Citigroup Global Markets Limited

Pillar 3 Disclosures

31 March 2018

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1. Overview

This document contains the Pillar 3 disclosures for the quarter ended 31 March 2018, for Citigroup Global Markets Limited (CGML), Citi's principal UK operating subsidiary.

The disclosures are made in accordance with Part 8 of the Capital Requirements Regulation (CRR) within the Capital Requirements Directive (CRD IV) package and the European Banking Authority (EBA) revised Pillar 3 disclosures guidelines (EBA/GL/2016/11). The disclosures are published in the Investor Relations section of Citi's website.

In accordance with the EBA guidelines, this report is produced and published quarterly, with increased disclosures in the semi-annual and annual publications. These disclosures were verified and approved internally in line with our policy on disclosure controls and procedures, at the appropriate senior oversight committee (CGML Capital Committee).

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.

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.

Transitional arrangements for the adoption of IFRS 9

CGML has decided not to apply the transitional arrangements introduced by regulation (EU) 2017/2395 for mitigating the impact of IFRS 9 on own funds and the treatment of certain large exposures. CGML has concluded that the impact of IFRS 9 adoption is immaterial; and therefore the reported own funds, capital and leverage ratios already reflect the full impact of IFRS 9.

This decision reflects the nature of CGML's business and, in particular, the absence of a loan book on its balance sheet.

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

Table 1: Key Metrics for CGML

	Available capital (amounts)	Mar-18 $million	Dec-17 $million	Sep-17 $million	Jun-17 $million
1	Common Equity Tier 1 (CET1)	12,829	12,270	12,351	12,808
2	Tier 1	14,629	14,070	14,151	14,608
3	Total capital	19,339	18,082	17,133	17,526
	Risk-weighted assets (amounts)				
4	Total risk-weighted assets (RWA)	147,390	130,256	132,364	120,012
	Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	8.70%	9.42%	9.33%	10.67%
6	Tier 1 ratio (%)	9.93%	10.80%	10.69%	12.17%
7	Total capital ratio (%)	13.12%	13.88%	12.94%	14.60%
	Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.88%	1.25%	1.25%	1.25%
9	Countercyclical buffer requirement (%)	0.06%	0.06%	0.06%	0.06%
10	Bank G-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%)	1.94%	1.31%	1.31%	1.31%
12	CET1 available after meeting the bank's minimum capital requirements (%)	0.57%	1.74%	1.70%	2.72%
	Basel III Leverage Ratio				
13	Total Basel III leverage ratio measure	423,091	385,170	389,864	363,339
14	Basel III leverage ratio (%) (row 2/row 13)	3.46%	3.65%	3.63%	4.02%
	Liquidity Coverage Ratio[1]				
15	Total HQLA	21,872	19,832	19,144	18,772
16	Total net cash outflow	12,182	12,392	11,949	11,632
17	LCR ratio (%)	179.54%	160.04%	160.21%	161.38%

[1] Please note that these are calculated on CGML solo entity as we do not monitor CGML consolidated LCR on a daily basis (only monthly).

2. Own Funds and 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 sets out CGML's Pillar 1 minimum capital requirements and Risk Weighted Assets (RWAs).

Table 2: OV1 - Overview of RWAs

This table provides an overview of total RWAs forming the denominator of the risk-based capital requirements calculated in accordance with Article 92 of the CRR.

	RWAs	RWAs	Minimum Capital Requirements	Minimum Capital Requirements
	Mar-18	Dec-17	Mar-18	Dec-17
	$million	$million	$million	$million
Credit risk (excluding CCR)	**1,927**	**2,157**	**154**	**173**
Of which the standardised approach	1,927	2,157	154	173
Of which the foundation IRB (FIRB) approach	-	-	-	-
Of which the advanced IRB (AIRB) approach	-	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-	-
Counterparty Credit Risk	**87,544**	**71,074**	**7,004**	**5,686**
Of which mark to market	66,780	54,460	5,342	4,357
Of which original exposure	-	-	-	-
Of which the standardised approach	-	-	-	-
Of which internal model method (IMM)	11,335	8,822	907	706
Of which risk exposure amount for contributions to the default fund of a CCP	377	341	30	27
Of which CVA	9,053	7,450	724	596
Settlement risk	**34**	**106**	**3**	**8**
Market risk	**39,106**	**38,169**	**3,128**	**3,054**
Of which the standardised approach	20,763	23,050	1,661	1,844
Of which IMA	18,343	15,119	1,467	1,210
Large exposures	**29**	**-**	**2**	**-**
Operational risk	**18,750**	**18,750**	**1,500**	**1,500**
Of which advanced measurement approach	18,750	18,750	1,500	1,500
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-	-
Total	**147,390**	**130,256**	**11,791**	**10,420**

3. Counterparty Credit Risk

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

For Over-The-Counter (OTC) derivatives, CGML uses two approaches: Internal Model Method (IMM) and Current Exposure Method (CEM). 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.

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.

Table 3: CCR7- RWA flow statements of CCR exposures under the IMM

This table presents a flow statement explaining changes in the CCR RWAs determined under the IMM for CCR (derivatives) in accordance with Part Three, Title II, Chapter 6 of the CRR.

Q1 2018

		RWA amounts	Capital requirements
		$million	$million
1	**As at Dec-17**	**8,823**	**706**
2	Asset size	2,512	201
3	Credit quality of counterparties	-	-
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-	-
7	Foreign exchange movements	-	-
9	**As at Mar-18**	**11,335**	**907**

Q4 2017

		RWA amounts	Capital requirements
		$million	$million
1	**As at Sept-17**	**9,539**	**763**
2	Asset size	(716)	(57)
3	Credit quality of counterparties	-	-
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-	-
7	Foreign exchange movements	-	-
9	**As at Dec-17**	**8,823**	**706**

During Q1 2018, CCR RWA increased by $2.5billion due to increase in asset size, driven by increased bilateral derivative exposures.

4. Market Risk

CGML uses a Value at Risk (VaR) model to calculate market risk capital requirements for the majority of its trading portfolio under an Internal Models Approach (IMA) permission 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 (SVaR) and the Incremental Risk Charge (IRC).

Non-proprietary details of the scope of CGML's IMA permission are available in the Financial Services Register on the FCA website.

Table 4: MR2-B - RWA flow statements of market risk exposures under the IMA

The table presents a flow statement explaining variations in the market RWAs.

Q1 2018

	VaR	SVaR	IRC	Other	Total RWAs	Total capital requirements
	$million	$million	$million	$million	$million	$million
As at Dec-17	**3,460**	**7,125**	**4,437**	**98**	**15,119**	**1,210**
Movement in risk levels	735	1,032	350	82	2,199	176
Model updates/changes	197	828	-	-	1,025	82
Methodology and policy	-	-	-	-	-	-
As at Mar-18	**4,392**	**8.985**	**4,787**	**180**	**18,343**	**1,467**

Q4 2017

	VaR	SVaR	IRC	Other	Total RWAs	Total capital requirements
	$million	$million	$million	$million	$million	$million
As at Sept-17	**3,348**	**7,183**	**2,787**	**-**	**13,318**	**1,065**
Movement in risk levels	(338)	77	1,650	98	1,487	119
Model updates/changes	451	(136)	-	-	314	25
Methodology and policy	-	-	-	-	-	-
As at Dec-17	**3,460**	**7,125**	**4,437**	**98**	**15,119**	**1,210**

During Q1 2018, market risk RWA increased by $3.2billion. This is due to VaR and SVaR which moved by $2.8billion reflecting changes in risk level because of position moves. In addition, IRC increased by $0.4billion.