EGG BANKING PLC

(Registered Number: 2999842)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2009

EGG BANKING PLC

DIRECTORS' REPORT
for the year ended 31 December 2009

The Directors present their Report and the financial statements of Egg Banking plc ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2009

Principal activities and business review

The Company is authorised by the Financial Services Authority under the Financial Services and Markets Act 2000 Egg Banking Plc is one of the largest online banks and is a personal financial services group It offers savings accounts, credit cards and insurance products These activities are expected to continue Mortgage offers made prior to 6 June 2008 continued to be booked by the business, however the Group ceased writing new mortgages with effect from this date The group ceased to offer personal instalment loans with effect from November 2009

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company and parent company have the resources to continue in business for the foreseeable future In making this assessment, the Directors have considered a wide range of information relating to present and future conditions Further information relevant to the assessment is provided in the following sections of the financial statements

- principal activities, strategic direction and challenges and uncertainties are described in the business review,
- a financial summary, including a review of the income statement and balance sheet, is provided in the financial results section, and
- objectives, policies and processes for managing credit, liquidity and market risk, and its approach to capital management and allocation, are described in note 29

The main challenges that the Company is facing is capital and liquidity constraints On-going losses continue to reduce the capital of the Company Since year-end the Company's parent has contributed £40 million of capital The Company continues to be funded by other Citigroup affiliates and this is expected to continue

The business transacted in the Company falls under Citi Holdings within Citigroup Inc The Company's strategy has been in line with that of Citigroup's – reduce assets, tightly manage risks and optimize the assets in Citi Holdings The bulk of the assets are cards which are being managed through the cycle

The Group's performance is affected by the economic cycle and market conditions Financial markets have stabilised over the past year to some extent However, challenging economic conditions have increased the risk of customer and counterparty delinquency or default and the Group has experienced increased write-downs The environment continues to be challenging and while numerous risks remain, the Group has made progress in decreasing the risks arising from its balance sheet Note 29 of the financial statements provides information on some of the key risks to which the Group is exposed

The Group generated pre-tax losses of £211 million in the year to 31 December 2009 (2008 £160 million) The Group generated a loss after tax of £261 million (2008 £117 million)

Income

Total operating income was £350 million, a 7% decrease on the previous year Net interest income increased from £312 million to £313 million

Net fee and commission income has decreased by 33% year on year to £47 million The primary reason for this was the decision to stop actively selling payment protection insurance to both the credit card and personal loan customer base combined with an overall reduction in personal loan sales as the Group continues to follow its strategy of tactically reducing its exposure to the Personal Loans business

Costs

Total operating expenses were £188 million, which is consistent with the prior year

Net credit losses were higher in 2009, increasing to £373 million from £348 million in 2008, due to the general deterioration in the UK economy

Balance sheet

Total assets of £5,886 million at 31 December 2009 were 24% lower than at 31 December 2008 (£7,777 million) This has primarily driven by the £1,255 million reduction in customer receivables through a combination of net repayments of £882 million, charge-offs of £236 million and an increase in provision of £137 million

On 22 May 2009 a capital contribution of £145 million was made to the Company by Citibank Overseas Investment Corporation, the parent Company On 28 October 2009 and 9 November 2009 capital contributions of £25 million were made to the Company by Citibank Overseas Investments Corporation

In addition to the financial results of the Group, senior management also consider the following key financial indicators

- Maintenance of required levels of regulatory capital
- Net interest margin
- Actual revenues and expenses against budget
- Gross receivables
- Level of loan delinquencies
- Number of card accounts in force

Post balance sheet event

On 28 January 2010 the Company received a capital contribution from Citibank Overseas Investment Corporation of £40 million

Other

The Group will prepare interim accounts at 30 June 2010 under the European Union Transparency Directive

Financial instruments

The financial risk management objectives and policies and the exposure to interest rate risk, currency risk, credit risk and liquidity risk of the Group have been disclosed in the risk management policies note on pages 55 to 67

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year Under that law they have elected to prepare both the Group and the Parent Company financial statements in accordance with IFRSs as adopted by the EU and applicable law

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

DIRECTORS' REPORT
for the year ended 31 December 2009

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements (continued)

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

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

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

Statement of Corporate Governance

The Company is a wholly owned subsidiary of Citibank Overseas Investment Corporation ("COIC") and its ultimate parent is Citigroup Inc At 31 December 2009 there are no special rights attaching to the shares held by COIC As the Company is a wholly owned subsidiary, there are no special powers given to the Directors in relation to the appointment and replacement of Directors, amendments to the articles of association and the issuance and buying back of shares

Internal control and financial reporting

With the Company s ultimate parent being Citigroup Inc, the governance framework that the Company primarily follows falls under the Sarbanes-Oxley Act of 2002 The Act is administered by the Securities and Exchange Commission (SEC), which sets deadlines for compliance and publishes rules on requirements Section 404 of the Act requires management to acknowledge its responsibility for establishing and maintaining adequate internal controls, including asserting their effectiveness in writing

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorisation, assets are safeguarded, and financial records are reliable

Procedures for the ongoing identification, evaluation and management of the significant risks faced by the Company and Group have been in place throughout the year and up to the date of approval of the financial statements

The Directors and senior management of the Group have formally adopted Risk and Controls policies which set out the Company's and Citigroup's attitude to risk and internal control Key risks, including business risks, are identified and reviewed by senior and operating management on an ongoing basis by means of Sarbanes-Oxley testing along with Risk, Governance and Audit Committee reviews

The Directors also receive regular reports on any risk matters that need to be brought to their attention Significant risks identified in connection with the development of new activities are subject to consideration by the Directors

There are well established management reporting procedures in place and reports are presented regularly to the Directors detailing business results and performance

Statement of Corporate Governance (continued)

The effectiveness of the internal control system is reviewed regularly by the Directors and the Audit Committee, which also receives reports of review undertaken by the internal audit function as well as reports from the external auditors which include details of internal control matters that they have identified Certain aspects of the internal control system are also subject to regulatory supervision, the results of which are monitored by the Directors and senior management

The Audit Committee and Directors are also responsible for monitoring the preparation of the financial statements and reviewing and monitoring the independence of the statutory audit, in particular the provision of additional services to the Group

Risk Factors

The disruption in the financial markets has increased the risks and uncertainties identified by Citigroup and other financial services companies The below is an extract of the risk factors impacting Citigroup from its 2009 annual report on form 10-K

The economic recession and disruptions in the global financial markets have adversely affected, and may continue to adversely affect, Citigroup's business and results of operations

The financial services industry and the capital markets have been, and may continue to be, materially and adversely affected by the economic recession and disruptions in the global financial markets These market disruptions were initially triggered by declines that impacted the value of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities These market disruptions resulted in significant write-downs of asset values by financial institutions, including Citigroup, causing many financial institutions to seek additional capital, merge with other financial institutions or, in some cases, go bankrupt

Disruptions in the global financial markets have also adversely affected, and may continue to adversely affect, the corporate bond markets, equity markets, debt and equity underwriting, and other elements of the financial markets Such disruptions have caused some lenders and institutional investors to reduce and, in some cases, cease to provide funding to certain borrowers, including other financial institutions Credit headwinds, increasingly volatile financial markets and reduced levels of business activity may continue to negatively impact Citigroup's business, capital, liquidity, financial condition and results of operations, as well as the trading price of Citigroup common stock, preferred stock and debt securities

Moreover, market and economic disruptions have affected, and may continue to affect, consumer confidence levels, consumer spending, personal bankruptcy rates, and levels of incurrence and default on consumer debt and home prices, among other factors, in certain of the markets in which Citigroup operates Any of these factors, along with persistently high levels of unemployment, may result in a greater likelihood of reduced client interaction or elevated delinquencies on consumer loans, particularly with respect to Citi's credit card and mortgage programs, or other obligations to Citigroup This, in turn, could result in a higher level of loan losses and Citi's allowances for credit losses, all of which could adversely affect Citigroup's earnings While Citigroup has instituted loss mitigation programs to work with distressed borrowers and potentially mitigate these effects, these programs are in the early stages, and it is uncertain whether they will be successful

In connection with significant government and central bank actions taken in late 2008 and in 2009, the U S and global economies began to see signs of stabilization in certain areas, and some early positive economic signs were observed in late 2009 Despite these positive signs, there remains significant uncertainty regarding the sustainability and pace of economic recovery, unemployment levels, the impact of the U S and other governments' unwinding of their extensive economic and market supports, which may accelerate in 2010, and Citi's delinquency and credit loss trends

Risk factors (continued)

Previously enacted and potential future legislation, including legislation to reform the U S financial regulatory system, could require Citigroup to change certain of its business practices, impose additional costs on Citigroup or otherwise adversely affect its businesses

In addition to previously enacted governmental assistance programs designed to stabilize and stimulate the U S economy (including without limitation the Emergency Economic Stabilization Act of 2008 (EESA) and the American Recovery and Reinvestment Act of 2009 (ARRA)), recent economic, political and market conditions have led to numerous proposals in the U S for changes in the regulation of the financial industry in an effort to prevent future crises and to reform the financial regulatory system

Some of these proposals have already been adopted For example, in May 2009, the U S Congress enacted the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act), which, among other things, restricts certain credit card practices, requires expanded disclosures to consumers and provides consumers with the right to opt out of certain interest rate increases Complying with these legislative changes, as well as the requirements of the amendments to Regulation Z (Truth in Lending) adopted by the Federal Reserve Board and effective July 2010, will require Citigroup to invest significant management attention and resources to make the necessary disclosure and system changes in its U S card businesses and will affect the results of such businesses

In addition, in 2009, the Obama Administration released a comprehensive plan for regulatory reform in the financial industry The Administration's plan calls for significant proposed structural reforms and new substantive regulation across the financial industry, including, without limitation, requiring that broker-dealers who provide investment advice about securities to investors have the same fiduciary obligations as registered investment advisers, new requirements for the securitization market, including requiring a securitizer to retain a material economic interest in the credit risk associated with the underlying securitization, and additional regulation with respect to the trading of over-the-counter derivatives In addition, the Administration's plan calls for increased scrutiny and regulation, including potentially heightened capital requirements, for any financial institution whose combination of size, leverage and interconnectedness could pose a threat to market-wide financial stability if it failed This is sometimes referred to as *"systemic risk"* and may adversely affect Citigroup, as well as the financial intermediaries with which it interacts on a daily basis such as clearing agencies, clearing houses, banks, securities firms and exchanges

The House Financial Services Committee began considering legislation based on the Administration's proposal, and in December 2009, the U S House of Representatives passed the Wall Street Reform and Consumer Protection Act The bill calls for comprehensive financial regulatory reform and would create a Consumer Protection Agency whose mandate includes measures that would subject federally chartered financial institutions to state consumer protection laws that have historically been preempted The bill would also provide Federal regulators with the authority to rein in or dismantle financial institutions whose collapse could pose a systemic risk to the financial stability or economy of the U S due to their size, leverage or interconnectedness The Senate Banking, Housing and Urban Affairs Committee also issued a discussion draft of a bill in November 2009 based on the Administration's proposal, which differs significantly from the House bill in many respects

More recently, in early 2010, the Obama Administration proposed further restrictions on the size and scope of banks and other financial institutions There can be no assurance as to whether or when any of the parts of the Administration's plan or other proposals will be enacted into legislation and, if adopted, what the final provisions of such legislation will be New legislation and regulatory changes could require Citigroup to further change certain of its business practices, impose additional costs on Citigroup, some significant, adversely affect its ability to pursue business opportunities it might otherwise consider engaging in, cause business disruptions or impact the value of assets that Citigroup holds

Risk Factors (continued)

Citigroup's businesses are subject to risks arising from extensive operations outside the United States

As a global participant in the financial services industry, Citigroup is subject to extensive regulation, including fiscal and monetary policies, in jurisdictions around the world

As a result of the current financial crisis, there are currently numerous reform efforts underway outside the U S, including without limitation proposals by the European Commission to amend bank capital requirements and by the Financial Services Authority in the United Kingdom to enhance regulatory standards applicable to financial institutions This level of regulation could further increase in all jurisdictions in which Citigroup conducts business Any regulatory changes could lead to business disruptions or could impact the value of assets that Citigroup holds or the scope or profitability of its business activities Such changes could also require Citigroup to change certain of its business practices and could expose Citigroup to additional costs, including compliance costs, and liabilities as well as reputational harm To the extent the regulations strictly control the activities of financial services institutions, such changes would also make it more difficult for Citigroup to distinguish itself from competitors

In addition, the emerging markets in which Citigroup operates or invests, or in which it may do so in the future, particularly as a result of its overall strategy, may be more volatile than the U S markets or other developed markets outside the U S and are subject to changing political, economic, financial and social factors Among other factors, these include the possibility of recent or future changes in political leadership and economic and fiscal policies and the possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to companies or investments in these countries Citigroup's inability to remain in compliance with local laws in a particular market could have a materially adverse effect not only on its business in that market but also on its reputation generally

Future issuances of Citigroup common stock and preferred stock may reduce any earnings available to Citi's common stockholders and the return on the company's equity

During 2009, Citigroup raised a total of approximately $79 billion in private and public offerings of common stock in connection with its exchange offers and as required by the U S government pursuant to Citigroup's repayment of TARP This amount does not include approximately $3 5 billion of tangible equity units issued in December 2009 that will be settled for additional shares of Citigroup common stock that may be issued over a three-year period but in no event later than December 2012

In addition, in January 2010, Citigroup issued $1 7 billion of common stock equivalents to its employees in lieu of cash compensation they would have otherwise received Subject to shareholder approval at Citi's annual shareholder meeting scheduled to be held on April 20, 2010, such amount of common stock equivalents will be converted to common stock Further, pursuant to its agreement with the Abu Dhabi Investment Authority (ADIA), entered into in November 2007, Citi will issue an aggregate of $7 5 billion of common stock, at a price per share of $31 83, over an approximately two-year period beginning in March 2010

While this additional capital has provided, or will provide, funding to Citigroup's businesses and has improved, or will improve, Citigroup's financial position and capital strength, it has increased, or will increase, Citigroup's equity and the number of actual and diluted shares of Citigroup common stock Such increases in the outstanding shares of common stock reduce Citigroup's earnings per share and the return on Citigroup's equity, unless Citigroup's earnings increase correspondingly In addition, any additional future issuances of common stock, including without limitation pursuant to U S governmental requirements or programs, could further dilute the existing common stockholders and any earnings available to the common stockholders

Risk Factors (continued)

The sale by the U S Treasury of its stake in Citigroup will result in a substantial amount of Citigroup common stock entering the market, which could adversely affect the market price of Citigroup common stock

As of December 31, 2009, the U S Treasury held a 27 0% ownership stake in Citigroup In December 2009, the U S Treasury announced that it planned to divest its stake during 2010, subject to market conditions and following a 90-day lockup period that will expire on March 16, 2010, resulting in approximately 7 7 billion shares of Citigroup common stock being sold into the market The divestiture of such a large number of shares of Citigroup common stock within the announced timeframe could adversely affect the market price of Citigroup common stock

Failure to maintain the value of the Citigroup brand may adversely affect its businesses

Citigroup's success depends on the continued strength and recognition of the Citigroup brand on a global basis The Citi name is integral to its business as well as to the implementation of its strategy for expanding its businesses, including outside the U S Maintaining, promoting and positioning the Citigroup brand will depend largely on the success of its ability to provide consistent, high-quality financial services and products to its clients around the world Citigroup's brand could be adversely affected if it fails to achieve these objectives or if its public image or reputation were to be tarnished by negative views about Citigroup or the financial services industry in general, or by a negative perception of Citigroup's short-term or long-term financial prospects Any of these events could have a material adverse effect on Citigroup's businesses

Although Citigroup currently believes it is "well capitalized," its capitalization may not prove to be sufficiently consistent with its risk profile or sufficiently robust relative to future capital requirements

Citigroup's capital management framework is designed to ensure that Citigroup and its principal subsidiaries maintain sufficient capital consistent with Citigroup's risk profile, all applicable regulatory standards and guidelines as well as external rating agency conditions Citigroup is subject to the risk based capital guidelines issued by the Federal Reserve Board Capital adequacy is measured, in part, based on two risk based capital ratios, the Tier 1 Capital and Total Capital (Tier 1 Capital plus Tier 2 Capital) ratios In conjunction with the conclusion of the Supervisory Capital Assessment Program (SCAP), U S banking regulators developed a new measure of capital called Tier 1 Common While Tier 1 Common and related ratios are measures used and relied on by U S banking regulators, they are non-GAAP financial measures for SEC purposes Citigroup is also subject to a Leverage ratio requirement, a non-risk-based measure of capital adequacy

To be *"well capitalized"* under U S federal bank regulatory agency definitions, a bank holding company must have a Tier 1 Capital ratio of at least 6%, a Total Capital ratio of at least 10% and a Leverage ratio of at least 3%, and not be subject to a Federal Reserve Board directive to maintain higher capital levels As of December 31, 2009, Citigroup was *"well capitalized,"* with a Tier 1 Capital ratio of 11 7%, a Total Capital ratio of 15 2% and a Leverage ratio of 6 9%, as well as a Tier 1 Common ratio of 9 6% There can be no assurance, however, that Citigroup will be able to maintain sufficient capital consistent with its risk profile or remain *"well capitalized"* Moreover, the various regulators in the U S and abroad have not reached consensus as to the appropriate level of capitalization for financial services institutions such as Citigroup These regulators, including the Federal Reserve Board, may alter the current regulatory capital requirements to which Citigroup is subject and thereby necessitate equity increases that could dilute existing stockholders, lead to required asset sales or adversely impact the availability of Citi's DTAs, as described above, among other issues

In addition, Citigroup could adopt the provisions of the Basel II regulatory capital framework as early as April 1, 2011 This new regulatory capital framework is likely to result in a need for Citigroup to hold additional regulatory capital If market conditions do not improve, the capital requirements of Basel II could increase prior to scheduled implementation in 2011, further increasing the amount of capital needed by Citi The new rules could also result in changes in Citigroup's funding mix, resulting in lower net income and/or continued shrinking of the balance sheet Separate from the above Basel II rules for credit and operational risk, the Basel Committee on Banking Supervision has also proposed revisions to the market risk framework that could also lead to additional capital requirements Although not yet ratified by the U S regulators, the Basel II rules for market risk are currently scheduled for January 1, 2011, one quarter ahead of Citigroup's earliest date for Basel II implementation for credit and operational risk

Risk Factors (continued)

Liquidity is essential to Citigroup's businesses, and Citigroup relies on external sources to finance a significant portion of its operations

Adequate liquidity is essential to Citigroup's businesses Citigroup's liquidity could be materially, adversely affected by factors Citigroup cannot control, such as general disruption of the financial markets or negative views about the financial services industry in general In addition, Citigroup's ability to raise funding could be impaired if lenders develop a negative perception of Citigroup's short-term or long-term financial prospects, or a perception that it is experiencing greater liquidity risk

Regulatory measures instituted in late 2008 and 2009, such as the FDIC's temporary guarantee of the newly issued senior debt as well as deposits in non-interest-bearing deposit transaction accounts, and the commercial paper funding facility of the Federal Reserve Board were designed to stabilize the financial markets and the liquidity position of financial institutions such as Citigroup While much of Citigroup's long-term and short-term unsecured funding during 2009 was issued pursuant to these government-sponsored funding programs, Citigroup began to access funding outside of these programs, particularly during the fourth quarter of 2009, due, in part, to the fact that many of these facilities were terminating Citi's reliance on government-sponsored short-term funding facilities was substantially reduced as of the end of 2009 The impact that the termination of any of these facilities could have on Citigroup's ability to access funding in the future is uncertain It is also unclear whether Citigroup will be able to regain access to the public long-term unsecured debt markets on historically customary terms

Citigroup's cost of obtaining long-term unsecured funding is directly related to its credit spreads in both the cash bond and derivatives markets Increases in Citigroup's credit qualifying spreads can significantly increase the cost of this funding Credit spreads are influenced by market and rating agency perceptions of Citigroup's creditworthiness and may be influenced by movements in the costs to purchasers of credit default swaps referenced to Citigroup's long-term debt

In addition, a significant portion of Citigroup's business activities are based on gathering deposits and borrowing money and then lending or investing those funds, including through market-making activities in tradable securities Citigroup's profitability is in part a function of the spread between interest rates earned on such loans and investments, as well as other interest-earning assets, and the interest rates paid on deposits and other interest-bearing liabilities During 2009, the need to maintain adequate liquidity caused Citigroup to invest available funds in lower-yielding assets, such as those issued by the U S government As a result, during 2009, the yields across both the interest-earning assets and the interest-bearing liabilities dropped significantly from 2008 The lower asset yields more than offset the lower cost of funds, resulting in lower net interest margins compared to 2008 There can be no assurance that Citigroup's net interest margins will not continue to remain low

Any reduction in Citigroup's and its subsidiaries' credit ratings could increase the cost of its funding from, and restrict its access to, the capital markets and have a material adverse effect on its results of operations and financial condition

Each of Citigroup's and Citibank, N A 's long-term/senior debt is currently rated investment grade by Fitch Ratings, Moody's Investors Service and Standard & Poor's The rating agencies regularly evaluate Citigroup and its subsidiaries, and their ratings of Citigroup's and its subsidiaries' long-term and short-term debt are based on a number of factors, including financial strength, as well as factors not entirely within the control of Citigroup and its subsidiaries, such as conditions affecting the financial services industry generally

Risk Factors (continued)

In light of the difficulties in the financial services industry and the financial markets generally, or as a result of events affecting Citigroup more specifically, Citigroup and its subsidiaries may not be able to maintain their current respective ratings A reduction in Citigroup's or its subsidiaries' credit ratings could adversely affect Citigroup's liquidity, widen its credit spreads or otherwise increase its borrowing costs, limit its access to the capital markets or trigger obligations under certain bilateral provisions in some of Citigroup's trading and collateralized financing contracts In addition, under these provisions, counterparties could be permitted to terminate certain contracts with Citigroup or require it to post additional collateral Termination of Citigroup's trading and collateralized financing contracts could cause Citigroup to sustain losses and impair its liquidity by requiring Citigroup to find other sources of financing or to make significant cash payments or securities transfers

Certain of the credit rating agencies have stated that the credit ratings of Citi and other financial institutions have benefited from the implicit support that the U S government and regulators have provided to the financial industry through the financial crisis The expectation that this support will be reduced over time, unless offset by improvement in standalone credit profiles, could have a negative impact on the credit ratings of financial institutions, including Citi

Market disruptions may increase the risk of customer or counterparty delinquency or default

Market and economic disruptions, as well as the policies of the Federal Reserve Board or other government agencies or entities, can adversely affect Citigroup's customers, obligors on securities or other instruments or other counterparties, potentially increasing the risk that they may fail to repay their securities or loans or otherwise default on their contractual obligations to Citigroup, some of which maybe significant These customers, obligors or counterparties could include individuals or corporate or governmental entities Moreover, Citigroup may incur significant credit risk exposure from holding securities or other obligations or entering into swap or other derivative contracts under which obligors or other counterparties have long-term obligations to make payments to Citigroup Market conditions over the last several years, including credit deterioration, decreased liquidity and pricing transparency along with increased market volatility, have negatively impacted Citigroup's credit risk exposure Although Citigroup regularly reviews its credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee

Citigroup may fail to realize all of the anticipated benefits of the realignment of its businesses

Effective in the second quarter of 2009, Citigroup realigned into two primary business segments, Citicorp and Citi Holdings, for management and reporting purposes The realignment is part of Citigroup's strategy to focus on its core businesses and reduce non-core assets in a disciplined and deliberate manner Citigroup believes this structure will allow it to enhance the capabilities and performance of Citigroup's core assets, through Citicorp, as well as realize value from its non-core assets, through Citi Holdings

Citigroup intends to exit the Citi Holdings non-core businesses as quickly as practicable yet in an economically rational manner through business divestitures, portfolio run-off and asset sales Citigroup has been making substantial progress divesting and exiting businesses included within Citi Holdings, having completed more than 20 divestitures over the last two years, including the Morgan Stanley Smith Barney joint venture, Nikko Cordial Securities and Nikko Asset Management sales Citi Holdings' assets have been reduced from a peak level of approximately $898 billion in the first quarter of 2008 to approximately $547 billion at year-end 2009

Despite these efforts, given the rapidly changing and uncertain financial environment, there can be no assurance that the realignment of Citigroup's businesses will achieve the company's desired objectives or benefits, including simplifying the organization and permitting Citigroup to allocate capital to fund its long-term strategic businesses comprising Citicorp, or that Citi will be able to continue to make progress in divesting or exiting businesses within Citi Holdings in an orderly and timely manner

Risk Factors (continued)

Citigroup may experience further write-downs of its financial instruments and other losses related to volatile and illiquid market conditions

Market volatility, illiquid market conditions and disruptions in the credit markets have made it extremely difficult to value certain of Citigroup's assets Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these assets in future periods In addition, at the time of any sales of these assets, the price Citigroup ultimately realizes will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value Further, Citigroup's hedging strategies with respect to these assets may not be effective Any of these factors could require Citigroup to take further write-downs in respect of these assets, which may negatively affect Citigroup's results of operations and financial condition in future periods

Citigroup finances and acquires principal positions in a number of real estate and real-estate-related products for its own account, for investment vehicles managed by affiliates in which it also may have a significant investment, for separate accounts managed by affiliates and for major participants in the commercial and residential real estate markets, and originates loans secured by commercial and residential properties Citigroup also securitizes and trades in a wide range of commercial and residential real estate and real-estate-related whole loans, mortgages and other real estate and commercial assets and products, including residential and commercial mortgage-backed securities These businesses have been, and may continue to be, adversely affected by the downturn in the real estate sector

Furthermore, in the past, Citigroup has provided financial support to certain of its investment products and vehicles in difficult market conditions, and Citigroup may decide to do so again in the future for contractual reasons or, at its discretion, for reputational or business reasons, including through equity investments or cash or capital infusions

Should unemployment rates continue to be high, and if stresses in the real estate market continue to depress housing prices, Citi could experience greater write-offs and also need to set aside larger loan loss reserves for mortgage and credit card portfolios as well as other consumer loans

Citigroup's financial statements are based in part on assumptions and estimates, which, if wrong, could cause unexpected losses in the future

Pursuant to U S GAAP, Citigroup is required to use certain assumptions and estimates in preparing its financial statements, including in determining credit loss reserves, reserves related to litigation and the fair value of certain assets and liabilities, among other items If assumptions or estimates underlying Citigroup's financial statements are incorrect, Citigroup may experience material losses

Changes in accounting standards can be difficult to predict and can materially impact how Citigroup records and reports its financial condition and results of operations

Citigroup's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations From time to time, the FASB changes the financial accounting and reporting standards that govern the preparation of Citigroup's financial statements These changes can be hard to anticipate and implement and can materially impact how Citigroup records and reports its financial condition and results of operations For example, the FASB's current financial instruments project could, among other things, significantly change the way loan loss provisions are determined from an incurred loss model to an expected loss model, and may also result in most financial instruments being required to be reported at fair value

Risk Factors (continued)

Citigroup may incur significant losses as a result of ineffective risk management processes and strategies, and concentration of risk increases the potential for such losses

Citigroup seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms While Citigroup employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application may not be effective and may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes Market conditions over the last several years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk

These market movements can, and have, limited the effectiveness of Citigroup's hedging strategies and have caused Citigroup to incur significant losses, and they may do so again in the future In addition, concentration of risk increases the potential for significant losses in certain of Citigroup's businesses For example, Citigroup extends large commitments as part of its credit origination activities Citigroup's inability to reduce its credit risk by selling, syndicating or securitizing these positions, including during periods of market dislocation, could negatively affect its results of operations due to a decrease in the fair value of the positions, as well as the loss of revenues associated with selling such securities or loans Further, Citigroup routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks and investment funds This has resulted in significant credit concentration with respect to this industry

The financial services industry faces substantial legal liability and regulatory risks, and Citigroup may face damage to its reputation and incur significant legal and regulatory liability

Citigroup faces significant legal and regulatory risks in its businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high Citigroup s experience has been that legal claims by shareholders, regulators, customers and clients increase in a market downturn In addition, employment-related claims typically increase in periods when Citigroup has reduced the total number of employees, such as during the prior two fiscal years There have also been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and Citigroup runs the risk that employee misconduct could occur It is not always possible to deter or prevent employee misconduct, and the extensive precautions Citigroup takes to prevent and detect this activity may not be effective in all cases

A failure in Citigroup's operational systems or infrastructure, or those of third parties, could impair its liquidity, disrupt its businesses, result in the disclosure of confidential information, damage Citigroup's reputation and cause losses

Citigroup's businesses are highly dependent on its ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies These transactions, as well as the information technology services Citigroup provides to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards Due to the breadth of Citigroup's client base and its geographical reach, developing and maintaining Citigroup's operational systems and infrastructure is challenging Citigroup's financial, account, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond its control, such as a spike in transaction volume or unforeseen catastrophic events, adversely affecting Citigroup's ability to process these transactions or provide these services

Citigroup also faces the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries Citigroup uses to facilitate its transactions, and as Citigroup s interconnectivity with its clients grows, it increasingly faces the risk of operational failure with respect to its clients' systems

DIRECTORS' REPORT
for the year ended 31 December 2009

Risk Factors (continued)

In addition, Citigroup's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks Although Citigroup takes protective measures and endeavors to modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact Given the high volume of transactions at Citigroup, certain errors may be repeated or compounded before they are discovered and rectified If one or more of such events occurs, this could potentially jeopardize Citigroup's, its clients', its counterparties' or third parties' confidential and other information processed and stored in, and transmitted through, Citigroup's computer systems and networks, or otherwise cause interruptions or malfunctions in Citigroup's, its clients', its counterparties' or third parties' operations, which could result in significant losses or reputational damage

Some of the above factors are also the key risks and uncertainties facing the Group The impact of the above factors on the capital requirements and liquidity of the Group are the key driver of the Group's potential need for parental support

Dividends

There were no dividends paid in the year (2008 £nil) The Directors do not recommend the payment of a final dividend for the year (2008 £nil)

Directors

The Directors who held office at 31 December 2009 were

G J Ryan
H L Pijls
S G Shakespeare

S G Shakespeare resigned as a Director of the Company with effect from 25 February 2010 C Menendez was appointed a Director of the Company with effect from 18 March 2010

Directors' indemnity

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

Suppliers

The Company does not follow any code or standard on payment practice with its suppliers but it is the policy of the Company to agree terms of payment when orders for goods or services are placed and to pay in accordance with those terms Trade creditor days, based on the ratio of amounts which were owed to trade creditors at the year end to the aggregate of the amounts invoiced by trade creditors during the year, were 49 days (2008 62 days)

Environment

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

EGG BANKING PLC

DIRECTORS' REPORT
for the year ended 31 December 2009

Employment of disabled persons

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant Efforts are made to enable any employees who become disabled during employment to continue their careers within the Group Opportunities for training, career development and promotion of disabled persons are, as far as possible, identical to those available to other employees who are not disabled

Employee consultation

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed by written communications and meetings on matters affecting them as employees and on the various factors affecting the Group's business The Group consults employees on a regular basis so the views of employees can be taken into account when making decisions which are likely to affect their interests The Group holds regular updates to keep all employees informed of current financial and economical factors affecting the performance of the Group

Charitable donations and political contributions

During the year the Group made charitable donations totalling £33,270 (2008 £113,354) No political contributions were made during the year (2008 £nil)

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006 it is stated that 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 Company's auditor is unaware, and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information This statement is made subject to all the provisions of Section 418

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Group is to be proposed at the forthcoming Annual General Meeting

By order of the Board

S J Cumming
Secretary

22 March 2010

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF EGG BANKING PLC

We have audited the Group and Parent Company financial statements of Egg Banking Plc for the year ended 31 December 2009 set out on pages 16 to 69 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditors' 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 member, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on pages 3 to 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKP

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2009 and of the group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following
Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

David Todd

David Todd (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
1 Canada Square
London
E14 5AG

22 March 2010

EGG BANKING PLC

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2009

	Note	2009 £ Million	2008 £ Million
Interest and similar income	3	482	691
Interest expense and similar charges	3	(169)	(379)
Net interest income		313	312
Net fee and commission income	4	47	70
Net foreign exchange and fair value loss	5	(12)	(7)
Other operating income		2	1
Total operating income		350	376
Personnel expenses	6	(51)	(57)
General administrative expenses	7	(130)	(112)
Amortisation of intangible assets	16	(4)	(8)
Depreciation of property, plant and equipment	17	(3)	(11)
Operating profit before net credit losses		162	188
Impairment losses on loans and advances to customers	11	(373)	(348)
Loss before income tax		(211)	(160)
Income tax	8	(50)	43
Loss for the financial year		(261)	(117)

The accompanying notes on pages 24 to 69 form an integral part of these financial statements

EGG BANKING PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Note	2009 £ Million	2008 £ Million
Loss for the year		(261)	(117)
Other comprehensive income			
Available for sale investments			
- Change in fair value		10	(76)
- Amount transferred to profit or loss		-	61
- Current tax	8	-	4
Cash flow hedges			
- Losses taken to equity		-	4
- Deferred tax	8	-	(1)
Exchange differences on foreign currency translations		(1)	-
Other comprehensive income for the year, net of tax		9	(8)
Total comprehensive income for the year		(252)	(125)

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

The accompanying notes on pages 24 to 69 form an integral part of these financial statements

EGG BANKING PLC

CONSOLIDATED BALANCE SHEET
as at 31 December 2009

	Note	2009 £ Million	2008 £ Million
Assets			
Cash and cash equivalents	26	2	3
Loans and advances to banks	26	1,044	1,121
Securities purchased under agreement to resell		250	250
Investment securities	14	784	1,032
Derivative financial instruments	13	75	280
Loans and advances to customers	10	3,582	4,831
Prepayments and accrued income		4	5
Investments		2	2
Property, plant and equipment	17	14	17
Intangible assets	16	11	8
Deferred tax	19	60	110
Other assets	18	58	118
Total assets		5 886	7,777
Liabilities			
Deposits by banks		540	2,232
Customer accounts		4,283	4,190
Securities sold under agreement to repurchase		237	402
Investment securities in issue	20	8	24
Derivative financial instruments	13	6	43
Other liabilities	21	56	75
Accruals and deferred income		54	47
Current tax liability		15	16
Provisions for liabilities and charges	22	7	11
Subordinated liabilities - Dated loan capital	23	452	452
Total liabilities		5,658	7,492
Equity shareholder's funds			
Called up share capital	25	451	451
Share premium account		2	2
Retained losses		(532)	(271)
Other reserves		307	103
Total equity shareholders' funds attributable to equity holders of the parent company		228	285
Total liabilities and equity shareholder's funds		5,886	7 777

The accompanying notes on pages 24 to 69 form an integral part of these financial statements

Approved by the Directors on 22 March 2010 and signed on their behalf by

G J Ryan
Director
Registered Number. 02999842

EGG BANKING PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Share capital £ Million	Share premium £ Million	Capital reserve £ Million	Translation reserve £ Million	Hedging reserve £ Million	Fair value reserve £ Million	Retained earnings £ Million	Total £ Million
Balance at 1 January 2008	451	2	121	1	(3)	(8)	(154)	410
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	(117)	(117)
Other comprehensive income								
Change in hedging reserve	-	-	-	-	3	-	-	3
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	(11)	-	(11)
Total other comprehensive income	-	-	-	-	3	(11)	-	(8)
Total comprehensive income for the period	-	-	-	-	3	(11)	(117)	(125)
Balance at 31 December 2008 and 1 January 2009	451	2	121	1	-	(19)	(271)	285
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	(261)	(261)
Other comprehensive income								
Foreign currency translation differences, net of tax	-	-	-	(1)	-	-	-	(1)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	10	-	10
Total other comprehensive income	-	-	-	(1)	-	10	-	9
Total comprehensive income for the period	-	-	-	(1)	-	10	(261)	(252)
Transaction with owners, recorded directly in equity								
Contribution by and distribution to owners								
Capital contribution	-	-	195	-	-	-	-	195
Balance at 31 December 2009	451	2	316	-	-	(9)	(532)	228

The accompanying notes on pages 24 to 69 form an integral part of these financial statements

EGG BANKING PLC

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2009

	Note	2009 £ Million	2008 £ Million
Cash flow used in operating activities			
Loss before tax		(211)	(160)
Adjustments for non-cash items included in net loss and other adjustments:			
Depreciation of property, plant and equipment	17	3	11
Amortisation of intangible assets	16	4	8
Impairment losses on loans and advances to customers		373	348
Net (increase)/decrease in operating assets:			
Loans and advances to banks		13	46
Derivative financial instruments		205	(200)
Loans and advances to customers		876	(5)
Securities purchased under agreement to resell		-	51
Accrued income and prepayments		1	(2)
Other assets		60	(86)
Net increase/(decrease) in operating liabilities:			
Deposits by banks		(1,692)	491
Customer accounts		93	(1,204)
Investment securities in issue		(16)	(23)
Securities sold under agreement to repurchase		(165)	402
Accruals and deferred income		7	11
Derivative financial instruments		(37)	(126)
Other liabilities		(19)	(151)
Provisions for liabilities and charges		(4)	-
Income taxes refunded/(paid)		(1)	11
Net cash flow used in operating activities		(510)	(578)
Cash flow from investing activities			
Purchase of property, plant and equipment	17	-	(1)
Purchase of intangible assets	16	(7)	(5)
Purchase of investments		-	(2)
Disposal of investment securities		258	292
Net cash flow from investing activities		251	284
Cash flow from financing activities			
Capital contribution	24	195	-
Net cash flow from financing activities		195	-
Net decrease in cash and cash equivalents		(64)	(294)
Cash and cash equivalents, beginning of the year	26	1,074	1,368
Cash and cash equivalents, end of the year	26	1 010	1 074

The accompanying notes on pages 24 to 69 form an integral part of these financial statements

EGG BANKING PLC

COMPANY BALANCE SHEET

as at 31 December 2009

	Note	2009 £ Million	2008 £ Million
Assets			
Cash and cash equivalents	**26**	2	3
Loans and advances to banks	**26**	1,044	1,121
Securities purchased under agreement to resell		250	250
Investment securities	**14**	784	1,032
Derivative financial instruments	**13**	2	17
Loans and advances to customers	**10**	3,582	4,831
Prepayments and accrued income		4	5
Investment in subsidiary undertakings	**15**	3	4
Investments		2	2
Property, plant and equipment	**17**	14	17
Intangible assets	**16**	11	8
Deferred tax	**19**	60	110
Other assets	**18**	77	140
Total assets		5,835	7,540
Liabilities			
Deposits by banks		473	1,974
Customer accounts		4,283	4,190
Securities sold under agreement to repurchase		237	402
Investment securities in issue	**20**	8	24
Derivative financial instruments	**13**	6	43
Other liabilities	**21**	86	107
Accruals and deferred income		53	55
Current tax liability		15	16
Provisions for liabilities and charges	**22**	7	11
Subordinated liabilities - Dated loan capital	**23**	452	452
Total liabilities		5,620	7,274
Equity shareholder's funds			
Called up share capital	**25**	451	451
Share premium account		2	2
Retained losses		(527)	(272)
Other reserves		289	85
Total equity shareholders' funds attributable to equity holders of the parent company		215	266
Total liabilities and equity shareholder's funds		5,835	7,540

The accompanying notes on pages 24 to 69 form an integral part of these financial statements

Approved by the Directors on 22 March 2010 and signed on their behalf by

G J Ryan
Director
Registered Number 02999842

EGG BANKING PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Share capital £ Million	Share premium £ Million	Capital reserve £ Million	Translation reserve £ Million	Hedging reserve £ Million	Fair value reserve £ Million	Retained earnings £ Million	Total £ Million
Balance at 1 January 2008	451	2	103	1	(3)	(9)	(152)	393
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	(120)	(120)
Other comprehensive income								
Change in hedging reserve	-	-	-	-	3	-	-	3
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	(10)	-	(10)
Total other comprehensive income	-	-	-	-	3	(10)	-	(7)
Total comprehensive income for the period	-	-	-	-	3	(10)	(120)	(127)
Balance at 31 December 2008 and 1 January 2009	451	2	103	1	-	(19)	(272)	266
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	(255)	(255)
Other comprehensive income								
Foreign currency translation differences, net of tax	-	-	-	(1)	-	-	-	(1)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	10	-	10
Total other comprehensive income	-	-	-	(1)	-	10	-	9
Total comprehensive income for the period	-	-	-	(1)	-	10	(255)	(246)
Transaction with owners, recorded directly in equity								
Contribution by and distribution to owners								
Capital contribution	-	-	195	-	-	-	-	195
Balance at 31 December 2009	451	2	298	-	-	(9)	(527)	215

The accompanying notes on pages 24 to 69 form an integral part of these financial statements

EGG BANKING PLC

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2009

	Note	2009 £ Million	2008 £ Million
Cash flow used in operating activities			
Loss before tax		(205)	(161)
Adjustments for non-cash items included in net loss and other adjustments:			
Depreciation of property, plant and equipment	17	3	11
Amortisation of intangible assets	16	4	8
Impairment losses on loans and advances to customers		373	348
Net (increase)/decrease in operating assets:			
Cash ratio deposit		1	-
Loans and advances to banks		13	45
Derivative financial instruments		15	38
Loans and advances to customers		876	(5)
Securities purchased under agreement to resell		-	51
Accrued income and prepayments		1	(2)
Other assets		61	(91)
Net increase/(decrease) in operating liabilities			
Deposits by banks		(1,501)	151
Customer accounts		93	(1,204)
Investment securities in issue		(16)	(23)
Securities sold under agreement to repurchase		(165)	402
Accruals and deferred income		(1)	11
Derivative financial instruments		(37)	(22)
Other liabilities		(21)	(147)
Provisions for liabilities and charges		(4)	-
Income taxes refunded/(paid)		(1)	11
Net cash flow used in operating activities		(511)	(579)
Cash flow from investing activities			
Purchase of property, plant and equipment	17	-	(1)
Purchase of intangible assets	16	(7)	(5)
Purchase of investments		-	(2)
Disposal of investment securities		258	293
Write down of subsidiary undertakings		1	-
Net cash flow from investing activities		252	285
Cash flow from financing activities			
Capital contribution	24	195	-
Net cash flow from financing activities		195	-
Net decrease in cash and cash equivalents		(64)	(294)
Cash and cash equivalents, beginning of the year	26	1,074	1,368
Cash and cash equivalents, end of the year	26	1,010	1,074

The accompanying notes on pages 24 to 69 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

a) Basis of preparation

The Company and Group financial statements have both been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the E U On publishing the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements

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

The financial statements are prepared on a going concern basis taking into account the continuing support from the Group's parent The risks and uncertainties identified by the parent group, together with those factors which lead to the Group's reliance on parental support, are discussed further in the Directors' Report on pages 5 to 13 Taking these factors into account the Directors acknowledge and accept the intent and ability of Citigroup to provide support to the Group if required and consequently present these financial statements on a going concern basis

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

- IFRS 8 'Operating Segments' is effective for periods beginning after 1 January 2009 This has resulted in the Group presenting segmental information reflecting the current operating segments used to make operating decisions,
- Revised IAS 1 'Presentation of Financial Statements' is effective for periods beginning after 1 January 2009 This has resulted in a Statement of Changes in Equity being included with the primary statements and a change to the name and presentation of the Statement of Comprehensive Income
- Revised IFRS 7 'Financial Instruments' is effective for periods beginning on or after 1 January 2009, and requires enhanced disclosures about the fair value hierarchy, and amended disclosures of liquidity risks

The Group has elected not to early adopt Revised IFRS 3 'Business Combinations, which is effective from 1 January 2010 and will be applied prospectively and therefore, have no impact on prior periods financial results

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

Companies are consolidated in the Group's financial statements when the substance of the relationship between the Group and the subsidiary indicates that the subsidiary is controlled by the Group

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

1. **Principal accounting policies** (continued)

c) Segmental reporting

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

d) Foreign currencies

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

At the balance sheet date monetary assets and liabilities are translated at the year end rates of exchange Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate at the date of the transaction Exchange profits and losses on monetary items are recognised in the income statement Any exchange profits and losses on non-monetary items are recognised in line with whether the gain or loss on the non-monetary item itself is recognised in the income statement or in the statement of comprehensive income Foreign exchange profits or losses on available-for-sale debt securities have been recognised in the income statement

On consolidation, the assets and liabilities of the Group's foreign entities are translated at year end rates of exchange to the presentational currency Income and expense items are translated at the average exchange rates to presentational currency 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 the statement of comprehensive income

e) Net interest income

Interest income and expense on financial assets and liabilities are recognised in the income statement using the effective interest rate method Fees and direct costs relating to loan origination, re-financing or restructuring and to loan commitments are deferred and amortised to interest earned on loans and advances using the effective interest method

Interest income and expense presented in the income statement include
- interest on financial assets and liabilities at amortised cost on an effective interest basis, and
- interest on available-for-sale investment securities on an effective interest basis

f) Net fee and commission income

Net fee and commission income, which consists predominantly of commissions receivable and profit share from the sale of third party insurance policies, are recognised on an accruals basis net of any commission which is likely to be repaid in the future

g) Net foreign exchange and fair value loss

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

1. **Principal accounting policies** (continued)

h) Derivative financial instruments and hedge accounting

The Group undertakes transactions in derivative financial instruments, which include currency swaps, interest rate swaps, options and similar instruments, for non-trading purposes

The Group's derivative activities are entered into for the purpose of matching or eliminating risk from potential movements in interest rates or foreign currency inherent in the Group's assets, liabilities and positions, or for the purpose of reducing credit risk inherent in the Group's balance sheet All derivative transactions (including foreign exchange and credit) are for economic hedging purposes and the hedging position is therefore decided at the outset Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate

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 All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative Changes in fair value are recognised in net foreign exchange and fair value gains and loss

Derivatives that do not qualify for hedge accounting
Where the derivative does not qualify as a hedging relationship in accordance with IAS 39, the derivative is initially measured at fair value and re-measured at fair value at each balance sheet date All changes in the fair value of the derivative are recognised in the income statement under net foreign exchange and fair value gains and losses Fair values are based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models

Cash flow hedges
In 2008 the Group derecognised its cash flow hedges Previously, where relevant, the Group had elected to designate its derivatives as hedges against the exposure to variability in cash flows of its recognised assets and liabilities At inception, the Group formally designated the hedge, documenting the nature of the hedging relationship, the risk management objective and the strategy for undertaking the hedge

Derivatives designated as hedges are tested for effectiveness on inception of the hedge relationship and on an ongoing basis The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity The ineffective part of any gain or loss is recognised in the income statement immediately Any gain or loss arising from changes in the time value of the derivative is excluded from the measurement of the hedge effectiveness and is recognised in the income statement

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit and loss

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement

The Group has not designated its derivatives as any other type of hedge in accordance with IAS 39

NOTES TO THE FINANCIAL STATEMENTS

1 **Principal accounting policies** (continued)

i) Repurchase and resale agreements

Repurchase and resale agreements are treated as collateralised financing transactions Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds are recorded as a collateralised financing transaction within creditors Securities acquired in purchase and resale transactions are not recognised in the balance sheet and the purchase price is recorded as a collateralised financing transaction within debtors The difference between the sale price and the repurchase price is accrued evenly over the life of the transaction and is charged or credited to the income statement as interest payable or receivable

j) Other financial instruments

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

Other than derivative financial instruments, the Group measures all of its financial liabilities at amortised cost

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

Loans and receivables and financial liabilities at amortised cost
The Group's loans and advances to customers are classified as loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and whose recoverability is based solely on the credit risk of the borrower The Group measures its loans and receivables and financial liabilities, other than derivatives, initially at fair value plus any incremental direct transaction costs Subsequent measurement is at amortised cost, whereby the principal balance is the amount at initial recognition, less any principal repayments and impairment and adjusted for the cumulative amortisation calculated using the effective interest rate (EIR) method The EIR method is a method whereby estimated future cash payments or receipts, adjusted for principal repayments and impairment, are discounted through the expected life of the financial instrument

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative assets, principally but not exclusively investment securities, which are not classified as another category of financial assets The Group measures these assets at fair value, with subsequent changes in fair value being recognised in the statement of comprehensive income except for interest income and foreign exchange gains and losses which are recognised in the income statement Upon derecognition of the asset, or where there is objective evidence that the investment security is impaired, the cumulative gains and losses recognised in equity are removed from equity and recycled to the income statement

Financial assets at fair value through to profit or loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management The Group measures these assets at fair value, with subsequent changes in fair value being recognised in the income statement

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

k) 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

l) Impairment of financial assets

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

- significant financial difficulty of the issuer or obligor,
- a breach of contract, such as a default or delinquency in interest or principal payments,
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation,
- the disappearance of an active market for that financial asset because of financial difficulties, or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including
  - (i) adverse changes in the payment status of borrowers in the portfolio, and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio

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

Assets held at amortised cost
Where the financial assets are carried at amortised cost, the Group measures the amount of the individual impairment by comparing the carrying amount of the asset with the present value of its estimated future cash flows

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

Financial assets not individually impaired are grouped together to assess impairment collectively and is shown as Allowance for loans and advances The collective assessment includes an assessment of losses

- that have been incurred but not yet identified taking into account historical loss experience and the estimated period between impairment occurring and loss being identified,
- based on statistical analysis of historical data and the Group's experience of delinquency and default, and
- from the impact of other risk factors including unemployment rates, bankruptcy trends, economic conditions and the current level of write offs

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

1. Principal accounting policies (continued)

l) Impairment of financial assets (continued)

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

Available-for-sale financial assets
For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired The amount of the loss is measured as the difference between the asset's carrying amount and the present value of future cash flows The rate used to discount the cash flows is the current interest rate on the available-for-sale financial assets The amount of impairment loss is recognised in the income statement This includes cumulative gains and losses previously recognised in the statement of comprehensive income which are now recycled from equity to the income statement

m) Derecognition of financial assets and liabilities

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

n) 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

Computer software	3 - 5 years

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

o) Property, plant and equipment

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

Buildings	between 25 and 50 years
Leasehold improvements	10 years
Fixtures and fittings	10 years
Plant and equipment	between 3 and 10 years
Computer equipment	between 3 and 5 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

1 Principal accounting policies (continued)

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

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

q) Operating leases

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

r) Shares in subsidiary undertakings

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

s) Income taxes

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

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

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

Current and deferred taxes are recognised as income tax benefit or expense in the income statement, except for deferred taxes on the following items which are recorded as a separate component of equity

i unrealised gains or losses on available-for-sale investments, and
ii effective elements of cash flow hedges

t) Employee benefits

The Group accounts for its pension schemes and other non share-based employee benefits in accordance with IAS 19 'Employee Benefits'

The Group's main pension scheme, which covers the majority of the Group's employees who have taken up their right to contribute to a pension scheme, is a defined benefit scheme However, based on the terms of the agreement the contributions made by the Company to the scheme are set an agreed rate and accordingly treated as a defined contribution scheme For this scheme the cost is charged to the income statement as contributions become due The assets of the scheme are held in a separately administered fund

Other employee benefits are recognised in the income statement as incurred

u) Provisions

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

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

v) 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 assets

2 Use of assumptions and estimates

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

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

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

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are

Impairment losses on loans and advances to customers
The Group's accounting policy for losses in relation to the impairment of customer loans and advances is described in Note 1(l) Impairment losses on loans and advances to customers are based on an actual loss model and all impairments will only be held against debt that has objective evidence of either an individual or a collective impairment For individually assessed impaired assets this will be established by the delinquency state of debt based on the number of payments they are in arrears For collectively assessed impaired assets this assessment is based on the behaviour analysis which is projected by using Markov probability matrices and also includes an assessment of impairment for losses that have been incurred but not yet identified The evaluation process is subject to numerous judgements and estimates The changes in the estimates of frequency of default, risk ratings, loss recovery rates, the size and diversity of individual large credits could have a direct impact on credit costs in any quarter and could result in a change in the allowance

Fair value of financial instruments
The fair values of bonds held as available-for-sale as well as derivatives are determined from readily available market prices, or where these are not available, such as for certificates of deposit, determined from forward curves which are constructed from market bid rates Valuation models are tested using inputs where possible that reflect readily observable market data Where this is not possible, and management is required to make certain assumptions, the assumptions are made from historical data adjusted for current market conditions Financial instruments issued, such as FRNs and subordinated debt issues are held at amortised cost Fair Values for the ABS and MBS portfolio are obtained either from lead dealers or from internal trading desk/benchmarking units Prices are further reduced using a credit matrix based on type of security and the current ratings

Impairment of AFS investments
The Company conducts periodic reviews to identify and evaluate each investment that has an unrealised loss An unrealised loss exists when the current fair value of an individual security is less than its amortised cost basis Unrealised losses that are determined to be temporary in nature are recorded, net of tax, in the revaluation reserve If an unrealised loss is subsequently determined to be an other-than temporary impairment, the Company removes the unrealised loss from the revaluation reserve and charges it to the income statement

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

2 Use of assumptions and estimates (continued)

Deferred tax assets
Egg's accounting policy for the recognition of deferred tax assets is described in Note 1(s) to the financial statements A deferred tax asset is recognised to the extent that it is probable that suitable future taxable profits will be available against which deductible temporary differences can be utilised The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of suitable future taxable profits, future reversals of existing taxable temporary differences and planning strategies

Management's most significant judgements are around the deferred tax asset arising on unutilised tax trading losses carried forward, due to the tax losses incurred in 2009 and the Company's recent history of tax losses. Net deferred tax assets of £30 million or 50% (2008 £74 million, 67%) of the Company's total deferred tax asset of £60 million (2008 £110 million), relate to unutilised tax trading losses

The amount of the deferred tax asset recognised is based on the evidence available about conditions at the balance sheet date, and requires significant judgements to be made by management, especially those based on management's projections of business growth, credit losses and the timing of a general economic recovery Management's judgement takes into account the impact of both negative and positive evidence, including historical financial results and projections of future taxable income, on which the recognition of the deferred tax asset is mainly dependent

The Company's historical performance and losses has been impacted by some exceptional factors, including the operation of a loss making French subsidiary which ceased to trade in 2004 Further, in recent years, significant credit losses were also incurred on certain legacy businesses, which are either being actively run off or re-launched as a more profitable proposition Management has also undertaken analysis of the Company's historical performance and this has shown that the Cards business has been generally historically profitable, except for the current year and 2008, where it has been significantly impacted by the credit downturn and consequently incurred higher credit loss Management's projections of future taxable income are based on business plans which include increased focus on the Cards business Management's projections also include assumptions about cost effective product delivery, cost effective infrastructure and improved recovery and cost of credit

Management's forecasts support the assumption that it is probable that the future results of the Company will generate sufficient suitable taxable income to utilise the deferred tax assets

Payment protection insurance
On 1 July 2008 the Financial Ombudsman Service ("FOS") wrote to the FSA drawing its attention to the issues arising from past payment protection insurance ('PPI') sales and called upon the FSA to implement an appropriate regulatory solution which would ensure that firms took appropriate and proportionate remedial action to deal with complaints arising in the sale of such products

On 29 September 2009 the FSA published a consultation paper setting out draft rules and guidance on how firms should assess PPI complaints and calculate redress The consultation paper anticipated that new rules would be in effect from the beginning of 2010 On 10 March 2010, the FSA published feedback on its proposed reforms and issued a consultation paper on its revised measures

The precise form and content of the FSA's final rules and guidance in relation to PPI complaint handling therefore remains unclear at this stage In these circumstances, it is not possible for the Group to determine what impact, if any, the FSA's proposals will eventually have

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

3 Net interest and similar income

	Group and Company	
	2009	2008
	£ Million	£ Million
Interest and similar income		
Loans and advances to banks	6	56
Loans and advances to customers	459	560
Investment securities	13	64
Other interest income	4	11
	482	691
Interest expense and similar charges		
Deposits by banks	25	126
Customer accounts	91	209
Debt securities in issue	-	1
Subordinated loan	32	32
Other interest paid	21	11
	169	379
	313	312

4. Net fee and commission income

	Group and Company	
	2009	2008
	£ Million	£ Million
Fee and commission income	67	97
Fee and commission expense	(20)	(27)
	47	70

The UK Financial Services Compensation Scheme ("FSCS") has provided compensation to customers of deposit takers which have collapsed The compensation paid to customers is funded through loans from the Bank of England and HM Treasury The Company could be liable to pay a portion of the funds borrowed from HM Treasury which at 30 September 2009stood at US$32 billion The FSCS raises annual levies from the banking industry to meet its management expenses and compensation costs Individual institutions make payments based on their level of market participation at 31st December each year The Group has accrued £12 million for its share of levies that will be raised by the FSCS This amount is included within fee and commission expense The Group has estimated its level of levy based on the Group's estimated share of total market deposits at 31 December 2008 and 2009 However, the ultimate FSCS levy to the industry as a result of the 2008 collapses cannot be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in interest rate, the level of protected deposits and the population of FSCS members at the time

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

5 Net foreign exchange and fair value loss

	Group		Company	
	2009	2008	2009	2008
	£ Million	£ Million	£ Million	£ Million
Foreign exchange translation gains less losses	179	(332)	(31)	14
Net fair value gains/(losses) on financial instruments	(191)	325	17	(23)
	(12)	(7)	(14)	(9)

6. Personnel expenses

	Group and Company	
	2009	2008
	£ Million	£ Million
Employee remuneration	39	43
Payroll taxes	4	5
Pension costs		
- defined contribution plans	3	2
Other staff costs	1	3
Restructuring costs	4	4
	51	57

The average number of persons employed by the Group during the year was 1,422 (2008 1,614)

As explained in Note 1(t) the Company contributes at a set agreed rate into a defined benefit scheme The expense recognized is the amount of contributions payable in respect of the year

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

NOTES TO THE FINANCIAL STATEMENTS

7. General administrative expenses

	Group		Company	
	2009	2008	2009	2008
	£ Million	£ Million	£ Million	£ Million
Administrative expenses	124	100	127	100
Software costs	6	12	6	12
	130	112	133	112

Included within administrative expenses is auditors' remuneration as follows

	Group		Company	
	2009	2008	2009	2008
	£ 000	£ 000	£ 000	£ 000
Fees payable for the audit of the annual statutory accounts	292	456	273	425
Pursuant to legislative requirements (Sarbanes-Oxley)	100	-	100	-
	392	456	373	425

8 Income tax

a) Analysis of tax charge in the year

	Group		Company	
	2009	2008	2009	2008
	£ Million	£ Million	£ Million	£ Million
Current tax.				
Adjustments in respect of corporation tax for earlier years	-	(7)	-	(8)
Total UK corporation tax	-	(7)	-	(8)
Deferred tax				
Origination and reversal of temporary differences	(7)	46	(7)	46
Adjustment in respect of previous periods	(43)	5	(43)	4
Change in tax rate	-	(1)	-	(1)
Total deferred tax (note 19)	(50)	50	(50)	49
Tax (charge)/credit	(50)	43	(50)	41

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

8. Income tax (continued)

(b) Factors affecting tax charge for the period

The tax assessed for the Group for the period is higher than the standard rate of corporation tax in the U K of 28% (2008 28%) The differences are explained below

	Group		Company	
	2009	**2008**	**2009**	**2008**
	£ Million	**£ Million**	**£ Million**	**£ Million**
Loss before tax	(211)	(160)	(205)	(161)
Loss multiplied by the standard rate of corporation tax in the UK of 28%	59	45	57	45
Effects of				
Other expenses not deductible for tax purposes	1	1	1	1
UK standard rate in excess of Overseas tax	(2)	-	-	-
Write off of deferred tax asset	(65)	-	(65)	-
Group Relief for no consideration	-	-	-	(1)
Adjustments for prior years	(43)	-	(43)	-
Adjustment to tax charge in relation to previous periods	-	(3)	-	(4)
Income tax (charge)/credit	(50)	43	(50)	41

The aggregate tax expense for the Group and Company relating to items that are charged to equity during the year ended 31 December 2009 was £nil (2008 £3 million)

(c) Deferred and current tax recognised directly in equity

	Group		Company	
	2009	**2008**	**2009**	**2008**
	£ Million	**£ Million**	**£ Million**	**£ Million**
Valuation losses on available-for-sale investments	-	4	-	4
Gains on cash flow hedges	-	(1)	-	(1)
	-	3	-	3

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

9 Financial assets and liabilities

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

Group 2009	Note	Available-for-sale £ Million	Loans and receivables £ Million	Amortised cost £ Million	Trading £ Million	Total carrying amount £ Million	Fair value £ Million
Assets							
Cash and balances at central banks		-	2	-	-	2	2
Loans and advances to banks		-	1,044	-	-	1,044	1,038
Securities purchased under agreement to resell		-	250	-	-	250	250
Investment securities	14	784	-	-	-	784	784
Derivative financial instruments	13	-	-	-	75	75	75
Loans and advances to customers	10	-	3,582	-	-	3,582	3,433
Other assets	18	-	58	-	-	58	58
Total financial assets		784	4,936	-	75	5,795	5,640
Liabilities							
Deposits by banks		-	-	540	-	540	519
Customer accounts		-	-	4,283	-	4,283	4,275
Securities sold under agreement to repurchase		-	-	237	-	237	237
Investment securities in issue	20	-	-	8	-	8	8
Derivative financial instruments	13	-	-	-	6	6	6
Subordinated loan	23	-	-	452	-	452	400
Other liabilities	21	-	-	56	-	56	56
Total financial liabilities		-	-	5,576	6	5,582	5,501

Group 2008	Note	Available-for-sale £ Million	Loans and receivables £ Million	Amortised cost £ Million	Trading £ Million	Total carrying amount £ Million	Fair value £ Million
Assets							
Cash and balances at central banks		-	3	-	-	3	3
Loans and advances to banks		-	1,121	-	-	1,121	1,120
Securities purchased under agreement to resell		-	250	-	-	250	250
Investment securities	14	1,032	-	-	-	1,032	1,032
Derivative financial instruments	13	-	-	-	280	280	280
Loans and advances to customers	10	-	4,831	-	-	4,831	4,409
Other assets	18	-	118	-	-	118	118
Total financial assets		1,032	6,323	-	280	7,635	7,212
Liabilities							
Deposits by banks		-	-	2,232	-	2,232	2,345
Customer accounts		-	-	4,190	-	4,190	4,190
Securities sold under agreement to repurchase		-	-	402	-	402	402
Investment securities in issue	20	-	-	24	-	24	24
Derivative financial instruments	13	-	-	-	43	43	43
Subordinated loan	23	-	-	452	-	452	351
Other liabilities	21	-	-	75	-	75	75
Total financial liabilities		-	-	7,375	43	7,418	7,430

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

9. Financial assets and liabilities (continued)

Company 2009	Note	Available-for-sale £ Million	Loans and receivables £ Million	Amortised cost £ Million	Trading £ Million	Total carrying amount £ Million	Fair value £ Million
Assets							
Cash and balances at central banks		-	2	-	-	2	2
Loans and advances to banks		-	1,044	-	-	1,044	1,038
Securities purchased under agreement to resell		-	250	-	-	250	250
Investment securities	14	784	-	-	-	784	784
Derivative financial instruments	13	-	-	-	2	2	2
Loans and advances to customers	10	-	3,582	-	-	3,582	3,433
Other assets	18	-	77	-	-	77	77
Total financial assets		784	4,955	-	2	5,741	5,586
Liabilities							
Deposits by banks		-	-	473	-	473	453
Customer accounts		-	-	4,283	-	4,283	4,275
Securities sold under agreement to repurchase		-	-	237	-	237	237
Investment securities in issue	20	-	-	8	-	8	8
Derivative financial instruments	13	-	-	-	6	6	6
Subordinated loan	23	-	-	452	-	452	400
Other liabilities	21	-	-	86	-	86	86
Total financial liabilities		-	-	5 539	6	5,545	5,465

Company 2008	Note	Available-for-sale £ Million	Loans and receivables £ Million	Amortised cost £ Million	Trading £ Million	Total carrying amount £ Million	Fair value £ Million
Assets							
Cash and balances at central banks		-	3	-	-	3	3
Loans and advances to banks		-	1,121	-	-	1,121	1,120
Securities purchased under agreement to resell		-	250	-	-	250	250
Investment securities	14	1,032	-	-	-	1,032	1,032
Derivative financial instruments	13	-	-	-	17	17	17
Loans and advances to customers	10	-	4,831	-	-	4,831	4,409
Other assets	18	-	140	-	-	140	140
Total financial assets		1,032	6,345	-	17	7,394	6,971
Liabilities							
Deposits by banks		-	-	1,974	-	1,974	2,081
Customer accounts		-	-	4,190	-	4,190	4,190
Securities sold under agreement to repurchase		-	-	402	-	402	402
Investment securities in issue	20	-	-	24	-	24	24
Derivative financial instruments	13	-	-	-	43	43	43
Subordinated loan	23	-	-	452	-	452	351
Other liabilities	21	-	-	107	-	107	107
Total financial liabilities		-	-	7,149	43	7,192	7,198

NOTES TO THE FINANCIAL STATEMENTS

9. Financial assets and liabilities (continued)

The calculation of fair value incorporates the Company's estimate of the fair value of financial assets and financial liabilities It does not reflect the economic benefits and costs that the Company expects to flow from the instruments' cash flows over their expected future lives Other entities may use different valuation methods and assumptions in determining fair values, so comparisons of fair values between entities may not necessarily be meaningful

Fair value information

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

- Loans and advances to banks are measured at fair value based on expected future cash flows expected to be received, discounted at current market rates and no counterparty credit spreads are considered

- Securities purchased under agreement to resell are measured at fair value based on future cash flows expected to be received, discounted at current market rates

- Loans and advances to customers are measured at fair value based on future cash flows expected to be received, discounted at current market rates and no counterparty credit spreads are considered

- Deposits by banks are measured at fair value using several methods The fair value of inter-bank deposits is based on expected future cash flows expected to be paid discounted at current market rates The fair value of securitisation loan notes is based on the quoted market prices for the loan notes issued Where active market quotes are not readily available the fair value is determined using valuation techniques which have been calibrated to readily observable market data

- Customer accounts are measured at fair value based on future cash flows expected to be paid, discounted at current market rates

- Securities sold under the agreement to repurchase are measured at fair value based on future cash flows expected to be paid, discounted at current market rates

- The fair value of the subordinated liabilities is based on the quoted market prices for the securities issued

- Carrying value has been used where it approximates fair value for other categories

The group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements

- Level 1 Quoted market price (unadjusted) in an active market for an identical instrument

- Level 2 Valuation techniques based on observable inputs, either directly (i e as prices) or indirectly (i e derived from prices) This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data

- Level 3 Valuation techniques using significant unobservable inputs This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument s valuation This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

9 Financial assets and liabilities (continued)

The following table shows an analysis of financial assets and liabilities classified as held for trading or designated at fair value by fair value hierarchy

Group 31 December 2009	Level 1 £ Million	Level 2 £ Million	Level 3 £ Million	Total £ Million
Financial assets held for trading				
Derivatives	-	75	-	75
Financial assets available for sale				
Investment securities	-	660	124	784
Investments	2	-	-	2
Total financial assets	**2**	**735**	**124**	**861**
Financial liabilities held for trading				
Derivatives	-	6	-	6
Total financial liabilities	**-**	**6**	**-**	**6**

Company 31 December 2009	Level 1 £ Million	Level 2 £ Million	Level 3 £ Million	Total £ Million
Financial assets held for trading				
Derivatives	-	2	-	2
Financial assets available for sale				
Investment securities	-	660	124	784
Investments	2	-	-	2
Total financial assets	**2**	**662**	**124**	**788**
Financial liabilities held for trading				
Derivatives	-	6	-	6
Total financial liabilities	**-**	**6**	**-**	**6**

The following tables show an analysis of the movement of Level 3 financial assets and liabilities for 2009

Group & Company 2009	At 1 January £ million	Gain/(loss) recorded in the income statement £ million	Gains / (losses) recorded in equity £ million	Net purchases, sales and settlements £ million	At 31 December £ million
Financial assets available for sale					
Investment securities	157	27	10	(70)	124

9. Financial assets and liabilities (continued)

Sensitivity analysis has determined that changing one or more of the assumption to reasonably possible alternative assumptions would have no significant positive or adverse impact on the fair value

Fair values of certain financial instruments recognised in the financial statements may be determined in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable data Any changes in these assumptions will change the fair value of the financial instrument

Fair values for the ABS and MBS portfolio, disclosed within investment securities, are obtained either from lead dealers or from internal trading desk/benchmarking units Prices are further reduced using a credit matrix based on type of security and the current ratings

10. Loans and advances to customers

	Group and Company	
	2009	**2008**
	£ Million	**£ Million**
Mortgage and real estate	928	1,154
Charge and credit card debtors	2,660	3,151
Consumer loans	800	1,195
	4,388	5,500
Less allowance for losses on loans	(806)	(669)
	3,582	4,831

The group has transferred certain UK card receivables to its trust vehicle, Arch (Term) Limited, created in 2002 for the purpose of asset-backed securitisation The outstanding balance of assets in this vehicle is £1 5 billion (2008 £2 2 billion) The note holders in securitisations from this vehicle have a proportionate interest in each account balance in that trust As at 31 December 2009 the value of this interest was £300 million (2008 £1 3 billion) The total portfolio is included within loans and advances to customers as the Directors are of the view that the risks and rewards of the assets have not fully passed to the trust The funding giving rise to the note holders' interest is included within deposits by banks

11. Allowances for loans and advances to customers

	Group and Company	
	2009	**2008**
	£ Million	**£ Million**
At 1 January	669	531
Charge against profits	388	354
Amounts written off	(236)	(210)
Recoveries	(15)	(6)
At 31 December	806	669

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12 Pledged assets

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of a default is £290 Million (2008 £512 million)

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities

For loans and advances to customers, the fair value of collaterals accepted for mortgages has not been disclosed as it is impractical to do so

13 Derivative financial instruments

The Group undertakes derivative activities for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the Group's assets, liabilities and positions or for the purpose of reducing credit risk inherent in the Group's balance sheet All derivatives are measured at their fair values and reported gross as either assets or liabilities in the balance sheet On entering into a derivative transaction, the Group will designate the derivative as either held for trading or as part of a cash flow hedge relationship in accordance with IAS 39

The tables below show the fair values of all derivatives as at 31 December

Group	**2009**		**2008**	
	Fair value		**Fair value**	
	Asset £ Million	**Liability £ Million**	**Asset £ Million**	**Liability £ Million**
Exchange rate related contracts				
Forwards and futures	1	2	1	24
Currency swaps	73	-	270	-
	74	2	271	24
Interest rate related contracts				
Interest rate swaps	-	3	-	9
	-	3	-	9
Equity and commodity related contracts				
Options	1	1	9	9
Swaps	-	-	-	1
	1	1	9	10
Total derivative contracts	75	6	280	43

13. Derivative financial instruments (continued)

Company	**2009**		**2008**	
	Fair value		**Fair value**	
	Asset £ Million	**Liability £ Million**	**Asset £ Million**	**Liability £ Million**
Exchange rate related contracts				
Forwards and futures	1	2	1	24
Currency swaps	-	-	7	-
	1	2	8	24
Interest rate related contracts				
Interest rate swaps	-	3	-	9
	-	3	-	9
Equity and commodity related contracts				
Options	1	1	9	9
Swaps	-	-	-	1
	1	1	9	10
Total derivative contracts	2	6	17	43

14 Investment securities

	Group and Company	
	Available-for-sale	
	2009 £ Million	**2008 £ Million**
Investment securities		
Debt securities - at fair value		
- listed	284	331
- unlisted	500	701
Total investment securities	784	1,032

Valuation of listed investment securities

Certain listed investment securities do not have market prices readily available For these securities indicative market values from third parties have been used to calculate their fair value The exit price for such portfolios in a wholesale market would be subject to negotiation with a buyer and, for the financial assets, would take account of factors including credit risk, loan to collateral ratios, liquidity, contractual terms, historic default rates and age of the portfolio These factors and others would in combination be the basis of valuation of the portfolios All such drivers of valuation interact and there is no certainty that any single factor would have a greater impact on the portfolio valuation than others

14. Investment securities (continued)

Unlisted investment securities – valuation techniques

If the market for a financial instrument is not active, fair value is established by using a valuation technique Valuation techniques that are well established in financial markets include recent market transactions, reference to a transaction that is substantially the same, discounted cash flows and option pricing models For the purpose of unlisted investment security valuation, the Group uses a yield curve constructed from mid rates and which takes into account credit spreads to calculate fair values on certificates of deposits where no active market exists Although the bid price would be more appropriate, an analysis shows that the difference between mid and bid rates is immaterial

15. Investment in subsidiary undertakings

The Company's investments in the share capital of subsidiary undertakings are as follows

	2009 £ Million	**2008 £ Million**
At 1 January	4	4
Capital contribution	2	-
Losses from impairment	(3)	-
At 31 December	3	4

During the year the Company impaired it's investment in line with the fall in net assets of its subsidiaries undertakings

Details of principal Group subsidiary undertakings held at 31 December 2009 are as follows

Name	**Country of incorporation**	**Nature of business**	**% holding in ordinary share capital**
Egg Limited	England	Non-trading	100%
East Fourteen Limited	England	Non-trading	100%
Egg Financial Intermediation Limited	England	Insurance intermediation	100%
Egg Services Limited	England	Non-trading	100%
Egg Financial Products Limited	England	Non-trading	100%
GS Thirteen Limited	England	Non-trading	100%
Egg International Limited	England	Non-trading	100%
Egg Investments Limited	England	Non-trading	100%
Egg Leasing Limited	England	Non-trading	100%

All of the above entities are directly owned by the Company At 31 December 2009 Egg Services Limited, Egg Financial Products Limited, GS Thirteen Limited and Egg Leasing Limited were in liquidation

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15. Investment in subsidiary undertakings (continued)

The following companies are SPVs established in connection with the Group's securitisations and covered bond programme The Group has no ownership interest in these entities but they are regarded as subsidiaries as they are, in substance, controlled by the Group

Name	Country of incorporation	Nature of business
Pillar Funding Series 2002-1 plc	England	Debt issuance
Pillar Funding Series 2003-1 plc	England	Debt issuance
Pillar Funding Series 2004-1 plc	England	Debt issuance
Pillar Funding Series 2004-2 plc	England	Debt issuance
Pillar Funding Series 2005-1 plc	England	Debt issuance
Pillar Funding 2007-1 Limited	Jersey	Debt issuance
Pillar Funding Series 2008-1 plc	England	Debt issuance
Pillar Holdings Limited	England	Debt issuance
Pillar Options Limited	England	Debt issuance
Arch (Term) Limited	Jersey	Debt issuance
Arch Receivables Funding Limited	Jersey	Debt issuance
Arch (CP) Limited	Jersey	Debt issuance
Cronos RMBS Holdings Limited	England	Mortgage funding
Cronos RMBS Funding plc	England	Mortgage funding

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16. Intangible assets

Group and Company	Client Intangible £ Million	Computer software £ Million	Total £ Million
Cost			
At 1 January 2008	-	94	94
Additions	-	5	5
At 31 December 2008 / 1 January 2009	-	99	99
Additions	4	3	7
At 31 December 2009	4	102	106
Amortisation and impairment losses			
At 1 January 2008	-	83	83
Amortisation	-	8	8
At 31 December 2008 / 1 January 2009	-	91	91
Amortisation	-	4	4
At 31 December 2009	-	95	95
Net carrying value			
At 31 December 2009	4	7	11
At 31 December 2008	-	8	8

Neither the Group nor Company impaired its intangible assets during 2009 (2008 £nil)

Client intangible represents the premium paid on the acquisition of a Mortgage portfolio from Citibank N A

Details of the remaining amortisation periods of the intangible assets are shown in the table below

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17 Property, plant and equipment

Group and Company	Leasehold Improvements £ Million	Fixtures & fittings £ Million	Plant & equipment £ Million	Land & buildings £ Million	Total £ Million
Cost					
At 1 January 2008	6	28	62	15	111
Additions	-	-	1	-	1
Disposals	-	(9)	(5)	(3)	(17)
Reclassifications	1	(1)	-	-	-
At 31 December 2008	7	18	58	12	95
Cost at 31 December 2009	7	18	58	12	95
Depreciation					
At 1 January 2008	5	19	57	3	84
Charged in year	-	2	3	-	5
Disposals	-	(4)	(5)	(2)	(11)
Impairments	1	(1)	-	-	-
At 31 December 2008 / 1 January 2009	6	16	55	1	78
Charged in year	-	1	2	-	3
At 31 December 2009	6	17	57	1	81
Net book value					
At 31 December 2009	1	1	1	11	14
At 31 December 2008	1	2	3	11	17

Impairments and net book values of assets written off are included with depreciation of property, plant and equipment

There were no addition, disposals or write offs in 2009

Neither the Group nor Company impaired its property, plant and equipment during 2009 (2008 £nil)

18. Other assets

	Group		Company	
	2009	2008	2009	2008
	£ Million	£ Million	£ Million	£ Million
Amounts owed from Group companies	-	-	19	21
Other balances	58	118	58	119
	58	118	77	140

19. Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective rate of 28% for 2009 (2008 28%)

The movement on the deferred income tax account is as follows

	Group		Company	
	2009	2008	2009	2008
	£ Million	£ Million	£ Million	£ Million
At 1 January	110	57	110	57
Income statement charge/(credit)	(50)	50	(50)	50
Tax reflected in equity	-	3	-	3
At 31 December	60	110	60	110

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

	Group		Company	
	2009	2008	2009	2008
	£ Million	£ Million	£ Million	£ Million
Accelerated tax depreciation	13	18	13	18
Trading losses	30	74	30	74
Other temporary differences	17	18	17	18
	60	110	60	110

Of the net total deferred tax asset of £60 million at 31 December 2009 (2008 £110 million), £30 million arises in respect of unutilised tax trading losses The Company has a recent history of losses and therefore the recognition of the deferred tax asset relies upon the projection of future taxable profits Management's forecasts support the assumption that it is probable that the Company will generate sufficient suitable taxable income to utilise the deferred tax asset. This is an area of key management judgement, details of which are discussed in Note 2

At 31 December 2009 the Group had loss carry forwards of £328 million (2008 £264 million) for which no deferred tax asset was recognised on £220 million due to uncertainty over the utilisation of these losses

At 31 December 2009 the Group had other temporary differences of £62 million (2008 £107 million) for which no deferred tax asset was recognised on the movement in 2009, due to uncertainty of their utilisation

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20. Investment securities in issue

Group and Company	2009 £ Million	2008 £ Million
GBP Floating rate notes	-	15
HKD Floating rate notes	8	9
	8	24

21. Other liabilities

	Group		Company	
	2009 £ Million	2008 £ Million	2009 £ Million	2008 £ Million
Amounts owed to Group companies	4	-	33	34
Other balances	52	75	53	73
	56	75	86	107

22. Provisions for liabilities and charges

Group and Company	Restructuring costs 2009 £ Million	Restructuring costs 2008 £ Million
At 1 January	11	11
Charge against profits	4	4
Provisions utilised	(8)	(4)
At 31 December	7	11

The provision for restructuring costs relates to costs incurred in the integration of the Group with Citigroup

The Group and Company did not reverse any unused provisions during the year

All provisions are expected to be utilised over the next one year

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23. Subordinated liabilities – Dated loan capital

	2009 £ Million	2008 £ Million
Sterling subordinated notes due 2021	200	200
Sterling perpetual subordinated notes due 2013	250	250
	450	450
Unamortised discount	2	2
	452	452

The sterling subordinated loan notes due 2021 pay interest at a fixed rate of 6 875% per annum until their maturity The first call date of these notes is in December 2016, when they are callable at par Interest is payable half yearly in arrears

The sterling perpetual subordinated notes pay interest at a fixed rate of 7 5% per annum until December 2013, when the Company may either redeem them (with prior consent of the Financial Services Authority) or pay interest fixed at 4 05% above the relevant 5 year gilt rate Thereafter the interest rate is reset at 5 year intervals Interest is payable semi annually in arrears

The right of repayment of the holders of the subordinated debt are subordinated to the claims of all depositors and creditors as regards the principal and interest thereon

Interest incurred in the year in respect of subordinated liabilities was £32 million (2008 £32 million)

24 Capital and reserves

Further details regarding capital and reserves movements are shown in the Consolidated and Company Statement of Changes in Equity on pages 19 and 22

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations

The hedging reserve on cash flow hedges comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of deferred taxes

The revaluation reserve comprises fair value changes on available-for-sale instruments which are yet to be derecognised and exclude other-than temporary impairment losses and foreign exchange gains and losses and is net of corporation taxes

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25. Share capital

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

Authorised	**2009**	**2008**
	£ Million	**£ Million**
729,200,000 sterling ordinary shares of £1 each	729	729
200,000,000 sterling preference shares of £1 each	200	200
	929	929
	US$ Million	**US$ Million**
200,000,000 US dollar preference shares of $1 each	200	200
	€ Million	**€ Million**
200,000,000 Euro preference shares of €1 each	200	200

Allotted, called-up and fully paid	**2009**	**2008**
	£ Million	**£ Million**
450,654,418 sterling ordinary shares of £1 each	451	451

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

26. Cash and cash equivalents

	Group and Company	
	2009	**2008**
	£ Million	**£ Million**
Due within 3 months		
Loans and advances to banks	1,010	1,074
Due greater than 3 months.		
Cash and cash equivalents	2	3
Loans and advances to banks	34	47
	1,046	1,124

For the purposes of the cash flow statement, cash and cash equivalents comprise balances above which are due within three months Cash and cash equivalents of £2 million (2008 £3 million) comprises deposits held by the Bank of England These deposits are not available for use by either Group or Company

27. Related party transactions

The Company is a wholly owned subsidiary undertaking of Citibank Overseas Investment Corporation (COIC), which is incorporated in the United States The largest group in which the results of the Group are consolidated is that headed by Citigroup Inc 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 arm's length transactions are entered into with related parties These include loans and deposits that provide funding to Group companies Various services are provided between related parties and these are all also provided at arm's length No provisions have been recognised in respect of loans given to related parties (2008 £nil) The table below summarises the Group's balances with related parties, where COIC and Citigroup Inc are the parent undertakings

Group

	2009		
	Parent undertaking £ Million	Other Citigroup undertakings £ Million	Total £ Million
Assets			
Loans and advances to banks	-	6	6
Derivatives	-	2	2
Liabilities			
Deposits by banks	-	39	39
Securities sold under agreement to repurchase	-	237	237
Derivative liabilities	-	3	3
Other liabilities	-	4	4
Accruals	-	1	1
Income statement			
Interest expense and similar charges	-	5	5
General and administrative expenses	-	29	29

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27. Related party transactions (continued)

Group (continued)

	2008		
	Parent undertaking £ Million	Other Citigroup undertakings £Million	Total £Million
Assets			
Loans and advances to banks	-	92	92
Derivatives	-	1	1
Liabilities			
Deposits by banks	-	683	683
Securities sold under agreement to repurchase	-	402	402
Derivative liabilities	-	40	40
Other liabilities	-	1	1
Income statement			
Interest expense and similar charges	-	3	3
General and administrative expenses	-	15	15

Company

	2009			
	Parent undertaking £ Million	Subsidiary undertakings £ Million	Other Citigroup undertakings £ Million	Total £ Million
Assets				
Loans and advances to banks	-	-	6	6
Derivatives	-	-	2	2
Other assets	-	-	19	19
Liabilities				
Deposits by banks	-	-	39	39
Securities sold under agreement to repurchase	-	-	237	237
Derivative liabilities	-	-	3	3
Other liabilities	-	-	33	33
Accruals	-	-	1	1
Income statement				
Interest expense and similar charges	-	-	5	5
General and administrative expenses	-	-	28	28

27 **Related party transactions** (continued)

Company (continued)

	2008			
	Parent undertaking £ Million	**Subsidiary undertakings £ Million**	**Other Citigroup undertakings £ Million**	**Total £ Million**
Assets				
Loans and advances to banks	-	-	92	92
Derivatives	-	-	1	1
Other assets	-	-	21	21
Liabilities				
Deposits by banks	-	-	683	683
Securities sold under agreement to repurchase	-	-	402	402
Derivative liabilities	-	-	40	40
Other liabilities	-	-	34	34
Income statement				
Interest expense and similar charges	-	2	8	10
General and administrative expenses	-	-	6	6

All group companies are wholly owned subsidiaries of Egg Banking plc

The Company received a related party capital contribution during the year from it's parent undertaking Citibank Overseas Investment Corporation of £195 million (2008 £nil)

The Group undertook related party transactions with fellow group companies in respect of group relieved tax totalling £nil (2008 £nil), Company £nil (2008 £1 million)

Directors' remuneration

Directors' compensation for the year comprises

	2009 £ 000	**2008 £ 000**
Salaries and other short-term benefits	308	74
Post-employment benefits	31	2
	339	76

Contributions to defined benefit and money purchase schemes are accruing to 3 of the Directors (2008 4) Two of the Directors (2008: 4) of the Company participate in Citigroup share plans and 3 of the Directors (2008 1) of the Company participate in Citigroup share option plans During the year, none of the Directors (2008 none) exercised options The remuneration for the highest paid Director was £144,000 (2008 £50,000) with £14,000 being share based compensation and accrued pension of £28,000 During the year, the highest paid Director did not exercise share options The Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report

Directors' emoluments are allocated to individual companies as a proportion of actual time spent This is based on the apportionment of time incurred by the Directors for services to the Group

28. Contingent liabilities and commitments

There were no guarantees in place as at 31 December 2009 and as at 31 December 2008

Capital expenditure contracted but not yet provided for was £nil at 31 December 2009 (2008 £nil)

29 Financial instruments and risk management

Objectives, policies and strategies

Transacting in financial instruments and lending to customers is fundamental to the Group's business The risks associated with financial instruments and the credit exposures from lending are significant components of the overall risks faced by the Group Financial instruments create, modify or reduce the liquidity, credit and market risk of the Group's balance sheet and support the extension of credit to the Group's customers

The past year has been a period of consolidation in the financial markets These disruptions have affected, and are likely to continue to affect, the Group's business and results of its operations These disruptions have increased the risk of counterparty delinquency or default, reduced liquidity and pricing transparency, all of which can negatively impact the Group's credit exposure Although the Group regularly reviews its credit exposures, in these market circumstances default risk may arise from events or circumstances that are difficult to forsee

In addition, the current market and economic conditions have affected and may continue to affect consumer confidence, consumer spending, personal bankruptcy and house prices amongst other factors This provides greater likelihood that more of the Group's customers could use credit cards less frequently or become delinquent in their loans or other obligations This, in turn, could result in a higher level of charge-offs and provisions for credit losses

The market uncertainty places additional importance on the risk management policies and procedures which are outlined below The Group believes that effective risk management is of primary importance to its success Accordingly, the Group seek to have a comprehensive risk management process to monitor, evaluate and manage the principal risks it assumes in conducting its activities This risk management process is part of the wider Citigroup risk management process These risks include credit, market, liquidity and operational risks As part of Citigroup, the risk management framework is designed to balance corporate oversight with well-defined independent risk management functions The risk management framework is based on guiding principles established by the Chief Risk Officer of Citigroup

- a common Risk Capital model to evaluate risks,
- a defined risk appetite, aligned with business strategy,
- accountability through a common framework to manage risks,
- risk decisions based on transparent, accurate and rigorous analytics,
- expertise, stature, authority and independence of Risk Managers, and
- empowering Risk Managers to make decisions and escalate issues

The market disruptions have also increased the risk associated with holding financial instruments 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 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 primarily for liquidity and incremental investment return

- **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 liquidity risk Responsibility for overseeing and implementing balance sheet management lies with the Group's Treasury department

29 Financial instruments and risk management (continued)

Objectives, policies and strategies (continued)

- **Hedging** Where financial instruments form part of the Group's interest rate 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 interest rates or exchange rates Derivative products are the main instruments used for economically hedging the balance sheet

In the normal course of business, the Group enters into a variety of derivative transactions principally in the interest rate and foreign exchange markets They are 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 and liquidity risk

Risk management

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

There are also Regional Chief Risk Officers, accountable for the risks in their geographic area, who are the primary risk contact for the regional business heads and local regulators In addition, there are Product Chief Risk Officers for those areas of critical importance to Citigroup such as real estate, structured credit products and fundamental credit The Product Risk Officers are accountable for the risks within their specialty and they focus on problem areas across businesses and regions The Product Risk Officers serve as a resource to the Chief Risk Officer, as well as to the Business and Regional Chief Risk Officers, to better enable the Business and Regional Chief Risk Officers to focus on the day-to-day management of risks and responsiveness to business flow

The Citigroup risk organisation also includes a Business Management team such that that the risk organisation has the appropriate infrastructure, processes and management reporting This team which supports risk management within the Group includes

- the risk capital group, which continues to enhance the risk capital model so that it is consistent across all our business activities,
- the risk architecture group, which monitors that we have integrated systems and common metrics, and thereby allows us to aggregate and stress exposures across the institution,
- the infrastructure risk group, which focuses on improving our operational processes across businesses and regions, and
- the office of the Chief Administrative Officer, which focuses on re-engineering risk communications and relationships, including our critical regulatory relationships

Risk aggregation and stress testing

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

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

29 Financial instruments and risk management (continued)

Risk management (continued)

Supplementing the stress testing described above, Risk Management, working with input from the businesses and finance, provides periodic updates to senior management and the Board of Directors on significant potential exposures across Citigroup arising from risk concentrations, financial market participants and other systemic issues These risk assessments are forward-looking exercises, intended to inform senior management and the Board of Directors about the potential economic impacts to Citigroup that may occur, directly or indirectly, as a result of hypothetical scenarios, based on judgmental analysis from independent risk managers

The stress testing and risk assessment exercises are a supplement to the standard limit-setting and risk capital exercises described later in this section, as these processes incorporate events in the marketplace and within Citigroup that impact our outlook on the form, magnitude, correlation and timing of identified risks that may arise In addition to enhancing awareness and understanding of potential exposures within the Company, the results of these processes then serve as the starting point for developing risk management and mitigation strategies

Along with the processes described above, the following sections summarise the processes that were in place during 2009 for managing the Group's major risks

Market risk

Market risk encompasses liquidity risk and price risk Liquidity risk is the risk that the Group may be unable to meet a financial commitment to a customer, creditor or investor when due Price risk is the risk to earnings that arises from adverse changes in interest rates, foreign exchange rates and equity prices, and in their implied volatilities

The Group and other Citigroup entities' business and corporate oversight groups have defined market risk management responsibilities Within each business, a process is in place to control market risk exposure The risk management process includes the establishment of appropriate market risk controls and limits, policies and procedures and appropriate senior management risk oversight with a risk management function independent from the business Management of this process begins with the professionals nearest to the Group's customers, products, and markets, and extends up to the senior executives who manage these businesses and to the country level Periodic reviews are conducted by Audit and Risk Review for 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

The following market risk disclosures show Group only figures As all the Group disclosures relate to the Company, separate disclosure is not required

Price risk

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

29 Financial instruments and risk management (continued)

Price risk (continued)

The IRE measures the potential change in expected net interest earnings over an accounting horizon of 12 months, 5 years and 10 years and has been broken down into the main currencies on the Company's balance sheet The following table shows the IRE measures for the Company at 31 December assuming a parallel upward shift of interest rates by 100 basis points A positive IRE indicates a potential increase of earnings while a negative IRE indicates a potential decline of earnings

	2009			2008		
£ 000	**12 Months**	**5 Years**	**10 Years**	**12 Months**	**5 Years**	**10 Years**
USD	(1)	(89)	(179)	(29)	(202)	(397)
EUR	4	4	4	5	5	5
GBP	(7,134)	(23,260)	(24,998)	640	(5,629)	(6,206)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities

Analysis of the Group's sensitivity of a present value change of 1 basis point (bp) parallel shift to the yield curves (PV01) is performed on a daily basis A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO

	PV01	
	2009	**2008**
	£ 000	**£ 000**
At 31 December	121	205

Currency risk

The main operating or functional currencies of the Group are sterling, euros and US dollars 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 The column on the left represents the functional currency of the Group while the top row represents the exposure of the Group to currencies other than their functional currency

The Company currency risk has not been disclosed as it is impractical to do so However, the difference in currency risk exposures between the Group and Company is not considered significant

	2009			
£ Million	**EUR**	**USD**	**HKD**	**Total**
GBP	(190)	62	(7)	(135)

	2008			
£ Million	**EUR**	**USD**	**HKD**	**Total**
GBP	(178)	(659)	(7)	(844)

No sensitivity analysis has been performed by the business in respect of currency risk due the risk being naturally hedged by the foreign currency derivatives

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

29 Financial instruments and risk management (continued)

Liquidity risk

Management of liquidity at Citigroup is the responsibility of the Corporate Treasury function A uniform liquidity risk management policy exists for Citigroup and its major operating subsidiaries Under this policy, there is a single set of standards for the measurement of liquidity risk to seek consistency across businesses, stability in methodologies and transparency of risk Management of liquidity at each UK operating subsidiary is performed on a daily basis and is monitored by Corporate Treasury

The UK forum for liquidity issues is the UK Asset/Liability Management Committee ("ALCO"), which includes senior executives from within the Group and is chaired by the Country Treasurer This forum is composed of the Country Head, UK CFO, Regional Corporate Treasurer and business treasury functions The UK 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 monitored using various ratios and limits in accordance with the Liquidity Risk Management Policy for Citigroup The funding and liquidity plan includes analysis of the balance sheet as well as the economic and business conditions impacting the business As part of the funding and liquidity plan, liquidity limits, liquidity ratios, and assumptions for periodic stress tests are reviewed and approved

Simulated liquidity stress testing is performed and reviewed by the UK ALCO The scenarios include assumptions about significant changes in key funding sources, credit ratings and contingent uses of funding The product of these stress tests is a series of alternatives that can be used in the event of a liquidity event

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

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Liquidity risk (continued)

Group **2009**	**3 months or less** **£ Million**	**> 3 months and < 1 year** **£ Million**	**>1 year and < 5 years** **£ Million**	**Greater than 5 years** **£ Million**	**Total** **£ Million**
Assets					
Cash and balances at central banks	-	-	-	2	2
Loans and advances to banks	1,010	2	3	29	1,044
Securities purchased under agreement to resell	250	-	-	-	250
Investment securities	548	73	98	65	784
Derivative financial instruments	1	73	1	-	75
Loans and advances to customers	2,291	168	446	677	3,582
All other assets	149	-	-	-	149
Total assets	4,249	316	548	773	5,886
2008 total assets	5,166	448	1,066	1,097	7,777
Liabilities					
Deposits by banks	-	436	27	77	540
Customer accounts	4,240	31	12	-	4,283
Securities sold under agreement to repurchase	237	-	-	-	237
Investment securities in issue	8	-	-	-	8
Derivative financial instruments	4	-	2	-	6
Subordinated liabilities	-	-	250	202	452
All other liabilities and equity	132	-	-	228	360
Total liabilities and equity	4,621	467	291	507	5,886
2008 total liabilities	5,287	1,310	655	525	7,777
2009 net liquidity gap	(372)	(151)	257	266	-
2008 net liquidity gap	(121)	(862)	411	572	-

29 Financial instruments and risk management (continued)

Liquidity risk (continued)

Company **2009**	**3 months or less £ Million**	**> 3 months and < 1 year £ Million**	**>1 year and < 5 years £ Million**	**Greater than 5 years £ Million**	**Total £ Million**
Assets					
Cash and balances at central banks	-	-	-	2	2
Loans and advances to banks	1,010	2	3	29	1,044
Securities purchased under agreement to resell	250	-	-	-	250
Investment securities	548	73	98	65	784
Derivative financial instruments	1	-	1	-	2
Loans and advances to customers	2,291	168	446	677	3,582
All other assets	171	-	-	-	171
Total assets	4,271	243	548	773	5,835
2008 total assets	5,186	289	968	1,097	7,540
Liabilities					
Deposits by banks	-	369	27	77	473
Customer accounts	4,240	31	12	-	4,283
Securities sold under agreement to repurchase	237	-	-	-	237
Investment securities in issue	8	-	-	-	8
Derivative financial instruments	4	-	2	-	6
Subordinated liabilities	-	-	250	202	452
All other liabilities and equity	162	-	-	214	376
Total liabilities and equity	4,651	400	291	493	5,835
2008 total liabilities	5,333	1,141	560	506	7,540
2009 net liquidity gap	(380)	(157)	257	280	-
2008 net liquidity gap	(147)	(852)	408	591	-

In managing liquidity risk, management use certain assumptions based on behavioural characteristics which differ from the contractual maturity dates as shown above

All investment securities and loans and advances to customers are treated as long term assets which expire in greater than 2 years Assuming the business has an ongoing proposition all new assets originated will replace any asset pay downs

Under a business as usual environment, non-volatile customer savings are treated as a long term source of liquidity The volatile proportion of customer savings is shown to runoff on a short term (overnight) basis

All other assets and other liabilities are also shown as long term for liquidity purposes This is due to the constant utilisation and rebuilding of debtors, creditors, prepayments and accruals

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining contractual future undiscounted cash flows up to maturity The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on the contractual maturity as disclosed in the previous table

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Liquidity risk (continued)

Group

2009	3 months or less £ Million	> 3 months and < 1 year £ Million	>1 year and < 5 years £ Million	Greater than 5 years £ Million	Gross nominal outflow £ Million
Liabilities					
Deposits by banks	-	441	30	90	561
Customer accounts	4,246	31	13	-	4,290
Securities sold under agreement to repurchase	237	-	-	-	237
Investment securities in issue	8	-	-	-	8
Derivative financial instruments	3	1	-		4
Subordinated loan notes	-	33	361	228	622
	4,494	506	404	318	5,722
2008					
Liabilities					
Deposits by banks	604	1,230	429	43	2,306
Customer accounts	4,106	77	7	-	4,190
Securities sold under agreement to repurchase	402	-	-	-	402
Investment securities in issue	-	15	9	-	24
Derivative financial instruments	26	17	(17)	-	26
Subordinated loan notes	-	32	380	241	653
	5,138	1,371	808	284	7 601

Company

2009	3 months or less £ Million	> 3 months and < 1 year £ Million	>1 year and < 5 years £ Million	Greater than 5 years £ Million	Gross nominal outflow £ Million
Liabilities					
Deposits by banks	-	373	30	90	493
Customer accounts	4,246	31	13	-	4,290
Securities sold under agreement to repurchase	237	-	-	-	237
Investment securities in issue	8	-	-	-	8
Derivative financial instruments	3	1	-	-	4
Subordinated loan notes	-	33	361	228	622
	4,494	438	404	318	5,654
2008					
Liabilities					
Deposits by banks	610	1,058	323	43	2,034
Customer accounts	4,106	77	7	-	4,190
Securities sold under agreement to repurchase	402	-	-	-	402
Investment securities in issue	-	15	9	-	24
Derivative financial instruments	26	17	(17)	-	26
Subordinated loan notes	-	32	380	241	653
	5,144	1,199	702	284	7,329

29. Financial instruments and risk management (continued)

Liquidity risk (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, loans and advances to banks and loans and advances to customers The Group would also be able to meet unexpected net cash outflows through intercompany borrowing

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 made for losses that have been incurred at the balance sheet date Significant changes in the economy could result in losses that are different from those provided for at the balance sheet date Re-negotiation of loan terms occur for a variety of reasons, however no specific details of the re-negotiations are disclosed

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, but a significant portion is lending where no such facilities can be obtained

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and guarantees Collateral is generally not held over loans and advances to banks and investment securities

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

Management of credit risk

The different business areas manage their credit risk process as follows

Retail

Within the Retail credit function, full use is made of software technology and external bureaus in credit scoring both new and top-up lending applications Collections activity is centralised and systems are used to prioritise actions, including the placement of debt with external collection agencies

Wholesale

The Wholesale credit function monitors the treasury function's counterparty credit quality through the analysis of qualitative and quantitative information The Wholesale credit committee sets limits for exposures to individual countries, sectors and corporate and financial institutions and compliance with these limits is monitored by the Wholesale credit function, which is independent of the treasury function

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

29 Financial instruments and risk management (continued)

Credit risk (continued)

i) Exposure to Retail credit risk - Loans and advances to customers

Group & Company 2009	**Residential mortgages £ Million**	**Credit card debtors £ Million**	**Consumer loans £ Million**	**Total £ Million**
Gross amount	928	2,660	800	4,388
Carrying amount	906	2,104	572	3,582
Current	829	2,158	566	3,553
1 - 119 days past due	61	249	132	442
120 - 179 days past due	36	61	18	115
180 days or more past due	2	192	84	278
Gross amount	928	2,660	800	4,388
Allowance for loans and advances	(22)	(556)	(228)	(806)
Total carrying amount	906	2,104	572	3,582

Group & Company 2008	**Residential mortgages £ Million**	**Credit card debtors £ Million**	**Consumer loans £ Million**	**Total £ Million**
Gross amount	1,154	3,151	1,195	5,500
Carrying amount	1 146	2,740	945	4,831
Current	1,037	2,744	930	4,711
1 - 119 days past due	92	235	152	479
120 - 179 days past due	11	38	18	67
180 days or more past due	14	134	95	243
Gross amount	1,154	3,151	1,195	5,500
Allowance for loans and advances	(8)	(411)	(250)	(669)
Total carrying amount	1,146	2,740	945	4,831

Allowance for loans and advances includes collective and specific allowances

The Group holds collateral against the residential mortgages in the form of mortgage interests over property All loans and advances to customers are concentrated in the United Kingdom and have been made to retail customers The fair value of collateral held on past due loans has not been disclosed as it is impractical to do so

29 Financial instruments and risk management (continued)

Credit risk (continued)

i) Exposure to Retail credit risk - Loans and advances to customers

The credit quality of Local Consumer Lending assets is measured and reported on a days past due model This model identifies the gross value of balances which are current (i e are not yet past due) and those balances which are past due depending on how many days past due the balance is The past due model shows that 81% (2008 86%) of the gross balance is current, 10% (2008 9%) is 1 – 119 days past due, and 4% (2008 4%) is greater than 120 days past due

ii) Exposure to Wholesale credit risk

Group

	Loans and advances to banks £ Million		Investment securities £ Million		Securities purchased under agreement to resell £ Million		Derivatives £ Million	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Cost	1,044	1,121	830	1,115	250	250	-	-
Unrealised gains	-	-	-	6	-	-	75	280
Unrealised losses	-	-	(46)	(89)	-	-	-	-
Realised losses	-	-	-	-	-	-	-	-
Carrying value	1,044	1,121	784	1,032	250	250	75	280

Company

	Loans and advances to banks £ Million		Investment securities £ Million		Securities purchased under agreement to resell £ Million		Derivatives £ Million	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Cost	1,044	1,121	830	1,115	250	250	-	-
Unrealised gains	-	-	-	6	-	-	2	17
Unrealised losses	-	-	(46)	(89)	-	-	-	-
Realised losses	-	-	-	-	-	-	-	-
Carrying value	1,044	1,121	784	1,032	250	250	2	17

Included within investment securities cost is a balance of £170 million (2008 £240 million) for Asset Backed Securities (ABS) for which the Group has taken out a financial guarantee Should any of the counterparties default, the guarantee will effectively limit the amount of the loss that could be suffered by the Group at any point in time to £9 million (2008 £10 million) All wholesale assets have a credit rating of 'A' or above except for certain ABS investments All investments that have a credit rating below 'A' are covered by the financial guarantee At the year end the counterparty for the financial guarantee had an 'AA' credit rating (2008 'AA')

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Credit risk (continued)

Credit risk concentrations

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions

The Group's credit risk concentrations by geographic location are as follows

Group

	Loans and advances to banks £ Million		Investment securities £ Million		Securities purchased under agreement to resell £ Million		Derivatives £ Million	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
United Kingdom	1,044	1,121	587	681	250	250	75	280
Rest of Europe	-	-	117	260	-	-	-	-
North America	-	-	11	12	-	-	-	-
Other	-	-	69	79	-	-	-	-
Carrying value	1,044	1,121	784	1,032	250	250	75	280

Company

	Loans and advances to banks £ Million		Investment securities £ Million		Securities purchased under agreement to resell £ Million		Derivatives £ Million	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
United Kingdom	1,044	1,121	587	681	250	250	2	17
Rest of Europe	-	-	117	260	-	-	-	-
North America	-	-	11	12	-	-	-	-
Other	-	-	69	79	-	-	-	-
Carrying value	1,044	1,121	784	1,032	250	250	2	17

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments and risk management (continued)

Credit risk (continued)

ii) Exposure to Wholesale credit risk (continued)

Credit risk concentrations (continued)

The Group's credit risk concentrations by sector are as follows

Group	**Loans and advances to banks £ Million**		**Investment securities £ Million**		**Securities purchased under agreement to resell £ Million**		**Derivatives £ Million**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Corporate	-	-	124	159	-	-	-	-
Government	-	-	22	23	-	-	-	-
Bank	1,044	1,121	638	850	250	250	75	280
Carrying value	1,044	1,121	784	1,032	250	250	75	280

Company	**Loans and advances to banks £ Million**		**Investment securities £ Million**		**Securities purchased under agreement to resell £ Million**		**Derivatives £ Million**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Corporate	-	-	124	159	-	-	-	-
Government	-	-	22	23	-	-	-	-
Bank	1,044	1,121	638	850	250	250	2	17
Carrying value	1,044	1,121	784	1,032	250	250	2	17

Operational risk management process (unaudited)

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

- Recognised ownership of the risk by the businesses,
- Oversight by independent risk management, and
- Independent review by Audit and Risk Review (ARR)

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

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

30 Capital management

Regulatory capital

The Group's capital adequacy position is managed and monitored in accordance with the prudential requirements of the Financial Services Authority ('FSA'), the UK regulator The Group must at all times meet the relevant minimum capital requirements of the FSA The Group has established processes and controls in place to monitor and manage its capital adequacy position and remained in compliance with these requirements throughout the year

Under the FSA's minimum capital standards, the Group is required to maintain a prescribed excess of total capital resources over its capital resources requirements In meeting these requirements, the Group recognises a number of credit risk mitigation techniques in calculating the charges for credit risk

The Group's regulatory capital resources comprise two distinct elements

- Tier one capital, which includes ordinary share capital, share premium, retained earnings, capital reserves and translation reserves after deductions for intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purpose

- Tier two capital, which includes qualifying long-term subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale

Various limits are applied to elements of the capital base For example, the amount of qualifying tier 2 capital cannot exceed tier 1 capital, innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital and the qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items

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

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

Group	**2009 £ Million**	**2008 £ Million**
Tier 1 Capital	246	298
Tier 2 Capital	172	209
Deductions*	-	(13)
Total regulatory capital*	418	494

* Unaudited

EGG BANKING PLC

NOTES TO THE FINANCIAL STATEMENTS

31. Operating lease commitments

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

Group	Total 2009 £ Million	Total 2008 £ Million
Expiring		
- Within one year	-	-
- Between one and five years	-	-
- Greater than five years	17	19
	17	19

The operating leases are in relation to rented premises and Company cars

32. Segmental analysis

During 2009 in line with changes in the operating structure of Citigroup Inc and the adoption of IFRS 8 'Operating Segments' there has been a change in the operating segments of the Group

The Group is organised into a single business group, Local Consumer Lending and operates in a single geographic region, the United Kingdom As a result no separate segmental reporting disclosures have been made

33 Parent companies

The Company is a subsidiary undertaking of Citibank Overseas Investments Corporation, which is incorporated in the United States The Company's ultimate parent company is Citigroup Inc, which is incorporated in the United States

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