



Citibank (Hong Kong) Limited

Financial Information Disclosure Statement

2015 Interim

CITIBANK (HONG KONG) LIMITED

We enclose herewith the Financial Information Disclosure Statement for the half-year ended June 30, 2015, which are prepared under the Banking (Disclosure) Rules made pursuant to Section 60A of the Banking Ordinance.

By Order of the Board

Lam Chi Kong Lawrence
Director and Alternate Chief Executive

September 30, 2015

CITIBANK (HONG KONG) LIMITED

The directors are pleased to announce the unaudited interim results of Citibank (Hong Kong) Limited (the "Company") for the half-year ended June 30, 2015.

2015 First Half Results

For the period under review, operating income was HK\$3,332 million (higher than prior year by 13%).

Operating expenses was HK\$1,934 million (higher than prior year by 3%).

Impairment losses on loans and advances was HK\$122 million (higher than prior year by 3%).

Profit after taxation was HK\$1,056 million (higher than prior year by 32%).

Loans and advances to customers was HK\$67.3 billion (higher than Dec 2014 by 3%). Customer deposits was HK\$118 billion (higher than Dec 2014 by 7%).

STATEMENT OF COMPREHENSIVE INCOME

(Expressed in thousands of Hong Kong dollar unless otherwise indicated)

	<i>Note</i>	<i>Half-year ended Jun 30, 2015</i>	<i>Half-year ended Jun 30, 2014</i>
Interest income	1	1,596,825	1,589,253
Interest expense	2	(206,471)	(199,481)
Net interest income		1,390,354	1,389,772
Net fee and commission income	3	1,630,263	1,206,139
Net trading income	4	305,807	307,481
Dividend income from unlisted companies		2,150	2,506
Net gain on disposal of available-for-sale financial assets		-	3,904
Other operating income		3,115	30,680
Operating income		3,331,689	2,940,482
Staff costs		(597,839)	(546,264)
Premises & equipment expenses		(174,824)	(183,054)
Depreciation expenses		(28,603)	(31,459)
Other operating expenses	5	(1,132,920)	(1,109,984)
Operating expenses		(1,934,186)	(1,870,761)
Operating profit before impairment		1,397,503	1,069,721
Individually assessed – new provisions		(182,095)	(190,125)
Individually assessed – recoveries		61,634	56,883
Collectively assessed – (new provisions)/release		(1,304)	15,226
Impairment losses on loans and advances		(121,765)	(118,016)
Operating profit after impairment		1,275,738	951,705
Gains from disposal of tangible fixed assets		-	170
Profit before taxation		1,275,738	951,875
Taxation	6	(219,429)	(149,328)
Profit after taxation		1,056,309	802,547
Other comprehensive income for the period, net of tax			
Items that will not be classified to profit or loss:			
Remeasurement on defined benefits plan		823	-
Items that may be classified subsequently to profit or loss:			
Changes in fair value of available-for-sale financial assets		1,533	4,177
Transfer to profit or loss on disposal of available-for-sale financial assets		-	(3,904)
Other comprehensive income for the period		2,356	273
Total comprehensive income for the period		1,058,665	802,820

BALANCE SHEET

(Expressed in thousands of Hong Kong dollar unless otherwise indicated)

	<i>Note</i>	<i>At Jun 30, 2015</i>	<i>At Dec 31, 2014</i>
Assets			
Cash and balances with banks and other financial institutions		9,336,139	7,078,908
Placements with banks and other financial institutions	7	7,378,641	9,277,311
Loans and advances	8	94,336,658	90,957,172
Trade Bills		13,421	18,007
Financial assets at fair value through profit or loss		15,963,795	13,273,122
Available-for-sale financial assets		16,673,275	13,936,672
Fixed assets	15	439,477	454,052
Intangible assets		172,119	148,919
Deferred tax assets		28,527	33,919
Other assets		5,500,941	3,259,878
		<u>149,842,993</u>	<u>138,437,960</u>
Liabilities			
Deposits and balances from banks and other financial institutions		3,261,530	5,163,363
Deposits from customers	16	118,103,161	110,169,245
Trading financial liabilities		139,545	401,393
Current taxation		256,151	41,331
Other liabilities		8,817,597	3,679,658
		<u>130,577,984</u>	<u>119,454,990</u>
Equity			
Share capital		7,348,440	7,348,440
Reserves	17	11,916,569	11,634,530
		<u>19,265,009</u>	<u>18,982,970</u>
		<u>149,842,993</u>	<u>138,437,960</u>

The balance sheet is prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). The following table discloses the balances in accordance with the banking return completion instructions issued by the Hong Kong Monetary Authority (“HKMA”), before the effects of offsetting as suggested in HKAS 32.

Loans and advances to customers	68,109,523	66,092,314
Deposits from customers	119,075,034	111,136,786

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in thousands of Hong Kong dollar unless otherwise indicated)

	<i>Half-year ended Jun 30, 2015</i>	<i>Half-year ended Jun 30, 2014</i>
1 Interest income		
Interest income on loans to customers	1,297,628	1,275,062
Interest income on placements with banks and other financial institutions	223,075	245,913
Interest income on investment		
- Listed	20,919	29,187
- Unlisted	9,746	14,717
Interest income on financial instruments that are not measured at fair value through profit or loss	1,551,368	1,564,879
Interest income on financial assets designated at fair value through profit or loss		
- Listed	707	794
- Unlisted	44,750	23,580
Total interest income from all financial assets	<u>1,596,825</u>	<u>1,589,253</u>
Included in the above is interest income accrued on impaired financial assets of \$3,817 thousands (Jun 30, 2014: \$4,390 thousands).		
2 Interest expense		
Interest expense on deposits from customers	190,757	171,238
Interest expense on deposits from banks and other financial institutions	15,714	28,243
Interest expense on financial instruments that are not measured at fair value through profit or loss	<u>206,471</u>	<u>199,481</u>
3 Net fee and commission income		
Fee and commission income from retail banking	1,035,075	532,986
Fee and commission income from card business	729,969	673,639
Service fee from fellow subsidiaries	142,310	250,474
	<u>1,907,354</u>	<u>1,457,099</u>
Fee and commission expenses	<u>(277,091)</u>	<u>(250,960)</u>
	<u>1,630,263</u>	<u>1,206,139</u>

Above amounts entirely represent net fee and commission income, other than fees included in determining the effective interest rate, arising from financial assets or financial liabilities that are neither held for trading nor designated at fair value through profit or loss.

CITIBANK (HONG KONG) LIMITED
FINANCIAL INFORMATION DISCLOSURE STATEMENT

	<i>Half-year ended Jun 30, 2015</i>	<i>Half-year ended Jun 30, 2014</i>
4 Net trading income		
Net gain from dealing in foreign exchange	307,476	305,004
Net gain/(loss) from trading interest rate derivatives	382	(285)
Net (loss)/gain from financial assets designated at fair value through profit or loss	(2,051)	2,762
	305,807	307,481
5 Other operating expenses		
Marketing expenses	345,648	301,316
Intercompany expenses	612,934	651,144
Others	174,338	157,524
	1,132,920	1,109,984
6 Taxation		
Provision for Hong Kong Profits Tax	214,814	152,489
Overseas Tax	(6)	51
Deferred taxation	4,621	(3,212)
	219,429	149,328
7 Placements with banks and other financial institutions		
Maturing between one month and one year	7,378,641	9,277,311

	At Jun 30, 2015	At Dec 31, 2014
8 Loans and advances less impairment		
Gross loans and advances to customers	67,344,499	65,330,318
Less: Impairment allowances		
- individually assessed	-	-
- collectively assessed	(206,849)	(205,545)
	67,137,650	65,124,773
Gross loans and advances to banks	27,199,008	25,832,399
	94,336,658	90,957,172

9 Loans and advances to customers analyzed by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties. After taking into account the transfer of risk, there were no exposures to a single country outside Hong Kong exceeding 10% of the aggregate gross amount of loans and advances to customers as at the above respective reporting dates.

10 International claims

The country risk exposures in the tables below are prepared in according to the location and types of the counterparties as defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk.

International claims attributable to individual countries or areas not less than 10% of the bank's total international claims, after recognised risk transfer, are shown as follows:

At Jun 30, 2015					
<i>Non-bank private sector</i>					
	<i>Banks</i>	<i>Official Sector</i>	<i>Non-bank financial institutions</i>	<i>Non-financial private sector</i>	<i>Total</i>
Developed countries	42,428,104	12,619,221	2,831,147	774,631	58,653,103
of which United States	41,452,893	5,057,054	1,421,523	160,176	48,091,646
At Dec 31, 2014					
<i>Non-bank private sector</i>					
	<i>Banks</i>	<i>Official Sector</i>	<i>Non-bank financial institutions</i>	<i>Non-financial private sector</i>	<i>Total</i>
Developed countries	40,016,162	8,881,231	2,687,811	925,572	52,510,776
of which United States	38,999,076	1,963,424	1,128,151	158,611	42,249,262

11 Mainland activities

The following analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the HKMA Return of Mainland activities.

	<i>At Jun 30, 2015</i>		
	<i>On-balance sheet exposures</i>	<i>Off-balance sheet exposures</i>	<i>Total exposures</i>
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	62,701	-	62,701
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,231,805	1,007,467	2,239,272
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	1,273	1,058	2,331
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	175,368	294	175,662
Total	1,471,147	1,008,819	2,479,966
Total assets after provision	150,811,325		
On-balance sheet exposures as percentage of total assets	0.98%		

	<i>At Dec 31, 2014</i>		
	<i>On-balance sheet exposures</i>	<i>Off-balance sheet exposures</i>	<i>Total exposures</i>
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	77,004	-	77,004
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,100,742	1,014,499	2,115,241
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	883	1,326	2,209
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	225,556	110	225,666
Total	1,404,185	1,015,935	2,420,120
Total assets after provision	139,406,319		
On-balance sheet exposures as percentage of total assets	1.01%		

12 Loans and advances to customers analyzed by industry sector

	<u>At Jun 30, 2015</u>		<u>At Dec 31, 2014</u>	
	<i>Amount</i>	<i>% of loans and advances covered by collateral or other security</i>	<i>Amount</i>	<i>% of loans and advances covered by collateral or other security</i>
Loans and advances to customers for use in Hong Kong				
<i>Industrial, commercial and financial</i>				
Property investment	5,118,796	100%	5,505,263	100%
Wholesale and retail trade	337,549	48%	311,220	56%
Manufacturing	99,940	45%	105,377	52%
Others	130,643	41%	130,060	45%
<i>Individuals</i>				
Loans for the purchase of other residential properties	35,283,057	100%	33,531,612	100%
Credit card advances	13,120,825	-	13,708,803	-
Others	13,972,940	60%	12,740,671	56%
	<u>68,063,750</u>		<u>66,033,006</u>	
Netting adjustment on account of foreign currency margin products	<u>(971,873)</u>		<u>(967,541)</u>	
Total loans and advances to customers for use in Hong Kong	67,091,877		65,065,465	
Loans and advances to customers for use outside Hong Kong	13,210	-	14,493	-
Trade finance	239,412	59%	250,360	55%
Total	<u><u>67,344,499</u></u>		<u><u>65,330,318</u></u>	

The above analysis has been classified according to categories and definitions used by the HKMA.

12 Loans and advances to customers analyzed by industry sector (continued)

The amount of overdue and impaired loans and advances to customers and respective collective impairment allowances in respect of loans and advances to industry sectors which constitute not less than 10% of the Company's total loans and advances to customers are shown as follows:

	<i>At Jun 30, 2015</i>	<i>At Dec 31, 2014</i>
<u>Overdue loans and advances to customers</u>		
<i>Individuals</i>		
Loans for the purchase of other residential properties	1,489	491
Credit card advances	32,481	33,780
Others	5,173	5,185
 <u>Impaired loans and advances to customers</u>		
<i>Individuals</i>		
Loans for the purchase of other residential properties	5,913	5,960
Credit card advances	32,479	33,780
Others	37,784	35,604
 <u>Collective impairment allowances</u>		
<i>Individuals</i>		
Loans for the purchase of other residential properties	57	57
Credit card advances	155,436	153,318
Others	38,718	49,746

13 Overdue and rescheduled assets

(i) Overdue loans and advances to customers

	<i>At Jun 30, 2015</i>		<i>At Dec 31, 2014</i>	
	<i>Amount</i>	<i>% of loans and advances to customers</i>	<i>Amount</i>	<i>% of loans and advances to customers</i>
Loans and advances to customers which have been overdue for periods of:				
- 6 months or less but over 3 months	41,019	0.06%	41,554	0.06%
- 1 year or less but over 6 months	-	-	-	-
- over 1 year	491	0.00%	491	0.00%
	<u>41,510</u>	0.06%	<u>42,045</u>	0.06%
Current market value of collateral held against the covered portion of overdue loans and advances to customers	<u>14,902</u>		<u>5,859</u>	
Covered portion of overdue loans and advances to customers	2,455		2,450	
Uncovered portion of overdue loans and advances to customers	<u>39,055</u>		<u>39,595</u>	
	<u>41,510</u>		<u>42,045</u>	

The covered portion of overdue loans and advances to customers represents the amount of collateral held against outstanding balances. Where collateral values are greater than gross loans and advances, only the amount of collateral up to the gross loans and advance was included.

The collateral held in respect of the overdue loans and advances mainly consists of properties.

After taking into account the transfer of risk, there were no exposures to a single country outside Hong Kong exceeding 10% of the aggregate overdue loans and advances to customers as at the above respective reporting dates.

13 Overdue and rescheduled assets (continued)

	<i>At Jun 30, 2015</i>		<i>At Dec 31, 2014</i>	
	<i>Amount</i>	<i>% of loans and advances to customers</i>	<i>Amount</i>	<i>% of loans and advances to customers</i>
<i>(ii) Rescheduled loans and advances to customers</i>				
Rescheduled loans and advances to customers	37,034	0.05%	38,365	0.06%

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule. Rescheduled loans and advances to customers are stated net of any loans and advances which have subsequently become overdue for over three months and which are included in overdue loans and advances to customers in part (i).

(iii) Impaired loans and advances to customers

	<i>Amount</i>		<i>Amount</i>	
	<i>Amount</i>	<i>% of loans and advances to customers</i>	<i>Amount</i>	<i>% of loans and advances to customers</i>
Overdue loans and advances to customers	41,510	0.06%	42,045	0.06%
Rescheduled loans and advances to customers	37,034	0.05%	38,365	0.06%
Impaired loans and advances to customers	78,544	0.11%	80,410	0.12%

After taking into account the transfer of risk, there were no exposures to a single country outside Hong Kong exceeding 10% of the aggregate impaired loans and advances to customers as at the above respective reporting dates.

14 Repossessed assets

	<i>At Jun 30, 2015</i>	<i>At Dec 31, 2014</i>
Repossession assets	-	-

Assets acquired in exchange for the release in full or in part of the obligations of the borrowers due to restructuring or the inability of borrowers to repay, are recorded as "Other assets" in the balance sheet at the lower of net realization value and the carrying amount of the asset (net of any impairment allowance), until the assets are realized.

15 Fixed assets

	<i>Buildings held for own use carried at cost</i>	<i>Plant, machinery and other assets</i>	<i>Installations</i>	<i>Construction in progress</i>	<i>Total fixed assets</i>
<i>Cost or valuation:</i>					
At Jan 1, 2015	405,528	155,025	222,965	29,012	812,530
Additions	-	6,246	-	18,675	24,921
Transfer	-	1,496	14,623	(16,119)	-
Write-offs	-	(5,246)	(17,607)	(5,466)	(28,319)
At Jun 30, 2015	405,528	157,521	219,981	26,102	809,132
<i>Accumulated depreciation:</i>					
At Jan 1, 2015	80,430	121,107	156,941	-	358,478
Charge for the period	4,055	10,053	14,495	-	28,603
Write-offs	-	(5,241)	(12,185)	-	(17,426)
At Jun 30, 2015	84,485	125,919	159,251	-	369,655
<i>Net book value:</i>					
At Jun 30, 2015	321,043	31,602	60,730	26,102	439,477
At Dec 31, 2014	325,098	33,918	66,024	29,012	454,052

16 Deposits from customers

	<i>At Jun 30,</i> <i>2015</i>	<i>At Dec 31,</i> <i>2014</i>
Demand deposits and current accounts	22,281,948	19,194,720
Savings deposits	67,055,562	62,756,037
Time, call and notice deposits	28,765,651	28,218,488
	118,103,161	110,169,245

17 Reserves

	<i>At Jun 30,</i> <i>2015</i>	<i>At Dec 31,</i> <i>2014</i>
Available-for-sale revaluation reserve	7,015	5,482
Retained profits	11,915,411	11,633,461
Capital reserves	(5,857)	(4,413)
	11,916,569	11,634,530

(a) Nature and purpose of reserves

Available-for-sale revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities until the financial assets are derecognized and is dealt with in accordance with the accounting policies for financial instruments and impairment of assets.

Capital reserves

The capital reserves comprise the subsequent change in fair value of the share awards granted to employees of the Company recognized in accordance with the accounting policy for share based payments.

(b) Regulatory reserve

The regulatory reserve is earmarked for the purpose of paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance to set aside amounts in respect of losses which the Company will or may incur on loans and advances in addition to impairment losses recognized under HKAS 39. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As of June 30, 2015, the regulatory reserve is earmarked at \$1,357,596 thousands (December 31, 2014: \$1,312,676 thousands).

(c) The Directors have declared an interim dividend of HK\$775,180 thousands (2014 interim dividend: HK\$775,155 thousands) in respect of the six months ended 30th June, 2015.

18 Derivatives

Derivatives are used for managing the Company's own exposures to market risk as part of its asset and liability management process and their sale to customers as part of the Company's business activities. The principal derivative instruments used by the Company are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

(i) Notional amount of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

	<i>At Jun 30,</i> 2015	<i>At Dec 31,</i> 2014
<i>Interest rate derivatives</i>		
Swaps	-	300,000
<i>Currency derivatives</i>		
Forwards and futures	21,314,984	18,716,738
Options purchased	3,169,716	2,198,513
Options written	3,169,716	2,198,513
	27,654,416	23,113,764
	27,654,416	23,413,764

(ii) Fair values and credit risk weighted amounts of derivatives

	<i>At Jun 30, 2015</i>			<i>At Dec 31, 2014</i>		
	<i>Fair value</i>		<i>Credit risk- weighted amount</i>	<i>Fair value</i>		<i>Credit risk- weighted amount</i>
	<i>Assets</i>	<i>Liabilities</i>		<i>Assets</i>	<i>Liabilities</i>	
Interest rate derivatives	-	-	-	-	218	-
Currency derivatives	88,160	139,545	99,956	194,511	401,175	147,676
	88,160	139,545	99,956	194,511	401,393	147,676

The credit risk-weighted amounts are assessed in accordance with the Banking (Capital) Rules (the "Capital Rules") and depend on the status of the counterparty and maturity characteristics of the instrument. The risk weights used range from 0% to 1250%.

The Company did not enter into any bilateral netting arrangements on derivative transactions during the period and accordingly these amounts are shown on a gross basis.

19 Contingent liabilities and commitments

	<i>At Jun 30,</i>	<i>At Dec 31,</i>
	<i>2015</i>	<i>2014</i>
	<hr/>	<hr/>
Contractual or notional amounts		
Trade-related contingencies	9,107	6,433
Forward forward deposits placed	62,946	320
Other commitments		
- with an original maturity of not more than one year	793,675	301,304
- with an original maturity of more than one year	1,154,366	1,169,777
- which are unconditionally cancellable	75,213,031	73,900,561
	<hr/>	<hr/>
	<u>77,233,125</u>	<u>75,378,395</u>
Credit risk-weighted amounts	<u>318,532</u>	<u>254,560</u>

Contingent liabilities and commitments are forward forward deposits placed as well as credit-related instruments. The risk involved is similar to the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of other commitments is expected to expire without being drawn upon, the total of contractual amounts is not representative of future liability requirements.

The credit risk-weighted amounts are assessed in accordance with the Capital Rules and depend on the status of the counterparty and the maturity characteristics of the instrument. The risk weights used range from 0% to 1250%.

20 Currency risk

The Company's foreign currency positions arise from foreign exchange dealing. All foreign currency positions are managed by the Treasury Department within limits approved by the Regional Market Risk Management.

The Company seeks to manage closely its foreign currency denominated assets with corresponding liabilities in the same currencies.

The net positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position in all foreign currencies.

<i>At Jun 30, 2015</i>	<u>USD</u>	<u>RMB</u>
Spot assets	45,749,960	1,817,653
Spot liabilities	(33,792,675)	(4,076,992)
Forward purchases	3,413,357	2,610,300
Forward sales	(15,213,268)	(322,316)
Net long/(short) non-structural position	<u>157,374</u>	<u>28,645</u>

<i>At Dec 31, 2014</i>	<u>USD</u>	<u>RMB</u>
Spot assets	43,378,645	950,910
Spot liabilities	(32,853,753)	(1,852,615)
Forward purchases	2,496,051	935,779
Forward sales	(12,949,271)	(6,935)
Net long/(short) non-structural position	<u>71,672</u>	<u>27,139</u>

There were no foreign currency structural positions and option positions as at the above reporting dates.

21 Liquidity position

	<i>Half-year ended Jun 30, 2015</i>	<i>Half-year ended Jun 30, 2014</i>
Average liquidity maintenance ratio for the period	33.42%	N/A
Average liquidity ratio for the period	N/A	32.99%

The liquidity maintenance ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015, and the average ratio for the half year ended Jun 30, 2015 is computed as the simple average of each calendar month’s average ratio.

The average liquidity ratio for the half year ended Jun 30, 2014 was computed as the simple average of each calendar month’s average ratio and in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

Liquidity risk mangement

The Company’s liquidity risk management process is integrated into the overall Citi liquidity and funding process and liquidity monitoring framework. Liquidity is managed at the Citi-level, the CBNA-level, the Country level and the level of Material Legal Entity (“MLE”).

Citi policy requires all MLE (which is the level at which the Company is operating at) to maintain a strong liquidity position and ensure sufficient cash flows to meet all financial commitment and to capitalize on opportunities for business expansion. This includes the Company’s ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and make new loans and investments as opportunities arise. The Company maintains a pool of customer deposits, which made up of current and savings accounts and time deposits. The customer deposits are widely diversified by type and maturity and represent a stable source of funding.

21 Liquidity position (continued)

Liquidity risk management (continued)

Policies and Procedures

The Company has established an Asset and Liability Management Committee (“ALCO”). The ALCO Charter includes the monitoring and control of liquidity and funding. ALCO monitors trends in balance sheet and ensures that any concerns that might impact the stability of the customer deposits are addressed effectively.

It is the responsibility of the Company’s management to ensure compliance with local regulatory requirements and limits set by ALCO. The Company’s liquidity resources are managed by the treasurer. Liquidity is managed on a daily basis by treasury function. The Board is ultimately responsible for overseeing liquidity risk that the Company is able to take and ensure that there is a robust liquidity management process in place.

The Company’s liquidity risk management framework requires limits to be set for prudent liquidity management, the limits and internal targets include:

- Net intragroup balance
- 3rd party liquid assets
- Liquidity ratios
- Loan to deposit ratio
- Daily S2
- Liquidity Coverage Ratio Prime

All limits and internal targets are reviewed at least annually and more frequently if required, to ensure that they remain to current market conditions and business strategy. These limits and targets are monitored and reviewed by ALCO on a regular basis. Any limit excess will be escalated under a delegated authority structure and reviewed by ALCO and the Board. A Contingency Funding and Liquidity Plan (CFP) playbook is in place for Hong Kong, on a total country basis, which lays out the trigger points and actions in the event of liquidity crisis to ensure that there is an effective response by senior management in case of such an event.

The Company’s securities holdings are mainly in government securities that can be liquidated, repurchased or used as collateral in the event of liquidity stress.

21 Liquidity position (continued)

Liquidity risk management (continued)

Stress Test

Citi uses multiple measures in monitoring its liquidity, including those described below. In addition, there continues to be numerous regulatory developments relating to future liquidity standards and requirements applicable to financial institutions such as Citi, including certain measures discussed below.

Stress testing and scenario analyzes are intended to quantify the potential impact of a liquidity event on the balance sheet (including on and off balance sheet), contingent funding obligations and other liquidity exposures, and to identify viable funding alternatives that can be utilized. These scenarios include assumptions about significant changes in key funding sources, market triggers (such as credit ratings), potential uses of funding and political and economic conditions in certain countries. These conditions include standard and stress market conditions as well as firm-specific events.

There is a wide range of liquidity events over a full year, some may cover an intense stress period of one month, and still other time frames may be appropriate. These potential liquidity events are useful to ascertain potential mismatches between liquidity sources and uses over a variety of time horizons by tenor buckets. Liquidity limits are set accordingly. To monitor the liquidity of the Company, those stress tests and potential mismatches may be calculated with varying frequencies, with several important tests performed daily. Daily S2 is Citi's primary long term stress metrics, which monitors funds surplus or deficit, requires sufficient liquidity to meet all maturing obligations within 12 months under Highly Stressed Market Disruption Scenario, i.e. self-sufficiency ratio is required to meet the minimum self-sufficiency standard of 100%, including intercompany borrowings. All assumptions used in the stress scenario must be approved under the process of "Annual Funding and Liquidity Plan". Hong Kong on a total country basis, must maintain sufficient liquidity to meet all maturing obligations with 12 months under the S2 stress scenario. S4 – "Institution Specific and Local Market Scenario", which requires a self-sufficiency period over a 3 month period is performed on a monthly basis.

Daily S2 is prepared for all major currencies including HKD, CNY and G10 currencies. Other minor currencies are included in the S2 Universal.

Liquidity Coverage Ratio ("LCR") Prime is Citi's daily short-term liquidity metric. It is largely leveraged Basel III LCR Regulatory assumptions and incorporating with Citi's internal assumptions to derive the liquidity coverage for a 30 days period. Hong Kong, on a total country basis, must meet a survival horizon of 30 days under their LCR Prime.

21 Liquidity position (continued)

Liquidity risk management (continued)

Stress Test (continued)

Encumbered and unencumbered assets

An asset is defined as encumbered, from a liquidity perspective, if it has been pledged as collateral against an existing liability, and as a result is no longer available to the bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorized as unencumbered if it has not been pledged against an existing liability. As of June 30, 2015, High Quality Liquid Asset (HQLA) held by the bank is mostly unencumbered assets, except a small portion of Hong Kong exchange full bills which are set aside for intraday liquidity needs.

The Company maintains a sufficient cushion of HQLA which can be sold or used as collateral to provide liquidity under stress period. The compositions of the HQLA are mainly in government securities together with a small portion of high investment grade credit securities. The size of the liquidity cushion was approximately HK\$32 billion as of Jun 30, 2015.

On a daily basis, the Company monitors the level of incremental collateral that would be required by its derivative counterparties. Collateral triggers are maintained by the Company's collateral management department and vary by counterparty. Given the Company's derivative contracts are mainly FX swaps constituting an immaterial portion of the Company's balance sheet and cash positions are held or posted as collateral, a rating downgrade would have no material impact on the Company's collateral requirement.

22 Capital adequacy ratio

The capital adequacy ratios were calculated in accordance with the Capital Rules. The Company has adopted the “standardized approach” for the calculation of the risk-weighted assets for credit risk, market risk, and operational risk.

	<i>At Jun 30,</i> <i>2015</i>	<i>At Dec 31,</i> <i>2014</i>
The Company's regulatory capital position was as follows:		
Common Equity Tier 1 (CET1) capital ratio	27.69%	27.95%
Tier 1 capital ratio	27.69%	27.95%
Total capital ratio	28.77%	29.03%

Countercyclical Capital Buffer Ratio

There is no information disclosed relating to the Countercyclical capital buffer (“CCyB”) ratio pursuant to section 24B of the Banking (Disclosure) Rules for this period because the applicable JCCyB ratio (a capital buffer level announced by the regulatory authorities for the purpose of implementing the provisions concerning the countercyclical capital buffer under Basel III) for Hong Kong and for jurisdiction outside Hong Kong are at 0% before 1 January 2016.

Capital Conservation Buffer Ratio

Under the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Bank’s buffer level is 0% for 2015.

Regulatory capital disclosures can be found in our website www.citibank.com.hk, covering a description of the main features, the full terms and conditions of the Company’s capital instruments, a detailed breakdown of the Company’s CET1 capital, AT1 capital, Tier 2 capital, regulatory deductions and a full reconciliation between the Company’s accounting and regulatory balance sheets.

23 Leverage ratio

	<i>At Jun 30,</i> <i>2015</i>	<i>At Dec 31,</i> <i>2014</i>
Leverage Ratio	11.20%	N/A

The disclosure on leverage ratio is effective since 31st March, 2015 and is computed on the same basis as specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. The relevant disclosures pursuant to section 24A of the Banking (Disclosure) Rules can be found in our website www.citibank.com.hk.