# Citi UK PRA Regulated Legal Vehicles

# Pillar 3 Disclosures

31 December 2014

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## 1. Overview

This document contains the Pillar 3 disclosures for Citigroup Global Markets Limited (CGML) and Citibank International Limited (CIL). CGML is Citi's primary international broker-dealer, whilst CIL is Citi's pan-European banking entity.

The Capital Requirements Directive (CRD IV) package, which came into effect on 1 January 2014 and implements the provisions of the Basel Capital Accord in the EU, mandates a framework of capital adequacy regulation for banks and investment firms incorporating three distinct pillars.

- Pillar 1 prescribes the minimum capital requirements for such firms;
- Pillar 2 addresses the associated supervisory review process; and
- Pillar 3 specifies further public disclosure requirements in respect of their capital and risk profile.

The disclosures in this document have been made in accordance with the Pillar 3 requirements laid out in the EU prudential rules for banks, building societies and investment firms, as set out in CRD IV. Compared to BIPRU 11, the previous regulatory regime under which these disclosures were produced, CRD IV introduces additional requirements for Own Funds, Risk Weighted Assets (RWAs) and capital. Citi updates these disclosures annually as at its accounting year end of 31 December, and will assess the need for more frequent disclosures should market and business conditions so warrant. Unless otherwise stated, all figures are as at 31 December 2014, with prior year comparatives as at 31 December 2013.

In accordance with the requirements set out in CRD IV, the focus of the disclosures is on European Economic Area (EEA) parent institutions and firms which are significant subsidiaries of EEA parent institutions.

The disclosures have been published in the Investor Relations section of Citi's website and complement the group level materials included in the Citigroup 2014 and 2013 Annual Reports.

1 All references to UK regulators are to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The basis of consolidation of each legal entity for prudential reporting purposes is on a solo basis. We are aware of no material practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities among these entities, beyond the normal requirements imposed by company and other legislation.

Both legal vehicles contain capital resources which are comfortably above the statutory minimum requirements.

The following disclosures have been made purely for explaining the basis on which Citi has prepared and disclosed information about capital requirements and the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any investment or judgement on the group or any entity.

Citigroup Inc. (Citi) is a global diversified financial services holding company incorporated under the laws of the state of Delaware, and whose businesses provide consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, trade and securities services and wealth management. Citi has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions.

Citi currently operates, for management reporting purposes, via two primary business segments: Citicorp, consisting of Citi's Global Consumer Banking (GCB) and Institutional Clients Group (ICG) businesses; and Citi Holdings, consisting of businesses and portfolios of assets that Citi has determined are not central to its core Citicorp businesses.

Citi's principal banking (depository institution) subsidiary is Citibank, N.A., a national banking association, with offerings encompassing consumer finance, credit cards, mortgage lending and retail banking products and services; investment banking, commercial banking, cash management, trade finance and e-commerce products and services; and private banking products and services.

Significant Citi legal entities other than Citibank, N.A. include CGML, the primary U.K. broker-dealer (non-banking) subsidiary, and CIL, Citi's pan-European bank.

CGML has a major international presence as a dealer, market maker and underwriter in equity and fixed income securities and offers risk based solutions to producers and investors in commodity markets. CGML also provides corporate finance services to a wide range of corporate, institutional and government clients. CGML's trading activities encompass cash, exchange traded and over the counter (OTC) derivative markets. Its major counterparties are banks, investment banks, investment managers, insurers and hedge funds. It also has moderate trading exposure to corporate clients.

CIL forms part of Citicorp's strategy in Europe, the Middle East and Africa (EMEA) in its capacity as a pan-European banking entity. It is headquartered in London and operates in seventeen countries through its UK head office, as well as a network of European branches and subsidiaries. In addition to the overseas passported branches, CIL has Citi Service Centres (CSCs) in Hungary and Poland that provide key operations and technology support services to other Citi affiliates. CIL was previously known as Citibank International PLC (CIP) and adopted its current name on 31 October 2014.

### Citicorp

Citicorp is a relationship-focused global bank serving businesses and consumers. It includes "core" Citi properties and has a presence in high-growth emerging markets around the world. Citicorp has worldwide deposit-taking capabilities that can be put to work with consumer and institutional customers in a diversified way to produce the highest returns, giving it a unique ability to deliver global capabilities locally and serve local clients globally. The principal Citicorp businesses, the Institutional Clients Group (ICG) and the Global Consumer Bank (GCB), are outlined in further detail below.

In the UK, Citicorp's business is almost entirely transacted on the books of CGML, CIL and Citibank NA London branch, the last of which falls outside the scope of these disclosures.

#### *Institutional Clients Group (ICG)*

Citi's ICG business comprises the following:

*Capital Markets Origination (CMO), Corporate and Investment Banking, Markets and Securities Services, and Treasury and Trade Solutions (TTS)*

These business lines allow Citi to provide corporations, governments, institutions and investors with a broad range of investment banking products and services, including investment banking, securities trading, advisory services, foreign exchange, structured products, derivatives and lending.

As indicated above, CGML's business is almost entirely driven by CMO, Investment Banking and Markets based activity.

CIL's business is driven by the following activity:

- Securities Services;
- Treasury and Trade Solutions (TTS);
- Banking (including its Corporate Loans portfolio);
- Fixed Income (including Credit Trading).

CIL undertakes fiduciary and custody services in the UK and through eight branches in Belgium, France, Greece, Netherlands, Ireland, Luxembourg, Spain and Sweden. These branches provide fiduciary and custody services predominantly to third party managed collective investment funds, with prime responsibility to safe-keep the funds' assets and to protect the interests of the associated investors.

In addition, CIL offers Wrap Administration services to investor clients and their underlying retail customers. Wrap servicing includes many of the facets of transfer agency such as record keeping, transaction processing, cash and stock reconciliations and reporting.

*Citi Private Bank (CPB)*

Citi Private Bank provides investment advice, financial planning and personalised wealth management products to high net worth clients.

CPB's strategy is to provide the full range of its Private Banking products and services through CIL's extensive branch network. Marketing within the EEA is conducted generally on a cross-border basis from the UK, using the Banking Consolidation Directive passport. CPB has dedicated employees in CIL's Spain branch and uses CIL to book client accounts primarily for EU residents.

#### *Global Consumer Bank (GCB)*

CIL offers customer deposits (both current accounts and time deposits), savings accounts and market linked time deposits.

In addition, the GCB offers two further businesses through CIL, being the International Personal Bank (IPB) and the Non-Resident Indian (NRI) business. The IPB business serves higher net worth customers who may be international or based in the UK, while the NRI business caters for the Indian diaspora in the UK. The products offered by the IPB and NRI businesses include deposits, loan facilities and transactions in managed investments such as unit trusts and custodian services.

### Citi Holdings

Citi Holdings is a group of non-core businesses that include attractive long-term businesses with strong market positions and certain residual assets held within a Special Asset Pool. However, they do not sufficiently enhance the capabilities of Citi's core business and in many ways compete for its resources.

Citi's management seeks to maximise the value of these businesses and has made substantial progress in divesting and exiting them. As at 31 December 2014, Citi Holdings held third party assets of $98 billion representing approximately 5% of Citi's total US GAAP (Generally Accepted Accounting Principles) assets and 14% of its risk-weighted assets (RWAs) under Basel III as of year-end (based on the Advanced Approaches for determining risk-weighted assets). CGML's and CIL's share of Holdings assets amounted to $0.3 billion. These businesses and assets include:

- Local Consumer Lending (LCL): Consumer finance lending, including real estate, personal loans and branch lending; together with certain international consumer lending including Western Europe retail banking and cards.
- Special Asset Pool (SAP): a portfolio of securities, loans and other assets that Citigroup intends to actively reduce over time through sales and run-off.

***Local Consumer Lending (LCL)***

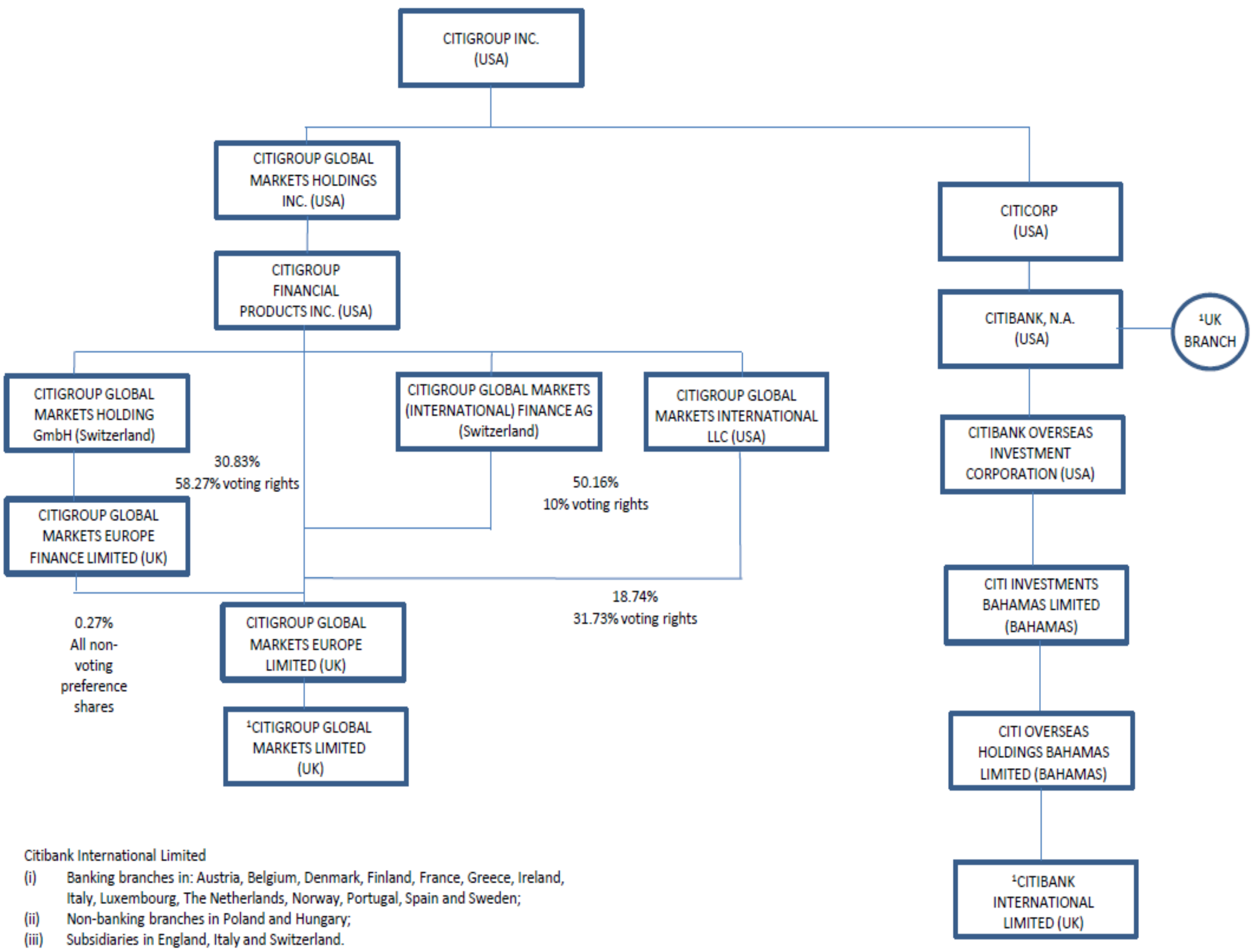
CIL's LCL business has been subject to a number of disposals and reorganisations in recent years, in line with the strategy to wind down Citi Holdings. In September 2014, Citi completed the sale of its Greek and Spanish consumer businesses.

***Other***

CIL also has a portfolio of held-to-maturity mortgage backed securities within the Special Asset Pool which are overseen by Markets Treasury and divested when predetermined criteria are met.

The following simplified organisation chart summarises the ownership structure of the PRA regulated UK legal vehicles as at 31 December 2014.

**Figure 1: Extract from UK Organisation Chart as at 31 December 2014**




Citibank International Limited

(i) Banking branches in: Austria, Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Spain and Sweden;
(ii) Non-banking branches in Poland and Hungary;
(iii) Subsidiaries in England, Italy and Switzerland.

Citigroup Global Markets Limited

(i) Branches in: Czech Republic, France, Ireland, Israel, Italy, Slovak Republic, Spain, Sweden, Switzerland and UAE;
(ii) Subsidiaries in: Monaco, Luxembourg and South Africa.

[1]Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority.

## 2. Risk Management Objectives and Policies

Citigroup believes that effective risk management is of primary importance to its overall operations. Accordingly, Citi'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 Citi engages in and the risks those activities generate must be consistent with Citi's underlying commitment to the principles of "Responsible Finance". For Citi, "Responsible Finance" means conduct that is transparent, prudent and dependable, and that delivers better outcomes for Citi's clients and society.

While the management of risk is the collective responsibility of all employees, Citi assigns 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: Citi's control functions (e.g., Risk, Compliance, etc.) establish standards for the management of risks and effectiveness of controls.
- Third line of defence: Citi's Internal Audit function independently provides assurance, based on a risk-based audit plan approved by Citi's Board of Directors that processes are reliable, and governance and controls are effective.

The Chief Risk Officer (CRO), working closely with the Citi Chief Executive Officer (CEO) and the Head of Franchise Risk and Strategy, established management committees, and with oversight from the Risk Management and Finance Committee of the Board of Directors, as well as the full Board of Directors, is responsible for:

- Establishing core standards for the management, measurement and reporting of risk;
- Identifying, assessing, communicating and monitoring risks on a company-wide basis;
- Engaging with senior management on a frequent basis on material matters with respect to risk-taking activities in the businesses and related risk management processes; and
- Ensuring that the risk function has adequate independence, authority, expertise, staffing, technology and resources.

The Chief Risk Officer reports directly to the Head of Franchise Risk and Strategy and the Risk Management organisation is structured so as to facilitate the management of risk across three dimensions: businesses, regions and critical products.

Each of the major business groups has a Business Chief Risk Officer who is the focal point for risk decisions such as setting risk limits or approving transactions in the business. There are Business Chief Risk Officers for Global Commercial, Global Consumer, the Institutional Clients Group and the Private Bank. The majority of the staff in Citi's independent risk management organisation report to these Business Chief Risk Officers.

Regional Chief Risk Officers, appointed in each of Asia, EMEA and Latin America, are accountable for all the risks in their geographic areas and are the primary risk contacts for the regional business heads and local regulators. In addition, there are Product Chief Risk Officers for a number of those risk areas of critical importance to Citi: currently fundamental credit, market and real estate risk, treasury, model validation and systemic risks. The Product Chief Risk Officers are accountable for the risks within their speciality and focus on specific issues across businesses and regions. The Product Chief Risk Officers serve as a resource to the Chief Risk Officer, as well as to the Business and Regional Chief Risk Officers, thereby better enabling them to focus on the day-to-day management of risks and responsiveness to business flow. There are also Chief Risk Officers for Citibank, N.A. and Citi Holdings as well as for the principal UK legal entities.

Each of the Business, Regional and Product Risk Officers, as well as the heads of groups in the Business Management team, report to Citi's Chief Risk Officer.

Within EMEA, the Regional Chief Risk Officer (EMEA CRO) acts as the CRO for CGML and CIL. The EMEA CRO reports directly to the Global CRO. The EMEA CRO role is formally inclusive of all divisions and aligned with the regional management structure to foster a more integrated approach to cross-divisional risks.

In order to facilitate the management of risk across the three dimensions (businesses, regions and products), the Office of the Chief Administrative Officer and Strategic Regulatory Relations focuses on re-engineering risk communications and relationships, including maintaining critical regulatory relationships.

Additionally, the following teams continue to provide support to the Risk Management function to ensure that the risk organisation has the appropriate infrastructure, processes and management reporting:

- The Country Risk Strategy and Optimisation group, which continues to enhance the risk capital model and ensure that it is consistent across all our business activities;
- The Franchise Risk Architecture group, which ensures that Citi has integrated systems and common metrics, and thereby allows it to aggregate and stress test exposures across the institution; and
- The Operational Risk Management group, which oversees the management of operational risk across businesses and regions.

In January 2014 and October 2014, a Risk Committee was established for CGML and CIL respectively. The Risk Committee for each legal entity assists the Board in fulfilling its responsibility with respect to oversight of the risks the entity faces in managing its credit, market, liquidity, operational and certain other risks as well as their alignment with entity strategy, capital adequacy, the macroeconomic environment and development of a risk management strategy. This was pursued in order to strengthen local risk governance and ensure necessary prioritisation of local risk and regulatory objectives, whilst at the same time maintaining their alignment with Citi's global risk strategy. Each Risk Committee meets at a minimum quarterly and includes the executive and non-executive directors as well as representatives from Legal, Risk, Internal Audit, Compliance and Finance.

CGML's risk appetite framework includes principle-based qualitative boundaries to guide behaviour and quantitative boundaries within which the firm will operate, focusing on ensuring it has sufficient capital resources in light of the risks to which the entity could be exposed. The legal entity risk appetite is set by the CGML board, and incorporates management judgement regarding prudent risk taking and growth in light of the business environment within which the entity operates. The CGML board of directors, with input from senior Citi and CGML management, sets overarching expectations and holds management accountable for ensuring the risk profile remains within this appetite. Legal entity risk appetite considerations include assessments of current capital levels, planned capital actions and excess buffers or requirements.

A Citi-wide (including an EMEA-based) Business Practices Committee (BPC) (composed of regional senior management including the EMEA CRO) reviews practices involving potentially significant 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, including the existence of necessary approvals, controls and accountabilities.

- The New Product Approval Committee (NPAC) is designed to ensure that significant risks, including reputation and franchise risks, in a new ICG product, service or complex transaction, are identified and evaluated, determined to be appropriate, properly recorded for risk aggregation purposes, effectively controlled, and have accountabilities in place.
- The Consumer Product Approval Committee (CPAC) approves new products, services, channels or geographies for GCB. Each region has a regional CPAC, and a global CPAC addresses initiatives with high anti-money-laundering (AML) risk or cross-border elements.
- The monthly UK Entity Risk and Control Forums hold monthly discussions with entity management around emerging risks facing Citi's UK entities.
- The Investment Products Risk (IPR) Committee oversees two product approval committees that facilitate analysis and discussion of new retail investment products and services created and distributed by Citi.
- The Manufacturing Product Approval Committee (MPAC) is responsible for reviewing new or modified products or transactions created by Citi that are distributed to individual investors as well as third-party retail distributors.
- The Distribution Product Approval Committee (DPAC) approves new investment products and services, including those created by third parties as part of Citi's "open architecture" distribution model, before they are offered to individual investors via Citi distribution businesses (e.g. Private Bank, Consumer, etc.).

CGML and CIL senior management consider the risk management infrastructure as described in the subsequent chapters of this report as being adequate to capture and measure the risks taken as a result of the entities' profile and strategy.

The structure of the Risk Management organisation is set out in more detail in Figure 2. Figure 3 outlines the key capital metrics for both CGML and CIL.

**Figure 2: Risk Management Organisation**


**Figure 3: Key Metrics for CGML and CIL as at 31 December 2014**

## 2.1 Credit Risk Management

### Credit Risk Management Objectives and Policies

Credit risk is the potential financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in many of Citi's business activities, including:

- wholesale and retail lending;
- capital markets derivative transactions;
- structured finance;
- repurchase agreements and reverse repurchase agreements; and
- settlement and clearing activities.

A discussion of Citi's credit risk management policy can be found in "Managing Global Risk – Credit Risk" of Citi's 2014 Form 10-K, available on the Citigroup website.

### Corporate Credit Risk

For corporate clients and investment banking activities across Citi, the credit process is grounded in 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, which coordinates credit activities with each client;
- Portfolio limits to ensure diversification and maintain risk/capital alignment;
- A minimum of two authorised credit officer signatures required on most extensions of credit, one of which must be from a credit officer in Credit Risk Management;
- Risk rating standards, applicable to every obligor and facility; and
- Consistent standards for credit origination documentation and remedial management.

### Consumer Credit Risk

Within GCB, credit risk management is responsible for establishing the Global Consumer Credit and Fraud Risk Policies, approving business-specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risk, ensuring the appropriate level of loan loss reserves and approving new products and new risks.

### Scope and Nature of Risk Reporting and Measurement Systems

Citi uses a global risk reporting system to manage credit exposure to its wholesale obligors and counterparties. Retail exposures are booked in local systems specific to local credit risk regulations. However, all retail exposures are monitored and managed centrally at the portfolio level. The counterparty exposure profile for derivative counterparty credit risk is calculated using Monte Carlo simulation.

## 2.2 Market Risk Management

Market Risk Management covers the price risk in the firm's trading and accrual portfolios. There are policies in place governing the relevant methodologies for managing and measuring risk on both types of portfolio. The risk is then aggregated and reported on centralised risk systems.

Responsibility for hedging or otherwise mitigating the market risk lies in the first instance with the business originating the risk. Risks taken must be commensurate with the risk appetite of the firm as set by senior management. The risk management function independently monitors market risks via a comprehensive system of limits and triggers.

### Trading Portfolios

For traded product price risk, all traded risk exposures are aggregated in the CitiRisk Market Risk (CRMR) system daily. Price risk in Citi's trading portfolios is monitored using a series of measures, including but not limited to Value at Risk (VaR), stress testing and factor sensitivities.

CRMR is used as the primary engine to aggregate and calculate these measures, including the firm's risk VaR. VaR is monitored against limits on a daily basis, both at a global and legal entity level.

### Accrual Portfolios

For accrual price risk, the risk is aggregated in a global system. Accrual risk exposures are fed into the system and risk reports are prepared by extracting the necessary data in the required form.

## 2.3 Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or human factors, or from external events, and includes reputation and franchise risk associated with business practices or market conduct in which Citi is involved.

Citi's operational risk is managed through an overall framework designed to balance strong corporate oversight with well-defined independent risk management. This framework, consistent with Citi's Three Lines of Defence approach to Risk Management, includes:

- recognised ownership of the risk by the businesses;
- oversight by Citi's independent control functions; and
- independent assessment by Citi's Internal Audit function.

Operational Risk Management, within Citi's Franchise Risk and Strategy group, proactively assists the businesses, operations, technology and other independent control groups in enhancing the effectiveness of controls and managing operational risks across products, business lines and regions. Furthermore, operational risks are considered as new products and business activities are developed and processes are designed, modified or sourced through alternative means.

Citi maintains a system of policies to anticipate, mitigate and control operational risk. A consistent framework has also been established for monitoring, assessing and communicating both operational risk and the overall operating effectiveness of the internal control environment. As part of this framework, Citi has a Manager's Control Assessment (MCA) process to help managers self-assess key operational risks and controls and identify and address weaknesses in the design and operating effectiveness of related, mitigating internal controls.

Other tools include Operational Risk Scenario Analysis, a forward-looking tool to manage operational risk, involving the identification and assessment by business managers and risk management experts of potential events with low probability but high severity. In addition, the UK Business Risk and Control Committee (BRCC) provides a forum for escalation and reporting of internal control, compliance, regulatory and risk issues, including operational loss events.

## 2.4 Liquidity Risk Management

Liquidity risk represents the possibility that a financial institution might not be able to meet its obligations in a timely manner. Management of liquidity risk at the global level is the responsibility of the Citigroup Treasurer with oversight from senior management through Citi's Asset and Liability Committee (ALCO).

Citi operates under a centralised treasury model where the overall balance sheet is managed by Citigroup Treasury through Global Franchise Treasurers and Regional Treasurers.

Day-to-day liquidity and funding are managed by Treasurers at the country and business level and are monitored by Citigroup Treasury and Independent Risk Management.

EMEA Corporate Treasury and the UK ALCO manage the liquidity of the UK legal entities by monitoring balance sheet composition, liquidity, funding and capital structure under business as usual and modelled stress conditions.

**Key Internal Metrics**

Citi uses multiple measures to monitor its liquidity. Key metrics for managing liquidity risk include:

- Stress Testing;
- Liquidity Ratios;
- Concentration Exposures;
- Large Funds Providers;
- Internal and External Market Triggers;
- Cross-Currency Funding Limits; and
- Daily Deposit Reporting.

Liquidity stress testing is used to determine the liquidity risk appetite of each legal entity and is approved by their respective boards of directors. The resulting liquidity risk appetite forms the basis for legal entity and business liquidity limits. Utilisation against those limits is monitored daily. Assumptions used to develop stress testing are reviewed periodically and any changes are approved through the internal governance framework including the UK ALCO.

Numerous reports on the above mentioned metrics are produced on a regular basis to enable management to monitor the liquidity and funding position of the UK legal entities. Management information packs used for the UK ALCO also include these metrics.

A number of market indicators are monitored and reported daily to indicate any decline in liquidity conditions across the wider market place. These market indicators are also reviewed in ALCO meetings.

**Key External Metrics**

The PRA's policy on the liquidity regulation of UK firms has resulted in the issuance of Individual Liquidity Guidance (ILG) to certain key UK legal entities. The ILG is set by the PRA and contains guidance about the amount of Liquid Asset Buffer it expects those vehicles to hold. The Liquid Asset Buffer is a liquidity reserve to be used if a firm's liquidity resources become depleted in times of financial stress. The Liquid Asset Buffer must comprise:

- unencumbered high quality government debt securities issued by EEA states, Canada, Australia, Japan, Switzerland or the US that meet the PRA's credit quality step 1 (currently rated AA- or above);
- securities issued by a designated multilateral development bank; or
- cash held in a central bank account.

Further disclosures on encumbered and unencumbered assets for CGML and CIL can be found in Appendices 2 and 3 respectively.

Under the PRA's liquidity regime, the UK legal entities are required to produce granular and frequent electronic reporting to the regulator. ILG reporting is produced daily and by material currency for those legal entities that have been issued with an ILG.

The CRD IV package requires certain key UK legal entities to report a Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) to the PRA. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid assets to survive an acute stress scenario lasting 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

Further details relating to asset encumbrance can be found in Appendices 2 and 3.

## 2.5 Conduct Risk Management

Conduct risk is the risk that Citi's employees or agents may – intentionally or through negligence – harm customers, clients, or the integrity of the markets, and thereby the integrity of the firm. Conduct risk is not limited to specific businesses or functions, but rather spans all conduct and behaviour at the firm. Consistent with Citi's commitment to elevate the focus on conduct risks, Citi has continued to enhance the Manager's Control Assessment (MCA) process to enrich conduct risk considerations. In 2014, Citi proactively established a global Conduct Risk Program which is designed to identify, manage, minimize and mitigate Citi's exposure to conduct risk and resulted in issuance of a Citi-wide Conduct Risk Policy. The Conduct Risk Policy describes the framework through which Citi manages, minimizes, and mitigates its significant conduct risks, and the responsibilities of each of the three lines of defence for complying with the policy.

## 3. Capital Resources

Under the PRA's minimum capital standards, the regulated UK legal entities are required to maintain a prescribed excess over their capital resources requirements. Capital resources are measured and reported in accordance with the provisions of the Capital Requirements Regulation (CRR) Part 2.

The entities' regulatory capital resources comprise the following distinct elements:

- Common Equity Tier 1 capital, which includes ordinary share capital, share premium, retained earnings and capital reserves;
- Additional Tier 1 capital instruments;
- Tier 2 Capital, which included Long Term Subordinated Debt;
- Deductions from capital include:
  - intangibles assets;
  - certain securitisation and free delivery positions;
  - defined benefit pension assets;
  - prudent valuation;
  - fair value gains and losses on derivative liabilities resulting from own credit standing; and
  - deferred tax relying on future profitability.

The following tables show the regulatory capital resources of CGML and CIL as at 31 December 2014 and 31 December 2013. The 2013 comparatives were calculated based upon the previous GENPRU 2.2 regime.

**Table 1: Capital Resources as at 31 December 2014**

| | CGML | CIL |
|---|---|---|
| | **US$ Million** | **US$ Million** |
| **Common Equity Tier 1 Capital** | | |
| Paid up capital instruments* | 1,500 | 2,738 |
| Share premium* | 0 | 100 |
| Retained earnings* | 1,372 | (829) |
| Other reserves* | 9,989 | 1,835 |
| **Deductions** | | |
| Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | (279) | (3) |
| Cumulative gains and losses due to changes in own credit risk on fair valued liabilities | 0 | (12) |
| Value adjustments due to the requirements for prudent valuation | (88) | (3) |
| Goodwill | 0 | (22) |
| Other intangible assets | (217) | (294) |
| Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | (29) | (26) |
| Defined benefit pension fund assets | (97) | 0 |
| Securitisation positions | (204) | 0 |
| Free deliveries | (16) | 0 |
| CET1 capital elements or deduction - other | (4) | (39) |
| **Total Common Equity Tier 1 Capital** | 11,929 | 3,445 |
| Tier 1 Capital Ratio | 10.8% | 17.4% |
| **Additional Tier 1 Capital** | 0 | 0 |
| **Total Additional Tier 1 Capital** | 0 | 0 |
| | | |
| **Tier 2 Capital** | | |
| Paid up capital instruments and subordinated loans | 4,080 | 0 |
| Standardised approach general credit risk adjustments | 0 | 82 |
| **Total Tier 2 Capital** | 4,080 | 82 |
| | | |
| **Total Capital Resources, Net of Deductions** | **16,009** | **3,527** |

*As per CGML and CIL Annual Financial Statements for the year ended 31 December 2014.

**Table 2: Capital Resources as at 31 December 2013**

| | CGML | CIL |
|---|---|---|
| | **US$ Million** | **US$ Million** |
| **Tier 1 Capital Resources (excluding Innovative Tier 1 Capital)** | | |
| Core Tier 1 Capital | | |
| -Permanent share capital* | 1,500 | 2,906 |
| -Profit and loss account and other reserves* | 11,254 | 996 |
| -Share premium account* | 0 | 106 |
| Less: Intangible assets* | (210) | (319) |
| **Tier 1 Capital Resources (excluding Innovative Tier 1 Capital)** | 12,544 | 3,689 |
| **Tier 2 Capital Resources** | | |
| Upper Tier 2 Capital Resources | | |
| -General/collective provisions | 0 | 228 |
| Lower Tier 2 Capital Resources | | |
| -Lower tier 2 capital instruments | 4,200 | 0 |
| **Total Tier 1 and Tier 2 Capital Resources** | 16,744 | 3,917 |
| **Less: Deductions from the total of Tier 1 Capital and Tier 2 Capital** | | |
| -Securitisation positions | (114) | 0 |
| -Investments that are not material holdings or qualifying holdings | 0 | (41) |
| **Total Tier 1 and Tier 2 Capital Resources after Deductions** | 16,630 | 3,876 |
| **Less: Deductions from Total Capital** | | |
| -Illiquid assets | (255) | 0 |
| -Free deliveries | (10) | 0 |
| **Total Capital Resources, net of Deductions** | 16,365 | 3,876 |

*As per CGML and CIL Annual Financial Statements for the year ended 31 December 2013.

## 4. Capital Adequacy

The firm's UK legal entities comply with the CRD IV minimum capital requirements to ensure that sufficient capital is maintained to cover all relevant risks and exposures. For this purpose, the firm calculates capital charges for market risk, counterparty risk and operational risk based upon a number of internal models and standardised approaches, as well as recognising a number of credit risk mitigation techniques in calculating the charges for credit and counterparty risk.

To assess the adequacy of capital to support current and expected future activities, the firm produces regular capital forecasts for all the main entities, taking into account both normal business conditions and a variety of stressed scenarios. As part of this process, the firm maintains an Internal Capital Adequacy Assessment Process (ICAAP) document which reviews the firm's risk appetite, capital requirements and associated policies and procedures.

CRD IV also introduces the use of a leverage ratio as an additional capital requirement. The ratio is calculated by dividing Basel III Tier 1 capital by the total of on and off-balance sheet exposures. The management of leverage risk for CGML and CIL is discussed in more detail in Section 4.1.

The following tables set out each entity's Pillar 1 minimum capital requirements in respect of market risk, credit risk, counterparty risk, concentration risk and operational risk as at 31 December 2014 and 31 December 2013. In line with CRD IV, the risk weighted exposures upon which these requirements are calculated have also been presented in the 2014 disclosures. The 2013 comparatives are reported under BIPRU 11.

**Table 3: Minimum Capital Requirements as at 31 December 2014**

| | Capital Required | | RWAs | |
|---|---|---|---|---|
| | USD Millions | USD Millions | USD Millions | USD Millions |
| | CGML | CIL | CGML | CIL |
| Counterparty and dilution risks and free deliveries | 3,103 | 62 | 38,782 | 775 |
| Credit risk | 84 | 1,217 | 1,046 | 15,213 |
| Contributions to the default fund of a CCP (Central Counterparty Clearing House) | 54 | 0.6 | 676 | 7 |
| Settlement / delivery risk | 6 | 0 | 75 | 0 |
| Traded debt instruments | 1,083 | 72 | 13,538 | 904 |
| Equity | 717 | 0 | 8,965 | 3 |
| Foreign exchange | 50 | 17 | 623 | 218 |
| Commodities | 175 | 0 | 2,182 | 0 |
| Position, foreign exchange (FX) and commodities risks under internal models | 1,814 | 0 | 22,678 | 0 |
| Operational risk | 1,500 | 191 | 18,750 | 2,388 |
| Credit valuation adjustment | 217 | 19 | 2,707 | 231 |
| Large exposures in the trading book | 0 | 7 | 0 | 92 |
| **Total** | **8,802** | **1,587** | **110,022** | **19,834** |

**Table 4: Minimum Capital Requirements in Respect of Market Risk, Counterparty Risk, Concentration Risk and Operational Risk as at 31 December 2013**

| | | Capital Required |
|---|---|---|
| | CGML | CIL |
| | USD Millions | USD Millions |
| **Trading book** | | |
| Interest rate Position Risk Requirement (PRR) | 1,008 | 124 |
| Equity PRR | 485 | 17 |
| Option PRR | 1,025 | 0 |
| Collective investment schemes PRR | 65 | 0 |
| Counterparty risk capital component | 2,446 | 33 |
| Concentration risk capital component | 0 | 3 |
| Position, FX and commodity risk under internal models | 2,205 | 0 |
| **All businesses** | | |
| Commodity PRR | 19 | 0 |
| Foreign currency PRR | 132 | 70 |
| Operational risk capital requirement | 1,500 | 191 |
| **Specific interest rate risk** | | |
| Specific interest rate risk of securitisation positions | 81 | 124 |
| **Total** | **8,966** | **562** |

The following tables show each entity's minimum capital requirements for credit risk under the standardised approach as at 31 December 2014 and 31 December 2013, at 8% of the risk weighted exposure amounts for each of the standardised credit risk exposure classes. Please note that capital requirements in respect of counterparty risk are included in the previous tables.

**Table 5: Minimum Capital Requirements in Respect of Credit Risk under the Standardised Approach as at 31 December 2014**

| | Capital Required | | RWAs | |
|---|---|---|---|---|
| | **CGML** | **CIL** | **CGML** | **CIL** |
| | **US$ Millions** | **US$ Millions** | **US$ Millions** | **US$ Millions** |
| Central governments and central banks | 0 | 1 | 0 | 10 |
| Regional governments and local authorities | 0 | 0 | 0 | 6 |
| Public sector entities | 0 | 3 | 0 | 40 |
| Multilateral development banks | 0 | 0 | 0 | 0 |
| International organisations | 0 | 0 | 0 | 0 |
| Institutions | 2 | 86 | 26 | 1,075 |
| Corporates | 26 | 1,145 | 325 | 14,311 |
| Retail | 0 | 1 | 0 | 13 |
| Secured by mortgages on immovable property | 0 | 0 | 0 | 3 |
| In default | 0 | 0 | 0 | 1 |
| Particularly high risk | 0 | 0 | 0 | 0 |
| Covered bonds | 0 | 0 | 0 | 0 |
| Securitisation positions | 0 | 8 | 0 | 104 |
| Institutions and corporates with a short-term credit assessment | 31 | 0 | 387 | 1 |
| Collective investment undertakings | 0 | 0 | 0 | 1 |
| Equity exposures | 3 | 0 | 36 | 0 |
| Other | 22 | 34 | 272 | 429 |
| **Total** | **84** | **1,279** | **1,046** | **15,992** |

**Table 6: Minimum Capital Requirements in Respect of Credit Risk under the Standardised Approach as at 31 December 2013**

| | Capital Required | |
|---|---|---|
| | **CGML** | **CIL** |
| | **US$ Millions** | **US$ Millions** |
| Central governments and central banks | 0 | 1 |
| Regional governments a local authorities | 0 | 2 |
| Public sector entities | 0 | 0 |
| Multilateral development banks | 0 | 0 |
| International organisations | 0 | 0 |
| Institutions | 34 | 54 |
| Corporates | 31 | 1,140 |
| Retail | 0 | 21 |
| Secured by mortgages on immovable property | 0 | 0 |
| In default | 0 | 5 |
| Particularly high risk | 0 | 0 |
| Covered bonds | 0 | 0 |
| Securitisation positions | 0 | 0 |
| Institutions and corporates with a short-term credit assessment | 0 | 4 |
| Collective investment undertakings | 0 | 0 |
| Equity exposures | 0 | 0 |
| Other | 4 | 27 |
| **Total** | **69** | **1,254** |

### 4.1 Leverage Ratio

In line with CRD IV, the 2014 leverage ratio for CGML and CIL is calculated by dividing Tier 1 capital by the total of the entities' on and off-balance sheet exposures.

In January 2015, the EU's Official Journal published details of the European Commission's adoption of a delegated act for defining the leverage ratio for EU institutions. These amendments will be adopted by CGML and CIL effective for March 2015 quarter end reporting.

The leverage ratio for CGML and CIL as defined by CRD IV requirements is illustrated in Table 7 below.

#### 4.1.1 Management of Leverage Risk

The following points describe CGML and CIL's approach to managing the risk of excessive leverage.

- Daily Capital Monitoring: this is conducted for both CGML and CIL's capital ratios (CET1, Tier 1 and total capital ratio). The excess capital over Pillar 1 and Pillar 2 requirements (including the Individual Capital Guidance and Capital Planning Buffer), and over the Capital Action Trigger are also monitored daily. The latter is an internal trigger set to ensure the entities hold enough of a capital excess to permit timely management decisions in case of unforeseen short-term circumstances.
- Daily Large Exposure Monitoring: this shows the concentration to our largest counterparties (defined as those to whom we have exposure equal to 10% or more of our eligible capital).
- Liquidity Monitoring: Citi employs multiple daily liquidity stress tests which measure its ability to survive a range of potential stress environments. In doing this, Citi's liquidity resources are measured against potential stressed liquidity outflows that may result as a consequence of liquidity mismatches, among other considerations. The requirement to cover these projected losses on a standalone basis acts as a safeguard against excessive leverage.
- Stress Testing: On a weekly basis, the trading books of the entities are stress tested for market risk across a range of scenarios. A trigger has been set for the largest loss of the three 1-in-25 year scenarios, and potential stress losses above this trigger will be escalated to the entity CEO, CRO and Treasurer.

**Table 7: Leverage Ratio as at 31 December 2014**

| | CGML | CIL |
|---|---|---|
| | **US$ Millions** | **US$ Millions** |
| **Total assets per accounting balance sheet*** | **365,288** | **32,408** |
| Reversal of accounting values | | |
| -Derivatives | (215,376) | (1,368) |
| -Repurchase agreement and securities financing | (96,655) | (8,297) |
| **Replaced with values after applying regulatory rules:** | | |
| -Derivatives market value | 17,929 | 416 |
| -Derivatives add-on mark-to-market method | 118,502 | 743 |
| -Repurchase agreements and Securities Financing | 48,246 | 1 |
| Other off-balance sheet items | 0 | 10,699 |
| **Exposure measure after regulatory adjustments** | 238,933 | 34,602 |
| **Tier 1 capital** | 11,929 | 3,445 |
| **Leverage Ratio** | **5.0%** | **10.0%** |

*As per CGML and CIL Annual Financial Statements for the year ended 31 December 2014.

# 5. Credit Risk

## 5.1 Credit Risk Management

### 5.1.1 Overview

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 Citigroup's business activities, as outlined in 2.1.

### 5.1.2 Corporate Credit Risk

For corporate clients and investment banking activities across the organisation, the credit process is grounded in a series of fundamental policies, as outlined in 2.1.

Wholesale exposures are classifiably-managed (individually rated) and retail exposures are delinquency-managed (portfolio based). Wholesale exposures are primarily found in ICG (including Citi Private Bank), as well as Corporate Treasury. Additionally, classifiably-managed exposures are found in certain commercial business lines within GCB and Citi Holdings. Typical financial reporting categories that include wholesale exposures are deposits with banks, debt securities held-to-maturity or available-for-sale, loans and off-balance sheet commitments such as unused commitments to lend and letters of credit.

Wholesale exposures, which include counterparty credit risk exposures arising from OTC derivative contracts, repo-style transactions and eligible margin loans, consist of exposures such as those to corporates, banks, securities firms, financial institutions, central governments, government agencies, local governments, other public sector entities, income producing real estate, high volatility commercial real estate, high net worth individuals not eligible for retail treatment, and other obligor or counterparty types not included in retail.

For regulatory capital purposes, standardised risk weights are applied under the Current Exposure Method (CEM) approach for wholesale credit risk.

**Use of Risk Parameter Estimates**

For Citi's wholesale exposures, internal credit ratings are used in determining approval levels, risk capital and reserves. Each wholesale obligor is assigned an obligor risk rating (ORR) that reflects the one-year probability of default (PD) of the obligor. Each wholesale facility is assigned a facility risk rating (FRR) that reflects the expected loss rate of the facility, the product of the one-year PD and the expected loss given default (LGD) associated with the facility characteristics.

The ORRs are used for longer-term credit assessments for large credit relationships, which form the basis for obligor limits and approval levels. ORRs are established through an integrated framework that combines quantitative and qualitative tools, calibrated and tested across economic cycles, with risk manager expertise on customers, markets and industries. ORRs are generally expected to change in line with material changes in the PD of the obligor. Rating categories are defined consistently across wholesale credit by ranges of PDs and are used to calibrate and objectively test rating models and the final ratings assigned to individual obligors.

Independently-validated models and, in limited cases, external agency ratings establish the starting point in the obligor rating process. The use of external agency ratings in establishing an internal rating occurs when agency ratings have been reviewed against internal rating performance and definitions, and is generally limited to ratings of BBB+/Baa1 or higher.

Internal rating models include statistically-derived models and expert-judgment rating models. The statistical models are developed by an independent analytical team in conjunction with independent risk management. The analytical team resides in Credit and Operational Risk Analytics (CORA) which is part of the corporate-level independent risk group within Citi's overall Franchise Risk and Strategy organisation. The statistical rating models cover Citi's corporate segment and certain commercial activity within the consumer business lines and are based on statistically significant financial variables. Expert-judgment rating models, developed by independent risk management, cover industry or obligor segments where there are limited defaults or data histories, or highly-specialised or heterogeneous populations.

To the extent that risk management believes the applicable model does not capture all the relevant factors affecting the credit risk of an obligor, discretionary adjustments may be applied to derive the final ORR, within limits defined by policy. For larger obligors, the final ORRs are derived through the use of a scorecard that is designed to capture the key risks for the segment.

As discussed above, Citi's wholesale exposures primarily relate to activities in ICG. ICG provides corporate, institutional, public sector and high net worth clients around the world with a range of wholesale banking products and services. Citi's ICG businesses that incur credit, market, operational and franchise risk are covered by an ICG risk management manual (ICG risk manual) which sets forth ICG's core risk principles, policy framework, limits, definitions, rules and standards for identifying, measuring, approving and reporting risk.

Obligors are assigned a risk rating through a process governed by the ICG risk manual. Total facilities to an obligor are also approved in accordance with the ICG risk manual. The ICG risk manual requires an annual comprehensive analysis of each obligor and all proposed credit exposures to that obligor.

Independent risk management periodically reviews exposures across the banking book and trading book portfolios to ensure compliance with various limit and concentration constructs. Quarterly reviews are conducted of certain high risk exposures in ICG.

### 5.1.3 Consumer Credit Risk

Within the Global Consumer Group, credit risk management is responsible for establishing the Global Consumer Credit and Fraud Risk Policies, approving business-specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risk, ensuring the appropriate level of loan loss reserves and approving new products and new risks.

### 5.1.4 Counterparty Risk

An assessment of the risk that a counterparty will not fulfil its financial obligations is fundamental to the bank's management of counterparty credit risk. The process for approving a counterparty's risk exposure limits is two-fold: guided by the core credit policies, procedures and standards and the experience and judgement of credit risk professionals. These credit policies are applied across the firm's Institutional Clients Group (ICG) businesses – see further information in Section 5.2.

### 5.1.5 Credit Risk Procedures

Credit risk principles, policies and procedures typically require:

- a comprehensive analysis of the proposed credit exposure or transaction;
- review of external agency ratings (where appropriate); and
- financial and corporate due diligence, including support, management profile and qualitative factors.

The responsible credit officer completes a review of the financial condition of the counterparty to determine the client's business needs and compare that to the risk that Citi might be asked to extend. During consideration of a credit extension, the credit officer will assess ways to mitigate the risk through legal documentation, parental support or collateral.

Once the analysis is completed and the product limits are determined, anti-tying and franchise risk is reviewed, after which the approval process takes place. The total facility amount, including direct, contingent and pre-settlement exposure, is aggregated and the credit officer reviews the approved tables within policy that appoint the appropriate level of authority needed to review and approve the facility. Every extension of credit must be approved by at least two credit officers.

Credit risk monitoring analysts conduct daily exception monitoring versus limits and any resulting issues are escalated to credit officers, and potentially to business management.

### 5.1.6 Credit Risk Mitigation

As part of its risk management activities, the firm uses various risk mitigants to hedge portions of the credit risk in its portfolio, in addition to outright asset sales.

The utilisation of collateral is of critical importance in the mitigation of risk. In-house legal counsel, in consultation with approved external legal counsel, will determine whether collateral documentation is enforceable and gives the firm the right to liquidate or take possession of collateral in a timely manner in the event of the default, insolvency, bankruptcy or other defined credit event of the obligor.

In-house legal counsel will also approve relevant jurisdictions and counterparty types for netting purposes. Off-balance sheet netting and netting of the collateral against the exposure is permitted if legal counsel determine that we have these rights.

Netting is generally permitted for the following types of transaction:

- Securities financing transactions (SFTs)
- Over the counter (OTC) derivative transactions
- In some cases, certain margin loans and margin lending transactions subject to margin loan agreements

Over 90% of the collateral taken by CGML against OTC derivative exposures is in the form of cash. In respect of SFTs, the majority of the collateral is in the form of:

- cash;
- long-term debt securities rated one category below investment grade or better; or
- investment grade short-term debt securities and public equity securities.

Occasionally, with appropriate agreement, other forms of collateral may be accepted.

### 5.1.7 Impairment

Corporate loans are reviewed to assess their recoverability. For accounting purposes corporate loans are placed on a non-accrual basis (cash-basis) when interest or principal is past due for 90 days or more; the exception is when the loan is well secured and in the process of collection. Impaired corporate loans are written down to the extent that principal is judged to be uncollectable, taking into account the value of any collateral obtained.

Impairment is described in more detail in Section 5.3.

### 5.1.8 Internal Economic Capital

Corporate and retail credit exposure is included in our economic capital model by aggregating this with other direct and indirect exposure and calculating economic capital based on the perceived credit quality of the obligor.

### 5.1.9 Credit Valuation Adjustments

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

The firm's CVA methodology comprises two steps.

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

- Second, market based views of default probabilities and loss given default (LGD), derived from observed credit spread quotes in the credit default swap (CDS) market, are applied to the expected future cash flows determined in step one. Own-credit CVA is determined using Citi-specific CDS spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spreads from single-name CDS or, where those are not available, indices for each credit rating and tenor. For certain identified facilities where individual analysis is required, custom counterparty specific CDS spread estimates are used.

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

CVA is also applied to debt accounted for at fair value, reflecting Citi's cash spreads.

#### 5.1.10 Wrong Way Risk

A number of the UK legal vehicles incur both general and specific wrong way risk in their business. Wrong way risk (WWR) occurs when a movement in a market factor causes Citi's exposure to a counterparty to increase at the same time as the counterparty's capacity to meet its obligations is decreasing. Stated differently, WWR occurs when exposure to a counterparty is negatively correlated with the credit quality of the counterparty. There are two main types of WWR:

- Specific WWR arises when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty.
- General WWR is less definite than specific WWR and occurs where the credit quality of the counterparty is subject to impairment due to changes in macroeconomic factors.

WWR in a trading exposure arises when there is significant correlation between the underlying asset and the counterparty which, in the event of default, would lead to a significant mark-to-market loss. The interdependence between the counterparty credit exposure and underlying reference asset or collateral for each transaction can exacerbate and magnify the speed in which a portfolio deteriorates. Thus, the goal of Citi's WWR policy is to provide best practices and guidelines for the identification, approval, reporting and mitigation of specific and general WWR.

Citi requires that transactions involving specific WWR, as well as highly correlated WWR, are approved by independent risk management prior to commitment, along with post-trade ongoing risk reporting and reviews by senior management to determine appropriate management and risk mitigation. Risk mitigants for specific WWR transactions include increased margin requirements and offsetting or terminating transactions.

Citi's WWR policy further uses ongoing product stress testing to identify potential general WWR using simulated macro-economic scenarios. General WWR reports are reviewed on an ongoing basis by senior management to determine appropriate management and mitigation.

#### 5.1.11 Credit Ratings Downgrade

Citi's UK legal vehicles are party to collateralised OTC derivative contracts in which a downgrade of the firm will give rise to the obligation to post additional collateral to the counterparty. In the instances where such an obligation exists, these are likely to apply only to contracts held on the books of CGML.

The actual amount of collateral which CGML would be required to provide to third parties in such an event depends on the net exposure to those counterparties at that time and varies according to the current market value of the contracts outstanding.

These risks are captured as part of Citi's liquidity risk management framework.

### 5.2 Counterparty Risk

The following tables summarise the counterparty credit risk exposures arising from OTC derivatives held by CGML and CIL as at 31 December 2014 and 31 December 2013, indicating the benefits of legally enforceable netting agreements and collateral arrangements. The increase reflects the growing volume of OTC derivatives transacted on CGML's books.

**Table 8: OTC Derivative Exposures as at 31 December 2014**

| | CGML | CIL |
|---|---|---|
| | US$ Millions | US$ Millions |
| Gross positive fair value of contracts | 458,233 | 3,133 |
| Netting benefits | (410,839) | (1,598) |
| Netted credit exposure | 47,394 | 1,535 |
| Benefits of modelling collateral | (16,935) | (170) |
| **Net derivatives credit exposure** | **30,459** | **1,365** |

**Table 9: OTC Derivative Exposures as at 31 December 2013**

| | CGML | CIL |
|---|---|---|
| | US$ Millions | US$ Millions |
| Gross positive fair value of contracts | 298,754 | 929 |
| Netting benefits | (116,621) | (345) |
| Netted credit exposure | 182,133 | 584 |
| Benefits of modelling collateral | (153,116) | (164) |
| **Net derivatives credit exposure** | **29,017** | **420** |

### 5.2.1 Counterparty Credit Risk Exposures

Counterparty credit risk is the risk that the counterparty to a transaction will default before the final settlement of the transaction's cash flows. For OTC derivatives, counterparty credit risk arises from pre-settlement exposures. Citi calculates its exposures under two methods:

- the Internal Models Method (IMM); and
- the Current Exposure Method (CEM).

Two conditions are required for Citi to recognise a loss on a contract: firstly the counterparty defaults and, secondly, the contract has a positive market value to the firm. Consequently risk measurement is a function of three elements:

- Potential Future Exposure;
- Probability of Default; and
- Loss at Default.

Repo-style transactions consist of repurchase or reverse repurchase transactions, or securities borrowing or securities lending transactions, including transactions in which Citi acts as agent for a customer and indemnifies the customer against loss, and are based on securities taken or given as collateral, which are marked-to-market, generally daily. Eligible margin loans are extensions of credit collateralised by liquid and readily marketable debt or equity securities, or gold, which also satisfy other conditions under the Basel III rules and CRD IV.

### 5.2.2 Methodology Used to Assign Credit Limits

The process for approving a counterparty's credit risk exposure limit is guided by:

- core credit policies;
- procedures and standards;
- experience and judgment of credit risk professionals; and
- the amount of exposure at risk.

The process applies to all counterparty credit risk products - OTC derivative contracts, repo-style transactions and eligible margin loans. The process includes the determination of maximum potential exposure after recognition of netting agreements and collateral as appropriate.

While internal ratings are the starting point in establishing credit assessments, a range of factors, such as quality of management and strategy, nature of industry, and regulatory environment, among others, are also taken into consideration for obligor limits and approval levels. Exposure to credit risk on derivatives is also impacted by market volatility, which may impair the ability of clients to satisfy their obligations to Citi. Credit risk analysts conduct daily monitoring versus limits and any resulting issues are escalated to credit officers and business management as appropriate. Usage against the credit limits may reflect netting agreements and collateral.

### 5.2.3 Counterparty Credit Risk Capital Calculations

For UK regulatory reporting purposes, CGML and CIL use the standardised approach to determining counterparty credit risk capital requirements, based on External Credit Assessment Institutions (ECAI) ratings for calculating Risk Weighted Assets (RWAs). The measures of Exposure at Default (EAD) used to determine these requirements are described below.

For OTC derivatives, CGML uses two approaches: IMM and CEM (as mentioned in 5.2.1). For IMM, the firm uses a constant covariance Monte Carlo simulation of potential future exposure to determine an expected positive exposure (EPE) measure as an input to Citi's EAD calculation. The model is calibrated with historical volatilities subject to a set of independent internal validation and statistical back-testing standards. The model utilises a standard supervisory alpha multiplication factor of 1.4. For those positions which fall outside of the scope of the firm's IMM model permission, CGML uses the CEM approach. This method assigns to each transaction a regulatory stipulated exposure based on the mark-to-market value and a measure of potential future exposure which is a percentage of notional driven by residual maturity and the type of contract, i.e. interest rate, equities etc.

CIL uses CEM for its entire counterparty credit risk exposures.

Netting agreements and margin collateral may be recognised as credit risk mitigants provided they meet certain eligibility criteria as described below.

For securities financing transactions (SFTs), CGML applies a supervisory volatility adjustment under the financial collateral comprehensive method for calculating its EAD. The calculation equals exposure less collateral after applying regulatory haircuts for security volatility adjustments and any applicable currency mis-matches. The EAD is then used to calculate RWAs using the standardised approach.

### 5.2.4 Derivative Master Netting Agreements

Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Citi policy requires all netting arrangements to be legally documented. ISDA (International Swaps and Derivative Association) master agreements are Citi's preferred manner for documenting OTC derivatives. The agreements provide the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

Citi considers the level of legal certainty regarding enforceability of its offsetting rights under master netting agreements and credit support annexes to be an important factor in its risk management process. For example, Citi generally transacts much lower volumes of derivatives under master netting agreements where Citi does not have the requisite level of legal certainty regarding enforceability. For further information on Citi's policies regarding master netting agreements, see Note 23- "Derivative Activities" in the Notes to the Consolidated Financial Statements of Citi's 2014 Form 10-K.

### 5.2.5 Policies for Securing, Valuing and Managing Collateral

Citi's policies and procedures cover management and governance of financial assets (including securing and valuing collateral) utilised for the purpose of mitigating the credit risk of OTC derivatives, repo-style transactions and eligible margin loans. Specifically, businesses are required to establish standard eligibility criteria for collateral usage and review processes for approving non-standard collateral. Industry standard legal agreements combined with internal reviews for legal enforceability are used to achieve a perfected security interest in the collateral. Additionally, Risk Management establishes guidelines on appropriate collateral haircuts related to repo-style transactions and eligible margin loans. A haircut is the percentage of reduction in current market value applicable to each type of collateral and is largely based on liquidity and price volatility of the underlying security. Potential correlations between the exposure and the underlying collateral are reflected through the netting of appropriately greater haircuts.

The current market value of collateral is monitored on a regular basis. Margin procedures are established for managing margin calls for which daily margining is considered best practice in order to maintain an appropriate level of collateral coverage reflecting market value fluctuations. Trades are reconciled on a regular basis that is consistent with regulatory and industry best practice guidelines and margin dispute processes are in place. Procedures are established surrounding collateral substitution and collateral re-use/re-hypothecation. Limits and concentration monitoring are utilised to control Citi's collateral concentrations to different types of asset classes.

Additionally, for eligible margin loans, procedures are established to ensure an appropriate level of allowance for credit losses.

### 5.2.6 Primary Types of Collateral

Cash collateral and security collateral in the form of G10 (Group of Ten) government debt securities are generally posted to secure the net open exposure of OTC derivative transactions, at a counterparty level, whereby the receiving party is free to co-mingle or re-hypothecate such collateral in the ordinary course of business. Non-standard collateral, such as corporate bonds, municipal bonds, U.S. agency securities and mortgage-backed securities, may also be pledged as collateral for OTC derivative transactions. Security collateral posted to open and maintain a master netting agreement with a counterparty in the form of cash and securities, may from time to time be segregated in an account at a third-party custodian pursuant to a tri-party account control agreement.

With respect to SFTs, the majority of the collateral is in the form outlined in 5.1.6.

### 5.2.7 Credit Default Swap Activity

The tables below set out the notional value of CGML's CDS transactions as at 31 December 2014 and 31 December 2013. CDS activity carried out by CIL is not material.

**Table 10: Notional Value of CGML's CDS Transactions as at 31 December 2014**

| | Protection Bought | Protection Sold |
|---|---|---|
| | US$ Millions | US$ Millions |
| Index CDS | 310,515 | 310,996 |
| Single name and other CDS | 352,185 | 352,729 |
| **Total** | **662,700** | **663,725** |

**Table 11: Notional Value of CGML's CDS Transactions as at 31 December 2013**

| | Protection Bought | Protection Sold |
|---|---|---|
| | US$ Millions | US$ Millions |
| Index CDS | 230,366 | 230,812 |
| Single name and other CDS | 378,735 | 379,538 |
| **Total** | **609,101** | **610,350** |

Neither CGML nor CIL holds credit derivatives on their own books to hedge any material credit exposures.

## 5.3. Credit Risk

### 5.3.1 Credit Exposures

The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation are set out below as at 31 December 2014 and 31 December 2013 for each major operating entity. These exposures include both banking book and trading book activity and have been calculated in accordance with the regulatory requirements applicable to the respective legal entities. The increase between 2013 and 2014 on CGML is mainly driven by the inclusion of ETDs and CCPs as per CRD IV reporting requirements.

Please note that CGML's OTC derivative exposures covered by its IMM permission are shown net of credit risk mitigation in the table below. Further information on the benefits of netting and collateral for these positions is shown in section 5.2. SFT exposures are shown gross, without any benefits of credit risk mitigation.

Credit exposure in the Figures in Section 5.3 includes unused commitments and potential future credit exposure for derivatives contracts based on Risk Management data.

**Table 12: Credit Exposures as at 31 December 2014**

| | 31 December 2014 | 2014 Average |
|---|---|---|
| **Legal Entity** | **US$ Millions** | **US$ Millions** |
| **CGML** | 269,793 | 272,802 |
| **CIL** | 48,104 | 47,553 |

**Table 13: Credit Exposures as at 31 December 2013**

| | 31 December 2013 | 2013 Average |
|---|---|---|
| **Legal Entity** | **US$ Millions** | **US$ Millions** |
| **CGML** | 204,978 | 236,938 |
| **CIL** | 41,490 | 31,268 |

**Credit Risk Breakdown by Geography**

The following charts set out the geographical distribution of credit exposures for CGML as at 31 December 2014 and 2013, broken down by sector.

**Figure 4: CGML – Geographical Analysis as at 31 December 2014**

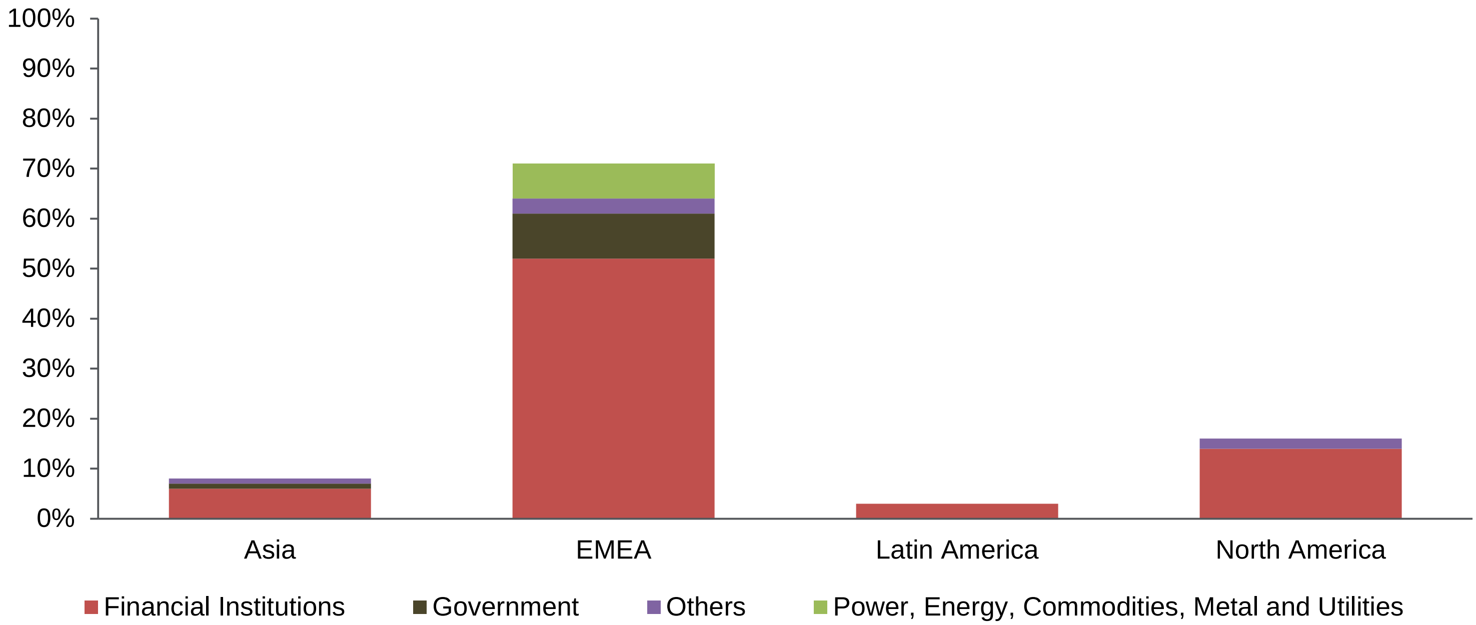
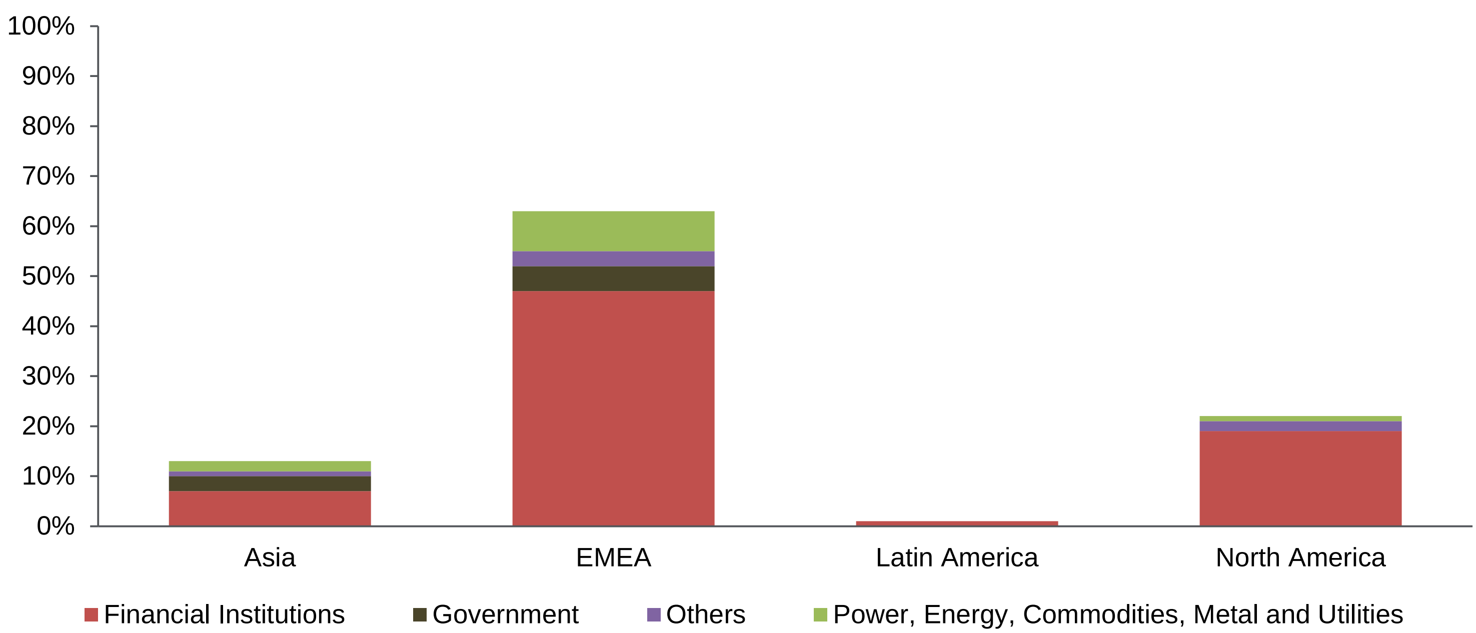



**Figure 5: CGML – Geographical Analysis as at 31 December 2013**



The following charts set out the geographical distribution of credit exposures for CIL as at 31 December 2014 and 2013, broken down by sector.

**Figure 6: CIL – Geographical Analysis as at 31 December 2014**

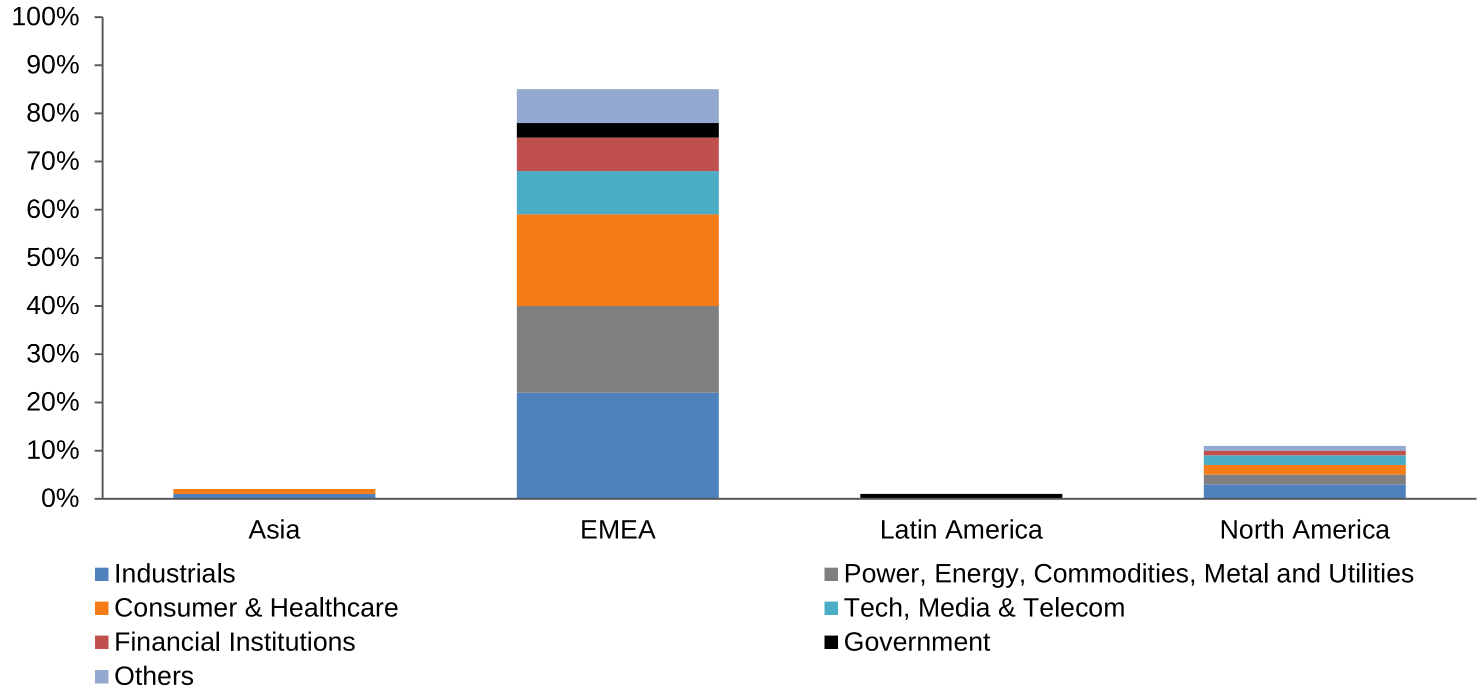
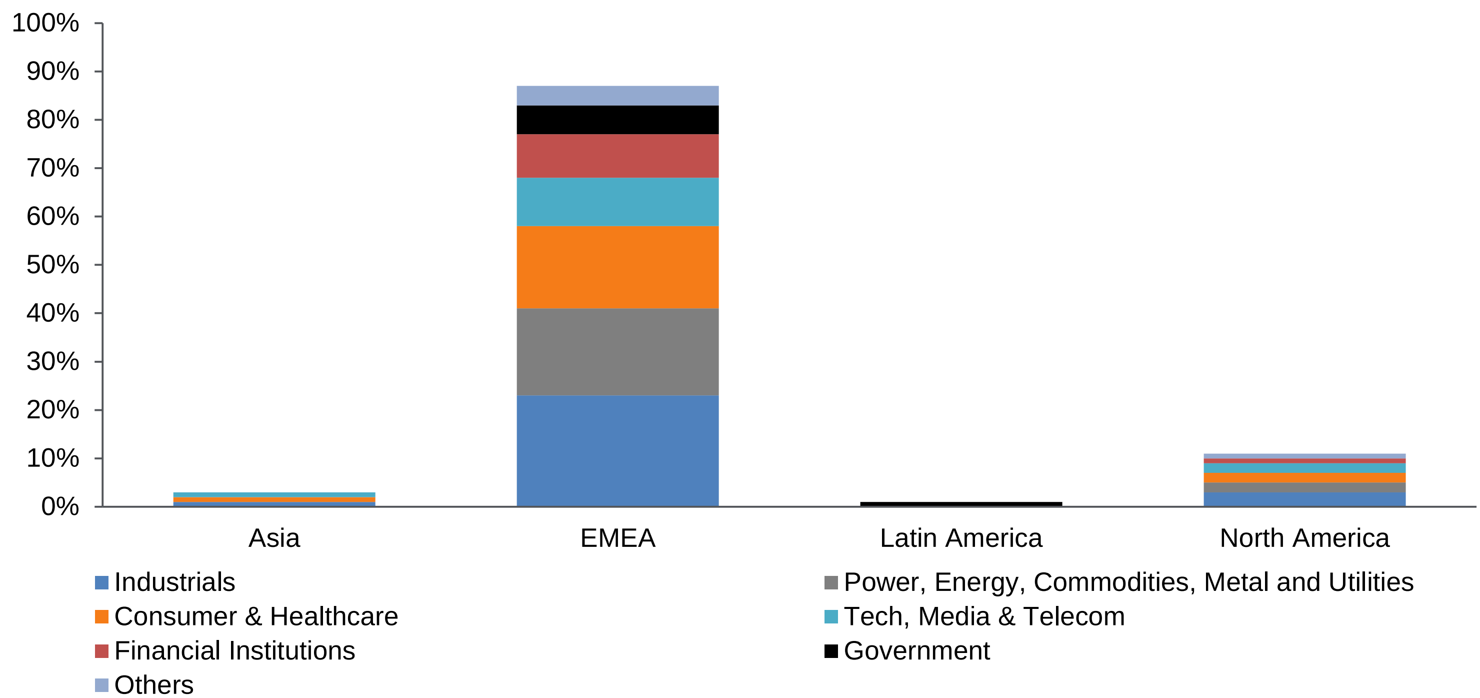



**Figure 7: CIL – Geographical Analysis as at 31 December 2013**



### 5.3.2 Credit Risk Breakdown by Sector

The following charts set out the sector distribution of credit exposures for CGML as at 31 December 2014 and 2013.

**Figure 8: CGML – Sector Analysis as at 31 December 2014**

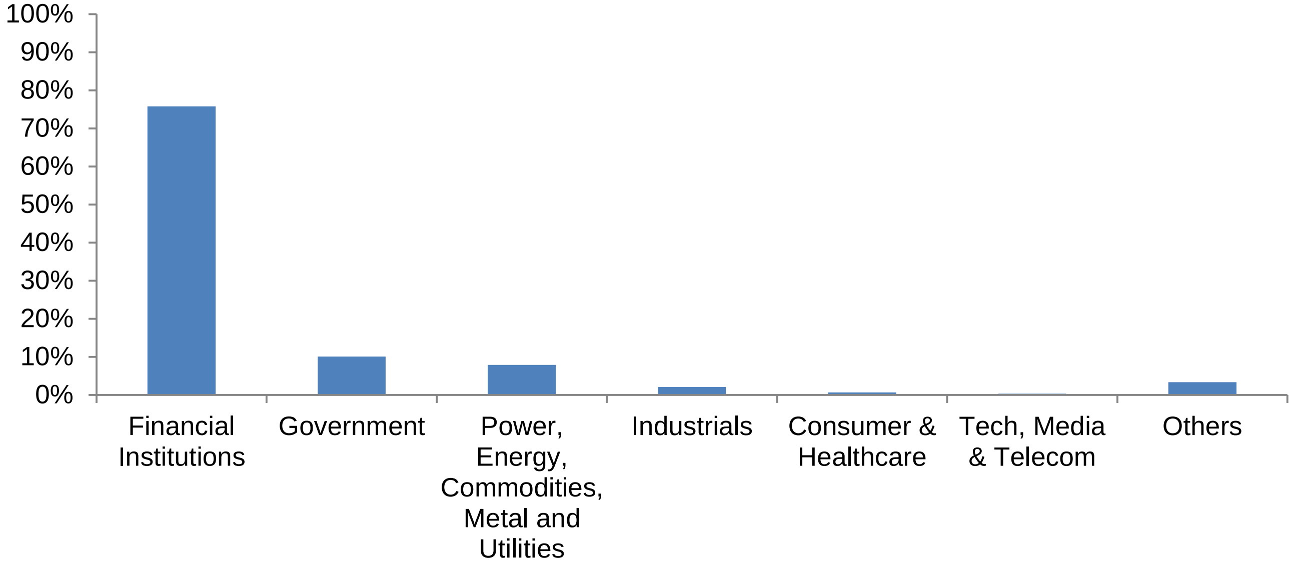
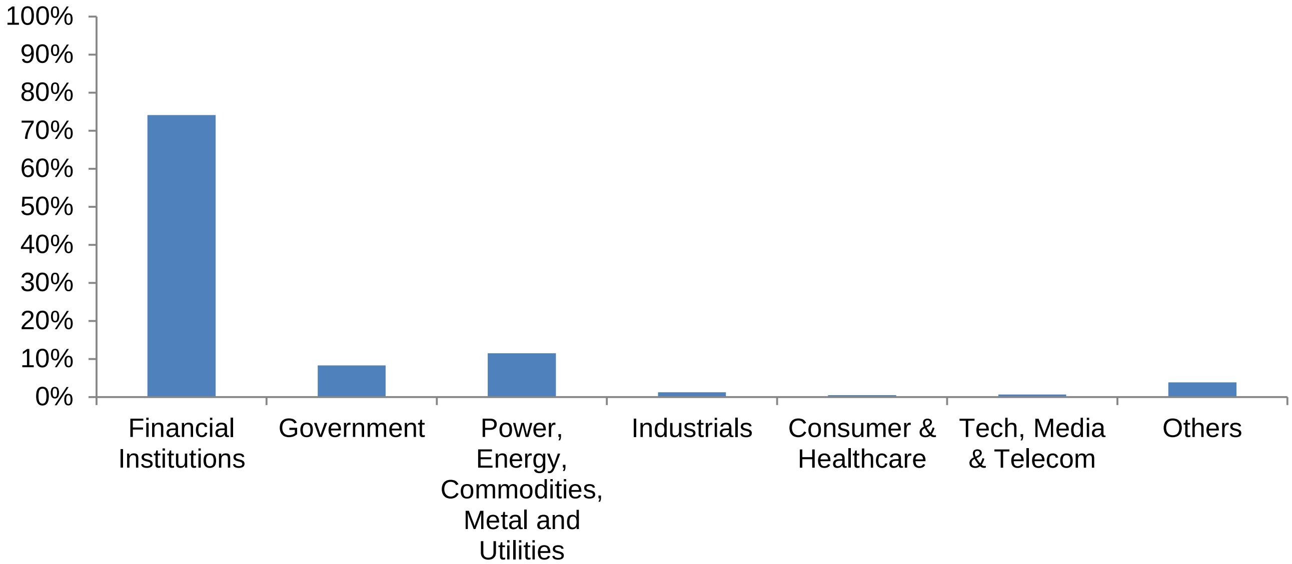



**Figure 9: CGML – Sector Analysis as at 31 December 2013**



The following charts set out the sector distribution of credit exposures for CIL as at 31 December 2014 and 2013.

**Figure 10: CIL – Sector Analysis as at 31 December 2014**

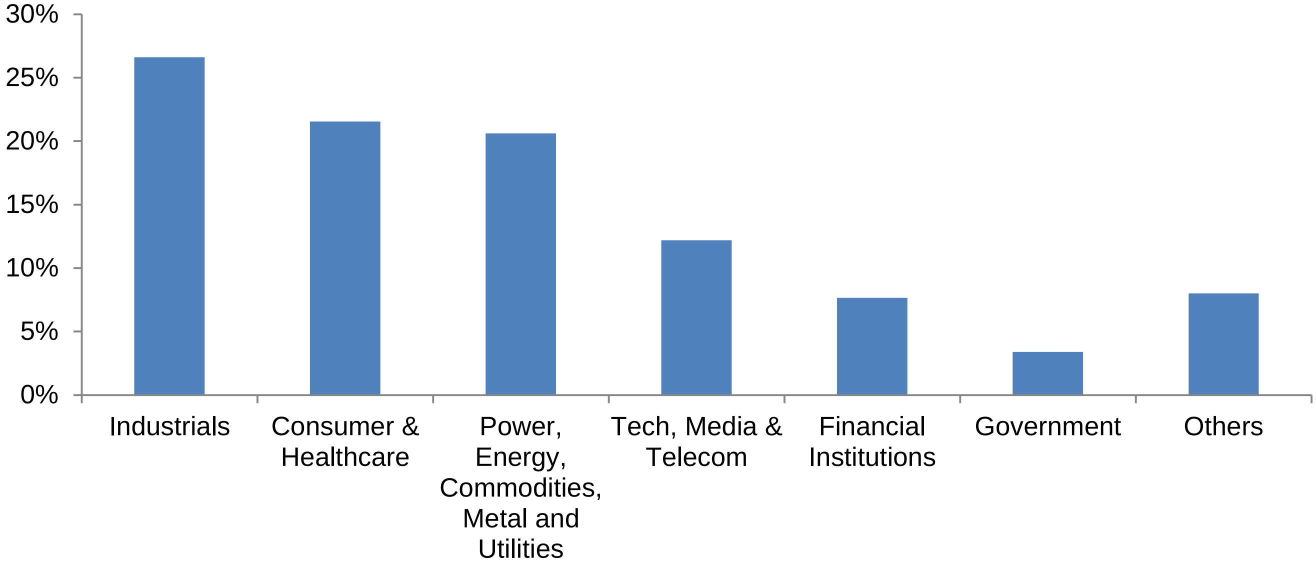
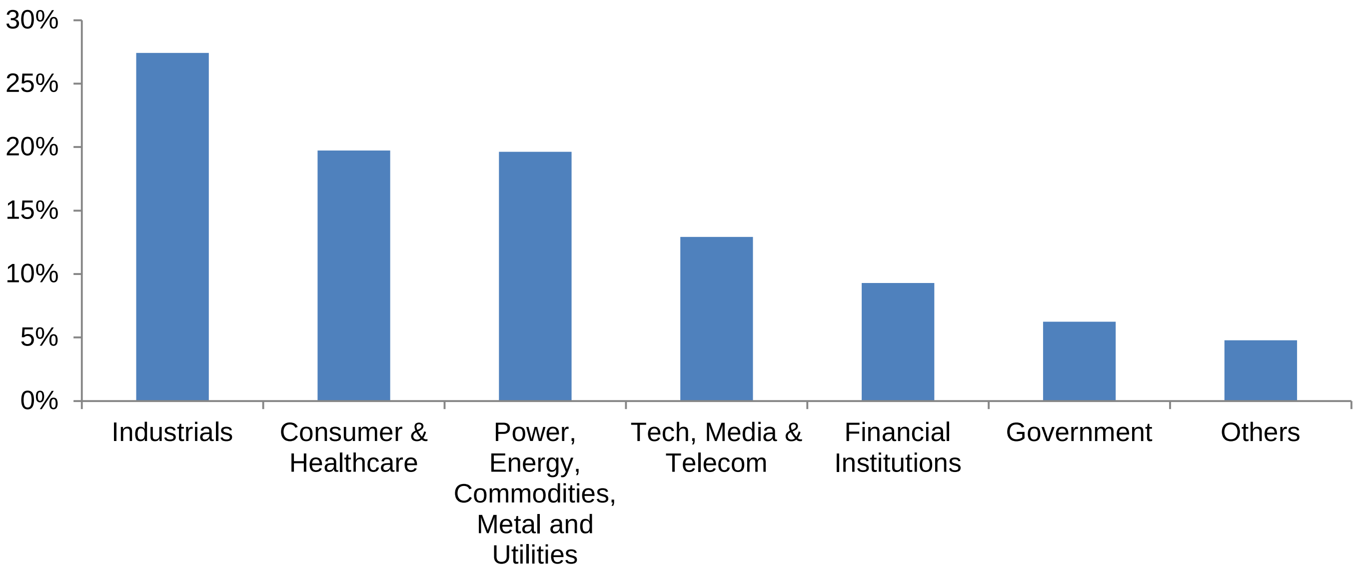



**Figure 11: CIL – Sector Analysis as at 31 December 2013**



### 5.3.3 Credit Risk Breakdown by Maturity

The following charts set out the residual maturity distribution of credit exposures for CGML and CIL as at 31 December 2014 and 2013, broken down by sector.

**Figure 12: CGML – Maturity Analysis as at 31 December 2014**

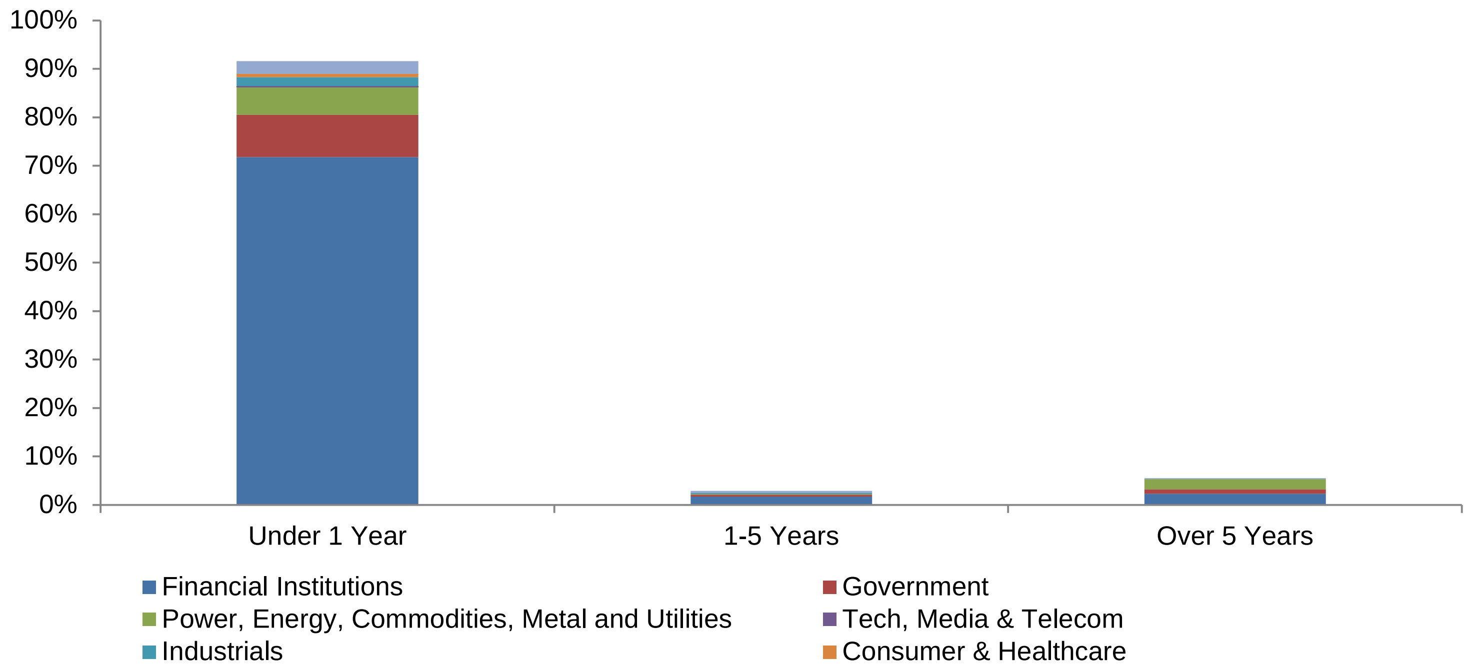



**Figure 13: CGML – Maturity Analysis as at 31 December 2013**

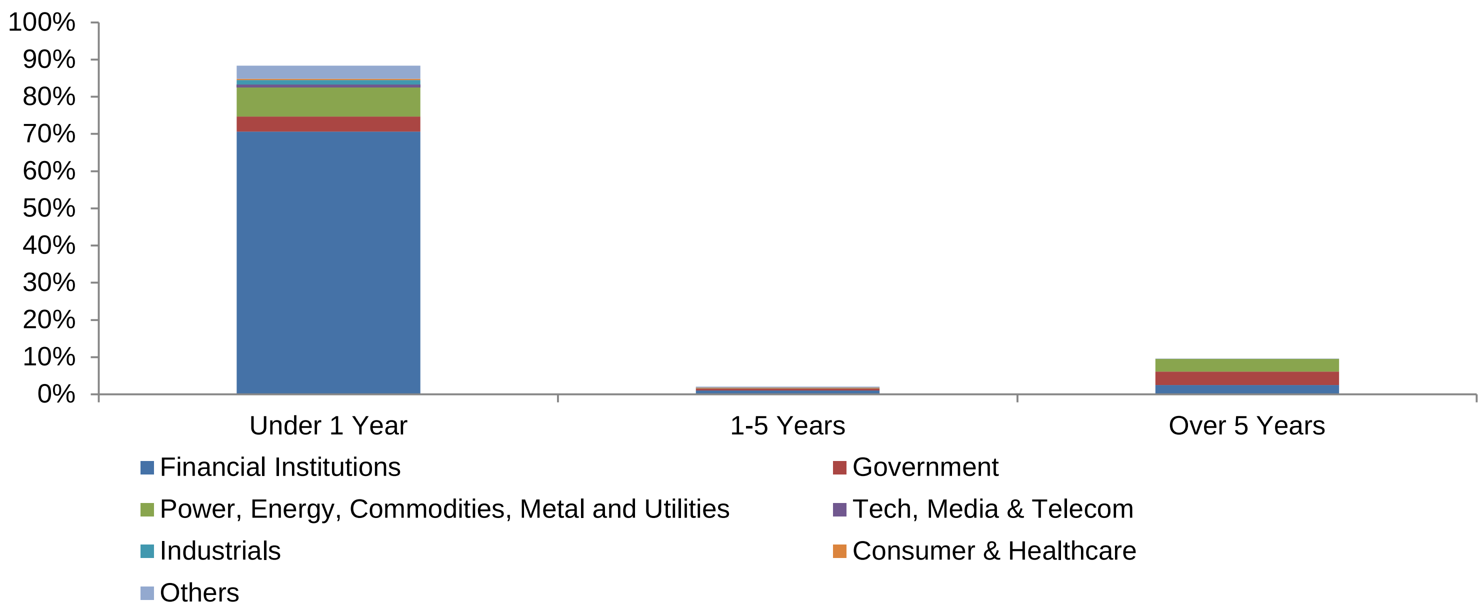


**Figure 14: CIL – Maturity Analysis as at 31 December 2014**

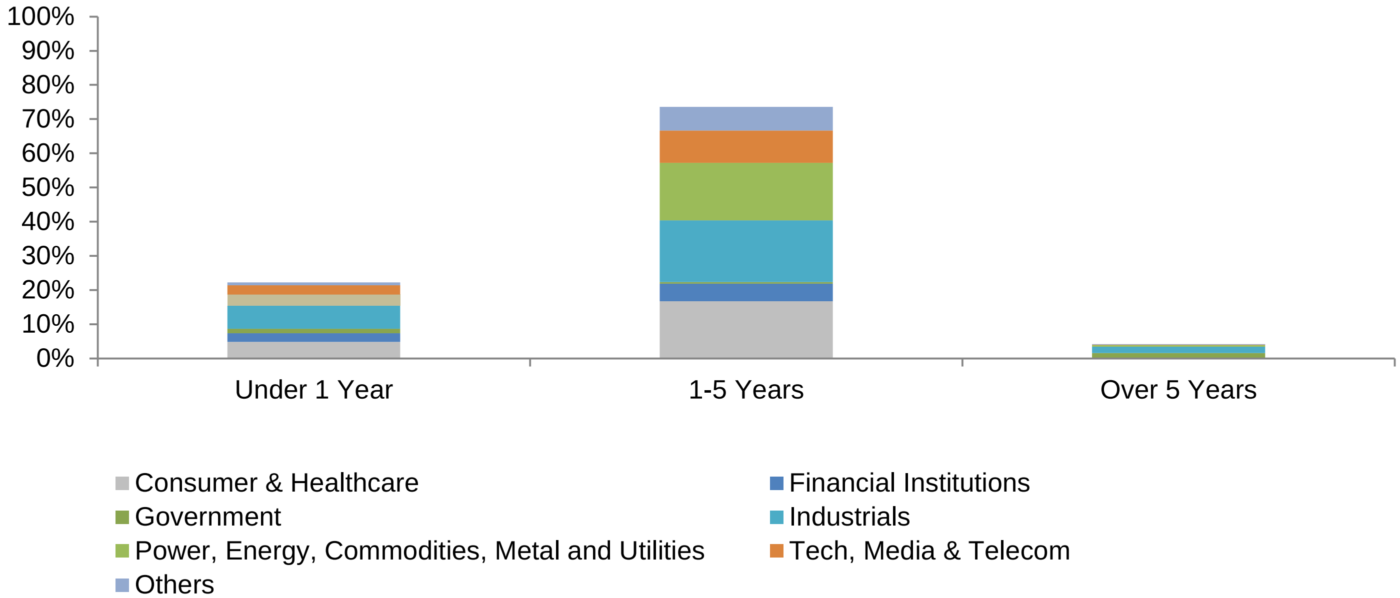
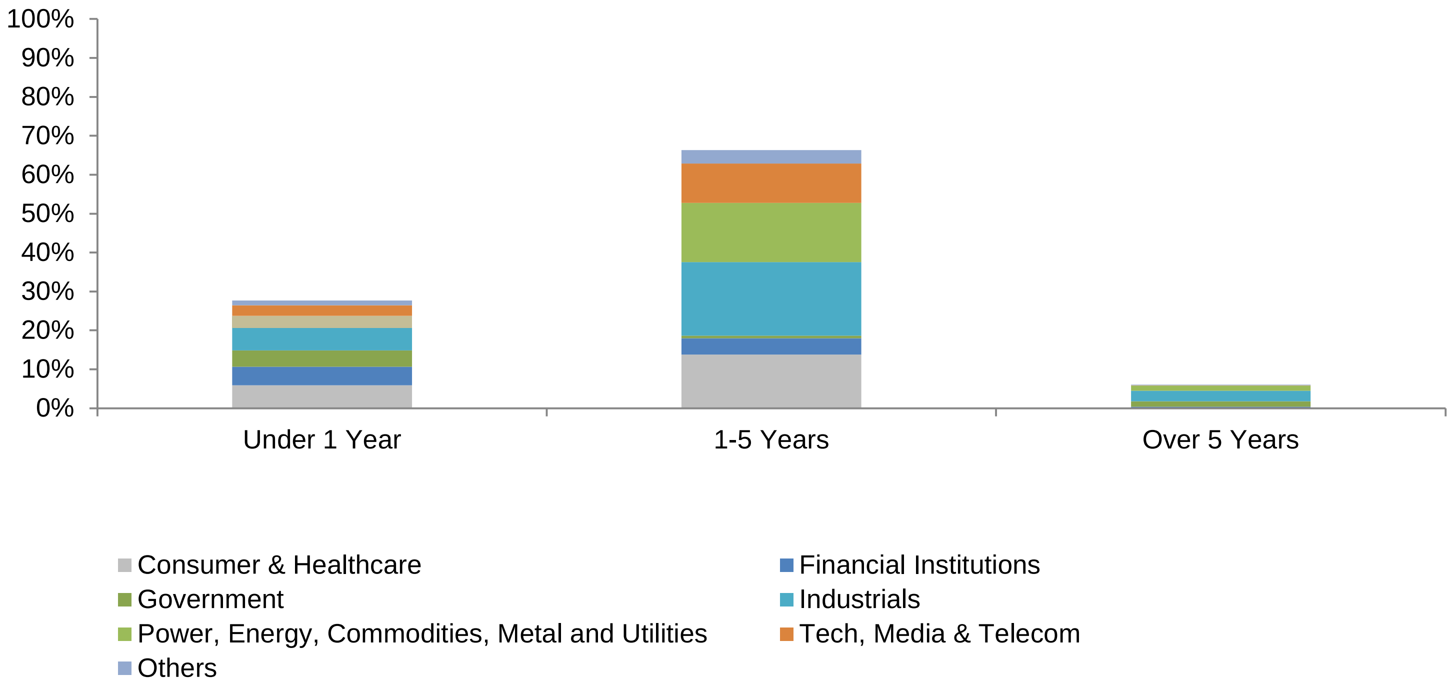



**Figure 15: CIL – Maturity Analysis as at 31 December 2013**




Please note that intercompany exposures are not included in the above charts for CGML and CIL.

### 5.3.4 Impairment

#### 5.3.4.1 Impairment of Financial Assets

Under International Financial Reporting Standards (IFRS), the firm assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired on an ongoing basis (including at each balance sheet date). A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ("a loss event") and that loss event has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the firm about the following loss events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The firm as lender, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the firm would not otherwise consider;
- 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;
- 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;
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The firm first assesses whether objective evidence of impairment exists:

- individually, for financial assets that are individually significant; and
- individually or collectively, for financial assets that are not individually significant.

If the firm determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

For loans and advances and for assets held to maturity the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows considering collateral, discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

Following impairment, interest income is recognised using the original effective interest rate which is used to discount the future cash flows for the purpose of measuring the impairment loss.

For the purposes of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics by using a grading process that considers obligor type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the likelihood of receiving all amounts due under a facility according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those of the group.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for assets held at amortised cost. However, impairment charges are recorded as the entire cumulative net loss that has previously been recognised directly in equity. Reversals of impairment of debt securities are recognised in the income statement. Reversals of impairment of equity shares are not recognised in the income statement. Increases in the fair value of equity shares after impairment are recognised directly in equity.

#### 5.3.4.2 Wholesale Impairment

Rather than measuring delinquency for a wholesale customer or for a facility to that customer by the number of days past due, impaired wholesale credit exposures are classified as either substandard or doubtful:

**Substandard**

A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardise the timely repayment of its obligations.

**Doubtful**

An asset classified as doubtful has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The value of the wholesale exposures in these categories as at 31 December 2014 and 31 December 2013 is shown in Tables 14 and 15 respectively.

**Table 14: Impaired Wholesale Exposures as at 31 December 2014**

| | **CGML** | **CIL** |
|---|---|---|
| **Exposure** | **US$ Millions** | **US$ Millions** |
| **Sub-standard** | 82 | 937 |
| **Doubtful** | 2 | 55 |
| | **84** | **992** |

**Table 15: Impaired Wholesale Exposures as at 31 December 2013**

| | **CGML** | **CIL** |
|---|---|---|
| **Exposure** | **US$ Millions** | **US$ Millions** |
| **Sub-standard** | 49 | 1,228 |
| **Doubtful** | 4 | 213 |
| | **53** | **1,441** |

These numbers include both drawn and undrawn but committed facilities and also counterparty exposures arising from OTC derivatives and SFTs. Given the relatively small number of obligors which are classified as doubtful, no further geographical or product analysis of these amounts is provided for reasons of materiality.

### 5.3.4.3 Retail Impairment

The retail exposure impairments as defined above, including collective impairment of retail portfolios and past due exposures for CIL as at 31 December 2014 and 31 December 2013 are shown in the tables below. CGML has no retail exposure.

**Table 16: Impaired Retail Exposures as at 31 December 2014**

| | **CIL** |
|---|---|
| **Exposure** | **US$ Millions** |
| **Retail*** | 11 |
| | **11** |

**Table 17: Impaired Retail Exposures as at 31 December 2013**

| | **CIL** |
|---|---|
| **Exposure** | **US$ Millions** |
| **Retail*** | 347 |
| | **347** |

*As per the CIL Annual Financial Statements for the year ended 31 December 2014.

The retail value adjustments and provisions for CIL as at 31 December 2014 and 31 December 2013 are shown in the tables below.

**Table 18: Retail Value Adjustments and Provisions as at 31 December 2014**

| | CIL<br>US$ Millions |
|---|---|
| **Real Estate** | 0 |
| **Retail*** | 1 |
| | **1** |

**Table 19: Retail Value Adjustments and Provisions as at 31 December 2013**

| | CIL<br>US$ Millions |
|---|---|
| **Real Estate** | 0 |
| **Retail*** | 132 |
| | **132** |

*As per the CIL Annual Financial Statements for the year ended 31 December 2014.

### 5.3.4.4 Movements in Impaired Exposures

For those assets held at cost, typically in the banking book, the tables below show the movements in impairments over 2014 and 2013.

**Table 20: Movements in Impairments during 2014**

| | CIL Wholesale US$ Millions | CIL Retail US$ Millions |
|---|---|---|
| Impairments at 1 January 2014 | 94 | 132 |
| Foreign exchange adjustments | (4) | (6) |
| Increase / (decrease) in credit loss allowances and provisions recognised in the income statement | 3 | 1 |
| Amounts written off | (21) | (1) |
| Disposals | 0 | (119) |
| Recoveries | (8) | 0 |
| Other | 0 | (8) |
| **Impairments at 31 December 2014*** | **64** | **(1)** |

**Table 21: Movements in Impairments during 2013**

| | CIL Wholesale US$ Millions | CIL Retail US$ Millions |
|---|---|---|
| Impairments at 1 January 2014 | 65 | 314 |
| Foreign exchange adjustments | 0 | 10 |
| Increase / (decrease) in credit loss allowances and provisions recognised in the income statement | 35 | 27 |
| Amounts written off | (15) | (17) |
| Disposals | 9 | (202) |
| Recoveries | 0 | 0 |
| Other | 0 | 0 |
| **Impairments at 31 December 2013*** | **94** | **132** |

*As per the CIL Annual Financial Statements for the year ended 31 December 2014.

Where assets are held at fair value, typically in the trading book, part of the fair value movement relates to credit exposure. However it is not always practicable to determine what portion of the fair value movement relates to credit exposures, and hence no such disclosure is provided for these assets.

## 5.4 Credit Quality Analysis

**Standardised Credit Risk Exposures**

The nominated ECAIs used by the firm are Standard & Poor's, Moody's and Fitch. These are used for all credit risk exposure classes.

Credit assessments applied to items in the trading book and banking book alike are assigned in accordance with the requirements of CRD IV.

The credit quality assessment scale assigns a credit quality step to each rating provided by the ECAIs, as set out in the table below.

**Table 22: Credit Quality Assessment Scale**

| Credit Quality Step | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| Step 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- |
| Step 2 | A+ to A- | A1 to A3 | A+ to A- |
| Step 3 | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- |
| Step 4 | BB+ to BB- | Ba1 to Ba3 | BB+ to BB- |
| Step 5 | B+ to B- | B1 to B3 | B+ to B- |
| Step 6 | CCC+ and below | Caa1 and below | CCC+ and below |

Risk weightings are assigned to each exposure depending on its credit quality step and other factors, including exposure class and maturity. Exposures for which no rating is available are treated in a similar way to those under Credit Quality Step 3. The table below sets out a simplified summary of how credit quality is linked to risk weighting.

**Table 23: Simplified Summary of Risk Weightings by Credit Quality Step**

| Credit Quality Step | Governments and Central Banks | Corporates | Institutions >3 Months Maturity |
|---|---|---|---|
| Step 1 | 0% | 20% | 20% |
| Step 2 | 20% | 50% | 50% |
| Step 3 | 50% | 100% | 50% |
| Step 4 | 100% | 100% | 100% |
| Step 5 | 100% | 150% | 100% |
| Step 6 | 150% | 150% | 150% |

The following tables set out the exposure values for CGML and CIL as at 31 December 2014 (prescribed per CRD IV) and 31 December 2013 (before and after credit risk mitigation) associated with each exposure class and credit quality step. These exposures are calculated according to regulatory requirements.

## Table 24: Credit Quality Step Analysis of Exposure before and after Credit Risk Mitigation as at 31 December 2014

| | Credit Quality Step | CGML Gross (US$ millions) | CGML Net (US$ millions) | CIL Gross (US$ millions) | CIL Net (US$ millions) |
|---|---|---|---|---|---|
| **Central governments & Central Banks** | 1 | 22,218 | 11,033 | 9,442 | 9,442 |
| | 2 | 254 | 207 | – | 72 |
| | 3 | 665 | 644 | 144 | 144 |
| | 4 | 1,007 | 862 | – | 2 |
| | 5 | 16 | 16 | 31 | 31 |
| | 6 | 1 | 1 | – | – |
| | Unrated | 16 | 4 | – | 448 |
| | | 24,175 | 12,768 | 9,618 | 10,140 |
| **Regional Governments & local Authorities** | 1 | 23 | 23 | – | – |
| | 2 | 6 | 6 | – | – |
| | 3 | 42 | 42 | – | – |
| | 4 | 20 | 20 | – | – |
| | Unrated | 1,038 | 945 | 72 | 9 |
| | | 1,129 | 1,036 | 72 | 9 |
| **Public Sector Entities** | 1 | – | – | 5 | 5 |
| | 4 | – | – | 73 | 73 |
| | Unrated | 491 | 491 | 30 | 12 |
| | | 491 | 491 | 108 | 90 |
| **Multilateral Development Banks** | 1 | 751 | 97 | 398 | 398 |
| | | 751 | 97 | 398 | 398 |
| **International Organisations** | 1 | – | – | 123 | 123 |
| | | – | – | 123 | 123 |
| **Institutions** | 1 | 7,783 | 1,876 | 817 | 432 |
| | 2 | 94,737 | 22,177 | 9,459 | 887 |
| | 3 | 3,669 | 1,503 | 253 | 253 |
| | 4 | 585 | 131 | 216 | 216 |
| | 5 | 166 | 87 | 16 | 16 |
| | 6 | 3,932 | 68 | 15 | 15 |
| | Unrated | 46,043 | 17,392 | 948 | 779 |
| | | 156,915 | 43,234 | 11,724 | 2,598 |
| **Corporates** | 1 | 1,006 | 623 | 1,545 | 1,545 |
| | 2 | 2,798 | 918 | 4,347 | 4,022 |
| | 3 | 512 | 349 | 6,402 | 6,302 |
| | 4 | 26 | 26 | 428 | 426 |
| | 5 | 3 | 3 | 358 | 358 |
| | Unrated | 78,398 | 23,418 | 11,914 | 11,536 |
| | | 82,742 | 25,337 | 24,993 | 24,189 |
| **Retail** | Unrated | – | – | 18 | 18 |
| | | – | – | 18 | 18 |
| **Secured By Mortgages On Immovable Property** | Unrated | – | – | 3 | 3 |
| | | – | – | 3 | 3 |
| **In Default** | Unrated | – | – | 1 | 1 |
| | | – | – | 1 | 1 |
| **Securitisation positions** | 1 | – | – | 172 | 172 |
| | 2 | 4 | 4 | 140 | 140 |
| | | 4 | 4 | 312 | 312 |
| **Institutions and Corporates with a Short Term Credit Assessment** | 1 | 2,742 | 2,291 | 287 | 1 |
| | 2 | 96 | 76 | 1 | 1 |
| | 3 | 32 | 27 | – | 0 |
| | | 2,871 | 2,394 | 288 | 2 |
| **Collective Investment Undertakings** | Unrated | 43 | 32 | 1 | 1 |
| | | 43 | 32 | 1 | 1 |
| **Equity Exposures** | Unrated | 36 | 36 | – | – |
| | | 36 | 36 | – | – |
| **Other items** | Unrated | 635 | 635 | 446 | 446 |
| | | 635 | 635 | 446 | 446 |
| **Total** | | **269,793** | **86,064** | **48,104** | **38,330** |

(1) Corporates include hedge funds.

Note: Pre-credit risk mitigation is shown as Gross. Post-credit risk mitigation is shown as Net.

## Table 25: Credit Quality Step Analysis of Exposure before and after Credit Risk Mitigation as at 31 December 2013

| | Credit Quality Step | CGML Gross (US$ millions) | CGML Net (US$ millions) | CIL Gross (US$ millions) | CIL Net (US$ millions) |
|---|---|---|---|---|---|
| **Central governments or central banks** | 1 | 17,664 | 6,539 | 10,722 | 11,212 |
| | 2 | 73 | 70 | – | – |
| | 3 | 572 | 529 | 769 | 769 |
| | 4 | 1,216 | 986 | 0 | 0 |
| | 5 | 81 | 81 | 14 | 14 |
| | Unrated | 16 | 16 | – | – |
| | | **19,622** | **8,221** | **11,506** | **11,995** |
| **Regional governments or local authorities** | 1 | 1 | 1 | – | – |
| | 4 | 60 | 60 | – | – |
| | Unrated | 644 | 274 | 45 | 9 |
| | | **705** | **335** | **45** | **9** |
| **Administrative bodies or non–commercial undertakings** | 1 | 10 | 10 | – | – |
| | 3 | – | – | 152 | 136 |
| | Unrated | 339 | 339 | 2 | 2 |
| | | **349** | **349** | **154** | **138** |
| **Multilateral development banks** | 1 | 3,888 | 1,066 | 227 | 227 |
| | | **3,888** | **1,066** | **227** | **227** |
| **International organisations** | 1 | – | – | 228 | 228 |
| | Unrated | – | – | 1 | 1 |
| | | **–** | **–** | **229** | **229** |
| **Institutions** | 1 | 10,361 | 6,327 | 523 | 523 |
| | 2 | 60,892 | 18,900 | 9,130 | 565 |
| | 3 | 1,150 | 312 | 254 | 254 |
| | 4 | 584 | 25 | 288 | 288 |
| | 5 | 4 | 4 | 101 | 101 |
| | 6 | 2,715 | 1 | 2 | 2 |
| | Unrated | 12,406 | 2,857 | 254 | 254 |
| | | **88,112** | **28,426** | **10,552** | **1,987** |
| **Corporates**(1) | 1 | 678 | 225 | 1,194 | 1,194 |
| | 2 | 4,281 | 1,451 | 4,872 | 4,872 |
| | 3 | 733 | 249 | 7,089 | 7,089 |
| | 4 | 58 | 58 | 654 | 654 |
| | 5 | 26 | 1 | 424 | 424 |
| | Unrated | 75,893 | 16,828 | 11,121 | 10,335 |
| | | **81,669** | **18,812** | **25,355** | **24,568** |
| **Retail** | Unrated | – | – | 355 | 355 |
| | | **–** | **–** | **355** | **355** |
| **Secured on real estate property** | Unrated | – | – | 62 | 62 |
| | | **–** | **–** | **62** | **62** |
| **Past due items** | Unrated | – | – | 2 | 2 |
| | | **–** | **–** | **2** | **2** |
| **Securitisation positions** | 1 | – | – | 220 | 220 |
| | Deduction | 6 | 6 | – | – |
| | | **6** | **6** | **220** | **220** |
| **Short term claims on institutions and corporates** | 1 | 8,071 | 1,150 | – | – |
| | 2 | 2,060 | 215 | – | – |
| | 3 | 444 | 32 | – | – |
| | | **10,575** | **1,397** | **–** | **–** |
| **Collective investment undertakings** | Unrated | 52 | 46 | – | – |
| | | **52** | **46** | **–** | **–** |
| **Other items** | Unrated | – | – | 386 | 386 |
| | | **–** | **–** | **386** | **386** |
| **Total** | | **204,978** | **58,658** | **49,093** | **40,179** |

(1) Corporates include hedge funds.

Note: Pre-credit risk mitigation is shown as Gross. Post-credit risk mitigation is shown as Net.

## 5.5 Credit Risk Mitigation

As part of its risk management activities, Citi uses various risk mitigants to hedge portions of the credit risk in its portfolios, in addition to outright asset sales. Credit risk mitigation, including netting, collateral and other techniques, is important to Citi in the effective management of its credit risk exposures.

Generally, in consultation with legal counsel, Citi determines whether collateral documentation is legally enforceable and gives Citi the right to liquidate or take possession of collateral in a timely manner in the event of the default, insolvency, bankruptcy or other defined credit event of the obligor. Also in consultation with legal counsel, Citi approves relevant jurisdictions and counterparty types for netting purposes. Off-balance sheet netting and netting of the collateral against the exposure is permitted under approved circumstances.

**Valuation**

Collateral valuations must be completed daily for SFTs, OTC derivatives and margin lending by the relevant operations units and collateral/margin departments. Collateral haircuts are applied in a number of circumstances, such as where there is a material positive correlation between the credit quality of the counterparty and the value of the collateral, or where there are currency or maturity mismatches. The firm has sound and well managed systems and procedures for requesting and promptly receiving additional collateral for transactions whose terms require maintenance of collateral values at specified thresholds as documented in the respective legal agreements.

**Reporting**

The firm has procedures in place to ensure that appropriate information is available to support the collateral process and that timely and accurate margin calls feed correctly into the margin applications from upstream systems. Key to the process is a daily credit exposure report as well as reports identifying counterparties that have not met their requirement for additional collateral to satisfy specified initial margin amounts and variation margin thresholds. In addition, there is firm wide risk reporting of counterparty exposures at an individual and an aggregate level.

**Collateral Concentrations**

Apart from the concentration of cash as the predominant form of collateral accepted in respect of margined OTC derivative transactions and sovereign government bonds within SFTs, there were no other material concentrations of collateral as at 31 December 2014.

**Other Forms of Credit Risk Mitigation**

CGML benefits from legally binding support from Citigroup Inc. that guarantees its exposures to a limited number of Citigroup affiliates. This results in a reduction in Risk Weighted Assets as CGML benefits from the superior rating of Citigroup Inc.

The companies covered by this disclosure do not use credit derivatives to mitigate their own counterparty risk exposure, but Citi does use credit derivatives for this purpose when exposure is viewed at a global level, and such hedging is carried out by certain US affiliate companies.

**Exposures**

The following tables set out the exposures covered by credit risk mitigation in the calculation of RWAs under the standardised approach for each major operating legal vehicle as at 31 December 2014 (under CRD IV) and 31 December 2013. The tables do not include the benefits of modelling collateral in respect of OTC derivative exposures covered by CGML's Internal Models Method (IMM), which are described in other sections of this disclosure.

**Table 26: Exposures Covered by Credit Risk Mitigation as at 31 December 2014**

| | CGML<br>US$ Millions | CIL<br>US$ Millions |
|---|---|---|
| **Covered by eligible financial collateral:** | | |
| Central governments and central banks | 11,408 | - |
| Regional governments and local authorities | 93 | - |
| Public sector entities | - | 10 |
| Multilateral development banks | 654 | - |
| Institutions | 113,681 | 9,126 |
| Corporates | 57,406 | 352 |
| Institutions and corporates with a short term credit assessment | 476 | 286 |
| Collective investment undertakings | 11 | - |
| **Total** | **183,728** | **9,775** |
| | | |
| **Of which covered by guarantees or credit derivatives:** | | |
| Central governments & central banks | - | 116 |
| Regional governments & local authorities | - | 63 |
| Public sector entities | - | 7 |
| Corporates | 3,550 | 452 |
| **Total** | **3,550** | **638** |

(1) Corporates include hedge funds.

**Table 27: Exposures Covered by Credit Risk Mitigation as at 31 December 2013**

| | CGML US$ Millions | CIL US$ Millions |
|---|---|---|
| **Covered by Eligible Financial Collateral** | | |
| Central governments or central banks | 11,401 | - |
| Regional governments or local authorities | 370 | - |
| Multilateral development banks | 2,822 | - |
| Institutions | 59,686 | 8,565 |
| Corporates(1) | 62,857 | 349 |
| Short-term claims on institutions and corporates | 9,178 | - |
| Collective investment undertakings | 6 | - |
| **Total** | **146,320** | **8,915** |
| **Covered by Guarantees or Credit Derivatives** | | |
| Central governments and central banks | - | 62 |
| Regional governments and local authorities | - | 36 |
| Administrative bodies and non-commercial undertakings | - | 16 |
| Corporates(1) | 3,018 | 437 |
| **Total** | **3,018** | **551** |

(1) Corporates include hedge funds.

## 6. Market Risk

As per the CGML IMA Permission Notice dated 28 November 2014, CGML uses the internal models approach ('IMA') permission to use Value at Risk ('VaR') models to measure market risks and to determine the own funds capital requirement for market risk for certain categories of instrument.

The market risk capital requirements of CGML and CIL summarised in Section 4 (Capital Adequacy). Market Risk is responsible for a significant proportion of CGML's overall capital requirements.

### 6.1 Market Risk Management

Price risk in trading portfolios is monitored by the firm using a series of measures, including:

- Factor sensitivities;
- VaR;
- Stress testing.

***Factor sensitivities*** represent the change in the value of a position for a defined change in a market risk factor, such as a change in the value of a Treasury bill for a one basis point change in interest rates. Citigroup's independent Market Risk Management function ensures that factor sensitivities are calculated, monitored and, in most cases, limited, for all relevant risks taken in a trading portfolio.

***VaR*** estimates the potential decline in the value of a position or a portfolio under normal market conditions. The firm's VaR methodology incorporates the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors and is expressed as the risk to the firm over a one-day holding period, at a 99% confidence level. Citigroup's VaR is based on the volatilities of and correlations between a multitude of market risk factors, as well as factors that track the specific issuer risk in debt and equity securities.

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

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

### 6.2 Market Risk Regulatory Capital

CGML uses a ***VaR*** model to calculate market risk capital requirements for the majority of its trading portfolio under an Internal Model Approach (IMA) permission waiver granted by the PRA. The permission covers general market risk and issuer specific risk for a number of Fixed Income, Equities and Commodities businesses. In addition to VaR based capital requirements, CGML is required to set aside capital in respect of Stressed VaR and the Incremental Risk Charge.

The VaR model, as described above, is designed to capture potential market losses at a 99% confidence level over a one day holding period. The key components of the VaR model are the variance/covariance matrix of market variables and the sensitivity of Citi's trading portfolio to those variables. The variance/covariance matrix is calibrated using three years of market data, with some volatility adjusted up to capture fat tail effects at a 99% confidence level over a one day period, and others adjusted up to capture short term spikes in volatility. Market variations simulated from the matrix by a Monte Carlo methodology are applied to the set of factor sensitivities to generate a forecast distribution of one day profit and loss, from which the VaR can be computed. The factor sensitivities are designed to capture all material market risks on each trading asset, both linear and non-linear in nature.

***Stressed VaR (SVaR)*** estimates the potential decline in the value of a position or a portfolio under stressed market conditions. The firm's Stressed VaR methodology incorporates the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors under stressed conditions and is expressed as the risk to the firm over a one-day holding period, at a 99% confidence level.

Citi's Monte Carlo VaR / SVaR model incorporates a full covariance matrix. The volatilities and correlations are built from thousands of market factors with actual time series from the last three years for VaR and a one-year stress period for SVaR. Proxy rules exist for market factors that do not have a sufficiently long time series or where the relevant data are inappropriate for matrix construction (e.g. due to gaps, unreliable sources, too short history). Aggregation of VaR / SVaR components by market factors or portfolios is fully integrated into the model. The model accepts as inputs the full risk profile from all trading activity in the form of risk factor sensitivities. Revaluation grids are used for nonlinear positions. 10-day VaR / SVaR numbers are calculated directly from 10-day volatility estimates. Production and reporting takes place on a daily basis and for any requested sub-portfolio or market factor.

The ***Incremental Risk Charge (IRC)*** is a measure of potential losses due to default and credit migration risk over a one-year time horizon at a one-tailed, 99.9% confidence level under the assumption of constant positions.

A Monte Carlo in-house 6-factor copula model is used for the correlations between issuers. The correlation depends mainly on the risk rating, region and industry sector of the issuer, and thus provides a richer correlation structure than what has been observed with 1-factor copula models. The model is calibrated annually to the public data of over 20,000 companies maintained within Citi's databases and has been the subject of independent model validation. The six factors correspond to the market and the principal components of industry sectors. The migration and default of each issuer are modelled consistently by a single normal random variable which is mapped to the inverse normal cumulative distribution of the transition matrix to determine whether a migration or a default happens. The transition matrix is based on publicly available data from rating agencies. The scope of the issuers that are used for the calibration of the model encompasses the full spectrum of relevant trading products. The model accepts as inputs the jump-to-default amounts and the spread sensitivities from every debt issuer with interest rate exposure in Citi's systems. Recovery rates are also simulated with their parameters properly calibrated to market data.

In addition, for the businesses within the scope of its IMA permission, CGML holds capital buffers in respect of certain risks not fully captured by its VaR / SVaR model.

The highest, lowest, mean and year end level of the daily VaR, SVaR and IRC measures during 2014 and 2013 were as follows:

**Table 28: CGML Key VaR Metrics in 2014**

| **VaR** | **USD thousands** |
|---|---|
| Highest | 44,785 |
| Lowest | 19,349 |
| Mean | 31,498 |
| **31-Dec-14** | **20,168** |

| **SVaR** | **USD thousands** |
|---|---|
| Highest | 114,545 |
| Lowest | 38,805 |
| Mean | 70,160 |
| **31-Dec-14** | **57,443** |

| **IRC** | **USD thousands** |
|---|---|
| Highest | 1,084,860 |
| Lowest | 410,908 |
| Mean | 801,965 |
| **31-Dec-14** | **515,162** |

**Table 29: CGML Key VaR Metrics in 2013**

| VaR | USD thousands |
|---|---|
| Highest | 58,793 |
| Lowest | 20,563 |
| Mean | 29,111 |
| **31-Dec-13** | **23,540** |

| SVaR | USD thousands |
|---|---|
| Highest | 111,100 |
| Lowest | 34,338 |
| Mean | 54,707 |
| **31-Dec-13** | **58,815** |

| IRC | USD thousands |
|---|---|
| Highest | 1,673,195 |
| Lowest | 287,744 |
| Mean | 729,591 |
| **31-Dec-13** | **948,500** |

Backtesting, the comparison of VaR to actual profit and loss results, is conducted on a daily basis, at both legal vehicle and business levels. In addition, Citi performs hypothetical backtesting against hypothetical profit and loss results (the daily profit or loss that would arise from a constant trading portfolio) at both levels in order to ensure that the business VaR models meet supervisory standards for the measurement of regulatory capital. Under normal and stable market conditions, Citi would expect the number of days where trading losses exceed its VaR to be no more than two or three occasions per year. Periods of unstable market conditions could increase the number of these exceptions.

The graphs below illustrate a comparison of the daily end-of-day VaR measure with the one-day change in the portfolio's value by the end of the subsequent business day (hypothetical P&L) for each day in 2014 and 2013.

**Figure 16: CGML Combined VaR for Businesses within the IMA Scope 2014**

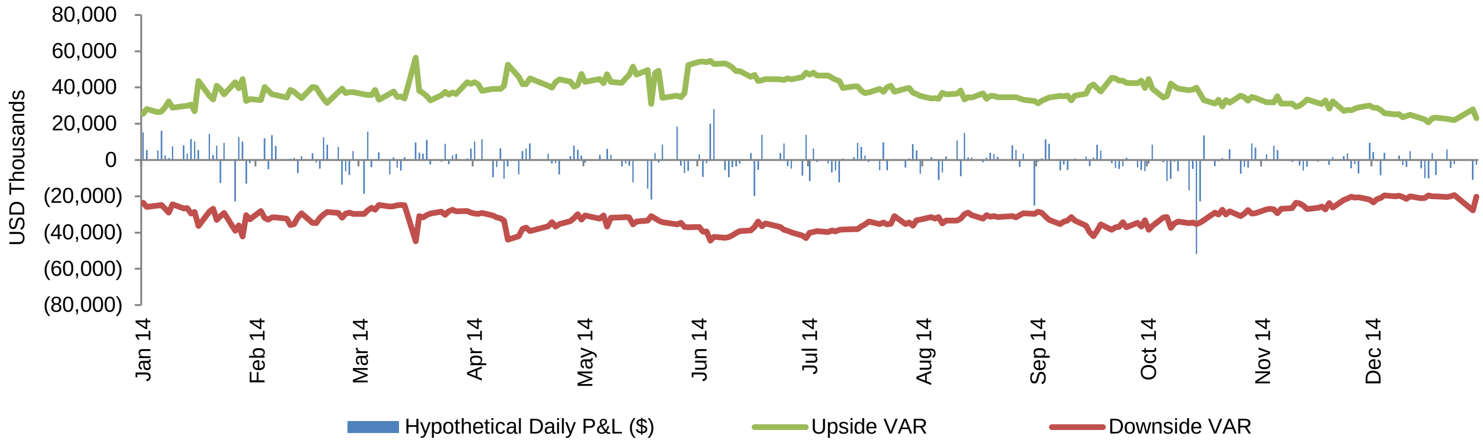
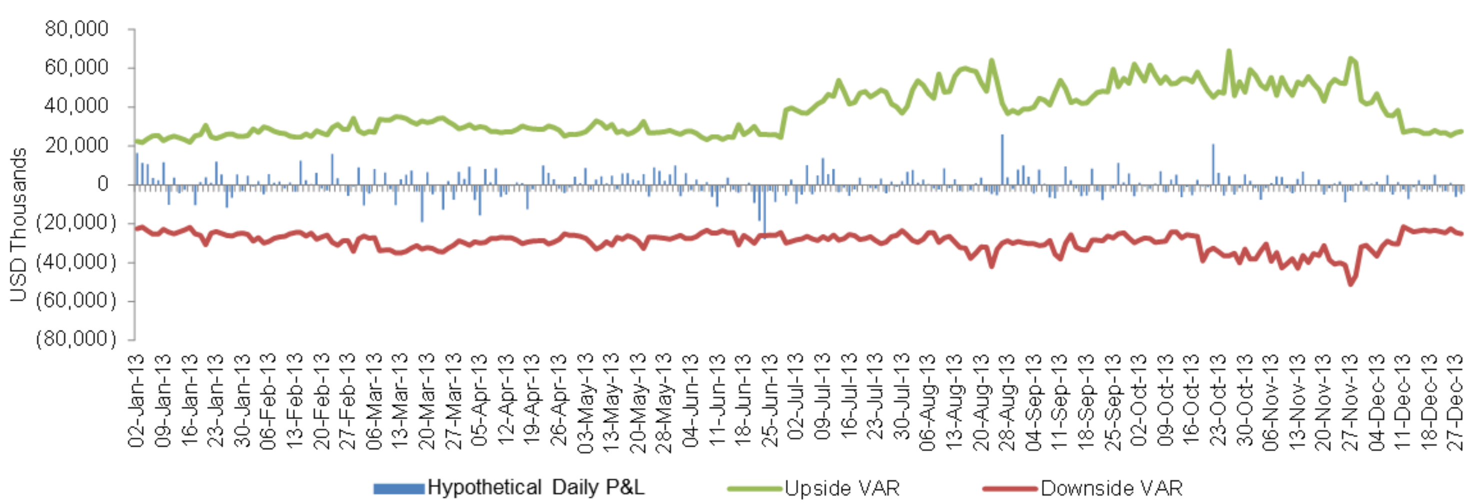



**Figure 17: CGML Combined VaR for Businesses within the CAD2 Scope 2013**




Note:

The downside VaR in the figures is taken as the 100th worst loss out of 10,000 simulated daily P&Ls (1st percentile) from Citi's Monte Carlo VaR model. The upside VaR was the opposite of that number (profit) until 28 June 2013. After 28 June 2013, the upside VaR is taken to be the 100th best profit out of the 10,000 simulations (99th percentile). Hypothetical P&L represents market moves, excluding all trading P&L, fees, funding, accruals and FX movements.

Citi employs two complementary approaches to stress testing: top-down systemic stresses and bottom-up business specific stresses. Systemic stresses 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 stresses are designed to probe the risks of particular portfolios and market segments, especially those risks that are not fully captured in either the VaR model or the systemic stresses.

Total revenues of the trading business consist of:

- Customer revenue, which includes spreads from customer flow activity and gains on positions; and
- Net interest income.

Citi's UK legal entities maintain the necessary systems, controls and documentation to demonstrate appropriate standards in respect of valuation, reporting and valuation adjustments.

## 7. Operational Risk

### Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or human factors, or from external events, and includes reputation and franchise risk associated with business practices or market conduct in which Citi is involved.

Operational risk is inherent in Citigroup's global business activities, as well as the internal processes that support those business activities, and can result in losses arising from events related to the following, among others:

- Fraud, theft and unauthorised activities;
- Employment practices and workplace environment;
- Clients, products and business practices;
- Physical assets and infrastructure; and
- Execution, delivery and process management.

### Operational Risk Measurement and Stress Testing

Citi's UK legal entities have been applying the Advanced Measurement Approach (AMA) in deriving its operational risk regulatory capital since 2007. Pursuant to the AMA, Citi employs units of measure which are defined by lines of business and event types (e.g. Trading and Sales–internal fraud, and Retail Banking–clients, products and business practices).

Separately, loss severity and frequency are modelled independently. The loss severity is based on Citi's historical internal operational risk loss data, as well as industry loss data. The mean frequency of losses is estimated from Citi's internal experience. The modelled losses across the units of measure are aggregated considering some correlation in losses across business and event types. The results are subsequently modified each quarter by applying a "qualitative adjustment factor" to reflect the current business environment and internal control factors. Citi uses insurance for the purposes of partially mitigating operational risk; however, such insurance does not have a material impact on Citi's operational risk capital.

Further, scenario analysis is used as a management tool to provide a forward-looking view of specified, identified operational risks. Scenario analysis is conducted by major legal entity business as 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. Scenario analysis results are not used as a direct input into the AMA calculation but are used to benchmark the capital model.

### Conduct Risk

Citi's approach to conduct risk is outlined earlier in these disclosures under Section 2.5.

# 8. Non-Trading Book Exposures

## 8.1 Non-Trading Book Equity Exposures

Citi's UK legal vehicles have a small number of equity investments which are held outside the trading book. This category includes investments in clearing houses, exchanges and other strategic investments which are required to be held for membership, access or relationship purposes, and which are otherwise not traded. They are carried on the balance sheet at fair value where this is readily determinable. Where this is not the case, the investment is carried at cost. The market price is deemed to be the fair value for exchange traded equities.

**Table 30: Non-Trading Book Equity Exposures as at 31 December 2014**

| | US$ millions |
|---|---|
| Investments Held at Fair Value | 32 |
| Investments Held at Cost | 21 |
| **Total** | **53** |

**Table 31: Non-Trading Book Equity Exposures as at 31 December 2013**

| | US$ millions |
|---|---|
| Investments Held at Fair Value | 42 |
| Investments Held at Cost | 8 |
| **Total** | **50** |

## 8.2 Interest Rate Risk in the Non-Trading Book

One of Citi's primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the customer's requirements with regard to tenor, index and rate type. Net Interest Revenue (NIR) is the difference between the yield earned on the non-trading book portfolio assets (including customer loans) and the rate paid on the liabilities (including customer deposits or company borrowings). The NIR is affected by changes in the level of interest rates. For example:

- At any given time, there may be an unequal amount of assets and liabilities which are subject to market rates due to maturation or repricing. Whenever the amount of liabilities subject to repricing exceeds the amount of assets subject to repricing, a company is considered "liability sensitive." In this case, a company's NIR will deteriorate in a rising rate environment.
- The assets and liabilities of a company may reprice at different speeds or mature at different times, subjecting both "liability sensitive" and "asset sensitive" companies to NIR sensitivity from changing interest rates. For example, a company may have a large amount of loans that are subject to repricing this period, but the majority of deposits are not scheduled for repricing until the following period. That company would suffer from NIR deterioration if interest rates were to fall.

NIR in the current period is the result of customer transactions and the related contractual rates originated in prior periods as well as new transactions in the current period; those prior period transactions will be impacted by any changes in rates on floating rate assets and liabilities in the current period.

Due to the long-term nature of many of the firm's portfolios, NIR will vary from quarter to quarter even assuming no change in the shape or level of the yield curve as the assets and liabilities reprice.

**Interest Rate Risk Governance**

The risks in Citi's non-traded portfolios are estimated using a common set of standards that define, measure, limit and report the market risk. Each business is required to establish, with approval from independent Market Risk Management, a market risk limit framework that clearly defines approved risk profiles and is within the parameters of Citi's overall risk appetite. In all cases, the businesses are ultimately responsible for the market risks they take and for remaining within their defined limits. These limits are monitored by independent Market Risk Management and country and business Asset and Liability Committees (ALCOs).

**Interest Rate Risk Measurement**

Citigroup's principal measure of risk to NIR is Interest Rate Exposure (IRE). IRE measures the change in expected NIR in each currency resulting solely from potential changes in forward interest rates. Factors such as changes in volumes, spreads, margins and the impact of prior-period pricing decisions are not captured by IRE. IRE assumes that businesses make no additional changes in pricing or balances in response to the potential rate changes.

The impact of changing prepayment rates on loan portfolios is incorporated into the results. For example, in declining interest rate scenarios, it is assumed that mortgage portfolios prepay faster and income is reduced.

The IRE measures the potential change in expected net interest earnings over an accounting horizon of 12 months, 2 years, 5 years and 10 years and has been broken down into the main currencies on each company's balance sheet. The following tables show the IRE measures for CIL over a 12 month horizon as at 31 December 2014 and 31 December 2013 assuming a parallel upward shift of interest rates by 100 bps. A positive IRE indicates a potential increase in earnings while a negative IRE indicates a potential decline in earnings.

The change in ICG USD exposure reflects a small increase in lending. The reduction in EUR exposure is mainly driven by a decrease in the bond portfolio, whilst the GBP variance is primarily due to a rise in lending with an expectation of a rate increase. GCB activity declined during the year with only small residual exposures remaining by year end.

**Table 32: CIL Interest Rate Exposure as at 31 December 2014**

| | | GCB | ICG | Total |
|---|---|---|---|---|
| | | US$ Millions | US$ Millions | US$ Millions |
| **12 Months** | **USD** | 0.60 | 2.20 | 2.80 |
| | **EUR** | 0.20 | (5.80) | (5.50) |
| | **GBP** | 1.60 | 15.30 | 16.80 |

**Table 33: CIL Interest Rate Exposure as at 31 December 2013**

| | | GCB | ICG | Total |
|---|---|---|---|---|
| | | US$ Millions | US$ Millions | US$ Millions |
| **12 Months** | **USD** | (2.1) | 1.10 | (1.0) |
| | **EUR** | (3.0) | (12.2) | (15.2) |
| | **GBP** | (7.9) | 6.10 | (1.7) |

Please note that CGML's business is almost entirely trading book in nature and therefore does not give rise to any material accrual book interest rate risk.

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## 9. Securitisation Activity

Citi's UK legal entity securitisation activities fall within the Institutional Clients Group (ICG) business segment.

Within ICG, securitisation activity is conducted within *Global Securitised Products (GSP)* and *Global Securitised Markets (GSM)*. GSM is further split into Global Securitised Markets Real Estate Finance and Global Securitised Markets ABS (Asset Backed Security) Trading.

**Global Securitised Products**

This group within ICG structures and underwrites securitisations of financial assets primarily for financial institutions across EMEA.

The desk originates and distributes (both via bank loan syndication and capital markets) secured risk based mainly on tranching and rating of that risk.

**Global Securitised Markets**

*Global Securitised Markets Real Estate Finance*

The Real Estate Finance group is focused on structuring and advising on real estate financings and securitisations. Real estate assets include commercial and residential real estate, hotels, pubs and retail.

Market events since the financial crisis have had a marked effect on the business, with the ability to distribute risk in the capital markets curtailed. The basic business model (origination, execution, distribution) remains unchanged and focus will be to further develop distribution channels.

Most of the Global Securitised Markets Real Estate Finance group's activity is conducted on the books of CGML and Citibank NA, with some positions booked on CIL and Citigroup Financial Products Inc.

*Global Securitised Markets ABS Trading*

Within this group, the ABS desk actively trades both new and existing ABS, RMBS securities and real estate loans. This desk is a trading business that utilises CGML as a booking entity for securities and CIL and Citigroup Financial Products Inc. for loans.

The ECAIs used by the ICG securitisation business are as follows:

- Standard and Poor's – ABS exchange service and Ratings Direct (general); rating of Conduit Programmes; preliminary ratings assessments (at loan stage) and final determinations or assessments at the time of a capital markets issuance
- Moody's – Real estate related break-ups; rating of Conduit Programmes; preliminary ratings assessments (at loan stage) and final determinations or assessments at the time of a capital markets issuance
- Fitch – Real estate related break-ups and general surveillance; rating of Conduit Programmes; preliminary ratings assessments (at loan stage) and final determinations or assessments at the time of a capital markets issuance

**Approaches to Calculating Risk Weighted Exposure Amounts**

Where applicable, the firm's capital requirements for securitisation activity are calculated in accordance with CRD IV.

**Accounting Policies for Securitisation Activity in the Banking Book (IFRS)**

CIL has historically securitised a number of different asset classes including commercial mortgages, credit card receivables and residential mortgages as a means of strengthening the balance sheet and accessing competitive financing rates in the market. Under these securitisation programs, assets are sold into a trust and used as collateral by the trust to obtain financing. The cash flows from assets in the trust service the corresponding trust securities. If the structure of the trust meets certain accounting guidelines, trust assets are treated as sold and are no longer reflected as assets of the company. If these guidelines are not met, the assets continue to be recorded as the company's assets, with the financing activity recorded as liabilities on its balance sheet. Substantially all CIL securitisations are on balance sheet.

There are two key accounting determinations that must be made relating to securitisations.

- First, for each securitisation entity with which it is involved, the company makes a determination of whether the entity should be considered a subsidiary of the company and be included in its consolidated financial statements or whether the entity is sufficiently independent that it does not need to be consolidated. Subsidiary undertakings, including special purpose entities that are directly or indirectly controlled by the group, are consolidated.
- Second, in the case where Citi originated or owned the financial assets transferred to the securitisation entity, a decision must be made as to whether that transfer is considered a sale under the appropriate accounting framework. Financial assets are derecognised when the right to receive cash flows from the assets has expired or the group has transferred substantially all the risks and rewards of ownership.
  - If it is a sale, the transferred assets are removed from the company's consolidated balance sheet with a gain or loss recognised.
  - Alternatively, when the transfer would be considered to be a financing rather than a sale, the assets will remain on the company's consolidated balance sheet with a corresponding liability recognised in the amount of proceeds received.

Interests in the securitised and sold assets may be retained in the form of subordinated interest-only strips, or other subordinated tranches, spread accounts, servicing rights and derivative instruments. Broadly, commercial mortgage and other loans related to securitisations are classified within loans and advances to customers, the corresponding liabilities are classified within debt securities in issue.

Gains or losses on securitisation and sale depend in part on the previous carrying amount of the loans involved in the transfer. Should the assets be derecognised (see above), gains are recognised at the time of securitisation and are reported in other revenue.

In the cases where the firm does not consolidate and achieves a sale, the company values its securitised retained interests at fair value using financial models that incorporate observable and unobservable inputs. More specifically, these models estimate the fair value of these retained interests by determining the present value of expected future cash flows, using modelling techniques that incorporate management's best estimates of key assumptions, including prepayment speeds, credit losses and discount rates, when observable inputs are not available. In addition, internally calculated fair values of retained interests are compared to recent sales of similar assets, if available.

The treatment of synthetic securitisations is consistent with the analysis outlined above.

The firm is also involved with various securitised vehicles sponsored by third parties. Such involvement includes but is not limited to:

- trading and investing in securities issued by those securitised vehicles. Such assets are reflected in trading account assets, assets available-for-sale, or assets held to maturity depending on management's intent for the specific security;
- executing derivative instruments, such as interest rate swaps, with those securitised vehicles;
- acting as arranger and assisting in the placement of securities issued by those securitised vehicles to third-party investors.

The firm does not consolidate securitised vehicles sponsored by third parties.

Subordinated interest-only strips or other subordinated tranches held by CIL are measured at fair value. Key assumptions in measuring fair value are the appropriate discount rate, prepayment rates, and anticipated defaults/credit losses. Total subordinated interests are not material for CIL.

While CIL has not executed any new securitisation transactions for an extended period of time, should the company originate assets in the future with the intent to securitise those assets, they would be measured at fair value under International Accounting Standard (IAS) 39.

There are no contractual obligations on the company to provide financial support for securitised assets, nor does the company intend to provide such support. However, the company does provide certain standard representations and warranties related to the securitised assets. Should it become probable that the company violated a representation or warranty and therefore could be required to repurchase assets at par, the company would measure and recognise a liability equal to the difference between the required purchase price and the estimated fair value of the relevant asset(s).

**Accounting Policies for Securitisation Activity in the Trading Book (IFRS)**

Any securitisation positions (such as Asset Backed Securities or Mortgage Backed Securities) purchased as part of a trading strategy are accounted for at fair value through earnings.

**Securitisation Exposures in the Trading Book**

The following tables set out the aggregate amount of securitisation positions held in the trading book by CGML as at 31 December 2014 and 31 December 2013.

**Table 34: Aggregate Amount of Trading Book Securitisation Positions held as at 31 December 2014**

| | CGML |
|---|---|
| | US$ Millions |
| On Balance Sheet | 1,113 |
| Off Balance Sheet | 30 |
| **Total** | **1,143** |

**Table 35: Aggregate Amount of Trading Book Securitisation Positions held as at 31 December 2013**

| | CGML |
|---|---|
| | US$ Millions |
| On Balance Sheet | 1,015 |
| Off Balance Sheet | 40 |
| **Total** | **1,055** |

The following tables set out the capital treatment applied to securitisation positions held in the trading book by CGML as at 31 December 2014 and 31 December 2013. There are no securitisation exposures in CIL's trading book.

**Table 36: Capital Treatment applied to CGML's Trading Book Securitisation Positions as at 31 December 2014**

| | CGML | | | |
|---|---|---|---|---|
| ***(US$ Millions)*** | **On Balance Sheet** | | **Off Balance Sheet** | |
| **Risk Weighting** | **Exposure** | **Capital Resources Requirement** | **Exposure** | **Capital Resources Requirement** |
| At 20% | 249 | 9 | 0 | 0 |
| At 50% | 256 | 11 | 0 | 0 |
| At 100% | 222 | 23 | 30 | 2 |
| At 350% | 186 | 52 | 0 | 0 |
| Deducted from Capital | 200 | 0 | 6 | 0 |
| **Total** | **1,113** | **95** | **36** | **2** |

**Table 37: Capital Treatment applied to CGML's Trading Book Securitisation Positions as at 31 December 2013**

| | CGML | | | |
|---|---|---|---|---|
| ***(US$ Millions)*** | **On Balance Sheet** | | **Off Balance Sheet** | |
| **Risk Weighting** | **Exposure** | **Capital Resources Requirement** | **Exposure** | **Capital Resources Requirement** |
| At 20% | 299 | 11 | 0 | 0 |
| At 50% | 245 | 11 | 21 | 0 |
| At 100% | 175 | 19 | 14 | 2 |
| At 350% | 187 | 55 | 0 | 0 |
| Deducted from Capital | 108 | 0 | 6 | 0 |
| **Total** | **1,014** | **96** | **41** | **2** |

Citi has a well-established risk management framework for securitisations. Further details are set out below.

Credit Risk Managers are responsible for:

- Determining ICG's risk appetite for securitisation transactions;
- Approving extensions of credit and ensuring data capture associated with those extensions of credit is accurate
- Monitoring and managing credit extensions to be within Citi's risk appetite and limits;
- Working with the respective businesses in the allocation of credit to optimize returns.

Market Risk Managers are responsible for:

- Ensuring that securitisation transactions, booked in the trading book, are consistent with the businesses' mandate and represent an adequate risk / reward balance;
- Approving securitisation transactions that are booked in the trading book and ensuring data capture associated with those securitisation transactions is accurate;
- Ongoing monitoring of market risk associated with securitisation transactions that are booked in the trading book.

The ICG trading book securitisation business is subject to the ICG policy "Rules Governing Market Risk". All major generic sources of risk and stress losses are covered by the desk's limit structures. Granularity within these limit structures is further enhanced through product-types, country risk and ratings. The business operates under an approved permitted products list which applies at the desk level. Concentration limits may also exist by obligor name depending on the business. Stress testing is completed in various formats including weekly stress tests, monthly Top Ten Risk reports and annual exercises. In addition, Risk Management performs ad hoc stress tests when determined as necessary. For those risks not fully captured in VaR or the linear stresses, a business specific stress test (BSST) is developed and produced in conjunction with the linear stresses. The BSSTs are reviewed at least quarterly to ensure relevance and completeness.

**Securitisation Exposures in the Banking Book**

The positions securitised by the firm and subject to the securitisation framework are all of the traditional type. There are no re-securitisation exposures and no assets awaiting securitisation on the books of the UK legal entities. There is no instance of CIL acting as a sponsor for third party securitisation deals.

Tables 38 and 39 show the outstanding securitisation amounts as at 31 December 2014 and 2013, whilst Tables 40 and 41 show the aggregate securitisation amounts by category as of 31 December 2014 and 2013 on the banking book for CIL. CGML does not have a banking book.

**Table 38: Banking Book Securitisations Outstanding as at 31 December 2014**

| | CIL |
|---|---|
| | **US$ Millions** |
| **Holland Euro Denominated MBS** | **105** |
| **Dolphin Master Issuer series** | **31** |
| **Gosforth Funding** | **15** |
| **FCC Minotaure** | **15** |
| **Arkle** | **6** |
| **Total** | **172** |

**Table 39: Banking Book Securitisations Outstanding as at 31 December 2013**

| | CIL |
|---|---|
| | **US$ Millions** |
| **Holland Euro Denominated MBS** | **134** |
| **Dolphin Master Issuer series** | **34** |
| **Gosforth Funding** | **25** |
| **FCC Minotaure** | **20** |
| **Arkle** | **7** |
| **Total** | **220** |

**Table 40: Aggregate Amount of Securitisation Positions Retained or Purchased as at 31 December 2014**

| | CIL |
|---|---|
| | **US$ Millions** |
| RMBS | 172 |
| **Total** | **172** |

**Table 41: Aggregate Amount of Securitisation Positions Retained or Purchased as at 31 December 2013**

| | CIL |
|---|---|
| | **US$ Millions** |
| RMBS | 220 |
| **Total** | **220** |

There are no off balance sheet securitisation exposures in the banking book.

The capital treatment for all securitisation positions held in the banking book is the standardised approach. The capital treatment applied to the positions held at 31 December 2014 and 31 December 2013 is set out below.

**Table 42: Capital Treatment applied to Banking Book Securitisation Positions held at 31 December 2014**

| *(USD millions)* | CIP | |
|---|---|---|
| **Risk Weighting** | **Exposure** | **Capital Resources Requirement** |
| At 20% | 172 | 3 |
| At 50% | 0 | 0 |
| At 100% | 0 | 0 |
| At 350% | 0 | 0 |
| Deducted from Capital | 0 | 0 |
| **Total** | **172** | **3** |

**Table 43: Capital Treatment applied to Banking Book Securitisation Positions held at 31 December 2013**

| *(USD millions)* | CIP | |
|---|---|---|
| **Risk Weighting** | **Exposure** | **Capital Resources Requirement** |
| At 20% | 220 | 5 |
| At 50% | 0 | 0 |
| At 100% | 0 | 0 |
| At 350% | 0 | 0 |
| Deducted from Capital | 0 | 0 |
| **Total** | **220** | **5** |

## 10. 2014 Remuneration Statement

### Citi's Compensation Philosophy

Employee compensation is a critical tool in the successful execution of our corporate goals.

As long-term value creation requires balancing strategic goals, so does developing compensation programs that incentivise balanced behaviours. Citi's Compensation Philosophy describes our approach to balancing the five primary objectives that our compensation programs and structures are designed to achieve.

Citi's compensation objectives for 2014, as outlined below, have been specifically created to encourage prudent risk-taking, while attracting the world-class talent necessary to see the company through to success.

**Shareholder Alignment**

- Compensate executives through an objective framework that aims to strengthen the link between pay and performance by using a balanced scorecard approach with financial metrics and non-financial objectives that, in combination, are expected to improve risk-adjusted returns to shareholders.
- Provide meaningful portions of incentive compensation in the form of equity to help build a culture of ownership and to align employee interests with those of shareholders and other stakeholders.
- Require that executive officers maintain an ownership of 75% of the net shares acquired through incentive compensation programs and that they hold a substantial amount of vested Citi stock for at least one year after the end of their service as executive officers.
- Defer the delivery of significant portions of incentive compensation with vesting over a number of years and tie the amounts delivered to longer-term performance of the company to better link long-term shareholder value creation to the interests of management and to enhance alignment with risk outcomes.
- Provide for clawbacks in cases of improper risk-taking and material adverse outcomes in the years following the awarding of incentive compensation.
- Size incentive compensation to reflect company performance as well as industry and environmental factors, while maintaining strong capital levels.
- Recognize capital planning outcomes in senior management incentive compensation awards, to improve alignment with both shareholder interests and regulatory guidance.

**Ethics and Culture**

- Promote conduct based on the highest ethical standards through performance assessments, incentive compensation programs and, where appropriate, disciplinary actions, and communicate throughout the organization that acting with integrity at all times is the foundation of our business.
- Enhance a business culture that supports accountability and a zero-tolerance environment for unethical conduct, through appropriate compensation and employment decisions.

**Risk Management**

- Develop and enforce risk management controls that reduce incentives to create imprudent risks for Citi and its businesses, and that reward a thoughtful balance of risk and return.
- Exercise discretion within a framework designed to make appropriate trade-offs between risk and reward.
- Encourage prudent risk-taking through multiple incentive compensation program processes for all employees who manage or influence material risks, including (a) rigorous performance management processes, (b) bonus pool funding and individual bonus determination processes that reflect risk-adjusted performance, and (c) deferrals that keep a meaningful portion of incentives at risk for future performance outcomes.
- Evaluate incentive compensation program results on an iterative basis, recognizing that validation and monitoring may result in future changes.
- Communicate clearly to all employees that poor risk management practices and imprudent risk-taking activity will lead to an adverse impact on incentive compensation, including the loss of incentive compensation and the reduction or elimination of previously awarded incentive compensation.
- Differentiate compensation decisions based on demonstrated risk management behaviours.
- Appoint only independent directors to the Committee, to provide independent review and approval of the firm's overall compensation philosophy.
- Set expectations of management regarding risk balancing in incentive compensation programs engaging, where appropriate, independent advisors to assist the Committee. Such advisors should provide no other services to Citi.
- Involve Citi's control functions, including Independent Risk, Compliance and Internal Audit, in compensation governance and oversight.

**Regulatory Guidance**

- Design incentive compensation programs with the recognition that global regulation of bank incentive compensation is evolving and that Citi's programs must be responsive to emerging trends and best practices.
- Where appropriate, develop innovative and industry-leading approaches that reconcile regulatory considerations and other stakeholder interests in compensation structures and designs.
- Promote understanding of the design and implementation of incentive compensation programs by outlining compensation policies, procedures and practices in public disclosures.

**Attract and Retain Talent**

- Compensate employees based on ability, contributions and risk-adjusted performance demonstrated over time, balanced with appropriate recognition for short-term results and contributions.
- Provide compensation programs that are competitive within global financial services to attract the best talent to successfully execute the company's strategy.
- Differentiate individual compensation to reflect employees' current or prospective contributions, based on both financial and non-financial performance such as risk and compliance behaviour, and to reward those employees who demonstrate ingenuity and leadership.
- Provide discretionary incentive compensation, including equity awards, that is variable within guidelines prescribed by management and the Committee using a rigorous objective framework of goal-setting and performance evaluation for all highly paid professionals.
- Clearly and consistently communicate Citi's approach to compensation throughout the year, cascading such communications broadly to employees through key value statements such as Citi's Code of Conduct and the statements and actions of senior management and managers generally.

**Remuneration Governance**

***Global Remuneration Committee***

The Personnel and Compensation Committee (P&C Committee) of the Board of Directors of Citigroup Inc., oversees Citi's global remuneration policies and practices. It annually reviews the compensation structures for members of senior management and other highly compensated or regulated individuals. The P&C Committee, with the assistance of the Chief Risk Officer, also reviews the design and structure of compensation programs relevant to all employees in the context of risk management.

The P&C Committee's terms of reference are documented in the P&C Committee Charter, which establishes the scope and mandate of the P&C Committee's responsibilities and the general principles governing the remuneration policy of the firm globally. The Charter (updated for 2015) is available online at: http://www.citigroup.com/citi/investor/data/percompcharter.pdf?ieNocache=248.

The P&C Committee members are all independent non-executive directors, selected and appointed on account of their background and experience in business and their capability to fulfil their responsibilities as P&C Committee members. For the performance year 2014, the P&C Committee members were: William S. Thompson, Jr. (Chairman), Dr Judith Rodin, Diana L. Taylor and Michael E. O'Neill. Compensation paid to P&C Committee members is set out on page 41 of the 2015 Proxy Statement and biographies of members are set out on pages 31 - 39. The P&C Committee met 9 times in 2014 and each Director attended at least 75% of all meetings.

The P&C Committee is supported by Human Resources and Citi's control functions, including Independent Risk and Legal. The P&C Committee also draws on considerable experience of the other non-executive directors of the Board of Citigroup Inc. It is also empowered to draw upon internal and external expertise and advice as it determines appropriate and in its sole discretion and Citi pays the fees of any such external advisors. The Committee appointed Frederic W Cook & Co ("Cook & Co") in 2012 to provide the Committee with independent advice on Citi's compensation programs for senior management. Cook & Co reports solely to the Committee and the Committee has sole authority to retain, terminate, and approve the fees of Cook & Co. Cook & Co does no other work for Citi.

***EMEA Remuneration Committee***

In 2010 Citi established the EMEA Remuneration committee ("EMEA RemCo"), in order to provide regional oversight on remuneration matters for the EMEA region. The EMEA RemCo is a sub-committee of the EMEA Governance Committee. The P&C Committee retains ultimate oversight of Citi's remuneration matters. In 2011, Citi appointed a non-executive director of the P&C Committee and EMEA Governance Committee to the EMEA RemCo to enhance the relationship between the P&C Committee and the EMEA RemCo.

The 2014 EMEA RemCo comprised the EMEA Chief Executive Officer and EMEA Chief Administrative Officer, and members of Risk, Compliance, Human Resources, Legal, and Finance, and a non-Executive Director.

***Material Risk Takers***

In accordance with the PRA Code, Citi maintains a record of its Material Risk Takers, which comprises the categories of staff whose professional activities are determined as having a material impact on the firm's risk profile. For the 2014 performance year, Material Risk Takers were identified using Citi's understanding of the European Banking Association's criteria for identifying staff as set out in Commission Delegated Regulation (EU) No 604/2014.

**Design and Structure of Remuneration**

***Fixed Remuneration – Salary and Benefits***

Citi's fixed remuneration is set to appropriately attract, retain and motivate employees, in line with market practices, and is benchmarked against market data by role.

Pension and other non-cash benefits are offered to Citi EMEA employees as part of an overall reward package which is designed to be sufficiently competitive to attract, retain and motivate employees. Citi EMEA aims to provide common pension and other benefits across all units/business groups, which are competitive against the external market.

***Variable Compensation***

*Discretionary Incentive and Retention Award Plan*

Citi's Discretionary Incentive and Retention Award Plan (DIRAP) is Citi's main discretionary variable compensation plan, and applies globally. It is designed to incentivise, reward and retain employees based on their current and prospective performance and contribution. Awards made under the DIRAP are typically awarded in the form of cash and/or Citi stock.

Cash awarded for the 2014 performance year to Material Risk Takers under DIRAP is included under "2014 Cash" in Table 44.

*Use of Stock and Deferred Cash as Deferred Compensation*

Citi operates a mandatory deferral policy, where total annual variable compensation of an individual awarded under DIRAP exceeds globally set thresholds. For Material Risk Takers, 2014 variable compensation subject to deferral was typically awarded in the form of Citi stock and deferred cash. Citi believes that awarding deferred stock and deferred cash are effective means of aligning employee interests with those of stockholders and other stakeholders.

*Deferred Equity Awards*

The Capital Accumulation Program (CAP) is the main programme under which Citi may make awards of deferred Citi stock to selected employees. Deferred stock awards are subject to the terms of the CAP plan.

Deferred equity awarded under CAP to Material Risk Takers for the 2014 performance year is included in "2014 Equity" and EU Short Term Awards made to Material Risk Takers are included in "2014 Vested Outstanding" in Table 44. Prior years unvested CAP awards are included in the "Outstanding Deferred – Unvested" amounts in Table 45.

*Short Term Equity Awards*

Material Risk Takers receive a portion of their "immediate" variable incentive compensation in the form of an immediately vesting stock award (EU Short Term Award or "EUSTA"), which is subject to a 6-month retention period **on vesting.** EUSTA awarded for the 2014 performance year to Material Risk Takers under DIRAP is included under "2014 Vested Outstanding" in Table 44.

*Deferred Cash Awards and Performance Share Units*

A portion of 2014 deferred remuneration was awarded to Material Risk Takers in the form of a deferred cash award. Deferred Cash awarded for the 2014 performance year to Material Risk Takers is outlined in Table 44 as '2014 Deferred Cash'.

Citi introduced Performance Share Units (PSUs) as part of its multiple enhancements to the objective elements of Citi's compensation framework for the executive officers named in Citi's proxy statements. Eligible executive officers received PSUs in place of deferred cash awards. The PSUs will be delivered at the end of a three-year performance period. In addition, PSUs are subject to performance based vesting as for deferred cash (see below). PSUs were awarded for 2014 to the CEO of EMEA. Further information regarding the PSUs can be found in Citi's 2015 Proxy Statement.

*Deferrals and Retention Periods*

Citi EMEA operates a standard or "default" deferral policy period of four years for non-Material Risk Takers, which it considers captures the duration of most risks in a proportionate manner.

Deferred variable compensation awarded to Material Risk Takers is awarded in the form of deferred stock and deferred cash. In accordance with European Banking Authority (EBA) guidelines, Material Risk Takers were subject to deferral rates of 40% to 100% depending on their level of total compensation. Deferred awards for Material Risk Takers vest over at least three years, subject to a further minimum six-month retention period once vested. In regards to the remaining portion of variable compensation, 10-30% is paid as immediately vesting stock (EUSTA) subject to a minimum six-month sales restriction and the remainder is paid in immediate cash.

Material Risk Takers who fall within de-minimis thresholds are subject to the general deferral rate thresholds under Citi's mandatory deferral programme.

*Clawback*

At Citi's discretion, for Material Risk Takers, the unvested deferred portion of the 2014 awards may be subject to adjustment based on the following:

- There is reasonable evidence of employee misbehaviour or material error; or
- There is reasonable evidence that an employee was involved with or responsible for conduct which resulted in significant losses in connection with their employment or failed to meet appropriate standards of fitness and propriety; or
- The firm or the relevant business unit suffers a material downturn in its financial performance; or
- The firm or the relevant business unit suffers a material failure of risk management; or
- The participant received the award based on materially inaccurate audited publicly reported financial statements; or
- The participant knowingly engaged in providing materially inaccurate information relating to audited publicly reported financial statements; or
- The participant materially violated any risk limits established or revised by senior management and/or risk management; or
- The participant engaged in gross misconduct.

*Performance Based Vesting Condition*

Deferred equity awards made to Material Risk Takers are subject to a formulaic performance based vesting condition that may result in the cancellation of all or part of unvested amounts in the event of losses in their relevant business.

Deferred cash awards made to Material Risk Takers are subject to discretionary performance based vesting, which may result in cancellation of unvested awards where an employee has significant responsibility for a material adverse outcome, such as events which lead to serious financial or reputational harm to Citi.

**Key Remuneration Policies**

***Guarantees, Buyouts and Retention Payments***

Guaranteed incentive awards for Citi EMEA employees can generally be made only in exceptional circumstances and by reference to the first year of service.

Guaranteed awards which buy out equity or similar instruments which are forfeited as a result of resigning employment with another employer and joining Citi EMEA are generally permitted but must not be more generous in either amount or terms than that provided by the former employer. Table 44 includes 2014 guaranteed and buy out awards made to Material Risk Taker hires.

Guaranteed awards made for the purposes of retaining employees can only generally be made in exceptional circumstances, for example, during major restructuring, during a merger process; or where a business is winding down, such that particular staff needs to be retained on business grounds. No guaranteed retention awards were made to Material Risk Takers in 2014.

***Severance***

Citi generally does not provide guaranteed levels of severance upon early termination of employment. Severance pay is generally discretionary unless otherwise required by local law or workplace agreements. Payments related to the termination of employment are designed in a way that does not reward failure.

***Ratio of Fixed to Variable Remuneration***

Citi seeks to balance the components of reward between fixed and variable, and between short term and long-term components. Annual fixed remuneration for senior employees is regularly reviewed by the P&C Committee. Citi operates a fully flexible remuneration policy, including the possibility to pay zero variable remuneration. For relevant employees, an annual review of the balance between fixed and variable compensation takes place and, where required, adjustments are made to the fixed element of pay to ensure that an appropriate balance of fixed versus variable continues to be maintained on an ongoing basis. The aggregate of fixed remuneration paid to Material Risk Takers for 2014 is set out in Table 44.

Following the introduction of CRD IV Citi has obtained shareholder approval to apply a fixed to variable ratio of 1:2 for Material Risk Takers in 2014.

***Personal Hedging***

Employees subject to the PRA Code are prohibited from engaging in personal hedging strategies or taking out remuneration or liability related contracts of insurance that undermine or may undermine any risk alignment effects of their remuneration arrangements.

In addition, Citi's Corporate Personal Trading Policy and Standards prohibits “Covered Employees” (separately defined for this purpose) and related persons from hedging in any manner (other than currency hedges) unvested restricted stock or deferred stock awarded under CAP or restricted shares, or otherwise having a financial interest in having Citi securities decline in value.

Certain “Covered Employees” are subject to restrictions on specific types of trading in Citi shares. The following transactions in Citi securities are prohibited:

- Short sales;
- Sales of naked calls;
- Purchases of puts for speculative purposes;
- Speculative option strategies (i.e. straddles, combinations and spreads) when the Covered Employee does not have an underlying position in Citigroup securities that would permit the Covered Employee to make delivery if the options were to be exercised; and
- Any transactions related to the hedging of unvested CAP or Restricted shares.

***Link between Pay and Performance***

Citi is committed to responsible compensation practices and structures. Citi seeks to balance the need to compensate its employees fairly and competitively based on their performance, while assuring that their compensation reflects principles of risk management and performance metrics that reward long-term contributions to sustained profitability.

Exceptional employees, and exceptional efforts by those employees, have been required to implement Citi’s strategy where there continues, despite the downturn in certain businesses, to be worldwide competition for proven talent in many parts of the financial services industry and a difficult global economic climate.

Citi’s compensation practices are constantly evolving to ensure that our incentive compensation programmes reduce the potential for imprudent risk-taking that may undermine Citi’s business objectives and the franchise. Risk continues to be a primary consideration in designing Citi’s compensation programmes. Further, Citi’s performance management processes for all Citi employees is designed to ensure that discretionary pay decisions incorporate considerations of risk, as well as individual, business unit and overall Citi performance.

Citi’s programmes incorporate both ex-ante and ex-post features to adjust for risk and current and future performance.

At the Citi level, management has developed a robust process for risk-adjusting the annual incentive compensation pools for which annual incentive awards are made.

Citi enhanced its performance evaluation process to formally integrate opinions of personnel from the independent control functions in the performance evaluations of Material Risk Takers.

As noted above, deferred awards made to Material Risk Takers include a performance-based vesting (PBV) features and clawback provisions which may result in cancellation of unvested awards.

A significant proportion of deferred awards is made in the form of Citi common stock and is therefore inherently performance-based. Citi has trading policies that limit hedging strategies that might otherwise undermine the risk alignment effects of their remuneration arrangements.

Vesting of the deferred awards does not accelerate upon termination of employment except in the case of death, so an employee’s interest remains aligned with those of stockholders even after termination of employment.

***Individual Performance***

One of Citi's key compensation principles is to "promote meritocracy by recognising employee contributions".

The performance assessment of all Material Risk Takers is based on individually tailored goals, and an assessment against Citi's Core Principles Statements:

***Common Purpose:*** One team, with one goal: serving our clients and stakeholders

***Ingenuity:*** Enhancing our clients' lives through innovation that harnesses the breadth and depth of our information, global network, and world-class products

***Leadership:*** Talented people with the best training who thrive in a diverse meritocracy that demands excellence, initiative and courage

***Responsible Finance:***

- Assesses appropriately risk/reward relationships when making business decisions, demonstrating particular consideration for the firm's reputation and safeguarding the bank by applying sound ethical judgment regarding business practices.
- Identifies and escalates risk inherent in particular situations or transactions and its impact on any part of the Citi organization.
- Acts in a manner that is consistent with our commitment to fairness, value and dependability.
- Adheres to Code of Conduct, corporate and business specific policies and considers appropriate controls as part of day-to-day responsibilities. (e.g., anti-money laundering).
- Contributes to a 'no surprises' compliance culture by managing control issues with transparency and candour. Resolves issues, engaging others and escalating issues when appropriate. Recognizes and communicates the importance of timely escalation.
- Assures that risks, including money laundering, bribery and sanctions risks, are adequately identified, assessed, monitored, controlled and reported.
- Is transparent and open in communications.

These Core Principles Statements incorporate risk management and non-financial performance factors by business area into the performance appraisal process.

Citi conducts an annual independent review process pursuant to which the control functions (Compliance, Finance, Independent Risk, Internal Audit and Legal) provide an evaluation of risk behaviours of Material Risk Takers. The risk behaviour rating from the independent review process is included in the performance evaluation system to inform the performance review conducted by the individual's manager. The performance evaluation system includes formal risk goals for all Material Risk Takers as well as a formal manager-provided risk rating.

Whilst the appraisal system reflects performance in the current year, any compliance or risk related breach in the previous performance period that is discovered in the current performance period will be taken into account when determining the individual's rating. For Material Risk Takers material errors which occur in a previous performance period but are discovered in the current performance period may result in an adjustment of unvested deferred compensation (i.e. clawback) and / or current year end variable compensation.

***Remuneration of Control Function Employees***

In terms of remuneration for employees in control functions, whilst remuneration levels are influenced by Citi's overall performance, individual compensation is determined within the function and pay decisions are based on assessments against measurable goals and targets which are set by each function. Compensation of Control Function employees is regularly benchmarked against external market data.

Citi maintains the independence of key control functions (e.g. Compliance and Risk) to minimise any scope for potential conflicts of interests. Accordingly, there should be no conflict of interest on account of any business' potential to influence individual awards in the control function. Citi ensures performance management and compensation decisions for function personnel are directed by function management, and not the business unit.

# Table 44: Fixed and Variable Compensation of Citi PRA Code Staff for the 2014 Performance Year

| | | 2014 Fixed | 2014 Variable Compensation Awarded in 2014 [i] | | | | | Other Variable Compensation [i] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Employees | 2014 Fixed (£million) | 2014 Cash (£million) | 2014 Vested Outstanding (£million) | 2014 Equity (£million) | 2014 Deferred Cash (£million) | Guarantees - Recruitment [iii] (£million) | Outstanding Deferred - Unvested [ii] (£million) | Outstanding Deferred - Vested [ii] (£million) | Buy-Out of Forfeited Deferrals from Prior Employer (£million) | Severance (£million) |
| **CGML** | **388** | **£ 172.23** | **£ 24.29** | **£ 19.20** | **£ 65.78** | **£ 65.68** | **£ 0.83** | **£ 137.54** | **£ 63.73** | **£ 4.66** | **£ 1.41** |
| Other Material Risk Takers | 377 | £ 162.90 | £ 23.21 | £ 18.12 | £ 60.65 | £ 60.55 | £ 0.83 | £ 128.97 | £ 55.40 | £ 4.66 | £ 1.41 |
| Senior Management [iv] | 11 | £ 9.33 | £ 1.08 | £ 1.08 | £ 5.13 | £ 5.13 | £ - | £ 8.56 | £ 8.33 | £ - | £ - |
| **Other** | **224** | **£ 77.16** | **£ 15.49** | **£ 10.56** | **£ 21.89** | **£ 21.41** | **£ -** | **£ 49.94** | **£ 19.83** | **£ 1.89** | **£ 3.29** |
| Other Material Risk Takers | 217 | £ 74.33 | £ 14.70 | £ 9.92 | £ 20.86 | £ 20.43 | £ - | £ 48.38 | £ 18.69 | £ 1.66 | £ 3.29 |
| Senior Management [iv] | 7 | £ 2.83 | £ 0.79 | £ 0.63 | £ 1.04 | £ 0.99 | £ - | £ 1.56 | £ 1.14 | £ 0.23 | £ - |
| **Grand Total** | **612** | **£ 249.39** | **£ 39.77** | **£ 29.76** | **£ 87.68** | **£ 87.09** | **£ 0.83** | **£ 187.48** | **£ 83.55** | **£ 6.55** | **£ 4.71** |

**NOTES:**

**i).** All non GBP payments converted using 2014 Year-End FX Rates (GBP/USD 1.65366312)

**ii).** Outstanding Deferred - consists of:

a). **Options** -outstanding deferred vested calculated by using fair value of options fixed at grant less outstanding amortisation. Outstanding deferred unvested valuation equals remaining amortisation balance as at 27th February 2015

b). **Shares** - valued using closing price 27th Feb 2015 ($52.42)

**iii).** Guaranteed Amounts are included within Variable Compensation

**iv).** Senior Management defined as members of EMEA Operating Committee

**v).** Buy-Out's relate to amounts awarded in 2014

**vi).** To ensure consistency of reporting year on year the as at date has been extended to 27th February 2015 to include the later grant date of variable deferred compensation

**Additional Notes**

1. Fixed pay = WAS + WACSA + Other elements in Fixed. As reported in RPS.
2. 2014 Cash - cash component of DIRA awarded for 2014. Includes a PBA award which has been split according to the CS compensation structure across columns I - L
3. 2014 Vested outstanding - EUSTA awarded for 2014 performance year. Includes a PBA award which has been split according to the CS compensation structure across columns I - L.
4. 2014 Equity - CAP awarded for 2014 performance year. Includes a PBA award which has been split according to the CS compensation structure across columns I - L.
5. 2014 Deferred Cash - DCASH awarded for 2014 performance year. Includes a PBA award which has been split according to the CS compensation structure across columns I - L.
6. Guarantees - guarnatees that were awarded and due to be paid out in Jan/Feb 2015. Guarantee figures same as RPS submission.
7. Outstanding Deferred Unvested - Unvested instalments of 2012, 2013 and 2014 CAP Stock and Deferred Cash Awards. Also, includes buyout information for employees with a hire date prior to 2014 e.g. Replacement Stock and Replacement Deferred Cash Awards that are unvested as at 27th February 2015

Information for both Citigroup and Citi Holdings can be found in Citigroup's Financial Data Supplement as filed with the Quarterly Earnings Releases. Each supplement is published on Citi's website at http://www.citigroup.com/citi/fin/qer.htm.

8. Outstanding Deferred Vested - Vested 2012, 2013 and 2014 CAP Stock Awards subject to 6 month sales restriction together with 2012, 2013 and 2014 Deferred Cash Awards subject to 6 month holding period.

Outstanding deferred vested stock options valued by taking Fair value of options fixed at grant less outstanding amortisation

9. Buyout (information per CCM) of forfeited deferrals includes Replacement Stock, Replacement Cash and Replacement Deferred Cash
10. Total severance payments made to CS in 2014.

## Table 45: Fixed and Variable Compensation of Citi PRA Code Staff for the 2013 Performance Year

| | | 2013 Fixed | 2013 Variable Compensation Awarded in 2014 [i] | | | | | Other Variable Compensation [i]. | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Employees | Base Salary (£ million) | 2013 Cash (£ million) | 2013 Vested Out-standing (£ million) | 2013 Equity (£ million) | 2013 Deferred Cash (£ million) | Guarantees –Recruitment [iv]. (£ million) | Out-standing Deferred – Unvested(iii). (£million) | Out-standing Deferred - Vested [iii]. (£million) | Buy-Out of Forfeited Deferrals from Prior Employee [vii]. (£million) | Severance (£million) |
| **CGML** | **95** | **£ 57.82** | **£ 22.43** | **£ 21.45** | **£ 30.72** | **£ 30.73** | **£ 2.14** | **£ 75.56** | **£ 65.96** | **£ 0.25** | **£ 0.66** |
| Other Code Staff | 84 | £ 51.00 | £ 19.15 | £ 18.47 | £ 26.34 | £ 26.35 | £ 2.14 | £ 65.50 | £ 56.61 | £ 0.25 | £ 0.66 |
| Senior Management [vii]. | 11 | £ 6.82 | £ 3.29 | £ 2.98 | £ 4.38 | £ 4.38 | – | £ 10.06 | £ 9.36 | – | – |
| **Other [v].** | **87** | **£ 37.54** | **£ 12.05** | **£ 10.02** | **£ 13.61** | **£ 13.64** | **–** | **£ 36.32** | **£ 26.64** | **£ 0.09** | **£ 0.68** |
| Other Code Staff | 81 | £ 34.02 | £ 11.25 | £ 9.22 | £ 12.66 | £ 12.69 | – | £ 33.81 | £ 24.28 | £ 0.08 | £ 0.68 |
| Senior Management [vii]. | 6 | £ 3.52 | £ 0.80 | £ 0.80 | £ 0.95 | £ 0.95 | – | £ 2.51 | £ 2.35 | – | – |
| **Grand Total** | **182** | **£ 95.36** | **£ 34.48** | **£ 31.47** | **£ 44.33** | **£ 44.37** | **£ 2.14** | **£ 111.88** | **£ 92.60** | **£ 0.33** | **£ 1.33** |

**Additional Notes**

All non GBP payments converted using 2013 Year-End FX Rates (GBP/USD 1.55267648)

Outstanding Deferred - consists of:

a). Options -outstanding deferred vested calculated by using fair value of options fixed at grant less outstanding amortisation. Outstanding deferred Unvested

b). Shares - valued using closing price 28th Feb 2014 ($48.63)

Guaranteed Amounts are included within Variable Compensation

Senior Management defined as members of EMEA Operating Committee

Buy-Out's relate to amounts awarded in 2013

To ensure consistency of reporting year on year the as at date has been extended to 28th February 2014 to include the later grant date of variable deferred compensation.

**Table 46: 2014 Remuneration Banding for Annual Compensation of Individuals Earning at Least EUR 1 Million**

| Total Compensation | Number of Individuals |
|---|---|
| EUR 1 million to below EUR 1.5 million | 111 |
| EUR 1.5 million to below EUR 2 million | 40 |
| EUR 2 million to below EUR 2.5 million | 20 |
| EUR 2.5 million to below EUR 3 million | 7 |
| EUR 3 million to below EUR 3.5 million | 4 |
| EUR 3.5 million to below EUR 4 million | 3 |
| EUR 4 million to below EUR 4.5 million | 2 |
| EUR 4.5 million to below EUR 5 million | 2 |
| EUR 5 million to below EUR 6 million | 7 |
| EUR 6 million to below EUR 7 million | 2 |
| EUR 7 million to below EUR 8 million | 0 |
| EUR 8 million to below EUR 9 million | 0 |
| EUR 9 million to below EUR 10 million | 0 |
| EUR 10 million to below EUR 11 million | 1 |
| **Total** | **199** |

## 11. Appendix 1: UK Senior Management and Board Disclosures

The following senior management disclosures are made in accordance with CRR Article 435.2

Recruitment and Diversity Policy for the CGML and CIL Board of Directors

***Board Composition, Role and Effectiveness***

The selection criteria for the Non-Executive Directors of CGML and CIL are designed to ensure their independence and the provision of robust challenge to their executive counterparts.

Both entities have a combination of Non-Executive Directors who are either:

- UK based and independent from any of Citi's businesses;
- on the parent company's Board (in order to provide direct linkage between the main and subsidiary boards), but who are independent within the standards applicable to the parent board; or
- former Citi executives who have a deep understanding of its business.

All new Non-Executive Directors receive training on their significant influence function and Companies Act responsibilities, as well as Citi familiarisation for independent Non-Executive Directors.

The selection process for Non-Executive Directors is rigorous and consists of several interviews. The interviewers include the CEO of the relevant legal entity, the EMEA Chief Administrative Officer and the EMEA Chief Legal Officer. All Board appointments are required to be formally approved by the UK Nominations Committee and the PRA.

The recruitment process aims to select Non-Executive Directors with significant financial regulatory and industry expertise. This expertise is outlined in further detail in the biographical summaries later in this appendix.

In order to meet the PRA's expectations for legal entity focus, Citi also appoints a Chief Executive Officer (CEO) for both CGML and CIL.

***Distinction Between the Roles of Executive and Non-Executive Directors***

A fundamental distinction is drawn between the roles of executive and non-executive directors. Non-Executive Directors do not have any business line responsibility, but have oversight responsibilities consistent with the approach recommended in the Combined Code on Corporate Governance. To this end, non-executive directors chair both the Governance Committee and the Audit Committee of the relevant legal entity. The Non-Executive Directors set the agendas for those Committee meetings and determine any follow up actions. The Non-Executive Directors are also not limited in their oversight to specific business operations.

The resources used by the Non-Executive Directors in their role of challenging the business include:

- full and unhindered access to the business, which involves the receipt of detailed presentations given by business or control functions;
- administrative support in the form of an assistant for the Chairman and office facilities on the executive floor of Citigroup's London offices in Canary Wharf for UK-based Non-Executive Directors; and
- technical training in the form of Board tutorials. These regular tutorials cover a wide range of subjects including capital and liquidity requirements, client assets and client money regulations, anti-money laundering rules, regulation relating to anti-bribery and corruption, and recovery and resolution planning.

**Non-Executive Directors of CGML and CIL**

***Jonathan Asquith (Chairman)***

***Number of Directorships Held: 4***

In addition to his role at Citi, Jonathan is chairman of Dexion Capital PLC and deputy Chairman of 3i Group. His previous experience includes terms as a non-executive director of Ashmore Group PLC from 2008 to 2012 and as Chief Financial Officer and Vice Chairman of Schroders PLC between 2002 and 2008. He spent 18 years in the investment banking industry with Morgan Grenfell and Deutsche Bank.

***Susan Dean***

***Number of Directorships Held: 2***

Susan spent 24 years in various management roles at Citi, most recently as ICG Chief Financial Officer up until her departure as an executive in 2011. Previous roles included EMEA Head of Finance, Operations and Technology with responsibility for over 9,000 staff across the firm. During her time at Citi, Susan also served as a member of Citi's EMEA Operating Committee, Pension Advisory Board, UK Legal Vehicles Governance Committee and UK Legal Vehicles Audit Committee. Prior to joining Citi's legacy firm, Salomon Brothers in 1987 as Vice President, Susan worked for Merrill Lynch's Strategy Group.

***Lesley Jones***

***Number of Directorships Held: 6***

In addition to her role as a non-executive director, Lesley chairs the Risk Committees for CIL and CGML and is a member of Citi's UK Legal Vehicles Governance and Audit Committee. During a 30 year career at Citi, she worked as a corporate banker and latterly as a risk manager. Lesley recently retired from the Royal Bank of Scotland where she was Group Chief Credit Officer.

***Diana Taylor***

***Number of Directorships Held: 7***

Diana Taylor has been an independent director of Citigroup Inc. since July 2009. As well as being Vice Chair of Solera Capital LLC, she is a Senior Adviser at Wolfensohn Fund Management, L.P., where she previously worked as Managing Director.

From 2003 to 2007, Ms. Taylor served as Superintendent of Banks of New York State Banking Department, where she also oversaw the regulation of the mortgage industry, and money service businesses. Prior to this, she served as Governor Pataki's Deputy Secretary for Finance and Housing between 1996 and 1999. Before that, Ms. Taylor worked for several years in the energy business, first as Vice President of KeySpan Energy and then as Chief Financial Officer at the Long Island Power Authority. She was a founding partner and president of M.R. Beal & Company.

Ms. Taylor started her career as an investment banker with Smith Barney, followed by roles with Lehman Brothers and Donaldson Lufkin & Jenrette.

**Executive Directors of CGML and CIL**

***James (Jim) Cowles (Director of CGML and CIL)***

***Number of Directorships Held: 2***

Jim Cowles was named Citi's Chief Executive Officer for Europe, Middle East & Africa (EMEA) in January 2013. Prior to assuming his current position, he was Chief Operating Officer for EMEA and Head of Western Europe at Citi. He has also served as Head of Markets for Citi in EMEA, Global Head of Equities and Global Head of Equity Capital Markets.

Jim joined Smith Barney in 1979. Other previous roles have included: Head of Equities (EMEA), Deputy Head of Investment Banking, Head of Real Estate Investment Banking and Commercial Mortgage Trading, Head of Debt Capital Markets and Head of Direct Investments.

***Peter McCarthy (Director of CGML and CIL)***

***Number of Directorships Held: 3***

Peter McCarthy was appointed Citi's Chief Administrative Officer for EMEA in February 2012. He has spent 28 years in various management roles at Citi including CAO of Citi's Markets business in EMEA. Prior to joining Citi, Peter spent 6 years working in the European Financial Control division of Merrill Lynch.

***Zdenek Turek (Director of CGML)***

***Number of Directorships Held: 3***

In addition to his role as Citi Cluster Head for Western Europe, Zdenek Turek also serves as EMEA Head of Corporate Banking and is on the Board of Citibank Europe PLC and Bank Handlowy w Warsawie S.A.

Up until recently, Zdenek was CEO of Central and Eastern Europe and Country Corporate Officer for Russia. From 2005 to 2008, he was Citi Country Officer for South Africa and Division Head for Africa, responsible for the bank's business in the region. From 2002 to 2005, Zdenek was Citi Country Officer for Hungary and also oversaw the Central European cluster (Hungary, the Czech Republic, Romania, Slovakia and Bulgaria).

Zdenek joined Citi in 1991 in Prague, where he held a number of Banking and Corporate Finance management roles before moving to Citi Romania in 1998 as Citi Country Officer. Prior to joining Citi, he was a member of the Foreign Exchange Department of the Central Bank of Czechoslovakia. He then joined A.I.C., an Austrian-owned management consulting company as Deputy Head of its corporate advisory representative office in Prague. He is also a member of the Board of the American Chamber of Commerce in Russia.

***James Bardrick (Director and Chief Executive Officer of CGML and CIL)***

***Number of Directorships Held: 4***

James Bardrick is Citi's Country Officer for the United Kingdom. Prior to this appointment, he was Co-head of Corporate and Investment Banking for EMEA, with specific responsibility for Corporate Banking from 2009 to 2014. He sits on Citi's Institutional Clients Group's Global Executive Committee, Citi's EMEA Operating, Governance and Risk Committees.

James is a Business Senior Credit Officer and has been with the firm for 27 years. During this time he has developed a broad experience of global client relationship management and coverage as well as providing strategic and transaction advice through many advisory, equity and debt financing transactions. Prior to joining Citi, James worked as an engineer and in marketing for GKN PLC and for Tomkins PLC.

## 12. Appendix 2: 2014 Asset Encumbrance Disclosures for CGML

**Assets**

| | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| **Assets of the reporting institution** | 62,848,989,368 | | 11,420,709,103 | |
| Equity instruments | 6,873,944,313 | 6,873,944,313 | 922,741,506 | 922,741,506 |
| Debt securities | 38,572,768,971 | 38,572,768,971 | 8,559,077,694 | 8,559,077,694 |
| Other assets | 17,402,276,085 | | 1,938,889,903 | |

**Collateral received**

| | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| **Collateral received by the reporting institution** | 147,147,645,758 | 20,714,831,707 |
| Equity instruments | 29,054,383,785 | 936,730,358 |
| Debt securities | 115,070,209,856 | 18,005,375,929 |
| Other collateral received | 3,023,052,116 | 1,772,725,420 |
| **Own debt securities issued other than own covered bonds or ABSs** | 0 | 0 |

**Encumbered assets/collateral received and associated liabilities**

| | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | 103,014,195,407 | 120,433,431,764 |

**Information on importance of encumbrance**

As at 31 December 2014, the carrying amount of CGML's long inventory was $74.3 billion. This included approximately 63% debt securities, 11% equity instruments, and 26% other assets. Of the total amount, approximately 85% or $62.9 billion is considered to be encumbered.

Additionally, CGML also receives cash and securities collateral from secured financing transactions such as reverse repos, stock borrows and Prime Brokerage margin debits. The carrying amount of collateral received from these transactions was $167 billion. This included 79% debt securities, 18% equity instruments, and 3% other collateral. Of the total amount, approximately 88% or $147 billion of total cash and securities collateral received is considered to be encumbered.

Sources of encumbrance for both long inventory and securities collateral received include secured financing transactions such as repo and stock lending as well as customer and firm short position coverage. The carrying amount of assets which are encumbered for these transactions is approximately $105 billion. The carrying amount of assets which are encumbered for selected financial liabilities is approximately $15 billion. The sources of encumbrance for these assets are OTC derivatives.

The nature of a broker dealer is to finance assets on a secured basis. As such, one would expect a greater level of encumbrance due to short coverage, stock loan and repo transactions.

## 13. Appendix 3: 2014 Asset Encumbrance Disclosures for CIL

**Assets**

| | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| **Assets of the reporting institution*** | 990,869,591 | | 19,773,013,196 | |
| Equity instruments | 0 | 0 | 12,714,591 | 0 |
| Debt securities | 699,939,099 | 706,920,557 | 2,951,131,904 | 2,952,013,427 |
| Other assets | 249,212,076 | | 3,348,200,204 | |

**Collateral received**

| | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| **Collateral received by the reporting institution** | 730,992,662 | 4,806,813,287 |
| Equity instruments | 0 | 0 |
| Debt securities | 730,992,662 | 4,806,813,287 |
| Other collateral received | 0 | 0 |
| **Own debt securities issued other than own covered bonds or ABSs** | 0 | 0 |

**Encumbered assets/collateral received and associated liabilities**

| | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | 130,468,801 | 249,212,076 |

**Information on importance of encumbrance**

As at 31 December 2014, the carrying amount of CIL's long inventory was £20.7 billion. This included approximately 17% debt securities, 0.1% equity instruments, and 17% other assets. Of the total amount approximately 5% or £1billion is considered to be encumbered.

Additionally, CIL also receives securities collateral from reverse repo transactions. The carrying amount of collateral received from these transactions was £5.5 billion. 100% of collateral received was in the form of debt securities. Approximately 15% or £0.7 billion of total securities collateral received is considered to be encumbered.

The carrying amount of assets which are encumbered for selected financial liabilities is £249 million. The sources of encumbrance for these assets are OTC derivatives.

Asset encumbrance is relatively lower for CIL relative to CGML as the funding model is based on funding through retail and corporate deposits and unsecured borrowings as opposed to secured financing.

**Does not equal the sum of "Equity Securities", "Debt Securities" and "Other Assets" due to the inclusion of "Loans on Demand" and "Loans and Advances Other Than Loans on Demand". The latter two are not displayed on the EBA disclosure on asset encumbrance template.*

## 14. Glossary

| | |
|---|---|
| **3RG** | Reputational Risk Review Group |
| **ABS** | Asset Backed Securities |
| **A-IRB** | Advanced Internal Ratings Based Approach |
| **ALCO** | Asset and Liability Committee |
| **AMA** | Advanced Measurement Approach |
| **BIPRU** | Prudential Sourcebook for Banks, Building Societies and Investment Firms |
| **BPC** | Business Practices Committee |
| **BRCC** | Business Risk and Control Committee |
| **BSST** | Business Specific Stress Test |
| **CAD** | Capital Adequacy Directive |
| **CAP** | Capital Accumulation Programme |
| **CCP** | Central Counterparty Clearing House |
| **CDS** | Credit Default Swap |
| **CEM** | Current Exposure Method |
| **CEO** | Chief Executive Officer |
| **CET 1** | Common Equity Tier 1 |
| **CGML** | Citigroup Global Markets Limited |
| **CIL** | Citibank International Limited |
| **CIP** | Citibank International PLC |
| **CMO** | Capital Markets Origination |
| **CORA** | Credit and Operational Risk Analytics |
| **CPAC** | Consumer Product Approval Committee |
| **CPB** | Citi Private Bank |
| **CRD** | Capital Requirements Directive |
| **CRMR** | CitiRisk Market Risk |
| **CRO** | Chief Risk Officer |
| **CSA** | Credit Support Annexes |
| **CSC** | Citi Service Centre |
| **CVA** | Credit Valuation Adjustment |
| **DIRAP** | Discretionary Incentive and Retention Award Plan |
| **DPAC** | Distribution Product Approval Committee |
| **EAD** | Exposure at Default |
| **EBA** | European Banking Authority |
| **ECAI** | External Credit Assessment Institution |
| **EEA** | European Economic Area |
| **EMEA** | Europe, Middle East and Africa |
| **EPE** | Expected Positive Exposure |
| **EU** | European Union |
| **EUSTA** | EU Short-Term Award |
| **ETDs** | Exchange Traded Derivatives |
| **FCA** | Financial Conduct Authority |
| **FRR** | Facility Risk Rating |

| | |
|---|---|
| **FX** | Foreign Exchange |
| **G10** | Group of Ten (refers to the countries that have agreed to participate in the General Arrangements to Borrow (GAB) |
| **GAAP** | Generally Accepted Accounting Principles |
| **GCB** | Global Consumer Banking |
| **GENPRU** | General Prudential Sourcebook |
| **GSM** | Global Securitised Markets |
| **GSP** | Global Securitised Products |
| **IAS** | International Accounting Standard |
| **ICAAP** | Internal Capital Adequacy Assessment Process |
| **ICG** | Institutional Clients Group |
| **IFRS** | International Financial Reporting Standards |
| **ILG** | Individual Liquidity Guidance |
| **IMA** | Internal Models Approach |
| **IMM** | Internal Models Method |
| **IPB** | International Personal Bank |
| **IPR** | Investments Products Risk |
| **IRC** | Incremental Risk Charge |
| **IRE** | Interest Rate Exposure |
| **ISDA** | International Swaps and Derivative Association |
| **KEPSP** | Key Employee Profit Sharing Plan |
| **LCL** | Local Consumer Lending |
| **LCR** | Liquidity Coverage Ratio |
| **LGD** | Loss Given Default |
| **LIBOR** | London Interbank Offered Rate |
| **MCA** | Manager’s Control Assessment |
| **MPAC** | Manufacturing Product Approval Committee |
| **NIR** | Net Interest Revenue |
| **NPAC** | New Product Approval Committee |
| **NRI** | Non-Resident Indian |
| **NSFR** | Net Stable Funding Ratio |
| **OIS** | Overnight Indexed Swap |
| **ORR** | Obligor Risk Rating |
| **OTC** | Over The Counter |
| **P&C** | Personnel and Compensation |
| **PBV** | Performance Based Vesting |
| **PD** | Probability of Default |
| **PRA** | Prudential Regulation Authority |
| **PRR** | Position Risk Requirement |
| **PSU** | Performance Share Units |
| **RemCo** | Remuneration Committee |
| **RMBS** | Residential Mortgage Backed Securities |
| **RWA** | Risk Weighted Assets |
| **SAP** | Special Asset Pool |

| | |
|---|---|
| **SFT** | Securities Financing Transaction |
| **SVaR** | Stressed Value at Risk |
| **TTS** | Treasury and Trade Solutions |
| **VaR** | Value at Risk |
| **WWR** | Wrong Way Risk |