

## Important Notice : Portfolio Finance Services Risk Disclosure

### Risk Disclosure

**Leverage risk** – The use of leverage means that relatively small price movements will have a multiplying effect on customers’ corresponding gains or losses or the overdraft credit limit and the degree of investment risk customers face is greatly increased. Thus, the risk of loss in foreign exchange margin trading, leveraged investments or derivatives can be substantial. Customers may sustain losses in excess of their margin funds. Placing contingent orders, such as “stop loss” or “stop limit” orders, will not necessarily limit losses to the intended amounts. Market conditions may make it impossible to execute such orders. Customers may be called upon at short notice to deposit additional margin funds. If the required funds are not provided within the prescribed time, their positions may be liquidated. In the event that the market deteriorates rapidly beyond the margin call level and reaches the forced sell level, the Bank reserves the right to close out all or part of the outstanding positions without notice and without any margin calls. Customers will remain liable for any resulting deficit in their accounts. This brief statement cannot, of course, disclose all the risks and other significant aspects of trading in currencies/derivatives or any other leveraged investment products. Customers should therefore carefully study the market before they trade.

- **For Treasury Plus**, customers may be engaged in leveraged investments in a Premium Account and/or other foreign exchange currencies through the pledging of deposits (including local and foreign currencies) and/or Premium Account. Minor market fluctuations (including but not limited to fluctuations in currency exchange rate) may multiply customers’ losses and lead to substantial deficit. Customers may sustain losses in excess of their collaterals and have resulting deficits in their accounts.

**Price Risk** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that leveraging on customer’s existing margin deposits and/or securities such as stocks, mutual funds, bonds, notes, Premium Accounts is highly speculative and risky and is subject to the risk of market fluctuation. The value of customers’ holdings may be reduced as a result.

- The use of leverage means that relatively small price movements will have a multiplying effect on customers’ corresponding gains or losses. Customers should have sufficient net worth to be able to assume the risks and bear the potential losses of leveraged investments.
- For FX and commodities: Establishing a stop loss level may help limit the amount of losses but the order may be executed at a worse-off price and may not always be effected because market conditions may make it impossible to execute such orders.

**Interest Rate Risk** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that the interest rates for a loan may vary during the period for investment or utilization of the overdraft credit line, therefore the interest costs for customers may also vary and the value of certain investments may be affected by the change of interest rate. These may affect the net return on investments.

**Liquidity Risk** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that during adverse market conditions, the customers may not be able to liquidate all or any part of their holdings.

- Investments in a Premium Account and certain types of Notes cannot be terminated before maturity. Any loan repayment or top up requirement before maturity will have to be covered by additional funds. If customers fail to bring in sufficient additional funds, the Bank has the discretion to terminate investments in a Premium Account and Notes before its maturity date to repay the loan outstanding. Such early termination may be made at a loss to customers and they will remain liable for any resulting deficit in their accounts.

**Credit Risk** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that the approved line amount granted is dependent on the loan-to-value ratio allowed for each margin deposit and/or security.

- The loan-to-value ratio is subject to change by the Bank without notice.
- The loan-to-value ratio for securities like bonds and notes is impacted by negative/downgrade ratings. Any security that falls below the Bank’s designated minimum rating by Moody and S&P may result in the security not being marginable and a margin call or force sell could be triggered as a consequence.

**Currency Risk** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that if the currency of the loan is different from the currency of the underlying investments and / or deposits, foreign exchange rate risk implications may affect the value of the loan, underlying investments, and / or deposits. Relatively small movements in the exchange rate will have a multiplying effect on customers’ corresponding gain or loss and resulting in the possibility of margin call and force-sell. This means that, even when the market value of the underlying investments remains unchanged, customer’s outstanding positions can be subject to substantial deficit in the event of exchange rate movement.

**Over-the-counter Risk** – For Treasury Plus / Foreign Currency Leveraged Investment / FX Margin Trading, the Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that the product is being sold over-the-counter (“OTC”) and its implications:

- Citibank may act as the counterparty to the customer's transaction and the customer may be subject to Citibank's credit risk;
- There is no centralised pricing source and the price of the transaction is determined by Citibank or negotiated with the customer;
- The transaction in OTC products may involve greater risk than investing in exchange traded products because there is no exchange market on which to close out an open position.

**Marked-to-market Losses** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that the customers' leveraged position is marked-to-market intraday, daily, weekly or monthly, whichever is applicable, and they may be called upon at short notice to deposit additional funds to avoid a forced sell of their leveraged positions.

- Losses may exceed the amount of initial deposits and/or securities that are pledged by customers as collateral. - Customers shall remain liable for any resulting deficit in their account(s).

#### **Pre-margin Call**

- For Investment Plus and/or Portfolio Power, the Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that in the event that the erosion of the Initial Equity Position (that is, loan outstanding divided by weighted loan-to-value ratio, then minus the loan outstanding at the relevant time) falls within the region of  $0\% < x < 25\%$ , Citibank shall have the absolute discretion to exercise the right:
  - (a) to decline the execution of any type of transaction of the customer in respect of any eligible investments and/or eligible deposits; or
  - (b) to apply any settlement proceeds to restore the Initial Equity Position to below 0% or such lowest possible percentage.

**Margin Call** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained the implications of margin call levels for the leveraged facility and that positions may be liquidated at the discretion of the Bank if a margin call is not complied within the stipulated time period. The margin call levels are also subject to change by the Bank without prior notice and the Bank has no obligation to notify customer of the aforesaid event, therefore it is the customer's duty to monitor the same.

- **For Foreign Currency Leveraged Investment and/or Treasury Plus**, the margin call level is set at the present margin equal to or exceeding 100% of the LSR<sup>1</sup>. If the margin call is triggered, customers need to top up the shortfall margin to below 100% of the LSR1 within 2 business days.
- **For FX Margin Trading**, top-up is required when the Margin level drops to 7.5 or below (i.e. the floating loss is equal to or greater than 25% of the Initial Collateral Value). If the Top-up event is triggered, the customer is required to deposit the total floating loss amount to the Bank within 2 business days to uplift the Margin level to 10 or above (i.e. Total Collateral Value is equal to 6.67% or above of the aggregate gross position).
- **For Investment Plus and/or Portfolio Power**, the margin call trigger is set at the level where the Initial Equity Position erodes by 25% or above. If a margin call is triggered, customers need to top up the shortfall margin within 7 calendar days.

**Force-Sell** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained the implications of forced sell levels for the leveraged facility, including that all or any part of customers' margin deposits and/or securities may be realized for settling all or any part of their outstanding without notice. In the event that the market deteriorates rapidly beyond the margin call level and reaches the forced sell level, the Bank reserves the right to close out all or part of the outstanding positions without notice and without any margin calls. The forced sell levels are also subject to change by the Bank without prior notice.

- **For Foreign Currency Leveraged Investment and/or Treasury Plus**, the forced sell level is set at the present margin level equal to or exceeding 103.44% of the LSR1.
- **For FX Margin Trading**, force-sell is required when the Margin level drops to 5 or below (i.e. the floating loss is equal to or greater than 50% of the Initial Collateral Value).
- **For Investment Plus and/or Portfolio Power**, the forced sell trigger is set at the level where the Initial Equity Position (that is, loan outstanding divided by weighted loan-to-value ratio, then minus the loan outstanding at the relevant time) of the customer portfolio erodes by 50% or above.

**Illustrative Examples** – Assuming collateral loan-to-value ratio and portfolio composition remain unchanged throughout following examples :

- **For Treasury Plus**, if a customer deposits his own equity of USD \$100 as collateral and draws a loan equivalent to USD \$500, he/she would have USD \$600 deposit in total. The LSR is 100% in this case. Any depreciation in the equity deposited or appreciation in loan due to exchange rate movement would trigger a margin call. If the loan appreciates to USD \$517.2 or the equity deposited depreciates to USD \$580, the LSR would be equal to 103.44% and a force-sell would be triggered. The same Margin level calculation logic applies to Foreign Currency Leveraged Investment.
- **For FX Margin Trading**, if a customer deposits USD \$100 as line collateral and opens a trading position equivalent to USD \$1,500, the Margin level of this case would be 10. If the trading position has a loss of US\$25, the Margin level would have been eroded to 7.5, and a margin call would be triggered. If the trading position has a loss of US\$50, the Margin level would have been eroded to 5, and a force-sell would be triggered.
- **For Investment Plus**, if a customer deposits USD \$400 and draws a loan of USD \$ 600 for a total of USD \$1,000 to buy an investment with a loan-to-value ratio of 60%, the Margin level of this case would be 0. If the investment depreciated by 10% to USD \$900, the Margin level would be eroded by 25% and the margin call

would be triggered. If the investment depreciated by 20% to USD \$800, the Margin level would be eroded by 50% and the force-sell would be triggered. The same Margin level calculation logic applies to Portfolio Power.

**Loan Currency Switching Risk** – The Relationship Manager and/or Treasury Specialist / Treasury Portfolio Specialist / Investment Specialist / any other licensed sales persons from Citibank explained that customers may be exposed to risks associated with loan currency switching:

- Customers may suffer loss from switching loan currency if the new loan currency appreciates against their previous loan currency, even if the interest rate on the new loan currency may be lower. In addition, the interest rate on the new loan currency will vary in line with prevailing benchmark rates and may end up higher than interest rate of my/our previous loan currency.
- Margin Call can be triggered by loan currency switching due to FX fluctuations. The ability to successfully execute loan switching is subject to sufficient margin in customers' portfolios. Customers shall be responsible for any consequences resulting from a failed loan switching execution due to insufficient margin in customers' portfolio.
- Different interest rates may be charged on different loan currencies, customers' returns may be affected by the potential interest rate differentials.
- FX conversions quoted to customers for loan repayment includes Citibank's spread. Funds will be debited from customers' deposit account to service the loan interest and/or loan principal. If the currency of customers' deposit account is different from the currency of their loan, FX conversions will be carried out to convert customers' funds in the accounts to service the loan interest and/or loan principal.
- Customers can track their loan outstanding balances from the Monthly Consolidated Statements. Transaction details of the loan currency switching can be accessed from customers' FX Transaction advices.

#### **Others**

- The approved line amount granted is dependent on the loan-to-value ratio allowed for each collateral(s). The loan-to-value ratio applicable to the collateral(s) is subject to change by the Bank without prior notice. Margin call or Force-sell may be triggered due to the change in loan-to-value ratio.
- Customers should seek independent advice before making a commitment to invest in such leveraged trading or derivatives. In the event that customers choose not to seek independent advice, they should carefully consider whether such leveraged trading or derivatives is suitable in the light of their own investment objectives, financial position and risk profile.

<sup>1</sup> LSR is computed as the ratio of (a) the aggregate of the outstanding amount (including accrued interest) at any time under the revolving credit facilities or otherwise under this account to (b) the aggregate of (i) the value of the eligible deposits (including for this purpose, accrued interest and the value of the investments under Premium Accounts) maintained with the Bank under this account and (ii) the value of the deposits (including accrued interest) to be established or Placements to be made with the Bank from the proceeds of any part of such advances, multiplied by such percentage as may be prescribed by the Bank from time to time