

# **Citigroup Capital Finance Ireland Limited**

*(Registered number 2698894)*

**Directors' report and financial statements**

**For the year ended 31 December 2007**



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# **Citigroup Capital Finance Ireland Limited**

## **Directors' report and financial statements**

<i>Contents</i>	<i>Page</i>
Directors and other information	2
Directors' report	3-5
Independent auditor's report	6
Income statement	7
Balance sheet	8
Statement of changes in equity	9
Cash flow statement	10
Notes to the financial statements	11-20

# **Citigroup Capital Finance Ireland Limited**

## **BOARD OF DIRECTORS AND OTHER INFORMATION**

### **DIRECTORS**

Paul Bushnell  
Anthony Golden  
Amir M Karimi  
Ciaran Kelleher

### **SECRETARY**

Simon J Cumming

### **REGISTERED OFFICE**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

### **BANKERS**

Citibank Europe plc  
1 North Wall Quay  
Dublin 1

### **AUDITORS**

KPMG  
Chartered Accountants  
1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1

### **SOLICITORS**

Matheson Ormsby Prentice  
70 Sir John Rogerson's Quay  
Dublin 2

## **CITIGROUP CAPITAL FINANCE IRELAND LIMITED**

### **REPORT OF THE DIRECTORS**

For the year ended 31 December 2007

The Directors present their report and the financial statements of Citigroup Capital Finance Ireland Limited ("the Company") for the year ended 31 December 2007. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the E U.

#### **Business review and principal activities**

The Company is a wholly owned subsidiary of Citibank Holdings Ireland Limited. The Company's principal activities are the provision of accounting and treasury back-office services to both Group and third-party companies, and the provision of funding to Group companies.

The Company made a profit after tax for the year of £56,594,951 (2006 £45,457,425). The state of affairs of the Company as at the year end is detailed in the balance sheet on page 8.

#### **Income**

Total income net of interest was £72,245,829 (2006 £57,254,970), a 26% increase on the previous year.

#### **Costs**

Operating expenses increased by 25% to £2,582,390 (2006 £2,066,167).

#### **Balance Sheet**

Total equity of £958,367,335 were 6% higher than at 31 December 2006. This increase was largely as a result of an increase in loans advanced.

#### **Key Financial Performance Indicators**

In addition to the financial results of the group, senior management also consider the following other key financial performance indicator:

- Net interest margin (net interest as a % of interest bearing assets) 2007 - 6.10%, 2006 - 5.40%

#### **Risk management**

Risk management is an important part of the business and the risks affecting the Company and how they are managed are outlined in note 16, pages 16-19.

#### **Future developments**

The economic outlook for the businesses conducted by the Company is foreseen to be favourable in the near term. The Company's strategy is to continue to take advantage of opportunities for the further development of its business.

#### **Proposed dividend**

The Directors do not recommend the payment of a dividend.

## **CITIGROUP CAPITAL FINANCE IRELAND LIMITED**

### **Report of the Directors (continued) For the year ended 31 December 2007**

#### **Directors and directors' interests**

The names of the Directors who held office at 31 December 2007 were as follows

Paul Bushnell  
Anthony Golden  
Amir M Karimi  
Ciaran Kelleher

Edward Murphy and Martin Brown resigned as Directors of the Company on 31 July 2007 and 31 December 2007 respectively

None of the Directors or their immediate families had, at any time during the year, any interest in the shares of or contracts with the Company or any other group undertaking that is required to be disclosed under the Companies Act 1985

#### **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**

There were no charitable donations or contributions for political purposes made by the Company during the year or the preceding year

#### **Close Company provisions**

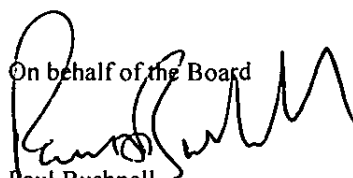
In the opinion of the Directors, the close provisions of the Income and Corporation Taxes Act 1988, as amended, do not apply to the Company during the period in which it was UK resident. Equivalent close provisions in Ireland did not, at 31 December 2007, apply to the Company

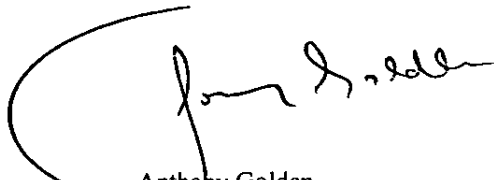
#### **Auditors**

An elective resolution to dispense with the annual appointment of auditors pursuant to Section 386 of the Companies Act 1985 is in force. KPMG, Chartered Accountants, Dublin, have expressed their willingness to continue in office

#### **Disclosure of Information to Auditors**

The Directors who held office at the date of approval of this Directors Report confirm that, so far as each is aware, there is no relevant audit information of which the Companies Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information

On behalf of the Board  
  
Paul Bushnell  
Director

  
Anthony Golden  
Director

3<sup>rd</sup> September 2008

## **CITIGROUP CAPITAL FINANCE IRELAND LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS; REPORT AND 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 financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the E U.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company 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 and reference to their achieving fair presentation.

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group and Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**CITIGROUP CAPITAL FINANCE IRELAND LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CITIGROUP CAPITAL FINANCE**  
**IRELAND LIMITED**

We have audited the financial statements of Citigroup Capital Finance Ireland Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity 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 auditors**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 4.

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, 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 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 EU, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG*

KPMG  
Chartered Accountants  
Registered Auditor  
1 Harbourmaster Place  
IFSC, Dublin 1

**CITIGROUP CAPITAL FINANCE IRELAND LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CITIGROUP CAPITAL FINANCE**  
**IRELAND LIMITED**

We have audited the financial statements of Citigroup Capital Finance Ireland Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity 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 auditors**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 4.

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**Opinion**

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- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
1 Harbourmaster Place  
IFSC, Dublin 1



**CITIGROUP CAPITAL FINANCE IRELAND LIMITED**  
**INCOME STATEMENT**

For the year ended 31 December 2007

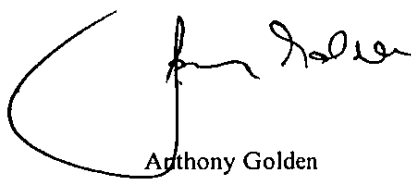
		2007 GBP	2006 GBP
	<b>Note</b>		
Operating income - continuing activities	2	72,245,829	57,762,424
Administrative expenses	3	(2,582,390)	(2,573,621)
Interest expenses	4	<u>(4,983,496)</u>	<u>(3,237,460)</u>
Profit on ordinary activities before taxation		<u>64,679,943</u>	<u>51,951,343</u>
Tax on profit on ordinary activities	6	(8,084,992)	(6,493,918)
Profit on ordinary activities after taxation	14	<u><u>56,594,951</u></u>	<u><u>45,457,425</u></u>

The Company has no recognised gains or losses in the financial period or the preceding year other than those set out in the profit and loss account and, accordingly, a separate statement of total recognised income and expense has not been prepared

On behalf of the Board



Paul Bushnell  
Director



Anthony Golden  
Director

3rd September 2008

The notes in pages 11 to 20 are an integral part of these financial statements

# CITIGROUP CAPITAL FINANCE IRELAND LIMITED

## BALANCE SHEET

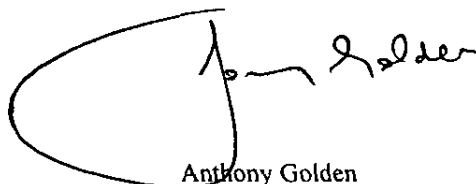
For the year ended 31 December 2007

	<i>Note</i>	2007 GBP	2006 GBP
<b>Fixed assets</b>			
Investments	7	927,800,413	907,342,823
<b>Current assets</b>			
Debtors	10	15,303,753	12,842,537
Loans advanced	9	161,535,002	90,722,157
Cash at bank	9	-	7,045,261
		176,838,755	110,609,955
<b>Creditors: amounts falling due within one year</b>	11	(146,271,832)	(116,180,393)
<b>Net current assets</b>		30,566,923	(5,570,438)
<b>Net assets</b>		<u>958,367,336</u>	<u>901,772,385</u>
<b>Capital and reserves</b>			
Called up share capital	12	1,000,000	1,000,000
Profit and loss account	14	272,060,319	215,465,368
Capital contribution	15	685,307,017	685,307,017
<b>Shareholders' funds – equity</b>	13	<u>958,367,336</u>	<u>901,772,385</u>

On behalf of the Board



Paul Bushnell  
Director



Anthony Golden  
Director

3rd September 2008

The notes in pages 11 to 20 are an integral part of these financial statements


## CITIGROUP CAPITAL FINANCE IRELAND LIMITED

### STATEMENT OF CHANGES IN EQUITY

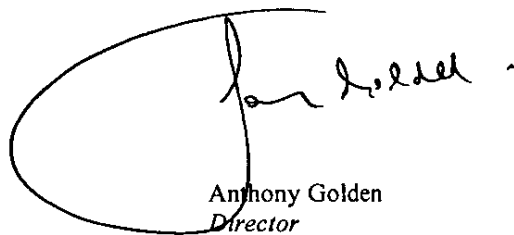
For the year ending 31 December 2007

Shareholders' funds - 1st January	901,772,385	856,314,960
Profit for the year	56,594,951	45,457,425
Shareholders' funds - 31st December	<u>958,367,336</u>	<u>901,772,385</u>

On behalf of the Board



Paul Bushnell  
Director



Anthony Golden  
Director

3rd September 2008

# CITIGROUP CAPITAL FINANCE IRELAND LIMITED

## COMPANY CASH FLOW STATEMENT

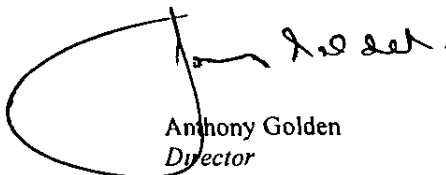
For the year ending 31 December 2007

## COMPANY CASH FLOW STATEMENT

	Note	2007 GBP	2006 GBP
<b>Cash flow from / (used in) operating activities</b>			
Profit after tax		56,594,951	45,457,425
<b>Adjustments to reconcile net profit to cash flow from / (used in) operating activities</b>			
<b>Net (increase) / decrease in operating assets:</b>			
Due from/to banks		1,952,659	12,575,342
Accrued income, prepaid expenses and other assets		(2,461,216)	(2,564,731)
<b>Net increase/(decrease) in operating liabilities:</b>			
Accrued expenses and other liabilities		7,698,208	632,048
<b>Net cash flow from/(used in) operating activities</b>		<u>63,784,602</u>	<u>56,100,084</u>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		63,784,602	56,100,084
Cash and cash equivalents, beginning of the year		97,767,418	41,667,334
Overdraft		(17,018)	-
<b>Cash and cash equivalents, end of the year</b>	9	<u>161,535,002</u>	<u>97,767,418</u>

On behalf of the board

Paul Bushnell  
Director

  
Anthony Golden  
Director

3rd September 2008

## **CITIGROUP CAPITAL FINANCE IRELAND LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ending 31 December 2007**

#### **1. Principal accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

##### **a) Basis of preparation**

The financial statements are prepared in accordance with applicable accounting principles under the historical cost convention and comply with the financial reporting standards of IFRS, as adopted by the E U , with the exception of derivative financial instruments measured at fair value

As required by IFRS 1, First Time Adoption of International Financial Reporting Standards, the Company has applied IFRS in preparing its financial statements with effect from 1 January 2006. As permitted by IFRS 1 the company has not restated its 2006 income statement and balance sheet for the standards relating to financial instruments (IAS 32 Financial Instruments-Disclosure and Presentation and IAS 39 Financial Instruments-Recognition and Measurement)

The transition to IFRS is accounted for in accordance with IFRS 1. The date of transition to IFRS for the Company and the date of the opening IFRS balance sheet was 1 January 2006. Please refer to Note 19 for an explanation of the transition to IFRS.

##### **b) Functional and presentation currency**

These financial statements are presented in GBP, which is the Company's functional currency

##### **c) Income recognition**

Interest receivable and payable is recognised in the profit and loss account as it accrues over the term of the investments and deposits using the effective interest rate pertaining to the period

##### **d) Fees & Commissions**

Fees receivable, which represent a return for services provided, are credited to income when the related service is performed

##### **e) Foreign currency**

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in the income statement

##### **f) Taxation**

Corporation tax payable is provided on taxable profits at current rates



## CITIGROUP CAPITAL FINANCE IRELAND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ending 31 December 2007

#### g) Provision for bad and doubtful debts

Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, general provisions are carried to cover risks, which, although not specifically identified, are present in any portfolio of bank advances. The total provision for bad and doubtful debts is deducted in arriving at the balance sheet figures of loans and advances to banks and to customers, as appropriate. Provisions made during the year, less existing provisions no longer required and recoveries of bad debts previously written off are charged against profits.

#### h) Financial Instruments

Financial assets are classified as loans, advances and other assets. Loans and advances are initially recognised at fair value, which is the cash given to originate the loan and subsequently measured at amortised cost using the effective interest rate method, less any impairment charges. Financial liabilities are measured at amortised cost using the effective interest rate method.

#### i) Derivative contracts

Derivative contracts are carried at their fair value and are initially recognised on the date on which a derivative contract is entered into. 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 derivatives are included in the income statement.

#### j) 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, loans and advances to banks and amounts due from other banks.

#### k) Expenses

Expenses are accounted for on an accrual basis.

### 2. Operating income

	2007 GBP	2006 GBP
Interest on loans	32,483,510	25,603,172
Interest from partnership securities	29,452,281	27,221,898
Interest on deposits	6,394,273	2,585,953
Fee income	1,887,318	247,097
Net realised/unrealised on derivatives at fair value	2,028,447	2,104,304
	<u>72,245,829</u>	<u>57,762,424</u>

# CITIGROUP CAPITAL FINANCE IRELAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ending 31 December 2007

### 3. Administration expenses

	2007 GBP	2006 GBP
Staff costs	1,651,783	309,031
Head office	243,768	1,265,713
Other administration expense	289,277	491,423
Foreign currency translation losses	397,562	507,454
	<u>2,582,390</u>	<u>2,573,621</u>

The average number of persons employed by the company during the year was 28 (2006 5)

### 4. Interest payable and similar charges

	2007 GBP	2006 GBP
Interest payable on group loans	<u>4,983,496</u>	<u>3,237,460</u>

### 5. Statutory information

Profit on ordinary activities before taxation is stated after charging

	2007 GBP	2006 GBP
Directors' remuneration	-	-
Auditors' remuneration	<u>3,743</u>	<u>4,099</u>

Directors' remuneration is borne by other subsidiaries of Citigroup Inc

### 6. Tax on profit on ordinary activities

The Company pays tax at a rate of 12.5% on all activities

Analysis of charge in year	2007 GBP	2006 GBP
<i>Current tax</i>		
Irish corporation tax on profits for the period	<u>(8,084,992)</u>	<u>(6,493,918)</u>

# CITIGROUP CAPITAL FINANCE IRELAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ending 31 December 2007

### 7. Investments in subordinated floating rate notes and securities

	2007 GBP	2006 GBP
Investments	<u>927,800,413</u>	<u>907,342,823</u>

In 2001, the Company purchased subordinated floating rate notes of GBP 335,750,000 from Citibank Investments Limited and subordinated floating rate partnership securities of GBP 350,000,000 from Citigroup Partners UK. The Company is the Limited Partner of Citigroup Partners UK. The above notes are due to be redeemed in 2031. On the 26th October 2005 there was a further purchase of Floating rate notes denominated in Euro330,000,000 (GBP 242,050,413).

### 8. Derivative financial instruments

		Notional principal amount GBP	Fair Value GBP	
Exchange related contracts	Note		Asset	Liability
2007				
FX Forward with Citibank NA London maturing 7/1/08	11	<u>136,723,613</u>	<u>-</u>	<u>7,046,937</u>
2006				
FX Forward with Citibank NA London maturing 5/1/07	10	<u>122,567,459</u>	<u>895,208</u>	<u>-</u>

### 9 Cash and cash equivalents

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

	2007 GBP	2006 GBP
Cash	-	7,045,261
Deposits with banks	<u>161,535,002</u>	<u>90,722,157</u>
	<u>161,535,002</u>	<u>97,767,418</u>

All deposits and cash balances are intercompany

### 10 Debtors

	2007 GBP	2006 GBP
Accrued interest	14,876,103	11,810,800
Unrealised gain on derivatives	-	895,208
Fee income	387,941	136,529
VAT receivable	<u>39,709</u>	<u>-</u>
	<u>15,303,753</u>	<u>12,842,537</u>



## CITIGROUP CAPITAL FINANCE IRELAND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ending 31 December 2007

#### 11. Creditors

	2007 GBP	2006 GBP
<b>amounts falling due within 3 months</b>		
Loan payable	136,693,229	114,282,980
Unrealised loss on derivatives	7,046,937	-
Cash overdraft	17,018	-
due to fellow group undertakings	11,839	11,782
Loan interest payable	2,079,210	1,509,495
<b>amounts falling due within 1 year</b>		
Corporation tax payable	355,720	190,212
Accruals	67,879	185,924
	<u>146,271,832</u>	<u>116,180,393</u>

#### 12. Share capital

	2007 GBP	2006 GBP
<i>Authorised</i>		
100,000,000 ordinary shares of GBP 1 each	<u>100,000,000</u>	<u>100,000,000</u>
<i>Allotted, called up and fully paid</i>		
1,000,000 ordinary shares of GBP each	<u>1,000,000</u>	<u>1,000,000</u>

The Company has no externally imposed capital requirements

#### 13 Reconciliation of movement in shareholder's funds

	2007 GBP	2006 GBP
Shareholders' funds at beginning of year	901,772,385	856,314,960
Total recognised gains and losses for the year	56,594,951	45,457,425
Shareholders' funds at end of year - equity	<u>958,367,336</u>	<u>901,772,385</u>

## CITIGROUP CAPITAL FINANCE IRELAND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ending 31 December 2007

#### 14. Profit and Loss

	2007 GBP	2006 GBP
Opening balance	215,465,368	170,007,943
Profit for the year	56,594,951	45,457,425
Closing balance	<u>272,060,319</u>	<u>215,465,368</u>

#### 15. Capital contribution

The capital contribution amount of GBP 685,307,017 is non repayable and forms part of distributable reserves

#### 16 Financial instruments and risk management

##### Objectives, policies and strategies

Financial instruments are fundamental to the Company's business and constitute the core element of its operations. Financial instruments create, modify or reduce the liquidity, credit and market risk of the Company balance sheet.

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

- **Loans and deposits:** All Company loans and deposits are intercompany.
- **Hedging:** Where financial instruments for part of the Company's management strategy they are classified as economic hedges. The objective for holding financial instruments as hedges is to match or minimise the risk arising from adverse movements in exchange rates. Foreign exchange forwards are used for economically hedging the balance sheet.
  - **Forwards:** short term forward foreign exchange contracts are all agreements to deliver, or take delivery of a specified amount of a currency based on a specified rate at a specified date.

##### Risk management

Risks arise from lending and other activities routinely undertaken. The main risks faced by the Company are market risk, liquidity risk, credit risk and operational risk. The following section summarises the processes that were in place in 2007 for managing these risks.

##### Market Risk

Market risk encompasses a number of components including currency risk, interest rate risk and other price risk.

**Interest rate risk:** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Company has no significant interest rate risk as it is the Company's policy to fund all financial instruments on a matched basis.

**Other price risk:** the Company has no material other price risks.

## CITIGROUP CAPITAL FINANCE IRELAND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ending 31 December 2007

#### 16 Financial instruments and risk management (continued)

**Foreign currency risk;** currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The principal foreign currency in which the Company earns income is Euros ("EUR"). This gives rise to a foreign currency risk on the translation of this income to Sterling. During the financial year ended 31st December 2007 such exposures are included in the Company's foreign currency hedging strategy.

	2007 GBP	2006 GBP
<b>Total Assets</b>		
Denominated in GBP	835,704,137	786,899,460
Denominated in EUR	269,082,900	231,020,432
Denominated in USD	18,681	32,886
	<u>1,104,805,718</u>	<u>1,017,952,778</u>
<b>Total Liabilities</b>		
Denominated in GBP	979,289,531	901,070,361
Denominated in EUR	125,365,602	115,803,454
Denominated in USD	150,585	1,078,963
	<u>1,104,805,718</u>	<u>1,017,952,778</u>

#### Currency exposures

The exposure of the Company's non sterling balance sheet is hedged by a foreign exchange forward contract.

The following table shows the Company's total foreign exchange exposure.

Exposure (in GBP equivalent)	2007	2006
EUR	143,717,297	115,216,978
EUR hedge	<u>(143,739,467)</u>	<u>(121,651,377)</u>
<b>EUR Exposure</b>	<b>(22,170)</b>	<b>(6,434,399)</b>
<b>USD Exposure</b>	<b>(131,904)</b>	<b>(1,046,077)</b>

#### Foreign exchange sensitivity analysis

The following table shows the impact of a 1% increase / decrease in foreign exchange rates on the Company's balance sheet.

	2007 GBP	2006 GBP
1% increase in EUR / GBP Foreign exchange rate	(222)	(64,344)
1% decrease in EUR / GBP Foreign exchange rate	222	64,344

## CITIGROUP CAPITAL FINANCE IRELAND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ending 31 December 2007

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

##### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Management of liquidity is the responsibility of the Company Treasurer who aims to ensure that all funding obligations are met when due.

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

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

2007	3 months or less GBP '000	> 3 months and < 1 year GBP '000	> 1 year and < 5 years GBP '000	Greater than 5 years GBP '000	Total GBP '000
Assets	418,423,050	632,668	-	685,750,000	1,104,805,718
Liabilities	(146,146,706)	(291,676)	-	(958,367,336)	1,104,805,718
<b>2007 net liquidity gap</b>	<b>272,276,344</b>	<b>340,992</b>	<b>-</b>	<b>(272,617,336)</b>	<b>-</b>

2006	3 months or less GBP '000	> 3 months and < 1 year GBP '000	> 1 year and < 5 years GBP '000	Greater than 5 years GBP '000	Total GBP '000
Assets	333,366,462	-	-	684,586,316	1,017,952,778
Liabilities	(116,956,160)	(497,293)	-	(900,499,326)	1,017,952,778
<b>2006 net liquidity gap</b>	<b>216,410,302</b>	<b>(497,293)</b>	<b>-</b>	<b>(215,913,010)</b>	<b>-</b>

##### Operational Risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes the reputation and franchise risk associated with business practices or market conduct that the Company undertakes. The operations of the Company are subject to quarterly risk and control self-assessments and periodic reviews by Citigroup Internal Audit.

## CITIGROUP CAPITAL FINANCE IRELAND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ending 31 December 2007

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

##### Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. All material balances are intercompany.

The Company may be exposed to Credit Risk in respect of balances held by group counterparties. The Company is guided by the Citigroup Capital Markets and Banking (CMB) Credit Policies and Procedures which ensure consistent standards across the CMB for the origination, documentation and maintenance of extensions of credit and establish a consistent approach towards problem recognition, the classification of problem exposures and remedial action.

The carrying amount of the financial assets represents the maximum exposure to credit risk.

#### 17. Related party transactions

The Company defines related parties as the Board of Directors, their close family members, parent and fellow subsidiaries and associate 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 asset and other liabilities balances.

The table below summarises balances with related parties.

	2007 Other Citigroup undertakings GBP	2006 Other Citigroup undertakings GBP
<b>Assets</b>		
Investments	927,800,413	907,342,823
Loans and advances to banks	161,535,001	101,738,622
Prepayments and accrued income	14,876,102	8,734,803
Other assets	267,945	5,372
<b>Liabilities</b>		
Deposits by banks	(136,693,228)	(114,282,980)
Accruals and deferred income	(2,079,210)	(1,521,277)
Other liabilities	(6,915,668)	(485,511)
<b>Income statement</b>		
Interest and similar income	68,330,064	55,411,023
Interest payable	(4,983,496)	(3,233,807)
Net fee and commission income	1,547,395	5,388
Other income/expense	1,630,886	1,596,849
Administrative expenses	(2,140,330)	(9,009,270)

## **CITIGROUP CAPITAL FINANCE IRELAND LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ending 31 December 2007**

#### **18. Transition to IFRS**

The transition to IFRS did not result in any material change to the recognition and measurement of transactions and balances when compared to the UK accounting standards used as the basis for preparation of the statutory financial statements prior to 2007

On adoption of IFRS, the Company adopted IFRS 7 Financial Instruments Disclosure ('IFRS 7'). IFRS 7 requires enhanced disclosures with respect to credit risk, market risk and liquidity risk. The standard must be retrospectively applied. The Company has made all required disclosures.

#### **19. Subsequent events**

An update to the Subordinated Loan facility signed on the 19<sup>th</sup> October 2005 between the Company and Citibank Investments Limited was agreed in April 2008. This deed of variation increased the original Subordinated Loan Facility between the Company and Citibank Investments Ltd from an USD equivalent amount of \$500,000,000 to a USD equivalent amount of \$700,000,000.

#### **20. Ultimate parent undertaking**

The Company's ultimate parent undertaking is Citigroup Inc, which is incorporated in the State of Delaware, United States of America.

The largest group in which the results of the Company are consolidated is that headed by Citigroup Inc. The consolidated financial statements of Citigroup Inc are available to the public and may be obtained from Citigroup Document Services, 140 58th Street, Suite 51, Brooklyn, New York, NY 11220, United States of America.

The smallest group in which the results of the accounts are consolidated is that headed by Citibank Holdings Ireland Limited, which became the parent Company on 24 November 2003. Copies of these group accounts will be available to the public and may be obtained from its offices at Citigroup Centre, 1 North Wall Quay, Dublin 1.