CITIGROUP GLOBAL MARKETS LIMITED

(Registered Number: 01763297)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2016

CITIGROUP GLOBAL MARKETS LIMITED

STRATEGIC REPORT
for the year ended 31 December 2016

The Directors present their strategic report on Citigroup Global Markets Limited (CGML or the Company) for the year ended 31 December 2016.

1. Introduction

CGML is a private company limited by shares. It is a wholly-owned indirect subsidiary of Citigroup Inc. (Citi). It was incorporated in 1983 and has a major international presence as a dealer, market maker and underwriter in equity, fixed income securities and commodities, as well as providing advisory services to a wide range of corporate, institutional and government clients. It is headquartered in London, and operates globally, generating the majority of its business from the Europe, Middle East and Africa (EMEA) region, with the remainder coming from Asia and the Americas. It is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. As at 31 December 2016, it had eight branch offices and five subsidiaries across EMEA, listed below:

EU Branches	Subsidiaries
Czech Republic	Citigroup Global Markets Luxembourg S.a.R.L. (Luxembourg)
France	Citigroup Global Markets Funding Luxembourg SCA (Luxembourg)
Ireland	Citigroup Global Markets Funding Luxembourg GP S.a.R.L. (Luxembourg)
Italy	Citi Global Wealth Management S.A.M. (Monaco)
Spain	Citigroup South Africa Credit Products (Proprietary) Limited (South Africa) (scheduled for liquidation)
Non-EU Branches	
Israel	
Switzerland	
UAE	

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

Business	***Activities***
G10 Rates	Makes markets and facilitates client activity across interest rate products, including sovereign and supranational bonds and both linear and non-linear OTC derivatives. It conducts much of its client facing activity on CGML with some market risk transferred to other Citi affiliates. It includes the Finance Desk, which acts as CGML's funding utility, dealing in repurchase and reverse repurchase agreements to finance its inventory, as well as running a matched book business.
Foreign Exchange (FX)	Facilitates local and international client demand for flow and derivative FX products, such as spot and forward contracts, short term interest rate products, and interest rate and currency derivatives. FX products are largely transacted on affiliated Citi entities, with CGML facing the client. In addition, the business utilises CGML to access non-US primary market liquidity pools in non-deliverable forward contracts and foreign exchange options.
Equities	Encompasses client flow trading, electronic execution, tailored solutions for clients, and market making. Products covered include cash equities, vanilla and exotic listed and OTC derivatives, convertible bonds and warrants.
Credit Markets	A secondary trading business whose core products include corporate bonds, single name and index credit default swaps, and corporate loans. The execution of vanilla flow trading also forms the basis of more tailored and structured client solutions.
Securitised Markets	Conducts financing, issuance and market making of commercial and residential mortgage and other consumer assets, in the form of either loans or securities.

1. Introduction (continued)

Business	***Activities***
Investor Services	Comprises: • Prime Finance, which provides prime brokerage, financing solutions and capital introductions to clients. • Delta-One, which provides access, financing and investment solutions to a broad spectrum of clients (institutional, corporates and hedge funds) via synthetic products such as swaps, indices, exchange traded funds (ETFs) and access products. • Futures & OTC Clearing, which provides clients with access to global liquidity venues, multi-asset clearing services on global central counterparties (CCPs) and delivery of collateral solutions.
Commodities	Provides risk solutions to producers, consumers and investors in the area of European power, gas and emissions, agricultural products, coal, iron ore and inventory financing transactions. The business also offers clients exposure to precious metals, base metals and oil, with the associated risk being held by bank chain affiliates.
Capital Markets Origination (CMO)	Helps clients raise finance in the international capital markets through loans, bonds, equity, convertibles and structured products (such as securitisations) and project and infrastructure finance.
Corporate and Investment Banking (CIB)	Provides advisory services to clients in relation to mergers and acquisitions, corporate broking and the raising and restructuring of capital.

A number of CGML's functional operations are carried out in locations outside London, including at Citi Service Centres (CSCs) in Belfast, Budapest and Warsaw. CGML operates an established governance framework over the activities carried out in these CSC locations. In addition, CGML makes use of a number of third party outsourcing arrangements outside EMEA, including finance and risk operations with other Citi affiliated entities, which are subject to similar governance arrangements.

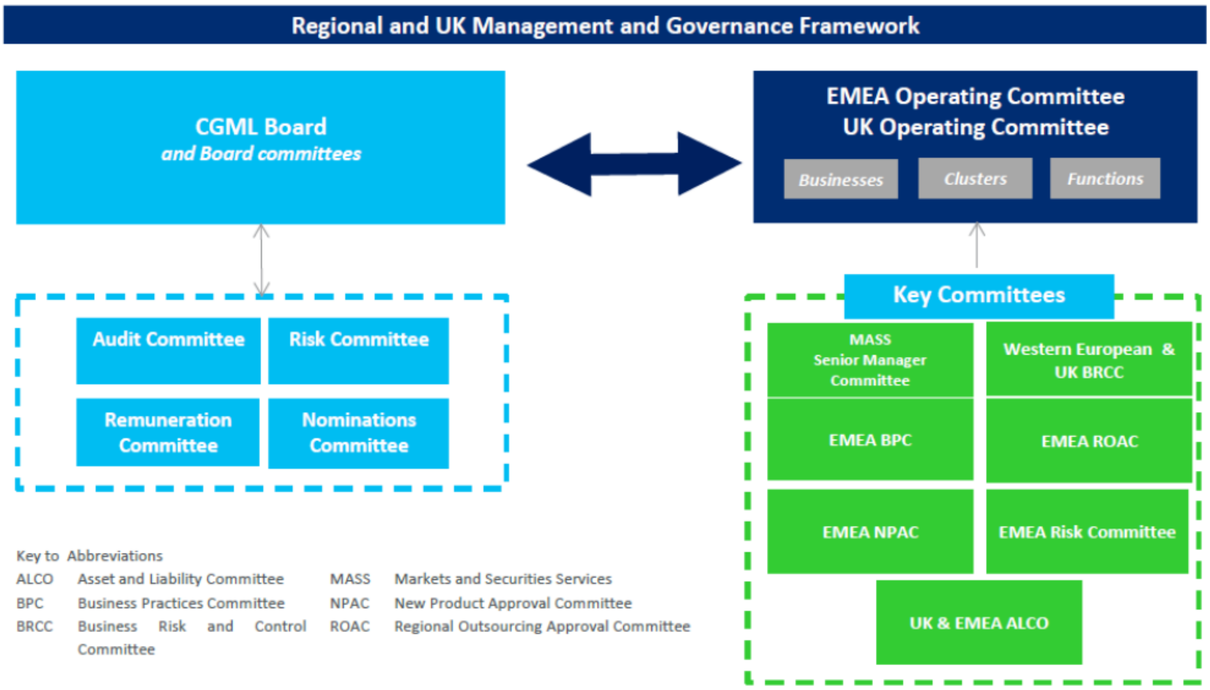
STRATEGIC REPORT
for the year ended 31 December 2016

2. CGML Governance

CGML has an established management and governance framework incorporating all of its businesses and functions. Its Board of Directors (the Board) consists of executive and non-executive directors, including the EMEA Chief Executive Officer (CEO), the Citi Country Officer (CCO) for the UK, the EMEA Chief Administrative Officer (CAO) and the EMEA Head of Markets and Securities Services (MASS).

The Board is supported by the relevant EMEA and UK business heads together with the regional and country heads of Risk, Finance, Operations & Technology, Legal and Compliance and Human Resources.

The chart below highlights the main components of CGML's governance structure, within Citi's regional and UK management and governance framework:



3. 2016 Mission and Strategy

CGML’s mission, in line with that of Citi, is to serve as a trusted partner to its clients by responsibly providing financial services that enable growth and economic progress. Citi’s core activities are safeguarding assets, lending money, making payments and accessing the capital markets on behalf of its clients, whilst ensuring that those actions are always in its clients' interests, create economic value and are systemically responsible.

CGML's strategy is an integral part of the strategy set for Citi's Institutional Clients Group (ICG). It is focused on building enduring and mutually valuable relationships with target market clients, such as:

- multinational and local corporations;
- financial institutions;
- governments and public sector bodies; and
- high net worth individuals.

The strategic priorities set out by CGML for 2016 were as follows:

Selective acquisition of market and client business share in Rates, Credit, Equities and other asset classes where CGML has compelling value propositions and competitive strengths with the aim of having a sustainable leading position across EMEA.

Market survey data published by Coalition reports improvement in Citi’s share of the global revenue pool in 2016, resulting in a top three position for several of its businesses including Rates, Commodities and FX.

Enhancing the operating performance of CGML’s EMEA Equities franchise, and progressively investing for growth in its competitive position across the entire product range.

Considerable investment in the Equities franchise took place in 2016 in order to further develop the business’s capabilities and increase its EMEA wallet share in future years. A particular focus of this investment was technology, with the cash equity platform being targeted for enhancements to its electronic execution infrastructure. Other key priorities included:

- industrialisation of the structured product offering in order to increase transaction volumes; and
- improvements to straight through processing.

The ongoing investment programme is expected to generate improvements to Equities revenues in future reporting periods.

Completion of the Commodities product and solutions roll out as a leading and integrated industry participant.

The Commodities business has benefited from the consolidation and upgrade of its trade capture systems thereby positioning it to provide a scalable product offering. The Commodities business seeks to build on its efforts to be a leading client-led commodities franchise.

Holistic and integrated solutions for CGML’s target market institutional client base.

During the year, synergies were achieved by creating strong, collaborative client teams with related performance metrics being launched and incorporated into the year end appraisal process for bankers. This contributed to higher Corporate and Investment Banking revenues for 2016.

Applying CGML’s Execution and Ethics framework to enhance the depth and quality of its customer engagement as well as the productivity and efficiency of its supporting operations, thereby improving its reputation and operating efficiency metrics.

In 2016, the Execution and Ethics framework applied CGML’s Leadership Standards to set a common language for effective leadership and outline behavioural expectations of employees in alignment with Citi’s Mission and Value Proposition. These standards cite the measurable skills, attitudes, abilities and knowledge that all Citi staff should demonstrate and are embedded within the annual performance management process and global leadership development programs. In order to enable tracking of the effectiveness of these initiatives, the annual Voice of the

3. 2016 Mission and Strategy (continued)

Employee survey has been expanded to include a series of questions enabling employees to provide an assessment of the firm's ethical culture, which has yielded a favourable response.

From a productivity and efficiency perspective, CGML streamlined the infrastructure that supports its businesses, via a wide-ranging programme of simplification initiatives. This programme focused on the identification of core activities and optimal resource allocation from a departmental, geographical and methodological perspective. Another workstream, to facilitate Recovery and Resolution Planning, resulted in the transfer of personnel from CGML to the London branch of Citibank NA in order to align resources more closely to activity performed.

Increasing return on assets and return on capital to provide an improved contribution to Citi's overall targeted levels.

The execution of the strategy outlined by CGML's management led to improvements in all of its main key performance indicators (KPIs) that are used to measure the success of its objectives, as can be seen below:

	2015[(2)]	2016[(1)]	Change
Operating Eficiency *(operating expense as a percentage of revenue)*	89%	85%	4%
Return on Assets (bps) *(Net income as a proportion of total assets)*	11.4	12.4	1.0
Return on Tangible Common Equity *(Net income as a proportion of Tier 1 capital)*	2.74%	3.08%	0.32%

[(1)] excluding prior year adjustment relating to the impact of sterling depreciation on various compensation related obligations as discussed in Financial Highlights below
[(2)] including prior year adjustment of $6 million reduction in gross profit relating to the impact of sterling depreciation on various compensation related obligations as discussed in Financial Highlights below

4. Financial Highlights

The execution of the 2016 strategy enabled CGML to maintain profitability for the year ended 31 December 2016.

4.1 Income Statement Summary

	2012[(2)] $ Million	2013[(2)] $ Million	2014[(1)] $ Million	2015[(1)] $ Million	2016[(1)] $ Million
Commission income and fees	1,517	1,618	2,195	2,063	1,320
Net dealing income	1,313	1,085	725	1,237	1,612
Interest receivable	1,282	897	773	591	568
Interest payable	(1,345)	(797)	(638)	(632)	(765)
Gross profit	**2,767**	**2,803**	**3,055**	**3,259**	**2,735**
Operating expenses	(3,125)	(3,021)	(2,955)	(2,910)	(2,378)
Other income and expenses	45	9	13	24	23
Operating profit (loss) on ordinary activities before taxation	**(313)**	**(209)**	**113**	**373**	**380**

[(1)] adjusted in accordance with FRS 101
[(2)] not adjusted in accordance with FRS 101 for reasons of materiality

At the beginning of 2016, Citi adopted Global Revenue Attribution (GRA), an enhanced transfer pricing methodology, to ensure that each entity and geography within Citi is appropriately compensated for the use of its resources, including staff and technology. As CGML is party to a number of intercompany pricing arrangements

4. Financial Highlights (continued)

and both pays and receives transfer pricing amounts, GRA impacted both gross profit and expenses. In addition, the impact of various simplification initiatives and depreciation in sterling were primary drivers towards a reduction in expenses.

In line with CGML's strategic priorities, enhancements to CGML's client facing businesses, coupled with a lower risk profile, have led to a more reliable stream of earnings. There has been continued emphasis on CGML's direct expense base and appropriate cost allocations which has led to improved performance in a number of key CGML businesses. Increased focus on risk and operational management along with better discipline enabled CGML to make positive progress and helped it to gain wallet share in certain markets, despite the macro-economic and political environment which prevailed.

Gross Profit

Gross profit in 2016 was $2,735 million (2015: $3,259 million) which represents a decrease of $524 million or 16%.

One of the implications of GRA was that transfer pricing payments made to other entities, which were previously recorded as expenses, have now been offset against transfer pricing receipts which are included in gross profit. This has resulted in a reduction of $303 million in both the gross profit and expense lines in the Income Statement Summary.

Additionally, the rate charged to affiliates in return for intermediary services has been reduced, resulting in a reduction in intermediation fees included in gross profit of $309 million.

Excluding the above two one-off reductions in gross profit, underlying year on year core profitability increased in 2016, as reflected in improved revenues from the Rates, Credit and Investor Services businesses. CMO revenues were slightly reduced in 2016, whilst the performance of Equities was mixed when viewed from the perspective of its individual desks. 2016 also included a one-off benefit to the Commodities business from a litigation event.

An adjustment relating to the impact in prior years of sterling depreciation on various compensation related obligations has been included in the 2016 income statement as it was not considered sufficiently material to account for as a prior-year adjustment. The impact of this adjustment on gross profit in 2016 was a reduction of $47 million.

Rates and Credit
The Rates and Credit businesses continued to perform well in 2016. Investor caution following the results of the UK referendum, together with a related fall in the value of European bond positions, resulted in a slight reduction in flow revenues, which was mostly offset by a strong performance by the Finance, Index and Emerging Market Credit Trading desks.

Investor Services
The improved Investor Services revenues in 2016 were reflective of the increased scalability of its prime brokerage platform and the maintenance of competitive pricing.

CMO
A strong performance in Debt Capital Market issuances reflected the low interest rate environment. However, Equity Capital Market revenues were lower than prior year due to volatile markets and concerns around Brexit limiting investor appetite for new issuances.

Equities
The subdued Equities performance seen in 2016 reflected the reduced potential revenue pool for this business, stemming from investor caution amidst the volatility experienced in this market during the year.

4. Financial Highlights (continued)

Operating Expenses

Operating expenses were $532 million lower at $2,378 million compared to the prior year (2015: $2,910 million). The variance to prior year reflects the GRA driven reallocation of certain transfer pricing payments to be offset against revenues, and the depreciation of sterling in the latter half of the year impacting compensation costs. The decrease was also partly driven by various simplification and recovery and resolution measures undertaken in 2016, including the reallocation of personnel away from CGML to CBNA London branch to support recovery and resolution planning.

4.2 Balance Sheet

	2012[2]	2013[1]	2014[1]	2015	2016
	$ Million	$ Million	$ Million	$ Million	$ Million
Total assets	257,043	245,460	383,350	323,339	345,608
Total liabilities	246,758	232,668	370,215	309,892	331,728
Shareholders' funds	10,285	12,792	13,135	13,447	13,880

(1) adjusted in accordance with FRS 101
(2) adjusted to include previously unrecognised pension asset and to reflect settlement date accounting

Higher total assets of $346 billion (31 December 2015: $323 billion) partly reflected increased securities financing transactions in expectation of increased client demand and volatile repurchase rates. In addition, the value of interest rate swaps held increased as sterling and euro yields fell relative to the prior year. However, for most businesses, due to the uncertain market environment, significant additional risk was not brought on to the balance sheet.

Total liabilities, excluding shareholders' funds, of $332 billion (31 December 2015: $310 billion) mainly reflected increases in the volume of securities financing transactions generated with a small number of key counterparties.

During the period, CGML repaid $800 million of subordinated debt.

Shareholders' funds were $13,880 million (31 December 2015: $13,447 million) reflecting an increase in retained earnings.

More detailed information about the composition of CGML's balance sheet, including analyses of its derivative and inventory holdings, can be found in the Balance Sheet and the Notes to the Accounts, in particular Note 15: Financial Assets and Liabilities Accounting Classification and Fair Value, Note 14: Financial Assets at Fair Value through Profit or Loss, and Note 13: Derivatives.

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4. Financial Highlights (continued)

CGML's regulatory capital resources for the five years leading up to the end of 2016 are summarised below.

4.3 Regulatory Capital

	2012	2013	2014	2015	2016
	$ Million	$ Million	$ Million	$ Million	$ Million
Capital resources					
Tier 1 capital	10,285	12,794	12,754	13,447	13,880
Tier 2 capital	4,104	4,086	4,080	5,437	4,585
Tier 3 capital	1,273	(234)	-	-	-
Deductions	(218)	(265)	(871)	(1,111)	(1,143)
Total	15,444	16,381	15,963	17,773	17,322
Capital requirements (Pillar 1)					
Market risk	5,449	5,020	3,839	3,020	2,646
Credit risk	2,923	2,446	3,246	3,239	3,609
Operational risk	855	1,500	1,500	1,500	1,500
Large Exposures risk	5	-	-	-	-
CVA risk	-	-	217	483	550
Total	9,232	8,966	8,802	8,242	8,305
Excess capital over Pillar 1	6,212	7,415	7,161	9,531	9,017

Tier 1 capital encompasses tangible shareholders' funds. Tier 2 capital comprises long term subordinated debt that is eligible for inclusion as capital. Deductions from capital include adjustments for the value of the defined benefit pension scheme, intangible assets, credit valuation adjustments (CVA) on own liabilities and certain securitisation positions.

Pillar 1 prescribes the minimum capital requirements for banks and investment firms under the Basel Capital Accord and the EU Capital Requirements Directive and Regulations (CRD IV). In addition to Pillar 1 requirements, the PRA mandates a set of Pillar 2 regulatory capital standards which CGML is required to meet in its Individual Capital Guidance and certain additional capital buffers. Management maintains a sufficiently strong and stable capital balance, in excess of these minimum regulatory requirements, and monitors CGML's excess capital to ensure that a sufficient surplus is maintained at all times.

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4. Financial Highlights (continued)

4.4 External Environment

CGML's 2016 financial results were achieved against a political and economic backdrop that included several major themes which continue to be of relevance looking forward:

- rising political and economic uncertainty;
- increasingly expansionary fiscal policy in advanced economies;
- rising inflation in advanced economies; and
- the impact of developed market economic policy on emerging market growth.

Global growth in gross domestic product (GDP) was 2.5% in 2016, a year which also saw fiscal policy in the developed markets become expansionary for the first time since 2010, whilst the European Central Bank (ECB) quantitative easing programme was extended out to December 2017. Growth in the advanced economies during 2016 was 1.6% whilst growth in emerging markets was 3.8%.

Whilst the economic future of Greece and the struggling performance of the Chinese equity markets have remained a matter of concern, other more recent events such as the UK's EU referendum and the US presidential election competed for the attention of investors and policymakers. Political developments in the UK and US produced mixed economic results. In the former, the 16% drop in sterling following the result of the referendum on EU membership led to an 11% rally in UK equities as investors expected the weak currency to underpin earnings and dividend pay-outs for internationally exposed companies. Similarly, after the US election, the dollar strengthened and the US equity market reached record highs on expectations of stronger growth and earnings. Simultaneously, bonds and emerging markets underperformed on concerns over capital outflows being triggered by US interest rate rises and a stronger dollar.

In summary, the political and economic backdrop described above presented opportunities as well as challenges for the financial markets that CGML operated in during 2016, a theme that is expected to continue into 2017.

5. 2017 Future Outlook

CGML's 2017 strategic priorities are:

- continued focus on providing solutions for our target market client base;
- maintaining and reinforcing the Ethics and Execution framework across all levels of the organisation;
- attraction, development and retention of talent;
- promotion of diversity and furtherance of equal employment opportunities;
- continued simplification of organisation and infrastructure;
- maintenance of strong internal control infrastructure, focusing upon risk identification and documentation of processes, policies and procedures;
- continued improvement in its operational metrics;
- completing the rollout of the investment in the Equities franchise; and
- maintenance of strong capital and liquidity levels.

5. 2017 Future Outlook (continued)

5.1 Market Outlook

This strategy will be executed in a year that has seen advanced economies start 2017 on a solid footing, despite the existence of potential political risks. Looking forward, CGML will be influenced by a number of developments with specific significance for its operations and strategy:

- **Brexit** and its associated economic, political, legal and regulatory ramifications. Detailed contingency plans have been developed in order to ensure that Citi, CGML and other affiliates are able to continue servicing their clients following the expected exit by the United Kingdom from the European Union in the first half of 2019.
- **Quantitative easing** by the ECB which has been extended out to the end of 2017.
- **Elections** in Germany, the Netherlands and France.
- **Protectionist policies** such as the withdrawal by the United States from the Trans-Pacific Partnership (TPP) have raised the possibility of international trade wars, impacting liquidity and capital flows.
- **Commodity prices** have the potential to spike in the year ahead, due to restricted supply as a result of low capital expenditure across many commodity asset classes, oil supply interruptions (including an OPEC supply cut), and growing demand for resources.

Citi and CGML will continue to monitor and assess developments in relation to the above scenarios in order to mitigate any impact to services offered to clients.

5.2 Principal Risks

CGML's principal risks arise from the nature of the services provided to its clients and include both financial and non-financial elements. The principal risks identified by management and covered by CGML's risk management framework are noted as follows, and are described in more detail in Note 30:

- reputational and franchise risk;
- market risk;
- liquidity risk;
- credit risk;
- country risk;
- pension risk; and
- operational risk.

5.3 Regulatory Developments

As the external regulatory environment continues to evolve, the most significant developments expected to impact CGML stem from:

- The EU Bank Recovery and Resolution Directive (BRRD);
- The UK Individual Accountability Regime (IAR);
- Total Loss Absorbing Capacity (TLAC) and Minimum Requirements for Eligible Liabilities (MREL);
- Citi Support Agreement (CSA);
- Financial Transaction Tax;
- Margin Requirements for Non-Cleared OTC Derivatives; and
- MiFID / MiFID II.

Bank Recovery and Resolution Directive (BRRD)

From 1 January 2015 all EU Member States were required to apply a single rulebook for the resolution of banks and large investment firms, as prescribed by the BRRD, which was designed to harmonise and improve the tools for dealing with bank crises across the EU. CGML has been identified as a Material Legal Entity (MLEs) in Citi's global Resolution Plan which can be found at:
http://www.federalreserve.gov/bankinforeg/resolution-plans/citigroup-1g-20150701.pdf

5. 2017 Future Outlook (continued)

Individual Accountability Regime

The UK's Individual Accountability Regime (IAR) represents new rules issued by the FCA and PRA, which are aimed at improving trust and culture in the financial services industry. It provides a new approval and accountability framework for individuals who work in financial institutions via the following:

Senior Managers Regime (SMR)
The SMR became effective on 7 March 2016 and focuses on individuals (Senior Managers) who hold key roles or have overall responsibility for whole areas of relevant UK entities and branches. Final rules are expected to be published during 2017. As of 31 December 2016, CGML had 22 Senior Managers approved to perform Senior Management Functions (SMFs) of whom 18 are CGML employees and 4 are non-executive directors.

Conduct Rules
These rules reflect high level principles that represent the core standards expected of Senior Managers and Certified Persons and relate to general professional conduct. From 7 March 2017, they apply to a much wider range of employees.

The IAR continues to evolve as the UK regulators publish new and amended rules and provide on-going industry feedback. CGML will adapt its IAR implementation accordingly.

Total Loss Absorbing Capacity (TLAC) and Minimum Requirements for Eligible Liabilities (MREL)

TLAC represents the amount of debt that could be withheld from debt holders to absorb the losses resulting from a failing institution. The US Financial Stability Board (FSB) has recently proposed a standard for TLAC, which will require global systemically important banks (G-SIBs), including Citi, to issue and maintain minimum levels of external TLAC and long-term debt (LTD). The European implementation of the TLAC standard, MREL was published on 8 November 2016 and will take effect in two phases:

- interim requirements by 2020 (with a 2019 requirement for G-SIBs); and
- end-state requirements by 2022.

The above requirements have the potential to impact the structure of CGML's balance sheet as a result of the concomitant funding requirements.

Citi Support Agreement (CSA)

In response to the April 2016 feedback provided by the Federal Reserve and Federal Deposit Insurance Corporation (FDIC) to Citi's 2015 Resolution Plan, Citi commenced the implementation of a legal agreement (the CSA), which legally obligates it to provide capital and liquidity support to all of Citi's material operating entities, including CGML. The intention is to execute the CSA upon final approval by the Citigroup and Citicorp Boards prior to Citi's next resolution plan submission in July 2017. Prior to signing the CSA, Citi expects to transfer a significant portion of Citigroup's assets to a new intermediate holding company (IHC). The CSA will apply throughout the entire resolution time horizon and will include a recapitalisation trigger that, if breached, obligates Citigroup to transfer any remaining assets to the IHC before Citigroup's bankruptcy. To ensure Citigroup performs its obligations under this agreement, the agreement will include a perfected security interest (PSI) and be subject to liquidated damages if the CSA is breached.

Financial Transaction Tax

A Financial Transaction Tax (FTT) continues to be considered by 10 EU Member States. The tax would impact financial transactions between financial institutions, charging 0.1% against the exchange of shares and bonds and 0.01% across derivative contracts.

Margin Requirements for Non-Cleared OTC Derivatives

CGML commenced operating under the European Markets Infrastructure Regulation (EMIR) rules from 4 February 2017. Compliance with the US equivalent of these regulations had already commenced in September

5. 2017 Future Outlook (continued)

2016. The new requirements increase the amount of initial margin posted on non-centrally cleared derivatives between CGML's largest counterparties. CGML is also required, as of 1st March 2017, to exchange variation margin with qualifying third-party end-users.

MiFID / MiFID II

Effective January 2018, the second Markets in Financial Instruments Directive (MiFID 2) will impose a new set of requirements on firms' fixed income, cash and OTC derivatives business including near real-time public pre and post trade reporting, additional regulatory reporting, commodities position limits, mandatory venue trading, unbundling of research costs and a number of investor protection requirements. Further details can be found in Note 30.

Citi and CGML remain well prepared for the implementation of both new and existing regulatory requirements, and continue to monitor developments in this area.

By order of the Board

J D K Bardrick
Director

30 March 2017

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

DIRECTORS' REPORT
for the year ended 31 December 2016

The Directors present their Report and the audited financial statements of CGML for the year ended 31 December 2016.

Going concern basis
The financial statements are prepared on a going concern basis taking into account CGML's existing capital and liquidity resources and the level of reliance placed on support from Citi, CGML's ultimate parent. The Directors acknowledge the risk that extreme circumstances might adversely impact CGML's ability to continue trading and are satisfied that CGML has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. Given CGML's ultimate reliance on the support of Citi, users are referred to the risk factors impacting Citigroup Inc. as described in its 2016 annual report on form 10-K, which can be found at http://www.citigroup.com/citi/investor/sec.htm.

Further information relevant to this assessment is provided in the following sections of these financial statements:

- the principal activities, strategic direction and challenges and uncertainties are described in the Strategic Report on pages 2 to 13;
- a financial summary, including the income statement and balance sheet, is provided in the financial results section on pages 18 to 20; and
- objectives, policies and processes for managing market, liquidity, credit and operational risk, and CGML's approach to capital management and allocation, are described in Note 30 'Financial instruments and risk management', starting on page 61.

Dividends
During the year CGML paid no dividends (2015: $nil).

Risk Management
CGML has elected to include information on financial risk management as per Schedule 7.6(1)(a) & (b) of the "Large and Medium-sized Companies and Groups Regulations 2008" in the Strategic Report as the Directors consider financial risk management to be of strategic importance to CGML. Further details about financial risk management are also provided in Note 30 'Financial instruments and risk management.'

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that CGML will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain CGML's transactions, disclose with reasonable accuracy at any time the financial position of CGML, and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of CGML and to prevent and detect fraud and other irregularities. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT
for the year ended 31 December 2016

Statement of Directors' responsibilities (continued)

Directors
The Directors who held office during the year ended 31 December 2016 were:

Non-Executive
J P Asquith (Chair)
S H Dean
R Goulding (appointed 11 May 2016)
D L Taylor

Executive
L Arduini (appointed 3 March 2016)
J D K Bardrick
J C Cowles
P McCarthy
Z Turek (resigned 5 March 2016)

L Arduini, the head of EMEA Markets and Securities Services, was appointed as an Executive Director with effect from 3 March 2016.

Z Turek resigned with effect from 5 March 2016 having previously taken a role as Chief Country Officer for Ireland and CEO of Citibank Europe plc.

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

Employee involvement
CGML places great value on the contributions of its employees and seeks to promote their involvement in the business wherever possible. It has continued its previous practice of keeping employees informed by written communications and meetings on matters affecting them as employees and on the various factors affecting the performance of CGML and of Citi as a group. Employees are encouraged to present their suggestions and views to CGML through various channels including an employee representative body and the annual Voice of the Employee survey in addition to their normal reporting and communication lines within the business. Qualifying employees participate in performance-based incentive schemes as described in Note 9 'Share-based incentive plans'.

Employment of disabled people
CGML is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within CGML. Training, career development and promotion of disabled persons are, as far as possible, identical to those applicable to other employees who are not disabled.

Diversity
Diversity is recognised as one of CGML's core values. CGML fosters a culture where the best people are recruited, where people are promoted on their merits, where respect for others is demanded and valued and where opportunities to develop are widely available to all – regardless of differences. CGML maintains a workplace with different backgrounds, perspectives and ideas and provides employees with a wide range of experiences and skills to develop to their full potential. Citi's Code of Conduct prohibits discrimination and harassment.

Environment
CGML recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise CGML's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

Political contributions
During the year, the Company made a donation of $353,350 (£250,000) to the Britain Stronger in Europe campaign, in advance of the UK Referendum on EU membership (2015: $nil).

Disclosure of information to auditors
In accordance with, and subject to all the provisions of, section 418 of the Companies Act 2006, it is stated by the Directors who held office at the date of approval of this Directors' Report that

- so far as each is aware, there is no relevant audit information of which CGML's Auditors are unaware; and
- each Director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that CGML's Auditors are aware of that information.

Auditors
Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board.

J Robson
Secretary

30 March 2017

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CITIGROUP GLOBAL MARKETS LIMITED

We have audited the financial statements of Citigroup Global Markets Limited for the year ended 31 December 2016 set out on pages 18 to 83, with the exception of the unaudited information on pages 77 to 80. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement set out on pages 14 and 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express our opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Karyn Nicoll (Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

30th March 2017

CITIGROUP GLOBAL MARKETS LIMITED

INCOME STATEMENT
for the year ended 31 December 2016

	Notes	2016 $ Million	2015 $ Million
Fee and commission income	**4**	1,320	2,063
Net dealing income	**6**	1,612	1,237
Interest receivable	**5**	568	591
Interest payable	**5**	(765)	(632)
Gross profit		2,735	3,259
Operating expenses	**7**	(2,378)	(2,910)
Net finance income on pension	**8**	16	18
Other income		7	6
Operating profit on ordinary activities before taxation		380	373
Tax on profits on ordinary activities	**11**	(4)	(5)
Profit for the financial year		376	368

The accompanying notes on pages 21 to 83 form an integral part of these financial statements.

CITIGROUP GLOBAL MARKETS LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 $ Million	2015 $ Million
Profit after taxation for the financial year		376	368
Other Comprehensive Income (Expense)			
Items that will not be reclassified subsequently to profit or loss:			
Net gains/(losses) on remeasurement of defined benefit pension asset net of tax	**8**	43	(70)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Financial assets available for sale:			
- unrealised gains		3	-
Total comprehensive gain for the financial year		422	298

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Notes	Share Capital $ Million	Capital reserve $ Million	Retained Earnings and other reserves $ Million	Total $ Million
At 1 January 2015		**1,500**	**9,989**	**1,646**	**13,135**
Profit after taxation for the year		-	-	368	368
Net movement in Statement of Comprehensive Income in respect of the pension scheme	**8**	-	-	(70)	(70)
Share based payment transactions	**9**	-	-	14	14
At 31 December 2015		**1,500**	**9,989**	**1,958**	**13,447**
Profit after taxation for the year		-	-	376	376
Net movement in Statement of Comprehensive Income in respect of the pension scheme	**8**	-	-	43	43
Financial assets available for sale:					
- unrealised gains		-	-	3	3
Share based payment transactions	**9**			1	1
Capital contribution		-	10	-	10
At 31 December 2016		**1,500**	**9,999**	**2,381**	**13,880**

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

The retained earnings and other reserves include the equity reserve, which is the fair value movement of the share based incentives issued.

The accompanying notes on pages 21 to 83 form an integral part of these financial statements.

CITIGROUP GLOBAL MARKETS LIMITED

BALANCE SHEET

as at 31 December 2016

	Notes	2016 $ Million	2015 $ Million
Assets			
Financial assets at amortised cost			
- cash at bank and in hand	**12**	3,738	1,939
- collateralised financing transactions		56,222	46,335
Financial assets at fair value through profit or loss			
- derivatives	**13**	167,634	162,450
- inventory	**14**	36,613	41,583
- financial assets designated at fair value through profit or loss		51,451	47,126
Financial assets classed as available for sale	**16**	31	27
Pension asset	**8**	437	446
Other assets	**18**	29,482	23,433
Total Assets		**345,608**	**323,339**
Liabilities and Equity			
Financial liabilities at amortised cost			
- bank loans and overdrafts		10,454	11,995
- collateralised financing transactions		33,509	34,729
Financial liabilities at fair value through profit or loss			
- derivatives	**13**	170,258	161,858
- securities sold but not yet purchased		44,654	28,996
- financial liabilities designated at fair value through profit or loss		35,783	41,067
Other liabilities	**23**	32,485	25,810
Subordinated loans	**27**	4,585	5,437
Total Liabilities		**331,728**	**309,892**
Capital and reserves			
Called up share capital	**28**	1,500	1,500
Capital reserve		9,999	9,989
Retained earnings and other reserves		2,381	1,958
Shareholders' funds		**13,880**	**13,447**
Total Liabilities and Shareholders' Funds		**345,608**	**323,339**

The accompanying notes on pages 21 to 83 form an integral part of these financial statements.
The financial statements on pages 18 to 83 were approved by the Directors on 30 March 2017 and were signed on their behalf by:

J D K Bardrick
Director
Registered Number: 01763297

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

(a) Basis of presentation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company has taken advantage of the following disclosure exemptions available under FRS 101:

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 share based payment, as the share based payment arrangement concerns the instruments of another group entity;
- (b) the requirement in paragraph 38 of IAS 1 '*Presentation of financial statements'* to present comparative information in respect of
  - (i) paragraph 79(a)(iv) of IAS 1 '*Presentation of financial statements';*
  - (ii) paragraph 73(e) of IAS 16 '*Property, plant and equipment'; and*
  - (iii) paragraph 118(e) of IAS 38 '*Intangible assets'.*
- (c) the requirements of paragraphs 10(d), 16, 38A, and 111 of IAS 1 '*Presentation of financial statements'*;
- (d) the requirements of IAS 7 '*Statement of cash flows';*
- (e) the requirements in IAS 24 '*Related party disclosures'*. To disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- (f) the requirements of paragraphs 17 and 18A of IAS 24 that relate to transactions with key management personnel.

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

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

(b) Changes in accounting policy and disclosures

Minor amendments to IFRSs

- In December 2014, the IASB published the final Standard Disclosure Initiative (Amendments to IAS 1). These amendments to IAS 1 address some of the concerns expressed about existing presentation and disclosure requirements and ensure that entities are able to use judgement when applying IAS 1. The amendments have not had a significant impact on the Company's financial statements.

- Annual Improvements to IFRS 2012-2014 Cycle. The IASB's annual improvement projects for the 2012-2014 cycle resulted in minor amendments to multiple standards. The amendments are effective for annual reporting periods beginning on or after 1 January 2016, with early adoption permitted. The only minor amendment that was relevant to the Company related to IAS 19 'Employee Benefits' but the amendment had no impact on the Company's financial statements.

Standards issued but not yet effective

There are a number of accounting standards that have been adopted by the International Accounting Standards Board (IASB), but which are not yet effective for the Company's financial statements. The Company does not intend to early adopt these standards. The relevant amendments to the Company's financial statements include those set out below.

1. Principal accounting policies (continued)

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

- Annual Improvements to IFRS 2014-2016 Cycle. The IASB's annual improvement projects for the 2014-2016 cycle resulted in minor amendments to multiple standards. The amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The amendments are not expected to have a significant impact on the Company's financial statements.

- IFRS 9 – *Financial Instruments*. The new standard includes a new model for classification and measurement of financial instruments, a forward-looking 'expected loss' impairment model for debt instruments and a substantially reformed approach to hedge accounting. The change of approach to hedge accounting is not considered applicable to the Company as it does not apply hedge accounting. The standard replaces the existing guidance in IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 is effective from 1 January 2018, with early adoption permitted.

  Classification and measurement

  The classification and measurement of financial assets will depend on (a) the business model in which the assets are managed and (b) their cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI)). This assessment will determine whether the financial assets are measured at either (i) amortised cost, (ii) fair value through other comprehensive income (FVOCI), or (iii) fair value through profit or loss (FVTPL).

  The main impact of IFRS 9 on financial liabilities impacts those measured at FVTPL as gains or losses relating to changes in the entity's own credit risk will be included in other comprehensive income. The Company is still assessing the impact of the IFRS 9 classification and measurement changes on the financial instruments that it holds.

  Impairment

  IFRS 9 introduces an expected credit loss impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in earlier recognition of credit losses.

  Scope

  Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortised cost financial assets, debt securities classified as FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 together with items that previously fell under the IAS 37 framework will be considered in determining the scope of our application of the new expected credit loss impairment model.

  Expected credit loss impairment model

  Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-Stage expected credit loss impairment model.

  The Company is continuing to assess the impact that IFRS 9 will have on its financial statements. Citi has put in place a dedicated project strategy to continuously assess the impact of the new standard on Citi's internal processes and systems and to inform management accordingly.

- IFRS 15 – *Revenue from Contracts with Customers*. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

1. Principal accounting policies (continued)

(c) Financial instruments

Trading assets and trading liabilities
Financial instruments that have been acquired principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of financial instruments that are managed at fair value together and for which there is evidence of short term profit taking are classified as "held for trading". Financial assets classified as "held for trading" include collateralised financing transactions, government bonds, eurobonds and other corporate bonds, equities and derivatives. Financial liabilities classified as "held for trading" include securities sold but not yet purchased and derivatives.

Trading assets and liabilities are initially recognised at fair value on settlement date and subsequently re-measured at fair value. Any changes in fair value between trade date and settlement date are reported in the income statement. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value (including any foreign currency retranslation gains and losses) are reported in the income statement. Any initial gain or loss on financial instruments where valuation is dependent on valuation techniques using unobservable parameters are deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable.

Derivative contracts
Derivative contracts used in trading activities are recognised at fair value on the date the derivative is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in fair value are reported in the income statement. Where an embedded derivative exists, the host contract and embedded derivative are measured as a package under the fair value option.

Repurchase and resale agreements
Repurchase and resale agreements are treated as collateralised financing transactions. Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds are recorded as a collateralised financing transaction within other liabilities. Securities acquired in purchase and resale transactions are not recognised on the balance sheet and the purchase is recorded as a collateralised financing transaction within other assets. The difference between the sale price and the repurchase price is recognised over the life of the transaction and is charged or credited to the income statement as interest payable or receivable.

The Company has chosen to designate a portion of its repurchase and resale agreements at fair value. Financial instruments are designated by management as fair value through profit or loss when they meet one or more of the criteria set out below:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis.

- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Loans and receivables
Loans and receivables incorporate trade debtors, including settlement receivables, and are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost using the effective interest rate method.

At each reporting date the Company assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the debtor or other observable data such as adverse changes in the payment status of debtors, or economic conditions that correlate with defaults of the debtor.

1. Principal accounting policies (continued)

(c) Financial instruments (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in the income statement and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement. The Company writes off loans and receivables when they are determined to be uncollectible.

Available for Sale Assets
Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified within another category of financial assets. A financial asset classified as AFS is initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets classified as AFS are carried at fair value with the changes in fair value reported in other comprehensive income. For AFS debt instruments, changes in carrying amounts relating to changes in foreign exchange rate are recognized in the income statement and other changes in carrying amount are recognized in other comprehensive income as indicated above. However, interest calculated using the effective interest rate method is recognised in the income statement. For financial assets classified as AFS that are non-monetary items (equity instruments), the gain or loss that is recognized in other comprehensive income includes any related foreign exchange component. Dividend income is recognised in the income statement when the Company becomes entitled to the dividend. When a financial asset classified as AFS is derecognised by way of sale, or is impaired, the cumulative gain or loss recognised in OCI is reclassified from equity to profit or loss.

Other financial liabilities and subordinated loans
Financial liabilities and subordinated loans are measured at amortised cost using the effective interest rate, except those which are "held for trading", which are held at fair value through the profit or loss account.

Determination of fair value
Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted market value in an active market wherever possible. Where no such active market exists for the particular instrument, the Company uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In case the transaction price in the market in which these transactions are undertaken is different from the fair value in the Company's principal market for those instruments, the fair value of these transactions are also estimated by using valuation techniques. See Note 15 'Financial assets and liabilities accounting classifications and fair values' for further details.

Collateral
The Company receives collateral from customers as part of its business activities. Collateral can take the form of cash, securities or other assets. Where cash collateral is received this is recorded on the balance sheet and, where required by collateral agreements, is held in segregated client cash accounts. The Company does not recognise non-cash collateral on its balance sheet.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legal right to set off the recognised amounts must be enforceable in both the normal course of business, in the event of default, insolvency or bankruptcy of both the Company and its counterparty. In all other situations they are presented gross.

All offsetting applied by the Company relates to derivatives and repurchase and reverse repurchase agreements. A significant portion of offsetting is applied to interest rate derivatives and related cash margin balances, which are cleared through central clearing parties such as the London Clearing House. The Company also offsets repurchase and reverse repurchase agreements for which the Company has the right to set off and has the intent to settle on a net basis or to realise an asset and settle a liability simultaneously.

1. Principal accounting policies (continued)

(c) Financial instruments (continued)

Derecognition of financial assets and financial liabilities
Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Company has transferred its contractual right to receive the cash flows of the financial assets and either substantially all the risks and rewards of ownership have been transferred or substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

If the Company enters into a transaction that results in it retaining significantly all of the risks and rewards of a financial asset it will continue to recognise that financial asset and will recognise a financial liability equal to the consideration received under the transaction.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is substantially modified, exchanged, discharged, cancelled or expired.

(d) Physical commodities

Physical commodities are initially recognised at fair value on settlement date and subsequently re-measured at fair value. Realised gains and losses on sales of commodities inventory are included in net dealing income.

(e) Fee and commission income

Fee and commission income is recognised when the right to consideration has been obtained in exchange for performance.

Underwriting and advisory revenues including mergers and acquisition fees are recognised when CGML's performance under the terms of a contractual arrangement is completed, which is typically at the closing of the transaction. Trading-related fees primarily include commissions and fees from the following: executing transactions on exchanges and over-the counter markets; sale of mutual funds, insurance and other annuity products; and assisting clients in clearing transactions, providing brokerage services and other such activities. Trading-related fees are recognised when earned in fee and commission income.

(f) Interest receivable and payable

Interest income and expense is recognised in the income statement for all financial assets classified as loans and receivables and non-trading financial liabilities, using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. The calculation of the effective interest rate includes incremental and directly attributable transaction costs and fees paid or received that are an integral part of the effective interest rate.

Interest arising on financial assets or financial liabilities that are "held for trading" or "designated at fair value" is reported within interest income and expense respectively.

(g) Net dealing income

Net dealing income comprises gains and losses related to trading assets, trading liabilities and financial assets and liabilities designated at fair value and physical commodities, and includes all realised and unrealised fair value changes, dividends and foreign exchange differences. For derivatives that are not part of hedging programmes, both the interest element and the fair value movements are recognised as part of net dealing income.

1. Principal accounting policies (continued)

(h) Tangible and Intangible assets

Tangible fixed assets are measured at cost, less accumulated depreciation. The cost of developed software includes directly attributable internal costs and the cost of external consultants. Depreciation is provided at rates calculated to write-off the cost, less the estimated residual value of each asset, on a straight-line basis over its expected economic useful life, as follows:

Premises improvements	-	lesser of the life of the lease or 10 years
Equipment	-	lesser of the life of the equipment or 10 years
Capitalised software	-	2 to 10 years

At each reporting date the Company assesses whether there is any indication that tangible or intangible fixed assets are impaired.

(i) Fixed asset investments

Investments in subsidiary undertakings are stated at cost, less any impairment.

(j) Taxation

Income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise.

Deferred tax assets and liabilities are recognised for taxable and deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that there will be sufficient profits available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

(k) Pension and other post retirement benefit costs

CGML operates both a defined benefit and a defined contribution pension scheme.

The cost of CGML's defined contribution pension scheme is expensed as the related service is provided and recognised within operating expenses in the income statement. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the term of the related pension liability. Remeasurement gains and losses are recognised immediately in the statement of other comprehensive income (OCI). The current service cost and any past service costs are included in the income statement within operating expenses. The interest income on pension scheme assets, net of the impact of the interest cost on the pension scheme liabilities, is included within Net finance income on pension.

A surplus is recognised on the balance sheet where an economic benefit is available as a reduction in future contributions or as a refund of monies to Citi.

(l) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in currencies other than US Dollars are translated into US Dollars using the year end spot exchange rates. Non-monetary assets and liabilities denominated in currencies other than US Dollar that are classified as "held for trading" or "designated at fair value" are translated into US Dollars using the year end spot rate. Non-monetary assets and liabilities denominated in currencies other than US Dollars that are not measured at fair value have been translated at the relevant historical exchange rates. Any gains or losses on exchange are taken to the income statement as incurred apart from AFS equity instruments where any currency differences are recognised in OCI.

1. Principal accounting policies (continued)

(m) Share-based incentive plans

The Company participates in a number of Citigroup Inc. (Citi) share-based incentive plans under which Citi grants shares to the Company's employees. Pursuant to a separate Stock Plans Affiliate Participation Agreement (SPAPA) the Company makes a cash settlement to Citi for the fair value of the share-based incentive awards delivered to the Company's employees under these plans.

The Company applies equity-settled accounting for its share based incentive plans, with separate accounting for its associated obligations to make payments to Citigroup Inc. The Company recognises the fair value of the awards at grant date as compensation expense over the vesting period with a credit to the intercompany payable to Citigroup Inc. All amounts paid to Citigroup Inc. and the associated obligations are recognised over the vesting period. Subsequent changes in the fair value of the recharges in respect of all unexercised awards are reviewed annually and any changes in value are recognised in the equity reserve, again over the vesting period. The SPAPA is also updated annually.

For Citi's share based incentive plans that have a graded vested period each "tranche" of the award is treated as a separate award. Where a plan has a cliff vest, the award only has a single "tranche". The expense is recognised as follows:

Vesting Period of Award	**% of expense recognised in Income Statement**			
	Year 1	**Year 2**	**Year 3**	**Year 4**
2 Years (vesting in 2 Tranches)	75%	25%		
2 Years (vesting in 1 Tranche)	50%	50%		
3 Years (vesting in 3 Tranches)	61%	28%	11%	
3 years (vesting in 1 Tranche)	33%	33%	33%	
4 Years (vesting in 4 Tranches)	52%	27%	15%	6%
4 Years (vesting in 1 Tranche)	25%	25%	25%	25%

Employees who meet certain age plus years of service requirements (retirement eligible employees) may terminate active employment and continue vesting of their awards provided they comply with specified non-compete provisions. The cost of share based incentive plans are recognised over the requisite service period. For awards granted to retirement eligible employees, the services are provided prior to grant date, and subsequently the costs are accrued in the year prior to the grant date.

EU Short Term awards are a form of Capital Accumulation Program (CAP) awarded to qualifying staff. The award is accounted for similarly to CAP awards but is delivered in the form of immediately vested restricted shares subject to a six month sale restriction.

2. Use of assumptions, estimates and judgements

The results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The accounting policies used in the preparation of the financial statements are described in detail above.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Further information about those areas where estimation, uncertainty and the application of critical judgements to accounting policies have the most significant effect on the amounts recognised in the financial statements are set out below.

Valuation of financial instruments
The Company's accounting policy for valuation of financial instruments is described in Note 1(c). The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practicable, models use only observable data. Where this is not possible, management may be required to make estimates. Note 15 'Financial assets and liabilities accounting classifications and fair values' discusses further the valuation of financial instruments.

Credit valuation adjustment
The Company has a number of financial liabilities that are valued at fair value. Under IAS 39, the Company is required to consider its own credit risk in determining the fair value of such financial liabilities. Management judgement is required in determining the appropriate measure of own credit risk to be included in the valuation model of the financial liability.

Credit valuation adjustments (CVA) and funding valuation adjustments (FVA), are applied to OTC derivative instruments in which the base valuation generally discounts expected cash flows using the relevant base interest rate curve for the currency of the derivative (e.g., LIBOR for uncollateralized U.S. dollar derivatives). As not all counterparties have the same credit risk as that implied by the relevant base curve, a CVA is necessary to incorporate the market view of both counterparty credit risk and Citi's own credit risk in the valuation. FVA reflects a market funding risk premium inherent in the uncollateralized portion of derivative portfolios and in collateralized derivatives where the terms of the agreement do not permit the reuse of the collateral received.

Citi's CVA methodology is composed of two steps. First, the credit exposure profile for each counterparty is determined using the terms of all individual derivative positions and a Monte Carlo simulation or other quantitative analysis to generate a series of expected cash flows at future points in time. The calculation of this exposure profile considers the effect of credit risk mitigants, including pledged cash or other collateral and any legal right of offset that exists with counterparty through arrangements such as netting agreements. Individual derivative contracts that are subject to an enforceable master netting agreement with a counterparty are aggregated for this purpose, since it is those aggregate net cash flows that are subject to non-performance risk. This process identifies specific, point-in-time future cash flows that are subject to non-performance risk, rather than using the current recognized net asset or liability as a basis to measure the CVA.

Second, market-based views of default probabilities derived from observed credit spreads in the credit default swap (CDS) market are applied to the expected future cash flows determined in step one. Citi's own-credit CVA is determined using Citi-specific CDS spreads for the relevant tenor. Generally, counterparty CVA is determined using CDS spread indices for each credit rating and tenor. For certain identified netting sets where individual analysis is practicable (e.g., exposures to counterparties with liquid CDSs), counterparty-specific CDS spreads are used.

The CVA and FVA are designed to incorporate a market view of the credit and funding risk, respectively, inherent in the derivative portfolio. However, most unsecured derivative instruments are negotiated bilateral contracts and are not commonly transferred to third parties. Derivative instruments are normally settled contractually or, if terminated early, are terminated at a value negotiated bilaterally between the counterparties. Thus, the CVA and FVA may not be realised upon a settlement or termination in the normal course of business. In addition, all or a portion of these adjustments may be reversed or otherwise adjusted in future periods in the event of changes in the credit or funding risk associated with the derivative instruments.

2. Use of assumptions, estimates and judgements (continued)

Credit valuation adjustment (continued)

During 2016, the Company recorded net CVA losses of $20 million (2015: $100 million losses). There were additionally net FVA losses of $6 million (2015: $28 million gains). The total adjustment recorded in the balance sheet at the year-end was $0.4 million (2015: $47 million).

Pension

The Company's defined benefit schemes are measured on an actuarial basis, with the key assumptions being discount rate, inflation, mortality and investment returns. There is no separate assumption for expected return on assets. The net finance income is calculated using the discount rate.

Mortality assumptions are based upon the relevant standard industry and national mortality tables. Discount rates are set using the Aon Hewitt GBP Single Agency Curve, composed using an underlying swap curve and a credit spread curve fitted from prices on AA UK corporate bonds. Management judgement is required in estimating the rate of future salary growth and in assessing the implications of IFRIC 14 and the recoverability of any surplus. All assumptions are unbiased, mutually compatible and based upon market expectations at the reporting date.

3. Turnover and results

As permitted by paragraph 4 of Schedule 1 to the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No 410), the format of the income statement and the Balance sheet have been adapted to the circumstances of the Company. Instead of turnover, the Directors have reported fee and commission income, net dealing income and interest receivable less interest payable in determining the gross profit of the Company. On the face of the Balance sheet, financial investments have been broken down into different components whereas non-financial assets and liabilities have been combined within 'Other assets' and 'Other liabilities' respectively.

4. Fee and commission income

Fee and commission income is derived from underwriting activities, marketing securities owned by other group undertakings, trading services provided to other group undertakings and corporate finance fees associated with mergers and acquisitions and other corporate finance and broking advisory activities. All fees relate to financial assets measured at fair value.

5. Interest receivable and interest payable

	2016 $ Million	2015 $ Million
Interest receivable comprises:		
Interest on collateral paid, trading assets and collateralised financing transactions at fair value through profit or loss	239	323
Interest on debtors and cash assets not at fair value through profit or loss	329	268
	568	591
Interest payable comprises:		
Interest on collateral held and collateralised financing transactions at fair value through profit or loss	54	44
Interest on borrowings not at fair value through profit or loss	617	497
Interest on subordinated debt	94	91
	765	632

Included within interest receivable is interest received on client money.

6. Gains and losses on financial assets and financial liabilities held at fair value through profit and loss

	2016 $ Million	2015 $ Million
Gains and losses on financial assets and financial liabilities held for trading:		
Net dealing income	1,559	1,232
Interest receivable	210	231
Interest payable	(54)	(23)
	1,715	1,440
Gains and losses on financial assets and financial liabilities "designated at fair value through profit or loss":		
Net dealing income	53	5
Interest receivable	29	92
Interest payable	-	(21)
	82	76

The financial liabilities designated at fair value through profit or loss are fully collateralised (see Note 30) such that there are no changes in the fair value of these liabilities attributable to changes in their credit risk.

7. Operating expenses

	2016 $ Million	2015 $ Million
Operating expenses include:		
Employee remuneration	975	1,171
Share-based incentive expense (Note 9)	224	178
Payroll taxes	142	171
Pension costs		
- defined benefit scheme (Note 8)	10	10
- defined contribution scheme	63	63
Depreciation (Note 19)	53	60
Auditor's remuneration:		
Audit of these financial statements	1.20	1.30
Amounts receivable by the company's auditor and its associates in respect of:		
Audit related assurance services	0.15	0.36
Other assurance services	0.73	0.29

The Company employed an average of 3,515 (2015: 4,066) employees during the year.

8. Pension costs

Defined contribution scheme

The Citigroup (UK) Pension Plan was established in September 2000 and provides defined contribution benefits to all new hires.

Defined benefit scheme

The Citigroup Global Markets Limited Pension and Life Assurance Scheme ("the Scheme") is a funded pension scheme providing benefits on both a defined benefit and defined contribution basis. The Scheme is now closed to new entrants. The assets of the Scheme are held separately from those of the Company, in a trustee administered fund. Employees are not required to contribute to the Scheme, which is contracted out of the State Earnings Related Pension Scheme.

The pension cost in respect of defined benefit obligations is assessed in accordance with the advice of a qualified external actuary using a Projected Unit method with a triennial review. The most recent full actuarial assessment of the liabilities of the scheme was at 5 April 2014.

Expected regular employer contributions to be paid into the Scheme during 2017 are $11 million (2016: $11 million).

The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is 25 years.

The mortality assumptions are based on standard mortality tables which allow for expected future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23.7 years for males and 25.3 years for females. Members currently aged 45 are expected to live a further 24.9 years and 27.0 years from age 65 for males and females respectively.

8. Pension costs (continued)

Assumptions that are affected by economic conditions (financial assumptions) are based on market expectations at the balance sheet date, for the period over which the obligations are settled. In addition to the assumptions on which the Scheme obligation at the balance sheet date is based, it is also necessary to assume an expected rate of return on assets, for the purpose of reporting the interest income on pension scheme assets.

The financial assumptions used in calculating the defined benefit scheme liabilities as at 31 December 2016 are as follows:

	2016	**2015**
Discount rate for scheme liabilities	2.70%	3.85%
Interest income rate on scheme assets	2.70%	3.85%
Expected rate of return on assets	N/A	N/A
Inflation	3.40%	3.40%
Rate of general long-term increase in salaries	1.50%	1.50%
Rate of increase to pensions in payment		
- Pensions accrued from 1 May 2005	2.50%	2.50%
- Pensions accrued prior to 1 May 2005	3.20%	3.20%

The fair value of Scheme assets and the interest income at the reporting date are set out as follows:

	Fair value	
	2016	**2015**
	$ Million	**$ Million**
Government bonds	1,200	1,168
Corporate bonds	641	575
Insured Pensions	1	1
Other	5	10
Total market value of assets	1,847	1,754

Analysis of amounts recognised in the income statement account:

	2016	**2015**
	$ Million	**$ Million**
Current service cost	9	10
Curtailment cost	1	-
Expense recognised in the profit and loss account	10	10

Analysis of other finance income:

	2016	**2015**
	$ Million	**$ Million**
Interest income on pension scheme assets	61	69
Interest expense on pension scheme liabilities	(45)	(51)
Net finance income on pension	**16**	**18**

8. Pension costs (continued)

Analysis of amount recognised in Statement of Comprehensive Income:

	2016 $ Million	2015 $ Million
Return on scheme assets in excess of/(below) that recognised in net interest	392	(94)
Actuarial gains/(losses) due to changes in financial assumptions	(357)	13
Actuarial gains/(losses) due to changes in demographic assumptions	-	-
Actuarial gains/(losses) due to liability experience	17	27
Total remeasurement gains/(losses) recognised in Statement of Comprehensive Income	52	(54)
Deferred tax adjustment on pension in Statement of Comprehensive Income	(9)	(16)
Total gains/(losses) recognised in Statement of Comprehensive Income	**43**	**(70)**

Reconciliation to the balance sheet:

	2016 $ Million	2015 $ Million
Total market value of assets	1,847	1,754
Present value of scheme liabilities	(1,410)	(1,308)
Gross pension asset	**437**	**446**
Related deferred tax liability	(109)	(116)
Net pension asset	328	330

	2016 $ Million	2015 $ Million
Surplus in scheme at beginning of the year	446	502
Current service cost	(9)	(10)
Contributions	11	14
Curtailments	(1)	-
Other finance income/(expense)	16	18
Remeasurement gains/(losses)	52	(53)
Foreign exchange adjustment	(78)	(25)
Surplus in scheme at end of year	**437**	**446**

CGML recognises surplus in accordance with the requirements of IFRIC 14. The trustees of the Scheme do not have the unilateral right to commence wind-up of the Scheme, and thus CGML assumes that the Scheme will continue in existence until the last benefit payments are made to members, at which point any residual assets will be returned to the employer in line with the rules of the Scheme.

The IASB's proposed amendments to IFRIC 14 are not expected to affect CGML's ability to receive a refund of surplus in this situation, but the Company will assess this again once the amendments are finalised.

8. Pension costs (continued)

The changes to the present value of the defined obligation during the year are as follows:

	2016 $ Million	2015 $ Million
Opening defined benefit obligation	1,308	1,405
Current service cost	9	10
Interest expense	45	51
Remeasurement (gains)/losses on scheme liabilities	340	(40)
Net benefits paid out	(45)	(48)
Curtailments	1	-
Foreign exchange adjustment	(248)	(70)
Closing defined benefit obligation	1,410	1,308

The changes to the fair value of scheme assets during the year are as follows:

	2016 $ Million	2015 $ Million
Opening fair value of scheme assets	1,754	1,907
Interest income on pension scheme assets	61	69
Remeasurement (losses)/gains on scheme assets	392	(94)
Contributions by the employer	11	14
Net benefits paid out	(45)	(48)
Foreign exchange adjustment	(326)	(94)
Closing fair value of scheme assets	1,847	1,754

The actual return on assets is as follows:

	2016 $ Million	2015 $ Million
Interest income on pension scheme assets	61	69
Remeasurement gains/(losses) on scheme assets	392	(94)
Actual return on assets	453	(25)

The interest income on scheme assets is set using the discount rate assumption. In 2016, asset values increased significantly by $392 million due to the sharp decrease in bond yields. In 2015, asset values grew by less than assumed, leading to an overall remeasurement loss of $94 million, as bond yields increased slightly during the year.

8. Pension costs (continued)

The table below sets out the history of experience gains and losses:

	2016 $ Million	2015 $ Million	2014 $ Million	2013 $ Million	2012 $ Million
Gains/(losses) on scheme assets due to experience	392	(94)	392	(21)	(13)
Gains on scheme liabilities due to experience	17	27	9	3	37
Gains/(losses) on scheme liabilities due to assumptions	(357)	13	(135)	(70)	(67)
Remeasurements recognised in Statement of Comprehensive Income	52	(54)	266	(88)	(43)
Related deferred tax (liability)	(9)	(16)	(100)	-	-
Total gains/(losses) recognised in Statement of Comprehensive Income net of tax	43	(70)	166	(88)	(43)

The key assumptions used for IAS 19 are the discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is set out in the table below.

Sensitivity to key assumptions	P&L change positive/ (negative)		Change in scheme assets increase/ (decrease)		Change in defined benefit obligation increase/ (decrease)	
	2016 $ Million	2015 $ Million	2016 $ Million	2015 $ Million	2016 $ Million	2015 $ Million
Effect of decreasing the discount rate assumption by 0.5%	(8)	(9)	-	-	184	165
Effect of increasing the inflation assumption by 0.5%	(3)	(4)	-	-	101	94
Effect of increasing the life expectancy assumption by 1 year	(2)	(2)	-	-	56	45

9. Share-based incentive plans

As part of the Company's remuneration programme it participates in a number of Citi share-based incentive plans. These plans involve the granting of restricted or deferred share awards and share payments. Such awards are used to attract, retain and motivate officers and employees, to provide incentives for their contributions to the long-term performance and growth of Citi, and to align their interests with those of the shareholders. The award programmes are administered by the Personnel and Compensation Committee of the Citigroup Inc. Board of Directors, which is composed entirely of non-employee directors.

In the share award program Citi issues common shares in the form of restricted share awards, deferred share awards and share payments. For all stock award programs during the applicable vesting period, the shares awarded are not issued to participants (in the case of a deferred stock award) or cannot be sold or transferred by participants (in the case of a restricted stock award), until after the vesting conditions have been satisfied. Recipients of deferred share awards do not have any shareholder rights until shares are delivered to them, but they generally are entitled to receive dividend-equivalent payments during the vesting period. Recipients of restricted share awards are entitled to limited voting rights and to receive dividends or dividend-equivalent payments during the vesting period. Once a share award vests the shares become freely transferrable, but in the case of certain employees, may be subject to transfer restrictions by their terms or share ownership commitment.

Certain stock-based awards contain discretionary clawback provisions and are subject to variable accounting. The associated value of the award fluctuates with changes in Citi's common stock price until the date that the award is settled. Any fluctuation from the grant date value of the award until the award is fully vested is recognised through the income statement.

(i) Stock award programme

The Company participates in the Citigroup Capital Accumulation Program (CAP), under which shares of Citi common stock are awarded in the form of restricted or deferred stock to participating employees.

Generally, CAP awards of restricted or deferred stock constitute a percentage of annual incentive compensation and vest over a three or four year period beginning on or about the first anniversary of the award date. Except in specific circumstances, continuous employment within Citi is required for CAP and other stock award programs to vest.

The program provides that employees who meet certain age plus years-of-service requirements (retirement-eligible employees) may terminate active employment and continue vesting in their awards provided they comply with specified non-compete provisions. Awards granted to retirement-eligible employees are accrued in the year prior to the grant date in the same manner as cash incentive compensation is accrued.

For all stock award programmes, the shares awarded cannot be sold or transferred by the participant during the applicable vesting period, and the award is subject to cancellation if the participant's employment is terminated. After the award vests, the shares become freely transferable (subject to specific sale restrictions). From the date of award, the recipient of a restricted stock award can direct the vote of the shares and receive regular dividends to the extent dividends are paid on Citi common stock. Recipients of deferred stock awards receive dividend equivalents to the extent dividends are paid on Citi common stock, but cannot vote.

Stock awards granted generally vest 25% per year over four years or 33% per year over 3 years.

As part of remuneration since 2010, the Company entered into an arrangement referred to as an "EU Short Term" award. The award is delivered in the form of immediately vested restricted shares subject to a six month sale restriction.

	2016	2015	2014	2013	2012
Shares awarded	4,874,781	3,380,169	3,744,987	4,677,014	6,488,348
Weighted average fair market value per share	$37.51	$50.54	$49.64	$44.23	$30.54

9. Share-based incentive plans (continued)

(ii) Stock option programme

In prior years, the Company made discretionary grants of options to eligible employees pursuant to the broad-based Citigroup Employee Option Grant (CEOG) Program under the Citigroup Stock Incentive Plan. The last options granted under the plan were in 2011. These grants have 72,500 options outstanding, with a weighted average contractual life remaining of 0.27 years and a weighted average exercise price of $76.74. Full details on the history of CEOG can be found in the Company's prior year financial statements.

(iii) Income statement impact

The table below details the income statement impact of the share based incentive plans.

	2016 $ million	2015 $ million
Stock Awards		
Granted in 2016	185	-
Granted in 2015	31	119
Granted in 2014	7	27
Granted in 2013	(3)	9
Granted in 2012	-	(1)
Granted in 2011	-	(3)
Granted in 2010	-	-
Accrued Expenses	4	27
Total Expense (Note 7)	224	178
Fair value adjustment of intercompany recharges in equity reserve	**1**	**14**
Total carrying amount of equity-settled transaction liability	405	344
Total carrying amount of cash-settled transaction liability	8	7

10. Directors' remuneration

Directors' remuneration in respect of services to the Company was as follows:

	2016 $'000	2015 $'000
Aggregate emoluments	6,297	5,174
Contributions to defined contribution pension scheme	171	94
	6,468	5,268

The contributions to the money purchase pension schemes are accruing to four of the Directors (2015: four). Four of the Directors (2015: four) of the Company participate in parent company share and share option plans and, during the year, none of the Directors (2015: four) exercised options.

The remuneration of the highest paid Director was $2,460,590 (2015: $2,587,491) and accrued pension of $16,360 (2015: $58,416). The highest paid Director did not (2015: did) exercise share options during the year.

The Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

The above remuneration is based on the apportionment of time incurred by the Directors for services to the Company, both in their capacity as a Director and, where applicable, their normal employment.

11. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

	2016 $ Million	2015 $ Million
Current tax:		
UK corporation tax	-	21
Adjustment in respect of UK corporation tax for previous years	1	
Double taxation relief	-	(21)
Overseas current tax	14	28
Adjustment in respect of overseas tax for previous years	(10)	(3)
Total current tax	5	25
Deferred tax:		
Origination and reversal of temporary differences		
- UK	(14)	14
- overseas	7	(4)
Rate change adjustment	6	(30)
Total deferred tax	(1)	(20)
Tax charge on ordinary activities	4	5

(b) Factors affecting tax charge for the year

The table below illustrates how the tax chargeable on operating profit for the year is impacted by non-taxable items and available reliefs, as well as by the effect of previously unrecognised deferred tax.

	2016 $ Million	2015 $ Million
Profit/(loss) on ordinary activities before tax	380	373
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2015: 20.25%)	106	75
Effects of:		
Expenses not deductible for tax purposes	20	23
Accrued interest paid (reversal of unrecognised deferred tax asset)	(202)	-
Foreign tax credits/deductions	(4)	(21)
Overseas tax in respect of European branch operations	14	28
Group relief surrendered / (received)	40	(23)
Utilisation of losses carried forward	-	(43)
Adjustments in relation to previous years	(9)	(3)
Unrecognised current year deferred tax	48	(15)
Rate change adjustment	6	(30)
Deferred tax on pension	(15)	14
Total tax charge for year	4	5

11. Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of $102 million (2015: $291 million) in relation to temporary differences where the recoverability of potential benefits is not considered likely.

The UK Corporate tax rate applying to CGML was 28%. This includes a surcharge of 8% on the profits of banking companies applicable from 1 January 2016. Other subsidiaries and overseas branches provided for taxation at the appropriate rates for the countries in which they operate.

The main rate of corporation tax (excluding surcharge) in the UK was reduced from 21% to 20% on 1 April 2015. Finance (No. 2) Act 2015 provides that the rate of corporation tax will reduce to 19% from 1 April 2017 and further to 17% from 1 April 2020.

12. Cash at bank and in hand

The following amounts are included within cash at bank and in hand:

	2016 $ Million	2015 $ Million
Cash at bank held by third parties	2,383	1,027
Cash at bank held by other group undertakings	1,355	912
	3,738	1,939

Included within cash held by third parties is $1,533 million (2015: $555 million) that is held on behalf of clients in segregated accounts. Included within cash held by other group undertakings is $120 million (2015: $238 million) on behalf of clients in segregated accounts.

13. Derivatives

	2016 Fair Value		2015 Fair Value	
	Asset $ Million	Liability $ Million	Asset $ Million	Liability $ Million
Swap agreements, swap options and interest rate cap and floor agreements	152,583	155,575	145,331	144,336
Index and equity options and similar contractual commitments	3,336	4,014	3,888	4,961
Other options and contractual commitments	11,715	10,669	13,231	12,561
	167,634	170,258	162,450	161,858

13. Derivatives (continued)

In the ordinary course of its business, CGML enters into various types of derivatives transactions, which include:

- Swap contracts — Commitments to settle in cash at a future date or dates ranging from a few days to a number of years, based on differentials between specified instruments or indices, as applied to a notional principal amount
- Options contracts — The right but not the obligation to buy or sell within a specified time a financial asset at a fixed price over a specified time period
- Futures and forward contracts — Commitment to buy or sell at a future date a financial asset at a fixed price

Derivative transactions may be OTC agreements which are bilaterally negotiated with counterparties and either settled with those counterparties or are novated and cleared through CCPs. Others are standardised contracts traded on an exchange with the CCP as the counterpart to the trade. Derivatives expose CGML to market, credit or liquidity risks which are described further in Note 30 and which may impact the amount, timing and certainty of future cash flows.

14. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss form part of the asset trading portfolio of the Company and comprise marketable securities and other financial assets. The following amounts are included in financial assets held at fair value.

	2016 $ Million	2015 $ Million
Financial assets classed as held for trading		
Derivatives (Note 13)	167,634	162,450
Inventory		
Government bonds	15,121	22,022
Eurobonds and other corporate bonds	6,526	7,275
Equities	14,831	11,223
Physical Commodities	135	1,063
	36,613	41,583
Financial assets designated at fair value through profit or loss		
Collateralised financing transactions	51,451	47,126
	255,698	251,159

CITIGROUP GLOBAL MARKETS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Financial assets and liabilities accounting classifications and fair values

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

31 December 2016	Held for Trading $ Million	Designated at fair value $ Million	Amortised cost $ Million	Available for Sale $ Million	Total carrying amount $ Million	Fair value $ Million
Cash	-	-	3,738	-	3,738	3,738
Derivatives	167,634	-	0	-	167,634	167,634
Inventory	36,613		-	-	36,613	36,613
Collateralised financing transactions	-	51,451	56,222	-	107,673	107,673
Cash collateral pledged	-	-	21,992	-	21,992	21,992
Trade debtors	-	-	7,146	-	7,146	7,146
Other debtors	-	-	9	-	9	9
Financial assets classed as available for sale	-	-	-	31	31	31
	204,247	51,451	89,107	31	344,836	344,836
Bank loans and overdrafts	-	-	10,454		10,454	10,454
Derivatives	170,258	-	-	-	170,258	170,258
Securities sold but not yet purchased	44,654	-	-	-	44,654	44,654
Collateralised financing transactions	-	35,783	33,509	-	69,292	69,292
Cash collateral held	-	-	22,595	-	22,595	22,595
Trade creditors	-	-	8,680	-	8,680	8,680
Other creditors and accruals	-	-	988	-	988	988
Subordinated loans	-	-	4,585	-	4,585	4,846
	214,912	35,783	80,811	-	331,506	331,767

31 December 2015	Held for Trading $ Million	Designated at fair value $ Million	Amortised cost $ Million	Available for Sale $ Million	Total carrying amount $ Million	Fair value $ Million
Cash	-	-	1,939	-	1,939	1,939
Derivatives	162,450	-	-	-	162,450	162,450
Inventory	41,583		-	-	41,583	41,583
Collateralised financing transactions	-	47,126	46,335	-	93,461	93,461
Cash collateral pledged	-	-	15,515	-	15,515	15,515
Trade debtors	-	-	7,420	-	7,420	7,420
Other debtors	-	-	114	-	114	114
Financial assets classed as available for sale	-	-	-	27	27	27
	204,033	47,126	71,323	27	322,509	322,509
Bank loans and overdrafts	-	-	11,995		11,995	11,995
Derivatives	161,858	-	-	-	161,858	161,858
Securities sold but not yet purchased	28,996	-	-	-	28,996	28,996
Collateralised financing transactions	-	41,067	34,729	-	75,796	75,796
Cash collateral held	-	-	18,081	-	18,081	18,081
Trade creditors	-	-	6,433	-	6,433	6,433
Other creditors and accruals	-	-	1,051	-	1,051	1,051
Subordinated loans	-	-	5,437	-	5,437	5,941
	190,854	41,067	77,726	-	309,647	310,151

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

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

31 December 2016	**Level 1 $ Million**	**Level 2 $ Million**	**Level 3 $ Million**	**Total $ Million**
Financial assets held for trading				
Derivatives	39	165,335	2,260	167,634
Government bonds	11,292	3,827	2	15,121
Eurobonds and other corporate bonds	8	6,335	183	6,526
Equities	13,581	1,235	15	14,831
Physical Commodities	-	117	18	135
	24,920	176,849	2,478	204,247
Financial assets designated at fair value				
Collateralised financing transactions	-	51,451	-	51,451
Financial assets available for sale				
Investment securities	-	31	-	31
	24,920	228,331	2,478	255,729
Financial liabilities held for trading				
Derivatives	57	166,675	3,526	170,258
Securities sold but not yet purchased	39,598	4,946	110	44,654
	39,655	171,621	3,636	214,912
Financial liabilities designated at fair value				
Collateralised financing transactions	-	35,783	-	35,783
	39,655	207,404	3,636	250,695

31 December 2015	**Level 1 $ Million**	**Level 2 $ Million**	**Level 3 $ Million**	**Total $ Million**
Financial assets held for trading				
Derivatives	43	159,376	3,031	162,450
Government bonds	20,455	1,564	3	22,022
Eurobonds and other corporate bonds	84	6,968	223	7,275
Equities	10,602	590	31	11,223
Physical Commodities	-	1,063	-	1,063
	31,184	169,561	3,288	204,033
Financial assets designated at fair value				
Collateralised financing transactions	-	46,908	218	47,126
Financial assets available for sale				
Investment securities	-	27	-	27
	31,184	216,496	3,506	251,186
Financial liabilities held for trading				
Derivatives	18	158,206	3,634	161,858
Securities sold but not yet purchased	26,280	2,713	3	28,996
	26,298	160,919	3,637	190,854
Financial liabilities designated at fair value				
Collateralised financing transactions	-	41,067	-	41,067
	26,298	201,986	3,637	231,921

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

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

31 December 2016	Level 1	Level 2	Level 3	Total
	$ Million	$ Million	$ Million	$ Million
Financial assets at amortised cost				
Cash	3,738	-	-	3,738
Collateralised financing transactions	-	56,222	-	56,222
Cash collateral pledged	-	21,992	-	21,992
Trade debtors	-	7,146	-	7,146
Other debtors	-	9	-	9
	3,738	85,369	-	89,107
Financial liabilities at amortised cost				
Bank loans and overdrafts	-	10,454	-	10,454
Collateralised financing transactions	-	33,509	-	33,509
Cash collateral held	-	22,595	-	22,595
Trade creditors	-	8,680	-	8,680
Other creditors	-	988	-	988
Subordinated loans	-	4,585	-	4,585
	-	80,811	-	80,811

31 December 2015	Level 1	Level 2	Level 3	Total
	$ Million	$ Million	$ Million	$ Million
Financial assets at amortised cost				
Cash	1,939	-	-	1,939
Collateralised financing transactions	-	46,335	-	46,335
Cash collateral pledged	-	15,515	-	15,515
Trade debtors	-	7,420	-	7,420
Other debtors	-	114	-	114
	1,939	69,384	-	71,323
Financial liabilities at amortised cost				
Bank loans and overdrafts	-	11,995	-	11,995
Collateralised financing transactions	-	34,729	-	34,729
Cash collateral held	-	18,081	-	18,081
Trade creditors	-	6,433	-	6,433
Other creditors	-	1,051	-	1,051
Subordinated loans	-	5,437	-	5,437
	-	77,726	-	77,726

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

Given the short term nature and characteristics of trade debtors, other debtors, trade creditors, other creditors and accruals the fair value has been assumed to approximate the carrying value. The fair value of subordinated loans has been calculated using the present value of future estimated cash flows, discounted using a discount rate of USD 3 month Overnight Indexed Swap (OIS) or 3 month Euro Overnight Index Average (EONIA) plus the Company's credit spread as at 31 December 2016.

Fair Value Measurement

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

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

Fair Value Hierarchy

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

The Company measures fair values using the following fair value hierarchy that indicates whether the inputs to those valuation techniques are observable or unobservable. Observable inputs denote market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

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

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

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

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

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

Financial instruments may move between levels in the fair value hierarchy when factors such as liquidity or the observability of input parameters change. As conditions around these factors deteriorate or improve, financial instruments may transfer lower down or higher up the fair value hierarchy. The Company's policy with respect to transfers between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the end of the reporting period.

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

Determination of Fair Value

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

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

Where available, the Company may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified as Level 2. If such prices are not available, other valuation techniques would be used and the item would be classified as Level 3. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors or brokers. Vendors' and brokers' valuations may be based on a variety of inputs ranging from observed prices to proprietary valuation models.

The Company values a number of assets and liabilities using valuation techniques that use one or more significant inputs that are not based on observable market data. The Company grades all such assets and liabilities in order to identify those items for which a reasonably possible change in one or more assumptions is likely to have a significant impact on the fair value.

Adjustments may be applied to the "base" valuations of financial assets and liabilities calculated using one of the valuation techniques described above, to ensure that the fair value measurement incorporates all factors that market participants would consider when determining fair value. Note that no such adjustments are applied to instruments that are valued using quoted prices for identical instruments in an active market.

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

Market valuation adjustments
Market valuation adjustments are applied to items in Level 2 and Level 3 of the fair value hierarchy to ensure that the fair value reflects the liquidity or illiquidity of the market. The liquidity reserve may utilise the bid-ask spread for an instrument as one of the factors.

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

Bilateral or "own" credit-risk adjustments are applied to reflect the Company's own credit risk when valuing derivative liabilities and other liabilities measured at fair value. Counterparty and own credit adjustments consider the expected future cash flows between the Company and its counterparties under the terms of the instrument and the effect of credit risk on the valuation of those cash flows, rather than a point-in-time assessment of the current recognised net asset or liability. Furthermore, the credit-risk adjustments take into account the effect of credit-risk

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

mitigants, such as pledged collateral and any legal right of offset (to the extent such offset exists) with a counterparty through arrangements such as netting agreements.

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

The majority of derivatives entered into by the Company are executed over the counter and are valued using a combination of external prices and internal valuation techniques, including benchmarking to pricing vendor services. The valuation techniques and inputs vary according to the type of derivative and the nature of the underlying instrument. The principal methods used to value these instruments are those adopted industry wide and include discounted cash flows, modelling and numerical approaches.

The type of inputs may include interest rate yield curves, credit spreads, foreign exchange rates, volatilities and correlations.

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

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

For government bonds, corporate bonds and equities traded over the counter, for which a quoted price is not available, CGML generally determines fair value utilising internal valuation techniques. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Vendors compile prices from various sources and may apply alternative pricing techniques, such as matrix pricing, whereby a similar instrument is used as a proxy for similar bonds or loans where no price is observable. If available, the Company may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Government bonds, corporate bonds and equities priced using such methods are generally classified as Level 2. However, when less liquidity exists for government bonds, corporate bonds or equities, a quoted price is stale or prices from independent sources vary, they are generally classified as Level 3.

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

NOTES TO THE FINANCIAL STATEMENTS

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

Changes in Level 3 Fair Value Category

The following tables present the changes in the Level 3 fair value category for the years ended 31 December 2016 and 31 December 2015. Gains and losses presented below include changes in the fair value related to both observable and unobservable inputs. CGML often hedges positions with offsetting positions that are classified in a different level.

2016	At 1 January $ Million	Gain/(loss) recorded in the profit and loss statement Realised $ Million	Unrealised $ Million	Purchases $ Million	Sales $ Million	Issuances $ Million	Settlements $ Million	Transfers into Level 3 $ Million	Transfers out of Level 3 $ Million	At 31 December $ Million
Financial assets held for trading										
Derivatives	3,031	(38)	(110)	9	(2)	-	(416)	1,000	(1,214)	2,260
Government bonds	3	-	-	-	-	-	-	-	(1)	2
Eurobonds and other corporate bonds	223	(66)	23	423	(497)	-	-	161	(84)	183
Equities	31	(114)	11	93	(8)	-	-	9	(7)	15
Physical Commodities	-	-	-	-	-	-	-	18	-	18
Financial assets designated at fair value										
Collateralised financing transactions	218	99	-	82	(102)	-	(297)	-	-	-
	3,506	(119)	(76)	607	(609)	-	(713)	1,188	(1,306)	2,478

Financial liabilities held for trading	At 1 January $ Million	(Gain)/loss recorded in the profit and loss statement Realised $ Million	Unrealised	Purchases $ Million	Sales $ Million	Issuances $ Million	Settlements $ Million	Transfers into Level 3 $ Million	Transfers out of Level 3 $ Million	At 31 December $ Million
Derivatives	3,634	(7)	(276)	(5)	5	-	520	1,113	(1,458)	3,526
Securities sold but not yet purchased	3	(27)	69	(9)	4	11	16	111	(68)	110
	3,637	(34)	(207)	(14)	9	11	536	1,224	(1,526)	3,636

2015	At 1 January $ Million	Gain/(loss) recorded in the profit and loss statement Realised $ Million	Unrealised $ Million	Purchases $ Million	Sales $ Million	Settlements $ Million	Transfers into Level 3 $ Million	Transfers out of Level 3 $ Million	At 31 December $ Million
Financial assets held for trading									
Derivatives	2,619	(2,193)	2,488	21	(138)	(441)	1,052	(377)	3,031
Government bonds	12	-	(1)	7	(13)	-	1	(3)	3
Eurobonds and other corporate bonds	421	65	(14)	278	(551)	-	307	(283)	223
Equities	117	27	(24)	32	(97)	-	20	(44)	31
Financial assets designated at fair value									
Collateralised financing transactions	265	(87)	(7)	90	-	(126)	804	(721)	218
	3,434	(2,188)	2,442	428	(799)	(567)	2,184	(1,428)	3,506

Financial liabilities held for trading	At 1 January $ Million	(Gain)/loss recorded in the profit and loss statement Realised $ Million	Unrealised	Purchases $ Million	Sales $ Million	Settlements $ Million	Transfers into Level 3 $ Million	Transfers out of Level 3 $ Million	At 31 December $ Million
Derivatives	3,549	(2,827)	3,064	(8)	28	(473)	1,102	(801)	3,634
Securities sold but not yet purchased	5	2	297,580	-	6	(8)	3	(5)	3
	3,554	(2,825)	3,064	(8)	34	(481)	1,105	(806)	3,637

Included in the Level 3 balance at 31 December 2016 above are intercompany assets of $1,405 million (2015: $1,964 million) and liabilities of $2,042 million (2015: $1,941 million).

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

Valuation process for Level 3 Fair Value Measurements

Price verification procedures and related internal control procedures are governed by the Citi Pricing and Price Verification Policy and Standards, which are jointly owned by Finance and Risk Management. Finance has implemented the Pricing and Price Verification Standards and Procedures to facilitate compliance with this policy.

For fair value measurements of substantially all assets and liabilities held by CGML, individual business units are responsible for valuing the trading account assets and liabilities, and Product Control within Finance performs independent price verification procedures to evaluate those fair value measurements. Product Control is independent of the individual business units and reports into the Global Head of Product Control, who ultimately reports to the Citi Chief Financial Officer. Fair value measurements of assets and liabilities are determined using various techniques including, but not limited to, discounted cash flows and internal models, such as option and correlation models.

Based on the observability of inputs used, Product Control classifies the inventory as Level 1, Level 2 or Level 3 within the fair value hierarchy. When a position involves one or more significant inputs that are not directly observable, additional price verification procedures are applied. These procedures may include reviewing relevant historical data, analysing profit and loss, valuing each component of a structured trade individually and benchmarking, amongst others.

Reports of Level 3 inventory of each business line of the Company are distributed to senior management in Finance, Risk and the individual business lines. Reports are also discussed at the EMEA Risk Committee, the CGML Risk Committee and in monthly meetings with Senior Management. Whenever a valuation adjustment is needed to bring the price of an asset or liability to its exit price, Product Control reports it to management along with other price verification results.

In addition, the pricing models used in measuring fair value are governed by an independent control framework. Although the models are developed and tested by the individual business units, they are independently validated by the Model Validation Group and reviewed by Finance with respect to their impact on the price verification procedures. The purpose of this independent control framework is to assess model risk arising from models' theoretical soundness, calibration techniques where needed, and the appropriateness of the model for a specific product in a defined market. To ensure their continued applicability, models are subject to independent annual model review. In order to ensure that the models used are for the correct products, the approved pricing models that may be used for each product are defined on the trading desk's Permitted Product List (PPL,) which is maintained by Market Risk but approved by all Control Functions.

Transfers into or out of Level 3 are primarily driven by changes in the availability of independent data for positions where the Company has risk exposure, yet the market is no longer considered to be active. As liquidity and transparency improves, the financial instrument may transfer back to a previous classification level.

The Level 3 financial instruments inventory remained relatively flat over the course of 2016, with the main contributors to the Level 3 fair value inventory being the G10 Rates, Markets Treasury and Finance Desk and the Equity Markets business.

Movements resulting from purchases and sales came from various asset classes across the different business. Settlements were driven by exotic interest rate derivatives across the G10 Rates, Markets Treasury and Finance Desk and Hybrid Derivatives and Long Term Structured Fair Value Option Debt in the Hybrids business.

The multi asset note issuance business had the largest transfers in, primarily driven by Equity barriers trades and Exotics Rates derivatives. Global Securitised Markets was also a notable contributor.

Transfers out were spread across various businesses: the largest contributors were Exotic Interest Rate Derivatives in the Rates business, and Equity Options and Long Dated Equity Call Spreads in the Equities Markets business.

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

Unobservable inputs
During the year, total changes in fair value, representing a gain of $46 million (2015: $15 million gain) were recognised in the income statement relating to items where fair value was estimated using a valuation technique that incorporated one or more significant inputs based on unobservable market data. As these valuation techniques were based upon assumptions, changing the assumptions would change the estimate of fair value. The potential impact of using reasonably possible alternative assumptions for the valuation techniques for both observable and unobservable market data has been quantified as approximately $263 million downside and $242 million upside (2015: $76 million downside and $74.5 million upside). The main contributors to this impact are Equity Markets, Rates businesses and Credit Trading.

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

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

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

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

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

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

Valuation Techniques and Inputs for Level 3 Fair Value Measurements

The following tables present the valuation techniques covering the majority of Level 3 inventory and the most significant unobservable inputs used in Level 3 fair value measurements as of 31 December 2016 and 31 December 2015. Note that these tables represent key drivers by disclosures line and may not agree back to the Changes in Level 3 Fair Value Category table.

2016	Fair Value $ million	Methodology	Input	Low	High	Unit
Assets						
Credit derivatives	363	Model-based	Credit Correlation	5.0	95.0	%
Credit derivatives	47	Model-based	Credit Spread	0.3	850.0	bps
Credit derivatives	375	Model-based	Recovery Rate	7.0	40.0	%
Equity contracts	864	Model-based	Equity Volatility	-	97.8	%
Equity contracts	751	Model-based	Forward Price	35.7	235.4	%
Equity contracts	359	Model-based	Price	0.0	1,495.9	$
Interest rate contracts	102	Model-based	Credit Spread	308.3	3,790.7	bps
Interest rate contracts	347	Model-based	IR Normal Volatility	0.2	94.0	%
Equity securities	7	Model-based	Price	-	5,500.0	$
Liabilities						
Commodity and other contracts	363	Model-based	Credit Correlation	5.0	95.0	%
Credit derivatives	47	Model-based	Credit Spread	3.4	850.0	bps
Credit derivatives	375	Model-based	Recovery Rate	7.0	40.0	%
Equity contracts	1,712	Model-based	Equity Volatility	-	243.5	%
Equity contracts	1,932	Model-based	Forward Price	35.7	235.4	%
Equity contracts	145	Model-based	Equity-IR Correlation	(35.0)	41.0	%
Foreign exchange contracts	102	Model-based	Credit Spread	75.1	3,790.7	bps
Interest rate contracts	305	Model-based	IR Normal Volatility	0.2	94.0	%

2015	Fair Value $ million	Methodology	Input	Low	High	Unit
Assets						
Commodity and other contracts	221	Model-based	Commodity Volatility	2.0	83.0	%
Credit derivatives	301	Model-based	Credit Spread	1.0	597.1	bps
Credit derivatives	551	Model-based	Recovery Rate	1.0	75.0	%
Equity contracts	258	Model-based	Equity Forward	3.0	100.5	%
Equity contracts	686	Model-based	Equity Volatility	0.0	440.6	%
Equity contracts	184	Model-based	Equity-Equity Correlation	(80.5)	100.0	%
Foreign exchange contracts	34	Model-based	FX Volatility	0.4	25.7	%
Interest rate contracts	466	Model-based	IR Lognormal Volatility	10.4	137.0	%
Interest rate contracts	18	Price-based	Price	0.9	100.7	$
Securities financing transactions	60	Cashflow	Yield	1.5	4.5	%
Corporate Bonds	40	Price-based	Price	0.0	139.0	$
MBS (Non US Residential)	148	Price-based	Price	1.5	98.7	$
Liabilities						
Commodity and other contracts	173	Model-based	Commodity Volatility	2.0	83.0	%
Credit derivatives	284	Model-based	Credit Spread	1.0	597.1	bps
Credit derivatives	547	Model-based	Recovery Rate	1.0	75.0	%
Equity contracts	1,107	Model-based	Equity Forward	82.7	100.5	%
Equity contracts	1,513	Model-based	Equity Volatility	0.0	440.6	%
Equity contracts	1,014	Model-based	Equity-Equity Correlation	(80.5)	100.0	%
Foreign exchange contracts	35	Model-based	FX Volatility	0.4	25.7	%
Interest rate contracts	416	Model-based	IR Lognormal Volatility	10.4	137.0	%

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

Sensitivity to unobservable inputs and interrelationships between unobservable inputs

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

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

Yield

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

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

Recovery

Recovery is the proportion of the total outstanding balance of a bond or loan that is expected to be collected in a liquidation scenario. For many credit securities (such as asset-backed securities), there is no directly observable market input for recovery, but indications of recovery levels are available from pricing services. The assumed recovery of a security may differ from its actual recovery that will be observable in the future. The recovery rate impacts the valuation of credit securities. Generally, an increase in the recovery rate assumption increases the fair value of the security. An increase in loss severity, the inverse of the recovery rate, reduces the amount of principal available for distribution and, as a result, decreases the fair value of the security.

Credit Spread

Credit spread is a component of the security's yield representing its credit quality. Credit spread reflects the market perception of changes in prepayment, delinquency and recovery rates. Changes in credit spread affect the fair value of securities differently depending on the characteristics and maturity profile of the security. For example, credit spread is a more significant driver of the fair value measurement of a high yield bond as compared to an investment grade bond. Generally, the credit spread for an investment grade bond is also more observable and less volatile than its high yield counterpart.

Volatility

Volatility represents the speed and severity of market price changes and is a key factor in pricing options. Typically, instruments can become more expensive if volatility increases. For example, as an index becomes more volatile, the cost to Citi of maintaining a given level of exposure increases because more frequent rebalancing of the portfolio is required. Volatility generally depends on the tenor of the underlying instrument and the strike price or level defined in the contract. Volatilities for certain combinations of tenor and strike are not observable. The general relationship between changes in the value of a portfolio to changes in volatility also depends on changes in interest rates and the level of the underlying index. Generally, long option positions (assets) benefit from increases in volatility, whereas short option positions (liabilities) will suffer losses. Some instruments are more sensitive to changes in volatility than others. For example, an at-the-money option would experience a larger percentage change in its fair value than a deep-in-the-money option. In addition, the fair value of an option with more than one underlying security (for example, an option on a basket of bonds) depends on the volatility of the individual underlying securities as well as their correlations.

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

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

Qualitative discussion of the ranges of significant unobservable inputs

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

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

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

Credit Spread
Credit spread is relevant primarily for fixed income and credit instruments; however, the ranges for the credit spread input can vary across instruments. For example, certain fixed income instruments, such as certificates of deposit, typically have lower credit spreads, whereas certain derivative instruments with high-risk counterparties are typically subject to higher credit spreads when they are uncollateralized or have a longer tenor. Other instruments, such as credit default swaps, also have credit spreads that vary with the attributes of the underlying obligor. Stronger companies have tighter credit spreads, and weaker companies have wider credit spreads.

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

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

16. Financial assets classed as available for sale

	Unlisted Investments 2016 $ Million	Unlisted Investments 2015 $ Million
Fair value		
At 1 January	27	36
Additions	3	8
Disposals	(2)	(15)
Gains/(losses) recognised in statement of comprehensive income	3	(2)
At 31 December	31	27

$4 million relating to the Company's subsidiary undertakings has been reclassed to other assets. Note 20 'Investments in Subsidiary and Related Undertakings' includes further details.

17. Involvement with unconsolidated structured entities

The table below describes the types of structured entities that are not controlled by CGML but in which it holds an interest.

		2016		2015	
Type of structured entity	**Nature and purpose**	**Total VIE assets $ millions**	**CGML exposure $ millions**	**Total VIE assets $ millions**	**CGML exposure $'000**
Asset based financing	Auto lease financing	552	128	-	-
Investment Funds	Fund/Limited Partnership Structure	98	30	233	482
		650	158	233	482

Asset based financing
This entity was established to provide funding to a client via the securitisation of auto leases. CGML funded the entity by investing in bonds issued by the entity. The bonds are included in CGML's balance sheet inventory at a value of $128 million which represents CGML's exposure to the entity.

Investment funds
The objective of these funds is to seek income and capital gains from investing in US government securities. Funding is provided by investors in the fund, who are professional or institutional investors. CGML is the derivative swap counterparty to the fund which is the source of its exposure. The derivative transactions are FX options and swaps.

18. Other Assets

The following amounts are included in Other Assets:

	2016 $ Million	2015 $ Million
Cash collateral pledged	21,992	15,515
Trade debtors	7,146	7,420
Other debtors	9	114
Prepayments and accrued income	21	19
Corporation tax recoverable	16	6
Deferred tax asset (Note 22)	111	125
Intangible fixed assets (Note 19)	176	223
Tangible fixed assets - equipment (Note 19)	2	1
Tangible fixed assets - premises improvement (Note 19)	5	6
Investments in subsidiary undertakings (Note 20)	4	4
	29,482	23,433

CGML provides derivatives clearing services on central clearing houses (CCPs) for clients. As a derivatives clearing member, CGML collects and remits cash and securities collateral (margin) between its clients and the respective CCPs, with any excess cash held at depository institutions on behalf of clients.

Contractual changes to CGML's exchange-traded derivatives (ETD) client clearing agreements during 2016 led to the derecognition of client cash held at clearing houses and banks as well as the corresponding liability to return that cash to the clients. This resulted in the derecognition of $2.175 billion of ETD client cash balances previously recorded within Trade Debtors and of the corresponding liability recorded within Trade Creditors as at 31 December 2016.

Other Assets includes the following balances due from other Citi affiliates:

	2016 $ Million	2015 $ Million
Trade debtors	1,283	1,383
Cash collateral pledged	1,002	3,165
Other debtors	11	7
Prepayments and accrued income	1	1
Investments in subsidiary undertakings	4	4
	2,301	4,560

$612 million of ETD client cash balances previously recorded within Trade Debtors due from other Citi affiliates were derecognised as described above as at 31 December 2016, with corresponding derecognition from Trade Creditors due from other Citi affiliates.

19. Intangible and Tangible fixed assets

The movement in Intangible and Tangible fixed assets for the year was as follows:

	Intangible	Tangible Fixed Assets	
	Software	Equipment	Premises improvements
	$ Million	$ Million	$ Million
Cost			
At 1 January 2016	511	11	15
Additions	46	-	1
Disposals	(92)	(1)	(3)
Exchange rate adjustments	(4)	-	-
At 31 December 2016	461	10	13
Accumulated depreciation			
At 1 January 2016	288	10	9
Charge for the year (Note 7)	51	1	1
Additions	-	-	1
Disposals	(51)	(3)	(3)
Exchange rate adjustments	(3)	-	-
At 31 December 2016	285	8	8
Net book value			
At 31 December 2016	176	2	5

	Intangible	Tangible Fixed Assets	
	Software	Equipment	Premises improvements
	$ Million	$ Million	$ Million
Cost			
At 1 January 2015	448	11	15
Additions	72	-	-
Disposals	(9)	-	-
At 31 December 2015	511	11	15
Accumulated depreciation			
At 1 January 2015	238	9	8
Charge for the year (Note 7)	58	1	1
Additions	-	-	-
Disposals	(8)	-	-
At 31 December 2015	288	10	9
Net book value			
At 31 December 2015	223	1	6

20. Investments in subsidiary and related undertakings

The following amounts for subsidiary undertakings are included in Other fixed assets:

	2016 $'000	2015 $'000
Cost		
At 1 January	3,580	3,580
Additions	-	-
At 31 December	3,580	3,580

Details of all related undertakings held at 31 December 2016 as required by section 409 of the Companies Act 2006 are set out below. All have a year end of 31 December.

Subsidiary undertakings (all 100% owned)

Name	Registered address
Citigroup Global Markets Luxembourg S.a.R.L.	31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg
Citigroup Global Markets Funding Luxembourg SCA	31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg
Citigroup Global Markets Funding Luxembourg GP S.a.R.L	31, Z.A. Bourmicht, L-8070 Bertrange, Luxembourg
Citi Global Wealth Management S.A.M	Monte Carlo Palace, 7-9 Boulevard des Moulins, MC98000 Monaco
Citigroup South Africa Credit Products (Proprietary) Limited	145 West Street, Sandown, Sandton 2196, South Africa

21. Pledged assets

Collateral accepted as security for assets

The fair value of financial assets including government bonds, eurobonds and other corporate bonds, equities, and cash accepted that were permitted to be sold or re-pledged in the absence of default was $210 billion (2015: $200 billion). The fair value of the collateral accepted that had been re-pledged at 31 December 2016 was $192 billion (2015: $176 billion). The Company was obliged to return equivalent securities. Where the collateral was used in secured financing transactions, these transactions were conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities. Where the collateral was used for derivative transactions, this was conducted under industry-standard ISDA (International Swaps and Derivatives Association and CSA (Credit Support Annex) agreements.

Financial assets pledged to secure liabilities

The total value of purchased financial assets including government bonds, eurobonds and other corporate bonds, equities and cash that were pledged as collateral for liabilities at 31 December 2016 was $31 billion (2015: $42 billion). These transactions were conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

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22. Deferred tax asset

The following amounts are included within deferred tax:

	2016 $ Million	2015 $ Million
Short term temporary differences	111	125
At 1 January	125	105
(Released) / arising during the year in the income statement	7	(10)
Income statement movement relating to tax on pension asset	(15)	-
Rate change adjustment	(6)	30
At 31 December	111	125

Deferred tax is recognised on temporary differences arising in the Company's non-UK branch operations, including differences in relation to share based payments and pensions. The recognition accords with the Company's accounting policies, because it is more likely than not that there will be suitable taxable profits arising in these operations from which the future reversal of underlying temporary differences can be deducted.

There is also a UK deferred tax asset included in the above balance to offset the deferred tax liability on the pension asset.

The Company has not recognised a deferred tax asset of $102 million (2015: $291 million) in relation to temporary differences where there is insufficient certainty regarding the recoverability of potential benefits. The deferred tax asset is based on a rate of 25% (being the tax rate including surcharge applicable from 1 April 2020).

The deferred tax asset in the balance sheet comprises:

	2016 $ Million	2015 $ Million
Accelerated tax depreciation	40	62
Deferred compensation	69	46
Provisions and other temporary differences	2	17
	111	125

The deferred tax charge or credit in the income statement comprises:

	2016 $ Million	2015 $ Million
Accelerated tax depreciation	22	(16)
Deferred compensation	(38)	35
Provisions and other temporary differences	15	1
	(1)	20

23. Other Liabilities

The following amounts are included within Other Liabilities. Included within 'Other creditors and accruals' is the accrual in respect of the bank levy.

	2016 $ Million	2015 $ Million
Cash collateral held	22,595	18,081
Trade creditors	8,680	6,433
Other creditors and accruals	988	1,051
Payroll taxes	35	40
Corporation tax payable	4	19
Deferred tax liability on pensions (Note 8)	109	116
Provisions for liabilities and charges (Note 24)	74	70
	32,485	25,810

As disclosed above in Note 18 Other Assets, changes to CGML's exchange-traded derivatives (ETD) client clearing agreements during 2016 resulted in the derecognition of ETD client cash balances previously recorded within Trade Debtors and of the corresponding liability recorded within Trade Creditors. The value of the balances derecognised was $2.175 billion as at 31 December 2016.

Included within Other Liabilities are the following balances due to other Citi affiliates:

	2016 $ Million	2015 $ Million
Cash collateral held	1,515	902
Trade creditors	398	315
Other creditors and accruals	404	298
	2,317	1,515

$612 million of ETD client cash balances previously recorded within Trade Creditors due to other Citi affiliates were derecognised as described above as at 31 December 2016, with corresponding derecognition from Trade Debtors due from other Citi affiliates as explained in Note 18 above.

24. Provisions for liabilities

	Restructuring provision $ Million	Litigation provisions $ Million	Other provisions $ Million	Total $ Million
At 1 January 2016	1	33	36	70
Charge to profits	55	20	16	91
Provisions utilised	(44)	(13)	(21)	(78)
Exchange adjustments	-	-	(9)	(9)
At 31 December 2016	12	40	22	74

No further information is disclosed in respect of the litigation provision due to its sensitive nature. Other provisions are held in respect of accounting reconciliation and control procedures as part of the balance sheet substantiation process.

25. Derecognition of financial assets and financial liabilities

Transferred financial assets that are not derecognised in their entirety

There are certain instances where the Company continues to recognise financial assets that it has transferred.

CGML enters into collateralised financing transactions where it sells or lends debt or equity securities with a concurrent agreement to repurchase them. As significantly all of the risks and rewards of the underlying securities are retained, a collateralised financing liability is recognised and the securities remain on balance sheet. As at 31 December 2016 the Company recognised $31,418 million of assets (2015: $41,632 million), with an associated $29,447 million of collateralised financing liabilities (2015: $39,131 million).

CGML also enters into collateralised financing transactions where it sells debt or equity securities and simultaneously undertakes a swap transaction for the same underlying instrument. As significantly all of the risks and rewards of the underlying securities are retained, a collateralised financing liability is recognised and the securities remain on balance sheet. As at 31 December 2016 the Company recognised $1,451 million of inventory with associated collateralised financing liabilities of $1,402 million for transactions of this nature.

26. Trading financial assets and liabilities

Any initial gain or loss on financial instruments where valuation is dependent on techniques using unobservable parameters is deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable. In case the transaction price in the market in which these transactions are undertaken is different from the fair value in the Company's principal market for those instruments, the fair value of these transactions are also estimated by using valuation techniques.

The table below sets out the aggregate difference yet to be recognised in profit or loss at the beginning and end of the year with a reconciliation of the changes of the balance during the year for those financial assets and liabilities classified as trading.

	2016 $ Million	2015 $ Million
Unamortised balance at 1 January	48	53
Deferral on new transactions	17	19
Recognised in the income statement during the period:		
- amortisation	(13)	(24)
Unamortised balance at 31 December	52	48

27. Subordinated loans

The subordinated loans form part of the Company's Tier 2 regulatory capital resources held to meet the capital adequacy requirements of the PRA and can only be repaid with their consent. The loans, on which interest is payable at market rates, are due to other Citi affiliates and are denominated in both USD and EUR. The following amounts were included within subordinated loans:

	2016 $ Million	2015 $ Million
Amounts falling due after five years	4,585	5,437
	4,585	5,437

On 18 August 2016 the Company repaid $800 million of subordinated loan borrowings from Citigroup Financial Products Inc.

28. Called up share capital

CGML's share capital comprises:

	2016	2015
Allotted, called-up and fully paid:	**$ Million**	**$ Million**
1,499,626,620 ordinary shares of $1 each	1,500	1,500
	1,500	1,500

29. Other commitments

a) Letters of credit

As at 31 December 2016, the Company had $19 million (2015: $11 million) of unsecured letters of credit outstanding from banks to satisfy collateral requirements under securities borrowing agreements and margin requirements.

b) Capital commitments

As at 31 December 2016, the Company had no capital commitments (2015: $nil).

30. Financial instruments and risk management

Risk Management Overview and Culture

Effective risk management is of primary importance to the Company and accordingly, the Company maintains a comprehensive risk management process. The Company utilises Citi's risk management model and organisation, with its multi-dimensional risk oversight and its people, processes and systems to ensure robust oversight of entity risks. In addition, the Company has entity specific risk management and controls, to ensure local challenge to risk-taking and to ensure that Citi's approach is appropriate for the Company.

Risk management must be built on a foundation of ethical culture. Under Citi's mission and value proposition, which was developed by Citi's senior leadership and distributed throughout the firm, Citi strives to serve as a trusted partner to its clients by responsibly providing financial services that enable growth and economic progress while earning and maintaining the public's trust by constantly adhering to the highest ethical standards. As such, Citi asks all employees to ensure that their decisions pass three tests: they are in clients' interests, create economic value and are always systemically responsible. Additionally, Citi evaluates employees' performance against behavioural expectations set out in Citi's leadership standards, which were designed in part to effectuate Citi's mission and value proposition. Other culture-related efforts in connection with conduct risk, ethics and leadership, escalation, and treating customers fairly help Citi to execute its mission and value proposition.

While the management of risk is the collective responsibility of all employees, Citi and the Company assign accountability into three lines of defence:

- first line of defence: the business owns all of its risks and is responsible for the management of those risks;
- second line of defence: the Company's control functions (e.g., risk, finance, compliance, etc.) establish standards for the management of risks and effectiveness of controls; and
- third line of defence: Citi's internal audit function independently provides assurance, based on a risk-based audit plan, that processes are reliable and governance and controls are effective.

The Company applies Citi's global risk management framework, tailored as appropriate for the Company, based on the following principles established by the Chief Risk Officer:

- a defined risk appetite, aligned with business strategy;
- accountability through a common framework to manage risks;
- risk decisions based on transparent, accurate and rigorous analytics;
- a common risk capital model to evaluate risks;
- expertise, stature, authority and independence of risk managers; and
- risk managers empowered to make decisions and escalate issues.

Reputational and Franchise Risk and New Products or Services

A Citi-wide (including an EMEA-based) Business Practices Committee (BPC) reviews practices involving reputational or franchise issues. These committees review whether Citi's business practices have been designed and implemented in a way that meets the highest standards of professionalism, integrity and ethical behaviour.

Additional committees ensure that product risks are identified, evaluated and determined to be appropriate for Citi and its customers, and safeguard the existence of necessary approvals, controls and accountabilities.

The New Product Approval Committee (NPAC) is designed to ensure that significant risks, including reputation and franchise risks, for all new ICG products, services or complex transactions, are identified and evaluated, determined to be appropriate, properly recorded for risk aggregation purposes, effectively controlled, and have accountabilities in place.

30. Financial instruments and risk management (continued)

Reputational and Franchise Risk and New Products or Services (continued)

Investment Products Risk (IPR) oversees two product approval committees that facilitate analysis and discussion of new retail investment products and services created and/or distributed by Citi. The Manufacturing Product Approval Committee (MPAC) is responsible for reviewing new or modified products or transactions created by Citi that are distributed to retail investors through Citi distribution channels as well as third-party retail distributors. The Distribution Product Approval Committee (DPAC) approves new investment products and services, including those created by Citi and third parties as part of Citi's "open architecture" distribution model, before they are offered to retail investors via Citi distribution businesses (e.g. private bank, consumer, etc.).

Risk Appetite Framework

The Company's risk appetite framework includes principle-based qualitative boundaries to guide behaviour and quantitative boundaries within which the Company will operate, focusing on ensuring it has sufficient capital resources for the risks to which the Company could be exposed. The Company's Board of Directors sets the Company's risk appetite, and incorporates management judgement regarding prudent risk taking and growth in light of the business environment within which the Company operates. The Company's Board of Directors, with input from senior Citi and Company management, sets overarching expectations and holds management accountable for ensuring the risk profile remains within this appetite.

CGML Risk Committee

The CGML Risk Committee assists the Board in fulfilling its responsibility for oversight of the risks the Company faces including market, liquidity, credit, operational and certain other risks; their alignment with the Company's strategy, capital adequacy and the macroeconomic environment; and the development of a strategy to manage these risks in line with Citi's global risk strategy. The CGML Risk Committee meets not less than quarterly.

Managing Risk across Businesses, Regions and Products

Citi manages risk across three dimensions: businesses, regions and products. The Company's risk management framework aims to recognise the range of the Company's global business activities by combining corporate oversight with independent risk management functions within each business.

Each of the major business groups has a Business Chief Risk Officer who is the focal point for risk decisions (such as setting risk limits or approving transactions) in the business. The independent risk managers at the business level are responsible for establishing and implementing risk management policies and practices within their business, for overseeing the risk in their business, and for responding to the needs and issues of their business. This ensures the active management of the principal risks of the Company.

Regional Chief Risk Officers are accountable for the risks in their geographic area and are the primary risk contact for the regional business heads and local regulators. In addition, Product Chief Risk Officers are accountable for those areas of critical importance to Citi and are accountable for the risks within their specialities across businesses and regions, such as real estate and fundamental credit. The Product Risk Officers serve as a resource to the Chief Risk Officer, as well as enabling the Business and Regional Chief Risk Officers to focus on the day-to-day management of risks and respond in a timely manner to business needs. Risk management within the Company is overseen by the Regional Risk Manager along with the managers for the different risk types within the region, such as market risk, liquidity risk, credit risk and operational risk.

Finance & Risk Infrastructure (FRI) is a Citi global function that was formed in April 2016 from groups within the Finance and Risk global functions. FRI was established to implement common data and data standards, common processes and integrated technology platforms globally as well as integrate infrastructure activities across both Finance and Risk. FRI works to drive straight through data processing and produce more effective and efficient processes and governance aimed at supporting both the Finance and Risk organisations. The co-heads of the FRI global function report jointly into Citi's CFO and Chief Risk Officer.

30. Financial instruments and risk management (continued)

Risk Aggregation and Stress Testing

The Citi Chief Risk Officer is responsible for monitoring and controlling major risk exposures and concentrations across the organisation. This means aggregating risks, within and across businesses, as well as subjecting those risks to alternative stress scenarios in order to assess the potential economic impact they may have on Citi. This aggregation is also performed at a Company level.

Stress tests are undertaken across Citi and the Company and cover mark-to-market, available-for-sale, and amortised cost portfolios. These firm-wide stress reports seek to measure the potential impact to Citi, the Company and its component businesses, of stresses such as the risk of very large movements in a number of key risk factors (e.g. interest rates, credit spreads), as well as the potential impact of a range of historical and hypothetical forward-looking systemic stress scenarios.

Supplementing the stress testing described above, risk management works with input from the businesses and finance to provide periodic updates to senior management and the Company's Board of Directors on significant potential exposures across the Company arising from risk concentrations, financial market participants and other systemic issues. These risk assessments are forward-looking exercises, intended to inform senior management and the Board of Directors about the potential economic impacts to the Company that may occur, directly or indirectly, as a result of hypothetical scenarios, based on judgmental analysis from independent risk managers.

The stress testing and risk assessment exercises are a supplement to the standard limit-setting and risk capital exercises described later in this section, as these processes incorporate events in the marketplace and within the Company that impact the firm's view of the form, magnitude, correlation and timing of identified risks that may arise. In addition to enhancing awareness and understanding of potential exposures within the Company, the results of these processes serve as the starting point for risk management and mitigation strategies.

Market Risk

Market risk is the risk to earnings or capital from adverse changes in market factors. Price risk losses arise from fluctuations in the market value of trading and non-trading positions resulting from changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices, and in their implied volatilities. The Company's trading results are particularly exposed to movements in these market factors.

The Company's derivative transactions are principally in the equity, interest rate, credit and commodity markets. Most of the counterparties to the Company's derivative transactions are banks and other financial institutions.

Market risk is measured through a complementary set of tools, including factor sensitivity limits, Value at Risk (VaR) and stress testing. In addition the Company has a defined risk appetite framework which is supplemented by regular stress testing and daily monitoring against the Company's VaR limit with monthly and quarterly reporting to senior management and the Board of Directors respectively.

Each business that uses the Company in client facing transactions is required to establish, with approval from the independent market risk management function, a market risk limit framework for identified risk factors. This framework must clearly define approved risk profiles, include permitted product lists, and must remain within the parameters of Citi's overall risk appetite. The established limits are monitored by market risk management.

In all cases, the businesses are ultimately responsible for the market risks taken and for remaining within their defined limits. Management of this process begins with the employees who work most closely with the Group's customers, products and markets and extends up to the senior executives who manage these businesses with a complementary aggregation up to the country level.

The Company's VaR reports are circulated daily for monitoring of: (i) the VaR usage against the overall VaR limit; (ii) the standalone VaR by market risk factor; (iii) the component Value at Risk (CVaR) contribution to total VaR; and (iv) the stressed VaR. As well as an overall VaR limit, the Company has factor sensitivity limits in place for each market risk factor that are monitored daily. Factor sensitivities are defined as the change in the value of a position for a defined change in a market risk factor (e.g. the change in the value of a Treasury bill for a one basis point change in interest rates). It is the responsibility of each business to seek to ensure that factor sensitivities are calculated and reported for all relevant risks taken within a trading portfolio.

30. Financial instruments and risk management (continued)

Market Risk (continued)

Exposure that approaches or exceeds limit or trigger levels is escalated within market risk management and to the Company's Market Risk Manager and Legal Entity Risk Manager, with necessary actions taken.

Where the Equities business is concerned, an ex-ante stress loss based escalation framework has been put in place to cover all block trades, including accelerated equity offerings, equity underwritings, rights offerings and special situation (event-driven) transactions. Transactions with estimated stress losses above certain levels require escalation to the EMEA Chief Risk Officer, the Company's Chief Executive Officer and to the Company's board.

VaR Methodology

VaR estimates the potential decline in the value of a position or a portfolio, under normal market conditions, over a specified holding period and confidence level. The VaR methodology developed and applied at Citi at a global level is also used at subsidiary level, including the Company. The Citi standard is a one-day holding period, at a 99 per cent confidence level. The VaR methodology incorporates the factor sensitivities of the trading portfolio and the volatilities and correlations of those factors. The Company's VaR is based on the volatilities of, and correlations between, a wide range of market risk factors, including factors that track the specific issuer risk in debt and equity securities. VaR statistics can be materially different across firms due to differences in portfolio composition, differences in VaR methodologies, and differences in model parameters. Citi believes that VaR statistics can be used more effectively as indicators of trends in risk taking within a firm, rather than as a basis for inferring differences in risk taking across firms.

Citi and the Company use Monte Carlo simulation, which they believe is conservatively calibrated to incorporate the greater of short-term (most recent month) and long-term (three years) market volatility. The Monte Carlo simulation involves approximately 300,000 market factors, making use of 180,000 time series, with market factors updated daily and model parameters updated weekly.

VaR Limitations

Although extensive back-testing of VaR hypothetical portfolios is performed, with varying concentrations by industry, risk rating and other factors, the VaR measure cannot necessarily provide an indication of the potential size of loss when it occurs. Hence a varied set of factor sensitivity limits and stress tests are used, in addition to VaR limits.

A VaR limit is in place for the Company, to ensure that any excesses are discussed and resolved between risk officers and the business and entity management. This limit is complemented by the factor sensitivity triggers defined above.

Although it provides a valuable guide to risk, VaR should also be viewed in the context of its limitations:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those of an extreme nature;
- the use of a one day holding period assumes that all positions can be liquidated or their risks offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one day holding period may be insufficient to fully liquidate or hedge positions;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this confidence level;
- VaR is calculated on the basis of exposures outstanding at close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

Stress testing is performed on portfolios on a weekly basis to estimate the impact of extreme market movements. Stress testing is performed on individual portfolios, as well as on aggregations of portfolios and businesses, as appropriate. It is the responsibility of independent market risk management, in conjunction with the businesses, to develop stress scenarios, review the output of periodic stress testing exercises, and use the information to make judgments concerning the on-going suitability of exposure levels and limits.

30. Financial instruments and risk management (continued)

Market Risk (continued)

The following table summarises market risk by disclosing the Company's average Economic VaR during the reporting period on a month-end basis, together with the VaR as at 31 December, broken down into component Value at Risk (CVaR). CVaR represents the correlation or diversification adjusted standalone VaR contribution from a particular sub-portfolio, and to the overall 31 December VaR.

The 2015 VaR table shown below has been restated in order to reflect Economic VaR and a reallocation between Interest Rate Risk and Credit Risk.

	2016 $ Million					
	Equity risk	Interest rate risk	Foreign exchange risk	Commodity risk	Credit Risk	Overall VaR
Average	5.0	5.7	1.8	3.4	7.4	23.3
As at 31 December	1.4	5.3	1.1	1.3	9.6	18.7
Peak	12.6	10.4	3.0	7.1	12.1	28.0

	2015 $ Million					
	Equity risk	Interest rate risk	Foreign exchange risk	Commodity risk	Credit Risk	Overall VaR
Average	3.5	5.6	1.7	2.9	13.2	26.9
As at 31 December	4.0	6.3	0.4	1.0	6.6	18.4
Peak	7.3	12.1	4.0	6.0	23.0	38.6

30. Financial instruments and risk management (continued)

Liquidity risk

The Company defines liquidity risk as the risk that it will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without adversely affecting either daily operations or its financial condition.

Citi operates as a centralised treasury model, where the overall balance sheet is managed by Treasury, through its Global Franchise and Regional Treasurers. The EMEA Regional Treasurer is supported by the UK Treasurer who is responsible for the Company's balance sheets and liquidity profile. The UK Treasurer heads the EMEA Legal Entity Management team which includes a liquidity management team responsible for managing CGML's liquidity on a day to day basis. The liquidity management team is specifically responsible for the Company's daily funding, liquidity risk management, liquidity stress testing, and provision of oversight to the Fixed Income and Equity Finance desks (including setting and monitoring limits).

The Company adheres to the Citi Global Liquidity Risk Management Policy which requires it to define its liquidity risk appetite and operate limit and trigger structures to ensure compliance. The Company is also required to comply with the European Union CRD IV delegated act which sets out certain regulatory qualitative and quantitative standards for managing liquidity. The Company's liquidity position is calculated and reported to senior management on a daily basis and reviewed formally by the UK ALCO committee and Board of Directors.

Funding and Liquidity Objectives

Adequate liquidity and sources of funding are essential to Citi's businesses. Funding and liquidity risks arise from multiple factors, many of which are beyond Citi's control, such as disruptions in the financial markets, changes in key funding sources, credit spreads, alterations to Citi's credit ratings and political and economic conditions across the globe.

Citi's funding and liquidity objectives are to maintain adequate liquidity to:

(i) fund its existing asset base;
(ii) grow its core businesses;
(iii) maintain sufficient excess liquidity, structured appropriately, to enable operation under a wide variety of market conditions, including both short and long term market disruptions; and
(iv) satisfy regulatory requirements.

These Citi-wide primary liquidity objectives are also applied at the individual Company level.

CGML funds itself through a combination of secured financing, equity, long term subordinated debt, and long term and short term unsecured intercompany borrowings. Long term structural liquidity is funded through subordinated debt, stockholder's equity and intercompany loans with a maturity of greater than a year. Short- term intercompany loans are used to manage day to day funding fluctuations.

Citigroup employs a single face to the market approach for long term benchmark unsecured borrowing. Structural liquidity is originated primarily through issuance of long term debt by the parent company, Citigroup Inc. and is passed down stream to CGML and other broker dealer entities via explicit intercompany lending transactions or investment in subsidiaries.

In order to meet its liquidity stress testing requirements and liquidity ratio hurdles, the Company holds a pool of liquid assets including highly liquid government bonds. This liquidity pool is reviewed on a daily basis and adjusted as necessary to maintain CGML's key liquidity ratios and metrics. Increases to the liquidity pool are typically funded through increased unsecured long term borrowing from CGML's parent.

Liquidity Risk Management Framework

The Company's liquidity risk management framework is defined by Citi's Global Liquidity Risk Management Policy (the Policy). The Policy establishes the standards for defining, measuring, limiting and reporting liquidity risk to ensure the transparency and comparability of liquidity risk taking activities and the establishment of an appropriate risk appetite.

30. Financial instruments and risk management (continued)

Liquidity risk (continued)

The Policy is collectively owned by the Citi Treasurer and the Citi Chief Risk Officer and is applicable to Citigroup Inc. and its consolidated subsidiaries. The Policy and any material amendments to it must be approved by the Citigroup Board of Directors.

As a part of the global framework, the Company is required to prepare a detailed plan of its liquidity position which also considers the forecast of future business activities. This plan is called the Funding and Liquidity Plan (FLP) and it addresses strategic liquidity issues and establishes the parameters for identifying, measuring, monitoring and limiting liquidity risk and sets forth key assumptions for liquidity risk management.

In summary, the FLP is a strategic implementation of the global framework which is divided into the following components:

- Contingency Funding Plan (CFP) performed annually;
- Intra-day liquidity risk management plan; and
- Balance Sheet Funding and Liquidity Plan.

The Company's FLP is prepared annually and the liquidity profile is monitored on an on-going basis and reported daily. Liquidity risk is monitored using various ratios and limits in accordance with the Liquidity Risk Management Policy for Citi. The FLP includes a forecast of CGML's balance sheet and liability metrics as well as an overview of the current secured financing market conditions as observed by the Finance desks. As part of the FLP, liquidity limits, liquidity ratios and assumptions for periodic stress tests are reviewed and approved.

Funding and Liquidity Risk Governance

The UK Asset-Liability Committee (ALCO) is the primary governance committee for CGML's balance sheet management. Among its key responsibilities are:

- Oversight of market and liquidity risks, transfer pricing and balance sheet management across businesses;
- Evaluation of capital adequacy, and oversight of regulatory constraints;
- Oversight of balance sheet trends and mix;
- Oversight of liquidity levels, structure, metrics and policies, including Contingency Funding Plans;
- Review and approval of the Annual Funding and Liquidity Plan;
- Management and oversight of local regulatory requirements related to the balance sheet, including liquidity and market risk regulations;
- Adherence to capital standards and determination of dividend repatriation recommendations; and
- Assessment of market conditions and macro-economic environment.

Citi's UK management team and UK ALCO monitor changes in the economic environment and any corresponding impact to the asset quality on Citi's local and consolidated balance sheets including CGML. The UK ALCO also functions as a forum for senior management to ensure adherence to corporate wide policies and procedures, regulatory requirements and rating agency commitments.

The membership of the UK ALCO includes the UK Citi Country Officer (CCO), CGML Chief Executive Officer (CEO) (chair), UK Chief Financial Officer (CFO), UK Treasurer, EMEA Regional Treasurer, UK Risk Officer, Independent Liquidity Risk Manager, Finance Desk Heads and other key business and functional heads.

The UK ALCO committee meets on a monthly basis. CGML's non-executive directors are standing invitees and regularly attend UK ALCO meetings to provide additional review and challenge.

External Liquidity Risk Management Metrics

From a regulatory perspective, the Company monitors its liquidity position against the CRD IV Liquidity Coverage Ratio (LCR) as prescribed by the Delegated Act.

30. Financial instruments and risk management (continued)

Liquidity risk (continued)

The Company also monitors its position against the Net Stable Funding Ratio (NSFR), adopting Basel III guidelines, although final rules are still to be adopted by the European Commission.

The LCR is designed to promote short term resilience of an entity's liquidity risk profile by ensuring that it has sufficient high quality liquid assets to survive an acute stress scenario lasting 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

The key regulatory liquidity metrics used by the Company are summarised below:

Stress Test	**ILG**	**LCR**	**NSFR**
Time Horizon	3 months	30 days	1 year
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Stable funding resources to stable funding requirements

Throughout the year the Company was in compliance with its LCR minimum regulatory requirements.

Internal Liquidity Risk Management Metrics

From an internal perspective, the Company uses two stress tests to monitor its liquidity position. The first stress test covers a 12 month survival horizon in a highly stressed market disruption scenario (S2) whilst the other covers 30 days in a severely stressed market disruption scenario with a loss of confidence in Citi (LCR Prime):

Highly Stressed Market Disruption Scenario (Referred to as S2) – This scenario assumes market, credit and economic conditions are moderately to highly stressed with potential further deterioration covering a one year period. Access to the unsecured wholesale funding market is severely constrained and assumed to be unavailable. Access to the wholesale secured financing markets is also assumed to be constricted with the level of access based on the underlying collateral type. Potential changes in counterparty haircut requirements and other relevant market factors are considered when determining expected liquidity value; the severity of these impacts takes into account the quality of the underlying asset, as well as the depth of the relevant market. Other than highly liquid assets, access should be primarily limited to the rollover of existing activity.

As a consequence of these conditions, Citi and CGML's long term ratings are downgraded one notch from their current levels. Scenario modelling is designed to reflect these conditions, and where appropriate, potential operational, collateral and counterparty constraints are factored in.

Loss of Confidence/Severe Market Disruption Scenario (Referred to as LCR Prime) **–** This is a stressed cash flow used to measure the short term (30 calendar days) survival horizon under a severe loss of confidence (idiosyncratic event) and severe market disruption scenario. The LCR Prime metric is aligned to the LCR Regulatory framework, but utilises internal assumptions which are most appropriate for managing short term liquidity risk.

Overall, the LCR Prime stress test is more severe than S2, with both Citigroup and CGML assumed to experience a three-notch downgrade to their long term ratings and a one-notch downgrade to their short term ratings. Additionally, CGML's ability to roll over existing secured financing transactions is limited to only the highest quality of securities. This is coupled with the more conservative stress assumptions relating to the Prime Brokerage business and loss of liquidity from its top 5 liquidity providers.

30. Financial instruments and risk management (continued)

Liquidity risk (continued)

These metrics are calculated and monitored on a universal currency basis and in the most material currencies that constitute CGML's balance sheet (EUR, GBP and USD).

Stress Test	**LCR Prime**	**S2**
Time Horizon	30 days	1 year
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows

Both LCR Prime and S2 internal liquidity metrics were in surplus as at 31 December 2016.

Liquidity Stress Testing and Scenario Analysis Framework

The Company's use of stress testing and scenario analysis is intended to quantify the potential impact of a liquidity event on the Company's balance sheet and liquidity position, and to identify viable funding alternatives that can be utilised. These scenarios include:

- potential significant changes in key funding sources;
- market triggers (such as credit rating downgrades);
- uses of funding; and
- political and economic conditions, including standard and stressed market conditions as well as Company-specific events.

Some tests span liquidity events over a full year while others may cover a more intense shock over a shorter period such as 30 days. These tests can identify potential mismatches between liquidity sources and uses over a variety of time horizons, and liquidity limits are set accordingly. The stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily. They are also performed for the material currencies that constitute CGML's balance sheet.

CGML's stress testing framework ensures that sufficient contingent liquidity is maintained (the liquidity pool of highly liquid assets mentioned above) after considering the impact of key liquidity risks including:

- restriction of wholesale secured and unsecured funding through widening of haircuts, reluctance of counterparties to roll maturing transactions or lack of availability for financing for certain asset classes;
- intraday liquidity risk where correspondent banks and securities settlement agents or depositories withdraw or restrict secured or unsecured intraday credit facilities upon which the Company relies to make payments and settle its transactions;
- cross currency liquidity shortfalls arising from cash flow mismatches within a particular currency;
- potential outflows from off balance sheet activities such as security versus security transactions, letters of credit or committed facilities (e.g. underwriting);
- loss of liquidity from derivatives transactions due to asymmetric margining terms, legally agreed conditions such as rating downgrade triggers, margin calls due to large market revaluations or clearing house/exchange action, novation of liquidity accretive contracts away from the Company or increased operational diligence of certain counterparties;
- recognition that the Company may continue to provide funding to certain customers to preserve its franchise despite there being no legal obligation to do so; and
- incremental funding requirements of the Company's Prime Brokerage and Delta One businesses from loss of internal coverage and cross funding, inability to roll repo or increased repo haircuts.

Given the range of potential stresses, Citi maintains a series of contingency funding plans on a consolidated basis as well as for individual entities, including the Company. The Contingency Funding Plan (CFP) is a key component of the Global Framework and it incorporates the management plan of contingent actions in the event of crisis. The Company's CFP includes the "playbook" for addressing liquidity and funding challenges in crisis situations, triggers, procedures, roles and responsibilities, communication plan and key contact list to manage a liquidity event. The CFP defines a crisis committee responsible for decision making and execution of contingency plans to address both short-term and longer term disruptions in funding sources.

30. Financial instruments and risk management (continued)

Liquidity risk (continued)

The following table assigns the Company's assets and liabilities to relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Note that in managing liquidity risk, management uses certain assumptions based on a combination of contractual and behavioural maturity profiles which differ from the contractual maturity dates shown below.

31 December 2016	Total $ Million	On demand $ Million	3 months & less $ Million	3 - 12 months $ Million	1 – 5 years $ Million	More than 5 years $ Million
Cash	3,738	428	3,310	-	-	-
Inventory	36,613	36,613	-	-	-	-
Derivatives	167,634	167,634	-	-	-	-
Collateralised financing transactions	107,673	17,467	73,667	15,564	294	681
Cash collateral pledged	21,992	-	21,992	-	-	-
Trade debtors	7,146	-	7,146	-	-	-
Other debtors	9	-	9	-	-	-
Financial assets classed as available for sale	31	-	-	-	-	31
Total financial assets	344,836	222,142	106,124	15,564	294	712

	Total $ Million	On demand $ Million	3 months & less $ Million	3 - 12 months $ Million	1 – 5 years $ Million	More than 5 years $ Million
Bank loans and overdrafts	10,454	1,019	5,991	161	2,530	753
Collateralised financing transactions	69,292	16,021	39,845	12,367	1,059	-
Derivatives	170,258	170,258	-	-	-	-
Cash collateral held	22,595	-	22,595	-	-	-
Securities sold but not yet purchased	44,654	-	44,654	-	-	-
Trade creditors	8,680	-	8,680	-	-	-
Other creditors and accruals	988	-	988	-	-	-
Subordinated loans	4,585	-	-	-	-	4,585
Total financial liabilities	331,506	187,298	122,753	12,528	3,589	5,338
Net liquidity gap	13,330	34,844	(16,629)	3,036	(3,295)	(4,626)
Cumulative liquidity gap		34,844	18,215	21,251	17,956	13,330

30. Financial instruments and risk management (continued)

Liquidity risk (continued)

31 December 2015	Total $ Million	On demand $ Million	3 months & less $ Million	3 - 12 months $ Million	1 – 5 years $ Million	More than 5 years $ Million
Cash	1,939	333	1,606	-	-	-
Inventory	41,583	41,583	-	-	-	-
Derivatives	162,450	162,450	-	-	-	-
Collateralised financing transactions	93,461	22,965	59,005	10,308	376	807
Cash collateral pledged	15,515	-	15,515	-	-	-
Trade debtors	7,420	-	7,420	-	-	-
Other debtors	114	-	114	-	-	-
Financial assets classed as available for sale	27	-	-	-	-	27
Total financial assets	322,509	227,331	83,660	10,308	376	834

	Total $ Million	On demand $ Million	3 months & less $ Million	3 - 12 months $ Million	1 – 5 years $ Million	More than 5 years $ Million
Bank loans and overdrafts	11,995	1,293	-	5,327	2,061	3,314
Collateralised financing transactions	75,796	18,953	45,121	10,861	861	-
Derivatives	161,858	161,858	-	-	-	-
Cash collateral held	18,081	-	18,081	-	-	-
Securities sold but not yet purchased	28,996	-	28,996	-	-	-
Trade creditors	6,433	-	6,433	-	-	-
Other creditors and accruals	1,051	-	1,051	-	-	-
Subordinated loans	5,437	-	-	-	-	5,437
Total financial liabilities	309,647	182,104	99,682	16,188	2,922	8,751
Net liquidity gap	12,862	45,227	(16,022)	(5,880)	(2,546)	(7,917)
Cumulative liquidity gap		45,227	29,205	23,325	20,779	12,862

30. Financial instruments and risk management (continued)

Liquidity risk (continued)

The table below assigns the Company's liabilities to relevant maturity groupings based on the remaining contractual future undiscounted cash flows up to maturity. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the liquidity risk based on a combination of contractual and behavioural maturity profiles. Derivatives are excluded from the table because they are not held for settlement over the period of contractual maturity. Cash collateral held, securities sold not yet purchased, trade creditors, and other creditors and accruals are excluded because they are deemed to be three months or less and are thus very short term.

31 December 2016	Contractual value $ Million	On demand $Million	3 months & less $ Million	3 - 12 months $ Million	1 – 5 years $ Million	More than 5 years $ Million
Subordinated loans	5,182	-	20	60	322	4,780
Total financial liabilities	5,182	-	20	60	322	4,780

31 December 2015	Contractual value $ Million	On demand $Million	3 months & less $ Million	3 - 12 months $ Million	1 – 5 years $ Million	More than 5 years $ Million
Subordinated loans	6,220	-	23	70	373	5,754
Total financial liabilities	6,220	-	23	70	373	5,754

Credit risk

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations.

Credit risk arises in many of the Company's business activities, including:

- sales and trading;
- derivatives;
- securities transactions;
- settlement;
- when Citi acts as an intermediary on behalf of its clients and other third parties; and
- when acting as underwriter or within a capital raising capacity.

Credit risk arises from the Company's activities in OTC derivatives markets and reverse repurchase agreements as well as securities lending transactions and margin lending. The Company's credit exposure on derivatives and foreign exchange contracts is primarily to professional counterparties in the global financial sector, including banks, investment banks, hedge funds, insurance companies and asset management companies.

The Company enters into derivative transactions principally to enable customers to transfer, modify or reduce their credit, equity, interest rate and other market risks. In addition, the Company uses derivatives, and other instruments, as an end user to manage the risks to which the Company is exposed.

Credit risk also arises from settlement and clearing activities, when the Company transfers an asset in advance of receiving its counter-value or advances funds to settle a transaction on behalf of a client. Concentration risk, within credit risk, is the risk associated with having credit exposure concentrated within a specific client, industry, region or other category.

30. Financial instruments and risk management (continued)

Credit risk (continued)

Credit risk is one of the most significant risks the Company faces as an institution. As a result, Citi has a well-established framework in place for managing credit risk across all businesses. This includes a defined risk appetite, credit limits and credit policies, both at the business level as well as at the firm-wide level. Citi's credit risk management also includes processes and policies with respect to problem recognition, including "watch lists," portfolio review, updated risk ratings and classification triggers. The framework is supplemented by regular stress testing and monitoring of exposures, with monthly and quarterly reporting to the senior management and the Board of Directors respectively.

The credit process is based on a series of fundamental policies, including:

- joint business and independent risk management responsibility for managing credit risks;
- a single centre of control for each credit relationship to coordinate credit activities with that client;
- a requirement for a minimum of two authorised credit officer signatures on extensions of credit, one of which must be from a sponsoring credit officer in the business and the other from a credit officer in independent credit risk management;
- consistent risk rating standards, applicable to every Citi obligor and facility; consistent standards for credit origination documentation and remedial management; and
- portfolio limits to ensure diversification and maintain risk/capital alignment.

Large exposure limit reports are circulated daily that show the Company's exposure to various counterparty groupings as a proportion of its own funds. Regulations require that the Company does not exceed specified limits for its non trading book exposures. Within a certain percentage below the maximum permitted level, the Regulatory Reporting group conducts initial analysis and provides a breakdown of exposures to credit risk management. At or above the maximum permitted level, the credit risk management team takes action and escalates to the front office in order to reduce exposure to that counterparty and thereby bring exposure back within permitted levels. Similar reporting is carried out against internal limits for the trading book exposures.

Wrong-way risk is an aggravated form of concentration risk and arises when there is a strong correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. This is monitored at a Company level, and includes circulation of a monthly report that identifies CDS based, OTC or securities financing transactions (SFTs) that generate specific wrong-way risk. Wrong-way risk is mitigated through the use of enforceable netting agreements and margining.

The Company seeks to restrict its exposure to credit losses by entering into master netting arrangements with most counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. Many of these arrangements also provide for the calling and posting of variation margin or collateral, further reducing the Company's exposures. The internal measurement of exposure on each credit facility takes into account legally enforceable netting and margining arrangements – both in terms of current exposure and in terms of the simulated calculation of potential future exposure.

30. Financial instruments and risk management (continued)

Credit risk (continued)

The following table presents the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements (where such credit enhancements do not meet offsetting requirements). It also illustrates the impact on the balance sheet of offsetting, master netting agreements and cash and non cash collateral.

2016	**Gross exposure**	**Amounts set off on the balance sheet**	**Net exposure**	**Impact of master netting agreements**	**Cash collateral**	**Securities collateral**	**Net exposure**
Assets							
Derivatives	171,743	(4,109)	167,634	(137,782)	(22,595)	(3,276)	3,981
Collateralised financing transactions	115,435	(7,762)	107,673	(12,987)	-	(94,686)	-
	287,178	(11,871)	275,307	(150,769)	(22,595)	(97,962)	3,981
Liabilities							
Derivatives	174,367	(4,109)	170,258	(137,782)	(21,992)	(2,499)	7,985
Collateralised financing transactions	77,054	(7,762)	69,292	(12,987)	-	(56,305)	-
	251,421	(11,871)	239,550	(150,769)	(21,992)	(58,804)	7,985

2015	**Gross exposure**	**Amounts set off on the balance sheet**	**Net exposure**	**Impact of master netting agreement**	**Cash collateral**	**Securities collateral**	**Net exposure**
Assets							
Derivatives	183,938	(21,488)	162,450	(138,737)	(18,081)	(2,980)	2,652
Collateralised financing transactions	104,573	(11,112)	93,461	(14,595)	-	(78,866)	-
	288,511	(32,600)	255,911	(153,332)	(18,081)	(81,846)	2,652
Liabilities							
Derivatives	183,346	(21,488)	161,858	(138,737)	(15,515)	(2,001)	5,605
Collateralised financing transactions	86,909	(11,112)	75,797	(14,595)	-	(61,202)	-
	270,255	(32,600)	237,655	(153,332)	(15,515)	(63,203)	5,605

30. Financial instruments and risk management (continued)

Credit risk (continued)

The offset amounts for the impact of master netting agreements for Derivatives in the above tables relate to exposures where the counterparty has an offsetting derivative exposure with the Company and a master netting agreement is in place. These amounts do not qualify for net presentation for accounting purposes as settlement may not actually be made on a net basis.

The collateralised financing transactions offset adjustment relates to balances arising from repurchase and reverse repurchase transactions. The offsets relate to balances where there is a legally enforceable right of offset in the event of counterparty default and consequently a net exposure for credit risk management purposes. However as there is no intention to settle individual transactions on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. Credit risk exposure is monitored on an asset basis except for positions which are specifically collateralised, normally in the form of cash.

As at 31 December the Company's third party credit exposure (mark to market plus potential future exposure as determined by the Company's internal measure) in relation to collateralised financing transactions and derivatives was distributed as shown in the table below (these exposures do not include derivative and collateralised financing transactions with other group undertakings). The following table shows CGML's exposures categorised by industry.

Industry	**2016**	**2015**
	%	**%**
Commercial and universal banks	43.5	42.6
Insurance and fund management (pension funds and mutual funds)	27.4	30.4
Brokers and investment banks	5.1	5.2
Other (including Corporates, SPVs and Hedge Funds)	24.0	21.8
	100	100

The credit quality of the Company's financial assets is maintained by adherence to Citi policies on the provision of credit to counterparties. The Company monitors the credit ratings of its counterparties with the table below presenting an analysis of the Company's trading inventory and derivative transactions by rating agency designation based on Standard & Poor, Moody's and Fitch ratings as at 31 December:

	Government bonds		**Eurobonds and corporate bonds**		**Derivatives**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	%	**%**	**%**	**%**	**%**	**%**
AAA / AA / A	63.0	57.0	72.0	71.0	40.8	47.6
BBB	33.0	39.0	17.0	15.0	9.6	8.2
BB / B	4.0	4.0	8.0	10.0	0.6	0.7
CCC or below	-	-	1.0	1.0	-	-
Central counterparty clearing house (unrated)	-	-	-	-	22.0	15.5
Unrated	-	-	2.0	3.0	27.0	28.0
	100.0	100.0	100.0	100.0	100.0	100.0

As discussed above the maximum credit risk is mitigated through the use of collateral, netting arrangements and the application of credit limits.

30. Financial instruments and risk management (continued)

Country Risk

Country risk is the risk that an event in a country (precipitated by developments within or external to that country) will impair the value of Citi's franchise or will adversely affect the ability of obligors within that country to honour their obligations to Citi. Country risk events may include sovereign defaults, banking defaults or crises, currency crises and/or political events.

The information below is based on Citi's internal risk management measures. The country designation in Citi's risk management systems is based on the country to which the client relationship, taken as a whole, is most directly exposed with regard to economic, financial, socio-political or legal risks. This includes exposure to subsidiaries within the client relationship that are domiciled outside of the country.

Citi assesses the risk of loss associated with certain of the country exposures on a regular basis. These analyses take into consideration alternative scenarios that may unfold, as well as specific characteristics of the Company's portfolio, such as transaction structure and collateral. The Company currently believes that the risk of loss associated with the exposures set forth below is likely to be materially lower than the exposure amounts disclosed below and is sized appropriately relative to its operations in these countries.

The sovereign entities of all the focus countries disclosed below, as well as the financial institutions and corporations domiciled in these countries, are important clients both to the Company and to the global Citi franchise. Citi fully expects to maintain its presence in these markets to service all of its global customers. Hence the Company's exposure in these countries may vary over time, based upon its franchise, client needs and transaction structures.

The EU referendum vote undertaken on 23 June 2016, in which the United Kingdom voted to leave the EU, provided an uncertain backdrop to the second half of the year. The potential macroeconomic impact is difficult to predict as the timing and terms of withdrawal will take time to become clear.

During 2016, countries of particular focus for risk management continued to be Greece, Italy, Portugal and Spain (collectively referred to as GIPS countries) and Russia.

2016 **$ Millions**	**Greece**	**Italy**	**Portugal**	**Spain**	**Russia**	**Total**
Net current funded credit exposure	(1)	101	-	21	100	221
Net trading exposure	1	1,230	(263)	(93)	98	973
Net current funded exposure	-	1,331	(263)	(72)	198	1,194
Net current funded credit exposure:						
Sovereigns	-	20	-	-	-	20
Financial institutions	(1)	65	-	13	100	177
Corporations	-	16	-	8	-	24
Total net current funded credit exposure	(1)	101	-	21	100	221
Unfunded commitments						
Sovereigns	-	-	-	-	48	48
Total unfunded commitments	-	-	-	-	48	48

30. Financial instruments and risk management (continued)

Country risk (continued)

2015 **$ Millions**	**Greece**	**Italy**	**Portugal**	**Spain**	**Russia**	**Total**
Net current funded credit exposure	1	127	(1)	(6)	-	121
Net trading exposure	8	2,180	(18)	974	(372)	2,772
Net current funded exposure	9	2,307	(19)	968	(372)	2,893
Net current funded credit exposure:						
Sovereigns	-	41	-	-	-	41
Financial institutions	-	25	-	9	-	34
Corporations	1	61	(1)	(15)	-	46
Total net current funded credit exposure	1	127	(1)	(6)	-	121
Unfunded commitments						
Sovereigns	-	-	-	-	40	40
Total unfunded commitments	-	-	-	-		40

The exposures detailed above represent nominal levels of exposure without taking account of the benefit of any collateral, but including the benefits of margin and credit protection. The net trading exposures are marked to market daily, and levels of exposure vary as the positions are maintained consistent with customer needs. As discussed above, the Company's net exposure is significantly lower than shown in this table.

Pension Risk

The Company's defined benefit schemes are measured on an actuarial basis, with the key assumptions being inflation, discount rate, mortality, and investment returns. Return on assets is an average of expected returns weighted by asset class.

Mortality assumptions are based upon the relevant standard industry and national mortality tables. Discount rates are based on specific corporate bond indices which reflect the underlying yield curve of each scheme. Management judgement is required in estimating the rate of future salary growth. All assumptions are unbiased, mutually compatible and based upon market expectations at the reporting date.

Operational risk (unaudited)

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, systems, human factors or from external events.

It includes reputation and franchise risks associated with Citi's business practices or market conduct. It also includes the risk of failing to comply with applicable laws, regulations, ethical standards or Citi policies.

Operational Risk does not encompass strategic risk or the risk of loss resulting solely from authorised judgments made with respect to taking credit, market, liquidity or insurance risk.

The objective is to keep operational risk at appropriate levels relative to the characteristics of Citi's businesses, the markets in which it operates, its capital and liquidity, and the competitive, economic and regulatory environment.

Operational risk is part of the Company's defined risk appetite framework supplemented with regular reporting and updates to the senior management and the Board of Directors.

Citi maintains an Operational Risk Management (ORM) framework with a Governance Structure to ensure effective management of Operational Risk across Citi. The Governance Structure presents the Three Lines of Defence as previously described in Risk Management Overview and Culture.

30. Financial instruments and risk management (continued)

Operational risk (unaudited) (continued)

There are five Event Types (Categories) used by Citi for categorising Operational Risk:

- Clients, Products and Business Practices;
- Execution, Delivery and Process Management;
- Fraud, Theft and Unauthorised Activity;
- Employment Practices and Workplace Environment; and
- Physical Asset and Infrastructure.

To anticipate, mitigate and control operational risk, Citi maintains a system of policies and has established a consistent framework for monitoring, assessing and communicating operational risks and the overall effectiveness of the internal control environment across Citi. As part of this framework, Citi has established a Manager's Control Assessment (MCA) programme which helps managers to self-assess key operational risks and controls and to identify and address weaknesses in the design and effectiveness of internal controls that mitigate significant operational risks.

The ORM Framework establishes a foundation on which the activities of Businesses, Regions and Functions, the resulting operational risks and the associated controls are identified, periodically assessed, subject to corrective action, appropriately documented and communicated. Specifically, the ORM Framework establishes minimum standards for consistent identification, measurement, monitoring, reporting, and management of operational risk across Citi.

The process established by the ORM Framework is expected to lead to effective anticipation and mitigation of operational risk and improved operational risk loss experience and includes the following steps:

- identify and assess Key Operational Risks (KORs);
- design controls to mitigate identified risks;
- establish Key Risk Indicators (KRIs);
- implement a process for early problem recognition and timely escalation;
- produce comprehensive operational risk reporting; and
- ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

As new products and business activities are developed, processes are designed, modified or sourced through alternative means and operational risks are considered.

In addition, Operational Risk Management proactively assists the businesses, operations and technology and the other independent control groups in enhancing the effectiveness of controls and managing operational risks across products, business lines and regions, and facilitates the management of operational risk at a Citi and Company level.

Measurement

To support advanced capital modelling and management, each business is required to capture relevant operational risk event information. A localised version of the Citi risk capital model for operational risk has been developed and applied against CGML. The PRA has approved this model, including the associated capital allocation, for use within the Company as an "Advanced Measurement Approach". It uses a combination of internal and external loss data to support statistical modelling of capital requirement estimates, which are then adjusted to incorporate qualitative aspects of the operational risk and control environment.

To enhance its operational risk management, CGML has implemented a forward looking scenario analysis programme to identify and quantify emerging operational risks, through a systematic process of obtaining opinions from business managers and risk management experts to devise reasoned assessments of the likelihood and loss impact of plausible, high severity operational risk losses. This development has been integrated into the operational risk capital assessment for CGML.

30. Financial instruments and risk management (continued)

Operational risk (unaudited) (continued)

Key operational risks identified for CGML include those set out below.

Anti-Money Laundering (AML) and Sanctions Non-Compliance Risk

Local and international Anti-Money Laundering (AML) and Sanctions requirements impact the activities carried out by the Company and its clients. Following the development of Sectoral Sanctions to address the political situation in Ukraine, Citi has developed an enhanced control infrastructure around activities that may be affected by applicable sanctions regimes. Regulatory requirements concerning AML controls continue to focus particularly on customer due diligence and suspicious activity monitoring, and Citi continues to implement enhancements in these areas.

Conduct Risk

Citi is exposed to the risk of improper conduct through prohibited and manipulative practices by individual employees, collusive practices across a group of employees within and across market participants, and misconduct that harms customers or the integrity of the markets. Citi's exposure to conduct risk resulted in the issuance of a Citi-wide Conduct Risk Policy which sets out a framework through which Citi manages, minimises, and mitigates its significant conduct risks, and describes the responsibilities of each of the three lines of defence for complying with the policy.

Cyber Risk

Citi is exposed to cyber/ information security risk through hacking of Citi or third party systems containing Citi's data, and denial of service attacks on Citi and third party servers.

The cyber security threat landscape is rapidly evolving with increasingly sophisticated attacks for gain (e.g. denial of service, account takeover) on Citi, our clients and third party applications. Citi's Information Security programme strategy is built on a deep understanding of the threat environment through the work of the Global Information Security (GIS) Cyber Intelligence Centre (CIC). External benchmarks indicate that Citi appears to be well placed to deal with current threats. However, due to the ever-changing evolution of the threat landscape, Citi continues to invest in its identification, prevention and detection capabilities.

Geopolitical Risk

Geopolitical risk is the risk of financial impact and /or the inability to continue with business due to geopolitical instability and /or changes in the geopolitical environment (e.g. capital controls, impact of Brexit, Middle East and Russia political instability) and dealing with the impact of "flight to quality" requiring due diligence in compressed timeframes. In addition geopolitical instability also puts Citi at risk of terrorism-related events. Citi has established a comprehensive programme to meet the organisational change requirements resulting from Brexit and has well established and tested processes in place to mitigate the impact of terrorism related risk events.

Internal Fraud (Unauthorised Trading Risk)

The risk of loss due to fraudulent activity such as unauthorised trading (rogue trading), mis-marking or payments fraud is a key risk for CGML. A number of initiatives are ongoing to enhance Citi's fraud prevention framework including rogue trading prevention and detection controls. These include the implementation of consistent Markets-wide controls, designed to identify and prevent unauthorised trading in the Markets business and Corporate Treasury.

30. Financial instruments and risk management (continued)

Operational risk (unaudited) (continued)

System Run Away Risk (Low Touch Activity Trading Risk)

System run away risk (low touch activity trading risk) is the risk of systemic controls' failure to prevent or limit loss exposure for highly automated transactions. This risk specifically includes elevated risk of breaks in high frequency/algorithmic electronic trading due to failure to keep technological capabilities up-to-date, the ability to respond quickly to operational risk events where increased duration is directly correlated to severity, and where response is compromised by fragmented infrastructure and substandard monitoring capabilities.

Citi has established a robust risk and control framework for Low Touch Activity and continues to ensure that enhanced controls are implemented to mitigate this risk.

Inaccurate Reporting and Data Management

Inaccurate reporting and data management risk is the risk that data may be of an insufficient quality to meet Citi's business, regulatory, financial reporting and customer needs resulting from either the business originator of data being unable to provide accurate, complete and timely records of business transactions and customer activities or from a subsequent processor of that data handling the data in an incorrect manner. The quality management inadequacies could also result in non-compliance to regulatory standards. Citi has identified and implemented a number of control enhancements to ensure that any such risks are identified and mitigated on a timely basis.

Regulatory Non-Compliance Risk

Regulatory non-compliance risk is the risk of non-compliance with existing regulations such as Client Assets segregation requirements (CASS) and CCAR as well as new and evolving regulations such as MIFID II due to implementation complexity and tight deadlines. Additionally, a number of regulatory requirements within different jurisdictions may lead to an unintended violation resulting in significant fines or sanction.

Model Risk Management

Citi is exposed to model risk through the use of incorrect or inaccurate models (such as failed or non-validated models) and incorrect uses of models (for example using the model beyond its approved use cases). Model risk may result in adverse outcomes including but not limited to financial losses (for instance inaccurate quantification of risks, loosening of lending standards) and regulatory criticism.

Third Party Vendor Management including Affiliates

Citi is exposed to third party risk through inconsistent or inadequate delivery of products or services that support core operational or client-facing processes, misconduct on the part of third parties (e.g., fraud), or failure by third parties to ensure that the contracted products or services are delivered to Citi in a safe and sound manner and in compliance with applicable laws, regulations and Citi policies

30. Financial instruments and risk management (continued)

Regulatory risk and developments

Recast Markets in Financial Instruments Directive (MiFID II) and Regulation on Markets in Financial Instruments (MiFIR)

MiFID II and MiFIR, which shall replace the current Markets in Financial Instruments Directive (**MiFID**), were originally planned to be implemented in January 2017, but may now be subject to a delay of one year. The MiFID II and MiFIR reforms will have a significant impact on a number of areas including:

- scope of exemptions;
- market structure;
- transparency requirements;
- transaction reporting;
- algorithmic trading;
- commodities;
- the third country regime;
- investment research; and
- supervision.

MiFID II and MiFIR will increase the transparency requirements for the equities market and introduce new transparency requirements for fixed income instruments and derivatives, with additional requirements including the submission of post-trade data to Authorised Reporting Mechanisms. There will be increased conduct of business requirements aimed at increasing investor protection to a broader range of clients, including rules relating to inducements and the provision of investment research. Strengthened supervisory powers and administrative sanctions will also apply.

As well as revising and enhancing some existing MiFID requirements, MiFID II and MiFIR also introduces new concepts and obligations including a new multilateral, discretionary trading venue for non-equity instruments, the Organised Trading Facility (OTF), and an extension of the Systematic Internaliser (SI) regime to non-equity instruments. There will also be a requirement for investment firms to trade listed equities on a Regulated Market, Multilateral Trading Facility, OTF or SI. There are new requirements for:

- commodity position limits and reporting;
- organised trading venues;
- trading controls for algorithmic trading activities;
- an obligation to trade clearable derivatives on trading venues; and
- the introduction of a harmonised EU regime for access to trading venues, CCPs and benchmarks.

European Commission proposed revisions to CRR/ CRDIV, BRRD and SRMR

In November 2016, the European Commission issued proposed revisions to the CRR, CRDIV, BRRD and SRMR (Single Resolution Mechanism Regulation). These revisions build on existing EU banking rules and aim to complete the post-crisis regulatory agenda. They enable the regulatory framework to address any outstanding challenges to financial stability, while ensuring that banks can continue to support the real economy. The proposals are now under discussion between the European Commission, Council and Parliament and elements of the package will come into force at different stages; the earliest estimated to be 2019.

There are three key elements of the proposals.

Measures to increase the resilience of EU institutions and enhance financial stability

This comprises new, more risk-sensitive capital requirements for market risk, counterparty credit risk, and exposures to central counterparties. There is a binding leverage ratio to prevent institutions from excessive leverage and a binding Net Stable Funding Ratio (NSFR) to address the excessive reliance on short-term

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30. Financial instruments and risk management (continued)

Regulatory risk and developments (continued)

wholesale funding and to reduce long-term funding risk. The measures also introduce a Total Loss Absorbing Capacity (TLAC)/Minimum Requirement for Eligible Liabilities (MREL) requirement to strengthen the EU's ability to resolve failing banks while protecting financial stability and minimising risks for taxpayers.

Measures to further facilitate the role of banks in achieving deeper and more liquid EU capital markets to support the creation of a Capital Markets Union

These measures aim to avoid disproportionate capital requirements for trading book positions, including those related to market-making activities, to reduce the costs of issuing or holding certain instruments (covered bonds, high quality securitisation instruments, sovereign debt instruments, derivatives for hedging purposes) and to avoid potential disincentives for those institutions that act as intermediaries for clients in relation to trades cleared by CCPs.

Measures to improve banks' lending capacity to support the EU economy

The EC is proposing measures to encourage banks' capacity to lend to SMEs and to fund infrastructure projects. In addition there are proposals to apply the CRR/CRD rules in a more proportionate manner for less complex and smaller banks.

Capital management

The capital management of CGML is further discussed in its Basel Pillar III disclosure document which can be found at http://www.citigroup.com/citi/investor/reg.htm.

31. Registered charges

The Company has granted to various banks and other entities a number of fixed and floating charges over certain holdings in securities, properties, collateral and monies held by or on behalf of such banks or other entities.

32. Events after the reporting period

There were no significant events after the reporting period.

33. Group structure

The Company's immediate parent undertaking is Citigroup Global Markets Holdings Bahamas Limited (CGMHBL), a company registered at Ocean Centre, Montagu Foreshore, East Bay Street, and P.O. Box N3247, Nassau Bahamas. It was transferred from its previous parent, CGMEL, on a going concern basis during 2015. The Company's ultimate parent company and ultimate controlling party is Citigroup Inc., registered at 1209 Orange Street, Wilmington, DE 19801United States of America.

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

34. Revenue analysis

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

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

	Asia	EMEA	Latin America	North America	Total Regional	Other / Corp	Total
Revenue by Region	**$ Million**	**$ Million**	**$ Million**	**$ Million**	**$ Million**	**$ Million**	**$ Million**
2016 Revenues	197	1,867	31	46	2,141	594	2,735
2015 Revenues	149	1,677	(5)	19	1,840	1,419	3,259
Increase (decrease) compared to prior year	48	190	36	27	301	(825)	(524)

35. Country by country reporting

The information relating to Country-by-Country reporting, required by Article 89 of Directive 2013/36/EU (Capital Requirements Directive), will be published at http://www.citigroup.com/citi/investor/reg.htm.