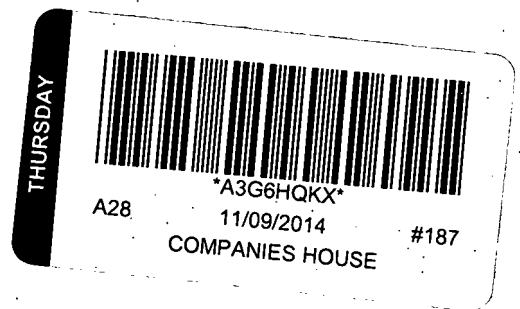


Citadel Securities (Europe) Limited

Annual report and Financial Statements for the year
ended 31 December 2013

Registered number: 5462867



CITADEL SECURITIES (EUROPE) LIMITED

Registered number: 5462867

Company Information

Directors

S Atkinson

M Wheeler

S Belluardo

Company Secretary

E Sanchez

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

7 More London Riverside

London SE1 2RT

Bankers

Bank of New York

1 Wall Street

New York

NY 10286

United States of America

JP Morgan Chase Bank N.A

1 Chaseside

Bournemouth BH7 7DA

Registered Office

Moor House

120 London Wall

London EC2Y 5ET

CITADEL SECURITIES (EUROPE) LIMITED

Registered number: 5462867

Directors' report for the year ended 31 December 2013

The directors present the report and audited financial statements of Citadel Securities (Europe) Limited ("CSEL" or "the Company") for the year ended 31 December 2013.

Directors

The following directors who held office during the year and to the date of this report were:

S Atkinson

M Wheeler

J Nazarali (resigned 5 June 2013)

S Belluardo (appointed 5 June 2013)

Results and dividends

During the year under review, the Company earned net income from trading of \$39,122,000 (2012 - \$26,539,000) and made a profit before taxation of \$25,010,000 (2012 - \$5,610,000). The Directors approved the payment of a dividend for the year ended 31 December 2013 of \$20,000,000 which was paid on 10 March 2014. In respect of the year ended 31 December 2012 a dividend of \$10,000,000 was paid on 27 March 2013.

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. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CITADEL SECURITIES (EUROPE) LIMITED

Directors' report for the year ended 31 December 2013

Directors' statement on disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the Company's auditors are not aware and the directors confirm that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



S Atkinson

Director

17 April 2014

CITADEL SECURITIES (EUROPE) LIMITED

Registered number: 5462867

Strategic report for the year ended 31 December 2013

The directors present their strategic report for the year ended 31 December 2013.

Principal activity

The principal activity of the Company is proprietary trading in equities across various European exchanges. Proprietary trading in futures was transferred to a related entity on 1 April 2013. In the first quarter of 2013 the Company closed its third party client execution business.

Business environment and competition

The principal markets in which the Company operates, are highly competitive with competition from both incumbent players and new market entrants. In order to mitigate this risk there is continuous focus on the securities traded, the trading strategies, the trading venues and the technology employed.

Key Performance Indicators ("KPIs")

	2013	2012
	\$000	\$000
Net income from trading, before swap expense	62,326	64,609
Collateral posted by swap counterparty as at 31 December	15,800	35,000

The key performance indicators used by the directors for an understanding of the development and performance of the business include net income from trading, margin requirement reports from counterparties, the collateral posted by the swap counterparty, and liquidity reports. All of these reports are produced and reviewed on a daily basis.

Principal risks and uncertainties

The Company has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits and controls, and to monitor these risks. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's risk management structure seeks to minimise the potential, adverse effects of these risks on financial performance. Market risk, including interest rate risk and foreign exchange risk, is hedged with a related entity, Citadel Securities Luxembourg Sarl ("CSLS"), via a total return swap. The risk limits agreed within this swap are closely monitored on an intra-day basis to ensure compliance. Credit risk, including settlement risk, is monitored on a daily basis against limits agreed by the Board of Directors. Liquidity risk is monitored daily in accordance with the liquidity risk tolerances set by the Board of Directors as part of the liquidity policy.

CITADEL SECURITIES (EUROPE) LIMITED

Strategic report for the year ended 31 December 2013

Principal risks and uncertainties (continued)

Further information is provided in the Company's Pillar 3 disclosure document which should be read in conjunction with these financial statements and which is available via the Citadel website at http://www.citadel.com/_files/uploads/2013/07/citadel-securities-europe-pillar-3-disclosures.pdf.

The Company is exposed to risks of retaining key employees. This risk is addressed by human resource policies to ensure that the Company recruits and retains staff with the appropriate skills, by offering an attractive work place environment and competitive remuneration packages.

The Company is exposed to a range of operational risks including risks associated with the high volume of trading that is undertaken, these risks are tracked on a monthly basis to ensure they are within agreed risk tolerances with any breaches being escalated ultimately to the Board of Directors to ensure appropriate controls are implemented.

The financial markets in which the Company operates and the activities of the Company are currently subject to a number of potential regulatory and tax changes. The Company closely monitors all proposed changes and actively engages in the consultation processes to ensure the Company is positioned to respond to any changes that are ultimately agreed.

Review of business

In 2013 there was a moderate increase in overall market volumes as well as a change in market structures with greater participation from institutional investors. The Company continued to invest in new strategies and technology which resulted in improved returns from the proprietary equity trading business in 2013. The balance sheet on page 9 shows a strong net asset position.

Strategy and future developments

The Company's strategy for 2014 is to continue to focus on algorithmic equity trading, investing in new strategies and technologies as appropriate. The Company expects to expand the number of trading venues, to connect to more liquidity sources. The Directors foresee increased levels of gross trading revenue in 2014 compared to 2013.

By order of the Board



S Atkinson

Director

17 April 2014

CITADEL SECURITIES (EUROPE) LIMITED

Independent Auditors' report to the members of Citadel Securities (Europe) Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Citadel Securities (Europe) Limited, comprise:

- the statement of financial position as at 31 December 2013;
- the profit and loss account the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

CITADEL SECURITIES (EUROPE) LIMITED

Independent Auditors' report to the members of Citadel Securities (Europe) Limited

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the Directors were not entitled to prepare financial statements in accordance with the small companies' regime, take advantage of the small companies' exemption in preparing the Directors' Report and take advantage of the small companies exemption from preparing a Strategic Report. We have no exceptions to report arising from this responsibility.

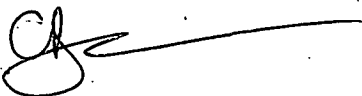
Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Carl Sizer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 April 2014

CITADEL SECURITIES (EUROPE) LIMITED**Profit and loss account**

For the year ended 31 December 2013

	Note	2013 \$000	2012 \$000
Income from trading	1	110,221	117,784
Fees and commissions expense		(47,895)	(53,175)
Swap expense	2	<u>(23,204)</u>	<u>(38,070)</u>
Net income from trading		39,122	26,539
Administrative expenses	3	(14,131)	(20,975)
Operating profit		<u>24,991</u>	<u>5,564</u>
Interest receivable and similar income	4	19	46
Profit on ordinary activities before taxation		<u>25,010</u>	<u>5,610</u>
Tax on profit on ordinary activities	5	(6,425)	(1,430)
Profit on ordinary activities after taxation		<u>18,585</u>	<u>4,180</u>

All the results of the Company are derived from continuing operations.

There are no recognised gains or losses for the year other than the profit disclosed above. Accordingly, no separate statement of total recognised gains or losses is presented.

There are no material differences between the profit on ordinary activities before taxation for the years stated above and their historical cost equivalent, except as explained in note 1.

The reconciliation of movements in shareholder's funds during the year is detailed in note 22.

The notes on pages 11 to 26 are an integral part of these financial statements.

CITADEL SECURITIES (EUROPE) LIMITED**Balance sheet****As at 31 December 2013**

	Note	2013 \$000	2012 \$000
Current assets			
Debtors	10	9,580	3,858
Deferred tax asset	11	-	209
Financial assets at fair value through profit and loss	12	116,569	85,221
Reverse repurchase agreements	13	21,237	20,332
Cash at bank and in hand	27	38,334	38,544
		<u>185,720</u>	<u>148,164</u>
Current liabilities			
Financial liabilities at fair value through profit and loss	14	64,451	57,928
Other creditors	15	70,845	48,397
		<u>135,296</u>	<u>106,325</u>
Net current assets		50,424	41,839
Net assets		<u>50,424</u>	<u>41,839</u>
Capital and reserves			
Share capital	20	8,000	8,000
Profit and loss account	21	42,424	33,839
Total shareholder's funds	22	<u>50,424</u>	<u>41,839</u>

The financial statements on pages 8 to 26 were approved by the board of directors on 17 April 2014 and were signed on its behalf by:



S Atkinson
Director

17 April 2014

The notes on pages 11 to 26 form an integral part of these financial statements.

CITADEL SECURITIES (EUROPE) LIMITED**Cash flow statement****For the year ended 31 December 2013**

	Note	2013 \$000	2012 \$000
Net cash inflow / (outflow) from operating activities	23	31,482	(20,442)
Returns on investments and servicing of finance	24	19	46
Tax paid	25	(2,511)	(2,405)
Financing	26	(29,200)	(2,750)
Decrease in cash	27	<u>(210)</u>	<u>(25,551)</u>

The notes on pages 11 to 26 form an integral part of these financial statements.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

1 Accounting convention

The financial statements have been prepared on the going concern basis, under the historical cost convention except as explained below, in accordance with applicable accounting standards in the United Kingdom and the requirements of the Companies Act 2006 ("the Act"). The Company continues to review and update its accounting policies, in accordance with the requirements of FRS 18 "Accounting Policies". The principal accounting policies which have been consistently applied throughout the year are set out below.

The format of the profit and loss account has been amended from that prescribed in the Act as, in the opinion of the directors, the presentation adopted better reflects the nature and activities of the business of the Company.

Principal accounting policies

a) Foreign currencies

Transactions in foreign currencies are translated into US Dollars at the exchange rate ruling on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the rate of exchange ruling at the balance sheet date. All exchange rate differences are taken to the profit and loss account. The financial statements have been presented in US Dollars as the directors are of the opinion that this is the functional currency of the Company. The applicable exchange rates at 31 December 2013 are as follows:

USD / GBP : 1.6569.

USD / EUR : 1.3756

b) Recognition and derecognition of financial assets and liabilities

The Company recognises a financial asset or liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. Derecognition of financial assets will occur when the contractual rights to the cash flows from the assets expire. Derecognition of financial liabilities occur when the contractual obligations to make payments have been extinguished. Measurement of financial assets and liabilities is based on the fair value of the instruments.

c) Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at fair value through profit and loss include securities owned and securities sold, but not yet purchased, and derivative positions. In accordance with FRS 26, "Financial instruments: recognition and measurement", the initial measurement is made at fair value on the trade date, based on available market information. Any subsequent adjustments to fair values are taken to the profit and loss account. Financial assets and liabilities at fair value through profit and loss are valued at final close prices using third party pricing sources, including one or more exchanges, organised dealer markets, electronic trading facilities and broker-dealers.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

Principal accounting policies (continued)

c) Financial assets and liabilities at fair value through profit and loss (continued)

Valuation of the total return swap is determined by the return on the total portfolio, a recharge of operating costs, and a return on the share capital, with an adjustment for any cashflows that have occurred under the swap agreement. The amount shown as a receivable or payable to the swap counterparty is stated at fair value. Other financial instruments are short term and thus their carrying value is a reasonable approximation of their fair value. This includes debtor, cash and creditor balances.

d) Deferred tax

In accordance with FRS 19, "Deferred Tax", deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or the right to pay less, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

e) Pension costs and other post retirement benefits

A related entity, Citadel Investment Group (Europe) Limited ("CIGE") makes payments into a group personal pension plan, operating as a defined contribution pension scheme. All staff are employed by CIGE which allocates an appropriate share of pension costs to the Company.

f) Income from trading

Income from trading comprises: net trading interest income which is recognised as earned; exchange fees and rebates arising through trading activity; foreign exchange gains or losses arising from revaluation of assets and liabilities held for trading purposes; and gains or losses on trading activity. Dividends received and paid on equity securities are recognised as income on the ex-dividend date.

Substantially all the Company's securities owned and carried at fair value, are held at a major financial institution which is permitted by contract or custom to sell or repledge these securities.

In accordance with FRS 26, those financial instruments held for trading purposes are marked to market and any change in unrealised gains and losses are taken to the profit and loss account in the period in which they arise.

g) Fees and commission expense

Fees and commission expense principally comprise brokerage and exchange fees associated with trading activity, and are recognised in the profit and loss account on an accruals basis as the service is provided.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

Principal accounting policies (continued)

h) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks.

i) Netting arrangements

Financial assets and liabilities are offset and the net amount reported in the balance sheet if and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise an asset and settle the liability simultaneously.

2 Transactions with related parties

Cost sharing agreement

The Company has a cost sharing agreement with CIGE, for direct and allocable administrative expenses paid by CIGE. Administrative expenses totalling \$6,582,000 were charged under this agreement and are included in the profit and loss account for the year ended 31 December 2013 (2012 - \$8,401,000). A balance of \$3,121,000 was payable to CIGE at 31 December 2013 (2012 - \$1,918,000).

Secondment of employees

Prior to 1 April 2013 the Company utilised the services of employees seconded to the Company by CIGE which acted as paying agent for the Company payroll. The secondment arrangements were terminated effective 1 April 2013 and thereafter CIGE allocated an appropriate share of employment costs to the Company. Allocated staff costs for the Company are included in the administrative expenses in the profit and loss account, and are set out in note 6.

Total return swap

Prior to 1 April 2013, and pursuant to a master swap agreement entered into by the Company and Citadel Global Trading Sarl ("CGTS"), a related party, CGTS received (paid) a sum equal to 85% (100%) of all net gains (losses) on investment transactions, interest and dividend income and expense of the Company in return for a payment based on the Company's issued share capital multiplied by the USD one month Libor rate, plus the total of the Company's operating expenses as defined in the CGTS swap agreement.

Effective 1 April 2013 the Company terminated the master swap agreement with CGTS. On the same date the Company entered into a new master swap agreement with Citadel Securities Luxembourg Sarl ("CSLS"), a related party, whereby CSLS receives a sum equal to 42.5% all net gains on investment transactions, interest and dividend income and expense of the Company in return for a payment based on the Company's issued share capital multiplied by the USD one month Libor rate, plus the total of the Company's operating expenses as defined in the CSLS swap agreement. In the event of a loss the Company will absorb the first \$3,700,000 of losses; CSLS will pay a sum equal to 100% of losses in excess of \$3,700,000.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

2 Transactions with related parties (continued)

Total return swap (continued)

For the year ended 31 December 2013, the net swap settlements resulted in an expense of \$23,204,000 (2012 – \$38,070,000) which is included on the face of the profit and loss account. The amount payable to CSLS under the CSLS swap agreement at 31 December 2013 was \$2,056,000 (2012 – \$193,000 payable to CGTS under the CGTS swap agreement) and is included in other creditors (note 15). The terms of the CSLS swap agreement prescribe that CSLS deposits collateral with the Company to cover the greater of (a) the aggregate of the Company's exchange margin requirements with counterparties; (b) the Company's intra-day stress test risk limit; and (c) 12% of the Company's gross total portfolio of investment assets including margin accounts, less \$3.7m in respect of potential losses. The value of collateral deposited by CSLS at 31 December 2013 was \$15,800,000 (2012 - \$35,000,000 deposited by CGTS), and is included in other creditors (note 15).

Service agreements

The Company has an Administrative Services Agreement with Citadel LLC for direct and allocable administrative, general and operating expenses. Expenses of \$1,366,000 (2012 - \$1,580,000) charged under this agreement are included in the profit and loss account. A balance of \$167,000 was payable to Citadel LLC at 31 December 2013 (2012 – \$187,000).

3 Administrative expenses

	2013	2012
	\$000	\$000
Staff costs (note 6)	5,776	10,793
Auditors' remuneration		
- audit services	239	206
Irrecoverable VAT	1,104	1,681
Administrative expenses charged by Citadel LLC (note 2)	1,366	1,580
Hedge fund administration services	407	201
Other administrative expenses charged or paid by CIGE	5,239	6,514
	<u>14,131</u>	<u>20,975</u>

4 Interest receivable and similar income

	2013	2012
	\$000	\$000
Interest earned on bank accounts	<u>19</u>	<u>46</u>

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2013****5 Tax on profit on ordinary activities**

The tax charge is based on the profit for the year and comprises:

	2013	2012
	\$000	\$000
Current tax		
UK corporation tax on profit for the year	6,221	1,249
Adjustments in respect of prior years	(5)	(14)
Total current tax	<u>6,216</u>	<u>1,235</u>
Deferred tax		
Timing and other differences	200	164
Change in deferred tax rate	9	31
Total deferred tax	<u>209</u>	<u>195</u>
Tax on profit on ordinary activities	<u>6,425</u>	<u>1,430</u>

The total deferred tax asset of \$nil as disclosed in note 11 (2012 - \$209,000), arises due to the timing differences relating to the payment of deferred bonuses.

The tax assessed for the year is higher (2012 – lower) than the average rate of corporation tax in the UK. The differences are explained below:

	2013	2012
	\$000	\$000
Profit on ordinary activities before taxation	<u>25,010</u>	<u>5,610</u>
Profit on ordinary activities before tax multiplied by the average rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	5,815	1,374
Expenses not deductible for tax purposes	408	7
Timing and other differences	(200)	(164)
Foreign exchange differences	107	32
Overprovision for current tax	91	-
Adjustments in respect of prior years	(5)	(14)
Current tax charge for the year	<u>6,216</u>	<u>1,235</u>

Factors affecting current and future tax charges

The standard rate of corporation tax in the UK changed to 23% with effect from 1 April 2013 and the relevant deferred tax assets have been re-measured. Further reductions to the UK corporation tax rate to 21% with effect from 1 April 2014, and to 20% with effect from 1 April 2015, are not reflected in these financial statements.

The Company's tax returns for the years ended 31 December 2007, 2009, 2010, 2011 and 2012 are currently under review by HM Inspector of taxes. No provision has been made in these financial statements for the ongoing tax enquiries, however if there was an unfavourable outcome to the enquiries it could have a significant financial impact on the results of the Company.

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements**

For the year ended 31 December 2013

6 Staff costs

	2013	2012
	\$000	\$000
Staff costs are made up as follows:		
Wages, salaries and bonus payments	5,182	9,067
Social security costs	502	1,023
Pension costs	92	329
Other staff costs	-	374
	<u>5,776</u>	<u>10,793</u>

With the exception of one director, all staff are employed by CIGE and an appropriate proportion of staff costs are allocated to CSEL.

CIGE operates a defined contribution group personal pension plan; the cost of pension contributions allocated to CSEL was \$92,000 (2012 - \$329,000).

7 Directors' remuneration

	2013	2012
	\$000	\$000
Total Directors' remuneration:		
Emoluments	86	140
Pension benefits	4	8
	<u>90</u>	<u>148</u>

	2013	2012
	\$000	\$000
Remuneration in respect of the highest paid director:		
Emoluments	48	57
Pension benefits	4	5
	<u>52</u>	<u>62</u>

These costs are included in staff costs (note 6).

8 Segmental analysis

Income from trading is derived solely from exchange traded equities and futures. The Company trades solely in established European markets. The Company considers the business to consist solely of one segment.

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2013****9 Dividends**

	2013	2012
	\$000	\$000
Dividends paid \$1.25 per share (2012 \$0.9375 per share)	10,000	7,500
	<u>10,000</u>	<u>7,500</u>

A final dividend for the year ended 31 December 2012 of \$10,000,000 was paid on 27 March 2013. The Directors approved the payment of a dividend for the year ended 31 December 2013 of \$20,000,000 which was paid on 10 March 2014.

10 Debtors

	2013	2012
	\$000	\$000
Amounts owed by brokers	9,580	3,490
Other debtors	-	368
	<u>9,580</u>	<u>3,858</u>

Amounts owed by brokers principally represent amounts placed with the Company's brokers, specifically Barclays Bank plc ("Barclays"), Morgan Stanley & Co. International Plc ("Morgan Stanley"), and Deutsche Bank AG ("Deutsche Bank"). At 31 December 2013 the balance owed by Barclays was \$3,240,000 (2012 - \$3,472,000); Barclays is A2 rated by Moody's. The balance owed by Morgan Stanley was \$1,690,000 (2012 - \$nil); Morgan Stanley is A3 rated by Moody's. The balance owed by Deutsche Bank was \$4,430,000 (2012 - \$nil); Deutsche Bank is A2 rated by Moody's. The ratings disclosed are the long term issuer ratings per Moody's.

11 Deferred tax asset

	2013	2012
	\$000	\$000
Deferred tax asset	-	209
Movement in deferred tax asset:		
At 1 January	209	404
(Credit) / charge to profit and loss account – timing differences	(200)	(164)
Credit to profit and loss account – change in tax rate	(9)	(31)
At 31 December	<u>-</u>	<u>209</u>

The deferred tax asset arises due to timing differences relating to deferred bonuses.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

12 Financial assets at fair value through profit and loss

	2013	2012
	\$000	\$000
Equity positions at clearing broker	116,569	85,221
	<u>116,569</u>	<u>85,221</u>

All equities and derivatives positions are stated at the final close of the primary exchange and are classified as held for trading.

13 Reverse repurchase agreements.

	2013	2012
	\$000	\$000
Amounts advanced under reverse repurchase agreements	21,237	20,332
	<u>21,237</u>	<u>20,332</u>

The related debt securities purchased subject to an agreement with the counterparty to repurchase them are not recognised on-balance sheet where the risks and rewards of ownership remain with the counterparty. The fair value of securities held as collateral at 31 December 2013 was \$21,199,000 (2012 - \$20,253,000). The Company is permitted to repledge or resell the securities held as collateral.

14 Financial liabilities at fair value through profit and loss

	2013	2012
	\$000	\$000
Equity positions sold but not yet purchased at clearing broker	64,451	57,928
	<u>64,451</u>	<u>57,928</u>

All equities and derivatives positions are stated at the final close of the primary exchange and are classified as held for trading.

15 Other creditors

	2013	2012
Amounts owed to brokers	40,207	8,080
Collateral owed to swap counterparty	15,800	35,000
Amounts owed to related parties	3,346	2,133
Other amounts owed to swap counterparty	2,056	193
Corporation tax payable	4,423	614
Accruals and deferred income	5,013	2,377
	<u>70,845</u>	<u>48,397</u>

16 Collateral and netting

The Company enters into master netting agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Financial assets and liabilities are offset and the net amount reported in the balance sheet if and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise an asset and settle the liability simultaneously.

The Company holds 100% cash collateral from the swap counterparty to mitigate credit risk. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability. No interest is payable on the collateral, and any outstanding balance is repayable on termination of the total return swap. Interest earned on collateral placed with the clearing broker is paid back to the provider of the collateral by way of the swap agreement in place with that entity.

17 Derivative financial instruments

The Company transacted in derivative financial instruments during the year including exchange-traded futures and over-the-counter swaps. These are instruments whose values are based, in part, upon underlying assets, indices, or reference rates or a combination of these factors, and generally represent future commitments to exchange cash flows, or to purchase or sell other financial instruments at specified future dates. Exchange-traded derivatives are standardised and include futures contracts.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

17 Derivative financial instruments (continued)

Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments including market and credit risk. Derivatives are typically also subject to certain additional risks, such as those resulting from leverage and significantly less liquidity, to which the underlying financial instruments may not be exposed. The Company may use derivative financial instruments in the normal course of its business to take speculative investment positions as well as for risk management purposes. The Company's derivative financial instrument risks should not be viewed in isolation, as they should be considered on an aggregate basis along with the Company's other investing activities. The Company manages the risks associated with its derivative financial instruments along with its speculative investing activities in cash instruments as part of its overall risk management.

Futures contracts are commitments to either purchase or sell a financial instrument at a future date for a specified price. These contracts may, in general, be settled in cash or through delivery of the underlying instrument. Futures contracts can be closed out at the discretion of the Company. However, illiquidity in the market could prevent the timely close-out of any unfavourable positions or require the Company to hold those positions until the delivery date, regardless of the changes in their value or the Company's investment strategy.

Exposure to market risk is managed in accordance with risk limits set by the Company's buying or selling instruments or entering into offsetting positions. Market risk is mitigated by the use of a total return swap, as described in note 18.

18 Financial risk management

The Company has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk. This note presents information about the Company's exposure to each of these risks, its policies and processes for measuring and managing risk, the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Market risk

Market risk is the potential for changes in the value of investment positions due to market changes, including interest and currency rate movements as well as fluctuations in the prices of investment positions. Market risk is directly impacted by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. Interest rate risk is the risk of loss due to the fluctuation of interest rates.

Foreign exchange risk is the risk of loss due to the fluctuation of exchange rates. The valuation of the portfolio is subject to foreign exchange risk arising from non-US Dollar positions.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

18 Financial risk management (continued)

The Company has a Total Return Swap agreement with CSLS whereby the majority of the market risks in the trading book, including interest rate risk and foreign exchange risk, are transferred to CSLS in exchange for payments as prescribed by the agreement.

In respect of non-trading assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates on a daily basis.

Sensitivity analysis – market risk

All of the Company's underlying investments are listed on recognised exchanges. As a result of the Total Return Swap agreement with CSLS, whereby the market risks in the trading book are transferred to CSLS, fluctuations in market prices at 31 December 2013 would not have a material impact on the operating profit of the Company.

Credit risk

Credit risk is the risk of financial loss due to the failure of a counterparty to perform according to the terms of a contract. The Company's credit risk arises mainly from cash placed with banks, reverse repurchase agreements, and margin placed with brokers. The credit risk associated with the swap to CSLS is mitigated by the holding of 100% cash collateral from the counterparty. The collateral is calculated daily and is the greater of (a) the aggregate of the Company's exchange margin requirements with counterparties; (b) the Company's intra-day stress test risk limit; and (c) 12% of the Company's gross total portfolio of investment assets including margin accounts, less \$3,700,000 in respect of potential losses.

The Company clears its futures and equity securities transactions through a highly rated clearing broker, which also maintains the Company's positions. These positions are recorded as financial assets or liabilities at fair value through profit and loss. In addition the clearing broker provides the majority of the financing for these securities. This can result in a concentration of credit risk with the clearing broker.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December 2013 was as follows:

	2013	2012
	\$000	\$000
Amounts owed by brokers	9,580	3,490
Equity positions at clearing broker	116,569	85,221
Equity positions sold but not yet purchased at clearing broker	(64,451)	(57,928)
Amounts owed to brokers	(40,207)	(8,080)
Net amounts receivable from brokers	21,491	22,703
Amounts advanced under reverse repurchase agreements	21,237	20,332
Cash at bank and in hand	38,334	38,544
	<u>81,062</u>	<u>81,579</u>

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

18 Financial risk management (continued)

The Company has no financial assets which are past due or impaired. Cash at bank and in hand is held at JP Morgan Chase and The Bank of New York; JP Morgan Chase is rated A3 by Moody's, and The Bank of New York is rated Aa2 by Moody's.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company is subject to Individual Liquidity Adequacy Standards under BIPRU 12 and therefore assesses the adequacy of its liquid resources by reference to its Individual Liquidity Adequacy Assessment ("ILAA"). The ILAA includes an assessment of the Company's compliance with the systems and controls requirements and detailed stress testing of the liquidity position. The Company maintains a high quality liquidity buffer of at least \$20m as part of its liquid resources. The policy for managing liquidity is to ensure that the Company will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

Substantially all of the Company's financial liabilities are payable on demand or in accordance with normal trade settlement cycles, therefore no separate disclosure of contractual maturities is made in these financial statements.

Capital Management

The Company is regulated by the Financial Conduct Authority ("FCA"), and hence is subject to externally imposed capital requirements. The Company monitors Tier 1 capital (share capital and audited reserves) against FCA regulations on a regular basis. The Company has the full support of its parent entity in ensuring that a regulatory capital surplus is maintained at all times. At 31 December 2013, Tier 1 capital was \$31,839,000 (2012 - \$37,659,000). The Company's individual capital guidance was \$15,250,000 (2012 - \$20,568,000) and the Company's surplus total capital over individual capital guidance was \$16,589,000 (2012 - \$17,091,000).

19 Fair value of financial instruments

The Company has adopted the amendment to FRS 29 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2013****19 Fair value of financial instruments (continued)**

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2013:

	Level 1	Total
	\$000	\$000
Assets		
Financial assets at fair value through profit and loss:		
Equity positions at clearing broker	116,569	116,569
	<u>116,569</u>	<u>116,569</u>
	Level 1	Total
	\$000	\$000
Liabilities		
Financial liabilities at fair value through profit and loss:		
Equity positions sold but not yet purchased at clearing broker	64,451	64,451
	<u>64,451</u>	<u>64,451</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the final close of the primary exchange. These instruments are included in level 1. Instruments included in level 1 comprise long or short equity positions classified as financial assets or liabilities at fair value through profit and loss.

20 Share capital

	2013	2012
	\$000	\$000
Authorised		
10,000,000 ordinary shares of \$1 each (2012 – 10,000,000)	10,000	10,000
Called, allotted and fully paid		
8,000,000 ordinary shares of \$1 each (2012 - 8,000,000)	8,000	8,000

21 Reconciliation of movement in profit and loss account

	2013	2012
	\$000	\$000
At 1 January	33,839	37,159
Profit for the financial year	18,585	4,180
Dividends paid (note 9)	(10,000)	(7,500)
At 31 December	<u>42,424</u>	<u>33,839</u>

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2013****22 Reconciliation of movement in shareholder's funds**

	2013	2012
	\$000	\$000
Opening shareholder's funds	41,839	45,159
Profit for the financial year	18,585	4,180
Dividends paid (note 9)	(10,000)	(7,500)
Closing shareholder's funds	<u>50,424</u>	<u>41,839</u>

23 Reconciliation of operating profit to net cash inflow / (outflow) from operating activities

	2013	2012
	\$000	\$000
Operating profit	24,991	5,564
(Increase) / decrease in debtors	(5,722)	1,845
Increase in financial assets at fair value through profit and loss	(31,348)	(58,180)
(Increase) / decrease in reverse repurchase agreements	(905)	745
Increase in financial liabilities at fair value through profit and loss	6,523	37,337
Increase / (decrease) in other creditors	37,943	(7,753)
Net cash inflow / (outflow) from operating activities	<u>31,482</u>	<u>(20,442)</u>

24 Returns on investments and servicing of finance

	2013	2012
	\$000	\$000
Interest received	19	46
Net cash inflow from returns on investments and servicing of finance	<u>19</u>	<u>46</u>

25 Tax paid

	2013	2012
	\$000	\$000
UK corporation tax paid	(2,511)	(2,405)
Net cash outflow from taxation	<u>(2,511)</u>	<u>(2,405)</u>

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements**

For the year ended 31 December 2013

26 Financing

	2013	2012
	\$000	\$000
(Decrease) / increase in swap collateral	(19,200)	4,750
Dividends paid	(10,000)	(7,500)
Net cash outflow from financing	<u>(29,200)</u>	<u>(2,750)</u>

27 Analysis and reconciliation of net funds

	At 1 January 2013 \$000	Cashflow \$000	At 31 December 2013 \$000
Cash and cash equivalents	<u>38,544</u>	(210)	<u>38,334</u>

28 Reconciliation of net cash flow to movement in net funds

	2013 \$000
Decrease in cash	<u>(210)</u>
Decrease in net funds in the year	(210)
Net funds at 1 January 2013	<u>38,544</u>
Net funds at 31 December 2013	<u>38,334</u>

29 Parent undertaking and ultimate controlling party

The Company's immediate parent at 31 December 2013 was CS-UK Holdings Ltd, a company incorporated in the Cayman Islands. The registered address for CS-UK Holdings Ltd is as follows:

c/o Maples Corporate Services Limited
 PO Box 309, Ugland House
 Grand Cayman
 KY1-1104
 Cayman Islands

The parent company does not prepare consolidated financial statements. The ultimate controlling party is Kenneth Griffin by virtue of majority shareholdings in parent entities of CSEL.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2013

30 Events after the Balance Sheet Date

Effective 1 February 2014 the Company's immediate parent is Citadel Securities International Holdings Ltd ("CSIH"), a company incorporated in the Cayman Islands. The registered address for CSIH is as follows:

c/o Maples Corporate Services Limited
PO Box 309, Umland House
Grand Cayman
KY1-1104
Cayman Islands