

**CITIGROUP GLOBAL MARKETS LIMITED**

**(Registered Number: 01763297)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**for the year ended 31 December 2020**

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

The Directors present their strategic report on Citigroup Global Markets Limited (CGML or the Company) for the year ended 31 December 2020.

### 1. Introduction

CGML is a wholly owned, indirect subsidiary of Citigroup Inc, limited by shares. It is Citi's international broker dealer, providing products and services for institutional clients. It is a market maker in equity, fixed income and commodity products across cash, over-the-counter (OTC) derivatives and exchange traded markets, as well as a provider of investment banking capital markets and advisory services. CGML operates globally, generating the majority of its business from the Europe, Middle East and Africa (EMEA) region with the remainder coming from Asia and the Americas.

CGML is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and Financial Conduct Authority (FCA). CGML is also a Commodity Futures Trading Commission (CFTC) registered swap dealer and is considered a Risk Taking/Operating Material Legal Entity in Citi's Global Resolution Plan. As at 31 December 2020, it had five branch offices and five subsidiaries, listed below. These are not materially active except for the Israel branch, Citigroup Global Markets Europe AG, and Citigroup Global Markets Funding Luxembourg SCA. On 1 March 2019, the staff and activities of CGML's branches in France, Italy and Spain began being transferred to branches of Citigroup Global Markets Europe AG (CGME) in those countries as part of the Company's preparations following the UK's decision to leave the EU. The migration of staff and activity was completed and both the France and Spain branches were closed by 31 December 2020. Changes after the reporting period are discussed in the Strategic and Directors' Reports and in Note 33 'Events after the reporting period'.

EU Branches	Subsidiaries
Czech Republic	Citigroup Global Markets Europe AG (Germany)
Italy (in liquidation)	Citigroup Global Markets Funding Luxembourg SCA (Luxembourg)
Non-EU Branches	Citigroup Global Markets Funding Luxembourg GP S.a.R.L. (Luxembourg)
Israel	Citi Global Wealth Management S.A.M. (Monaco)
Switzerland	Citigroup Global Markets Luxembourg S.a.R.L. (Luxembourg) (in liquidation)
UAE	

CGML's business falls within the Institutional Clients Group (ICG) segment of Citi's operations and is almost entirely wholesale in nature, with a client base that encompasses corporates, financial institutions, institutional and other investors, as well as governments and public sector entities. CGML's principal business activities are summarised below:

<i>Business</i>	<i>Activities</i>
Global Rates and Currencies	Makes markets and facilitates client activity across interest rate products in the most heavily traded markets, including sovereign and supranational bonds, inflation bonds, and interest rate, cross currency and inflation derivatives. It conducts much of its client facing activity on CGML with some market risk transferred to other Citi affiliates.  Facilitates local and international client demand for flow foreign exchange (FX) products, such as spot and forward contracts, short term interest rate products, and interest rate and currency derivatives. FX risk is largely warehoused on other affiliated Citi entities, with CGML acting in a client facing capacity. In particular, the business utilises CGML to access non-US primary market liquidity pools in non-deliverable forward contracts and FX options.
Global Spread Products	Provides clients with access to investment grade, high yield and distressed bond markets, as well as credit derivatives and structured credit products.
Global Equities Markets	Comprises: <ul style="list-style-type: none"><li>Equity Markets, undertakes market making in, and provides clients with exposure to, equities, convertible bonds, listed and OTC derivatives, structured products, securities financing, and electronic trading.</li><li>Multi Asset Group develops asset-side investment and hedging solutions for distributors and institutional investors, with a particular focus on insurance companies, asset managers (including hedge funds) and pension funds.</li></ul>

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## STRATEGIC REPORT

for the year ended 31 December 2020

### 1. Introduction (continued)

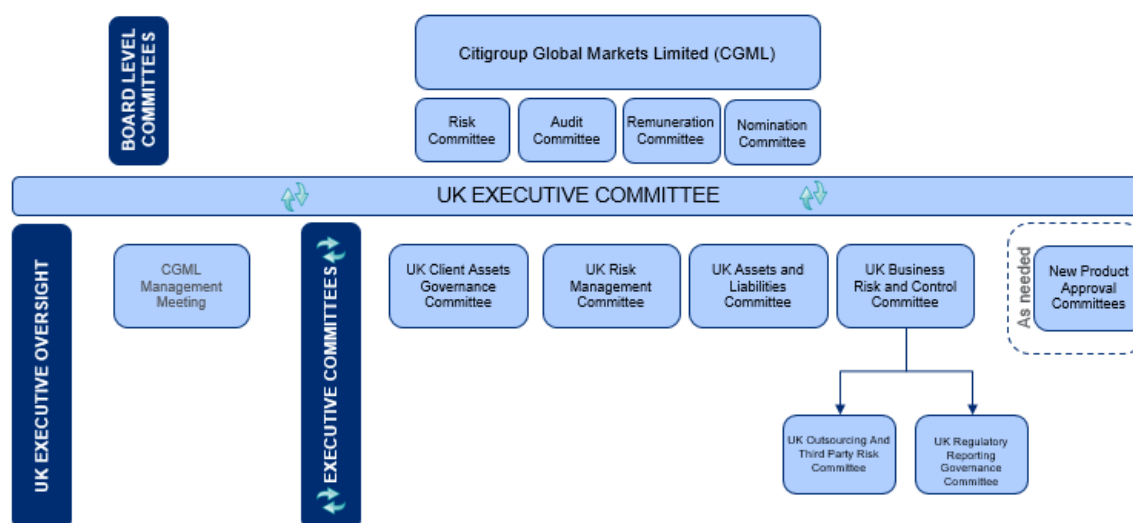
<i>Business</i>	<i>Activities</i>
Global Equities Markets	Comprises: <ul style="list-style-type: none"> <li>• Prime Finance, provides globally co-ordinated prime brokerage services to clients, including securities lending, margin financing, reporting, clearing, custody and structured financing solutions.</li> <li>• Delta One, which provides access, financing and investment solutions to a broad spectrum of clients (institutional, corporates and hedge funds) via synthetic products such as swaps, exchange traded funds (ETFs) and access products.</li> </ul>
Securities Services	Futures and OTC Clearing, which provides clients with access to global liquidity venues, global execution on all major futures exchanges, multi-asset clearing services on global central counterparties (CCPs) and delivery of collateral solutions.
Global Commodities	Acts as a principal in commodity markets worldwide, providing risk management services to clients, acting as a liquidity provider and providing investor solutions and working capital facilities for commodity inventories.
Banking, Capital Markets and Advisory (BCMA)	BCMA provides structuring and syndication of securities and financing transactions in the bond capital markets and delivers equity and equity-linked solutions in financing acquisitions, funding capital expenditures, managing liabilities, monetising assets and hedging exposures.  BCMA coordinates the overall relationship with clients across all business areas from Corporate Banking and coverage in regards to episodic products out of Investment Banking.

A number of CGML's functional operations are carried out in locations outside London, including at Citi Service Centres (CSCs) in Belfast, Budapest and Warsaw. In addition, CGML makes use of a number of affiliated and third party outsourcing arrangements within and outside EMEA.

### 2. CGML Corporate Governance Report and Principal Risks

For the year ended 31 December 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website).

The chart below highlights the main components of CGML's governance structure, within Citi's regional and UK management and governance framework during 2020:



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## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### *Principle 1 – Purpose and Leadership*

##### *Purpose*

CGML's purpose, in line with that of Citi, is to serve as a trusted partner to its clients by responsibly providing financial services that enable growth and economic progress. CGML's core activities are being a dealer, market maker and underwriter and providing advisory services. Whilst carrying out these activities, it ensures that actions are always in its clients' interests, create economic value and are systemically responsible.

##### *Strategy*

CGML's strategic purpose was formalised in 2018 with the adoption of an annual Strategy Day, under the direction of the Board of Directors (the Board). The Strategy Day looks at the year ahead and drives the Board agenda setting. The Strategy Day is a good example of ensuring good dialogue with the CGML workforce and wider stakeholders. The key strategic priorities for CGML for the year ended 31 December 2020 were as follows:

- Continue to be the best for clients as Citi's international broker-dealer;
- Improve infrastructure to drive resilience, efficiency and a great client experience;
- Make strong governance and controls a cornerstone of CGML's success;
- Attract, retain and develop talent and shape good culture and conduct; and
- Efficient utilisation of financial resources.

The CGML Strategic Plan was put together following the Strategy Day and is used to clearly articulate the CGML strategic priorities internally.

##### *Values and Culture*

The Board and senior management are instrumental in shaping good culture and conduct for the Company. The Company's new Leadership Principles represent the qualities, behaviours and expectations employees must exhibit to deliver on the mission of enabling growth and economic progress. Employees will contribute to creating a culture that drives client excellence, controls excellence and operational excellence.

Diversity and Inclusion are recognised as part of CGML's core values and the Company needs a culture in which employees hold themselves accountable for managing risk and where they continue to take pride in always doing the right thing. Doing the right thing includes showing empathy for colleagues, clients and communities, treating others with respect and civility, and continuing to invest in colleagues from all backgrounds, valuing and learning from different perspectives and breaking down barriers. CGML measures its 'cultural health' and conduct at management meetings and uses a range of measures to help adjust and improve itself.

Citi's Code of Conduct prohibits discrimination and harassment and highlights procedures for speaking up and reporting concerns about conduct or situations that may put the Company or its customers at risk.

For further details please see the Mission and Strategy section on page 12.

#### *Principle 2 – Board Composition*

The details of each member of the Board during the year ended 31 December 2020 can be found in the Directors' Report on page 23.

##### *Chair*

To ensure that the balance of responsibilities, accountabilities and decision making across the Company are effectively maintained, CGML has appointed a separate Chair and Chief Executive.

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## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### *Principle 2 – Board Composition* (continued)

##### *Size and Structure*

As at 31 December 2020, the Board consists of four Executive Directors and three Independent Non-Executive Directors. The Executive Directors are:

- CGML Chief Executive Officer (CEO)
- EMEA Chief Financial Officer (CFO)
- EMEA Head of Markets and Securities Services (MSS)
- Global Regulatory Inventory Mapping Head

During Q2 2020 the CGML Board carried out an external Board Effectiveness Review to ensure the Board is focussed on preparation for the future and has in place a long-term roadmap for development. The composition of the Board will change during 2021 to ensure that the size and composition is appropriate for the scale, complexity, regulatory oversight, and systemic importance of CGML within Citi.

The Non-Executive Directors bring experience in risk, finance and audit, in addition to perspectives and challenge from their roles within the industry and also outside the sectors in which CGML operates. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the Company's expense. The duties of the Board are executed partially through committees. The Independent Non-Executive Directors attend and act as chair to relevant committees (as noted on page 6) so that they are able to challenge and influence a broad range of areas affecting CGML. One Non-Executive Director is also a Non-Executive Director of the ultimate parent, Citigroup Inc.

The Board is comprised of and supported by the UK Senior Managers (as defined under the Senior Manager and Certification Regime (SM&CR) from the PRA and the FCA) including the relevant EMEA and UK business heads together with the regional and country heads of Risk, Finance, Operations & Technology, Legal, Compliance and Human Resources. The Non-Executive Directors are all Senior Managers and they are subject to all aspects of the SM&CR, including regulatory pre-approval, conduct rules and the statutory duty of responsibility.

The SM&CR focuses on a small number of individuals (Senior Managers) who hold key roles or have overall responsibility for whole areas of relevant UK entities and branches. Senior Managers require regulatory pre-approval to perform a Senior Management Function (SMF). The SM&CR requires Senior Managers to take reasonable steps to avoid a breach occurring or continuing. As part of the Individual Accountability Regime (of which the SM&CR is a part), CGML maintains a Management Responsibilities Map which documents the firm's governance arrangements.

##### *Balance and diversity*

We acknowledge that there is a relative lack of diversity on the Board and recognise that this is a challenge across the financial services industry, but it is being addressed in changes to the Board composition being implemented in 2021. Citi is committed to making the Company an ever-more inclusive environment, thereby fostering a more diverse workforce which should increase diversity at the most senior levels. We will be demonstrating our commitment to this area with various initiatives including, but not limited to, increasing the representation of women and ensuring CGML is increasingly viewed as an employer of choice.

##### *Effectiveness*

The Board operates on a quarterly meeting cycle every year together with two additional days for a Board Offsite and Strategy Day. The Committees meet more frequently with six to eight meetings per year. In addition to the quarterly meetings, the Board has an annual programme of tutorials comprising in-depth analyses and education sessions on a variety of topics.

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## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### *Principle 2 – Board Composition* (continued)

##### *Effectiveness* (continued)

The Board ensures it has the relevant knowledge and skills to fulfil its responsibilities and keep pace with growth and innovation. The Board undertook a skills assessment exercise in 2020 and has used the resulting gap analysis to inform its succession planning and continuing education programme for 2021.

The Board has previously undertaken self-assessment exercises to determine its effectiveness via reviews facilitated by the Human Resources department and Company Secretariat in 2016 and 2018. The Board carried out an independent Board Effectiveness review during Q2 2020.

The Board considers these exercises important in order to identify key areas for future improvements. The Board of CGML is focussed on being equipped to meet tomorrow's challenges, opportunities and emerging risks, the rapidly changing market, the evolution of competition, trends in its clients' business models and experience expectations, and the effect of new technologies.

#### *Principle 3 – Director Responsibilities*

##### *Accountability*

CGML adheres to and seeks to exceed the corporate governance standards expected from a regulated firm of its size and structure. It recognises that success is measured in large part by its ability to deliver a progressive and effective governance model that is both adaptive to the pace of change and robust enough to withstand the challenges it faces. The governance model also reflects the need to demonstrate influence and oversight of areas where the Board relies on other parts of the group to achieve the outcomes needed to deliver its own strategies. It requires the senior executives of CGML to design and operate an effective governance environment coupled with a strong culture of risk management and controls to support good decision-making.

To maintain a progressive and leading governance culture the Board will grow and develop alongside the business it governs. As outlined in Principle 2, the Board welcomed the independent review in Q2 2020 which helped benchmark and evaluate its performance and relevant skills, and assess its suitability to fulfil its duties towards its shareholder and key stakeholders. The Board expects executive management to undertake internal and independent reviews for themselves, similarly designed to progress the governance processes and to support and enhance this strategy. The executive management of CGML carried out an external review of UK legal entity governance during Q2 2020 including the executive committees supporting CGML. The scope of the review was agreed with the Board prior to the commencement of work and the Board has been actively engaged in the action plan following the review.

The Board delegates authority for oversight of the day-to-day management of the Company to the UK Executive Committee which meets monthly. It is chaired by the Chief Executive Officer, EMEA and membership includes the key UK Senior Managers.

##### *Committees*

The Non-Executive Directors are independent and have no material business or other relationships with the Company that might influence their independence or judgement. Certain governance responsibilities are delegated to other Board committees: Audit, Remuneration, Nomination and Risk. Each of these Board committees has a separate charter, which include the authorities delegated to them by the Board. The chair of CGML's Remuneration Committee is a Non-Executive Director of Citigroup Inc.

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## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### *Principle 3 – Director Responsibilities* (continued)

##### *Integrity of Information*

The Board receives regular and timely information (at least monthly via calls with the CGML Chief Executive Officer) on all key aspects of the business including its financial performance, risk management, control environment, market and competitive conditions, Citi Global and EMEA developments and global and local governance and regulatory priorities. CGML's management are responsible for the integrity of this information and individuals are provided with the necessary training to keep up to date with regulatory changes. Financial information is subject to an external audit by KPMG LLP on an annual basis, and financial controls are periodically reviewed by CGML's internal audit function. Other key information is prepared by the relevant internal function.

#### *Principle 4 – Opportunity and Risk*

##### *Opportunity*

Long term strategic opportunities are identified in the CGML Strategic Plan process which is reviewed, discussed and challenged in the Board every year.

##### *Risk*

CGML's principal risks arise from the nature of the services provided to its clients and include both financial and non-financial elements. The principal risks identified by management and covered by CGML's risk management framework are noted as follows:

- reputational risk;
- strategic risk;
- market risk;
- liquidity risk;
- credit risk (mainly in the form of counterparty credit risk for CGML);
- operational risk (including conduct risk); and
- compliance risk.

The Risk Committee ensures that the principal risks and emerging risks are identified and managed appropriately and in a timely manner. The Committee meets six times a year and updates the risk register for any changes in underlying conditions. The Committee continues to refine and enhance the Company's risk management framework and risk registers and works to ensure consistency across operations. The Risk Committee reports to the Board on a quarterly basis.

##### *Responsibilities*

The Board and the Risk Committee are responsible for ensuring that senior management consider the external factors and dependencies on group-wide initiatives that may impact CGML's strategic opportunities. CGML's most valuable resource is its staff, so it closely monitors the impact of its strategy on the capability and resources availability within its talent pool. Risks are managed and mitigation plans designed and executed using CGML's detailed Risk Management Framework. The key external factors that the Board monitors are as follows:

- Geopolitical and economic factors that impact growth opportunities and financial returns. CGML took steps to minimise client and market disruption that might arise as a result of the UK's withdrawal from the European Union and the end of the Brexit Transition Period at the beginning and end of the period ended 31 December 2020 respectively;

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## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### *Principle 4 – Opportunity and Risk* (continued)

##### *Responsibilities* (continued)

- Rapid technological development that presents opportunities to improve client service but also creates the potential for industry wide change and exposes CGML to high impact risk (Cyber, IT resilience, Data Management). Operations & Technology have a critical role to enable CGML both to enhance offerings and to protect against negative disruption and to manage a significant pace of change; and
- The global and local regulatory environment, which requires governance and a strong compliance function to have oversight and collaboration with the first line and is capable of managing multiple priorities across a range of regulatory initiatives, including the timely completion of remediation and targeted improvements; addressing LIBOR transition; the finalisation of Basel III, Operational Resilience third party and inter affiliate outsourcing and Climate Risks, amongst others.

#### *Principle 5 – Remuneration*

The Remuneration Committee aims to set remuneration at a level that will enable it to secure and retain senior executives who can deliver the Company's strategy.

The Remuneration Committee is responsible for making recommendations to the Board concerning the Company's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. Pay is aligned with performance and taking into account fair pay and conditions across the Company's workforce.

The Company has reported its Gender Pay Reporting in 2017, 2018 and 2019. These Reports have highlighted areas which the Company can improve on and the Company is continuing to take steps to reduce the gender pay gap. Citi have signed the UK's Women in Finance Charter, aiming to achieve at least 30% female representation among our directors and managing directors throughout EMEA by 2025, as of the date of the 2019 Report, we were at 22.9% up from 19% in 2017. The 2020 Gender Pay Reporting will be published in 2021.

In fulfilling its role, the Remuneration Committee has regard to the responsibilities set out under the PRA and FCA Remuneration Codes and takes into account, where applicable, relevant guidance and the long-term interests of shareholders, investors and other stakeholders in CGML.

#### *Principle 6 – Stakeholders*

As set out above in Principle 3, the Board is clear that progressive and effective governance is essential to deliver its purpose and to protect CGML and Citi's reputation and relationships with all its stakeholder community including clients, employees, shareholders, suppliers, regulators and the local communities in which it operates.

Details of our key stakeholders and our engagement with them are set out in our Section 172 Statement on page 9 and are incorporated into this statement.

As at 31 December 2020 CGML had 26 approved Senior Managers, of whom 3 were CGML Non-Executive Directors.



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## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### *Section 172(1) Statement*

Section 172(1) of the Companies Act 2006 requires each director of the Company to act in a way in which he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters including:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between the Company's members.

The directors of the Company give careful consideration to the matters referred to in section 172(1) when discharging their legal duties. The Board believes in taking decisions for the long-term benefit of the Company and looks to safeguard the Company's reputation by upholding the highest standards of business conduct. Depending on the issue in question, the relevance of each stakeholder group and other relevant factors may vary. As such, the Board strives to understand the needs and priorities of each stakeholder group and the other factors relevant to the issue in question during its deliberations and as part of its decision-making.

Board members receive periodic refresher training on their legal duties and may seek advice about the implications of these duties at any time from our Company Secretary. New directors are offered a comprehensive induction programme which includes information on their statutory duties.

For further details of how the Board operates and the way in which it makes decisions, please see the corporate governance statement on pages 3 to 12.

To ensure the most efficient and effective approach, stakeholder engagement is led by Citigroup, in particular where matters are of group-wide significance or have an impact on Citigroup's reputation including our clients, shareholder, staff and global regulators.

The CGML Board considers and discusses information from across the organisation to help it understand the impact on CGML's operations and the interests and views of its key stakeholders. The Board also reviews strategy and financial performance as well as operational and financial risks and regulator priorities. The Board receives this information in advance of each quarterly meeting, during monthly calls with the CGML Chief Executive Officer and by holding an annual Strategy Day. The CGML Board receives regular reports from the Citigroup parent Board Non-Executive Director and from the Citigroup EMEA Regional CEO at its Board meetings.

Using all of the above actions, the Board has an overview of engagement with stakeholders which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006.

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## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### Key stakeholder engagement

##### *Clients*

The CGML Board receives regular reporting of client performance and themes, allowing an understanding and oversight of the direction of client sentiment. Citi performs a Voice of the Client survey which provides in-depth understanding of our clients' needs and expectations, alongside regular client performance and service benchmarking, leveraging external reporting and analysis where appropriate. The businesses within CGML operate a globally coordinated client-centric sales and relationship management organisation focussed on generating profitable growth and building market share with some of the most important organisations across the globe.

##### *Employees*

CGML embraces Citi's mission of enabling growth and economic progress, while adhering to the highest ethical standards. We ask our colleagues to ensure their decisions pass three tests: they are in our clients' interests, create economic value, and are always systemically responsible. An informed and engaged workforce is critical to delivering positive outcomes for all our stakeholders. The health and safety of CGML's employees and their families, as well as its clients and the communities it serves, are of the utmost importance. As the health crisis unfolded in 2020, CGML and Citi took proactive measures to support colleagues' well-being, while maintaining their ability to serve clients. As always, colleagues are encouraged to present their suggestions and views to CGML through various channels, including an employee representative body and the Voice of the Employee survey, the results of which are presented to the Board each year by Human Resources. The Board has requested and received presentations on areas such as employee resilience and mental health in response to identified areas of focus.

##### *Suppliers*

CGML works to maintain fair, resilient and professional working relationships with its suppliers. CGML has a well-established framework for the engagement with and on-going relationship management of its key suppliers, ensuring shared values in the conduct of their business. The Modern Slavery Act 2015 ("the Act") obliges the CGML Board to make an annual statement on the reasonable steps taken to ensure that its own operations and supply chains are free of human trafficking and modern slavery. CGML has made annual statements of this nature since the Act came into force. The Board reviews the due diligence which underpins the statement each year and is kept informed of any improvements made by Citigroup to ensure there are no blind spots.

The information relating to the Modern Slavery Act, as required by the Modern Slavery Act 2015, will be published at <https://www.citibank.co.uk/personal/home.do>.

##### *Regulators*

CGML maintains an open and regular engagement with the regulators to ensure clarity and transparency over its strategy and plan, key risks and opportunities, and progress on ongoing initiatives. Regulatory engagement is maintained both at the Board as well as the Executive Management level to ensure regulatory expectations are consistently understood and met. Primary regulatory engagement for CGML is with the PRA/ Bank of England and FCA supervisory teams and senior management. Further, CGML is providing ongoing updates to the Regulators on the impact of COVID-19 on its clients, markets, employees, financials, liquidity, risk measures and operational/technology capabilities and resilience.

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### Key stakeholder engagement (continued)

##### *Communities*

CGML is committed to enabling growth and progress in the communities where we operate. CGML is in regular dialogue with charities and NGOs, as part of its philanthropic commitment and mission to support the communities in which it operates. CGML works closely with community partners to understand the issues local communities are facing so that it can respond appropriately by providing funding, volunteers or other support as required. Specifically CGML has a focus on supporting disadvantaged young people into employment whether they are refugees, young people affected by youth violence or young people with disabilities. The CGML workforce dedicate time through the Citi Foundation, the annual Global Community Day and the London Charity Partner programme, which in 2020 Citi raised over £100,000 for the Guide Dogs charity. In addition in 2020, the CGML workforce took part in employee fundraising activities to support COVID relief in local communities.

Engagement with local communities allows CGML to better understand the needs and requirements of society enabling it to innovate for the future.

##### *Environment*

CGML recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise CGML's impact on the environment include safe disposal of waste, recycling and reducing energy consumption. The Board has been actively engaged regarding the implementation of the CGML response to the Prudential Regulation Authority's Supervisory Statement on Climate Change SS3/19 on managing the risks from climate change. CGML continues to make progress on embedding the entity's approaches to strengthening governance, incorporating climate change into risk management frameworks, conducting scenario analysis, and enhancing disclosures for climate change-related risks.

##### *Government and Policymakers*

CGML engages regularly with a wide range of external stakeholders including policymakers, media, clients and NGOs. CGML follows Citigroup's approach that responsible corporate citizenship includes holding an ongoing dialogue with its stakeholders, and contributing insights, information and thought leadership towards the public policy environment that CGML operates within.

CGML engages with policymakers both directly and as part of industry efforts, as a member of a number of financial services trade associations. As part of Citigroup, CGML complies with all relevant transparency requirements, at both the European Union and various individual country level. Details of Citi's entry in the EU's Transparency Register can be found at:

<https://ec.europa.eu/transparencyregister/public/consultation/displaylobbyist.do?id=00353757573-57>.

CGML takes its responsibilities as a corporate citizen seriously, using its corporate voice to take a stand on issues that matter to its clients, employees and other stakeholders. These range from a continued commitment to the Paris Agreement, to support of immigrants from around the world in the workforce and in our communities, to the importance of pay equity. Part of meeting these commitments requires communicating actively with a wide range of stakeholders to inform them of what CGML is doing and engaging in dialogue to understand what more can be done. CGML is committed to increasing the transparency of its efforts on these issues, and supports Citigroup's efforts to supplement its annual citizenship reporting with articles, reports, surveys, and other relevant perspectives throughout the year.

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 2. CGML Corporate Governance Report and Principal Risks (continued)

#### Key stakeholder engagement (continued)

##### *Decision making in action*

The Board's approach to stakeholder engagement was illustrated during the UK's withdrawal from the EU. The Board received regular updates from the governance committee and working groups set up within the firm to oversee and project manage its Brexit planning and was involved at every stage of CGML's purchase of Citigroup Global Markets Europe AG (CGME) and its establishment as a new broker-dealer in Frankfurt. The Board provided challenge and oversight during all phases of financial and legal due diligence, valuation, contract review leading up to final approval which enabled a strategy to allow CGML to continue serving its clients throughout the EEA with minimal disruption. The Board has continued to be actively engaged in target operating model planning as the Transition Period ended on 31 December 2020.

### 3. Mission and Strategy

CGML's mission, in line with that of Citi, is to serve as a trusted partner to its clients by responsibly providing financial services that enable growth and economic progress. CGML's core activities are being a dealer, market maker and underwriter and providing advisory services. Whilst carrying out these activities, it ensures that actions are always in its clients' interests, create economic value and are systemically responsible.

The strategic priorities set out by CGML are as follows:

- *Continue to be the best for clients as Citi's international broker-dealer.*

CGML continues to maintain a strong client franchise and competitive position in the client segments, countries and products by capturing growth opportunities and through innovative electronic and digital offerings, despite huge uncertainties, volatile markets and an unprecedentedly challenging year operationally due to COVID-19 and the end of the Brexit Transition Period.

CGML facilitated a controlled transfer of selected EEA clients to Citigroup Global Markets Europe (CGME) within the EU. CGML will continue to remain one of Citigroup's four major global booking hubs, serving international clients from its registered headquarters in London or its international subsidiaries and branches.

- *Improve infrastructure to drive resilience, efficiency and a great client experience.*

CGML continues to maintain focus on investment in core platforms and infrastructure to enhance client experience through delivery of electronic and digital execution capabilities, improve stability and operational resilience, improve data quality and data insights, simplification of manual processes, and strengthening of cyber and third party risk management. CGML's priorities remain aligned to Citi's objectives and CGML will continue to benefit from enhancements to operational and technology infrastructure capabilities.

- *Make strong governance and controls a cornerstone of CGML's success.*

CGML has taken positive steps to strengthen the design, operations and effectiveness of the legal entity governance, both at the Executive and the Board levels. CGML remains committed to demonstrate significant improvements in the control environment. Active identification and timely remediation of underlying issues, analysis of root causes, establishment of compensating or preventative controls, and broader application of improvements remain key areas of focus.

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## STRATEGIC REPORT

for the year ended 31 December 2020

### 3. Mission and Strategy (continued)

- *Attract, retain and develop talent and shape good culture and conduct.*

CGML's priority is to be an employer of choice and to provide great place to work. Commitment to Diversity and Inclusion is core to Citi's values. As part of its pledge to the Women in Finance Charter, CGML has set a goal to increase the number of senior management roles held by women. These developments are further supported by initiatives to identify and retain high performing employees. CGML continues to focus on embedding a sustainable culture that encourages good conduct and high ethical and performance standards, and maintain positive momentum through the Voice of Employee survey results.

In addition to the above key priorities, CGML will continue to ensure that its capital strategy and financial resources provide a strong foundation for meeting its current actual requirements and supporting growth in key strategy areas, manage high level of internal and external uncertainties, and facilitate greater scale of flexibility.

### 4. Financial Highlights

#### Key Financial Performance Metrics

	2020	2019
Operating Efficiency <i>(operating expense as a percentage of gross profit)</i>	70.6%	84.5%
Return on Assets <i>(Net income as a proportion of total assets)</i>	0.20%	0.07%
Return on Tangible Common Equity (TCE) <i>(Net income as a proportion of TCE)</i>	5.8%	2.0%
Return on Tier 1 Capital <i>(Net income as a proportion of Tier 1 capital)</i>	5.1%	1.7%

The execution of CGML's strategy in 2020 enabled the Company to maintain profitability in a challenging environment.

#### 4.1 Income Statement Summary

	2020	2019*
	\$ Million	\$ Million
Commission income and fees	1,128	1,229
Net dealing income	3,807	2,766
Interest receivable	267	912
Interest payable	(1,111)	(1,718)
<b>Gross profit</b>	<b>4,091</b>	<b>3,189</b>
Operating expenses	(2,889)	(2,695)
Impairment release /(loss) of investments	88	(88)
Other income and expenses	28	27
<b>Operating profit on ordinary activities before taxation</b>	<b>1,318</b>	<b>433</b>
Tax on profits on ordinary activities	(295)	(122)
<b>Profit after taxation for the financial year</b>	<b>1,023</b>	<b>311</b>

\*Certain captions for comparatives have been updated for presentation purposes only, interest receivable and interest payable on trading instruments and collateralised financing transactions valued at fair value through the P&L were reclassified into net dealing income.

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 4. Financial Highlights (continued)

#### 4.1 Income Statement Summary (continued)

##### *Gross Profit*

Gross profit increased by \$902 million, a 28% increase on 2019. This was a result of a significant increase in trading activity driven by market volatility surrounding the COVID-19 pandemic. The end of the first quarter saw all businesses across Markets and Securities Services outperform against their plans, with Rates and Currencies seeing the largest increase driven by activity in European Government Bonds. Additionally, there was a further \$510 million gain during the year on the early termination of long-term debt, (\$37 million in 2019). The company borrowed additional funding during the peak market volatility; however, it was able to terminate the debt early after volatility subsided while credit spreads remained relatively wide.

##### Commission income and fees

Commission income and fees result from the Banking, Capital Markets and Advisory business, from Equity Cash activity and from inter-company fees which are calculated on an arm's length basis. The \$101 million decrease was mainly owing to a decrease in M&A activity in the first half of the year owing to uncertainty surrounding the pandemic.

##### Net Dealing Income

The foremost contributors to net dealing income were the Fixed Income, Equities and Securities Services businesses. Net dealing income rose by \$1,041 million including \$473 million increase on the early termination of long-term debt with the remainder driven by a significant increase in trading activity impacting Markets and Securities Services as referenced above.

##### Interest Receivable and Payable

Interest receivable and payable mainly reflects income and expense from collateralised financing transactions measured at amortised cost. It also includes amounts paid relating to inter-company funding and subordinated debt. Interest receivable and payable decreased significantly throughout 2020 as interest rates fell during the year in response to the pandemic including a decrease of \$203 million on interest payable on subordinated long-term debt.

##### *Operating Expenses*

Operating expenses were \$2,889 million, an increase of \$194 million compared to 2019, with the largest costs relating to compensation and benefits of \$1,527 million (2019: \$1,331 million). The increase on prior year is mainly on account of increased performance in 2020 relative to their plans. Additionally, transaction expenses and transfer pricing increased year on year because of the increased activity, however this was offset by a decrease in travel and entertainment as result of responses to the COVID-19 pandemic.

As at 31 December 2019 the Company's historical cost of investment in CGME was higher than the estimated recoverable amount which has resulted in an impairment charge of \$88 million. Due to the increased performance of CGME in 2020 the \$88 million of investment write down was reversed in accordance with principal accounting policy 1(c).

#### 4.2 Balance Sheet

	2020	2019
	\$ Million	\$ Million
Total assets	506,059	427,278
Total liabilities	485,292	409,307
Shareholders' funds	20,767	17,971

CGML's assets consist primarily of collateralised financing transactions, derivatives and trading inventory. Collateralised financing transactions include reverse repos and stock borrows; derivatives encompass interest rate, credit, equity and commodity derivatives; whilst bonds and equities form the largest categories of trading inventory. The Company's liabilities predominantly comprise collateralised financing transactions, derivatives and securities sold not yet purchased.

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 4. Financial Highlights (continued)

#### 4.2 Balance Sheet (continued)

Asset and liability growth in 2020 was largely a result of an increase in secured financing transactions owing to a significant pick-up in market volatility and activity, with a further increase in trading account assets driven by interest rate derivative balances as rates fell during the year.

Shareholders' funds were \$20,767 million (31 December 2019: \$17,971 million) which represented an increase of \$2,796 million. In addition to the profit for the period, there was an additional \$2 billion in capital contribution from its immediate parent, Citigroup Global Markets Holdings Bahamas Limited. This was partially offset by coupon payments on the Additional Tier 1 (AT1) notes and the revaluation losses recognised in the equity reserve and other comprehensive income. Further details of the current period movements are presented in the Statement of Changes in Equity.

More detailed information about the composition of CGML's balance sheet, including analyses of its derivative and inventory holdings, can be found in the Balance Sheet and the Notes to the Accounts, in particular Note 15 'Financial Assets and Liabilities Accounting Classification and Fair Value', Note 14: 'Financial Assets at Fair Value through Profit or Loss', and Note 13 'Derivatives'.

#### 4.3 Regulatory Capital (unaudited)

CGML's regulatory capital position is summarised below.

	2020	2019
	\$ Million	\$ Million
<u>Capital resources</u>		
Tier 1 capital	20,077	18,127
Tier 2 capital	4,600	4,600
Deductions	(1,200)	(1,363)
Total	<u>23,477</u>	<u>21,364</u>
<u>Capital requirements (Pillar 1)</u>		
Market risk	3,734	2,529
Credit risk	5,663	5,728
Operational risk	1,698	1,568
Large Exposures risk	21	331
Credit Valuation Adjustment (CVA) risk	398	480
Total	<u>11,514</u>	<u>10,636</u>
<u>Excess capital over Pillar 1</u>	<u>11,963</u>	<u>10,728</u>

Tier 1 capital encompasses tangible shareholders' funds. Tier 2 capital comprises long term subordinated debt that is eligible for inclusion as capital. Deductions from capital include adjustments for the value of the defined benefit pension scheme, intangible assets, other valuation adjustments and certain securitisation positions.

Pillar 1 prescribes the minimum capital requirements for banks and investment firms under the Basel Capital Accord and the EU Capital Requirements Directive and Regulation (CRD IV package). In addition to Pillar 1 requirements, the PRA mandates a set of Pillar 2 regulatory capital standards which CGML is required to meet in its Individual Capital Guidance and certain additional capital buffers. Management maintains a sufficiently strong and stable capital balance, which remained in excess of these minimum regulatory requirements throughout the year. Management monitors CGML's excess capital to ensure that a surplus above self-imposed management action triggers are maintained at all times.

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 4. Financial Highlights (continued)

#### 4.4 External Environment

CGML's 2020 financial results were achieved against a backdrop characterised by a number of key themes: continued political and economic uncertainty, the global spread of COVID-19 and its impact on economic and trade activity including increased volatility in financial markets, a lower interest rate environment that is expected to remain throughout 2021 and beyond, and increasingly competitive landscape due to new technologies (Automation, Machine Learning and Robotics Process Automation). Despite the uncertainty, global stock markets posted their largest gains since the financial crisis following the initial negative shock in Q1. The UK economy has been significantly impacted by COVID-related restrictions and lockdowns that have suppressed several sectors' activity and overall household expenditure, causing the economy to shrink by close to 10% in 2020.

Overall, it was a strong year for Markets and Securities Services in the region, driven by Fixed Income, Currencies and Commodities ("FICC") due to the historical collapse in yields and significant Foreign Exchange ("FX") client activity, Commodities increased, from higher volatility in Oil and momentum in Gold, and Spread Products benefitted from higher flow desk activity. Banking, on the other hand, was negatively impacted by an unfavourable business environment, with low interest rates and travel restrictions.

### 5. 2021 Future Outlook

2021 will likely bring some degree of normalisation globally due to the COVID-19 vaccine delivery. CGML revenue is expected normalise to 2019 levels, driven by lower volatility in Markets and Securities Services, but with client activity expected to remain high. Fixed Income, Commodities and Currencies ("FICC"), and Equities (mostly Derivatives) are expected to be down compared with the COVID-19 related spike in the first quarter of 2020; however, strong momentum in Capital Markets, imply better than planned 1Q 2021 financials.

#### 5.1 The UK's withdrawal from the EU

In preparation for Brexit and to minimise client and market disruption, CGML aimed to maintain its existing EEA client, counterparty and Financial Market Infrastructure (FMI) relationships by making use of cross-border licences or licence exemptions in certain EEA jurisdictions, where available. Where such cross-border licences and licence exemptions were not available, EEA client facing activities were transferred to Citigroup Global Markets Europe AG (CGME, Citi's EEA Investment Firm and a wholly owned subsidiary of CGML), to ensure continuity of services and products. CGME was operationally ready by 31 December 2020 and commenced provision of activities to certain EU-based clients based on their preference to migrate their activity to the EU.

Further, as a part of Citi's Brexit strategy, activities in CGML's existing EEA branches have been transferred to newly established branches of CGME in the respective EEA locations to support provision of investment services and products. CGML branches in France, Spain and Ireland have been closed. CGML Italy branch is in the final stages of closure with the local authorities.

CGML continues to support its clients through successful execution of its Brexit contingency plans. However, there are certain challenges which remain for the industry, including but not limited to, the uncertainty surrounding how the UK-EU treatment of financial services is likely to evolve.



# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 5. 2021 Future Outlook (continued)

#### 5.2 Market Outlook

Looking forward, the Company is likely to be impacted by a number of developments with specific significance for its operations and strategy:

- The first quarter has shown encouraging sign of a strong client activity in our EMEA business, in particular on the Equities side, where Citi EMEA continues to consolidate its number five rank, driven by client flows in Hybrids and Exotics, as well as gains on Delta One, benefitting from dividend announcement and lower implied funding rates. There has been a strong start of the year on Rates and Currencies too, driven by G10 Rates structured notes and government bonds, in addition to Spreads inflows.
- 2021 opportunities for the Markets business include: central bank quantitative easing and loosening in global monetary conditions (we expect gross supply from the European Central Bank to be broadly in line with 2020), sharp supply cuts by OPEC driving a strengthening of the Oil forward curve, European banks pulling out of Trade Financing creating opportunities for Commodities business to provide working capital solutions for clients.
- Potential risks include: lower levels of volatility in the markets driven by geo-political events, Brexit fragmentation and EU/UK regulators dynamics, accelerated deployment of technology from our competitors. LIBOR reform challenges as the entire market transition to alternative reference rates, potential credit events resulting from sustained GDP contraction.
- A key theme for 2021 will continue to be the global spread of COVID-19, which has resulted in governments taking varied actions towards stemming its spread and bolstering economies. The impact of COVID-19 is expected to continue for the coming months, with a more positive outlook hinging on the timely rollout of vaccines and the success in limiting the spread of new variants. The road to recovery from COVID-19 will be uneven across countries depending on their exposure to the virus and their ability to ease restrictions. The Company is closely monitoring the spread of COVID-19, the actions and reactions of Governments and the potential effects it will have on its business.

Citi and CGML will continue to monitor and assess these developments in order to mitigate any impact to services offered to clients and to take advantage of any opportunities that they may create.

#### 5.3 Regulatory Developments

As the external regulatory environment continues to evolve, the most significant developments expected to impact CGML stem from:

- Revisions to implement the Capital Requirements Regulation/ Capital Requirements Directive (CRR2/ CRDV) package;
- Proposals for the CRR 3/ CRDVI package;
- Changes to the UK prudential regulatory framework post the end of the Transition Period; and  
Further proposed Covid-19 regulatory measures.

##### *Revisions to CRR2/ CRDV package*

CGML will be impacted by a number of regulatory rule changes introduced by the Basel Committee on Banking Supervision (BCBS) and other standard setters that have been legislated for in Europe by CRR 2/CRD V. It is expected that following the UK's departure from the EU, the UK will continue to apply similar prudential regulation to that in force within the EU in line with global and international standards.

Some provisions of CRR 2 have already been implemented, such as MREL, whilst other provisions have a longer implementation period, such as elements of Fundamental Review of the Trading Book (FRTB). Other key elements in CRR 2 include changes to Counterparty Credit Risk (SA-CCR), the Large Exposures framework and the Leverage Ratio. In November 2020, the UK Treasury, in conjunction with the PRA and FCA, delayed the implementation of CRR 2 in the UK until 1 Jan 2022. This will apply to SA-CCR, the Large Exposures framework, NSFR (Net Stable Funding Ratio) and the Leverage Ratio.

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 5. 2021 Future Outlook (continued)

#### 5.3 Regulatory Developments (continued)

The **Fundamental Review of the Trading Book (FRTB)** represents a comprehensive revision of the market risk rules, including revisions to both the standardised and the internal models approaches. It introduces risk sensitivity into the standardised approach and equips it to act as a credible alternative to internal models. The revised internal models approach applies the model approval process at a desk, rather than company, level and uses an expected shortfall measure, rather than VaR, to quantify market risk requirements. The FRTB also reduces the scope for inconsistent application of the boundary between the trading book and non-trading books. The rules require firms to capture and utilise a significantly increased amount of data and processing capability in order to calculate the capital requirements. CRR2 introduces many of the rules for FRTB, however, it maintains the existing market risk framework as this remains the basis for calculating market risk requirements. FRTB will become the binding requirement according to a timeline to be determined in CRR 3.

The **Standardised Approach for Measuring Counterparty Credit Risk Exposures (SA-CCR)** will impact the portion of CGML's counterparty credit risk exposures currently subject to the Current Exposure Method (CEM), it will not impact those exposures captured under the Internal Model Method. SA-CCR introduces calculations that are more risk-sensitive than CEM but is also more complex to implement.

In the **Large Exposures Framework**, the capital that can be taken into account to calculate large exposures thresholds will be limited to Tier 1 capital only and SA-CCR is introduced to calculate exposures to derivatives, whilst Internal Model Method (IMM) is removed as a measure of exposure in the large exposures framework.

The **Leverage Ratio** changes include the use of SA-CCR, instead of the current CEM based methodology, for the purposes of measuring derivative exposures. The minimum leverage ratio requirement has been set at 3%.

The **Net Stable Funding Ratio (NSFR)** is designed to promote medium and long-term stable funding of the assets and off-balance-sheet activities of institutions over a one-year time horizon. The CRR 2/ CRD V framework requires institutions to maintain a minimum NSFR of 100%.

**Minimum Requirements for Own Funds and Eligible Liabilities (MREL)** is a requirement for firms to maintain a minimum amount of loss-absorbing resources over and above the own funds requirements. MREL resources can take the form of regulatory capital (own funds) and certain types of debt liabilities (eligible liabilities) that will be written down and/or converted to equity if a firm is judged to be likely to fail.

#### *Proposals for the CRR 3/ CRD VI revisions*

A further proposal to revise the CRR (known as CRR 3) is expected to be published by the European Commission in Q2 2021. This will incorporate other changes proposed by the BCBS such as a new Standardised Approach to Credit Risk (SA-CR), a new CVA framework, revisions to the approach to Securities Financing Transactions, further elements of FRTB, the Output Floor and a new Standardised Approach to Operational Risk. As published in the UK Regulatory Initiatives Grid, we expect formal engagement from the UK regulators on this package between April and Sept 2021.

#### *Changes to the UK prudential regulatory framework post the Brexit Transition Period*

Two key documents have been issued since the end of the Brexit transition period. Her Majesty's Treasury (HMT) published a consultation paper on issues arising from the implementation of the final Basel III standards. This paper provided details of the provisions in the UK Capital Requirements Regulation (575/2013) (UK CRR) that will be revoked using their powers under the Financial Services Bill. These provisions will be replaced by PRA rules, which the PRA are consulting on in CP 5/21. This consultation will implement some of the set of international standards that remain to be implemented in the UK, such as aspects of the CRR2 package that were not onshored in the UK prior to the end of the Brexit transition period. Currently, UK firms can benefit from the preferential risk weights applicable to EU27 exposures and assets under the capital and large exposures frameworks. This transitional relief will apply until the end of March 2022.

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 5. 2021 Future Outlook (continued)

#### 5.3 Regulatory Developments (continued)

##### *Covid-19 regulatory measures*

The Covid-19 pandemic has had a significant impact on the economy and global regulators have responded with a range of measures to support firms through this period. Regulatory updates are still evolving and they vary by jurisdiction. They cover many topics including reductions in countercyclical capital buffers, the payment of dividends, the use of capital buffers, the securitisation framework and amendments to the CRR. These measures are intended to help firms to mitigate the economic impacts of the pandemic on their businesses and to allow them to continue to lend to the wider economy.

### 6. Libor Transition Risk

LIBOR is currently used as the interest rate benchmark to price or value a wide range of financial products. The Company, recognizes that a transition away from and discontinuance of LIBOR presents various risks and challenges that could significantly impact financial markets and market participants, including Citi. These include, among others, the pricing, liquidity, value of, return on and market for financial instruments and contracts that reference LIBOR or any other benchmark rate, including any alternative benchmark rate. Accordingly, Citi, and by extension the Company, has continued its efforts to identify and manage its LIBOR transition risks. Citi is also closely monitoring legislative, regulatory and other developments related to LIBOR transition matters and relief.

Citigroup has established a LIBOR governance and implementation program focused on identifying and addressing the LIBOR transition impacts to Citi's legal entities, clients, operational capabilities and legal and financial contracts, among others. The program operates globally across Citi's businesses and functions. Citi also continued to engage with regulators, financial accounting bodies and others on LIBOR transition matters.

Moreover, Citi has continued to identify its LIBOR transition exposures, including financial instruments that do not contain contract provisions that adequately contemplate the discontinuance of reference rates and that would require additional negotiation with counterparties. Citi's LIBOR transition efforts include, among other things, using alternative reference rates in certain newly issued financial instruments and products. Further, Citi has also been investing in its systems and infrastructure, as client activity moves away from LIBOR to alternative reference rates.

### 7. Climate Risk

Climate change presents immediate and long-term risks to Citi and to its clients and customers, with the risks expected to increase over time. Climate risk refers to the risk of loss arising from climate change and is divided into physical risk and transition risk.

- Physical risk considers how chronic and acute climate change (e.g., increased storms, drought, fires, floods) can directly damage physical assets (e.g., real estate, crops) or otherwise impact their value or productivity.
- Transition risk considers how changes in policy, technology, and market preference to address climate change (e.g., carbon price policies, power generation shifts from fossil fuels to renewable energy) can lead to changes in the value of assets, commodities and companies.

Climate risk is an overarching risk that can act as a driver of other types of risk in the Citi risk taxonomy, such as credit risk from obligors exposed to high climate risk, reputational risk from increased stakeholder concerns about financing high carbon industries, and operational risk from physical climate risks to Citi's facilities.

Citi currently identifies climate risk as an "emerging risk" within its risk governance framework. Emerging risks are risks or thematic issues that are either new to the landscape, or in the case of climate risk, existing risks that are rapidly changing or evolving in an escalating fashion, which are difficult to assess due to limited data or other uncertainties.

With the increased importance and focus on climate risk, Citi has continued to expand its governance of climate risk and integrate climate considerations into the priorities of Citigroup's and CGML's Board of Directors and senior management.

# CITIGROUP GLOBAL MARKETS LIMITED

## STRATEGIC REPORT

for the year ended 31 December 2020

### 7. Climate Risk (continued)

Citi manages and mitigates the credit and reputational risks from climate change through a number of internal initiatives, including Citi's Environmental and Social Risk Management (ESRM) Policy. First established in 2003, the ESRM Policy is part of Citi's broader credit risk management policy and is applicable to all Citi entities globally. The ESRM Policy provides the framework for how Citi identifies, mitigates, and manages the potential environmental and social risks (including climate risks) associated with clients' activities that could lead to credit or reputation risks to the firm. It guides how Citi evaluates lending, underwriting and advisory in environmentally sensitive and/or high-carbon sectors, and presents opportunities for Citi to engage clients on solutions to thematic risks.

Citi's ESRM Policy covers lending and underwriting with identified use of proceeds directed to physical assets and activities, as well as sector standards for corporate relationships in higher-risk sectors, including carbon-intensive sectors.

Citi has also made climate risk one of the three key pillars of its 2025 Sustainable Progress Strategy. Under this pillar, Citi intends to measure, manage and reduce the climate risk and impact of its client portfolios and enhance its Taskforce on Climate-Related Financial Disclosures (TCFD) implementation and disclosure through policy development, portfolio analysis and client engagement. In December 2020, Citi released its second report detailing its implementation of the TCFD recommendations: Finance for a Climate-Resilient Future II. In this report, Citi discusses its implementation of the TCFD recommendations, and Citi's recent pilot testing of climate scenario analyses to assess climate-related impacts and risks in specific sectors, spanning both transition and physical climate risks. Climate data is still improving in terms of its accessibility and reliability, and the industry and Citi continue to develop better methodological approaches towards assessing climate change impacts. Nonetheless, Citi expects to integrate more quantitative analysis of climate risks into credit assessments in the future and to quantify the carbon emissions associated with its client portfolios. Additionally, Citi continues to participate in financial industry collaborations to develop and pilot new methodologies and approaches for measuring and assessing the potential financial risks of climate change. Citi is also closely monitoring regulatory developments on climate risk and sustainable finance, and actively engaging with regulators on these topics.

Climate risk is on the regular agenda of the CGML Board and CGML Board Risk Committee. To ensure appropriate governance around financial risks from climate change, the CGML Board continues to have oversight of the integration of climate risk within CGML and receive frequent progress updates from management.

By order of the Board



*J D K Bardrick*  
Director and Chief Executive Officer

20 April 2021

Incorporated in England and Wales  
Registered office: Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB  
Registered Number: 01763297

# CITIGROUP GLOBAL MARKETS LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2020

The Directors present their Report and the audited financial statements of CGML for the year ended 31 December 2020.

### Going concern basis

The financial statements are prepared on a going concern basis taking into account CGML's existing capital and liquidity resources and the level of reliance placed on support from Citi, CGML's ultimate parent. The Directors acknowledge the risk that extreme circumstances might adversely impact CGML's ability to continue trading and are satisfied that CGML has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. As CGML is part of the Citigroup, the risks that apply to the parent also apply to all subsidiaries within the group including CGML. The risk factors impacting Citigroup Inc. are described in its 2020 annual report on form 10-K, which can be found at <http://www.citigroup.com/citi/investor/sec.htm>.

The directors have reviewed the capital, liquidity and financial position of the Company including future capital, liquidity and financial plans covering a period of at least 12 months from the date of approval of these Financial Statements.

As was reported in the Ultimate Parent Company's (Citigroup's) Annual Report on SEC Form 10-K for the year ended 31 December 2020, Citigroup disclosed that in addition to the widespread public health implications, the COVID-19 pandemic has had an extraordinary impact on macroeconomic conditions in the U.S. and around the world. In considering going concern, the Company continues to closely monitor developments related to the outbreak of COVID-19. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers.

To assess any potential impact on the Company, the directors reassessed the components of capital, liquidity and the financial position of the Company and have concluded that the going concern basis is still appropriate.

The reassessment was completed with reference to the stress testing processes within the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) which demonstrated that CGML has sufficient capital and liquidity buffers to withstand the current market conditions. In this reassessment, the Directors considered severe but plausible downside scenarios, including stress tests aligned to the ICAAP for which the Company uses an internal model. These stress scenarios are considered to be at least as severe as the Bank of England's Scenario for banks and building societies not part of concurrent stress testing scenario. This analysis indicated that the Company would maintain capital and liquidity headroom throughout the period covered by the forecasts, even in reasonably possible downside scenarios.

Based on the above assessment, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore, have prepared the financial statements on a going concern basis.

Further information relevant to this assessment is provided in the following sections of these financial statements:

- the principal activities, strategic direction and challenges and uncertainties are described in the Strategic Report on pages 2 to 20;
- a financial summary, including the income statement and balance sheet, is provided in the financial results section on pages 31 to 35; and
- objectives, policies and processes for managing market, liquidity, credit and operational risk, and CGML's approach to capital management and allocation, are described in Note 29 'Financial instruments and risk management', starting on page 80.

In addition to the going concern basis, Citigroup Inc. continues to provide confirmation that it will provide sufficient funding to the Company to ensure that it maintains a sound financial situation and is in a position to meet its debt obligations for the foreseeable future.

### Dividends

During the year CGML paid no dividends on its ordinary shares (2019: \$nil).

# CITIGROUP GLOBAL MARKETS LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2020

### Information included in the Strategic Report

CGML has elected to include information on financial risk management as per Schedule 7.6(1)(a) & (b) of the "Large and Medium-sized Companies and Groups Regulations 2008" in the Strategic Report as the Directors consider financial risk management to be of strategic importance to CGML. Further details about financial risk management are provided in Note 29 'Financial instruments and risk management.'

For the year ended 31 December 2020, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (the Principles) (as published by the Financial Reporting Council in December 2018 and which are available on its website). Our corporate governance report, describing how CGML has applied the provisions of the Principles over the past year is presented in the Strategic Report in section 2. CGML Corporate Governance Report and Principal Risks, including employee engagement disclosure under the Section 172(1) Statement.

The Strategic Report also incorporates a discussion of likely future business developments, while important events affecting the Company since the end of the financial year are described in Note 33 'Events after the reporting period'. A summary of the Company's overseas branches and subsidiaries can be found in the Introduction to the Strategic Report.

### Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 CGML and of the profit or loss of CGML 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 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;
- assess the CGML's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate CGML or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain CGML's transactions and disclose with reasonable accuracy at any time the financial position of CGML and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of CGML and to prevent and detect fraud and other irregularities.

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

# CITIGROUP GLOBAL MARKETS LIMITED

## **DIRECTORS' REPORT**

for the year ended 31 December 2020

### **Directors**

The Directors who held office during the year ended 31 December 2020 were:

#### *Non-Executive*

C Ardalan (Chairman)

M P Basing (resigned on 11 October 2020)

R F Goulding

D L Taylor

A R Wynaendts, a Non-Executive Director for Citigroup Inc., was appointed as Non-Executive Director on 22 January 2021. R F Goulding resigned with effect from 29 January 2021. S J Clark, W M N Fall and J P Moulds were appointed as Non-Executive Directors on 5 February 2021.

#### *Executive*

L Arduini

J D K Bardrick

D Jain

F M Mannion

### **Directors' indemnity**

Throughout the year and at the date of this report CGML is party to a group-wide indemnity policy which benefits all the Directors and is a qualifying third party indemnity provision for the purpose of section 236 of the Companies Act 2006.

### **Employment of disabled people**

CGML is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within CGML. Training, career development and promotion of disabled persons are, as far as possible, identical to those applicable to other employees who are not disabled.

### **Political contributions**

No political contributions were made during the year (2019: \$nil).

### **Disclosures concerning greenhouse gas emissions**

#### *Sustainable Operations*

The Company, as part of Citigroup Inc., has been measuring its environmental footprint for two decades and began reporting on its direct operational impacts in 2002. In 2020, Citi finished tracking progress against its third generation of operational footprint goals, first announced in 2015. These goals cover energy use, water consumption, recycling, waste and green building design. By the end of 2020, Citi had achieved its goals of 100% use of renewable electricity for facilities globally and a 30% reduction in energy consumption from a 2015 baseline.

To build on this success and reduce its operational footprint further, Citi is committed to the following goals for increasing its energy efficiency and reducing greenhouse gas (GHG) emissions by 2025:

- a 45% reduction in location-based GHG emissions (CO<sub>2</sub>e)
- a 40% reduction in energy consumption and maintain 100% renewable electricity sourcing
- certifying 40% of floor area to be LEED, WELL or equivalent standard, with a focus on Citi owned building to operate at the highest level of sustainability

Citi reports Scope 1, Scope 2 and Scope 3 Business Travel GHG emissions in both its Environmental Impact Report and its CDP response. Citi's global energy consumption and GHG emissions can be found in the annual Environmental, Social and Governance Report. Citi's GHG emissions and environmental data are verified and assured by SGS, a leading third-party inspection, verification, testing and certification company.

# CITIGROUP GLOBAL MARKETS LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2020

### Disclosures concerning greenhouse gas emissions (continued)

#### *Streamlined Energy and Carbon Reporting*

The following tables present Citigroup Global Markets Limited's energy consumption, greenhouse gas emissions and chosen intensity metrics for its UK-based operations for the financial year 1st January 2020 – 31st December 2020:

#### Energy Consumption

Energy (kWh) 40,952,073

#### GHG Emissions

Scope	Source	Unit	
1	Direct	tCO2e	2,965
2	Indirect – Location-based	tCO2e	6,157
	Indirect – Market-based	tCO2e	-
3	Commercial air & rail travel	tCO2e	1,585
	Employee expensed car mileage	tCO2e	4
<b>Total</b>	<b>Scope 1, 2 (location) &amp; Scope 3 Business Travel</b>	<b>tCO2e</b>	<b>10,711</b>
	<b>Scope 1, 2 (market) &amp; Scope 3 Business Travel</b>	<b>tCO2e</b>	<b>4,554</b>

#### Intensity Ratio\*

tCO2e/Sq. Ft\*\* 0.02  
tCO2e/FTE 2.91

\*these intensity metrics have been calculated using Scope 1 & 2 (location) emissions

\*\*calculated using Citi's total Scope 1 & 2 carbon footprint for the UK from the group's whole portfolio

Citigroup Global Markets Limited's emissions are calculated in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition). The boundaries of the GHG inventory are defined using the operational control approach and cover the emissions the company is responsible for across Scope 1, 2 and Scope 3 business travel. The emissions are calculated using the emissions factors for 2020 published by the Department for Business, Energy & Industrial Strategy.

Citi gathers data from its operations on an ongoing basis, with primary evidence sourced from office managers and technical team. Where Citi pay for occupancy via service charge and the share of consumption is not known, consumption is calculated by benchmarking the energy/square foot against our global portfolio. As multiple Citi-owned subsidiaries occupy the same office spaces and make use of data centre, the figures presented have been calculated using the company's UK headcount pro-rata to the Citi UK headcount. Citi purchase 100% renewable electricity in the UK through green tariffs for electricity directly purchased. Where electricity is obtained in leased properties from landlords, guarantee of origin certificates are purchased for the equivalent amount used.



# CITIGROUP GLOBAL MARKETS LIMITED

## DIRECTORS' REPORT

for the year ended 31 December 2020

### Disclosures concerning greenhouse gas emissions (continued)

#### *Streamlined Energy and Carbon Reporting* (continued)

##### *Energy efficiency in action*

As a financial services provider, the main sources of greenhouse emissions from Citigroup Global Markets Limited's operations are the running of data centres, the offices in which the majority of employees are based and the Scope 3 business travel of employees travelling for work.

Whether undertaking new construction or renovating existing buildings, Citi prioritise efficiency and sustainability to minimise the environmental impact of its facilities. In the company's UK-based sites as part of its energy management system, interval data analysis is conducted fortnightly to track savings from energy efficiency measures. This allows the company to consistently review the efficacy of proposed measures and identify any problems.

In 2020, as the result of the COVID-19 pandemic and associated lockdowns from March onward, employee occupation of offices was heavily reduced resulting in a 20-30% decrease in energy consumption during lockdown months. The company told all employees to work from home where possible and invested in upgrading video conferencing and online meeting tools in order to facilitate this transition. The travel restrictions put in place also greatly reduced Scope 3 emissions associated with air and rail travel, as well as the number of car journeys taken by employees in 2020.

With a phased return to office scheduled for 2021, the company's video conferencing and remote-working tools will stay in place, ensuring employees don't travel for work unless necessary until UK and other government guidelines allow and satisfy Citi's own safety and COVID-19 policies. In 2019, through energy audits undertaken in compliance with the Energy Saving Opportunity Scheme (ESOS) several opportunities were identified to reduce energy consumption in the Citigroup Centre office and Riverdale Data Centre. This included a programme to convert all remaining non-LED lights to LEDs. These recommendations will be implemented as part of the current programme of renovations at Citigroup Centre in London, due to be completed in 2021 and 2022.

#### **Events after the reporting period**

On 16 February 2021 the Company drew down additional paid in capital of \$500 million from its parent, Citigroup Global Markets Holdings Bahamas Limited.

On 24 March 2021 CGML received \$3 billion capital contribution from its immediate parent, Citigroup Global Markets Holdings Bahamas Limited.

On 12 April 2021 CGML made a capital contribution of \$500 million to its subsidiary, CGME.

At the date on which these financial statements were approved, there were no other significant events affecting the Company since the year end.

# CITIGROUP GLOBAL MARKETS LIMITED

## **DIRECTORS' REPORT**

for the year ended 31 December 2020

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

In accordance with, and subject to all the provisions of, section 418 of the Companies Act 2006, it is stated by the Directors who held office at the date of approval of this Directors' Report that

- so far as each is aware, there is no relevant audit information of which CGML's Auditors are unaware; and
- each Director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that CGML's Auditors are aware of that information.

### **Auditors**

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

By order of the Board.



*J D K Bardrick*  
Director and Chief Executive Officer

*20 April 2021*

Incorporated in England and Wales  
Registered office: Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB  
Registered Number: 01763297

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITIGROUP GLOBAL MARKETS LIMITED

## Opinion

We have audited the financial statements of Citigroup Global Markets Limited (“the company”) for the year ended 31 December 2020 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Balance sheet, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

We used our knowledge of the company, its industry, and the general economic environment to identify the inherent risks to its business model, including potential forward looking risks arising from the Covid-19 pandemic, and analysed how those risks might affect the company’s financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the company’s available financial resources over this period were:

- the availability of funding and liquidity in the event of market wide and idiosyncratic stresses; and
- the impact on regulatory capital requirements in the event of an increase in financial instrument price volatility or risk due to market-wide stress.

We considered whether these risks impact the level of available financial resources in the going concern period by assessing the Directors’ assessment of the Company’s financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively. Our procedures also included:

- Critically assessing assumptions in plausible downside scenarios relevant to liquidity and capital.. We have also assessed whether forecasts of the income statement and balance sheet are internally consistent and are consistent with our knowledge of the entity and the sector in which it operates.
- We evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise, which included seeking additional capital from the parent.

We considered whether the going concern disclosure in note 1(a) to the financial statements gives a full and accurate description of the Directors’ assessment

Our conclusions based on this work:

- we consider that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors’ assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1(a) to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

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

### **Fraud and breaches of laws and regulations – ability to detect**

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the company’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the company’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee and Risk Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Using our own forensic specialists to assist us in identifying fraud risks associated with journals.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that the company’s management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of hard to price financial instruments. On this audit we do not believe there is a fraud risk related to revenue recognition because income is automatically calculated by IT applications and there is no manual intervention which limits the opportunity for management to commit fraud through the manipulation of revenue.

We also identified a fraud risk related to existence and accuracy of unconfirmed derivatives and valuation of hard to price financial instruments in response to possible pressures to meet profit targets.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the company-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries and other profit and loss adjustments based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual accounts.
- Evaluated the business purpose of transactions resulting in significant day 1 P&L.
- Assessing significant accounting estimates relating to valuation of hard to price financial instrument for bias.
- Incorporating an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed, including:
  - increasing the extent of substantive procedures performed on significant accounts
  - selecting items for testing that have lower amounts or are otherwise outside customary selection parameters

#### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors (as required by auditing standards), inspection of the company’s regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity’s procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

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

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the company's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital, liquidity and conduct issues, recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

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

## **Directors' responsibilities**

As explained more fully in their statement set out on page 22, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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.



**Matthew Davies (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

London E14 5GL

20 April 2021

# CITIGROUP GLOBAL MARKETS LIMITED

## INCOME STATEMENT

for the year ended 31 December 2020

		2020	2019*
	Notes	\$ Million	\$ Million
Fee and commission income	4	1,128	1,229
Net dealing income	6	3,807	2,766
Interest receivable	5	267	912
Interest payable	5	(1,111)	(1,718)
<b>Gross profit</b>		4,091	3,189
Operating expenses	7	(2,889)	(2,695)
Impairment of investments in subsidiary	20	88	(88)
Net finance income on pension	8	9	14
Other income		19	13
<b>Operating profit on ordinary activities before taxation</b>		1,318	433
Tax on profits on ordinary activities	11	(295)	(122)
<b>Profit after taxation for the financial year</b>		<u>1,023</u>	<u>311</u>

\*Certain captions for comparatives have been updated for presentation purposes only: interest receivable and interest payable on trading instruments and collateralised financing transactions at Fair value through Profit and Loss (FVTPL) were reclassified into net dealing income.

The accompanying notes on pages 36 to 98 form an integral part of these financial statements.

# CITIGROUP GLOBAL MARKETS LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Notes	2020 \$ Million	2019 \$ Million
Profit after taxation for the financial year		1,023	311
<u>Other Comprehensive Income (Expense)</u>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Gross gains/(losses) on remeasurement of defined benefit pension asset	8	(32)	(44)
Deferred tax benefit/(charge) associated with remeasurement of pension asset		9	11
Deferred tax charge associated with rate change on remeasurement of pension asset		(9)	-
(Loss)/Gains on debt valuation adjustment (DVA) attributed to the change in credit risk		(104)	(174)
Deferred tax Benefit/(charge) associated with loss on DVA		28	43
Deferred tax benefit associated with rate change on DVA		2	-
Total other comprehensive income		<u>(106)</u>	<u>(164)</u>
Total comprehensive gain for the financial year		<u><u>917</u></u>	<u><u>147</u></u>

The net movement in the Statement of Comprehensive Income in respect of the pension scheme reflects changes in the actual and expected returns on scheme assets and liabilities and the related tax impact associated with the balance sheet valuation of the defined pension asset.

The accompanying notes on pages 36 to 98 form an integral part of these financial statements



# CITIGROUP GLOBAL MARKETS LIMITED

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Notes	Share Capital \$ Million	Other equity instruments \$ Million	Capital reserve \$ Million	Equity reserve \$ Million	Retained earnings \$ Million	Total \$ Million
<b>At 1 January 2019</b>		<b>1,500</b>	<b>2,300</b>	<b>10,999</b>	<b>1,307</b>	<b>1,974</b>	<b>18,080</b>
Profit after taxation for the year						311	311
Gross losses on remeasurement of defined benefit pension asset	8	-	-	-	-	(44)	(44)
Deferred tax benefit associated with remeasurement of pension asset		-	-	-	-	11	11
Loss on debt valuation adjustment (DVA)		-	-	-	-	(174)	(174)
Tax benefit associated with gains on DVA		-	-	-	-	43	43
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(164)</b>	<b>(164)</b>
Share based payment transactions	9	-	-	-	(118)	-	(118)
Deferred tax charge associated with share based		-	-	-	29	-	29
Dividend on other equity instruments		-	-	-	-	(167)	(167)
<b>At 31 December 2019</b>		<b>1,500</b>	<b>2,300</b>	<b>10,999</b>	<b>1,218</b>	<b>1,954</b>	<b>17,971</b>
Profit after taxation for the year		-	-	-	-	1,023	1,023
Gross losses on remeasurement of defined benefit pension asset	8	-	-	-	-	(32)	(32)
Deferred tax benefit associated with remeasurement of pension asset		-	-	-	-	9	9
Deferred tax loss associated with rate change on remeasurement of pension asset		-	-	-	-	(9)	(9)
Loss on debt valuation adjustment (DVA)		-	-	-	-	(104)	(104)
Tax benefit associated with gains on DVA		-	-	-	-	28	28
Tax benefit associated with rate change on DVA		-	-	-	-	2	2
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(106)</b>	<b>(106)</b>
Share based payment transactions	9	-	-	-	62	-	62
Deferred tax benefit associated with share based payment transactions		-	-	-	(16)	-	(16)
Capital contribution	28	-	-	2,000	-	-	2,000
Dividend on other equity instruments		-	-	-	-	(167)	(167)
<b>At 31 December 2020</b>		<b>1,500</b>	<b>2,300</b>	<b>12,999</b>	<b>1,264</b>	<b>2,704</b>	<b>20,767</b>

The other equity instruments relate to Additional Tier 1 notes. Further information is included in Note 28 'Capital and reserves'.

The capital reserve includes capital contributions from the parent company, which are distributable. The Company received an additional \$2 billion in capital contribution during the year.

The equity reserve includes the fair value movement of the share based incentives issued, and other fair value movements captured in equity.

The accompanying notes on pages 36 to 98 form an integral part of these financial statements.

# CITIGROUP GLOBAL MARKETS LIMITED

## BALANCE SHEET

for the year ended 31 December 2020

	Notes	31 December 2020 \$ Million	31 December 2019 \$ Million
<b>Assets</b>			
Financial assets at amortised cost			
- cash at bank	12	5,505	3,610
- collateralised financing transactions		76,864	54,766
Financial assets mandatorily at fair value through profit or loss			
- derivatives	13	213,918	207,941
- inventory	14	73,752	59,498
- equity securities held for investment	16	99	71
Financial assets designated at fair value through profit or loss		77,331	53,309
Investments in subsidiary and related undertakings	20	2,125	1,399
Pension asset	8	449	458
Other assets	18	56,016	46,226
<b>Total Assets</b>		<b>506,059</b>	<b>427,278</b>
<b>Liabilities and Equity</b>			
Financial liabilities at amortised cost			
- bank loans and overdrafts		7,347	8,594
- collateralised financing transactions		75,922	51,267
Financial liabilities mandatorily at fair value through profit or loss			
- derivatives	13	229,445	222,664
- securities sold but not yet purchased		56,641	40,013
Financial liabilities designated at fair value through profit or loss	15	63,864	34,129
Other liabilities	23	41,473	42,540
Subordinated loans	27	10,600	10,100
<b>Total Liabilities</b>		<b>485,292</b>	<b>409,307</b>
<b>Capital and reserves</b>			
Called up share capital	28	1,500	1,500
Other equity instruments	28	2,300	2,300
Capital reserve	28	12,999	10,999
Retained earnings and other reserves		3,968	3,172
<b>Shareholders' funds</b>		<b>20,767</b>	<b>17,971</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>506,059</b>	<b>427,278</b>

The accompanying notes on pages 36 to 98 form an integral part of these financial statements.

The financial statements on pages 31 to 98 were approved by the Directors on 20 April 2021 and were signed on their behalf by:



J D K Bardrick  
Director and Chief Executive Officer  
Registered Number: 01763297

# CITIGROUP GLOBAL MARKETS LIMITED

## STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Notes	2020 \$ Million	2019 \$ Million
<b>Cash flows from operating activities:</b>			
Profit before taxation		1,318	433
<i>Adjustments for:</i>			
Depreciation and amortisation	7	51	46
Provision (charged)/released and other movements during the year	24	(19)	29
ExpensereLATED to Pension	8	32	36
Net impairment (release)/charge on investment securities	20	(88)	88
Net impairment loss on loans and advances	7	6	1
Net gain on other fair value items	16	(27)	(14)
Other non-cash movements including exchange rate movements		13	(2)
Net interest income	5	843	363
		<u>2,129</u>	<u>980</u>
<i>Changes in:</i>			
Financial assets at amortised cost		(22,104)	28,154
Financial assets mandatorily at fair value through profit or loss		(20,232)	(58,554)
Financial assets designated at fair value through profit or loss		(24,023)	20,810
Other assets		(10,524)	(13,577)
Financial liabilities at amortised cost		23,456	1,921
Financial liabilities mandatorily at fair value through profit or loss		23,409	44,209
Financial liabilities designated at fair value through profit or loss		29,735	(32,871)
Other liabilities		(1,390)	8,911
		<u>456</u>	<u>(17)</u>
Interest received		985	681
Interest paid		(833)	(1,285)
Income taxes paid		(307)	(188)
<b>Net cash used in operating activities</b>		<u><b>301</b></u>	<u><b>(809)</b></u>
<b>Cash flows from investing activities</b>			
Dividends received from investments	20	16	8
Acquisition of investment securities	20	(642)	(718)
Acquisition of intangible assets	19	(64)	(52)
<b>Net cash used in investing activities</b>		<u><b>(690)</b></u>	<u><b>(762)</b></u>
<b>Cash flows from financing activities</b>			
Capital contribution received from parent	28	2,000	-
Proceeds from issue of subordinated liabilities	27	500	500
Dividends paid on other equity instruments		(167)	(167)
<b>Net cash from financing activities</b>		<u><b>2,333</b></u>	<u><b>333</b></u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		1,944	(1,238)
Cash at bank including bank overdrafts at 1 January		3,483	4,721
<b>Cash at bank including bank overdrafts at 31 December</b>		<u><b>5,427</b></u>	<u><b>3,483</b></u>

Under IAS 7, Bank overdrafts which are repayable on demand and which form an integral part of an entity's cash management are also included as a component of cash and cash equivalents in the Statement of Cash Flows.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies

#### (a) Basis of presentation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), which entails a historical basis of accounting with certain exceptions, such as financial assets and financial liabilities measured at fair value under adopted IFRS. The financial statements have been prepared on a going concern basis, in accordance with the Companies Act 2006 as applicable to CGML.

The Company makes amendments to its IFRS financial statements where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company has taken advantage of the following disclosure exemptions available under FRS 101:

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 share based payment, as the share based payment arrangement concerns the instruments of another group entity;
- (b) the requirement in paragraph 38 of IAS 1 '*Presentation of financial statements*' to present comparative information in respect of
  - (i) paragraph 79(a)(iv) of IAS 1 '*Presentation of financial statements*';
  - (ii) paragraph 73(e) of IAS 16 '*Property, plant and equipment*'; and
  - (iii) paragraph 118(e) of IAS 38 '*Intangible assets*'.
- (c) the requirements of paragraphs 10(d), 16, 38A, and 111 of IAS 1 '*Presentation of financial statements*';
- (d) the requirements in IAS 24 '*Related party disclosures*' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- (e) the requirements of paragraphs 17 and 18A of IAS 24 that relate to transactions with key management personnel.

The financial statements have been prepared in US Dollars, which is the functional and presentational currency of the Company, and any reference to \$ in these financial statements refers to US Dollars. The Company has rounded figures to the nearest million \$, unless otherwise stated.

As permitted under section 401 of the Companies Act 2006, consolidated financial statements have not been prepared because the Company is a wholly owned subsidiary of the ultimate parent, Citigroup Inc., which prepares consolidated financial statements under US GAAP. The Company meets the criteria for exemption from the obligation to prepare and deliver group accounts that is available to a company included in non-EEA group accounts of a larger group. These financial statements therefore present information about the Company as an individual undertaking and not about its group. Citigroup Inc. makes its financial statements available to the public on a quarterly basis.

As was reported in the Ultimate Parent Company's (Citigroup's) Annual Report on SEC Form 10-K for the year ended 31 December 2020, Citigroup disclosed that in addition to the widespread public health implications, the COVID-19 pandemic has had an extraordinary impact on macroeconomic conditions in the U.S. and around the world. In considering going concern, the Company continues to closely monitor developments related to the outbreak of COVID-19. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers. To assess any potential impact on the Company, the directors reassessed the components of capital, liquidity and the financial position of the Company and have concluded that the going concern basis is still appropriate.

The reassessment was completed with reference to the stress testing processes within the ICAAP and ILAAP which demonstrated that CGML has sufficient capital and liquidity buffers to withstand the current market conditions. In this reassessment, the Directors considered severe but plausible downside scenarios, including stress tests aligned to the ICAAP for which the Company uses an internal model. These stress scenarios are considered to be at least as severe as the Bank of England's Scenario for banks and building societies not part of concurrent stress testing scenario. This analysis indicated that the Company would maintain capital and liquidity headroom throughout the period covered by the forecasts, even in reasonably possible downside scenarios.

The directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore, have prepared the financial statements on a going concern basis. In addition, Citigroup Inc. continues to provide confirmation that it will provide sufficient funding to the Company to ensure that it maintains a sound financial situation and is in a position to meet its debt obligations for the foreseeable future.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### (b) Changes in accounting policy and disclosures

The accounting policies adopted are consistent within the accounts and with those of the previous financial year, except for certain amendments and improvements to the IFRS standards implemented as at 1 January 2020, which did not have a material impact on the Company unless otherwise noted below. There were no other material or amended standards or interpretations that resulted in a change in accounting policy for the year ended 31 December 2020.

#### *Standards and amendments issued and effective during the year ended 31 December 2020*

There are a number of accounting standards that have been issued by the International Accounting Standards Board (“IASB”), which became effective from 1 January 2020. They include:

- Amendments to references to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Phase 1

The above amended standards and interpretations did not have a significant impact on the Company’s financial statements.

#### *Standards and amendments issued but not yet effective as at 31 December 2020*

#### *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) – Phase 2*

LIBOR is currently used as the interest rate benchmark to price or value a wide range of financial products. Citi, and by extension the Company, is currently conducting a global LIBOR governance and implementation program which is focused on identifying and addressing the LIBOR transition impacts to Citi’s clients, operational capabilities and legal and financial contracts, among others. The program operates globally across Citi’s businesses and functions. Citi, and by extension the Company, also continued to engage with regulators, financial accounting bodies and others on LIBOR transition matters. Citi also has continued to identify its LIBOR transition exposures, including financial instruments that do not contain contract provisions that adequately contemplate the discontinuance of reference rates and that would require additional negotiation with counterparties. Citi’s LIBOR transition efforts include, among other things, using alternative reference rates in certain newly issued financial instruments and products. Further, Citi has also been investing in its systems and infrastructure, as client activity moves away from LIBOR to alternative reference rates.

In September 2019, the IASB issued the Phase 1 of its response to IBOR Reform, which were amendments to IAS 39 and IFRS 9 addressing hedge accounting matters arising prior to the transition to new reference rate reform. Because the Company does not apply hedge accounting referencing LIBOR in its standalone financial statements, these amendments did not impact the Company. On 27 August 2020, the IASB issued the Phase 2 amendments which address transition and post-replacement issues, including issues broader than hedge accounting such as modifications of financial assets and liabilities:

- Modifications of financial assets and financial liabilities: The amendments will require an entity to account for a change in the basis for determining contractual cash flows of a financial asset or financial liability that is required by IBOR Reform by updating the effective interest rate of the financial asset or financial liability.
- Hedge Accounting: The amendments provides exceptions to the hedge accounting, which is not applicable to the Company.
- Disclosure: The amendments also requires the entity to disclose additional information about the entity’s exposure to risks arising from IBOR reform and related risk management activities.

These amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The Company has not adopted these amendments in 2020, and is currently assessing the impact on their financial statements.

There have been some other amendments to IFRS issued by the International Accounting Standards Board (IASB), but which are not yet effective for the Company. These amendments are expected to either have no impact or an immaterial impact to the Company upon adoption.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### (c) Financial instruments

##### *Classification and measurement*

From a classification and measurement perspective, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI)). For SPPI, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a period of time. Interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time and a profit margin that is consistent with a basic lending arrangement.

Categories under IFRS 9: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 also allows entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch. The majority of the financial instruments of the Company are measured at fair value through profit or loss. The Company has no financial instruments categorized as FVOCI.

Further, movements on gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL are presented in OCI with no subsequent reclassification to the income statement.

The financial assets held at amortised cost meet the SPPI test and are held to collect contractual cash flows.

##### FVTPL

Where the asset is not held within a business model whose objective is to hold to collect the contractual cash flows or within a business model whose objective is to both collect the cash flows and to sell the assets, then the asset will be classified as FVTPL. Moreover, any instrument for which the contractual cash flow characteristics do not comprise solely payments of principal and interest (that is, they fail the SPPI test) must be classified in the FVTPL category.

##### *Financial assets and liabilities held for trading*

Financial instruments that have been acquired principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of financial instruments that are managed at fair value together and for which there is evidence of short term profit taking are classified as "held for trading". Financial assets classified as "held for trading" include collateralised financing transactions, government bonds, non-government bonds, equities and derivatives. Financial liabilities classified as "held for trading" include derivatives, hybrid financial liabilities and short sales (securities sold but not yet purchased). A short sale is a sale of securities that the seller does not own at the time of sale. A short sale must be covered through the delivery of the securities sold short or a due bill, which is a promise to deliver specific securities to a customer later.

Trading assets and liabilities are initially recognised at fair value on settlement date and subsequently re-measured at fair value. Any changes in fair value between trade date and settlement date are reported in the income statement. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value (including any foreign currency retranslation gains and losses) are reported in the income statement. Any initial gain or loss on financial instruments where valuation is dependent on valuation techniques using unobservable parameters are deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable.

##### *Derivatives and Hybrid financial instruments*

Derivative contracts used in trading activities are recognised at fair value on the date the derivative is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value are reported in the income statement. Where an embedded derivative exists within a financial liability host contract, the host contract and embedded derivative are measured as a package under the fair value option.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

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

##### *Equity securities held for investment*

Strategic investments including investments in exchanges, clearing houses and settlement houses are required to be held at fair value through the profit or loss account.

##### *Other financial liabilities and subordinated loans*

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

##### Amortised Cost

A financial asset debt instrument shall be classified and subsequently measured at amortised cost (unless designated under FVO) only if both of the following conditions are met:

- a) Business Model test: the financial asset debt instrument is held under a business model whose objective is to hold assets in order to collect contractual cash flows; and
- b) SPPI test.

##### *Loans and receivables*

Loans and receivables incorporate trade debtors, including settlement receivables, and are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost using the effective interest rate method, and subject to expected credit loss impairment under IFRS 9.

##### *Repurchase and resale agreements and securities lending/borrowing*

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

Similarly, when securities are lent or borrowed in exchange for cash, this is also treated as collateralised financing. Securities lent are not derecognised from the balance sheet and the cash inflow is recognised as a collateralised borrowing. Securities borrowed are not recognised on the balance sheet and the cash inflow is recognised as a collateralised lending. The securities lending fees payable and receivable are charged or credited to the income statement as interest payable or receivable.

However, the Company measures a portion of its repurchase and resale agreements at fair value. Financial instruments are measured at fair value through profit or loss when they meet one or more of the criteria set out below:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

That portion of the Company’s repurchase and resale agreements which are hedged with instruments measured at fair value and managed as a combined business strategy have been designated as fair value through profit or loss.

##### *Determination of fair value*

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted market value in an active market wherever possible. Where no such active market exists for the particular instrument, the Company uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms’ length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In case the transaction price in the market in which these transactions are undertaken is different from the fair value in the Company’s principal market for those instruments, the fair value of these transactions are also estimated by using valuation techniques. See Note 15 ‘Financial assets and liabilities accounting classifications and fair values’ for further details.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

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

##### *Collateral*

The Company receives collateral from customers as part of its business activities. Collateral can take the form of cash, securities or other assets. Where cash collateral is received this is recorded on the balance sheet and, where required by collateral agreements, is reported as restricted cash. The Company does not recognise non-cash collateral received on its balance sheet.

Where cash collateral is posted to a third party, the Company derecognises cash from its balance sheet. Non-cash collateral posted to a third party remains on the Company's balance sheet.

##### *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legal right to set off the recognised amounts must be enforceable in both the normal course of business, in the event of default, insolvency or bankruptcy of both the Company and its counterparty. In all other situations they are presented gross.

All offsetting applied by the Company relates to derivatives and repurchase and reverse repurchase agreements. A significant portion of offsetting is applied to interest rate derivatives and related cash margin balances, which are cleared through central clearing parties such as the London Clearing House. The Company also offsets repurchase and reverse repurchase agreements for which the Company has the right to set off and has the intent to settle on a net basis or to realise an asset and settle a liability simultaneously.

##### *Derecognition of financial assets and financial liabilities*

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

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

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

##### *Impairment*

The IFRS 9 impairment standard applies to any debt instruments measured at amortised cost or at fair value through other comprehensive income and also to off balance sheet loan commitments and financial guarantees. The standard requires an estimation of an expected credit loss (ECL) that is unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate will also consider the time value of money.

ECL will be measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.
- Stage 2 – Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognized equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.

The credit losses for financial assets in Stage 1 and Stage 2 are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).



# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

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

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognized. Credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Evidence that a financial asset is impaired includes observable data that comes to the attention of the Company such as:

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

Because of the nature of business activities and the financial assets on the Company's balance sheet (high credit quality reverse repo asset loans and short term trade receivables), the recognition of expected credit losses has a minimal impact. For the vast majority of its exposures, the Company has taken advantage of practical expedients allowed by IFRS 9 in which either: (a) lifetime expected credit losses are recognised irrespective of changes in credit risk (applicable to receivables such as trade date or brokerage receivables), or (b) twelve-month expected credit losses are recognised where credit risk is low at the reporting date (applicable to reverse repos and securities borrowed).

#### (d) Commodities

Commodities are initially recognised under inventory at fair value on settlement date and subsequently re-measured at fair value less costs to sell. Realised gains and losses on sales of commodities inventory are included in net dealing income.

#### (e) Fee and commission income

The primary components of Fee and commission income are investment banking fees and brokerage commissions.

Fee and commission income is recognised when the right to consideration has been obtained in exchange for performance.

Investment banking fees are substantially composed of underwriting and advisory revenues. Such fees are recognised at the point in time when Company's performance under the terms of a contractual arrangement is completed, which is typically at the closing of a transaction. Reimbursed expenses related to these transactions are recorded as revenue and are included within investment banking fees.

Brokerage commissions primarily include commissions and fees from the following: executing transactions for clients on exchanges and over-the-counter markets; sales of mutual funds and other annuity products; and assisting clients in clearing transactions, providing brokerage services and other such activities. Brokerage commissions are recognised at the point in time the associated service is fulfilled, generally on trade-execution date.

The services described above are generally provided by the Company in a principal capacity, whereby it has primary responsibility for fulfilling the contract with the customer.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

#### (f) Interest receivable and payable and the effective interest method

Interest income and expense is recognised in the income statement for all financial assets classified as loans and receivables and non-trading financial liabilities, using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. The calculation of the effective interest rate includes incremental and directly attributable transaction costs and fees paid or received that are an integral part of the effective interest rate.

Interest arising on financial assets or financial liabilities that are “held for trading” or “designated at fair value” is reported within net dealing income.

#### (g) Net dealing income

Net dealing income comprises gains and losses related to trading assets, trading liabilities and financial assets and liabilities designated at fair value and commodities, and includes all realised and unrealised fair value changes, dividends and foreign exchange differences. For derivatives that are not part of hedging programmes, both the interest element and the fair value movements are recognised as part of net dealing income.

#### (h) Tangible and Intangible assets

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

Premises improvements	-	lesser of the life of the lease or 10 years
Equipment	-	lesser of the life of the equipment or 10 years
Capitalised software	-	2 to 10 years

At each reporting date the Company assesses whether there is any indication that tangible or intangible fixed assets are impaired.

#### (i) Investments in subsidiaries

Investments in subsidiary undertakings are stated at cost less impairment. The Company determines whether it is necessary to recognise an impairment loss on its investment in shares in subsidiary undertakings by comparing the carrying value of the investment with the value in use, determined by the net asset value of the subsidiary undertaking at the reporting date.

#### (j) Taxation

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.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

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

CGML operates both a defined benefit and a defined contribution pension scheme.

The cost of CGML's defined contribution pension scheme is expensed as the related service is provided and recognised within operating expenses in the income statement. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the term of the related pension liability. Remeasurement gains and losses are recognised immediately in the Statement of Other Comprehensive Income (OCI). The current service cost and any past service costs are included in the income statement within operating expenses. The interest income on pension scheme assets, net of the impact of the interest cost on the pension scheme liabilities, is included within Net finance income on pension.

A surplus is recognised on the balance sheet where an economic benefit is available as a reduction in future contributions or as a refund of monies to Citi.

#### (l) Foreign currencies

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

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

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

The Company applies equity-settled accounting for its share based incentive plans, with separate accounting for its associated obligations to make payments to Citigroup Inc as part of a recharge arrangement. The Company recognises the fair value of the awards at grant date with a credit to the intercompany payable (recharge liability) to Citigroup Inc. All amounts paid to Citigroup Inc. and the associated obligations are recognised over the vesting period as compensation expense. Subsequent changes in the fair value of the recharge liability in respect of all unexercised awards are reviewed annually and any changes in value are recognised in the equity reserve, again over the vesting period. The SPAPA is also updated annually.

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

Vesting Period of Award	% of expense recognised in Income Statement						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
2 Years (vesting in 2 Tranches)	75%	25%					
3 Years (vesting in 3 Tranches)	61%	28%	11%				
4 Years (vesting in 4 Tranches)	52%	27%	15%	6%			
5 Years (vesting in 5 Tranches)	46%	26%	16%	9%	4%		
7 Years (vesting in 4 Tranches)	19%	19%	19%	19%	13%	8%	4%

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

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

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

EU Short Term awards are a form of Capital Accumulation Program (CAP) awarded to qualifying staff. The award is accounted for similarly to CAP awards but is delivered in the form of immediately vested restricted shares subject to a six month sale restriction.

#### (n) Cash at bank

Cash and balances at other financial institutions comprise balances with original maturity of less than three months and are carried at amortised cost on the Company's balance sheet.

#### (o) Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated. Provisions are measured at the best estimate of the outflow of resources that will be required to settle the obligation.

#### (p) Modification of financial liabilities

When a financial liability is modified, or there is an exchange of debt instruments between the same lender and borrower, the original financial liability is derecognised—and a new liability recognised—if the two debt instruments have 'substantially different' terms. This determination considers both a quantitative comparison of the debt's cash flows before and after the modification, as well as consideration of qualitative factors such as risk profile, maturity, or existence of embedded derivatives.

Where terms are substantially different, the existing liability is derecognised, and any difference between the carrying value and the value of the replacement debt is recognized in profit or loss at the date of modification.

When the contractual cash flows of a financial liability are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial liability in accordance with IFRS 9, the Company shall recalculate the gross carrying amount of the financial liability, and any difference is also recognized in profit or loss at the date of modification.

### 2. Use of assumptions, estimates and judgements

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

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

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

The following areas are sources of estimation uncertainties that require management to make highly complex or subjective judgements, which have (or may have) the most significant effect on the amounts recognized in the financial statements.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Valuation of financial instruments*

The Company's accounting policy for valuation of financial instruments is described in Note 1(c). If quoted market prices are not available, fair value is based upon internally developed valuation models that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates and option volatilities. Such models are often based on a discounted cash flow analysis. In addition, items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified under the fair value hierarchy as Level 3 even though there may be some significant inputs that are readily observable. The Company is required to exercise subjective judgments relating to the applicability and functionality of internal valuation models, the significance of inputs or value drivers to the valuation of an instrument and the degree of illiquidity and subsequent lack of observability in certain markets. Note 15 'Financial assets and liabilities accounting classifications and fair values' discusses further the valuation of financial instruments.

#### *Credit valuation adjustment*

Credit valuation adjustments (CVA) and funding valuation adjustments (FVA) are applied to the relevant population of over-the-counter (OTC) derivative instruments where adjustments to reflect counterparty credit risk, own credit risk and term funding risk are required to estimate fair value. This principally includes derivatives with a base valuation (e.g., discounted using overnight indexed swap (OIS)) requiring adjustment for these effects, such as uncollateralized interest rate swaps. The CVA represents a portfolio-level adjustment to reflect the risk premium associated with the counterparty's (assets) or Citi's (liabilities) non-performance risk. FVA reflect a market funding risk premium inherent in the uncollateralized portion of a derivative portfolio and in certain collateralized derivative portfolios that do not include standard credit support annexes (CSAs), such as where the CSA does not permit the reuse of collateral received. Citi's FVA methodology leverages the existing CVA methodology to estimate a funding exposure profile. The calculation of this exposure profile considers collateral agreements in which the terms do not permit the Company to reuse the collateral received, including where counterparties post collateral to third-party custodians.

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

Second, for CVA, market-based views of default probabilities derived from observed credit spreads in the credit default swap (CDS) market are applied to the expected future cash flows determined in step one. Citi's own-credit CVA is determined using Citi-specific CDS spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spread indices for each credit rating and tenor. For certain identified netting sets where individual analysis is practicable (e.g., exposures to counterparties with liquid CDSs), counterparty-specific CDS spreads are used. For FVA, a term structure of future liquidity spreads is applied to the expected future funding requirement.

The CVA and FVA are designed to incorporate a market view of the credit and funding risk, respectively, inherent in the derivative portfolio. However, most unsecured derivative instruments are negotiated bilateral contracts and are not commonly transferred to third parties. Derivative instruments are normally settled contractually or, if terminated early, are terminated at a value negotiated bilaterally between the counterparties. Thus, the CVA and FVA may not be realised upon a settlement or termination in the normal course of business. In addition, all or a portion of these adjustments may be reversed or otherwise adjusted in future periods in the event of changes in the credit or funding risk associated with the derivative instruments.

During 2020, the Company recorded net CVA loss of \$21 million (2019: \$45 million losses). There were additionally net FVA losses of \$2 million (2019: \$9 million losses). The total adjustment recorded in the balance sheet at the year-end was \$9 million (2019: \$12 million).

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Turnover and results

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

### 4. Fee and commission income

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Investment Banking		
Advisory Fees	139	247
Underwriting Fees	580	465
Other Investment Banking Fee	19	98
	<u>738</u>	<u>810</u>
Brokerage commissions and fees	367	326
Other revenue	23	93
	<u>1,128</u>	<u>1,229</u>
<b>Total fee and commission income</b>	<b>1,122</b>	<b>1,116</b>
<i>Of which, revenue from contracts with customers</i>	<i>1,122</i>	<i>1,116</i>

### Revenue from contracts with customers

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Investment Banking		
Advisory Fees	146	299
Underwriting Fees	580	465
Other Investment Banking Fee	37	42
	<u>763</u>	<u>806</u>
Brokerage commissions and fees	373	326
Other revenue	(14)	(16)
	<u>1,122</u>	<u>1,116</u>
<b>Total revenue from contracts with customers</b>	<b>1,122</b>	<b>1,116</b>

Included within Other assets are contract assets amounted to \$101 million (2019: \$89 million) and included within Other liabilities are contract liabilities amounted to \$106 million (2019: \$110 million).

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Interest receivable and interest payable

	<b>2020</b>	<b>2019*</b>
	<b>\$ Million</b>	<b>\$ Million</b>
<b>Interest receivable comprises:</b>		
Interest on collateralised financing transactions, debtors and cash assets measured at amortised cost	267	912
	<u>267</u>	<u>912</u>
<b>Interest payable comprises:</b>		
Interest on collateralised financing transactions and borrowings measured at amortised cost	791	1,261
Interest on subordinated debt	320	457
	<u>1,111</u>	<u>1,718</u>

\*Certain captions for comparatives have been updated for presentation purposes only: interest receivable and interest payable on trading instruments and collateralised financing transactions at Fair value through Profit and Loss (FVTPL) were reclassified into net dealing income.

Interest receivable and interest payable presented above represents interest revenue calculated using the effective interest method.

Included within interest receivable is interest received on client money. Interest receivable and payable decreased in 2020 owing to a decrease in interest rates during the year.

### 6. Net dealing income

	<b>2020</b>	<b>2019*</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Net dealing income mandatorily at fair value through profit and loss	3,418	2,159
Net dealing income designated at fair value through profit or loss	389	607
	<u>3,807</u>	<u>2,766</u>

\*Certain captions for comparatives have been updated for presentation purposes only: interest receivable and interest payable on trading instruments and collateralised financing transactions at Fair value through Profit and Loss (FVTPL) were reclassified into net dealing income.

The financial liabilities designated at fair value through profit or loss are fully collateralised (see Note 29 'Financial instruments and risk management') such that there are no changes in the fair value of these liabilities attributable to changes in their credit risk.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Operating expenses

	2020 \$ Million	2019 \$ Million
Operating expenses include:		
Compensation and benefits expenses:		
<u>Fixed</u>		
Salaries	634	593
Payroll taxes	161	158
Benefits	(13)	26
Deferred Cash	176	70
Share-based incentive expense (Note 9)	145	126
Pension costs		
- defined benefit scheme (Note 8)	9	6
- defined contribution scheme	50	45
Medical expenses	23	22
Severance	19	27
<u>Variable</u>		
Discretionary incentive compensation	238	190
Share-based incentive expense (Note 9)	67	52
Agency & temporary staffing	18	16
Other business specific variable compensation	1	-
Total compensation and benefits expenses	1,528	1,331
Depreciation (Note 19)	51	46
IFRS 9 reserve	6	1
Fees payable to the company's auditor for the audit of the company's annual accounts:		
In support of the Citigroup Inc global audit	2.34	1.57
Audit of these financial statements	1.17	0.79
Fees payable to the company's auditor and its associates for other services:		
Audit related assurance services	1.10	1.12
Other assurance services	0.07	0.07

The Company employed an average of 3,360 (2019: 3,339) employees during the year.

The classification of last year's amounts receivable by the company's auditor has been realigned to better reflect the services provided.

The following table shows an analysis of the monthly average number of direct employees of the Company:

	2020	2019
<b>Institutional Clients Group</b>	<b>2,954</b>	<b>2,936</b>
Global Rates	120	117
Global Spread Products	131	128
Equity Markets & Securities Services	1,029	1,033
Commodities	66	68
Banking, Capital Markets and Advisory	668	690
Business Support	940	900
<b>Infrastructure Operations and Global Functions</b>	<b>406</b>	<b>403</b>



# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension

#### Defined contribution scheme

The Citigroup (UK) Pension Plan was established in September 2000 and provides defined contribution benefits to all new hires. The contributions that Citi is required to make are known, although the pension benefit will vary depending upon the investment returns achieved by investment choices made by the employee.

#### Defined benefit scheme

The Citigroup Global Markets Limited Pension and Life Assurance Scheme (“the Scheme”) is a funded pension scheme providing benefits on both a defined benefit and defined contribution basis. The defined benefit arrangements are generally non-contributory and based on accrual of 1/60th of final pensionable salary for each year of pensionable service in the Scheme. The defined contribution arrangement provides age-related employer contributions ranging from 6% to 13% of pensionable salary for those aged 20 and 55 respectively, increasing by 1% for each 5 year age band. Additionally, employee contributions are matched up to a maximum of 3% at a rate of £1:£1 for those over age 45 and 50p:£1 for those under age 45. The Scheme also provides lump sum death benefits to active members, based on a multiple of salary, which the members can select. The Scheme is now closed to new entrants. The Scheme operates under trust law and is managed and administered by CG Pension Trustees Limited (the Trustee) on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The Plan’s assets are held by the trust. Employees are not required to contribute to the Scheme, which is contracted out of the State Earnings Related Pension Scheme.

Cash contributions to the Scheme are reviewed every three years as part of an actuarial valuation. Following each actuarial valuation, the Company agrees what contributions are required to fund ongoing benefit accrual and agrees a deficit recovery plan with the Trustee Board if necessary. The most recent actuarial funding valuation of the Scheme at 5 April 2017 revealed a surplus of £114.4m so no recovery plan was required. The Company agreed that it would pay £7.24m per annum from 1 June 2018 to 30 April 2023 to cover the cost of ongoing benefit accrual. From 1 June 2018, it was also agreed that the Scheme’s investment management expenses would be met from Scheme assets.

The pension cost in respect of defined benefit obligations is assessed in accordance with the advice of a qualified external actuary using a Projected Unit method with a triennial review. The most recent full actuarial assessment of the liabilities of the scheme was at 5 April 2017.

The Scheme exposes Citi to a number of risks, the most significant being;

- Asset Volatility - the Scheme’s obligations are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit.
- Bond Yields - a decrease in corporate bond yields will increase the value placed on the Scheme’s obligations for accounting purposes. Provided that government bond yields decrease by the same margin as corporate bond yields, this will largely be offset by an increase in the value of the Scheme’s assets.
- Inflation Risk - a significant proportion of the Scheme’s obligations are linked to inflation such that higher inflation will lead to higher liabilities (although in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation).
- Life Expectancy - the majority of the Scheme’s obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Expected regular employer contributions to be paid into the Scheme during 2020 are \$10 million (2019: \$9 million).

The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is 20 years.

The mortality assumptions are based on standard mortality tables which allow for expected future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23.6 years for males and 24.9 years for females. Members currently aged 45 are expected to live a further 24.7 years and 26.2 years from age 65 for males and females respectively.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension (continued)

Assumptions that are affected by economic conditions (financial assumptions) are based on market expectations at the balance sheet date, for the period over which the obligations are settled.

The financial assumptions used in calculating the defined benefit scheme liabilities as at 31 December 2020 are as follows:

	2020	2019
Discount rate for scheme liabilities	1.45%	2.05%
Interest income rate on scheme assets	1.45%	2.05%
Inflation - RPI	3.10%	3.10%
Inflation - CPI	2.60%	2.10%
Rate of general long-term increase in salaries	1.50%	1.50%
Rate of increase to pensions in payment		
- Pensions accrued from 1 May 2005	2.40%	2.40%
- Pensions accrued prior to 1 May 2005	2.90%	3.00%

Following a public consultation, in November 2020, the government confirmed that it would accept the UK Statistics Authority's proposal that the Retail Price Index (RPI) should be aligned with the Consumer Price Index (including housing costs) (CPIH) from 2030. In recognition of this, the Company has chosen to reduce the assumed gap between future RPI inflation and CPI inflation from 1% p.a. to 0.5% p.a. In isolation, this change increases the defined benefit obligation disclosed at 31 December 2020 by \$22.1m.

The fair value of Scheme assets at the reporting date are set out as follows:

	Fair value	
	2020	2019
	\$ Million	\$ Million
Listed assets		
Government bonds	2,854	1,908
Other	12	(1)
Unlisted assets		
Government bonds	(1,477)	(708)
Corporate bonds	744	739
Insured Pensions	1	1
Total market value of assets	<u>2,134</u>	<u>1,939</u>

Analysis of amounts recognised in the income statement account:

	2020	2019
	\$ Million	\$ Million
Current service cost	7	6
Past service cost	2	-
Expense recognised in the profit and loss account	<u>9</u>	<u>6</u>

Analysis of other finance income:

	2020	2019
	\$ Million	\$ Million
Interest income on pension scheme assets	38	51
Interest expense on pension scheme liabilities	(29)	(37)
<b>Net finance income on pension</b>	<u><b>9</b></u>	<u><b>14</b></u>

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension (continued)

Analysis of amount recognised in Statement of Comprehensive Income:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Return on scheme assets in excess of/(below) that recognised in net interest income	184	132
Actuarial (losses) due to changes in financial assumptions	(172)	(200)
Actuarial (losses)/gains due to changes in demographic assumptions	(13)	10
Actuarial (losses)/gains due to liability experience	(31)	14
	<u>(32)</u>	<u>(44)</u>
Total remeasurement (losses) recognised in Statement of Comprehensive Income	<u>(32)</u>	<u>(44)</u>
Deferred tax adjustment on pension in Statement of Comprehensive Income	9	11
Deferred tax charge associated with rate change on remeasurement of pension asset	(9)	-
	<u>(32)</u>	<u>(33)</u>
<b>Total (losses) recognised in Statement of Comprehensive Income net of tax</b>	<b><u>(32)</u></b>	<b><u>(33)</u></b>

Reconciliation to the balance sheet:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Total market value of assets	2,134	1,939
Present value of scheme liabilities	(1,685)	(1,481)
<b>Gross pension asset</b>	<b><u>449</u></b>	<b><u>458</u></b>
Related deferred tax liability	(121)	(115)
	<u>328</u>	<u>343</u>
Net pension asset	<u>328</u>	<u>343</u>

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Surplus in scheme at beginning of the year	458	468
Current service cost	(7)	(6)
Contributions	10	10
Past service cost	(2)	-
Other finance income	9	14
Remeasurement (losses)	(32)	(44)
Foreign exchange adjustment	13	16
	<u>449</u>	<u>458</u>
<b>Surplus in scheme at end of year</b>	<b><u>449</u></b>	<b><u>458</u></b>

CGML recognises a surplus in accordance with the requirements of IFRIC 14. The trustees of the Scheme do not have the unilateral right to commence wind-up of the Scheme. Thus CGML assumes that the Scheme will continue in existence until the last benefit payments are made to members, at which point any residual assets will be returned to the employer in line with the rules of the Scheme.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension (continued)

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

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Opening defined benefit obligation	1,481	1,274
Current service cost	7	6
Past service cost	2	-
Interest expense	29	37
Remeasurement losses on scheme liabilities	216	176
Net benefits paid out	(112)	(71)
Foreign exchange adjustment	62	59
	<u>1,685</u>	<u>1,481</u>

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

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Opening fair value of scheme assets	1,939	1,741
Interest income on pension scheme assets	38	51
Remeasurement gains on scheme assets	184	132
Contributions by the employer	10	10
Net benefits paid out	(112)	(71)
Foreign exchange adjustment	75	76
	<u>2,134</u>	<u>1,939</u>

The actual return on assets is as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Interest income on pension scheme assets	38	51
Remeasurement gains on scheme assets	184	132
	<u>222</u>	<u>183</u>

The interest income on scheme assets is set using the discount rate assumption. In 2020, asset values increased by \$184 million as bond yields fell during the year. In 2019, asset values increased by \$132 million as bond yields decreased during the year.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Pension (continued)

The table below sets out the history of experience gains and losses:

	2020	2019	2018	2017	2016
	\$	\$	\$	\$	\$
	Million	Million	Million	Million	Million
Gains/(losses) on scheme assets due to experience	184	132	(75)	32	392
(Losses)/gains on scheme liabilities due to experience	(31)	14	(46)	(24)	17
(Losses)/gains on scheme liabilities due to assumptions	(185)	(190)	133	(19)	(357)
Remeasurements recognised in Statement of Comprehensive Income	(32)	(44)	12	(11)	52
Related deferred tax	-	11	(3)	3	(9)
<b>Total (losses)/gains recognised in Statement of Comprehensive Income net of tax</b>	<b>(32)</b>	<b>(33)</b>	<b>9</b>	<b>(8)</b>	<b>43</b>

The key assumptions used for IAS 19 are the discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is set out in the table below.

Sensitivity to key assumptions	2020	2019
	Change in defined benefit obligation increase/(decrease)	Change in defined benefit obligation increase/(decrease)
	\$ Million	\$ Million
Effect of increasing the discount rate assumption by 1%	(299)	(264)
Effect of decreasing the discount rate assumption by 1%	399	352
Effect of increasing the salary increase assumption by 1%	14	14
Effect of decreasing the salary increase assumption by 1%	(12)	(13)
Effect of increasing the life expectancy assumption by 1 year	76	67
Effect of increasing the pension increase assumption by 1%	259	233
Effect of decreasing the pension increase assumption by 1%	(205)	(185)
Effect of increasing the inflation assumption by 1%	185	170
Effect of decreasing the inflation assumption by 1%	(157)	(143)

In valuing the liabilities of the pension fund, mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities would have increased by \$76 million (2019: increase of \$67 million).

The sensitivity information shown above is approximate and has been determined taking into account the duration of the liabilities and the overall profile of the Scheme membership. The methods and assumptions used in preparing the sensitivity analysis above have not changed from the prior year.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Share-based incentive plans

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

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

In prior years, certain stock-based awards were subject to discretionary clawback provisions and as such subject to variable accounting. Under variable accounting the associated value of the award liability moves in line with changes in Citigroup's common stock price until the date that the award vests. Any fluctuation from the grant date value of the award until the award is fully vested is recognised through the income statement.

In April 2017 Citigroup made amendments to its UK awards prospectus which enabled the adoption of fixed accounting for all remaining, previously awarded, variable accounting unvested awards using a modification price of \$59.39 (set at the end of April when the decision was confirmed). The difference between the grant price of all remaining, previously awarded, variable accounting unvested awards and the modification price was recognised through the income statement, any further fluctuations in share price from the modification price to the vesting date would be recognised in equity, in line with other non-variable accounting share based payment award types.

#### (i) Stock award programme

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

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

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

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

Stock awards granted generally vest 25% per year over four years or 33% per year over 3 years.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

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

As part of remuneration since 2010, the Company entered into an arrangement referred to as an “EU Short Term” award. The award will be delivered in the form of immediately vested restricted shares subject to a six month sale restriction.

	2020	2019	2018	2017	2016
Shares awarded	2,750,205	3,042,789	2,921,491	2,714,862	4,874,781
Weighted average fair market value per share	\$74.41	\$59.66	\$72.78	\$59.34	\$37.51

#### (ii) Stock option programme

In prior years, the Company made discretionary grants of options to eligible employees pursuant to the broad-based Citigroup Employee Option Grant (CEOG) Program under the Citigroup Stock Incentive Plan. The last options granted under the plan were in 2011. There are no options outstanding. Full details on the history of CEOG can be found in the Company’s prior year financial statements.

#### (iii) Income statement impact

The table below details the income statement impact of the share based incentive plans.

	2020 \$ million	2019 \$ million
<u>Stock Awards</u>		
Granted in 2020	149	-
Granted in 2019	27	135
Granted in 2018	13	31
Granted in 2017	3	7
Granted in 2016	-	2
<u>Accrued Expenses</u>	20	3
Total Expense (Note 7)	<u>212</u>	<u>178</u>
<i>From which Fixed Share-based incentive expense</i>	<u>145</u>	<u>126</u>
<i>From which Variable Share-based incentive expense</i>	67	52
Fair value adjustment of intercompany recharges in equity reserve	62	(118)
Deferred tax impact of fair value adjustment in equity reserve	(16)	29
<b>Net fair value adjustment of intercompany recharges in equity reserve</b>	<b><u>46</u></b>	<b><u>(89)</u></b>
Total carrying amount of equity-settled transaction liability	379	409
Total carrying amount of cash-settled transaction liability	-	-

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Directors' remuneration

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

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Aggregate emoluments	5,801	4,713
Contributions to defined contribution pension scheme	88	71
	<u>5,889</u>	<u>4,784</u>

The contributions to the money purchase pension schemes are accruing to five of the Directors (2019: six). Four of the Directors (2019: six) of the Company participate in parent company share plans.

The remuneration of the highest paid Director was \$2,578,652 (2019: \$1,823,795) and accrued pension of \$2,404 (2019: \$4,777).

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

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

### 11. Tax on profit on ordinary activities

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

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
<b>Current tax:</b>		
UK corporation tax	343	107
Adjustment in respect of UK corporation tax for previous years	(19)	(33)
Double taxation relief	(85)	(80)
Overseas current tax	87	98
Adjustment in respect of overseas tax for previous years	(4)	(1)
Total current tax	<u>322</u>	<u>91</u>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences		
- movement on Pension Asset	6	9
- movement on other temporary differences (Note 22)	(44)	15
- rate change adjustment	(8)	-
Adjustment in respect of deferred tax for earlier years:	19	7
Total deferred tax	<u>(27)</u>	<u>31</u>
Tax charge on ordinary activities	<u>295</u>	<u>122</u>



# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

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

The table below illustrates how the tax chargeable on operating profit for the year is impacted by non-taxable items and available reliefs.

	2020 \$ Million	2019 \$ Million
Profit/(loss) on ordinary activities before tax	1,318	433
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 27% (2019: 27%)	357	117
<b>Effects of:</b>		
Expenses not deductible for tax purposes	23	61
Income not taxable	(29)	(4)
Foreign withholding tax not creditable	2	16
Adjustments in relation to previous years	(5)	(26)
Impact of tax rates on overseas profits	-	3
Rate change adjustment	(8)	-
Current tax on AT1 coupon	(45)	(45)
Total tax charge for year	295	122

#### (c) Aggregate current and deferred tax relating to items recognised directly in equity

	2020 \$ Million	2019 \$ Million
Deferred tax on remeasurement of pension in Statement of comprehensive income	-	(11)
Deferred tax associated with loss on DVA in Statement of comprehensive income	(30)	(43)
Deferred tax associated with Share based payment transactions in equity	16	(29)
Corporation Tax on IFRS 9 transitional adjustments	2	4
Deferred Tax on IFRS 9 transitional adjustments	(2)	(4)
Total current and deferred tax (credit)/charge recognised in equity	(14)	(83)

#### (d) Factors that may affect future tax charges

The UK tax rate applying to CGML in the year was 27%. This includes a surcharge of 8% on the profits of banking companies applicable from 1 January 2016. Overseas branches provided for taxation at the appropriate rates for the countries in which they operate.

The main rate of corporation tax in the UK (excluding the surcharge) has been 19% since 1 April 2017. Finance Act 2020, which received Royal Assent on 22 July 2020, reversed the reduction in corporation tax such that the rate remains at 19% from 1 April 2020. On 3 March 2021 in the 2021 Budget, it was announced that the UK corporation tax rate would be increasing to 25% from 1 April 2023. However, the impact of this has not been reflected in deferred tax, as the increase had not been substantively enacted at the balance sheet date. The Government will also be undertaking a review of the 8% bank surcharge rate this Autumn.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Cash at bank

The following amounts are included within cash at bank:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Cash at bank held by other financial institutions	3,154	1,954
Cash at bank held by other group undertakings	2,351	1,656
	<u>5,505</u>	<u>3,610</u>

Included within cash held by other financial institutions is \$1,237 million (2019: \$1,209 million) that is held on behalf of clients and reported as restricted cash. Included within cash held by other group undertakings is \$97 million (2019: \$50 million) on behalf of clients and reported as restricted cash.

### 13. Derivatives

	<b>2020</b>		<b>2019</b>	
	<b>Fair Value</b>		<b>Fair Value</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
Interest rate derivatives	155,996	165,703	147,492	151,253
Foreign exchange derivatives	23,938	24,265	18,998	18,442
Credit derivatives	10,338	10,281	23,979	23,917
Equity derivatives	16,774	19,597	10,410	21,055
Commodity derivatives	6,872	9,599	7,062	7,997
	<u>213,918</u>	<u>229,445</u>	<u>207,941</u>	<u>222,664</u>

In the ordinary course of its business, CGML enters into various types of derivative transactions, which include:

- Swap contracts - commitments to settle in cash at a future date or dates ranging from a few days to a number of years, based on differentials between specified instruments or indices, as applied to a notional principal amount;
- Option contracts - the right but not the obligation to buy or sell within a specified time a financial asset at a fixed price over a specified time period; and
- Futures and forward contracts - commitments to buy or sell at a future date a financial asset at a fixed price.

Derivative transactions may be OTC agreements which are bilaterally negotiated with counterparties and either settled with those counterparties or novated and cleared through CCPs. Others are standardised contracts traded on an exchange with the CCP as the counterparty to the trade. Derivatives expose CGML to market, credit or liquidity risks which are described further in Note 29 'Financial instruments and risk management' and which may impact the amount, timing and certainty of future cash flows.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss form part of the trading portfolio of the Company and comprise marketable securities and other financial assets. The following amounts are included in financial assets held at fair value.

	<b>2020</b>	<b>2019</b>
	<b>Total</b>	<b>Total</b>
	<b>\$ Million</b>	<b>\$ Million</b>
<b>Financial assets mandatorily at fair value through profit and loss</b>		
Derivatives (Note 13)	213,918	207,941
Inventory		
Government bonds	37,843	28,981
Non-government bonds	10,908	9,256
Equities	23,110	19,974
Commodities	1,523	1,043
Commercial Paper	368	244
	<u>73,752</u>	<u>59,498</u>
Equity securities held for investment (Note 16)	99	71
<b>Financial assets designated at fair value through profit or loss</b>		
Collateralised financing transactions	77,331	53,309
	<u>365,100</u>	<u>320,819</u>

Included in Derivatives are listed instruments amounting to \$4,193 million (2019: \$2,704 million). Included in Inventory are listed instruments amounting to \$68,133 million (2019: \$55,537 million).

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values. Those measured at fair value, whether mandatorily or designated as such, are further allocated to levels in the fair value hierarchy in the table on the following page.

	Mandatorily at FVIPL \$ Million	Designated at FVIPL \$ Million	Amortised cost \$ Million	Mandatorily at FVIPL - equity investments \$ Million	Total carrying amount \$ Million	Fair value \$ Million
<b>31 December 2020</b>						
Cash	-	-	5,505	-	5,505	5,505
Derivatives	213,918	-	-	-	213,918	213,918
Inventory	73,752	-	-	-	73,752	73,752
Equity securities held for investment	-	-	-	99	99	99
Collateralised financing transactions	-	77,331	76,864	-	154,195	154,195
Cash collateral pledged	-	-	39,570	-	39,570	39,570
Trade debtors	-	-	15,438	-	15,438	15,438
Other debtors	-	-	261	-	261	261
	<b>287,670</b>	<b>77,331</b>	<b>137,638</b>	<b>99</b>	<b>502,738</b>	<b>502,738</b>
Bank loans and overdrafts	-	-	7,347	-	7,347	7,466
Derivatives	229,445	-	-	-	229,445	229,445
Securities sold but not yet purchased	56,641	-	-	-	56,641	56,641
Collateralised financing transactions	-	47,187	75,922	-	123,109	123,109
Hybrid financial liabilities	-	16,677	-	-	16,677	16,677
Cash collateral held	-	-	29,444	-	29,444	29,444
Trade creditors	-	-	9,851	-	9,851	9,851
Other creditors and accruals	-	-	1,943	-	1,943	1,943
Subordinated loans	-	-	10,600	-	10,600	12,250
	<b>286,086</b>	<b>63,864</b>	<b>135,107</b>	<b>-</b>	<b>485,057</b>	<b>486,826</b>
<b>31 December 2019</b>						
Cash	-	-	3,610	-	3,610	3,610
Derivatives	207,941	-	-	-	207,941	207,941
Inventory	59,498	-	-	-	59,498	59,498
Equity securities held for investment	-	-	-	71	71	71
Collateralised financing transactions	-	53,309	54,766	-	108,075	108,075
Cash collateral pledged	-	-	33,706	-	33,706	33,706
Trade debtors	-	-	11,787	-	11,787	11,787
Other debtors	-	-	181	-	181	181
	<b>267,439</b>	<b>53,309</b>	<b>104,050</b>	<b>71</b>	<b>424,869</b>	<b>424,869</b>
Bank loans and overdrafts	-	-	8,594	-	8,594	8,799
Derivatives	222,664	-	-	-	222,664	222,664
Securities sold but not yet purchased	40,013	-	-	-	40,013	40,013
Collateralised financing transactions	-	34,129	51,267	-	85,396	85,396
Cash collateral held	-	-	31,309	-	31,309	31,309
Trade creditors	-	-	8,641	-	8,641	8,641
Other creditors and accruals	-	-	1,942	-	1,942	1,942
Subordinated loans	-	-	10,100	-	10,100	11,833
	<b>262,677</b>	<b>34,129</b>	<b>111,853</b>	<b>-</b>	<b>408,659</b>	<b>410,597</b>

\*Certain captions have been updated for presentation purposes only. Hybrid financial liabilities and Derivatives are shown separately and should be considered together when comparing with prior period.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

The following table shows an analysis of financial assets and liabilities measured at fair value by level in the hierarchy:

<b>31 December 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
<b>Financial assets mandatorily at fair value</b>				
Derivatives	36	210,874	3,008	213,918
Government bonds	35,562	2,257	24	37,843
Non-government bonds	1,231	9,192	485	10,908
Equities	21,374	1,715	21	23,110
Commodities	-	1,523	-	1,523
Commercial Paper	-	368	-	368
	<u>58,203</u>	<u>225,929</u>	<u>3,538</u>	<u>287,670</u>
<b>Financial assets designated at fair value</b>				
Collateralised financing transactions	16	77,222	93	77,331
<b>Other financial assets at fair value through P&amp;L</b>				
Equity securities held for investment	-	-	99	99
	<u>58,219</u>	<u>303,151</u>	<u>3,730</u>	<u>365,100</u>
<b>Financial liabilities mandatorily at fair value</b>				
Derivatives	31	226,496	2,918	229,445
Securities sold but not yet purchased	51,436	5,082	123	56,641
	<u>51,467</u>	<u>231,578</u>	<u>3,041</u>	<u>286,086</u>
<b>Financial liabilities designated at fair value</b>				
Collateralised financing transactions	-	47,187	-	47,187
Hybrid financial liabilities	-	12,185	4,492	16,677
	<u>51,467</u>	<u>290,950</u>	<u>7,533</u>	<u>349,950</u>
<b>31 December 2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
<b>Financial assets mandatorily at fair value</b>				
Derivatives	9	206,500	1,432	207,941
Government bonds	25,214	3,753	14	28,981
Non-government bonds	604	8,395	257	9,256
Equities	19,058	902	14	19,974
Commodities	-	1,043	-	1,043
Commercial Paper	-	244	-	244
	<u>44,885</u>	<u>220,837</u>	<u>1,717</u>	<u>267,439</u>
<b>Financial assets designated at fair value</b>				
Collateralised financing transactions	-	53,207	102	53,309
<b>Other financial assets at fair value through P&amp;L</b>				
Equity securities held for investment	-	-	71	71
	<u>44,885</u>	<u>274,044</u>	<u>1,890</u>	<u>320,819</u>
<b>Financial liabilities mandatorily at fair value</b>				
Derivatives	7	217,950	4,707	222,664
Securities sold but not yet purchased	34,338	5,325	350	40,013
	<u>34,345</u>	<u>223,275</u>	<u>5,057</u>	<u>262,677</u>
<b>Financial liabilities designated at fair value</b>				
Collateralised financing transactions	-	34,129	-	34,129
	<u>34,345</u>	<u>257,404</u>	<u>5,057</u>	<u>296,806</u>

\*Certain captions have been updated for presentation purposes only. Hybrid financial liabilities and Derivatives are shown separately and should be considered together when comparing with prior period.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

For the year ended 31 December 2020, four significant balance transfers were performed between Level 1 and Level 2. \$634 million balance was transferred from Level 1 to Level 2 and a \$117 million balance was transferred from Level 2 to Level 1 driven by a change in the liquidity and observability of the underlying instruments.

The following table shows an analysis of financial assets and liabilities classified as held at amortised cost by level in the hierarchy:

<b>31 December 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
<b>Financial assets at amortised cost</b>				
Cash	-	5,505	-	5,505
Collateralised financing transactions	-	76,864	-	76,864
Cash collateral pledged	-	39,570	-	39,570
Trade debtors	-	15,438	-	15,438
Other debtors	-	261	-	261
	-	137,638	-	137,638
<b>Financial liabilities at amortised cost</b>				
Bank loans and overdrafts	-	7,347	-	7,347
Collateralised financing transactions	-	75,922	-	75,922
Cash collateral held	-	29,444	-	29,444
Trade creditors	-	9,851	-	9,851
Other creditors	-	1,943	-	1,943
Subordinated loans	-	10,600	-	10,600
	-	135,107	-	135,107
<b>31 December 2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
<b>Financial assets at amortised cost</b>				
Cash	-	3,610	-	3,610
Collateralised financing transactions	-	54,766	-	54,766
Cash collateral pledged	-	33,706	-	33,706
Trade debtors	-	11,787	-	11,787
Other debtors	-	181	-	181
	-	104,050	-	104,050
<b>Financial liabilities at amortised cost</b>				
Bank loans and overdrafts	-	8,594	-	8,594
Collateralised financing transactions	-	51,267	-	51,267
Cash collateral held	-	31,309	-	31,309
Trade creditors	-	8,641	-	8,641
Other creditors	-	1,942	-	1,942
Subordinated loans	-	10,100	-	10,100
	-	111,853	-	111,853

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

Given the short term nature and characteristics of collateralised financing transactions, trade debtors, other debtors, trade creditors, other creditors and accruals the fair value has been assumed to approximate the carrying value. The fair value of subordinated loans has been calculated using the present value of future estimated cash flows, discounted using a discount rate of USD 3 month Overnight Indexed Swap (OIS) plus the Company's credit spread as at 31 December 2020.

#### *Fair Value Measurement*

IFRS 13 – *Fair Value Measurement* defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Among other things, the standard requires the Company to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value.

Under IFRS 13, the probability of default of a counterparty is factored into the valuation of derivative positions and includes the impact of the Company's own credit risk on derivatives and other liabilities measured at fair value.

#### Fair Value Hierarchy

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

The Company specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs are developed using market data and reflect market participant assumptions, while unobservable inputs reflect the Company's market assumptions.

The types of inputs have created the following fair value hierarchy:

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

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

Financial instruments may move between levels in the fair value hierarchy when factors such as the observability of pricing information, or of market input parameters, change. The Company's policy with respect to transfers between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the end of the reporting period.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Determination of Fair Value

As set out more fully in Note 1(c) of these financial statements, when available, the Company generally uses quoted market prices in an active market to calculate the fair value of a financial asset or liability and classifies such items as Level 1. In some specific cases where a market price is available, the Company will make use of alternative pricing techniques, such as matrix pricing, whereby a similar instrument is used as a proxy, to calculate more appropriate fair value for the instrument being valued, in which case the items are classified as Level 2.

If quoted market prices are not available, fair values are based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market input parameters such as interest rates, foreign exchange rates and option volatilities. Instruments valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified as Level 3 even though there may be some significant inputs that are readily observable. Similarly, an instrument may be classified in Level 2, if the unobservable inputs are not deemed significant to the valuation.

The Company may also apply a price-based methodology, which utilizes, where available, quoted prices or other market information obtained from recent trading activity in positions with the same or similar characteristics to the position being valued. The frequency and size of transactions are among the factors considered in determining the relevance of prices observed from those markets. If relevant and observable prices are available for all significant pricing inputs, those instruments would be classified as Level 2. When that is not the case, and there are one or more significant unobservable “price” inputs, then those valuations will be classified as Level 3. Furthermore, when a quoted price is stale, a significant adjustment to the price of a similar security is necessary to reflect differences in the terms of the actual security or loan being valued, or prices from independent sources are insufficient to corroborate the valuation, the “price” inputs are considered unobservable and the fair value measurements are classified as Level 3. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors or brokers. Vendors’ and brokers’ valuations may be based on a variety of inputs ranging from observed prices to proprietary valuation models, and the Company assesses the quality and relevance of this information in determining the fair value measurement and disclosure of each instrument if such information is used as part of that determination.

Set out below is a description of the procedures used by CGML to determine the fair value of financial assets and financial liabilities irrespective of whether they are measured at fair value mandatorily or have been designated as such. This description includes an indication of the level in the fair value hierarchy in which each financial instrument is generally classified. Where appropriate, it also includes details of the valuation models, the key inputs to those models and any significant assumptions.

Individual business units are responsible for providing the fair value measurements for substantially all trading account assets and liabilities. Fair value measurements of assets and liabilities are determined using various techniques including, but not limited to, discounted cash flows and internal models, such as option and correlation models. Management ensures that the resulting fair values are appropriate for financial reporting through an internal independent price verification process, which is defined and governed by established policies, standards and procedures. Results from this independent price verification process are reported to management via formally governed committees, as well as the firm’s auditors and regulators.

Any pricing models used in measuring the fair value are governed by an independent control framework. Although the models are developed and tested by the individual business units, they are independently validated by the appropriate independent internal control functions, separate from the trading businesses. The purpose of this independent control framework is to assess model risk arising from models’ theoretical soundness, calibration techniques where needed, and the appropriateness of the model for a specific product in a defined market. To ensure their continued applicability, models are subject to independent annual model review.



# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Market valuation adjustments*

Market valuation adjustments are applied to items classified as Level 2 or Level 3 in the fair value hierarchy to ensure that the fair value reflects the price at which the net open risk position could be exited. These valuation adjustments are based on the bid/offer spread for an instrument in the market. When Citi has elected to measure certain portfolios of financial investments, such as derivatives, on the basis of the net open risk position, the valuation adjustment may take into account the size of the position.

#### *Credit valuation adjustments*

Counterparty credit-risk adjustments are applied to derivatives, such as over-the-counter uncollateralised derivatives, where the base valuation uses market parameters based on the relevant base interest rate curves. Not all counterparties have the same credit risk as that implied by the relevant base curve, so it is necessary to consider the market view of the credit risk of a counterparty in order to estimate the fair value of such an item.

Bilateral or “own” credit-risk adjustments are applied to reflect the Company’s own credit risk when valuing derivative liabilities and other liabilities measured at fair value. Counterparty and own credit adjustments consider the expected future cash flows between the Company and its counterparties under the terms of the instrument and the effect of credit risk on the valuation of those cash flows, rather than a point-in-time assessment of the current recognised net asset or liability. Furthermore, the credit-risk adjustments take into account the effect of credit-risk mitigants, such as pledged collateral and any legal right of offset (to the extent such offset exists) with a counterparty through arrangements such as netting agreements.

#### *Derivatives*

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

The majority of derivatives entered into by the Company are executed over the counter and are valued using a combination of external prices and internal valuation techniques, including benchmarking to pricing vendor services. These derivative instruments are classified as either Level 2 or Level 3 depending on the observability of the significant inputs to the model. The principal techniques used to value these instruments are discounted cash flows and internal models, such as derivative pricing models (e.g., Black-Scholes and Monte Carlo simulations). The type of inputs may include interest rate yield curves, credit spreads, foreign exchange rates, volatilities and correlations.

The Company discounts future cash flows using appropriate interest rate curves. In the case of collateralised interest rate derivatives the Company follows the terms in the collateral agreement governing the transaction. The agreements generally provide that an OIS curve is used. The OIS curves reflect the interest rate paid on the collateral against the fair value of these derivatives. Citi uses the relevant benchmark curve for the currency of the derivative (e.g., the U.S. Dollar London Interbank Offered Rate (LIBOR) for U.S. dollar derivatives) as the discount rate for uncollateralized derivatives.

#### *Government bonds, corporate bonds and equities*

CGML uses quoted market prices to determine the fair value of government bonds and exchange traded equities; such items are typically classified as Level 1 of the fair value hierarchy.

For government bonds, corporate bonds and equities traded over the counter, for which a quoted price is not available, CGML generally determines fair value utilising internal valuation techniques, including discounted cash flows, price based and internal models. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources and may apply alternative pricing techniques, such as matrix pricing, whereby a similar instrument is used as a proxy for similar bonds or loans where no price is observable. If available, the Company may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Government bonds, corporate bonds and equities priced using such methods are generally classified as Level 2. However, when a quoted price is stale, a significant adjustment to the price of a similar security is necessary to reflect differences in the terms of the actual security being valued, or prices from independent sources are insufficient to corroborate valuation, a security is generally classified as Level 3

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Collateralised financing transactions*

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

#### *Changes in Level 3 Fair Value Category*

The following tables present the changes in the Level 3 fair value category for the years ended 31 December 2020 and 31 December 2019. Gains and losses presented below include changes in the fair value related to both observable and unobservable inputs. CGML often hedges positions with offsetting positions that are classified in a different level.

2020	Gain/(loss) recorded in the profit and loss statement									
	At 1 January \$ Million	Realised \$ Million	Unrealised \$ Million	Purchases \$ Million	Sales \$ Million	Issuances \$ Million	Settlements \$ Million	Transfers into Level 3 \$ Million	Transfers out of Level 3 \$ Million	At 31 December \$ Million
<b>Financial assets mandatorily at fair value</b>										
Derivatives	1,432	645	(439)	118	(31)	-	(545)	2,128	(300)	3,008
Government bonds	14	8	(7)	29	(36)	-	-	18	(2)	24
Non-government bonds	257	54	7	802	(874)	-	(3)	303	(61)	485
Equities	14	2	(9)	23	(49)	-	-	41	(1)	21
<b>Financial assets designated at fair value</b>										
Collateralised financing transactions	102	(12)	10	179	-	-	(186)	-	-	93
<b>Other assets at fair value through P&amp;L</b>										
Equity securities held for investment	71	(18)	46	-	-	-	-	-	-	99
	<b>1,890</b>	<b>679</b>	<b>(392)</b>	<b>1,151</b>	<b>(990)</b>	<b>-</b>	<b>(734)</b>	<b>2,490</b>	<b>(364)</b>	<b>3,730</b>

2019	(Gain)/loss recorded in the profit and loss statement									
	At 1 January \$ Million	Realised \$ Million	Unrealised \$ Million	Purchases \$ Million	Sales \$ Million	Issuances \$ Million	Settlements \$ Million	Transfers into Level 3 \$ Million	Transfers out of Level 3 \$ Million	At 31 December \$ Million
<b>Financial liabilities held for trading</b>										
Derivatives	1,349	643	(253)	4	39	-	(286)	2,098	(676)	2,918
Securities sold but not yet purchased	350	(94)	157	-	1	29	(105)	49	(264)	123
<b>Financial liabilities designated at fair value</b>										
Hybrid financial liabilities	3,358	312	217	-	-	2,884	(2,729)	518	(68)	4,492
	<b>5,057</b>	<b>861</b>	<b>121</b>	<b>4</b>	<b>40</b>	<b>2,913</b>	<b>(3,120)</b>	<b>2,665</b>	<b>(1,008)</b>	<b>7,533</b>

2019	Gain/(loss) recorded in the profit and loss statement									
	At 1 January \$ Million	Realised \$ Million	Unrealised \$ Million	Purchases \$ Million	Sales \$ Million	Issuances \$ Million	Settlements \$ Million	Transfers into Level 3 \$ Million	Transfers out of Level 3 \$ Million	At 31 December \$ Million
<b>Financial assets mandatorily at fair value</b>										
Derivatives	1,703	(632)	(19)	278	(95)	9	513	425	(750)	1,432
Government bonds	15	221	(227)	134	(13)	-	-	2	(118)	14
Non-government bonds	407	(66)	39	491	(758)	-	(1)	231	(86)	257
Equities	20	(2)	1	7	(9)	-	-	7	(10)	14
<b>Financial assets designated at fair value</b>										
Collateralised financing transactions	99	(14)	16	195	-	-	(194)	-	-	102
<b>Other assets at fair value through P&amp;L</b>										
Equity securities held for investment	33	-	37	1	-	-	-	-	-	71
	<b>2,277</b>	<b>(493)</b>	<b>(153)</b>	<b>1,106</b>	<b>(875)</b>	<b>9</b>	<b>318</b>	<b>665</b>	<b>(964)</b>	<b>1,890</b>

2019	(Gain)/loss recorded in the profit and loss statement									
	At 1 January \$ Million	Realised \$ Million	Unrealised \$ Million	Purchases \$ Million	Sales \$ Million	Issuances \$ Million	Settlements \$ Million	Transfers into Level 3 \$ Million	Transfers out of Level 3 \$ Million	At 31 December \$ Million
<b>Financial liabilities held for trading</b>										
Derivatives	3,483	(43)	(834)	(30)	26	1,616	971	1,022	(1,504)	4,707
Securities sold but not yet purchased	242	(29)	56	(3)	6	-	(8)	193	(107)	350
<b>Financial liabilities designated at fair value</b>										
Collateralised financing transactions	-	-	-	-	-	-	-	-	-	-
	<b>3,725</b>	<b>(72)</b>	<b>(778)</b>	<b>(33)</b>	<b>32</b>	<b>1,616</b>	<b>963</b>	<b>1,215</b>	<b>(1,611)</b>	<b>5,057</b>

\*Certain captions for comparatives have been updated for presentation purposes only. Hybrid financial liabilities and Derivatives are shown separately and should be considered together when comparing with prior period.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

During 2020 there has been a \$4.3 billion increase in total Level 3 balances driven by a \$1.8 billion increase on assets and a \$2.5 billion increase on liabilities.

The Level 3 increase on assets was driven by a \$2.5 billion increase on Level 3 transfer-ins which was partly offset by a \$0.7 billion decrease on settlements. The Level 3 asset increase on transfer-ins was driven by \$1.0 billion on interest rate derivatives mainly on callable swaps and exotic derivatives and by \$0.8 billion on credit derivatives mainly on credit default swaps due to decreased pricing observability. The Level 3 asset decrease on settlements was mainly driven by \$0.4 billion on callable swaps.

The Level 3 increase on liabilities was driven by a \$2.7 billion increase on Level 3 transfer-ins with \$1.0 billion on interest rate derivatives driven by callable swaps and constant maturity swaps, \$0.8 billion on credit derivatives mainly on credit default swaps and \$0.5 billion on structured notes due to decreased pricing observability.

#### **Fair Value Hierarchy Classification**

##### *Unobservable inputs*

During the year, total changes in fair value, representing a loss of \$695 million (2019: \$204 million loss) were recognised in the income statement relating to items where fair value was estimated using a valuation technique that incorporated one or more significant inputs based on unobservable market data. As these valuation techniques were based upon assumptions, changing the assumptions would change the estimate of fair value. The potential impact of using reasonably possible alternative assumptions for the valuation techniques for both observable and unobservable market data has been quantified as approximately \$515 million downside and \$359 million upside (2019: \$500 million downside and \$363 million upside). The main contributors to this impact are Equity Markets, Credit Trading and Interest Rates Trading businesses.

Valuation uncertainty is computed on a quarterly basis. The methodology used to derive the impact across each product is determined by applying adjustments to the price or significant model input parameters used in the valuation.

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

- Equity Markets: Valuation uncertainty is computed from independent pricing and quote dispersion data sources.
- Credit Trading: Valuation uncertainty is computed from a combination of consensus market data, broker data and proxy analysis using third party data providers.
- Commodity Markets: Valuation uncertainty is computed from a combination of consensus market data and proxy analysis using third party data providers.
- Interest Rate Trading: Valuation uncertainty is computed from a combination of consensus market data and proxy analysis using third party data providers.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Valuation Techniques and Inputs for Level 3 Fair Value Measurements

The following tables present the valuation techniques covering the majority of Level 3 inventory and the most significant unobservable inputs used in Level 3 fair value measurements as of 31 December 2020 and 31 December 2019. Note that these tables represent key drivers by disclosures line and may not agree back to the Changes in Level 3 Fair Value Category table.

2020	Fair Value \$ million	Methodology	Input	Range of Inputs		Unit
				Min	Max	
<b>Assets</b>						
<u>Derivative assets</u> 3,008						
Interest Rate Derivatives		Model-based	IR Normal Volatility	0.1	0.5	%
		Model-based	Inflation Volatility	0.3	2.4	%
Equity Derivatives		Model-based	Equity-FX Correlation	- 84.8	47.3	%
Commodity Derivatives		Model-based	Forward Price	15.4	262.0	%
		Model-based	Commodity Volatility	0.2	80.2	%
		Model-based	Commodity Correlation	- 44.9	95.9	%
Foreign Exchange Derivatives		Model-based	FX Volatility	1.7	12.6	%
<u>Inventory</u> 531						
Government bonds		Price-based	Price	0.0	865.9	\$
Non-government bonds		Price-based	Price	0.0	2,264.7	\$
Equity		Price-based	Price	0.0	865.9	\$
<b>Liabilities</b>						
<u>Derivative liabilities</u> 2,918						
Commodity Derivatives		Model-based	Forward Price	15.4	262.0	%
		Model-based	Commodity Volatility	0.2	80.2	%
		Model-based	Commodity Correlation	- 44.9	95.9	%
Equity Derivatives		Model-based	Equity Volatility	15.7	70.7	%
		Model-based	Equity-Equity Correlation	- 75.0	98.8	%
		Model-based	Equity-FX Correlation	- 84.8	47.3	%
Foreign Exchange Derivatives		Model-based	FX Volatility	1.7	12.6	%
Interest Rate Derivatives		Model-based	Inflation Volatility	0.3	2.4	%
<u>Securities sold but not yet purchased</u>	123	Price-based	Price	0.0	865.9	\$
<u>Hybrid financial liabilities</u> 4,492						
		Model-based	Equity Volatility	14.1	91.4	%
		Model-based	Forward Price	15.4	262.0	%
		Model-based	Commodity Volatility	0.2	80.2	%
		Model-based	IR Normal Volatility	0.1	0.7	%
		Model-based	IR-FX Correlation	- 31.9	73.8	%
		Model-based	IR-IR Correlation	- 10.0	56.1	%
<b>2019</b>						
<b>Assets</b>						
<u>Derivative assets</u> 1,432						
Equity Derivatives		Model-based	Equity-FX Correlation	- 94.5	60.0	%
Commodity Derivatives		Model-based	Forward Price	37.6	362.6	%
		Model-based	Commodity Volatility	5.3	93.6	%
		Model-based	Commodity Correlation	- 39.7	87.8	%
<u>Inventory</u> 257						
Non-government bonds		Price-based	Price	0.0	1,238.1	\$
<b>Liabilities</b>						
<u>Derivative liabilities</u> 4,707						
Commodity Derivatives		Model-based	Forward Price	37.6	362.6	%
		Model-based	Commodity Volatility	5.3	93.6	%
		Model-based	Commodity Correlation	- 39.7	87.8	%
Equity Derivatives		Model-based	Forward Price	37.6	362.6	%
		Model-based	Equity-IR Correlation	15.0	44.0	%
		Model-based	Commodity Volatility	5.3	93.6	%
		Model-based	Equity-Equity Correlation	- 45.0	99.6	%
		Model-based	Commodity Correlation	- 39.7	87.8	%
		Model-based	Equity-FX Correlation	- 94.5	60.0	%

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### **Sensitivity to unobservable inputs and interrelationships between unobservable inputs**

The impact of key unobservable inputs on the Level 3 fair value measurements may not be independent of one another. In addition, the amount and direction of the impact on a fair value measurement for a given change in an unobservable input depends on the nature of the instrument as well as whether the Company holds the instrument as an asset or a liability. For certain instruments, the pricing, hedging and risk management are sensitive to the correlation between various inputs rather than on the analysis and aggregation of the individual inputs.

The following section describes the sensitivities and interrelationships of the most significant unobservable inputs used by the Company in Level 3 fair value measurements.

#### ***Yield***

Adjusted yield is generally used to discount the projected future principal and interest cash flows on instruments, such as loans. Adjusted yield is impacted by changes in the interest rate environment and relevant credit spreads.

In some circumstances, the yield of an instrument is not observable in the market and must be estimated from historical data or from yields of similar securities. This estimated yield may need to be adjusted to capture the characteristics of the security being valued. In other situations, the estimated yield may not represent sufficient market liquidity and must be adjusted as well. Whenever the amount of the adjustment is significant to the value of the security, the fair value measurement is classified as Level 3.

#### ***Volatility***

Volatility represents the speed and severity of market price changes and is a key factor in pricing options. Typically, instruments can become more expensive if volatility increases. For example, as an index becomes more volatile, the cost to Citi of maintaining a given level of exposure increases because more frequent rebalancing of the portfolio is required. Volatility generally depends on the tenor of the underlying instrument and the strike price or level defined in the contract. Volatilities for certain combinations of tenor and strike are not observable and need to be estimated using alternative methods, such as using comparable instruments, historical analysis or other sources of market information. This leads to uncertainty around the final fair value measurement of instruments with unobservable volatilities.

The general relationship between changes in the value of a portfolio to changes in volatility also depends on changes in interest rates and the level of the underlying index. Generally, long option positions (assets) benefit from increases in volatility, whereas short option positions (liabilities) will suffer losses. Some instruments are more sensitive to changes in volatility than others. For example, an at-the-money option would experience a greater percentage change in its fair value than a deep-in-the-money option. In addition, the fair value of an option with more than one underlying security (e.g., an option on a basket of bonds) depends on the volatility of the individual underlying securities as well as their correlations.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Sensitivity to unobservable inputs and interrelationships between unobservable inputs (continued)

##### *Correlation*

Correlation is a measure of the co-movement between two or more variables. A variety of correlation-related assumptions are required for a wide range of instruments, including equity baskets, foreign-exchange options and many other instruments. For almost all of these instruments, correlations are not directly observable in the market and must be estimated using historical information. Estimating correlation can be especially difficult where it may vary over time. Extracting correlation information from market data can require judgement. Changes in correlation levels can have a major impact, favorable or unfavorable, on the value of an instrument, depending on its nature.

#### Qualitative discussion of the ranges of significant unobservable inputs

The following section describes the ranges of the most significant unobservable inputs used by the Company in Level 3 fair value measurements. The level of aggregation and the diversity of instruments held by the Company lead to a wide range of unobservable inputs that may not be evenly distributed across the Level 3 inventory.

##### *Price*

The price input is a significant unobservable input for certain fixed income instruments. For these instruments, the price input is expressed as a percentage of the notional amount, with a price of 100 meaning that the instrument is valued at par. For most of these instruments, the price varies between zero and slightly above 100. Relatively illiquid assets that have experienced significant losses since issuance, such as certain asset-backed securities, are at the lower end of the range, whereas most investment grade corporate bonds will fall in the middle to the higher end of the range. The price input is also a significant unobservable input for certain equity securities; however, the range of price inputs varies depending on the nature of the position, the number of shares outstanding and other factors.

##### *Yield*

Ranges for the yield inputs vary significantly depending upon the type of security. For example, securities that typically have lower yields, such as German or U.S. government bonds, will fall on the lower end of the range, while more illiquid securities or securities with lower credit quality, such as certain residual tranche asset-backed securities, will have much higher yield inputs.

##### *Volatility*

Similar to correlation, asset-specific volatility inputs vary widely by asset type. For example, ranges for foreign exchange volatility are generally lower and narrower than equity volatility. Equity volatilities are wider due to the nature of the equities market and the terms of certain exotic instruments. For most instruments, the interest rate volatility input is on the lower end of the range; however, for certain structured or exotic instruments (such as market-linked deposits or exotic interest rate derivatives), the range is much wider.

##### *Correlation*

There are many different types of correlation inputs, including credit correlation, cross-asset correlation (such as equity-interest rate correlation), and same-asset correlation (such as interest rate-interest rate correlation). Correlation inputs are generally used to value hybrid and exotic instruments. Generally, same-asset correlation inputs have a narrower range than cross-asset correlation inputs. However, due to the complex nature of many of these instruments, the ranges for correlation inputs can vary widely across portfolios.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Equity securities held for investment

	<b>Unlisted Investments 2020 \$ Million</b>	<b>Unlisted Investments 2019 \$ Million</b>
<b>Fair value</b>		
At 1 January	71	57
Additions	1	-
Disposals	-	-
Gains/(Losses) recognised in income statement	27	14
At 31 December	99	71

### 17. Involvement with unconsolidated structured entities

The table below describes the types of structured entities that are not controlled by CGML but in which it holds an interest.

Type of structured entity	Nature and purpose	2020		2019	
		Total VIE assets	CGML exposure	Total VIE assets	CGML exposure
		\$ millions	\$ millions	\$ millions	\$ millions
Investment Funds	Fund/Limited Partnership Structure	249	-	520	1
Client Intermediation	Credit Derivative Repack Vehicle	46	43	-	-
		295	43	520	1

#### *Investment funds*

The objective of these funds is to seek income and capital gains from investing in US government securities. Funding is provided by investors in the fund, who are professional or institutional investors. CGML is the derivative swap counterparty to the fund which is the source of its exposure. The derivative transactions are FX options and swaps.

#### *Client Intermediation*

Client intermediation transactions represent a range of transactions designed to provide investors with specified returns based on the returns of an underlying security, referenced asset or index. The Company's involvement in these transactions includes being the counterparty to the entity's derivative instruments. The derivative transactions are FX options and swaps.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Other Assets

The following amounts are included in Other Assets:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Cash collateral pledged	39,570	33,706
Trade debtors	15,422	11,787
Other debtors	456	227
Prepayments and accrued income	28	11
Corporation tax receivable	73	89
Deferred tax asset (Note 22)	251	202
Intangible fixed assets (Note 19)	213	200
Tangible fixed assets - equipment (Note 19)	1	1
Tangible fixed assets - premises improvement (Note 19)	2	3
	<u>56,016</u>	<u>46,226</u>

Included within Trade Debtors are receivables from central clearing counterparties, securities trading receivables outside standard settlement, and other brokerage receivables.

Other Assets includes the following balances due from other Citi affiliates:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Trade debtors	3,837	2,233
Cash collateral pledged	5,053	1,510
Other debtors	120	295
	<u>9,010</u>	<u>4,038</u>



# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Intangible and Tangible fixed assets

The movement in Intangible and Tangible fixed assets for the year was as follows:

	<b>Intangible</b>	<b>Tangible Fixed Assets</b>	
	<b>Software</b>	<b>Equipment</b>	<b>Premises improvements</b>
	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
<b>Cost</b>			
At 1 January 2020	608	5	13
Additions	64	1	-
Disposals	(2)	-	-
At 31 December 2020	670	6	13
<b>Accumulated amortisation/depreciation</b>			
At 1 January 2020	408	4	10
Charge for the year (Note 7)	49	1	1
At 31 December 2020	457	5	11
<b>Net book value</b>			
At 31 December 2020	213	1	2

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Investments in subsidiary and related undertakings

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
<b>Cost</b>		
At 1 January	1,487	769
Additions	642	706
Transfer of branches	-	12
Disposals	(4)	-
At 31 December	<u>2,125</u>	<u>1,487</u>
<b>Impairment</b>		
At 1 January	88	-
(Reversal)/Charge for the year:	<u>(88)</u>	<u>88</u>
At 31 December	<u>-</u>	<u>88</u>
<b>Net book value</b>		
At 31 December	<u>2,125</u>	<u>1,399</u>

Details of all related undertakings held at 31 December 2020 as required by CA2006 SI 2008 No 410 Sch 4 Para 1 are set out below. All undertakings have a year end of 31 December and all of the Company's holdings are of ordinary shares.

On 13 March 2020 CGML made a capital contribution of \$300 million to its subsidiary, CGME. On 7 December 2020 CGME received further capital contribution of \$342 million from CGML. During 2019 CGML made a total of \$706 million of capital contribution to CGME.

Citigroup Global Markets Luxembourg S.a.R.L was placed into liquidation during 2018. The final distribution was received in 2020 which resulted in CGML recognising a gain of \$3 million in its income statement.

As at 31 December 2019 the Company's historical cost of investment in CGME was higher than the estimated recoverable amount which has resulted in an impairment charge of \$88 million. Due to the increased performance of CGME in 2020 the \$88 million of investment write down was reversed in accordance with principal accounting policy 1(c).

#### *Directly held subsidiary undertakings (all 100% owned)*

<u>Name</u>	<u>Registered address</u>
Citigroup Global Markets Europe AG	16 Reuterweg, Frankfurt am Main 30323, Germany
Citigroup Global Markets Luxembourg S.a.R.L.	31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg
Citigroup Global Markets Funding Luxembourg SCA	31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg
Citigroup Global Markets Funding Luxembourg GP S.a.R.L.	31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg
Citi Global Wealth Management S.A.M.	Monte Carlo Palace, 7-9 Boulevard des Moulins, MC98000 Monaco

### 21. Pledged assets

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

The fair value of financial assets including government bonds, Eurobonds and other corporate bonds, equities, and cash accepted that were permitted to be sold or re-pledged in the absence of default was \$351 billion (2019: \$274 billion). The fair value of the collateral accepted that had been re-pledged at 31 December 2020 was \$301 billion (2019: \$230 billion). The Company was obliged to return equivalent securities. Where the collateral was used in secured financing transactions, these transactions were conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Pledged assets (continued)

Where the collateral was used for derivative transactions, this was conducted under industry-standard ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements.

#### *Financial assets pledged to secure liabilities*

The total value of purchased financial assets including government bonds, Eurobonds and other corporate bonds, equities and cash that were pledged as collateral for liabilities at 31 December 2020 was \$90 billion (2019: \$74 billion). These transactions were conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

The table below sets out an analysis of balance sheet encumbered (pledged) and unencumbered (not pledged) assets.

*The asset encumbrance analyses below is unaudited.*

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. Correspondingly an asset shall be deemed to be unencumbered where CGML is not subject to any legal, contractual, regulatory or other restriction preventing it from liquidating, selling, transferring, assigning or, generally, disposing of such asset via active outright sale or repurchase agreement.

2020	Encumbered \$ Million	Non-encumbered \$ Million	Total \$ Million
<b><u>Assets</u></b>			
Cash at bank and in hand	-	5,505	5,505
Equity instruments	19,866	3,244	23,110
Debt securities	47,145	3,497	50,642
Collateralised financing transactions	-	154,195	154,195
Other assets	23,013	249,594	272,607
<b>Total</b>	<b>90,024</b>	<b>416,035</b>	<b>506,059</b>
<b><u>Collateral Received</u></b>			
Equity instruments	48,780	2,142	50,922
Debt securities	252,678	30,550	283,228
Other collateral received	-	17,274	17,274
<b>Total</b>	<b>301,458</b>	<b>49,966</b>	<b>351,424</b>
<b>2019</b>			
<b><u>Assets</u></b>			
Cash at bank and in hand	-	3,610	3,610
Equity instruments	16,091	3,883	19,974
Debt securities	38,963	561	39,524
Collateralised financing transactions	-	108,075	108,075
Other assets	19,177	236,918	256,095
<b>Total</b>	<b>74,231</b>	<b>353,047</b>	<b>427,278</b>
<b><u>Collateral Received</u></b>			
Equity instruments	41,911	1,664	43,575
Debt securities	187,980	24,139	212,119
Other collateral received	-	18,602	18,602
<b>Total</b>	<b>229,891</b>	<b>44,405</b>	<b>274,296</b>

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Deferred tax asset

The movement in deferred tax in the year is as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
At 1 January	202	146
Deferred tax movement related to IFRS 9 adjustments	2	4
Income statement movement relating to deferred tax	33	(20)
Deferred tax movement in equity	14	72
At 31 December	<u>251</u>	<u>202</u>

Deferred tax is recognised on the Company's temporary differences as it is considered probable that taxable profits will arise against which these can be utilised. The deferred tax asset is recognised at the tax rates at which the temporary differences are expected to reverse.

There is also a deferred tax liability of \$121 million on the pension asset which is reflected in Note 8 Pension.

The deferred tax asset in the balance sheet comprises:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Accelerated tax depreciation	16	22
Deferred compensation	193	160
DVA in OCI	56	18
Provisions and other temporary differences	(14)	2
	<u>251</u>	<u>202</u>

The deferred tax movement in the income statement comprises:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Accelerated tax depreciation	6	10
Deferred compensation	(48)	9
Provisions and other temporary differences	9	3
	<u>(33)</u>	<u>22</u>

The deferred tax movement in equity comprises:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
DVA in Statement of comprehensive income	(30)	(43)
Share based payment transactions in Equity reserve	16	(29)
	<u>(14)</u>	<u>(72)</u>

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 23. Other Liabilities

The following amounts are included within Other Liabilities. Included within 'Other creditors and accruals' is the accrual in respect of the bank levy.

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Cash collateral held	29,444	31,309
Trade creditors	9,860	8,641
Other creditors and accruals	1,970	2,376
Payroll taxes	33	27
Corporation tax payable	-	8
Deferred tax liability on pensions (Note 8)	121	115
Provisions for liabilities and charges (Note 24)	45	64
	<u>41,473</u>	<u>42,540</u>

Trade Creditors includes customer margin trading payables, securities trading payables outside standard settlement and other brokerage payables.

Included within Other Liabilities are the following balances due to other Citi affiliates:

	<b>2020</b>	<b>2019</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Cash collateral held	1,421	5,445
Trade creditors	1,108	634
Other creditors and accruals	569	793
	<u>3,098</u>	<u>6,872</u>

### 24. Provisions for liabilities

	<b>Restructuring provision \$ Million</b>	<b>Litigation provisions \$ Million</b>	<b>Other provisions \$ Million</b>	<b>Total \$ Million</b>
At 1 January 2020	11	40	13	64
Charge to profits	20	-	1	21
Provisions utilised	(18)	(13)	(9)	(40)
Exchange adjustments	-	1	(1)	-
At 31 December 2020	<u>13</u>	<u>28</u>	<u>4</u>	<u>45</u>

For reasons of privilege and confidentiality, no further information is disclosed in respect of the litigation provision. Notwithstanding, Citigroup Inc. files periodic reports with the U.S. Securities and Exchange Commission ("SEC") as required by the Securities Exchange Act 1934 which include details of any material regulatory proceedings, investigations and litigations concerning Citigroup and its subsidiaries. Copies of Citigroup's reports are on file with the SEC and are available at <http://www.citigroup.com/citi/investor/sec.htm>. Other provisions are held in respect of accounting reconciliation and control procedures as part of the balance sheet substantiation process.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Transferred financial assets that are not derecognised in their entirety

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

CGML enters into collateralised financing transactions where it sells or lends debt or equity securities with a concurrent agreement to repurchase them. As significantly all of the risks and rewards of the underlying securities are retained, a collateralised financing liability is recognised and the securities remain on balance sheet. As at 31 December 2020 the Company recognised \$36 billion of assets (2019: \$32 billion), with an associated \$40 billion of collateralised financing liabilities (2019: \$29 billion).

CGML also enters into collateralised financing transactions where it sells debt or equity securities and simultaneously undertakes a swap transaction for the same underlying instrument. As significantly all of the risks and rewards of the underlying securities are retained, a collateralised financing liability is recognised and the securities remain on balance sheet. As at 31 December 2020 the Company recognised \$376 million of inventory (2019: \$2,247 million) with associated collateralised financing liabilities of \$372 million (2019: \$2,282 million) for transactions of this nature.

### 26. Trading financial assets and liabilities

Any initial gain or loss on financial instruments where valuation is dependent on techniques using unobservable parameters is deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable. In case the transaction price in the market in which these transactions are undertaken is different from the fair value in the Company's principal market for those instruments, the fair value of these transactions are also estimated by using valuation techniques.

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

	2020 \$ Million	2019 \$ Million
Unamortised balance at 1 January	45	46
Deferral on new transactions	18	27
Recognised in the income statement during the period:		
- amortisation	(22)	(28)
Unamortised balance at 31 December	<u>41</u>	<u>45</u>

### 27. Subordinated loans

The subordinated loans form part of the Company's regulatory capital resources held to meet its capital and minimum eligible liability requirements. The loans, on which interest is payable at market rates on quarterly basis, are due to other group undertakings. The following amounts were included within subordinated loans:

Subordinated Loans	Currency	\$ Million	Weighted Average Interest Rate	Weighted Average Maturity (Years)
31 December 2020	USD	10,600	2.31%	6.67
31 December 2019	USD	10,100	4.05%	7.78

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 27. Subordinated loans (continued)

On 9 June 2020, CGML drew down \$500 million of MREL compliant subordinated loan borrowings from Citicorp LLC.

As at 31 December 2020, subordinated loans consists of \$6,000 million of Minimum Requirements for Own Funds and Eligible Liabilities (MREL) subordinated loan borrowings from Citicorp LLC and \$4,600 million of Tier 2 subordinated loan borrowings from Citicorp LLC.

The MREL loans rank as senior subordinated claims, which are subordinate to the claims of senior creditors, but rank ahead of Own Funds Instruments, which comprise Common Equity Tier 1 instruments,, Additional Tier 1 instruments (see Note 28) and Tier 2 instruments.

The Tier 2 loans rank as subordinated claims, which are subordinated to senior creditors but rank ahead of Common Equity Tier 1 instruments and Additional Tier 1 instruments.

In the event that the Company's Own Funds Instruments have been written down, or if the Company or certain of its direct or indirect parent entities are subject to Resolution Proceedings in the UK or elsewhere, then all or a portion of the subordinated loans and/or interest on them shall be reduced or cancelled as instructed by the UK Resolution Authority (Bank of England).

There are no other circumstances under which early repayment may be demanded by the lender.

### 28. Capital and Reserves

#### (a) Called up share capital

CGML's share capital comprises:

	2020	2019
	\$ Million	\$ Million
Allotted, called-up and fully paid:		
1,499,626,620 ordinary shares of a par value of \$1 each	1,500	1,500
	<u>1,500</u>	<u>1,500</u>

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

#### (b) Other equity instruments

During 2020, the Company did not issue any Additional Tier 1 Notes. As at 31 December 2020, the other equity instruments of CGML consist of \$2,300 million of Additional Tier 1 Notes to Pipestone LLC, another Citi entity.

The notes are perpetual with no fixed redemption date, and are redeemable at the issuer's option subject to approval from the PRA. Interest is fixed every 5 years, interest payments are not cumulative and the issuer may cancel any interest payment at its sole discretion. The notes do not confer any voting rights.

In the event that CGML's Common Equity Tier 1 (CET1) ratio falls below 7.0%, the notes will be written down to zero. If a winding up occurs under these circumstances, no payment will be made to the noteholders. If a winding up takes place under any other circumstances, the noteholders will rank *pari passu* with the holders of the most senior class(es) of preference shares (if any) and ahead of all other classes of issued shares, but junior to the claims of senior creditors, for the amount of the principal and any accrued but unpaid interest on the notes.

#### (c) Capital reserve

During 2020 CGML received \$2 billion from its parent, Citigroup Global Markets Holdings Bahamas Limited. The Company did not receive any capital contribution for the year ended 31 December 2019.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 29. Financial instruments and risk management

#### *Risk Management Overview and Culture*

For Citi, effective risk management is of primary importance to its overall operations. Accordingly, the Company's risk management process has been designed to monitor, evaluate and manage the principal risks it assumes in conducting its activities. Specifically, the activities that the Company engages in, and the risks those activities generate, must be consistent with Citi's mission and value proposition, the key principles that guide it and the Company's risk appetite.

Risk management must be built on a foundation of ethical culture. Under Citi's mission and value proposition, which was developed by its senior leadership and distributed throughout the firm, Citi strives to serve as a trusted partner to its clients by responsibly providing financial services that enable growth and economic progress while earning and maintaining the public's trust by constantly adhering to the highest ethical standards. As such, Citi asks all employees to ensure that their decisions pass three tests: they are in clients' interests, create economic value and are always systemically responsible. Additionally, Citi evaluates employees' performance against behavioural expectations set out in its leadership standards, which were designed in part to effectuate Citi's mission and value proposition. Other culture-related efforts in connection with conduct risk, ethics and leadership, escalation, and treating customers fairly help Citi to execute its mission and value proposition.

Citi's Company-wide risk governance framework consists of the key policies, standards and processes through which Citi identifies, assesses, measures, monitors and controls risks across the Company. CGML adopted and follows Citi's globally set policies, tailored as appropriate for the Company. It also emphasises Citi's risk culture and lays out standards, procedures and programs that are designed to set, reinforce and enhance the Company's risk culture, integrate its values and conduct expectations into the organisation, providing employees with tools to assist them with making prudent and ethical risk decisions and to escalate issues appropriately.

Citi selectively takes risks in support of its underlying customer-centric strategy. Citi's objective is to ensure that those risks are consistent with its mission and value proposition and principle of responsible finance; that they are identified, assessed, measured, monitored and controlled; and that they are captured in Citi's risk/reward assessment.

While the management of risk is the collective responsibility of all employees, Citi and the Company assign accountability into three lines of defence:

- first line of defence: the business owns all of its risks and is responsible for the management of those risks;
- second line of defence: the Company's independent Risk and Compliance functions establish standards for the management of risks and effectiveness of controls; and
- third line of defence: Citi's internal audit function independently provides assurance, based on a risk-based audit plan, that processes are reliable and governance and controls are effective.

The Company applies Citi's global risk management framework, tailored as appropriate for the Company, based on the following principles established by the Chief Risk Officer:

- a defined risk appetite, aligned with business strategy;
- accountability through a common framework to manage risks;
- risk decisions based on transparent, accurate and rigorous analytics;
- a common risk capital model to evaluate risks;
- expertise, stature, authority and independence of risk managers; and
- risk managers empowered to make decisions and escalate issues.



# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Risk Appetite Framework*

The Company's risk capacity and risk appetite framework includes principle-based qualitative boundaries to guide behaviour and quantitative boundaries within which the Company will operate, focusing on ensuring it has sufficient capital resources for the risks to which the Company could be exposed. The Company's Board of Directors sets the Company's risk capacity and risk appetite, and incorporates management judgement regarding prudent risk taking and growth in light of the business environment within which the Company operates. The Company's Board of Directors, with input from senior Citi and Company management, sets overarching expectations and holds management accountable for ensuring the risk profile remains within this appetite.

#### *CGML Risk Committee*

The CGML Risk Committee assists the Board in fulfilling its responsibility for oversight of the risks the Company faces including, but not limited to, market, liquidity, credit and operational risks; their alignment with the Company's strategy, capital adequacy and the macroeconomic environment; and the development of a strategy to manage these risks. The CGML Risk Committee meets at a minimum quarterly.

#### *Managing Risk across Businesses, Regions, Products and Legal entities*

Citi manages risk across four dimensions: businesses, regions, products and legal entities. The Company's risk management framework aims to recognise the range of the Company's global business activities by combining corporate oversight with independent risk management functions within each business.

CGML utilises Citi's overarching risk management model and organisation, with its multi-dimensional risk oversight, people, processes and systems in order to ensure robust oversight of entity risks. In addition, CGML has developed entity specific risk management and controls to ensure that there is local challenge to risk taking and to ensure that Citi's approach is appropriate for CGML and are detailed in CGML's Risk Management Framework. The EMEA Chief Risk Officer (CRO) is the Senior Manager for Risk and together with the UK CRO and other Risk Senior Manager delegates are responsible for the independent review and challenge of the risks facing CGML, including market risk, counterparty credit risk, credit risk, operational risk and liquidity risk. With respect to Compliance Risk, CGML has a dedicated Compliance Officer with direct access to the Board and Board Risk and Audit Committee members. The CGML Compliance Officer also has a matrix reporting line to the EMEA Chief Compliance Officer who is the Senior Manager for Compliance. The UK CRO is responsible for the day to day management of risk on CGML, including execution of the various risk management responsibilities as detailed in the Risk Management Framework.

CGML has through its Risk Management Framework and escalation guidelines developed protocols and processes for prompt and consistent escalation of matters or issues across both financial and non-financial risk types. The early recognition, escalation and resolution of issues or concerns is key to mitigate risks and is critical to CGML's business model. Timely escalation enables the Senior Managers to make informed assessment on the legal entity impact, underlying root causes and required corrective actions. In addition to the timely escalation protocols and process CGML also has an integrated Committee Structure for Risk that comprises of both business and management expertise in their membership to provide oversight of the management and escalation of risks to both the CGML Board and to Citi Risk Committee.

#### *Risk Aggregation and Stress Testing*

The Citi Chief Risk Officer is responsible for monitoring and controlling major risk exposures and concentrations across the organisation. This means aggregating risks, within and across businesses, as well as subjecting those risks to alternative stress scenarios in order to assess the potential economic impact they may have on Citi. This aggregation is also performed at a Company level under the accountability of the Company's CRO.

Stress tests are undertaken across Citi and the Company and cover mark-to-market, available-for-sale, and amortised cost portfolios. These firm-wide stress reports seek to measure the potential impact to Citi, the Company and its component businesses, of stresses such as the risk of very large movements in a number of key risk factors (e.g. interest rates, credit spreads), as well as the potential impact of a range of historical and hypothetical forward-looking systemic stress scenarios.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Risk Aggregation and Stress Testing* (continued)

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

#### *Market Risk*

Market risk is the risk to earnings or capital from adverse changes in market factors. Price risk losses arise from fluctuations in the market value of trading and non-trading positions resulting from changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices, and in their implied volatilities. The Company's trading results are particularly exposed to movements in these market factors.

The Company's derivative transactions are principally carried out in equity, interest rate, credit, FX and commodity markets. Most of the counterparties to the Company's derivative transactions are banks and other financial institutions.

Market risk is measured through a complementary set of tools, including factor sensitivities, Value at Risk (VaR) and stress testing. Citi uses two complementary approaches to market risk stress testing across all major risk factors:

- Global Systemic Stress Testing (GSST) – top-down systemic stresses; and
- Business Specific Stress Testing (BSST) – bottom-up business specific stresses

Systemic stress tests are designed to quantify the potential impact of extreme market movements on a firm-wide basis and are constructed using both historical periods of market stress and projections of adverse economic scenarios. Business specific stress tests are designed to probe the risks of particular portfolios and market segments, especially those risks that are not fully captured in VaR and systemic stresses. Both categories of stress testing can be based upon either a range of historical periods of market stress or purely hypothetical future market events.

In addition, the Company has a defined risk appetite framework which is supplemented by regular stress testing and daily monitoring against predefined limits with daily reporting to the CGML CRO and senior management and quarterly reporting to the Board of Directors.

Each business that uses the Company in client-facing transactions is required to establish, with approval from the independent market risk management function, a market risk limit framework for identified risk factors. This framework must clearly define approved risk profiles, include permitted product lists, and must remain within the parameters of the overall market risk appetite. The established limits are monitored by market risk management. Exposure that approaches or exceeds limit or trigger levels is escalated within market risk management and to the Company's Market Risk Manager and UK CRO, with necessary actions taken.

In all cases, the businesses are ultimately responsible for the market risks taken and for remaining within their defined limits. Management of this process begins with the employees who work most closely with the Group's customers, products and markets and extends up to the senior executives who manage these businesses with a complementary aggregation up to the country level.

The following types of transactions are also subject to pre-trade market risk approvals where they meet the criteria in the associated policies and procedures below:

- Equity and Debt capital market transactions in conformance with the ICG Global Commitment Committee Policy and Procedures.
- Non-recourse collateralized financings in conformance with the ICG Convergence Risk Guidelines and Procedures for Collateralized Financing Transactions.
- Transactions considered as large, complex and illiquid in conformance with the ICG Standard for Pre-Trade Approval of Large, Complex and Illiquid Trades.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Market Risk* (continued)

Transactions with estimated stress losses above defined levels require escalation to the EMEA Chief Risk Officer, the Company's Chief Executive Officer and to the Company's board.

The Company's VaR reports are circulated daily for monitoring of the VaR usage against the overall VaR limit; . As well as an overall VaR limit, the Company has factor sensitivity limits and trigger levels in place for each market risk factor that are monitored daily. Factor sensitivities are defined as the change in the value of a position for a defined change in a market risk factor (e.g. the change in the value of a Treasury bill for a one basis point change in interest rates). It is the responsibility of each business to seek to ensure that factor sensitivities are calculated and reported for all relevant risks taken within a trading portfolio.

#### *VaR Methodology*

VaR is the estimate of the potential decline in the value of a position or a portfolio under normal market conditions. Citi uses a three year look back period for correlations between risk factors and the greater of three-year or, in most instances, effectively 30-day volatility. These market risk factors include material first and second-order risk sensitivities of various asset classes/risk types (such as interest rate, credit spread, foreign exchange, equity, and commodity risks). Citi uses a single, independently approved Monte Carlo simulation VaR model. The Monte Carlo simulation involves approximately 450,000 market factors, making use of approximately 350,000 time series, with sensitivities updated daily, volatility parameters updated intra-month and correlation parameters updated monthly. Citi's confidence interval is 99% and uses a 1-day time horizon in its management reporting.

#### *VaR Limitations*

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

A VaR limit is in place for the Company, to ensure that any excesses are discussed and resolved between risk officers and the business and entity management. This limit is complemented by the factor sensitivity triggers referred to above.

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

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

Stress testing is performed on a weekly basis to estimate the impact of extreme market movements. Stress testing is performed on both individual portfolios, as well as on aggregations of portfolios and businesses, as appropriate. It is the responsibility of independent market risk management, in conjunction with the businesses, to develop stress scenarios, review the output of periodic stress testing exercises, and use the information to make judgments concerning the on-going suitability of exposure levels and limits.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

The following table summarises market risk by disclosing the Company's average Economic VaR during the reporting period on a month-end basis, together with the VaR as at 31 December, broken down into component Value at Risk (CVaR). CVaR represents the correlation or diversification adjusted standalone VaR contribution from a particular sub-portfolio.

	<b>2020</b>					
	<b>\$ Million</b>					
	<b>Equity risk</b>	<b>Interest rate risk</b>	<b>Foreign exchange risk</b>	<b>Commodity risk</b>	<b>Credit risk</b>	<b>Overall VaR</b>
Average	20.7	7.8	0.5	1.2	11.7	41.9
As at 31 December	20.1	9.5	0.6	(0.2)	9.6	39.6
Peak	76.7	18.5	5.7	9.0	31.8	100.7

	<b>2019</b>					
	<b>\$ Million</b>					
	<b>Equity risk</b>	<b>Interest rate risk</b>	<b>Foreign exchange risk</b>	<b>Commodity risk</b>	<b>Credit risk</b>	<b>Overall VaR</b>
Average	5.9	9.0	6.2	2.5	5.8	29.4
As at 31 December	11.6	6.6	2.3	1.1	3.9	25.5
Peak	12.7	23.6	14.6	8.2	15.0	39.0

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Liquidity risk*

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

Citi operates as a centralised treasury model, where the overall balance sheet is managed by Treasury, through its Global Franchise and Regional Treasurers. The EMEA Regional Treasurer is supported by the UK Treasurer who is responsible for the Company's balance sheets and liquidity profile. The UK Treasurer oversees the UK Legal Entity Management team which includes a liquidity management team responsible for managing CGML's liquidity on a day to day basis. The liquidity management team is specifically responsible for the Company's daily funding, liquidity risk management, liquidity stress testing, and provision of oversight to the Fixed Income and Equity Finance desks (including setting and monitoring limits).

For liquidity and funding, CGML employs limits on funding from single counterparty and tenor diversification. In addition, CGML monitors liquid asset diversification against limits set for issuing sovereign, currency of denomination, and other non-sovereign issuer.

The Company adheres to the Citi Global Liquidity Risk Management Policy which requires it to define its liquidity risk appetite and operate limit and trigger structures to ensure compliance. The Company is also required to comply with the European Union CRD IV Delegated Act, which sets out certain regulatory qualitative and quantitative standards for managing liquidity. The Company's liquidity position is calculated and reported to senior management on a daily basis and reviewed formally by the UK ALCO committee and the Board of Directors.

#### *Funding and Liquidity Objectives*

Adequate liquidity and sources of funding are essential to Citi's businesses. Funding and liquidity risks arise from multiple factors, many of which are beyond Citi's direct control, such as disruptions in the financial markets, changes in key funding sources, credit spreads, alterations to Citi's credit ratings and political and economic conditions across the globe.

Citi's funding and liquidity objectives are to maintain adequate liquidity to:

- (i) fund its existing asset base;
- (ii) grow its core businesses;
- (iii) maintain sufficient excess liquidity, structured appropriately, to enable operation under a wide variety of market conditions, including both short and long term market disruptions; and
- (iv) satisfy regulatory requirements.

These Citi-wide primary liquidity objectives have been adopted by CGML and approved as part of its Liquidity Risk Management Policy.

CGML funds itself through a combination of equity, long-term subordinated debt, long-term and short-term unsecured intercompany borrowings, structured notes issued by Citigroup Global Markets Funding Luxembourg (CGMFL), a Luxembourg-domiciled structured notes issuance subsidiary of CGML, and secured financing. Long-term structural liquidity is provided through subordinated debt, stockholders equity, and intercompany loans with greater than 1 year to maturity. Day-to-day funding fluctuations are managed through short-term intercompany loans, typically from Citicorp LLC, Citi's Intermediate Holding Company (IHC).

Citigroup employs a single face to the market approach for long term benchmark unsecured borrowing. Structural liquidity is originated primarily through issuance of long term debt by the parent company, Citigroup Inc. and is passed down stream, via the IHC, to CGML and other broker dealer entities via explicit intercompany lending transactions or equity investment in subsidiaries.

In order to meet its internal liquidity-related stress testing requirements and ratios, the Company holds a pool of liquid assets including highly liquid government bonds. This asset pool is reviewed on a daily basis and adjusted as necessary to maintain CGML's key liquidity ratios and metrics within the Board approved risk appetite. Increases to the asset pool are typically funded through increased intercompany unsecured long term borrowing.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Liquidity risk* (continued)

##### *Liquidity Risk Management Framework*

The Company's liquidity risk management framework is defined by Citi's Global Liquidity Risk Management Policy (the Policy), which is owned by the Citi Treasury Chief Risk Officer and is applicable to Citigroup Inc. and its consolidated subsidiaries. The Policy and any material amendments to it must be approved by the Citigroup Board of Directors.

As a part of the global framework, the Company is required to prepare a detailed plan of its liquidity position which also considers the forecast of future business activities. This plan is called the Funding and Liquidity Plan (FLP) and it addresses strategic liquidity issues and establishes the parameters for identifying, measuring, monitoring and limiting liquidity risk and sets forth key assumptions for liquidity risk management.

In summary, the FLP is a strategic implementation of the global framework and is divided into the following components:

- Contingency Funding Plan (CFP) tested annually;
- Intra-day liquidity risk management plan; and
- Balance Sheet Funding and Liquidity Plan.

The Company's FLP is prepared annually and the liquidity profile is monitored on an on-going basis and reported daily to key stakeholders including the UK Treasurer, Treasury CRO and UK ALCO members. Liquidity risk is monitored using various ratios and limits in accordance with the Liquidity Risk Management Policy for Citi. The FLP includes a forecast of CGML's balance sheet and liability metrics as well as an overview of the current secured financing market conditions as observed by the Finance desks. As part of the FLP, liquidity limits, liquidity ratios and assumptions for periodic stress tests are reviewed and approved by the UK ALCO, Citi Treasurer and Treasury CRO.

Citi maintains a series of contingency funding plans on a consolidated basis as well as for individual entities, including the Company. The Contingency Funding Plan (CFP) is a key component of the Global Framework and it incorporates the management plan of contingent actions in the event of a crisis. The Company's CFP includes the "playbook" for addressing liquidity and funding challenges in crisis situations, triggers, procedures, roles and responsibilities, a communication plan and a key contact list to manage a liquidity event. The CFP defines a crisis committee responsible for decision making and execution of contingency plans to address both short-term and longer term disruptions in funding sources.

##### *Funding and Liquidity Risk Governance*

The UK Asset and Liability Committee (ALCO) is the primary governance committee for CGML's balance sheet management. Among its key responsibilities are:

- Country oversight of market and liquidity risks, transfer pricing and balance sheet management across businesses;
- Evaluation of capital adequacy, and oversight of regulatory constraints;
- Oversight of balance sheet trends and mix;
- Oversight of liquidity levels, structure, metrics and policies, including Contingency Funding Plans;
- Review and approval of the summary Annual Funding and Liquidity Plan;
- Oversight of local regulatory requirements related to the balance sheet, including liquidity and market risk regulations;
- Monitoring and management of liquidity risk;
- Adherence to capital standards and determination of dividend repatriation; and
- Ensuring prudent balance sheet management for each legal entity.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Liquidity risk* (continued)

Citi's UK management team and the UK ALCO monitor changes in the economic environment and any corresponding impact on the asset quality of Citi's local and consolidated balance sheets, including CGML. The UK ALCO also functions as a forum for senior management to ensure adherence to corporate wide policies and procedures, regulatory requirements and rating agency commitments.

The membership of the UK ALCO includes the UK Citi Country Officer (CCO) and CGML Chief Executive Officer (CEO) (chair), UK Country Finance Officer (CFO), UK Treasurer, UK Chief Risk Officer, Independent Liquidity Risk Manager, Finance Desk Heads and other key business and functional heads.

The UK ALCO meets on a monthly basis.

CGML's Board reviews the Liquidity Risk Management Policy and the Company's Internal Liquidity Adequacy Assessment Process (ILAAP) document and approves the Liquidity Risk Management Framework, the Funding and Liquidity Plan, the Contingency Funding Plan and any relevant CGML-specific liquidity policies. In Q4 2019 the Capital Committee was integrated into the ALCO.

#### *Liquidity Stress Testing and Scenario Analysis Framework*

The Company's use of stress testing and scenario analysis is intended to quantify the potential impact of a liquidity event on the Company's balance sheet and liquidity position, and to identify viable funding alternatives that can be utilised. These scenarios include:

- potential significant changes in key funding sources;
- market triggers (such as credit rating downgrades);
- changes to uses of funding; and
- political and economic conditions, including stressed market conditions as well as Company-specific events.

Some tests span liquidity events over a full year, while others may cover a more intense shock over a shorter period such as 30 days. These tests can identify potential mismatches between liquidity sources and uses over a variety of time horizons, and liquidity limits are set accordingly. The stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily. They are also performed for the material currencies that constitute CGML's balance sheet.

CGML's stress testing framework seeks to ensure that sufficient contingent liquidity is maintained (the liquidity pool of highly liquid assets mentioned above) after considering the impact of key liquidity risk.

#### *Internal Liquidity Risk Management Metrics*

From an internal perspective, the Company uses two stress tests to monitor its liquidity position. The first stress test covers a 12 month survival horizon in a highly stressed market disruption scenario, whilst the other covers 30 days in a severely stressed market disruption scenario with a loss of confidence in Citi.

*Highly Stressed Market Disruption Scenario (Referred to as S2)* – This scenario assumes market, credit and economic conditions are moderately to highly stressed with potential further deterioration covering a one year period.

*Loss of Confidence/Severe Market Disruption Scenario (Referred to as RLAP)* – This is a stressed cash flow scenario used to measure the short term (30 calendar days) survival horizon under a severe loss of confidence (idiosyncratic event) and severe market disruption.

These metrics are calculated and monitored on a universal currency basis and in the most material currencies that constitute CGML's balance sheet (EUR, GBP and USD).

Stress Test	RLAP	S2
Time Horizon	30 days	1 year
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Liquidity risk (continued)

##### Maturity analysis of financial instruments

The following table assigns the Company's assets and liabilities to a combination of the relevant contractual and/or behavioural maturity groupings based on the remaining period from the balance sheet date. It should be noted that in managing liquidity risk, management uses certain assumptions based on a combination of contractual and behavioural maturity profiles, as shown below. The majority of the financial instruments disclosed below are presented on a contractual basis, with the exception of derivatives, inventory and securities sold but not yet purchased. Due to the nature of the business, behavioural maturity is considered the best reflection of the liquidity of these financial instruments.

	Total	On demand	3 months & less	3 - 12 months	1 - 5 years	More than 5 years
31 December 2020	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million
Cash	5,505	5,505	-	-	-	-
Collateralised financing transactions at amortised cost	76,864	44,579	23,093	8,123	1,069	-
Derivatives	213,918	-	213,918	-	-	-
Inventory	73,752	73,752	-	-	-	-
Collateralised financing transactions at fair value	77,331	24,966	45,623	4,976	1,530	236
Equity securities held for investment	99	-	-	-	-	99
Cash collateral pledged	39,570	-	39,570	-	-	-
Trade debtors	15,438	-	15,438	-	-	-
Other debtors	261	-	261	-	-	-
<b>Total financial assets</b>	<b>502,738</b>	<b>148,802</b>	<b>337,903</b>	<b>13,099</b>	<b>2,599</b>	<b>335</b>
	Total	On demand	3 months & less	3 - 12 months	1 - 5 years	More than 5 years
	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million
Bank loans and overdrafts	7,347	347	1,000	4,200	-	1,800
Collateralised financing transactions at amortised cost	75,922	40,024	21,837	12,120	1,941	-
Derivatives	229,445	-	229,445	-	-	-
Securities sold but not yet purchased	56,641	-	56,641	-	-	-
Collateralised financing transactions at fair value	47,187	16,790	25,850	3,555	992	-
Hybrid financial liabilities	16,677	-	1,381	2,809	6,575	5,912
Cash collateral held	29,444	-	29,444	-	-	-
Trade creditors	9,851	-	9,851	-	-	-
Other creditors and accruals	1,943	-	1,943	-	-	-
Subordinated loans	10,600	-	-	-	3,500	7,100
<b>Total financial liabilities</b>	<b>485,057</b>	<b>57,161</b>	<b>377,392</b>	<b>22,684</b>	<b>13,008</b>	<b>14,812</b>
<b>Net liquidity gap</b>	<b>17,681</b>	<b>91,641</b>	<b>(39,489)</b>	<b>(9,585)</b>	<b>(10,409)</b>	<b>(14,477)</b>
<b>Cumulative liquidity gap</b>		<b>91,641</b>	<b>52,152</b>	<b>42,567</b>	<b>32,158</b>	<b>17,681</b>



# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Liquidity risk (continued)

31 December 2019	Total \$ Million	On demand \$ Million	3 months & less \$ Million	3 - 12 months \$ Million	1 – 5 years \$ Million	More than 5 years \$ Million
Cash	3,610	3,610	-	-	-	-
Collateralised financing transactions at amortised cost	54,766	27,639	20,001	7,126	-	-
Derivatives	207,941	-	207,941	-	-	-
Inventory	59,498	59,498	-	-	-	-
Collateralised financing transactions at fair value	53,309	9,685	36,014	6,578	1,016	16
Equity securities held for investment	71	-	-	-	-	71
Cash collateral pledged	33,706	-	33,706	-	-	-
Trade debtors	11,787	-	11,787	-	-	-
Other debtors	181	-	181	-	-	-
<b>Total financial assets</b>	<b>424,869</b>	<b>100,432</b>	<b>309,630</b>	<b>13,704</b>	<b>1,016</b>	<b>87</b>
	Total \$ Million	On demand \$ Million	3 months & less \$ Million	3 - 12 months \$ Million	1 – 5 years \$ Million	More than 5 years \$ Million
Bank loans and overdrafts	8,594	694	5,400	-	-	2,500
Collateralised financing transactions at amortised cost	51,267	23,293	14,569	11,617	1,788	-
Derivatives	222,664	-	222,664	-	-	-
Securities sold but not yet purchased	40,013	-	40,013	-	-	-
Collateralised financing transactions at fair value	34,129	8,732	21,016	3,708	673	-
Cash collateral held	31,309	-	31,309	-	-	-
Trade creditors	8,641	-	8,641	-	-	-
Other creditors and accruals	1,942	-	1,942	-	-	-
Subordinated loans	10,100	-	-	-	3,000	7,100
<b>Total financial liabilities</b>	<b>408,659</b>	<b>32,719</b>	<b>345,554</b>	<b>15,325</b>	<b>5,461</b>	<b>9,600</b>
<b>Net liquidity gap</b>	<b>16,210</b>	<b>67,713</b>	<b>(35,924)</b>	<b>(1,621)</b>	<b>(4,445)</b>	<b>(9,513)</b>
<b>Cumulative liquidity gap</b>		<b>67,713</b>	<b>31,789</b>	<b>30,168</b>	<b>25,723</b>	<b>16,210</b>

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Liquidity risk (continued)

The table below assigns the Company's liabilities to relevant maturity groupings based on the remaining contractual future undiscounted cash flows up to maturity. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages liquidity risk based on a combination of contractual and behavioural maturity profiles. Derivatives are excluded from the table as these are held for trading purposes. As such, the intention is not to hold these positions to settlement over the period of contractual maturity. Cash collateral held, securities sold not yet purchased, trade creditors, and other creditors and accruals are excluded because they are deemed to be three months or less and are thus very short term.

	Contractual value \$ Million	On demand \$ Million	3 months & less \$ Million	3 - 12 months \$ Million	1 – 5 years \$ Million	More than 5 years \$ Million
<b>31 December 2020</b>						
Bank loans and overdrafts	7,560	348	1,013	4,221	86	1,892
Collateralised financing transactions at amortised cost	75,935	40,024	21,840	12,124	1,947	-
Collateralised financing transactions at fair value	47,177	16,789	25,843	3,554	991	-
Hybrid financial liabilities	20,240	-	1,388	2,878	7,155	8,819
Subordinated loans	12,400	-	61	184	4,325	7,831
<b>Total financial liabilities</b>	<b>163,312</b>	<b>57,161</b>	<b>50,145</b>	<b>22,961</b>	<b>14,504</b>	<b>18,542</b>
<b>31 December 2019</b>						
Bank loans and overdrafts	8,763	204	5,434	52	279	2,794
Collateralised financing transactions at amortised cost	51,341	23,293	14,576	11,676	1,796	-
Collateralised financing transactions at fair value	34,194	8,732	21,032	3,744	686	-
Subordinated loans	13,458	-	102	307	4,451	8,598
<b>Total financial liabilities</b>	<b>107,756</b>	<b>32,229</b>	<b>41,144</b>	<b>15,779</b>	<b>7,212</b>	<b>11,392</b>

#### Credit risk

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations.

Credit risk arises in many of the Company's business activities, including:

- sales and trading in securities and derivatives;
- settlement;
- when Citi acts as an intermediary on behalf of its clients and other third parties; and
- when acting as underwriter or within a capital raising capacity.

Credit risk arises from the Company's activities in OTC derivatives and repurchase and reverse repurchase agreements, as well as securities lending and margin lending transactions. The Company's credit exposure is primarily to professional counterparties in the global financial sector, including banks, investment banks, hedge funds, insurance companies and asset management companies.

The Company enters into derivative transactions principally to enable customers to transfer, modify or reduce their credit, equity, interest rate and other market risks. In addition, the Company uses derivatives, and other instruments, as an end user to manage the risks to which the Company is exposed. Credit risk also arises from settlement and clearing activities, when the Company transfers an asset in advance of receiving its counter-value or advances funds to settle a transaction on behalf of a client. Concentration risk, within credit risk, is the risk associated with having credit exposure concentrated on a specific client, industry, region or other category.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Credit risk* (continued)

Credit risk is one of the most significant risks the Company faces as an institution. As a result, Citi has a well-established framework in place for managing credit risk across all businesses. This includes a defined risk appetite, credit limits and credit policies, both at the business level as well as at the firm-wide level. Citi's credit risk management also includes processes and policies with respect to problem recognition, including "watch lists," portfolio review, updated risk ratings and classification triggers. The framework is supplemented by regular stress testing and monitoring of exposures, with monthly and quarterly reporting to senior management and the Board of Directors respectively.

The Company has in place a concentration risk management framework which includes risk limits by relationship, country and industry.

The credit process is based on a series of fundamental policies, including:

- joint business and independent risk management responsibility for managing credit risks;
- a single centre of control for each credit relationship to coordinate credit activities with that client;
- a requirement for a minimum of two authorised credit officer signatures on extensions of credit, one of which must be from a sponsoring credit officer in the business and the other from a credit officer in independent credit risk management;
- consistent risk rating standards, applicable to every Citi obligor and facility
- consistent standards for credit origination documentation and remedial management; and
- portfolio limits to ensure diversification and maintain risk/capital alignment.

Large exposure limit reports are circulated daily that show the Company's exposure to various counterparty groupings as a proportion of its own funds. Regulations also require that the Company does not exceed specified limits for its non-trading book exposures. Independent credit risk management works with the Regulatory Reporting Group within Finance to identify, monitor and escalate any growing concentrations of credit exposure to groups of connected counterparties.

Wrong-way risk arises when there is a strong correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. This is monitored at a Company level, and includes circulation of a monthly report that identifies CDS based, OTC or securities financing transactions (SFTs) that generate specific wrong-way risk. Wrong-way risk is mitigated through the use of enforceable netting agreements and margining.

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

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### Credit risk (continued)

The following table presents the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. It also illustrates the impact on the balance sheet of offsetting, master netting agreements and cash and non-cash collateral.

	2020						
	\$ Million						
	Gross exposure	Amounts set off on the balance sheet	Net exposure	Impact of master netting agreements	Cash collateral	Securities collateral	Net exposure
<b>Assets</b>							
Derivatives	213,918	-	213,918	(182,377)	(29,444)	(2,097)	-
Collateralised financing transactions	234,616	(80,421)	154,195	(3,251)	-	(150,944)	-
	448,534	(80,421)	368,113	(185,628)	(29,444)	(153,041)	-
<b>Liabilities</b>							
Derivatives	229,445	-	229,445	(182,377)	(39,570)	(5,990)	1,508
Collateralised financing transactions	203,530	(80,421)	123,109	(3,251)	-	(119,858)	-
	432,975	(80,421)	352,554	(185,628)	(39,570)	(125,848)	1,508
<b>2019</b>							
<b>\$ Million</b>							
	Gross exposure	Amounts set off on the balance sheet	Net exposure	Impact of master netting agreements	Cash collateral	Securities collateral	Net exposure
<b>Assets</b>							
Derivatives	207,941	-	207,941	(174,494)	(31,309)	(2,138)	-
Collateralised financing transactions	164,792	(56,717)	108,075	(1,227)	-	(106,848)	-
	372,733	(56,717)	316,016	(175,721)	(31,309)	(108,986)	-
<b>Liabilities</b>							
Derivatives	222,664	-	222,664	(174,494)	(33,706)	(4,356)	10,108
Collateralised financing transactions	142,113	(56,717)	85,396	(1,227)	-	(84,169)	-
	364,777	(56,717)	308,060	(175,721)	(33,706)	(88,525)	10,108

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Credit risk* (continued)

The offset amounts for the impact of master netting agreements for derivatives in the above tables relate to exposures where the counterparty has an offsetting derivative exposure with the Company and a master netting agreement is in place. These amounts do not qualify for net presentation for accounting purposes as settlement may not actually be made on a net basis.

The collateralised financing transactions offset adjustment relates to balances arising from repurchase and reverse repurchase transactions. The offsets relate to balances where there is a legally enforceable right of offset in the event of counterparty default and consequently a net exposure for credit risk management purposes. Credit risk exposure is monitored on an asset basis except for positions which are specifically collateralised, normally in the form of cash.

As at 31 December the Company's third party credit exposure (mark to market plus potential future exposure as determined by the Company's internal measure) in relation to collateralised financing transactions and derivatives was distributed as shown in the table below (these exposures do not include derivative and collateralised financing transactions with other group undertakings). The following table shows CGML's exposures categorised by industry.

<b>Industry</b>	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>
Commercial and universal banks	26.6	21.1
Insurance and fund management (pension funds and mutual funds)	31.8	37.0
Brokers and investment banks	2.8	1.6
Corporates	12.5	16.0
Public Sector	23.3	22.7
Other (including SPVs and Hedge Funds)	3.0	1.6
	100	100

The credit quality of the Company's financial assets is maintained by adherence to relevant Citi policies. The Company monitors the credit ratings of its counterparties with the table below presenting an analysis of the Company's trading inventory and derivative transactions by rating agency designation based on Standard & Poor's, Moody's and Fitch ratings as at 31 December:

	<b>Government bonds</b>		<b>Non-government bonds</b>		<b>Derivatives</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	%	%	%	%	%	%
AAA / AA / A	51.0	55.0	55.2	53.7	47.5	50.0
BBB	40.4	36.4	25.8	35.0	3.7	3.9
BB / B	6.9	6.7	10.9	9.2	0.7	0.8
CCC or below	0.8	1.5	4.0	0.8	-	0.1
Central counterparty (unrated)	-	-	-	-	23.9	19.0
Unrated	0.9	0.4	4.1	1.3	24.2	26.2
	100.0	100.0	100.0	100.0	100.0	100.0

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

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Operational risk* (unaudited)

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, systems, human factors or from external events. It includes legal risk, which is the risk of loss (including litigation costs, settlements and regulatory fines) resulting from the failure of the firm to comply with laws, regulations, prudent ethical standards and contractual obligations in any aspect of the firm's business, but excludes strategic and reputation risks. Citi also recognizes the impact of operational risk on the reputation risk associated with Citi's business activities.

The objective is to keep operational risk at appropriate levels relative to the characteristics of Citi's businesses, the markets in which it operates, its capital and liquidity, and the competitive, economic and regulatory environment.

Citi maintains an Operational Risk Management (ORM) framework with a Governance Structure to ensure effective management of Operational Risk across Citi. The Governance Structure incorporates the Three Lines of Defence as previously described in the Risk Management Overview and Culture section.

To anticipate, mitigate and control operational risk, Citi maintains a system of policies and has established a consistent framework for monitoring, assessing and communicating operational risks and the overall effectiveness of the internal control environment across Citi. As part of this framework, Citi has defined its operational risk appetite and has established a Manager's Control Assessment (MCA) programme which helps managers to self-assess key operational risks and controls and to identify and address weaknesses in the design and effectiveness of internal controls that mitigate significant operational risks.

The ORM Framework establishes a foundation on which the activities of businesses, regions and functions, the resulting operational risks and the associated controls are identified, periodically assessed, subject to corrective action, appropriately documented and communicated. Specifically, the ORM Framework establishes minimum standards for consistent identification, measurement, monitoring, reporting, and management of operational risk across Citi.

The process established by the ORM Framework is expected to lead to effective anticipation and mitigation of operational risk and improved operational risk loss experience and includes the following steps:

- establish and monitor Operational Risk Appetite
- identify and assess Key Operational Risks (KORs);
- design controls to mitigate identified risks;
- establish Key Risk Indicators (KRIs);
- implement a process for early problem recognition and timely escalation;
- produce comprehensive operational risk reporting; and
- ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

As new products and business activities are developed, processes are designed, modified or sourced through alternative means and operational risks are considered.

In addition, Operational Risk Management proactively assists the businesses, operations and technology and the other independent control groups in enhancing the effectiveness of controls and managing operational risks across products, business lines and regions, and facilitates the management of operational risk at a Citi and Company level.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Operational risk* (unaudited) (continued)

##### *Measurement*

To support advanced capital modelling and management, each business is required to capture relevant operational risk event information. A localised version of the Citi risk capital model for operational risk has been developed and applied against CGML. The PRA has approved this model, for use within the Company as an “Advanced Measurement Approach”. It uses a combination of internal and external loss data to support statistical modelling of capital requirement estimates, which are then adjusted to incorporate qualitative aspects of the operational risk and control environment.

To enhance its operational risk management, CGML has implemented a forward looking scenario analysis programme to identify and quantify emerging operational risks, through a systematic process of obtaining opinions from business managers and risk management experts to derive reasoned assessments of the likelihood and loss impact of plausible, high severity operational risk losses. This development has been integrated into the operational risk capital assessment for CGML.

Key Operational Risks (KORs) are derived from an evaluation of operational risk exposure on a residual risk basis considering its current business strategy, substantial emerging risks and other relevant factors which include assessment of the four Basel operational risk data elements (i.e. internal losses, external losses, scenario analysis, output from Internal Audit Assessments) and from self-assessment results from the Manager’s Control Assessment (MCA). CGML’s KORs have been incorporated into the Citi-level global operational risk appetite framework in order to derive CGML’s Risk Appetite, and comprise the following risk types which are supported by related metrics and appropriately set thresholds:

- Fraud & Theft (excluding Tech)
- Market Practices Risk
- Customer/Client Protection
- Data Management Risk
- Reporting Risk
- Model Risk
- Physical Damage Risk
- Human Capital Risk
- Processing Risk
- Third Party Risk
- Technology Risk (including Cyber)
- Prudential & Regulatory Risk
- Money Laundering Risk
- Bribery Risk
- Sanctions Risk
- Risk Oversight Errors

The Risk Appetite is regularly monitored and reported to CGML’s senior governance forums.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

#### *Operational risk* (unaudited) (continued)

##### *Reputation and Franchise Risk and New Products or Services*

A Citi-wide (including an EMEA-based) Reputational Risk Committee reviews practices involving reputational or franchise issues. These committees review whether Citi's business practices have been designed and implemented in a way that meets the highest standards of professionalism, integrity and ethical behaviour.

Additional committees ensure that product risks are identified, evaluated and determined to be appropriate for Citi and its customers, and safeguard the existence of necessary approvals, controls and accountabilities.

The New Product Approval Committee (NPAC) is designed to ensure that significant risks, including reputational and franchise risks, for all new ICG products, services or complex transactions, are identified and evaluated, determined to be appropriate, properly recorded for risk aggregation purposes, effectively controlled, and have accountabilities in place.

#### *Country Risk*

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

The country designation in Citi's risk management systems is based on the country to which the client relationship, taken as a whole, is most directly exposed with regard to economic, financial, socio-political or legal risks. This includes exposure to subsidiaries within the client relationship that are domiciled outside of the country.

Citi assesses the risk of loss associated with certain of the country exposures on a regular basis, with the country concentration limits reviewed as and when economic performance is viewed as deteriorating. These analyses take into consideration alternative scenarios that may unfold, as well as specific characteristics of the Company's portfolio, such as transaction structure and collateral and the Company's exposure in these countries may vary over time, based upon its franchise, client needs and transaction structures.

#### *Pension Risk*

The Company's defined benefit schemes are measured on an actuarial basis, with the key assumptions being inflation, discount rate, mortality, and investment returns. Return on assets is an average of expected returns weighted by asset class.

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

Further information about the Company's Pension schemes is contained in Note 8 'Pension'.



# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 30 Capital management (unaudited)

As an EU regulated entity, CGML is required to hold sufficient regulatory capital to meet its Individual Capital Guidance, CRDIV buffers and any applicable buffers mandated by the PRA. The Company monitors its CET1, Tier 1, total capital ratios and overall capital adequacy daily. The externally mandated regulatory requirements also form part of the Company's internal capital management toolkit, with capital management constituting a key focus for a number of internal committees, in particular the UK ALCO. CGML's capital management framework encompasses a set of internal limits and escalations, defined using a red-amber-green structure. In accordance with these escalations, specified actions are taken and the responsible people are notified at each stage. In addition, the UK ALCO is kept informed of any trigger breaches. CGML also has in place a risk appetite framework to manage the risks to which it is exposed through its business activities: these are both quantitative and qualitative. During 2020, CGML remained in compliance with all externally imposed capital requirements. Quantitative details of CGML's regulatory capital position are included in Section 4 of the Strategic Report.

The capital management of CGML is further explained in its Basel Pillar III disclosures document, which can be found at <http://www.citigroup.com/citi/investor/reg.htm>.

### 31. Registered charges

The Company has granted to various banks and other entities a number of fixed and floating charges over certain holdings in securities, properties, collateral and monies held by or on behalf of such banks or other entities.

### 32. Other commitments

#### a) Financial guarantees

As at 31 December 2020, the Company had \$31 million (2019: \$28 million) of unsecured letters of credit and financial guarantees outstanding from banks to satisfy various collateral requirements.

#### b) Capital commitments

As at 31 December 2020, the Company had no capital commitments (2019: \$nil).

### 33. Events after the reporting period

On 16 February 2021 the Company drew down additional paid in capital of \$500 million from its parent, Citigroup Global Markets Holdings Bahamas Limited.

On 24 March 2021 CGML received \$3 billion capital contribution from its parent, Citigroup Global Markets Holdings Bahamas Limited.

On 12 April 2021 CGML made a capital contribution of \$500 million to its subsidiary, CGME.

At the date on which these financial statements were approved, there were no other significant events affecting the Company since the year end.

### 34. Group structure

The Company's immediate parent undertaking is Citigroup Global Markets Holdings Bahamas Limited (CGMHBL), a company registered at Ocean Centre, Montagu Foreshore, East Bay Street, and P.O. Box N3247, Nassau, Bahamas. The Company's ultimate parent company and ultimate controlling party is Citigroup Inc., registered at 1209 Orange Street, Wilmington, DE 19801 United States of America.

The audited consolidated financial statements of Citigroup Inc. are made available to the public annually in accordance with Securities and Exchange Commission regulations and may be obtained from <https://www.citigroup.com/citi/investor/sec.htm>

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 35. Revenue analysis

As outlined in the Strategic Report, the Company is Citi's international broker dealer and management reviews its performance by geography in the same way as Citigroup Inc. reports its performance.

Citi is organised into four regions, Asia Pacific, EMEA, Latin America and North America.

	<b>Asia Pacific</b>	<b>EMEA</b>	<b>Latin America</b>	<b>North America</b>	<b>Total Regional</b>	<b>Other / Corp</b>	<b>Total</b>
<b>Revenue by Region</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>\$ Million</b>
2020 Revenues	505	3,208	17	121	3,851	240	4,091
2019 Revenues	380	2,182	2	(106)	2,458	731	3,189
Increase (decrease) compared to prior year	125	1,026	15	227	1,393	(491)	902

### 36. Country by country reporting

The information relating to Country-by-Country reporting, required by Article 89 of Directive 2013/36/EU (Capital Requirements Directive), will be published at <https://www.citigroup.com/citi/investor/reg.htm>.