

**QUILTER HOLDINGS LIMITED**

**(Registered Number: 3061140)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**for the year ended 31 December 2008**

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## **QUILTER HOLDINGS LIMITED**

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## **QUILTER HOLDINGS LIMITED**

### **DIRECTORS' REPORT**

for the year ended 31 December 2008

The Directors present their report and the financial statements of Quilter Holdings Limited ("the Company") for the year ended 31 December 2008.

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

The Company is an intermediate holding company. During the year the Company's subsidiary, Quilter & Co. Limited, provided financial services to corporations, governments, financial institutions and individual investors.

#### **Results**

The Company made a profit after tax for the year ended 31 December 2008 of £3,000 (2007 thirteen month period: profit after tax of £198,000). The state of affairs of the Company as at the year end is detailed in the balance sheet on page 13.

#### *Income*

Total income for the year to 31 December 2008 was £229,000 (2007 thirteen month period: £283,000).

#### *Costs*

Operating expenses for the year were £226,000 (2007 thirteen month period: £nil).

#### *Balance sheet*

Total assets at 31 December 2008 were £23,108,000 (31 December 2007: £22,963,000). This is comparable with the previous period.

The Company's senior management consider that the financial results indicated above are the key financial performance indicators for the operations of the Company.

Citigroup Inc. manages its operations on a divisional basis and the Company's results are included in the segmental results of Citigroup Inc. For that reason, the Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business.

#### **Principal risks**

Risk management is an important part of the business. The principal risk which the Company is exposed to is operational risk. The operational risks of the Company are subject to periodic reviews by Citigroup Internal Audit and risk and control self assessment reviews conducted by management.

#### **Dividends**

No dividends were declared or paid by the Company during the year (2007: £nil) and the Directors do not recommend the declaration of a dividend in respect of the period.

#### **Financial instruments**

The Company is an intermediate holding company, and as such is not exposed to price risk, credit risk, and liquidity risk.

## QUILTER HOLDINGS LIMITED

### DIRECTORS' REPORT (continued)

for the year ended 31 December 2008

#### Risk Factors

The disruption in the financial markets has increased the risks and uncertainties faced by Citigroup and other Financial Service companies. The below is an extract of the risk factors impacting Citigroup from its 2008 annual report on form 10-K:

*Disruptions in the global financial markets have affected, and may continue to adversely affect, Citigroup's business and results of operations.*

Dramatic declines in the housing market during 2008, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivatives, have caused many financial institutions to seek additional capital and to merge with other financial institutions. Disruptions in the global financial market have also adversely affected the corporate bond markets, debts and equity underwriting and other elements of the financial markets.

Reflecting concerns about the stability of the financial markets generally and the strength of counterparties, some lenders and institutional investors have reduced and, in some cases, ceased to provide funding to certain borrowers, including other financial institutions. The impact on available credit (even where Citigroup and other TARP participants are making credit available), increased volatility in the financial markets and reduced business activity has adversely affected, and may continue to adversely affect Citigroup's business, capital, liquidity or other financial conditions and results of operations, access to credit and the trading price of Citigroup common stock, preferred stock or debt securities.

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

The current market and economic disruptions have affected, and may continue to affect, consumer confidence levels, consumer spending, personal bankruptcy rates and home prices, among other factors, which provide a greater likelihood that more of Citigroup's customers or counterparties could use credit cards less frequently or become delinquent in their loans or other obligations to Citigroup. This, in turn, could result in a higher level of charge-offs and provisions for credit losses, all of which could adversely affect Citigroup's earnings. Policies of the Federal Reserve Board or other governmental institutions can also adversely affect Citigroup's customer or counterparties, potentially increasing the risk that they may fail to repay their loans. Additionally, Citigroup may incur significant credit risk exposure which may arise, for example, from entering into swaps or other derivatives contracts under which counterparties have long-term obligations to make payments to the Company. Recent market conditions, including decreased liquidity and pricing transparency along with increased market volatility, have negatively impacted Citigroup's credit risk exposure. Although Citigroup regularly reviews its credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee.

## QUILTER HOLDINGS LIMITED

### DIRECTORS' REPORT (continued)

for the year ended 31 December 2008

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

Market volatility, illiquid market conditions and disruptions in the credit markets have made it extremely difficult to value certain of Citigroup's assets. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of the assets in future periods. In addition, at the time of any sales of these assets, the price Citigroup ultimately realizes will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could require Citigroup to take further write-downs in respect of these assets, which may have an adverse effect on the Company's results of operations and financial condition in future periods.

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

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

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

Adequate liquidity is essential to Citigroup's businesses. The Company's liquidity could be materially adversely affected by factors Citigroup cannot control, such as the continued general disruption of the financial markets or negative views about the financial services industry in general. In addition, Citigroup's ability to raise funding could be impaired if lenders develop a negative perception that the Company's short-term or long-term financial prospects, or a perception that the Company is experiencing greater liquidity risk. Recent regulatory measures, such as deposits in non-interest bearing deposits transaction accounts, and the commercial paper funding facility of the Federal Reserve Board, are designs to stabilize the financial markets and liquidity position of financial institutions such as Citigroup.

While much of Citigroup's recent long-term unsecured funding has been issued pursuant to these government-sponsored funding programs implemented, it is unclear whether, or for how long, these facilities will be extended and what impact termination of any of these facilities could have on Citigroup's ability to access funding in the future. It is also unclear when Citigroup will be able to regain access to the public long-term unsecured debt markets on historically customary terms.

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

## QUILTER HOLDINGS LIMITED

### DIRECTORS' REPORT (continued)

for the year ended 31 December 2008

Citigroup's credit ratings are also important to its liquidity. A reduction in Citigroup's credit rating could adversely affect its liquidity, widen its credit spreads or otherwise increase its borrowing costs, limit its access to the capital markets or trigger obligations under certain bilateral provisions in some of the Company's trading and collateralized financing contracts. In addition, under provisions, counterparties could be permitted to terminate certain contracts with Citigroup or require the Company to post additional collateral. Termination of the Company's trading and collateralized financing contracts could cause Citigroup to sustain losses and impair its liquidity by requiring Citigroup to find other sources of financing or to make significant cash payments or securities transfers.

*Recently enacted legislation authorizing the U.S. government to take direct action within the financial services industry, and other legislation and regulation currently under consideration, may not stabilize the U.S. financial system in the near term.*

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was signed into law. In addition, on February 17, 2009 the American Recovery and Reinvestment Act of 2009 (ARRA) was signed by President Obama. The purpose of these U.S. government actions is to stabilize and provide liquidity to the U.S. financial markets and jumpstart the U.S. economy. The U.S. government is currently considering, and may consider in the future, additional legislation and regulations with similar purposes. The EESA, ARRA and other governmental programs may not have their intended impact of stabilizing, providing liquidity to restoring confidence in the financial markets. Further, the discontinuation and/or expiration of these or other governmental programs could result in a worsening of current market conditions.

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

On January 16, 2009, Citigroup announced that it would realign into two businesses, Citicorp and Citi Holdings, for management and reporting purposes, effective second quarter of 2009. The realignment is part of Citigroup's strategy to focus on its core businesses, reduce its balance sheet and simplify its assets. Citigroup believes this structure will allow it to enhance the capabilities and performance of Citigroup's core assets, through Citicorp, as well as realize value from its non-core assets, through Citi Holdings. Citi Holdings will also include Citigroup's 49% interest in the recently announced Morgan Stanley Smith Barney joint venture, a transaction which is also intended to simplify and streamline the Company on a going-forward basis. Despite these efforts, given the rapidly changing and uncertain financial environment, there can be no assurance that the realignment of Citigroup's businesses will achieve the Company's desired objective or benefits.

## QUILTER HOLDINGS LIMITED

### DIRECTORS' REPORT (continued)

for the year ended 31 December 2008

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

Pursuant to U.S. GAAP, Citigroup is required to use certain assumptions and estimates in preparing its financial statements, including in determining credit loss reserves, reserves related to litigations and the fair value of certain assets and liabilities, among other items. If assumptions or estimates underlying Citigroup's financial statements are incorrect, Citigroup may experience material losses. For example, Citigroup makes judgments in connection with its consolidation analysis of its SPE's. If it is later determined that non-consolidated SPE's should be consolidated, this could adversely affect Citigroup's consolidated balance sheet, related funding requirements and capital ratios, and, if the SPE assets include unrealized losses, could require Citigroup to recognise those losses.

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

Citigroup's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. From time to time, the FASB changes the financial accounting and reporting standards that govern the preparation of the Company's financial statements (e.g. see for example "The eliminations of QSPE's from the guidance in SFAS 140 and changes in FIN 46 @ may significantly impact Citigroup's consolidated Financial Statement" on page 48). These changes can be hard to predict and can materially impact how Citigroup records and reports its financial conditions and results of operations.

*Defaults by another large financial institution could adversely affect Citigroup and the financial markets generally.*

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systematic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, and exchanges with which Citigroup interacts on a daily basis and, therefore, could adversely affect the Company.

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

Citigroup seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate but complementary financial credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. While Citigroup employs a broad and diversified set of risk monitoring and risk mitigation techniques (see "Managing Global Risk" on page 52), those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes. Recent market conditions, particularly during the latter part of 2007 and 2008, have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

## QUILTER HOLDINGS LIMITED

### DIRECTORS' REPORT (continued)

for the year ended 31 December 2008

These market movements can, and have, limited the effectiveness of Citigroup's hedging strategies and have caused the Company to incur significant losses, and they may do so again in the future. In addition, concentration of risk increases the potential for significant losses in certain of Citigroup's businesses. For example, Citigroup extends large commitments as part of its credit origination activities. Citigroup's inability to reduce its credit risk by selling, syndicating or securitizing these positions, including during periods of market dislocation, could negatively affect its results of operations due to a decrease in the fair value of the positions, as well as the loss of revenues associated with selling such securities or loans.

In addition, the Company routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks and investment funds. This has resulted in significant credit concentration with respect to this industry.

*Citigroup's businesses are subject to extensive and pervasive regulation around the world.*

As a participant in the financial services industry, Citigroup is subject to extensive regulation, including fiscal and monetary policies, in jurisdictions around the world. For example, the actions of the Federal Reserve Board and international central banking authorities directly impact Citigroup's cost of funds and lending, capital raising and investment activities and may impact the value of financial instruments the Company holds. This level of regulation is expected to increase significantly in all jurisdictions in which the Company conducts business in response to the current financial crisis. Among other things, Citigroup could be fined, prohibited from engaging in some of its business activities or subject to limitations or conditions on its business activities, including increased capital or liquidity requirements each of which could lead to reputational harm.

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

Citigroup faces significant legal risks in its business, and the volume of claims and amounts of damages and penalties claims in litigation and regulatory proceedings against financial institutions remain high. Citigroup's experience has been legal claims by customers and clients increase in a market downturn. In addition, employment-related claims typically increased in periods when Citigroup has reduced the total number of employees, such as during the last fiscal year.

In addition, there have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and Citigroup runs the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct and extensive precautions Citigroup takes to prevent and detect this activity may not be effective in all cases.

## QUILTER HOLDINGS LIMITED

### DIRECTORS' REPORT (continued)

for the year ended 31 December 2008

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

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

Citigroup also faces the risk of operational failure or termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries Citigroup uses to facilitate its transactions, and as Citigroup's interconnectivity with its clients grows, the Company increasingly faces the risk of operational failure with respect to its Clients' systems. Implementation on the Morgan Stanley Smith Barney joint venture may, at least temporarily, exacerbate these risks insofar as the activities of the joint venture are concerned.

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

The above factors are also the key risks and uncertainties facing the Company. The impact of the above factors on the capital requirements of the Company are the key driver of the Company's potential need of parental support.

## **QUILTER HOLDINGS LIMITED**

### **DIRECTORS' REPORT (continued)**

for the year ended 31 December 2008

#### **Directors and their interests**

The Directors who held office throughout the year were as follows:

M Baines  
R Stemmons  
S Vakil  
C Weir

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

#### **Statement of Directors' responsibilities**

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

Company law requires the Directors to prepare financial statements for each financial year. The Company has applied the exemption in section 228A from the preparation of consolidated group accounts as the results of the Company and its subsidiaries are included within the consolidated results of Citigroup Inc. on an equivalent basis. Under company law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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

In preparing these financial statements, the Directors are required to:

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

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

## **QUILTER HOLDINGS LIMITED**

### **DIRECTORS' REPORT (continued)**

for the year ended 31 December 2008

#### **Directors' indemnity**

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

#### **Disclosure of information to auditors**

In accordance with section 234ZA, Companies Act 1985 it is stated by the Directors who held office at the date of approval of this Directors' Report that, so far as each is aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This statement is made subject to all the provisions of s. 234ZA.

#### **Auditors**

An elective resolution to dispense with the annual appointment of the Auditor pursuant to Section 386 of the Companies Act 1985 is in force.

#### **Post balance sheet event**

On 13 January 2009, Citigroup Inc. ("Citi") and Morgan Stanley entered into a Joint Venture Contribution and Formation Agreement ("Agreement"). Pursuant to the Agreement Citi will contribute its Smith Barney business and Quilter Holdings Limited and its subsidiaries into a newly formed joint venture entity. Morgan Stanley will contribute its global wealth management and private wealth management businesses. The transaction is subject to regulatory approval and is expected to be completed in the second or third quarter of 2009.

By order of the Board



J Robson  
Secretary  
16 March 2009

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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUILTER HOLDINGS LIMITED**

We have audited the financial statements of Quilter Holdings Limited for the year ended to 31 December 2008 which comprise the Income Statement, Balance Sheet, the Cash Flow Statement and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 8.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

### **Basis of audit opinion**

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

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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUILTER HOLDINGS LIMITED (Continued)**

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG Audit Plc**

**KPMG Audit Plc**

*Chartered Accountants and Registered Auditor  
London  
16 March 2009*

## QUILTER HOLDINGS LIMITED

### INCOME STATEMENT

Year ended 31 December 2008

		<b>Year ended 31 December 2008 £'000</b>	<b>Period 1 December 2006 to 31 December 2007 £'000</b>
	<b>Note</b>		
Interest and similar income		232	283
Interest expense and similar charges		(3)	-
<b>Total operating income</b>		<u>229</u>	<u>283</u>
Administrative expenses		(226)	-
<b>Profit before income tax</b>		<u>3</u>	<u>283</u>
Income tax expense	4	-	(85)
<b>Profit for the financial period</b>	6	<u><u>3</u></u>	<u><u>198</u></u>

There were no recognised income or expenses during the current or prior period other than those disclosed above. Accordingly no statement of recognised income and expense has been prepared.

# QUILTER HOLDINGS LIMITED

## BALANCE SHEET

31 December 2008

	Note	31 December 2008 £'000	31 December 2007 £'000
<b>Assets</b>			
Cash and balances at banks	8	-	44
Shares in subsidiary undertakings	5	18,045	18,045
Other assets		5,063	4,874
<b>Total assets</b>		<b>23,108</b>	<b>22,963</b>
<b>Liabilities</b>			
Current tax liabilities		1	85
Other liabilities		226	-
<b>Total liabilities</b>		<b>227</b>	<b>85</b>
<b>Equity shareholders' funds</b>			
Share capital	7	12,053	12,053
Share premium account	6	9,900	9,900
Retained earnings	6	928	925
<b>Total shareholders' funds</b>		<b>22,881</b>	<b>22,878</b>
<b>Total liabilities and equity shareholders' funds</b>		<b>23,108</b>	<b>22,963</b>

Approved by the Directors on 16 March 2009 and signed on their behalf by:

  
S Vakil  
Director

# **QUILTER HOLDINGS LIMITED**

## **CASH FLOW STATEMENT**

**Year ended 31 December 2008**

	Note		
		Year ended 31 December 2008 £'000	Period 1 December 2006 to 31 December 2007 £'000
<b>Cash flow from operating activities</b>			
Profit before income tax		3	283
<b>Adjustments to reconcile net profit to cash from operating activities</b>			
<b>Net increase in operating assets:</b>			
Other assets		(189)	(262)
<b>Net increase/(decrease) in operating liabilities:</b>			
Amounts owing to group undertakings		226	-
Income taxes paid		(84)	-
<b>Net cash flow from operating activities</b>		<u>(44)</u>	<u>21</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		(44)	21
Cash and cash equivalents, beginning of the period		44	23
<b>Cash and cash equivalents, end of the period</b>		<u><u>-</u></u>	<u><u>44</u></u>

## **QUILTER HOLDINGS LIMITED**

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

**Year ended 31 December 2008**

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

##### **a) Basis of presentation**

The financial statements have been prepared under the historical cost convention and approved by the Directors in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The financial statements have been prepared on a going concern basis taking into account the continuing support from the Companies parent. The risks and uncertainties facing the parent group, together with those factors which lead to the company's reliance on parental support, are discussed further in the directors report. Taking these factors into account the directors remain comfortable of the intent and ability of Citigroup to provide support to the Company if required and consequently present these financial statements on a going concern basis.

The current financial period contains twelve months, whereas the prior period contained thirteen months. As such, the financial performance is not entirely comparable.

##### **b) Consolidation**

The Company has applied the exemption in section 228A of the Companies Act 1985 from the preparation of consolidated group accounts as the financial results of the Company and its subsidiary undertakings are included in the consolidated group accounts of Citigroup Inc., a company incorporated in the United States of America, on a basis that is consistent with the financial reporting requirements of the Companies Act. The financial statements therefore present information about the Company as an individual entity and not about its group. The consolidated financial statements of Citigroup Inc. within which the Company is included are available from the address stated in note 11.

##### **c) Segmental reporting**

The Company has only one class of business as described in the Directors' report and operates in one geographic market, the United Kingdom.

##### **d) Foreign currencies**

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

The Company does not undertake transactions in any currency other than its functional currency.

##### **e) Dividend income**

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

##### **f) Shares in subsidiary undertakings**

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

## **QUILTER HOLDINGS LIMITED**

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

**Year ended 31 December 2008**

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

##### **g) Income taxes**

Income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise.

##### **h) Cash and cash equivalents**

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

#### **2. Use of assumptions and estimates**

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

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

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

#### **3. Operating profit**

The audit fee has been borne by another Group company in both the current and prior period.

The Company employed no staff during the year (2007: Nil).

# **QUILTER HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2008**

### **4. Income tax expense**

	Year ended 31 December 2008 £'000	Period 1 December 2006 to 31 December 2007 £'000
<b>a) Analysis of tax charge in the period</b>		
<b>Current tax:</b>		
UK corporation tax on profits of the period	1	85
- Adjustment in respect of prior periods	(1)	-
<b>Tax charge</b>	<u>-</u>	<u>85</u>

### **b) Factors affecting tax charge for the period**

The tax assessed for the Company for the period is lower than (2007: equal to) the standard rate of corporation tax in the UK (28%). The differences are explained below:

	Year ended 31 December 2008 £'000	Period 1 December 2006 to 31 December 2007 £'000
Profit before tax	<u>3</u>	<u>283</u>
Profit multiplied by the standard rate of corporation tax in the UK of 28% (2007: 30%)	1	85
Effects of:		
Adjustments to the tax charge in respect of previous periods	(1)	-
<b>Income tax expense</b>	<u>-</u>	<u>85</u>

# **QUILTER HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2008**

### **5. Shares in subsidiary undertakings**

The movement in the Company's investments in the share capital of subsidiary undertakings was as follows:

	<b>31 December 2008 £'000</b>	<b>31 December 2007 £'000</b>
At the beginning of the period	18,045	18,045
At the end of the period	<u>18,045</u>	<u>18,045</u>

Details of principal Company subsidiary undertakings held at 31 December 2008 are as follows:

<b>Name</b>	<b>Country of incorporation</b>	<b>Nature of business</b>	<b>% holding in ordinary share capital</b>
Quilter & Co. Limited	Great Britain	Financial services	100%
Quilter Fund Management Ltd	Great Britain	Non-operative	100%*

An \* denotes shareholdings attributed to the Company which are not directly held by the Company.

A full list of the Company's subsidiary and associated holdings will be annexed to the Company's next annual return and filed at the Registrar of Companies.

### **6. Capital and reserves**

	<b>Share capital £'000</b>	<b>Share premium £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
At 1 December 2006	12,053	9,900	727	22,680
Profit for the period	-	-	198	198
At 1 January 2008	<u>12,053</u>	<u>9,900</u>	<u>925</u>	<u>22,878</u>
Profit for the period	-	-	3	3
At 31 December 2008	<u>12,053</u>	<u>9,900</u>	<u>928</u>	<u>22,881</u>

# **QUILTER HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2008**

### **7. Share capital**

	<b>31 December 2008 Number</b>	<b>31 December 2007 Number</b>
<b>Authorised</b>		
7,000,000 'A' ordinary shares of 1p each	7,000,000	7,000,000
2,500,000 'B' ordinary shares of 1p each	2,500,000	2,500,000
500,000 ordinary shares of 1p each	500,000	500,000
8,125,000 unclassified shares of 1p each	8,125,000	8,125,000
2,258,065 new ordinary shares of 0.8303560p each	2,258,065	2,258,065
1 deferred share of 0.1466p	1	1
11,934,000 7% cumulative preference shares of £1 each	<u>11,934,000</u>	<u>11,934,000</u>
	<b>31 December 2008 £'000</b>	<b>31 December 2007 £'000</b>
<b>Allotted, called-up and fully paid</b>		
7,000,000 'A' ordinary shares of 1p each	70	70
2,500,000 'B' ordinary shares of 1p each	25	25
500,000 ordinary shares of 1p each	5	5
2,258,065 new ordinary shares of 0.8303560p each	19	19
1 deferred share of 0.1466p	-	-
11,934,000 7% cumulative preference shares of £1 each	11,934	11,934
	<u>12,053</u>	<u>12,053</u>

The preference shares are irredeemable and dividends are payable on 31 March and 30 September. No dividends were declared or paid by the Company during the year and the Directors do not recommend the declaration of a dividend in respect of the period. The preference shares do not entitle the holders to vote at general meetings unless the payment of a dividend is in arrears by six months or more. The holders of the preference shares are entitled to receive dividends in priority to holders of any other class of share. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividend.

Each class of ordinary share has the same voting rights and rights to participate in the profits of the Company.

The deferred share does not entitle the holder to receive dividends or vote at general meetings of the Company.

## QUILTER HOLDINGS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

#### 8. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances which are on call.

#### 9. Related party transactions

The Company is a wholly owned subsidiary undertaking of Citibank Investments Limited, which is incorporated in England. The largest group in which the results of the Company are consolidated is that headed by Citigroup Inc. which is incorporated in the United States. The Company defines related parties as the Board of Directors, their close family members, parent and fellow subsidiaries and associated companies.

A number of arms length transactions are entered into with related parties. These include loans and deposits that provide funding to Group companies. Various services are provided between related parties and these are all also provided at arms length. The table below summarises balances with related parties. No provisions have been recognised in respect of loans given to related parties (2007: £nil).

	31 December 2008 Other Citigroup undertakings £'000	31 December 2007 Other Citigroup undertakings £'000
<b>Assets</b>		
Other assets	5,063	4,874
<b>Liabilities</b>		
Other liabilities	226	-
<b>Income statement</b>		
Interest and similar income	232	262
Administrative expenses	(226)	-

#### 10. Post balance sheet event

On 13 January 2009, Citigroup Inc. ("Citi") and Morgan Stanley entered into a Joint Venture Contribution and Formation Agreement ("Agreement"). Pursuant to the Agreement Citi will contribute its Smith Barney business and Quilter Holdings Limited and its subsidiaries into a newly formed joint venture entity. Morgan Stanley will contribute its global wealth management and private wealth management businesses. The transaction is subject to regulatory approval and is expected to be completed in the second or third quarter of 2009.

#### 11. Parent companies

The Company is a subsidiary undertaking of Citibank Investments Limited, which is incorporated in England.

The largest group in which the results of the Company are consolidated is that headed by Citigroup Inc. The audited consolidated financial statements of Citigroup Inc. are made available to the public annually in accordance with Securities and Exchange Commission regulations and may be obtained from Citigroup Document Services, 540 Crosspoint Parkway, Getzville, NY 14068.