Citigroup Global Markets Limited

Pillar 3 Disclosures

30 September 2018

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1. Overview

The following tables and notes contained in this document represent the Pillar 3 disclosures for the quarter ended 30 September 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)	Sep-18 $ million	Jun-18 $ million	Mar-18 $ million	Dec-17 $ million
1	Common Equity Tier 1 (CET1)	14,021	13,978	12,829	12,270
2	Tier 1	16,321	16,278	14,629	14,070
3	Total capital	20,922	20,888	19,339	18,082
	Risk-weighted assets (amounts)				
4	Total risk-weighted assets (RWA)	144,934	148,319	147,390	130,256
	Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	9.67%	9.42%	8.70%	9.42%
6	Tier 1 ratio (%)	11.26%	10.98%	9.93%	10.80%
7	Total capital ratio (%)	14.44%	14.08%	13.12%	13.88%
	Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.88%	1.88%	1.88%	1.25%
9	Countercyclical buffer requirement (%)	0.26%	0.27%	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 (%) (row 8 + row 9+ row 10)	2.14%	2.14%	1.94%	1.31%
12	CET1 available after meeting the bank's minimum capital requirements (%)	1.29%	1.08%	0.57%	1.74%
	Basel III Leverage Ratio[1]				
13	Total Basel III leverage ratio measure	483,059	444,203	423,091	385,170
14	Basel III leverage ratio (%) (row 2/row 13)	3.38%	3.66%	3.46%	3.65%
	Liquidity Coverage Ratio[2]				
15	Total HQLA	18,209	17,601	21,872	19,832
16	Total net cash outflow	10,637	11,586	12,182	12,392
17	LCR ratio (%)	171.18%	151.92%	179.54%	160.04%

1. Leverage ratio exposure is disclosed on a fully phased-in basis in accordance with the EU delegated act;
2. Please note that LCR is calculated for CGML solo entity as consolidated LCR is not monitored 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 Sep-18	RWAs Jun-18	Minimum capital requirements Sep-18
		$ million	$ million	$ million
1	Credit risk (excluding CCR)	2,856	2,568	229
2	Of which the standardised approach	2,856	2,568	229
6	CCR	87,693	87,960	7,015
7	Of which mark to market	65,432	67,417	5,235
10	Of which internal model method (IMM)	11,311	9,907	905
11	Of which risk exposure amount for contributions to the default fund of a CCP	220	198	18
12	Of which CVA	10,729	10,438	858
12	Settlement risk	74	91	6
14	Securitisation exposures in the banking book (after the cap)	12	9	1
18	Of which standardised approach	12	9	1
19	Market risk	33,599	36,067	2,688
20	Of which the standardised approach	19,603	19,607	1,568
21	Of which IMA	13,996	16,460	1,120
22	Large exposures	1,428	2,874	114
23	Operational risk	19,272	18,751	1,542
25	Of which standardised approach	522	1	42
26	Of which advanced measurement approach	18,750	18,750	1,500
29	**Total**	144,934	148,319	11,595

There was a $3,385 million reduction in RWAs mainly driven by Market Risk IMA and Large exposures.

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.

		As at 30 September 2018		As at 30 June 2018	
		RWA amounts	Capital requirements	RWA amounts	Capital requirements
		$ million	$ million	$ million	$ million
1	**RWAs as at the end of the previous reporting period**	**9,907**	**790**	**11,335**	**907**
2	Asset size	1,404	115	(2,791)	(223)
3	Credit quality of counterparties	-	-	(30)	(2)
4	Model updates (IMM only)	-	-	1,393	111
5	Methodology and policy (IMM only)	-	-	-	-
7	Foreign exchange movements	-	-	-	-
9	**RWAs as at the end of the current reporting period**	**11,311**	**905**	**9,907**	**793**

During Q3 2018, CCR RWAs increased by $1,404 million due to increase in asset size, driven by bilateral derivative exposures. In addition, there was a model update in the period, however, the RWA impact was immaterial on disclosure.

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 Debt, Foreign-exchange, 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.

		VaR	SVaR	IRC	Other	Total RWAs	Total capital requirements
		$ million	$ million	$ million	$ million	$ million	$ million
1	**RWAs at 30 June 2018**	4,228	8,242	3,989	0	16,460	1,317
1a	*Regulatory adjustment*	(1,920)	(1,634)	(1,209)	0	(4,762)	(381)
1b	*RWAs at the previous quarter-end (end of the day)*	2,309	6,609	2,780	0	11,698	936
2	Movement in risk levels	365	(318)	426	0	473	38
3	Model updates/changes	27	48	0	0	75	6
4	Methodology and policy	0	0	0	0	0	0
5	Acquisitions and disposals	0	0	0	0	0	0
6	Foreign exchange movements	0	0	0	0	0	0
7	Other	0	0	0	0	0	0
8a	*RWAs at the end of the reporting period (end of the day)*	2,701	6,339	3,206	0	12,246	980
8b	*Regulatory adjustment*	1,009	741	0	0	1,750	140
8	**RWA as at 30 September 2018**	**3,710**	**7,079**	**3,206**	**0**	**13,996**	**1,120**

During Q3 2018, Market risk RWAs decreased by $2,464 million. This is a QoQ change in the portfolio composition and update of the risk factor parameter calibration mainly driven by the VaR and SVaR capital requirements, based on a 60-day average.