# CITIGROUP GLOBAL MARKETS LIMITED

**(Registered Number: 01763297)**

# UNAUDITED INTERIM REPORT AND FINANCIAL STATEMENTS

**for the six months ended 30 June 2021**

## INTERIM MANAGEMENT REPORT
for the six months ended 30 June 2021

The Directors present their interim management report on Citigroup Global Markets Limited (CGML or the Company) for the six months ended 30 June 2021.

### 1. Introduction

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

CGML is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and Financial Conduct Authority (FCA). CGML is also a Commodity Futures Trading Commission (CFTC) registered swap dealer and is considered a Risk Taking/Operating Material Legal Entity in Citi's Global Resolution Plan. As at 30 June 2021, it had five branch offices and five subsidiaries, listed below. These are not materially active except for the Israel branch, Citigroup Global Markets Europe AG, and Citigroup Global Markets Funding Luxembourg SCA. On 1 March 2019, the staff and activities of CGML's branches in France, Italy and Spain began being transferred to branches of Citigroup Global Markets Europe AG (CGME) in those countries as part of the Company's preparations following the UK's decision to leave the EU. The migration of staff and activity was completed and both the France and Spain branches were closed by 31 December 2020. CGML Italy branch is in the final stages of closure with the local authorities.

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

CGML's key activities encompass capital markets origination, corporate and investment banking and cash, exchange traded and over-the-counter (OTC) derivative products in the following markets:

- G10 Rates
- Foreign Exchange
- Equities
- Credit Markets
- Securitised Markets
- Prime, Futures and Securities Services (comprising Prime Finance, Delta-One and Futures & OTC Clearing)
- Commodities

The above business areas variously include market making, facilitating client flow trading and providing tailored solutions to client financing, risk or investment needs. Further details of these areas can be found in the Strategic Report of the Company's financial statements for the year ended 31 December 2020.

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

## 2. Mission and Strategy

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

The strategic priorities set out by CGML are as follows:

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

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

  CGML will continue to remain one of Citigroup's four major global booking hubs, serving international clients from its registered headquarters in London or its international subsidiaries and branches.

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

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

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

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

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

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

- *Ensure sustained future profitability and efficient management of financial and capital resources.*

  CGML will continue to ensure that its capital, liquidity and financial resources provide a strong foundation for meeting its current actual requirements and supporting growth opportunities, manage high level of internal and external uncertainties, and facilitate greater scale of flexibility.

## 3. Financial Highlights

***Income Statement Summary***

| | 2021<br>$ Million | 2020<br>$ Million |
|---|---|---|
| Commission income and fees | 652 | 594 |
| Net dealing income | 1,599 | 2,397 |
| Interest receivable | 2 | 211 |
| Interest payable | (399) | (587) |
| **Gross profit** | **1,853** | **2,615** |
| Operating expenses | (1,483) | (1,399) |
| Impairment of investments | - | (42) |
| Other income and expenses | 10 | 13 |
| **Operating profit on ordinary activities before taxation** | **379** | **1,187** |
| Tax on profits on ordinary activities | (19) | (303) |
| **Profit after taxation for the financial year** | **360** | **884** |

***Gross Profit***

Gross profit decreased by $762 million, a 29% decrease in 2021.

The first half of 2020 saw a significant increase in trading activity driven by market volatility surrounding the COVID-19 pandemic. Furthermore, the company recognised gains of approximately $510 million on the early termination of long-term debt which was borrowed to fund activity during the peak volatility, as the volatility subsided the company was able to return the funding, recognising gains caused by widening credit spreads. While there remains a degree of uncertainty surrounding the long-term effects of the pandemic, the $798 million decrease in net dealing income in the first half of 2021 is largely in line with the strategic plan, reflecting growth when compared to 2019.

The year on year decrease in interest receivable and interest payable is a reflection of the low interest rate environment, particularly with EUR and GBP repo rates remaining negative throughout.

Commission income and fees saw a $58 million increase compared to the same period in 2020 in part owing to uncertainty in capital markets in 2020, in addition to strong performance in 2021 particularly for Equity Capital Markets as low yields are attracting issuers to accelerate funding plans.

***Operating Expenses***

Operating expenses were $1,483 million for the first half of 2021, reflecting an increase of $84 million compared to prior year. The increase is predominantly owing to an increase in compensation and benefits driven additional headcount.

***Tax on profits on ordinary activities***

As part of the March 2021 Spring budget, a UK corporation tax increase was announced, raising the corporation tax rate from 19% to 25% effective 1st April 2023. This was enacted on 10th June 2021, which resulted in a 6% uplift applied to deferred tax assets and liabilities. This deferred tax uplift resulted in an income tax credit of $46 million for the company. As part of the 2021 Autumn Budget, a reduction to the banking surcharge rate from 8% to 3%, effective 1st April 2023, was also announced. This has not yet been enacted and therefore has not been reflected in the financials.

***Profit for the Period***

Net profit for the first six months was $360 million (2020: $884 million), a 59% decrease. This included a tax charge of $19 million for the period (2020: $303 million).

## 3. Financial Highlights (continued)

***Balance Sheet***

| | 2021<br>$ Million | 2020<br>$ Million |
|---|---|---|
| Total assets | 474,795 | 506,059 |
| Total liabilities | 448,413 | 485,292 |
| Shareholders' funds | 26,382 | 20,767 |

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

Assets and liabilities declined throughout the first half of 2021 mainly due to increasing yields driving a decrease in mark-to-market on the company’s interest rate derivatives. This reduction was partially offset by an increase in trading account assets and liabilities and secured financing transactions reflecting an increase in activity compared to year-end.

Shareholders’ funds were $26,382 million (31 December 2020: $20,767 million) which represented an increase of $5,572 million. During the year, the company received $5.5 billion in capital contributions from its immediate parent, Citigroup Global Markets Bahamas Limited. This growth reflected the company’s commitment to ensure its capital, liquidity and financial resources provide a strong foundation for meeting its current requirements and supports growth opportunities while managing internal and external uncertainties. In addition to the capital contributions, the increase included the profit for the period, mainly offset by the coupon payments on the Additional Tier 1 (AT1) notes and the revaluation gains recognised in equity reserve and comprehensive income. Further details of the current period movements are presented in the Statement of Changes in Equity.

## 4. Future Outlook

### *4.1 The UK’s withdrawal from the EU*

The Company continues to assess the implications of the UK’s withdrawal from the EU on CGML’s performance and associated planning assumptions. These include any consequences resulting from further developments in UK-EU negotiations or associated regulatory expectations. Any potential impact to CGML’s business model and financials will continue to be assessed on a comprehensive basis and subject to regulatory requirements.

### *4.2 Market Outlook*

Looking forward, the Company may be impacted by a number of developments that could have an impact on its operations and strategy. These include implications associated with fiscal stimulus programmes, the recovery from the COVID-19 pandemic (tempered by the potential emergence of further variants), a sustained increase in inflation, and a lack of market volatility limiting trade opportunities.

The Company will continue to monitor and assess these developments in order to optimise business performance and manage the risk and opportunities for its clients.

## 5. Key performance indicators

In addition to the financial results of the Company, senior management considers the monitoring of the following key financial and non-financial items critical to the Company’s future: liquidity management of financial and capital resources. Please refer to the Strategic Report of the Company’s financial statements for the year ended 31 December 2020 for further information.

### 6. Risk Management

The financial risk management objectives and policy and detailed exposure to market, liquidity, credit, country and operational risk have been disclosed in Note 29 'Financial instruments and risk management' of the Company's financial statements for the year ended 31 December 2020. The risk management objectives and policy have not materially changed in the reporting period and further details of the current period exposures are presented in the interim Management report under 'Financial highlights'.

On 30 June 2021 Citi has implemented a new liquidity risk stress testing metric (TLST) and enhancements to replace S2. The TLST introduces a more severe stress for the first 90 days with very limited access to funding markets and an greater availability (at wider haircuts) beyond 90 days. Further details surrounding this framework will be included in the financial statements for the year ended 31 December 2021.

### 7. Statement of Directors' responsibilities

The Directors are responsible for preparing the Interim Management Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 104 *Interim Financial Reporting*.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of CGML and of the profit or loss of CGML for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the CGML's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate CGML or to cease operations, or have no realistic alternative but to do so.

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

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

**7. Statement of Directors' responsibilities** (continued)

**Going concern basis**

The financial statements are prepared on a going concern basis taking into account CGML's existing capital and liquidity resources and the level of reliance placed on support from Citi, CGML's ultimate parent. The Directors acknowledge the risk that extreme circumstances might adversely impact CGML's ability to continue trading and are satisfied that CGML has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. As CGML is part of the Citigroup, the risks that apply to the parent also apply to all subsidiaries within the group including CGML. The risk factors impacting Citigroup Inc. are described in its 2020 annual report on form 10-K and in its 2021 interim reports on form 10-Q, which can be found at http://www.citigroup.com/citi/investor/sec.htm.

As was reported in the Ultimate Parent company's (Citigroup's) Quarterly Report on SEC Form 10-Q for the quarterly period ended 30 June 2021, Citigroup disclosed that due to the continued virus contagion and challenges in vaccine distribution, the COVID-19 pandemic has continued to have adverse, albeit relatively lessening, impacts on macroeconomic conditions in the U.S. and around the world.

In considering going concern, the Company continues to closely monitor developments related to the outbreak of COVID-19. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers. To assess any potential impact on the Company, the directors reassessed the components of capital, liquidity and the financial position of the Company and have concluded that the going concern basis is still appropriate.

**Directors**

The Directors who held office during the period ended 30 June 2021 were:

***Non-Executive***
C Ardalan (Chairman)
S J Clark (appointed on 5 February 2021)
W M N Fall (appointed on 5 February 2021)
R F Goulding (resigned on 29 January 2021)
J P Moulds (appointed on 5 February 2021)
D L Taylor
A R Wynaendts (appointed on 22 January 2021)

***Executive***
L Arduini
J D K Bardrick
D Jain
F M Mannion
Z V Wimborne (appointed on 25 May 2021)

**INTERIM MANAGEMENT REPORT**
for the six months ended 30 June 2021

## 7. Statement of Directors' responsibilities (continued)

### Directors' indemnity

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

### Political contributions

No political contributions were made during the period (2020: $nil).

### Events after the reporting period

On 16 September 2021 CGML issued $2,000 million of Additional Tier 1 Notes to Citicorp LLC, another Citi entity. These replaced an equivalent amount of Tier 2 subordinated loans which were repaid, as part of an initiative to enhance the quality of CGML's regulatory capital.

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

### Auditors

The Company has elected not to have an audit of these interim financial statements. A full audit will be performed at 31 December 2021.

By order of the Board

J D K Bardrick
Director

*15 November 2021*

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

# CITIGROUP GLOBAL MARKETS LIMITED

## INCOME STATEMENT
for the six months ended 30 June 2021

| | Notes | 30 June 2021 | 30 June 2020 |
|---|---|---|---|
| | | **$ Million** | **$ Million** |
| Fee and commission income | **5** | 652 | 594 |
| Net dealing income | | 1,599 | 2,397 |
| Interest receivable | | 2 | 211 |
| Interest payable | | (399) | (587) |
| **Gross profit** | **15** | **1,853** | **2,615** |
| Operating expenses | | (1,483) | (1,399) |
| Impairment of investments in subsidiary | **8** | - | (42) |
| Net finance income on pension | | - | 8 |
| Other income | | 10 | 5 |
| **Operating profit on ordinary activities before taxation** | | **379** | **1,187** |
| Tax on profits on ordinary activities | **6** | (19) | (303) |
| **Profit after taxation for the financial year** | | **360** | **884** |

The accompanying notes on pages 14 to 33 form an integral part of these financial statements.

# CITIGROUP GLOBAL MARKETS LIMITED

## STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2021

| | 30 June 2021<br>$ Million | 30 June 2020<br>$ Million |
|---|---|---|
| Profit after taxation for the financial year | 360 | 884 |
| Other Comprehensive Income (Expense) | | |
| **Items that will not be reclassified subsequently to profit or loss:** | | |
| Gross gains/(losses) on remeasurement of defined benefit pension asset | (11) | 82 |
| Deferred tax benefit/(charge) associated with remeasurement of pension asset | (22) | (31) |
| (Loss)/Gains on debt valuation adjustment (DVA) attributed to the change in credit risk | (28) | 78 |
| Deferred tax benefit/(charge) associated with loss on DVA | 20 | (20) |
| Total other comprehensive income | (82) | 109 |
| Total comprehensive gain for the financial year | 278 | 993 |

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

The accompanying notes on pages 14 to 33 form an integral part of these financial statements.

# CITIGROUP GLOBAL MARKETS LIMITED

## STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2021

| | Share Capital $ Million | Other equity instruments $ Million | Capital reserve $ Million | Equity reserve $ Million | Retained earnings $ Million | Total $ Million |
|---|---|---|---|---|---|---|
| **At 1 January 2020** | **1,500** | **2,300** | **10,999** | **1,218** | **1,954** | **17,971** |
| Profit after taxation for the year | | | | | 884 | 884 |
| Gross losses on remeasurement of defined benefit pension asset | - | - | - | - | 82 | 82 |
| Deferred tax charge associated with remeasurement of pension asset | - | - | - | - | (31) | (31) |
| Losses on debt valuation adjustment (DVA) | - | - | - | - | 78 | 78 |
| Deferred tax charge associated with losses on DVA | - | - | - | - | (20) | (20) |
| **Total comprehensive income** | - | - | - | - | **109** | **109** |
| Share based payment transactions | - | - | - | 96 | - | 96 |
| Deferred tax charge associated with share based payment transactions | - | - | - | (25) | - | (25) |
| Dividend on other equity instruments | - | - | - | - | (169) | (169) |
| **At 30 June 2020** | **1,500** | **2,300** | **10,999** | **1,289** | **2,778** | **18,866** |
| **At 31 December 2020** | **1,500** | **2,300** | **12,999** | **1,264** | **2,704** | **20,767** |
| Profit after taxation for the year | - | - | - | - | 360 | 360 |
| Gross losses on remeasurement of defined benefit pension asset | - | - | - | - | (11) | (11) |
| Deferred tax benefit/(charge) associated with remeasurement of pension asset | - | - | - | - | (22) | (22) |
| (Loss)/Gains on debt valuation adjustment (DVA) attributed to the change in credit risk | - | - | - | - | (28) | (28) |
| Deferred tax benefit/(charge) associated with loss on DVA | - | - | - | - | 20 | 20 |
| **Total comprehensive income** | - | - | - | - | (41) | (41) |
| Share based payment transactions | - | - | - | (52) | - | (52) |
| Deferred tax charge associated with share based payment transactions | - | - | - | 17 | - | 17 |
| Capital contribution | - | - | 5,500 | - | - | 5,500 |
| Dividend on other equity instruments | - | - | - | - | (169) | (169) |
| **At 30 June 2021** | **1,500** | **2,300** | **18,499** | **1,229** | **2,854** | **26,382** |

The capital reserve includes capital contributions from the parent company, which are distributable.

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

The accompanying notes on pages 14 to 33 form an integral part of these financial statements.

# CITIGROUP GLOBAL MARKETS LIMITED

## BALANCE SHEET
as at 30 June 2021

| | Notes | 30 June 2021 $ Million | 31 December 2020 $ Million |
|---|---|---|---|
| **Assets** | | | |
| Financial assets at amortised cost | | | |
| - cash at bank | | 8,049 | 5,505 |
| - collateralised financing transactions | 7 | 87,332 | 76,864 |
| Financial assets mandatorily at fair value through profit or loss | | | |
| - derivatives | 7 | 172,581 | 213,918 |
| - inventory | 7 | 85,671 | 73,752 |
| - equity securities held for investment | | 112 | 99 |
| Financial assets designated at fair value through profit or loss | 7 | 58,679 | 77,331 |
| Investments in subsidiary and related undertakings | 8 | 3,827 | 2,125 |
| Pension asset | | 448 | 449 |
| Other assets | | 58,096 | 56,016 |
| **Total Assets** | | **474,795** | **506,059** |
| **Liabilities and Equity** | | | |
| Financial liabilities at amortised cost | | | |
| - bank loans and overdrafts | | 10,316 | 7,347 |
| - collateralised financing transactions | 7 | 71,475 | 75,922 |
| Financial liabilities mandatorily at fair value through profit or loss | | | |
| - derivatives | 7 | 178,532 | 229,445 |
| - securities sold but not yet purchased | 7 | 63,706 | 56,641 |
| Financial liabilities designated at fair value through profit or loss | 7 | 74,015 | 63,864 |
| Other liabilities | | 41,769 | 41,473 |
| Subordinated loans | 9 | 8,600 | 10,600 |
| **Total Liabilities** | | **448,413** | **485,292** |
| **Capital and reserves** | | | |
| Called up share capital | | 1,500 | 1,500 |
| Other equity instruments | 10 | 2,300 | 2,300 |
| Capital reserve | 11 | 18,499 | 12,999 |
| Retained earnings and other reserves | | 4,083 | 3,968 |
| **Shareholders' funds** | | **26,382** | **20,767** |
| **Total Liabilities and Shareholders' Funds** | | **474,795** | **506,059** |

The accompanying notes on pages 14 to 33 form an integral part of these financial statements.
The financial statements on pages 9 to 33 were approved by the Board of Directors of CGML on 4 November 2021 and were signed on their behalf by:

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

# CITIGROUP GLOBAL MARKETS LIMITED

## STATEMENT OF CASH FLOWS
for the six months ended 30 June 2021

| | 2021 | 2020 |
|---|---|---|
| | **\$ Million** | **\$ Million** |
| **Cash flows from operating activities:** | | |
| Profit before taxation | 379 | 1,187 |
| *Adjustments for:* | | |
| Depreciation and amortisation | 27 | 22 |
| Provision released/(charged) and other movements during the year | 4 | (19) |
| (Income)/Expense related to Pension | 11 | (83) |
| Net impairment (release)/charge on investment securities | - | 42 |
| Net impairment loss on loans and advances | - | 4 |
| Net gain on other fair value items | (13) | (18) |
| Other non-cash movements including exchange rate movements | (2) | (11) |
| Net interest income | 397 | 376 |
| | 805 | 1,500 |
| *Changes in:* | | |
| Financial assets at amortised cost | (10,468) | (15,314) |
| Financial assets mandatorily at fair value through profit or loss | 29,419 | (51,086) |
| Financial assets designated at fair value through profit or loss | 18,652 | (6,299) |
| Other assets | (2,583) | (23,988) |
| Financial liabilities at amortised cost | (1,686) | 10,682 |
| Financial liabilities mandatorily at fair value through profit or loss | (43,849) | 60,696 |
| Financial liabilities designated at fair value through profit or loss | 10,151 | 18,957 |
| Other liabilities | 503 | 5,600 |
| | 944 | 748 |
| Interest received | 435 | 265 |
| Interest paid | (550) | (475) |
| Income taxes paid | (88) | (106) |
| **Net cash used in operating activities** | **741** | **432** |
| **Cash flows from investing activities** | | |
| Dividends received from investments | 10 | 8 |
| Acquisition of investment securities | (1,703) | (300) |
| Acquisition of intangible assets | (43) | (29) |
| **Net cash used in investing activities** | **(1,736)** | **(321)** |
| **Cash flows from financing activities** | | |
| Capital contribution received from parent | 5,500 | - |
| Proceeds from issue of subordinated liabilities | (2,000) | 500 |
| Dividends paid on other equity instruments | (169) | (169) |
| **Net cash from financing activities** | **3,331** | **331** |
| **Net (decrease)/increase in cash and cash equivalents** | 2,336 | 442 |
| Cash at bank including bank overdrafts at 1 January | 5,427 | 3,483 |
| **Cash at bank including bank overdrafts at 30 June** | **7,763** | **3,925** |

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Reporting Entity

This report comprises the unaudited condensed interim financial statements of CGML as at and for the six months ended 30 June 2021.

The financial statements of the Company at the year ended 31 December 2020 are available upon request from the Company's registered office at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB.

## 2. Statement of compliance

These condensed interim financial statements have been prepared and approved by the Directors in accordance with the EU Transparency Directive as implemented in the UK via the Disclosure and Transparency Rules issued by the FCA. They have been drawn up in compliance with FRS 104 'Interim Financial Reporting'. The condensed financial statements do not include all the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Company for the year ended 31 December 2020.

## 3. Principal accounting policies

### (a) Basis of presentation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 104, 'Interim Financial Reporting' (FRS 104). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), which entails a historical basis of accounting with certain exceptions, such as financial assets and financial liabilities measured at fair value under adopted IFRS. The financial statements have been prepared on a going concern basis, in accordance with the Companies Act 2006 as applicable to CGML.

The Company has taken exemption available under FRS 104 not to disclose all transactions with other group companies and investees of the group qualifying as related parties.

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

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

As was reported in the Ultimate Parent company's (Citigroup's) Quarterly Report on SEC Form 10-Q for the quarterly period ended 30 June 2021, Citigroup disclosed that due to the continued virus contagion and challenges in vaccine distribution, the COVID-19 pandemic has continued to have adverse, albeit relatively lessening, impacts on macroeconomic conditions in the U.S. and around the world. In considering going concern, the Company continues to closely monitor developments related to the outbreak of COVID-19. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers. To assess any potential impact on the Company, the directors reassessed the components of capital, liquidity and the financial position of the Company and have concluded that the going concern basis is still appropriate.

**3. Principal accounting policies** *(continued)*

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

The accounting policies adopted are consistent within the accounts and with those of the previous financial year, except for certain amendments and improvements to the IFRSs implemented as at 1 January 2021, which did not have a material impact on the Company unless otherwise noted below. There were no other material or amended standards or interpretations that resulted in a change in accounting policy for the period ended 30 June 2021.

***Standards and amendments issued and effective from 1 January 2021***

There are a number of accounting standards that have been issued by the International Accounting Standards Board ("IASB"), which became effective from 1 January 2021. They include:

- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16) – Phase 2*
- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16, Leases)*

The above amendments to IFRS 16 did not have an impact on the Company's financial statements, as the Company does not have any leases. More discussion of Interest Rate Benchmark Reform is included below.

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

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

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

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

In March 2021, following the completion of its consultation, the ICE Benchmark Administration, the authorized LIBOR administrator, notified the U.K. Financial Conduct Authority of its intention to cease publication of GBP, EUR, JPY, CHF settings for all tenors, as well as USD LIBOR settings for one-week and two-month tenors after December 31, 2021, while the publication of USD LIBOR settings for overnight and one-, three-, six- and 12-month tenors would cease after June 30, 2023.

**3. Principal accounting policies** *(continued)*

**(b) Changes in accounting policy and disclosures** *(continued)*

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

In April 2021, New York State legislation addressing USD LIBOR discontinuance became effective. The legislation addresses the transition away from USD LIBOR for legacy contracts that are governed by New York law and that lack fallback provisions or contain fallback provisions that are based in any way on USD LIBOR. Upon USD LIBOR's permanent discontinuance, USD LIBOR in such contracts will be replaced with a rate based on SOFR plus a spread adjustment by operation of law.

These amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The Company has adopted these amendments in its half-yearly financial statements . The impact of these amendments is to require additional disclosures of the Company's IBOR exposures; see the disclosure table below.

The table below presenting an analysis of the carrying amount of financial instruments, including the nominal amount of derivatives, that have yet to transition alternative benchmark rate as at the end of the reporting period, disaggregated by significant interest rate benchmark exposures as at 30 June 2021:

| **IBOR Exposures by benchmark ($ Million)** | **USD Libor** | **GBP Libor** | **JPY Libor** | **CHF Libor** | **EUR Libor** | **Total** |
|---|---|---|---|---|---|---|
| **Derivative Financial Assets** | | | | | | |
| Notional amount | 807,760 | 378,591 | 75,827 | 10,304 | 6,822 | 1,279,304 |
| **Non-derivative Financial Assets** | | | | | | |
| Contract par amount of non-derivative contracts | 22,117 | 2,469 | 2,118 | 1,063 | 774 | 28,542 |
| **Derivative Financial Liabilities** | | | | | | |
| Notional amount | 808,071 | 384,657 | 74,665 | 10,016 | 7,665 | 1,285,074 |
| **Non-derivative Financial Liabilities** | | | | | | |
| Contract par amount of non-derivative contracts | 12,318 | 89 | - | - | - | 12,406 |

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

**4. Use of assumptions, estimates and judgements**

The results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The assumptions and estimates used in the preparation of the financial statements are described in detail in the Company's financial statements for the year ended 31 December 2020 and have not materially changed in the reporting period.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Turnover and results

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

### 6. Tax on profit on ordinary activities

| | 30 June 2021 $ Million | 30 June 2020 $ Million |
|---|---|---|
| **(a) Tax recognised in the Income statement** | | |
| UK corporation tax: | | |
| Current tax on income for the period | 51 | 327 |
| Current tax on AT1 coupon | (45) | (45) |
| Adjustments in respect of prior periods | - | 5 |
| Total current UK corporation tax | 5 | 287 |
| Overseas tax: | | |
| Current overseas tax | 60 | 28 |
| Adjustments in respect of prior periods | - | 2 |
| Total current overseas tax | 60 | 30 |
| Total current tax | 65 | 317 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (46) | (14) |
| Overseas deferred tax in respect of foreign branch operations | - | - |
| Total deferred tax | (46) | (14) |
| **Tax on profit on ordinary activities in the income statement** | **19** | **303** |
| **(b) Tax recognised in the Statement of changes in equity** | | |
| Deferred tax (benefit)/charge associated with remeasurement of pension asset | 22 | 31 |
| Deferred tax (benefit)/charge associated with share based payment transactions | (17) | 25 |
| Deferred tax (benefit)/charge associated with gains on debt valuation adjustment | (20) | 20 |
| **Tax recognised in the Statement of changes in equity** | **(16)** | **76** |

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

**(c) Factors that may affect future tax charges**

The statutory UK tax rate applying to CGML in the year was 27% (30 June 2020: 27%). This includes a surcharge of 8% on the profits of banking companies applicable from 1 January 2016. Overseas branches provided for taxation at the appropriate rates for the countries in which they operate.

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK net deferred tax asset of $129m as at 31 December 2020 was calculated based on this rate.

A UK corporation tax increase from 19% to 25% was announced as part of the March 2021 Spring Budget, which was enacted on 10th June 2021, and will be effective as of 1 April 2023. Enactment of the increase in June has resulted in a deferred tax credit of $46m being recorded in the Income Statement and a deferred tax charge of $9m in Other Comprehensive Income, owing to a 6% uplift in the projected net deferred tax asset as at 1 April 2023.

The interim tax charge has been calculated based upon a forecast effective tax rate ("ETR") for the year of 29.08% (30 June 2020: 29.09%), before accounting for discrete items, such as the tax deduction of Additional Tier 1 (‘AT1’) coupons and the uplift in deferred tax due to the rate change. This is higher than the statutory rate due to permanent differences, the main ones being bank levy, non-taxable income on gilts and withholding tax which is not expected to be fully creditable.

Following the amendment of IAS12 impacting the accounting treatment of AT1 coupon tax deductions, these are now accounted for in the Income Statement whereas the coupon remains in Equity.

**(d) Deferred tax**

| | 30 June 2021 $ Million | 30 June 2020 $ Million |
|---|---|---|
| Deferred tax liability on pension asset (included within Other liabilities) | (148) | (139) |
| Deferred Tax asset on other temporary differences included in Other Assets | 339 | 164 |

Deferred tax is recognised on the company's temporary differences as it is considered probable that taxable profits will arise against which these can be utilised.

The deferred tax asset is recognised at the tax rates at which the temporary differences are expected to reverse.

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

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

| 30 June 2021 | Mandatorily at FVTPL $ Million | Designated at FVTPL $ Million | Amortised cost $ Million | Total carrying amount $ Million | Fair value $ Million |
|---|---|---|---|---|---|
| Cash | - | - | 8,049 | 8,049 | 8,049 |
| Derivatives | 172,581 | - | - | 172,581 | 172,581 |
| Inventory | 85,671 | - | - | 85,671 | 85,671 |
| Equity securities held for investment | 112 | - | - | 112 | 112 |
| Collateralised financing transactions | - | 58,679 | 87,332 | 146,011 | 146,011 |
| Cash collateral pledged | - | - | 30,983 | 30,983 | 30,983 |
| Trade debtors | - | - | 25,822 | 25,822 | 25,822 |
| Other debtors | - | - | - | - | - |
| | 258,364 | 58,679 | 152,186 | 469,229 | 469,229 |
| Bank loans and overdrafts | - | - | 10,316 | 10,316 | 10,335 |
| Derivatives | 178,532 | - | - | 178,532 | 178,532 |
| Securities sold but not yet purchased | 63,706 | - | - | 63,706 | 63,706 |
| Collateralised financing transactions | - | 52,787 | 71,475 | 124,262 | 124,262 |
| Hybrid financial liabilities | - | 21,228 | - | 21,228 | 21,228 |
| Cash collateral held | - | - | 26,439 | 26,439 | 26,439 |
| Trade creditors | - | - | 11,961 | 11,961 | 11,961 |
| Other creditors and accruals | - | - | 3,321 | 3,321 | 3,321 |
| Subordinated loans | - | - | 8,600 | 8,600 | 9,902 |
| | 242,238 | 74,015 | 132,112 | 448,365 | 449,686 |

| 31 December 2020 | Mandatorily at FVTPL $ Million | Designated at FVTPL $ Million | Amortised cost $ Million | Total carrying amount $ Million | Fair value $ Million |
|---|---|---|---|---|---|
| Cash | - | - | 5,505 | 5,505 | 5,505 |
| Derivatives | 213,918 | - | - | 213,918 | 213,918 |
| Inventory | 73,752 | - | - | 73,752 | 73,752 |
| Equity securities held for investment | 99 | - | - | 99 | 99 |
| Collateralised financing transactions | - | 77,331 | 76,864 | 154,195 | 154,195 |
| Cash collateral pledged | - | - | 39,570 | 39,570 | 39,570 |
| Trade debtors | - | - | 15,438 | 15,438 | 15,438 |
| Other debtors | - | - | 261 | 261 | 261 |
| | 287,769 | 77,331 | 137,638 | 502,738 | 502,738 |
| Bank loans and overdrafts | - | - | 7,347 | 7,347 | 7,466 |
| Derivatives | 229,445 | - | - | 229,445 | 229,445 |
| Securities sold but not yet purchased | 56,641 | - | - | 56,641 | 56,641 |
| Collateralised financing transactions | - | 47,187 | 75,922 | 123,109 | 123,109 |
| Hybrid financial liabilities | - | 16,677 | - | 16,677 | 16,677 |
| Cash collateral held | - | - | 29,444 | 29,444 | 29,444 |
| Trade creditors | - | - | 9,851 | 9,851 | 9,851 |
| Other creditors and accruals | - | - | 1,943 | 1,943 | 1,943 |
| Subordinated loans | - | - | 10,600 | 10,600 | 12,250 |
| | 286,086 | 63,864 | 135,107 | 485,057 | 486,826 |

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

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

| **30 June 2021** | **Level 1 $ Million** | **Level 2 $ Million** | **Level 3 $ Million** | **Total $ Million** |
|---|---|---|---|---|
| **Financial assets mandatorily at fair value** | | | | |
| Derivatives | 28 | 169,892 | 2,661 | 172,581 |
| Government bonds | 41,340 | 4,817 | 141 | 46,298 |
| Non-government bonds | 1,825 | 9,789 | 553 | 12,167 |
| Equities | 22,898 | 1,894 | 79 | 24,871 |
| Commodities | - | 2,200 | - | 2,200 |
| Commercial Paper | - | 135 | - | 135 |
| | 66,091 | 188,727 | 3,434 | 258,252 |
| **Financial assets designated at fair value** | | | | |
| Collateralised financing transactions | - | 58,616 | 63 | 58,679 |
| **Other financial assets at fair value through P&L** | | | | |
| Equity securities held for investment | - | - | 112 | 112 |
| | 66,091 | 247,343 | 3,609 | 317,043 |
| **Financial liabilities mandatorily at fair value** | | | | |
| Derivatives | 46 | 175,384 | 3,102 | 178,532 |
| Securities sold but not yet purchased | 52,582 | 11,082 | 42 | 63,706 |
| | 52,628 | 186,465 | 3,144 | 242,237 |
| **Financial liabilities designated at fair value** | | | | |
| Collateralised financing transactions | - | 52,787 | - | 52,787 |
| Hybrid financial liabilities | - | 17,458 | 3,770 | 21,228 |
| | 52,628 | 256,710 | 6,914 | 316,252 |

| **31 December 2020** | **Level 1 $ Million** | **Level 2 $ Million** | **Level 3 $ Million** | **Total $ Million** |
|---|---|---|---|---|
| **Financial assets mandatorily at fair value** | | | | |
| Derivatives | 36 | 210,874 | 3,008 | 213,918 |
| Government bonds | 35,562 | 2,257 | 24 | 37,843 |
| Non-government bonds | 1,231 | 9,192 | 485 | 10,908 |
| Equities | 21,374 | 1,715 | 21 | 23,110 |
| Commodities | - | 1,523 | - | 1,523 |
| Commercial Paper | - | 368 | - | 368 |
| | 58,203 | 225,929 | 3,538 | 287,670 |
| **Financial assets designated at fair value** | | | | |
| Collateralised financing transactions | 16 | 77,222 | 93 | 77,331 |
| **Other financial assets at fair value through P&L** | | | | |
| Equity securities held for investment | - | - | 99 | 99 |
| | 58,219 | 303,151 | 3,730 | 365,100 |
| **Financial liabilities mandatorily at fair value** | | | | |
| Derivatives | 31 | 226,496 | 2,918 | 229,445 |
| Securities sold but not yet purchased | 51,436 | 5,082 | 123 | 56,641 |
| | 51,467 | 231,578 | 3,041 | 286,086 |
| **Financial liabilities designated at fair value** | | | | |
| Collateralised financing transactions | - | 47,187 | - | 47,187 |
| Hybrid financial liabilities | - | 12,185 | 4,492 | 16,677 |
| | 51,467 | 290,950 | 7,533 | 349,950 |

For the six months ended June 2021, above the $100 million threshold, a total balance of $4.1 billion was transferred to Level 2 from Level 1 and $432 million was transferred to Level 1 from Level 2. Transfers were driven by changes in the fair value hierarchy methodology.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

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

| **30 June 2021** | **Level 1 $ Million** | **Level 2 $ Million** | **Level 3 $ Million** | **Total $ Million** |
|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | |
| Cash | 8,049 | - | - | 8,049 |
| Collateralised financing transactions | - | 87,332 | - | 87,332 |
| Cash collateral pledged | - | 30,983 | - | 30,983 |
| Trade debtors | - | 25,822 | - | 25,822 |
| Other debtors | - | - | - | - |
| | 8,049 | 144,137 | - | 152,186 |
| **Financial liabilities at amortised cost** | | | | |
| Bank loans and overdrafts | - | 10,316 | - | 10,316 |
| Collateralised financing transactions | - | 71,475 | - | 71,475 |
| Cash collateral held | - | 26,439 | - | 26,439 |
| Trade creditors | - | 11,961 | - | 11,961 |
| Other creditors | - | 3,321 | - | 3,321 |
| Subordinated loans | - | 8,600 | - | 8,600 |
| | - | 132,112 | - | 132,112 |

| **31 December 2020** | **Level 1 $ Million** | **Level 2 $ Million** | **Level 3 $ Million** | **Total $ Million** |
|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | |
| Cash | - | 5,505 | - | 5,505 |
| Collateralised financing transactions | - | 76,864 | - | 76,864 |
| Cash collateral pledged | - | 39,570 | - | 39,570 |
| Trade debtors | - | 15,438 | - | 15,438 |
| Other debtors | - | 261 | - | 261 |
| | - | 137,638 | - | 137,638 |
| **Financial liabilities at amortised cost** | | | | |
| Bank loans and overdrafts | - | 7,347 | - | 7,347 |
| Collateralised financing transactions | - | 75,922 | - | 75,922 |
| Cash collateral held | - | 29,444 | - | 29,444 |
| Trade creditors | - | 9,851 | - | 9,851 |
| Other creditors | - | 1,943 | - | 1,943 |
| Subordinated loans | - | 10,600 | - | 10,600 |
| | - | 135,107 | - | 135,107 |

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

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

***Fair Value Measurement***

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

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

Fair Value Hierarchy

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

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

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

- Level 1: Quoted prices for identical instruments in active markets.

- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

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

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

Determination of Fair Value

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

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

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

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

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

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

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

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

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

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

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

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

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

*Government bonds, corporate bonds and equities*
CGML uses quoted market prices to determine the fair value of government bonds and exchange traded equities; such items are typically classified as Level 1 or Level 2 of the fair value hierarchy.

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

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

*Collateralised financing transactions*

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

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

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

| | | Gain/(loss) recorded in the profit and loss statement | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | **At 1 January $ Million** | **Realised $ Million** | **Unrealised $ Million** | **Purchases $ Million** | **Sales $ Million** | **Issuances $ Million** | **Settlements $ Million** | **Transfers into Level 3 $ Million** | **Transfers out of Level 3 $ Million** | **At 30 June $ Million** |
| **Financial assets mandatorily at fair value** | | | | | | | | | | |
| Derivatives | 3,008 | 145 | (73) | 119 | (29) | - | (103) | 1,510 | (1,916) | 2,661 |
| Government bonds | 24 | (3) | 4 | 9 | (24) | - | - | 131 | - | 141 |
| Non-government bonds | 485 | 12 | (13) | 546 | (458) | - | - | 112 | (131) | 553 |
| Equities | 21 | 28 | 8 | 7 | (30) | - | - | 51 | (6) | 79 |
| **Financial assets designated at fair value** | | | | | | | | | | |
| Collateralised financing transactions | 93 | (8) | 8 | 131 | - | - | (131) | 19 | (49) | 63 |
| **Other assets at fair value through P&L** | | | | | | | | | | |
| Equity securities held for investment | 99 | - | 13 | - | - | - | - | - | - | 112 |
| | 3,730 | 174 | (53) | 812 | (541) | - | (234) | 1,823 | (2,102) | 3,609 |

| | | (Gain)/loss recorded in the profit and loss statement | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial liabilities held for trading** | **At 1 January $ Million** | **Realised $ Million** | **Unrealised** | **Purchases $ Million** | **Sales $ Million** | **Issuances $ Million** | **Settlements $ Million** | **Transfers into Level 3 $ Million** | **Transfers out of Level 3 $ Million** | **At 30 June $ Million** |
| Derivatives | 2,918 | (97) | 285 | (1) | 92 | - | (269) | 1,593 | (1,419) | 3,101 |
| Securities sold but not yet purchased | 123 | (7) | (3) | - | 1 | 12 | (105) | 26 | (4) | 42 |
| **Financial liabilities designated at fair value** | | | | | | | | | | |
| Hybrid financial liabilities | 4,492 | 7 | (180) | - | - | 1,791 | (1,502) | 283 | (1,121) | 3,770 |
| | 7,533 | (96) | 102 | (1) | 93 | 1,804 | (1,875) | 1,902 | (2,545) | 6,913 |

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

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

**7. Financial assets and liabilities accounting classifications and fair values** (continued)

During 2021 there has been a $0.7 billion decrease in total Level 3 balances driven by a $0.1 billion decrease on assets and by a $0.6 billion decrease on liabilities.

The Level 3 decrease on assets was driven by a $2.1 billion decrease on Level 3 transfer-outs which was partly offset by a $1.8 billion increase on Level 3 transfer-ins. The Level 3 asset decrease on transfer-outs was driven by $0.6 billion on commodity derivatives mainly on commodity swaps and commodity options, by $0.5 billion on credit derivatives mainly on credit default swaps and by $0.4 billion on interest rate derivatives mainly on inflation linked derivatives. The Level 3 asset increase on transfer-ins was driven by $0.7 billion on equity derivatives mainly on equity options, by $0.4 billion on credit derivatives mainly on credit default swaps and by $0.3 billion on interest rate derivatives mainly on interest rate swaps and inflation linked swaps.

The Level 3 decrease on liabilities was driven by a $2.5 billion decrease on Level 3 transfer-outs which was partly offset by a $1.9 billion increase on Level 3 transfer-ins. The Level 3 liability decrease on transfer-outs was driven by $1.1 billion on hybrid financial liabilities mainly driven by structured notes, by $0.5 billion on interest rate derivatives mainly on inflation linked derivatives and interest rate swaps and by $0.4 billion on credit derivatives mainly on credit default swaps. The Level 3 liability increase on transfer-ins was driven by $0.7 billion on equity derivatives mainly on equity options, by $0.3 billion on credit derivatives mainly on credit default swaps and by $0.3 billion on interest rate derivatives mainly on interest rate swaps and inflation linked swaps.

**Fair Value Hierarchy Classification**

*Unobservable inputs*

During the year, total changes in fair value, representing a gain of $115 million (2020: $695 million loss) was recognised in the income statement relating to items where fair value was estimated using a valuation technique that incorporated one or more significant inputs based on unobservable market data. As these valuation techniques were based upon assumptions, changing the assumptions would change the estimate of fair value. The potential impact of using reasonably possible alternative assumptions for the valuation techniques for both observable and unobservable market data has been quantified as approximately $698 million downside and $598 million upside (2020: $515 million downside and $359 million upside). The main contributors to this impact were Equity Markets, Credit Trading and Interest Rates Trading businesses.

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

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

- Equity Markets: Valuation uncertainty is computed from independent pricing and quote dispersion data sources.

- Credit Trading: Valuation uncertainty is computed from a combination of consensus market data, broker data and proxy analysis using third party data providers.

- Commodity Markets: Valuation uncertainty is computed from a combination of consensus market data and proxy analysis using third party data providers.

- Interest Rate Trading: Valuation uncertainty is computed from a combination of consensus market data and proxy analysis using third party data providers.

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

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

The following tables present the valuation techniques covering the majority of Level 3 inventory and the most significant unobservable inputs used in Level 3 fair value measurements as of 30 June 2021 and 31 December 2020. Note that these tables represent key drivers by disclosures line and may not agree back to the Changes in Level 3 Fair Value Category table.

| | Fair Value | | | Range of Inputs | | |
|---|---|---|---|---|---|---|
| **2021** | **$ million** | **Methodology** | **Input** | **Min** | **Max** | **Unit** |
| **Assets** | | | | | | |
| Derivative assets | 2,661 | | | | | |
| Equity Derivatives | | Model-based | Equity-FX Correlation | -81.0 | 80.0 | % |
| | | Model-based | Equity Volatility | 0.1 | 298.7 | % |
| | | Model-based | Equity Forward | 57.4 | 124.5 | % |
| Commodity Derivatives | | Model-based | Forward Price | 10.0 | 421.1 | % |
| | | Model-based | Commodity Volatility | 10.5 | 69.5 | % |
| | | Model-based | Commodity Correlation | -49.3 | 92.0 | % |
| Credit Derivatives | | Model-based | Credit Spread | 4.1 | 600.1 | bps |
| Inventory | 774 | | | | | |
| Equity | | Price-based | Price | 0.0 | 12,351.4 | $ |
| Non-government bonds | | Model-based | Equity Volatility | 0.1 | 298.7 | % |
| | | Model-based | Equity-FX Correlation | -81.0 | 80.0 | % |
| **Liabilities** | | | | | | |
| Derivative liabilities | 3,101 | | | | | |
| Commodity Derivatives | | Model-based | Forward Price | 10.0 | 421.1 | % |
| | | Model-based | Commodity Volatility | 10.5 | 69.5 | % |
| | | Model-based | Commodity Correlation | -49.3 | 92.0 | % |
| Equity Derivatives | | Model-based | Equity Volatility | 0.1 | 298.7 | % |
| | | Model-based | FX Volatility | 0.0 | 36.6 | % |
| | | Model-based | Equity-IR Correlation | -13.0 | 60.0 | % |
| | | Model-based | Equity-Equity Correlation | -40.0 | 99.0 | % |
| | | Model-based | Equity-FX Correlation | -81.0 | 80.0 | % |
| | | Model-based | Equity Forward | 57.4 | 124.5 | % |
| Credit Derivatives | | Model-based | Credit Spread | 4.1 | 600.1 | bps |
| Securities Sold Not Yet Purchased | 42 | Price-based | Price | 0.0 | 12,351.4 | $ |
| Hybrid financial liabilities | 3,770 | Model-based | Equity Volatility | 0.1 | 298.7 | % |
| | | Model-based | FX Volatility | 0.0 | 36.6 | % |
| | | Model-based | Equity-IR Correlation | -13.0 | 60.0 | % |
| | | Model-based | Commodity Correlation | -49.3 | 92.0 | % |
| | | Model-based | Equity-FX Correlation | -81.0 | 80.0 | % |
| | | Model-based | Equity Forward | 57.4 | 124.5 | % |
| | | Model-based | IR Normal Volatility | 0.1 | 0.8 | % |

# CITIGROUP GLOBAL MARKETS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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

***Valuation Techniques and Inputs for Level 3 Fair Value Measurements** (continued)*

| | Fair Value | | | Range of Inputs | | |
|---|---|---|---|---|---|---|
| **2020** | **$ million** | **Methodology** | **Input** | **Min** | **Max** | **Unit** |
| **Assets** | | | | | | |
| Derivative assets | 3,008 | | | | | |
| Interest Rate Derivatives | | Model-based | IR Normal Volatility | 0.1 | 0.5 | % |
| | | Model-based | Inflation Volatility | 0.3 | 2.4 | % |
| Equity Derivatives | | Model-based | Equity-FX Correlation | - 84.8 | 47.3 | % |
| Commodity Derivatives | | Model-based | Forward Price | 15.4 | 262.0 | % |
| | | Model-based | Commodity Volatility | 0.2 | 80.2 | % |
| | | Model-based | Commodity Correlation | - 44.9 | 95.9 | % |
| Foreign Exchange Derivatives | | Model-based | FX Volatility | 1.7 | 12.6 | % |
| Inventory | 531 | | | | | |
| Government bonds | | Price-based | Price | 0.0 | 865.9 | $ |
| Non-government bonds | | Price-based | Price | 0.0 | 2,264.7 | $ |
| Equity | | Price-based | Price | 0.0 | 865.9 | $ |
| **Liabilities** | | | | | | |
| Derivative liabilities | 2,918 | | | | | |
| Commodity Derivatives | | Model-based | Forward Price | 15.4 | 262.0 | % |
| | | Model-based | Commodity Volatility | 0.2 | 80.2 | % |
| | | Model-based | Commodity Correlation | - 44.9 | 95.9 | % |
| Equity Derivatives | | Model-based | Equity Volatility | 15.7 | 70.7 | % |
| | | Model-based | Equity-Equity Correlation | - 75.0 | 98.8 | % |
| | | Model-based | Equity-FX Correlation | - 84.8 | 47.3 | % |
| Foreign Exchange Derivatives | | Model-based | FX Volatility | 1.7 | 12.6 | % |
| Interest Rate Derivatives | | Model-based | Inflation Volatility | 0.3 | 2.4 | % |
| Securities sold but not yet purchased | 123 | Price-based | Price | 0.0 | 865.9 | $ |
| Hybrid financial liabilities | 4,492 | Model-based | Equity Volatility | 14.1 | 91.4 | % |
| | | Model-based | Forward Price | 15.4 | 262.0 | % |
| | | Model-based | Commodity Volatility | 0.2 | 80.2 | % |
| | | Model-based | IR Normal Volatility | 0.1 | 0.7 | % |
| | | Model-based | IR-FX Correlation | - 31.9 | 73.8 | % |
| | | Model-based | IR-IR Correlation | - 10.0 | 56.1 | % |

**7. Financial assets and liabilities accounting classifications and fair values** (continued)

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

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

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

***Yield***

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

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

***Volatility***

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

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

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

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

***Correlation***

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

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

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

***Price***

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

***Yield***

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

***Volatility***

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

***Correlation***

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

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Investments in subsidiary and related undertakings

| | 30 June 2021 $ Million | 31 December 2020 $ Million |
|---|---|---|
| **Cost** | | |
| At 1 January | 2,125 | 1,487 |
| Additions | 1,700 | 642 |
| Disposals | - | (4) |
| At 30 June | 3,825 | 2,125 |
| | | |
| **Impairment** | | |
| At 1 January | - | 88 |
| (Reversal)/Charge for the year: | - | (88) |
| At 30 June | - | - |
| | | |
| **Net book value** | | |
| At 30 June | 3,825 | 2,125 |

Details of all related undertakings held at 30 June 2021 as required by CA2006 SI 2008 No 410 Sch 4 Para 1 are set out below. All undertakings have a year end of 31 December and all of the Company's holdings are of ordinary shares.

During the first half of 2021 CGML made a total capital contribution of $1,700 million to its subsidiary, CGME.

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

| Name | Registered address |
|---|---|
| Citigroup Global Markets Europe AG | 16 Reuterweg, Frankfurt am Main 60323, Germany |
| Citigroup Global Markets Luxembourg S.a.R.L. | 31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg |
| Citigroup Global Markets Funding Luxembourg SCA | 31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg |
| Citigroup Global Markets Funding Luxembourg GP S.a.R.L. | 31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg |
| Citi Global Wealth Management S.A.M. | Monte Carlo Palace, 7-9 Boulevard des Moulins, MC98000 Monaco |

### 9. Subordinated loans

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

| Subordinated Loans | Currency | $ Million | Weighted Average Interest Rate | Weighted Average Maturity (Years) |
|---|---|---|---|---|
| 30 June 2021 | USD | 8,600 | 2.41% | 7.09 |
| 31 December 2020 | USD | 10,600 | 2.31% | 6.67 |

On 8 June 2021 CGML repaid $2,000 million of MREL compliant subordinated loan borrowings to Citicorp LLC.

As at 30 June 2021, subordinated loans consists of $4,000 million of Minimum Requirements for Own Funds and Eligible Liabilities (MREL) subordinated loan borrowings from Citicorp LLC and $4,600 million of Tier 2 subordinated loan borrowings from Citicorp LLC.

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

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

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

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

### 10. Other equity instruments

During the period ended 30 June 2021, the Company did not issue any Additional Tier 1 Notes. As at 30 June 2021, the other equity instruments of CGML consist of $2,300 million of Additional Tier 1 Notes to Pipestone LLC, another Citi entity.

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

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

### 11. Capital reserve

During the period ended 30 June 2021 CGML received $5.5 billion from its parent, Citigroup Global Markets Holdings Bahamas Limited.

### 12. Financial instruments and risk management

All aspects of the Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2020.

### 13. Events after the reporting period

On 16 September 2021 CGML issued $2,000 million of Additional Tier 1 Notes to Citicorp LLC, another Citi entity. These replaced an equivalent amount of Tier 2 subordinated loans which were repaid, as part of an initiative to enhance the quality of CGML's regulatory capital.

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

### 14. Group structure

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

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

### 15. Revenue analysis

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

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

| | Asia Pacific | EMEA | Latin America | North America | Total Regional | Other / Corp | Total |
|---|---|---|---|---|---|---|---|
| **Revenue by Region** | **$ Million** | **$ Million** | **$ Million** | **$ Million** | **$ Million** | **$ Million** | **$ Million** |
| 30 June 2021 | 373 | 1,890 | 13 | (519) | 1,757 | 96 | 1,853 |
| 30 June 2020 | 111 | 2,151 | 22 | (141) | 2,143 | 472 | 2,615 |
| Increase (decrease) compared to prior year | 262 | (261) | (9) | (378) | (386) | (376) | (762) |

Other / Corporate items relate to certain transfer pricing revenues and expenses. These form part of intercompany pricing arrangements between affiliated Citi entities, to ensure that entities are appropriately compensated for the use of their resources.