# Citigroup Global Markets Limited

# Pillar 3 Disclosures

30 June 2017

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# 1. Overview

This document contains the Pillar 3 disclosures for the quarter ended 30 June 2017 for Citigroup Global Markets Limited (CGML), the principal UK operating subsidiary of Citigroup (Citi).

In accordance with European Banking Authority (EBA) guidelines, CGML has made an assessment of the requirement to disclose information more frequently than annually and as a result has deemed it appropriate to disclose the enclosed information every quarter. The disclosures will be published in the Investor Relations section of Citi's website.

CGML is Citi's primary international broker-dealer. It has a major presence as a dealer, market maker and underwriter in equity and fixed income securities and offers risk based solutions to producers, consumers and investors in commodity markets. CGML also provides advisory 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 institutions, investment banks, investment managers, insurers and hedge funds. It also has moderate trading exposure to corporate clients.

CGML maintains regulatory capital which is comfortably above the minimum regulatory requirements.

These disclosures do not constitute any form of financial statement and must not be relied upon in making any investment in or judgement on the group or any entity within the group.

**Figure 1: Key Metrics for CGML as at 30 June 2017**

| Common Equity Tier 1 Capital | Total Regulatory Capital | Pillar 1 Minimum Capital Requirements | Risk Weighted Assets | CET1 Capital Ratio | Total Capital Ratio | Leverage Ratio |
|---|---|---|---|---|---|---|
| $12.8bn | $17.5bn | $9.0bn | $113bn | 11.34% | 15.51% | 4.02% |

## 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., Finance, 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.

# 3. Own Funds

In accordance with the PRA's minimum capital standards, CGML is required to maintain a prescribed excess of regulatory capital over its regulatory requirements. Regulatory capital is measured and reported in accordance with the provisions of the Capital Requirements Regulation (CRR) Part 2.

The following table sets out the regulatory capital of CGML as at 30 June 2017.

**Table 1: Own Funds**

| USD millions | 30-Jun-17 |
|---|---|
| **Common Equity Tier 1 Capital** | |
| Paid up capital instruments | 1,500 |
| Retained earnings | 1,327 |
| Other comprehensive income | 1,054 |
| Other reserves | 9,999 |
| **Deductions** | |
| CVA | (157) |
| Prudent valuation adjustments | (192) |
| Other intangible assets | (173) |
| Defined benefit pension fund assets | (453) |
| Securitisation positions | (92) |
| Free deliveries | (2) |
| CET1 capital elements or deduction- Other | (3) |
| **Total Common Equity Tier 1 Capital** | **12,808** |
| | |
| Paid up capital instruments | 1,800 |
| **Total Additional Tier 1 Capital** | **1,800** |
| **Tier 2 Capital** | |
| Paid up capital instruments and subordinated loans | 2,918 |
| **Total Tier 2 Capital** | **2,918** |
| | |
| **Total Own Funds, Net of Deductions** | **17,526** |
| | |
| **CET1 Capital Ratio** | **11.34%** |
| **Tier 1 Capital Ratio** | **12.93%** |
| **Total Capital Ratio** | **15.51%** |

# 4. Capital Adequacy

CGML complies 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 requirements 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 requirements 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 CGML, taking into account both normal business conditions and a variety of stressed scenarios. On at least an annual basis CGML prepares an Internal Capital Adequacy Assessment Process (ICAAP) document that sets out its risk appetite, capital requirements and associated policies and procedures.

The following table set out CGML's Pillar 1 minimum capital requirements and Risk Weighted Assets (RWA's) as at 30 June 2017.

**Table 2: Minimum capital requirements**

| | 30-Jun-17 | |
|---|---|---|
| **USD millions** | **Capital Required** | **RWAs** |
| Counterparty and dilution risks and free deliveries | 3,980 | 49,747 |
| Credit risk | 244 | 3,056 |
| Contributions to the default fund of a CCP | 27 | 335 |
| Settlement / delivery risk | 4 | 50 |
| Traded debt instruments | 883 | 11,032 |
| Equity | 420 | 5,255 |
| Particular approach for position risk in CIUs | 230 | 2,871 |
| Foreign exchange | 74 | 923 |
| Commodities | 66 | 819 |
| Position, foreign exchange and commodities risks under IMA | 1,008 | 12,599 |
| Operational risk | 1,500 | 18,750 |
| Credit valuation adjustment | 602 | 7,527 |
| Large exposures in the trading book | 0 | 0 |
| **Total** | **9,037** | **112,964** |

**Table 3: Minimum Capital Requirements in respect of Credit Risk under the standardised approach**

| | 30-Jun-17 | |
|---|---|---|
| **USD millions** | **Capital Required** | **RWAs** |
| Central governments & central banks | 22 | 273 |
| Regional governments & local authorities | 0 | 0 |
| Public sector entities | 0 | 0 |
| Multilateral development banks | 0 | 0 |
| International organisations | 0 | 0 |
| Institutions | 29 | 361 |
| Corporates | 94 | 1,178 |
| Retail | 0 | 0 |
| Secured by mortgages on immovable property | 0 | 0 |
| Exposures in default | 0 | 0 |
| Particularly high risk | 0 | 0 |
| Covered bonds | 0 | 0 |
| Securitisation positions | 0 | 0 |
| Institutions and corporates with a short-term credit assessment | 83 | 1,040 |
| Collective investment undertakings | 0 | 0 |
| Equity exposures | 3 | 33 |
| Other | 14 | 171 |
| **Total** | **244** | **3,056** |

## 5. Leverage Ratio

Leverage risk is the risk that excessive growth in exposure or a decrease in capital will lead to an entity becoming more vulnerable to leverage or contingent leverage that may require unintended corrective measures, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

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

The leverage ratio is a monitoring tool which will allow competent authorities to assess the risk of excessive leverage in their respective institutions. It aims to constrain the build-up of excess leverage in the banking sector.

The requirement for the calculation and reporting of the leverage ratio has been implemented in the EU for reporting and disclosure purposes, but currently this is not set as a binding requirement. The leverage ratio during this transitional phase is set at a minimum level of 3%. As per the current rules the full CRD IV implementation is expected to be effective from 1 January 2018.

The following table sets out CGML's leverage ratio as at 30 June 2017.

**Table 4: Leverage Ratio**

| USD millions | 30-Jun-17 |
|---|---|
| | |
| **Total Leverage Exposure** | **363,339** |
| | |
| **Tier 1 Capital** | **14,608** |
| | |
| **Leverage Ratio** | **4.02%** |