

**CITIGROUP GLOBAL MARKETS EUROPE LIMITED**

**(Registered Number: 01548967)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**for the year ended 31 December 2011**

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# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2011

The Directors present their Report and the audited financial statements of Citigroup Global Markets Europe Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2011

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and 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 on pages 19 to 22, and
- objectives, policies and processes for managing credit, liquidity and market risk, and the Group's approach to capital management and allocation, are described in notes 29 and 30 on pages 62 to 74

### Business review and principal activities

The Company is a wholly-owned indirect subsidiary of Citigroup Inc. and acts as a holding company for securities activities through Citigroup Global Markets Limited ("CGML") in the UK and its branches outside the UK and through Citigroup Global Markets U.K. Equity Limited ("CGMUKE"). CGML is a broker and dealer in fixed income and equity securities and related products in the international capital markets and an underwriter and provider of corporate finance services, operating globally from the UK and through its branches in Western Europe and the Middle East.

CGMUKE is a dealer and market maker in UK equities and related contractual products. In March 2012 CGMUKE ceased trading, however it may continue to be in existence beyond 12 months to facilitate the transfer of remaining business to CGML.

The Group also markets securities owned by other group undertakings on a commission basis.

The Group's 2011 result has been significantly impacted by the ongoing challenging operating environment, particularly in the second half of the year, as macroeconomic concerns, including in the United States and the Eurozone, weighed heavily on investment and corporate confidence resulting in reduced market activity.

The Group's pre-tax loss for the year to 31 December 2011 was \$293 million compared with \$179 million pre-tax profit for 2010. Loss after tax was \$324 million (2010 profit of \$234 million).

### Income

Total income net of interest expense was \$3,064 million, a 12 per cent decrease on the previous year reflecting lower revenue in the Group's core businesses, Fixed Income Markets, Equities and Investment Banking.

Commission income and fees increased year on year from \$1,833 million to \$2,267 million, driven by several high profile Origination transactions & greater client focus across the Markets businesses.

Net dealing income decreased from \$1,632 million in 2010 to \$1,111 million, reflecting broad de-risking by clients and declines as clients broadly reduced activity levels in the face of market uncertainty. This was primarily evident in Equities & Credit, while the Fixed Income Rates business was able to somewhat benefit from the market impact of Euro zone uncertainty and global geo-political concerns.

Credit & Securitised Markets trading were greatest affected, both the market environment and widening spreads generating difficult trading conditions. In Equities the conditions drove significant declines in derivatives revenues and, to a lesser degree, declines in revenues in cash equities.

Additionally, during the year the Group began incorporating overnight indexed swap ("OIS") curves as fair value measurement inputs for the valuation of certain collateralized interest-rate related derivatives. Previously, the Group used the relevant benchmark curves for the currency of the derivative. The Group recognized a pre-tax loss of approximately \$151 million as a result of changing this fair value measurement input. Credit value adjustments ("CVA") of \$166 million gains were recorded to net dealing income.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2011

### Business review and principal activities (continued)

#### *Income (continued)*

Net interest moved from a receivable of \$10 million to a payable of \$314 million. This is driven by the increase in collateralised financing transactions during the year resulting in a significant reduction in net interest revenue and a reduction in the net interest revenue on financial assets and financial liabilities that are "held for trading" or "designated at fair value".

#### *Costs*

Operating expenses have remained flat despite a 9 per cent increase in staff over the period, adverse FX impact and the UK Bank Levy, which the Group did not have to pay in 2010.

#### *Balance sheet*

Total assets of \$308 billion at 31 December 2011 were 19 per cent higher than at 31 December 2010. The increase is the result of a 39 per cent increase in derivative assets and an 18 per cent increase in collateralised financing transactions reflecting the performance and appetite of the global market. Trading securities, collateralised financing transactions and derivatives make up a significant portion of the assets.

Total liabilities of \$298 billion at 31 December 2011 were 20 per cent higher than at 31 December 2010. The increase is primarily as a result of a 34% increase in derivative liabilities and an increase of 13% in collateralised financing transactions, offset by a 9% decrease in subordinated debt. The decrease in subordinated debt is the result of a repayment of \$1,500 million of short term subordinated debt on 10 March 2011 and a draw down of \$500 million of long term subordinated debt on 14 September 2011.

There continues to be increased customer demand for certain products including collateralised financing transactions and foreign exchange derivatives in response to the performance and risk appetite in global credit markets.

On 10 March 2011 CGML repaid \$600 million of subordinated loan borrowings to the Company, and the Company repaid \$600 million of subordinated loan borrowings to Citigroup Financial Products Inc. on the same day.

On 10 March 2011 the Group repaid \$900 million of short term subordinated loan borrowings to Citigroup Financial Products Inc.

On 14 September 2011 the Group drew down an additional \$500 million of subordinated long term debt from its facility with Citigroup Financial Products Inc.

On 18 April 2011 the Company redeemed the majority of its fixed asset investment in Al Raya Investments, realising a gain on redemption of \$1.6 million.

On 2 May 2011 the Company received a capital contribution from Citigroup Financial Products Inc. of \$320.6 million.

On 2 May 2011 the Company received a capital contribution from Citigroup Global Markets International LLC of \$174.6 million.

On 2 May 2011 the Company received a capital contribution from Citigroup Global Markets (International) Finance AG of \$4.8 million.

On 2 May 2011 the Company paid a capital contribution to CGML of \$500 million. The capital contribution was made in order to reinforce CGML's regulatory capital excess.

In December 2011, two additional schemes (Citifinancial and AVCO) were merged into the Citigroup Global Markets Limited Pension and Life Assurance Scheme from CitiFinancial Europe plc, a fellow Citigroup member. Purchase consideration of \$6,359,000 was paid for the acquisition of the schemes and an additional net pension asset of \$9,496,000 was recognised. The difference between the purchase consideration and assets purchased has been accounted for as a capital contribution.

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### **Post balance sheet events**

On 31 January 2012 CGML repaid \$2 billion of short term subordinated loan borrowings to Citigroup Financial Products Inc ("CFPI"), a fellow group company

On 24 February 2012 Standard and Poor's issued CGML with an A/A-1 short term counterparty credit rating

On 8 May 2012 CGMUKE repaid \$300 million of short term subordinated loan borrowings to CFPI

On 28 June 2012 CGML repaid \$1.2 billion of short term subordinated loan borrowings to CFPI

On 29 June 2012 CGMUKE paid an interim dividend of \$284 million to the Company

On 13 July 2012, the Company paid a capital contribution of \$284 million to CGML, and on the same day CGML repaid \$284 million of short term subordinated debt to CFPI

### **Key financial performance indicators**

In addition to the financial results of the Group, senior management consider the following other key financial performance indicators for CGML and CGMUKE

- Maintenance of required levels of regulatory capital
- Net interest margin
- Actual revenues and expenses against budget

The Group's strategy continues to be to take advantage of opportunities for the further development of its business. The Group believes that the European sovereign debt crisis and its potential impact on the global markets and growth will likely continue to create macro uncertainty and remain an issue until the market, investors and Citigroup's clients and customers believe that a comprehensive resolution to the crisis has been structured, and is achievable. Such uncertainty could have a continued negative impact on investor activity, and thus on the Group's activity levels and results in 2012. Compounding this continuing macroeconomic uncertainty is the ongoing uncertainty facing the Group, its business and related entities as a result of the numerous regulatory initiatives underway in the UK and globally. Together the Risk Factors section of this Directors' Report and note 29 to the financial statements provide information on some of the key risks to which the Group is exposed.

### **Dividends**

During the year the Company paid dividends to the ordinary shareholders totalling \$nil (2010: \$2,817 million)

During the year the Company paid dividends to the non-cumulative preference shareholders totalling \$nil (2010: \$237 million)

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## DIRECTORS' REPORT

for the year ended 31 December 2011

### Risk factors

The recent disruptions in global financial markets have increased the risks and uncertainties identified by Citigroup globally and other Financial Service companies. The below is an extract of the risk factors impacting Citigroup from its 2011 annual report on form 10-K. Please note that the references to Citi in this section mean Citigroup Inc.

### Regulatory risk

*Citi faces significant regulatory changes around the world which could negatively impact its businesses, especially given the unfavourable environment facing financial institutions and the lack of international coordination*

As discussed in more detail throughout this section, Citi continues to be subject to a significant number of new regulatory requirements and changes from numerous sources, both in the U.S. and internationally, which could negatively impact its businesses, revenues and earnings. These reforms and proposals are occurring largely simultaneously and generally not on a coordinated basis. In addition, as a result of the financial crisis in the U.S., as well as the continuing adverse economic climate globally, Citi, as well as other financial institutions, is subject to an increased level of distrust, scrutiny and skepticism from numerous constituencies, including the public, state, federal and foreign regulators, the media and within the political arena. This environment, in which the U.S. and international regulatory initiatives are being debated and implemented, engenders not only a bias towards more regulation, but towards the most prescriptive regulation for financial institutions.

As a result of this ongoing negative environment, there could be additional regulatory requirements beyond those already proposed, adopted or even currently contemplated by U.S. or international regulators. It is not clear what the cumulative impact of all of this regulatory reform will be.

*The ongoing implementation of the Dodd-Frank Act, as well as international regulatory reforms, continues to create much uncertainty for Citi, including with respect to the management of its businesses, the amount and timing of the resulting increased costs and its ability to compete*

Despite enactment in July 2010, the complete scope and ultimate form of a number of provisions of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), such as the heightened prudential standards applicable to large financial companies, the so-called "Volcker Rule" and the regulation of derivatives markets, are still in developmental stages and significant rulemaking and interpretation remains. Moreover, agencies and offices created by the Dodd-Frank Act, such as the Bureau of Consumer Financial Protection, are in their early stages and the extent and timing of regulatory efforts by these bodies remains to be seen.

This uncertainty is further compounded by the numerous regulatory efforts underway outside the U.S. Certain of these efforts overlap with the substantive provisions of the Dodd-Frank Act, while others, such as proposals for financial transaction and/or bank taxes in particular countries or regions, do not. In addition, even where these U.S. and international regulatory efforts overlap, these efforts generally have not been undertaken on a coordinated basis. Areas where divergence between U.S. regulators and their international counterparts exists or has begun to develop (whether with respect to scope, interpretation, timing, approach or otherwise) includes trading, clearing and reporting requirements for derivatives transactions, higher U.S. capital and margin requirements relating to uncleared derivatives transactions, and capital and liquidity requirements that may result in mandatory "ring-fencing" of capital or liquidity in certain jurisdictions, among others.

Regulatory uncertainty makes future planning with respect to the management of Citi's businesses more difficult. For example, the cumulative effect of the new derivative rules and sequencing of implementation requirements will have a significant impact on how Citi chooses to structure its derivatives business and its selection of legal entities in which to conduct this business. Until these rules are final and interpretive questions are answered, management's business planning and proposed pricing for this business necessarily include assumptions based on proposed rules. Incorrect assumptions could impede Citi's ability to effectively implement and comply with the final requirements in a timely manner. Management's planning is further complicated by the continual need to review and evaluate the impact to the business of an ongoing flow of rule proposals and interpretations from numerous regulatory bodies, all within compressed timeframes.

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## DIRECTORS' REPORT

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### Risk factors (continued)

#### Regulatory risk (continued)

In addition, the operational and technological costs associated with implementation of, as well as the ongoing compliance costs associated with, all of these regulations will likely be substantial. Given the continued uncertainty, the ultimate amount and timing of such costs going forward are difficult to predict. In 2011, Citi invested approximately \$1 billion in order to meet various regulatory requirements, and this amount did not include many of the costs likely to be incurred pursuant to the implementation of the Dodd-Frank Act or other regulatory initiatives. For example, the proposed Volcker Rule contemplates a comprehensive internal controls system as well as extensive data collection and reporting duties with respect to "proprietary trading," and rules for registered swap dealers impose extensive recordkeeping requirements and business conduct rules for dealing with customers. All of these costs negatively impact Citi's earnings. Given Citi's global footprint, its implementation and compliance risks and costs are more complex and could be more substantial than its competitors. Ongoing compliance with inconsistent, conflicting or duplicative regulations across U.S. and international jurisdictions, or failure to implement or comply with these new regulations on a timely basis, could further increase costs or harm Citi's reputation generally.

Citi could also be subject to more stringent regulation because of its global footprint. In accordance with the Dodd-Frank Act, in December 2011 the Federal Reserve Board proposed a set of heightened prudential standards that will be applicable to large financial companies such as Citi. The proposal dictates requirements for aggregate counterparty exposure limits and enhanced risk management processes and oversight, among other things. Compliance with these standards could result in restrictions on Citi's activities. Moreover, other financial institutions, including so-called "shadow banking" financial intermediaries, providing many of the same or similar services or products that Citi makes available to its customers, may not be regulated on the same basis or to the same extent as Citi and consequently may also have certain competitive advantages.

Finally, uncertainty persists as to the extent to which Citi will be subject to more stringent regulations than its foreign competitors with respect to several of the regulatory initiatives, particularly in its non-U.S. operations, including certain aspects of the proposed restrictions under the Volcker Rule and derivatives clearing and margin requirements. Differences in substance or severity of regulations across jurisdictions could significantly reduce Citi's ability to compete with foreign competitors, in a variety of businesses and geographic areas, and thus further negatively impact Citi's earnings.

***Citi's prospective regulatory capital requirements remain uncertain and will likely be higher than many of its competitors. There is a risk that Citi will be unable to meet these new standards in the timeframe expected by the market or regulators.***

Citi's prospective regulatory capital requirements continue to be subject to extensive rulemaking and interpretation. Ongoing areas of rulemaking include, among others, (i) the final Basel III rules applicable to U.S. financial institutions, including Citi, (ii) capital surcharges for global systemically important banks (G-SIBs), including the extent of the surcharge to be initially imposed on Citi, and (iii) implementation of the Dodd-Frank Act, including imposition of enhanced prudential capital requirements on financial institutions that are deemed to pose a systemic risk to market-wide financial stability as well as provisions requiring the elimination of credit ratings from capital regulations and the Collins Amendment.

It is clear that final U.S. rules implementing Basel III, the G-SIB surcharge and the capital-related provisions of the Dodd-Frank Act will significantly increase Citi's regulatory capital requirements, including the amount of capital required to be in the form of common equity. However, the various regulatory capital levels Citi must maintain, the types of capital that will meet these requirements and the specific capital requirements associated with Citi's assets remain uncertain. For example, Citi may be required to replace certain of its existing regulatory capital in a compressed timeframe or in unfavorable markets in order to comply with final rules implementing Basel III and the Collins Amendment, which eliminated trust preferred securities from the definition of Tier 1 Capital. In addition, the alternative approaches proposed to replace the use of credit ratings in accordance with the Dodd-Frank Act and final rules implementing Basel II.5 could require Citi to hold more capital against certain of its assets than it must currently.

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## DIRECTORS' REPORT

for the year ended 31 December 2011

### Risk factors (continued)

#### Regulatory risk (continued)

The lack of final regulatory capital requirements impedes long-term capital planning by Citi's management. Citi is not able to accurately forecast its capital requirements for particular exposures which complicates its ability to assess the future viability of, and appropriate pricing for, certain of its products. In addition, while management may desire to take certain actions to optimize Citi's regulatory capital profile, such as the reduction of certain investments in unconsolidated financial entities, without clarity as to the final standards, there is risk in management either taking actions based on assumed or proposed rules or waiting to take action until final rules that are implemented in compressed timeframes.

Citi's projected ability to comply with the new capital requirements as they are implemented, or earlier, is also based on certain assumptions specific to Citi's businesses, including its future earnings in Citicorp, the continued wind-down of Citi Holdings and the monetization of Citi's deferred tax assets. If management's assumptions with respect to certain aspects of Citi's businesses prove to be incorrect, it could negatively impact Citi's ability to comply with the future regulatory capital requirements in a timely manner or in a manner consistent with market or regulator expectations.

Citi's regulatory capital requirements will also likely be higher than many of its competitors. Citi's strategic focus on emerging markets, for example, will likely result in higher risk-weighted assets and thus potentially higher capital requirements than its less global or less emerging-markets-focused competitors. In addition, within the U.S., Citi will likely face higher regulatory capital requirements than most of its U.S.-based competitors that are not subject to the G-SIB surcharge (or the same level of surcharge) or the heightened prudential capital requirements to be imposed on systemically important financial institutions. Internationally, there have already been instances of Basel III not being consistently adopted or applied across countries or regions. Any lack of a level playing field with respect to capital requirements for Citi as compared to peers or less regulated financial intermediaries, both in the U.S. and internationally, could put Citi at a competitive disadvantage.

***As proposed, changes in regulation of derivatives required under the Dodd-Frank Act will require significant and costly restructuring of Citi's derivatives businesses in order to meet the new market structures and could affect the competitive position of these businesses.***

Once fully implemented, the provisions of the Dodd-Frank Act relating to the regulation of derivatives will result in comprehensive reform of the derivatives markets. Reforms will include requiring a wide range of over-the-counter derivatives to be cleared through recognized clearing facilities and traded on exchanges or exchange-like facilities, the collection and segregation of collateral for most uncleared derivatives, extensive public transaction reporting and business conduct requirements, and significantly broadened restrictions on the size of positions that may be maintained in specified commodity derivatives. While some of the regulations have been finalized, the rulemaking process is still not complete, and the timing for the effectiveness of many of these requirements is not yet clear.

The proposed rules implementing the derivatives provisions of the Dodd-Frank Act will necessitate costly and resource-intensive changes to certain areas of Citi's derivatives business structures and practices. Those changes will include restructuring the legal entities through which those businesses are conducted and the successful and timely installation of extensive technological and operational systems and compliance infrastructure, among others. Effective legal entity restructuring will also be dependent on clients and regulators, and so may be subject to delays or disruptions not fully under Citi's control. Moreover, new derivatives-related systems and infrastructure will likely become the basis on which institutions such as Citi compete for clients and, to the extent that Citi's connectivity or services for clients in these businesses is deficient, Citi could be at a competitive disadvantage. More generally, the contemplated reforms will make trading in many derivatives products more costly and may significantly reduce the liquidity of certain derivatives markets and diminish customer demand for covered derivatives. These changes could negatively impact Citi's earnings from these businesses.

Reforms similar to the derivatives provisions and proposed regulations under the Dodd-Frank Act are also contemplated in the European Union and certain other jurisdictions. These reforms appear likely to take effect after the provisions of the Dodd-Frank Act and, as a result, it is uncertain whether they will be similar to those in the U.S. or will impose different or additional requirements on Citi's derivative activities. Complications due to the sequencing of the effectiveness of derivatives reform, both among different components of the Dodd-Frank Act and between the U.S. and other jurisdictions, could give rise to further disruptions and competitive dislocations.

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## DIRECTORS' REPORT

for the year ended 31 December 2011

### Risk factors (continued)

#### Regulatory risk (continued)

The proposed regulations implementing the derivatives provisions of the Dodd-Frank Act, if adopted without modification, would also adversely affect the competitiveness of Citi's non-U S operations. For example, the proposed regulations would require some of Citi's non-U S operations to collect more margin from its non-U S derivatives customers than Citi's foreign bank competitors may be required to collect. The Dodd-Frank Act also contains a so-called "push-out" provision that will prevent FDIC-insured depository institutions from dealing in certain equity, commodity and credit-related derivatives. Citi conducts a substantial portion of its derivatives-dealing activities through its insured depository institution and, to the extent that certain of Citi's competitors already conduct such activities outside of FDIC-insured depository institutions, Citi would be disproportionately impacted by any restructuring of its business for push-out purposes. Moreover, the extent to which Citi's non-U S operations will be impacted by the push-out provision and other derivative provisions remains unclear, and it is possible that Citi could lose market share or profitability in its derivatives business or client relationships in jurisdictions where foreign bank competitors can operate without the same constraints.

*The proposed restrictions imposed on proprietary trading and funds-related activities under the "Volcker Rule" provisions of the Dodd-Frank Act could adversely impact Citi's market-making activities and may cause Citi to dispose of certain of its investments at less than fair value.*

The "Volcker Rule" provisions of the Dodd-Frank Act are intended to restrict the proprietary trading activities of institutions such as Citi, as well as such institutions' sponsorship and investment in hedge funds and private equity funds. In October 2011, the Federal Reserve Board, OCC, FDIC and SEC proposed regulations that would implement these restrictions and the CFTC followed with its proposed regulations in January 2012.

The proposed regulations contain narrow exceptions for market-making, underwriting, risk-mitigating hedging, certain transactions on behalf of customers and activities in certain asset classes, and require that certain of these activities be designed not to encourage or reward "proprietary risk taking." Because the regulations are not yet final, the degree to which Citi's activities in these areas will be permitted to continue in their current form remains uncertain.

Moreover, if adopted as proposed, the rules would require an extensive compliance regime around these "permitted" activities, and Citi could incur significant ongoing compliance and monitoring costs, including with respect to the frequent reporting of extensive metrics and risk analytics, to the regulatory agencies. In addition, the proposed rules and any restrictions imposed by final regulations in this area will also likely affect Citi's trading activities globally, and thus will impact it disproportionately in comparison to foreign financial institutions that will not be subject to the Volcker Rule with respect to their activities outside of the U S.

In addition, under the funds-related provisions of the Volcker Rule, bank regulators have the flexibility to provide firms with extensions allowing them to hold their otherwise restricted investments in private equity and hedge funds for some time beyond the statutory divestment period. If the regulators elect not to grant such extensions, Citi could be forced to divest certain of its investments in illiquid funds in the secondary market on an untimely basis. Based on the illiquid nature of the investments and the prospect that other industry participants subject to similar requirements would likely be divesting similar assets at the same time, such sales could be at substantial discounts to their fair value.

*Regulatory requirements in the U.S. and other jurisdictions aimed at facilitating the future orderly resolution of large financial institutions could result in Citi having to change its business structures, activities and practices in ways that negatively impact its operations.*

The Dodd-Frank Act requires Citi to prepare a plan for the rapid and orderly resolution of Citigroup, the bank holding company, under the Bankruptcy Code in the event of future material financial distress or failure. Citi is also required to prepare a resolution plan for its insured depository institution subsidiary, Citibank, N A, and to demonstrate how it is adequately protected from the risks presented by non-bank affiliates. These plans must include information on resolution strategy, major counterparties and "interdependencies," among other things, and will require substantial effort, time and cost. These resolution plans will be subject to review by the Federal Reserve Board and the FDIC.



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## DIRECTORS' REPORT

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### Risk factors (continued)

#### Regulatory risk (continued)

Based on regulator review of these plans, Citi may have to restructure or reorganize businesses, legal entities, or operational systems and intracompany transactions in ways that negatively impact its operations, or be subject to restrictions on growth. For example, Citi could be required to create new subsidiaries instead of branches in foreign jurisdictions, or create subsidiaries to conduct particular businesses or operations (so-called "subsidiarization"), which would, among other things, increase Citi's legal, regulatory and managerial costs, negatively impact Citi's global capital and liquidity management and potentially impede its global strategy. Citi could also eventually be subjected to more stringent capital, leverage or liquidity requirements, or be required to divest certain assets or operations, if both regulators determine that Citi's resolution plans do not meet statutory requirements and Citi does not remedy the deficiencies within required time periods.

In addition, other jurisdictions, such as the United Kingdom, have requested or are expected to request resolution plans from financial institutions, including Citi, and the requirements and timing relating to these plans are different from the U.S. requirements and each other. Responding to these additional requests will require additional effort, time and cost, and regulatory review and requirements in these jurisdictions could be in addition to, or conflict with, changes requested by Citi's regulators in the U.S.

***Provisions of the Dodd-Frank Act and other regulations relating to securitizations will impose additional costs on securitization transactions, increase Citi's potential liability in respect of securitizations and may prohibit Citi from performing certain roles in securitizations, each of which could make it impractical to execute certain types of transactions and may have an overall negative effect on the recovery of the securitization markets.***

Citi plays a variety of roles in asset securitization transactions, including acting as underwriter of asset-backed securities, depositor of the underlying assets into securitization vehicles, trustee to securitization vehicles and counterparty to securitization vehicles under derivative contracts. The Dodd-Frank Act contains a number of provisions that affect securitizations. Among other provisions, these include a requirement that securitizers retain un-hedged exposure to at least 5% of the economic risk of certain assets they securitize, a prohibition on securitization participants engaging in transactions that would involve a conflict with investors in the securitization, and extensive additional requirements for review and disclosure of the characteristics of the assets underlying the securitizations. The SEC has also proposed additional extensive regulation of both publicly and privately offered securitization transactions (so-called "Reg AB II").

The cumulative effect of these extensive regulatory changes, many of which have not been finalized, as well as other potential future regulatory changes, such as GSE reform, on securitization markets, the nature and profitability of securitization transactions, and Citi's participation therein, cannot currently be assessed. It is likely, however, that these various measures will increase the costs of executing securitization transactions, and could effectively limit Citi's overall volume of, and the role Citi may play in, securitizations, expose Citi to additional potential liability for securitization transactions and make it impractical for Citi to execute certain types of securitization transactions it previously executed. In addition, certain sectors of the securitization markets, particularly residential mortgage-backed securitizations, have been inactive or experienced dramatically diminished transaction volumes since the financial crisis. The impact of various regulatory reform measures could negatively delay or restrict any future recovery of these sectors of the securitization markets, and thus the opportunities for Citi to participate in securitization transactions in such sectors.

***The Financial Accounting Standards Board (FASB) is currently reviewing or proposing changes to several key financial accounting and reporting standards utilized by Citi which, if adopted as proposed, could have a material impact on how Citi records and reports its financial condition and results of operations.***

The FASB is currently reviewing or proposing changes to several of the financial accounting and reporting standards that govern key aspects of Citi's financial statements. While the outcome of these reviews and proposed changes is uncertain and difficult to predict, certain of these changes could have a material impact on how Citi records and reports its financial condition and results of operations, and could hinder understanding or cause confusion across comparative financial statement periods. For example, the FASB's financial instruments project could, among other things, significantly change how Citi determines the impairment on those assets and accounts for hedges. In addition, the FASB's leasing project could eliminate most operating leases and instead capitalize them, which would result in a gross-up of Citi's balance sheet and a change in the timing of income and expense recognition patterns for leases.

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## DIRECTORS' REPORT

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### Risk factors (continued)

#### Regulatory risk (continued)

Moreover, the FASB continues its convergence project with the International Accounting Standards Board (IASB) pursuant to which U S GAAP and International Financial Reporting Standards (IFRS) are to be converged. The FASB and IASB continue to have significant disagreements on the convergence of certain key standards affecting financial reporting, including accounting for financial instruments and hedging. In addition, the SEC has not yet determined whether, when or how U S companies will be required to adopt IFRS. There can be no assurance that the transition to IFRS, if and when required to be adopted by Citi, will not have a material impact on how Citi reports its financial results, or that Citi will be able to meet any required transition timeline.

#### Market and economic risks

***The ongoing Eurozone debt crisis could have significant adverse effects on Citi's business, results of operations, financial condition and liquidity, particularly if it leads to any sovereign debt defaults, significant bank failures or defaults and/or the exit of one or more countries from the European Monetary Union.***

The ongoing Eurozone debt crisis has caused, and is likely to continue to cause, disruption in global financial markets, particularly if it leads to any future sovereign debt defaults and/or significant bank failures or defaults in the Eurozone. In spite of a number of stabilization measures taken since spring 2010, yields on government bonds of certain Eurozone countries, including Greece, Ireland, Italy, Portugal and Spain, have remained volatile. In addition, some European banks and insurers have experienced a widening of credit spreads (and the resulting decreased availability and increased costs of funding) as a result of uncertainty regarding the exposure of such European financial institutions to these countries. This widening of credit spreads and increased cost of funding has also affected Citi due to concerns about its Eurozone exposure.

The market disruptions in the Eurozone could intensify or spread further, particularly if ongoing stabilization efforts prove insufficient. Concerns have been raised as to the financial, political and legal ineffectiveness of measures taken to date. Continued economic turmoil in the Eurozone could have a significant negative impact on Citi, both directly through its own exposures and indirectly due to a decline in general global economic conditions, which could particularly impact Citi given its global footprint and strategy. There can be no assurance that the various steps Citi has taken to protect its businesses, results of operations and financial condition against the results of the Eurozone crisis will be sufficient.

The effects of the Eurozone debt crisis could be even more significant if they lead to a partial or complete break-up of the European Monetary Union (EMU). The partial or full break-up of the EMU would be unprecedented and its impact highly uncertain. The exit of one or more countries from the EMU or the dissolution of the EMU could lead to redenomination of obligations of obligors in exiting countries. Any such exit and redenomination would cause significant uncertainty with respect to outstanding obligations of counterparties and debtors in any exiting country, whether sovereign or otherwise, and lead to complex, lengthy litigation. The resulting uncertainty and market stress could also cause, among other things, severe disruption to equity markets, significant increases in bond yields generally, potential failure or default of financial institutions, including those of systemic importance, a significant decrease in global liquidity, a freeze-up of global credit markets and worldwide recession. Any combination of such events would negatively impact Citi's businesses, earnings and financial condition, particularly given Citi's global strategy. In addition, exit and redenomination could be accompanied by imposition of capital, exchange and similar controls, which could further negatively impact Citi's cross-border risk, other aspects of its businesses and its earnings.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## DIRECTORS' REPORT

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### Risk factors (continued)

#### Market and economic risks (continued)

***The continued uncertainty relating to the sustainability and pace of economic recovery and market volatility has adversely affected, and may continue to adversely affect, certain of Citi's businesses, particularly S&B and the U.S. mortgage businesses within Citi Holdings – Local Consumer Lending.***

The financial services industry and the capital markets have been and will likely continue to be adversely affected by the slow pace of economic recovery and continued disruptions in the global financial markets. This continued uncertainty and disruption have adversely affected, and may continue to adversely affect, certain of Citi's businesses, particularly its S&B business and its *Local Consumer Lending* business within *Citi Holdings*.

In particular, the corporate and sovereign bond markets, equity and derivatives markets, debt and equity underwriting and other elements of the financial markets have been and could continue to be subject to wide swings and volatility relating to issues emanating from Eurozone and U.S. economic issues. As a result of this uncertainty and volatility, clients have remained and may continue to remain on the sidelines or cut back on trading and other business activities and, accordingly, the results of operations of Citi's S&B businesses have been and could continue to be volatile and negatively impacted.

Moreover, the continued economic uncertainty in the U.S., accompanied by continued high levels of unemployment and depressed values of residential real estate, will continue to negatively impact Citi's U.S. Consumer mortgage businesses, particularly its residential real estate and home equity loans in *Citi Holdings – LCL*. Given the continued decline in Citi's ability to sell delinquent residential first mortgages, the decreased inventory of such loans for modification and re-defaults of previously modified mortgages, Citi began to experience increased delinquencies in this portfolio during the latter part of 2011. As a result, Citi could also experience increasing net credit losses in this portfolio going forward. Moreover, given the lack of markets in which to sell delinquent home equity loans, as well as the relatively fewer home equity loan modifications and modification programs, Citi's ability to offset increased delinquencies and net credit losses in its home equity loan portfolio in *Citi Holdings* has been, and will continue to be, more limited as compared to residential first mortgages.

***Concerns about the level of U.S. government debt and downgrade, or concerns about a potential downgrade, of the U.S. government credit rating could have a material adverse effect on Citi's businesses, results of operations, capital, funding and liquidity.***

In August 2011, Standard & Poor's lowered its long-term sovereign credit rating on the U.S. government from AAA to AA+ and in the second half of 2011, Moody's Investors Services and Fitch both placed the U.S. rating on negative outlook. According to the credit rating agencies, these actions resulted from the high level of U.S. government debt and the continued inability of Congress to reach an agreement to ensure payment of U.S. government debt and reduce the U.S. debt level. If the credit rating of the U.S. government is further downgraded, the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected. A future downgrade of U.S. debt obligations or U.S. government-related obligations by one or more credit rating agencies, or heightened concern that such a downgrade might occur, could negatively affect Citi's ability to obtain funding collateralized by such obligations as well as the pricing of such funding. Such a downgrade could also negatively impact the pricing or availability of Citi's funding as a U.S. financial institution. In addition, such a downgrade could affect financial markets and economic conditions generally and the market value of the U.S. debt obligations held by Citi. As a result, such a downgrade could lead to a downgrade of Citi debt obligations and could have a material adverse effect on Citi's business, results of operations, capital, funding and liquidity.

***Citi's extensive global network, particularly its operations in the world's emerging markets, subject it to emerging market and sovereign volatility and further increases its compliance and regulatory risks and costs.***

Citi believes its extensive and diverse global network—which includes a physical presence in approximately 100 countries and services offered in over 160 countries and jurisdictions—provides it with a unique competitive advantage in servicing the broad financial services needs of large multinational clients and customers around the world, including in many emerging markets. International revenues have recently been the largest and fastest-growing component of Citicorp, driven by emerging markets.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2011

### Risk factors (continued)

#### Market and economic risks (continued)

However, this global footprint also subjects Citi to a number of risks associated with international and emerging markets, including exchange controls, limitations on foreign investment, socio-political instability, nationalization, closure of branches or subsidiaries, confiscation of assets and sovereign volatility, among others. For example, there have been recent instances of political turmoil and violent revolutionary uprisings in some of the countries in which Citi operates, including in the Middle East, to which Citi has responded by transferring assets and relocating staff members to more stable jurisdictions. While these previous incidents have not been material to Citi, such disruptions could place Citi's staff and operations in danger and may result in financial losses, some significant, including nationalization of Citi's assets.

Further, Citi's extensive global operations increase its compliance and regulatory risks and costs. For example, Citi's operations in emerging markets subject it to higher compliance risks under U.S. regulations primarily focused on various aspects of global corporate activities, such as anti-money-laundering regulations and the Foreign Corrupt Practices Act, which can be more acute in less developed markets and thus require substantial investment in order to comply. Any failure by Citi to remain in compliance with applicable U.S. regulations, as well as the regulations in the countries and markets in which it operates as a result of its global footprint, could result in fines, penalties, injunctions or other similar restrictions, any of which could negatively impact Citi's earnings and its general reputation. In addition, complying with inconsistent, conflicting or duplicative regulations requires extensive time and effort and further increases Citi's compliance, regulatory and other costs.

It is uncertain how the ongoing Eurozone debt crisis will affect emerging markets. A recession in the Eurozone could cause a ripple effect in emerging markets, particularly if banks in developed economies decrease or cease lending to emerging markets, as is currently occurring in some cases. This impact could be disproportionate in the case of Citi in light of the emphasis on emerging markets in its global strategy. Decreased, low or negative growth in emerging market economies could make execution of Citi's global strategy more challenging and could adversely affect Citi's revenues, profits and operations.

***The maintenance of adequate liquidity depends on numerous factors outside of Citi's control, including without limitation market disruptions and increases in Citi's credit spreads.***

Adequate liquidity and sources of funding are essential to Citi's businesses. Citi's liquidity and sources of funding can be significantly and negatively impacted by factors it cannot control, such as general disruptions in the financial markets or negative perceptions about the financial services industry in general, or negative investor perceptions of Citi's liquidity, financial position or credit worthiness in particular. Market perception of sovereign default risks, such as issues in the Eurozone as well as other complexities regarding the current European debt crisis, can also lead to ineffective money markets and capital markets, which could further impact Citi's availability of funding.

In addition, Citi's cost and ability to obtain deposits, secured funding and long-term unsecured funding from the capital markets are directly related to its credit spreads. Changes in credit spreads constantly occur and are market-driven, including both external market factors as well as factors specific to Citi, and can be highly volatile. Citi's credit spreads may also be influenced by movements in the costs to purchasers of credit default swaps referenced to Citi's long-term debt, which are also impacted by these external and Citi-specific factors. Moreover, Citi's ability to obtain funding may be impaired if other market participants are seeking to access the markets at the same time, or if market appetite is reduced, as is likely to occur in a liquidity or other market crisis. In addition, clearing organizations, regulators, clients and financial institutions with which Citi interacts may exercise the right to require additional collateral based on these market perceptions or market conditions, which could further impair Citi's access to funding.

***The credit rating agencies continuously review the ratings of Citi and its subsidiaries, and reductions in Citi's and its subsidiaries' credit ratings could have a significant and immediate impact on Citi's funding and liquidity through cash obligations, reduced funding capacity and additional margin requirements.***

The rating agencies continuously evaluate Citi and its subsidiaries, and their ratings of Citi's and its more significant subsidiaries' long-term/senior debt and short-term /commercial paper, as applicable, are based on a number of factors, including financial strength, as well as factors not entirely within the control of Citi and its subsidiaries, such as the agencies' proprietary rating agency methodologies and conditions affecting the financial services industry generally.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2011

### Risk factors (continued)

#### Market and economic risks (continued)

Citi and its subsidiaries may not be able to maintain their current respective ratings. Ratings downgrades by Fitch, Moody's or S&P could have a significant and immediate impact on Citi's funding and liquidity through cash obligations, reduced funding capacity and additional margin requirements for derivatives or other transactions. Ratings downgrades could also have a negative impact on other funding sources, such as secured financing and other margined transactions, for which there are no explicit triggers. Some entities may also have ratings limitations as to their permissible counterparties, of which Citi may or may not be aware. A reduction in Citi's or its subsidiaries' credit ratings could also widen Citi's credit spreads or otherwise increase its borrowing costs and limit its access to the capital markets.

#### Business risk

***Citi may be unable to maintain or reduce its level of expenses as it expects, and investments in its businesses may not be productive***

Citi continues to pursue a disciplined expense-management strategy, including re-engineering, restructuring operations and improving the efficiency of functions, such as call centers and collections, to achieve a targeted percentage expense savings annually. However, there is no guarantee that Citi will be able to maintain or reduce its level of expenses in the future, particularly as expenses incurred in Citi's foreign entities are subject to foreign exchange volatility, and regulatory compliance and legal and related costs are difficult to predict or control, particularly given the current regulatory and litigation environment. Moreover, Citi has incurred, and will likely continue to incur, costs of investing in its businesses. These investments may not be as productive as Citi expects or at all. Furthermore, as the wind down of Citi Holdings slows, Citi's ability to continue to reduce its expenses as a result of this wind down will also decline.

***Citi's operational systems and networks have been, and will continue to be, vulnerable to an increasing risk of continually evolving cybersecurity or other technological risks which could result in the disclosure of confidential client or customer information, damage to Citi's reputation, additional costs to Citi, regulatory penalties and financial losses.***

A significant portion of Citi's operations relies heavily on the secure processing, storage and transmission of confidential and other information as well as the monitoring of a large number of complex transactions on a minute-by-minute basis. For example, through its global consumer banking, credit card and *Transaction Services* businesses, Citi obtains and stores an extensive amount of personal and client-specific information for its retail, corporate and governmental customers and clients and must accurately record and reflect their extensive account transactions. These activities have been, and will continue to be, subject to an increasing risk of cyber attacks, the nature of which is continually evolving.

Citi's computer systems, software and networks have been and will continue to be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber attacks and other events. These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to Citi's reputation with its clients and the market, additional costs to Citi (such as repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses, to both Citi and its clients and customers. Such events could also cause interruptions or malfunctions in the operations of Citi (such as the lack of availability of Citi's online banking system), as well as the operations of its clients, customers or other third parties. Given the high volume of transactions at Citi, certain errors or actions may be repeated or compounded before they are discovered and rectified, which would further increase these costs and consequences.

Citi has recently been subject to intentional cyber incidents from external sources, including (i) data breaches, which resulted in unauthorized access to customer account data and interruptions of services to customers, (ii) malicious software attacks on client systems, which in turn allowed unauthorized entrance to Citi's systems under the guise of a client and the extraction of client data, and (iii) denial of service attacks, which attempted to interrupt service to clients and customers. While Citi was able to detect these prior incidents before they became significant, they still resulted in losses as well as increases in expenditures to monitor against the threat of similar future cyber incidents. There can be no assurance that such incidents, or other cyber incidents, will not occur again, and they could occur more frequently and on a more significant scale.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2011

### Risk factors (continued)

#### Business risk (continued)

In addition, third parties with which Citi does business may also be sources of cybersecurity or other technological risks. Citi outsources certain functions, such as processing of customer credit card transactions, which results in the storage and processing of customer information by third parties. While Citi engages in certain actions to reduce the exposure resulting from outsourcing, such as limiting third-party access to the least privileged level necessary to perform job functions and restricting third-party processing to systems stored within Citi's data centers, unauthorized access, loss or destruction of data or other cyber incidents could occur, resulting in similar costs and consequences to Citi as those discussed above. Furthermore, because financial institutions are becoming increasingly interconnected with central agents, exchanges and clearing houses, including through the derivatives provisions of the Dodd-Frank Act, Citi has increased exposure to operational failure or cyber attacks through third parties.

While Citi maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

*Citi's financial statements are based in part on assumptions and estimates, which, if wrong, could cause unexpected losses in the future, sometimes significant.*

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

*Citi is subject to a significant number of legal and regulatory proceedings that are often highly complex, slow to develop and are thus difficult to predict or estimate.*

At any given time, Citi is defending a significant number of legal and regulatory proceedings. The volume of claims and the amount of damages and penalties claimed in litigation, arbitration and regulatory proceedings against financial institutions remain high, and could further increase in the future.

Proceedings brought against Citi may result in judgments, settlements, fines, penalties, disgorgement, injunctions, business improvement orders or other results adverse to it, which could materially and negatively affect Citi's businesses, financial condition or results of operations, require material changes in Citi's operations, or cause Citi reputational harm. Moreover, the many large claims asserted against Citi are highly complex and slow to develop, and they may involve novel or untested legal theories. The outcome of such proceedings may thus be difficult to predict or estimate until late in the proceedings, which may last several years. In addition, certain settlements are subject to court approval and may not be approved. Although Citi establishes accruals for its litigation and regulatory matters according to accounting requirements, the amount of loss ultimately incurred in relation to those matters may be substantially higher or lower than the amounts accrued.

In addition, while Citi takes numerous steps to prevent and detect employee misconduct, such as fraud, employee misconduct is not always possible to deter or prevent, and the extensive precautions Citi takes to prevent and detect this activity may not be effective in all cases, which could subject it to additional liability. Moreover, the "whistle-blower" provisions of the Dodd-Frank Act provide substantial financial incentives for persons to report alleged violations of law to the SEC and the CFTC. The final rules implementing these provisions for the SEC and CFTC became effective in August and October 2011, respectively.

As such, there continues to be much uncertainty as to whether these new reporting provisions will incentivize and lead to an increase in the number of claims that Citi will have to investigate or against which Citi will have to defend itself, thus potentially further increasing Citi's legal liabilities.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2011

### Risk factors (continued)

#### Business risk (continued)

***Failure to maintain the value of the Citi brand could harm Citi's global competitive advantage, results of operations and strategy.***

As Citi enters into its 200th year of operations in 2012, one of its most valuable assets is the Citi brand. Citi's ability to continue to leverage its extensive global footprint, and thus maintain one of its key competitive advantages, depends on the continued strength and recognition of the Citi brand, including in emerging markets as other financial institutions grow their operations in these markets and competition intensifies. As referenced above, as a result of the economic crisis in the U.S. as well as the continuing adverse economic climate globally, Citi, like other financial institutions, is subject to an increased level of distrust, scrutiny and skepticism from numerous constituencies, including the general public. The Citi brand could be further harmed if its public image or reputation were to be tarnished by negative publicity, whether or not true, about Citi or the financial services industry in general, or by a negative perception of Citi's short-term or long-term financial prospects. Maintaining, promoting and positioning the Citi brand will depend largely on Citi's ability to provide consistent, high-quality financial services and products to its clients and customers around the world. Failure to maintain its brand could hurt Citi's competitive advantage, results of operations and strategy.

***Citi may incur significant losses if its risk management processes and strategies are ineffective, and concentration of risk increases the potential for such losses.***

Citi monitors and controls its risk exposure across businesses, regions and critical products 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 Citi 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.

Concentration of risk increases the potential for significant losses. Because of concentration of risk, Citi may suffer losses even when economic and market conditions are generally favorable for Citi's competitors. These concentrations can limit, and have limited, the effectiveness of Citi's hedging strategies and have caused Citi to incur significant losses, and they may do so again in the future. In addition, Citi extends large commitments as part of its credit origination activities. If Citi is unable to reduce its credit risk by selling, syndicating or securitizing these positions, including during periods of market dislocation, Citi's results of operations could be negatively affected 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.

Although Citi's activities expose it to the credit risk of many different entities and counterparties, Citi routinely executes a high volume of transactions with counterparties in the financial services sector, including banks, other financial institutions, insurance companies, investment banks and government and central banks. This has resulted in significant credit concentration with respect to this sector. To the extent regulatory or market developments lead to an increased centralization of trading activity through particular clearing houses, central agents or exchanges, this could increase Citi's concentration of risk in this sector.

The above factors, along with the risks discussed in note 29, 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 drivers of the Group's potential need of parental support.

### Financial instruments

The financial risk management objectives and policies and the exposure to market, credit, operational, liquidity and country risk of the Group has been disclosed in note 29 "Financial instruments and risk management" on pages 62 to 73.

# **CITIGROUP GLOBAL MARKETS EUROPE LIMITED**

## **DIRECTORS' REPORT**

for the year ended 31 December 2011

### **Directors**

The Directors who held office during the year ended 31 December 2011 and up to the date of this report were

W J Mills	(resigned 31 December 2011)
B J Gans	
D I Sharland	
M L Corbat	(appointed 1 January 2012 and resigned 10 August 2012)
P McCarthy	(appointed 10 August 2012)

### **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 financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they have elected to prepare the Group and Company 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the Directors are required to

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

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

### **Environment**

The Group 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 Group's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

### **Employment of disabled people**

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.



# **CITIGROUP GLOBAL MARKETS EUROPE LIMITED**

## **DIRECTORS' REPORT**

for the year ended 31 December 2011

### **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 business

### **Charitable donations and political contributions**

During the year the Group made charitable donations of \$724,746 (2010 \$812,556) No political contributions were made during the year (2010 \$nil)

### **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 Group'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 Group'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

19 September 2012

Incorporated in England and Wales  
Registered office Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB  
Registered Number 01548967

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CITIGROUP GLOBAL MARKETS EUROPE LIMITED**

We have audited the financial statements of Citigroup Global Markets Europe Limited for the year ended 31 December 2011 which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated statement of total recognised gains and losses, the consolidated reconciliation of movements in shareholder's funds, the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the group'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 group'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 group and the group'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 page 16, 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 our 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 APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group and parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK 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 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.



**R Faulkner** (Senior Statutory Auditor)

**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants  
15 Canada Square  
London  
E14 5GL

19 September 2012

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2011

		2011	2010*
	Notes	\$ Million	as restated \$ Million
Commission income and fees	4	2,267	1,833
Net dealing income		1,111	1,632
Interest receivable	5	1,329	1,072
Interest payable	5	<u>(1,643)</u>	<u>(1,062)</u>
<b>Gross profit</b>		3,064	3,475
Other finance (expense) / income	8	(3)	4
Other income		2	1
Operating expenses	7	<u>(3,356)</u>	<u>(3,301)</u>
<b>Operating (loss) / profit on ordinary activities before taxation</b>		(293)	179
Tax on (loss) / profit on ordinary activities	11(a)	(31)	55
<b>(Loss) / profit for the financial year</b>		<u><u>(324)</u></u>	<u><u>234</u></u>

\* restated for prior year adjustment, as detailed in note 28

The notes on pages 23 to 75 form an integral part of these financial statements

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2011

		2011	2010*
	Notes	\$ Million	as restated \$ Million
(Loss) / profit for the financial year		(324)	234
Net movement in STRGL in respect of the pension scheme	8	(50)	11
Dividends paid		-	(2,817)
Foreign translation differences		-	6
Total recognised loss for the financial year		<u>(374)</u>	<u>(2,566)</u>
Prior year adjustment (as explained in note 28)		(276)	
Total loss recognised since last audited financial statements		<u>(650)</u>	

\* restated for prior year adjustment, as detailed in note 28

## CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2011

		2011	2010*
	Notes	\$ Million	as restated \$ Million
(Loss) / profit for the financial year		(324)	234
Dividends paid		-	(2,817)
Capital contribution		503	-
Share based payment transactions	9	231	88
Other recognised gains and losses relating to the year (net)		(50)	17
Opening shareholders' funds		10,189	12,667
Closing shareholders' funds		<u>10,549</u>	<u>10,189</u>

\* restated for prior year adjustment, as detailed in note 28

The notes on pages 23 to 75 form an integral part of these financial statements

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## CONSOLIDATED BALANCE SHEET

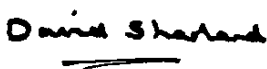
as at 31 December 2011

		2011	2010*
	Notes	\$ Million	as restated \$ Million
<b>Fixed assets</b>			
Tangible fixed assets	12	202	178
Investments	13	25	55
		<u>227</u>	<u>233</u>
<b>Current assets</b>			
Debtors	15	132,401	118,834
Investments	17	171,726	135,801
Cash at bank and in hand	19	3,845	4,450
		<u>307,972</u>	<u>259,085</u>
<b>Creditors: amounts falling due within one year</b>			
Creditors	21	287,122	237,501
Subordinated loans	24	5,980	7,780
		<u>293,102</u>	<u>245,281</u>
<b>Net current assets</b>		<u>14,870</u>	<u>13,804</u>
<b>Total assets, less current liabilities</b>		15,097	14,037
<b>Creditors: amounts falling due after more than one year</b>			
Creditors	21	41	141
Subordinated loans	24	4,500	3,700
		<u>4,541</u>	<u>3,841</u>
<b>Provisions for liabilities</b>	25	112	66
<b>Total net assets excluding net pension asset</b>		<u>10,444</u>	<u>10,130</u>
<b>Net pension asset</b>	8	105	59
<b>Net assets</b>		<u>10,549</u>	<u>10,189</u>
<b>Capital and reserves</b>			
Called up share capital	26	1,966	1,966
Share premium	27	565	565
Capital redemption reserve	27	1,008	1,008
Capital reserve	27	5,831	5,328
Profit and loss account	27	1,179	1,322
<b>Shareholders' funds</b>		<u>10,549</u>	<u>10,189</u>

\* restated for prior year adjustment, as detailed in note 28

The notes on pages 23 to 75 form an integral part of these financial statements

The financial statements on pages 19 to 75 were approved by the Directors on 19 September 2012 and were signed on their behalf by



D I Sharland  
Director

Registered Number 01548967

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## COMPANY BALANCE SHEET

as at 31 December 2011

	Notes	2011 \$ Million	2010 \$ Million
<b>Fixed assets</b>			
Investments	13	10,693	10,611
<b>Current assets</b>			
Debtors	15	314	1,508
Investments	17	-	4
Cash at bank and in hand	19	29	35
		<u>343</u>	<u>1,547</u>
<b>Creditors: amounts falling due within one year</b>			
Creditors	21	598	1,220
Subordinated loans	24	-	600
		<u>598</u>	<u>1,820</u>
<b>Net current liabilities</b>		<u>(255)</u>	<u>(273)</u>
<b>Net assets</b>		<u>10,438</u>	<u>10,338</u>
<b>Capital and reserves</b>			
Called up share capital	26	1,966	1,966
Share premium	27	565	565
Capital redemption reserve	27	1,008	1,008
Capital reserve	27	5,831	5,328
Profit and loss account	27	1,068	1,471
<b>Shareholders' funds</b>		<u>10,438</u>	<u>10,338</u>

The notes on pages 23 to 75 form an integral part of these financial statements

The financial statements on pages 19 to 75 were approved by the Directors on 19 September 2012 and were signed on their behalf by

Dani Sharland

D I Sharland  
Director

Registered Number 01548967

# **CITIGROUP GLOBAL MARKETS EUROPE 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 historical cost convention 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 have been 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 15. 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.

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:

- Effective from 1 January 2011 the Group has applied the amendment to FRS 29 (IFRS 7) 'Financial Instruments: Disclosures'. The amendment has added emphasis to the interaction between qualitative and quantitative disclosures and has been incorporated in notes to the financial statements with note 16 - Pledged Assets incorporating these changes.

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

The Group has taken the subsidiary undertaking exemption permitted by FRS 1 Cash Flow Statements, and has not prepared a cash flow statement. The Group's results are included in the consolidated financial statements of Citigroup Inc, the Group's ultimate parent company. Citigroup Inc makes its financial statements available to the public on an annual basis.

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

#### **(b) Basis of consolidation**

The consolidated financial statements include the financial statements of the Group and its subsidiary undertakings to 31 December 2011 unless otherwise stated. The acquisition method of accounting has been adopted. Under this method the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

No profit and loss account is presented for the Company, as permitted by Section 408 of the Companies Act 2006.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### (c) 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 remeasured 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 subsequently remeasured at fair value. Where the fair value of a derivative is positive, it is carried as an asset and where negative as a liability. 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.

##### *Financial assets designated at fair value*

Financial instruments, other than those held for trading, are classified into fair value through profit and loss if they meet one or more of the criteria set out below, and are so designated by management. The Group may designate financial instruments at fair value when this will

- Eliminate or significantly reduce valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases,
- Apply to groups of financial assets thereof that are managed and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about groups of financial instruments is reported to management on that basis, and
- Relate to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made, is irrevocable. Designated financial instruments are initially recognised at fair value on trade date and subsequently remeasured 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.

The Group has elected to apply the fair value option to certain corporate bonds on the basis that such bonds are part of a portfolio that is managed and evaluated on a fair value basis.



# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### (c) Financial instruments (continued)

##### *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.

Other financial assets also include a small amount of investments in subsidiaries and unquoted equity investments whose fair value cannot be reliably determined and therefore are carried at cost.

At each reporting date the Group 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 Group writes off loans and receivables and fixed asset investments when they are determined to be uncollectible.

##### *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 Group 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 14 - ‘Financial assets and liabilities accounting classifications and fair values’ for further discussion.

##### *Collateral*

The Group 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 Group 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.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### (c) Financial instruments (continued)

##### *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 Group 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 Group 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

When the Group enters into a transaction that neither transfers nor retains significantly all of the risks and rewards of a financial asset, and results in it retaining control of that asset, the Group continues to account for the asset to the extent of its continuing involvement. The Group will also recognise a financial liability that is measured in such a way that the net carrying amount of the financial asset and the associated liability is equal to the fair value of the rights and obligations retained by the Group

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

#### (d) Physical commodities

Physical commodities inventory is carried at the lower of cost or market (LOCOM) with related gains or losses reported in Net dealing income. Realized gains and losses on sales of commodities inventory are included in Net dealing income

#### (e) Commission income and fees

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

#### (f) 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" or "designated at fair value" is reported within interest income and expense respectively

#### (g) Net dealing income

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

#### (h) Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation. The cost of developed software includes directly attributable internal costs and the cost of external consultants. Depreciation is provided at rates calculated to write-off the cost, less the estimated residual value of each asset, on a straight-line basis over its expected economic useful life, as follows

Premises improvements	-	lesser of the life of the lease or 10 years
Equipment	-	3 to 5 years
Capitalised software	-	5 to 10 years

At each reporting date the Group assesses whether there is any indication that tangible fixed assets are impaired

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### (i) Shares in subsidiary undertakings

Fixed asset investments are stated at cost, less any write down for diminution in value regarded as permanent

#### (j) Taxation

Corporation tax is provided on taxable profits/losses at the current rate. 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. 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.

#### (k) Pension and other post retirement benefit costs

The Group operates both a defined benefit and defined contribution pension scheme.

The cost of the Group's defined contribution pension scheme is the amount of contributions payable in respect of the year. For defined benefit obligations, the current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the scheme's assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. The post-retirement benefit surplus or deficit is included on the balance sheet, net of the related deferred tax. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. These include differences between the expected and actual return on scheme assets and differences which arise from experience and assumption changes.

#### (l) Foreign currencies

The Group's presentational and functional currency is the US Dollar.

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.

#### (m) Share-based incentive plans

The Group participates in a number of Citigroup Inc ("Citigroup") share-based incentive plans under which Citigroup grants shares to the Group's employees. Pursuant to a separate Stock Plans Affiliate Participation Agreement ("SPAPA") the Group makes a cash settlement to Citigroup for the fair value of the share-based incentive awards delivered to the Group's employees under these plans.

The Group applies equity-settled accounting for its share based incentive plans, with separate accounting for its associated obligations to make payments to Citigroup Inc. The Group recognises the fair value of the awards at grant date as compensation expense over the vesting period with a corresponding credit in the equity reserve as a capital contribution from Citigroup Inc. All amounts paid to Citigroup Inc and the associated obligations are recognised in the equity reserve over the vesting period. Subsequent changes in the fair value of all unexercised awards and the SPAPA are reviewed annually and any changes in value are recognised in the equity reserve, again over the vesting period.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### (m) Share-based incentive plans (continued)

For Citi's share based incentive plans that have a graded vested period each "tranche" of the award is treated as a separate award, where a plan has a cliff vest the award only has a single "tranche". The expense is recognised as follows

Vesting Period of Award	% of expense recognised			
	Year 1	Year 2	Year 3	Year 4
2 Years (2 Tranches)	75%	25%		
2 Years (1 Tranche)	50%	50%		
3 Years (3 Tranches)	61%	28%	11%	
3 years (1 Tranche)	33%	33%	33%	
4 Years (4 Tranches)	52%	27%	15%	6%
4 Years (1 Tranche)	25%	25%	25%	25%

However, employees who meet certain age plus years of service requirements (retirement eligible employees) may terminate active employment and continue vesting in their awards provided they comply with specified non-compete provisions. The cost of share based incentive plans are recognised over the requisite service period. For awards granted to retiree eligible employees, the services are provided prior to grant date, and subsequently the costs are accrued in the year prior to the grant date.

#### (n) Profit sharing plan

In October 2010, the Committee approved awards under the 2010 Key Employee Profit Sharing Plan (KEPSP) which may entitle participants to profit-sharing payments based on an initial performance measurement period of 1 January 2010 until 31 December 2012. Generally, if a participant remains employed and all other conditions to vesting and payment are satisfied, the participant will be entitled to an initial payment in 2013, as well as a holdback payment in 2014. The payment may be reduced based on performance during the subsequent holdback period (generally, January 1, 2013 through December 31, 2013). If the vesting and performance conditions are satisfied, a participant's initial payment will equal two-thirds of the product of the cumulative pretax income of Citicorp (as defined in the KEPSP) for the initial performance period and the participant's applicable percentage. The initial payment will be paid after 20 January 2013, but no later than 15 March 2013.

These have been accounted for on an accrual basis, the expense recognised in Employee remuneration

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Use of assumptions estimates and judgements

The results of the Group 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 Group's accounting policy for valuation of financial instruments is included in note 1(c). 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 14 further discusses the valuation of financial instruments.

During the year, the Group, in line with industry practice, began incorporating overnight indexed swap ("OIS") curves as fair value measurement inputs for the valuation of certain collateralized interest-rate related derivatives. The OIS curves reflect the interest rates paid on cash collateral provided against the fair value of these derivatives. The Group believes using relevant OIS curves as inputs to determine fair value measurements provides a more representative reflection of the fair value of these collateralized interest-rate related derivatives. Previously, the Group used the relevant benchmark curves for the currency of the derivative (e.g., the benchmark curves for the currency of the London Interbank Offered Rate for US dollar derivatives) as the discount rate for these collateralized interest-rate related derivatives. The Group recognized a pre-tax loss of approximately \$151 million as a result of changing this fair value measurement input.

#### *Pension*

The Group participates in locally operated defined benefit schemes. Defined benefit schemes are measured on an actuarial basis, with the key assumptions being inflation, discount rate, mortality, and investment returns. Return on assets is an average of expected returns weighted by asset class. Returns on investments in equity are based upon government bond yields with a premium to reflect an additional return expected on equity investments.

Mortality assumptions are based upon the relevant standard industry and national mortality tables. Discount rates are based on specific corporate bond indices which reflect the underlying yield curve of each scheme. Management judgement is required in estimating the rate of future salary growth. All assumptions are unbiased, mutually compatible and based upon market expectations at the reporting date.

#### *Share-based incentive plans*

Awards granted through Citigroup's Stock Option Program are measured by applying an option pricing model, taking into account the terms and conditions of the program. Analysis of past exercise behaviour, Citigroup's dividend history and historical volatility are inputs to the valuation model. Management judgement is required in estimating the forfeiture rate.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Use of assumptions estimates and judgements (continued)

#### *Credit value adjustment*

The Group has a number of financial liabilities that are valued at fair value. Under FRS 26, the Group is required to consider its own credit risk in determining the fair value of such financial liabilities. Management judgement is required in determining the appropriate measure of own credit risk to be included in the valuation model of the financial liability.

During 2011 the Group recorded gains of \$166 million (2010: \$114 million gains) on these debt instruments due to the narrowing of the Group's credit spreads. The total adjustment recorded in the balance sheet at the year end was an increase in the fair value of the debt instruments of \$269 million (2010: increase of \$103 million).

Credit valuation adjustments (CVA) are applied to over-the-counter derivative instruments, in which the base valuation generally discounts expected cash flows using LIBOR interest rate curves. Given that not all counterparties have the same credit risk as that implied by the relevant LIBOR curve, a CVA is necessary to incorporate the market view of both counterparty credit risk and Citi's own credit risk in the valuation.

Citigroup CVA methodology comprises two steps. First, the exposure profile for each counterparty is determined using the terms of all individual derivative positions and a Monte Carlo simulation or other quantitative analysis to generate a series of expected cash flows at future points in time. The calculation of this exposure profile considers the effect of credit risk mitigants, including pledged cash or other collateral and any legal right of offset that exists with a counterparty through arrangements such as netting agreements. Individual derivative contracts that are subject to an enforceable master netting agreement with a counterparty are aggregated for this purpose, since it is those aggregate net cash flows that are subject to non-performance risk. This process identifies specific, point-in-time future cash flows that are subject to non-performance risk, rather than using the current recognised net asset or liability as a basis to measure the CVA.

Second, market-based views of default probabilities derived from observed credit spreads in the credit default swap market are applied to the expected future cash flows determined in step one. Own-credit CVA is determined using Citi-specific credit default swap (CDS) spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spread indices for each credit rating and tenor. For certain identified facilities where individual analysis is practicable (for example, exposures to monoline counterparties) counterparty-specific CDS spreads are used.

The CVA adjustment is designed to incorporate a market view of the credit risk inherent in the derivative portfolio. However, most derivative instruments are negotiated bilateral contracts and are not commonly transferred to third parties. Derivative instruments are normally settled contractually or, if terminated early, are terminated at a value negotiated bilaterally between the counterparties. Therefore, the CVA (both counterparty and own-credit) may not be realised upon a settlement or termination in the normal course of business. In addition, all or a portion of the credit valuation adjustments may be reversed or otherwise adjusted in future periods in the event of changes in the credit risk of Citi or its counterparties, or changes in the credit mitigants (collateral and netting agreements) associated with the derivative instruments.

### 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 Group. 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 Group.

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 Group's principal activities comprise one segment.

### 4. Commission and fee income

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.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Interest receivable and interest payable

	2011 \$ Million	2010 \$ Million
Interest receivable comprises		
Interest on current asset investments and collateralised financing transactions at fair value through profit and loss	1,329	1,072
	<u>1,329</u>	<u>1,072</u>
Interest payable comprises		
Interest on collateral held and collateralised financing transactions at fair value through profit and loss	718	352
Interest on borrowings not at fair value through profit and loss	925	710
	<u>1,643</u>	<u>1,062</u>

Included within interest receivable is interest received on client money

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

	2011 \$ Million	2010 \$ Million
Gains and losses on financial assets and financial liabilities held for trading		
Net dealing income	1,134	1,657
Gains and losses on financial assets "designated at fair value through profit or loss"		
Net dealing income	(23)	(25)
	<u>1,111</u>	<u>1,632</u>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Operating expenses

Operating expenses include

	2011 \$ Million	2010* \$ Million
Employee remuneration	1,347	1,169
Share-based incentive expense (Note 9)	308	445
Payroll taxes	143	171
Pension costs		
- defined benefit scheme (Note 8)	14	14
- defined contribution scheme	60	43
Depreciation (Note 12)	42	30
Impairment	-	1
Auditor's remuneration		
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1 42	1 35
Fees payable to the Group's auditor for other services		
- Other services pursuant to legislation (FSA and SOX)	0 54	0 65

\* restated for prior year adjustment, as detailed in note 28

The Company has no employees. All employees of the Group are employed by CGML.

The Group employed an average of 4,032 (2010: 3,708) employees during the year. Included in this number are employees who work principally for the benefit of the Group and other Citi undertakings, and, where appropriate, arrangements are in place to compensate the Group for the services provided.

### 8. Pension costs

The Citigroup (UK) Pension Plan was established in September 2000 and provides defined contribution benefits to all new hires.

#### Defined benefit scheme

The Citigroup Global Markets Limited Pension and Life Assurance Scheme ("the Scheme") is a funded pension scheme providing benefits on both a defined benefit and defined contribution basis. The Scheme is now closed to new entrants. The assets of the Scheme are held separately from those of the Group, in a trustee administered fund. Employees are not required to contribute to the Scheme, which is contracted out of the State Earnings Related Pension Scheme. The agreed contribution rate until 31 March 2017 is 29.2% of salary (2010: 29.2%).

The pension cost in respect of defined benefit obligations is assessed in accordance with the advice of a qualified external actuary using a Projected Unit method with a triennial review. The most recent full actuarial assessment of the liabilities of the scheme is currently underway. The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate on scheme liabilities. The current service costs will increase as the members of the scheme approach retirement.

In December 2011, two additional schemes (Citifinancial and AVCO) were merged into the Scheme from Citi Financial Europe plc, a fellow Citigroup member. Purchase consideration of \$6,359,000 was paid for the acquisition of the schemes and an additional net pension asset of \$9,496,000 was recognised. The difference between the purchase consideration and assets purchased has been accounted for as a capital contribution.

During 2011 contributions of \$107,193,000 were paid into the scheme which included an initial funding contribution in respect of the Citifinancial and AVCO schemes of \$78,221,700. This contribution was in terms of the agreement with the trustees that the merged scheme should be funded to the same level as dictated by the technical provisions, before and after merger. Expected regular employer contributions to be paid into the scheme during 2012 are \$28,346,700 (2011: \$28,582,000).



# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension costs (continued)

The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate on scheme liabilities and mortality assumptions. The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The average life expectancy of an individual retiring at age 65 is 24 for males and 24 for females.

The financial assumptions used in calculating the defined benefit scheme liabilities as at 31 December 2011 are as follows:

	2011	2010	2009
Inflation	3.4%	3.5%	3.6%
Rate of general long-term increase in salaries	3.4%	5.0%	5.1%
Rate of increase to pensions in payment			
- Pensions accrued from 1 May 2005	2.2%	2.1%	2.3%
- Pensions accrued prior to 1 May 2005	2.9%	3.0%	3.3%
Discount rate for scheme liabilities	4.8%	5.3%	5.6%

In addition to the assumptions on which the Scheme obligation at the balance sheet date is based, it is also necessary to select expected rates of return on assets. Assumptions that are affected by economic conditions (financial assumptions) are based on market expectations, at the balance sheet date, for the period over which the obligations are settled. The overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme as at 31 December 2011.

The expected return and fair value at the reporting date are set out as follows:

	Expected return				Fair value	
	2011	2010	2009	2008	2011 \$ Million	2010 \$ Million
Equities	n/a	n/a	8.3%	8.0%	-	-
Government bonds	2.8%	4.1%	4.3%	4.0%	826	551
Corporate bonds	4.1%	5.3%	n/a	n/a	429	347
Other	2.9%	4.2%	4.5%	3.8%	80	5
Total market value of assets					1,335	903

Analysis of amounts recognised in profit and loss account:

	2011 \$ Million	2010 \$ Million
Current service cost	14	14
Expense recognised in the profit and loss account	14	14

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension costs (continued)

Analysis of other finance income

	2011 \$ Million	2010 \$ Million
Expected return on pension scheme assets	43	50
Interest on pension scheme liabilities	(46)	(46)
Net return	<u>(3)</u>	<u>4</u>

Analysis of amount recognised in Statement of Total Recognised Gains and Losses ("STRGL")

	2011 \$ Million	2010 \$ Million
Actual return less expected return on pension scheme assets	145	(12)
Experience gains and losses arising on the scheme liabilities	(58)	23
Unrecognised surplus in respect of FRS 17 para 41	(138)	-
Impact of foreign exchange	1	-
Net movement in STRGL in respect of the pension scheme	<u>(50)</u>	<u>11</u>
Cumulative amount of losses recognised in STRGL	<u>(390)</u>	<u>(340)</u>

Under FRS 17, any surplus in a Scheme can only be recognised on the balance sheet if the surplus can be recovered either by an agreed refund to the Group or by the reduction of future contributions. As the Scheme is closed to new entrants, the surplus has been calculated as the present value of the service cost expected to arise over the average future working lifetime of the active membership resulting in an unrecognised asset of \$138 million (2010: \$nil).

Reconciliation to the balance sheet

	2011 \$ Million	2010 \$ Million	2009 \$ Million	2008 \$ Million	2007 \$ Million
Total market value of assets	1,340	903	899	662	979
Present value of scheme liabilities	<u>(1,097)</u>	<u>(844)</u>	<u>(870)</u>	<u>(562)</u>	<u>(859)</u>
Net pension asset excluding unrecognised asset	243	59	29	100	120
Unrecognised asset due to FRS 17 para 41	(138)	-	-	-	-
Total	<u>105</u>	<u>59</u>	<u>29</u>	<u>100</u>	<u>120</u>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension costs (continued)

	<b>2011</b> <b>\$ Million</b>	<b>2010</b> <b>\$ Million</b>
Surplus in scheme at beginning of the year	59	29
Current service cost	(14)	(14)
Contributions	107	30
Transfer in of Citifinancial and AVCO schemes	9	-
Other finance income/(expense)	(3)	4
Actuarial gain	87	11
Foreign exchange adjustment	(2)	(1)
Unrecognised asset due to FRS 17 para 41	(138)	-
Surplus in scheme at end of year	<u>105</u>	<u>59</u>

The impact of para 41 limitation in FRS 17

	<b>2011</b> <b>\$ Million</b>	<b>2010</b> <b>\$ Million</b>
Fair value of scheme assets	1,340	903
Defined benefit obligation	<u>(1,097)</u>	<u>(844)</u>
Net asset	243	59
Present value of service cost over next 10 years	<u>(105)</u>	<u>n/a</u>
Unrecognisable surplus in respect of FRS 17 para 41	<u>138</u>	<u>n/a</u>

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

	<b>2011</b> <b>\$ Million</b>	<b>2010</b> <b>\$ Million</b>
Opening defined benefit obligation	844	870
Current service cost	14	14
Interest cost	46	46
Actuarial gains/(losses) on scheme liabilities	58	(23)
Net benefits paid out	(24)	(24)
Transfer in of Citifinancial and AVCO schemes	171	-
Foreign exchange adjustment	(12)	(39)
Closing defined benefit obligation	<u>1,097</u>	<u>844</u>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension costs (continued)

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

	2011 \$ Million	2010 \$ Million
Opening fair value of scheme assets	903	899
Expected return on scheme assets	43	50
Actuarial gains/(losses) on scheme assets	145	(12)
Contributions by the employer	107	30
Net benefits paid out	(24)	(24)
Transfer in of Citifinancial and AVCO schemes	180	-
Unrecognised asset due to FRS 17 para 41	(138)	-
Foreign exchange adjustment	(14)	(40)
Closing fair value of scheme assets	<u>1,202</u>	<u>903</u>

The actual return on assets is as follows

	2011 \$ Million	2010 \$ Million
Expected return on assets	43	50
Actuarial gains / (losses) on assets	145	(12)
Actual return on assets	<u>188</u>	<u>38</u>

History of experience gains and losses

	2011 \$ Million	2010 \$ Million	2009 \$ Million	2008 \$ Million	2007 \$ Million	2006 \$ Million
Difference between expected and actual return on scheme assets	145	(12)	36	(134)	30	(7)
Experience losses on scheme liabilities	-	-	(35)	(6)	(15)	19
Total amount recognised in STRGL	(50)	11	(121)	(6)	86	16

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Share-based incentive plans

As part of the Group's remuneration programme it participates in a number of Citigroup share-based incentive plans. These plans involve the granting of stock options, restricted or deferred share awards and share payments. Such awards are used to attract, retain and motivate officers and employees to provide incentives for their contributions to the long-term performance and growth of the Group, and to align their interests with those of the shareholders. The award programmes are administered by the Personnel and Compensation Committee of the Citigroup Inc Board of the Directors, which is composed entirely of non-employee directors.

In the share award program Citigroup issues common shares in the form of restricted share awards, deferred share awards and share payments. For all stock award programs during the applicable vesting period, the shares awarded are not issued to participants (in the case of a deferred stock award) or cannot be sold or transferred by the participants (in the case of a restricted stock award), until after the vesting conditions have been satisfied. Recipients of deferred share awards do not have any shareholder rights until shares are delivered to them, but they generally are entitled to receive dividend-equivalent payments during the vesting period. Recipients of restricted share awards are entitled to a limited voting right and to receive dividend or dividend-equivalent payments during the vesting period. Once a share award vests the shares become freely transferrable, but in the case of certain employees, may be subject to transfer restriction by their terms or share ownership commitment.

Citigroup participated in a 1-for-10 reverse stock split of Citigroup common stock effective after the close of trading on May 6, 2011. Every ten shares of issued and outstanding Citigroup common stock was automatically combined into one issued and outstanding share of common stock without any change in the par value per share. No fractional shares were issued in connection with the reverse stock split.

#### (i) Stock award programme

The Group participates in the Citigroup's Capital Accumulation Program ('CAP') programme, under which shares of Citigroup common stock are awarded in the form of restricted or deferred stock to participating employees.

Generally CAP awards of restricted or deferred stock constitute a percentage of annual incentive compensation and vest ratably over a three or four year period beginning on or about the first anniversary of the award date. Continuous employment within Citigroup is generally required to vest in CAP and other stock award programs.

The program provides that employees who meet certain age plus years-of-service requirements (retirement-eligible employees) may terminate active employment and continue vesting in their awards provided they comply with specified non-compete provisions. Awards granted to retirement-eligible employees are accrued in the year prior to the grant date in the same manner as cash incentive compensation is accrued.

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

Stock awards granted generally vest 25% per year over four years. CAP participants were able until recently to elect to receive all or part of their award in stock options. The figures presented in the stock option programme table include options granted under CAP.

In 2010 the Group awarded Deferred Cash stock Unit's ("DCSU"). None were awarded in 2011. This award consists of a deferred cash award that is denominated in units of Citigroup common stock, with each stock unit having a value equal to one share of Citi common stock reported on the NYSE. The award vests over a two year period and earns a notional return that tracks the price of Citi common stock during the vesting period. The DCSU has been accounted for as a cash settled liability.

As part of both 2010 and 2011 remuneration the Group entered into an arrangement referred to as an "EU Short Term" award. The award will be delivered in the form of immediately vested restricted shares subject to a six month sale restriction.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Share-based incentive plans (continued)

#### (i) Stock award programme (continued)

	2011	2010*	2009*	2008*
Shares awarded	7,197,950	6,259,496	968,143	1,893,213
Weighted average fair market value per share	\$49.96	\$35.20	\$46.70	\$258.80

\* adjusted for 2011 reserve stock split

#### (ii) Stock option programme

The Group also participates in a number of Citigroup stock option programmes for its employees. Generally, since January 2005, stock options have been granted only to CAP participants who elect to receive stock options in lieu of restricted or deferred stock awards and to non-employee directors who elect to receive their compensation in the form of a stock option grant.

All stock options are granted on Citigroup common stock with exercise prices equal to the fair market value at the time of grant.

Options granted since January 2005 typically vest 25% each year over four years and have six-year terms. Options granted in 2004 and 2003 typically also have six-year terms but vest in thirds each year over three years, with the first vesting date occurring 17 months after the grant date. The sale of underlying shares acquired through the exercise of employee stock options granted since 2003 is restricted for a two-year period (and the shares are subject to stock ownership commitment of senior employees thereafter).

Prior to 2003, Citigroup options, including options granted since the date of the merger of Citicorp and Travelers Group, Inc., generally had a 10 year term and vested at a rate of 20% per year over five years, with the first vesting occurring 12 to 18 months following the grant date.

Certain options, mostly granted prior to 1 January 2003, permit an employee exercising an option under certain conditions to be granted new options (reload options) in an amount equal to the number of common shares used to satisfy the exercise price and the withholding taxes due upon exercise. The reload options are granted for the remaining term of the related original option and vest after six months. An option may not be exercised using the reload method unless the market price on the date of exercise is at least 20% greater than the option exercise price. Reload options have been treated as separate grants from the related original grants. Reload options are intended to encourage employees to exercise options at an earlier date and to retain the shares so acquired, in furtherance of the Group's long-standing policy of encouraging increased employee stock ownership.

Since 2009 the Group has made discretionary grants of options to eligible employees pursuant to the broad-based Citigroup Employee Option Grant (CEOG) Program under the Citigroup Stock Incentive Plan. Under CEOG, the options generally vest equally over three years, the option term is 6 years from the grant date and the shares acquired on exercise are not subject to a sale restriction. To the extent permitted, CEOG options granted to eligible UK employees were granted under an HMRC approved sub-plan with any excess over the applicable individual limit being granted under the global plan, which is not an HMRC approved plan.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Share-based incentive plans (continued)

#### (ii) Stock option programme (continued)

The stock option activity with respect to 2011 and 2010 under Citigroup stock option plans is as follows

	<b>2011</b>		<b>2010*</b>	
	<b>Options</b>	<b>Weighted average exercise price \$</b>	<b>Options</b>	<b>Weighted average exercise price \$</b>
Outstanding, beginning of year	6,893,478	72.8	7,525,948	92.4
Granted	275,000	49.1	955,603	50.7
Forfeited	(680,636)	64.5	(861,862)	86.6
Exercised	(41,370)	40.8	-	0.0
Transfers to/from other Citi entities	(1,088,700)	84.0	(428,641)	70.2
Expired	(184,648)	491.5	(297,570)	460.9
Outstanding, end of year	<u>5,173,124</u>	<u>55.6</u>	<u>6,893,478</u>	<u>72.8</u>
Exercisable, end of year	<u>3,057,827</u>	<u>63.31</u>	<u>2,367,752</u>	<u>127.0</u>

\*Adjusted for reverse stock split

The following table summarises the stock options outstanding under Citigroup stock option plans at 31 December 2011

Range of exercise prices	Number outstanding	<b>Options outstanding</b>		<b>Options exercisable</b>	
		<b>Weighted average contractual life remaining</b>	<b>Weighted average exercise price \$</b>	<b>Number Exercisable</b>	<b>Weighted average exercise price \$</b>
< \$50.00	4,985,413	3.98	42.52	2,883,440	42.25
\$50.00 - \$399.90	44,468	2.98	245.85	34,904	245.86
\$400.00 - \$449.90	98,083	0.12	420.91	94,323	420.90
≥ \$450.00	45,160	0.37	519.84	45,160	519.84
	<u>5,173,124</u>	<u>3.86</u>	<u>55.61</u>	<u>3,057,827</u>	<u>63.31</u>

The weighted average share price at the exercise date for options exercised during the year was \$45.02 (2010 nil)

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Share-based incentive plans (continued)

#### (ii) Stock option programme (continued)

The following table summarises the stock options outstanding under Citigroup stock option plans at 31 December 2010\*

Range of exercise prices	Number outstanding	Options outstanding		Options exercisable	
		Weighted average contractual life remaining	Weighted average exercise price \$	Number Exercisable	Weighted average exercise price \$
< \$50.00	6,334,284	4.90	42.00	1,862,242	42.10
\$50.00 - \$399.90	114,013	3.04	245.60	62,075	246.6
\$400.00 - \$449.90	180,527	1.12	420.8	180,527	420.8
≥ \$450.00	264,654	0.43	498.4	262,908	498.10
	<u>6,893,478</u>	<u>4.60</u>	<u>72.8</u>	<u>2,367,752</u>	<u>127.00</u>

\*adjusted for reverse stock split

#### Fair value assumptions

Reload options have been treated as separate grants from the related original grants. The result of this program is that employees generally will exercise options as soon as they are able and, therefore, these options have shorter expected lives. Shorter option lives result in lower valuations using a Binomial option model. However, such values are expensed more quickly due to the shorter vesting period of reload options. In addition, since reload options are treated as separate grants, the existence of the reload feature results in a greater number of options being valued.

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

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

	2011	2010
<b>Weighted average fair value for options granted during the year</b>	<u>\$3.44</u>	<u>\$0.65</u>
<b>Weighted average expected life</b>		
Original grants	4 years	4 years
Reload grants	0 years	1 year
Option life	<u>4 years</u>	<u>4 years</u>
<b>Valuation assumptions</b>		
Expected volatility (per annum)	41.08%	37.05%
Risk-free interest rate	0.63%	1.73%
Expected annual dividend yield per share	0.11%	0.00%
Expected annual forfeitures	<u>9.62%</u>	<u>9.60%</u>



# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Share-based incentive plans (continued)

#### (iii) Profit and loss statement impact

The table below details the profit and loss impact of the share based incentive plans

	2011 \$ million	2010 \$ million
<u>Awards granted in 2011</u>		
Stock Awards	191	-
Stock Options	2	-
<u>Awards granted in 2010</u>		
Stock Awards	54	134
Stock Options	2	6
<u>Awards granted in 2009</u>		
Stock Awards	5	24
Stock Options	14	41
<u>Awards granted in 2008</u>		
Stock Awards	28	51
Stock Options	-	-
<u>Awards granted in 2007 or earlier</u>		
Stock Awards	-	38
Stock Options	-	-
<u>Cash accrued</u>	12	151
Total Expense (Note 7)	<u>308</u>	<u>445</u>
Fair value adjustment of intercompany recharges in profit and loss account (Note 27)	231	88
Total carrying amount of equity-settled transaction liability	348	399
Total carrying amount of cash-settled transaction liability	38	8

### 10. Directors' remuneration

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

	2011 \$	2010 \$
Aggregate emoluments	2,255,314	3,596,626
Contributions to money purchase pension plan	-	4,221
Total	<u>2,255,314</u>	<u>3,600,847</u>

The contributions to the money purchase pension schemes are accruing to none of the Directors (2010 one)

Three of the Directors (2010 three) of the Company participate in parent company share and share option plans and, during the year, none of the Directors (2010 none) exercised options

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Directors' remuneration (continued)

The remuneration of the highest paid Director was \$1,835,606 (2010 \$3,151,780) and accrued pension of \$5,991 (2010 \$8,227). The highest paid Director did not exercise any share options (2010 none) during the year.

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

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

### 11. Tax on profit/(loss) on ordinary activities

#### (a) Analysis of tax charge in the year:

	2011 \$ Million	2010* \$ Million
<b>Current tax:</b>		
Overseas current tax	30	31
UK corporation tax at 26.5% (2010 28%)	-	1
Double tax relief	-	(1)
Adjustment in respect of corporation tax for previous years	-	(90)
Adjustment in respect of overseas tax for previous years	(4)	4
Total current tax (note 11(b))	26	(55)
<b>Deferred tax:</b>		
Origination and reversal of timing differences - overseas	(6)	2
Origination and reversal of timing differences	10	(3)
Adjustment in respect of overseas tax for previous years	1	-
Change in tax rate	-	1
Total deferred tax	5	-
<b>Tax on profit/(loss) on ordinary activities</b>	<b>31</b>	<b>(55)</b>

\* restated for prior year adjustment, as detailed in note 28

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Tax on profit/(loss) on ordinary activities (continued)

#### (b) Factors affecting tax charge for the year:

	2011 \$ Million	2010* \$ Million
Profit/(loss) on ordinary activities before tax	<u>(293)</u>	<u>179</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(78)	50
Effects of		
Expenses not deductible for tax purposes	17	(7)
Foreign tax deductions	(8)	-
Depreciation in excess of capital allowances	19	(5)
Capital allowances and other timing differences	(10)	10
Accrued interest paid	(26)	-
Other timing differences	62	75
Pensions	(15)	(11)
Prior year tax losses utilised	-	-
Overseas tax in respect of European branch operations and dividends received	30	30
Foreign tax credits	-	(30)
Adjustments to tax charge in relation to previous years	(4)	(86)
Group relief adjustment	39	(81)
Current tax charge/(credit) for year	<u>26</u>	<u>(55)</u>

\*restated for prior year adjustment, as detailed in note 28

The main rate of corporation tax for the year beginning 1 April 2011 was reduced from 28% to 26% in the Finance Bill 2011. The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. This will reduce the Group's future current tax charge accordingly and further reduce the unrecognised deferred tax asset at 31 December 2011 (which has been calculated based on the rate of 25% substantively enacted at the balance sheet date) by \$26 million.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's unrecognised deferred tax asset accordingly.

The weighted average corporate tax rate for 2011 was 26.5% (2010: 28%).

#### (c) Factors that may affect future tax charges:

The Group has not recognised a deferred tax asset of \$647 million (2010: \$635 million) in relation to carried forward losses and timing differences.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Tangible fixed assets

The movement in tangible fixed assets for the year was as follows

	<b>Equipment and software \$ Million</b>	<b>Premises improvements \$ Million</b>	<b>Total \$ Million</b>
<b>Cost</b>			
At 1 January 2011	244	8	252
Additions	74	1	75
Disposals	(26)	(2)	(28)
At 31 December 2011	<u>292</u>	<u>7</u>	<u>299</u>
<b>Accumulated depreciation</b>			
At 1 January 2011	68	6	74
Charge for the year (note 7)	41	1	42
Disposals	(17)	(2)	(19)
At 31 December 2011	<u>92</u>	<u>5</u>	<u>97</u>
<b>Net book value</b>			
At 31 December 2011	<u>200</u>	<u>2</u>	<u>202</u>
At 31 December 2010	<u>176</u>	<u>2</u>	<u>178</u>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Fixed asset investments

<b>Group</b>	<b>Unlisted Investments 2011 \$ Million</b>	<b>Unlisted Investments 2010 \$ Million</b>
At 1 January	55	31
Additions	5	27
Write down in investments	-	(1)
Liquidations	(35)	(2)
At 31 December	<u>25</u>	<u>55</u>
<b>Company</b>	<b>2011 \$ Million</b>	<b>2010 \$ Million</b>
At 1 January	10,611	11,740
Additions	503	-
Write down in investments	(414)	(1,129)
Disposal	(7)	-
At 31 December	<u>10,693</u>	<u>10,611</u>
<b>Company</b>	<b>2011 \$ Million</b>	<b>2010 \$ Million</b>
The following amounts for subsidiary undertakings are included in fixed asset investments		
At 1 January	10,604	11,732
Additions	503	-
Write down in investments	(414)	(1,128)
Disposal	-	-
At 31 December	<u>10,693</u>	<u>10,604</u>

The write down in investments is in accordance with principal accounting policy 1(i)

The Group undertakings, which are consolidated, are set out below. During 2011 the Group incorporated a new 100% subsidiary, Citigroup Global Markets Luxembourg LLC, in Luxembourg

<b>Name</b>	<b>Country of incorporation</b>	<b>Percentage of holding in ordinary share capital</b>
Citigroup Global Markets Limited	England & Wales	100%
Citigroup Global Markets U K Equity Limited	England & Wales	100%
Citigroup South Africa Credit Products (Proprietary) Limited ("CSA")	South Africa	100%
JHSW Limited	England & Wales	100%
CGM (Monaco) SAM	Monaco	100%
Citigroup Global Markets Luxembourg s á r l	Luxembourg	100%

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial assets and liabilities accounting classifications and fair values

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

Group	Held for Trading \$ Million	Designated at fair value \$ Million	Loans and receivables \$ Million	Other amortised cost \$ Million	Total carrying amount \$ Million	Fair value \$ Million
<b>31 December 2011</b>						
Cash	-	-	3,845	-	3,845	3,845
Current asset investments	168,839	2,887	-	-	171,726	171,726
Collateralised financing transactions	103,175	-	-	-	103,175	103,175
Cash collateral pledged	-	-	6,601	-	6,601	6,601
Trade debtors	-	-	21,983	-	21,983	21,983
Other debtors	-	-	392	-	392	392
Fixed asset investments	-	-	-	25	25	25
	<b>272,014</b>	<b>2,887</b>	<b>32,821</b>	<b>25</b>	<b>307,747</b>	<b>307,747</b>
Bank loans and overdrafts	-	-	-	5,974	5,974	5,974
Collateralised financing transactions	79,383	-	-	-	79,383	79,383
Derivatives	144,139	-	-	-	144,139	144,139
Cash collateral held	-	-	-	8,713	8,713	8,713
Securities sold but not yet purchased	28,102	-	-	-	28,102	28,102
Trade creditors	-	-	-	20,054	20,054	20,054
Other creditors and accruals	-	-	-	720	720	720
Subordinated loans	-	-	-	10,480	10,480	11,218
	<b>251,624</b>	<b>-</b>	<b>-</b>	<b>45,941</b>	<b>297,565</b>	<b>298,303</b>
<b>31 December 2010</b>						
Cash	-	-	4,450	-	4,450	4,450
Current asset investments	134,444	1,357	-	-	135,801	135,801
Collateralised financing transactions	87,792	-	-	-	87,792	87,792
Cash collateral pledged	-	-	4,996	-	4,996	4,996
Trade debtors	-	-	25,875	-	25,875	25,875
Other debtors	-	-	90	-	90	90
Fixed asset investments	-	-	-	55	55	55
	<b>222,236</b>	<b>1,357</b>	<b>35,411</b>	<b>55</b>	<b>259,059</b>	<b>259,059</b>
Bank loans and overdrafts	-	-	-	3,881	3,881	3,881
Collateralised financing transactions	70,197	-	-	-	70,197	70,197
Derivatives	107,422	-	-	-	107,422	107,422
Cash collateral held	-	-	-	7,281	7,281	7,281
Securities sold but not yet purchased	25,197	-	-	-	25,197	25,197
Trade creditors	-	-	-	22,608	22,608	22,608
Other creditors and accruals	-	-	-	945	945	945
Subordinated loans	-	-	-	11,480	11,480	12,165
	<b>202,816</b>	<b>-</b>	<b>-</b>	<b>46,195</b>	<b>249,011</b>	<b>249,696</b>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

Company	Held for Trading \$ Million	Designated at fair value \$ Million	Loans and receivables \$ Million	Other amortised cost \$ Million	Total carrying amount \$ Million	Fair value \$ Million
<b>31 December 2011</b>						
Cash	-	-	29	-	29	29
Trade debtors	-	-	314	-	314	314
Fixed asset investments	-	-	-	10,693	10,693	10,693
	-	-	343	10,693	11,036	11,036
Trade creditors	-	-	-	598	598	598
	-	-	-	598	598	598
<b>31 December 2010</b>						
Cash	-	-	35	-	35	35
Current asset investments	4	-	-	-	4	4
Trade debtors	-	-	1,502	-	1,502	1,502
Fixed asset investments	-	-	-	10,611	10,611	10,611
	4	-	1,537	10,611	12,152	12,152
Trade creditors	-	-	-	1,220	1,220	1,220
Subordinated loans	-	-	-	600	600	600
	-	-	-	1,820	1,820	1,820

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 has been calculated using the present value of future estimated cash flows, discounted using a discount rate of 3 month USD OIS plus the Group's credit spread as at 31 December 2011

The calculation of fair value incorporates the Group'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

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

Group 31 December 2011	Level 1 \$ Million	Level 2 \$ Million	Level 3 \$ Million	Total \$ Million
<b>Financial assets held for trading</b>				
<u>Current asset investments</u>				
Derivatives	134	136,681	5,384	142,199
Government bonds	12,349	1,748	329	14,426
Eurobonds and other corporate bonds	67	5,334	835	6,236
Equities	4,358	1,576	44	5,978
<u>Collateralised financing transactions</u>	-	103,175	-	103,175
	16,908	248,514	6,592	272,014
<b>Financial assets designated at fair value</b>				
<u>Current asset investments</u>				
Eurobonds and other corporate bonds	-	2,887	-	2,887
<b>Total financial assets</b>	<b>16,908</b>	<b>251,401</b>	<b>6,592</b>	<b>274,901</b>
<b>Financial liabilities held for trading</b>				
Derivatives	112	139,067	4,960	144,139
Collateralised financing transactions	-	79,383	-	79,383
Securities sold but not yet purchased	23,720	4,156	226	28,102
<b>Total financial liabilities</b>	<b>23,832</b>	<b>222,606</b>	<b>5,186</b>	<b>251,624</b>
<b>Group 31 December 2010</b>	<b>Level 1 \$ Million</b>	<b>Level 2 \$ Million</b>	<b>Level 3 \$ Million</b>	<b>Total \$ Million</b>
<b>Financial assets held for trading</b>				
<u>Current asset investments</u>				
Derivatives	209	94,178	7,608	101,995
Government bonds	10,209	1,382	467	12,058
Eurobonds and other corporate bonds	178	10,255	614	11,047
Equities	6,755	2,308	252	9,315
Commercial Paper	-	29	-	29
<u>Collateralised financing transactions</u>	-	87,792	-	87,792
	17,351	195,944	8,941	222,236
<b>Financial assets designated at fair value</b>				
<u>Current asset investments</u>				
Eurobonds and other corporate bonds	-	1,357	-	1,357
<b>Total financial assets</b>	<b>17,351</b>	<b>197,301</b>	<b>8,941</b>	<b>223,593</b>
<b>Financial liabilities held for trading</b>				
Derivatives	277	99,140	8,005	107,422
Collateralised financing transactions	-	70,197	-	70,197
Securities sold but not yet purchased	20,184	3,193	1,820	25,197
<b>Total financial liabilities</b>	<b>20,461</b>	<b>172,530</b>	<b>9,825</b>	<b>202,816</b>



# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

The Company disposed of its current assets investments during 2011

Company 31 December 2010	Level 1 \$ Million	Level 2 \$ Million	Level 3 \$ Million	Total \$ Million
<b>Financial assets held for trading</b>				
<u>Current asset investments</u>				
Eurobonds and other corporate bonds	-	-	4	4

The Group 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 Group's market assumptions. The two 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*

This hierarchy requires the use of observable market data when available. The Group 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 all factors in determining the liquidity of markets and the relevance of observed prices in those markets.

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

As set out in note 1(c), when available, the Group 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 Group 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 Group 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 Group 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.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Government bonds, Corporate bonds and Equities*

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

For government bonds, corporate bonds and equities traded over the counter, the Group generally determines fair value 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 Group may also use quoted prices for recent trading activity of assets with similar characteristics to the bond or loan being valued. Government bonds, corporate bonds and equities and loans priced using such methods are generally classified as Level 2. However, when less liquidity exists for government bonds, corporate bonds or equities, a quoted price is stale or prices from independent sources vary, they are generally classified as Level 3.

#### *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 Group are executed over the counter and so are valued using internal valuation techniques as no quoted market prices exist for such instruments. 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 discounted cash flows, Black-Scholes and Monte Carlo simulation. The fair values of derivative contracts reflect cash the Group has paid or received (for example, option premiums paid and received).

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign exchange rates, the spot price of the underlying volatility and correlation. The item is placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model. Correlation and items with longer tenors are generally less observable.

During 2011, the Group began incorporating overnight indexed swap ("OIS") curves as fair value measurement inputs for the valuation of certain collateralized interest-rate related derivatives. The OIS curves reflect the interest rates paid on cash collateral provided against the fair value of these derivatives. The Group believes using relevant OIS curves as inputs to determine fair value measurements provides a more representative reflection of the fair value of these collateralized interest-rate related derivatives. Previously, the Group used the relevant benchmark curve for the currency of the derivative (e.g. the London Interbank Offered Rate for U.S. dollar derivatives) as the discount rate for these collateralized interest-rate related derivatives. The Group recognised a pre-tax loss of approximately \$151 million upon the change in this fair value measurement.

#### *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 Group 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 Group 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 are made 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. No such adjustments are applied to instruments that are valued using quoted prices for identical instruments in an active market.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

The movement in level 3 items for the year was

Group	At 1	Gain/(loss)	Net	Transfer from	At 31
2011	January	recorded in the	purchases, sales and	level 1 and	December
	\$ Million	profit and loss	settlements	level 2	\$ Million
		\$ Million	\$ Million	\$ Million	\$ Million
<b>Financial assets held for trading</b>					
<u>Current asset investments</u>					
Derivatives	7,608	(1,727)	(1,603)	1,106	5,384
Government bonds	467	(18)	168	(288)	329
Eurobonds and other corporate bonds	614	157	41	23	835
Equities	252	(99)	(57)	(52)	44
<b>Total financial assets</b>	<b>8,941</b>	<b>(1,687)</b>	<b>(1,451)</b>	<b>789</b>	<b>6,592</b>
<b>Financial liabilities held for trading</b>					
Derivatives	8,005	(611)	(1,123)	(1,311)	4,960
Securities sold but not yet purchased	1,820	(299)	(1,500)	205	226
<b>Total financial liabilities</b>	<b>9,825</b>	<b>(910)</b>	<b>(2,623)</b>	<b>(1,106)</b>	<b>5,186</b>

	At 1	Gain/(loss)	Net	Transfer from	At 31
2010	January	recorded in the	purchases, sales and	level 1 and	December
	\$ Million	profit and loss	settlements	level 2	\$ Million
		\$ Million	\$ Million	\$ Million	\$ Million
<b>Financial assets held for trading</b>					
<u>Current asset investments</u>					
Derivatives	13,807	(4,374)	(2,509)	684	7,608
Government bonds	324	20	222	(99)	467
Eurobonds and other corporate bonds	1,939	271	(772)	(824)	614
Equities	113	6	(49)	182	252
<b>Total financial assets</b>	<b>16,183</b>	<b>(4,077)</b>	<b>(3,108)</b>	<b>(57)</b>	<b>8,941</b>
<b>Financial liabilities held for trading</b>					
Derivatives	11,129	(5,021)	(661)	2,558	8,005
Securities sold but not yet purchased	184	(58)	171	1,523	1,820
<b>Total financial liabilities</b>	<b>11,313</b>	<b>(5,079)</b>	<b>(490)</b>	<b>4,081</b>	<b>9,825</b>

Included in the Level 3 balance at 31 December 2011 above are intercompany assets of \$2,273 million (2010 \$4,523 million) and liabilities of \$2,020 million (2010 \$3,224 million)

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

Company	At 1 January \$ Million	Gain/(loss) recorded in the profit and loss statement \$ Million	Net purchases, sales and settlements \$ Million	Transfer from level 1 and level 2 \$ Million	At 31 December \$ Million
2011					
<b>Financial assets held for trading</b>					
<u>Current asset investments</u>					
Eurobonds and other corporate bonds	4	7	(11)	-	-
<b>Total financial assets</b>	<b>4</b>	<b>7</b>	<b>(11)</b>	<b>-</b>	<b>-</b>

Company	At 1 January \$ Million	Gain/(loss) recorded in the profit and loss statement \$ Million	Net purchases, sales and settlements \$ Million	Transfer from level 1 and level 2 \$ Million	At 31 December \$ Million
2010					
<b>Financial assets held for trading</b>					
<u>Current asset investments</u>					
Eurobonds and other corporate bonds	-	(12)	16	-	4
<b>Total financial assets</b>	<b>-</b>	<b>(12)</b>	<b>16</b>	<b>-</b>	<b>4</b>

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 December 31, 2011 and 2010.

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

The key derivative and securities contributors to the Level 3 financial instrument decrease over 2011 focussed on the Emerging Markets Credit Trading and Securitised Markets businesses. Securitised Markets financial instruments decreased over the second half of the year as the desk actively reduced their holdings in asset backed notes, a similar trend was witnessed across the Emerging Markets Credit Trading business.

Transfers between Level 3 and Level 2 were also driven by movements in both derivatives and securities financial instruments. From a derivatives point of view, there was increased coverage on key input parameters such as volatilities and correlations across the Equity Derivatives business in early 2011. For securities, there was increased visibility during the second half of the year across the Emerging Markets Credit Trading business, as well as transparency from executable prices across the Securitised Markets businesses.

During the year, total changes in fair value, representing a loss of \$777 million (2010 \$1,002 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 approximately \$162 million (2010 \$199 million).

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 EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

The sensitivity adjustments are typically computed with reference to historical or proxy analysis using third party data. Examples of the approach used to derive sensitivity adjustments are outlined below:

- **Equity Derivatives** Sensitivity factors are derived from a combination of consensus market data and proxy analysis using third party data providers
- **Credit and Securitised Markets** Sensitivity factors are derived from a combination of consensus market data and proxy analysis using third party data providers
- **Commodity Derivatives** Sensitivity factors are derived from a combination of consensus market data and proxy analysis using third party data providers

### 15. Debtors

The following amounts are included in debtors:

	Group		Company	
	2011	2010*	2011	2010
Amounts falling due within one year	\$ Million	\$ Million	\$ Million	\$ Million
Trade debtors	21,983	25,875	314	1,502
Collateralised financing transactions	103,175	87,792	-	-
Cash collateral pledged	6,601	4,996	-	-
Physical commodities	220	36	-	-
Other debtors	392	90	-	-
Prepayments and accrued income	8	5	-	-
Corporate tax recoverable	1	14	-	6
Deferred tax asset (note 20)	21	26	-	-
	<u>132,401</u>	<u>118,834</u>	<u>314</u>	<u>1,508</u>

\*It is noted that the netting of certain centrally cleared collateralised financing transactions have been netted in the 2011 financial statements. The 2010 comparatives have been amended to ensure consistent presentation with 2011.

Included within debtors are the following balances due from group undertakings:

	Group		Company	
	2011	2010	2011	2010
	\$ Million	\$ Million	\$ Million	\$ Million
Trade debtors	6,412	8,510	314	1,468
Collateralised financing transactions	19,169	24,726	-	-
Cash collateral pledged	822	957	-	-
Other debtors	336	50	-	-
	<u>26,739</u>	<u>34,243</u>	<u>314</u>	<u>1,468</u>

As at 31 December 2010 trade debtors of the Company included a subordinated loan to a group undertaking of \$600 million, with a facility of \$1.5 billion, on which interest was payable at market rates. The loan was repaid by CGML to the Company during 2011.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Pledged assets

#### *Collateral accepted as security for assets*

The fair value of third party financial assets including government bonds, eurobonds and other corporate bonds, equities, and cash accepted as collateral that is permitted to be sold or repledged in the absence of default were \$105 billion (2010 \$88 billion). A substantial portion of the collateral accepted by the Group has been sold or repledged. The Group 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 financial assets including government bonds, eurobonds and other corporate bonds, equities, cash and assets received on collateralised financing transactions from third parties, that have been pledged as collateral for liabilities at 31 December 2011 were \$119 billion (2010 \$110 billion). These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary.

### 17. Current asset investments

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

Group	2011 \$ Million	2010 \$ Million
Government bonds	14,426	12,058
Eurobonds and other corporate bonds	9,123	12,404
Equities - listed on a recognised UK exchange	854	1,068
- listed elsewhere	5,124	8,247
Commercial paper	-	29
Derivatives (note 18)	142,199	101,995
	<u>171,726</u>	<u>135,801</u>
Company	2011 \$ Million	2010 \$ Million
Eurobonds and other corporate bonds	-	4
	<u>-</u>	<u>4</u>

Eurobonds and other corporate bonds include \$2,887 million (2010 \$1,357 million) of bonds that are "designated at fair value" and the remainder are classified as "held for trading".

### 18. Derivatives

Group	2011 Fair Value		2010 Fair Value	
	Asset \$ Million	Liability \$ Million	Asset \$ Million	Liability \$ Million
Swap agreements, swap options and interest rate cap and floor agreements	121,816	120,824	85,291	86,145
Index and equity options and similar contractual commitments	11,306	13,574	8,788	12,396
Other options and contractual commitments	9,077	9,741	7,916	8,881
	<u>142,199</u>	<u>144,139</u>	<u>101,995</u>	<u>107,422</u>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Cash at bank and in hand

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

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
Cash at bank held by third parties	2,159	2,262	14	-
Cash at bank held by other group undertakings	1,686	2,188	15	35
	<u>3,845</u>	<u>4,450</u>	<u>29</u>	<u>35</u>

Included within cash held by third parties is \$1,750 million (2010 \$1,016 million) that is held on behalf of clients in segregated accounts. Included within cash held by other group undertakings is \$536 million (2010 \$nil) on behalf of clients in segregated accounts.

### 20. Deferred tax

The following amounts are included within deferred tax

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Short term timing differences	<u>21</u>	<u>26</u>
At 1 January	26	27
Adjustments to tax charge in relation to previous years	(1)	-
(Released)/arising during the year	(4)	1
Foreign exchange differences	-	(1)
Change in tax rate	-	(1)
At 31 December	<u>21</u>	<u>26</u>

Deferred tax is recognised on timing differences arising in the Group's non-UK branch operations. In accordance with the Group's accounting policies, as it is more likely than not that there will be suitable taxable profits arising in these operations from which the future reversal of underlying timing differences can be deducted, deferred tax is recognised.

Deferred tax is recognised on timing differences arising in the Group's non-UK branch operations. The balance includes amounts arising from share based payments and pensions. In accordance with the Group's accounting policies, as it is more likely than not that there will be suitable taxable profits arising in these operations from which the future reversal of underlying timing differences can be deducted, deferred tax is recognised.

The Group has not recognised a deferred tax asset of \$647 million (2010 \$635 million) in relation to carried forward losses and timing differences.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Creditors

The following amounts are included within creditors

	Group		Company	
	2011	2010*	2011	2010
Amounts falling due within one year:	\$ Million	\$ Million	\$ Million	\$ Million
Securities sold, but not yet purchased	28,102	25,197	-	-
Derivatives (note 18)	144,139	107,422	-	-
Collateralised financing transactions	79,383	70,197	-	-
Cash collateral held	8,713	7,281	-	-
Bank loans and overdrafts	5,974	3,881	-	-
Trade creditors	20,018	22,483	598	1,220
Other creditors and accruals	720	945	-	-
Payroll taxes	73	95	-	-
	<u>287,122</u>	<u>237,501</u>	<u>598</u>	<u>1,220</u>

\*It is noted that the netting of certain centrally cleared collateralised financing transactions have been netted in the 2011 financial statements. The 2010 comparatives have been amended to ensure consistent presentation with 2011. Trade creditors have been restated for prior year adjustment, as detailed in note 28.

	Group		Company	
	2011	2010	2011	2010
Amounts falling due in greater than one year:	\$ Million	\$ Million	\$ Million	\$ Million
Payroll taxes	5	16	-	-
Trade creditors	36	125	-	-
	<u>41</u>	<u>141</u>	<u>-</u>	<u>-</u>

Included within 'Other creditors and accruals' is the accrual in respect of the bank levy

Included within creditors are the following balances due to group undertakings

	Group		Company	
	2011	2010*	2011	2010
Amounts falling due within one year	\$ Million	\$ Million	\$ Million	\$ Million
Derivatives	83,168	-	-	-
Collateralised financing transactions	12,560	9,615	-	-
Cash collateral held	3,771	3,931	-	-
Bank loans and overdrafts	5,718	3,670	-	-
Trade creditors	4,897	7,939	598	1,220
Other creditors and accruals	-	67	-	-
	<u>110,114</u>	<u>25,222</u>	<u>598</u>	<u>1,220</u>
Amounts falling due after more than one year				
Trade creditors	<u>36</u>	<u>125</u>	<u>-</u>	<u>-</u>

\* restated for prior year adjustment, as detailed in note 28



# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Derecognition of financial assets and financial liabilities

As described below, there are certain instances where the Group continues to recognise financial assets that it has transferred

The Group enters into collateralised financing transactions where it sells or lends debt or equity securities with a concurrent agreement to re-purchase them. As significantly all of the risks and rewards of the underlying securities are retained, a collateralised financing liability is recognised and the securities remain on balance sheet (to the extent that the underlying securities were recognised by the Group). As at 31 December 2011 the Group reported \$79,383 million (2010 \$70,197 million) of collateralised financing liabilities relating to these transactions. The securities sold or loaned under these transactions are either purchased outright by the Group or bought or borrowed in subject to an agreement to resell for a fixed price. The supply of such securities is managed on a dynamic basis. The Group does not recognise securities that are bought or borrowed in subject to an agreement to resell, but instead records a collateralised financing asset.

### 23. Trading financial assets and liabilities

Any 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 table below sets out the aggregate difference yet to be recognised in profit or loss at the beginning and end of the year with a reconciliation of the changes of the balance during the year for those financial assets and liabilities classified as trading.

	2011 \$ Million	2010 \$ Million
Unamortised balance at 1 January	76	49
Deferral on new transactions	18	58
Recognised in profit and loss during period		
- amortisation	(44)	(31)
Unamortised balance at 31 December	<u>50</u>	<u>76</u>

### 24. Subordinated loans

The subordinated loans form part of the Group's regulatory capital resources held to meet the capital adequacy requirements of the Financial Services Authority ("FSA") and can only be repaid with their consent.

The following amounts were included within subordinated loans

	Group		Company	
	2011 \$ Million	2010 \$ Million	2011 \$ Million	2010 \$ Million
Amounts falling due within one year	5,980	7,780	-	600
Amounts falling due after one year and within five years	300	-	-	-
Amounts falling due after five years	4,200	3,700	-	-
	<u>10,480</u>	<u>11,480</u>	<u>-</u>	<u>600</u>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 24. Subordinated loans (continued)

The subordinated loans, on which interest is payable at market rates, are due to other group undertakings

On 10 March 2011 CGML repaid \$600 million of subordinated loan borrowings to the Company, and the Company repaid \$600 million of subordinated loan borrowings to Citigroup Financial Products Inc on the same day

On 10 March 2011 the Group repaid \$900 million of short term subordinated loan borrowings to Citigroup Financial Products Inc

On 14 September 2011 the Group drew down an additional \$500 million of subordinated long term debt from its facility with Citigroup Financial Products Inc

At 31 December 2011 the Group had in place the following subordinated loan facilities

	<b>Group</b>		<b>Company</b>	
	<b>Total</b>	<b>Drawn</b>	<b>Total</b>	<b>Drawn</b>
	<b>facilities</b>	<b>down</b>	<b>facilities</b>	<b>down</b>
	<b>available</b>	<b>down</b>	<b>available</b>	<b>down</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
<b>Facilities with other group undertakings:</b>				
Facilities falling due within one year	15,000	5,980	-	-
Facilities falling due after one year and within five years	400	300	-	-
Facilities falling due after five years	5,000	4,200	-	-
	<u>20,400</u>	<u>10,480</u>	<u>-</u>	<u>-</u>

The long term facility with Citigroup Financial Products Inc was increased by \$1 billion on 13 September 2011

### 25. Provisions for liabilities

<b>Group</b>	<b>Restructuring</b>	<b>Litigation</b>	<b>Other</b>	<b>Total</b>
	<b>provision</b>	<b>provisions</b>	<b>provisions</b>	<b>Total</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
At 1 January 2011	7	2	57	66
Charge to profits	68	30	65	163
Provisions utilised	(10)	(19)	(90)	(119)
Exchange adjustments	-	-	2	2
At 31 December 2011	<u>65</u>	<u>13</u>	<u>34</u>	<u>112</u>

The restructuring provision relates to the provision for the cost of staff redundancies and compensation. The full amount is expected to be fully utilised in 2012. There are no reimbursements anticipated.

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

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 26. Called up share capital

The Group's and Company's share capital comprises

	2011 £ Million	2010 £ Million
<b>Authorised:</b>		
908,935,000 ordinary shares of £1 each	909	909
1,515,800,000 'A' ordinary shares of £1 each	1,516	1,516
1,505,265,000 'B' ordinary shares of £1 each	1,505	1,505
30,000,000 4th tranche perpetual preference shares of £10 each	300	300
579,468,384 5th tranche perpetual preference shares of £1 each	579	579
3,055,000 non-cumulative preference shares of \$1 each	2	2
	<u>4,811</u>	<u>4,811</u>
<b>Allotted, called-up and fully paid:</b>		
545,328,067 'A' ordinary shares of £1 each	545	545
5,265,000 'B' ordinary shares of £1 each	5	5
11,884,954 4th tranche perpetual preference shares of £10 each	119	119
579,468,384 5th tranche perpetual preference shares of £1 each	579	579
3,055,000 non-cumulative preference shares of \$1 each	2	2
	<u>1,250</u>	<u>1,250</u>

The 4<sup>th</sup> and 5<sup>th</sup> tranches of preference shares carry an entitlement to receive a fixed non-cumulative preferential dividend

	Net entitlement per share
4 <sup>th</sup> tranche perpetual preference shares	86 6p
5 <sup>th</sup> tranche perpetual preference shares	6 855p
Dollar non-cumulative preference shares	\$77 5

Holders of the perpetual preference shares and dollar non-cumulative preference shares are entitled to receive notice and attend at any general meeting, but not to vote upon any resolution proposed at any such meeting unless the Company has not paid the preferential dividend on the due date for payment

In such an event the holders of preference shares shall be entitled, until payment, to vote at any general meeting of the Company. On a show of hands every preference shareholder who is present in person or by proxy shall have one vote for every new preference share of which he is the holder

The preference shareholders have no right of participation in the assets of the Company on liquidation. However, on liquidation the dollar non-cumulative preference shares shall rank in priority to the ordinary shares, the fourth tranche perpetual preference shares and the fifth tranche perpetual preference shares

The share capital value in the balance sheet has been converted at the 31 December 2000 exchange rate, or date of issue thereafter. As at 31 December 2011 the share capital had a US Dollar value of \$1,966 million (2010: \$1,966 million)

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 27. Reserves

The Group's and Company's reserves comprise

Group	Share premium	Capital redemption reserve	Capital reserve	Profit and loss account*	Total*
	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million
At 1 January 2011	565	1,008	5,328	1,322	8,223
Loss for the year	-	-	-	(324)	(324)
Total recognised gains and losses	-	-	-	(50)	(50)
Capital contribution	-	-	503	-	503
Share based payments transactions	-	-	-	231	231
At 31 December 2011	565	1,008	5,831	1,179	8,583

Company	Share premium	Capital redemption reserve	Capital reserve	Profit and loss account	Total
	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million
At 1 January 2011	565	1,008	5,328	1,471	8,372
Loss for the year	-	-	-	(403)	(403)
Capital contribution	-	-	503	-	503
At 31 December 2011	565	1,008	5,831	1,068	8,472

\* restated for prior year adjustment, as detailed in note 28

The capital reserve includes capital contributions from the parent company, which are distributable. On 20 June 2007 the High Court of Justice approved a reduction of the Company's share premium account of \$3,706 million. An amount of \$2,698 million has been treated as a reduction of retained losses and \$1,008 million to create a capital redemption reserve which is distributable in certain circumstances in accordance with the High Court approved scheme. The court order was registered at Companies House, Cardiff on 21 June 2007.

Capital contributions include \$3 million of deemed capital contributions on the transfer of Citifinancial and AVCO pension schemes from Citifinancial Europe plc, a Citigroup affiliate company.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 28. Prior year adjustment

During 2011 it was identified that an intercompany recharge relating to a share based payment award had been recorded incorrectly in 2010. The accounting impact of this meant that the 2010 operating expenses were understated by \$276 million, trade creditors understated by \$236 million and the Profit and loss account understated by \$40 million.

The tables below outline how each of the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Reconciliation of Movements in Shareholder's Funds and core notes are affected by the adjustment.

	<b>\$ Million</b>
<b>Profit and Loss Account</b>	
Profit for the financial year	510
Operating expenses - Employee Remuneration (Note 7)	(276)
Tax on profit on ordinary activities (Note 11(a))	-
Profit for the year (after prior period adjustment)	<u>234</u>
<b>Statement of Total Recognised Gains and Losses</b>	
Total recognised loss for the financial year	(2,290)
Profit adjustment for the year (net of tax)	(276)
Total recognised gain for the financial year (after prior period adjustment)	<u>(2,566)</u>
<b>Reconciliation of Movements in Shareholder's Funds</b>	
Closing shareholder's funds	10,425
Profit adjustment for the year (net of tax)	(276)
Share based payment transactions	40
Closing shareholder's funds (after prior period adjustment)	<u>10,189</u>
	<b>\$ Million</b>
<b>Note 21 Creditors</b>	
Trade creditors (amounts falling due within one year) as reported	22,247
Share based payment liability (intercompany)	236
	<u>22,483</u>

<b>Note 27 Reserves</b>	<b>Share premium</b>	<b>Capital redemption reserve</b>	<b>Capital reserve</b>	<b>Profit and loss account</b>	<b>Total</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
At 31 December 2010 as reported	565	1,008	5,328	1,558	8,459
Profit for the year	-	-	-	(276)	(276)
Share based payment transactions	-	-	-	40	40
At 31 December 2010 restated	<u>565</u>	<u>1,008</u>	<u>5,328</u>	<u>1,322</u>	<u>8,223</u>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 29. Financial instruments and risk management

#### Objectives, policies and strategies

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

The Group maintains positions in financial instruments for three 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
- to economically hedge positions in our own books created by the business noted above, and
- for trading purposes

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

The Group's derivative transactions are principally in the equity, interest rate, credit and commodity markets. 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.

The majority of the financial instruments are held as part of portfolios which are maintained and monitored by risk type. The positions thus maintained will result from the Group's normal market activities. The Group aims to maintain a variety of economic hedging strategies. Individual trading areas 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 Group 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 Group believes that effective risk management is of primary importance to its success. Accordingly, the Group's risk management process is designed to monitor, evaluate and manage the principal risks it assumes in conducting its activities. These risks include credit, market, liquidity and operational risks. 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 Group's risk management framework aims to recognise the diversity of the Group'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 EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 29. 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, 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 to seek to ensure 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 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 the Group.

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 the Group and its component businesses including the risk within the Group 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 Group, the results of these processes then serve as the starting point for developing risk management and mitigation strategies.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 29. 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 Group'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 in trading portfolios 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 trading portfolio 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 Group's VaR is based on the volatilities of, and correlations between, a wide range market risk factors, including factors that track the specific issuer risk in debt and equity securities.

Citi 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, Citi would thus expect the number of days where trading losses exceed its VaR to be less than two or 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.

Stress testing is performed on trading portfolios on a regular basis to estimate the impact of extreme market movements. Stress testing is performed on individual trading 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 EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Market risk (continued)

A VaR trigger is in place for the Group 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 further 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

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

\$ Million	2011						Overall VaR
	Equity risk	Interest rate risk	Foreign exchange risk	Distressed debt	Commodity risk	Covariance adjustment	
Average	18.9	33.7	3.6	0.9	3.2	(0.2)	60.1
As at 31 December	10.1	33.7	0.1	0.5	10.3	(0.9)	53.8

\$ Million	2010						Overall VaR
	Equity risk	Interest rate risk	Foreign exchange risk	Distressed debt	Commodity risk	Covariance adjustment	
Average	14.9	30.3	3.8	0.7	4.0	(0.1)	53.6
As at 31 December	24.5	22.7	2.7	0.9	(0.2)	(0.3)	50.3

#### Credit risk

Credit risk is the risk that a party to a financial instrument 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,
- risk rating standards, applicable to every obligor and facility, and
- consistent standards for credit origination documentation and remedial management

The Group uses derivatives as both an end-user for asset/liability management and in its client businesses. The Group enters into derivatives for trading purposes or to enable customers to transfer, modify or reduce their credit, equity, interest rate and other market risks. In addition, the Group uses derivatives, and other instruments, as an end-user to manage the risks to which the Group is exposed.

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

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Credit risk (continued)

The Group 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 Group'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.

The following table presents the Group's maximum exposure to credit risk from financial instruments, before taking account of any collateral held or other credit enhancements (where such credit enhancements do not meet offsetting requirements)

<b>31 December 2011</b>	<b>Maximum exposure \$ Million</b>	<b>Offset \$ Million</b>	<b>Exposure to credit risk (net) \$ Million</b>
Cash	3,845	-	3,845
Current asset investments	171,726	(152,909)	18,817
Collateralised financing transactions	103,175	(14,327)	88,848
Cash collateral pledged	6,601	-	6,601
Trade debtors	21,983	(7,983)	14,000
Other debtors	392	-	392
Fixed asset investments	25	-	25
	<b>307,747</b>	<b>(175,219)</b>	<b>132,528</b>

<b>31 December 2010</b>	<b>Maximum exposure \$ Million</b>	<b>Offset \$ Million</b>	<b>Exposure to credit risk (net) \$ Million</b>
Cash	4,450	-	4,450
Current asset investments	135,801	(104,968)	30,833
Collateralised financing transactions	87,792	(11,237)	76,555
Cash collateral pledged	4,996	-	4,996
Trade debtors	25,875	(9,536)	16,339
Other debtors	90	-	90
Fixed asset investments	55	-	55
	<b>259,059</b>	<b>(125,741)</b>	<b>133,318</b>

The current asset investments offset amount in the above table relates to exposures where the counter party has an offsetting derivative exposure with the Group and a master netting agreement is in place. These amounts do not qualify for net presentation for accounting purposes as settlement may not actually be made on a net basis.

The collateralised financing transactions offset adjustment relates to balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default, and where, as a result there is a net exposure for credit risk management purposes. However as there is no intention to settle individual transactions on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. Credit risk exposure is monitored on asset base or the position is specially collateralised, normally in the form of cash.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Credit risk (continued)

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

Industry	2011 %	2010 %
Commercial and universal banks	38.8	50.8
Insurance and fund management	4.2	2.7
Brokers and investment banks	10.3	8.4
Other (including hedge funds)	46.7	38.1
	<u>100.0</u>	<u>100.0</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.

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

	Government bonds		Eurobonds and corporate bonds		Commercial paper		Derivatives	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
AAA / AA / A	98.0	84.3	66.1	60.6	-	53.1	54.8	57.9
BBB	0.4	2.5	11.2	12.9	-	6.5	1.5	0.6
BB / B	1.0	12.4	11.2	10.4	-	-	0.3	0.8
CCC or below	-	-	2.3	1.3	-	-	0.2	0.1
Unrated	0.6	0.8	9.2	14.8	-	40.4	43.2	40.6
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>-</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

The maximum credit risk to which the Group is exposed without taking into account any collateral or credit enhancements is \$308,521 million (2010: \$260,458 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. The credit quality table above shows that the majority of the Group's credit exposure is to counterparties which are rated BBB or better.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 29. 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 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

#### *Framework*

The Group'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 Group 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.

#### 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 UK CFO, UK legal entity Risk Manager, UK Treasurer, EMEA Regional Treasurer and the Finance Desk Head. 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 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

**Liquidity risk (continued)**

<b>Group</b>	<b>Total</b>	<b>On demand</b>	<b>3 months or less</b>	<b>3 - 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>
<b>31 December 2011</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
Cash	3,845	1,488	-	-	2,357	-
Current asset investments	171,726	171,726	-	-	-	-
Collateralised financing transactions	103,175	-	85,079	2,627	15,469	-
Cash collateral pledged	6,601	-	6,601	-	-	-
Trade debtors	21,983	-	21,983	-	-	-
Other debtors	392	-	392	-	-	-
Fixed asset investments	25	-	-	-	-	25
<b>Total financial assets</b>	<b>307,747</b>	<b>173,214</b>	<b>114,055</b>	<b>2,627</b>	<b>17,826</b>	<b>25</b>
	<b>Total</b>	<b>On demand</b>	<b>3 months or less</b>	<b>3 - 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
Bank loans and overdrafts	5,974	2,473	3,501	-	-	-
Collateralised financing transactions	79,383	-	59,397	9,363	10,623	-
Derivatives	144,139	144,139	-	-	-	-
Cash collateral held	8,713	-	8,713	-	-	-
Securities sold but not yet purchased	28,102	-	28,102	-	-	-
Trade creditors	20,054	-	20,013	5	36	-
Other creditors and accruals	720	-	720	-	-	-
Subordinated loans	10,480	-	-	-	6,280	4,200
<b>Total financial liabilities</b>	<b>297,565</b>	<b>146,612</b>	<b>120,446</b>	<b>9,368</b>	<b>16,939</b>	<b>4,200</b>
<b>Net liquidity gap</b>	<b>10,182</b>	<b>26,602</b>	<b>(6,391)</b>	<b>(6,741)</b>	<b>887</b>	<b>(4,175)</b>
<b>Cumulative liquidity gap</b>	<b>-</b>	<b>26,602</b>	<b>20,211</b>	<b>13,470</b>	<b>14,357</b>	<b>10,182</b>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Liquidity risk (continued)

Group	Total	On demand	3 months	3 - 12	1 - 5	More than
	\$ Million	\$ Million	or less	months	years	5 years
31 December 2010	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million
Cash	4,450	2,517	-	-	1,933	-
Current asset investments	135,801	135,801	-	-	-	-
Collateralised financing transactions	87,792	-	71,431	1,358	15,003	-
Cash collateral pledged	4,996	-	4,996	-	-	-
Trade debtors	25,875	-	25,875	-	-	-
Other debtors	90	-	90	-	-	-
Fixed asset investments	55	-	-	-	-	55
<b>Total financial assets</b>	<b>259,059</b>	<b>138,318</b>	<b>102,392</b>	<b>1,358</b>	<b>16,936</b>	<b>55</b>
	<b>Total</b>	<b>On demand</b>	<b>3 months</b>	<b>3 - 12</b>	<b>1 - 5</b>	<b>More than</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>or less</b>	<b>months</b>	<b>years</b>	<b>5 years</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
Bank loans and overdrafts	3,881	1,847	2,034	-	-	-
Collateralised financing transactions	70,197	-	63,242	4,996	1,959	-
Derivatives	107,422	107,422	-	-	-	-
Cash collateral held	7,281	-	7,281	-	-	-
Securities sold but not yet purchased	25,197	-	25,197	-	-	-
Trade creditors	22,608	-	22,483	-	125	-
Other creditors and accruals	945	-	945	-	-	-
Subordinated loans	11,480	-	-	7,780	-	3,700
<b>Total financial liabilities</b>	<b>249,011</b>	<b>109,269</b>	<b>121,182</b>	<b>12,776</b>	<b>2,084</b>	<b>3,700</b>
<b>Net liquidity gap</b>	<b>10,048</b>	<b>29,049</b>	<b>(18,790)</b>	<b>(11,418)</b>	<b>14,852</b>	<b>(3,645)</b>
<b>Cumulative liquidity gap</b>	<b>-</b>	<b>29,049</b>	<b>10,259</b>	<b>(1,159)</b>	<b>13,693</b>	<b>10,048</b>

## NOTES TO THE FINANCIAL STATEMENTS

**Liquidity risk (continued)**

<b>Company</b>	<b>Total</b>	<b>On demand</b>	<b>3 months or less</b>	<b>3 - 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>
<b>31 December 2010</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
Cash	35	35	-	-	-	-
Current asset investments	4	4	-	-	-	-
Trade debtors	1,502	-	1,502	-	-	-
Fixed asset investments	10,611	-	-	-	-	10,611
<b>Total financial assets</b>	<b>12,152</b>	<b>39</b>	<b>1,502</b>	<b>-</b>	<b>-</b>	<b>10,611</b>
	<b>Total</b>	<b>On demand</b>	<b>3 months or less</b>	<b>3 - 12 months</b>	<b>1 – 5 years</b>	<b>More than 5 years</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
Trade creditors	1,220	-	1,220	-	-	-
Subordinated loans	600	-	-	600	-	-
<b>Total financial liabilities</b>	<b>1,820</b>	<b>-</b>	<b>1,220</b>	<b>600</b>	<b>-</b>	<b>-</b>
<b>Net liquidity gap</b>	<b>10,332</b>	<b>39</b>	<b>282</b>	<b>(600)</b>	<b>-</b>	<b>10,611</b>
<b>Cumulative liquidity gap</b>	<b>-</b>	<b>39</b>	<b>321</b>	<b>(279)</b>	<b>(279)</b>	<b>10,332</b>

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Liquidity risk (continued)

The table below analyses the Group'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 Group 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.

Group 2011	Contractual value \$ Million	On demand \$ Million	3 months or less \$ Million	3 - 12 months \$ Million	1 - 5 years \$ Million	More than 5 years \$ Million
Subordinated loans	12,669	-	124	372	7,375	4,798
<b>Total financial liabilities</b>	<b>12,669</b>	<b>-</b>	<b>124</b>	<b>372</b>	<b>7,375</b>	<b>4,798</b>

2010	Contractual value \$ Million	On demand \$ Million	3 months or less \$ Million	3 - 12 months \$ Million	1 - 5 years \$ Million	More than 5 years \$ Million
Subordinated loans	12,161	-	103	7,488	342	4,228
<b>Total financial liabilities</b>	<b>12,161</b>	<b>-</b>	<b>103</b>	<b>7,488</b>	<b>342</b>	<b>4,228</b>

Company 2011	Contractual value \$ Million	On demand \$ Million	3 months or less \$ Million	3 - 12 months \$ Million	1 - 5 years \$ Million	More than 5 years \$ Million
Subordinated loans	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

2010	Contractual value \$ Million	On demand \$ Million	3 months or less \$ Million	3 - 12 months \$ Million	1 - 5 years \$ Million	More than 5 years \$ Million
Subordinated loans	600	-	-	600	-	-
<b>Total financial liabilities</b>	<b>600</b>	<b>-</b>	<b>-</b>	<b>600</b>	<b>-</b>	<b>-</b>

#### 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 Group's portfolio, such as transaction structure and collateral. The Group currently believes that the risk of loss associated with the exposures set forth below is likely materially lower than the exposure amounts disclosed below and is sized appropriately relative to its operations in these countries.



# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Country risk (continued)

The sovereign entities of all the countries disclosed below, as well as the financial institutions and corporations domiciled in these countries, are important clients to the Group and in the global Citigroup franchise. Citigroup fully expects to maintain its presence in these markets to service all of its global customers. As such, the Group's exposure in these countries may vary over time, based upon its franchise, client needs and transaction structures.

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. Given the interest in the area, the table below outlines the Group's exposures to these countries as of 31 December 2011.

\$ Million	Greece	Ireland	Italy	Portugal	Spain	Total
<b>Net current funded credit exposure</b>	(20)	(2)	144	-	(3)	119
Net trading exposure	49	66	231	(2)	(114)	230
<b>Net current funded exposure</b>	<u>29</u>	<u>64</u>	<u>375</u>	<u>(2)</u>	<u>(117)</u>	<u>349</u>
<b>Net current funded credit exposure:</b>						
Sovereigns	-	-	29	-	-	29
Financial institutions	4	(2)	99	-	(3)	98
Corporations	(24)	-	16	-	-	(8)
<b>Total net current funded credit exposure</b>	<u>(20)</u>	<u>(2)</u>	<u>144</u>	<u>-</u>	<u>(3)</u>	<u>119</u>

The exposure detailed above is the nominal exposure without the benefit of any collateral but it reflects the benefit of margin and credit protection. The net trading exposures are marked to market daily and levels vary as the positions are maintained consistent with customer needs. As such, the Group's net exposure is significantly less.

The Group does not have any exposure to unfunded commitments.

### 30. Capital management

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

It is the Group's objective to continue to maintain a strong capital base to support the business and regulatory capital requirement 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, the Internal Capital Adequacy Assessment Process ("ICAAP") and the capital plans for each entity. Capital forecasts are updated and reviewed at a minimum on a quarterly basis.

The Group maintains an internal capital buffer in excess of the "ICAAP" capital requirement.

# CITIGROUP GLOBAL MARKETS EUROPE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 30. Capital management (continued)

#### Regulatory capital

The Group's capital adequacy position is managed and monitored in accordance with the prudential requirements of the FSA, the UK financial services 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.

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

The Group'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

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

Group	2011 \$ Million	2010* \$ Million
Tier 1 capital	10,442	9,083
Tier 2 capital	4,200	3,700
Deductions from Tier 1&2	(256)	-
Tier 3 capital	5,896	8,154
Deductions #	(440)	(142)
Total regulatory capital resources #	<u>19,842</u>	<u>20,795</u>

\* restated for prior year adjustment, as detailed in note 28

# Unaudited

# **CITIGROUP GLOBAL MARKETS EUROPE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **31. Other commitments**

#### **(a) Letters of credit**

As at 31 December 2011, the Group had \$325 million (2010 \$1,164 million) 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 2011, the Group had no capital commitments (2010 \$nil)

### **32. Registered charges**

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

### **33. Post balance sheet events**

On 31 January 2012 CGML repaid \$2 billion of short term subordinated loan borrowings to Citigroup Financial Products Inc ("CFPI"), a fellow group company

On 24 February 2012 Standard and Poor's issued CGML with an A/A-1 short term counterparty credit rating

On 8 May 2012 CGMUKE repaid \$300 million of short term subordinated loan borrowings to CFPI

On 28 June 2012 CGML repaid \$1.2 billion of short term subordinated loan borrowings to CFPI

On 29 June 2012 CGMUKE paid an interim dividend of \$284 million to the Company.

On 13 July 2012, the Company paid a capital contribution of \$284 million to CGML, and on the same day CGML repaid \$284 million of short term subordinated debt to CFPI

### **34. Group structure**

The Group's immediate parent undertaking is Citigroup Financial Products Inc, incorporated in the State of Delaware, United States of America. The Group's ultimate parent and ultimate controlling party is Citigroup Inc, incorporated in the State of Delaware, United States of America.

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](http://www.citigroup.com/citi/corporategovernance/ar.htm)