

**CITIGROUP GLOBAL MARKETS INC.**  
**AND SUBSIDIARIES**  
**(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CITIGROUP GLOBAL MARKETS HOLDINGS INC.)**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**JUNE 30, 2015**  
**(UNAUDITED)**

**CITIGROUP GLOBAL MARKETS INC. AND SUBSIDIARIES**  
(An indirect wholly owned subsidiary of Citigroup Global Markets Holdings Inc.)  
Consolidated Statement of Financial Condition  
June 30, 2015  
(Unaudited)  
(In millions of dollars)

<b>Assets</b>	
Cash and cash equivalents	\$ 611
Cash segregated under federal and other regulations	4,198
Securities borrowed or purchased under agreements to resell (including \$98,616 at fair value)	156,294
Trading account assets (\$30,030 pledged as collateral):	
Mortgage-backed securities	29,073
U.S. Treasury and federal agency securities	14,805
Equity securities	10,871
Corporate debt securities	6,690
Asset-backed securities	4,834
Derivatives	1,723
State and municipal securities	985
Foreign government securities	884
Other debt securities	3
	<u>69,868</u>
Securities received as collateral, at fair value (all pledged to counterparties)	7,126
Receivables:	
Brokers, dealers and clearing organizations	10,735
Customers	9,133
Other	1,028
	<u>20,896</u>
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$1,637	323
Goodwill	145
Other assets	4,981
Total assets	<u>\$ 264,442</u>

See accompanying notes to consolidated statement of financial condition.

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**Liabilities and Stockholder's Equity**

Short-term borrowings	\$	6,459
Securities loaned or sold under agreements to repurchase (including \$8,678 at fair value)		149,899
Trading account liabilities:		
U.S. Treasury and federal agency securities		13,522
Corporate debt securities		3,200
Equity securities		2,230
Derivatives		1,149
Foreign government securities		468
Other debt securities		102
		<u>20,671</u>
Payables and accrued liabilities:		
Customers		38,381
Obligations to return securities received as collateral, at fair value		7,126
Brokers, dealers and clearing organizations		2,264
Other		4,452
		<u>52,223</u>
Long-term debt (including \$134 at fair value)		<u>15,334</u>
Total liabilities		<u>244,586</u>
Commitments, contingencies and guarantees:		
Subordinated indebtedness		9,945
Stockholder's equity:		
Common stock (\$10,000 par value, 1,000 shares authorized, issued and outstanding)		10
Additional paid-in capital		9,197
Retained earnings		704
Total stockholder's equity		<u>9,911</u>
Total liabilities and stockholder's equity	\$	<u><u>264,442</u></u>

See accompanying notes to consolidated statement of financial condition.

## CITIGROUP GLOBAL MARKETS INC.

(An indirect wholly owned subsidiary of Citigroup Global Markets Holdings Inc.)

Notes to Consolidated Statement of Financial Condition

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(Unaudited)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The accompanying unaudited Consolidated Statement of Financial Condition as of June 30, 2015 includes the accounts of Citigroup Global Markets Inc. (CGMI) and its subsidiaries (the Company) prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). CGMI is a direct wholly owned subsidiary of Citigroup Financial Products Inc. (CFPI, or Parent), and is an indirect wholly owned subsidiary of Citigroup Global Markets Holdings Inc. (CGMHI), which is a wholly owned subsidiary of Citigroup Inc. (Citigroup or Citi). CGMI is registered as a securities broker dealer and investment advisor with the Securities and Exchange Commission (SEC), a municipal securities dealer and advisor with the Municipal Securities Rulemaking Board (MSRB), and registered swap dealer and futures commission merchant (FCM) with the Commodities Future Trading Commission (CFTC). The Company is a member of the Financial Industry Regulatory Authority (FINRA), the Securities Protection Corporation (SIPC), the National Futures Association (NFA) and other self-regulatory organizations. The Company provides corporate, institutional, public sector and high net worth clients with a full range of products and services, including fixed income and equity sales and trading, foreign exchange, prime brokerage, derivative services, equity and fixed income research, investment banking and advisory services, cash management, trade finance and securities services.

The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method.

#### Use of Estimates

Management must make estimates and assumptions that affect the Consolidated Statement of Financial Condition and the related footnote disclosures. Such estimates are used in connection with certain fair value measurements. See note 9 to the Consolidated Statement of Financial Condition for further discussions on estimates used in the determination of fair value. Moreover, estimates are significant in determining the amounts of impairments of goodwill and other intangible assets, provisions for probable losses that may arise from credit related exposures and probable and estimable losses related to litigation and regulatory proceedings, and tax reserves. While management makes its best judgment, actual amounts or results could differ from those estimates. Current market conditions increase the risk and complexity of the judgments in these estimates.

#### Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in Accounting Standards Codification (ASC) Topic 810, *Consolidation*, which are: (i) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the entity's expected losses or expected returns.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the VIE's economic performance and a right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE (that is, CGMI is the primary beneficiary).

The Company had no material interests in consolidated VIEs at June 30, 2015. The Company has variable interests in other VIEs that are not consolidated because the Company is not the primary beneficiary. These include certain collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs). However, these VIEs and all other unconsolidated VIEs are monitored by the Company to assess whether any events have occurred to cause its primary beneficiary status to change. These events include:

- purchases or sales of variable interests by the Company or an unrelated third party, which cause the Company's overall variable interest ownership to change;
- changes in contractual arrangements that reallocate expected losses and residual returns among the variable interest holders;
- changes in the party that has power to direct the activities of a VIE that most significantly impact the entity's economic performance; and
- providing financial support to an entity that results in an implicit variable interest.

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All other entities not deemed to be VIEs with which the Company has involvement are evaluated for consolidation under other subtopics of ASC 810.

### **Cash and Cash Equivalents**

The Company defines cash and cash equivalents as highly liquid investments with original maturities of three months or less at the time of purchase, other than those held for sale in the ordinary course of business.

### **Cash Segregated under Federal and Other Regulations**

The Company is required by its primary regulators, including the SEC and CFTC, to segregate cash to satisfy rules regarding the protection of customer assets. See note 5 to the Consolidated Statement of Financial Condition for further discussion.

### **Trading Account Assets and Liabilities**

*Trading account assets* include debt and marketable equity securities, derivatives in a net receivable position, and residual interests in securitizations. *Trading account liabilities* include securities sold, not yet purchased (short positions) and derivatives in a net payable position. All trading account assets and liabilities are carried at fair value.

Derivatives used for trading purposes include interest rate, currency, equity, credit, and commodity swap agreements, options, caps and floors, warrants, and financial and commodity futures and forward contracts. Derivative asset and liability positions are presented net by counterparty on the Consolidated Statement of Financial Condition when a valid master netting agreement exists and the other conditions set out in ASC 210-20, *Balance Sheet—Offsetting*, are met. See note 7 to the Consolidated Statement of Financial Condition.

The Company uses a number of techniques to determine the fair value of trading assets and liabilities, which are described in note 9 to the Consolidated Statement of Financial Condition.

### **Securities Borrowed and Securities Loaned**

Securities borrowing and lending transactions generally do not constitute a sale of the underlying securities for accounting purposes and are treated as collateralized financing transactions. Such transactions are recorded at the amount of proceeds advanced or received plus accrued interest. The Company has elected to apply fair value accounting to a number of securities borrowing and lending transactions.

The Company monitors the fair value of securities borrowed or loaned on a daily basis and obtains or posts additional collateral in order to maintain contractual margin protection. As described in note 9 to the Consolidated Statement of Financial Condition, the Company uses a discounted cash flow technique to determine the fair value of securities lending and borrowing transactions.

### **Repurchase and Resale Agreements**

Securities sold under agreements to repurchase (repos) and securities purchased under agreements to resell (reverse repos) generally do not constitute a sale of the underlying securities for accounting purposes and are treated as collateralized financing transactions. The Company has elected to apply fair value accounting to certain repo and reverse repo transactions. Any transactions for which fair value accounting has not been elected, including all repo and reverse repo transactions with related parties, are recorded at the amount of cash advanced or received plus accrued interest.

Where the conditions of ASC 210-20-45-11, *Balance Sheet-Offsetting: Repurchase and Reverse Repurchase Agreements*, are met, repos and reverse repos are presented net on the Consolidated Statement of Financial Condition.

The Company's policy is to take possession of securities purchased under reverse repurchase agreements. The Company monitors the fair value of securities subject to repurchase or resale on a daily basis and obtains or posts additional collateral in order to maintain contractual margin protection.

As described in note 9 to the Consolidated Statement of Financial Condition, the Company uses a discounted cash flow technique to determine the fair value of repo and reverse repo transactions.

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### **Securities Received as Collateral and Obligations to Return Securities Received as Collateral**

In transactions where the Company acts as a lender in securities lending agreements and receives securities that can be pledged or sold as collateral it recognizes an asset on the Consolidated Statement of Financial Condition representing the securities received and a liability for the same amount representing the obligation to return those securities.

### **Receivables and Payables – Customers, Brokers, Dealers and Clearing Organizations**

The Company has receivables and payables for financial instruments sold to and purchased from brokers, dealers and customers, which arise in the ordinary course of business. The Company is exposed to risk of loss from the inability of brokers, dealers or customers to pay for purchases or to deliver the financial instruments sold, in which case the Company would have to sell or purchase the financial instruments at prevailing market prices. Credit risk is reduced to the extent that an exchange or clearing organization acts as a counterparty to the transaction and replaces the broker, dealer or customer in question.

The Company seeks to protect itself from the risks associated with customer activities by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines. Margin levels are monitored daily, and customers deposit additional collateral as required. Where customers cannot meet collateral requirements, the Company may liquidate sufficient underlying financial instruments to bring the customer into compliance with the required margin level.

Exposure to credit risk is impacted by market volatility, which may impair the ability of clients to satisfy their obligations to the Company. Credit limits are established and closely monitored for customers and for brokers and dealers engaged in forwards, futures and other transactions deemed to be credit sensitive. Brokerage receivables and payables are accounted for in accordance with ASC 940-320.

### **Property, Equipment and Leasehold Improvements**

*Property, equipment and leasehold improvements* are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded substantially on a straight-line basis over the lesser of the estimated useful lives of the related assets or noncancelable lease terms, as appropriate. Certain internal use software costs are capitalized and amortized on a straight line basis over their estimated useful lives.

### **Goodwill**

*Goodwill* represents the excess of acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is subject to annual impairment testing, whereby impairment is deemed to exist if the carrying value of the single reporting unit of the Company exceeds its estimated fair value. During the first six months of 2015, no interim impairment test on goodwill was performed and no goodwill was written off due to impairment.

### **Securitizations**

The Company primarily securitizes mortgages and corporate debt instruments. There are two key accounting determinations that must be made relating to securitizations. The Company first makes a determination as to whether the securitization entity must be consolidated. Second, it determines whether the transfer of financial assets to the entity is considered a sale under GAAP. If the securitization entity is a VIE, the Company consolidates the VIE if it is the primary beneficiary (as discussed in “Variable Interest Entities” above). For all other securitization entities determined not to be VIEs in which the Company participates, consolidation is based on which party has voting control of the entity, giving consideration to removal and liquidation rights in certain partnership structures. Only securitization entities controlled by the Company are consolidated.

Interests in the securitized and sold assets may be retained in the form of subordinated or senior interest-only strips, subordinated tranches and residuals. Retained interests in non-consolidated mortgage securitization trusts are classified as asset-backed securities in *Trading account assets*.

### **Debt**

*Short-term borrowings* and *Long-term debt* are accounted for at amortized cost, except where the Company has elected to report the debt instruments at fair value.

### **Transfers of Financial Assets**

For a transfer of financial assets to be considered a sale: (i) the assets must have been legally isolated from the Company, even in bankruptcy or other receivership; (ii) the purchaser must have the right to pledge or sell the assets transferred or,

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if the purchaser is an entity whose sole purpose is to engage in securitization and asset-backed financing activities through the issuance of beneficial interests and that entity is constrained from pledging the assets it receives, each beneficial interest holder must have the right to sell or pledge their beneficial interests; and (iii) the Company may not have an option or obligation to reacquire the assets.

If these sale requirements are met, the assets are removed from the Company's Consolidated Statement of Financial Condition. If the conditions for sale are not met, the transfer is considered to be a secured borrowing, the assets remain on the Consolidated Statement of Financial Condition and the sale proceeds are recognized as the Company's liability. A legal opinion on a sale generally is obtained for complex transactions or where the Company has continuing involvement with assets transferred or with the securitization entity. For a transfer to be eligible for sale accounting, those opinions must state that the asset transfer would be considered a sale and that the assets transferred would not be consolidated with the Company's other assets in the event of the Company's insolvency.

For a transfer of a portion of a financial asset to be considered a sale, the portion transferred must meet the definition of a participating interest. A participating interest must represent a pro rata ownership in an entire financial asset; all cash flows must be divided proportionately, with the same priority of payment; no participating interest in the transferred asset may be subordinated to the interest of another participating interest holder; and no party may have the right to pledge or exchange the entire financial asset unless all participating interest holders agree. Otherwise, the transfer is accounted for as a secured borrowing.

See note 6 to the Consolidated Statement of Financial Condition for further discussion.

### **Income Taxes**

The Company is subject to the income tax laws of the U.S. and its states and municipalities, and the foreign jurisdictions in which it operates. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities.

Disputes over interpretations of the tax laws may be subject to review and adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

Deferred taxes are recorded for the future consequences of events that have been recognized for financial statements or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management's judgment that realization is more-likely-than-not. ASC 740, *Income Taxes*, sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized. ASC 740 also sets out disclosure requirements to enhance transparency of an entity's tax reserves.

### **Related Party Transactions**

The Company has related party transactions with certain of its subsidiaries and affiliates. These transactions, which are primarily short-term in nature, include cash accounts, collateralized financing transactions, margin accounts, derivative transactions, charges for operational support and the borrowing and lending of funds, and are entered into in the ordinary course of business. See note 11 to the Consolidated Statement of Financial Condition.

## **ACCOUNTING CHANGES**

### **Accounting for Repurchase-to-Maturity Transactions**

In June 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The ASU changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowed accounting, which is consistent with the accounting for other repurchase agreements. The ASU also requires disclosures about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings (see note 3 to the Consolidated Statement of Financial Condition). The ASU's provisions became effective for CGMI in the first six months of 2015. The effect of adopting the ASU is required to be reflected as a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. Adoption of the ASU did not have a material effect on the Company's financial statements.

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### FUTURE APPLICATION OF ACCOUNTING STANDARDS

#### Consolidation

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which is intended to improve certain areas of consolidation guidance for legal entities such as limited partnerships, limited liability companies, and securitization structures. The ASU will reduce the number of consolidation models. The ASU will be effective on January 1, 2016. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the effect that ASU 2015-02 will have on its Consolidated Statement of Financial Condition.

### 2. INCENTIVE PLANS AND EMPLOYEE BENEFITS

#### Discretionary Annual Incentive Awards

The Company participates in various Citigroup stock-based and other deferred incentive programs. Citigroup grants immediate cash bonus payments, deferred cash awards, stock payments and restricted and deferred stock awards as part of its discretionary annual incentive award program involving a large segment of Citigroup's employees worldwide, including employees of CGMI.

Discretionary annual incentive awards are generally awarded in the first quarter of the year based upon the previous year's performance. Awards valued at less than U.S. \$100,000 (or the local currency equivalent) are generally paid entirely in the form of an immediate cash bonus. Pursuant to Citigroup policy and/or regulatory requirements, certain employees and officers are subject to mandatory deferrals of incentive pay and generally receive 25% to 60% of their awards in a combination of restricted or deferred stock and deferred cash.

Deferred annual incentive awards are generally delivered as two awards—a restricted or deferred stock award under Citi's Capital Accumulation Program (CAP) and a deferred cash award. The applicable mix of CAP and deferred cash awards may vary based on the employee's minimum deferral requirement and the country of employment. In some cases, the entire deferral will be in the form of either a CAP or deferred cash award.

Subject to certain exceptions (principally, for retirement-eligible employees), continuous employment within Citigroup is required to vest in CAP and deferred cash awards. Post-employment vesting by retirement-eligible employees and participants who meet other conditions is generally conditioned upon their refraining from competition with Citigroup during the remaining vesting period, unless the employment relationship has been terminated by Citigroup under certain conditions.

Generally, the CAP and deferred cash awards vest in equal annual installments over three- or four-year periods. Vested CAP awards are delivered in shares of Citigroup common stock. Deferred cash awards are payable in cash and earn a fixed notional rate of interest that is paid only if and when the underlying principal award amount vests.

Unvested CAP and deferred cash awards made in January 2011 or later are subject to one or more clawback provisions that apply in certain circumstances, including in the case of employee risk-limit violations or other misconduct, or where the awards were based on earnings that were misstated. CAP awards made to certain employees in February 2013 and later are subject to a formulaic performance-based vesting condition pursuant to which amounts otherwise scheduled to vest will be reduced based on the amount of any pretax loss in the participant's business in the calendar year preceding the scheduled vesting date. For CAP awards made in February 2013 and later, a minimum reduction of 20% applies for the first dollar of loss.

In addition, deferred cash awards made to certain employees in February 2013 and later are subject to a discretionary performance-based vesting condition under which an amount otherwise scheduled to vest may be reduced in the event of a "material adverse outcome" for which a participant has "significant responsibility." Deferred cash awards made to these employees in February 2014 and later are subject to an additional clawback provision pursuant to which unvested awards may be canceled if the employee engaged in misconduct or exercised materially imprudent judgment, or failed to supervise or escalate the behavior of other employees who did.

Certain CAP and other stock-based awards are subject to variable accounting, pursuant to which the associated value of the award fluctuates with changes in Citigroup's common stock price until the date that the award is settled, either in cash or shares.



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### **Sign-on and Long-Term Retention Awards**

Stock awards, deferred cash awards and grants of stock options may be made at various times during the year as sign-on awards to induce new hires to join the Company or to high-potential employees as long-term retention awards. Vesting periods and other terms and conditions pertaining to these awards tend to vary by grant. Generally, recipients must remain employed through the vesting dates to vest in the awards, except in cases of death, disability or involuntary termination other than for "gross misconduct." These awards do not usually provide for post-employment vesting by retirement-eligible participants. Any stock option grants are for Citigroup common stock with exercise prices that are no less than the fair market value at the time of grant.

### **Performance Share Units**

Certain executive officers were awarded a target number of performance share units (PSUs) on February 18, 2014 and February 18, 2015, for performance in 2013 and 2014, respectively. PSUs will be earned only to the extent that Citigroup attains specified performance goals relating to Citigroup's return on assets and relative total shareholder return against peers over the three-year period beginning with the year of award. The actual dollar amounts ultimately earned could vary from zero, if performance goals are not met, to as much as 150% of target, if performance goals are meaningfully exceeded. The value of each PSU is equal to the value of one share of Citigroup common stock. The value of the award will fluctuate with changes in Citigroup's stock price and the attainment of the specified performance goals for each award, until it is settled solely in cash after the end of the performance period.

### **Profit Sharing Plan**

The 2010 Key Employee Profit Sharing Plan (KEPSP) entitled participants to profit-sharing payments calculated with reference to the pretax income of Citicorp (as defined in the KEPSP) over a performance measurement period of January 1, 2010, through December 31, 2013. Generally, if a participant remained employed and all other conditions to vesting and payment were satisfied, the participant became entitled to payment. Payments were made in cash.

### **Other Variable Incentive Compensation**

Employees of CGMI participate in various incentive plans globally that are used to motivate and reward performance primarily in the areas of sales, operational excellence and customer satisfaction. Participation in these plans is generally limited to employees who are not eligible for discretionary annual incentive awards.

### **Summary**

Recipients of Citigroup stock awards generally do not have any stockholder rights until shares are delivered upon vesting or exercise, or after the expiration of applicable required holding periods. Recipients of restricted or deferred stock awards and stock unit awards, however, may be entitled to receive dividends or dividend-equivalent payments during the vesting period. Recipients of restricted stock awards generally are entitled to vote the shares in their award during the vesting period. Once a stock award vests, the shares are freely transferable, unless they are subject to a restriction on sale or transfer for a specified period. Pursuant to a stock ownership commitment, certain executives have committed to holding most of their vested shares indefinitely.

### **Pension, Postretirement, Postemployment and Defined Contribution Plans**

The Company participates in several non-contributory defined benefit pension plans sponsored by Citigroup Inc. covering certain U.S. employees and has various defined benefit pension and termination indemnity plans covering employees outside the United States.

Citigroup's U.S. qualified defined benefit plan was frozen effective January 1, 2008 for most employees. Accordingly, no additional compensation-based contributions were credited to the cash balance portion of the plan for existing plan participants after 2007. However, certain employees covered under the prior final pay plan formula continue to accrue benefits.

The Company also participates in a number of non-contributory, nonqualified pension plans. These plans, which are unfunded, provide supplemental defined pension benefits to certain U.S. employees. With the exception of certain employees covered under the prior final pay plan formula, the benefits under these plans were frozen in prior years.

The Company participates in postemployment plans sponsored by Citigroup that provide income continuation and health and welfare benefits to certain eligible U.S. employees on long-term disability.

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The Company participates in several defined contribution plans in the U.S. and in certain non-U.S. locations, all of which are administered in accordance with local laws. The most significant defined contribution plan is the Citigroup 401(k) Plan sponsored by Citigroup Inc. in the U.S.

Under the Citigroup 401(k) Plan, eligible U.S. employees receive matching contributions of up to 6% of their eligible compensation for 2015 and 2014, subject to statutory limits. Additionally, for eligible employees whose eligible compensation is \$100,000 or less, a fixed contribution of up to 2% of eligible compensation is provided. All Company contributions are invested according to participants' individual elections.

### Health Care and Life Insurance Plans

The Company, through Citigroup, offers certain health care and life insurance benefits to its employees. The Company also participates in postretirement health care and life insurance benefits offered by Citigroup to certain eligible U.S. retired employees, as well as to certain eligible employees outside the United States.

### 3. SECURITIES BORROWED, LOANED AND SUBJECT TO REPURCHASE AGREEMENTS

*Securities borrowed or purchased under agreements to resell*, at their respective carrying values, consisted of the following at June 30, 2015:

*In millions of dollars*

Securities purchased under agreements to resell (including \$51,041 at fair value)	\$ 55,003
Deposits paid for securities borrowed (including \$47,575 at fair value)	101,291
<b>Total</b>	<b>\$ 156,294</b>

*Securities loaned or sold under agreements to repurchase*, at their respective carrying values, consisted of the following at June 30, 2015:

*In millions of dollars*

Securities sold under agreements to repurchase (including \$8,100 at fair value)	\$ 119,125
Deposits received for securities loaned (including \$578 at fair value)	30,774
<b>Total</b>	<b>\$ 149,899</b>

The resale and repurchase agreements represent collateralized financing transactions. CGMI executes these transactions to facilitate customer matched-book activity and to efficiently fund a portion of the Company's trading inventory.

To maintain reliable funding under a wide range of market conditions, including under periods of stress, CGMI manages these activities by taking into consideration the quality of the underlying collateral, and stipulating financing tenor. CGMI manages the risks in its collateralized financing transactions by conducting daily stress tests to account for changes in capacity, tenors, haircut, collateral profile and client actions. Additionally, CGMI maintains counterparty diversification by establishing concentration triggers and assessing counterparty reliability and stability under stress.

It is the Company's policy to take possession of the underlying collateral, monitor its market value relative to the amounts due under the agreements and, when necessary, require prompt transfer of additional collateral in order to maintain contractual margin protection. For resale and repurchase agreements, when necessary, the Company posts additional collateral in order to maintain contractual margin protection. Collateral typically consists of government and government-agency securities, corporate and municipal bonds, equities, and mortgage-backed and other asset-backed securities.

The resale and repurchase agreements are generally documented under industry standard agreements that allow the prompt close-out of all transactions (including the liquidation of securities held) and the offsetting of obligations to return cash or securities by the non-defaulting party, following a payment or other type of default under the relevant master agreement. Events of default generally include (i) failure to deliver cash or securities as required under the transaction, (ii) failure to provide or return cash or securities as used for margining purposes, (iii) breach of representation, (iv) cross-default to another transaction entered into among the parties, or, in some cases, their affiliates, and (v) a repudiation of obligations under the agreement. The counterparty that receives the securities in these

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transactions is generally unrestricted in its use of the securities, with the exception of transactions executed on a tri-party basis, where the collateral is maintained by a custodian and operational limitations may restrict its use of the securities.

A substantial portion of the resale and repurchase agreements is carried at the amount of cash initially advanced or received, plus accrued interest, as specified in the respective agreements. The remaining portion is recorded at fair value, as described in note 9 to the Consolidated Statement of Financial Condition.

The securities borrowing and lending agreements also represent collateralized financing transactions similar to the resale and repurchase agreements. Collateral typically consists of government and government-agency securities and corporate debt and equity securities.

Similar to the resale and repurchase agreements, securities borrowing and lending agreements are generally documented under industry standard agreements that allow the prompt close-out of all transactions (including the liquidation of securities held) and the offsetting of obligations to return cash or securities by the non-defaulting party, following a payment default or other default by the other party under the relevant master agreement. Events of default and rights to use securities under the securities borrowing and lending agreements are similar to the resale and repurchase agreements referenced above.

A substantial portion of securities borrowing and lending agreements is recorded at the amount of cash advanced or received. The remaining portion is recorded at fair value as the Company elected the fair value option for certain securities borrowed and loaned portfolios, as described in note 9 to the Consolidated Statement of Financial Condition. With respect to securities loaned, the Company receives cash collateral in an amount generally in excess of the market value of the securities loaned. The Company monitors the market value of securities borrowed and securities loaned on a daily basis and obtains or posts additional collateral in order to maintain contractual margin protection.

The enforceability of offsetting rights incorporated in the master netting agreements for resale and repurchase agreements and securities borrowing and lending agreements is evidenced to the extent that a supportive legal opinion has been obtained from counsel of recognized standing that provides the requisite level of certainty regarding the enforceability of these agreements, and that the exercise of rights by the non-defaulting party to terminate and close-out transactions on a net basis under these agreements will not be stayed or avoided under applicable law upon an event of default including bankruptcy, insolvency or similar proceeding.

A legal opinion may not have been sought or obtained for certain jurisdictions where local law is silent or sufficiently ambiguous to determine the enforceability of offsetting rights or where adverse case law or conflicting regulation may cast doubt on the enforceability of such rights. In some jurisdictions and for some counterparty types, the insolvency law for a particular counterparty type may be nonexistent or unclear as overlapping regimes may exist. For example, this may be the case for certain sovereigns, municipalities, central banks and U.S. pension plans.

The following tables present the gross and net resale and repurchase agreements and securities borrowing and lending agreements and the related offsetting amount permitted under ASC 210-20-45, as of June 30, 2015. The tables also include amounts related to financial instruments that are not permitted to be offset under ASC 210-20-45 but would be eligible for offsetting to the extent that an event of default occurred and a legal opinion supporting enforceability of the offsetting rights has been obtained. Remaining exposures continue to be secured by financial collateral, but the Company may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.

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As of June 30, 2015					
<i>In millions of dollars</i>	Gross amounts of recognized assets	Gross amounts offset on the Consolidated Balance Sheet <sup>(1)</sup>	Net amounts of assets included on the Consolidated Balance Sheet	Amounts not offset on the Consolidated Balance Sheet but eligible for offsetting upon counterparty default <sup>(2)</sup>	Net amounts <sup>(3)</sup>
Securities purchased under agreements to resell	\$83,968	\$28,965	\$55,003	\$50,783	\$4,220
Deposits paid for securities borrowed	101,291	—	101,291	21,058	80,233
<b>Total</b>	<b>\$185,259</b>	<b>\$28,965</b>	<b>\$156,294</b>	<b>\$71,841</b>	<b>\$84,453</b>

<i>In millions of dollars</i>	Gross amounts of recognized liabilities	Gross amounts offset on the Consolidated Balance Sheet <sup>(1)</sup>	Net amounts of liabilities included on the Consolidated Balance Sheet	Amounts not offset on the Consolidated Balance Sheet but eligible for offsetting upon counterparty default <sup>(2)</sup>	Net amounts <sup>(3)</sup>
Securities sold under agreements to repurchase	\$148,090	\$28,965	\$119,125	\$81,608	\$37,517
Deposits received for securities loaned	30,774	—	30,774	18,650	12,124
<b>Total</b>	<b>\$178,864</b>	<b>\$28,965</b>	<b>\$149,899</b>	<b>\$100,258</b>	<b>\$49,641</b>

- (1) Includes financial instruments subject to enforceable master netting agreements that are permitted to be offset under ASC 210-20-45.
- (2) Includes financial instruments subject to enforceable master netting agreements that are not permitted to be offset under ASC 210-20-45 but would be eligible for offsetting to the extent that an event of default has occurred and a legal opinion supporting enforceability of the offsetting right has been obtained.
- (3) Remaining exposures continue to be secured by financial collateral, but the Company may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.

The following table presents the gross amount of liabilities associated with repurchase agreements and securities lending agreements, by remaining contractual maturity as of June 30, 2015:

<i>In millions of dollars</i>	Open and Overnight	Up to 30 Days	31-90 Days	Greater than 90 Days	Total
Securities sold under agreements to repurchase	\$98,826	\$23,132	\$12,603	\$13,529	\$148,090
Deposits received for securities loaned	23,182	4,330	1,080	2,182	30,774
<b>Total</b>	<b>\$122,008</b>	<b>\$27,462</b>	<b>\$13,683</b>	<b>\$15,711</b>	<b>\$178,864</b>

The following table presents the gross amount of liabilities associated with repurchase agreements and securities lending agreements, by class of underlying collateral as of June 30, 2015:

<i>In millions of dollars</i>	Repurchase Agreements	Securities Lending Agreements	Total
U.S Treasury and federal agency	\$93,325	\$4,006	\$97,331
State and municipal	642	—	642
Foreign government	2,960	123	3,083
Corporate bonds	8,316	510	8,826
Equity securities	10,790	25,382	36,172
Mortgage-backed securities	19,429	—	19,429
Asset-backed securities	1,557	—	1,557
Other	11,071	753	11,824
<b>Total</b>	<b>\$148,090</b>	<b>\$30,774</b>	<b>\$178,864</b>

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### 4. LONG-TERM DEBT AND SUBORDINATED INDEBTEDNESS

<i>In millions of dollars</i>	June 30, 2015
Long-term note with CFPI	\$ 15,000
Subordinated indebtedness with CGMHI	6,945
Subordinated indebtedness with Citigroup	3,000
Long-term note programs	334
Total	\$ 25,279

At June 30, 2015 the Company had subordinated indebtedness of \$6.945 billion with CGMHI. This subordinated credit agreement bears interest at a rate agreed upon by both parties (currently 1.73%) and had a maturity date of August 31, 2016 at June 30, 2015. The maturity date is automatically extended an additional year, unless CGMHI notifies FINRA in writing at least seven months prior to the maturity date that such scheduled maturity date shall not be extended.

The Company has a \$5 billion subordinated revolving credit agreement with Citigroup which matures on June 30, 2016, and a \$5 billion subordinated revolving credit agreement with Citigroup which matures on August 31, 2016. The agreements bear interest at rates agreed upon by both parties (currently 1.73%). At June 30, 2015, there are \$1.5 billion in borrowings included in subordinated indebtedness under the facility which matures on June 30, 2016 and \$1.5 billion in borrowings included in subordinated indebtedness under the facility which matures on August 31, 2016.

All subordinated indebtedness qualified for inclusion in net capital at June 30, 2015. In accordance with Securities and Exchange Commission (SEC) regulations, subordinated indebtedness may not be repaid if net capital is less than 5% of aggregate debit items, as defined, or if other net capital rule requirements are not met.

CGMI has a \$60 billion master promissory note (the long term note) and a \$25 billion short term nonnegotiable master promissory note with CFPI. The long term note currently bears interest at a floating rate agreed upon by both parties (weighted average interest rate of 1.61% at June 30, 2015) and is prepayable without penalty. At June 30, 2015, there are \$15.0 billion in borrowings with CFPI under the long term note, which has no contractual final end / repayment date. For liquidity purposes the maturity of the long term note is assumed to be greater than one year from the current reporting date. The maturity of the long term note may be accelerated if the Company breaches certain restrictive provisions of the loan agreement, which require, among other things, that the Company maintain minimum levels of net capital (see note 5 to the Consolidated Statement of Financial Condition). The Company was in compliance with these requirements during 2015.

CGMI also has borrowing agreements consisting of facilities that CGMI has been advised are available, but where no contractual lending obligation exists. These arrangements are reviewed on an ongoing basis to ensure flexibility in meeting CGMI's short-term requirements.

### 5. CAPITAL REQUIREMENTS

The Company is a registered broker dealer and registered futures commission merchant and, accordingly, is subject to the net capital requirements of SEC Rule 15c3 1 (Net Capital Rule), FINRA and the CFTC. Under the Net Capital Rule, the Company is required to maintain minimum net capital of not less than the greater of 2% of aggregate debit items arising from customer transactions, plus excess margin collateral on reverse repurchase agreements or the CFTC risk based requirement representing the sum of 8% of customer risk maintenance margin requirement and 8% of non-customer risk maintenance margin requirement, as defined. FINRA may require a member firm to reduce its business if net capital is less than 4% of such aggregate debit items and may prohibit a firm from expanding its business if net capital is less than 5% of such aggregate debit items.

The Company has elected to compute net capital in accordance with the provisions of Appendix E of the Net Capital Rule. This methodology allows the Company to compute market risk capital charges using internal value at risk models. Under Appendix E of the Net Capital Rule, the Company is required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million. The Company is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of June 30, 2015, CGMI had tentative net capital in excess of both the minimum

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and the notification requirements. At June 30, 2015, the Company had regulatory net capital of \$6,928 million, which was \$5,560 million in excess of the minimum net capital requirement of \$1,368 million.

The Company is also subject to customer protection segregation requirements under securities laws and regulations, including those of the SEC and CFTC. As of June 30, 2015, included in the Consolidated Statement of Financial Condition are assets segregated or held in separate accounts under Rule 15c3-3 of the SEC or the Commodity Exchange Act (CEA) as follows:

	<u>Rule 15c3-3</u>	<u>CEA</u>	<u>Total</u>
	(In millions of dollars)		
Cash	\$ 1,300	\$ 2,898	\$ 4,198
Securities borrowed	333	—	333
Trading account assets	4,382	—	4,382
Securities purchased under agreements to resell	3,069	—	3,069
Receivables from brokers, dealers and clearing organizations:			
Deposits with exchange clearing organizations	—	3,871	3,871
Receivable from clearing brokers and FCMs, net	—	673	673
Receivable from exchange clearing organizations, net	—	—	—
Total	<u>\$ 9,084</u>	<u>\$ 7,442</u>	<u>\$ 16,526</u>

In addition to the above, the Company also segregated \$8,598 million of customer securities pursuant to CEA requirements as of June 30, 2015.

## 6. SECURITIZATIONS AND VARIABLE INTEREST ENTITIES

### Uses of Special Purpose Entities

A special purpose entity (SPE) is an entity designed to fulfill a specific limited need of the company that organized it. The principal uses of SPEs by the Company are to obtain liquidity and favorable capital treatment by securitizing certain financial assets, to assist clients in securitizing their financial assets and to create investment products for clients. SPEs may be organized in various legal forms, including trusts, partnerships or corporations. In a securitization, the company transferring assets to an SPE converts all (or a portion) of those assets into cash before they would have been realized in the normal course of business through the SPE's issuance of debt and equity instruments, certificates, commercial paper or other notes of indebtedness. These issuances are recorded on the balance sheet of the SPE, which may or may not be consolidated onto the balance sheet of the company that organized the SPE.

Investors usually have recourse only to the assets in the SPE, but may also benefit from other credit enhancements, such as a collateral account. Because of these enhancements, the SPE issuances typically obtain a more favorable credit rating than the transferor could obtain for its own debt issuances. This results in less expensive financing costs than unsecured debt. The SPE may also enter into derivative contracts in order to convert the yield or currency of the underlying assets to match the needs of the SPE investors or to limit or change the credit risk of the SPE. The Company may be the provider of certain credit enhancements as well as the counterparty to any related derivative contracts.

Most of the Company's SPEs are variable interest entities (VIEs), as described below.

### Variable Interest Entities

VIEs are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest (i.e., ability to make significant decisions through voting rights and a right to receive the expected residual returns of the entity or an obligation to absorb the expected losses of the entity). Investors that finance the VIE through debt or equity interests or other counterparties providing other forms of support, such as subordinated fee arrangements or certain types of derivative contracts are variable interest holders in the entity.

The variable interest holder, if any, that has a controlling financial interest in a VIE is deemed to be the primary beneficiary and must consolidate the VIE. The Company would be deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

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- power to direct the activities of the VIE that most significantly impact the entity’s economic performance; and
- an obligation to absorb losses of the entity that could potentially be significant to the VIE, or a right to receive benefits from the entity that could potentially be significant to the VIE.

The Company must evaluate each VIE to understand the purpose and design of the entity, the role the Company had in the entity’s design and its involvement in the VIE’s ongoing activities. The Company then must evaluate which activities most significantly impact the economic performance of the VIE and who has the power to direct such activities.

For those VIEs where the Company determines that it has the power to direct the activities that most significantly impact the VIE’s economic performance, the Company must then evaluate its economic interests, if any, and determine whether it could absorb losses or receive benefits that could potentially be significant to the VIE. When evaluating whether the Company has an obligation to absorb losses that could potentially be significant, it considers the maximum exposure to such loss without consideration of probability. Such obligations could be in various forms, including, but not limited to, debt and equity investments and certain derivative contracts.

In various other transactions, the Company may: (i) act as a derivative counterparty (for example, interest rate swap, cross-currency swap, or purchaser of credit protection under a credit default swap or total return swap where the Company pays the total return on certain assets to the SPE); (ii) act as underwriter or placement agent; (iii) provide administrative, trustee or other services; or (iv) make a market in debt securities or other instruments issued by VIEs. The Company generally considers such involvement, by itself, not to be variable interests and thus not an indicator of power or potentially significant benefits or losses.

See note 1 to the Consolidated Statement of Financial Condition for a discussion of impending changes to targeted areas of consolidation guidance.

The Company’s involvement with consolidated and unconsolidated VIEs with which the Company holds significant variable interests as of June 30, 2015 is presented below:

	<i>In millions of dollars</i>					As of June 30, 2015	
	Total involvement with SPE assets	Consolidated VIE / SPE assets	Significant unconsolidated VIE assets <sup>(2)</sup>	Maximum exposure to loss in significant unconsolidated VIEs <sup>(1)</sup>			
				Debt			
				investments <sup>(3)</sup>	Derivatives		
Mortgage securitizations <sup>(4)</sup>							
U.S. agency-sponsored	\$69,022	\$ —	\$69,022	\$2,080	\$ —		
Non-agency-sponsored	6,807	—	6,807	437	—		
Collateralized debt obligations	4,021	—	4,021	241	8		
Collateralized loan obligations	15,187	—	15,187	592	—		
Other	161	—	161	85	—		
<b>Total</b>	<b>\$95,198</b>	<b>\$ —</b>	<b>\$95,198</b>	<b>\$3,435</b>	<b>\$8</b>		

(1) The definition of maximum exposure to loss is included in the text that follows this table.

(2) A significant unconsolidated VIE is an entity where the Company has any variable interest or continuing involvement considered to be significant, regardless of the likelihood of loss or the notional amount of exposure.

(3) Included on the Company’s June 30, 2015 Consolidated Statement of Financial Condition.

(4) CGMI mortgage securitizations also include agency and non-agency (private-label) re-securitization activities. These SPEs are not consolidated. See “Re-securitizations” below for further discussion.

The previous table does not include:

- certain investment funds for which the Company provides investment management services and personal estate trusts for which the Company provides administrative, trustee and/or investment management services;
- VIEs structured by third parties where the Company holds securities in inventory, as these investments are made on arm’s-length terms;

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- certain positions in mortgage-backed and asset-backed securities held by the Company, which are classified as *Trading account assets*, where the Company has no other involvement with the related securitization entity deemed to be significant; and
- certain representations and warranties exposures in CGMI-sponsored mortgage-backed and asset-backed securitizations, where the Company has no variable interest or continuing involvement as servicer. The outstanding balance of mortgage loans securitized during 2005 to 2008 where the Company has no variable interest or continuing involvement as servicer was approximately \$13 billion at June 30, 2015.

The Company had no material interests in consolidated VIEs at June 30, 2015. The asset balances for unconsolidated VIEs where the Company has significant involvement represent the most current information available to the Company. In most cases, the asset balances represent an amortized cost basis without regard to impairments in fair value, unless fair value information is readily available to the Company.

The maximum funded exposure represents the balance sheet carrying amount of the Company's investment in the VIE. It reflects the initial amount of cash invested in the VIE adjusted for any accrued interest and cash principal payments received. The carrying amount may also be adjusted for increases or declines in fair value or any impairment in value. The maximum exposure of unfunded positions represents the notional amount of a derivative instrument considered to be a variable interest. In certain transactions, the Company has entered into derivative instruments or other arrangements that are not considered variable interests in the VIE (e.g., interest rate swaps, cross-currency swaps, or where the Company is the purchaser of credit protection under a credit default swap or total return swap where the Company pays the total return on certain assets to the SPE). Receivables under such arrangements are not included in the maximum exposure amounts.

### ***Mortgage Securitizations***

The Company provides a wide range of mortgage loan products to a diverse customer base. The Company's mortgage loan securitizations are primarily non-recourse, thereby effectively transferring the risk of future credit losses to the purchasers of the securities issued by the trust.

The Company is not the primary beneficiary of its U.S. agency-sponsored mortgage securitizations because CGMI does not have the power to direct the activities of the VIE that most significantly impact the entity's economic performance. Therefore, CGMI does not consolidate these U.S. agency-sponsored mortgage securitizations.

The Company does not consolidate certain non-agency-sponsored mortgage securitizations because CGMI is not the servicer with the power to direct the significant activities of the entity. In certain instances, the Company has (i) the power to direct the activities and (ii) the obligation to either absorb losses or the right to receive benefits that could be potentially significant to its non-agency-sponsored mortgage securitizations and, therefore, is the primary beneficiary and thus consolidates the VIE.

### ***Re-securitizations***

The Company engages in re-securitization transactions in which debt securities are transferred to a VIE in exchange for new beneficial interests. During the six months ended June 30, 2015, CGMI transferred non-agency (private-label) securities with an original par value of approximately \$649 million to re-securitization entities. These securities are backed by either residential or commercial mortgages and are often structured on behalf of clients.

As of June 30, 2015, the fair value of CGMI-retained interests in private-label re-securitization transactions structured by CGMI totaled approximately \$435 million (including \$79 million related to re-securitization transactions executed in 2015), which is recorded in *Trading account assets*. Of this amount, approximately \$29 million was related to senior beneficial interests, and approximately \$406 million was related to subordinated beneficial interests. The original par value of private-label re-securitization transactions in which CGMI holds a retained interest as of June 30, 2015 was approximately \$5.2 billion.

The Company also re-securitizes U.S. government-agency guaranteed mortgage-backed (agency) securities. During the six months ended June 30, 2015, CGMI transferred agency securities with a fair value of approximately \$8.9 billion to re-securitization entities.



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As of June 30, 2015, the fair value of CGMI-retained interests in agency re-securitization transactions structured by CGMI totaled approximately \$2.1 billion (including \$1.6 billion related to re-securitization transactions executed in 2015), which is recorded in *Trading account assets*. The original fair value of agency re-securitization transactions in which CGMI holds a retained interest as of June 30, 2015 was approximately \$69.0 billion.

As of June 30, 2015, the Company did not consolidate any private-label or agency re-securitization entities.

***Collateralized Debt and Loan Obligations***

A securitized collateralized debt obligation (CDO) is a VIE that purchases a pool of assets consisting of asset-backed securities and issues multiple tranches of equity and notes to investors.

A cash CDO, or arbitrage CDO, is a CDO designed to take advantage of the difference between the yield on a portfolio of selected assets, typically residential mortgage-backed securities, and the cost of funding the CDO through the sale of notes to investors. “Cash flow” CDOs are entities in which the CDO passes on cash flows from a pool of assets, while “market value” CDOs pay to investors the market value of the pool of assets owned by the CDO at maturity. In these transactions, all of the equity and notes issued by the CDO are funded, as the cash is needed to purchase the debt securities.

A securitized collateralized loan obligation (CLO) is substantially similar to the CDO transactions described above, except that the assets owned by the VIE are corporate loans and to a lesser extent corporate bonds, rather than asset-backed debt securities.

A third-party asset manager is typically retained by the CDO/CLO to select the pool of assets and manage those assets over the term of the VIE.

Where a CDO/CLO entity issues preferred shares (or subordinated notes that are the equivalent form), the preferred shares generally represent an insufficient amount of equity (less than 10%) and create the presumption that preferred shares are insufficient to finance the entity’s activities without subordinated financial support. In addition, although the preferred shareholders generally have full exposure to expected losses on the collateral and uncapped potential to receive expected residual returns, they generally do not have the ability to make decisions significantly affecting the entity’s financial results because of their limited role in making day-to-day decisions and their limited ability to remove the asset manager. Because one or both of the above conditions will generally be met, the Company has concluded, even where a CDO/CLO entity issued preferred shares, the entity should be classified as a VIE.

In general, the asset manager, through its ability to purchase and sell assets or—where the reinvestment period of a CDO/CLO has expired—the ability to sell assets, will have the power to direct the activities of the entity that most significantly impact the economic performance of the CDO/CLO. However, where a CDO/CLO has experienced an event of default or an optional redemption period has gone into effect, the activities of the asset manager may be curtailed and/or certain additional rights will generally be provided to the investors in a CDO/CLO entity, including the right to direct the liquidation of the CDO/CLO entity.

The Company does not generally have the power to direct the activities of the entity that most significantly impact the economic performance of the CDOs/CLOs, as this power is generally held by a third-party asset manager of the CDO/CLO. As such, those CDOs/CLOs are not consolidated. The Company may consolidate the CDO/CLO when: (i) the Company is the asset manager and no other single investor has the unilateral ability to remove the Company or unilaterally cause the liquidation of the CDO/CLO, or the Company is not the asset manager but has a unilateral right to remove the third-party asset manager or unilaterally liquidate the CDO/CLO and receive the underlying assets, and (ii) the Company has economic exposure to the entity that could be potentially significant to the entity.

The Company continues to monitor its involvement in unconsolidated CDOs/CLOs to assess future consolidation risk. For example, if the Company were to acquire additional interests in these entities and obtain the right, due to an event of default trigger being met, to unilaterally liquidate or direct the activities of a CDO/CLO, the Company may be required to consolidate the asset entity. The net result of such consolidation would be to gross up the Company’s balance sheet by the current fair value of the securities held by third parties and assets held by the CDO/CLO, which amounts are not considered material.

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### 7. DERIVATIVES ACTIVITIES

In the ordinary course of business, the Company enters into various types of derivative transactions. These derivative transactions include:

- *Futures and forward contracts*, which are commitments to buy or sell at a future date a financial instrument, commodity or currency at a contracted price and may be settled in cash or through delivery.
- *Swap contracts*, which are commitments to settle in cash at a future date or dates that may range from a few days to a number of years, based on differentials between specified indices or financial instruments, as applied to a notional principal amount.
- *Option contracts*, which give the purchaser, for a premium, the right, but not the obligation, to buy or sell within a specified time a financial instrument, commodity or currency at a contracted price that may also be settled in cash, based on differentials between specified indices or prices.

Swaps and forwards and some option contracts are over-the-counter (OTC) derivatives that are bilaterally negotiated with counterparties and settled with those counterparties, except for swap contracts that are novated and "cleared" through central counterparties (CCPs). Futures contracts and other option contracts are standardized contracts that are traded on an exchange with a CCP as the counterparty from the inception of the transaction. The Company enters into these derivative contracts relating to interest rate, foreign currency, commodity and other market/credit risks for the following reasons:

- *Trading Purposes*: The Company trades derivatives as an active market maker. The Company offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. The Company also manages its derivative risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.

Derivatives may expose the Company to market, credit or liquidity risks in excess of the amounts recorded on the Consolidated Statement of Financial Condition. Market risk on a derivative product is the exposure created by potential fluctuations in interest rates, foreign-exchange rates and other factors and is a function of the type of product, the volume of transactions, the tenor and terms of the agreement and the underlying volatility. Credit risk is the exposure to loss in the event of nonperformance by the other party to the transaction where the value of any collateral held is not adequate to cover such losses. Liquidity risk is the potential exposure that arises when the size of a derivative position may not be able to be monetized in a reasonable period of time and at a reasonable cost in periods of high volatility and financial stress.

Derivative transactions are customarily documented under industry standard master agreements that provide that, following an uncured payment default or other event of default, the non-defaulting party may promptly terminate all transactions between the parties and determine the net amount due to be paid to, or by, the defaulting party. Events of default include: (i) failure to make a payment on a derivatives transaction that remains uncured following applicable notice and grace periods, (ii) breach of agreement that remains uncured after applicable notice and grace periods, (iii) breach of a representation, (iv) cross default, either to third-party debt or to other derivative transactions entered into between the parties, or, in some cases, their affiliates, (v) the occurrence of a merger or consolidation which results in a party's becoming a materially weaker credit, and (vi) the cessation or repudiation of any applicable guarantee or other credit support document. Obligations under master netting agreements are often secured by collateral posted under an industry standard credit support annex to the master netting agreement. An event of default may also occur under a credit support annex if a party fails to make a collateral delivery that remains uncured following applicable notice and grace periods.

The netting and collateral rights incorporated in the master netting agreements are considered to be legally enforceable if a supportive legal opinion has been obtained from counsel of recognized standing that provides the requisite level of certainty regarding enforceability and that the exercise of rights by the non-defaulting party to terminate and close-out transactions on a net basis under these agreements will not be stayed or avoided under applicable law upon an event of default including bankruptcy, insolvency or similar proceeding.

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A legal opinion may not be sought for certain jurisdictions where local law is silent or unclear as to the enforceability of such rights or where adverse case law or conflicting regulation may cast doubt on the enforceability of such rights. In some jurisdictions and for some counterparty types, the insolvency law may not provide the requisite level of certainty. For example, this may be the case for certain sovereigns, municipalities, central banks and U.S. pension plans.

Exposure to credit risk on derivatives is affected by market volatility, which may impair the ability of counterparties to satisfy their obligations to the Company. Credit limits are established and closely monitored for customers engaged in derivatives transactions. CGMI considers the level of legal certainty regarding enforceability of its offsetting rights under master netting agreements and credit support annexes to be an important factor in its risk management process. Specifically, CGMI generally transacts much lower volumes of derivatives under master netting agreements where CGMI does not have the requisite level of legal certainty regarding enforceability, because such derivatives consume greater amounts of single counterparty credit limits than those executed under enforceable master netting agreements.

Cash collateral is often posted by a party to a master netting agreement to secure the net open exposure of the other party; the receiving party is free to commingle/rehypothecate such collateral in the ordinary course of its business.

Information pertaining to the Company's derivative activity as of June 30, 2015, based on notional amounts, is presented in the table below. Derivative notional amounts are reference amounts from which contractual payments are derived and do not represent a complete and accurate measure of CGMI's exposure to derivative transactions. Rather, as discussed above, CGMI's derivative exposure arises primarily from market fluctuations (i.e., market risk), counterparty failure (i.e., credit risk) and/or periods of high volatility or financial stress (i.e., liquidity risk), as well as any market valuation adjustments that may be required on the transactions. Moreover, notional amounts do not reflect the netting of offsetting trades (also as discussed above). For example, if CGMI enters into an interest rate swap with \$100 million notional, and offsets this risk with an identical but opposite position with a different counterparty, \$200 million in derivative notionals is reported, although these offsetting positions may result in de minimus overall market risk.

**Derivative Notionals**

*In millions of dollars*

Interest rate contracts:	
Swaps	\$ 558,185
Futures and forwards	1,876,775
Written options	154,168
Purchased options	131,151
<b>Total interest rate contract notionals</b>	<b>2,720,279</b>
Equity contracts:	
Swaps	12,014
Futures	16,748
Written options	114,252
Purchased options	115,840
<b>Total equity contract notionals</b>	<b>258,854</b>
Foreign exchange forwards, futures and swaps notionals	2,467
Commodity options and futures notionals	962
Credit derivatives <sup>(1)</sup>	
Protection sold	15,107
Protection purchased	25,120
<b>Total credit derivatives</b>	<b>40,227</b>
<b>Total derivative notionals</b>	<b>\$ 3,022,789</b>

(1) Credit derivatives are arrangements designed to allow one party (protection buyer) to transfer the credit risk of a "reference asset" to another party (protection seller). These arrangements allow a protection seller to assume the credit risk associated with the reference asset without directly purchasing that asset. The Company enters into credit derivative positions for purposes such as risk management, yield enhancement, reduction of credit concentrations and diversification of overall risk.

The following table presents the gross and net fair values of the Company's derivative transactions, and the related offsetting amounts permitted under ASC 210-20-45 and ASC 815-10-45, as of June 30, 2015. Under ASC 210-20-45,

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gross positive fair values are offset against gross negative fair values by counterparty pursuant to enforceable master netting agreements. Under ASC 815-10-45, payables and receivables in respect of cash collateral received from or paid to a given counterparty pursuant to a credit support annex are included in the offsetting amount if a legal opinion supporting enforceability of netting and collateral rights has been obtained. All derivatives are reported on the balance sheet at fair value and are classified in *Trading account assets/Trading account liabilities*.

**Derivative Mark-to-Market (MTM) Receivables/Payables**

	<u>Assets<sup>(1)</sup></u>	<u>Liabilities<sup>(1)</sup></u>
	(In millions of dollars)	
Derivative instruments:		
Over-the-counter	\$ 2,844	\$ 3,046
Cleared	887	1,250
Exchanged traded	48	54
Interest-rate contracts	<u>3,779</u>	<u>4,350</u>
Over-the-counter	—	14
Foreign exchange contracts	<u>—</u>	<u>14</u>
Over-the-counter	4,701	6,628
Cleared	2	3
Exchanged traded	2,569	1,567
Equity contracts	<u>7,272</u>	<u>8,198</u>
Over-the-counter	19	—
Exchanged traded	3	1
Commodity and other contracts	<u>22</u>	<u>1</u>
Over-the-counter	870	818
Cleared	11	9
Credit derivatives	<u>881</u>	<u>827</u>
Total derivatives	11,954	13,390
Cash collateral paid/received <sup>(2)</sup>	57	—
Less:		
Netting agreements <sup>(3)</sup>	(10,078)	(10,078)
Netting cash collateral received/paid <sup>(4)</sup>	(210)	(2,163)
Net receivables / payables	<u>\$ 1,723</u>	<u>\$ 1,149</u>

(1) Over-the-counter (OTC) derivatives are derivatives executed and settled bilaterally with counterparties without the use of an organized exchange or central clearing house. Cleared derivatives include derivatives executed bilaterally with a counterparty in the OTC market but then novated to a central clearing house, whereby the central clearing house becomes the counterparty to both of the original counterparties. Exchange traded derivatives include derivatives executed directly on an organized exchange that provides pre-trade price transparency.

(2) At June 30, 2015, reflects the net amount of the \$2,220 million and \$210 million of gross cash collateral paid and received, respectively. Of the gross cash collateral paid, \$2,163 million was used to offset trading derivative liabilities and, of the gross cash collateral received, \$210 million was used to offset trading derivative assets.

(3) Represents the netting of derivative receivable and payable balances with the same counterparty under enforceable netting agreements.

(4) Represents the netting of cash collateral paid and received by counterparty under enforceable credit support agreements. Substantially all cash collateral received and paid is netted against OTC derivative assets and liabilities, respectively.

**Credit Derivatives**

The Company trades a range of credit derivatives. Through these contracts, CGMI either purchases or writes protection on either a single name or a portfolio of reference credits. CGMI also uses credit derivatives to help mitigate credit risk in its trading account portfolios and other cash positions, and to facilitate client transactions.

The range of credit derivatives entered into includes credit default swaps and total return swaps.

A credit default swap is a contract in which, for a fee, a protection seller agrees to reimburse a protection buyer for any losses that occur due to a predefined credit event on a reference entity. These credit events are defined by the terms of the derivative contract and the reference credit and are generally limited to the market standard of failure to pay on

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indebtedness and bankruptcy of the reference credit and, in a more limited range of transactions, debt restructuring. Credit derivative transactions that reference emerging market entities will also typically include additional credit events to cover the acceleration of indebtedness and the risk of repudiation or a payment moratorium. In certain transactions, protection may be provided on a portfolio of reference entities or asset-backed securities. If there is no credit event, as defined by the specific derivative contract, then the protection seller makes no payments to the protection buyer and receives only the contractually specified fee. However, if a credit event occurs as defined in the specific derivative contract sold, the protection seller will be required to make a payment to the protection buyer. Under certain contracts, the seller of protection may not be required to make a payment until a specified amount of losses has occurred with respect to the portfolio and/or may only be required to pay for losses up to a specified amount.

A total return swap typically transfers the total economic performance of a reference asset, which includes all associated cash flows, as well as capital appreciation or depreciation. The protection buyer receives a floating rate of interest and any depreciation on the reference asset from the protection seller and, in return, the protection seller receives the cash flows associated with the reference asset plus any appreciation. Thus, according to the total return swap agreement, the protection seller will be obligated to make a payment any time the floating interest rate payment plus any depreciation of the reference asset exceeds the cash flows associated with the underlying asset. A total return swap may terminate upon a default of the reference asset or a credit event with respect to the reference entity subject to the provisions of the related total return swap agreement between the protection seller and the protection buyer.

The following table summarizes the key characteristics of the Company's credit derivatives portfolio by counterparty and derivative form as of June 30, 2015:

<i>In millions of dollars</i>	<b>Fair values</b>		<b>Notionals</b>	
	<b>Receivable</b>	<b>Payable</b>	<b>Protection purchased</b>	<b>Protection sold</b>
<b>By industry/counterparty:</b>				
Bank	\$865	\$800	\$24,059	\$14,037
Broker-dealer	7	12	705	753
Insurance and other financial institutions	11	9	356	317
<b>Total by industry/counterparty</b>	<b>\$883</b>	<b>\$821</b>	<b>\$25,120</b>	<b>\$15,107</b>
<b>By instrument:</b>				
Credit default swaps	\$665	\$523	\$19,006	\$10,733
Total return swaps	218	298	6,114	4,374
<b>Total by instrument</b>	<b>\$883</b>	<b>\$821</b>	<b>\$25,120</b>	<b>\$15,107</b>
<b>By rating:</b>				
Investment grade	\$260	\$380	\$18,069	\$10,983
Non-investment grade	623	441	7,051	4,124
<b>Total by rating</b>	<b>\$883</b>	<b>\$821</b>	<b>\$25,120</b>	<b>\$15,107</b>
<b>By maturity:</b>				
Within 1 year	\$8	\$8	\$172	\$249
From 1 to 5 years	525	671	16,086	10,248
After 5 years	350	142	8,862	4,610
<b>Total by maturity</b>	<b>\$883</b>	<b>\$821</b>	<b>\$25,120</b>	<b>\$15,107</b>

Fair values included in the table above are prior to application of any netting agreements and cash collateral. For notional amounts, CGMI generally has a mismatch between the total notional amounts of protection purchased and sold, and it may hold the reference assets directly, rather than entering into offsetting credit derivative contracts as and when desired. The open risk exposures from credit derivative contracts are largely matched after certain cash positions in reference assets are considered and after notional amounts are adjusted, either to a duration-based equivalent basis or to reflect the level of subordination in tranching structures. The ratings of the credit derivatives portfolio presented in the tables and used to evaluate payment/performance risk are based on the assigned internal or external ratings of the referenced asset

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or entity. Where external ratings are used, investment-grade ratings are considered to be 'Baa/BBB' and above, while anything below is considered non-investment grade. CGMI's internal ratings are in line with the related external rating system.

The Company evaluates the payment/performance risk of the credit derivatives for which it stands as a protection seller based on the credit rating assigned to the underlying referenced credit. Credit derivatives written on an underlying non-investment grade reference credit represent greater payment risk to the Company. The non-investment grade category in the table above also includes credit derivatives where the underlying referenced entity has been downgraded subsequent to the inception of the derivative.

The maximum potential amount of future payments under credit derivative contracts presented in the table above is based on the notional value of the derivatives. The Company believes that the notional amount for credit protection sold is not representative of the actual loss exposure based on historical experience. This amount has not been reduced by the value of the reference assets and the related cash flows. In accordance with most credit derivative contracts, should a credit event occur, the Company usually is liable for the difference between the protection sold and the value of the reference assets. Furthermore, the notional amount for credit protection sold has not been reduced for any cash collateral paid to a given counterparty, as such payments would be calculated after netting all derivative exposures, including any credit derivatives with that counterparty in accordance with a related master netting agreement. Due to such netting processes, determining the amount of collateral that corresponds to credit derivative exposures alone is not possible. The Company actively monitors open credit-risk exposures and manages this exposure by using a variety of strategies, including purchased credit derivatives, cash collateral or direct holdings of the referenced assets. This risk mitigation activity is not captured in the table above.

## **8. CONCENTRATIONS OF CREDIT RISK**

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Company's total credit exposure. In connection with the Company's efforts to maintain a diversified portfolio, the Company limits its exposure to any one individual creditor and monitors this exposure on a continuous basis. At June 30, 2015, the Company's most significant concentration of credit risk was with the U.S. government and its agencies. The Company's exposure, which primarily results from trading assets issued by the U.S. government and its agencies, amounted to \$40.4 billion at June 30, 2015. With the addition of U.S. government and U.S. government agency securities pledged as collateral by counterparties in connection with collateralized financing activity, the Company's total holdings of U.S. government and U.S. government agency securities were approximately \$164 billion or 56% of the Company's total assets before netting at June 30, 2015.

## **9. FAIR VALUE MEASUREMENT**

ASC 820-10 *Fair Value Measurement*, defines fair value, establishes a consistent 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 maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Under ASC 820-10, 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**

ASC 820-10 specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs are developed using market data and reflect market participant assumptions, while unobservable inputs reflect the Company's market assumptions. These two 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.

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

As required under the fair value hierarchy, the Company considers relevant and observable market inputs in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observed prices in those markets.

The Company's policy with respect to transfers between levels of the fair value hierarchy is to recognize transfers into and out of each level as of the end of the reporting period.

### **Determination of Fair Value**

For assets and liabilities carried at fair value, the Company measures such value using the procedures set out below, irrespective of whether these assets and liabilities are measured at fair value as a result of an election or whether they are required to be measured at fair value.

When available, the Company generally uses quoted market prices to determine fair value and classifies such items as Level 1. In some cases where a market price is available, the Company will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified as Level 2.

The Company may also apply a price-based methodology, which utilizes, where available, quoted prices or other market information obtained from recent trading activity in positions with the same or similar characteristics to the position being valued. The market activity 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 may be classified as Level 2. When less liquidity exists for a security or loan, a quoted price is stale, a significant adjustment to the price of a similar security is necessary to reflect differences in the terms of the actual security or loan being valued, or prices from independent sources are insufficient to corroborate the valuation, the "price" inputs are considered unobservable and the fair value measurements are classified as Level 3.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based parameters, such as interest rates, currency 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 as Level 3 even though there may be some significant inputs that are readily observable.

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 following section describes the valuation methodologies used by the Company to measure various financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models and any significant assumptions.

### ***Market valuation adjustments***

Generally, the unit of account for a financial instrument is the individual financial instrument. The Company applies market valuation adjustments that are consistent with the unit of account, which does not include adjustment due to the size of the Company's position, except as follows. ASC 820-10 permits an exception, through an accounting policy election, to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position when certain criteria are met. CGMI has elected to measure certain portfolios of financial instruments, such as derivatives, that meet those criteria on the basis of the net open risk position. The Company applies market valuation adjustments, including adjustments to account for the size of the net open risk position, consistent with market participant assumptions and in accordance with the unit of account.

Liquidity adjustments are applied to items in Level 2 or Level 3 of the fair-value hierarchy in an effort to ensure that the fair value reflects the price at which the net open risk position could be liquidated. The liquidity adjustment is based on the bid/offer spread for an instrument. When CGMI has elected to measure certain portfolios of financial investments,

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such as derivatives, on the basis of the net open risk position, the liquidity adjustment is adjusted to take into account the size of the position.

Credit valuation adjustments (CVA) and funding valuation adjustments (FVA) are applied to over-the-counter (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 CGMI'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.

CGMI'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 a 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 nonperformance risk. This process identifies specific, point-in-time future cash flows that are subject to nonperformance 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. CGMI'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 realized 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.

A contra-asset of \$2 million and a contra-liability of \$2 million were recorded as CVA and FVA applied to the fair value of derivative instruments at June 30, 2015.

### **Valuation Process for Fair Value Measurements**

Price verification procedures and related internal control procedures are governed by the Citigroup *Pricing and Price Verification Policy and Standards*, which is jointly owned by Finance and Risk Management.

For fair value measurements of substantially all assets and liabilities held by the Company, 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 to the Global Head of Product Control. It has authority over the valuation of financial assets and liabilities. Fair value measurements of assets and liabilities are determined using various techniques, including, but not limited to, discounted cash flows and internal models, such as option and correlation models.

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

Reports of inventory that is classified within Level 3 of the fair value hierarchy are distributed to senior management in Finance, Risk and the business. This inventory is also discussed in Risk Committees and in monthly meetings with senior trading management. As deemed necessary, reports may go to the Audit Committee of the Citigroup Board of



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Directors or to the full Board of Directors. Whenever an 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 within Risk Management 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 independently reviewed annually. In addition, Risk Management approves and maintains a list of products permitted to be valued under each approved model for a given business.

***Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase***

No quoted prices exist for such instruments, 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 interest rates appropriate to the maturity of the instrument as well as the nature of the underlying collateral. 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. However, certain long-dated positions are classified within Level 3 of the fair value hierarchy.

***Trading account assets and liabilities—trading securities***

When available, the Company generally uses quoted market prices in active markets to determine the fair value of trading securities; such items are classified as Level 1 of the fair value hierarchy. Examples include some government securities and exchange-traded equity securities.

For bonds traded over the counter, the Company generally determines fair value utilizing valuation techniques, including discounted cash flows, price-based and internal models, such as Black-Scholes and Monte Carlo simulation. Fair value estimates from these internal valuation techniques are verified, where possible, to prices obtained from independent vendors, including third-party vendors. Vendors compile prices from various sources and may apply matrix pricing for similar bonds where no price is observable. A price-based methodology utilizes, where available, quoted prices or other market information obtained from recent trading activity of assets with similar characteristics to the bond being valued. The yields used in discounted cash flow models are derived from the same price information. Trading securities priced using such methods are generally classified as Level 2. However, when less liquidity exists for a security, a quoted price is stale, a significant adjustment to the price of a similar security is necessary to reflect differences in the terms of the actual security being valued, or prices from independent sources are insufficient to corroborate valuation, a security is generally classified as Level 3. The price input used in a price-based methodology may be zero for a security, such as a subprime CDO, that is not receiving any principal or interest and is currently written down to zero.

***Trading account assets and liabilities—derivatives***

Derivatives without a quoted price in an active market and derivatives executed over the counter are valued using internal valuation techniques. These derivative instruments are classified as either Level 2 or Level 3 depending upon the observability of the significant inputs to the model.

The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. The principal techniques used to value these instruments are discounted cash flows and internal models, including Black-Scholes and Monte Carlo simulation.

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign-exchange rates, volatilities and correlation. The Company uses overnight indexed swap (OIS) curves as fair value measurement inputs for the valuation of certain collateralized derivatives. CGMI uses the relevant benchmark curve for the currency of the derivative (e.g., the London Interbank Offered Rate for U.S. dollar derivatives) as the discount rate for uncollateralized derivatives.

***Subprime-related direct exposures in CDOs***

The valuation of high-grade and mezzanine asset-backed security (ABS) CDO positions utilizes prices based on the

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underlying assets of each high-grade and mezzanine ABS CDO.

For most of the lending and structured direct subprime exposures, fair value is determined utilizing observable transactions where available, other market data for similar assets in markets that are not active and other internal valuation techniques.

***Alt-A mortgage securities***

The Company classifies its Alt-A mortgage securities as trading investments. The securities are recorded at fair value. For these purposes, the Company defines Alt-A mortgage securities as non-agency residential mortgage-backed securities (RMBS) where (i) the underlying collateral has weighted average FICO scores between 680 and 720 or (ii) for instances where FICO scores are greater than 720, RMBS have 30% or less of the underlying collateral composed of full documentation loans.

Similar to the valuation methodologies used for other trading securities, the Company generally determines the fair values of Alt-A mortgage securities utilizing internal valuation techniques. Fair value estimates from internal valuation techniques are verified, where possible, to prices obtained from independent vendors. Consensus data providers compile prices from various sources. Where available, the Company may also make use of quoted prices for recent trading activity in securities with the same or similar characteristics to the security being valued.

The valuation techniques used for Alt-A mortgage securities, as with other mortgage exposures, are price-based and yield analysis. The primary market-derived input is yield. Cash flows are based on current collateral performance with prepayment rates and loss projections reflective of current economic conditions of housing price change, unemployment rates, interest rates, borrower attributes and other market indicators.

Alt-A mortgage securities that are valued using these methods are generally classified as Level 2. However, Alt-A mortgage securities backed by Alt-A mortgages of lower quality or subordinated tranches in the capital structure are mostly classified as Level 3 due to the reduced liquidity that exists for such positions, which reduces the reliability of prices available from independent sources.

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**Items Measured at Fair Value on a Recurring Basis**

The following tables present for each of the fair value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2015. The Company's hedging of positions that have been classified in the Level 3 category is not limited to other financial instruments (hedging instruments) that have been classified as Level 3, but also instruments classified as Level 1 or Level 2 of the fair value hierarchy. The effects of these hedges are presented gross in the following tables.

**Fair Value Levels**

<i>In millions of dollars at June 30, 2015</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Gross inventory</b>	<b>Netting <sup>(1)</sup></b>	<b>Net balance</b>
<b>Assets</b>						
<b>Securities borrowed or purchased under agreements to resell</b>						
	\$ —	\$ 126,930	\$ 45	\$ 126,975	(\$28,359)	\$ 98,616
<b>Trading non-derivative assets</b>						
Trading mortgage-backed securities						
U.S. government-sponsored agency guaranteed	—	25,006	611	25,617	—	25,617
Residential	—	837	533	1,370	—	1,370
Commercial	—	1,799	287	2,086	—	2,086
<b>Total trading mortgage-backed securities</b>	<b>—</b>	<b>27,642</b>	<b>1,431</b>	<b>29,073</b>	<b>—</b>	<b>29,073</b>
U.S. Treasury and federal agency securities	11,387	3,418	—	14,805	—	14,805
State and municipal securities	—	955	30	985	—	985
Foreign government securities	125	752	7	884	—	884
Corporate	24	6,357	309	6,690	—	6,690
Equity securities	10,651	139	81	10,871	—	10,871
Asset-backed securities	—	1,328	3,506	4,834	—	4,834
Other trading assets	—	—	3	3	—	3
<b>Total trading non-derivative assets</b>	<b>22,187</b>	<b>40,591</b>	<b>5,367</b>	<b>68,145</b>	<b>—</b>	<b>68,145</b>
<b>Trading derivatives</b>						
Interest rate contracts	5	3,755	19	3,779		
Foreign exchange contracts	—	—	—	—		
Equity contracts	106	7,160	6	7,272		
Commodity contracts	—	22	—	22		
Credit derivatives	—	846	35	881		
<b>Total trading derivatives</b>	<b>111</b>	<b>11,783</b>	<b>60</b>	<b>11,954</b>		
Cash collateral paid <sup>(2)</sup>				57		
Netting agreements					(10,078)	
Netting of cash collateral received					(210)	
<b>Total trading derivatives</b>	<b>111</b>	<b>11,783</b>	<b>60</b>	<b>12,011</b>	<b>(10,288)</b>	<b>1,723</b>
Securities received as collateral	7,099	27	—	7,126	—	7,126
<b>Total assets</b>	<b>\$ 29,397</b>	<b>\$ 179,331</b>	<b>\$ 5,472</b>	<b>\$ 214,257</b>	<b>\$ (38,647)</b>	<b>\$ 175,610</b>
Total as a percentage of gross assets <sup>(3)</sup>	13.7%	83.7%	2.6%			

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**Items Measured at Fair Value on a Recurring Basis (continued)**

<i>In millions of dollars at June 30, 2015</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Gross inventory</b>	<b>Netting <sup>(1)</sup></b>	<b>Net balance</b>
<b>Liabilities</b>						
<b>Securities loaned or sold under</b>						
<b>agreements to repurchase</b>	\$ —	\$ 36,116	\$ 921	\$ 37,037	(\$28,359)	\$ 8,678
<b>Trading account liabilities</b>						
<b>Securities sold, not yet purchased</b>	14,752	4,760	10	19,522	—	19,522
<b>Trading derivatives</b>						
Interest rate contracts	4	3,890	456	4,350		
Foreign exchange contracts	5	9	—	14		
Equity contracts	105	7,893	200	8,198		
Commodity contracts	—	1	—	1		
Credit derivatives	—	826	1	827		
<b>Total trading derivatives</b>	114	12,619	657	13,390		
Cash collateral received <sup>(4)</sup>				—		
Netting agreements					(10,078)	
Netting of cash collateral paid					(2,163)	
<b>Total trading derivatives</b>	114	12,619	657	13,390	(12,241)	1,149
Obligations to return securities						
received as collateral	7,099	27	—	7,126	—	7,126
Long-term debt	—	134	—	134	—	134
<b>Total liabilities</b>	<b>\$ 21,965</b>	<b>\$ 53,656</b>	<b>\$ 1,588</b>	<b>\$ 77,209</b>	<b>\$ (40,600)</b>	<b>\$ 36,609</b>
Total as a percentage of gross liabilities <sup>(3)</sup>	28.4%	69.5%	2.1%			

- (1) Represents netting of: (i) the amounts due under securities purchased under agreements to resell and the amounts owed under securities sold under agreements to repurchase; and (ii) derivative exposures covered by a qualifying master netting agreement and cash collateral offsetting.
- (2) Reflects the net amount of \$2,220 million of gross cash collateral paid, of which \$2,163 million was used to offset trading derivative liabilities.
- (3) Because the amount of the cash collateral paid/received has not been allocated to the Level 1, 2 and 3 subtotals, these percentages are calculated based on total assets and liabilities measured at fair value on a recurring basis, excluding the cash collateral paid/received on derivatives.
- (4) Reflects the net amount of \$210 million of gross cash collateral received, of which \$210 million was used to offset trading derivative assets.

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

The Company's Level 3 inventory consists of both cash securities and derivatives of varying complexities. The valuation methodologies applied to measure the fair value of these positions include discounted cash flow analyses, internal models and comparative analysis. A position is classified within Level 3 of the fair value hierarchy when at least one input is unobservable and is considered significant to its valuation. The specific reason an input is deemed unobservable varies. For example, at least one significant input to the pricing model is not observable in the market, at least one significant input has been adjusted to make it more representative of the position being valued, or the price quote available does not reflect sufficient trading activities.

The following table presents 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 June 30, 2015. Differences between this table and amounts presented in the Level 3 Fair Value Rollforward table represent individually immaterial items that have been measured using a variety of valuation techniques other than those listed.

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

	Fair Value <sup>(1)</sup> <i>(In millions)</i>	Methodology	Input	Low <sup>(2)(3)</sup>	High <sup>(2)(3)</sup>	Weighted Average <sup>(4)</sup>
Assets:						
Securities borrowed or purchased under agreements to resell	\$ 45	Model-based	Interest rate	2.04%	2.48%	2.15%
Trading securities:						
Mortgage-backed securities	1,018	Yield analysis	Yield	0.68%	16.92%	4.54%
State and municipal, foreign government, and corporate debt securities	413	Price-based	Price	\$ 1.52	\$ 112.95	\$ 53.45
Equity securities <sup>(5)</sup>	320	Price-based	Price	\$ 6.62	\$ 125.57	\$ 90.07
Asset-backed securities	77	Price-based	Appraised value	\$ 1,343,258	\$ 12,519,480	\$ 7,962,307
			Price <sup>(5)</sup>	\$ —	\$ 95.00	\$ 25.48
Derivatives – Gross <sup>(6)</sup> :	3,365	Price-based	Price	\$ 4.63	\$ 100.00	\$ 68.45
Interest rate contracts (gross)	479	Model-based	Interest rate	1.00%	20.00%	10.48%
			Adjustment factor	0.60%	0.95%	0.81%
Equity contracts (gross)	205	Model-based	Equity volatility	15.00%	67.70%	32.60%
		Price-based	Forward price	89.70%	106.90%	92.10%
Credit derivatives (gross)	29	Model-based	Recovery rate	37.80%	46.72%	41.95%
	7	Price-based	Credit correlation	40.00%	95.00%	46.78%
			Price	\$ 35.00	\$ 73.50	\$ 40.57
Liabilities:						
Securities loaned or sold under agreements to repurchase	921	Model-based	Interest rate	0.91%	2.48%	2.12%
Trading account liabilities:						
Securities sold, not yet purchased	8	Price-based	Price	\$ 5.25	\$ 100.31	\$ 80.46
	2	Yield analysis	Yield	2.04%	2.27%	2.24%

- (1) The fair value amounts presented in this table represent the primary valuation technique or techniques for each class of assets or liabilities.
- (2) Some inputs are shown as zero due to rounding.
- (3) When the low and high inputs are the same, there is either a constant input applied to all positions, or the methodology involving the input applies to only one large position.
- (4) Weighted averages are calculated based on the fair value of the instrument.
- (5) For equity securities, the price inputs are expressed on an absolute basis, not as a percentage of the notional amount.
- (6) Trading account derivatives – assets and liabilities – are presented on a gross absolute value basis.

**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.

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### ***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 and credit baskets, CDOs backed by loans or bonds, mortgages, subprime mortgages 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. A change in the default correlation of the fair value of the underlying bonds comprising a CDO structure would affect the fair value of the senior tranche. For example, an increase in the default correlation of the underlying bonds would reduce the fair value of the senior tranche, because highly correlated instruments produce larger losses in the event of default and a part of these losses would become attributable to the senior tranche. That same change in default correlation would have a different impact on junior tranches of the same structure.

### ***Yield***

Adjusted yield is generally used to discount the projected future principal and interest cash flows on instruments, such as asset-backed securities. 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.

### **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.

### ***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 and unique nature of these instruments, the ranges for correlation inputs can vary widely across portfolios.

### ***Yield***

Ranges for the yield inputs vary significantly depending upon the type of security. For example, securities that typically have lower yields, such as municipal 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.

### ***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 to \$100, or slightly above \$100. Relatively illiquid

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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. For certain structured debt instruments with embedded derivatives, the price input may be above \$100 to reflect the embedded features of the instrument (for example, a step-up coupon or a conversion option).

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.

**Estimated Fair Value of Financial Instruments Not Carried at Fair Value**

The table below presents the carrying value and fair value of the Company's financial instruments that are not carried at fair value. The table below therefore excludes items measured at fair value on a recurring basis presented in the tables above.

The disclosure also excludes the effect of taxes, any premium or discount that could result from offering for sale at one time the entire holdings of a particular instrument, and other expenses that would be incurred in a market transaction. In addition, the table excludes the values of non-financial assets and liabilities, as well as intangible values, which are integral to a full assessment of the Company's financial position and the value of its net assets.

The fair value represents management's best estimates based on a range of methodologies and assumptions. The carrying value of short-term financial instruments not accounted for at fair value, as well as receivables and payables arising in the ordinary course of business, approximates fair value because of the relatively short period of time between their origination and expected realization.

	June 30, 2015		Estimated fair value		
	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
	(In billions of dollars)				
Assets:					
Collateralized short-term financing agreements	\$ 57.7	\$ 57.7	\$ —	\$ 57.7	\$ —
Receivables	20.9	20.9	—	2.6	18.3
Other financial assets <sup>(1)</sup>	8.1	8.1	—	4.8	3.3
Liabilities:					
Collateralized short-term financing agreements	\$ 141.2	\$ 141.2	\$ —	\$ 141.2	\$ —
Payables to customers, brokers, dealers and clearing organizations	40.6	40.6	—	—	40.6
Long-term debt and subordinated indebtedness	25.1	25.1	—	1.7	23.4
Other financial liabilities <sup>(2)</sup>	7.3	7.3	—	6.3	1.0

(1) Includes cash and cash equivalents, cash segregated under federal and other regulations and other financial instruments included in *Other assets* on the Consolidated Statement of Financial Condition, for all of which the carrying value is a reasonable estimate of fair value.

(2) Includes short-term borrowings, and other financial instruments included in *Other payables and accrued liabilities* on the Consolidated Statement of Financial Condition, for all of which the carrying value is a reasonable estimate of fair value.

Fair values vary from period to period based on changes in a wide range of factors, including interest rates, credit quality and market perceptions of value, and as existing assets and liabilities run off and new transactions are entered into.

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## **10. COLLATERAL, GUARANTEES AND COMMITMENTS**

### **Collateral**

At June 30, 2015, the approximate fair value of collateral received by the Company that may be resold or repledged, excluding the impact of allowable netting, was \$248 billion. This collateral was received in connection with resale agreements, securities borrowings and loans, and margined broker loans. At June 30, 2015, a substantial portion of the collateral received by the Company had been sold or repledged in connection with repurchase agreements, securities sold, not yet purchased, securities borrowings and loans, pledges to clearing organizations, segregation requirements under securities laws and regulations and bank loans.

In transactions where the Company acts as a lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes an asset on the Consolidated Statement of Financial condition, representing the securities received, and a liability for the same amount, representing the obligation to return those securities. At June 30, 2015, included in *Securities received as collateral* and *Obligations to return securities received as collateral* on the accompanying Consolidated Statement of Financial Condition was approximately \$7.1 billion resulting from these transactions.

### ***Securities lending indemnifications***

Owners of securities frequently lend those securities for a fee to other parties who may sell them short or deliver them to another party to satisfy some other obligation. Broker-dealers may administer such securities lending programs for their clients. Securities lending indemnifications are issued by the broker-dealer to guarantee that a securities lending customer will be made whole in the event that the security borrower does not return the security subject to the lending agreement and collateral held is insufficient to cover the market value of the security. CGMI had issued \$1,059 million in fully collateralized securities lending indemnifications at June 30, 2015. The carrying value of securities lending indemnifications is not material, as the Company has determined that the amount and probability of potential liabilities arising from these guarantees were not significant.

### ***Other guarantees and indemnifications***

#### ***Other Representation and Warranty Indemnifications***

In the normal course of business, the Company provides standard representations and warranties to counterparties in contracts in connection with numerous transactions and also provides indemnifications, including indemnifications that protect the counterparties to the contracts in the event that additional taxes are owed due either to a change in the tax law or an adverse interpretation of the tax law. Counterparties to these transactions provide the Company with comparable indemnifications. While such representations, warranties and indemnifications are essential components of many contractual relationships, they do not represent the underlying business purpose for the transactions. The indemnification clauses are often standard contractual terms related to the Company's own performance under the terms of a contract and are entered into in the normal course of business based on an assessment that the risk of loss is remote. Often these clauses are intended to ensure that terms of a contract are met at inception. No compensation is received for these standard representations and warranties, and it is not possible to determine their fair value because they rarely, if ever, result in a payment. In many cases, there are no stated or notional amounts included in the indemnification clauses, and the contingencies potentially triggering the obligation to indemnify have not occurred and are not expected to occur. As a result, these indemnifications are not included in the tables above.

#### ***Value-Transfer Networks***

The Company is a member of, or shareholder in, dozens of value-transfer networks (VTNs) (payment, clearing and settlement systems as well as exchanges) around the world. As a condition of membership, many of these VTNs require that members stand ready to pay a pro rata share of the losses incurred by the organization due to another member's default on its obligations. The Company's potential obligations may be limited to its membership interests in the VTNs, contributions to the VTN's funds, or, in limited cases, the obligation may be unlimited. The maximum exposure cannot be estimated as this would require an assessment of future claims that have not yet occurred. Management believes the risk of loss is remote given historical experience with the VTNs. Accordingly, CGMI's participation in VTNs is not reported in the guarantees tables above, and there are no amounts reflected on the Consolidated Statement of Financial Condition as of June 30, 2015 for potential obligations that could arise from the Company's involvement with VTN associations.



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***Futures and over-the-counter derivatives clearing***

CGMI provides clearing services for clients executing exchange-traded futures and over-the-counter (OTC) derivatives contracts with central counterparties (CCPs). Based on all relevant facts and circumstances, CGMI has concluded that it acts as an agent for accounting purposes in its role as clearing member for these client transactions. As such, CGMI does not reflect the underlying exchange-traded futures or OTC derivatives contracts in its Consolidated Statement of Financial Condition. See Note 7 for a discussion of CGMI's derivatives activities that are reflected in its Consolidated Statement of Financial Condition.

As a clearing member, CGMI collects and remits cash and securities collateral (margin) between its clients and the respective CCP. There are two types of margin: initial margin and variation margin. Where CGMI obtains benefits from or controls cash initial margin (e.g., retains an interest spread), cash initial margin collected from clients and remitted to the CCP is reflected within *Payables to customers* and *Receivables from brokers, dealers and clearing organizations*, respectively. However, for OTC derivatives contracts where CGMI has contractually agreed with the client that (a) CGMI will pass through to the client all interest paid by the CCP on cash initial margin; (b) CGMI will not utilize its right as clearing member to transform cash margin into other assets; and (c) CGMI does not guarantee and is not liable to the client for the performance of the CCP, cash initial margin collected from clients and remitted to the CCP is not reflected on the Company's Consolidated Statement of Financial Condition. The total amount of cash initial margin collected and remitted in this manner was approximately \$3.6 billion as of June 30, 2015.

Variation margin due from clients to the respective CCP, or from the CCP to clients, reflects changes in the value of the client's derivative contracts for each trading day. As a clearing member, CGMI is exposed to the risk of non-performance by clients (e.g., failure of a client to post variation margin to the CCP for negative changes in the value of the client's derivatives contracts). In the event of non-performance by a client, CGMI would move to close out the client's positions. The CCP would typically utilize initial margin posted by the client and held by the CCP, with any remaining shortfalls required to be paid by CGMI as clearing member. CGMI generally holds incremental cash or securities margin posted by the client, which would typically be expected to be sufficient to mitigate CGMI's credit risk in the event the client fails to perform.

As required by ASC 860-30-25-5, securities collateral posted by clients is not recognized on the Company's Consolidated Statement of Financial Condition.

**11. RELATED PARTY TRANSACTIONS**

Pursuant to various intercompany agreements, a number of significant transactions are carried out between the Company and Citigroup and/or their affiliates, including Citigroup parent company.

Detailed below is a summary of the Company's transactions with other Citigroup affiliates which are included in the accompanying Consolidated Statement of Financial Condition as of June 30, 2015. These amounts exclude intra-Company balances that eliminate in consolidation.

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**Statement of financial condition items**

(In millions of dollars)

<b>Assets:</b>	
Cash and cash equivalents	\$ 502
Cash segregated under federal and other regulations	2,881
Collateralized short-term financing agreements:	
Securities purchased under agreements to resell	3,199
Deposits paid for securities borrowed	15,054
Equity securities received as collateral, at fair value	6,602
Receivables from Customer and Brokers, dealers and clearing organizations	1,957
Other assets and other receivables	170
	170
Total assets	\$ 30,365
<b>Liabilities:</b>	
Short-term borrowings	\$ 6,459
Collateralized short-term financing agreements:	
Securities sold under agreements to repurchase	30,225
Deposits received for securities loaned	16,356
Derivatives	110
Payables and accrued liabilities:	
Customers	8,852
Brokers, dealers and clearing organizations	606
Obligations to return securities received as collateral, at fair value	6,602
Other	937
Long-term debt	15,000
Subordinated indebtedness	9,945
	9,945
Total liabilities	\$ 95,092

**Stock-Based Compensation and Retirement Benefits**

The Company participates in various Citigroup stock-based compensation programs under which Citigroup stock or stock options are granted to certain of the Company's employees. The Company has no stock-based compensation programs in which its own stock is granted. The Company pays Citigroup directly for participation in certain of its stock-based compensation programs, but receives a capital contribution for those awards related to participation in the employee incentive stock option program.

As discussed in Note 2 to the Consolidated Statement of Financial Condition, the Company participates in several non-contributory defined benefit pension plans and a defined contribution plan sponsored by Citigroup covering certain eligible employees.

**Other Intercompany Agreements**

Citigroup and its subsidiaries engage in other transactions and servicing activities with the Company, including cash management, data processing, telecommunications, payroll processing and administration, facilities procurement, underwriting and others.

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### 12. CONTINGENCIES

#### **Accounting and Disclosure Framework**

ASC 450 governs the disclosure and recognition of loss contingencies, including potential losses from litigation and regulatory matters. ASC 450 defines a “loss contingency” as “an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.” It imposes different requirements for the recognition and disclosure of loss contingencies based on the likelihood of occurrence of the contingent future event or events. It distinguishes among degrees of likelihood using the following three terms: “probable,” meaning that “the future event or events are likely to occur”; “remote,” meaning that “the chance of the future event or events occurring is slight”; and “reasonably possible,” meaning that “the chance of the future event or events occurring is more than remote but less than likely.” These three terms are used below as defined in ASC 450. In establishing appropriate disclosure and recognition for loss contingencies, management assesses each matter including the role of the relevant Citigroup legal entity. Because specific loss contingency matters may involve multiple Citigroup legal entities and are not solely related to one legal entity, this process requires management to make certain estimates and judgments that affect the Company’s Consolidated Financial Statements.

*Accruals.* ASC 450 requires accrual for a loss contingency when it is “probable that one or more future events will occur confirming the fact of loss” and “the amount of the loss can be reasonably estimated.” In accordance with ASC 450, Citigroup establishes accruals for contingencies, including the litigation and regulatory matters disclosed herein, when Citigroup believes it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. When the reasonable estimate of the loss is within a range of amounts, the minimum amount of the range is accrued, unless some higher amount within the range is a better estimate than any other amount within the range. Once established, accruals are adjusted from time to time, as appropriate, in light of additional information. The amount of loss ultimately incurred in relation to those matters may be substantially higher or lower than the amounts accrued for those matters.

*Disclosure.* ASC 450 requires disclosure of a loss contingency if “there is at least a reasonable possibility that a loss or an additional loss may have been incurred” and there is no accrual for the loss because the conditions described above are not met or an exposure to loss exists in excess of the amount accrued. In accordance with ASC 450, if Citigroup has not accrued for a matter because Citigroup believes that a loss is reasonably possible but not probable, or that a loss is probable but not reasonably estimable, and the matter thus does not meet the criteria for accrual, and the reasonably possible loss is material, it discloses the loss contingency. In addition, Citigroup discloses matters for which it has accrued if it believes a reasonably possible exposure to material loss exists in excess of the amount accrued. In accordance with ASC 450, Citigroup’s disclosure includes an estimate of the reasonably possible loss or range of loss for those matters as to which an estimate can be made. ASC 450 does not require disclosure of an estimate of the reasonably possible loss or range of loss where an estimate cannot be made. Neither accrual nor disclosure is required for losses that are deemed remote.

#### **Litigation and Regulatory Contingencies**

*Overview.* In addition to the matters described below, in the ordinary course of business, CGMI, its parent entity Citigroup, and its affiliates and subsidiaries, and current and former officers, directors and employees (for purposes of this section, sometimes collectively referred to as Citigroup and Related Parties) routinely are named as defendants in, or as parties to, various legal actions and proceedings. Certain of these actions and proceedings assert claims or seek relief in connection with alleged violations of consumer protection, securities, banking, antifraud, antitrust, anti-money laundering, employment and other statutory and common laws. Certain of these actual or threatened legal actions and proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief, and in some instances seek recovery on a class-wide basis.

In the ordinary course of business, Citigroup and Related Parties also are subject to governmental and regulatory examinations, information-gathering requests, investigations and proceedings (both formal and informal), certain of which may result in adverse judgments, settlements, fines, penalties, restitution, disgorgement, injunctions or other relief. In addition, certain affiliates and subsidiaries of Citigroup are banks, registered broker-dealers, futures commission merchants, investment advisers or other regulated entities and, in those capacities, are subject to regulation by various U.S., state and foreign securities, banking, commodity futures, consumer protection and other regulators. In connection with formal and informal inquiries by these regulators, Citigroup and such affiliates and subsidiaries receive numerous requests, subpoenas and orders seeking documents, testimony and other information in connection with various aspects

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of their regulated activities. From time to time Citigroup and Related Parties also receive grand jury subpoenas and other requests for information or assistance, formal or informal, from federal or state law enforcement agencies including, among others, various United States Attorneys' Offices, the Asset Forfeiture and Money Laundering Section and other divisions of the Department of Justice, the Financial Crimes Enforcement Network of the United States Department of the Treasury, and the Federal Bureau of Investigation relating to Citigroup and its customers.

Because of the global scope of Citigroup's operations, and its presence in countries around the world, Citigroup and Related Parties are subject to litigation and governmental and regulatory examinations, information-gathering requests, investigations and proceedings (both formal and informal) in multiple jurisdictions with legal and regulatory regimes that may differ substantially, and present substantially different risks, from those Citigroup and Related Parties are subject to in the United States. In some instances Citigroup and Related Parties may be involved in proceedings involving the same subject matter in multiple jurisdictions, which may result in overlapping, cumulative or inconsistent outcomes.

Citigroup and CGMI seek to resolve all litigation and regulatory matters in the manner management believes is in the best interests of Citigroup and its shareholders, and contests liability, allegations of wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.

*Inherent Uncertainty of the Matters Disclosed.* Certain of the matters disclosed below involve claims for substantial or indeterminate damages. The claims asserted in these matters typically are broad, often spanning a multi-year period and sometimes a wide range of business activities, and the plaintiffs' or claimants' alleged damages frequently are not quantified or factually supported in the complaint or statement of claim. Other matters relate to regulatory investigations or proceedings, as to which there may be no objective basis for quantifying the range of potential fine, penalty, or other remedy. As a result, Citigroup is often unable to estimate the loss in such matters, even if it believes that a loss is probable or reasonably possible, until developments in the case or investigation have yielded additional information sufficient to support a quantitative assessment of the range of reasonably possible loss. Such developments may include, among other things, discovery from adverse parties or third parties, rulings by the court on key issues, analysis by retained experts, and engagement in settlement negotiations. Depending on a range of factors, such as the complexity of the facts, the novelty of the legal theories, the pace of discovery, the court's scheduling order, the timing of court decisions, and the adverse party's willingness to negotiate in good faith toward a resolution, it may be months or years after the filing of a case or commencement of an investigation before an estimate of the range of reasonably possible loss can be made.

*Matters as to Which an Estimate Can Be Made.* For some of the matters disclosed below, Citigroup is currently able to estimate a reasonably possible loss or range of loss in excess of amounts accrued (if any). For some of the matters included within this estimation, an accrual has been made because a loss is believed to be both probable and reasonably estimable, but an exposure to loss exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, although estimable, is believed to be reasonably possible, but not probable; in these cases the estimate reflects the reasonably possible loss or range of loss.

These estimates are based on currently available information. As available information changes, the matters for which Citigroup is able to estimate will change, and the estimates themselves will change. In addition, while many estimates presented in financial statements and other financial disclosures involve significant judgment and may be subject to significant uncertainty, estimates of the range of reasonably possible loss arising from litigation and regulatory proceedings are subject to particular uncertainties. For example, at the time of making an estimate, (i) Citigroup may have only preliminary, incomplete, or inaccurate information about the facts underlying the claim; (ii) its assumptions about the future rulings of the court or other tribunal on significant issues, or the behavior and incentives of adverse parties or regulators, may prove to be wrong; and (iii) the outcomes it is attempting to predict are often not amenable to the use of statistical or other quantitative analytical tools. In addition, from time to time an outcome may occur that Citigroup had not accounted for in its estimate because it had deemed such an outcome to be remote. For all these reasons, the amount of loss in excess of accruals ultimately incurred for the matters as to which an estimate has been made could be substantially higher or lower than the range of loss included in the estimate.

*Matters as to Which an Estimate Cannot Be Made.* For other matters disclosed below, Citigroup is not currently able to estimate the reasonably possible loss or range of loss. Many of these matters remain in very preliminary stages (even in some cases where a substantial period of time has passed since the commencement of the matter), with few or no

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substantive legal decisions by the court or tribunal defining the scope of the claims, the class (if any), or the potentially available damages, and fact discovery is still in progress or has not yet begun. In many of these matters, Citigroup has not yet answered the complaint or statement of claim or asserted its defenses, nor has it engaged in any negotiations with the adverse party (whether a regulator or a private party). For all these reasons, Citigroup cannot at this time estimate the reasonably possible loss or range of loss, if any, for these matters.

*Opinion of Management as to Eventual Outcome.* Subject to the foregoing, it is the opinion of Citigroup's management, based on current knowledge and after taking into account its current legal accruals, that the eventual outcome of all matters described in this Note would not be likely to have a material adverse effect on the consolidated financial condition of Citigroup. Nonetheless, given the substantial or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of such matters, an adverse outcome in certain of these matters could, from time to time, have a material adverse effect on Citigroup's consolidated results of operations or cash flows in particular quarterly or annual periods.

### **Credit Crisis-Related Litigation and Other Matters**

Citigroup and Related Parties have been named as defendants in numerous legal actions and other proceedings asserting claims for damages and related relief for losses arising from the global financial credit crisis that began in 2007. Such matters include, among other types of proceedings, claims asserted by: (i) individual investors and purported classes of investors in securities issued by Citigroup alleging violations of the federal securities laws, foreign laws, state securities and fraud law, and the Employee Retirement Income Security Act (ERISA); and (ii) investors in securities and other investments underwritten, issued or marketed by Citigroup, including securities issued by other public companies, collateralized debt obligations (CDOs), mortgage-backed securities (MBS), auction rate securities (ARS), investment funds, and other structured or leveraged instruments, which have suffered losses as a result of the credit crisis.

In addition to these matters, Citigroup continues to cooperate fully in response to subpoenas and requests for information from the Securities and Exchange Commission (SEC), FINRA, state attorneys general, the Department of Justice and subdivisions thereof, the Office of the Special Inspector General for the Troubled Asset Relief Program, bank regulators, and other government agencies and authorities, in connection with various formal and informal (and, in many instances, industry-wide) inquiries concerning Citigroup's mortgage-related conduct and business activities, as well as other business activities affected by the credit crisis. These business activities include, but are not limited to, Citigroup's sponsorship, packaging, issuance, marketing, trading, servicing and underwriting of CDOs and MBS, its origination, sale or other transfer, servicing, and foreclosure of residential mortgages, and its origination, servicing, and securitization of auto loans.

### ***Mortgage-Related Litigation and Other Matters***

*Securities Actions:* Citigroup and Related Parties have been named as defendants in a variety of putative class actions and individual actions arising out of Citigroup's exposure to CDOs and other assets that declined in value during the financial crisis. Many of these matters have been dismissed or settled. These actions assert a wide range of claims, including claims under the federal securities laws, foreign securities laws, ERISA, and state law. Additional information concerning certain of these actions is publicly available in court filings under the docket numbers 10 Civ. 9646 (S.D.N.Y.) (Stein, J.), 11 Civ. 7672 (S.D.N.Y.) (Koeltl, J.), 12 Civ. 6653 (S.D.N.Y.) (Stein, J.), 13-4488, 13-4504, 14-2545, and 14-3014 (2d Cir.).

Beginning in November 2007, certain Citigroup affiliates also have been named as defendants arising out of their activities as underwriters of securities in actions brought by investors in securities issued by public companies adversely affected by the credit crisis. Many of these matters have been dismissed or settled. As a general matter, issuers indemnify underwriters in connection with such claims, but in certain of these matters Citigroup affiliates are not being indemnified or may in the future cease to be indemnified because of the financial condition of the issuer.

*Regulatory Actions:* On July 14, 2014, Citigroup reached a settlement of the Residential Mortgage-Backed Securities Working Group's investigation. The settlement resolved actual and potential civil claims by the Department of Justice (DOJ), several state attorneys general, and the Federal Deposit Insurance Corporation (FDIC) relating to MBS and CDOs issued, structured, or underwritten by Citigroup between 2003 and 2008. It included a \$4.0 billion civil monetary payment to the DOJ, \$500 million in payments to certain state attorneys general and the FDIC, and \$2.5 billion in consumer relief (to be provided by the end of 2018). The consumer relief will be in the form of financing provided for the

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construction and preservation of affordable multifamily rental housing, principal reduction and forbearance for residential loans, as well as other direct consumer benefits from various relief programs.

*Mortgage-Backed Securities and CDO Investor Actions:* Beginning in July 2010, Citigroup and Related Parties have been named as defendants in complaints filed by purchasers of MBS and CDOs sold or underwritten by Citigroup. The complaints generally assert that defendants made material misrepresentations and omissions about the credit quality of the assets underlying the securities or the manner in which those assets were selected, and typically assert claims under Section 11 of the Securities Act of 1933, state blue sky laws, and/or common-law misrepresentation-based causes of action.

The majority of these matters have been resolved through settlement or otherwise. As of June 30, 2015, the aggregate original purchase amount of the purchases at issue in the pending MBS and CDO investor suits is approximately \$1.95 billion, and the aggregate original purchase amount of the purchases covered by tolling agreements with MBS and CDO investors threatening litigation is approximately \$1.4 billion. Additional information concerning certain of these actions is publicly available in court filings under the docket numbers 08 Civ. 8781 (S.D.N.Y.) (Failla, J.), 654464/2013 (N.Y. Sup. Ct.) (Friedman, J.), 653990/2013 (N.Y. Sup. Ct.) (Ramos, J.), and CL 14-399 (Vir. Cir. Ct.) (Hughes, J.).

On February 2, 2015, CGMI and its remaining co-defendants filed a stipulation of agreement and settlement in the class action NEW JERSEY CARPENTERS HEALTH FUND, ET AL. v. RESIDENTIAL CAPITAL, LLC, ET AL. This settlement is subject to court approval. Additional information relating to this action is publicly available in court filings under the docket number 08 Civ. 8781 (S.D.N.Y.) (Failla, J.).

On February 6, 2015, the Tennessee Consolidated Retirement System filed a complaint intervening in TENNESSEE CONSOLIDATED RETIREMENT SYSTEM v. J.P. MORGAN SECURITIES LLC, ET AL., asserting claims for fraud, negligent misrepresentation, and violation of the Tennessee Securities Act concerning CGMI's alleged sale of residential MBS to the Tennessee Consolidated Retirement System. Additional information relating to this action is publicly available in court filings under the docket number 13-1729-II (Tenn. Ch. Ct.) (McCoy, Ch.).

On June 17, 2015, the court dismissed with prejudice certain fraud claims in COMMERZBANK AG LONDON BRANCH v. UBS AG, ET AL. The court also ordered the remaining fraud claims, which concern LIBOR, be withdrawn without prejudice. Additional information concerning this action is publicly available in court filings under the docket number 654464/2013 (N.Y. Sup. Ct.) (Friedman, J.).

*Mortgage-Backed Security Repurchase Claims:* Various parties to MBS securitizations and other interested parties have asserted that certain Citigroup affiliates breached representations and warranties made in connection with mortgage loans sold into securitization trusts (private-label securitizations). Typically, these claims are based on allegations that securitized mortgages were not underwritten in accordance with the applicable underwriting standards. Citigroup also has received numerous inquiries, demands for loan files, and requests to toll (extend) the applicable statutes of limitation for representation and warranty claims relating to its private-label securitizations. These inquiries, demands and requests have been made by trustees of securitization trusts and others.

On April 7, 2014, Citigroup entered into an agreement with 18 institutional investors represented by Gibbs & Bruns LLP regarding the resolution of representation and warranty repurchase claims related to certain legacy securitizations. Pursuant to the agreement, Citigroup made a binding offer to the trustees of 68 Citigroup-sponsored mortgage securitization trusts to pay \$1.125 billion to the trusts to resolve these claims, plus certain fees and expenses. The 68 trusts covered by the agreement represent all of the trusts established by Citigroup's legacy Securities and Banking business during 2005-2008 for which Citigroup affiliates made representations and warranties to the trusts.

On December 19, 2014, Citigroup, the 18 institutional investors, and the trustees for these securitizations executed a revised settlement agreement resolving a substantial majority of the claims contemplated by the April 7, 2014 offer of settlement. On December 31, 2014, the trustees amended the settlement agreement to accept the offer as to certain additional claims. As of December 31, 2014, the trustees have accepted the settlement for 64 trusts in whole, and the trustees have accepted in part and excluded in part four trusts from the settlement. Pursuant to the terms of the settlement agreement, the trustees' acceptance is subject to a judicial approval proceeding, which was initiated by the trustees on December 21, 2014. Additional information concerning this action is publicly available in court filings under the docket number 653902/2014 (N.Y. Sup. Ct.) (Friedman, J.).

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To date, trustees have filed six actions against Citigroup seeking to enforce certain of these contractual repurchase claims in connection with four private-label securitizations. Each of the six actions is in the early stages of proceedings. In the aggregate, plaintiffs are asserting repurchase claims as to approximately 6,700 loans that were securitized into these four securitizations, as well as any other loans that are later found to have breached representations and warranties. Additional information concerning these actions is publicly available in court filings under the docket numbers 13 Civ. 2843 (S.D.N.Y.) (Daniels, J.), 13 Civ. 6989 (S.D.N.Y.) (Daniels, J.), 653816/2013 (N.Y. Sup. Ct.) (Kornreich, J.), and 653930/2014 (N.Y. Sup. Ct.).

*Mortgage-Backed Securities Trustee Actions.* On June 18, 2014, a group of investors in 48 MBS trusts for which Citibank, N.A. served or currently serves as trustee filed a complaint in New York State Supreme Court in BLACKROCK ALLOCATION TARGET SHARES: SERIES S. PORTFOLIO, ET AL. v. CITIBANK, N.A. The complaint, like those filed against other MBS trustees, alleges that Citibank, N.A. failed to pursue contractual remedies against loan originators, securitization sponsors and servicers. This action was withdrawn without prejudice, effective December 17, 2014. Additional information concerning this action is publicly available in court filings under the docket number 651868/2014 (N.Y. Sup. Ct.) (Ramos, J.). On November 24, 2014, largely the same group of investors filed an action in the United States District Court for the Southern District of New York, captioned FIXED INCOME SHARES: SERIES M ET AL. V. CITIBANK, N.A., alleging similar claims relating to 27 MBS trusts sponsored by UBS, Lehman Brothers, American Home Mortgage, Goldman Sachs, Country Place, PHH Mortgage, Wachovia and Washington Mutual. Additional information concerning this action is publicly available in court filings under the docket number 14-cv-9373 (S.D.N.Y.) (Furman, J.).

On June 27, 2014, a separate group of MBS investors filed a summons with notice in FEDERAL HOME LOAN BANK OF TOPEKA, ET AL. v. CITIBANK, N.A. The summons alleges that Citibank, N.A., as trustee for an unspecified number of MBS, failed to pursue remedies on behalf of the trusts. This action was withdrawn without prejudice on November 10, 2014. Additional information concerning this action is publicly available in court filings under the docket number 651973/2014 (N.Y. Sup. Ct.).

### ***Alternative Investment Fund-Related Litigation and Other Matters***

Since mid-2008, the SEC has been investigating the management and marketing of the ASTA/MAT and Falcon funds, alternative investment funds managed and marketed by certain Citigroup affiliates that suffered substantial losses during the credit crisis. In addition to the SEC inquiry, on June 11, 2012, the New York Attorney General served a subpoena on a Citigroup affiliate seeking documents and information concerning certain of these funds, and, on August 1, 2012, the Massachusetts Attorney General served a Civil Investigative Demand on a Citigroup affiliate seeking similar documents and information. Citigroup is cooperating fully with these inquiries. Citigroup has entered into tolling agreements with the SEC and the New York Attorney General concerning certain claims related to the investigations.

Citigroup and Related Parties have been named as defendants in a putative class action lawsuit filed in October 2012 on behalf of investors in CSO Ltd., CSO US Ltd., and Corporate Special Opportunities Ltd., whose investments were managed indirectly by a Citigroup affiliate. Plaintiffs assert a variety of state common law claims, alleging that they and other investors were misled into investing in the funds and, later, not redeeming their investments. The complaint seeks to recover more than \$400 million on behalf of a putative class of investors. Additional information concerning this action is publicly available in court filings under the docket number 12-cv-7717 (S.D.N.Y.) (Castel, J.).

On June 25, 2015, the parties in BEACH v. CITIGROUP ALTERNATIVE INVESTMENTS LLC executed a memorandum of understanding outlining the terms of a tentative class action settlement. On June 29, 2015, the court ordered that the case be stayed pending the filing of final settlement papers. Additional information concerning this action is publicly available in court filings under the docket number 12-cv-7717 (S.D.N.Y.) (Castel, J.).

### ***Auction Rate Securities-Related Litigation and Other Matters***

Citigroup and Related Parties have been named as defendants in numerous actions and proceedings brought by Citigroup shareholders and purchasers or issuers of ARS and an issuer of variable rate demand obligations, asserting federal and state law claims arising from the collapse of the market in 2008, which plaintiffs contend Citigroup and other ARS underwriters and broker-dealers foresaw or should have foreseen, but failed adequately to disclose. Many of these matters have been dismissed or settled. Most of the remaining matters are in arbitrations pending before FINRA.

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### ***Tribune Company Bankruptcy***

Certain Citigroup affiliates have been named as defendants in adversary proceedings related to the Chapter 11 cases of Tribune Company (Tribune) filed in the United States Bankruptcy Court for the District of Delaware, asserting claims arising out of the approximately \$11 billion leveraged buyout of Tribune in 2007. On August 2, 2013, the Litigation Trustee, as successor plaintiff to the Official Committee of Unsecured Creditors, filed a fifth amended complaint in the adversary proceeding *KIRSCHNER v. FITZSIMONS, ET AL.* The complaint seeks to avoid and recover as actual fraudulent transfers the transfers of Tribune stock that occurred as a part of the leveraged buyout. Several Citigroup affiliates are named as “Shareholder Defendants” and are alleged to have tendered Tribune stock to Tribune as a part of the buyout.

Several Citigroup affiliates are named as defendants in certain actions brought by Tribune noteholders, also seeking to recover the transfers of Tribune stock that occurred as a part of the leveraged buyout, as alleged state-law constructive fraudulent conveyances. Finally, CGMI has been named in a separate action as a defendant in connection with its role as advisor to Tribune. A motion to dismiss the claim against the Shareholder Defendants in the *FITZSIMONS* action is pending. The noteholders’ claims were previously dismissed, and an appeal to the Second Circuit is pending. A motion to dismiss the action against CGMI in its role as advisor to Tribune is pending. Additional information concerning these actions is publicly available in court filings under the docket numbers 08-13141 (Bankr. D. Del.) (Carey, J.), 11 MD 02296 (S.D.N.Y.) (Sullivan, J.), 12 MC 2296 (S.D.N.Y.) (Sullivan, J.), and 13-3992 (2d Cir.).

In *KIRSCHNER v. FITZSIMONS, ET AL.*, claims against certain Citigroup affiliates have been dismissed or reduced in amount by orders dated January 13, January 15, March 26, and April 1, 2015. Additional information relating to these actions is publicly available in court filings under the docket numbers 11 MD 2296 (S.D.N.Y.) (Sullivan, J.), 12 2296 (S.D.N.Y.) (Sullivan, J.), and 13-3992(L) (2d Cir.).

### **Credit Default Swaps Matters**

In April 2011, the European Commission (EC) opened an investigation (Case No COMP/39.745) into the credit default swap (CDS) industry. The scope of the investigation initially concerned the question of “whether 16 investment banks and Markit, the leading provider of financial information in the CDS market, have colluded and/or may hold and abuse a dominant position in order to control the financial information on CDS.” On July 2, 2013, the EC issued to Citigroup, CGMI, Citigroup Global Markets Ltd., Citicorp North America Inc., and Citibank, N.A., as well as Markit, ISDA, and 12 other investment bank dealer groups, a Statement of Objections alleging that Citigroup and the other dealers colluded to prevent exchanges from entering the credit derivatives business in breach of Article 101 of the Treaty on the Functioning of the European Union. The Statement of Objections sets forth the EC’s preliminary conclusions, does not prejudice the final outcome of the case, and does not benefit from the review and consideration of Citigroup’s arguments and defenses. Citigroup filed a Reply to the Statement of Objections on January 23, 2014, and made oral submissions to the EC on May 14, 2014.

In July 2009 and September 2011, the Antitrust Division of the U.S. DOJ served Civil Investigative Demands (CIDs) on Citigroup concerning potential anticompetitive conduct in the CDS industry. Citigroup has responded to the CIDs and is cooperating with the investigation.

In addition, putative class action complaints have been filed by various entities against Citigroup, CGMI and Citibank, N.A., among other defendants, alleging anticompetitive conduct in the CDS industry and asserting various claims under Sections 1 and 2 of the Sherman Act as well as a state law claim for unjust enrichment. On October 16, 2013, the U.S. Judicial Panel on Multidistrict Litigation centralized these putative class actions and ordered that those actions pending in the United States District Court for the Northern District of Illinois be transferred to the United States District Court for the Southern District of New York for coordinated or consolidated pretrial proceedings before Judge Denise Cote.

On September 4, 2014, the United States District Court for the Southern District of New York granted in part and denied in part defendants’ motion to dismiss the second consolidated amended complaint, dismissing plaintiffs’ claim for violation of Section 2 of the Sherman Act and certain claims for damages, but permitting the case to proceed as to plaintiffs’ claims for violation of Section 1 of the Sherman Act and unjust enrichment. Additional information relating to this action is publicly available in court filings under the docket number 13 MD 2476 (S.D.N.Y.) (Cote, J.).



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### Foreign Exchange Matters

*Regulatory Actions:* Government and regulatory agencies in the U.S., including the Antitrust Division and the Criminal Division of the DOJ, as well as agencies in other jurisdictions, including the U.K. Serious Fraud Office, the Swiss Competition Commission, and the Australian Competition and Consumer Commission, are conducting investigations or making inquiries regarding Citigroup's foreign exchange business. Citigroup is fully cooperating with these and related investigations and inquiries.

On November 12, 2014, the Commodity Futures Trading Commission (CFTC), the U.K. Financial Conduct Authority (FCA), and the Office of the U.S. Comptroller of the Currency (OCC) announced settlements with Citibank, N.A. resolving their foreign exchange investigations. Citibank, N.A. was among five banks settling the CFTC's and the FCA's investigations and among three banks settling the OCC's investigation. As part of the settlements, Citibank, N.A. agreed to pay penalties of approximately \$358 million to the FCA, \$350 million to the OCC, and \$310 million to the CFTC and to enhance further the control framework governing its foreign exchange business.

On May 20, 2015, Citigroup announced settlements with the DOJ and the Board of Governors of the Federal Reserve System (FRB) to resolve their respective investigations into Citigroup's foreign exchange business. Pursuant to the terms of the settlement with the DOJ, Citicorp pleaded guilty to a violation of the Sherman Act, will pay a fine of \$925 million and be subject to a three-year probation period, the conditions of which include the continued implementation, remediation and strengthening of its controls relating to its foreign exchange business. Additional information concerning this action is publicly available in court filings under the docket number 3:15-cr-78 (D. Conn.). Pursuant to the terms of the settlement with the FRB, Citigroup paid a civil penalty of \$342 million and agreed to further enhance the control framework governing its foreign exchange business.

*Antitrust and Other Litigation:* Numerous foreign exchange dealers, including Citigroup and Citibank, N.A., are named as defendants in putative class actions that are proceeding on a consolidated basis in the United States District Court for the Southern District of New York under the caption IN RE FOREIGN EXCHANGE BENCHMARK RATES ANTITRUST LITIGATION. The plaintiffs in these actions allege that the defendants colluded to manipulate the WM/Reuters rate (WMR), thereby causing the putative classes to suffer losses in connection with WMR-based financial instruments. The plaintiffs assert federal and state antitrust claims and claims for unjust enrichment, and seek compensatory damages, treble damages where authorized by statute, restitution, and declaratory and injunctive relief. On March 31, 2014, plaintiffs in the putative class actions filed a consolidated amended complaint.

Citibank, N.A., Citigroup, and Citibank Korea Inc., as well as numerous other foreign exchange dealers, were named as defendants in a putative class action captioned SIMMTECH CO. v. BARCLAYS BANK PLC, ET AL. (SIMMTECH) that was proceeding before the same court. The plaintiff sought to represent a putative class of persons who traded foreign currency with the defendants in Korea, alleging that the class suffered losses as a result of the defendants' alleged WMR manipulation. The plaintiff asserted federal and state antitrust claims, and sought compensatory damages, treble damages, and declaratory and injunctive relief.

Additionally, Citibank, N.A. and Citigroup, as well as numerous other foreign exchange dealers, were named as defendants in a putative class action captioned LARSEN v. BARCLAYS BANK PLC, ET AL. (LARSEN), that was proceeding before the same court. Plaintiff sought to represent a putative class of persons or entities in Norway who traded foreign currency with defendants, alleging that the class suffered losses as a result of defendants' alleged WMR manipulation. Plaintiff asserted federal antitrust and unjust enrichment claims, and sought compensatory damages, treble damages where authorized by statute, and declaratory and injunctive relief.

Citigroup and Citibank, N.A., along with other defendants, moved to dismiss all of these actions. On January 28, 2015, the court issued an opinion and order denying the motion as to the IN RE FOREIGN EXCHANGE BENCHMARK RATES ANTITRUST LITIGATION plaintiffs, but dismissing the claims of the SIMMTECH and LARSEN plaintiffs in their entirety on the grounds that their federal claims were barred by the Foreign Trade Antitrust Improvements Act and their state claims had an insufficient nexus to New York. Additional information concerning these actions is publicly available in court filings under the docket numbers 13 Civ. 7789, 13 Civ. 7953, and 14 Civ. 1364 (S.D.N.Y.) (Schofield, J.).

Additionally, Citigroup and Citibank, N.A., as well as numerous other foreign exchange dealers, are named as defendants in a putative class action captioned TAYLOR v. BANK OF AMERICA CORPORATION, ET AL. The plaintiffs seek to

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represent a putative class of investors that transacted in exchange-traded foreign exchange futures contracts and/or options on foreign exchange futures contracts on certain exchanges, alleging that the putative class was harmed as a result of the defendants' manipulation of the foreign exchange market. The plaintiffs assert violations of the Commodity Exchange Act and federal antitrust claims. Additional information concerning this action is publicly available in court filings under the docket number 1:15-cv-1350 (S.D.N.Y.) (Schofield, J.).

On April 7, 2015, an action captioned *STERK v. BANK OF AMERICA CORPORATION, ET AL.* was brought in the United States District Court for the Southern District of New York against Citigroup, Citibank, N.A., and CGMI, as well as numerous other foreign exchange dealers. The plaintiffs seek to represent a putative class of investors who transacted in foreign exchange futures contracts and options on foreign exchange futures contracts, alleging that the class suffered losses as a result of the defendants' alleged manipulation of, and collusion with respect to, the foreign exchange market. The plaintiffs assert a federal antitrust claim and claims under the Commodity Exchange Act, and seek compensatory damages, treble damages where authorized by statute, and declaratory relief. Additional information concerning this action is publicly available in court filings under the docket number 1:15-cv-2705 (S.D.N.Y.) (Schofield, J.).

On May 20, 2015, Citigroup announced that it has reached an agreement in principle to settle the consolidated class action in *IN RE FOREIGN EXCHANGE BENCHMARK RATES ANTITRUST LITIGATION* for a payment of \$394 million, subject to court approval. As contemplated by the agreement, on July 17, 2015, the plaintiffs filed a second consolidated amended complaint, asserting claims under the Sherman Act and the Commodity Exchange Act based on allegations that defendants colluded to manipulate various foreign exchange benchmarks and engaged in other collusive conduct in connection with the trading of currencies. Additional information concerning this action is publicly available in court filings under the docket number 1:13-cv-7789 (S.D.N.Y.) (Schofield, J.).

On May 21, 2015, an action captioned *NYPL v. JPMORGAN CHASE & CO., ET AL.* was brought in the United States District Court for the Northern District of California against Citigroup, as well as numerous other foreign exchange dealers. An amended complaint was filed on June 11, 2015. The plaintiff seeks to represent a putative class of "consumers and businesses in the United States who directly purchased supracompetitive foreign currency exchange rates" from defendants for their end use. The plaintiff alleges violations of the Sherman Act, and seeks injunctive relief and treble damages. Additional information concerning this action is publicly available in court filings under the docket number 3:15-cv-02290 (N.D. Cal.) (Chhabria, J.).

In June 2015, actions captioned *BAKIZADA v. BANK OF AMERICA CORPORATION, ET AL.*, *TEEL v. BANK OF AMERICA CORPORATION, ET AL.*, and *ROBERT CHARLES CLASS A, L.P. v. BANK OF AMERICA CORPORATION, ET AL.* were brought in the United States District Court for the Southern District of New York against Citigroup and Related Parties, as well as numerous other foreign exchange dealers. The respective plaintiffs each seek to represent a putative class of investors who held foreign exchange futures or options on foreign exchange futures, and whose daily cash flows were calculated based on any key foreign exchange benchmark rates or who transacted at or around the time of the setting of key foreign exchange benchmark rates. The respective plaintiffs each allege violations of the Commodity Exchange Act, the Sherman Act, and/or the Clayton Act, and seek compensatory damages, treble damages where authorized by statute, injunctive relief, and/or disgorgement. Additional information concerning these actions is publicly available in court filings under the following docket numbers: 1:15-cv-4230 (S.D.N.Y.) (Schofield, J.); 1:15-cv-4436 (S.D.N.Y.) (Schofield, J.); and 1:15-cv-4926 (S.D.N.Y.) (Schofield, J.).

On June 3, 2015, an action captioned *ALLEN v. BANK OF AMERICA CORPORATION, ET AL.* was brought in the United States District Court for the Southern District of New York against Citigroup, as well as numerous other foreign exchange dealers. The plaintiff seeks to represent a putative class of participants, beneficiaries, and named fiduciaries of qualified Employee Retirement Income Security Act (ERISA) plans for whom a defendant provided foreign exchange transactional services or authorized or permitted foreign exchange transactional services involving a plan's assets in connection with its exercise of authority or control regarding an ERISA plan. The plaintiff alleges violations of ERISA, and seeks compensatory damages, restitution, disgorgement, and declaratory relief. Additional information concerning this action is publicly available in court filings under the docket number 1:15-cv-4285 (S.D.N.Y.) (Schofield, J.).

### **Interbank Offered Rates-Related Litigation and Other Matters**

*Regulatory Actions:* Government agencies in the U.S., including the DOJ, the CFTC, and a consortium of state attorneys general, as well as agencies in other jurisdictions, including the Swiss Competition Commission, are conducting investigations or making inquiries regarding submissions made by panel banks to bodies that publish various interbank

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offered rates and other benchmark rates. As members of a number of such panels, Citigroup subsidiaries have received requests for information and documents. Citigroup is cooperating with the investigations and inquiries and is responding to the requests.

*Antitrust and Other Litigation:* Citigroup and Citibank, N.A., along with other U.S. Dollar (USD) LIBOR panel banks, are defendants in a multi-district litigation (MDL) proceeding before the United States District Court for the Southern District of New York captioned IN RE LIBOR-BASED FINANCIAL INSTRUMENTS ANTITRUST LITIGATION (the LIBOR MDL). Following motion practice, consolidated amended complaints were filed on behalf of two separate putative classes of plaintiffs: (i) OTC purchasers of derivative instruments tied to USD LIBOR; and, (ii) purchasers of exchange-traded derivative instruments tied to USD LIBOR. Each of these putative classes alleges that the panel bank defendants conspired to suppress USD LIBOR: (i) OTC purchasers assert claims under the Sherman Act and for unjust enrichment and breach of the implied covenant of good faith and fair dealing; and, (ii) purchasers of exchange-traded derivative instruments assert claims under the Commodity Exchange Act and the Sherman Act and for unjust enrichment. Individual actions commenced by various Charles Schwab entities also were consolidated into the MDL proceeding. The plaintiffs seek compensatory damages and restitution for losses caused by the alleged violations, as well as treble damages under the Sherman Act. The Schwab and OTC plaintiffs also seek injunctive relief.

Additional actions have been consolidated in the MDL proceeding, including (i) lawsuits filed by, or on behalf of putative classes of, community and other banks, savings and loans institutions, credit unions, municipalities and purchasers and holders of LIBOR-linked financial products; and, (ii) lawsuits filed by putative classes of lenders and adjustable rate mortgage borrowers. The plaintiffs allege that defendant panel banks artificially suppressed USD LIBOR in violation of applicable law and seek compensatory and other damages.

Additional information relating to these actions is publicly available in court filings under the following docket numbers: 12 Civ. 4205; 12 Civ. 5723; 12 Civ. 5822; 12 Civ. 6056; 12 Civ. 6693; 12 Civ. 7461; 13 Civ. 346; 13 Civ. 407; 13 Civ. 1016, 13 Civ. 1456, 13 Civ. 1700, 13 Civ. 2262, 13 Civ. 2297; 13 Civ. 4018; 13 Civ. 7720; 14 Civ. 146 (Buchwald, J.); 12 Civ. 6294 (E.D.N.Y.) (Seybert, J.); 12 Civ. 6571 (N.D. Cal.) (Conti, J.); 12 Civ. 10903 (C.D. Cal.) (Snyder, J.); 13 Civ. 48 (S.D. Cal.) (Sammartino, J.); 13 Civ. 62 (C.D. Cal.) (Phillips, J.); 13 Civ. 106 (N.D. Cal.) (Beller, J.); 13 Civ. 108 (N.D. Cal.) (Ryu, J.); 13 Civ. 109 (N.D. Cal.) (Laporte, J.); 13 Civ. 122 (C.D. Cal.) (Bernal, J.); 13 Civ. 334, 13 Civ. 335 (S.D. Iowa) (Pratt, J.); 13 Civ. 342 (E.D. Va.) (Brinkema, J.); 13 Civ. 1466 (S.D. Cal.) (Lorenz, J.); 13 Civ. 1476 (E.D. Cal.) (Mueller, J.); 13 Civ. 2149 (S.D. Tex.) (Hoyt, J.); 13 Civ. 2244 (N.D. Cal.) (Hamilton, J.); 13 Civ. 2921 (N.D. Cal.) (Chesney, J.); 13 Civ. 2979 (N.D. Cal.) (Tigar, J.); 13 Civ. 4352 (E.D. Pa.) (Restrepo, J.); and 13 Civ. 5278 (N.D. Cal.) (Vadas, J.).

On June 30, 2014, the United States Supreme Court granted a petition for a writ of certiorari in *GELBOIM, ET AL. v. BANK OF AMERICA CORP., ET AL.* with respect to the dismissal by the United States Court of Appeals for the Second Circuit of an appeal by the plaintiff class of indirect OTC purchasers of U.S. debt securities. On January 21, 2015, the Supreme Court ruled that, contrary to the Second Circuit's opinion, the plaintiffs had a right to appeal, and remanded the case to the Second Circuit for consideration of the plaintiffs' appeal on the merits. Additional information concerning this action is publicly available in court filings under the docket numbers 13-3565 (2d Cir.), 13-3636 (2d Cir.), and 13-1174 (U.S.).

Citigroup and Citibank, N.A., along with other USD LIBOR panel banks, also are named as defendants in an individual action filed in the United States District Court for the Southern District of New York on February 13, 2013, captioned *7 WEST 57th STREET REALTY CO. v. CITIGROUP, INC., ET AL.* The plaintiff alleges that the defendant panel banks manipulated USD LIBOR to keep it artificially high and that this manipulation affected the value of plaintiffs' OTC municipal bond portfolio in violation of federal and state antitrust laws and federal RICO law. The plaintiff seeks compensatory damages, treble damages where authorized by statute, and declaratory relief. Additional information concerning this action is publicly available in court filings under the docket number 13 Civ. 981 (Gardephe, J.).

Separately, on April 30, 2012, an action was filed in the United States District Court for the Southern District of New York captioned *LAYDON v. MIZUHO BANK LTD. ET AL.* against defendant banks that are or were members of the panels making submissions used in the calculation of Japanese yen LIBOR and TIBOR, and certain affiliates of those banks, including Citigroup, Citibank, N.A., Citibank Japan Ltd. and Citigroup Global Markets Japan Inc. The plaintiff asserts claims under federal antitrust law and the Commodity Exchange Act, as well as a claim for unjust enrichment, and seeks unspecified compensatory and punitive damages, including treble damages under certain statutes, as well as costs

**CITIGROUP GLOBAL MARKETS INC.**

(An indirect wholly owned subsidiary of Citigroup Global Markets Holdings Inc.)

Notes to Consolidated Statement of Financial Condition

June 30, 2015

(Unaudited)

and expenses. Additional information concerning this action is publicly available in court filings under the docket number 12 Civ. 3419 (S.D.N.Y.) (Daniels, J.).

On May 2, 2014, plaintiffs in the class action SULLIVAN v. BARCLAYS PLC, ET AL pending in the United States District Court for the Southern District of New York filed a second amended complaint naming Citigroup and Citibank, N.A. as defendants. Plaintiffs claim to have suffered losses as a result of purported EURIBOR manipulation and assert claims under the Commodity Exchange Act, the Sherman Act and the federal RICO law, and for unjust enrichment. On September 11, 2014, the court granted the DOJ's motion to stay discovery for eight months, until May 12, 2015. Additional information concerning this action is publicly available in court filings under the docket number 13 Civ. 2811 (S.D.N.Y.) (Castel, J.).

On March 31, 2015, the United States District Court for the Southern District of New York dismissed the action captioned 7 WEST 57th STREET REALTY CO. v. CITIGROUP, INC., ET AL., but permitted plaintiff to file a motion for leave to file a second amended complaint by June 1, 2015. Additional information concerning this action is publicly available in court filings under the docket number 1:13-cv-981 (S.D.N.Y.) (Gardephe, J.).

Citigroup and Citibank, N.A., as well as other U.S. dollar (USD) LIBOR panel banks, have been named as defendants in two putative class actions filed in the United States District Court for the Southern District of New York in which plaintiffs allege that they received depressed returns on LIBOR-linked financial instruments as a result of defendants artificially suppressing USD LIBOR. In the first action, filed on February 24, 2015, and captioned NATIONAL ASBESTOS WORKERS PENSION FUND, ET AL. v. BANK OF AMERICA CORP., ET AL., plaintiffs assert federal antitrust claims and seek compensatory damages and declaratory relief. This action has been consolidated with other related cases in a multi-district litigation proceeding before Judge Buchwald in the United States District Court for the Southern District of New York. Additional information concerning this action is publicly available in court filings under the docket number 1:15-cv-01334 (S.D.N.Y.) (Buchwald, J.). In the second action, filed on April 16, 2015, and captioned AXIOM INVESTMENT ADVISORS, LLC, ET AL. v. BANK OF AMERICA CORP., ET AL., plaintiffs assert federal and state antitrust claims, RICO claims, and various common law claims against USD LIBOR panel banks and the British Bankers' Association. Plaintiffs seek compensatory and punitive damages, disgorgement and restitution, and declaratory and injunctive relief. Additional information concerning this action is publicly available in court filings under the docket number 1:15-cv-02973 (S.D.N.Y.).

Following the January 21, 2015 United States Supreme Court's remand of the action captioned GELBOIM, ET AL. v. BANK OF AMERICA CORP., ET AL. to the United States Court of Appeals for the Second Circuit for consideration on the merits of the plaintiffs' appeal of the dismissal of their antitrust claims, plaintiff-appellants submitted their opening brief on May 20, 2015, and defendants-appellees submitted their response brief on July 17, 2015. Additional information concerning this appeal is publicly available in court filings under the docket number 13-3565 (2d Cir.).

Following the March 31, 2015 dismissal of the action captioned 7 WEST 57th STREET REALTY CO. v. CITIGROUP, INC., ET AL., the plaintiff moved for leave to file a second amended complaint on June 1, 2015. Additional information concerning this action is publicly available in court filings under the docket number 1:13-cv-981 (Gardephe, J.).

On July 24, 2015, a putative class action captioned SONTERRA CAPITAL MASTER FUND, LTD. v. UBS AG was brought in the United States District Court for the Southern District of New York against Citigroup and Related Parties, as well as other bank defendants, alleging manipulation of Yen LIBOR, Euroyen TIBOR, and the prices of Euroyen-based derivatives. The plaintiff asserts claims under the Sherman Act, the Commodity Exchange Act, and the Racketeer Influenced and Corrupt Organizations Act and for unjust enrichment, and seeks compensatory damages, treble damages where authorized by statute, injunctive relief, and/or disgorgement. Additional information concerning this action is publicly available in court filings under the docket number 1:15-cv-05844 (S.D.N.Y.).

**Settlement Payments**

Payments required in settlement agreements described above have been made or are covered by existing litigation accruals.

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Additional matters asserting claims similar to those described above may be filed in the future.