

CITIBANK INVESTMENTS LIMITED
(Registered Number: 1911126)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2005



CITIBANK INVESTMENTS LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and the financial statements of Citibank Investments Limited ("the Company") and its subsidiary undertakings (together the "Group") for the year ended 31 December 2005.

Principal activities

The Company is the holding company for subsidiary undertakings of Citibank, N.A. in the United Kingdom primarily engaged in the provision of international banking and related financial services. The Company's principal subsidiary undertaking is Citibank International plc ("CIP").

Acquisitions and disposals and events during the year

On 1 January 2005 the share capital of Diners Club UK Limited ("DCUK") was contributed to the Company by Diners Club Europe SpA in exchange for the issue by the Company of 4,436,000 ordinary shares. The share capital of DCUK was then contributed on to Citibank International plc ("CIP") in exchange for the issue to the Company of the same number of ordinary shares in CIP.

On 5 January 2005 CIP purchased the European custody business of ABN Amro for £30.6 million.

On 30 June 2005 CIP sold a part of its interest in its European equipment finance business to a third party for a consideration of £88.6 million.

On 2 August 2005 a non-banking branch of CIP was established in Poland.

On 1 October 2005 the share capital of Diners Club Italia Srl, Di Net Club Srl and NT Europe Srl was contributed to the Company by Diners Club Europe SpA in exchange for the issue by the Company of 5,740,005 ordinary shares. The share capital of Diners Club Italia Srl, Di Net Club Srl and NT Europe Srl was then contributed on to CIP in exchange for the issue to the Company of the same number of ordinary shares in CIP.

On 19 October 2005 the Group established a subordinated loan facility was established for CIP with a fellow subsidiary undertaking. Under this facility €330 million was drawn down by CIP in order to increase its regulatory capital base.

On 8 November 2005 a non-banking branch of CIP was established in Hungary.

On 1 December 2005 the share capital of CIB Properties Limited was sold to a Citigroup affiliate for a cash consideration of £80 million.

On 30 December 2005 CIP transferred its European card acceptance business to a wholly owned subsidiary undertaking, Willows End Limited. On the same day this subsidiary undertaking was sold to a third party for a consideration of €19.3 million.

Subsequent Events

Subsequent to the year end on 1 February 2006 and 3 April 2006 the Company received two capital contributions of \$300 million each from Citibank Overseas Investment Corporation.

On 5 June 2006 CIP and another subsidiary undertaking sold their interests in EBS Group Limited to a third party, for a consideration of £29,269,016 consisting of cash consideration and shares in this third party. It is expected these shares will be sold in due course, although there is no definite timescale for this at present.

On 12 June 2006, an agreement was reached with Her Majesty's Revenue and Customs, which ultimately impacted the group relief surrender to CIP in the year ended 31 December 2002. The financial statement impact is a £9 million charge to the Consolidated Income Statement for 2005.

CITIBANK INVESTMENTS LIMITED

REPORT OF THE DIRECTORS (continued)

Financial instruments

The financial risk management objectives and policies and the exposure to price risk, credit risk, and liquidity risk of the Company and its subsidiary undertakings have been disclosed in Risk management policies on pages 56 to 65.

Results and dividends

The Group made a profit for the year after tax of £7 million (2004: £102 million).

Dividends paid in the year were £20 million. The Directors do not recommend the payment of a final dividend for the year (2004: £nil).

Future developments

The Group's strategy continues to be to take advantage of opportunities within the European Union and other European countries for the further development of its business.

Directors and their interests

The following Directors held office at 31 December 2005:

WJ Mills
M J Kirkwood
S H Dean
B J Gans

F P Vanni d'Archirafi resigned as a director with effect from 18 October 2005.

None of the Directors, nor any member of their immediate families, held at any time during the year any material interest in the shares of or contracts involving the Company or any other group undertaking which is required to be disclosed under the Companies Act 1985.

Directors' responsibilities for financial statements

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

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

The Group and Company financial statements are required by law and IFRSs as adopted by the E.U. to present fairly the financial position of the Group and the Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references, in the relevant part of that Act to financial statements giving a true and fair view, are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the Directors are required to:

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

CITIBANK INVESTMENTS LIMITED

REPORT OF THE DIRECTORS (continued)

Directors' responsibilities for financial statements (continued)

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the provisions of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' indemnity

The Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

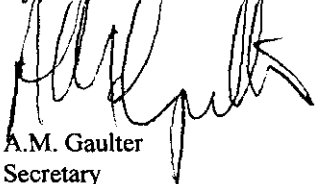
Charitable donations and political contributions

During the year the Group made payments amounting in aggregate to £37,453 for charitable purposes (2004: £67,399). Neither the Company nor any of its subsidiary undertakings made any payments for political purposes during the year.

Auditor

The Company's Auditor, KPMG Audit Plc, Chartered Accountants and Registered Auditor, has indicated its willingness to continue in office and, accordingly, a resolution for its re-appointment will be proposed at the forthcoming Annual General meeting in accordance with the provisions of Section 385 of the Companies Act 1985, as amended.

By order of the board:



A.M. Gaulter
Secretary

31 August 2006

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

CITIBANK INVESTMENTS LIMITED

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

We have audited the Group and Company financial statements (the "financial statements") of Citibank Investments Limited for the year ended 31 December 2005 which comprise the Group and Company Income Statements, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and IFRSs as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 2.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and as regards the Group financial statements Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the E.U., of the state of the Group's and the Company's affairs as at 31 December 2005 and of the Group and Company's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and as regards the Group financial statements Article 4 of the IAS Regulation.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
31 August 2006

CITIBANK INVESTMENTS LIMITED

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2005

	Note	2005 £ Million	2004 £ Million
Continuing operations			
Interest and similar income		804	537
Interest expense and similar charges		(453)	(324)
Net interest income	3	351	213
Dividend income	4	1	1
Net fee and commission income	5	296	262
Net trading income	6	22	29
Net investment income	7	12	-
Other operating income		25	49
Total operating income		707	554
Personnel expenses	9	(219)	(174)
General and administrative expenses	8	(289)	(169)
Amortisation of intangible assets	23	(18)	(22)
Depreciation of property and equipment	24	(60)	(81)
Operating profit		121	108
Net credit losses	16	(68)	(6)
Gain on disposal of subsidiary undertakings		9	3
Profit before income tax		62	105
Income tax expense	11	(57)	(13)
Profit from continuing operations		5	92
Discontinued operations			
Profit before tax discontinued operations	12	4	3
Income tax (expense)/ credit	12	(2)	7
Profit for the financial year		7	102

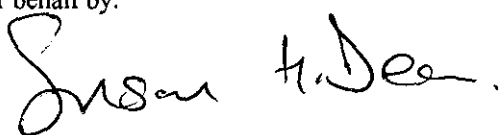
CITIBANK INVESTMENTS LIMITED

CONSOLIDATED BALANCE SHEET

as at 31 December 2005

	Note	2005 £ Million	2004 £ Million
Assets			
Cash and balances at central banks		166	94
Loans and advances to banks		8,829	9,059
Loans and advances to customers	15	8,742	6,482
Derivative financial instruments	17	330	444
Trading securities	18	1,661	4,091
Investment securities	19	2,624	13
Prepayments and accrued income		154	178
Current tax assets		61	35
Property and equipment	24	124	254
Investment in associate	22	1	1
Goodwill and intangible assets	23	70	44
Deferred tax assets	26	103	105
Other assets	25	1,122	216
Total assets	38	23,987	21,016
Liabilities			
Deposits by banks		10,892	11,739
Customer accounts		7,976	6,017
Derivative financial instruments	17	334	379
Debt securities in issue	27	797	344
Accruals and deferred income		474	223
Current tax liabilities		39	33
Deferred tax liabilities	26	26	24
Provisions for liabilities	29	64	27
Other liabilities	28	1,630	694
Other borrowed funds	31	608	336
Total liabilities		22,840	19,816
Equity shareholders' funds			
Share capital	32	780	816
Other reserves		7	-
Retained earnings		360	384
Total shareholders' funds	30	1,147	1,200
Total liabilities and equity shareholders' funds	38	23,987	21,016

The financial statements on pages 5 to 79 were approved by the Directors on 31 August 2006 and were signed on their behalf by:



Susan H. Dean

CITIBANK INVESTMENTS LIMITED

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE for the year ended 31 December 2005

	Note	2005 £ Million	2004 £ Million
Available for sale assets			
- change in fair values transferred to equity	19	(11)	-
- transfer to income statement on sale	7	<u>12</u>	<u>-</u>
		1	-
Foreign exchange translation differences		-	(1)
Actuarial losses on retirement benefits	13	(7)	(9)
		<u>(6)</u>	<u>(10)</u>
Net tax on items taken directly to equity	11	2	3
Profit for the year		<u>7</u>	<u>102</u>
Total recognised income and expense for the year		<u><u>3</u></u>	<u><u>95</u></u>
Effect of change in accounting policy			
Effect of adopting IAS 32 and IAS 39 on 1 January 2005			
- Available for sale reserve		6	
- Retained earnings		<u>(6)</u>	
		<u><u>-</u></u>	

The total recognised income and expense for the years is attributable to shareholders of the parent company.

CITIBANK INVESTMENTS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005

	Note	2005 £ Million	2004 £ Million
Cash flow from / (used in) operating activities			
Profit before tax		66	108
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	24	66	88
Amortisation of intangible assets	23	18	22
Net credit losses	16	77	7
Net changes from investing activities		(136)	26
Reversal of write-offs	16	(9)	(1)
Net (increase) / decrease in operating assets:			
Due from/to banks		1,046	996
Due from/to customers		(368)	(344)
Change in trading securities		69	(780)
Accrued income, prepaid expenses and other assets		(883)	(47)
Net increase/(decrease) in operating liabilities:			
Accrued expenses and other liabilities		1,189	(253)
Dividends received		1	1
Income taxes paid		(44)	(7)
Net cash flow from operating activities		<u>1,092</u>	<u>(184)</u>
Cash flow from investing activities			
Investments in subsidiary undertakings		-	(16)
Disposal of subsidiary undertakings		93	43
Disposal of business assets		89	357
Purchase of business assets		(31)	-
Purchase of property and equipment	24	(88)	(129)
Disposal of property and equipment		151	147
Net investment in financial investments	19	199	-
Net cash flow from investing activities		<u>413</u>	<u>402</u>
Cash flow from financing activities			
Dividends paid	10	(20)	-
Issuance of debt securities		499	63
Redemption of debt securities		(46)	(42)
Receipt of long-term debt	31	226	-
Interest paid on debt securities in issue and other borrowed funds		(68)	(61)
Net cash flow from/ (used in) financing activities		<u>591</u>	<u>(40)</u>
Net increase in cash and cash equivalents		<u>2,096</u>	<u>178</u>
Cash and cash equivalents, beginning of the year	33	7,597	7,419
Cash and cash equivalents, end of the year	33	<u>9,693</u>	<u>7,597</u>

CITIBANK INVESTMENTS LIMITED

COMPANY INCOME STATEMENT for the year ended 31 December 2005

		2005 £ Million	2004 £ Million
	Note		
Interest and similar income		2	1
Interest expense and similar charges		(52)	(50)
Net interest income	3	(50)	(49)
Dividend income	4	71	44
Other operating income		-	1
Total operating income		21	(4)
General and administrative expenses	8	(3)	(1)
Operating profit/ (loss)		18	(5)
Gain on sale of subsidiary undertaking		71	-
Profit/ (loss) before income tax		89	(5)
Income tax credit	11	-	3
Profit/ (loss) for the financial year		89	(2)

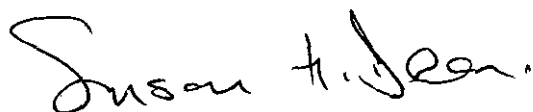
CITIBANK INVESTMENTS LIMITED

COMPANY BALANCE SHEET

as at 31 December 2005

	Note	2005 £ Million	2004 £ Million
Assets			
Loans and advances to banks		317	10
Loans and advances to customers	15	1	1
Shares in subsidiary undertakings	21	1,714	1,711
Prepayments and accrued income		1	-
Investment in associate	22	1	1
Other assets	25	3	2
Total assets	38	2,037	1,725
Liabilities			
Deposits by banks		83	76
Customer accounts		-	3
Accruals and deferred income		47	45
Provisions for liabilities	29	3	1
Other liabilities	28	-	1
Other borrowed funds	31	958	686
Total liabilities		1,091	812
Equity shareholders' funds			
Share capital	32	780	816
Other reserves		1	1
Retained earnings		165	96
Total shareholders' funds	30	946	913
Total liabilities and equity shareholders' funds	38	2,037	1,725

The financial statements on pages 5 to 79 were approved by the Directors on 31 August 2006 and were signed on their behalf by:



Susan H. Dean

CITIBANK INVESTMENTS LIMITED

COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE for the year ended 31 December 2005

	Note	2005 £ Million	2004 £ Million
Available for sale assets			
- change in fair values transferred to equity	19	-	-
- transfer to income statement on sale	7	-	-
		<u>-</u>	<u>-</u>
Foreign exchange translation differences		-	-
Actuarial losses on retirement benefits		-	-
		<u>-</u>	<u>-</u>
Net tax on items taken directly to equity	11	-	-
Profit/ (loss) for the year		89	(2)
		<u>89</u>	<u>(2)</u>
Total recognised income and expense for the year		<u>89</u>	<u>(2)</u>
Effect of change in accounting policy			
Effect of adopting IAS 32 and IAS 39 on 1 January 2005			
- Available for sale reserve		-	-
- Retained earnings		-	-
		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>

The total recognised income and expense for the years is attributable to shareholders of the parent company.

CITIBANK INVESTMENTS LIMITED

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2005

	Note	2005 £ Million	2004 £ Million
Cash flow from / (used in) operating activities			
Profit/ (loss) before tax		89	(5)
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Net changes from investing activities		133	(1)
Net (increase) / decrease in operating assets:			
Due from/to banks		(220)	(3)
Due from/to customers		(3)	(2)
Change in trading securities		-	1
Accrued income, prepaid expenses and other assets		(2)	1
Payments made in respect of long term loans		(226)	-
Net increase/(decrease) in operating liabilities:			
Accrued expenses and other liabilities		3	4
Dividend income		71	44
Income taxes paid		-	5
Net cash flow from/(used in) operating activities		<u>(155)</u>	<u>44</u>
Cash flow from/(used in) investing activities			
Investments in subsidiary undertakings		(4)	-
Disposal of subsidiary undertakings		80	-
Net cash flow from investing activities		<u>76</u>	<u>-</u>
Cash flow from/(used in) financing activities			
Dividends paid	10	(20)	-
Receipt of long-term debt	31	226	-
Interest paid on debt securities in issue and other borrowed funds		(47)	(43)
Net cash flow from/(used in) financing activities		<u>159</u>	<u>(43)</u>
Net increase in cash and cash equivalents		80	1
Cash and cash equivalents, beginning of the year	33	4	3
Cash and cash equivalents, end of the year	33	<u>84</u>	<u>4</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

a) Basis of presentation

The Company and Group financial statements have both been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") as adopted by the E.U..

The Group prepared its 2004 consolidated financial statements in accordance with accounting standards issued by the U.K. Accounting Standards Board, the Statements of Recommended Accounting Practice ("SORPs") issued by the British Bankers' Association ("BBA") and Irish Brokers' Federation ("IBF") and with the SORP "Accounting issues in the asset finance and leasing industry" issued by the Finance and Leasing Association ("FLA") and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups as applied by Schedule 9 of the Companies Act 1985 (Bank Accounts) Regulations 1991.

The 2005 consolidated financial statements have been prepared in accordance with IFRS, International Accounting Standards and interpretations issued by the International Financial Reporting Interpretation Committee and its predecessor body.

The transition to IFRS is accounted for in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*. In preparing the Group and Company financial statements, the group has elected to take advantage of certain transitional provisions within IFRS 1 that offer exemption from presenting comparative information or applying IFRSs retrospectively. The most significant of these provisions is the exemption from presenting comparative information in accordance with IFRSs in the following areas:

- IAS 32 "Financial Instruments: Presentation and Disclosure" ("IAS 32");
- IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"); and
- IFRS 4 "Insurance Contracts" ("IFRS 4").

Where comparative information for financial instruments has been prepared on the basis of the Groups previous accounting policies, the accounting policies applied to 2004 are disclosed separately.

The Group has also taken the exemptions available under IFRS 1 in the following areas:

- IFRS 3 "Business Combinations" not to apply retrospectively to business combinations prior to 1 January 2004; and
- The Group has set the cumulative exchange differences for all foreign operations to zero at 1 January 2004. The alternative, a retrospective application of IAS 21 "The Effect of Changes in Foreign Exchange Rates", would have resulted in a re-allocation between retained earnings and other reserves at 1 January 2004 but would have had no impact on total equity.

In addition, the Group has elected not to early adopt IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7"), the amendment to IAS 39 and IFRS 4 in these financial statements, but this will be mandatory from 1 January 2007. The Group has early adopted the amendment to IAS 19 *Employee Benefits* ahead of the effective date.

The date of transition to IFRS for the Group and the date of the opening IFRS balance sheet was 1 January 2004. The principal changes in accounting policies as a consequence of the transition to IFRS are described below:

Business combinations – Under the transition requirements of IFRS 3 *Business Combinations*, goodwill existing at 1 January 2004 has ceased to be amortised from 1 January 2004, but continues to be reviewed annually for impairment.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

a) Basis of presentation (continued)

Intangible assets – As required under IAS 38 *Intangible Assets*, intangible assets acquired in a business combination are recognised separately from goodwill. Computer software has been reclassified from Property and equipment to Intangible assets.

Consolidation – Under the requirements of IAS 27 *Consolidation and Separate Financial Statements* and SIC 12 – *Consolidation of Special Purpose Entities*, sufficient risk and rewards have been retained to consolidate Nightingale Funding plc as a fully owned subsidiary undertaking, but significantly all the risk and rewards have been disposed of such that the Group has de-consolidated and de-recognised Marlin (EMC-II) B.V. Both entities had previously been consolidated using linked presentation in accordance with the provisions of Financial Reporting Standard No. 5 Reporting the substance of transactions.

Dividends Paid – As required under IAS 10 *Events after the Balance Sheet Date*, final dividends on ordinary shares are accounted for in the period during which they are paid/ approved, rather than the period to which they relate. Interim dividends are recognised when paid.

Equity Compensation – IFRS 2 *Share Based Payments* has been applied to all unvested share-based incentive plans as of 1 January 2005.

Defined Benefit Pension Obligations – The principal impact of IAS 19 *Employee Benefits* is to record any surplus or deficit in relation to defined benefit pension schemes as the net amount of the actuarial valuation of the plan obligations, less the fair value of the assets contributed to the plan. Changes in the fair value of plan assets and the actuarial present value of plan obligations are recognised in the income statement or equity in accordance with the requirements of IAS 19. The Group has early adopted amended IAS 19 with effect from 1 January 2004 that allows all actuarial gains and losses that arise to be recognised immediately through equity and disclosed in the statement of recognised income and expense.

Financial Instruments – as permitted by IFRS 1, the Group has not restated its 2004 income statement and balance sheets in respect of IAS 32 and IAS 39. The government bond portfolio used to manage the liquidity position of the Group and unlisted equity securities were classified as Available-for-sale at fair value through equity from 1 January 2005. If IAS 39 had been applied in 2004, the government bond portfolio and equity securities would have been classified as Available-for-sale and any changes in the fair value would have to be reported as a separate component of equity.

Borrowed Funds – Following the adoption of IAS 32 from 1 January 2005, the preference shares were reclassified from Share capital to Other borrowed funds.

Derivative financial instruments – Under IAS 39 all derivative contracts (except those that meet the cash flow hedging requirements) are required to be recorded at fair value with changes recorded in the income statement. This applies regardless of whether the derivative is considered to be an “economic hedge” of an underlying item. Previously derivatives considered to be economic hedges were accounted for in the same manner as the underlying hedged items. If IAS 39 had been applied in 2004 there would have been no impact to the profit for the financial year, as there were no cash flow or fair value hedge programmes in place.

b) Consolidation

Subsidiary undertakings (including some special purpose entities) that are directly or indirectly controlled by the Group are consolidated. Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The Group uses the purchase method of accounting to account for the acquisition of a subsidiary undertaking.

Associates are consolidated in the Group's financial statements when the substance of the relationship between the group and the company indicates that there is significant influence over the company. Associates are equity accounted for in the group financial statements which include the attributable share of the results and reserves of the associates.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

b) Consolidation (continued)

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

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

c) Segmental reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services which is subject to risks and rewards that are different from those of other segments. The Group is organised into three Business Groups, Corporate and Investment Banking, Consumer Banking, and Private Banking and Alternative Investments. This organisational structure is the basis upon which the Group reports its primary segment information. There is no secondary segment as all of the activities of the Group are conducted within a single geographical segment. Segment income, segment expenses and segment performance include transfers between business segments, which are conducted at arm's length.

d) Foreign currencies

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

Transactions in foreign currencies are recorded using the rate of exchange at the date of transaction. At the balance sheet date monetary assets and liabilities are translated at the year end rates of exchange. Non-monetary assets and liabilities are translated at the exchange rate at the date of the transaction. Any exchange profits and losses are taken to the income statement.

On consolidation, the assets and liabilities of the Group's foreign entities are translated at year end rates of exchange. Income and expense items are translated at the average exchange rates. Exchange differences arising on the retranslation of opening net investments in foreign entities at year end exchange rates and arising from the translation of the results of these overseas subsidiaries and branches at the average exchange rate are taken directly to equity.

e) Net interest income

From 1 January 2005

Interest income and expense on investment securities and loans and advances are recognised in the income statement for all instruments using the effective interest rate method. Fees and direct costs relating to loan origination, re-financing or restructuring and to loan commitments are deferred and amortised to interest earned on loans and advances using the effective interest method.

Prior to 1 January 2005

Net interest income comprises interest receivable on loans, advances and deposits placed, and commitment commissions, less interest payable on deposits taken, credit for which is taken on an accruals basis. Where there is doubt over the collection of interest receivable, the interest is not accrued but is taken to the profit and loss account when received in cash.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

f) Fees and commissions

From 1 January 2005

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party, such as the securities or cash clearing or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management and custody services that are continuously provided over an extended period of time.

Prior to 1 January 2005

Fees are accrued over the life of the underlying transaction except to the extent that they represent compensation for arranging the transaction, which is recognised in the profit and loss account on signing the agreement.

g) Dividends from subsidiaries

From 1 January 2005

Dividend income shall be recognised when the right to receive payment is established.

Prior to 1 January 2005

Dividend income is credited to income statement when received, or accrued payable by the investee in respect of the current year.

h) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or a geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal, or when the operation meets the criteria to be classified as held for sale, if earlier.

i) Derivative contracts

From 1 January 2005

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

Certain derivatives embedded ("embedded derivatives") in other financial assets or liabilities ("the host contracts") are treated as separate derivatives, split out and fair valued when their economic characteristics and risks are not closely related to those of the host contract.

Prior to 1 January 2005

Derivative contracts used in trading activities are carried at their fair value. Fair values are based on quoted market prices where available. If no quoted price exists for a particular contract, fair value is determined from market prices for its components using appropriate valuation models. Changes in the fair values of trading derivatives are included in "Net dealing income". Positive and negative fair values of trading derivatives are set-off with the same counterparty where the contracts have been entered into under master netting agreements or other agreements that give a legally enforceable right of set-off.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

i) Derivative contracts (continued)

Prior to 1 January 2005 (continued)

Derivatives held for hedging purposes are accounted for in the same manner as the underlying items hedged. Profits and losses on instruments hedging interest exposure are recognised over the life of the contract as an adjustment to interest receivable or payable. Any profit or loss on the early termination of a hedge is amortised over the remaining life of the underlying items it was hedging. If a hedged item is sold or settled, any unrecognised profit or loss on the related hedge is taken to the profit and loss account.

j) Other financial assets and liabilities

From 1 January 2005

Trading securities

The Group's trading securities are acquired principally for the purpose of selling in the near term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking. Trading securities are carried at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value are reported in the income statement. The Group uses trade date accounting when recording trading securities.

Investment securities

Investment securities are recognised on a trade date basis and are classified as either Held-to-maturity or Available-for-sale.

Held-to-maturity investment securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investment securities are initially recognised at fair value, including directly attributable costs, and subsequently measured at amortised cost using the effective interest method less any impairment losses.

Available-for-sale investment securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investment securities are initially recognised at fair value including directly attributable costs, and subsequently measured at fair value with the changes in the fair value reported as a separate component of equity. Profit and losses arising from the revaluation are taken directly to equity. When available-for-sale investment securities are sold or impaired the cumulative gain or loss previously recognised in equity is transferred to the income statement.

Loans and advances

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

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest rate, except for trading liabilities that are held at fair value through the income statement.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

j) Other financial assets and liabilities (continued)

From 1 January 2005 (continued)

Offsetting financial instruments

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

Prior to 1 January 2005

Transactions in securities and negotiable instruments (comprising debt securities and equity shares) are recognised on a trade date basis. Balances are presented net of obligations to deliver the assets of the same issuer and same instruments sold but not yet purchased, and are valued at market prices prevailing at the year-end. Short positions have been disclosed separately in "Other liabilities".

Securities intended for use on a continuing basis in the Group's activities are classified as "investment securities" and are valued at cost adjusted for accreted premium or discount on acquisition, less any provision for impairment.

All other securities, including those assets held for trading, and debt securities held as collateral for various real-time clearing activities across Europe, are held at fair value based on quoted market prices prevailing at the year-end. Changes in fair value are recognised in the profit and loss account within "Net dealing income" as they arise.

Forward securities contracts are held at fair value, based on market rates prevailing at the year-end, adjusted for the premium amortisation or discount accretion.

k) Impairment of financial assets

From 1 January 2005

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- i) adverse changes in the payment status of borrowers in the portfolio, and;
- ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

k) Impairment of financial assets (continued)

From 1 January 2005 (continued)

For loans and advances and for assets held to maturity the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows considering collateral, discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement. Following impairment, interest income is recognised using the original effective interest rate which is used to discount the future cash flows for the purpose of measuring the impairment loss.

For the purposes of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics by using a grading process that considers obligor type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the likelihood of receiving all amounts due under a facility according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

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

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

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for assets held at amortised cost. Reversals of impairment of debt securities are recognised in the income statement. Reversals of impairment of equity shares are not recognised in the income statement. Increases in the fair value of equity shares after impairment are recognised directly in equity.

Prior to 1 January 2005

Provisions for bad and doubtful debts are made as considered necessary, having regard to both specific and general factors. The general element arises in relation to existing losses, which although not separately identified, are known from experience to be present in any portfolio of bank advances. Provisions made (less amounts released) during the year are charged against profits.

In relation to the Corporate and Investment Banking business segment, a general provision is maintained based on management's estimate of probable losses inherent in the portfolio. This evaluation process is subject to numerous estimates and judgements, including the frequency of default, risk ratings, loss recovery rates and the size and diversity of credit exposures. In addition, specific provision is made in respect of individual credit exposures, where a loss is considered probable, taking into account the value of collateral held.

In respect of the Consumer business segment, specific provision is made for loans based on a pre-determined number of days past due on a contractual basis. Additionally, a general provision is maintained based on a review of overall portfolio indicators, including historical credit losses, delinquent and non-performing and classified credits, classified loans and portfolio mix and an analysis of probable losses in the portfolio. The Company does not accrue for suspended interest.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

k) Impairment of financial assets (continued)

The global procedures in place to manage credit risk and provide for credit losses are detailed in the consolidated accounts of Citigroup Inc. The Group undertakes local credit risk management and provides for bad and doubtful debts on a consistent basis with Citigroup Inc.

l) Goodwill and intangible assets

(a) Goodwill

Acquired goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is stated at cost less any accumulated impairment losses.

(b) Other intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement using the methods that best reflect the economic benefits over their estimated useful economic lives. The estimated useful lives are as follows:

Acquired computer software licenses	3 - 5 years
Computer software development	1 - 3 years
Client intangible	10 years

Computer software development:

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

Client intangible:

Client intangibles are identifiable assets based on cash flow forecasts on acquired customer relationships and contractual rights.

m) Property and equipment

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

Freehold buildings	50 years
Leasehold property	Lease term
Leasehold improvements	shorter of lease term and 10 years
Vehicles, furniture and equipment	between 1 and 10 years
Leased assets	between 1 and 20 years

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

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

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

At each reporting date, the Group assesses whether there is any indication that its intangible assets or property and equipment are impaired. Goodwill is tested for impairment annually or more frequently if events or changes in circumstance indicate that it might be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each primary reporting segment represents a cash-generating unit.

o) Finance and operating leases

Operating leases

Where the Group leases out equipment for less than its expected useful life or does not transfer substantially all the risks and rewards of ownership, the lease is accounted for as an operating lease.

Finance leases

Where the Group leases out equipment and there is a transfer of substantially all of the risks and rewards of ownership to the lessee, the lease is accounted for as a finance lease.

Finance and operating leases – as lessee

Assets held under finance leases and hire purchase contracts are capitalised and depreciated as described in Note 1(m) above. Finance charges are allocated to accounting periods so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period. Rentals payable under operating leases are charged to income statement when incurred and are included within "General and administrative expenses".

Finance and operating leases – as lessor

The net investment in finance leases is included in "Loans and advances to customers". The gross earnings over the period of the lease are allocated to give a constant periodic rate of return on the net investment. Costs of initiating leases are added to the initial recognition amount of the asset.

Assets held for the purpose of leasing to third parties under operating leases are included in "Property and equipment" and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Rentals receivable are accounted for on a straight-line basis over the period of the lease and are included within "Interest and similar income".

Residual values

Residual value exposure occurs due to the uncertain nature of the value of an asset at the end of an agreement. Throughout the life of an asset its residual value will fluctuate because of the uncertainty of the future market and technological changes or product enhancements as well as general economic conditions.

Residual values are set at the commencement of the lease based upon management's expectations of future values. During the course of the lease residual values are reviewed on an annual basis so as to identify any potential impairments. Any reduction in the residual value that leads to an impairment of an asset is identified within such reviews and recognised immediately.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

p) Shares in subsidiary and associate undertakings

In the individual financial statements of the Company, investments in subsidiaries and associates are stated at cost less impairment.

q) Income taxes

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

Deferred tax assets and liabilities are recognised for all taxable and deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that there will be suitable profits available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on tax rates that are enacted or substantively enacted at the balance sheet date.

Current and deferred taxes are recognised as income tax benefit or expense in the income statement except for (i) deferred taxes recognised or disposed of upon the acquisition or disposal of a subsidiary and (ii) unrealised gains or losses on Available-for-sale investments and (iii) changes in actuarial gains and losses on retirement benefit plans are recorded net of taxes in a separate component of equity.

r) Retirement benefit obligations

The Group participates in and operates state and non-state run defined contribution pension schemes for its employees, both in the U.K. and locally overseas. The charge against profit is the amount of contributions payable in respect of the service provided during the year.

The Group also participates in and continues to operate defined benefit pension schemes for employees in Spain, Norway, Italy, Netherlands, Belgium and Greece. Staff do not make contributions for basic pensions. For its overseas defined benefit obligations, the liability recognised in the balance sheet in respect of defined benefit pension schemes is the actuarially calculated present value of the defined benefit obligation at the balance sheet date, less the fair value of schemes assets, together with adjustments for past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense. Current and prior service costs, interest costs and returns on assets are recognised in the income statement.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

s) Share-based incentive plans

The Group participates in a number of Citigroup Inc. ("Citigroup") share-based incentive plans under which Citigroup delivers shares to the Group's employees. Pursuant to a separate agreement the Group makes a cash settlement to Citigroup for the value of the share-based incentive awards delivered to the Group's employees under these plans, subject to certain limits relating to the future growth of the price of Citigroup common stock. The Group accounts for the share-based incentive plans and the associated obligations to make future cash settlement to Citigroup as cash-settled plans.

The fair value of share-based incentive awards is determined at the time of grant using a binomial model and is expensed over the vesting period, adjusted by an estimate of forfeitures during that period. Subsequent changes in the fair value of all unexercised awards are reviewed annually and any changes in value are recognised in the income statement.

t) Cash and cash equivalents

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

2. Use of assumptions and estimates

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

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

Impairment of loans

The Group's accounting policy for losses in relation to the impairment of customer loans and advances is described in Note 1(k). Impairment is calculated on the basis of discounted estimated future cash flows.

Goodwill impairment

The group's accounting policy for goodwill is described in Note 1(n).

Valuation of financial instruments

The Group's accounting policy for valuation of financial instruments is included in Note 1(i) and Note 1(j).

Pensions

The assumptions used are disclosed in Note 13 "Retirement benefit obligation".

Share-based incentive plans

The assumptions used are disclosed in Note 14 "Share-based incentive plans".

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Net interest income

	<u>Group</u>		<u>Company</u>	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Interest received on fair value instruments	127	130	-	-
Other interest received	677	407	2	1
Other interest paid	(453)	(324)	(52)	(50)
Net interest income	<u>351</u>	<u>213</u>	<u>(50)</u>	<u>(49)</u>

4. Dividend income

	<u>Group</u>		<u>Company</u>	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Equity Shares	1	1	71	44
Total	<u>1</u>	<u>1</u>	<u>71</u>	<u>44</u>

5. Net fee and commission income

	<u>Group</u>	
	2005	2004
	£ Million	£ Million
Fee and commission income	308	267
Fee and commission expense	(12)	(5)
	<u>296</u>	<u>262</u>

6. Net trading income

	<u>Group</u>	
	2005	2004
	£ Million	£ Million
Debt securities	6	26
European Commercial Paper	4	3
Foreign Exchange instruments	12	-
	<u>22</u>	<u>29</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Net investment income

Debt securities not held for trading purposes were reclassified to Investment securities on 1 January 2005 and the realised fair value changes are included in Net investment income from that date. Prior period comparatives have not been re-stated.

	Group	
	2005	2004
	£ Million	£ Million
Available-for-sale:		
- Debt securities	12	-
	<u>12</u>	<u>-</u>

8. General and administrative expenses

	Group		Company	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Administrative expenses	249	159	1	1
Rentals payable on operating leases				
- leasehold property	1	6	-	-
- hire of equipment	-	1	-	-
Provisions for liabilities	36	2	2	-
Software costs	2	-	-	-
Auditor remuneration				
- audit services	1	1	-	-
	<u>289</u>	<u>169</u>	<u>3</u>	<u>1</u>

9. Personnel expenses

	Group	
	2005	2004
	£ Million	£ Million
Employee remuneration	169	140
Social security costs	33	21
Share based incentive expense (note 14)	9	5
Pension costs		
- defined contribution plans	5	4
- defined benefit plans (note 13)	3	4
	<u>219</u>	<u>174</u>

The average number of persons employed by the Group during the year was 3,772 (2004: 3,032). The comparatives have been restated due to a revised method of identifying direct employees of the Group. The company has no employees.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Dividends payable

	Group		Company	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
- Paid	20	-	20	-
	<u>20</u>	<u>-</u>	<u>20</u>	<u>-</u>

11. Income tax expense

a) Analysis of tax charge in the year

	Group		Company	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Tax expense from continuing operations				
Current tax:				
UK corporation tax on profits of the period	47	50	-	-
Double taxation relief	(18)	(12)	-	-
Adjustments in respect of corporation tax for earlier years	(2)	(9)	-	-
Prior year group relief claimed for no consideration	-	(23)	-	(3)
Total UK corporation tax	<u>27</u>	<u>6</u>	<u>-</u>	<u>(3)</u>
Overseas current taxation	12	12	-	-
Adjustment in respect of overseas tax for earlier years	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total current tax	41	19	-	(3)
Deferred tax:				
Origination and reversal of temporary differences				
- UK	9	(7)	-	-
- Overseas	(10)	5	-	-
Adjustments in respect of previous periods	17	(4)	-	-
Deferred tax (note 26)	<u>16</u>	<u>(6)</u>	<u>-</u>	<u>-</u>
Tax charge from continuing operations	<u>57</u>	<u>13</u>	<u>-</u>	<u>(3)</u>
Tax expense from discontinued operations				
Deferred tax:				
Origination and reversal of temporary differences (note 26)	2	(7)	-	-
Total tax charge	<u>59</u>	<u>6</u>	<u>-</u>	<u>-</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Income tax expense (continued)

(b) Factors affecting tax charge for the period

The tax assessed for the Group for the period is higher (2004: lower) than the standard rate of corporation tax in the U.K. (30%). The differences are explained below:

Continuing operations	Group		Company	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Profit/ (loss) before tax	62	105	89	(5)
Profit multiplied by the standard rate of corporation tax in the UK of 30%	19	32	27	(2)
Effects of:				
Intercompany and other dividend received	-	-	(21)	(13)
Gain on disposal of subsidiaries	(4)	-	(22)	-
Other	4	(3)	-	-
Other (income) / expenses not deductible for tax purposes	3	-	1	-
Group relief surrendered for no consideration	23	19	15	15
Adjustments in respect of foreign tax rates	(5)	-	-	-
Adjustment to tax charge in relation to previous periods	17	(35)	-	(3)
Income tax expense	57	13	-	(3)

Tax recognised directly in equity

	Group		Company	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Actuarial losses on retirement benefits	2	3	-	-
	<u>2</u>	<u>3</u>	<u>-</u>	<u>-</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Discontinued operations

On 1 December 2005 CIB Properties Limited was sold to a Citigroup affiliate for a cash consideration of £80 million. The results and cash flows in CIB Properties Limited for the current and previous periods are:

	Group	
	2005	2004
	£ Million	£ Million
Operating income	64	71
Operating expenses	(61)	(68)
Profit from operations before tax	3	3
Tax expense on profit from operations	(2)	7
Profit from operations after tax	1	10
Gain on disposal of subsidiary	1	-
Net profit from discontinued operations	2	10
Cash flows from/ (used in) discontinued operations:		
Operating activities	1	(3)
	1	(3)

There is no tax impact on the gain on the sale of CIB Properties Limited.

The balance sheet of CIB Properties Limited as at 1 December 2005 was as follows:

	CIB Properties Limited £ Million
Loans and advances to banks	10
Other assets	5
Property and equipment	102
Deposits by banks	(9)
Current tax liability	(11)
Other liabilities	(18)
Net assets	79

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Retirement benefit obligation

The total retirement benefit costs expensed through the statement of recognised income and expense and the income statement for the Group was £10 million (2004: £14 million). This relates to overseas schemes.

The Group participates in locally operated defined benefit and defined contributions schemes for its European branches. The overseas branches in Belgium, Netherlands, Norway, Spain and Greece operate locally defined benefit schemes. In some of the European countries employers pay contributions towards the state pension scheme. The Group fulfils its duties in this regard as required by local statute.

Regular employer contributions to the schemes in 2006 are estimated to be £5 million.

Overseas schemes:

The amounts recognised in the balance sheet are determined as follows:

	2005 £ Million	2004 £ Million
Present value of funded defined benefit obligations	(121)	(113)
Fair value of plan assets	112	104
Deficit	(9)	(9)
Present value of unfunded defined benefit obligations	(10)	(9)
Unrecognised prior service cost	1	2
Liability recognised on the balance sheet (note 28)	(18)	(16)
Deferred tax asset	9	16
Net pension liability	(9)	-

The analysis of the income statement charge is as follows:

	2005 £ Million	2004 £ Million
Current service cost	(4)	(3)
Interest cost	(5)	(5)
Expected return on plan assets	6	5
Past service cost	-	(1)
Expense recognised in the income statement (Note 9)	(3)	(4)

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Retirement benefit obligation (continued)

The changes to the present value of the defined benefit obligation during the year are as follows:

	2005 £ Million	2004 £ Million
Opening defined benefit obligation	(122)	(102)
Exchange rate adjustments	4	(1)
Current service cost	(4)	(3)
Interest cost	(5)	(5)
Actuarial losses on scheme liabilities	(12)	(11)
Net benefits paid out	7	7
Past service cost	1	(3)
Net increase in liabilities from disposals / acquisitions	-	(4)
Closing defined benefit obligation	<u>(131)</u>	<u>(122)</u>

The changes to the fair value of scheme assets during the year are as follows:

	2005 £ Million	2004 £ Million
Opening fair value of scheme assets	104	86
Exchange rate adjustments	(3)	1
Expected return on assets	6	5
Actuarial gains/(losses) on scheme assets	5	2
Contributions by the employer	7	17
Net benefits paid out	(7)	(7)
Closing fair value of scheme assets	<u>112</u>	<u>104</u>

The actual return on plan assets is as follows:

	2005 £ Million	2004 £ Million
Expected return on scheme assets	6	5
Actuarial gains/(losses) on scheme assets	5	2
Actual return on scheme assets	<u>11</u>	<u>7</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Retirement benefit obligation (continued)

The analysis of amounts recognised outside the income statement, and disclosed in the statement of recognised income and expense are as follows:

	2005 £ Million	2004 £ Million
Total actuarial gains / (losses) in changes in the statement of recognised income and expense	<u>(7)</u>	<u>(9)</u>

History of asset values, defined benefit obligation, surplus / deficit in scheme and experience gains and losses are as follows:

	2005 £ Million	2004 £ Million
Fair value of scheme assets	112	104
Defined benefits obligation	(131)	(122)
Deficit in scheme	<u>(19)</u>	<u>(18)</u>

	2005 £ Million	2004 £ Million
Experience gains / (losses) on scheme assets	5	2
Experience gains / (losses) on scheme liabilities	(3)	(3)
Assumption gains / (losses) on scheme liabilities	<u>(9)</u>	<u>(8)</u>
	(12)	(11)
Total actuarial gains / (losses)	<u>(7)</u>	<u>(9)</u>

The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate on scheme liabilities and the revised mortality rates received in 2005. The future life expectancy of scheme members is a key assumption. However, mortality assumptions are expected to vary from country to country, due to variations in underlying population mortality as well as in variations of the profile of typical membership of the company pension scheme. The financial weighted average assumptions used in calculating the liabilities as at 31 December 2005 are as follows:

	2005	2004	2003
Discount rate for assessing scheme liabilities	4.2%	4.7%	5.4%
Future salary increases	3.3%	3.3%	3.3%
Rate of increase for pensions in payment	2.5%	2.5%	2.5%
Inflation rate assumption	2.1%	2.1%	2.2%

	Value £ Million			Long-term rate of return expected		
	2005	2004	2003	31/12/2005	31/12/2004	01/01/2004
Equities	40	29	25	8.6%	8.7%	8.8%
Property	3	2	-	6.7%	6.7%	-
Government bonds	42	45	26	3.7%	4.3%	4.6%
Corporate bonds	16	10	8	4.5%	4.9%	4.9%
Other	11	18	27	3.2%	3.2%	3.4%
Total fair value of assets	<u>112</u>	<u>104</u>	<u>86</u>			

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Share-based incentive plans

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

Stock option programmes

The Group has a number of Citigroup stock option programmes for its employees. Generally, since January 2005, stock options have been granted only to Citigroup's Capital Accumulation Programme ('CAP') participants who elect to receive stock options in lieu of restricted or deferred stock awards, and to non-employee directors who elect to receive their compensation in the form of a stock option grant. All stock options are granted on Citigroup common stock with exercise prices equal to the fair market value at the time of grant. Options granted in 2005 have six-year terms; directors' options vest after two years and all other options granted since January 2005 typically vest 25% each year over four years. Options granted in 2004 and 2003 typically vest in thirds each year over three years, with the first vesting date occurring 17 months after the grant date. The options granted in 2004 and 2003 have terms of six years. The sale of underlying shares acquired through the exercise of employee stock options granted since 2003 is restricted for a two-year period (and the shares are subject to stock ownership commitment of senior executives thereafter). Prior to 2003, Citigroup options, including options granted since the date of the merger of Citicorp and Travellers Group, Inc., generally vested at a rate of 20% per year over five years, with the first vesting occurring 12 to 18 months following the grant date. Certain options, mostly granted prior to 1 January 2003, permit an employee exercising an option under certain conditions to be granted new options (reload options) in an amount equal to the number of common shares used to satisfy the exercise price and the withholding taxes due upon exercise. The reload options are granted for the remaining term of the related original option and vest after six months. An option may not be exercised using the reload method unless the market price on the date of exercise is at least 20% greater than the option exercise price.

The number and weighted average exercise prices of share options is as follows:

	2005		2004	
	Options	Weighted average exercise price \$	Options	Weighted average exercise price \$
Outstanding, beginning of year	1,063,446	37.85	968,102	32.88
Granted	21,511	47.32	118,084	49.44
Forfeited	-	-	-	-
Exercised	(20,608)	33.13	(22,740)	30.97
Expired	-	-	-	-
Outstanding, end of year	<u>1,064,349</u>	<u>38.29</u>	<u>1,063,446</u>	<u>37.85</u>
Exercisable, end of year	<u>789,909</u>	<u>36.58</u>	<u>609,525</u>	<u>34.34</u>

The weighted average share price at the exercise date for options exercised during the year was \$47.37 (2004: \$47.73).

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Share-based incentive plans (continued)

Stock option programmes (continued)

The following table summarises the information about stock options outstanding under Citigroup stock option plans at 31 December 2005:

Range of exercise prices	Number outstanding	Options outstanding		Options exercisable	
		Weighted average contractual life remaining	Weighted average exercise price \$	Number Exercisable	Weighted average exercise price \$
< \$30.00	219,762	2.35	21.50	218,101	21.50
\$30.00 - \$39.99	167,026	3.12	32.21	107,716	32.20
\$40.00 - \$49.99	661,061	4.94	45.04	450,492	44.43
≥ \$50.00	16,500	5.01	53.17	13,600	53.18
	<u>1,064,349</u>	<u>4.12</u>	<u>38.29</u>	<u>789,909</u>	<u>36.58</u>

Stock award programmes

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

Stock awards granted in January 2005 generally vest 25% per year over four years. Stock awards granted in 2003 and 2004 generally vest after a two or three year vesting period. CAP participants may elect to receive all or part of their award in stock options. The figures presented in the stock option programme table include options granted under CAP.

In 2003, special equity awards were issued to certain employees. The awards vest over a three year term, beginning on 12 July 2003, with one-sixth of the award vesting every six months. During the vesting period, the stock cannot be sold or transferred by the participant, and is subject to total or partial cancellation if the participant's employment is terminated.

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

	2005	2004
Shares awarded	191,956	114,717
Weighted average fair market value per share	\$47.95	\$49.69
	£ Million	£ Million
After-tax compensation cost charged to income statement (note 9)	9	5
Total carrying amount of cash-settled transaction liability	14	11
Total intrinsic value of liability for vested benefits	6	4

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Share-based incentive plans (continued)

Stock award programmes (continued)

Fair value assumptions

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

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

Additional valuation and related assumption information for Citigroup option plans is presented below. Citigroup used a Binomial model to value stock options. Volatility has been estimated by taking the historical implied volatility in traded Citigroup options over a recorded 31 month period and adjusting where there are known factors that may affect future volatility.

For options granted during	2005	2004
Weighted average fair value		
Option	<u>\$6.96</u>	<u>\$7.59</u>
Weighted average expected life		
Original grants	3 years	3 years
Reload grants	3 years	3 years
Option life	<u>5 years</u>	<u>6 years</u>
Valuation assumptions		
Expected volatility	20.57%	25.43%
Risk-free interest rate	4.36%	4.18%
Expected dividend yield	3.62%	3.31%
Expected annual forfeitures	<u>7.30%</u>	<u>7.30%</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Loans and advances to customers

	Group		Company	
	2005 £ Million	2004 £ Million	2005 £ Million	2004 £ Million
Residential mortgages	275	409	-	-
Charge and credit card debtors	257	565	-	-
Commercial loans	6,370	3,649	1	1
Consumer loans	1,339	1,336	-	-
Other loans and advances	648	660	-	-
	<u>8,889</u>	<u>6,619</u>	<u>1</u>	<u>1</u>
Less: allowance for losses on loans (Note 16)	(147)	(137)	-	-
	<u>8,742</u>	<u>6,482</u>	<u>1</u>	<u>1</u>

The prior year figures have been restated on a basis comparable with the current year presentation.

The Group's cost of assets acquired for the purpose of letting under finance leases and hire purchase contracts during the year was £29 million (2004: £100 million). Aggregate rental receivables with respect to finance leases in the Group in the year were £13 million (2004: £82 million).

Loans and advances to customers include finance lease receivables.

	Group	
	2005 £ Million	2004 £ Million
Gross investment in finance leases receivables:		
No later than 1 year	16	28
Later than 1 year and no later than 5 years	70	113
Later than 5 years	<u>7</u>	<u>16</u>
	93	157
Unearned future income on leases	(10)	(18)
Net investment in finance leases	<u>83</u>	<u>139</u>

The net investment in finance leases may be analysed as follows:

	Group	
	2005 £ Million	2004 £ Million
No later than 1 year	15	26
Later than 1 year and no later than 5 years	62	100
Later than 5 years	<u>6</u>	<u>13</u>
	<u>83</u>	<u>139</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Allowances for loans and advances

Group

	2005		2004	
	Total	Specific	General	Total
	£ Million	£ Million	£ Million	£ Million
At 1 January	137	122	49	171
Transfer to "Provision for liabilities" (Note 29)	(8)	-	-	-
Acquisitions	-	-	17	17
Exchange adjustments	(3)	-	-	-
Charge against profits	77	16	(9)	7
Amounts written off	(40)	(32)	(1)	(33)
Disposals	(7)	(16)	(8)	(24)
Recoveries	(9)	(1)	-	(1)
At 31 December	<u>147</u>	<u>89</u>	<u>48</u>	<u>137</u>
Individual assessment	112			
Collective assessment	<u>35</u>			
	<u>147</u>			

17. Derivative financial instruments

Group

	2005			2004		
	Notional principal amount	Fair value		Notional principal amount	Fair value	
	£ Million	Asset £ Million	Liability £ Million	£ Million	Asset £ Million	Liability £ Million
Exchange rate related contracts						
Forwards and futures	6,850	58	61	6,749	116	113
Currency swaps	585	66	35	171	163	83
Options	<u>779</u>	<u>25</u>	<u>25</u>	<u>283</u>	<u>21</u>	<u>20</u>
	<u>8,214</u>	<u>149</u>	<u>121</u>	<u>7,203</u>	<u>300</u>	<u>216</u>
Interest rate related contracts						
Interest rate swaps	1,783	79	71	1,728	129	148
Options	<u>1,380</u>	<u>8</u>	<u>59</u>	<u>1,727</u>	<u>8</u>	<u>8</u>
	<u>3,163</u>	<u>87</u>	<u>130</u>	<u>3,455</u>	<u>137</u>	<u>156</u>
Equity and commodity related contracts						
Options	<u>161</u>	<u>94</u>	<u>83</u>	<u>314</u>	<u>7</u>	<u>7</u>
Total derivative contracts		<u>330</u>	<u>334</u>		<u>444</u>	<u>379</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Derivative financial instruments (continued)

The following table analyses, by maturity and contract type, the notional principal amounts of the Group's derivatives:

Maturity (original tenor)	2004 (UK GAAP)			
	1 year or less £ Million	1-5 years £ Million	Over 5 years £ Million	Total £ Million
Exchange rate contracts				
Forwards and futures	6,707	42	-	6,749
Currency swaps	74	29	68	171
Options	-	283	-	283
Total exchange rate contracts	6,781	354	68	7,203
Includes OTC contracts of:	6,781	354	68	7,203
Interest rate contracts				
Interest rate swaps	560	955	213	1,728
Interest rate options	353	1,374	-	1,727
Total interest rate contracts	913	2,329	213	3,455
Includes OTC contracts of:	913	2,329	213	3,455
Equity derivative contracts				
Options	277	6	31	314
Total equity derivative contracts	277	6	31	314
Includes OTC contracts of:	277	6	31	314
Total at 31 December	7,971	2,689	312	10,972

The following table analyses, by maturity and contract type, the replacement cost of the Group's derivatives:

Maturity (original tenor)	2004 (UK GAAP)			
	1 year or less £ Million	1-5 years £ Million	Over 5 years £ Million	Total £ Million
Exchange rate contracts				
Forwards and futures	116	-	-	116
Currency swaps	90	15	59	164
Options	-	20	-	20
Total exchange rate contracts	206	35	59	300
Includes OTC contracts of:	206	35	59	300
Interest rate contracts				
Interest rate swaps	31	48	50	129
Interest rate options	1	7	-	8
Total interest rate contracts	32	55	50	137
Includes OTC contracts of:	32	55	50	137
Equity derivative contracts				
Options	7	-	-	7
Total equity derivative contracts	7	-	-	7
Includes OTC contracts of:	7	-	-	7
Total at 31 December				444

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18. Trading securities

	Group	
	IFRS	UK GAAP
	2005	2004
	£ Million	£ Million
Debt securities		
Issued by public bodies		
- Government securities	145	2,727
Issued by others		
- other debt securities	1,516	1,364
	<u>1,661</u>	<u>4,091</u>
	Group	
	2005	2004
	£ Million	£ Million
Analysed by listing status:		
- listed	1,368	2,861
- unlisted	293	1,230
	<u>1,661</u>	<u>4,091</u>

Securities in the Group of £2,719 million were re-classified as Available-for-sale on adoption of IAS 32 and IAS 39 from 1 January 2005 and are now included in Investment securities.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19. Investment securities

	Group	
	IFRS	UK GAAP
	Available- for-sale 2005 £ Million	2004 £ Million
Investment securities		
Debt securities - at fair value:		
- listed	2,517	-
- unlisted	96	2
Equity securities - at fair value:		
- unlisted	10	10
	<u>2,623</u>	<u>12</u>
	Held-to- maturity	UK GAAP
Investment securities		
Debt securities - at amortised cost:		
- unlisted	1	1
	<u>1</u>	<u>1</u>
Total investment securities	<u><u>2,624</u></u>	<u><u>13</u></u>

The movement in investment securities held as Available- for- sale are summarised below:

	Group Available- for-sale 2005 £ Million
At 1 January 2005 transferred on adoption of IAS 32 / 39	2,719
Exchange differences on monetary assets	114
Net disposals	(199)
Change in fair value through equity	(11)
At 31 December 2005	<u><u>2,623</u></u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Acquired operations

On 1 January 2005 the Group acquired 100% of the share capital of Diners Club UK Limited. The acquired company contributed an operating loss of £1 million to the Group for the year.

On 1 October 2005 the Group acquired 100% of the share capital of Diners Club Italia Srl, Di Net Club Srl and NT Europe Srl. The acquired companies contributed an operating loss of £12 million to the Group for the period 1 October to 31 December 2005. These companies would have contributed a loss of £30 million for the full year.

There were no fair value adjustments to the book values on acquisition and the consideration paid was in the form of shares issued to Diners Club Europe SpA.

	Diners Club Italy Srl £ Million	Di Net Club Srl £ Million	NT Europe Srl £ Million	Diners Club UK Ltd £ Million	Total £ Million
Cash and cash equivalents	25	-	3	3	31
Loans and advances to customers	69	-	-	45	114
Other assets	14	1	2	1	18
Deposits by banks	(53)	(1)	(1)	-	(55)
Deposits by customers	-	-	-	(47)	(47)
Provision for liabilities	(2)	-	-	(1)	(3)
Other liabilities	(50)	-	(1)	-	(51)
Net assets	<u>3</u>	<u>-</u>	<u>3</u>	<u>1</u>	<u>7</u>
Consideration	<u>3</u>	<u>-</u>	<u>3</u>	<u>4</u>	<u>10</u>
Goodwill	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>
Cash inflow on acquisition	<u>25</u>	<u>-</u>	<u>3</u>	<u>3</u>	<u>31</u>

On 5 January 2005 the Group purchased a custody business for cash consideration. The acquired business contributed a profit of £1 million for the year. The book and fair value of the acquisition is as follows:

	Book value £ Million	Fair value £ Million	Consideration £ Million	Goodwill £ Million
Client relationship and contractual rights	<u>-</u>	<u>15</u>	<u>31</u>	<u>16</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21. Shares in subsidiary undertakings

The Company's investments in the share capital of subsidiary undertakings comprised:

	2005 £ Million	2004 £ Million
At 1 January	1,711	1,625
Additions	14	86
Transfer	(3)	-
Disposals	(8)	-
At 31 December	<u>1,714</u>	<u>1,711</u>

On 1 January 2005 4,436,000 ordinary shares of £1 each were allotted fully paid at par to Diners Club Europe SpA, in consideration for the acquisition of the entire issued share capital of Diners Club UK Limited.

On 1 October 2005 5,740,005 ordinary shares of £1 each were allotted fully paid at par to Diners Club Europe SpA in consideration for the acquisition of the entire issued share capital of Diners Club Italia Srl, Di Net Club Srl and NT Europe Srl.

During the year FXT- LP Ltd and FXT- GP Ltd were put into liquidation and transferred to "Other assets."

Details of principal Group subsidiary undertakings held at 31 December 2005 are as follows:

Name	Country of incorporation	Nature of business	% holding in ordinary share capital
Citibank International plc	England	International corporate, investment and consumer banking	100%
Citiloans Limited	England	Loan provider to Greek residents	100%
Citicorp Trustee Company Limited	England	Trustee for unit and investment trusts	100%
CitiCapital Leasing Limited	England	Lease finance	100%
CitiCapital Leasing (March) Limited	England	Lease finance	100%
CitiCapital Leasing (June) Limited	England	Lease finance	100%
Citicorp Finanziaria SpA Citifin	Italy	Consumer finance	100%
CitiService SpA	Italy	Consumer finance	100%
Diners Club Italia Srl	Italy	Charge cards	100%
Diners Club UK Limited	England	Charge cards	100%
Citigroup Partners UK	England	Limited partnership holding subordinated notes and investments	-

Citigroup Partners UK ("CGPUK") was established in 2001. Within the terms of the partnership agreement Citibank Investments Limited ("CIL") is the general partner and Citigroup Capital Finance Ireland Limited ("CCFIL") is the limited partner. As the general partner in the partnership arrangement CIL has control over CGPUK subject to the terms of the partnership agreement.

CitiCapital Leasing (June) Limited has an accounting period ending on 30 June. CitiCapital Leasing (March) Limited has an accounting period ending on 31 March. For the purpose of preparing these consolidated financial statements, management accounts for the year ended 31 December 2005 have been used.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Investment in associate

The Company's investment represents a 20.80% holding in Volbroker.Com Limited, which was incorporated in England and Wales. The issued equity capital of Volbroker.Com Limited is £1,847,000.

Summarised aggregate financial information on associate

	2005	2004
	£ Million	£ Million
Assets	10.1	10.7
Liabilities	2.3	3.1
Revenues	4.1	7.0
Profit	0.4	2.0

For the year ended 31 December 2005, the Group's share of associate profit was £0.1 million (2004: £0.4 million).

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Goodwill and intangible assets

In respect of the Group, purchased positive goodwill at the beginning of the year includes goodwill arising on the acquisition of the assets and liabilities of the Greece branch of Citibank, N.A. on 2 December 2002.

	Group			
	Goodwill £Million	Client intangible £Million	Computer software £Million	Total £ Million
Cost or net book value				
At 1 January 2004	63	-	75	138
Additions	-	-	14	14
Disposals	(45)	-	(9)	(54)
At 31 December 2004/ 1 January 2005	18	-	80	98
Additions	11	15	18	44
At 31 December 2005	29	15	98	142
Amortisation and impairment losses				
At 1 January 2004	-	-	41	41
Amortisation	-	-	22	22
Disposals	-	-	(9)	(9)
At 31 December 2004/ 1 January 2005	-	-	54	54
Amortisation	-	2	16	18
At 31 December 2005	-	2	70	72
Net carrying value				
At 31 December 2005	29	13	28	70
At 31 December 2004	18	-	26	44
At 31 December 2003	63	-	34	97

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24. Property and equipment

Group

	Freehold land and buildings £ Million	Long leasehold property £ Million	Leasehold improvements £ Million	Vehicles, furniture and equipment £ Million	Leased or hire purchase assets £ Million	Assets in the course of construction £ Million	Total £ Million
Cost							
1 January 2004	64	12	69	350	210	3	708
Additions	-	-	1	49	71	8	129
Acquisitions	-	-	1	2	16	-	19
Disposals	-	-	(8)	(17)	(217)	(1)	(243)
Transfer	2	-	3	-	-	(5)	-
Write-offs	-	-	-	(1)	-	-	(1)
Exchange rate adjustments	-	-	-	-	(2)	-	(2)
At 31 December 2004/	66	12	66	383	78	5	610
Additions	-	-	5	69	14	-	88
Disposals	(66)	(12)	(51)	(2)	(70)	(5)	(206)
Write-offs	-	-	-	(1)	-	-	(1)
Exchange rate adjustments	-	-	-	(2)	-	-	(2)
31 December 2005	-	-	20	447	22	-	489
Depreciation							
1 January 2004	4	4	34	248	74	-	364
Charged in year *	1	-	7	51	29	-	88
Acquisitions	-	-	-	1	1	-	2
Disposals	-	-	(7)	(12)	(77)	-	(96)
Transfer	-	-	-	-	-	-	-
Write-offs	-	-	-	(1)	-	-	(1)
Exchange rate adjustments	-	-	-	-	(1)	-	(1)
At 31 December 2004/	5	4	34	287	26	-	356
1 January 2005							
Disposals	(6)	(4)	(28)	(2)	(15)	-	(55)
Write-offs	-	-	-	(1)	-	-	(1)
Charged in year *	1	-	7	52	6	-	66
Exchange rate adjustments	-	-	-	(1)	-	-	(1)
31 December 2005	-	-	13	335	17	-	365
Net book value							
31 December 2005	-	-	7	112	5	-	124
31 December 2004	61	8	32	96	52	5	254
31 December 2003	60	8	35	102	136	3	344

* Depreciation expense of £6 million (2004: £ 7 million) relates to Discontinued operations.

The Group occupies all the land and buildings for its own activities. The net book value of assets leased to customers was £5 million (2004: £52 million).

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24. Property and equipment (continued)

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

Group

	Total 2005 £ Million	Total 2004 £ Million
Expiring:		
- within one year	1	12
- between one and five years	1	25
- in five years or more	-	3
Total	2	40

25. Other assets

	Group		Company	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Credit card acceptance receivables	1	23	-	-
Counterparty receivables on sale of securities	863	-	-	-
Other balances	258	193	3	2
	1,122	216	3	2

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26. Deferred income tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective rate of 30% (2004: 30%).

Deferred income tax assets and liabilities are attributable to the following items:

	Group	
	2005	2004
	£ Million	£ Million
At 1 January	81	39
Additions	-	42
Disposals	13	(16)
Income statement charge (note 11)	(18)	13
Tax reflected in equity	2	3
Exchange differences	(1)	-
At 31 December	<u>77</u>	<u>81</u>

	Group	
	2005	2004
	£ Million	£ Million
Deferred income tax liabilities		
Accelerated capital allowances	3	10
Other temporary differences	23	14
	<u>26</u>	<u>24</u>

	Group	
	2005	2004
	£ Million	£ Million
Deferred income tax assets		
Decelerated capital allowances	18	23
Pensions and other post retirement benefits	12	16
Provision for loan impairment	49	41
Other temporary differences	24	25
	<u>103</u>	<u>105</u>

The deferred tax charge in the income statement comprises the following temporary differences:

Deferred tax charge in income statement comprises:

	Group	
	2005	2004
	£ Million	£ Million
Decelerated/ (Accelerated) capital allowances	10	(13)
Pensions and other post retirement benefits	7	1
Allowances for loan losses	(9)	3
Provisions and other temporary differences	10	(4)
	<u>18</u>	<u>(13)</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27. Debt securities in issue

Group

	Average interest rate (%) 2005	2005 £ Million	2004 £ Million
US\$ Credit linked medium term notes	4.72%	106	122
US\$ Equity linked medium term notes	2.73%	219	-
£240.0 million medium term notes	5.57%	209	222
£263.0 million medium term notes	4.12%	263	-
		<u>797</u>	<u>344</u>

28. Other liabilities

	Group		Company	
	2005 £ Million	2004 £ Million	2005 £ Million	2004 £ Million
Trade finance acceptances	10	-	-	-
Credit card acceptance payables	26	45	-	-
Counter-party payables on purchase of securities	863	-	-	-
Retirement benefit obligations (Note 13)	18	16	-	-
Other balances	713	633	-	1
	<u>1,630</u>	<u>694</u>	<u>-</u>	<u>1</u>

29. Provisions for liabilities

Group

	Pension obligations and other post- retirement benefit commitments £ Million	Restructuring provision £ Million	Provision for property costs £ Million	Other provisions £ Million	Total £ Million
At 1 January 2005	8	4	10	5	27
Transfer from 'Allowance for loans and advances' (Note 16)	-	-	-	8	8
Charge against profits	-	36	3	2	41
Acquisitions	-	-	-	2	2
Provisions utilised	(2)	(2)	(2)	(3)	(9)
Release of provisions	-	(2)	(3)	-	(5)
At 31 December 2005	<u>6</u>	<u>36</u>	<u>8</u>	<u>14</u>	<u>64</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Provisions for liabilities (continued)

“Provision for pension obligations and post-retirement benefit commitments” relates to retirement payments to ex-employees and staff contributions to overseas national government pension schemes, which are accounted for as a defined contribution scheme. The staff contributions are based on actuarial estimates and assumptions. Of the provision existing at the year end, £1.8 million is due to be fully utilised by 2014.

The “restructuring provision” relates to the provision of staff redundancies and compensation. The full amount is expected to be utilised in 2006. There are no reimbursements anticipated.

Of the “provision for property costs” £8 million provision existing at year end, £6.7 million relates to dilapidation and onerous property costs incurred as a result of vacating a property in London. It is expected that the provision will be utilised by 2007.

The “other provisions” relate to potential litigation provisions, which are assessed on a case by case basis, taking into account legal advice for each case.

Company

	Provision for property costs £ Million	Total £ Million
At 1 January 2005	1	1
Charge against profits	2	2
At 31 December 2005	3	3

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30. Capital and reserves

Group

	Share capital £ Million	Capital reserve £ Million	Translation reserve £ Million	Fair value reserve £ Million	Retained earnings £ Million	Total £ Million
At 1 January 2004	730	1	-	-	288	1,019
Share capital issuance	86	-	-	-	-	86
Total recognised income and expense	-	-	(1)	-	96	95
At 31 December 2004	<u>816</u>	<u>1</u>	<u>(1)</u>	<u>-</u>	<u>384</u>	<u>1,200</u>
Effect of adoption of IAS 32/39, net of tax	(46)	-	-	6	(6)	(46)
Adjusted balance at 1 January 2005	<u>770</u>	<u>1</u>	<u>(1)</u>	<u>6</u>	<u>378</u>	<u>1,154</u>
Share capital issuance	10	-	-	-	-	10
Total recognised income and expense	-	-	-	1	2	3
Dividends	-	-	-	-	(20)	(20)
At 31 December 2005	<u>780</u>	<u>1</u>	<u>(1)</u>	<u>7</u>	<u>360</u>	<u>1,147</u>

Company

	Share capital £ Million	Capital reserve £ Million	Translation reserve £ Million	Fair value reserve £ Million	Retained earnings £ Million	Total £ Million
At 1 January 2004	730	1	-	-	98	829
Share capital issuance	86	-	-	-	-	86
Total recognised income and expense	-	-	-	-	(2)	(2)
At 31 December 2004	<u>816</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>96</u>	<u>913</u>
Effect of adoption of IAS 32/39, net of tax	(46)	-	-	-	-	(46)
Adjusted balance at 1 January 2005	<u>770</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>96</u>	<u>867</u>
Share capital issuance	10	-	-	-	-	10
Total recognised income and expense	-	-	-	-	89	89
Dividends	-	-	-	-	(20)	(20)
At 31 December 2005	<u>780</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>165</u>	<u>946</u>

'Other reserves' consists of the 'Capital reserve', 'Translation reserve', and 'Fair value reserve'.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31. Other borrowed funds

	Group		Company	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Amounts due after five years:				
Subordinated loans	562	336	912	686
Preference shares	46	-	46	-
	<u>608</u>	<u>336</u>	<u>958</u>	<u>686</u>

At 31 December 2005 the following facilities were in place:

Amounts due after five years	<u>626</u>	<u>336</u>	<u>976</u>	<u>686</u>
------------------------------	------------	------------	------------	------------

Preference shares

Authorised

600,000,000 6.5% Fixed rate cumulative redeemable preference shares of £1 each

<u>600</u>	<u>-</u>	<u>600</u>	<u>-</u>
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Issued

45,970,355 6.5% Fixed rate cumulative redeemable preference shares of £1 each

<u>46</u>	<u>-</u>	<u>46</u>	<u>-</u>
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On 26 October 2001 the Company entered into a subscription agreement, whereby Citigroup Capital Finance Limited subscribed for £335.75 million Subordinated Floating Rate Notes due 2031 in the Company at that date. These notes are fully subordinated to the rights and claims of senior creditors of the Company and bear interest at a 3 month market rate.

On 26 October 2001 the Company entered into a subscription agreement, whereby Citigroup Partners UK subscribed for £350 million Subordinated Floating Rate Notes due 2031 in the Company at that date. These notes are fully subordinated to the rights and claims of senior creditors of the Company and bear interest at a 2 year market rate.

On 30 September 2005 the Company entered into a subordinated loan agreement with Citigroup Capital Finance Ireland Limited and drew down €330 million due in 2015. These notes are fully subordinated to the rights and claims of senior creditors of the Company and interest is payable at LIBOR plus 50 basis points.

The 6.5% Fixed Rate Cumulative Redeemable Preference shares are redeemable at the option of the Company, exercisable after 20 years. However, the company shall redeem the whole of the fixed rate preference shares outstanding on 31 December 2025. The holders of the preference shares are entitled, on the winding up of the Company, to priority over the ordinary and preferred ordinary shareholders as regards payment of capital and any arrears or deficiency of the fixed cumulative preferential dividend. They are not entitled to any further participation in the profits or assets of the Company and accordingly these shares are classified as non-equity shares. The parent company has waived its right to receive dividends.

The IFRS definition of debt includes instruments with a contractual obligation to pay the principal or interest.

Following the adoption of IAS 32 from 1 January 2005 the preference shares were reclassified from share capital to other borrowed funds, as they are redeemable by the company by 31 December 2025.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

32. Share capital

Authorised	2005 £ Million	2004 £ Million
1,000,000 000 sterling ordinary shares of £1 each	1,000	1,000
600,000,000 6.5% Fixed rate cumulative preference shares of £1 each	-	600
Allotted, called-up and fully paid	2005 £ Million	2004 £ Million
779,881,574 (2004: 769,705,569) sterling ordinary shares of £1 each	780	770
45,970,355 6.5% Fixed rate cumulative preference shares of £1 each	-	46
	780	816

The preference shares were classified as share capital at 31 December 2004, and following adoption of IAS 32 on 1 January 2005 they have been reclassified as other borrowed funds.

Ordinary shares of £1 each	2005 Shares	2004 Shares
At 1 January	769,705,569	684,218,586
Allotted to Diners Club Europe SpA on acquisition of Diners Club UK Limited	4,436,000	-
Allotted to Diners Club Europe SpA on acquisition of Diners Club Italia Srl, Di Net Club Srl and NT Europe Srl.	5,740,005	-
Allotted to Citibank Overseas Investment Corporation on acquisition of Citicorp Finanziaria SpA Citifin and CitiService SpA	-	85,485,983
Allotted to Citibank Overseas Investment Corporation on acquisition of Diners Club France S.A.	-	200
Allotted to Diners Club Italia SpA on acquisition of Diners Club France S.A.	-	800
At 31 December	779,881,574	769,705,569

33. Cash and cash equivalents

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

	Group		Company	
	2005 £ Million	2004 £ Million	2005 £ Million	2004 £ Million
Cash and balances with central banks	166	94	-	-
Loans and advances to banks	7,866	6,131	84	4
Trading securities	1,661	1,372	-	-
	9,693	7,597	84	4

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

34. Related-party transactions

The largest group in which the results of the Group are consolidated is that headed by Citigroup Inc. which is incorporated in the United States. The Group and Company define related parties as the Board of Directors, their close family members, parent and fellow subsidiaries and associated companies.

A number of arms' length transactions are entered into with related parties. These include loans and deposits that provide funding to Group companies as well as derivative contracts used to hedge residual risks that are included in the other assets and other liabilities balances. Various services are provided between related parties and these are all also provided at arms length. The table below summarises balances with related parties. No provisions have been recognised in respect of loans given to related parties (2004: £nil).

	Group			
	2005		2004	
	Other Citigroup undertakings £Million	Total £Million	Other Citigroup undertakings £Million	Total £Million
Assets				
Loans and advances to banks	3,696	3,696	8,855	8,855
Loans and advances to customers	3,769	3,769	286	286
Prepayments and accrued income	4	4	48	48
Other assets	943	943	340	340
Liabilities				
Deposits by banks	10,435	10,435	10,874	10,874
Deposits by customers	208	208	368	368
Accruals and deferred income	100	100	137	137
Other liabilities	549	549	563	563
Other borrowed funds	608	608	336	336
Income Statement				
Interest and similar income	213	213	224	224
Interest payable	(434)	(434)	(291)	(291)
Net fee and commission income	111	111	35	35
Other operating income	66	66	71	71
Net dealing income	27	27	23	23
Administrative expenses	(107)	(107)	(50)	(50)
Other operating charges	(4)	(4)	(2)	(2)

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

34. Related-party transactions (continued)

	Company					
	2005			2004		
	Subsidiary undertakings £Million	Other Citigroup undertakings £Million	Total £Million	Subsidiary undertakings £Million	Other Citigroup undertakings £Million	Total £Million
Assets						
Loans and advances to banks	234	83	317	7	3	10
Loans and advances to customers	1	-	1	-	-	-
Prepayments and accrued Income	1	-	1	-	-	-
Liabilities						
Deposits by banks	3	80	83	-	76	76
Deposits by customers	-	-	-	3	-	3
Accruals and deferred income	28	19	47	29	16	45
Subordinated liabilities	350	562	912	350	336	686
Income statement						
Interest and similar income	2	-	2	-	-	-
Interest payable	(29)	(23)	(52)	(29)	(21)	(50)

Directors' remuneration

Key management are the Directors of the Company and their remuneration relates to the services provided to the Group.

	2005 £ 000's	2004 £ 000's
Salaries and other short-term benefits	1,328	1,124
Post- employment benefits	8	3
Share-based payments	448	143
	<u>1,784</u>	<u>1,270</u>

A listing of the Board of Directors is shown on page 2 of the Annual Report.

Contributions to defined benefit and money purchase schemes are accruing to 5 of the Directors (2004: 6). 5 of the Directors (2004: 7) of the Company participate in parent company share and share option plans and, during the year, 5 of the Directors (2004: 4) exercised options. The emoluments for the highest paid Director were £0.8 million (2004: £0.6 million) with £0.3 million (2004: £0.2million) being share based compensation and accrued pension of £nil million (2004: £nil million). During the year, the highest paid Director exercised share options.

There were no related-party transactions with the ultimate parent company.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

35. Contingent liabilities and commitments

The tables below give the nominal principal amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the Financial Services Authority's (FSA) guidelines on capital adequacy.

Group	2005		2004	
	Contract Amount £ Million	Risk weighted amount £ Million	Contract amount £ Million	Risk weighted amount £ Million
Contingent liabilities				
Guarantees and assets pledged as collateral				
- guarantees and irrevocable letters of credit	2,604	2,258	1,540	1,352
	<u>2,604</u>	<u>2,258</u>	<u>1,540</u>	<u>1,352</u>
Commitments				
Other commitments:				
- documentary credits and short term trade related transactions	65	10	821	154
- undrawn formal standby facilities, credit lines and other commitments to lend:				
- less than 1 year	3,190	-	2,884	-
- 1 year and over	10,004	4,368	11,077	4,376
	<u>13,259</u>	<u>4,378</u>	<u>14,782</u>	<u>4,530</u>

The Group has granted to various bankers and other entities a number of fixed and floating charges over certain holdings in securities, properties, collateral and monies held by or on behalf of such banks or other entities, including charges relating to the Group's participation in clearance/settlement systems.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments

Objectives, policies and strategies

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

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

- **Customer loans and deposits:** Customer loans and deposits (both retail and institutional) form a large part of the Group's business. The Group has detailed policies and strategies in respect of its customer loans and deposits that seek to minimise the risks associated with these financial instruments.
- **Investment securities:** The Group holds securities, excluding strategic investments, for use on a continuing basis in the Group's activities. The objective of holding such financial instruments is to generate funds over the term of the investment, in the form of distributions and/or appreciation in value. Funds generated are used in the Group's operations.
- **Finance:** The Group issues financial instruments to fund that portion of the Group's assets not funded by customer deposits. The objective of using financial instruments for financing purposes is to manage the Group's balance sheet in terms of minimising market risk. Responsibility for overseeing and implementing balance sheet management lies with the Group's Treasury department.
- **Hedging:** Where financial instruments form part of the Group's interest rate management strategy they are classified as hedges. The objective for holding financial instruments as hedges is to match or minimise the risk arising because of adverse movements in interest rates, exchange rates or equity prices. Cash products are the main instruments used for economically hedging the balance sheet.
- **Trading:** The Group trades in financial instruments for its own account and to facilitate customer transactions. As a market maker in these products the Group facilitates a two-way flow. Trading activity is restricted to certain areas in the Group and is subject to strict policies and limits. Responsibility for setting trading policies and monitoring adherence thereto lies with Group Risk Management.

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

The principal types of derivative contracts into which the Group enters are described below.

- **Swaps:** These are over-the-counter ("OTC") agreements between two parties to exchange periodic payments of interest, or payments for the change in value of currencies, or related indices, over a set period based on notional principal amounts. The Group enters into swap transactions in several markets. Interest rate swaps exchange fixed rates with floating rates of interest based on notional amounts. Basis swaps exchange floating or fixed interest calculated using different bases. Cross currency swaps are the exchange of interest based on notional values of different currencies.
- **Options:** Currency, equity and interest rate options confer the right, but not the obligation, on the buyer to receive or pay a specific quantity of an asset or financial instrument for a specified price at or before a specified date. Options may be exchange traded or OTC agreements.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

- **Futures and forwards:** Short term interest rate futures and forward foreign exchange contracts are all agreements to deliver, or take delivery of a specified amount of an asset or financial instrument based on the specified rate, price or index applied against the underlying asset or financial instrument, at a specified date. Futures are exchange traded at standardised amounts of the underlying asset or financial instrument. Forward contracts are OTC agreements and are principally dealt in by the Group in interest rates as forward rate agreements and in currency as forward foreign exchange contracts.

All of the interest rate and customer generated foreign exchange derivative transactions have the associated risks transferred to other Citigroup entities.

Risk management

Risks arise from lending, trading and other activities routinely undertaken. The following sections summarise the processes that were in place during 2005 for managing the Group's major risks.

Market risk

Market risk encompasses liquidity risk and price risk. Liquidity risk has two elements: i) The risk that the Group may be unable to meet a financial commitment to a customer, creditor, or investor when due ii) The market is able to absorb substantial positions without an impact on market price/valuation in relation to our trading portfolios. Price risk is the risk to earnings that arises from changes in interest rates, foreign exchange rates, equity and commodity prices, and in their implied volatilities.

The Group and its affiliates' business and corporate oversight groups have well-defined market risk management responsibilities. Within each business, a process is in place to control market risk exposure. The risk management process includes the establishment of appropriate market risk controls and limits, policies and procedures, appropriate senior management risk oversight with a risk management function independent from the business. Management of this process begins with the professionals nearest to the Group's customers, products, and markets, and extends up to the senior executives who manage these businesses and to the country level. Market risk management is an evolutionary process that integrates changes in markets, products, and technologies into policies and practices. Periodic reviews are conducted by Audit Risk and Review to ensure compliance with institutional policies and procedures for the assessment, management, and control of market risk.

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

The primary risk taking activities during the year were in relation to Euro Commercial Paper ("ECP") positioning and hedging. Price risk also arises from residual treasury interest rate and foreign exchange hedging activity.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Trading price risk

Overall objectives

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

VaR Methodology

The VaR engine is based on the structured Monte-Carlo approach where 5000 scenarios of market rates/prices are simulated. The covariance matrix of volatility and correlation is updated quarterly, based on three years' worth of market data.

VaR limitations

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

A VaR trigger is in place for the Company that ensures any excesses are discussed and resolved between Risk and the Business and Entity management. In addition, the ECP desk is subject to formal limits on interest rate and issuer exposures that are closely monitored by Risk Management and Senior Business Management. A VaR guideline is also in place for the ECP desk.

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

During the year	2005	2004
	ECP	ECP
	£ Million	£ Million
Highest	0.13	1.51
Lowest	0.03	0.57
Average	0.07	0.88
As at 31 December	0.04	0.83

Non-trading price risk

Price risk in the non-trading portfolios, which is mainly interest rate risk is measured using Interest Rate Gap Analysis, IRE limits, stress and scenario analysis. Interest Rate Gap Analysis utilizes the maturity or re-pricing schedules of balance sheet items to determine interest rate exposures within given tenor buckets. IRE measures the potential earnings impact, over a specified reporting period, from a defined standard set of parallel shifts in the curve. IRE is calculated separately for each currency and reflects the re-pricing gaps in the position, as well as option positions, both explicit and embedded. Limits are set for the U.K. country and business activity, of which the Group is a part. Price Risk Management monitors these limits.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Non-trading price risk

The following table shows the contractual re-pricing terms for each category of financial asset and liability, together with the interest rate sensitivity gap for the Group as at 31 December 2005. Loans and advances to customers are shown on a gross basis before any allowances. Positions may not be reflective of those in subsequent periods. Major changes in position can be made promptly as market outlooks change. In addition significant variations in interest rate sensitivity may exist within the re-pricing periods presented and among the currencies in which the Group has interest rate positions.

Re-pricing mismatches of financial assets and liabilities

Group	Effective Interest rates	3 months or less £ Million	> 3 months and < 1 year £ Million	>1 year and < 5 years £ Million	Greater than 5 years £ Million	Non- interest bearing £ Million	Total £ Million
2005							
Assets							
Cash & balances at central banks	1.80%	141	-	-	-	25	166
Loans and advances to banks	2.49%	7,923	370	447	2	87	8,829
Loans and advances to customers	4.28%	5,054	1,376	369	1,809	134	8,742
Derivative financial instruments		-	-	-	-	330	330
Trading securities	2.90%	1,661	-	-	-	-	1,661
Investment securities	2.39%	618	531	870	605	-	2,624
Other assets		1,418	11	1	72	133	1,635
Total assets		<u>16,815</u>	<u>2,288</u>	<u>1,687</u>	<u>2,488</u>	<u>709</u>	<u>23,987</u>
Liabilities							
Deposits by banks	2.97%	5,702	4,546	446	178	20	10,892
Customer accounts	2.28%	5,076	2,559	10	-	331	7,976
Derivative financial instruments		-	-	-	-	334	334
Debt securities in issue	3.00%	38	53	217	489	-	797
Other borrowed funds	3.31%	608	-	-	-	-	608
Other liabilities and equity		433	-	1	-	2,946	3,380
Total liabilities and equity		<u>11,857</u>	<u>7,158</u>	<u>674</u>	<u>667</u>	<u>3,631</u>	<u>23,987</u>
Net position							
Interest rate sensitivity gap		4,958	(4,870)	1,013	1,821	(2,922)	-
Cumulative interest rate sensitivity gap		4,958	88	1,101	2,922	-	-

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Re-pricing mismatches of financial assets and liabilities (continued)

<i>Group</i>	<i>3 months or less £ Million</i>	<i>> 3 months and < 1 year £ Million</i>	<i>>1 year and < to 5 years £ Million</i>	<i>Greater than 5 years £ Million</i>	<i>Non- interest bearing £ Million</i>	<i>Total £ Million</i>
2004						
Assets						
Cash & balances at central banks	69	-	-	-	25	94
Loans and advances to banks	5,952	853	2,136	99	19	9,059
Loans and advances to customers	3,782	1,175	1,282	327	(84)	6,482
Derivative financial instruments	-	-	-	-	444	444
Trading securities	4,091	-	-	-	-	4,091
Investment securities	-	-	-	-	13	13
Other assets	-	-	-	-	833	833
Total assets	13,894	2,028	3,418	426	1,250	21,016
Liabilities						
Deposits by banks	6,238	1,288	3,940	270	3	11,739
Customer accounts	4,809	641	330	-	237	6,017
Derivative financial instruments	-	-	-	-	379	379
Debt securities in issue	-	13	60	271	-	344
Other borrowed funds	336	-	-	-	-	336
Other liabilities and equity	29	-	350	-	1,822	2,201
Total liabilities and equity	11,412	1,942	4,680	541	2,441	21,016
Net position						
Interest rate sensitivity gap	2,482	86	(1,262)	(115)	(1,191)	-
Cumulative interest rate sensitivity gap	2,482	2,568	1,306	1,191	-	-

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Re-pricing mismatches of financial assets and liabilities (continued)

Company	Effective Interest rates	3 months or less £ Million	> 3 months and < 1 year £ Million	>1 year and < to 5 years £ Million	Greater than 5 years £ Million	Non- interest bearing £ Million	Total £ Million
2005							
Assets							
Loans and advances to banks	2.49%	310	-	-	-	7	317
Loans and advances to customers	4.28%	1	-	-	-	-	1
Other assets		-	-	-	-	1,719	1,719
Total assets		<u>311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,726</u>	<u>2,037</u>
Liabilities							
Deposits by banks	2.97%	83	-	-	-	-	83
Other borrowed funds	5.08%	608	-	350	-	-	958
Other liabilities and equity		-	-	-	-	996	996
Total liabilities and equity		<u>691</u>	<u>-</u>	<u>350</u>	<u>-</u>	<u>996</u>	<u>2,037</u>
Net position							
Interest rate sensitivity gap		(380)	-	(350)	-	730	-
Cumulative interest rate sensitivity gap		(380)	(380)	(730)	(730)	-	-

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Re-pricing mismatches of financial assets and liabilities (continued)

Company	3 months or less £ Million	> 3 months and < 1 year £ Million	>1 year and < to 5 years £ Million	Greater than 5 years £ Million	Non- interest bearing £ Million	Total £ Million
2004						
Assets						
Loans and advances to banks	4	-	-	-	6	10
Loans and advances to customers	1	-	-	-	-	1
Other assets	-	-	-	-	1,714	1,714
Total assets	5	-	-	-	1,720	1,725
Liabilities						
Deposits by banks	76	-	-	-	-	76
Customer accounts	3	-	-	-	-	3
Accruals and deferred income	-	-	-	-	45	45
Deferred tax liabilities	-	-	-	-	1	1
Provisions for liabilities	-	-	-	-	1	1
Other borrowed funds	686	-	-	-	-	686
Other liabilities and equity	-	-	-	-	913	913
Total liabilities and equity	765	-	-	-	960	1,725
Net position						
Interest rate sensitivity gap	(760)	-	-	-	760	
Cumulative interest rate sensitivity gap	(760)	(760)	(760)	(760)	-	

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Transactional currency exposures

The main operating or functional currencies of the Group's overseas branches and the Group's subsidiaries are sterling, euros, US dollars, Danish kroner, Swedish kroner and Norwegian kroner. Since the Group prepares its consolidated financial statements in sterling, the Group's balance sheet is affected by movements between those currencies and sterling. These currency exposures are shown in the following table.

Functional currency of the operation

£ Million	2005				
	GBP	USD	Euro	Others	Total
GBP	-	(9)	5	4	-
Euro	7	(20)	-	(8)	(21)
Others	1	4	(1)	(1)	3
Total	<u>8</u>	<u>(25)</u>	<u>4</u>	<u>(5)</u>	<u>(18)</u>

£ Million	2004				
	GBP	USD	Euro	Others	Total
GBP	-	3	(1)	(1)	1
Euro	(11)	3	-	-	(8)
Others	-	-	-	-	-
Total	<u>(11)</u>	<u>6</u>	<u>(1)</u>	<u>(1)</u>	<u>(7)</u>

Transactional currency exposures occur as a result of normal operations and/or cross-border inter-branch transactions.

Liquidity risk

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

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

A liquidity plan is prepared annually and the liquidity profile is monitored on an on-going basis and reported daily. Liquidity risk is measured and managed using the Market Access Report ("MAR") process in accordance with the Liquidity Risk Management Policy for Citigroup.

In the U.K., the Financial Services Authority ("FSA") sets liquidity risk guidelines. Positions are measured and monitored for compliance with the guidelines on a daily basis. Quarterly liquidity reports are made to the FSA. Branches of the Group operate similar policies in compliance with their local regulatory requirements. In order to meet these requirements, the Group measures and manages its cash flow commitments on a daily basis to meet its wholesale sterling obligations and a 5 per cent outflow of its retail obligations, and aims to maintain a diversified portfolio of high quality liquid and marketable assets.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Liquidity risk (continued)

The following table analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Group 2005	3 months or less £ Million	> 3 months and < 1 year £ Million	>1 year and < to 5 years £ Million	Greater than 5 years £ Million	Total £ Million
Assets					
Cash and balances at central banks	166	-	-	-	166
Loans and advances to banks	7,866	386	577	-	8,829
Loans and advances to customers	1,209	1,041	3,462	3,030	8,742
Derivative financial instruments	267	5	18	40	330
Trading securities	1,661	-	-	-	1,661
Investment securities	618	531	869	606	2,624
All other assets	1,426	10	125	74	1,635
Total assets	<u>13,213</u>	<u>1,973</u>	<u>5,051</u>	<u>3,750</u>	<u>23,987</u>
Total 2004 assets	<u>12,423</u>	<u>2,059</u>	<u>4,874</u>	<u>1,660</u>	<u>21,016</u>
Liabilities					
Deposits by banks	5,640	4,628	446	178	10,892
Customer accounts	5,428	2,538	10	-	7,976
Derivative financial instruments	214	61	19	40	334
Debt securities in issue	14	36	227	520	797
Other borrowed funds	-	-	-	608	608
All other liabilities and equity	79	189	1	3,111	3,380
Total liabilities and equity	<u>11,375</u>	<u>7,452</u>	<u>703</u>	<u>4,457</u>	<u>23,987</u>
2004 Total liabilities and equity	<u>14,224</u>	<u>1,905</u>	<u>4,281</u>	<u>606</u>	<u>21,016</u>
2005 net liquidity gap	1,838	(5,479)	4,348	(707)	-
2004 net liquidity gap	(1,801)	154	593	1,054	-

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Liquidity risk (continued)

Company 2005	3 months or less £ Million	> 3 months and < 1 year £ Million	>1 year and < to 5 years £ Million	Greater than 5 years £ Million	Total £ Million
Assets					
Loans and advances to banks	84	7	-	226	317
Loans and advances to customers	1	-	-	-	1
All other assets	-	-	-	1,719	1,719
Total assets	<u>85</u>	<u>7</u>	<u>-</u>	<u>1,945</u>	<u>2,037</u>
2004 total assets	<u>11</u>	<u>-</u>	<u>-</u>	<u>1,714</u>	<u>1,725</u>
Liabilities					
Deposits by banks	-	83	-	-	83
Other borrowed funds	-	-	-	958	958
All other liabilities and equity	-	-	-	996	996
Total liabilities and equity	<u>-</u>	<u>83</u>	<u>-</u>	<u>1,954</u>	<u>2,037</u>
2004 Total liabilities	<u>49</u>	<u>76</u>	<u>-</u>	<u>1,600</u>	<u>1,725</u>
2005 net liquidity gap	85	(76)	-	(9)	-
2004 net liquidity gap	(38)	(76)	-	114	-

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is lending where no such facilities can be obtained.

(a) Derivatives

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Credit risk (continued)

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The Group credit risk concentrations by Industry are in the following tables.

Group	2005 £ Million	2004 £ Million
Chemicals	578	362
Communication	566	299
Consumer	2,278	1,877
Engineering	672	198
Transport	804	484
Other	3,991	3,399
Loans and advances to customers	<u>8,889</u>	<u>6,619</u>
Less: Allowance for loans and advances (Note 16)	(147)	(137)
Loans and advances to customers, net of allowance	<u>8,742</u>	<u>6,482</u>

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 business practices or market conduct that the Group may undertake with respect to activities in a fiduciary role, as principal, as well as agent. The Group is guided by Citigroup's Operational Risk Policy, which requires the establishment of appropriate procedures, controls, risk assessment and business continuity arrangements. The Group has established an operational risk committee that reviews operational risks, events and the control environment. This operational risk framework facilitates the Group's response to the requirements of emerging regulatory guidance on operational risk, including those relating to Basel II and the European Union's proposed Capital Requirements Directive.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36. Financial instruments (continued)

Fair value information

Derivatives are held at fair value on the balance sheet. Financial instruments (inter-bank placements and deposits) that have a liquid or active market are carried at cost that is deemed to be their fair value. The following table summarises the carrying value and fair values of financial assets and financial liabilities:

	<u>Group</u>		<u>Company</u>	
	<u>Carrying</u>		<u>Carrying</u>	
	<u>value</u>	<u>Fair value</u>	<u>value</u>	<u>Fair value</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>
	<u>£ Million</u>	<u>£ Million</u>	<u>£ Million</u>	<u>£ Million</u>
Financial Assets				
Cash and balances at Central banks	166	166	-	-
Loans and advances to banks	8,829	8,805	317	317
Loans and advances to customers	8,742	8,635	1	1
Derivative financial instruments	330	330	-	-
Trading securities	1,661	1,661	-	-
Investment securities	2,624	2,563	-	-
Other assets	1,635	1,632	1,719	1,719
Total assets	23,987	23,792	2,037	2,037
Financial liabilities				
Deposits by banks	10,892	10,745	83	83
Customer accounts	7,976	7,904	-	-
Derivative financial instruments	334	334	-	-
Debt securities in issue	797	773	-	-
Other borrowed funds	608	608	958	947
Other liabilities and equity	3,380	3,380	996	996
Total liabilities and equity	23,987	23,744	2,037	2,026

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

- Derivative financial instruments, trading securities, and debt securities are measured at fair value by reference to quoted market prices in active markets. If quoted market prices are not available then fair values are estimated on the basis of other valuation techniques, including discounted cash flow models and options pricing models.
- Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated based on other recognised valuation techniques.
- The fair value for loans and advances, and other lending (including reverse repurchase agreements and cash collateral on securities borrowed) is estimated using discounted cash flows, applying either market rates where practicable or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics. In certain cases the fair value approximates carrying value because the instruments are short term in nature or reprice frequently.
- Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate to their carrying value. The fair value of all other deposits and other borrowings (including repurchase agreements and cash collateral on securities lent) is estimated using discounted cash flows, applying either market rates, where practicable, or rates currently offered by the Group for deposits of similar remaining maturities.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

37. Operating lease commitments

Group

	Total 2005 £ Million	Total 2004 £ Million
At the year-end, the rental commitments under non-cancellable operating leases were as follows:		
Expiring:		
- within one year	5	33
- between one and five years	-	99
- over 5 years	-	309
Total	<u>5</u>	<u>441</u>

38. Total assets and liabilities

	<u>Group</u>		<u>Company</u>	
	2005	2004	2005	2004
	£ Million	£ Million	£ Million	£ Million
Assets and liabilities denominated in foreign currency:				
Denominated in sterling	6,812	8,824	2,037	1,725
Denominated in currencies other than sterling	17,175	12,192	-	-
Total assets	<u>23,987</u>	<u>21,016</u>	<u>2,037</u>	<u>1,725</u>
Denominated in sterling	6,175	8,991	2,037	1,725
Denominated in currencies other than sterling	17,812	12,025	-	-
Total liabilities and equity	<u>23,987</u>	<u>21,016</u>	<u>2,037</u>	<u>1,725</u>

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

39. Segmental analysis

(i) Classes of business

The Group conducts its business in the E.U. and is organised into three main business segments:

Corporate and Investment Banking provides corporations, governments, institutions and investors with a broad range of investment banking products and services, including investment banking, debt trading, advisory services, foreign exchange, structured products, derivatives and lending.

Consumer Banking delivers a wide array of retail banking, cards, lending, insurance and investment services through a network of local branches, offices and electronic delivery systems. The Consumer bank services both individual consumers as well as small businesses.

Private Banking and Alternative Investments provide investment advice, financial planning, asset management and personalised wealth management products to high net worth and retail clients and institutions.

	2005				
	Corporate and Investment Banking £ Million	Consumer Banking £ Million	Private Banking and Alternative Investments £ Million	Unallocated assets and liabilities £ Million	Total £ Million
Gross income	682	478	74	-	1,234
Total revenues	682	478	74	-	1,234
Profit before tax	48	3	15	-	66
Income tax expense	(53)	(1)	(5)	-	(59)
(Loss) / profit for the year	(5)	2	10	-	7
Segment assets	15,527	8,319	38	103	23,987
Total assets	15,527	8,319	38	103	23,987
Segment liabilities	15,331	7,444	39	26	22,840
Total liabilities	15,331	7,444	39	26	22,840
Other segment items:					
Capital expenditure	79	9	-	-	88
Depreciation	61	5	-	-	66
Impairment charge - loans	20	48	-	-	68
Amortisation	15	3	-	-	18
Average Group employees	2,176	1,446	150	-	3,772

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

39. Segmental analysis (continued)

	2004				
	Corporate and Investment Banking £ Million	Consumer Banking £ Million	Private Banking and Alternative Investments £ Million	Unallocated assets and liabilities £ Million	Total £ Million
Gross income	572	323	57	-	952
Total revenues	572	323	57	-	952
Profit before tax	46	23	39	-	108
Income tax credit / (expense)	10	(4)	(12)	-	(6)
Profit for the year	56	19	27	-	102
Segment assets	13,498	7,352	61	105	21,016
Total assets	13,498	7,352	61	105	21,016
Segment liabilities	12,448	7,295	60	13	19,816
Total liabilities	12,448	7,295	60	13	19,816
Other segment items:					
Capital expenditure	82	47	-	-	129
Depreciation	30	58	-	-	88
Impairment charge - loans	4	2	-	-	6
Amortisation	19	3	-	-	22
Average Group employees	2,151	731	150	-	3,032

(ii) Geographical segments

All of the Group's and the Company's activities are conducted in Western Europe.

40. Parent companies

The Company is a subsidiary undertaking of Citibank Overseas Investment Corporation, which is incorporated in the United States of America.

The largest group in which the results of the Group are consolidated is that headed by Citigroup Inc. Copies of these group accounts are available to the public and may be obtained from their offices at Document Services, 140 58th Street, Brooklyn, New York, NY 11220, United States of America.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

41. Subsequent events

Subsequent to the year end on 1 February 2006 and 3 April 2006 the Company received two capital contributions of \$300 million each from Citibank Overseas Investment Corporation.

On 5 June 2006 CIP and another subsidiary undertaking sold their interests in EBS Group Limited to a third party, for a consideration of £29,269,016 consisting of cash consideration and shares in this third party. It is expected these shares will be sold in due course, although there is no definite timescale for this at present.

On 12 June 2006, an agreement was reached with Her Majesty's Revenue and Customs, which ultimately impacted the group relief surrender to CIP in the year ended 31 December 2002. The financial statement impact is a £9 million charge to the Consolidated Income Statement for 2005.

42. Transition to IFRS

The Group's reported financial position and financial performance have been affected by the transition from UK GAAP to IFRSs. The Group has taken advantage of the section in IFRS 1 which exempts companies from presenting comparative information in accordance with IAS 32 and IAS 39. The transitional adjustments are therefore set out in two stages: those relating to the restatement of 2004 comparative financial information and those taking effect from 1 January 2005.

Key impact analysis of IFRS's on the financial statements and position at 1 January 2004 and 31 December 2004:

Goodwill (Business Combinations "IFRS 3")

Under the transition requirements of IFRS 3, goodwill existing at 1 January 2004 has ceased to be amortised from 1 January 2004, but is now reviewed annually for impairment.

The effect of ceasing goodwill amortisation on shareholders' equity as at 31 December 2004 was £1 million for the Group.

Dividends (Events after Balance sheet date "IAS10")

Under IAS 10, dividends declared, by the investees, after the balance sheet date are not included as an asset at the balance sheet date. Accordingly, the Company has reversed the asset for proposed dividends at each balance sheet date. This had the effect of decreasing shareholders' equity of the company at 31 December 2004 and 1 January 2004 by £50 million and £43 million respectively.

Derecognition and Consolidation (Consolidated and separate financial statements "IAS 27")

Under the requirements of IAS 27 and SIC 12 – *Consolidation Special Purpose Entities*, sufficient risk and rewards have been retained to consolidate Nightingale Funding plc as a fully owned subsidiary undertaking, but significantly all the risk and rewards have been disposed of such that the Group has de-consolidated Marlin (EMC-II) B.V. Both entities had previously been consolidated using linked presentation in accordance with the provisions of Financial Reporting Standard No. 5 *Reporting the substance of transactions*. Under UK GAAP Marlin and Nightingale were disclosed net using linked presentation. The policy change resulted in the net disclosure being removed and the SPE's consolidated as a subsidiary.

This had the effect of increasing shareholders' equity of the Group at 31 December 2004 by £0.9 million.

CITIBANK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

42. Transition to IFRS (continued)

Intangible assets ("IAS 38")

IAS 38 requires costs incurred in the development phase of a project to produce application software for internal use to be capitalised and amortised over the software's estimated useful life if the software will generate probable future economic benefits, and such costs can be measured reliably. Under UK GAAP these costs were capitalised in property and equipment. This policy change resulted in £26 million of software being transferred to Intangible assets in the Group as at 31 December 2004 (1 January 2004: £34 million).

Pensions (Employee benefits "IAS 19")

The principal impact of IAS 19 is to record any surplus or deficit in relation to defined benefit pension schemes as the net amount of the actuarial valuation of the plan obligations, less the fair value of the assets contributed to the plan. Changes in the fair value of plan assets and the actuarial present value of plan obligations are recognised in the income statement or equity in accordance with the requirements of IAS 19. The Group has early adopted the amended IAS 19 with effect from 1 January 2004 that allows all actuarial gains and loss that arise to be recognised immediately through equity and disclosed in the statement of recognised income and expense.

This had the effect of decreasing shareholders' equity of the Group at 31 December 2004 and 1 January 2004 by £53 million and £43 million respectively.

Incentive Compensation (Share-based Payments "IFRS 2")

IFRS 2 requires companies to adopt a fair-value-based method of accounting for share-based compensation plans which takes into account vesting conditions related to market performance, for example total shareholder return. Under this method, compensation cost is measured at the date of grant based on the assessed value of the award and is recognised over the service period, which is usually the vesting period. In respect of other vesting conditions, an estimate of the number of options that will lapse before they vest is made at grant date and adjustments to this estimate are made over the service period. Accordingly, the expense recognised reflects, over time, the actual number of lapsed options for non-market performance-related conditions.

This had the effect of increasing shareholders' equity of the Group at 31 December 2004 and 1 January 2004 by £5 million and £3 million respectively.

Borrowed Funds (IAS 32)

Following the adoption of IAS 32 from 1 January 2005 the preference shares were reclassified from share capital to other borrowed funds, as they are redeemable by the company by 31 December 2025.

CITIBANK INVESTMENTS LIMITED

40. Differences between IFRS and UK GAAP accounting principles

1 January 2004

Group	Reclassify	Remeasure					IFRS £ million		
		Goodwill	Derecognition	Consolidation	Intangible assets	Incentive Comp		Pension	Tax effect on FTA's
Assets									
Cash and balances at central banks	109	-	-	-	-	-	-	-	109
Loans and advances to banks	9,155	-	-	-	-	-	-	-	9,155
Loans and advances to customers	5,604	-	-	206	-	-	-	-	5,604
Loans subject to non-recourse financing arrangements	206	-	(206)	-	-	-	-	-	-
Less: non-returnable finance	(200)	-	200	-	-	-	-	-	-
Derivative financial instruments	-	-	(6)	-	-	-	-	-	-
Trading securities	729	-	-	-	-	-	-	-	729
Investment securities	(1)	-	-	-	-	-	-	-	3,567
Prepayments and accrued income	1	-	6	(6)	-	-	-	-	11
Other participating interests	-	-	-	-	-	-	(32)	-	125
Current tax assets	45	-	-	-	-	-	-	-	1
Property and equipment	-	-	-	-	-	-	-	-	45
Intangible assets	-	63	-	-	(33)	-	-	-	345
Intangible fixed assets : negative goodwill	(13)	13	-	-	34	-	-	-	97
Intangible fixed assets : positive goodwill	(76)	(76)	-	-	-	-	-	-	-
Deferred tax assets	63	(63)	-	-	-	-	-	-	-
Other assets	(789)	-	-	-	(1)	-	-	12	65
Total assets	19,866	-	-	200	-	-	(32)	12	20,084
Liabilities									
Deposits by banks	-	-	-	-	-	-	-	-	10,414
Customer accounts	-	-	-	-	-	-	-	-	6,316
Derivative financial instruments	701	-	-	-	-	-	-	-	701
Debt securities in issue	-	-	-	200	-	-	-	-	323
Accruals and deferred income	-	-	-	-	-	-	(4)	-	218
Current tax liabilities	12	-	-	-	-	-	-	-	12
Deferred tax liabilities	26	-	-	-	-	-	-	-	26
Provisions for liabilities	-	-	-	-	-	-	-	-	35
Other liabilities	(701)	-	-	-	-	(3)	15	-	684
Subordinated liabilities	-	-	-	-	-	-	-	-	336
Total liabilities	18,819	-	-	200	-	(3)	11	-	19,065
Equity shareholders' funds									
Share capital	-	-	-	-	-	-	-	-	730
Other reserves	1	-	-	-	-	-	-	-	1
Capital reserve	(1)	-	-	-	-	-	-	-	-
Retained earnings	316	-	-	-	-	3	(43)	12	288
Total shareholders' funds	1,047	-	-	-	-	3	(43)	12	1,019
Total liabilities and equity shareholders' funds	19,866	-	-	200	-	0	(32)	12	20,084

CITIBANK INVESTMENTS LIMITED

40. Differences between IFRS and UK GAAP accounting principles (continued)

Company	1 January 2004			
	UK GAAP £ million	Reclassify	Remeasure	
			Dividends	IFRS £ million
Assets				
Loans and advances to banks	3	-	-	3
Loans and advances to customers	6	-	-	6
Shares in subsidiary undertakings	1,626	-	-	1,626
Other participating interests	1	-	-	1
Current income tax assets	-	2	-	2
Other assets	47	(2)	(43)	2
Total assets	1,683	-	(43)	1,640
Liabilities				
Deposits by banks	79	-	-	79
Customer accounts	3	-	-	3
Accruals and deferred income	42	-	-	42
Provisions for liabilities	1	-	-	1
Other borrowed funds	686	-	-	686
Total liabilities	811	-	-	811
Equity shareholders' funds				
Share capital	730	-	-	730
Capital reserve	1	(1)	-	-
Other reserves	-	1	-	1
Retained earnings	141	-	(43)	98
Total shareholders' funds	872	-	(43)	829
Total liabilities and equity shareholders' funds	1,683	-	(43)	1,640

**CITIBANK INVESTMENTS
LIMITED**

40. Differences between IFRS and UK GAAP accounting principles (continued)

As stated in note 1(a), these are the Group's first consolidated financial statements prepared in accordance with IFRS. A description of the differences between UK GAAP and IFRS accounting policies is set out in Note 1. Balance sheet reconciliations between UK GAAP and IFRS have been prepared for 1 January 2004 and 31 December 2004. A profit and loss reconciliation between UK GAAP and IFRS has been prepared for the year ended 31 December 2004.

Group Assets	Note	UK GAAP £ million	Reclassify		31 December 2004						IFRS £ million	
					Goodwill	Derecognition	Consolidation	Dividends	Intangible assets	Incentive Comp		Pension
Cash and balances at central banks		94			-	-	-	-	-	-	-	94
Loans and advances to banks		9,004			-	-	-	-	-	-	-	9,004
Loans and advances to customers		6,507			-	-	-	-	-	-	-	6,482
Loans subject to non-recourse financing arrangement	15	432			-	(432)	-	-	-	-	-	-
Less: non-returnable finance		(432)			-	(432)	-	-	-	-	-	-
Derivative financial instrument	17	8			-	(8)	-	-	-	-	-	-
Trading securities	18	444			-	-	-	-	-	-	-	444
Investment securities	19	(1)			-	-	-	-	-	-	-	(1)
Prepayments and accrued income		10			-	8	-	(6)	-	-	(45)	13
Other participating interests		223			-	-	-	1	-	-	-	178
Current tax assets	24	35			-	-	-	-	-	-	-	35
Property and equipment	23	275			-	-	-	-	-	-	-	254
Intangible assets		17			-	-	-	-	-	-	-	44
Intangible fixed assets: negative goodwill		(17)			-	-	-	-	-	-	-	-
Intangible fixed assets: positive goodwill		91			-	-	-	-	-	-	-	105
Deferred tax assets	26	546			-	-	-	2	-	-	-	216
Other assets	25	23			-	-	-	-	(3)	-	-	-
Total assets	38	20,799			-	-	-	227	-	(3)	(45)	21,016
Liabilities												
Deposits by banks		11,739			-	-	-	-	-	-	-	11,739
Customer accounts		6,017			-	-	-	-	-	-	-	6,017
Derivative financial instruments	17	379			-	-	-	-	-	-	-	379
Debt securities in issue	27	(1)			-	-	-	222	-	-	(8)	344
Accruals and deferred income		122			-	-	-	4	-	-	-	223
Current tax liabilities		33			-	-	-	-	-	-	-	33
Deferred tax liabilities	26	24			-	-	-	-	-	-	-	24
Provisions for liabilities	29	27			-	-	-	-	-	-	-	27
Other liabilities	28	(411)			-	(1)	-	1	-	(8)	16	694
Other borrowed funds	31	336			-	-	-	-	-	-	-	336
Total liabilities		19,816			-	(1)	-	227	-	(8)	8	19,816
Equity shareholders' funds												
Share capital	32	816			-	-	-	-	-	-	-	816
Capital reserves		(1)			-	-	-	-	-	-	-	(1)
Retained earnings		416			-	-	-	-	-	-	-	384
Total shareholders' funds	30	1,233			-	-	-	-	-	-	-	1,200
Total liabilities and equity shareholders' funds	38	20,799			-	-	-	227	-	(3)	(45)	21,016

CITIBANK INVESTMENTS LIMITED

40. Differences between IFRS and UK GAAP accounting principles (continued)

As stated in note 1(a), these are the Group's first consolidated financial statements prepared in accordance with IFRS. A description of the differences between UK GAAP and IFRS accounting policies is set out in Note 1. Balance sheet reconciliations between UK GAAP and IFRS have been prepared for 1 January 2004 and 31 December 2004. A profit and loss reconciliation between UK GAAP and IFRS has been prepared for the year ended 31 December 2004.

Company Assets	Note	31 December 2004			IFRS £ million
		UK GAAP £ million	Reclassify	Remeasure	
				Dividends	
Loans and advances to banks	15	4	6	-	10
Loans and advances to customers		7	(6)	-	1
Shares in subsidiary undertakings	21	1,711	-	-	1,711
Prepayments and accrued income		-	-	-	-
Other participating interests	22	1	-	-	1
Other assets	25	52	-	(50)	2
Total assets	38	1,775	-	(50)	1,725
Liabilities					
Deposits by banks		76	-	-	76
Customer accounts		3	-	-	3
Accruals and deferred income		45	-	-	45
Provisions for liabilities	29	1	-	-	1
Other liabilities	28	1	-	-	1
Other borrowed funds	31	686	-	-	686
Total liabilities		812	-	-	812
Equity shareholders' funds					
Share capital	32	816	1	-	816
Other reserves		-	(1)	-	-
Capital reserves		1	-	-	-
Retained earnings		146	-	(50)	96
Total shareholders' funds	30	963	-	(50)	913
Total liabilities and equity shareholders' funds	38	1,775	-	(50)	1,725

CITIBANK INVESTMENTS LIMITED

40. Differences between IFRS and UK GAAP accounting principles (continued)

As stated in note 1(a), these are the Group's first consolidated financial statements prepared in accordance with IFRS. A reconciliation of the differences between 31 December 2004 and 1 January 2005 for the adoption of IAS 32 and IAS 39 is shown below.

Group	Note	31/12/2004 IFRS (excl IAS 32/39) £ million	Reclassify Effect of IAS 32/39	01/01/2005 IFRS £ million
Assets				
Cash and balances at central banks		94	-	94
Loans and advances to banks		9,059	-	9,059
Loans and advances to customers	15	6,482	-	6,482
Derivative financial instrument:	17	444	-	444
Trading securities	18	4,091	(2,707)	1,384
Investment securities	19	13	2,707	2,720
Prepayments and accrued income		178	-	178
Current tax assets		35	-	35
Property and equipment	24	254	-	254
Other participating interests		1	-	1
Intangible assets	23	44	-	44
Deferred tax assets	26	105	-	105
Other assets	25	216	-	216
	38	<u>21,016</u>		<u>21,016</u>
Liabilities				
Deposits by banks		11,739	-	11,739
Customer accounts		6,017	-	6,017
Derivative financial instrument:	17	379	-	379
Debt securities in issue	27	344	-	344
Accruals and deferred income		223	-	223
Current tax liabilities		33	-	33
Deferred tax liabilities	26	24	-	24
Provisions for liabilities	29	27	-	27
Other liabilities	23	694	-	694
Other borrowed funds	31	336	46	382
Total liabilities		<u>19,816</u>	<u>46</u>	<u>19,862</u>
Equity shareholders' funds				
Share capital	32	816	(46)	770
Other reserves	28	-	6	6
Retained earnings	30	384	(6)	378
		<u>1,200</u>	<u>(46)</u>	<u>1,154</u>
Total liabilities and equity shareholders' funds	38	<u>21,016</u>	<u>-</u>	<u>21,016</u>

CITIBANK INVESTMENTS LIMITED

40. Differences between IFRS and UK GAAP accounting principles (continued)

As stated in note 1(a), these are the Group's first consolidated financial statements prepared in accordance with IFRS. A reconciliation of the differences between 31 December 2004 and 1 January 2005 for the adoption of IAS 32 and IAS 39 is shown below.

Company Assets	Note	31-Dec-04		01-Jan-05	
		IFRS (excl IAS 32/39) £ million		Effect of IAS 32/39	
					IFRS £ million
Loans and advances to banks		10	-	-	10
Loans and advances to customers		1	-	-	1
Shares in subsidiary undertakings	21	1,711	-	-	1,711
Prepayments and accrued income		-	-	-	-
Investment in associates	22	1	-	-	1
Other assets	25	2	-	-	2
Total assets	38	1,725	-	-	1,725
Liabilities					
Deposits by banks		76	-	-	76
Customer accounts		3	-	-	3
Accruals and deferred income		45	-	-	45
Provisions for liabilities	29	1	-	-	1
Other liabilities	28	1	-	-	1
Other borrowed funds	31	686	46	46	732
Total liabilities		812	46	46	858
Equity shareholders' funds					
Share capital	32	816	(46)	(46)	770
Other reserves		1	-	-	1
Retained earnings		96	-	-	96
Total shareholders' funds	30	913	(46)	(46)	867
Total liabilities and equity shareholders' funds	38	1,725	-	-	1,725

CITIBANK INVESTMENTS LIMITED
40. Differences between IFRS and UK GAAP accounting principles (continued)

Group	Note	For the year ended 31 December 2004				
		Reclassify	Remeasure		Tax on Pension adjustments	IFRS £ Million
		UK GAAP £ Million	Derecognition	Intangible assets	Comp	
Continuing operations						
Interest and similar income		521	16	-	-	537
Interest expense and similar charges		(312)	(12)	-	-	(324)
Net interest income	3	209	4	-	-	213
Dividend income	4	1	-	-	-	1
Net fee and commission income	5	262	-	-	-	262
Net trading income	6	29	-	-	-	29
Other operating income		119	(70)	-	-	49
Total operating income		620	(66)	-	-	554
Personnel expenses	9	(174)	-	-	1	(174)
General and administrative expenses	8	209	1	-	-	(169)
Amortisation of intangible assets	23	(2)	-	(20)	-	(22)
Depreciation of property and equipment	24	(110)	7	22	-	(81)
Other operating charges/prov for bad debts/liab		(24)	24	-	-	-
Operating profit before tax		105	-	2	1	108
Net credit losses	16	(4)	(2)	-	-	(6)
Gain on disposal of subsidiary undertakings		4	-	(1)	-	3
Income tax expense	11	105	(2)	1	1	105
Profit from continuing operations		(5)	(7)	-	-	(13)
		100	(9)	1	1	92
Discontinued operations						
Profit for the year from discontinued operations	12	-	10	-	-	10
Profit for the financial year		100	1	1	1	102

CITIBANK INVESTMENTS LIMITED

40. Differences between IFRS and UK GAAP accounting principles (continued)

Company		For the year ended 31 December 2004			
	Note	UK GAAP £ Million	Dividend Income	Dividend Income	IFRS £ Million
Interest and similar income		1	-	-	1
Interest expense and similar charges		(50)	-	-	(50)
Net interest income	3	(49)	-	-	(49)
Dividend income	4	51	(50)	43	44
Other operating income		1	-	-	1
Total operating income		3	(50)	43	(4)
General and administrative expenses	8	(1)	-	-	(1)
Operating profit before tax		2	(50)	43	(5)
Profit before income tax		2	(50)	43	(5)
Income tax credit	11	3	-	-	3
Profit for the financial year		5	(50)	43	(2)