# Citigroup Global Markets Europe AG, Frankfurt am Main

## Management Report for Fiscal Year 2019

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# Background Information about the Bank

## 1.1 Business model

**Citigroup Global Markets Europe AG, Frankfurt a. M. (CGME),** is a leading international investment firm and securities trading bank (*Wertpapierhandelsbank*) in Germany. It operates its business at its registered offices in Frankfurt and, since the beginning of 2019, in its branches in Paris, Milan and Madrid. It had previously already operated a branch in London.

CGME benefits in its business operations, above all, from its integration in the global network of Citigroup, which enjoys a presence in over 160 countries. It maintains active client relationships with Germany's largest enterprises across all industries and with Germany's largest banks, asset managers, pension funds and insurance companies.

In this connection, CGME offers its services to, and facilitates services and solutions for, other companies within Citigroup. As an essential part of its business operation, CGME also provides support to numerous subsidiaries of internationally active corporate groups that maintain a business relationship with other affiliated Citigroup companies in their respective home countries. In its role as strategic hub, CGME also supports or advises clients from other markets such as Austria, Switzerland and Scandinavian countries.

The **focus** of CGME's business activities is on the following **business fields** (*Geschäftsfelder*):

- Banking, Capital Markets & Advisory ("BCMA") and
- Markets and Securities Services ("MSS").

The business field, **"BCMA",** includes all advisory work in connection with equity and debt capitalization measures originating on capital markets ("Capital Markets Origination" or "CMO") and such advisory work in connection with corporate acquisitions and transactions ("Mergers & Acquisition" or "M&A").

**"MSS"** covers services in the "securities" segment and is sub-divided into the business areas "Capital Markets" ("*Kapitalmarktgeschäft*") and "Underwriting" ("*Emissionsgeschäft*").

The products and services that transcend business divisions and fields and that track the relevant client needs may generally be classified as follows:

| Product or Business Division | Description (non-exclusive) |
|---|---|
| G 10 Rates | • Market making in interest-bearing, highly liquid financial products and derivatives<br>• Trading in government and other bonds, interest rate and cross currency swaps as well as derivative and exotic products |
| Spread Products | • Services in connection with client products to establish access to "investment grade", "high-yield and distressed bond" markets<br>• Credit derivatives and structured credit products |
| Equities | • Market making in equities<br>• Services in connection with the issuance of shares, convertible bonds, publicly-listed and OTC derivatives, structured products, securities financing including electronic trading |

# Background Information about the Bank

| Product or business segment | Description (*inter alia*) |
|---|---|
| Investor Services / FCC-Business | • Prime brokerage services for clients (e.g., securities lending, margin financing, clearing)<br>• Custody services for hedge funds and institutional investors<br>• Equity loans and liquidity management<br>• Synthetic products<br>• Delta One products<br>• Futures and OTC-Clearing |
| Commodities | • Services in connection with the risk management<br>• Liquidity solutions |
| FX – LM-Business | • Services in connection with hedging foreign currency risks<br>• Provision of intragroup and intercompany liquidity |
| Capital Markets Origination ("CMO") | • Structuring and syndication of securities and financing transactions on debt/bond capital markets<br>• Structuring of equity and other debt capital measures |

Overall, CGME currently advises more than 100 core clients, including almost all corporate groups listed on the DAX and various other enterprises listed on the M-DAX, major international industrial, insurance and banking groups, and the German government (including the German Federal States and other public institutions).

Since Citigroup's global strategy calls for clients to be advised, whenever possible, in the country in which they are headquartered, a significant portion of CGME's income is generated from intra-group charges ("Global Revenue Attribution" or "GRA"). The intermediated transactions are duly recognized (booked) by other legal entities of Citigroup and are therefore not directly reflected in the CGME's own accounting. The services thereby provided by CGME are compensated under a transfer pricing model.

The British government has now reached an understanding with the European Union that it will leave the European Union on January 31, 2020 or on or before December 31, 2020 upon observing a transitional (implementation) period. From that point forward, the United Kingdom will have the status of merely a third (non-EU) country, which means that the following licenses/approvals, previously granted and applicable for the European Union, will lapse:

- banks, insurance companies, pension institutions and capital management companies,
- financial market infrastructures, particularly the clearing of derivatives trading through central counterparties and
- auditors, credit-rating agencies and other companies whose business is regulated by the MiFID,

In light of this development, Citigroup reacted quickly and thereby began in 2018 implementing extensive restructuring within the global financial group that also includes CGME.  A key goal in this regard had been, among other things, to expand CGME into one of the leading international investment firms and securities trading banks in Europe by transferring significant business operations in the "BCMA" and "MSS" divisions to CGME in the run-up to BREXIT.

# Background Information about the Bank

## 1.2 Objectives and Strategies

### 1.2.1 General information

CGME prepares a business strategy on the basis of a three-year period, which the Executive Board reviews quarterly or in shorter intervals and adjusts, if necessary. The strategy is client-oriented and based on the positioning of the individual business divisions, “BCMA” and “MSS” according to the product and service requirements of the clients while factoring in the relevant market circumstances, the regulatory environment and the competition.

In addition to implementing a BREXIT strategy, the future business policy focus of CGME will be on achieving the objectives set forth below while placing an emphasis on business volume growth and the creation a solid governance framework:


The following **key financial performance and non-financial performance indicators** were then set for the years 2020 through 2022, whereby the strategic plans are predicated on the basis of a hard BREXIT as of 31 January 2020:

- **Financial performance indicators**
    - Earnings before Taxes (EBT)
    - Operating Efficiency (ratio of earnings to expenses before income taxes)
    - full capital adequacy with regard to the existing risks following the Minimum Requirements for Risk Management as issued by the Federal Financial Supervisory Authority (BaFin) and dated October 27, 2017 (Circular 09/2017 (BA); MaRisk)

- **Non-financial performance indicators**[1]
    - Reinforcement of the globally-oriented CGME model for the client and business philosophy that is pursued by Citigroup as well as the core values related thereto
    - Development of management standards and promotion of the personal growth and development of the employees
    - Implementation of regular training programs
    - Implementation of annual employee surveys
    - Creation of balanced, gender-specific diversity at the management levels (e.g., establishing a female ratio of 30% in management positions by 2025[2])
    - Constant development of the employee numbers in light of the favorable economic development at CGME.

### 1.2.2 Markets and Securities Services

**The MSS business** is positioned first and foremost to support the clients' needs in transactions with an EU-licensed bank, specifically to allow our clients to interact with a European-wide bank that complies with the European laws and European banking regulations. In this regard, a distinction is made between the two following business areas:

- Capital Markets,
- Underwriting,

In the **Capital Markets** business, CGME continues to have a presence in the equities, and since its reorganization into a securities trading bank, has also continuously expanded its capacities in the following asset classes - "Foreign Exchange & Local Markets", "G10 Rates", "Global Spread Products", "Commodities and Futures Clearing & Collateral" - in an effort to prepare for BREXIT.

Since March of 2019, the activities primarily in cash products ("non-derivatives") have been enhanced. Moreover, the CGME has been engaged in the business of selling warrants and certificates and brokering equities and equity derivatives with institutional investors. The sale of bonds as well as interest and credit derivatives are also handled in this business field. The product portfolio includes both structured financial solutions and simple flow transactions (*Flowgeschäfte*). In addition to foreign exchange business development, this corporate division is also the organizational home for warrants trading and CGME's short-term liquidity management.

"MSS" is mostly volume-driven and is a business with low margin flow. Consequently, the uncertainty surrounding the macroeconomic and political developments harbors a risk of lower client volume. With this in mind, here are some of the defined core elements of the business strategy:

- Continued expansion of the business with "fixed income insurance" and "pension solutions"
- Intensified implementation of strategic MSS projects
- Expansion of the client-based product lines
- Continued increase in market share in connection with equities and fixed-income derivatives
- Enhanced cooperation with family offices
- Generation of significant organic growth in the private banking sector

[1] Quantitative disclosures are made where these are used for internal control purposes
[2] In setting the female quota, the first and second hierarchical levels below the Executive Board are taken into account.

### 1.2.3 Banking, Capital Markets & Advisory (BCMA)

The **BCMA Division** encompasses the advisory work for the clients across all products and entails coordinating activities of all products and services to which these clients avail themselves from Citigroup throughout the world. Likewise, BCMA has been allocated responsibility for advising on mergers and acquisitions (M&A) and for advising on corporate finance issues, such as the issuance of equity or debt instruments as well as corporate financing using syndicated and bilateral loans.

Based on its long-established and ongoing client relationships and its closely meshed cooperation with the MSS divisions and other Citigroup units, the BCMA division is in a position to offer its clients an integrated product portfolio and to thereby exploit certain competitive advantages.

The task of the BCMA Division is to further expand the market position of CGME as one of the first go-to partners for addressing strategic corporate finance issues such as acquisitions and capital market financing and for handling the operational management of cash flows. The “BCMA” business division - unlike other market participants – offers institutional clients a broad spectrum of advisory and financial services. Citigroup’s global presence is a big advantage in this regard.

The episodic business encompasses primarily M&A advice as well as advisory services in the underwriting of equity instruments (initial public offerings) and debt instruments. Given the great significance of these episodic transactions, BCMA is highly dependent on trends in the general economy and in the financial markets. The business and earnings development are therefore rather cyclical.

With a large number of existing clients, CGME already holds an important position among the banks that focus on “corporate finance”. The emphasis has been on expanding this strategic positioning by strengthening the market position among institutional clients in Germany and in other German-speaking regions. Beyond that, the market position should also be expanded in the other European countries, with the branches outside of Germany expected to assume a key role here.

In order to be able to cover the future financing needs of the target customers, the following strategic measures, among others, were established:

- intensifying the focus on the cooperation with so-called “episodic” clients with relatively high anticipated fee income (encompassing approx. 5% of the clients)
- expanding the cooperation with so-called “non-target clients”
- preserving the market leader position for initial public offerings among German companies.

## 1.3 System of Controls

The management control within CGME remains founded on a **value-based management concept**. The design of this concept is predicated on the fact that the risks assumed by the business fields must be consistent with the external and internal policies on risk-bearing capacity (i.e., capital adequacy) and on the fact that over the long-term, a reasonable return must be earned on the capital employed. In this connection, CGME regularly reviews the allocation of limited resources among the business divisions and proactively adjusts its business strategy to meet changing market conditions in an effort to increase long-term corporate value.

# Background Information about the Bank

Key benchmarks with regard to CGME controlling are based on US-GAAP accounting. Part of the controlling involves a regular analysis of the capital adequacy and the calculation and management of the so-called “operating efficiency” for CGME.

The established financial performance indicators, above all EBT und **Operating Efficiency,** are continually monitored by the Executive Board. In order to optimize these indicators, CGME engages in an active cost and income management program. Efforts are constantly underway to improve the control target value for the CGME operating efficiency up to 90% for the years 2020 through 2022.

The **capital adequacy** is calculated according to the principles of the Minimum Requirements for Risk Management of the Banks issued by the Federal Financial Supervisory Authority (BaFin) and dated October 27, 2019 (MaRisk). The identified and quantitative risks and risk coverage potential (*Risikodeckungspotential*) is thereby compared. The capital adequacy is deemed to exist if the significant risks (*wesentlichen Risiken*) of CGME are continually covered by the risk coverage potential after factoring in risk concentrations. With the establishment of the individual risk limits, the transgression (breach) of which is linked to escalation procedures, efforts will have been made to ensure that during the course of the year, the capital adequacy corresponds to the business development. Opposing trends and developments are thereby identified early on and counter-measures are implemented.

Another element for controlling and managing CGME is the market positioning of CGME in the episodic business. The market positioning is defined using the Dealogic Ranking. In this regard, the Bank looks to the overall market and to the market covered by Citigroup.

Just like the “operating efficiency”, the capital adequacy and the market positioning in the episodic business, human resource planning is an important component of CGME’s strategic planning and is tied to the developments in the banking sector and the financial markets. If key changes take place due to market developments, then the human resource planning will be adjusted in a timely manner and in accordance with existing employee social conditions.

The corporate culture at Citigroup is founded on the Bank’s existing culture of achievement, which in turn is seen as the basis for the business success. By communicating clear and structured principles, CGME is strengthening this culture by:

- setting goals and monitoring performance
- differentiating performance
- promoting diversity and equal opportunity among the employees.

The strategic and operational decisions for CGME are made by the Executive Board, and their implementation is monitored by the Supervisory Board. The Executive Board meetings are held at least once each month; the meetings of the Supervisory Board are generally held on a quarterly basis or, if necessary, in shorter intervals. Furthermore, CGME has set up various committees that identify, access and approve the procedures and implemented control processes. For the meetings of the Executive Board, the Supervisory Board and the other working groups, the members of those bodies are given reports about all significant activities, initiatives and risks and about the status of all business divisions and supportive divisions. The individual Executive Board members sit on various committees (for example, the Business Risk Committee, Compliance and Control Committee, Country Coordinating Committee, Governance Committee).

The Executive Board will receive from the “Risk Controlling” Division regular reports (on a daily, monthly and quarterly basis) regarding the status of significant risks of CGME.

In addition to the aforementioned Committees, the Asset Liability Committee (“ALCO”) meets each quarter to focus on balance sheet management, cash flow management and risk management. The ALCO also monitors compliance with the capital adequacy requirements and examines the compliance with the legal and regulatory requirements with regard to liquidity, balance sheet and treasury demands.

The “New Product Committee” reviews all of CGME’s new products and the risks related thereto and approves them, if appropriate.

In the opinion of the Executive Board, the **internal control system** of CGME satisfies the requirements of orderly management (*Anforderungen an eine ordnungsgemäße Geschäftsführung*).

## 1.4 Significant Business Policy Events in the recently completed Fiscal Year 2019

On February 15, 2019, the sole shareholder of CGME, Citigroup Global Markets Limited, London/UK, (CGML), resolved in a special shareholders' meeting of CGME to transfer the capital markets business, which had been operated in the Paris, Milan and Madrid branches and which included the tangible and intangible assets and liabilities as well as other rights and duties related to that business (hereinafter referred to as "In-kind Capital Contribution"), into CGME as a capital contribution-in-kind pursuant to §§ 183 (1) of the German Stock Corporation (AktG), thereby increasing CGME's registered share capital. The registered share capital, which had previously equaled EUR 210,569,889.00 was thereby increased by EUR 31,823,165.05 to EUR 242,393,054.05 through the issuance of a total of 1,244,814 new, registered no par shares with a *pro rated* value of EUR 25.56 per share (rounded-off to two decimal places). The capital increase was entered in the Commercial Register on April 2, 2019.

On February 14, 2019, CGML also made an additional payment into equity capital pursuant to § 272 (2) no. 4 HGB in the amount of USD 650 million, which equaled approx. EUR 575 million.

Pursuant to the Agreement concluded between CGME and its sole shareholder on November 25, 2019, the sole shareholder also agreed to make an additional payment of up to EUR 100 million into CGME's equity capital pursuant to § 272 (2) no. 4 of the German Commercial Code (HGB) in light of the loss that was anticipated for 2019. Pursuant to a resolution dated December 10, 2019, a total of EUR 50 million was paid in on December 13, 2019. The annual net loss (*Jahresfehlbetrag*) for 2019 as well as the unappropriated shortfall shown on the balance sheet (*Bilanzverlust*) on December 31, 2018 were compensated through a commensurate withdrawal or transfer from capital reserves in connection with the decision on using and allocating the results for fiscal year 2019.

# 2 Economic Report

## 2.1 Overall Economic Development

In the recently completed fiscal year 2019, the macroeconomic environment was driven by uncertainty that resulted from, among other things, the delays surrounding BREXIT and the foreign trade tensions between certain countries. Pursuant to the European Union (Withdrawal Agreement) Bill approved on December 20, 2019, Great Britain left the European Union as of January 31, 2020. Beginning on February 21, 2020, a transition (implementation) period was put in place through the end of 2020 with Great Britain remaining part of the EU Single Market. On or before December 31, 2020, a trade agreement must be concluded between the European Union and Great Britain to avoid a so-called "hard BREXIT". This uncertainty, which already existed in 2019, currently remains unchanged.

Compared to the prior year, the real gross domestic product of the countries set forth below changed as follows:[3] [4]

| in % | 2019 | 2018 | in % | 2019 | 2018 |
|---|---|---|---|---|---|
| **Europe** | | | **Norh America** | | |
| Eurozone | 1.1 | 1.9 | Canada | 1.6 | 2.0 |
| Germany | 0.6 | 1.5 | USA | 2.3 | 2.9 |
| France | 1.3 | 1.7 | | | |
| Great Britain | 1.4 | 1.3 | **Asia/Pacific** | | |
| Italy | 0.1 | 0.7 | China | 6.1 | 6.6 |
| Austria | 1.5 | 2.4 | Japan | 0.9 | 0.8 |
| Switzerland | 0.8 | 2.8 | | | |
| Spain | 1.9 | 2.4 | | | |

The real gross domestic product in the Eurozone increased by merely 1.1% (prior year: 1.9%) and may be attributed to, among other things, the cyclical downturn of the industrial sectors in Germany and Italy. A relatively low rise in the growth rate of Great Britain's economy (to 1.4%) was the result of, *inter alia*, the strengthened export business of British industrial companies resulting from the inventory build-ups in light of the imminent EU withdrawal. Although the relatively stable developments in the labor markets have been generally encouraging, the rising uncertainties have weakened client confidence and caused some restraint among those making business policy decisions and new investments. This situation has, in turn, also impacted the consumption (among consumers) and led to a corresponding decline in international trading volumes. Without exception, the other industrial countries, which are considered significant in terms of the size of their real gross domestic product, reported a decline in their growth rates, whereby the 2019 growth rate in China, which was 6.1% lower than the previous year, is attributable to, *inter alia*, its trade war with the United States.

In 2019, the relatively stable development on the labor markets turned out as a whole to be positive. In the Eurozone, the unemployment rate fell by 0.6 percentage points to 7.6%. In Germany, the unemployment rate declined from 3.2% to 3.0%. Whereas the unemployment rate increased by 0.7 percentage points to 3.8% in Great Britain, countries such as Spain and Italy, which are relevant to CGME, reported declining unemployment rates in 2019.

Inflationary pressures ebbed in 2019. Whereas the inflation rate in Germany was still at 1.8% in 2018, it had dropped to 1.4% in 2019. This trend is consistent with the HVPI[5], which the European Central Bank had anticipated and forecasted for the Euro area in 2019.

The capital markets were once again impacted by a continued decline in interest rates in 2019. Contrary to the previous year expectation that interest rates would rise, the European Central Bank left its key interest rates at a low level. In September 2019, it lowered the interest rate for deposit facilities by 10 basis points

[3] See Pubiicatons from the German Federal Bureau of Statistics (www.destatis.de, „*Volkswirtschaftliche Gesamtrechnungen, Inlandsprodukt*" ["Aggregated Calculations for the Economy, Domestic Product"]) as well as accompanying materials from the Federal Bureau of Statistics for the January 15, 2020 press conference

[4] Figures for 2019 are "preliminary".

[5] HVPI = Harmonised Index of Consumer Prices

to -0.5%, scaling the rates according to deposit volumes. The European Union also launched another asset purchasing program. As a result of the expansionary monetary policies of the European Central Bank, yields on interest-bearing financial products declined. In 2019, the US Federal Reserve lowered its prime rate 25 basis points three times and began purchasing short-term treasuries. In light of the unclear development and situation surrounding BREXIT, the Bank of England did not change any base (interest) rates in 2019.

## 2.2 CGME Business Performance

### 2.2.1 Business development

Business performance at CGME in the recently completed 2019 fiscal year featured, among other things, the continuation of the Bank's repositioning of itself as a securities trading bank, a process begun in calendar year 2018, and the continuing uncertainties with regard to the economic impact from BREXIT delays. The business model, which remained focused on client needs, also led to an expansion of the portfolio of products and services in 2019. During its preparation for BREXIT, CGME expanded its product capacity significantly in an effort to provide comprehensive support to clients with headquarters in the 27 EU countries and to select clients outside of the European Economic Area.

Earnings performance in 2019 was generally not satisfactory. With the acquisition of the branches in Madrid, Milan and Paris (i.e., the capital market business operated by those branches) and the costs related to those acquisitions, CGME was unable to meet its earnings targets in 2019. Although a positive EBT had still been expected at the beginning of 2019, additional drags on earnings materialized during the second half of the year due to, among other things, restructuring measures, which meant that the earnings indicator "EBT" resulted in a negative value of approx. EUR 40 million (prior short fiscal year: approx. EUR -10 million). Another cause of this development involved the administrative expenses, which to a considerable extent offset the income generated in the branches. Accordingly, in the recently completed fiscal year, our financial performance indicator "Operating Efficiency" - equaling approx. 114 % - developed contrary to the expected value of less than "one-hundred percent".

Among the episodic products, such as "M&A-transaction Advice", "Equity and Debt Market Financings", "Lending Operations in the Investment Grade Sector", only modest business growth was reported in 2019. New client relationships were established on a selective basis. The wide range of product offerings, from which CGME can draw in almost all business divisions, has had a further favorable effect on market positioning. In light of the continuing low interest rates and the persistently strong, declining interest margins related thereto, negative net results once again climbed.

### 2.2.2 Markets and Securities Services

The MSS Division was able to hold its ground during the recently completed fiscal year and to solidify its position in the target client segment. Even though business in 2019 continued to be shaped by the persistently low interest rates and by the uncertainties in the global economy and the capital markets as a result of BREXIT and the trading disputes, we believe that this Division was able to strengthen its market position a bit, even though income declined slightly from the prior year due to the aforementioned factors.

In the course of the ongoing preparations for BREXIT, the key customer migrations to CGME were completed in 2019 and the business volumes of all "MSS product areas" climbed accordingly. The target market continued to be the European Economic Area, and target customers remained "large companies", "financial service institutions", "institutional investors" and the "public sector".

Among the product areas generating the most income – "Equities & Securities Services", "Rates and Currencies" and "Global Spread Products" – income dipped slightly in the recently completed fiscal year compared to the prior year period. Key factors influencing that result were the "challenging" market environment and the moderately falling margins in the conventional foreign exchange business. On the other hand, the dramatic growth in the "Commodities" and "Other Citi Markets" areas over the prior year served to partially offset those declines.

### 2.2.3 Banking, Capital Markets & Advisory (BCMA)

Despite a market environment characterized by low interest rates and macroeconomic tensions, the "BCMA" division was able to report a 2019 fiscal year that was generally satisfactory and met our expectations.

In our opinion, we were able to improve our market position in episodic business and generate correspondingly higher commission income compared with the previous year. These favorable results are attributable to the acquisition of the branch business operations in Spain, Italy and France from Citigroup Global Markets Ltd., which acquisition was consummated as of March 1, 2019 and led to an expansion of business volume and to a commensurate increase in commission income.

In 2019, the "BCMA" division generated total commission income that equaled approx. EUR 115 million (prior fiscal year: approx. EUR 51 million) and was distributed along the following key products and product areas:

| Product/Product Area | 2019 (EUR million) | 4/28-12/31/2018 (EUR million) | Change (EUR million) |
|---|---|---|---|
| Credit Portfolio Management (CPM) | 5.0 | 5.2 | - 0.2 |
| Equity Capital Markets (ECM) | 17.6 | 5.6 | 12.0 |
| Debt Capital Markets (DCM) | 24.0 | 16.6 | 7.4 |
| Mergers & Acquisitions (M&A) | 67.7 | 22.7 | 45.0 |
| Remaining | 0.3 | 1.2 | - 0.9 |
| **Total** | **114.6** | **51.3** | **63.3** |

The income generated from the "CPM" product, which is not being offered by the branches acquired in 2019, fell slightly in 2019. The main cause for this decline is the low interest rate environment and the continuing competitive pressure as reflected in the margins of the lending business. Despite the slight decline in income, 2019 was considered satisfactory and in line with expectations.

In recently completed 2019 year, one of the hallmarks of the business operation in the "ECM" product sector was uncertainty on the capital markets, which meant that fee income in the market generally declined. Accordingly, the "Dealogic Fee Volume[6]" in Germany, Spain, Italy and France in the ECM sector decreased by 34% overall in 2019. Although the generated fees did not meet expectations, we were able, however, to register a satisfactory increase in income compared to the prior year.

Even though our expectations with respect to the "DCM" product were not fully met due to the strong competition in 2019, income was able to be increased significantly compared to the prior short fiscal year.

The "M&A" division reported particularly strong growth in 2019, inasmuch as a number of the transactions that closed in 2019 had already been in the pipeline in 2018. Accordingly, in addition to the favorable market environment, we were also able in 2019 to benefit from a strong deal pipeline.

[6] See Dealogic Full Year 2019 as of 2 January 2020 for Germany, Spain, Italy and France.

# Economic Report

## 2.3 Net Assets, Financial Condition and Results of Operation

### 2.3.1 General information

With respect to the balance sheet items, the amounts shown for the comparative period relate to December 31, 2018. To explain the key differences in the income statement items for fiscal year 2019, the figures of the preceding short fiscal year (April 28, 2018 through December 31, 2018; "Preceding Short Fiscal Year") have been used for comparative purposes.

We would note that the ability to compare the relevant financial statement items for the recently completed fiscal year 2019 with those same items for the Preceding Short Fiscal Year is to some extent limited because not only were these two time periods different in their duration but there were also extraordinary business events that transpired in 2019 and will be discussed in more detail below.

### 2.3.2 Results of operation

The result in the fiscal year 2019 developed as follows compared to the short fiscal year last year (April 28, 2018 through December 31, 2018):

| | Jan 1-Dec 31, 2019 (kEUR) | Apr 28-Dec 31, 2018 (kEUR) | Change (kEUR) |
|---|---|---|---|
| Net interest income | - 10,140 | - 4,449 | - 5,691 |
| Net commission income | 177,299 | 87,772 | 89,527 |
| Income from trading operations | 29,030 | 25,037 | 3,993 |
| Other income | 40,541 | 5,637 | 34,904 |
| Administrative expenses | 261,384 | 99,072 | - 162,312 |
| Other administrative expenses | 15,508 | 24,922 | - 9,414 |
| Result before taxes | - 44,207 | - 9,997 | - 34,211 |
| Income taxes | - 5,557 | - 4,740 | -837 |
| **Annual net loss** | **- 45,739** | **- 14,737** | **- 30,165** |

The **annual net loss** generated in the recently completed fiscal year 2019 totaled kEUR 45,739 and was largely shaped by net commission income totaling kEUR 177,299, which had strongly improved over the Preceding Short Fiscal Year, and by the disproportionate increase in the administrative expenses (increase of kEUR 162,312) to kEUR 261,384.

The EUR 5.7 million drop in the **net interest income** to EUR - 10.2 million in 2019 resulted primarily from the EUR 14.1 million increase in interest expenses to EUR 18.8 million as a consequence utilizing the liquidity made available by CitiCorp LLC. The interest expenses owed for this liquidity were EUR 14.1 million (Preceding Short Fiscal Year: EUR 4.1 million). The EUR 8.5 million increase in interest income to EUR 8.6 million is attributable mostly to the reverse repo business.

The **net commission income** totaling EUR 177.3 million, which was a significant improvement over the Preceding Short Fiscal Year (Preceding Short Fiscal Year: EUR 87.8 million), resulted from a large increase in commission income (EUR 211.8 million; Preceding Short Fiscal Year: EUR 95.2 million), while the commission expenses rose by EUR 27.1 million to EUR 34.5 million.

The increase in commission income resulted mainly from the significant expansion in business volume that formed the basis of the income in 2019 coupled with a commensurate rise in commission revenue (from EUR 71.5 million to EUR 108.2 million), which was generated from affiliated enterprises in connection with, *inter alia*, initiating business contacts and from the sale of financial instruments. In addition, the commission and fees earned in connection with M&A/Advisory transactions in the recently completed fiscal year rose to approx. EUR 89.1 million (Preceding Short Fiscal Year: EUR 30.4 million).

In connection with the sale of foreign currency products, CGME generated commission revenues totaling EUR 14.5 million (Preceding Short Fiscal Year: EUR 9.7 million) in the recently completed fiscal year.

Overall, the increase in net commission income in 2019 is attributable primarily to income generated from the branches that were acquired as of March 1, 2019.

As in the Preceding Short Fiscal Year (EUR 7.4 million), the commission expenses totaling EUR 34.5 million resulted almost exclusively from costs that were passed-through by affiliated enterprises.

The **net income from trading operations** totaling EUR 29.0 million (Preceding Short Fiscal Year: EUR 25.0 million) resulted almost exclusively from trading in equities, index products and foreign currency products as well as from dividends paid out in stock portfolios. The net result is an expense for the risk discount (value-at-risk) in the amount of EUR 6.8 million (Preceding Short Fiscal Year: EUR 1.7 million).

**Other income** in the amount of EUR 40.5 million (Preceding Short Fiscal Year: EUR 5.6 million) consists primarily of income generated from charging expenses to affiliated enterprises in the amount of EUR 28.7 million (Preceding Short Fiscal Year: EUR 3.8 million), income based on compensatory payments for remitted investment income withholding tax in the amount of EUR 6.4 million and turnover tax refunds totaling EUR 3.9 million and based on, *inter alia*, the findings from the tax audit covering 2009 through 2012.

Compared to the prior year period, **administrative expenses** rose by EUR 162.3 million to a total of EUR 261.4 million. The primary cause of this increase is the pension expenses that were connected with the acquisition of the branches in Paris, Milan and Madrid, to which an amount totaling EUR 115.9 million can be ascribed.

**Other operating expenses** totaling EUR 15.8 million (Preceding Short Fiscal Year: EUR 24.9 million) can be ascribed, *inter alia*, to the depreciation, amortization and write-down of intangible assets and tangible assets (EUR 8.4 million; Preceding Short Fiscal Year: EUR 0.5 million), whereby EUR 7.6 million relates to the scheduled amortization of goodwill that was recognized with the contribution the branches in Madrid, Milan and Paris and reflected the client relationships acquired.

With a **pre-tax loss of EUR 40.2 million** in the recently completed 2019 fiscal year (Preceding Short Fiscal Year: EUR -10.0 million), CGME reported earnings that did not meet the original expectations.

**Income taxes** (EUR 5.8 million; Preceding Short Fiscal Year: EUR 4.7 million) include, *inter alia*, EUR 2.3 million in foreign income taxes.

Compared to the prior year, the **annual net loss** rose by EUR 31.0 million to EUR 45.7 million. In accordance with the recommendation about using the earnings/losses, a withdrawal was made from the capital reserves account to offset the loss.

### 2.3.3 Financial condition

CGME refinances itself primarily within Citigroup. Cash and other financial assets are exclusively short-term.

In the recently completed fiscal year, CGME was in a position at all times to meet its payment obligations. Moreover, any and all liquidity requirements mandated by law were satisfied at all times. No significant capital expenditures are planned that could impair liquidity.

Under its new business model, CGME generally does not engage in maturity transformations.

As of December 31, 2019, the Tier 1 common capital ratio and the total capital ratio of CGME were each 26.5% (December 31, 2018: 89.8%). Thus, CGME continues to command a strong equity base.

Otherwise, we refer to the cashflow statement for fiscal year 2019.

### 2.3.4 Net assets

The **CGME assets** as of the balance sheet date (December 31, 2019) developed as follows compared to the previous year balance sheet:

| Assets | Dec 31, 2019 (kEUR) | Dec 31, 2018 (kEUR) | Change (kEUR) |
|---|---|---|---|
| Receivables from banks | 322,581 | 130,752 | 191,829 |
| Receivables from clients | 5,406,732 | 785,695 | 4,621,037 |
| Trading portfolio assets | 8,932,625 | 4,615,404 | 4,317,221 |
| Equity investments | 1,136 | 1,136 | - |
| Trust assets | 507,281 | 0 | 507,281 |
| Intangible assets | 83,534 | 162 | 83,372 |
| Tangible assets | 2,731 | 2,231 | 500 |
| Other assets | 1,060,668 | 159,979 | 900,689 |
| Prepaid and deferred items | 655 | 353 | 302 |
| **Total** | **16,317,943** | **5,695,712** | **10,622,231** |

| Liabilities and equity capital | Dec 31, 2019 (kEUR) | Dec 31, 2018 (kEUR) | Change (kEUR) |
|---|---|---|---|
| Liabilities owed to banks | 76,278 | 12,301 | 63,977 |
| Liabilities owed to clients | 4,293,095 | 330,071 | 3,963,024 |
| Trading portfolio liabilities | 9,081,658 | 4,679,111 | 4,402,547 |
| Trust liabilities | 507,281 | 0 | 507,281 |
| Other liabilities | 970,490 | 10,353 | 960,137 |
| Deferred liabilities | 107,980 | 59,798 | 48,182 |
| Funds for general bank risks | 28,334 | 28,334 | - |
| Equity capital | 1,252,828 | 575,744 | 677,084 |
| **Total** | **16,317,943** | **5,695,712** | **10,622,231** |

In light of the restructuring of Citigroup's business activities in Europe that was extended due to BREXIT and the related ongoing expansion of CGME as a securities trading bank, the CGME assets as of December 31, 2019 saw major growth over the prior year. The business model associated with the operations of a securities trading bank includes mostly the **service business with clients** and the **trading business with financial instruments**.

Approximately one-third of the EUR 16,318 million balance sheet total as of the end of fiscal year 2019 – namely EUR 5,407 million (prior year: EUR 786 million) - is attributable to short-term **receivables from clients**, of which approximately EUR 4,020 million is attributable to broker-dealer business that CGME had acquired at the beginning of 2019 in its own name and for its own account and that it clears and settles in connection with back-to-back transactions. The **liabilities owed to clients** increased commensurately by EUR 3,963 million to EUR 4,293 million as of December 31, 2019.

Furthermore, a total of EUR 832 million relates to receivables generated from securities repurchasing transactions that were executed for liquidity management purposes (reverse repo transactions).

As of December 31, 2019, CGME's **trading volume** in financial instruments compared to the prior year largely doubled. **Trading portfolio assets**, which totaled EUR 8,933 million (December 31, 2018: EUR 4,615 million), make up approximately 55% of the balance sheet total and consist of EUR 8,433 million (December 31, 2018: EUR 3,662 million) in derivative financial instruments, a figure that remained largely unchanged. The foregoing applies equally to the **trading portfolio liabilities** which, when compared to the prior year level, increased by EUR 4,403 million to EUR 9,082 million and had also consisted of mainly derivative financial instruments (EUR 8,547 million; December 31, 2018: EUR 3,765 million).

At the commencement of fiscal year 2019 and in connection with its service business, CGME began trading in derivative financial instruments in its own name but for the account of its clients (the so-called "**FCC Business**", which stands for "Futures, Clearing and Collateral Services"). As part of the process for settling transactions, the clients are required to provide collateral to secure the trading in futures. This collateral is collected by CGME and forwarded directly to the clearing houses that are contracted to handle the trade settlement. The contractual arrangements that were thereby made stipulate a certain segregation of client assets from the CGME assets in an effort to specifically shield client assets from any third-party enforcement action that could be initiated in the event that the "asset-managing" CGME becomes the subject of an insolvency proceeding. The client assets are therefore held in trust. Accordingly, as of the end of fiscal year 2019, CGME is reporting **trust assets** and **trust liabilities** *vis-à-vis* the clients in an amount totaling EUR 507 million.

As of December 31, 2019, **goodwill** in the amount of EUR 83 million is shown on the balance sheet and reflects the client relationships that existed with the branches in Paris, Milan and Madrid and that CGME acquired as part of a capital increase in exchange for an in-kind capital contribution. Individual goodwill encompasses a total amount of EUR 91 million, which is being amortized on a scheduled basis over an average useful life of 10 years.

In comparison to the balance sheet as of December 31, 2018, the **other assets** rose by EUR 901 million to EUR 1,061 million. This increase can be traced to the expansion of CGME's broker-dealer business during the first-half of 2019 and the related rise in the volume of initial and variation margins required. As of December 31, 2019, the volume totaled EUR 1,037 million. In addition, the balance sheet reveals, *inter alia*, tax refund claims amounting to EUR 10 million (prior year: EUR 12 million).

As of December 31, 2019, the **equity capital** shown on the CGME **balance sheet** compared to the balance sheet date of the recently completed fiscal year increased by a total of EUR 677 million to EUR 1,253 million. This increase can be attributed mostly to additional payments that the sole shareholder, CGML, made into the equity capital account pursuant to § 272 (2) no. 4 HGB and that totaled approximately EUR 625 million. Also in 2019, the CGME registered share capital was increased by approx. EUR 31 million when the assets and operations of the Madrid, Milan and Paris branches were acquired and contributed as capital. In this connection, the premiums totaling approximately EUR 66 million were paid in and booked to the capital reserve account under § 272 (2) no. 4 HGB.

With regard to the annual net loss of EUR 46 million generated in the recently completed fiscal year, the CGME Executive Board has recommended to the shareholders, as part of the allocation of results (earnings/losses), that the annual net loss be compensated by withdrawing funds from the capital reserve account. There is also a recommendation to cover the loss carry forward from the previous year (an amount totaling approximately EUR 15 million) with a withdrawal from the capital reserve account.

**Overall**, the net assets as of December 31, 2019 are orderly and sound (*sind geordnet*), also in light of the very good equity capital base.

# 3 Outlook and Opportunities

# Outlook and Opportunities

## 3.1 Outlook and Opportunities of the Business Divisions

### 3.1.1 General Economic Conditions

The development of the economic, financial and above all capital markets faces a variety of risks and dangers. In our view, the economic outlook is impacted by substantial uncertainties. We believe that the cause for these uncertainties are, among other things, a protectionist economic policy, a less dynamic economy and the impact of the coronavirus that has spread dramatically since the beginning of the year. The individual economies have become fragile due to the relatively long-lasting interest rate phase and, in some cases, to a dearth of reform and consolidation efforts and to elevated private debt. The continued low interest rate environment, in our view, only increases the danger to which the financial and capital markets are exposed.

Protectionist policies and measures, which have emanated above all from the United States, are a threat to the economic growth in individual countries and to the financial markets. To this extent, we believe that trade conflicts and the concomitant reduction in the supply of goods and services in the current year cannot be ruled out.

Furthermore, the political backsliding from European cohesion in the European Union now poses additional risks. The withdrawal of Great Britain from the European Union as well as the independence movements of certain countries in Central and Eastern Europe could adversely influence the economy of the European Economic Area.

In regard to the effects of the coronavirus pandemic for the world economy, the risk of a recession can no longer be generally ruled out. Financial markets are also exposed to the aforementioned risks and uncertainties in 2020. Overall, the volatilities that began in early 2020 could further escalate. Nevertheless, we continue to assume that there will be capacity for public offerings and refinancing deals.

### 3.1.2 Outlook and Opportunities in the Course of Business

Also in the recently completed fiscal year 2019, CGME's business activities were once again continuously repositioned in accordance with the internal group business plan to operate on the "financial services institution" or "securities trading bank" business model. The focus of this model was on, *inter alia*, equities, fixed income and FX products that had been tailored to the clients' interests and could also be structured as spot or derivatives transactions. In the course of 2019, the organizational and operational processes within CGME were further adjusted to fully satisfy the statutory and regulatory requirements.

With the final exit of Great Britain from the European Union as of January 31, 2020 or on December 31, 2020 upon observing the transitional period, the restructurings already implemented in the European Citigroup units will be accompanied by additional business policy adjustments and repositioning that will significantly impact CGME. For example, one plan in 2020 is to transfer from CGML to CGME about EUR 46 billion of business with customers who are registered in the European Economic Area, whereby approximately EUR 33 billion would be attributable to derivative financial instruments and approximately EUR 13 billion would be attributable to financing transactions with securities.

Based on the current budget for 2020, the expectation is that with income totaling approx. EUR 274 million and expenses totaling approx. EUR 267 million, it should be possible to generate an EBT of approx. EUR 7 million. For the financial performance indicator, "Operating Efficiency", the goal is 97%. In the two previous years, the goal had been to improve EBT by up to EUR 20 million and the "Operating Efficiency" by up to 90%.

Moreover, with the expansion of the business volume, there has also been a plan to increase the regulatory capital during the course of fiscal year 2020 through additional payments totaling EUR 1.1 billion into equity capital. The budget provides for a "regulatory" equity capital of approx. EUR 2.3 billion by 2022. Accordingly, the full capital adequacy with regard to existing risks is completely secured in accordance with the Minimum Requirements in Risk Management Systems (MaRisk) issued by the Federal Financial Supervisory Authority (BaFin) of October 27, 2017.

### 3.1.3 Markets and Securities Services

Macroeconomic factors such as global trade disputes and, above all, the effects of the Brexit negotiations through the end fiscal year 2020 will continue to be seen as factors influencing CGME's business performance in 2020. The current low interest rate environment is also viewed as an indicator for the growth of this business field.

And once again in 2020, the identified goal of the business division is to offer our clients a package of products and services tailored to their needs and to thereby leverage the global strengths of Citigroup's corporate network.

Likewise, the following goals remain in place: to gain additional market share in selected customer segments, to build upon existing strengths and to become an indispensable partner in the identified target market.

### 3.1.4 Banking, Capital Markets & Advisory (BCMA)

In 2020, the BCMA Division will place more emphasis on nurturing existing clientele in corporate banking. On the sector side, the focus will be on clients in the industrial and technology sectors and on private equity firms.

In “Capital Markets” and “Advisory”, there continues to be an expectation of a higher level of activity in 2020, although moderate growth in market-wide fee revenue is anticipated. In order to continue holding its strong market position in the episodic business and to capture additional market share, CGME is endeavoring to further expand its advisory work with private equity companies and in the real estate sector.

Key features in this market environment, which will likely remain unchanged, are a high degree of competition from domestic and international banks and from niche providers, which could create some risks with regard to CGME's market share.  Thus, a close and well-coordinated interaction between all Citigroup products or product partners to acquire greater market share will be of fundamental importance. The global presence of Citigroup and its related ability to provide local expertise afford the Bank opportunities to set itself apart.

## 3.2 General statement about anticipated performance

In light of the significant expansion of business volume being planned and the related infusion of (regulatory) equity capital during the course of 2020, the capital adequacy has been ensured.  .

Through the additionally planned expansion of our market share in the MSS and BCMA business areas, efforts are also being made in 2020 to assume a leading role as an investment bank in the episodic business in Germany in 2020.  For 2020 and the two years thereafter, we are expecting a positive annual result and a steadily improving “Operating Efficiency”.

We would note, however, that the Coronavirus (COVID-19) pandemic, which began in early 2020 and could trigger adverse macroeconomic consequences and a recession, could have a material adverse effect on CGME's earnings. Above all, the resulting uncertainties on the financial and capital markets and the ensuing volatility in the price of certain financial instruments and the deteriorating general conditions for global production and service companies could have an adverse effect on CGME's business development in 2020. At the moment, there are still no reliable insights indicating that the current budget's quantitative targets for 2020 cannot be achieved in a sustained manner.

# Outlook and Opportunities

CGME has been closely tracking the spread of the Coronavirus and the measures taken to contain the virus and continues to evaluate and assess in a very detailed and timely manner the potential effects on CGME and its affiliated enterprise. In light of these great uncertainties and consequences that are presently not definitively foreseeable, any reliable statements about the overall earnings development at CGME are difficult to make at this moment.

# 4 Risk Report

# Risk Report

## 4.1 General Principal of our Risk Management

The focus of our business operation as a securities trading bank, which has a central core competency in this area of business, is the ability to correctly assess and purposefully manage the risks that are related thereto. The management of the risks in all relevant aspects is therefore an essential factor for the sustained business success of our bank. This requires an implemented, highly-developed risk management system that is continually updated to accord with, among other things, the extensive regulatory requirements in risk management. In the recently completed fiscal year 2019, we therefore further upgraded our procedure for identifying, measuring, limiting and managing the risks related to our business operation. In this connection and among other measures, the implementation of the guidelines of the Federal Financial Supervisory Authority ("BaFin") regarding the Internal Capital Adequacy Assessment Processes (ICAAP) – Update, was further substantiated.

## 4.2 Organization of the Risk Management

The overall responsibility for risk management and risk monitoring lies with the plenary Executive Board and with the Supervisory Board of CGME. Individual competencies at the organizational unit levels is shown below:

| **Overall Responsibility: Executive Board and Supervisory Board of CGME** | | |
|---|---|---|
| | | |
| **Type of Risk** | **Risk Management** | **Risk Monitoring** |
| Market risks | Asset Liability Committee and Dealer Desks | Risk Controlling |
| Liquidity risks | Asset Liability Committee and Corporate Treasury | Risk Controlling and Corporate Treasury |
| Counterparty risks | Asset Liability Committee and Dealer Desks | Risk Controlling |
| Operational risks | Divisions responsible for process | Risk Controlling |
| Business and strategic risks | Business Strategy and Risk Strategy | Risk Controlling |
| Miscellaneous risks (specifically "pension risks" and "reputation risks") | Business Strategy and Risk Strategy | Risk Controlling |
| | | |
| **Process-independent monitoring through internal audits of CGME** | | |

The Executive Board determines the business and risk strategy and defines the general conditions in a so-called "Risk Appetite Statement" ("RAS"). On the basis of the "risk appetite", CGME's maximum risk exposure is thereby described, according to which a permanent continuation of business operations is not endangered, even if the risks lead to an economic burden ("Going Concern Approach").

Analogously to the global approach, CGME uses the so-called "Three Lines of Defense Model" to identify, assess and control risks. For the respective business unit ("First Line of Defense"), the RAS provides the framework for the independent and responsible management of existing risks. The Risk - Controlling Division ("Second Line of Defense") regularly determines the quantitative utilization of the defined risk limits and provides reports thereon. In addition, the Internal Auditing Department at CGME ("Third Line of Defense") regularly reviews the organizational structures and procedures and risk-related processes, including the implementation of the RAS, and assesses their appropriateness. Furthermore, the internal workflow processes of CGME ensure that Compliance gets brought in on compliance-relevant issues. The

RAS also provides qualitative guardrails, the compliance with which must be monitored by the respective functions responsible for the process and by the business units of the First Line of Defence. Compliance with such requirements, as determined by the CGME Executive Board, is administered through the Manager Control Assessment Process ("MCA").

In connection with the risk management, the following committees have been formed:

| Committee | Key Tasks | Membership |
|---|---|---|
| Business Risk, Compliance and Control Committee (BRCC) | Evaluation of and reporting on all-inclusive risk situation of<br>○ CGME<br>○ Branch CNA Frankfurt am Main<br>○ CKG as well as<br>○ Branch CEP Frankfurt am Main<br>• Control Committee for the 2nd Line of Defence | • Members of the Executive Board<br>• Representatives of the operational departments at CGME (e.g., Finance, Risk Controlling, Legal, Compliance)<br>• Internal Auditing Department<br>• General manager of the branches of CNA and CEP in Frankfurt am Main as well as CKG |
| Asset Liability Committee (ALCO) | • Ongoing monitoring of the liquidity and market price risks as well as the financing situation | • Members of the Executive Board (CCO, CFO and CRO)<br>• Risk Controlling<br>• Corporate Treasury |

As a member of the Executive Board, the Chief Risk Officer ("CRO") is actively involved in the process of approving the risk policy guidelines established by the Executive Board for the identifiable risks and is furthermore responsible of the implementation thereof. The Risk Management Country Officer ("RMCO") routinely reports to the Chief Risk Officer and to the Business Risk, Compliance and Control Committee ("BRCC") about the controls over and findings about the risk situation at CGME. The meetings of the BRCC are held regularly on a quarterly basis. The RMCO also reports directly to the Executive Board and to the Supervisory Board during the regular quarterly meetings of the committees and, if necessary, when special situations arise.

The reporting is based on internal rules that were enacted in accordance with local regulatory requirements on the reporting systems of a bank (see Special 3 of the MaRisk).

## 4.3 Risk Definition and Risk Strategy

CGME defines **risk** as potential future developments or events that could lead to a deviation in the forecasts or objectives that is negative for CGME.

Risk management generally distinguishes between **quantitative and qualitative types of risk**. Quantitative risks regularly include, *inter alia*, the counterparty credit risk, the market price risk and the liquidity risk, which can be assessed regularly and, if necessary, with the aid of appropriate measurement methods. The so-called qualitative risks can be quantifiable (e.g. ‚operational risks). In addition, there are qualitative risks for which an objective assessment is not possible (e.g., strategic risk).

The business strategy established by the Executive Board and approved by the Supervisory Board frames the risk management. Building thereon and taking into account in CGME's risk-bearing capacity (capital adequacy), the overall risk strategy including individual strategies are established for the risk management of key identified types of risks. In this regard, the strategies are based on the principle of ensuring a professional and diligent handling of the existing risks in all business and function areas. To implement the strategies and unconditionally guarantee CGME's capital adequacy, corresponding risk management and risk controlling processes were implemented.

The **RAS** stipulated the so-called “risk appetite” as the maximum risk that CGME is willing and able to assume in the pursuit of its business objectives without exposing itself to existential risks. The main idea here is to ensure reasonable liquidity and equity capital resources at CGME. The RAS should therefore be seen as an integral component of CGME’s strategic process that is intended to support the Executive Board in guiding CGME’s risk appetite to ensure that CGME is protected against taking on an excessive risk appetite.

The RAS documents the risk management concept implemented by CGME for purposes of creating a forward-looking process that defines expectations for the consolidated risk profile at CGME that are linked to the bank's general business strategy and its essential resources like capital and liquidity. Key elements of the overall process emerge from the regular risk identification and evaluation process, which is performed in accordance with the requirements pursuant to General Part 2.2 of the MaRisk. This process represents the basis for the CGME risk strategy, including the assessment of the capital adequacy, and a three-year capital projection.

The maximum risk or “risk appetite” is defined in the form of a quantitative thresholds and qualitative parameters and is documented in the RAS. In this regard, the “risk appetite” does not describe the desired risk level, but instead defines a framework of reasonable limits that are established and approved by the Executive Board. Transactions and/or business decisions must therefore satisfy all components of the “risk appetite framework”.

The overall risk strategy and the individual strategies developed therefrom for the significant types of risk are reviewed at least once each year. Each member of the Executive Board may request a review on an *ad hoc* basis. Furthermore, the capital adequacy is also verified at least once each year. This verification also includes a review of the suitability of the risk measuring methods, the processes and the individual risk limits (suitability of the capital buffer as set by the Executive Board).

Where limit transgressions are threatened, CGME has instituted escalation and decision-making procedures. The “Risk Controlling” Division takes actions to ensure a timely and independent risk report is filed with the Executive Board and with the constituted “BRCC” and “ALCO” committees.

Another key component of CGME’s strategy processes is the implemented internal control system (IKS). The control measures, which have been instituted here, are described in the documented rules for individual procedures of each respective department and division. The internal controls are upstream, equal or downstream of the individual work procedures. The IKS therefore encompasses the entirety of all control measures and seeks to ensure specified qualitative and quantitative standards, including legal and regulatory requirements and compliance with the defined risk limits.

## 4.4 Risk-Bearing Capacity (Capital Adequacy) and Risk Limitation

The **risk-bearing capacity** (i.e., capital adequacy) represents one of the most important determining factors for structuring the risk management. In this regard, one core component of a reasonable and effective risk management system is the evaluation of internal bank processes for ensuring capital adequacy (“Internal Capital Adequacy Assessment Process”; “ICAAP”). To ensure capital adequacy at all times, CGME pursues a dual-control approach. The risk management in the calculation of the economic capital is based the approach, which ensures that risk positions are assumed only to the extent that the long-term continued operation of the Bank can be guaranteed, even if the existing risks should in fact fully materialize and lead to economic detriment. During the economic capital calculation, the primary concern is to identify and quantify those risks that are not captured by the normative capital calculation (formally Pillar I). The calculations are based primarily on a confidence level of 99.9%, although justified exceptions are permissible.

Under this approach, the risk coverage potential is established on the basis of the balance sheet and income statement items, which are prepared in accordance with the provisions of German commercial law and are simultaneously the fundamental elements of the regulatory equity capital. In this regard, the equity capital is recognized as risk coverage potential up to the amount that would be available to offset any potential or incurred losses without thereby violating the minimum requirements under the Capital Requirement

Regulation (CRR). In view of the capital planning requirements under the Supervisory Review and Evaluation Process (SREP), which is based on the regulatory capital, a period of three years is assumed.

CGME has identified

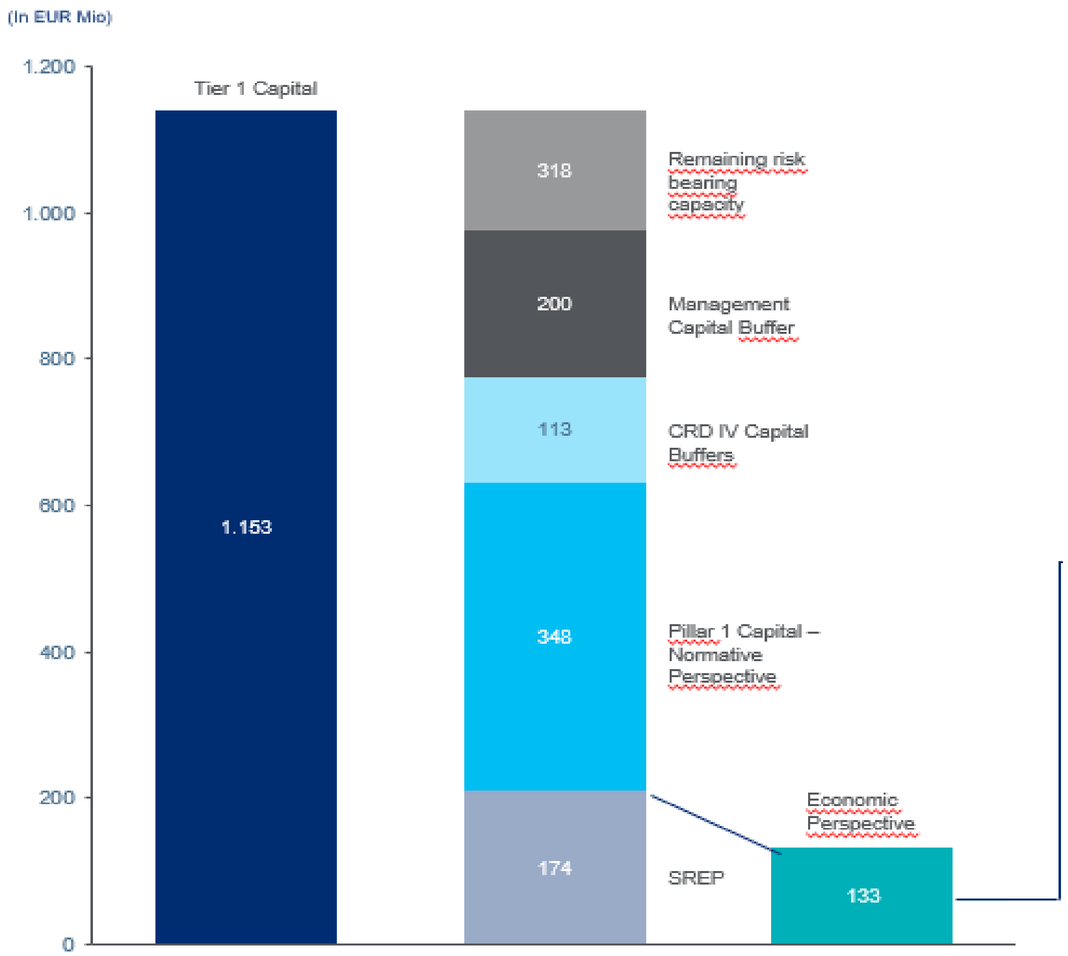
- the concentration risks on counter-party risks
- the CCP-Membership risks
- the operational risks
- the risks from pension funds and
- the reputation risk

as economic risks that must be covered by equity capital. The basis for the foregoing is a risk inventory (risk assessment) carried out on a regular basis and as part of procedurally developing the ICAAP concept.

The risk-bearing capacity concept does not qualify as "significant" so-called liquidity risk, because conceptually no economic capital requirement can be derived from that risk. The appropriate monitoring of the liquidity risk is guaranteed at all times on the basis of the implemented control system and through regular controls performed by the Asset and Liability Committee.

The significant risks are quantified on the basis of statistical methods (models) or with the help of expert assessments. Calculations are supplemented through regular stress simulations for all significant risk categories.

As of December 31, 2019, the risk coverage potential (Tier 1) totaled EUR 1,153 million, which can be broken out as follows in accordance with the regulatory requirements and the capital buffer set by the Executive Board:



In 2019, the Executive Board resolved to increase the “Management Capital Buffer” from EUR 100 million to EUR 200 million in order to account for, *inter alia*, the negative earnings in the recently completed 2019 fiscal year as well as the large increase in capital requirements for counterparty risk, which increase had been anticipated due to BREXIT. At the end of 2019, the remaining risk coverage potential totaled EUR 318 million.

As of December 31, 2019, the **utilization of the risk coverage potential** through the types of economic risks considered significant can be shown as follows:

| Significant Types of Risk | Risk Assessment (EUR million) |
|---|---|
| Risks from pension funds | 76.8 |
| Counterparty default risks in connection with clearing trades | 40.1 |
| Operational risk | 7.0 |
| Reputation risk | 4.9 |
| “Pre-settlement exposure –”, risk concentration | 4.1 |
| **Total** | **132.9** |

The **risk-bearing capacity** (**capital adequacy**), which is calculated monthly, was guaranteed at all times during the 2019 fiscal year, and CGME had an adequate risk capital buffer. The capital projection carried out as part of the annual risk strategy process also revealed that the capital adequacy will remain in place at all times upon taking into account the targeted business development and the demands in the strategy process specified under the MaRisk.

## 4.5 Risk Types and Risk Identification and Management

### 4.5.1 General information

In connection with the risk assessment inventory performed each year, the following significant risks were identified and quantified against the backdrop of the CGME business model:

- Credit risk (counterparty credit risk and issuer risk);
- Market risk;
- Liquidity risk;
- Operational risk and
- Reputation risk.

In addition, there is a risk connected with investments that are made in shares of funds that serve as compensating balances (*Deckungsguthaben*) for the CGME pension obligations owed to its employees (pension fund risk). The risk does not emanate from its own business activity, but is still considered significant and should therefore be taken into account when calculating the risk-bearing capacity (capital adequacy). The following risks covered under the ICAAP have been determined to be other significant types of risk:

- CCP settlement risk from broker-dealer trades
- Concentration risk in connection with the counterparty credit risk.

The following risks that are classified as significant are generally included in the types of risk listed above and relate primarily to operational risk:

- Compliance risk (including conduct, money laundering and fraud)
- Technology risk
- Model risk
- Cyber risk
- Strategic risk.

### 4.5.2 Counterparty and credit risks

The CGME business activity results in the following significant, client-related counterparty and credit risks:

- Issuer risk (bonds and equities)
- Counterparty risk
- Country risk.

In addition, there are counterparty risks related to the ongoing business activities with the Citigroup companies.

The prevailing principle for structuring the processes in the CGME business activities that entail counterparty risks is a clear segregation between the front office (market-facing) and the back-office up to and including the Executive Board level. The back-office tasks are handled by the independent divisions, Operations and Risk Controlling. The Risk Controlling Division continually monitors whether the lines of credit granted to the clients, including the counterparty limits for trading as well as the issuer risks, are being observed. The monitoring is performed by a division operating independently of the front office (Trading, Banking).

The tasks and responsibilities for the work procedures are stipulated in the form of organizational directives. Clearly defined processes have been implemented for required adjustments.

With respect to these counterparty credit risks, CGME draws a distinction between the settlement risks and the pre-settlement exposures. The settlement risk arises when CGME duly performs under a contract on the settlement day, but the client does not perform its obligation. The pre-settlement exposure is the risk incurred by CGME if the client is unable to meet its obligations under a contract and CGME must therefore cover the position in the market. The risk is calculated according to the mark-to-market valuation method of the client position (*Kundenposition*). Moreover, an issuer risk emerges from the hedging transactions under the trading book.

The trading desks, which are defined according to product specifications, are responsible for the risk management and the conclusion of trades containing counterparty risks. The control and the verification of trading transactions with counterparties and the settlement of the trades are the responsibility of the "Operations" Division. This Division also reviews the market fairness for the executed trades.

For the purposes of evaluating the counterparty credit risk, all counterparties or issuers in trading transactions are subject to a rating by "Operations", either on a regular cycle or based on an event. The rating is an important indicator for defining the counterparty or issuer-related limits.

The discussions and descriptions below relate primarily to issuer and counterparty risks.

The Bank defines limits for various credit types according to the relevant counterparty who are assigned to a class of debtors under § 19 (2) of the German Banking Act (KWG). These limits are approved by the competent decision-makers.

Reports on the different counterparty and issuer risks are generated by the system and analyzed on a daily basis. In the event limit breaches are identified, the responsible trader and the head of the trading department must be informed without undue delay. The Executive Board will also be informed about these facts as part of its daily report and advised about the applicable thresholds.

As of the end of fiscal year 2019, CGME's total pre-settlement exposure limits (PSE limits) was USD 19,675 million, or EUR 17,514[7] million, and existed *vis-à-vis* a total of 358 counterparties. Of that amount, a total of approximately USD 811 million or approx. EUR 772 million were utilized. The reason behind these limit utilizations included, *inter alia*, the still cautious market activities of the clients in light of the uncertainty and delays in the timing of BREXIT.

[7] 1.00 US-$ = 0.8919 EUR

Broken down according to rating classes, the counterparty credit risk (counterparty risk and credit exposure) to which CGME was exposed as of the end of December 2019 can be shown as follows in terms of the utilizations:

| FRR | Jul-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 |
|---|---|---|---|---|---|
| 1 | 0 | 0 | 201 | 202 | 218 |
| 2 | 298 | 483 | 960 | 937 | 937 |
| 3 | 133 | 257 | 345 | 315 | 235 |
| 4 | 362 | 182 | 348 | 709 | 329 |
| 5 | 5 | 4 | 7 | 8 | 16 |
| 6 | 1 | 0 | 1 | 2 | 2 |
| 7 | 0 | 0 | 1 | 3 | 6 |
| 8 | 0 | 0 | 0 | 0 | 0 |
| 9 | 0 | 0 | 0 | 0 | 0 |
| 10 | 0 | 0 | 0 | 0 | 0 |
| Unrated | 0 | 87 | 83 | 83 | 15 |
| **Total** | **951** | **1,374** | **1,945** | **2,295** | **1,758** |
| | | | | | |
| Weighted Avg FRR | 3- | 3- | 3- | 4+ | 4+ |

The majority of utilizations (representing a share of approx. 98%) is thereby ascribed to rating classes 1 through 4.

To reduce the credit risks among the counterparties and the issuer risks in trading, master agreements for financial futures[8] and for securities repurchase agreements (repos) are generally used that provide reciprocal "netting agreements" intended to lower the counterparty credit risks. The master agreements used by CGME for financial futures transactions contain netting or setoff agreements at the individual trade levels (so-called "payment netting") and where all individual trades are terminated under a master agreement (so-called "close-out netting").

In general, all master agreements are subject to the principle of the unified / standard agreement (*Prinzip des einheitlichen Vertrages*). In the event of a termination, the offsetting receivables are netted and only the receivable's credit balance resulting from the netting may be enforced against the defaulting contractual party. The prerequisite for this process to proceed is that the receivable (claim) must be valid and enforceable and that the respective jurisdictions recognize the principle of the unified / standard contract, thereby protecting the claims against seizure by an insolvency administrator that might otherwise pose a risk.

The "close-out netting" might also be exposed to (international) legal risks. These risks are addressed by obtaining legal opinions.

CGME settles security repurchase agreements both bilaterally and *via* EUREX Clearing AG, acting as a central counterparty. With regard to securities repo transactions, the "payment and delivery netting" is performed in reliance on the respective counterparty. The counterparty risk is also mitigated by settling derivative transactions *via* central counterparties such as EUREX Clearing AG and LCH Clearnet Ltd.

On derivative transactions, only cash collateral is accepted and is normally transferred on the basis of the relevant contractual agreements. For repo transactions, collateral in the form of securities is made available.

The risk management also entails the assessment and monitoring of country risks. We understand this risk to mean the default risk of a government or a sovereign body and the danger that a counterparty, who is willing and able to make payment, will be unable to meet its payment obligations as a result of governmental

[8] The master agreements for financial futures also include the master agreement published by the International Swaps and Derivatives Association Inc (ISDA) (the so-called "ISDA Master Agreement"). These agreements are standard contracts that, *inter alia*, have also been recommended for use by the leading associations of German banks (such as the USBdB).

action (transfer risk). Country risks are managed across divisions on the basis of the country limits identified as a result of the country risk assessment.

### 4.5.3 Market price risks

For the most important types of trading transactions offered by CGME, the following **market (price) risks** were identified:

- Warrants in equity, commodity and foreign exchange assets as well as the corresponding hedges
- Issuance and trade in investment certificates in equities, commodities and foreign exchange as well as the corresponding hedges
- Repos and reverse repos with group companies (refinancing).

With regard to this set of risks, corresponding risks exist for the following market prices:

- Stock prices (e.g., stock price risks)
- Interest rates (e.g., interest change risks, yield curve risks, option risks)
- Commodity prices, and
- Exchange rates (e.g., risks based on a change in the spot or forward exchange rates.

**Risk concentrations** exist generally in the warrants trading area inasmuch as the significant risks arise from the “equity warrants” products, whereas there are considerably lower risks associated with the “foreign exchange warrants” and “commodity warrants”.

In order to assess the risk position in the Trading Division, all individual transactions are marked to market on a daily basis. The prices underlying the valuation are obtained directly from independent external sources or in connection with using valuation models. The market parameters used in this process are either transferred automatically to the valuation system or are compiled manually by the traders. The market parameters are fastidiously checked by the market surveillance office by comparing them with independent external sources. Based on these data, the current market values and the daily gains and losses are assessed independently from the trading function.

The risk exposures in the trading books are quantified daily. This is carried out by means of **factor sensitivity analyses** that evaluate all trade transactions both in terms of their price-relevant market factors (foreign exchange, equity and equity index spot prices, yield curves and interest rate volatility, currencies, commodities) and in terms of the changes in value that would occur when there is a standardized market movement. Such analysis provides an overview on the risk profile of the individual trading portfolios and the trading portfolio as a whole.

In addition, we quantify the loss potential of each market factor and calculate the “**value at risk**” (“VaR”), taking into account the correlation between the market factors. The VaR approach has established itself as the authoritative method for assessing economic market risks. The VaR reflects the maximum loss to be expected from a trading book during a certain holding period (e.g., 1 day) with a pre-set likelihood (e.g., a confidence level of 99%). The calculation also takes into account the specific risks of individual stocks (beta risk).

VaR is calculated using a Monte Carlo simulation, which is carried out for all trading activities and is based on uniform valuation criteria. The volatilities of the individual market factors included in the calculation and their correlations are determined on an empirical basis.

The Group’s standard VaR model is subject to an annual, local model validation process in order to ensure that the group-wide model parameters match the profile of the local market risk. Core elements of the validation process are the hypothetical back-testing method, which is carried out each day, and the quarterly “Risk not in VaR” analysis, which serves to identify and quantify those risks that are not covered by the model calculation.

The method for calculating the ten-day VaR was **modified** as follows in 2019:

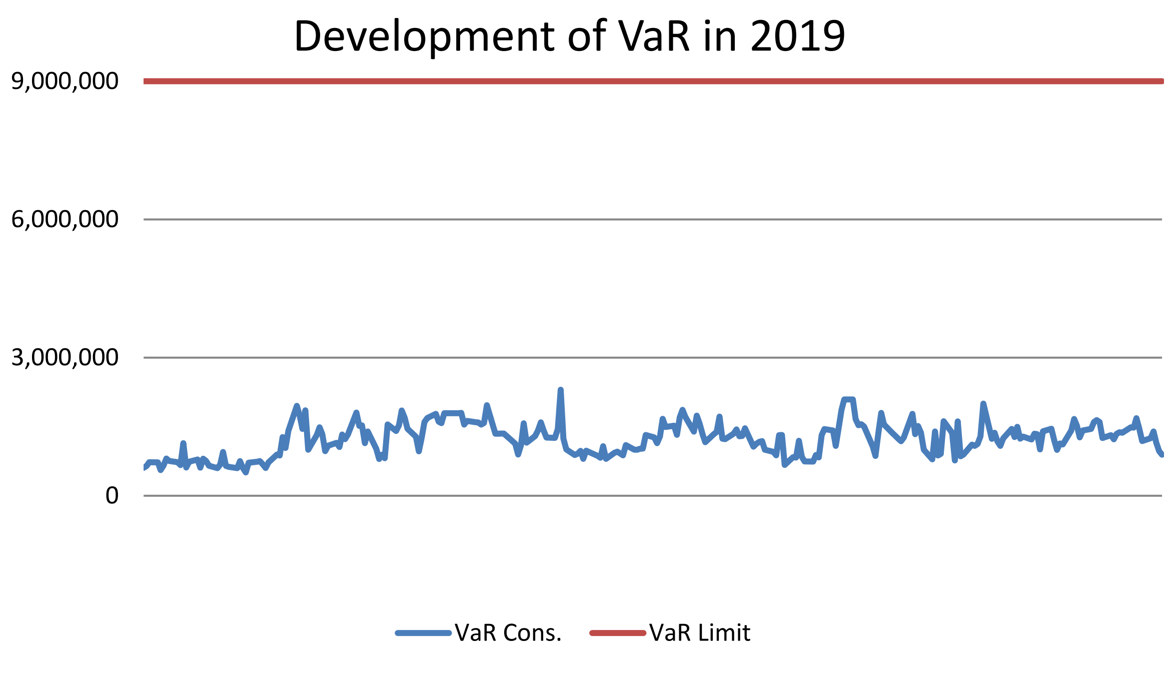
For the regulatory market risk capital, CGME uses a 10-day/99%-USD-VaR as its risk measure. This is estimated from a 1% quantile of the income statement allocation of the corporate portfolio over a period of 10 days. The one day/99%-USD-VaR is calculated from the 1%-random sample quantile of the allocation of the portfolio earnings/loss contributions that are computed as an outcome from 5,000 simulated Monte Carlo scenarios. The 10-day/99%-USD-VaR that is required for the regulatory risk capital is estimated similarly to a one-day/99%-USD-VaR; namely, by using a covariance matrix with a 10-day period to characterize the multivariate normal distribution of market factor changes over a 10-day horizon. The 10-day covariance matrix is generated from the one-day covariance matrix, which is then scaled up by a factor of 10.

Moreover, in order to stimulate extreme market changes, analyses of stress tests are performed in regular intervals and, in specific situations, on an *ad hoc* basis.

For the individual trading books and the risk of an interest rate change in the non-trading book, limit structures have been established over which the Executive Board actively prescribes the risk tolerance for the individual trading books and the Bank as a whole.

For measuring the derivative trading activities, CGME is tied into the group-wide risk monitoring system. In this regard, that system presents all aggregate market price risks by products, currencies and markets and compares the risk exposures at the different levels to the relevant limits. The system generates reports (which highlight specific limit breaches where applicable). They are provided to Risk Controlling each morning. The trading-independent Risk Controlling function monitors compliance with the limits and the escalation of the Management Action Trigger on a daily basis. The aggregated reports are provided to the Executive Board and to the heads of the trading desks.

The development of the VaR in 2019 can be depicted as follows:




The VaR limit was set at USD 9 million in 2019 and continues to exhibit relatively low utilization. The sale of new trading products, which had been launched in light of the Bank's regional preparation for BREXIT, does not lead to any significant additional trading book positions because all transactions are fully hedged with other Group entities, the so-called “Risk Hubs”. However, an exception here are sensitivities that are based on credit valuation adjustments (CVA), such as the credit spread risks. To monitor such risks, firm limits were introduced that are monitored and reported to management in the same manner as the risks specified above.

The risk of interest rate or yield changes in the trading book, specifically with respect to short-term maturities and regularly executed hedges, is relatively low and largely the result of the yield sensitivity of reverse repo transactions that are executed for purposes of refinancing the lending business.

### 4.5.4 Liquidity risks

In connection with the **liquidity risk**, there is a so-called "payment insolvency risk", inasmuch as anticipated or unanticipated payment obligations cannot (or can no longer) be met. CGME has also identified a "refinancing risk", specifically for the products, "market warrants" and "certificates".

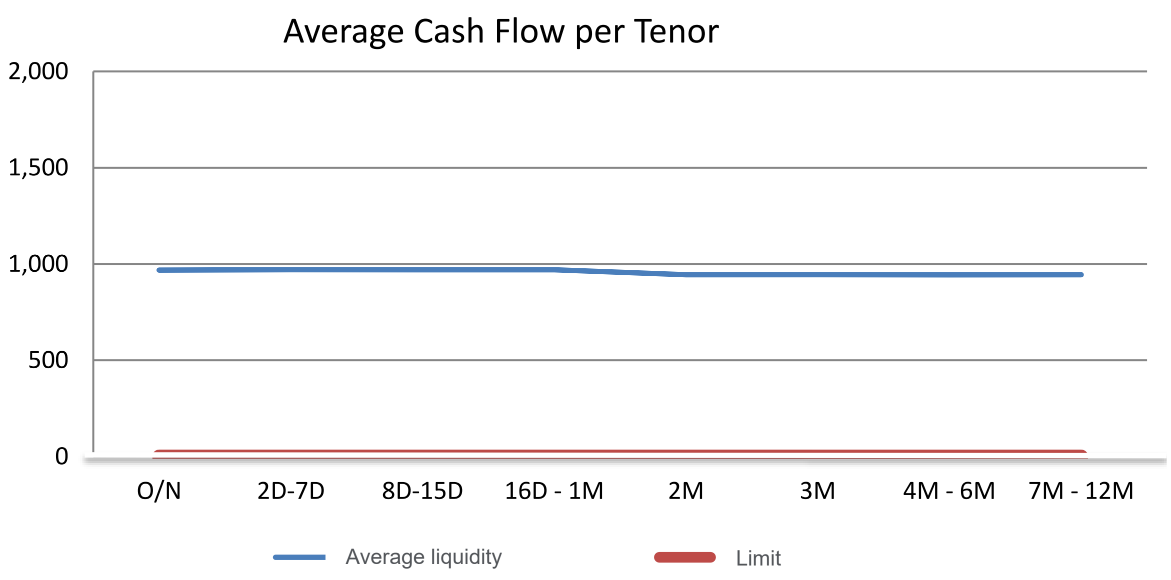
The liquidity risk is managed by the Corporate Treasury Division and seeks to ensure that future payment obligations can be met at any time with adequate liquid funds.

The risk monitoring and management are based on analyses of all cash flows according to products and currencies and include the monitoring of, and setting limits for, aggregated cash outflows and inflows. On a quarterly basis, this is complemented by scenario stress analyses in order to identify whether unexpected events could create liquidity squeezes and which corrective measures could be taken. The Risk Controlling Division monitors compliance with the limits on a daily basis. The Executive Board is regularly and seasonably provided a report about CGME's liquidity situation.

In addition, CGME has set up a liquidity reserve in order to absorb potential distortions on the capital markets and to fund any liquidity shortages that could result therefrom.

CGME reports on all significant structural liquidity gaps beyond all maturities that are stipulated in the funding matrix (liquidity gap analysis). In the course of fiscal year 2019, no limit breaches were shown in the funding matrix.

Broken down into the individual maturity bands as of the end of fiscal year 2019, the respective cumulative cashflows of CGME can be shown below as follows:




According to the table shown above, CGME has had adequate liquidity in all time bands of up to one year.

The Bank implemented a standby liquidity reserve (known as the "liquid asset buffer or "LAB") in order to able to satisfy any sudden refinancing needs for the balance sheet.

The refinancing risk and the market liquidity risk are taken into account each day through appropriate limits and the monitoring thereof. The market liquidity risk, which results primarily from warrants and certificates trading, is monitored through issuer limits with regard to the instruments underlying the derivative products. In this respect, a 100% loss of the underlying is simulated (so-called “jump-to-default”).

In addition, CGME has structural and currently unused excess cash flow and adequate capital resources bridging results that have an adverse effect on liquidity.

### 4.5.5 Operational risks

Within CGME, operational risks are defined as the risk of incurring losses that are triggered by the unsuitability or the failure of internal procedures, persons and systems and/or caused by external events. Key elements or components of the risk management process involving operational risks are:

- regular implementation of a risk inventory on the basis of an estimate about the likelihood of occurrence and the anticipated risk expense for quantifying the operational risk
- self-assessment to determine indicators for any risk exposure within CGME’s organizational structures and procedures
- loss database for compiling relevant incidents and the documentation in processing the elimination of materializing potential losses (CitiRisk Loss Capture System). The loss database will include all loss events sustained starting at a volume of USD 20k as well as potential cases that have not yet materialized (“Near-Miss Events”) but would have an anticipated loss volume of USD 500k.

The following material operational risks were identified:

- Internal and external fraud, theft and tortious conduct
- Employment practices and job security
- Customers, products and business practices
- Property damage, operational disruptions and system failures (IT systems).

In light of the outsourcing of individual services and infrastructure measures, there is a risk concentration that is fully taken into account under the risk management by virtue of suitably institutionalized control processes.

The responsibility for the implementation measures with respect to managing the operational risks lies with the department heads or the business managers below the Executive Board level. These persons are responsible for creating, documenting and regularly updating all work directives and control procedures. The supervision of the operational risk and the reporting thereof is the responsibility of Operational Risk Management (“ORM”).

The tasks and responsibilities as well as the documentation are regulated under the applicable CGME policies. The Executive Board shall be informed in a reasonable manner about the aforementioned risks through daily and monthly reports.

In order to record quantifiable risk findings, a database is used (Event Data Capture System), which also serves as a basis for the reports to the Executive Board.

The operational risks related to the capital adequacy calculation are quantified through a statistical simulation fed by historical loss events. The Pillar 1 minimum capital requirement for the operational risks, which is computed using the standard approach, is used for this purpose and is included in the calculation of the risk-bearing capacity.

Taking into account all Business Divisions and Departments, CGME performs an extensive risk inventory on an annual basis in order to identify and assess existing operational risks using prescribed scenarios. In this regard, the likelihood of occurrence and the assumed loss potential serves as the primary criteria.

Outsourcing processes and internal and external services has increased the operational risk. CGME has developed a suitable infrastructure in order to be able to assess and monitor the potential risks resulting from outsourcing measures. In this way, the materiality of all outsourcing will be evaluated once each year by the competent Outsourcing Steering Committee upon considering numerous factors. Furthermore, it is the responsibility of all outsourcing managers to regularly review the quality of the services rendered. Problems, which are thereby identified, must be reported to the Executive Board in a timely manner but, in any case, no later than as part of the monthly report.

### 4.5.6 Other significant risks

#### Pensions fund risks

CGME currently has holdings in four pension funds. However, the capital adequacy calculation lists only the risks connected with two contractual funds (*Sondervermögen*), for which CGME bears the risk of having to make subsequent capital contributions due to the return (yield) objectives that had been set. The risks result from yield-induced changes in the valuation of pension obligations due to interest rate fluctuations and the fluctuations in the value of fund assets.

The risk capital required to cover the risks is calculated on the basis of statistical models (variance-covariance matrices) and scenario analyses.

The investment strategy is set by the Pension Fund Investment Committee, whereby the actual management of the fund is the responsibility of an outside fund manager.

#### Reputation risks

Since the reputation risk can emanate from all other risks, it is handled separately from operational risk. For the aforementioned reason, reputation risks are monitored and managed implicitly by controlling all risk categories from which a reputation risk could arise. An explicit monitoring of the reputation risk is carried out by the “Legal” and “Corporate Communication” divisions because reputation risks could arise from complaints and litigation or negative press reports.

A quantification as contemplated under the risk capital concept is handled through an expert assessment. The calculated magnitude is derived from a pre-defined scenario for which the pricing of the issue products cannot be made over a period of three days. For the next 12 months, the bank presumes a 10 percent drop in revenues.  The management of the reputation risks is addressed primarily by the CGME Executive Board, which also decides on any action that may been needed.

As of the end of fiscal year 2019, there were no material effects identified on the basis of a reputation risk

#### Tax Risks

Based on the findings from individual tax audits conducted at CGME’s clients, the tax authorities are of the opinion that in connection with certain stock transactions executed with those clients, the investment income withholding tax (*Kapitalertragsteuer*), together the solidarity surcharge, which had been incurred on the dividend payments, had not been properly withheld from the clients (who were the primary debtors) and remitted to the authorities or that the relevant tax certificates had been incorrectly issued. The tax authorities believe that CGME should be subject to so-called “secondary liability”, if the primary debtors are unable to meet their tax payment obligations. To that end, liability orders (*Haftungsbescheide*) were issued by the relevant tax offices against CGME for the period of 2015 through 2018, against which liability orders an appeal has been lodged and a motion to stay enforcement was filed.

At the end of 2019, a legal opinion was obtained to further clarify the facts and to legally analyze a claim against CGME based on secondary liability with respect to the investment income withholding tax amounts (plus solidarity surcharge) for dividends in the context of *cum-ex* trades. The legal opinion took the view that CGME would likely be successful in the judicial proceedings and would not be held secondarily liable and that any statutory provision prescribing strict liability for issuers of tax documentation would be held unconstitutional.

With respect to the foregoing, the tax risks are therefore projected as low because no back tax payments are expected to be enforced based on the information currently available.

### Miscellaneous risks

To monitor other significant risks such as outsourcing risks, conduct risks, cyber risks, the relevant analyses are performed regularly, and are incorporated into the strategic procedures (establishing the risk appetite pursuant to General Part 4.2 of the MaRisk). A quantification, in the sense of an economic capital requirement (*ökonomischen Kapitalanforderung*), is not carried out in these cases because such risks are viewed as a component of the operational risks.

### Risks in connection with the branches

In 1st quarter of 2019 and in connection with a capital contribution-in-kind carried out at CGME by its sole shareholder, the assets and liabilities as well as the business relationships of the branches in Madrid, Milan and Paris were taken over. The counterparty credit risks, market price risks, liquidity risks and operational risks connected with the business operations at those branches are factored into the risk management and the assessment of CGME's capital adequacy. Pursuant to the business policy approach, no additional significant risks were generated by the branches in terms of the implemented "back-to-back model".

## 4.6 Summary Description of the Risk Situation

CGME has a system, customary in the industry, that identifies, assesses and monitors all significant risks and that meets the related requirements under the MaRisk.

CGME holds adequate liquidity and capital resources to suitably cover all of the identified aforementioned risks and to be able at all times to support sustained business development. Under each of these scenarios, this also applies to the implemented stress test.

The rapid spread of the coronavirus and the emergency measures taken by many countries to control the pandemic have caused significant volatility on the financial markets. It can also not be ruled out that the pandemic will have an adverse effect on global business activity. The concern about a potentially significant negative impact on the global economy and a possible worldwide recession has since escalated.

Depending on the extent and severity of the coronavirus pandemic and the measures taken to control the virus at national and international levels, the volatility on the financial markets – specifically for market price risks and counterparty default risks on certain financial instruments – could rise and thereby have an adverse effect on the trading results and also the access to capital and financial markets. It can also not be ruled out that the operational and control procedures at CGME will be impaired through the additional mandatory measures that will be imposed to control the pandemic.

CGME shall closely track and monitor the situation regularly arising from the Corona pandemic and the measures taken to control it, the ensuing consequences for the economy, the potentially related volatility on the capital and financial markets and any effects therefrom on the economic conditions and shall, in close cooperation with the shareholder and the other Citigroup companies, take the immediate actions necessary to minimize the economic damages that could result therefrom.

# 5 Accounting-based Internal Control System

# Accounting-based Internal Control System

Under the group-wide policy - “Accounting Policy Manual” (APM) – CGME’s accounting is performed in accordance with US GAAP. In the local accounts, all material account developments and changes in the individual items on the balance sheet and income statement are analyzed as of the relevant reporting dates.

In order to prepare the annual financial statements under the German Commercial Code (HGB) and/or the German Regulation on Financial Institution Accounting (*Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* or “RechKredV”), all of the account balances of CGME are transmitted from CGME's general ledger into a separate database. Within this system, the necessary allotments, reclassifications and adjustment book entries that must be reported on the income statement pursuant to commercial law are thereupon performed in compliance with the so-called “four-eyes principle”. The basis is CGME’s HGB Accounting Handbook which contains a systematic analysis of the discrepancies to the APM. This procedure falls within the purview of the local Financial Control department which, within the organization, reports directly to the Executive Board member responsible for the Finance, Treasury and Tax divisions.

The notes are likewise prepared by the Financial Control Department under the “four-eyes principle”. The basis for this is the balance sheet prepared in accordance with the commercial law principals as well as the income statement. Analyses generated by other systems are also taken into account. Any personal data is submitted by the Human Resource Division.

The management report is prepared on a collaborative basis by the business divisions “MSS”, “BCMA” as well as by the “Finance’ and “Risk Controlling” divisions. In addition to the balance sheet and the income statement, other data drawn from the internal reporting (e.g., documentation of the strategy) and internal and external market studies serve as a source of information. The Executive Board member responsible for the Finance, Treasury and Tax divisions will compile the reporting parts of the management report and will approve the sections that were submitted.

CGME continually monitors its balance sheet developments and thereby also analyzes the key balance ratios. The monitoring of the balance sheet accounts and their balances (net exposures) is supported by a globally utilized system. Under that system, each balance sheet account is assigned to an account supervisor, who must reconcile and, upon request, substantively explain the balance in the relevant account on a monthly basis. The risk that certain balance sheet accounts will be inactive or left unassigned is thereby eliminated.

The results of the process are discussed during monthly Balance Sheet Validation Committee meetings. The persons participating in this meeting are the Executive Board member responsible for the “Finance, Treasury and Tax” division.

The core controls of the accounting-based internal control system are an essential component of the “Management Control Assessment” (“MCA”), which is the self-assessment form used throughout the entire group. The MCA process is supported by technical systems and is run and supervised by professionally-trained Risk Controlling personnel. The results from the MCA, the results of the internal audit and the documentation of any remedial actions thereupon launched are all logged in a database. Possible risks related to an incomplete, incorrect or omitted capture of accounting facts and/or risks related to a valuation inconsistent with the accounting principles will be taken into account through an internal reconciliation process that is routinely implemented in connection with preparing the annual financial statements and management report and that focuses on the US GAAP accounting data and the accounting data for German commercial law purposes. All divisions within the Bank that are responsible for the accounting and the respective “account owner” are permanently integrated into the process. This approach eliminates the prospect that accounting-based facts are omitted or are recorded incorrectly or in an untimely manner.

The Executive Board of CGME will be informed about the balance sheet and income statement, which are prepared under the provisions of US-GAAP, during the monthly meetings.

The Supervisory Board monitors the accounting-based internal control system and will be informed about any special events during the Supervisory Board meetings.

# Accounting-based Internal Control System

The software required for the financial reporting under local standards together with the data required for those purposes have been deposited in a secured IT environment and labeled as being subject to limited access rights.

During the remaining course of fiscal year 2020, CGME intends to fully implement into the daily working procedures the measures, which had been commenced in past years, in order to further strengthen the accounting-based internal control system and to further improve the documentation.

# 6 Corporate Governance Statement pursuant to § 289f of the German Commercial Code

# Corporate Governance Statement pursuant to § 289f of the German Commercial Code

## Equal participation of men and women in management positions including notes about goal attainment

In regard to the composition of the Executive Board, the CGME Supervisory Board is seeking to attain a female quota of at least 30%. In the recently completed fiscal year, the Executive Board, as constituted through March 31, 2019, included two female and five male members. The female share until that point in time equaled approximately 29% and was therefore only slightly below the target quota. With the resignation of a female Executive Board member in 2019, the female quota fell back down to approx. 14% at the end of fiscal year 2019. The objective remains unchanged: to achieve the established target goals with regard to the share of women on the Executive Board.

As of the end of 2019, the share of women on the entire staff equaled approx. 33%.

Specifically given the corporate law and economic restructuring conducted again within Citigroup in 2019, which also had a significant impact on CGME, the organization has not yet succeeded in siting women on the Supervisory Board. Efforts are being made to place an appropriate proportion of women on the Supervisory Board in the future.

# 7 Final Statement regarding the Relations with Affiliated Enterprises (Affiliate Dependency Report), § 312 (3) Sentence 3 of the German Stock Corporation Act (AktG)

# Final Statement regarding the Relations with Affiliated Enterprises (Affiliate Dependency Report)

The Executive Board of Citigroup Global Markets Europe AG has prepared a report regarding the relations with affiliated enterprises for the recently completed fiscal year 2019, and that report contains the following final statement:

"With respect to the legally binding transactions that are listed in the report regarding relations with affiliated enterprises and based on the facts and circumstances of which we were aware at the time the legally consequential transactions were carried out, our Company received appropriate consideration on each of those legally consequential transactions. Because CGME did not engage in any actions at the behest of CGML or any enterprise affiliated with CGML, CGME did not incur any detriment therefrom.

This assessment is based on the facts and circumstances of which we were aware at the time of the reportable transactions."

Frankfurt am Main, March 31, 2020

Citigroup Global Markets Europe AG

Kristine Braden (CEO)

Stefan Hafke

Andreas Hamm

Ingo Mandt

Dr. Jasmin Kölbl-Vogt

Oliver Russmann

Christian Spieler

## Declaration of Compliance with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG)

The Executive Board and the Supervisory Board of CGME hereby declare that with the exception of the recommendation set forth below, the recommendations of the “Government Commission on the German Corporate Governance Code”, in the version dated February 7, 2017 and published by the Federal Ministry of Justice in the official section of the Federal Gazette (*Bundesanzeiger*), were and are being observed. The declaration for the period of January 1, 2019 through December 31, 2019 relates to the Code version dated February 7, 2017.

Under section 5.3 of the Code and based on the specific circumstances of the Company and the number of Supervisory Board members, the Supervisory Board should (*soll*) establish committees of qualified professionals (e.g., Risk Committee, Audit Committee, Nomination Committee) that consist exclusively of shareholder representatives .

As of the end of fiscal year 2019, the Supervisory Board of CGME has a total of five members, of whom two members are representatives of the shareholder. Given the size of our Supervisory Board, we believe that the creation of an additional committee consisting of Supervisory Board members constitutes an additional allocation of tasks for the Supervisory Board that is untenable and inconsistent with the scope and character of the committee work. Pursuant to the Supervisory Board resolution, the tasks or duties prescribed in § 25d paras. 8 through 12 of the German Banking Act (“KWG”) should be delegated to the entire Supervisory Board. In any case, the organizational framework of CGME allows the Chairman of the Supervisory Board to retrieve information from the Director of Internal Auditing, the Director of the Risk Controlling and the Director of the organizational unit responsible for designing the remuneration system.

## Corporate Governance Report

### 1. Implementation of the recommendations and suggestions of the German Corporate Governance Code (version of February 7, 2017)

CGME has set up its corporate governance standards to track the German Corporate Governance Code ("Code"), to the extent it is practicable and actionable in light of the structure and process organization. In our opinion, key components of good corporate governance are the recommendations and suggestions provided in the Code

- for effective collaboration between the Executive Board and Supervisory Board that accords with the Bank's business model,
- for aligning with the rights and interests of the shareholder, and
- with regard to the transparency and clarity in corporate communication, specifically with our clients and staff members

CGME departs from the recommendations and suggestions of the Code (in its most recently adopted version of February 7, 2017) as follows:

- The departure pertains to the recommendations under section 5.3 of the Code, according to which the Supervisory Board should establish committees of qualified professionals (e.g., Risk Committee, Audit Committee, Nomination Committee) based on the specific practices of the Company and the number of its employees.

  The Supervisory Board of CGME has a total of six members, of which three members are representatives of the shareholder. Given the size of our Supervisory Board, we believe that the creation of an additional committee consisting of Supervisory Board members constitutes an additional allocation of tasks for the Supervisory Board that is untenable and inconsistent with the scope and character of the committee work. Pursuant to the Supervisory Board resolution, the tasks or duties prescribed in § 25d paras. 8 through 12 of the German Banking Act ("KWG") should be delegated to the entire Supervisory Board. In any case, the organizational framework of CGME allows the Chairman of the Supervisory Board to retrieve information from the Director of Internal Auditing, the Director of the Risk Controlling and the Director of the organizational unit responsible for designing the remuneration system.

### 2. Compliance

In accordance with the requirements under section 4.1.3 of the Code, CGME has a suitable compliance management system that tracks the Bank's specific risk situation and has the fundamental structures described below.

The instituted compliance management system serves to monitor legal and regulatory framework conditions as well as the reasonable implementation of those conditions within CGME or for CGME. It is thereby set up to protect CGME and our clients. By implementing a process for implementing a collaboration between a central compliance function and the specialty functions organized on a decentralized basis and taking into account the inter-divisional committees, we have provided for a comprehensive governance approach. The centralized compliance function thereby guarantees adherence to the statutory and regulatory parameters und supports and advises the decentralized divisions in discharging their duties and functions with regard to compliance-relevant facts. In that respect, the requirements that are imposed on the compliance function under the Circular "09/2017 (BA) – Minimum Requirements in Risk Management– MaRisk" (see item AT 4.4.2) and under "05/2018 (WA) – Minimum Requirements Imposed on Compliance Functions and Other Duties of Performance, Organization and Transparency – MaComp" published by the Federal Financial Supervisory Authority (BaFin) are being fully implemented.

The extensive adjustments to the compliance-relevant rules create greater complexity in the legal and regulatory framework that must be observed within the scope of our business activity. We also expect to see other future changes to the directives and regulations particularly at the European Union level and to the implementation thereof into national law. The effects of these rules on the business strategy and business model of CGME, including the existing internal bank procedures, will be of great significance.

The implemented compliance system of CGME specifically affects

- the compliance with the valid statutes, directives and other standards in connection with the internal and external (including customer-based) processes and relationships,
- the timely and comprehensive identification of violations of national law, directives and other rules that must be observed when operating the CGME business, as well as any prohibition thereof,
- the implementation of a reasonable system for managing the identified risks that arise from existing and new business strategies,
- the monitoring of compliance with applicable statues and regulations as well as a timely implementation of any relevant changes,
- the sensitizing of our employees to compliance-relevant situations and the handling thereof,
- a regular check on the implemented prevention measures as well as the compliance risks including any new assessment that becomes necessary.

Moreover, the existing compliance system is routinely subject to a review regarding the extent to which the current legal and regulatory requirements are being fully observed. Using extensive risk analysis, the existing risks are thereby routinely identified and assessed. Moreover, the relevant prevention measures for mitigating or avoiding compliance-relevant risks are continually evaluated and adjusted when necessary.

In view of the recommendation set forth in section 4.1.3 of the Code, CGME has set up a whistleblowing system to reasonably afford employees an opportunity to report violations within our Company while enjoying certain protections. To this end, employees and third parties are provided communication channels for giving anonymous tips about any possible misconduct in the Company or for reporting any suspicious activities involving, among other things, fraud, corruption, theft, money laundering, terrorism financing, embezzlement or other criminal acts. In the most recently completed fiscal year, no tips about misconduct were reported.

### 3. Managers‘ Transactions

In the fiscal year of January 1 through December 31, 2019, no purchase or sales transactions, which require reporting, were consummated either by or for members of the governing bodies (Executive Board, Supervisory Board) or managers or other managing employees (*leitende Angestellte*) in special positions at CGME.

## Information about Additional Corporate Governance Practices and the Working Procedure of the Executive Board and Supervisory Board

### 1. Dual governance system

Pursuant to the statutory requirements, a dual governance system was implemented at CGME, according to which the Executive Board was assigned responsibility for managing the Bank and the Supervisory Board was assigned responsibility for supervising the Bank. Both governing bodies are segregated from one another in terms of their membership, tasks and competencies.

### 2. Composition of the Executive Board and Supervisory Board

With regard to the composition of the Executive Board and the Supervisory Board, we refer to the information contained in the notes to the financial statements for the fiscal year January 1 through December 31, 2019.

### 3. Business management by the Executive Board

In light of the statutory provisions prescribed in § 76 para. 1 AktG, the Executive Board of CGME is independently responsible for managing the Company. It is therefore bound by the Company’s interests and obligated to increase the Company’s sustainable value. The Executive Board develops the strategic position of the Bank in coordination with the Supervisory Board and specifically also with regard to the task-specific integration of CGME (*die aufgabenspezifische Integration*) and its assigned group-wide role within Citigroup. In addition, the Executive Board acts to ensure the implementation of the principles stipulated in the strategy. To this end, the business of CGME must be conducted in accordance with the statutory provisions, the Bank's articles of association, the other directives prescribed for the Executive Board and the agreements reached in individual employment contracts of the individual Executive Board members. The Executive Board also cooperates faithfully with other governing bodies of CGME and employee representatives for the welfare and benefit of the Bank.

The Executive Board members collectively bear responsibility for the entire business management, whereby they shall work together in a collegial manner and shall regularly inform one another about key measures and transactions in the individual business areas. In that respect, the internal rules relate to the following key topics:

- preparation of a business task allocation schedule (*Geschäftsverteilungsplans*) that assigns each member of the Executive Board responsibility for an area of expertise
- definition of singular and joint competencies for the required decision-making
- establishment of rules on representation
- definition of transactions that require the consent of the Supervisory Board
- regular, timely and comprehensive informational reports to members of the Supervisory Board
- provisions about meetings and resolutions/decision-making.

**4. Supervision by, and Consultation with, the Supervisory Board**

The Supervisory Board works closely with the Executive Board of CGME. In connection with discharging its statutory duties, the Bank's Supervisory Board regularly supervises the Executive Board on all key factual situations with regard to the CGME management. The Supervisory Board shall fully and seasonably discharge all tasks and duties that are imposed on it under the statutory rules, its articles of association as well as the suggestions and recommendations under the Code. Furthermore, the Supervisory Board shall review the efficiency of its work each year and even more frequently, if necessary. The findings from the review shall be documented accordingly.

According to the Bank's articles of association, the Supervisory Board has six members. Of these members, three are selected by the shareholders and two are selected by the CGME employees in accordance with the One-Third Participation Act ("DrittelbG"). As of the end of fiscal year 2019, the Supervisory Board consisted of three members appointed by the shareholder and two members appointed by CGME employees. The Chairman of the Supervisory Board is an independent member.

In that respect, the internal rules for the Supervisory Board relate to the following key issues:

- professional qualification of the Supervisory Board members
- restriction on joining the supervisory boards of other publicly-traded companies as well as the waiting period for former members of the Executive Board
- appropriate number of independent members of the Supervisory Board
- election and tasks of the Supervisory Board chairman and his deputy
- notice of Supervisory Board meetings
- adoption of resolutions during meetings or under different decision-making procedures
- obligation of confidentiality and disclosure of any conflicts of interest.

**5. Supervisory Board committees**

Given the size of the Supervisory Board, the decision was made not to create other committees from among the members of the Supervisory Board because in our opinion, such action would result in an additional structuring of tasks for the Supervisory Board that is untenable in terms of the content and character of the committee work (see also explanations in section 1.).

**6. Collaboration between the Executive Board and Supervisory Board**

The Executive Board shall regularly, seasonably and comprehensively inform the Supervisory Board about all issues related to planning, business development, risk situation and risk management and relevant to the Company. In general, it must provide a quarterly report on the realization of the budget planning for the current fiscal year and report any deviation between actual business performance and the respective budgeted and target numbers while providing reasons for the deviations. Moreover, the Executive Board must transmit to the Supervisory Board without undue delay any information that is key (*wesentlich*) to the risk situation of CGME.

Furthermore, the cooperation between the Executive Board and the Supervisory Board provides that given the CGME's high corporate and economic significance within the greater groupwide Citigroup organization, the key corporate decisions – e.g., the establishment of the business and risk strategy, the purchase or sale of investment holdings and fundamental organizational and personnel measures –require the prior consent of the Supervisory Board. All the documents needed for the decision are sent to members of the Supervisory Board in a timely manner prior to the time when the requisite decision or resolution is made. This also applies, *inter alia*, to the annual financial statements, the management report and the affiliate dependency report (*Abhängigkeitsbericht*) of CGME as well as the related audit reports.

In accordance with the recommendation made under section 5.2 of the Code, the Supervisory Board Chairman is generally prepared, within reasonable limits and if needed, to hold discussions with potential investors about issues and topics specific to the Supervisory Board.

**7. Supervisory Board objectives for its composition within the meaning of sections 5.4.1 and 5.4.2 of the Code**

Pursuant to section 5.4.1 of the Code, the Supervisory Board should (*soll*) indicate specific objectives concerning its composition and develop a competence (skills) profile for the entire body. On July 7, 2015, the Supervisory Board established a qualification profile that contains the following significant subject matter and requirements:

- qualifications of the entire Supervisory Board
- personal qualifications of each Supervisory Board member
- professional qualifications of each Supervisory Board member
- rules on the evaluation and nomination process.

The fundamental task objective (*Aufgabenziel*) of the CGME Supervisory Board is to ensure a qualified review (*qualifizierten Kontrolle*) and to guarantee advice and support for the Executive Board. In this regard, each Supervisory Board member should not only meet the general requirements in terms of education, training and reliability, but also as a rule have professional experience in the sectors in which CGME does business. Nevertheless, experience in other industries, in government or based on holding a political office could be a reasonable basis for satisfying the responsibilities of a Supervisory Board member. The professional requirements also demand that prospective members have an advanced understanding of accounting rules and other economic regulations in order be able to evaluate the financial performance numbers and the annual financial statements of CGME (reports of high importance), if necessary with the reasonable support of the annual accounts auditor. At least one member of the Supervisory Board must have knowledge and experience with regard to assessing accounting processes, the internal control system, the risk management and the internal auditing. In addition, at least one of Supervisory Board members must be shown to have experience in auditing financial statements in order to have the ability, above all, to evaluate the independence of the annual accounts auditor and the quality of the other auditing work provided by such auditor. The prescribed competence profile should also ensure that in accordance with § 100 para. 5 AktG, all members of the Supervisory Board, in their entirety, are acquainted with the business model and operations of the Bank.

At least one member of the Supervisory Board must be independent. A member will not be considered independent, particularly if he or she has a business or personal relationship with CGME, with a member of the Executive Board, with a controlling shareholder or with an enterprise affiliated with that controlling shareholder, which relationship could create a significant and not merely temporary conflict of interest. Pursuant to the requirements in sections 5.4.1 and 5.4.2 of the Code, the Supervisory Board, together with the Supervisory Board Chairman, believes that it had an appropriate number of independent shareholder members on its body in the recently completed fiscal year.

In addition, the standard age limit for board membership has been set at 70 years.

The Supervisory Board also determined that the governing body and each member thereof will be subject to a review at least once each year to determine the extent to which the established criteria have been or are being satisfied and whether the composition of the Supervisory Board is still consistent with the established objectives.

## Diversity Concept

In forming the Executive Board and the Supervisory Board, CGME looks for diversity in an effort to attain a greater wealth of experience and general knowledge and to utilize skills and abilities even better. The intent here is also to thwart any possible “group think” dynamic and biases in whatever form.

### 1. Diversity concept and target quotas with regard to the Supervisory Board

The CGME Supervisory Board currently consists of a total of six members, whereby three members are representatives of the shareholder. Two other members are representatives of CGME staff. The Supervisory Board Chairman performs his function independently.

In composing the Supervisory Board, a higher-than-average premium (reflecting the importance of the function) is placed on the professional competence and professional experience of a given Supervisory Board member. This approach is intended to ensure that there is comprehensive coverage of all issues and facts related to advising, supporting and supervising the Executive Board. In this respect, each member of the Supervisory Board, if possible, should have special expertise guaranteeing that the responsibilities and duties of the Supervisory Board will be fully discharged with regard to the CGME business model. With respect to candidates for the CGME Supervisory Board, attention must be given to achieving a balanced composition in order to fully comply with the demands of the different areas of expertise on the Supervisory Board. Moreover, the Supervisory Board Chairman should be familiar with the CGME business sector and with the regulatory environment.

Furthermore, a diversified age structure is a goal with regard to the composition of the Supervisory Board. This applies equally to the share of female members on the Supervisory Board. Above all, in light of the comprehensive corporate and financial restructuring within the Group in 2018, which also had a considerable impact on CGME and will impact it again in the upcoming fiscal years, the Supervisory Board has not yet been able to bring female members on board as well. Efforts are being made going forward to implement an appropriate female quota on the Supervisory Board.

### 2. Diversity concept and target quota with regard to the Executive Board

The Supervisory Board is responsible for selecting professionally and personally qualified members of the Executive Board. In this regard, the Supervisory Board has the professional knowhow and skills as well as the professional experience and also the personal demeanor and leadership abilities to conduct an evaluation. Furthermore, in making the selection, consideration must be given to whether the relevant member has an adequate core competence for the business area for which he or she is responsible.

With regard to the composition of the Executive Board, the CGME Supervisory Board is seeking a female quota of at least 30%. Until March 31, 2020 of the recently completed fiscal year, the Executive Board consisted of two female and five male members. The female share thereby made up approximately 29%

and was only slightly below the target quota. With the resignation of a female Executive Board member in 2019, the female quota fell back down to 14% at the end of fiscal year 2019. The objective remains unchanged: to achieve the established target goals with regard to the share of women on the Executive Board.

Furthermore, the Supervisory Board has set a goal of factoring in a diversified age structure when selecting the qualified members of the Executive Board.

Each year, the Supervisory Board engages in an individual and overall performance evaluation of the Executive Board of CGME and its members.

## Equal participation of men and women in management positions including notes about goal attainment

Pursuant to the Act for the Equal Participation of Women and Men in Management Positions enacted on April 30, 2015, the Executive Board of CGME established reasonable (*entsprechende*) target quotas. To this end, a standard minimum target quota of 30% was set for the first and second management level below the Executive Board, with a goal for attainment by the close of 2025.

As of the end of the recently completed fiscal year, the share of women in the first management level was 14% and the share of women in the second management level was approx. 33%. The established quota was therefore not fully attained. This shortfall can be attributed primarily to the resignation of a female member of the CGME Executive Board (first management level) as of March 31, 2019. The plan is to review whether the target quotas established at that time are attainable and, if necessary, to adjust and implement those quotas accordingly.

## Balance Sheet for the Fiscal Year as of December 31, 2019
## Citigroup Global Markets Europe AG, Frankfurt am Main

**A s s e t s**

| | EUR | EUR | EUR | 12/31/2018 TEUR |
|---|---|---|---|---|
| **1. Cash reserve** | | | | |
| a) Cash on hand | | -.-- | | - |
| b) Credit balances held at central banks | | -.-- | | - |
| of which: at the German *Bundesbank* (German Central Bank) EUR -.-- (12/31/2018 TEUR - ) | | | | |
| c) Credit balances held at post giro offices | | -.-- | -.-- | - |
| **2. Receivables from banks** | | | | |
| a) Due upon demand | | 322,581,132.82 | | 130,752 |
| b) Other receivables | | -.-- | 322,581,132.82 | - |
| **3. Receivables from clients** | | | 5,406,732,096.58 | 785,695 |
| of which: secured through *in rem* security interests *(Grundpfandrechte)* EUR -.-- (12/31/2018 TEUR - ) | | | | |
| municipal loans EUR -.-- (12/31/2018 TEUR - ) | | | | |
| **4. Debt securities and other fixed-income securities** | | | | |
| a) Money market paper | | | | |
| aa) issued by government entities | -.-- | | | - |
| ab) issued by other entities | -.-- | -.-- | | - |
| b) Bonds and debt securities | | | | |
| ba) issued by government entities | -.-- | | | - |
| of which: qualifying as collateral for the German *Bundesbank* EUR -.-- (12/31/2018 TEUR - ) | | | | |
| bb) issued by other entities | -.-- | -.-- | | - |
| of which: qualifying as collateral for the German *Bundesbank* EUR -.-- (12/31/2018 TEUR - ) | | | | |
| c) Own debt securities | | -.-- | -.-- | - |
| face value EUR -.-- (12/31/2018 TEUR - ) | | | | |

(TEUR = EUR 1,000)

| | | | | | | |
|---|---|---|---|---|---|---|
| **5.** | **Stocks and other variable-yield securities** | | | | -.-- | - |
| **5a** | **Trading portfolio** | | | | 8,932,625,096.59 | 4,615,404 |
| **6.** | **Equity investments** | | | | 1,135,714.07 | 1,136 |
| | of which: held in banks | EUR -.-- (12/31/2018 TEUR - ) | | | | |
| | held in financial service institutions | EUR -.-- (12/31/2018 TEUR - ) | | | | |
| **7.** | **Trust assets** | | | | | |
| | of which: trust loans | EUR 507,280,870.90 (12/31/2018 TEUR - ) | | | 507,280,870.90 | - |
| **8.** | **Intangible assets** | | | | | |
| | a) Internally generated industrial property rights and similar rights and assets | | | -.-- | | - |
| | b) Paid-for concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets | | | 117,050.34 | | 162 |
| | c) Goodwill | | | 83,416,667.00 | | - |
| | d) Prepayments | | | -.-- | 83,533,717.34 | - |
| **9.** | **Tangible assets** | | | | 2,731,128.85 | 2,231 |
| **10.** | **Other assets** | | | | 1,060,667,897.94 | 159,979 |
| **11.** | **Prepaid and deferred items** | | | | 655,025.42 | 353 |
| **12.** | **Excess of plan assets over post-employment benefit liability** | | | | -.-- | - |
| **Total assets** | | | | | 16,317,942,680.51 | 5,695,712 |

| Liabilities and equity capital | EUR | EUR | EUR | 12/31/2018 TEUR |
|---|---|---|---|---|
| **1. Liabilities owed to banks** | | | | |
| a) Payable on demand | | 76,277,731.38 | | 12,301 |
| b) With an agreed term or notice period | | 0.00 | 76,277,731.38 | - |
| **2. Liabilities owed to clients** | | | | |
| a) Savings deposits | | | | |
| aa) with an agreed notice period of three months | -.-- | | | - |
| ab) with an agreed notice period of more than three months | -.-- | -.-- | | - |
| b) Other liabilities | | | | |
| ba) payable on demand | 3,531,591,976.00 | | | 44,533 |
| bb) with an agreed term or notice period | 761,502,994.10 | 4,293,094,970.10 | 4,293,094,970.10 | 285,538 |
| **3. Securitized liabilities** | | | | |
| a) Issued debt securities | | -.-- | | - |
| b) Other securitized liabilities | | -.-- | | - |
| of which: | | | | |
| Money market paper EUR -.-- (12/31/2018 TEUR - ) | | | | |
| Own acceptances and promisory notes outstanding (sola *bill*) EUR -.-- (12/31/2018 TEUR - ) | | | | |
| c) Miscellaneous securitized liabilities | -.-- | -.-- | -.-- | - |
| **3a Trading portfolio** | | | 9,081,657,597.78 | 4,679,111 |
| **4. Trust liabilities** | | | 507,280,870.90 | - |

| | | | | |
|---|---|---|---|---|
| **5. Other liabilities** | | | 970,490,324.51 | 10,353 |
| **6. Deferred income** | | | -.-- | - |
| **7. Accrued liabilities** | | | | |
| a) Pensions and similar obligations | | 19,333,249.00 | | 19,610 |
| b) Tax reserves | | 6,094,196.68 | | - |
| c) Other accrued liabilities | | 82,552,323.87 | 107,979,769.55 | 40,188 |
| **8. Funds for general bank risks as defined in § 340e (4) HGB** | | | 28,333,610.23 | 28,334 |
| **9. Equity capital** | | | | |
| a) Subscribed capital | | | | |
| aa) registered share capital | 242,393,054.05 | | | 210,570 |
| ab) silent partner capital | -.-- | 242,393,054.05 | | - |
| b) Capital reserve | 949,491,018.15 | 949,491,018.15 | | 318,967 |
| c) Earnings reserves | | | | |
| ca) legal reserve | 33,027,197.15 | | | 33,027 |
| cb) reserves for treasury shares | -.-- | | | - |
| cc) reserves required by articles of association | -.-- | | | - |
| cd) other earnings reserves | 27,916,536.71 | 60,943,733.86 | | 27,917 |
| d) Unappropriated earnings/loss (balance sheet profit/loss) | | -.-- | 1,252,827,806.06 | -14,737 |
| **Total liabilities and equity capital** | | | 16,317,942,680.51 | 5,695,712 |

Income Statement
for the Period of January 1, 2019 through December 31,2019
Citigroup Global Markets Europe AG, Frankfurt am Main

| | EUR | EUR | EUR | Short fiscal year 04/28/2018-12/31/2018 TEUR |
|---|---|---|---|---|
| **1. Interest income from** | | | | |
| a) Loans and money market transactions | 18,930,271.03 | | | 3,076 |
| **2. Negative interest income from** | | | | |
| a) Loans and money market transactions | 10,324,754.53 | 8,605,516.50 | | 2,932 |
| **3. Interest expenses** | 18,756,116.15 | | | 4,633 |
| **4. Positive interest from loans and money market transactions** | 10,804.61 | -18,745,311.54 | -10,139,795.04 | 40 |
| **5. Current income from** | | | | |
| a) Shares and other variable-yield securities | | -. -- | | - |
| b) Equity investments | | 249,950.00 | | 80 |
| c) Interests in affiliated enterprises | | -. -- | 249,950.00 | - |
| **6. Commission income** | | 211,805,730.32 | | 95,186 |
| **7. Commission expenses** | | 34,506,518.56 | 177,299,211.76 | 7,414 |
| **8. Net income from financial trading operations** | | | 29,029,886.95 | 25,037 |
| included therein are deposits into special accounts per § 340g HGB EUR -,- ( 04/28/2018-12/31/2018 EUR-.-) | | | | |
| **9. Other operating income** | | | 40,291,317.48 | 5,557 |
| **10. General administrative expenses** | | | | |
| a) Personnel expenses | | | | |
| aa) wages and salaries | 151,232,098.95 | | | 36,680 |
| ab) social security contributions, pension and welfare expenses | 10,269,490.59 | 161,501,589.54 | | 6,801 |
| of which: for pensions EUR 5,403,795.77 (04/28/2018-12/31/2018 TEUR 4,312) | | | | |
| b) other administrative expenses | | 99,882,294.16 | 261,383,883.70 | 55,591 |
| **11. Depreciation, amortisation and write-downs of tangible and intangible assets** | | | 8,449,715.17 | 485 |
| **12. Other operating expenses** | | | 7,058,655.76 | 24,437 |
| **13. Write-downs of, provisions for, receivables and certain securities and additions to loan reserves** | | -. -- | | - |

| | | | |
|---|---|---|---|
| **14. Income from reversal of write-downs of receivables and certain securities, and income from reversal of loan reserves** | -. -- | 0.00 | 0 |
| **15. Write-downs on equity investments, interests in affiliated enterprises and long-term securities** | | -.-- | - |
| **16. Results from ordinary operations** | ./. | 40,161,683.48 | ./. 9,997 |
| **17. Extraordinary income** | | -. -- | - |
| **18. Extraordinary expenses** | | -. -- | - |
| **19. Extraordinary result** | | -. -- | 0 |
| **20. Taxes on income and earnings** | 5,577,169.47 | | 4,740 |
| **21. Other taxes, to the extent not included in item 12** | -.-- | 5,577,169.47 | - |
| **22. Income from loss transfers** | | -. -- | - |
| **23. Profits transferred pursuant to a profit pooling, profit transfer or partial profit transfer agreement** | | -. -- | 0 |
| **24. Annual net loss** | ./. | 45,738,852.95 | ./. 14,737 |
| **25. Profit carried forward/loss carried forward from prior year** | ./. | 14,736,882.81 | - |
| | ./. | 60,475,735.76 | - |
| **26. Transfers from capital reserves** | | 60,475,735.76 | - |
| | | -. -- | - |
| **27. Transfers from earnings reserves** | | | |
| a) from legal reserve | -. -- | | - |
| b) from reserve for treasury shares | -. -- | | - |
| c) from reserves required by the Bank's articles of association | -. -- | | - |
| d) from other earnings reserves | -. -- | -. -- | - |
| | | -. -- | - |
| **28. Transfers from capital participation rights *(Genussrechtskapital)*** | | -. -- | - |
| | | -. -- | - |
| **29. Transfers to earnings reserves** | | | |
| a) to legal reserve | -. -- | | - |
| b) to reserve for treasury shares | -. -- | | - |
| c) to reserves required by the Bank's articles of association | -. -- | | - |
| d) to other earnings reserves | -. -- | -. -- | - |
| | | -. -- | - |
| **30. Replenishment of capital with profit participation rights** | | -. -- | - |
| **31. Unappropriated loss (balance sheet loss)** | | -. -- | ./. 14,737 |

## Cash Flow Statement per German Accounting Standard No. 21

| | Fiscal Year 1/1/19-12/31/19 | Short Fiscal Year 4/28/18 – 12/31/18 |
|---|---|---|
| | **TEUR** | **TEUR** |
| **Annual Net Loss** | **-45,739** | **-14,736** |
| *Cash positions included in the annual net income and reconciliation with cash flow from current operating activities:* | | |
| Amortization/depreciation, value adjustments and reversals on receivables, tangible and financial | -12,330 | 6,135 |
| Changes in accruals | 53,418 | 11,367 |
| Change in other non-cash expenses/income | - | - |
| Gain/loss from the sale of financial and tangible assets | 77 | - |
| Other adjustments (in net terms) | 9,845 | -1,864 |
| **Subtotal:** | **5,271** | **902** |
| *Change in assets and liabilities from current operating activities:* | | |
| *Receivables:* | | |
| - from banks | -191,829 | 605,145 |
| - from clients | -5,151,565 | -695,159 |
| Trading portfolio assets | -4,317,221 | 1,313,112 |
| Other assets from current operating activities | -901,968 | -117,955 |
| *Liabilities:* | | |
| - owed to banks | 63,976 | -98,635 |
| - owed to clients | 4,470,305 | 275,621 |
| Securitized liabilities | - | - |
| Trading portfolio liabilities | 4,402,547 | -1,228,622 |
| Other liabilities from current operating activities | 978,861 | -21,092 |
| Interest and dividend payments received | 24,813 | 14,170 |
| Interest paid | -29,081 | -7,565 |
| Income tax payments | -5,577 | -4,741 |
| **Cash flow from current operating activities** | **-651,468** | **35,181** |
| *Payments received from the outflow of* | | |
| - Financial assets | 5,318 | 5,421 |
| - Tangible assets | 53 | - |
| *Payments made for investments in* | | |
| - Financial assets | -1,667 | - |
| - Tangible assets | -475 | -482 |
| Payments received from the sale of consolidated companies and other business units | - | - |
| Payments made for the purchase of consolidated companies in other business units | - | - |
| Change in cash resources based on investing activities (in net terms) | - | - |
| **Cash flow from investing activities** | **3,229** | **4,939** |
| Payments received from contributions to equity capital | 624,992 | - |
| *Payments made to company owners:* | | |
| - Dividend payments | - | -40,120 |
| - Other outgoing payments | - | - |
| Change in cash resources other capital (in net terms) | 23,247 | - |
| **Cash flow from financing activities** | 648,239 | -40,120 |
| **Cash and cash equivalents at the end of previous period** | **0** | **0** |
| Cash flow from current operating activities | -651,468 | 35,181 |
| Cash flow from investing activities | 3,229 | 4,939 |
| Cash flow from financing activities | 648,239 | -40,120 |
| **Cash and cash equivalents at the end of the period** | **0** | **0** |

## Statement of Changes in Equity

The Bank's equity capital consists of the following:

| | Share capital TEUR | Capital reserve TEUR | Earnings reserves TEUR | Unappro-priated profit/loss TEUR | Total equity capital TEUR |
|---|---|---|---|---|---|
| **Per December 31, 2018** | 210,570 | 318,966 | 60,944 | -14,736 | 575,744 |
| Capital increases with premium | 31,823 | 66,009 | - | - | 97,832 |
| Capital reductions/share repurchases | - | - | - | - | - |
| Dividends paid | - | - | - | - | - |
| Additional payments into equity capital pursuant to § 272 para. 2 no. 4 of the German Commercial Code | - | 624,992 | - | - | 624,992 |
| Result December, 2019 | | | | -45,740 | -45,740 |
| Withdrawal from capital reserve | **-** | -60,476 | **-** | 60,476 | 0 |
| **Per December 31, 2019** | 242,393 | 949,491 | 60,944 | | 1,252,828 |

The earnings reserves are made up of the legal reserves totaling TEUR 33,027 and other earnings reserves totaling TEUR 27,917.

## Citigroup Global Markets Europe AG,
## Frankfurt am Main

## Notes
## to the Financial Statements for the Fiscal Year
## of January 1, 2019 through December 31, 2019

### I. General Information

Citigroup Global Markets Europe AG, Frankfurt am Main (abbreviated herein as “CGME”), is a stock corporation with its registered place of business in Frankfurt am Main and has been recorded in the Commercial Register of the Local Court of Frankfurt am Main under registration number HRB 88301 since June 10, 2010.

On February 15, 2019, the sole shareholder of CGME, Citigroup Global Markets Limited, London/UK, (CGML), resolved in a special shareholders’ meeting of CGME to transfer its capital markets business, which had been operated in the Paris, Milan and Madrid branches and which included the related tangible and intangible assets and liabilities as well as other rights and duties (hereinafter referred to as “In-kind Capital Contribution”), into CGME by way of a capital contribution-in-kind pursuant to § 183 (1) of the German Stock Corporation Act (AktG), thereby increasing CGME’s registered share capital. The registered share capital, which had previously totaled EUR 210,569,889.00 was thereby increased by EUR 31,823,165.05 to EUR 242,393,054.05 through the issuance of 1,244,814 new, registered no par shares with a *pro rated* value of EUR 25.56 per share (rounded-off to two decimal places). The capital increase was entered in the Commercial Register on April 2, 2019.

In February and December 2019, CGML also made an additional payment into equity capital pursuant to § 272 (2) no. 4 of the German Commercial Code in the amount of EUR 625 million.

## II. Accounting Principles

The financial statements for the fiscal year of January 1 through December 31, 2019 (“Fiscal Year”) were prepared in accordance with the provisions of the German Commercial Code (abbreviated herein as “HGB”), the German Stock Corporation Act (abbreviated herein as “AktG”) and the supplemental accounting rules of the provisions under the Accounting Regulation for Banks and Financial Services Institutions (abbreviated herein as “RechKredV”).

The balance sheet and income statement were organized and structured on the basis of the standard forms prescribed in RechKredV.

CGME is a capital markets-oriented corporation within the meaning of § 264d HGB in combination with § 340a (1) HGB.

In connection with explaining individual items on the balance sheet and income statement as of the balance sheet date, the discussion below will compare the relevant numbers with those booked as of the end of the preceding short fiscal year, which ran from April 28 through December 31, 2019 (“Previous Short Fiscal Year”). However, the ability to compare the relevant financial statement items is, in some cases, restricted because in addition to the different duration of periods under comparison, the business activity of CGME in 2019 compared to the Previous Short Fiscal Year featured, among other things, an expansion of trading in financial instruments that was done against the background of the restructuring effects on the business activities within Citigroup, which were occasioned by BREXIT.

## III. Accounting and Valuation Methods

The accounting and valuation methods remain unchanged from the Previous Short Fiscal Year.

**Receivables from banks** are stated at the nominal amount plus accrued interest. No write-downs were required in the Fiscal Year.

**Receivables from clients** are recorded on the balance sheet at the repayment amount plus accrued interest and, if required, less any allowances established to cover counterparty risks.

The valuation of the **financial instruments of the trading portfolio** was carried out at fair value less a risk discount in accordance with sentence one of § 340e (3) sentence 1 HGB. The financial instruments are recognized at their cost of acquisition at the time they are acquired. In accordance with an official statement (RS BFA 2) of the Institute of Public Auditors in Germany (IDW), the follow-up valuation at fair value is based on the value at which competent parties, who are independent of one another but wish to contract, could exchange an asset or pay a liability and is performed in accordance with the hierarchical order of valuation criteria set forth in § 255 (4) HGB. The recognized value of financial instruments, which are not traded on an active market, are determined using generally accepted valuation methods (e.g., on the basis of option pricing models). In general, these methods are based on estimates of future cash flows while factoring in any risk factors. In this regard, the most important factors, in each case dependent on the nature of the relevant financial instrument, are the “underlying price”, “implicit volatilities”, “yield curves” and “dividend forecasts”. In this regard and depending on the structure of the respective financial instrument, there are, *inter alia*, other assumptions that the valuation is "risk-neutral" with regard to the future development of market prices, that interest rates and credit costs are deterministic and, for example, that the amount of dividends is generally known and will be paid on certain dates. Furthermore, when applying the valuation models, additional probabilities regarding the occurrence of certain valuation parameters or factor sensibilities (Delta, Gamma) are also taken into account.

The stock market prices used for the valuations are mid prices.

As of December 31, 2019, a risk discount (**Value at Risk figures**) in the amount of TEUR 6,779 (12/31/2018: TEUR 1,701) was applied.

To calculate the value at risk, CGME uses an internal model which was developed by Citigroup (IMA) and which, since the beginning of 2019 is used to meet the equity capital needs to cover market price risks. An approval for the temporary use of the market risk profile has been received from the Federal Financial Supervisory Authority (“BaFin”). Compared to the standard approach previously used, the IMA permits a more detailed calibration of the risk sensitivities. In this way, the market price risks, which represent the main component of the portfolio for CGME, are covered more precisely. The main driver for the increase in the position is the 10-day value at risk component available in the IMA, based on a 99% confidence level.

Moreover, CGME applied - as of the balance sheet date - a discount to the “Other Price Risks” trading book in the form of a “market value adjustment” totaling TEUR 1,867 (12/31/2018: TEUR 908), which was calculated using a mathematical method and which factors in the model-linked price risks related to derivatives as well as the potential risks of loss upon repurchasing derivatives that the Bank itself had issued.

The trading portfolio in foreign currencies is valued using the foreign exchange rates published by the European Central Bank.

The **equity investments** are recognized at their cost of acquisition or, in some cases, at the lower fair value.

The balance sheet items, **trust assets and trust liabilities**, reflect assets and liabilities that CGME holds in its own name but for the accounts of third-parties. These items are valued at amortized costs or the settlement amount.

The **intangible assets**, which were all acquired in exchange for consideration, and the **tangible assets** are valued at their cost of acquisition and are generally written-down on a straight-line basis in accordance with the expected standard useful life of those assets. Any permanent impairment that may exist is taken into account through an unscheduled write-down. When the branches in Paris, Milan and Madrid were contributed as capital as part of the CGME registered share capital increase (capital increase against contribution-in-kind), the customer relationships that existed at the branches were also transferred and those relationships were attributed a goodwill value, which is being amortized on a scheduled basis *pro rata temporis* over a 10-year period.

The **other assets** are shown on the balance sheet at their nominal value. In the event of any impairment, these assets are subject to a nonscheduled write-down to the stock exchange or stock market price or to the lower fair value in accordance with §253 (4) HGB.

Depending on their net acquisition costs, **low-value economic assets** (*geringwertige Wirtschaftsgüter*) are written-off in full in the year in which they are acquired.

The **accrual and deferral items** on the asset and liability side of the balance sheet include payments that are attributable the bottom-line in future fiscal years.

**Liabilities owed to banks and to clients** were stated at their settlement amount plus accrued interest.

**Provisions for pension and similar obligations** were valued on the basis of the projected unit credit method. Key principles underlying the valuation are the accrual-based allocation of pension benefits during the service relationship (employment tenure), for which pension commitments have been made, and the actuarial assumptions that are used to calculate the present cash value of such future benefits. The value of the obligation as of the balance sheet date is the actuarial present cash value of all those benefits which, based on the pension formula under the plan, are attributable to the period of service completed up to that point in time.

In order to calculate the present cash value, a discount rate of 2.71% based on a 15-year term was used. Pursuant to § 253 (2) sentence 1 HGB, the average market rate of the previous ten fiscal years was used as the discount rate for calculating the present cash value in the recently completed fiscal year. With respect to the resulting difference, we refer to our comments on page 16 of these notes regarding the total sum of the amounts barred from payout distribution. Future salary and wage increases were estimated at 2.5%, and at the same time, a 1.6% adjustment of the current annuities was assumed.

In general, the biometric data was derived from the Dr. Klaus Heubeck 2018 G mortality tables. In connection with accounting for the accruals for pensions and similar obligations, assets that serve only to settle the debts owed under the pension obligations or similar long-term obligations in accordance with § 340a (1) in combination with § 246 (2) sentence 2 HGB were offset against them.

In calculating the **accruals**, all recognizable risks as well as uncertain liabilities were taken into account on the basis of a prudent business judgment (*vorsichtiger kaufmännischer Beurteilung*). The settlement amount of **other accruals** was calculated by factoring in future price and cost increases. Accruals or provisions with a residual term to maturity of more than one year were discounted at the average market interest rate over the past seven fiscal years as such rate was calculated by the Deutsche Bundesbank for matching maturities. If recourse agreements existed, they were taken into account in calculating the accrual (net result shown).

Accruals were set up in the balance sheet for **contracts and pending legal disputes** that could have an adverse effect on the financial condition.

**Futures and other derivative transactions** involving currencies, indexes, stocks, raw materials and precious metals were valued at the rates and interest rates on the balance sheet date and shown in the trading portfolio.

**Currency receivables and liabilities** were valued in accordance with § 340a (1) in combination with § 256a HGB at the ECB average rates applicable on the balance sheet date. To the extent that the ECB does not publish any average rates, the currency positions are recognized at market rates. Spot exchange transactions or currency futures, which were not yet cleared, were valued at the average spot or futures rates of the balance sheet date and applicable to their maturity. The treatment of expenses and income from the currency translation satisfies the requirements under § 340h HGB. The result of the currency translation is included in the income statement under the item “net income from financial trading operations”.

Negative interest income and negative interest expenses are shown in the income statement line items no. 2 “Negative interest income” or no. 4 “Positive interest from loans and money market transactions” in accordance with § 340c (1) and (2) HGB in combination with § 265 (5) HGB.

## IV. Notes to Individual Items on the Balance Sheet

With regard to the notes set forth below, we expressly reference the limited informative value of the comparative figures as of the previous balance sheet date (see also explanations in section II. of these Notes).

## 1. Assets based on terms to maturity

### Receivables from banks

Composition:

| | 12/31/2019 TEUR | 12/31/2018 TEUR |
|---|---|---|
| Other receivables with a term to maturity of | | |
| up to three months | 322,581 | 130,752 |
| more than three months and up to one year | 0 | 0 |
| more than one year and up to five years and more than five years | 0 | 0 |
| **Total** | **322,581** | **130,752** |

### Receivables from clients

Composition:

| | 12/31/2019 TEUR | 12/31/2018 TEUR |
|---|---|---|
| with a term to maturity of | | |
| up to three months | 5,406,732 | 785,695 |
| more than three months and up to one year | 0 | 0 |
| more than one year and up to five years | 0 | 0 |
| more than five years | 0 | 0 |
| indefinite term | 0 | 0 |
| **Total** | **5,406,732** | **785,695** |

Compared to the balance sheet date of the recently completed short fiscal year, **receivables from clients** rose by EUR 4,621 million to EUR 5,407 million. Of that sum, an amount totaling approximately EUR 4,020 million may be attributed to, *inter alia*, the broker/dealer business that CGME acquired in its own name and for its own account at the beginning of 2019 and that it settles directly through the futures exchanges “European Exchange” (EUREX; Dec 31, 2019: EUR 3,528 million) and “London Clearing House” (“LCH”; Dec 31, 2019: EUR 492 million) in connection with back-to-back transactions.

The balance sheet item also includes receivables generated from repo transactions (reverse repos) in the amount of EUR 832 million (prior year: EUR 680 million).

Accordingly, the **liabilities owed to clients** as of December 31, 2019 jumped from EUR 330 million to EUR 4,293 million.

**Liabilities owed to banks**

The liabilities are owed mainly to affiliated enterprises and exhibit the following maturities:

Composition:

| | 12/31/2019 TEUR | 12/31/2018 TEUR |
|---|---|---|
| with an agreed term or notice period of up to three months | 76,278 | 12,301 |
| more than three months and up to one year | 0 | 0 |
| more than one year and up to five years | 0 | 0 |
| more than five years | 0 | 0 |
| **Total** | **76,278** | **12,301** |

**Liabilities owed to clients**

Composition:

| | 12/31/2019 TEUR | 12/31/2018 TEUR |
|---|---|---|
| with an agreed term or notice period of up to three months | 3,839,110 | 330,071 |
| more than three months and up to one year | 0 | 0 |
| more than one year and up to five years | 0 | 0 |
| more than five years | 453,985 | 0 |
| **Total** | **4,293,095** | **330,071** |

This balance sheet item contains a total of EUR 308 million (12/31/2018: EUR 269 million) in liabilities for which trading portfolio securities were deposited as collateral.

## 2. Receivables from, and liabilities owed to, affiliated enterprises

The individual balance sheet items include receivables from, and liabilities to, affiliated enterprises as set forth below:

**Receivables from affiliated enterprises**

Composition:

| | 12/31/2019 TEUR | 12/31/2018 TEUR |
|---|---|---|
| Receivables from banks | 291,301 | 130,196 |
| Receivables from clients | 2,225,787 | 753,563 |
| Other receivables | 35,756 | 155,118 |
| **Total** | **2,552,844** | **1,038,877** |

**Liabilities owed to affiliated enterprises**

Composition:

| | 12/31/2019 TEUR | 12/31/2018 TEUR |
|---|---|---|
| Liabilities owed to banks | 63,776 | 10,177 |
| Liabilities owed to clients | 3,032,358 | 305,294 |
| Other liabilities | 661,528 | 644 |
| **Total** | **3,757,662** | **316,115** |

## 3. Trading portfolio assets and liabilities

The **trading portfolio assets and liabilities** consist of the following:

| Trading Portfolio | | | | |
|---|---|---|---|---|
| | **asset** | **liability** | **asset** | **liability** |
| | **Book value 12/31/2019 (TEUR)** | **Book value 12/31/2019 (TEUR)** | **Book value 12/31/2018 (TEUR)** | **Book value 12/31/2018 (TEUR)** |
| **1. Derivative financial instruments** | | | | |
| • FX-induced trades | | | | |
| OTC-currency options | 1,280,652 | 1,275,786 | 19 | - |
| Currency warrants own issues | 166,589 | 169,935 | 47,799 | 50,037 |
| Foreign exchange spot transactions | 102,497 | 103,299 | - | - |
| • Stock warrants own issues | 3,133,918 | 3,327,242 | 2,041,447 | 2,127,020 |
| • OTC stocks & index options | 131,563 | 132,712 | 131 | - |
| • Stock & index warrants issued by third parties | - | - | 1,659 | - |
| • Index warrants own issues | 1,669,404 | 1,683,193 | 1,486,256 | 1,500,152 |
| • Exchange-traded stock & index options | 145,299 | 53,088 | 71,824 | 70,828 |
| • OTC interest rate options | 1,758,272 | 1,755,424 | - | - |
| • Commodity warrants own issues | 41,313 | 42,175 | 16,200 | 16,635 |
| • Other | 3,637 | 3,637 | - | - |
| Carryover | 8,433,144 | 8,546,491 | 3,665,335 | 3,764,672 |

| Trading Portfolio | | | | |
|---|---|---|---|---|
| | asset | liability | asset | liability |
| | Book value 12/31/2019 (TEUR) | Book value 12/31/2019 (TEUR) | Book value 12/31/2018 (TEUR) | Book value 12/31/2018 (TEUR) |
| Carryover | 8,433,144 | 8,546,491 | 3,665,335 | 3,764,672 |
| **2. Bonds and other fixed income securities** | 183,376 | 462,165 | 676,832 | 883,726 |
| *of which marketable (börsenfähig)* | 183,376 | 462,165 | 676,832 | 883,726 |
| *of which exchange-traded* | 183,376 | 462,165 | 676,832 | 883,726 |
| **3. Stocks and other variable yield securities** | 322,884 | 71,135 | 274,938 | 29,805 |
| *of which marketable* | 322,884 | 71,135 | 274,938 | 29,805 |
| *of which exchange-traded* | 322,884 | 71,135 | 274,938 | 29,805 |
| **4. Market-Value-Adjustment** | - | 1,867 | - | 908 |
| **5. Value at Risk** | - 6,779 | **-** | - 1,701 | **-** |
| **Total** | **8,932,625** | **9,081,658** | **4,615,404** | **4,679,111** |

## 4. Trust assets and trust liabilities

Since the commencement of fiscal year 2019, CGME has been providing to its clients as part of its business services connected with derivatives; services that had been previously provided by its sole shareholder, "CGML". Under so-called "**FCC Business**" (which stands for "Futures, Clearing and Collateral Services"), the CGME investor services business encompasses, *inter alia*, the trading of derivate financial instruments in its own name but for the account of the clients and the related receipt and forwarding of client funds, which must be deposited by the client to serve as collateral to secure the trading in futures. The contractual arrangements that were thereby made stipulate a certain segregation of client assets from the CGME assets in an effort to specifically shield client assets from any third-party enforcement action that could be initiated in the event that the "asset-managing" CGME becomes the subject of an insolvency proceeding. The client assets are therefore held in trust. Accordingly, as of the end of fiscal year 2019, CGME is reporting **trust assets** and **trust liabilities** *vis-à-vis* the clients in an amount totaling EUR 507 million.

## 5. Movement of fixed assets

The fixed assets (intangible fixed assets and tangible fixed assets) developed as follows in the Fiscal Year:

| | Original Acquisition costs | | | Accumulated depreciation, amortization and write downs | | | | | Book values | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 01/01/ 2019 | Additions (Disposals) Re- posting | 12/31/ 2019 | 01/01/ 2019 | Write- downs | Write- ups | Additions (Disposals) Re- posting | 12/31/ 2019 | 12/31/ 2019 | 12/31/ 2018 |
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| Intangbile assets acquired for consideration | 5,399 | 91,000<br>0<br>-371 | 96,028 | 5,237 | 7,628 | 0 | 0<br>0<br>-371 | 12,494 | 83,534 | 162 |
| Office and plant equipment | 9,850 | 1,073<br>559<br>301 | 10,665 | 8,985 | 464 | 0 | 0<br>475<br>312 | 9,286 | 1,379 | 865 |
| Leasehold improvements | 15,587 | 332<br>0<br>70 | 15,989 | 14,398 | 347 | 0 | 0<br>0<br>59 | 14,804 | 1,185 | 1,189 |
| Construction in progress | 184 | 46<br>63<br>0 | 167 | 7 | 0 | 0 | 0<br>7<br>0 | 0 | 167 | 177 |
| Equity investments | 1,136 | 0<br>0<br>0 | 1,136 | 0 | 0 | 0 | 0 | 0 | 1,136 | 1,136 |
| **Total** | **32,156** | **92,451<br>622<br>0** | **123,985** | **28,627** | **8,439** | **0** | **0<br>482<br>0** | **36,584** | **87,401** | **3,529** |

The intangible and tangible assets (office and plant equipment as well as leasehold improvements), as reported as of the end of the Fiscal Year, are used solely by CGME itself. Depreciation, amortization and write-downs relating to the additions made during the Fiscal Year totaled TEUR 4 for tangible assets and TEUR 7,583 for goodwill.

When the branches in Paris, Milan and Madrid were contributed as capital, the customer relationships that existed at the branches were also transferred and were recognized as **goodwill**, which was originally valued at EUR 91 million and then amortized on a scheduled basis over a period of 10 years.

The **equity investments** that are recognized on the balance sheet and are unchanged from the Previous Short Fiscal Year are not marketable and relate to the following companies:

| **Equity investments** | **12/31/2019 (TEUR)** | **12/31/2018 (TEUR)** |
|---|---|---|
| True-Sale International GmbH, Frankfurt | 150 | 150 |
| Börse Stuttgart CATS GmbH, Stuttgart | 986 | 986 |
| **Total** | **1,136** | **1,136** |

## 6. Other assets

The item "Other Assets" (TEUR 1,060,668; 12/31/2018: TEUR 159,979) includes mostly receivables from variation/initial margins (TEUR 1,037,404; 12/31/2018: TEUR 140,649) as well as tax refund claims (TEUR 11,637; 12/31/2018: TEUR 12,615).

## 7. Prepaid and deferred items

This balance sheet item (TEUR 655) relates to prepaid fees.

## 8. Other liabilities

The item "Other Liabilities" (TEUR 970,490: 12/31/2018: TEUR 10,353) involves mainly liabilities from variation/initial margins (TEUR 933,722: 12/31/2018: TEUR 0), liabilities owed to employees from deferred cash bonuses in the amount of TEUR 14,703 (12/31/2018: TEUR 5,198) and liabilities from taxes in the amount of TEUR 7,846 (12/31/2018: TEUR 1,867).

## 9. Accruals for pensions and similar obligations

To hedge third-party claims from pension and similar commitments, assets in the form of liquid funds and units or shares in securities funds (*Wertpapiersondervermögen*) are available as of the balance sheet date. The funds are managed exclusively by outside asset managers who invest in exchange-traded securities in accordance with the relevant investment guidelines. In the event CGME enters insolvency, CGME creditors will be denied access to those assets that are transferred to the trustees.

In accordance with § 246 (2) sentence 2 in combination with § 340a (1) HGB, the assets used for hedging purposes will be set off at their fair value against the obligations valued at the settlement amount. The fair values of the relevant funds' assets are documented as of the balance sheet date in a schedule (*Aufstellung*) that is provided by the administrator.

The contractual hedge of the **business pension obligations** was carried out on the basis of a contractual trust arrangement (CTA) with the trustee, Towers Watson Treuhand e.V.

To hedge the pension commitments, units that are held in the "Rose" fund (acquisition costs of TEUR 104,782) and were purchased or contractually promised by CGME, are made available and, pursuant to § 246 (2) sentence 2 in combination with § 340a (1) HGB, were netted at their fair value (TEUR 191,349) against the settlement amount from the pension obligations (TEUR 198,768). The settlement amount exceeding the plan assets as of the balance sheet date and equaling TEUR 7,419 (12/31/2018: TEUR 9,369) is recognized on the balance sheet under the item "Accruals for pensions and similar obligations".

As of December 31, 2019, **pension obligations under the "PAS", "PRS" and "Deferred Compensation" plans** also exist and arose from **bonus conversions**. The obligations under the "PAS" and "Deferred Compensation" plans are linked to the fair value of the relevant fund serving as the plan assets.

Factoring in the existing pension plan set-offs (netting the assets and liabilities) carried out at fair value pursuant to § 246 (2) sentence 2 HGB, the **balance sheet components** of accruals for pensions and similar obligations consist of the following:

| | **12/31/2019** | | **12/31/2018** | |
|---|---|---|---|---|
| | **TEUR** | **TEUR** | **TEUR** | **TEUR** |
| **I. General pension obligations** | | | | |
| Settlement amount | 201,115 | | 183,689 | |
| less | | | | |
| plan assets Rose*) | -191,349 | 9,766 | -174,320 | 9,369 |
| **II. Pension obligations PAS**)** | | | | |
| Settlement amount | 9,031 | | 7,618 | |
| less | | | | |
| plan assets | - 9,031 | - | - 7,618 | - |
| **III. Pension obligations deferred compensation***)** | | | | |
| Settlement amount | 8,483 | | 9,152 | |
| less | | | | |
| plan assets | -8,483 | - | -9,152 | - |
| **IV. Pension obligations PRS ****)** | | | | |
| Settlement amount | 54,764 | | 56,082 | |
| less | | | | |
| plan assets | -45,197 | 9,567 | -45,841 | 10,241 |
| **Excess of plan assets over post-employment benefit liabilities** | | **-** | | **-** |
| **Accruals for pension and similar obligations** | | **19,333** | | **19,610** |

*) Acquisition costs TEUR 104,782
**) Acquisition costs TEUR 1,553
***) Acquisition costs TEUR 7,338
****) Acquisition costs TEUR 35,795

The effects on income arising from the accounting of the accruals for pension and similar obligations and from netting assets, which are attributable to plan assets, against the respective fair value, are shown in the table below:

| | 1/1/2019 - 12/31/2019 (TEUR) | | 4/28/2018 - 12/31/2018 (TEUR) | |
|---|---|---|---|---|
| **I. General pension obligations** | | | | |
| - Expense (-)/income based on interest accrued on pension obligations | - 18,665 | | - 12,178 | |
| - Change in the fair value of the plan assets | 17,029 | | - 4,213 | |
| - Expense for standard allocation | - 6,727 | -8,363 | - 4,312 | -20,703 |
| **II. Pension obligations PAS** | | | | |
| - Expense (-)/income based on interest accrued on pension obligations | 2,227 | | 1,856 | |
| - Change in the fair value of the plan assets | - 2,227 | - | - 1,856 | - |
| **III. Pension obligations deferred compensation** | | | | |
| - Expense (-)/income based on interest accrued on pension obligations | 5 | | 40 | |
| - Change in the fair value of the plan assets | - 5 | - | - 40 | - |
| **IV. Pension obligations PRS** | | | | |
| - Expense (-)/income based on interest accrued on pension obligations | - 4,007 | | - 2,485 | |
| - Change in the fair value of the plan assets | 1,518 | | 460 | |
| - Expense for standard allocation | 1,496 | -993 | 150 | -1,875 |
| **Total** | | **-9,356** | | **-22,578** |

**The total sum of the amounts that are barred from payout distribution** developed as follows compared to the previous balance sheet date:

| Reason for barring payout distribution | 12/31/2019 (TEUR) | 12/31/2018 (TEUR) |
|---|---|---|
| Capitalization of the plan assets in connection with pension obligations at fair value (12/31/2019; TEUR 254,061; 12/31/2018: TEUR 236,931) pursuant to § 268 (8) sentence 3 in combination with § 340a (1) HGB | 104,593 | 83,813 |
| Differential amount in connection with the differentiated interest applied to pension accruals pursuant to § 253 (6) in combination with § 340a (1) HGB | 25,333 | 27,525 |
| **Total** | **129,926** | **111,338** |

The **differential amount pursuant to § 253 (6) in combination with § 340a (1) HGB** is calculated as follows:

| | **10-year average interest rate and term to maturity of 15 years** | | **7-year average interest rate and term to maturity of 15 years** | |
|---|---|---|---|---|
| | **12/31/2019** | **12/31/2018** | **12/31/2019** | **12/31/2018** |
| Average interest rate (%) | 2.71 | 3.21 | 1.97 | 2.32 |
| Accrual for pensions and similar obligations (TEUR) | 231,311 | 229,443 | 256,644 | 256,968 |
| **Differential amount (TEUR)** | | | | |
| | **12/31/2019** | | **12/31/2018** | |
| | **25,333** | | **27,525** | |

As of the balance sheet date, the freely available provisions (reserves) exceed the total sum of the amounts that are barred from payout distribution.

## 10. Other accruals

In comparison to the prior year, the item “Other Accruals” consists of the following:

| Accruals for | 12/31/2019 TEUR | 12/31/2018 TEUR |
|---|---|---|
| Bonus payments to employees | 57,158 | 19,190 |
| Investment income withholding tax for past fiscal years | 0 | 9,308 |
| Early retirement obligations | 165 | 114 |
| Personnel costs | 7,519 | 2,125 |
| Audit costs | 4,829 | 3,519 |
| Outstanding vacation | 5,505 | 840 |
| Outstanding invoices | 7,376 | 5,082 |
| **Total** | **82,552** | **40,188** |

In calculating the provisions set aside for early retirement obligations (TEUR 165; 12/31/2018: TEUR 124), claims arising from pledged reinsurance policies and totaling TEUR 1,011 (12/31/2018: TEUR 1,470) were reconciled against the settlement amount of TEUR 1,176 (12/31/2018: TEUR 1,594).

In the recently completed Fiscal Year, expenses in the amount of TEUR 17 (4/28 - 12/31/2018: TEUR 30) were generated from interest accrued on the obligations, and income totaling TEUR 16 (4/28 - 12/31/2018: expenses totaling TEUR 13) was yielded from a change in the fair value of the plan assets income. In connection with the standard allocation, the expense was TEUR 173 (4/28 - 12/31/2018: TEUR 0).

## 11. Funds for general bank risks within the meaning of § 340g (4) HGB

The disbursement ban shown under the balance sheet item “Special Items for General Bank Risk” pursuant to § 340e (4) HGB was TEUR 19,685 as of the end of the fiscal year.

## 12. Subscribed capital

The **subscribed capital** totaling TEUR 242,393 (12/31/2018: TEUR 210,570) is divided into 9,481,592 no par shares (12/31/2018: 8,236,778). The sole shareholder of CGME is Citigroup Global Markets Ltd., London/Great Britain, (abbreviated herein as "CGML"), whose financial statements are included in the consolidated financial statements of Citigroup Inc. New York/USA.

The increase in the subscribed capital by TEUR 31,823 to TEUR 242,393 was caused by a capital increase against a contribution-in-kind when the assets and liabilities of the branches in Paris, Madrid and Milan were contributed as capital.

## 13. Capital reserves

The TEUR 630,524 increase in capital reserves to TEUR 949,491 (12/31/2018: TEUR 318,967) resulted from the shareholder's additional payments into the capital accounts pursuant to § 272 (2) no. 4 HGB in an amount totaling TEUR 624,992 and from the premium paid in connection with in-kind capital contributions (TEUR 66,009) as well as a withdrawal for purposes of covering the annual net loss for 2018 in the amount of TEUR 45,740 as well as the unappropriated balance sheet loss as of December 31, 2018 in the amount of TEUR 14,737.

## 14. Assets and liabilities denominated in foreign currencies

The total amount of assets denominated in a foreign currency is TEUR 2,310,794 (12/31/2018: TEUR 37,108); the liabilities contain foreign currency amounts totaling TEUR 1,979,251 (12/31/2018: TEUR 21,024).

# V. Notes to Individual Items on the Income Statement

## 1. Interest result

The interest result totaling TEUR - 10,140 (4/28 – 12/31/2018: TEUR - 4,449) can be attributed primarily to the interest expenses owed to Citicorp LLC, USA, (TEUR 14,012).

## 2. Commission income

The commission income is derived from the following components:

| Type of fee | 1/1/- 12/31/2019 TEUR | 4/28/- 12/31/2018 TEUR |
|---|---:|---:|
| Commissions from affiliated enterprises | 129,013 | 71,516 |
| Commissions on foreign currency products | 14,467 | 9,700 |
| Commissions from M&A/Advisory | 68,155 | 13,961 |
| Miscellaneous fees | 171 | 24 |
| Internal group cost-sharing arrangements | - 34,507 | - 7,430 |
| **Total** | **177,299** | **87,771** |

## 3. Net income from financial trading operations

The net income from financial trading operations (TEUR 29,030; 4/28 – 12/31/2018: TEUR 25,037) is composed of, among other things, the negative result generated from the "Equities and Index Risk" trading book (TEUR 56,759; 4/28 – 12/31/2018: positive result TEUR 82,177) as well as the positive result generated from the "Currency Risk" trading book (TEUR 90,867; 4/28 – 12/31/2018: negative result of TEUR 57,636), which consists mostly of the results from the warrants traded on the price of gold and on the US Dollar (as the underlying assets). The net income from financial trading operations includes currency translation income in the amount of TEUR 73,774 and currency translation expenses in the amount of TEUR 87,213.

## 4. Other operating income

The item encompasses primarily income from passing through expenses to affiliated enterprises in the amount of TEUR 17,409 (4/28 – 12/31/2018: TEUR 3,807), income from passing through fees charged to the companies by the exchanges (TEUR 10,432; 4/28 – 12/31/2018: TEUR 0) and, for the first time, income from tax refund claims totaling TEUR 6,372 and held against clients in connection with forwarded dividends.

## 5. Other administrative expenses

The item (TEUR 99,882; 4/28 – 12/31/2018: TEUR 55,591) consists of, among other things, the item "processing costs Citigroup" totaling TEUR 1,629 (4/28 – 12/31/2018: TEUR 3,990), expenses involving "Citi Chargeouts" that total TEUR 8,963 (4/28 – 12/31/2018:

TEUR 12,869), custody fees totaling TEUR 9,118 (4/28 – 12/31/2018: TEUR 4,658), lease expenses equaling TEUR 5,953 (4/28 – 12/31/2018: TEUR 1,925) and costs for listing derivative products on exchanges in the amount of TEUR 13,325 (4/28 – 12/31/2018: TEUR 1,215), costs for client advertising in the amount of TEUR 4,210 (4/28 – 12/31/2018: TEUR 1,926), dues owed to professional associations in the amount of TEUR 3,560 (4/28 – 12/31/2018: TEUR 1,435) and travel costs of TEUR 6,993 (4/28 – 12/31/2018: TEUR 2,067).

### 6. Other operating expenses

The item includes primarily expenses and income from valuing the pension plan obligations and the corresponding pension assets (netting) totaling TEUR 1,636 for Rose (4/28 – 12/31/2018: TEUR 16,391 expenses from valuing the pension plan assets and the pension obligations) and totaling TEUR 2,489 for PRS (4/28 – 12/31/2018: TEUR 1,875).

### 7. Income and expenses related to another period

Other operating income includes income that is related to another accounting period and is based on turnover tax refunds resulting from the tax audit (TEUR 1,948) as well as income from tax refund claims against clients in connection with transferred dividends (TEUR 6,372).

Income tax back-payments totalling TEUR 1,213 have been booked as expenses related to another period under the item “Taxes on income and earnings“.

## VI. Miscellaneous Notes

### 1. Derivative financial instruments

***Types of derivatives transactions***

As of the end of the recently completed Fiscal Year, the derivatives business of the bank included the following transactions allocated to the respective trading books:

- **Foreign Currency Risk" trading book**
  - OTC currency option transactions and swaps
  - Currency warrants
  - Foreign exchange spot transactions
- **"Equities and Index Risk" trading book**
  - Equities and other variable-yield securities in the trading portfolio
  - OTC index & stock options
  - Equities and index warrants
  - Exchange-traded futures and options transactions on equities and stock indexes
  - Index certificates and equity certificates
- **"Interest Risks" trading book**
  - OTC interest rate options and swaps
  - Exchange-traded interest rate futures
- **Other trading book**
  - Exchange-traded futures transactions
  - Warrants on commodities and precious metals
  - OTC options on commodities and precious metals

***Trade volumes of derivatives and futures transactions***

The total volume of derivatives transactions based on the terms to maturity as of December 31, 2019 is set forth below:

- **“Foreign Currency Risks” trading book**

| | **< 1 year nominal amount** | **1-5 years nominal amount** | **> 5 years nominal amount** | **Total nominal amount** | **Market value** |
|---|---|---|---|---|---|
| | **EUR in millions** | **EUR in millions** | **EUR in millions** | **EUR in millions** | **EUR in millions** |
| **OTC-currency options** | | | | | |
| Bought | 35,982 | 7,411 | 3,676 | 47,069 | 1,280.7 |
| Sold | 12,532 | 7,422 | 3,626 | 23,580 | - 1,275,8 |
| **Currency warrants own issues** | | | | | |
| Bought | 215 | - | 1,727 | 1,942 | 166.6 |
| Sold | 262 | - | 1,754 | 2,016 | - 169.9 |
| **Exchange-traded currency futures** | | | | | |
| Bought | 10,228 | 58 | - | 10,286 | 102.5 |
| Sold | 10,228 | 58 | - | 10,286 | - 103.3 |

The “**Foreign Currency Risks”** trading book consists primarily of options on the price of gold and on the US Dollar. The cash flow anticipated from the derivatives depends mainly on how the relevant underlying performs.  As of the balance sheet date, the book contained exclusively European options (exercise possible only at the end of the term).

- **“Equities and Index Risks” trading book**

| Type of transaction | < 1 year nominal amount | 1-5 years nominal amount | > 5 years nominal amount | Total nominal amount | Market value |
|---|---|---|---|---|---|
| | EUR in millions | EUR in millions | EUR in millions | EUR in millions | EUR in millions |
| **Equity warrants issued by third parties** | | | | | |
| Bought | - | - | - | - | - |
| **Equity warrants own issues** | | | | | |
| Bought | 5,411 | 706 | 4,770 | 10,887 | 3,133,9 |
| Sold | 7,039 | 1,333 | 4,979 | 13,351 | - 3,327,2 |
| **OTC-stock options** | | | | | |
| Bought | 2,432 | 1,324 | 518 | 4,274 | 125,7 |
| Sold | 1,999 | 1,352 | 517 | 3,868 | - 126,9 |
| **OTC-index options** | | | | | |
| Bought | 0 | 0 | - | 0 | 5,8 |
| Sold | 0 | 0 | - | 0 | - 5,8 |
| **Index warrants own issues** | | | | | |
| Bought | 3,496 | 6 | 6,337 | 9,839 | 1,669,4 |
| Sold | 3,854 | 18 | 6,417 | 10,289 | - 1,683,2 |
| **Exchange-traded index futures** | | | | | |
| Bought | 19 | - | - | 19 | - |
| Sold | 69 | - | - | 69 | 0.3 |
| **Exchange-traded index options** | | | | | |
| Bought | 203 | 11 | - | 214 | 3.5 |
| Sold | 108 | 14 | - | 122 | -1.7 |
| **Exchange-traded stock options** | | | | | |
| Bought | 1,036 | 453 | - | 1,489 | 141.8 |
| Sold | 303 | 25 | - | 328 | - 51.4 |
| **Index and equity certificates own issues** | | | | | |
| Bought | 135 | 20 | 28 | 183 | 183.4 |
| Sold | 372 | 55 | 28 | 455 | - 462.2 |

The “**Other Price Risks”** trading book includes primarily options on European and American stocks and options on European and American exchange indexes. The cash flow anticipated from the derivatives depends mainly on how the underlying performs. As of the balance sheet date, the book contained both European options (exercise possible only at the end of the term) and American options (exercise of the option possible throughout the entire term).

- **Interest rate transactions**

| | **< 1 year nominal amount** | **1-5 years nominal amount** | **> 5 years nominal amount** | **Total nominal amount** | **Market value** |
|---|---|---|---|---|---|
| | **EUR in millions** | **EUR in millions** | **EUR in millions** | **EUR in millions** | **EUR in millions** |
| **OTC interest options** | | | | | |
| Bought | 10,665 | 26,734 | 16,713 | 54,112 | 1,758.3 |
| Sold | 10,670 | 26,782 | 16,802 | 54,254 | -1,755.4 |
| **Exchange-traded interest futures** | | | | | |
| Bought | 13 | - | - | 13 | - |

- **Other trading operations**

| | **< 1 year nominal amount** | **1-5 years nominal amount** | **> 5 years nominal amount** | **Total nominal amount** | **Market value** |
|---|---|---|---|---|---|
| | **EUR in millions** | **EUR in millions** | **EUR in millions** | **EUR in millions** | **EUR in millions** |
| **OTC options on commodities and precious metals** | | | | | |
| Bought | 18 | 64 | - | 82 | 3.6 |
| Sold | 18 | 64 | - | 82 | - 3.6 |
| **Warrants on commodities and precious metals own issues** | | | | | |
| Bought | 12 | - | 163 | 175 | 41.3 |
| Sold | 14 | - | 168 | 182 | -42.2 |
| | **< 1 year nominal amount** | **1-5 years nominal amount** | **> 5 years nominal amount** | **Total nominal amount** | **Market value** |

| | EUR in millions | EUR in millions | EUR in millions | EUR in millions | EUR in millions |
|---|---|---|---|---|---|
| **Exchange-traded futures on commodities and precious metals** | | | | | |
| Bought | 23 | - | - | 23 | 0.6 |
| Sold | 2 | - | - | 2 | - |

The "**Other Trading Operations**" trading book includes primarily options on the price of oil, gold and silver. The cash flow anticipated from the derivatives depends mainly on how the underlying performs. As of the balance sheet date, the book contained only European options (exercise possible only at the end of the term).

***Counterparty risk in derivatives trading***

As of December 31, 2019, the credit equivalents under the CRR (Capital Requirements Regulation), before credit risk weighting and after regulatory netting, are as follows:

| **Credit risk** | **Companies and individuals and public bodies, including central banks from Zone B** | **Credit institutions from Zone A** | **Credit institutions from Zone B** | **Central Settlement** |
|---|---|---|---|---|
| **Product group** | **Credit equivalent (in TEUR)** | | | |
| Trading book "currency risks" and trading book "other price risks" | 822,898 | 1,318,251 | 10,603 | 231,270 |
| Other trading operations | - | - | - | - |
| **Total** | **822,898** | **1,318,251** | 10,603 | **231,270** |

***Non-settled forward transactions***

In connection with the options transactions, CGME books the premiums on the trade date. On the balance sheet date, this practice results in obligations under futures transactions, which have not yet settled, being reported in the trade balance sheet for currency risks, equity and index risks and other risks.

## 2. Recommendation for the use of the unappropriated balance sheet profit

The Executive Board recommends compensating the annual net loss totaling EUR 45,738,852.95 and shown as of December 31, 2019 as well as the unappropriated balance sheet loss totaling EUR 14,736,882.81 and shown as of December 31, 2018 by withdrawing funds from capital reserves in the amount of EUR 60,475,735.76.

## 3. Other financial obligations

Other financial obligations take the form of rental and lease obligations, which equal EUR 6.4 million per year through the end of the lease term for the premises or other leased property.

## 4. Fee for the annual accounts auditor

The total fees charged by the annual accounts auditor for the Fiscal Year encompass the annual accounts auditing services (TEUR 1,161), expenditures incurred (TEUR 97), other certification work (TEUR 250), tax advisory services (TEUR 0) and other consulting services (TEUR 70).

## 5. Information about the business relations with related enterprises and parties

The companies identified as **related enterprises** were the sole shareholder, CGML, as well as all of its own subsidiaries and affiliated enterprises of the Citigroup Group.

The individuals classified as key management personnel (Executive Board members and Supervisory Board members) of the Citigroup Group are viewed as **related persons**.

The following financial transactions are executed with related enterprises and persons (exclusively group companies)[1]:

| |
|---|
| • Money market transactions, investment and borrowing of funds |
| • Futures transactions involving stocks, currencies, indexes, commodities and precious metals |
| • Option transactions involving stocks, currencies, indexes, raw materials and precious metals |
| • Securities transactions (reverse repos and repos) |
| • Purchase/performance of intra-group services |

All transactions were concluded on arm's length terms and conditions.

## 6. Information about significant transactions following the balance sheet date

In March 2020, the sole shareholder decided to make an additional payment pursuant to § 272 (2) no. 4 HGB into the equity capital of CGME in the amount of EUR 300 million.

Furthermore, there are no known significant transactions of special importance (*keine wesentlichen Vorgänge von besonderer Bedeutung*) that occurred after the end of the Fiscal Year and that have not yet been included in either the income statement or the balance sheet.

## 7. Group affiliation

CGME is included in the group of consolidated companies of CGML, whose financial statements are, in turn, included in the consolidated financial statements of Citigroup Inc., New York, 388 Greenwich Street. The consolidated financial statements can be viewed at the website, [www.citigroup.com](http://www.citigroup.com).

## 8. Branches

Effective as of March 1, 2019 and as part of a registered share capital increase, the sole shareholder of CGME transferred its branches in Paris, Milan and Madrid to CGME as a contribution-in-kind. In addition, a branch is still maintained in London.

[1] Please also see the Executive Board report on relations with affiliated enterprises pursuant to §§ 312 *et seq.* AktG for the fiscal year from January 1 through December 31, 2019.

## 9. Governing bodies (officers and directors) of the Company

The CGME **Executive Board** consists of the following members:

- Mr. Stefan Wintels, Frankfurt am Main, COO, Bank Director, Chairman, (term ending 3/31/2020)
- Mrs. Kristine Braden, Frankfurt am Main, CEO, Bank Director, (term commencing 4/1/2020)
- Dr. Silvia Carpitella, Milan/Italy, CFO, Bank Director, (term ending 3/31/2019),
- Mr. Thomas Falk, Hochheim am Main, CRO, Bank Director, (term ending 11/30/2019),
- Mr. Stefan Hafke, Kelkheim, (Corporate/Commercial Banking), Bank Director,
- Mr. Andreas Hamm, Dreieich, CTO, Bank Director,
- Dr. Jasmin Kölbl-Vogt, Frankfurt am Main, (Legal), Bank Director,
- Mr. Ingo Mandt, Frankfurt am Main, CRO, Bank Director, (term commencing 11/18/2019),
- Mr. Oliver Russmann, Bad Vilbel, CFO, Bank Director, (term commencing 4/1/2019),
- Mr. Christian Spieler, Bad Homburg, (Treasury/Markets) Bank Director.

The **Supervisory Board** consists of the following members:

- Mr. Hans W. Reich, Kronberg, Bank Director (retired), Chairman,
- Mr. Bradley Gans, London, Bank Director, Citigroup Global Markets Limited, London, (term ending 8/31/2019),
- Mr. Leo Arduini, London, Bank Director, Citigroup Global Markets Limited, London
- Mr. James Bardrick, London, CEO, Citigroup Global Markets Limited, London
- Mr. Tim Färber, Kelsterbach, Bank Employee, Employee Representative
- Mr. Dirk Heß, Friedrichsdorf, Bank Employee, Employee Representative, (term commencing 10/19/2019)
- Mr. Sascha Schmidt, Frankfurt am Main, Bank Employee, Employee Representative,
  (term ending 10/18/2019)

## 10. Board member remuneration

In the Fiscal Year, total remuneration for members of the Executive Board was TEUR 7,414. As of the end of the Fiscal Year, pension obligations totaled TEUR 4,184.

In the reporting year, total remuneration for the former members of management bodies and their survivors totaled TEUR 1,259. Funds set aside for pensions and early retirement obligations owed to former members of the management bodies and their survivors totaled TEUR 22,420.

Due to the stock-based remuneration, approximately 27.6 thousand shares in the amount of approx. TUSD 1,724 were granted as variable compensation.

In the recently completed Fiscal Year, expenses for supervisory board compensation benefits in the amount of TEUR 38 were incurred. CGME is exercising its elective right under § 286 (4) HGB regarding disclosures about provisions (accrued liabilities) for current pensions and pension expectancies (*Anwartschaften*) of the Supervisory Board members under § 285 (9b) HGB.

As consideration for their work, the members of the advisory board (*Beirat*) received TEUR 605 in remuneration in the fiscal year.

As of the end of the year, there were no outstanding loans to members of the CGME Executive Board and Supervisory Board.

## 11. Employees

During the Fiscal Year, CGME employed an average of 409 persons. Of that amount, 390 were full-time employees and 19 persons were part-time employees. No trainees were on staff.

The employees within CGME and its branches are distributed as follows:

| | **12/31/2019** |
|---|---:|
| Citigroup Global Markets Europe AG | 212 |
| Citigroup Global Markets Europe AG France Branch | 94 |
| Citigroup Global Markets Europe AG Spain Branch | 50 |
| Citigroup Global Markets Europe AG Italy Branch | 45 |
| Citigroup Global Markets Europe AG UK Branch | 8 |
| **Total** | **409** |

Frankfurt am Main, March 31, 2020

Citigroup Global Markets Europe AG

| | |
|---|---|
| Kristine Braden (CEO) | Stefan Hafke |
| Andreas Hamm | Dr. Jasmin Kölbl-Vogt |
| Ingo Mandt | Oliver Russmann |
| Christian Spieler | |

**CONVENIENT TRANSLATION ONLY**

**Report by the Supervisory Board of Citigroup Global Markets Europe AG (CGME)**

for the financial year 1 January to 31 December 2019

The Supervisory Board had information provided to it on an ongoing basis by the Management Board orally and in writing with regard to the situation for the company as well as the development of business during the financial year. The chairman of the Supervisory Board regularly obtained information in a timely and comprehensive manner from the Management Board about the course of business and the main developments at the Bank. The chairman consulted with the Management Board in close and good faith cooperation and monitored the management, also between the meetings. In addition, the chairman of the Supervisory Board and the chairman of the Management Board had regular meetings in which information was provided and matters were discussed.

The main topics included, among others:

- the effects of the departure of the United Kingdom from the European Union ("Brexit") and the direction for the company, establishing corresponding procedures and planning for the end of the transition period after the exit,
- the strategic plan and the organizational structure of the company,
- the risk position and risk management at the company,
- the outsourcing of services,
- accounting for services within the corporate group as well as
- challenges in the area of taxation.

In addition, the Supervisory Board dealt with numerous changes in the law and regulations, for example, the implementation of the compensation rules under CRD IV and the German Regulation on Compensation in Institutions (*Institutsvergütungsverordnung*). The Supervisory Board also monitored the management of the company in accordance with the provisions in the law, the articles of association of the company and the rules of procedure for the Supervisory Board.

The company's business model changed substantially as a result of the outsourcing of the classic banking business and the conversion of the company to a securities trading bank in the year 2018. This continued in the financial year 2019 as a result of the capital increase with a contribution in kind when assuming the branches of Citigroup Global Markets Ltd. in France, Spain and Italy.

The Supervisory Board consists of six members under the articles of association. The composition of the Supervisory Board changed in the reporting year. Brad Gans resigned his office as a member of the Supervisory Board effective as of 31 August 2019. His place in the Supervisory Board remained vacant for the rest of the financial year. The employees' representative Sascha Schmidt resigned his mandate in the Supervisory Board as of 18 October 2019. Dirk Hess succeeded him as the employees' representative in the Supervisory Board as the replacement member elected by the employees.

The Supervisory Board met for five regular meetings in the financial year. In addition, the Supervisory Board held seven extraordinary meetings which dealt with the direction of the Company and implementation of the processes in the course of Brexit and the compensation matters. The subject of all regular meetings of the Supervisory Board consisted of the regular reports from the Management Board about the current situation for the company, including on the basis of the risk report. The Supervisory Board did not adopt any resolutions by circulating them in written form.

The further development of the leadership structure for the company also involved changes in the members in the Management Board. Dr. Silvia Carpitella left the Management Board at her own request on 31 March 2019. Oliver Russmann was appointed to succeed Dr. Silvia Carpitella effective as of 1 April 2019.
Thomas Falk left the Management Board at his own request effective as of 30 November 2019.
Ingo Mandt was newly appointed to the Management Board effective as of 18 November 2019.
The Supervisory Board resolved not to establish any separate committees for the time being.

The annual financial statements and the management report for the financial year beginning on 1 January 2019 and ending on 31 December 2019 have been audited together with the accounting by KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and they were found to be in accordance with the provisions in the law as well as the articles of association. The Supervisory Board instructed the auditors to place an emphasis on examining the appropriateness of the resources of the Internal Audit and Risk Management function in the course of continuously increasing business activities and risk assumption of the company.

The annual financial statements and the management report have been fully certified. We approve the audit report.

No objections are raised after the final result of the audit of the annual financial statements and the management report made by the Supervisory Board and the explanations provided by the auditor. The Supervisory Board approved the annual financial statements for the financial year as well as the management report submitted by the Management Board in the meeting of the Supervisory Board on 23 April 2020.

The Supervisory Board thanks the members of the Management Board and all employees for their service and contribution to achieving the targets set for the company in the last financial year.

Frankfurt am Main, den 23 April 2020
The Supervisory Board

Hans W. Reich
- Chairman –

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

# Independent Auditor's Report

To Citigroup Global Markets Europe AG, Frankfurt am Main

## Report on the Audit of the Annual Financial Statements and of the Management Report

**Opinions**

We have audited the annual financial statements of Citigroup Global Markets Europe AG, Frankfurt am Main, which comprise the balance sheet as at December 31, 2019, the statement of profit and loss, the statement of cash flows and the statement of changes in equity for the financial year from January 1, 2019 to December 31, 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Citigroup Global Markets Europe AG for the financial year from January 1, 2019 to December 31, 2019. In accordance with German legal requirements, we have not audited the content of those components of the management report specified in the "Corporate Governance Statement pursuant to § 289f of the German Commercial Code" section.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to banks and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and

– the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the above mentioned Corporate Governance Statement.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

**Basis for the Opinions**

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

**Key Audit Matters in the Audit of the Annual Financial Statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

### Determination of fair values based on valuation models for the valuation of the trading portfolios

Please refer to the notes, Section “III. Accounting and Valuation Methods” for more information regarding the accounting and valuation policies applied by CGME. Please refer to the notes, subsection “3. Trading portfolio assets and liabilities” regarding the composition of the derivatives transactions in the trading portfolio on the assets and liabilities side of the balance sheet.

THE RISK FOR THE FINANCIAL STATEMENTS

The transactions of the trading portfolio are measured at fair value and relate to the issue of warrants and certificates, the associated hedging transactions (i.e., OTC-traded and exchange-traded derivatives) as well as any buybacks arising from market maker activity. Furthermore, the trading portfolio also includes derivative financial instruments as well as stocks and other variable-yield securities. At 55 % of total assets and 56 % of total equity and liabilities respectively (EUR 8,933 million and EUR 9,082 million, respectively, in absolute amounts), the balance sheet items related to the trading portfolio are the largest line items in the annual financial statements of Citigroup Global Markets Europe AG.

In some cases, market prices are not observable for warrants, certificates, and OTC derivatives. The fair values are to be determined on the basis of accepted valuation methods. The selection of the valuation models as well as their parameters are subject to discretionary judgments. The risk for the financial statements in this regard is, above all, that no appropriate valuation models and/or valuation parameters are used to calculate fair values and that the trading portfolio as well as net trading income are therefore not measured or calculated in compliance with the accounting requirements.

OUR APPROACH IN THE AUDIT

Based on our risk assessment and the assessment of misstatement risk, we have based our audit opinion on both control-based audit procedures as well as substantive audit procedures. Accordingly, we performed the following audit work, among others:

In an initial step, we gained a comprehensive overview of the changes in the financial instruments of the trading portfolio, the associated risks, and the internal control system with respect to the valuation of the financial instruments of the trading portfolio.

For the assessment of the appropriateness of the internal control system with respect to the valuation of financial instruments for which no market prices can be observed, we conducted surveys and inspected the relevant documents. After performing this test of design and implementation (*Aufbauprüfung*), we tested the effectiveness of the established controls with the help of tests of operating effectivness (*Funktionsprüfungen*).

In particular, the control tests covered whether the models were validated independently of trading activity both when they were introduced as well as regularly or as needed. As part of a sample, we audited whether the validations were conducted and documented properly and whether the implemented valuation model together with the influent valuation parameters are suitable and reasonable for the respective product. Furthermore, we audited the control of the trade transaction valuation through a trade-neutral department using parameters procured from third parties.

Moreover, our valuation specialists also carried out a subsequent valuation for a particular and deliberate selection of products under materiality and risk considerations and compared the results with the values determined by the Bank. With respect to this subsequent valuation, observable pricing and market information was used to the extent possible.

OUR CONCLUSIONS

The valuation principles that are used to calculate the fair values of the trading portfolios, for which no prices can be observed on the market, are proper and in compliance with the valuation principles applied. The Company's valuation parameters underlying the valuation are as a whole reasonable.

## Invoicing of intra-group services

With regard to the accounting and valuation methods applied by Citigroup Global Markets Europe AG, we refer to Section 3 of the notes.

THE RISK FOR THE FINANCIAL STATEMENTS

Of the commission income totaling EUR 211.8 million, EUR 129 million is attributable to brokerage commissions of affiliated enterprises. The commission expenses equaled EUR 34.5 million and included primarily amounts from the intra-group invoicing of transfer pricing. The other operating income totaled EUR 40.3 million and included income from passing through expenses to affiliated enterprises in the amount of EUR 17 million.

As a result of the high level of global job-sharing within Citigroup, great importance has been ascribed to intra-group service relationships both with respect to the provision of the original bank services as well as services involving support functions. The invoicing is performed *vis-à-vis* all Citigroup entities, although the billing process, the number of transactions requiring billing and the calculation of the billing amount could be very different depending on the work or service supplied. The risk for the financial statements in this regard is that service relationships with other Citigroup entities could be incorrectly recognized and, consequently, the corresponding income and expenses might be presented in the wrong amounts.

OUR APPROACH IN THE AUDIT

Based on our risk assessment and the assessment of misstatement risk, we have based our audit opinion on both control-based audit procedures as well as substantive audit procedures. Accordingly, we performed the following audit work, among others:

First, we gained an overview of key product lines and services of Citigroup Global Markets Europe AG, the invoicing models specified for these products and services, and the associated risks. We thereupon gained an understanding about the processes for the recognition, invoicing, and accounting treatment of the intra-group services rendered and about the internal control system set up with respect thereto.

We conducted surveys and inspected the relevant documents for the assessment of the adequacy of the internal control system. The control processes regarded as relevant for our audit are intended in particular to ensure the accuracy of the income and expenses from intra-group services and their processing. After performing this test of design, we tested the effectiveness of the established controls with the help of tests of operating effectiveness.

Finally, as part of substantive audit procedures, we audited the correctness of manual closing entries by inquiry of management and inspecting the documentation serving as a basis. For services that are compensated based on the revenue and/or fee split method, we audited a sample as to whether the services were calculated and compensated correctly on the basis of the group-wide standard and documented transfer pricing method.

OUR CONCLUSIONS

The measures implemented in the bank are appropriate to accurately recognize income and expenses from intra-group services in Citigroup Global Markets Europe AG annual financial statements.

**Other Information**

Management is responsible for the other information. The other information comprises the the corporate governance statement pursuant to § 289f (4) of the German Commercial Code (Information on the female quota).

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the annual financial statements, with the management report information audited or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

**Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report**

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to banks, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

**Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

# Other Legal and Regulatory Requirements

**Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as auditor by the annual general meeting on September 17, 2019. We were engaged by the chairman of the supervisory board on September 18, 2019. We have been the auditor of the Citigroup Global Markets Euope AG, Frankfurt am Main, without interruption for more than 27 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

[In addition to the financial statement audit, we have provided to the Company the following services that are not disclosed in the annual financial statements or in the management report:

- Implementation of agreed additional audit work in accordance with the requirement under Section 2 (4) of the Ordinance on Contributions to the Compensation Facility for Securities Trading Companies at the Kreditanstalt für Wiederaufbau (EdWBeitrV)
- Audit of the securities services business pursuant to § 89 of the German Securities Trading Act (WpHG);
- Tax advice in connection with transfer pricing
- Consent Letter to include our audit report for the fiscal years from January 1 to April 27, 2018, from April 28 to December 31, 2018 and from January 1 to December 31, 2017 in a listing document for the Hong Kong Exchange.

## German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Andreas Dielehner.

Frankfurt am Main, 23 April 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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| Dielehner<br>Wirtschaftsprüfer<br>[German Public Auditor] | Dr. Niemeyer<br>Wirtschaftsprüfer<br>[German Public Auditor] |