

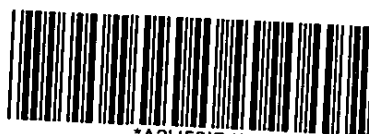
CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

(Registered Number: 02019774)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2012

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CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2012

The Directors present their Report and the audited financial statements of Citigroup Global Markets U K Equity Limited ("the Company") for the year ended 31 December 2012

Business review and principal activities

The Company is a wholly-owned indirect subsidiary of Citigroup Inc and was authorised during the year by the Financial Services Authority ("FSA") under the Financial Services and Markets Act 2000. On 1 April 2013, the FSA was dissolved and replaced by two new bodies, the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA") who will regulate the Company going forward. For the purposes of these financial statements, the regulatory body is referred to as the FSA. The Company was a dealer and market maker in UK equities and related contractual products.

In 2012 the Company ceased its trading activities transferring the majority of its business to Citigroup Global Markets Limited ("CGML"). The majority of the Company's remaining operations are intercompany in nature and the Company is expected to still be in existence in 12 months.

As part of the wind-down process the Company submitted a Variation of Permissions ("VoP") to the FSA to allow it to transfer residual client monies to CGML and an application for cancellation of its Part IV Permissions. With the inception of the new regulatory bodies, these Permissions are known as the Part 4A Permission. Subsequent to year end all client monies have been transferred to CGML and all client money accounts have been closed. On 22 April 2013 the FSA cancelled the Company's Part 4A Permission and as such, the Company is no longer authorised to conduct regulated activity.

The financial statements therefore have not been prepared on a going concern basis. The effect of this is explained in Note 1(a).

The Company's pre-tax profits for the year to 31 December 2012 were \$5 million, compared to profits of \$31 million for 2011. Profits after tax were \$2 million (2011 profit after tax of \$20 million).

Income

Total income net of interest expense decreased from \$163 million to \$66 million. Commission income and fees decreased to \$35 million (2011 \$164 million) while Net dealing income increased from \$16 million in 2011 to \$36 million. Net interest payable decreased from \$17 million to \$5 million in 2012.

Costs

Operating expenses decreased by 54 per cent to \$61 million, mainly as a result of lower transfer pricing costs due to lower trade flows during the year.

Balance sheet

Total assets of \$127 million at 31 December 2012 were 98 per cent lower than at 31 December 2011. This was primarily the result of the company ceasing its trading activities in 2012.

On 8 May 2012 the Company repaid \$300 million of long term subordinated loan borrowings to Citigroup Financial Products Inc.

Key financial performance indicators

In addition to the financial results of the Company senior management consider the following other key financial indicators:

- amount of capital compared to local regulatory requirements
- liquidity requirements in respect of the Company's highly stressed (stress 2) and severely stressed (stress 4) liquidity scenarios, and
- level of expenses

Financial instruments and risk management

The Company's financial risk management objectives and policies and its exposure to market, credit, operational, liquidity and country risk has been disclosed in Note 23 'Financial instruments and risk management'.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2012

Dividends

During the year the Company paid dividends totalling \$284 million (2011 \$nil)

Directors and their interests

The Directors who held office during the year ended 31 December 2012 were

D J Challen	
M L Corbat	(resigned 19 November 2012)
J C Cowles	
S H Dean	(appointed 26 April 2012)
P McCarthy	(appointed 16 May 2012)
D L Taylor	

Directors' indemnity

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

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. As explained in Note 1(a) the Directors do not believe that it is appropriate to prepare these financial statements on a going concern basis.

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

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

Employees

There were no persons employed by the Company during the current and preceding year and no persons have been employed by the Company since the year end.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2012

Charitable donations and political contributions

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

Disclosure of information to auditors

In accordance with section 418, Companies Act 2006 it is stated by the Directors who held office at the date of approval of this Directors' Report that, so far as each is aware, there is no relevant audit information of which the Company's Auditors are 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 Auditors are aware of that information. This statement is made subject to all the provisions of section 418

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the Board



J D Robson
Secretary

24 April 2013

Incorporated in England and Wales
Registered office Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB
Registered Number 02019774

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

We have audited the financial statements of Citigroup Global Markets U K Equity Limited for the year ended 31 December 2012 which comprise the profit and loss Account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditor 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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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, and express an opinion on, 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

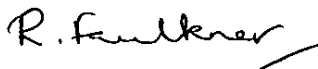
Opinion on other matter prescribed by the Companies Act 2006

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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.



Richard Faulkner (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

24 April 2013

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2012

	Notes	2012 \$ Million	2011 \$ Million
Commission income and fees		35	164
Net dealing income		36	16
Interest receivable	4	5	20
Interest payable	4	<u>(10)</u>	<u>(37)</u>
Gross profit		66	163
Operating expenses	6	<u>(61)</u>	<u>(132)</u>
Operating profit on ordinary activities before taxation		5	31
Tax on profit on ordinary activities	8(a)	<u>(3)</u>	<u>(11)</u>
Profit for the financial year	21	<u><u>2</u></u>	<u><u>20</u></u>

There are no recognised gains or losses other than the profit for the financial year

The accompanying notes on pages 8 to 33 form an integral part of these financial statements

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

BALANCE SHEET

as at 31 December 2012

	Notes	2012 \$ Million	2011 \$ Million
Current assets			
Debtors	10	117	4,314
Investments	12	-	2,014
Cash at bank and in hand	14	10	39
		<u>127</u>	<u>6,367</u>
Creditors: amounts falling due within one year			
Creditors	16	31	5,691
		<u>96</u>	<u>676</u>
Net current assets			
Creditors: amounts falling due after more than one year			
Subordinated loans	18	-	300
Provisions for liabilities	19	2	-
		<u>94</u>	<u>376</u>
Net assets			
Capital and reserves			
Called up share capital	20	92	92
Capital reserve	21	-	200
Retained earnings	21	2	84
		<u>94</u>	<u>376</u>
Shareholder's funds			

The accompanying notes on pages 8 to 33 form an integral part of these financial statements

The financial statements on pages 6 to 33 were approved by the Directors on 24 April 2013 and were signed on their behalf by


J.C. Cowles
Director

Registered Number 02019774

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

(a) Basis of presentation

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice and the Companies Act 2006. The financial statements have been prepared under the break up basis with the following exceptions:

- Derivative and trading financial instruments are measured at fair value, and
- Financial instruments designated at fair value through profit or loss are measured at fair value

The financial statements were prepared on a net realisable value basis, as the Company ceased its trading activities during 2012. However, the Company is expected to still be in existence in 12 months. No adjustments were necessary to the amounts at which the remaining net assets are included in these financial statements.

The principal accounting policies have been applied consistently throughout the current and preceding year except for the following standards that have been adopted for the first time:

- The Company has applied the amendments to FRS 29 (IFRS 7) 'Financial Instruments: Disclosures' - transfers of financial assets. The amendment enhances the disclosure requirements on transfers of financial assets that are derecognised in their entirety and financial assets that are not derecognised in their entirety but for which the entity retains continuing involvement. The effective date is for annual periods beginning on or after 1 July 2011. This has been incorporated in the notes to the financial statements within Note 17 'Derecognition of financial assets and financial liabilities'.

During 2012 the Financial Reporting Council (FRC) revised the financial reporting standards for the United Kingdom and Republic of Ireland. This revision fundamentally reforms financial reporting, replacing almost all extant standards with three Financial Reporting Standards which is effective for periods beginning on or after 1 January 2015:

- FRS 100 'Application of Financial Reporting Requirements' sets out a new financial reporting regime explaining which standards apply to which entity and when an entity can apply the reduced disclosure framework.
- FRS 101 'Reduced Disclosure Framework' sets out the disclosure exemptions for the individual financial statements of subsidiaries, including intermediate parents, and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards (IFRS).
- FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' will complete the new reporting standards. The current expected date for issuing is 2013.

The Company is currently assessing the impact of the FRC revision of the financial reporting standards effective 1 January 2015.

The financial statements have been prepared in US Dollars, which is the functional currency of the Company, and any reference to \$ in these financial statements refers to US Dollars.

As permitted by FRS 1, 'Cash Flow Statements', the Company has not prepared a cash flow statement. The Company's results are consolidated in the financial statements of its ultimate parent company, Citigroup Inc., which are made available to the public annually.

Under the wholly owned group exemption of FRS 8, 'Related Party Disclosures', the Company is not required to disclose all transactions with other group companies and investees of the group qualifying as related parties.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

(b) Financial instruments

Trading assets and trading liabilities

Financial instruments that have been acquired principally for the purpose of selling in the near term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short term profit taking are classified as "held for trading". Financial assets classified as "held for trading" include collateralised financing transactions, government bonds, eurobonds and other corporate bonds, equities, certificates of deposit, commercial paper and derivatives. Financial liabilities classified as "held for trading" include securities sold but not yet purchased, collateralised financing transactions and derivatives.

Trading assets and liabilities are initially recognised at fair value on trade date and subsequently re-measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value are reported in the profit and loss account.

Derivative contracts

Derivative contracts used in trading activities are recognised at fair value on the date the derivative is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value are reported in the profit and loss account.

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 is recorded as a collateralised financing transaction within debtors. The difference between the sale price and the repurchase price is recognised over the life of the transaction and is charged or credited to the profit and loss account as interest payable or receivable. Assets and liabilities recognised under collateralised financing transactions are classified as "held for trading" and are recorded at fair value, with changes in fair value recorded in the profit and loss account.

Other financial assets

Financial assets other than those which are classified as "held for trading" or "designated at fair value through profit and loss", are classified as loans and receivables. Loans and receivables include trade debtors, including settlement receivables, and are initially recognised at fair value at trade date including direct and incremental transaction costs and subsequently measured at amortised cost using the effective interest rate method.

At each reporting date the Company assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the debtor or other observable data such as adverse changes in the payment status of debtors, or economic conditions that correlate with defaults of the debtor.

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

The Company writes off loans and receivables and fixed asset investments when they are determined to be uncollectible.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

(b) Financial instruments (continued)

Other financial liabilities and subordinated loans

Financial liabilities and subordinated loans are measured at amortised cost using the effective interest rate, except those which are "held for trading", which are held at fair value through the profit and loss account

Determination of fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted market value in an active market wherever possible. Where no such active market exists for the particular instrument, the Company uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. See Note 9 - 'Financial assets and liabilities accounting classifications and fair values' for further discussion

Collateral

The Company receives collateral from customers as part of its business activity. Collateral can take the form of cash, securities or other assets. Where cash collateral (client money) is received this is recorded on the balance sheet and, where required by collateral agreements, is held in segregated client cash accounts. The Company does not recognise non-cash collateral on its balance sheet.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only 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.

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Company has transferred its contractual right to receive the cash flows of the financial assets and either substantially all the risks and rewards of ownership have been transferred or substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

If the Company enters into a transaction that results in it retaining significantly all of the risks and rewards of a financial asset it will continue to recognise that financial asset and will recognise a financial liability equal to the consideration received under the transaction.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expired.

(c) Commission income and fees

Commission income and fees are derived from underwriting activities, marketing securities owned by other group undertakings, trading services provided to other group undertakings, and corporate finance fees associated with mergers and acquisitions and other corporate finance advisory activities.

Commission revenues and expenses are recognised when the right to consideration has been obtained in exchange for performance.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies (continued)

(d) Interest receivable and payable

Interest income and expense is recognised in the profit and loss account for all financial assets classified as loans and receivables and non-trading financial liabilities, using the effective interest rate method

Interest arising on financial assets or financial liabilities that are "held for trading" is reported within interest income and expense respectively

(e) Net dealing income

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

(f) Taxation

The charge for taxation is based on the taxable profits/losses for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Full provision is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their treatment for tax purposes except as otherwise provided by FRS 19 on an undiscounted basis

(g) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in currencies other than US Dollars are translated into US Dollars using the year end spot exchange rates. Non-monetary assets and liabilities denominated in currencies other than US Dollar that are classified as "held for trading" or "designated at fair value" are translated into US Dollars using the year end spot rate. Non-monetary assets and liabilities, denominated in currencies other than US Dollars that are not measured at fair value, have been translated at the relevant historical exchange rates. Any gains or losses on exchange are taken to the profit and loss account as incurred

2. Use of assumptions, estimates and judgements

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

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

Valuation of financial instruments

The Company's accounting policy for valuation of financial instruments is included in Note 1(b). The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, where this is not possible management may be required to make estimates. Note 9 'Financial assets and liabilities accounting classifications and fair values' discusses further the valuation of financial instruments

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Turnover and results

As permitted by paragraph 4 of Schedule 1 to the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No 410), the format of the profit and loss account has been adapted to the circumstances of the Company. Instead of turnover, the Directors have reported commission income and fees, net dealing income and interest income less interest expense in determining the gross profit of the Company.

No segmental analysis of revenue, profit before taxation or net assets has been presented because the Directors are of the opinion that operations are global and the Company's principal activities comprise one segment.

4. Interest receivable and interest payable

	2012 \$ Million	2011 \$ Million
Interest receivable comprises:		
Interest on current asset investments and collateralised financing transactions at fair value through profit and loss	<u>5</u>	<u>20</u>
Interest payable comprises:		
Interest on collateralised financing transactions at fair value through profit and loss	-	7
Interest on borrowings not at fair value through profit and loss	10	30
	<u>10</u>	<u>37</u>

Included within interest receivable is interest received on client money.

5. Gains and losses on financial assets and financial liabilities held at fair value through profit and loss

	2012 \$ Million	2011 \$ Million
Gains and losses from trading in financial assets and liabilities include		
Net dealing income	36	16
Interest receivable	5	20
Interest payable	-	(7)
	<u>41</u>	<u>29</u>

Initial gain or loss on financial instruments where valuation is dependent on valuation techniques using unobservable parameters are deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable.

The aggregate difference has not been recognised in profit or loss as this is not significant.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6 Operating expenses

	2012 \$'000	2011 \$'000
Operating expenses include		
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	34	49
Fees payable to the Company's auditor for other services		
Other services pursuant to legislation (FSA and SOX)	6	48

Operating expenses are primarily costs incurred by Citigroup Global Markets Limited ("CGML") on behalf of the Company and recharged to the Company. The Company has no employees. Services are provided by employees of CGML.

7 Directors' remuneration

Directors' remuneration in respect of services to the Company were as follows

	2012 \$'000	2011 \$'000
Aggregate emoluments	557	314
Contributions to money purchase pension scheme	7	2
	<u>564</u>	<u>316</u>

The contributions to the money purchase pension schemes are accruing to three of the Directors (2011: four). Five of the Directors (2011: six) of the Company participate in parent company share and share option plans and, during the year, none of the Directors (2011: none) exercised options.

The emoluments of the highest paid Director were \$319,809 (2011: \$144,000) and accrued pension of \$4,869 (2011: \$662). The highest paid Director did not exercise share options during the current or preceding year.

The above remuneration is based on the apportionment of time incurred by the Directors for services to the Company, both in their capacity as Director and, where applicable, their normal employment.

8. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

	2012 \$ Million	2011 \$ Million
Current tax:		
UK Corporation tax on profits for the year	-	-
Total current tax (Note 8(b))	-	-
Deferred tax:		
Origination and reversal of timing differences	-	11
Write-off of deferred tax asset	3	-
Total deferred tax	3	11
Tax on profit on ordinary activities	<u>3</u>	<u>11</u>

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Tax on profit on ordinary activities (continued)

(b) Factors affecting tax charge for the year

	2012 \$ Million	2011 \$ Million
Profit on ordinary activities before tax	5	31
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	1	8
Effects of		
Capital allowances and other sundry timing differences	-	(10)
Movement in unrecognised deferred tax	(3)	-
Group relief for nil consideration	2	2
Current tax charge for the year	-	-

9. Financial assets and liabilities accounting classifications and fair values

The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values

	Held for trading \$ Million	Loans and receivables \$ Million	Other amortised cost \$ Million	Total carrying amount \$ Million	Fair value \$ Million
31 December 2012					
Trade debtors	-	1	-	1	1
Collateralised financing transactions	116	-	-	116	116
Cash at bank and in hand	-	10	-	10	10
	116	11	-	127	127
Bank loans and overdrafts	-	-	20	20	20
Trade creditors	-	-	11	11	11
	-	-	31	31	31
31 December 2011					
Trade debtors	-	1,907	-	1,907	1,907
Collateralised financing transactions	2,397	-	-	2,397	2,397
Current asset investments	2,014	-	-	2,014	2,014
Cash at bank and in hand	-	39	-	39	39
Other debtors	-	7	-	7	7
	4,411	1,953	-	6,364	6,364
Securities sold but not yet purchased	1,019	-	-	1,019	1,019
Derivatives	713	-	-	713	713
Collateralised financing transactions	1,254	-	-	1,254	1,254
Cash collateral held	-	-	56	56	56
Bank loans and overdrafts	-	-	1,013	1,013	1,013
Trade creditors	-	-	1,632	1,632	1,632
Other creditors and accruals	-	-	4	4	4
Subordinated loans	-	-	300	300	294
	2,986	-	3,005	5,991	5,985

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial assets and liabilities accounting classifications and fair values (continued)

Given the short term nature and characteristics of trade debtors, other debtors, trade creditors, other creditors and accruals the fair value has been assumed to approximate the carrying value. The fair value of subordinated loans as at 31 December 2011 was calculated using the present value of future estimated cash flows, discounted using a discount rate of 3 month USD OIS plus the Company's credit spread.

The calculation of fair value incorporates the Company's estimate of the fair value of financial assets and financial liabilities. Other entities may use different valuation methods and assumptions in determining fair values, so comparisons of fair values between entities may not be necessarily meaningful.

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.

2012	Level 1 \$ Million	Level 2 \$ Million	Level 3 \$ Million	Total \$ Million
Financial assets held for trading				
<u>Current asset investments</u>				
Derivatives	-	-	-	-
Corporate bonds	-	-	-	-
Equities	-	-	-	-
<u>Collateralised financing transactions</u>	-	116	-	116
	-	116	-	116
Financial liabilities held for trading				
Derivatives	-	-	-	-
Collateralised financing transactions	-	-	-	-
Securities sold but not yet purchased	-	-	-	-
	-	-	-	-
2011	Level 1 \$ Million	Level 2 \$ Million	Level 3 \$ Million	Total \$ Million
Financial assets held for trading				
<u>Current asset investments</u>				
Derivatives	1	619	-	620
Corporate bonds	-	141	-	141
Equities	1,185	55	13	1,253
<u>Collateralised financing transactions</u>	-	2,397	-	2,397
	1,186	3,212	13	4,411
Financial liabilities held for trading				
Derivatives	3	707	3	713
Collateralised financing transactions	-	1,254	-	1,254
Securities sold but not yet purchased	980	39	-	1,019
	983	2,000	3	2,986

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial assets and liabilities accounting classifications and fair values (continued)

The Company measures fair values using the following fair value hierarchy that reflects whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The types of inputs have created the following fair value hierarchy:

- Level 1: Quoted prices for *identical* instruments in active markets
- Level 2: Quoted prices for *similar* instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*

The Company considers relevant and observable market prices in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are factors that are driven by the liquidity of markets and the relevance of observed prices in those markets.

The Company's policy with respect to transfers between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the end of the reporting period.

As set out in Note 1(b), when available, the Company generally uses quoted market prices in an active market to calculate the fair value of a financial asset or liability and classifies such items as Level 1. In some cases where a market price is available, the Company will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified as Level 2.

If quoted market prices are not available, fair values are based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters such as interest rates, currency rates and option volatilities. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

Where available, the Company may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified as Level 2. If prices are not available, other valuation techniques would be used and the item would be classified as Level 3.

Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors or brokers. Vendors' and brokers' valuations may be based on a variety of inputs ranging from observed prices to proprietary valuation models.

The Company uses the following procedures to determine the fair value of financial assets and financial liabilities irrespective of whether they are "held for trading" or have been "designated at fair value" including an indication of the level in the fair value hierarchy in which each financial instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models and any significant assumptions.

Corporate bonds and Equities

When available, the Company uses quoted market prices to determine the fair value of corporate bonds and equities, such items are classified as Level 1 of the fair value hierarchy. Examples include some exchange-traded equities.

For corporate bonds and equities traded over the counter, the Company generally determines fair value by utilising internal valuation techniques. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable. If available, the Company may also use quoted prices for recent trading activity of assets with similar characteristics to the bond or loan being valued. Corporate bonds and equities priced using such methods are generally classified as Level 2. However, when less liquidity exists for corporate bonds or equities, a quoted price is stale or prices from independent sources vary, they are generally classified as Level 3.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial assets and liabilities accounting classifications and fair values (continued)

Derivatives

Exchange-traded derivatives are generally fair valued using quoted market (i.e. exchange) prices and so are classified as Level 1 of the fair value hierarchy

The majority of derivatives entered into by the Company are executed over the counter and are valued using a combination of external prices and internal valuation techniques, including benchmarking to pricing vendor services. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. The principal techniques used to value these instruments are industry wide approaches including discounted cash flows, modelling and numerical approaches.

The type of inputs may include interest rate yield curves, credit spreads, foreign exchange rates, volatilities and correlations

Collateralised financing transactions

No quoted prices exist for such financial instruments and so fair value is determined using a discounted cash-flow technique. Cash flows are estimated based on the terms of the contract, taking into account any embedded derivative or other features. Expected cash flows are discounted using market rates appropriate to the maturity of the instrument as well as the nature and amount of collateral taken or received. Generally, when such instruments are held at fair value, they are classified within Level 2 of the fair value hierarchy as the inputs used in the valuation are readily observable.

The Company values a number of assets and liabilities using valuation techniques that use one or more significant inputs that are not based on observable market data. The Company grades all such assets and liabilities in order to identify those items for which a reasonably possible change in one or more assumptions is likely to have a significant impact on fair value.

Adjustments may be applied to the "base" valuations of financial assets and liabilities calculated using one of the valuation techniques described above, to ensure that the fair value measurement incorporates all factors that market participants would consider when determining fair value. Note that no such adjustments are applied to instruments that are valued using quoted prices for identical instruments in an active market.

The movement on level 3 items for the year was

	2012		Gain/(loss) recorded in the profit and loss account		Transfer from/(to) Level 1 and Level 2		At 31 December	
	At 1 January \$ Million		\$ Million		\$ Million		\$ Million	
Financial assets held for trading								
<u>Current asset investments</u>								
Equities	13	(1)	(12)	-	-	-	-	-
	13	(1)	(12)	-	-	-	-	-
			(Gain)/loss recorded in the profit and loss account				Transfer from/(to) Level 1 and Level 2	At 31 December
	At 1 January \$ Million		\$ Million		\$ Million		\$ Million	\$ Million
Financial liabilities held for trading								
Derivatives	3	-	-	(3)	-	-	-	-
	3	-	-	(3)	-	-	-	-

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial assets and liabilities accounting classifications and fair values (continued)

2011	At 1 January \$ Million	Gain/(loss) recorded in the profit and loss account \$ Million	Sales \$ Million	Settlements	Transfer from/(to) Level 1 and Level 2 \$ Million	At 31 December \$ Million
Financial assets held for trading						
<u>Current asset investments</u>						
Derivatives	55	3	(33)	-	(25)	-
Corporate bonds	5	(4)	(1)	-	-	-
Equities	13	16	(26)	-	10	13
	<u>73</u>	<u>15</u>	<u>(60)</u>	<u>-</u>	<u>(15)</u>	<u>13</u>
Financial liabilities held for trading						
Derivatives	154	10	6	-	(167)	3
	<u>154</u>	<u>10</u>	<u>6</u>	<u>-</u>	<u>(167)</u>	<u>3</u>

Issuances and purchases are not included within the above tables as they have an immaterial impact on level 3 changes in 2012 and 2011

Included in the Level 3 balance at 31 December 2012 above are intercompany assets of \$nil (2011: \$nil) and liabilities of \$nil (2011: \$3 million)

Financial instruments may move between levels in the fair value hierarchy when factors, such as, liquidity or the observability of input parameters decrease and no longer represent an active market. As conditions around these factors improve, financial instruments may transfer back to the original fair value level. There were no significant transfers of investments between Level 1 and Level 2 during the years ended 31 December 2012 and 2011.

Transfers in/out are primarily driven by changes in the availability of independent data for positions where the Company has risk exposure, yet the market is no longer considered to be active. As liquidity and transparency improves, the inventory may transfer back to a previous classification level.

During 2012 the Company ceased trading activities resulting in the Level 3 financial instrument movement.

During the year, total changes in fair value representing a \$1 million loss (2011: \$5 million gain) were recognised in the profit and loss account relating to items where fair value was estimated using a valuation technique that uses one or more significant inputs that were based on unobservable market data.

As these valuation techniques are based upon assumptions, changing the assumptions will change the estimate of fair value. The potential impact of using reasonably possible alternative assumptions for the valuation techniques including unobservable market data has been quantified as being negligible (2011: \$ negligible).

Sensitivity analysis is performed on a quarterly basis across all financial instruments in which one or more of the significant input parameters are unobservable. The methodology used to derive the impact across each product is determined by applying sensitivity adjustments to the price or significant model input parameters used in the valuation.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Debtors

The following amounts are included in debtors

	2012 \$ Million	2011 \$ Million
Amounts due within one year		
Trade debtors	1	1,907
Collateralised financing transactions	116	2,397
Other debtors	-	7
Amounts due in greater than one year		
Deferred tax asset (Note 15)	-	3
	<u>117</u>	<u>4,314</u>

Included within debtors are the following balances due from group undertakings

	2012 \$ Million	2011 \$ Million
Trade debtors	1	295
Collateralised financing transactions	116	2,298
	<u>117</u>	<u>2,593</u>

11. Pledged assets

Collateral accepted as security for assets

The fair value of financial assets including government bonds, eurobonds and other corporate bonds, equities, and cash accepted that is permitted to be sold or re-pledged in the absence of default were \$120 million. The fair value of the collateral accepted that has been re-pledged at 31 December 2012 was \$nil. The Company is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

Financial assets pledged to secure liabilities

The total purchased financial assets including government bonds, eurobonds and other corporate bonds, equities and cash that have been pledged as collateral for liabilities at 31 December 2012 were \$nil. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

12. Current asset investments

Current asset investments form part of the asset trading portfolio of the Company and comprise marketable securities and other financial assets. The following amounts are included in current asset investments:

	2012 \$ Million	2011 \$ Million
Corporate bonds	-	141
Equities - listed on a recognised UK exchange	-	840
- listed elsewhere	-	413
Derivatives (Note 13)	-	620
	<u>-</u>	<u>2,014</u>

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Derivatives

	2012		2011	
	Fair value		Fair value	
	Asset	Liability	Asset	Liability
	\$ Million	\$ Million	\$ Million	\$ Million
Swap agreements, swap options, and interest rate cap and floor agreements	-	-	306	233
Index and equity options and similar contractual commitments	-	-	212	442
Other options and contractual commitments	-	-	102	38
	<u>-</u>	<u>-</u>	<u>620</u>	<u>713</u>

14. Cash at bank and in hand

The following amounts are included within cash at bank and in hand

	2012	2011
	\$ Million	\$ Million
Cash at bank held by third parties	10	37
Cash at bank held by other group undertakings	-	2
	<u>10</u>	<u>39</u>

Included within cash held by third parties is \$4 million (2011 \$4 million) that is held on behalf of clients in segregated accounts

15. Deferred tax asset

The following amounts are included within deferred tax

	2012	2011
	\$ Million	\$ Million
Short term timing differences	<u>-</u>	<u>3</u>
At 1 January	3	14
Origination and reversal of timing differences	-	(11)
Write-off of deferred tax asset	(3)	-
At 31 December	<u>-</u>	<u>3</u>

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Creditors

The following amounts are included within creditors

	2012 \$ Million	2011 \$ Million
Amounts falling due within one year:		
Securities sold, but not yet purchased	-	1,019
Derivatives (Note 13)	-	713
Collateralised financing transactions	-	1,254
Cash collateral held	-	56
Bank loans and overdrafts	20	1,013
Trade creditors	11	1,632
Other creditors and accruals	-	4
	<u>31</u>	<u>5,691</u>

Included within creditors are the following balances due to group undertakings

	2012 \$ Million	2011 \$ Million
Amounts falling due within one year:		
Derivatives	-	576
Collateralised financing transactions	-	1,253
Cash collateral held	-	56
Bank loans and overdrafts	20	1,004
Trade creditors	8	31
	<u>28</u>	<u>2,920</u>

17. Derecognition of financial assets and financial liabilities

Transferred financial assets that are not derecognised in their entirety

There are certain instances where the Company continues to recognise financial assets that it has transferred

The Company enters into collateralized financing transactions where it sells or lends debt or equity securities with a concurrent agreement to repurchase them. As significantly all of the risks and rewards of the underlying securities are retained, a collateralized financing liability is recognised and the securities remain on balance sheet.

As at 31 December 2012 the Company recognised \$negligible of assets with an associated \$negligible of collateralized financing liabilities.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18. Subordinated loans

The following amounts were included within subordinated loans

	2012 \$ Million	2011 \$ Million
Amounts falling due after one year and within five years	<u>-</u>	<u>300</u>

On 8 May 2012 the Company repaid \$300 million of long term subordinated loan borrowings to Citigroup Financial Products Inc

The subordinated loans, on which interest was payable was at market rates and were due to other group undertakings

At 31 December 2012, the Company had in place the following subordinated loan facilities

	Total facilities available \$ Million	Drawn down \$ Million
Facilities with other group undertakings		
Facilities falling due within one year	<u>400</u>	<u>-</u>

19. Provisions for liabilities

	Other provisions \$ Million
At 1 January 2012	-
Charge to profits	2
Provisions utilised	-
At 31 December 2012	<u>2</u>

Other provisions are held in respect of accounting reconciliation and control procedures

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Called up share capital

The Company's share capital comprises

	2012	2011
Authorised:		
100,000,000 ordinary shares of £1 each	£ 100,000,000	100,000,000
100 ordinary shares of \$1 each	\$ <u>100</u>	<u>100</u>
	Million	Million
Allotted, called-up and fully paid:		
65,000,000 ordinary shares of £1 each	£ 65	65
	\$ <u>92</u>	<u>92</u>

21. Reserves

The Company's reserves comprise

	Capital reserve \$ Million	Profit and loss account \$ Million	Total \$ Million
At 1 January 2012	200	84	284
Profit for the year	-	2	2
Dividends	(200)	(84)	(284)
At 31 December 2012	<u>-</u>	<u>2</u>	<u>2</u>

22. Reconciliation of movements in shareholder funds

The movement in shareholder funds for the year was as follows

	2012 \$ Million	2011 \$ Million
At 1 January	376	356
Profit for the year	2	20
Dividend paid	(284)	-
At 31 December	<u>94</u>	<u>376</u>

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management

Objectives, policies and strategies

Dealing in financial instruments is fundamental to the Company's business. The risks associated with financial instruments are a significant component of the overall risk faced by the Company, particularly in turbulent financial markets.

The Company maintains positions in financial instruments for four principal reasons:

- as a result of the sale or assignment of structured or derivative positions to our clients (usually in the over-the-counter market),
- to satisfy our clients requirements to buy or sell investments,
- as a result of underwriting activities, and
- to economically hedge positions in our own books created by the business noted above.

In addition to the activities noted above, the Company acts as agent for its customers in the purchase, sale and assignment of securities and derivatives listed on recognised investment exchanges.

The Company's derivative transactions are principally in the equity, interest rate, credit and commodity markets. Most of the counterparties in the Company's derivative transactions are banks and other financial institutions. The risks involved in derivatives include market, credit, liquidity and operational risk.

The majority of the financial instruments are held as part of portfolios which are maintained and monitored by the business. The positions thus maintained will result from the Company's normal market activities. The Company aims to maintain a variety of economic hedging strategies. Individual businesses are allocated risk limits based on a wide range of market factors and are required to maintain portfolios within those limits. As such they are responsible for maintaining economic hedges at a macro level.

The development of new business is subject to a new product approval process, the purpose of which is to seek to ensure the proactive identification of risks and rewards before the Company transacts in new financial instruments or services. This process includes the setting of any limits applicable to the new business.

The market uncertainty places additional importance on the risk management policies and procedures which are outlined below. The Citigroup risk management framework as established by the Chief Risk Officer is used as the basis to manage risk in the Company. The Company believes that effective risk management is of primary importance to its success. Accordingly, the Company's risk management process is designed to monitor, evaluate and manage the principal risks it assumes in conducting its activities. As part of Citigroup, the risk management framework is designed to balance corporate oversight with 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 analytics,
- authority and independence of Risk Managers, and
- empowering Risk Managers to make decisions and escalate issues.

The Company's risk management framework aims to recognise the diversity of the Company's global business activities by combining corporate oversight with independent risk management functions within each business. The independent risk managers at the business level are responsible for establishing and implementing risk management policies and practices within their business, for overseeing the risk in their business, and for responding to the needs and issues of their business.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

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, and who are the primary risk contact for the regional business heads and local regulators. In addition, the position of Product Chief Risk Officers exists for those areas of critical importance to Citigroup such as real estate 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 to seek to ensure that the risk organisation has the appropriate infrastructure, processes and management reporting. This team which supports risk management within the Company includes:

- the risk capital group, which continues to enhance the risk capital model and its consistency across all our business activities,
- the risk architecture group, which seeks to ensure we have integrated systems and common metrics, and thereby allows us to aggregate and stress exposures across the institution,
- the enterprise risk management group, which focuses on improving the effectiveness of existing controls while increasing accountability and eliminating redundancy, and
- the office of the Strategic Regulatory Relationships and Chief Administrative Officer, which focuses on our critical regulatory relationships as well as risk communications.

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 Citigroup.

Stress tests are undertaken across Citigroup, mark-to-market, available-for-sale, and amortised cost portfolios. These firm-wide stress reports seek to measure the potential impact to Citigroup 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.

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.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

Market risk

Market risk is the risk to earnings or capital from adverse changes in market factors such as interest rates, foreign exchange rates, equity and commodity prices, as well as their implied volatilities and other higher order factors

Market risks are measured in accordance with established standards to seek to ensure consistency across businesses and the ability to aggregate like risk at the Citigroup level. Independent market risk management establishes, after discussion with each business, a market risk limit framework, including risk measures, limits and controls, that clearly defines approved risk profiles and is within the parameters of Citigroup's and the Company's overall risk appetite. In all cases, the businesses are ultimately responsible for the market risks they take and for remaining within their defined limits.

Market risk is measured through a complementary set of tools, including factor sensitivities, value-at-risk ("VaR"), and stress testing. Each of these is discussed in greater detail below. Each business has its own market risk limit framework, encompassing these measures and other controls, including permitted product lists and a new product approval process for complex products.

Factor sensitivities are defined as the change in the value of a position for a defined change in a market risk factor (e.g. the change in the value of a Treasury bill for a one basis point change in interest rates). It is the responsibility of each business to seek to ensure that factor sensitivities are calculated and reported for all relevant risks taken in a trading portfolio.

VaR methodology

VaR estimates the potential decline in the value of a position or a portfolio, under normal market conditions, over a specified holding period and confidence level. The Citigroup standard is a one-day holding period, at a 99 per cent confidence level. The VaR methodology incorporates the factor sensitivities of the trading portfolio and the volatilities and correlations of those factors. The Company's VaR is based on the volatilities of, and correlations between, a wide range of market risk factors, including factors that track the specific issuer risk in debt and equity securities.

Citigroup uses Monte Carlo simulation, which it believes is conservatively calibrated to incorporate the greater of short-term (most recent month) and long-term (three years) market volatility. The Monte Carlo simulation involves approximately 300,000 market factors, making use of 180,000 time series, with market factors updated daily and model parameters updated weekly. The conservative features of the VaR calibration contribute an approximate 20% add-on to what would be a VaR estimated under the assumption of stable and perfectly normally distributed markets. Under normal and stable market conditions, Citigroup would thus expect the number of days where trading losses exceed its VaR to be less than three exceptions per year. Periods of unstable market conditions could increase the number of these exceptions.

VaR limitations

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

As set out above, stress testing is performed on portfolios on a regular basis to estimate the impact of extreme market movements. Stress testing is performed on individual portfolios, as well as on aggregations of portfolios and businesses, as appropriate. It is the responsibility of independent market risk management, in conjunction with the businesses, to develop stress scenarios, review the output of periodic stress testing exercises, and use the information to make judgments as to the ongoing appropriateness of exposure levels and limits.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

Market risk (continued)

A VaR trigger is in place for the Company that seeks to ensure any excesses are discussed and resolved between risk and the business and entity management

Although a valuable guide to risk, VaR should also be viewed in the context of its limitations

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those of an extreme nature,
- the use of a one day holding period assumes that all positions can be liquidated or the risks offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one day holding period may be insufficient to fully liquidate or hedge positions,
- the use of a 99% confidence level, by definition does not take into account losses that might occur beyond this confidence level,
- VaR is calculated on the basis of exposures outstanding at close of business therefore does not necessarily reflect intra-day exposures, and
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements

Stress testing is performed on portfolios on a regular basis to estimate the impact of extreme market movements. It is performed on both individual portfolios, as well as on aggregations of portfolios and businesses. Independent Market Risk Management, in conjunction with the businesses, develops stress scenarios, reviews the output of periodic stress testing exercises and uses the information to make judgements as to the ongoing appropriateness of exposure levels and limits.

Each portfolio has its own market risk limit framework encompassing these measures as well as other controls, including permitted product lists and a new product approval process for complex products.

The following table summarises trading price risk by disclosing the Company's calculated average VaR during the reporting period, together with the VaR as at 31 December

	2012 \$ Million			
	Equity risk	Foreign exchange risk	Covariance adjustment	Overall VaR
Average	2.0	1.0	(0.3)	2.7
As at 31 December	-	-	-	-

	2011 \$ Million			
	Equity risk	Foreign exchange risk	Covariance adjustment	Overall VaR
Average	9.9	1.9	-	11.8
As at 31 December	4.8	4.9	(0.3)	9.4

All exposures on the Company have been transferred to CGML in quarter one 2012. Exposures were nil as at year end.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk that a party will fail to discharge an obligation and cause the other party to incur a financial loss. The credit process is grounded in a series of fundamental policies, including

- joint business and independent risk management responsibility for managing credit risks,
- single centre of control for each credit relationship that coordinates credit activities with that client,
- a minimum two authorised credit officer signature requirement on extensions of credit, one from a sponsoring credit officer in the business and one from a credit officer in independent credit risk management,
- consistent risk rating standards, applicable to every Citigroup obligor and facility, and
- consistent standards for credit origination documentation and remedial management

While the Company was actively trading the Company used derivatives as both an end-user for asset/liability management and in its client businesses. The Company entered into derivatives principally to enable customers to transfer, modify or reduce their credit, equity, interest rate and other market risks. In addition, the Company used derivatives, and other instruments, as an end-user to manage the risks to which the Company was exposed.

The Company's credit exposure on derivatives and foreign exchange contracts was primarily to professional counterparties in the global financial sector, including banks, investment banks, hedge funds, insurance companies and asset management companies.

The Company seeks to reduce its exposure to credit losses by entering into master netting arrangements with most counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. Many of these arrangements also provide for the calling and posting of variation margin or collateral, further reducing the Company's exposures. The internal measurement of exposure on each credit facility takes into account legally enforceable netting and margining arrangements – both in terms of current exposure and in terms of the simulated calculation of potential future exposure.

As at 31 December the Company's third party credit exposure (mark-to-market plus potential future exposure as determined by the Company's internal measure) in relation to collateralised financing transactions and derivatives was distributed as follows:

Industry	2012 %	2011 %
Commercial and universal banks	-	26.5
Insurance and fund management	-	1.1
Brokers and investment banks	-	12.1
Other	-	60.3
	<u>-</u>	<u>100</u>

Wrong-way risk is an aggravated form of concentration risk and arises when there is a strong correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. We use a range of procedures to monitor and control wrong-way risk, including requiring entities to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines. Wrong-way risk is mitigated through the use of enforceable netting agreements and margining.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

Credit risk (continued)

The credit quality of the Company's financial assets is maintained by adherence to Citigroup policies on the provision of credit to counterparties. The Company monitors the credit ratings of its counterparties in current asset investment and derivative transactions. The tables below show the exposure to counterparties for current asset investments and derivatives as at 31 December as rated by Moody's, S&P and Fitch.

	Corporate bonds		Derivatives	
	2012	2011	2012	2011
	%	%	%	%
AAA / AA / A	-	-	-	18.5
BBB	-	11.7	-	-
BB / B	-	50.3	-	-
Unrated	-	38.0	-	81.5

The vast majority of derivative transactions undertaken by the Company was with CGML.

The maximum credit risk to which the Company is exposed without taking into account any collateral or credit enhancements is \$127 million (2011: \$6,367 million) being its total assets per the balance sheet plus any other off balance sheet commitments.

As discussed above the maximum credit risk is mitigated through the use of collateral, netting arrangements and the use of credit limits.

All exposures on the Company have been transferred to CGML in quarter one 2012. Exposures were nil as at year end.

Liquidity risk

The Company defines Liquidity risk as the risk that the firm will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without adversely affecting either daily operations or the financial condition of the firm.

The Company's funding and liquidity objectives are to maintain liquidity to fund its existing asset base as well as grow its core business, while at the same time maintain sufficient excess liquidity, structured appropriately, so that it can operate under a wide variety of market conditions, including market disruptions for both short and long-term periods.

The UK forum for liquidity management is the UK Asset/Liability Management Committee ("UK ALCO"), which includes senior executives from within the Company and is chaired by the Chief Country Officer. This forum is composed of the UK CFO, EMEA CFO, UK legal entity Risk Manager, UK Treasurer, EMEA Regional Treasurer, the Financing Desk Heads and key business representatives. The UK ALCO reviews the current and prospective funding requirements for the Company, 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 the Company. The funding and liquidity plan includes analysis of the balance sheet as well as the economic and business conditions impacting the major operating subsidiaries in the UK. As part of the funding and liquidity plan, liquidity limits, liquidity ratios and assumptions for periodic stress tests are reviewed and approved.

In order to meet its liquidity stress testing requirements and liquidity ratio hurdles, the Company holds a liquidity pool which includes highly liquid government bonds.

Stress testing and scenario analyses are intended to quantify the potential impact of a liquidity event on the balance sheet and liquidity position, and to identify viable funding alternatives that can be utilized. These scenarios include assumptions about significant changes in key funding sources, market triggers (such as credit ratings), potential uses of funding and political and economic conditions. These conditions include standard and stressed market conditions as well as firm-specific events.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

Liquidity risk (continued)

A wide range of liquidity stress tests are important for monitoring liquidity risk across Citigroup. Some span liquidity events over a full year, some may cover an intense period of one month. These potential liquidity events are useful to ascertain potential mismatches between liquidity sources and uses over a variety of horizons and liquidity limits are set accordingly. To monitor the liquidity of a unit, those stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily.

Given the range of potential stresses, Citigroup Inc maintains a series of contingency funding plans on a consolidated basis as well as for individual entities, including the Company. The plans specify a wide range of readily available actions that are in a variety of adverse market conditions, or idiosyncratic disruptions.

The following table analyses the Company's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Note that in managing liquidity risk, management use certain assumptions based on behavioural characteristics which differ from the contractual maturity dates shown below.

	Total	On	3 months	3 - 12	1 - 5
	\$ Million	demand	or less	months	years
31 December 2012	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million
Cash	10	10	-	-	-
Collateralised financing transactions	116	-	-	116	-
Trade debtors	1	-	1	-	-
	<u>127</u>	<u>10</u>	<u>1</u>	<u>116</u>	<u>-</u>
Bank loans and overdrafts	20	20	-	-	-
Trade creditors	11	4	-	7	-
	<u>31</u>	<u>24</u>	<u>-</u>	<u>7</u>	<u>-</u>
Net liquidity gap	96	(14)	1	109	-
Cumulative liquidity gap		(14)	(13)	96	96
	Total	On	3 months	3 - 12	1 - 5
	\$ Million	demand	or less	months	years
31 December 2011	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million
Cash	39	39	-	-	-
Current asset investments	2,014	2,014	-	-	-
Collateralised financing transactions	2,397	-	2,397	-	-
Trade debtors	1,907	-	1,907	-	-
Other debtors	7	-	7	-	-
	<u>6,364</u>	<u>2,053</u>	<u>4,311</u>	<u>-</u>	<u>-</u>
Bank loans and overdrafts	1,013	489	524	-	-
Collateralised financing transactions	1,254	-	1,248	6	-
Cash collateral held	56	-	56	-	-
Derivatives	713	713	-	-	-
Securities sold but not yet purchased	1,019	-	1,019	-	-
Trade creditors	1,632	-	1,632	-	-
Other creditors	4	-	4	-	-
Subordinated loans	300	-	-	-	300
	<u>5,991</u>	<u>1,202</u>	<u>4,483</u>	<u>6</u>	<u>300</u>
Net liquidity gap	373	851	(172)	(6)	(300)
Cumulative liquidity gap		851	679	673	373

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

Liquidity risk (continued)

The table below analyses the Company's liabilities into relevant maturity groupings based on the remaining contractual future undiscounted cash flows up to maturity. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the liquidity risk based on the contractual maturity as disclosed in the previous table. Derivatives have been excluded from the table because they are not held for settlement over the period of contractual maturity.

	Contractual value \$ Million	On demand \$ Million	3 months or less \$ Million	3 - 12 months \$ Million	1 - 5 years \$ Million
2012					
Subordinated loans	-	-	-	-	-
	-	-	-	-	-
	Contractual value \$ Million	On demand \$ Million	3 months or less \$ Million	3 - 12 months \$ Million	1 - 5 years \$ Million
2011					
Subordinated loans	330	-	4	11	315
	330	-	4	11	315

Country risk

Country risk is the risk that an event in a country (precipitated by developments within or external to a country) will impair the value of Citigroup's franchise or will adversely affect the ability of obligors within that country to honor their obligations to Citigroup. Country risk events may include sovereign defaults, banking defaults or crises, currency crises and/or political events.

The information below is based on Citigroup's internal risk management measures. The country designation in Citigroup's risk management systems is based on the country to which the client relationship, taken as a whole, is most directly exposed to economic, financial, sociopolitical or legal risks. This includes exposure to subsidiaries within the client relationship that are domiciled outside of the country.

Citigroup assesses the risk of loss associated with certain of the country exposures on a regular basis. These analyses take into consideration alternative scenarios that may unfold, as well as specific characteristics of the Company's portfolio, such as transaction structure and collateral.

Several European countries including Greece, Ireland, Italy, Portugal and Spain have been the subject of credit deterioration due to weaknesses in their economic and fiscal situations. The Company has no material exposures to these countries as of 31 December 2012.

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

Operational risk (unaudited)

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

- recognised ownership of the risk by the businesses,
- oversight by independent risk management, and
- independent review by audit and risk review

Framework

The Company's approach to operational risk is defined in the Citigroup Risk and Control Self-Assessment/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. The operational risk standards aim to facilitate the effective communication of operational risk. Information about operational risk, historical losses and the control environment is reported and summarised for the Audit Committee, Senior Management and for the Directors.

Measurement and Basel II

To support advanced capital modelling and management each business is required to capture relevant operational risk capital information. An enhanced version of the Citigroup risk capital model for operational risk has been developed and implemented across the major business segments. The FSA has approved this model, including a capital allocation, for use within the Company as an "Advanced Measurement Approach" under Basel II. It uses a combination of internal and external loss data to support statistical modelling of capital requirement estimates, which are then adjusted to reflect qualitative data regarding the operational risk and control environment.

Capital management

The Company's approach to capital management is driven by strategic and organisational requirements, taking into account the regulatory, economic and commercial environment.

It is the Company's policy to continue to maintain a strong capital base to support the business and regulatory capital requirements at all times. The composition and amount of capital will be commensurate with the regulations in force, including CRD4 in the future.

Capital forecasts are prepared taking into account strategic growth plans, seasonal activity and changes in the future regulatory environment. Capital forecasts are updated monthly and reviewed at least quarterly.

The Company maintains an internal capital buffer in excess of the Financial Services Authority minimum regulatory capital requirement.

Regulatory capital (unaudited)

The Company's capital adequacy position is managed and monitored in accordance with the prudential requirements of the FSA, the UK financial services regulator. The Company must at all times meet the relevant minimum capital requirements of the FSA. The Company has established processes and controls in place to monitor and manage its capital adequacy position.

Under the FSA's minimum capital standards, the Company is required to maintain an excess of total capital resources over its capital resources requirements. For this purpose the Company calculates capital requirements for market risk, credit risk, concentration risk and operational risk based upon a number of internal models and recognises a number of credit risk mitigation techniques.

The Company's regulatory capital resources comprise three distinct elements

- tier one capital, which includes ordinary share capital, retained earnings and capital reserves,
- tier two capital, which includes qualifying long-term subordinated liabilities,
- tier three capital, which includes qualifying short-term subordinated liabilities

CITIGROUP GLOBAL MARKETS U.K. EQUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments and risk management (continued)

Capital management (continued)

Regulatory capital (unaudited) (continued)

Various limits are applied to these elements of the capital base. In particular, qualifying long-term subordinated loan capital may not exceed 50 per cent of tier one capital, and qualifying short-term subordinated loan capital may not exceed 250 per cent of tier one capital. Other deductions from capital include illiquid assets and certain other regulatory items.

The Company's policy is to maintain a sufficient 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' returns is also recognised, as is 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 Company's regulatory capital resources at 31 December were as follows:

	2012 \$ Million	2011 \$ Million
Tier one capital	92	376
Tier three capital	2	300
Deductions	-	(3)
Total regulatory capital resources	<u>94</u>	<u>673</u>

24. Other commitments

a) Letters of credit

As at 31 December 2012, the Company had \$nil (2011: \$nil) of unsecured letters of credit outstanding from banks to satisfy collateral requirements under securities borrowing agreements and margin requirements.

b) Capital commitments

As at 31 December 2012, the Company had no capital commitments (2011: \$nil).

25. Group structure

The Company's immediate parent undertaking is Citigroup Global Markets Europe Limited ("CGMEL"), a company registered in England and Wales. The Company's ultimate parent company and ultimate controlling party is Citigroup Inc, incorporated in the State of Delaware, United States of America.

The audited consolidated financial statements of CGMEL are made available to the public annually in accordance with Companies House regulations and may be obtained from its registered office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

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.