22)	54,770	-	54,770
Transfer from reserves (note 23)	-	60,069	60,069
Loss for 2009	-	(2,995)	(2,995)
At 31 December 2009	54,770	57,074	111,844

Following the conversion from joint stock company to branch (see note 1) the share capital, legal reserve fund and accumulated profit was transferred to Head Office accounts on 1 January 2009. The funds are to be used for general corporate purposes. The funds do not bear interest, and are repayable in full on request by Head Office, or in whole or in part at any time at the decision of the Branch.

22. Share capital

	2009 € '000	2008 € '000
Authorised, issued and fully paid:		
1,650,000 ordinary shares of € 33,19 each	-	54,770

The movements on share capital were as follows:

	2009 € '000	2008 € '000
At 1 January	54,770	54,770
Transfer to Head Office accounts (note 21)	(54,770)	-
At 31 December	-	54,770

The holder of ordinary shares was entitled to receive dividends as declared from time to time and was entitled to one vote per share at general meetings of the Bank.

23. Reserves

	Retained earnings € '000	Legal reserve fund € '000	Revaluation reserve € '000	Total € '000
At 1 January 2008	35,578	10,954	65	46,597
Net loss on available-for-sale assets, net of tax (c)	-	-	(47)	(47)
Profit for 2008	13,537	-	-	13,537
At 31 December 2008	49,115	10,954	18	60,087
At 1 January 2009	49,115	10,954	18	60,087
Transfer to Head Office accounts (note 21)	(49,115)	(10,954)	-	(60,069)
Net gain on available-for- sale assets, net of tax (c)	-	-	454	454
At 31 December 2009	-	-	472	472

(a) Dividends
During 2009 no dividend was paid from the profit for the year ended 31 December 2008.

(b) Legal reserve fund
Under the Slovak Commercial Code, the Branch is not required to create a legal reserve fund.

(c) Revaluation reserve
The revaluation reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

24. Contingencies, commitments and derivative financial insturments

	2009 € '000	2008 € '000
Contingent liabilities:		
Guarantees	121,743	123,364
Irrecovable letters of credit	1,272	1,208
Commitments:		
Committed unused lines	118,823	77,791
Derivative instruments:		
Trading assets and liabilities (note 8)	490,189	3,351,425
	732,027	3,553,788

25. Deferred tax asset

Deferred tax assets and liabilities are attributable to the following:

	Assets/ (liabilities) 2009 € '000	Assets/ (liabilities) 2008 € '000
Write-off of loans	-	92
Property and equipment	(58)	(74)
Allowances for impairment on loans and advances	1,603	1,006
Revaluation of available-for-sale securities	(111)	(4)
Items tax deductible upon remittance	-	226
Other	205	11
	1,639	1,257

The deferred tax assets and liabilities have been calculated using a corporate income tax rate of 19% (2008: 19%).

The movements on deferred tax were as follows:

	2009 € '000	2008 € '000
At 1 January	1,257	(182)
Credit to profit or loss (note 31)	489	1,428
Charge to other comprehensive income (note 31)	(107)	11
At 31 December	1,639	1,257

Notes to financial statements
Year ended 31 December 2009

26. Interest income

	2009 € '000	2008 € '000
Loans and advances to banks	3,427	13,902
Loans and advances to customers	15,858	31,768
Investment securities	2,986	5,125
	22,271	50,795

Interest income for the year ended 31 December 2009 includes interest of € 727 thousand accrued on impaired financial assets (2008: € 637 thousand).

27. Interest expense

	2009 € '000	2008 € '000
Deposits by banks	901	6,086
Customer accounts	4,544	18,648
Loans received	-	98
Subordinated debt	262	2,047
	5,707	26,879

28. Net fee and commission income

	2009 € '000	2008 € '000
***Fee and commission income**:*		
Payment services income	6,273	6,505
Corporate banking credit related fees	109	297
Retail banking customer fees	348	443
Guarantee and letter of credit contracts issued	1,229	1,235
Other	-	98
Total fee and commission income	7,959	8,578
Fee and commission expense:		
Payment services	(3,549)	(3,665)
Interbank transaction fees	(77)	(164)
Brokerage	10	(194)
Other	-	(542)
Total fee and commission expense	(3,616)	(4,565)
Net fee and commission income	4,343	4,013

28. Net fee and commission income continued

Net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets and liabilities that are not at fair value through profit or loss but includes income of € 785 thousand (2008: € 1,071 thousand) and expense of € 188 thousand (2008: € 402 thousand) relating to such financial assets and liabilities.

29. Net trading income

	2009 € '000	2008 € '000
Net income from foreign exchange operations	20,357	13,036
Net income from derivative instruments		
Net (loss)/income relating to currency derivatives	(16,085)	5,479
Net income from options	-	1,235
Net income from trading with securities	900	279
	5,172	20,029

30. Administrative expenses

	2009 € '000	2008 € '000
Employee costs:		
Wages and salaries	5,422	7,577
Social insurance	1,104	1,313
Restructuring	-	253
Other	675	605
	7,201	9,748
Operating lease rentals	729	829
Audit of statutory financial statements (including regulatory assurance services)	111	124
Other operating expenses	7,952	9,346
	15,993	20,047

At 31 December 2009, the average number of employees was 117 (2008: 170).

The Branch granted shares of Citibank N.A., New York within the Capital Accumulation Program ('CAPs') to certain employees that entitle these employees to obtain the shares of Citibank N.A., New York. There were 19,860.43 CAPs granted as at 31 December 2009 (2008: 32,640) with 4 years vesting period.

The amount of CAPs being charged to profit or loss during 2009 amounts to € 239 thousand (2008: € 139 thousand) and is included in *Wages and salaries*.

Notes to financial statements
Year ended 31 December 2009

31. Income tax expense

Income tax recognised in the statement of comprehensive income:	**2009 € '000**	**2008 € '000**
Current tax expense		
Current year (note 18)	(1,886)	(6,340)
Adjustments in respect of prior years	181	(2)
	(1,705)	(6,342)
Deferred tax expense		
Origination and reversal of temporary differences (note 25)	489	1,428
Total income tax expense	(1,216)	(4,914)

The effective tax rate was calculated as follows:

	Tax base 2009 € '000	**Tax at 19% 2009 € '000**	**Tax base 2008 € '000**	**Tax at 19% 2008 € '000**
Profit before taxation	(1,779)	(338)	18,451	3,506
Tax non-deductible expenses				
Severance payments	-	-	689	131
Capital Accumulation Program related expenses	239	45	242	46
Marketing related expenses	26	5	3	1
Loans written off	1,513	288	2,153	409
Difference between accounting and tax depreciation	176	33	54	10
Loan impairment allowances	8,995	1,709	8,638	1,642
Loan impairment allowances - 2003	-	-	1,141	217
Tax adjustments due to IFRS adoption	138	26	-	-
Provisions	493	94	-	-
Tax-deductible expenses after payment	-	-	1,191	226
Other	1,110	209	1,453	276
Non-taxable income				
Severance payments	(81)	(15)	-	-
Tax adjustments due to IFRS adoption	-	-	(136)	(26)
Recoveries from written-off loans	(230)	(44)	(271)	(52)
Tax-deductible expenses after payment	(665)	(126)	-	-
Other	-	-	(241)	(46)
Current tax expense		1,886		6,340
Under provision in respect of previous year		(181)		2
Total income tax		1,705		6,342
Deferred tax		(489)		(1,428)
Total income tax expense		1,216		4,914
Effective tax rate		-		26.63%

Notes to financial statements
Year ended 31 December 2009

31. Income tax expense continued

Income tax recognised in other comprehensive income:

	2009			2008		
	Before tax	Tax expense	Net of tax	Before tax	Tax benefit	Net of tax
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Available-for- sale assets	561	(107)	454	(58)	11	(47)

32. Profit before changes in operating assets and liabilities

	2009 € '000	2008 € '000
(Loss)/profit before taxation	(1,779)	18,451
Adjustments for non-cash items:		
Depreciation	775	1,013
Gain on disposal of property and equipment	(21)	(120)
Interest income	(22,271)	(50,795)
Interest received	25,280	50,660
Interest expense	5,707	26,879
Interest paid	(6,053)	(26,925)
Impairment losses on loans and advances	11,092	9,054
Provisions	210	203
	12,940	28,420

33. Lease commitments

	2009 € '000	2008 € '000
Less than one year	1	699
Between one to five years	23	3,129
More than five years	2,537	257
Non-cancellable commitments under operating leases	2,561	4,085

The Branch leases its business premises under operating leases.

34. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The Branch is controlled by Citibank Europe plc, Dublin, which is incorporated in Ireland.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

In the normal course of business, the Branch is engaged in transactions with other members of Citigroup. These transactions, which include the taking and placing of deposits, foreign currency operations and the provision of management and technology services, are conducted on an arm's length basis.

(a) Head Office

Assets and liabilities due from and to the controlling entity, Citibank Europe plc, were as follows:

	2009 **€ '000**	**2008** **€ '000**
Liabilities		
Deposits by banks	-	44
Head Office funds	111,844	-

Transactions during the year were as follows:

Fees and commissions receivable	-	27

(b) Enterprises related to Head Office

Assets and liabilities due from and to other enterprises related to Citibank Europe plc were as follows:

	2009 **€ '000**	**2008** **€ '000**
Assets		
Cash and cash equivalents	273	6,301
Liabilities		
Deposits by banks	-	163,658

Transactions during the year were as follows:

Interest income	43	156
Interest expense	(34)	(915)
Fees and commissions receivable	4	136
Fees and commissions payable	(74)	(310)
Income from currency derivatives	-	2 337
Expenses related to currency derivatives	(664)	(2 529)

34. Related party transactions continued

(c) Other enterprises within the group

Assets and liabilities due from and to companies within the group were as follows:

	2009 € '000	2008 € '000
Assets		
Cash and cash equivalents	305,861	7,084
Loans and advances to banks	56,402	-
Liabilities		
Deposits by banks	105	125,326

Transactions during the year were as follows:

Interest income	3,390	547
Interest expense	(713)	(6,596)
Fees and commissions receivable	179	339
Fees and commissions payable	(585)	(1,044)
Income from currency derivatives	17,342	8,075
Expenses related to currency derivatives	(47,570)	(5,636)
Income from interest rate derivatives	5,144	6,551
Expenses from interest derivatives	(13,362)	(7,107)

(d) Senior management

Receivables and liabilities due from and to senior management, or close relatives or companies in which they have a substantial interest were as follows:

	2009 € '000	2008 € '000
Assets		
Loans and advances to customers	594	21
Liabilities		
Customer accounts	663	818
Other liabilities (CAPs)	28	81

During 2009 and 2008, the Branch did not record impairment losses for loans and advances provided to related parties.

In 2009, key management personnel received wages and salaries and short term employment benefits of € 415 thousand (2008: € 785 thousand).

35. Custodial services

The Branch administers securities and other valuables totalling € 881million (2008: €144 million), which have been received from customers into the Branch's custody.

Notes to financial statements
Year ended 31 December 2009

36. Fair values

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values of the Branch's financial assets and liabilities at year end were as follows:

	Carrying value 2009 € '000	Fair value 2009 € '000	Carrying value 2008 € '000	Fair value 2008 € '000
Financial assets				
Cash and cash equivalents	250,940	250,940	728,587	728,587
Trading assets	9,699	9,699	75,937	75,937
Loans and advances to banks	56,442	56,442	19,191	19,191
Loans and advances to customers	389,555	388,669	475,263	474,666
Investment securities	80,500	80,500	100,729	100,729
Financial liabilities				
Trading liabilities	6,448	6,448	56,265	56,265
Deposits by banks	332	332	304,613	304,613
Customer accounts	661,921	661,921	857,263	857,263
Subordinated debt	-	-	37,756	37,756

The following methods and assumptions were used in estimating the fair values of the Branch's financial assets and liabilities:

Trading assets
The fair values of trading assets are calculated using quoted market prices or theoretical prices determined by discounting future cash flows by reference to the relevant interest rate for the maturity period.

Loans and advances to banks
The fair value of current accounts with other banks approximates to book value. For amounts with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value.

Loans and advances to customers
Loans and advances are stated net of impairment losses. For loans and advances to customers with a remaining maturity of less than three months, it is reasonable to use book value as an approximation of fair value. The fair values of other loans and advances to customers are calculated by discounting the future cash flows using current market rates.

Investment securities
Investment securities are stated at quoted market prices.

Trading liabilities
The fair values of trading liabilities are calculated using quoted market prices or theoretical prices determined by discounting future cash flows by reference to the relevant interest rate for the maturity period.

36. Fair values continued

Deposits by banks
The fair value of current accounts with other banks approximates to book value. For other amounts owed to banks with a remaining maturity or repricing period of less than three months, it is also reasonable to use book value as an approximation of fair value. Deposits with remaining maturity above three months are being repriced usually on quarterly basis and, therefore, their fair value approximates their carrying amount.

Customer accounts
The fair values of current accounts and term deposits with a remaining maturity of less than three months approximate their carrying amounts.

Subordinated debt
The fair value of subordinated debt approximates to book value as the debt is being repriced on quarterly basis (3-month EUR LIBOR).