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**Citibank (Hong Kong) Limited**

**Financial Information Disclosure Statement**

**2017 Interim**

**CITIBANK (HONG KONG) LIMITED**

We enclose herewith the Financial Information Disclosure Statement for the half-year ended June 30, 2017, which are prepared under the Banking (Disclosure) Rules made pursuant to Section 60A of the Banking Ordinance.

By Order of the Board

Ng Yin Yee Angel  
Director and Chief Executive

September 29, 2017

**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, 2017.

**2017 First Half Results**

For the period under review, operating income was HK\$3,468 million (higher than prior year by 13%).

Operating expenses was HK\$2,148 million (higher than prior year by 11%).

Impairment losses on loans and advances was HK\$105 million (lower than prior year by 50%).

Profit after taxation was HK\$1,034 million (higher than prior year by 38%).

Loans and advances to customers was HK\$66.8 billion (higher than Dec 2016 by 1%). Customer deposits was HK\$146.4 billion (higher than Dec 2016 by 6%).

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	<i>Note</i>	<i>Half-year ended Jun 30, 2017</i>	<i>Half-year ended Jun 30, 2016</i>
Interest income	1	1,756,568	1,664,649
Interest expense	2	(189,477)	(164,409)
<b>Net interest income</b>		<b>1,567,091</b>	<b>1,500,240</b>
Net fee and commission income	3	1,519,107	1,300,490
Net trading income	4	253,679	268,173
Dividend income from unlisted companies		2,138	2,250
Other operating income		126,416	(13,709)
<b>Operating income</b>		<b>3,468,431</b>	<b>3,057,444</b>
Staff costs		(628,366)	(578,865)
Premises & equipment expenses		(152,664)	(182,723)
Depreciation expenses		(20,868)	(28,500)
Other operating expenses	5	(1,346,465)	(1,151,624)
<b>Operating expenses</b>		<b>(2,148,363)</b>	<b>(1,941,712)</b>
<b>Operating profit before impairment</b>		<b>1,320,068</b>	<b>1,115,732</b>
Individually assessed – new provisions		(156,720)	(186,436)
Individually assessed – recoveries		53,336	60,239
Collectively assessed – new provisions		(1,617)	(85,830)
<b>Impairment losses on loans and advances</b>		<b>(105,001)</b>	<b>(212,027)</b>
<b>Profit before taxation</b>		<b>1,215,067</b>	<b>903,705</b>
Taxation	6	(181,400)	(152,131)
<b>Profit after taxation</b>		<b>1,033,667</b>	<b>751,574</b>
<b>Other comprehensive income for the period, net of tax</b>			
Items that will not be classified to profit or loss:			
Remeasurement on defined benefits plan		12,379	(4,849)
Items that may be classified subsequently to profit or loss:			
Changes in fair value of available-for-sale financial assets		111,764	(1,663)
<b>Other comprehensive income for the period</b>		<b>124,143</b>	<b>(6,512)</b>
<b>Total comprehensive income for the period</b>		<b>1,157,810</b>	<b>745,062</b>

## STATEMENT OF FINANCIAL POSITION

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

	<i>Note</i>	<i>At Jun 30, 2017</i>	<i>At Dec 31, 2016</i>
<b>Assets</b>			
Cash and balances with banks and other financial institutions		8,754,265	9,689,133
Placements with banks and other financial institutions	7	9,035,219	9,324,682
Loans and advances	8	97,828,569	94,683,352
Trade Bills		891	6,267
Financial assets at fair value through profit or loss		36,197,328	30,434,270
Available-for-sale financial assets		16,883,092	15,185,197
Property, plant and equipment	15	396,546	410,270
Intangible assets		102,738	119,785
Current tax assets		-	3,938
Deferred tax assets		54,948	60,839
Other assets		3,037,138	3,182,483
		<u>172,290,734</u>	<u>163,100,216</u>
<b>Liabilities</b>			
Deposits and balances from banks and other financial institutions		603,209	1,171,708
Deposits from customers	16	146,418,822	137,692,990
Trading financial liabilities		86,512	192,251
Current taxation		169,781	-
Other liabilities		4,353,596	3,761,972
		<u>151,631,920</u>	<u>142,818,921</u>
<b>Equity</b>			
Share capital		7,348,440	7,348,440
Reserves	17	13,310,374	12,932,855
		<u>20,658,814</u>	<u>20,281,295</u>
		<u>172,290,734</u>	<u>163,100,216</u>

The statement of financial position 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		67,569,034	66,896,287
Deposits from customers		147,188,071	138,408,084

## NOTES ON THE FINANCIAL STATEMENTS

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

	<i>Half-year ended Jun 30, 2017</i>	<i>Half-year ended Jun 30, 2016</i>
<b>1 Interest income</b>		
Interest income on loans to customers	1,299,522	1,329,429
Interest income on placements with banks and other financial institutions	308,174	261,566
Interest income on investment		
- Listed	3,962	12,783
- Unlisted	39,466	14,869
Interest income on financial instruments that are not measured at fair value through profit or loss	1,651,124	1,618,647
Interest income on financial assets designated at fair value through profit or loss		
- Listed	704	707
- Unlisted	104,740	45,295
Total interest income from all financial assets	<u>1,756,568</u>	<u>1,664,649</u>
Included in the above is interest income accrued on impaired financial assets of \$2,297 thousand (Jun 30, 2016: \$3,068 thousand).		
<b>2 Interest expense</b>		
Interest expense on deposits from customers	183,635	155,674
Interest expense on deposits from banks and other financial institutions	5,842	8,735
Interest expense on financial instruments that are not measured at fair value through profit or loss	<u>189,477</u>	<u>164,409</u>
<b>3 Net fee and commission income</b>		
Fee and commission income from retail banking	704,759	478,124
Fee and commission income from card business	672,542	692,440
Service fee from fellow subsidiaries	395,499	405,114
	<u>1,772,800</u>	<u>1,575,678</u>
Fee and commission expenses	<u>(253,693)</u>	<u>(275,188)</u>
	<u>1,519,107</u>	<u>1,300,490</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, 2017</i>	<i>Half-year ended Jun 30, 2016</i>
<b>4</b>	<b>Net trading income</b>		
	Net gain from dealing in foreign exchange	250,637	266,871
	Net gain from financial assets designated at fair value through profit or loss	3,042	1,302
		253,679	268,173
<b>5</b>	<b>Other operating expenses</b>		
	Marketing expenses	442,191	320,279
	Intercompany expenses	718,017	652,048
	Others	186,257	179,297
		1,346,465	1,151,624
<b>6</b>	<b>Taxation</b>		
	Provision for Hong Kong Profits Tax	178,125	168,895
	Overseas Taxation	-	3
	Deferred taxation	3,275	(16,767)
		181,400	152,131
<b>7</b>	<b>Placements with banks and other financial institutions</b>	<i>At Jun 30, 2017</i>	<i>At Dec 31, 2016</i>
	Maturing between one month and one year	9,035,219	9,324,682

	At Jun 30, 2017	At Dec 31, 2016
<b>8 Loans and advances less impairment</b>		
Gross loans and advances to customers	67,103,585	66,483,376
Less: Impairment allowances		
- individually assessed	-	-
- collectively assessed	(303,800)	(302,183)
	66,799,785	66,181,193
Gross loans and advances to banks	31,028,784	28,502,159
	97,828,569	94,683,352

**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, 2017				
	Non-bank private sector				
	Banks	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	45,216,431	28,269,395	2,913,355	734,802	77,133,983
of which United States	44,981,452	20,293,733	1,837,956	138,610	67,251,751
	At Dec 31, 2016				
	Non-bank private sector				
	Banks	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	45,931,899	22,595,354	2,913,355	691,749	72,132,357
of which United States	44,867,324	15,531,266	1,837,956	128,275	62,364,821



**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.

	<u>At Jun 30, 2017</u>		
	<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)	57,374	-	57,374
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,391,120	862,311	2,253,431
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	841	-	841
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	27,273	50	27,323
<b>Total</b>	<b>1,476,608</b>	<b>862,361</b>	<b>2,338,969</b>
Total assets after provision	173,059,213		
On-balance sheet exposures as percentage of total assets	0.85%		
	<u>At Dec 31, 2016</u>		
	<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)	55,477	-	55,477
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,102,370	945,661	2,048,031
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	734	-	734
Other counterparties where the exposures are considered by the reporting institution to be non-bank China exposure	28,286	50	28,336
<b>Total</b>	<b>1,186,867</b>	<b>945,711</b>	<b>2,132,578</b>
Total assets after provision	163,811,421		
On-balance sheet exposures as percentage of total assets	0.72%		

**12 Loans and advances to customers analyzed by industry sector**

	At Jun 30, 2017		At Dec 31, 2016	
	Amount	% of loans and advances covered by collateral or other security	Amount	% of loans and advances covered by collateral or other security
Loans and advances to customers for use in Hong Kong				
<i>Industrial, commercial and financial</i>				
Property investment	3,964,567	100%	4,299,356	100%
Wholesale and retail trade	340,274	34%	372,349	35%
Manufacturing	75,741	40%	92,770	34%
Others	137,981	19%	149,860	20%
<i>Individuals</i>				
Loans for the purchase of other residential properties	35,923,301	100%	35,291,200	100%
Credit card advances	12,008,612	-	13,560,224	-
Others	15,304,902	66%	13,285,781	60%
	67,755,378		67,051,540	
Netting adjustment on account of foreign currency margin products	(769,249)		(715,094)	
Total loans and advances to customers for use in Hong Kong	66,986,129		66,336,446	
Loans and advances to customers for use outside Hong Kong	11,465	-	12,765	-
Trade finance	105,991	51%	134,165	58%
Total	67,103,585		66,483,376	

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,</i>	<i>At Dec 31,</i>
	<u>2017</u>	<u>2016</u>
<u>Overdue loans and advances to customers</u>		
<i>Individuals</i>		
Loans for the purchase of other residential properties	446	3,490
Credit card advances	31,076	33,269
Others	3,150	4,402
 <u>Impaired loans and advances to customers</u>		
<i>Individuals</i>		
Loans for the purchase of other residential properties	2,007	5,089
Credit card advances	31,076	33,269
Others	21,648	27,996
 <u>Collective impairment allowances</u>		
<i>Individuals</i>		
Loans for the purchase of other residential properties	313	974
Credit card advances	215,872	221,657
Others	59,762	53,328

**13 Overdue and rescheduled assets**

*(i) Overdue loans and advances to customers*

	<i>At Jun 30, 2017</i>		<i>At Dec 31, 2016</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	36,105	0.05%	40,715	0.06%
- 1 year or less but over 6 months	-	-	446	0.00%
- over 1 year	446	0.00%	4,527	0.01%
	36,551	0.05%	45,688	0.07%
Current market value of collateral held against the covered portion of overdue loans and advances to customers	5,136		23,176	
Covered portion of overdue loans and advances to customers	1,892		8,017	
Uncovered portion of overdue loans and advances to customers	34,659		37,671	
	36,551		45,688	

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, 2017</i>		<i>At Dec 31, 2016</i>	
	<i>Amount</i>	<i>% of loans and advances to customers</i>	<i>Amount</i>	<i>% of loans and advances to customers</i>
<b>(ii) Rescheduled loans and advances to customers</b>				
Rescheduled loans and advances to customers	<u>20,059</u>	0.03%	<u>25,194</u>	0.04%

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>% of loans and advances to customers</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	36,551	0.05%	45,688	0.07%
Rescheduled loans and advances to customers	<u>20,059</u>	0.03%	<u>25,194</u>	0.04%
Impaired loans and advances to customers	<u>56,610</u>	0.08%	<u>70,882</u>	0.11%

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.

There were no advances to banks or other assets which were overdue for over three months as at 30 June 2017 and 31 December 2016, nor were there any rescheduled advances to banks and other financial institutions.

**14 Repossessed assets**

	<i>At Jun 30,</i>	<i>At Dec 31,</i>
	<i>2017</i>	<i>2016</i>
Repossessed 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 statement of financial position 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 Property, plant and equipment**

	<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 property, plant and equipment</i>
<b><i>Cost or valuation:</i></b>					
At Jan 1, 2017	405,528	160,904	218,566	33,001	817,999
Additions	-	5,448	-	9,282	14,730
Transfer	-	3,068	28,577	(31,645)	-
Write-offs	-	(35,944)	(21,311)	(1,023)	(58,278)
At Jun 30, 2017	405,528	133,476	225,832	9,615	774,451
<b><i>Accumulated depreciation:</i></b>					
At Jan 1, 2017	96,652	133,123	177,954	-	407,729
Charge for the period	4,055	5,902	10,911	-	20,868
Write-offs	-	(29,461)	(21,231)	-	(50,692)
At Jun 30, 2017	100,707	109,564	167,634	-	377,905
<b><i>Net book value:</i></b>					
At Jun 30, 2017	304,821	23,912	58,198	9,615	396,546
At Dec 31, 2016	308,876	27,781	40,612	33,001	410,270

**16 Deposits from customers**

	<i>At Jun 30,</i>	<i>At Dec 31,</i>
	<i>2017</i>	<i>2016</i>
Demand deposits and current accounts	32,881,300	30,030,645
Savings deposits	87,210,194	81,937,884
Time, call and notice deposits	26,327,328	25,724,461
	146,418,822	137,692,990
	146,418,822	137,692,990

**17 Reserves**

	<i>At Jun 30,</i>	<i>At Dec 31,</i>
	<i>2017</i>	<i>2016</i>
Available-for-sale revaluation reserve	103,404	(8,360)
Retained profits	13,217,041	12,950,955
Capital reserves	(10,071)	(9,740)
	13,310,374	12,932,855
	13,310,374	12,932,855

*(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*

To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Company has earmarked a regulatory reserve directly from retained earnings. As of June 30, 2017, the effect of this requirement is to reduce the amount of reserves which can be distributed to equity shareholders by \$809,314 thousand (December 31, 2016: \$1,014,907 thousand).

*(c) The Directors have declared an interim dividend of \$779,960 thousands (2016 interim dividend: \$775,730 thousands) in respect of the six months ended 30th June, 2017.*

## 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 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.

	At Jun 30, 2017	At Dec 31, 2016
<b><i>Currency derivatives</i></b>		
Forwards and futures	22,052,972	17,317,895
Options purchased	3,356,879	2,470,451
Options written	3,356,879	2,470,451
	28,766,730	22,258,797

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

	At Jun 30, 2017			At Dec 31, 2016		
	<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>	
Currency derivatives	174,090	86,512	143,473	84,037	192,251	97,589

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>2017</i>	<i>2016</i>
<b>Contractual or notional amounts</b>		
Trade-related contingencies	4,361	10,138
Forward forward deposits placed	931	5,922
Other commitments		
- with an original maturity of not more than one year	908,717	488,207
- with an original maturity of more than one year	1,001,288	1,028,293
- which are unconditionally cancellable	71,088,684	68,809,688
	73,003,981	70,342,248
	274,658	239,089
Credit risk-weighted amounts		

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 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, 2017</i>	<u><i>USD</i></u>	<u><i>RMB</i></u>
Spot assets	65,811,322	609,543
Spot liabilities	(51,914,365)	(1,335,211)
Forward purchases	3,170,270	930,198
Forward sales	(17,005,657)	(77,271)
Net long/(short) non-structural position	<u>61,570</u>	<u>127,259</u>

<i>At Dec 31, 2016</i>	<u><i>USD</i></u>	<u><i>RMB</i></u>
Spot assets	60,542,285	407,341
Spot liabilities	(46,852,397)	(1,422,373)
Forward purchases	1,122,351	1,057,494
Forward sales	(14,718,813)	(11,895)
Net long/(short) non-structural position	<u>93,426</u>	<u>30,567</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, 2017</i>	<i>Half-year ended Jun 30, 2016</i>
Average Liquidity maintenance ratio for period	42.92%	37.33%

The liquidity maintenance ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015, and the average ratio for the period are computed as the simple average of each calendar month's average ratio.

***Liquidity risk management***

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 Citi Material Legal Entity ("MLE") level.

Citi policy requires all MLEs (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.

***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.

## 21 Liquidity position (continued)

### *Liquidity risk management (continued)*

#### *Policies and Procedures (continued)*

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 relevant 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.

#### *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.

## 21 Liquidity position (continued)

### *Liquidity risk management (continued)*

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 12 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 largely leverages Basel III LCR Regulatory assumptions and incorporates 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.

### *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, 2017, High Quality Liquid Assets (HQLA) held by the bank is mostly unencumbered assets, except a small portion of Hong Kong exchange fund bills and Chinese government bond 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 a 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\$52 billion as of June 30, 2017.

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>2017</i>	<i>At Dec 31,</i> <i>2016</i>
The Company's regulatory capital position was as follows:		
Common Equity Tier 1 (CET1) capital ratio	30.58%	29.27%
Tier 1 capital ratio	30.58%	29.27%
Total capital ratio	31.65%	30.35%

### *Countercyclical Capital Buffer Ratio*

	<i>At Jun 30,</i> <i>2017</i>	<i>At Dec 31,</i> <i>2016</i>
Countercyclical Capital Buffer Ratio	1.22%	0.61%

The relevant disclosures pursuant to section 24B of the Banking (Disclosure) Rules for this period can be found in our website [www.citibank.com.hk](http://www.citibank.com.hk).

### *Capital Conservation Buffer Ratio*

Under the Banking (Capital) Rules, the capital conservation buffer ratios for calculating the Bank’s buffer level are 1.250% for 2017 and 0.625% for 2016.

Regulatory capital disclosures can be found in our website [www.citibank.com.hk](http://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.

The Pillar 3 regulatory disclosures which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the HKMA can be found in our website [www.citibank.com.hk](http://www.citibank.com.hk).

## 23 Leverage ratio

	<i>At Jun 30,</i> <i>2017</i>	<i>At Dec 31,</i> <i>2016</i>
Leverage Ratio	10.90%	11.18%

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](http://www.citibank.com.hk).